



## Deferred Tax as a Mechanism to Bring Accounting and Taxation Together Under the Financial Accounting System in Algeria

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### **Abstract**

This study aims to shed light on the issue of deferred taxes as a mechanism to bring accounting and taxation together under the Financial Accounting System, and its effect on the quality of financial statements using the most critical financial reports (the balance sheet and the income statement / results table), attempting to answer the central problem of the study.

To accomplish this study, a case study was conducted involving a timing difference in depreciation between accounting and tax regulations. This necessitated the application of the deferred tax technique to bridge the gap between accounting and taxation and to facilitate the reading of financial statements for their users.

**Keywords:** Deferred Taxes, Accounting, Taxation, Financial Accounting System (SCF).

### **Résumé**

Cette étude vise à mettre en lumière la problématique des impôts différés en tant que mécanisme de rapprochement entre la comptabilité et la fiscalité selon le Système Comptable Financier (SCF), ainsi que son impact sur la qualité des états financiers, en se basant sur les documents les plus critiques (le bilan et le compte de résultat). À travers cette approche, l'étude tente de répondre à sa problématique centrale.

Pour mener à bien ce travail, une étude de cas pratique a été réalisée concernant une différence temporelle de constatation des amortissements entre les règles comptables et fiscales. Cela a nécessité l'application de la technique de l'impôt différé afin de combler le fossé entre la comptabilité et la fiscalité, et de faciliter la lecture des états financiers pour leurs utilisateurs.

**Mots-clés :** Impôts Différés, Comptabilité, Fiscalité, Système Comptable Financier (SCF), Différences Temporelles, Qualité des États Financiers.



## Introduction

The financial results achieved by an enterprise are viewed from a tax perspective (determining taxable income) in a manner that often differs from the perspective of the Financial Accounting System (SCF). This divergence arises due to timing differences in measuring accounting events and their tax implications, and vice versa. Consequently, these differences must be reconciled to align accounting profit with taxable profit. This reconciliation is reflected by matching the tax liability with the economic tax expense through the recognition of deferred taxes.

Given the significance of this topic from both the accounting and tax perspectives, we deemed it crucial to address this subject by posing the following question:

**"What is the impact of applying deferred taxes to bridge the gap between accounting and taxation?"**

## 1. Deferred Taxes

### 1.1. The Concept of Deferred Taxes

According to Article 134-2 of Annex No. 01 of the Financial Accounting System, deferred tax is defined as:

"The amount of income tax payable (deferred tax liability) or recoverable (deferred tax asset) in future financial years. It represents the portion of income tax due whose payment is deferred to subsequent periods, as well as the portion of tax paid whose recovery is deferred to later periods—essentially a tax payable or

(recoverable) deferred to a future period as a result of past transactions."<sup>1</sup>

Practically, there are two sources of deferred taxes:

- 1) Treatments of variances between accounting income and taxable income.
- 2) Treatments and adjustments made during the transition from separate accounts to consolidated corporate accounts (the preparation of financial statements for mergers and acquisitions).

The principle of deferred taxes under the Financial Accounting System requires that only the tax expense due on the operating results of the current period be recognized accounting-wise. This directly interacts with tax rules through the variances that arise between accounting and taxable income under this principle. Deferred tax can be defined as an amount of profit tax payable (deferred tax liability) or recoverable (deferred tax asset) in the current financial year that carries over to subsequent years.

Due to the nature of corporate income tax and its calculation period, this tax is paid as an estimated amount during the year. At the end of the financial year, when compiling the income statement and balance sheet, the variance between what was paid and what was actually achieved as a result is determined.

In this case, a deferred tax liability (liability) may arise if the actual income achieved is greater than estimated, meaning the difference must be paid (debt). Conversely, a

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<sup>1</sup> Official Gazette of the People's Democratic Republic of Algeria, No. 19, March 25, 2009, Decree of July 26, 2008, relating to evaluation and accounting rules, the content and presentation of financial statements, as well as the chart of accounts and its operating rules, p. 16



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deferred tax asset arises, which cannot be immediately refunded but remains an advance for the next accounting period. Deferred tax applies to all temporary differences between the carrying amounts of assets and liabilities in the balance sheet and their tax bases, as well as to tax losses carried forward, using the liability method. Furthermore, deferred tax assets are only recognized if it is highly probable that they will be legally recoverable against future taxable profits.

#### Timing Differences

The timing discrepancy between accounting events and their future tax effects results in differences between accounting profit and taxable profit, as outlined in the following table:

**Table (01): Differences Between Taxable Profit and Accounting Profit**

<b>Permanent Differences</b>	<b>Temporary Differences</b>
- Differences relating to income and expenses that are definitive, driven by tax legislation aiming to achieve social, economic, and political goals.	- Temporary differences arise from transactions executed by the enterprise that result in a future variance between taxable income and accounting income. To correct these deviations, the enterprise must classify either a deferred tax asset or liability, meaning it will result in future tax outflows or r Temporary

	Differences Temporary Differences recoveries.
- Non-deductible expenses: Certain expenses are permanently rejected by tax authorities and have no future tax impact (e.g., non-deductibility of late payment penalties or certain expenses exceeding the legal limit). These are permanent, not temporary, and do not generate deferred taxes.	- These refer to variances that occur between the carrying values of assets and liabilities reported in the balance sheet and their values used for tax purposes in the future (tax determination).
- Non-taxable income: Some revenues are permanently exempt by legislative text, and the enterprise is not required to pay tax on them in the future (e.g., certain received subsidies or transactions between subsidiaries and a parent company under specific legislation). No deferred taxes arise.	- Recognizing deferred tax (whether an asset or a liability) ensures that all accounting transactions and their tax effects are recorded within the same fiscal period, and vice versa.
- These differences cause the effective tax rate to	- The impact of temporary differences is not confined to



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deviate from the statutory nominal tax rate specified in legislation.	the income statement (as with permanent differences) but extends to the balance sheet.
- The effect of these differences is limited to the income statement (results table) only and does not extend to the balance sheet, as the enterprise eliminates their effects in the year of occurrence by charging them to the period's results without leaving a balance sheet footprint.	<b>Deferred Tax Liability:</b> Relates to tax amounts to be paid in future periods resulting from transactions carried out in periods prior to tax exposure.
- Permanent differences persist as long as their specific tax regulations remain active without amendment. Any amendment to these legislations may convert them into temporary differences.	<b>Deferred Tax Asset:</b> Relates to tax amounts to be recovered in future periods resulting from transactions carried out in periods prior to recovery.

Source: Tidjani Bareki, El Hadj Halkoum.<sup>2</sup>

<sup>2</sup> Tidjani Bareki and El-Hadj Halkoum, "Accounting for Deferred Taxes," lectures, Faculty of Economic, Commercial and Management Sciences, Ferhat Abbas University, 2012, p. 03.

## 1.2. Cases for Recognizing Deferred Taxes

Deferred taxes are recognized by analyzing differences using the balance sheet approach—by comparing the accounting carrying amount with the tax base—and the income statement approach—by comparing accounting profit with temporary taxable profit. The differences resulting from both approaches are identical. The recognition of tax under these two methods can be illustrated through:

- 1) **Analysis via the Balance Sheet Approach:** This is the method adopted in International Accounting Standards (IFRS) and the Financial Accounting System (SCF).
- 2) **Analysis via the Income Statement Approach:** (The expected impact of operations).
- 3) **Other cases for recognizing deferred taxes include:**
  - Temporary differences, most notably provisions for inventories or trade receivables, and depreciation methods for fixed assets.
  - Carried-forward losses (tax losses, provided their offset against future taxable profits is probable in the foreseeable future) and tax credits.
  - Adjustments related to preparing consolidated financial statements, involving elimination entries and consolidation treatments.

## 1.3. Accounting Entries for Deferred Taxes

Deferred taxes are recorded by debiting Account 133 "Deferred Tax Assets" with the tax amount that will be realized (i.e., reducing the tax on future years' results). Concurrently, Account 692 "Deferred Tax Expense/Benefit



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on Assets" is credited when recognizing the deferred tax at year-end. When reversing the deferred tax asset, a counter-entry is made.

<b>Date: 31/12/N</b>			
<b>Account</b>	<b>Account Description</b>	<b>Debit</b>	<b>Credit</b>
133	Dr. Deferred Tax Assets	XXX	
692	Cr. Deferred Tax Income/Benefit on Assets		XXX
	Recognition of Deferred Tax Asset		

Deferred taxes are also recorded by crediting Account 134 "Deferred Tax Liabilities" with the tax amount required to be paid during future years, while debiting Account 693 "Deferred Tax Expense on Liabilities" at year-end. When reversing the deferred tax liability, a counter-entry is recorded.

<b>Date: 31/12/N</b>			
<b>Account</b>	<b>Account Description</b>	<b>Debit</b>	<b>Credit</b>
693	Dr. Deferred Tax Expense on Liabilities	<b>XXX</b>	
134	Cr. Deferred Tax Liabilities		<b>XXX</b>
	Recognition of Deferred Tax Liability		

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#### **1.4. Differences in Accounting and Tax Perspectives on Deferred Taxes** Deferred taxes represent

One of the major updates introduced by the Financial Accounting System (SCF) due to the timing differences that can occur between when an expense or revenue is recognized in accounting and when it is recognized to determine taxable income. This also leads to recording tax assets and liabilities in the balance sheet.

Under the previous National Accounting Plan (PCN), tax authorities relied primarily on the enterprise's accounting profit shown in the income statement, which was then adjusted to arrive at the taxable income subjected to Corporate Income Tax (IBS), simplifying tax administration. Conversely, the Financial Accounting System assumes independence between accounting and taxation (the autonomy of accounting rules from tax rules). This autonomy is demonstrated by deferred taxes, which imply that taxes are



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recorded in accounting and tax systems across different periods, making it necessary for tax authorities to adapt to and account for them.<sup>3</sup>

## 2. Case Study

Article 141 of the Direct Taxes and Similar Fees Code of 2023 stipulates that the depreciation ceiling for passenger cars shall not exceed 3,000,000 DZD (increased from 1,000,000 DZD). To demonstrate the difference between accounting and tax treatments, we examine the acquisition of a passenger car by the enterprise under study, valued at an accounting cost (acquisition cost) of 1,000,000 DZD, the discrepancy will be illustrated based on the commencement date of depreciation.

### Company Data:

The single-member limited liability company (SARL AU) "MAC ESPACE PLUS" acquired a passenger car on \*\*14/07/2020\*\*. The acquisition value was \*\*1,000,000 DZD\*\*, to be depreciated over \*\*5 years\*\* using the straight-line method. The accounting profit on \*\*31/12/2015\*\* before corporate tax (IBS) was \*\*4,250,533 DZD\*\*. The IBS rate is \*\*19%\*\*.

**Note:** The enterprise began using the car in January 2021.

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<sup>3</sup> Mohamed Amine Berberri and Abdelkader Bekhil, "The Application of the Financial Accounting System in Small and Medium Enterprises and its Impact on the Tax System," paper presented at the National Conference on the Reality and Perspectives of the Financial Accounting System in Small and Medium Enterprises in Algeria, University of El Oued, April 5-6, 2013, Algeria, p. 09.

**Table(02): Comprehensive Information Card:**

<b>Description</b>	<b>Acquisition Date</b>	<b>Acquisition Cost</b>	<b>Dépréciation Rate</b>
Passenger Car	14/07/2020	1,000,000.00	20%

Before identifying the depreciation discrepancy, we must prepare the accounting and tax depreciation schedules and record the annual journal entries.

## **2.1. Accounting and Tax Depreciation Schedules for the Car**

### **2.1.1. Accounting Depreciation Schedule**

The following table illustrates the accounting depreciation of the passenger car:

**Table (03): Accounting Depreciation of the Passenger Car:**

<b>Years</b>	<b>Original Accounting Value</b>	<b>Rate</b>	<b>Dépréciation Charge</b>	<b>Accumulated Dépréciation</b>	<b>Net Book Value (NBV)</b>
<b>2021</b>	1,000,000.00	<b>20%</b>	200,000.00	200,000.00	800,000.00
<b>2022</b>	1,000,000.00	<b>20%</b>	200,000.00	400,000.00	600,000.00
<b>2023</b>	1,000,000.00	<b>20%</b>	200,000.00	600,000.00	400,000.00
<b>2024</b>	1,000,000.00	<b>20%</b>	200,000.00	800,000.00	200,000.00
<b>2025</b>	1,000,000.00	<b>20%</b>	200,000.00	1,000,000.00	0.00

The car was acquired on 14/07/2020, but its use began in January 2021. Thus, the first year of depreciation is 2021. According to the Financial Accounting System (SCF), depreciation begins from the date the asset is put into service



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and operation, not the acquisition date, meaning the moment it becomes ready for use.

The Net Book Value (NBV) for 2022 is calculated as:

$$\{NBV\} = 1,000,000 - 400,000 = 600,000$$

Or

$$\{NBV\} = 800,000 - 200,000 = 600,000$$

### 2.1.2. Accounting Entry for Depreciation

Depreciation charges are recorded at each year-end by debiting Account 681 "Depreciation, Amortization, and Provisions" and crediting Account 2818 "Depreciation of Transportation Equipment".

<b>Date: 31/12/2021</b>			
<b>Account</b>	<b>Account Description</b>	<b>Debit</b>	<b>Credit</b>
681	Dr. Dépréciation, Amortization & Provisions	200,000.00	
2818	Cr. Depreciation of Transportation Equipment		200,000.00
	To record car depreciation for 2021		

### Journal Entries for 2022–2025:

The same entry is repeated annually until 31/12/2025.

### 2.1.3. Tax Depreciation Schedule

Under the Algerian tax system, depreciation begins on the acquisition date, not the date of use. Thus, the first tax depreciation charge occurs in 2020, as shown below:

**Table (04): Tax Depreciation of the Passenger Car:**

Years	Original Accounting Value	Rate	Dépréciation Charge	Accumulated Dépréciation	Net Book Value (NBV)
2020	1,000,000.00	20%	100,000.00	100,000.00	900,000.00
2021	1,000,000.00	20%	200,000.00	300,000.00	700,000.00
2022	1,000,000.00	20%	200,000.00	500,000.00	500,000.00
2023	1,000,000.00	20%	200,000.00	700,000.00	300,000.00
2024	1,000,000.00	20%	200,000.00	900,000.00	100,000.00
2025	1,000,000.00	20%	200,000.00	1,000,000.00	0.00

#### Schedule Analysis:

From a tax perspective, depreciation is computed from the date of acquisition stated on the invoice.

$$\text{Annual Tax Depreciation Expense} = \text{Original Taxable Base (Historical Tax Cost)} * \text{Tax Depreciation Rate}$$

#### Depreciation Charge for 2020:

Calculated for 6 months only (from 14/07/2020 to 31/12/2020):

$$1,000,000 * 20\% * \frac{6}{12} = 100,000 \text{ DZD}$$

#### Depreciation Charges for 2021-2024:

Calculated based on a full year:

$$1,000,000 * 20\% = 200,000 \text{ DZD}$$



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### **Depreciation Charge for 2025:**

The remaining 6 months of the asset's useful life carry over to 2025:

$$1,000,000 * 20\% * \frac{6}{12} = 100,000 \text{ DZD}$$

Net Tax Value (NTV) for 2021:

$$\{NTV\} = 1,000,000 - 300,000 = 700,000 \text{ DZD}$$

Or:

$$NTV\} = 900,000 - 200,000 = 700,000 \text{ DZD}$$

## **2.2. Calculation of Differences Arising from Divergent Depreciation Commencement Dates for a Passenger Car**

Differences in depreciation are recognized through the temporary differences between accounting depreciation and tax depreciation. These differences are analyzed using two distinct approaches :

1. The Balance Sheet Approach: This method analyzes differences by comparing the Net Book Value (NBV) of the asset with its Tax Base (Net Tax Value).
2. The Income Statement Approach: This method analyzes differences by comparing the Accounting Depreciation Expense with the Tax-Deductible Depreciation Expense.

We will calculate and analyze the temporary differences based on our available data regarding the depreciation timeline of the passenger vehicle. This analysis will be demonstrated using both accounting methods, providing an explanation for each approach along with the reached findings.

### 2.2.1. Balance Sheet Approach

**Table (05): Analysis of Variances Using the Balance Sheet Approach:**

Years	2020	2021	2022	2023	2024	2025
<b>Net Book Value (NBV)</b>	1,000,00 0.00	800,00 0.00	600,00 0.00	400,00 0.00	200,00 0.00	0.00
<b>Net Tax Value (NTV)</b>	900,000. 00	700,00 0.00	500,00 0.00	300,00 0.00	100,00 0.00	0.00
<b>Temporary Difference</b>	100,000. 00	100,00 0.00	100,00 0.00	100,00 0.00	100,00 0.00	0.00
<b>Change in Difference</b>	100,000. 00	0.00	0.00	0.00	0.00	- 100,00 0.00
<b>Deferred Tax Liability</b>	19,000.0 0	0.00	0.00	0.00	0.00	- 19,000. 00

Because the Net Book Value is higher than the Net Tax Value, a taxable temporary difference occurs. This creates a **\*\*Deferred Tax Liability\*\***, meaning the company is obligated to settle this tax variance with the tax administration in future periods.

### 2.2.2 Temporary Difference

In this case, the temporary differences were obtained as a result of the variance between the Net Book Value (NBV



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Accounting) and the Tax Base (NBV Tax), by determining the difference between them as follows:

$$\text{Temporary Difference} = \{\text{Net Book Value (Accounting)}\} - \{\text{Tax Base (Tax)}\}$$

\*Example (2020): 1,000,000 - 900,000 = 100,000 DZD

Temporary differences for the remaining years are calculated using the same method.

### 2.2.3. *Changes in the Temporary Difference:*

The change in temporary differences is calculated according to the following formula:

$$\text{Change in Temporary Difference} = \{\text{Temporary Difference}\}_{(n)} - \{\text{Temporary Difference}\}_{(n-1)}$$

As an illustrative example, the variation in the temporary difference for the fiscal year 2022 is computed by subtracting the temporary difference of 2021 from that of 2022.

The change in the temporary difference for the year 2022 = 100,000 - 100,000 = 0.00 DZD.

### 2.2.4. *Deferred Tax Liability :*

The difference in the depreciation start dates of a passenger car for accounting and tax purposes has resulted in the Net Book Value (NBV) being greater than the Net Tax Value of that asset each year. These differences represent a **Deferred Tax Liability**. This means the enterprise is obligated to pay this liability—or what is known as deferred tax—to the tax

administration in the future. The deferred tax liability is calculated as follows:

$\text{Deferred Tax Liability} = \text{Change in Temporary Difference} \times \text{Tax Rate}$
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Given that the corporate income tax rate is **19%**

**Example:**

Deferred Tax Liability (2010) = Temporary Difference (2020) × 19%

= 100,000.00 DZD × 19% = 19,000.00 DZD

**- Accounting Entries for Deferred Tax Liability (Deferred Tax Passifs)**

**- Accounting Journal Entry 2020**

<b>Date: 31/12/2020</b>			
<b>Account</b>	<b>Account Description</b>	<b>Debit</b>	<b>Credit</b>
693	Dr. Depreciation, Amortization & Provisions Dr. Deferred Tax Expense on Liabilities	19,000.00	
134	Cr. Deferred Tax Liabilities		19,000.00
	To record the deferred tax liability		

**- Accounting Journal Entry 2025**

<b>Date: 31/12/2025</b>			
<b>Account</b>	<b>Account Description</b>	<b>Debit</b>	<b>Credit</b>
134	Cr. Deferred Tax Liabilities	19,000.00	
693	Dr. Depreciation, Amortization & Provisions Dr. Deferred Tax Expense on Liabilities		19,000.00
	clear the deferred tax liability		

**2. Income Statement Approach**

Based on the results of the accounting depreciation schedule, the tax depreciation schedule, and the enterprise's income statement, we analyze the differences resulting from the variance between the accounting and tax depreciation of the passenger car through the following table:

**Table (06): Analysis of Variances Using the Income Statement Approach:**

<b>Years</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>
Accounting Dépréciation Charge	0.00	200,000. 00	200,000. 00	200,000.0 0	200,000. 00	200,000. 00
Tax Dépréciation Charge	100,000.0 0	200,000 .00	200,000. 00	200,000.0 0	200,000. 00	100,000. 00
Temporary Différence	100,000.0 0	0.00	0.00	0.00	0.00	- 100,000. 00
Change in Différence	100,000.0 0	0.00	0.00	0.00	0.00	- 100,000. 00
Deferred Tax Liability	19,000.00	0.00	0.00	0.00	0.00	- 19,000.0 0

**- Analysis:**

Both approaches yield the exact same temporary differences and deferred tax liabilities, leading to identical accounting treatments. By the end of the asset's useful life, Account 134 is fully cleared.

**Table (07): Clearing Account 134 "Deferred Tax Liabilities**

Statement	Débit	Crédit
31/12/2020		19,000.00
31/12/2021		
31/12/2022		
31/12/2023		
31/12/2024		
31/12/2025	19,000.00	
<b>Total</b>	19,000.00	19,000.00

Regarding the resulting temporary difference, it is adjusted and recorded, illustrating the transition from accounting income to taxable income as follows:

$$\text{Taxable Income} = \text{Accounting Income Before Tax} + \text{Add-backs (Reintegrations)} - \text{Deductions}$$

$$\text{Taxable Income} = 4,250,533 + 100,000 = 4,350,533 \text{ DZD}$$

$$\text{Corporate Income Tax (CIT)} = 4,350,533 \times 19\% = 826,601.27 \text{ DZD}$$

The **Net Accounting Income (Net Profit)** for the year 2025 was calculated as follows:

$$\text{Net Accounting Income} = \text{Accounting Income Before Tax} - \text{Corporate Income Tax} + \text{Change in Deferred Tax}$$

$$\text{Net Accounting Income} = 4,250,533 - 826,601.27 + 19,000 = 3,442,931.73 \text{ DZD}$$

## Conclusion

Accounting and taxation are considered two parallel lines; taxation directly relies on accounting to calculate taxable income, and they closely converge in results due to the minimal divergence between accounting and tax rules, which manifests in regular and irregular outcomes

This study addressed the impact of deferred taxes as a mechanism to bridge the gap between accounting and taxation, given that financial statements are the fundamental baseline relied upon by stakeholders

It is evident that deferred tax is a crucial accounting technique introduced by the Financial Accounting System (SCF) to neutralize distortions between accounting and tax profits, However even after a decade of SCF implementation, substantial difficulties remain for practitioners and academics in fully comprehending and applying this accounting mechanism.

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