Virtual Case Experience Corporate Tax

Model Work Task 1

Deferred tax expense calculation

Deferred tax expense calculation

You

To Dominik Bischof

Reply Reply All Forward ...

Dear Dominik,

Thanks for your email.

Based on the effective tax rate for FY 2021 of 19.7% FlyByU Group should account for a deferred tax liability in the amount of CHF 3'546'000 in its consolidated accounts (simplified accounting entry (deferred tax expense / deferred tax liability).

If you have any further questions, please let me know. I'm here to assist you.

Thank you for your support.

Kind regards,
…

To help you understand

The difference between the fair market value of the inventory of FlyByU AG (CHF 54m) and the value of the inventory as per the Swiss statutory accounts (CHF 36m) is CHF 18m due to the provision on the inventory. Based on the principle of prudence in Swiss commercial law, it is in general allowed to recognise a provision on inventory of 33%. Such provisions are typically also accepted for tax purposes as the Swiss statutory accounts (i.e. the standalone non-consolidated accounts of each legal entity) are in principle also decisive for Swiss tax purposes.

However, in the consolidated financial statements of the complete FlyByU group (e.g. based on IFRS or US GAAP) the fair market value of the inventory will be reflected (principle of true and fair view). Upon realisation of the hidden reserves of CHF 18m on the inventory income tax consequences would be triggered. Therefore, such potential future income tax consequences are also anticipated in the consolidated financial statements by means of accounting for a deferred tax liability.