

Model tax notes

- Tax Reconciliations – current tax vs total tax

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Many businesses provide a total tax reconciliation in their financial statements. This provides a reconciliation for any differences between: the taxes expected on the organisation's accounting profits; and the tax charge that has been stated in its income statement.

In terms of tax transparency, the issue that arises when reconciling to a total tax charge, is that the total tax charge stated in the organisation's income statement is basically made up of two elements: the likely tax due for the period on its tax returns (the current tax charge); and a provisional accounting adjustment (the deferred tax charge). As the deferred tax charges are not real, or at least not yet real, incorporating this into a tax reconciliation can seriously distort the reality behind the organisation's actual tax rates and the items within the reconciliations that make up the differences.

As deferred tax is detailed out separately in another accounting note (or at least it should be), the Fair Tax Mark accreditation awards points for providing a current tax reconciliation: the difference between the tax charge expected based on the organisation's profits in the accounts; and the likely tax due for the period – ignoring any provisional accounting adjustments.

However, as a total tax reconciliation is common practice, and the usual way of presenting this data, below are three ways in which an organisation could present both a current tax and total tax reconciliation. These are based on the actual reporting of Severn Trent Plc (example 1) and two alternative means to present the same data (examples 2 and 3) – all of which are commendable.

Example 1. Severn Trent Plc provided two separate reconciliations in their [2021 Annual Report](#) (p190), as follows:

	2021 £m	2020 £m
Profit before taxation	267.2	310.7
Tax at standard rate of corporation tax in the UK 19% (2020: 19%)	50.8	59.0
Tax effect of depreciation on non-qualifying assets	4.0	1.3
Other permanent differences	(0.7)	5.7
Adjustments in respect of prior years	0.9	(5.9)
Exceptional deferred tax arising from rate change	-	91.8
Total tax charge	55.0	151.9
	2021 £m	2020 £m
Profit before taxation	267.2	310.7
Tax at standard rate of corporation tax in the UK 19% (2020: 19%)	50.8	59.0
Tax effect of depreciation on non-qualifying assets	4.0	1.3
Other permanent differences	(0.7)	5.7
Tax effect of accelerated capital allowances	(21.1)	(26.2)
Other timing differences	(2.6)	(3.6)
Adjustments in respect of prior years	(3.6)	(5.2)
Total current tax charge	26.8	31.0

Note how additional reconciling items appear in a current tax reconciliation that otherwise would not be stated in a total tax reconciliation.

Example 2. Alternatively, taking the figures from Severn Trent's tax reconciliations, a current tax reconciliation could be provided that then highlights (or lists out) the deferred tax movements, to arrive at the total tax charge.

	2021 £m	2020 £m
Profit before taxation	267.2	310.7
Tax at standard rate of corporation tax in the UK 19% (2020: 19%)	50.8	59.0
Tax effect of depreciation on non-qualifying assets	4.0	1.3
Other permanent differences	(0.7)	5.7
Tax effect of accelerated capital allowances	(21.1)	(26.2)
Other timing differences	(2.6)	(3.6)
Adjustments in respect of prior years	(3.6)	(5.2)
Total current tax charge	26.8	31.0
Movements in deferred tax provisions*	28.2	120.9
Total tax charge	55.0	151.9

* This could be broken down between each deferred tax provision (see the split provided in example 3) - but it is likely that this has already been provided in a separate deferred tax note.

Example 3. Or, a side-by-side reconciliation could be presented that breaks down the deferred tax movements between the reconciling items.

	2021 (£m)			2020 (£m)		
	Deferred		Total	Deferred		Total
	Current	Tax		Current	Tax	
	Tax	Movements	Tax	Tax	Movements	Tax
Profit before taxation	267.2		267.2	310.7		310.7
Tax at standard rate of corporation tax in the UK 19% (2020: 19%)	50.8		50.8	59.0		59.0
Tax effect of depreciation on non-qualifying assets	4.0	-	4.0	1.3	-	1.3
Other permanent differences	(0.7)	-	(0.7)	5.7	-	5.7
Tax effect of accelerated capital allowances	(21.1)	21.1	-	(26.2)	26.2	-
Other timing differences	(2.6)	2.6	-	(3.6)	3.6	-
Adjustments in respect of prior years	(3.6)	4.5	0.9	(5.2)	(0.7)	(5.9)
Exceptional deferred tax arising from rate change	-	-	-	-	91.8	91.8
Charge	26.8	28.2	55.0	31.0	120.9	151.9