

Model tax notes

Tax Reconciliations – current tax vs total tax

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 business'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](#) certification 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.

Providing a clear, public tax reconciliation is just as important for small business as large business, although regulatory reporting requirements will likely be much looser, or even absent. The Fair Tax Foundation has been happy to help smaller businesses make a leap in tax transparency in this area, often via the development of Fair Tax Statements. Examples include [Jerba Campervans](#), [Friendly Soap](#) and [Lendology CIC](#).

Please note: the certification of micro-enterprises is currently only available in the UK, but we have plans to extend this globally in 2027.

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

About the Fair Tax Foundation

The [Fair Tax Foundation](#) was launched in 2014 and operates as a not-for-profit social enterprise. We believe companies demonstrating responsible tax practices should be recognised and celebrated, and any global race to the bottom on corporate income tax resisted. Tax avoidance doesn't just rob public services of vital revenue, it also undermines the ability of business to compete fairly, reduces national productivity and exacerbates inequality.

We have developed the [Fair Tax Mark](#), the world's first certification for responsible tax conduct, which is now widely regarded as being the gold standard for business worldwide. Certification has been secured by 275 businesses, which together employ more than 450,000 people and contribute €6.1bn / £5.3bn annually in corporate income tax worldwide. Our progressive community has grown to embrace businesses headquartered in the UK, Denmark, Germany, Finland, Italy, Spain, Sweden and the Netherlands. Other initiatives include the [Tax Responsibility and Transparency Index](#), Fair Tax Week and the Councils for Fair Tax Declaration. See <https://fairtaxmark.net>

Enquire about the Fair Tax Mark here

Other resources include:

- Global Multinational Business Standard ([English](#) and [Spanish](#))
- [Public Country-by-Country Reporting why and how](#)
- [Why small business tax dodgers should be as big a concern as big business tax avoidance](#)
- [Identifying tax havens](#) (includes our latest Tax Haven Listing)
- [Why focus on corporation tax?](#)
- [Seven magnificent reasons to pursue Fair Tax Mark accreditation](#)
- [KPIs of responsible corporate tax conduct – and their green and red flags](#)
- Model [tax policy](#)