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The Challenge Of Reconciling Accounting And Tax Treatment Of Profits Taxes In Algeria With The Requirements Of International Accounting Standard No. 12 (A Field Study Of Accounting Department Employees At The Cement Industry Company In Setif SCAEK And Some Academics And Accounting Professionals

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Abstract

This study aims to identify the key requirements for aligning the accounting and tax treatment of profit taxes in Algeria with the International Accounting Standard IAS 12. The study is divided into two sections: a theoretical section that explains the mechanism of accounting and tax treatment of profit taxes in Algeria and outlines what IAS 12 stipulates in this regard; and an applied section consisting of personal interviews with employees of the accounting and management department of the cement industry in Sétif, as well as several interviews with specialists from outside the institution (accountants, auditors, accounting professors). The study reached several conclusions, the most important of which is that it is essential for Algerian legislators to mandate institutions to apply deferred tax as stipulated by IAS 12 to achieve this alignment. Additionally, there is a need to establish tax incentives to encourage Algerian institutions to comply with its implementation.

Keywords: profit taxes, deferred tax, International Accounting Standard No. 12, financial accounting system, tax system.

Introduction

The necessity of achieving a degree of harmony and alignment between the accounting and tax treatment of profit taxes in Algeria and the requirements of International Accounting Standard No. 12 arises from the relationship between the accounting and tax systems within the Algerian framework. However, the existence of differences between the two has made the implementation of the deferred tax mechanism, as stipulated by IAS 12, essential to bridge the gap between them. Therefore, we find that the Algerian legislator has initiated the adoption of international accounting standards through Law 07/11, which includes the financial accounting system, in an attempt to align accounting practices in Algeria with international practices and achieve a level of concordance between them, especially concerning the treatment of profit taxes, as these taxes play a significant role in financing the state budget and achieving its objectives. Consequently, the following issue can be raised:
What does the alignment between the accounting and tax treatment of profit taxes in Algeria and the requirements of International Accounting Standard No. 12 entail?
To address this issue, this research paper is divided into two parts:

First: Theoretical Part

1. Accounting Income and the Tax Base for Profit Taxes in Algeria and the Requirements of IAS 12

1.1 Accounting Income for Profit Taxes in Algeria

Before addressing the definition of accounting income and how to determine it, we must define the financial accounting system as follows:

1.1.1 Definition of the Financial Accounting System (SCF):

1.1.1.1 From a Legal Perspective: The financial accounting system is a set of procedures and regulatory texts that govern the financial and accounting operations of institutions required to apply it in accordance with the provisions of the law and the internationally agreed-upon financial and accounting standards. (Saidy, 2015, p. 114)

1.1.1.2 From an Economic Perspective: The financial accounting system, referred to as "financial accounting," is defined as: "A system for organizing financial information that allows for the storage, classification, evaluation, recording, and presentation of data that accurately reflects the financial situation, assets, efficiency, and cash position of the entity at the end of the financial year." (Law No. 11/07, 2007, p. 03, Art. 03)

1.1.2 How to Determine Accounting Income for Profit Tax in Algeria According to the Financial Accounting System (SCF):

1.1.2.1 Definition of Accounting Income (Accounting Result): The definition of income in accounting is related to the difference between revenues and expenses for a specific financial year and the corresponding traditional costs incurred. The definition of accounting result according to the financial accounting system is the net profit or loss for the financial reporting period before tax deduction, as expressed by the financial accounting system as follows: (Law No. 11/07, 2007, p. 06, Art. 03)

Result of the period = Revenues from activities – Expenses of activities ± Changes in current debts and operating loans ± Changes in inventory between the beginning and end of the period ± Corrections related to fixed assets ± Corrections related to loans.

1-1-2-2 Methods of Determining Accounting Income: Accounting results according to the financial accounting system are determined by two methods:

- **Accounting Result According to the Balance Sheet:** The accounting result according to the balance sheet is the value of profit or loss achieved by the institution from the financial and commercial operations carried out during a specific period. It is determined by the difference between the total assets of the institution and its total liabilities (Tartaar and Mansar, 2015, p. 213). The accounting result appears at the end of the financial year either as profit or as loss as follows:

Accounting Result = Total Assets of the Institution – Total Liabilities of the Institution

Accounting Result = Revenues (Outputs) of the Activity – Expenses of the Activity

Accounting Result According to the Income Statement: The accounting result for the period according to the income statement results from the difference between revenues (Account Class 7) and expenses (Account Class 6) as follows:

1-2 Tax Base for Profits in Algeria

Before discussing the tax base for profits, it is important to provide an overview of the Algerian tax system and its components as follows:

- **1-2-1 Definition of the Tax System:** The tax system is defined as a set of tax legislations and laws, in addition to a comprehensive set of technical aspects of taxation that collectively represent means to achieve specific goals, supported by certain executive regulations that collectively outline the defined method through which the system operates to implement all stages, from identifying the taxable base to tax collection (Oumari and Ben Dine, 2019, p. 61).
- **1-2-2 Structure of the Tax System in Algeria:** The components of the tax system in Algeria can be summarized through the following diagram, which illustrates the main taxes and fees that constitute it (Buhali, 2017, p. 24):

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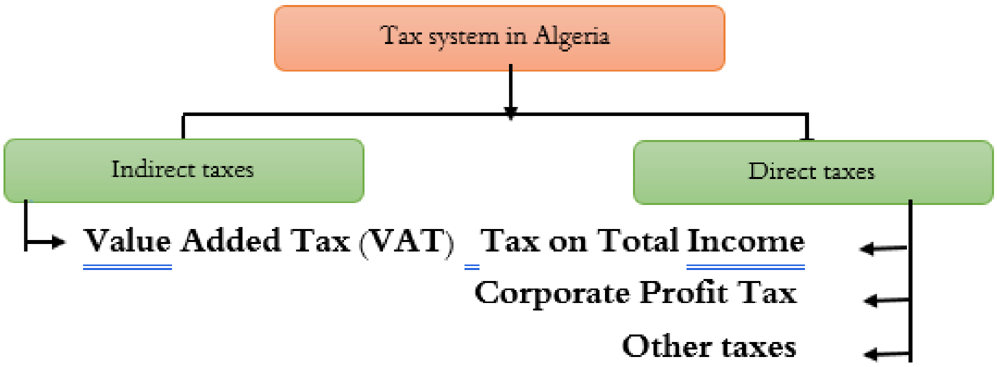
Figure (1-2): Structure of the Algerian Tax System



Source: Ratiba Bouhali, Lectures on Corporate Taxation, Faculty of Economic, Commercial, and Management Sciences, Mohamed Seddik Ben Yahia University Jijel, 2016/2017, p.24.

1-2-3 General Introduction to Profit Taxes in Algeria:

Taxes are one of the most important sources of funding for the state's public treasury, being a financial obligation collected by the state from taxpayers, forcibly, permanently, and without any specific benefit in return for paying them. Their main financial goal is to fund the state treasury and contribute to covering public expenses. Among these, profit taxes in Algeria are primarily composed of the Income Tax (IRG) and Corporate Profit Tax (IBS), defined as follows:

- **Income Tax (IRG):** According to Article 1 of the Law on Direct and Indirect Taxes, an annual, single tax on the income of individuals is established, called the "Income Tax." This tax is levied on the total net income of the taxpayer, determined in accordance with Articles 58 to 95 of the law. The net total income used for income tax calculation is determined by summing the net profits or revenues obtained from professional profits arising from industrial, commercial, or artisanal activities, agricultural earnings, income from renting properties, income from movable capital, and salaries, wages, grants, and pensions (Noui, 2017, p. 19).
- **Corporate Profit Tax (IBS):** The Corporate Profit Tax was established in Algeria by Law 36/90, dated 31/12/1990, within the Finance Act for 1991. Article 135 of the law states: "An annual tax is established on the total profits or incomes generated by companies and other legal entities mentioned in Article 136 of the law, called the Corporate Profit Tax." The taxable base for Corporate Profit Tax includes net profit from the results achieved by the company (operating income, non-operating income, exceptional income), from which are deducted expenses incurred during the business activities (Ahamia, 2017, p. 53).

1-2-4 How to Determine the Tax Base (Tax Result) for Profit Taxes in Algeria:

1-2-4-1 Definition of the Tax Base (Tax Result): The tax base generally refers to the subject or material on which the tax is imposed (Shabani, 2017, p. 30). The tax result can be defined in two ways, one concerning the financial position of the company directly related to the balance sheet, and the other related to the income statement as follows (Lassnoni, 2017, p. 171):

- **Definition of the tax result based on the balance sheet:** Article 140 of the law specifies in paragraph 2 that the net profit consists of the difference between the net asset values at the end and the beginning of the period, which must use the results achieved as the tax base. Deductions made by the operator or partners during the period are also added to it.

The taxable result = Net asset values at the beginning of the period - Net asset values at the end of the period

Where:

Net assets = Total assets – Depreciation – Impairment losses

The taxable result = Accounting result + Recoveries – Deductions – Previous years' losses

Restitutions: These are expenses that were deducted when calculating accounting profit but were rejected for tax purposes by the tax administration, either because they are not directly related to the activity or because they exceeded the limit set by the tax legislator.

Deductions: These are amounts included in the accounting result but are legally allowed to be deducted and reduced from the taxable profit by the tax administration.

Losses from previous years: The tax legislator considers the financial deficit recorded as an expense and allows it to be deducted from the results achieved in subsequent years, up to a maximum of the fourth year (Law No. 09/09, 2009, Article 10).

2- Requirements of International Accounting Standard No. 12 regarding the accounting treatment of income taxes

The aim of International Accounting Standard (IAS) No. 12 is to describe the accounting treatment of income taxes and addresses the recognition of deferred tax assets arising from unused tax losses or credits, and the presentation of income taxes in financial statements and the disclosure of information related to income taxes (Hammad, 2009, p. 222). This standard applies to the accounting for income taxes, which includes all local and foreign taxes imposed on taxable profits, as well as other income taxes, such as taxes payable by subsidiaries, associates, or joint ventures when distributing profits to the reporting entity (Farhat, 2018, p. 106).

2-1 Recognition of income taxes according to IAS 12

2-1-1 Recognition of current tax liabilities and assets:

According to IAS 12, current tax liabilities and assets are recognized as follows (Mahmoud Abdullah, 2015, p. 107):

- Unpaid current tax for the current and previous periods should be recognized as a liability, while the excess amount paid for the current and previous periods over the amount owed should be recognized as an asset;
- The benefit associated with a tax loss that can be carried back to recover current tax from a previous period should be recognized as an asset in the period in which the tax loss occurs, provided that the benefit is probable and measurable reliably.

2-1-2 Accounting recognition of deferred taxes:

2-1-2-1 Recognition of deferred tax liabilities:

IAS 12 states that deferred tax liabilities must be recognized for all taxable temporary differences, except for:

- Liabilities arising from the initial recognition of goodwill;
- Liabilities arising from the initial recognition of an asset or liability in a transaction that:
  - Is not a business combination;
  - At the time of the transaction, does not affect accounting profit or taxable profit (tax loss).

For temporary differences related to investments in subsidiaries, branches, associates, and interests in joint ventures, deferred tax liabilities are recognized unless both of the following conditions are met (Mahmoud Abdullah, 2015, p. 108):

- The parent company, investor, or joint venturer is able to control the timing of the reversal of the temporary difference;
- It is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax liabilities related to temporary taxable differences associated with goodwill are recognized to the extent that they do not arise from the initial recognition of goodwill (IAS 12, 2014, p. 7, paragraph 21). Hence, deferred tax liabilities are recognized for all taxable timing differences, except for those arising from the initial recognition of acquisition differences (Saidani & Razikat, 2018, p. 5).

2-1-2-2 Recognition of deferred tax assets:

Deferred tax assets are recognized if it is probable that the asset will be realized, meaning that there will be sufficient taxable profits in the future to absorb the deductible temporary difference. IAS 12, paragraph 24, states that deferred tax assets are recognized for all deductible temporary differences to the extent that sufficient taxable profit is expected to be available to offset the deductible temporary difference, except when the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that is not a business combination and does not affect accounting profit or taxable profit at the time of the transaction. (Mamash, 2018, p. 266)

Deferred tax assets related to investments in subsidiaries, branches, associates, or interests in joint ventures are recognized only to the extent that it is probable that:

- The temporary difference will reverse in the foreseeable future;
- Sufficient taxable profit will be available to utilize the temporary difference.

Deferred tax assets arising from the initial recognition of goodwill as part of business combinations are recognized to the extent that taxable profit is expected to be available (IAS 12, paragraph 32). Regarding the recognition of deferred tax assets for unused losses and tax credits, this is done to the extent that future taxable profits are likely to be available against which these unused losses and tax credits can be used (IAS 12, paragraph 34).

2-2 Measurement of deferred tax assets and liabilities
To measure deferred tax assets and liabilities, the following steps must be followed (Hammad, Accounting Standards Encyclopedia, vol. 1, 2002-2003, p. 72):
1. Identify all temporary differences existing at the reporting date;
2. Separate temporary differences into taxable and deductible differences, as IAS 12 only recognizes deferred tax assets likely to be realized, while all deferred tax liabilities are recognized;
3. Gather information on deductible temporary differences, as well as losses and credits carried forward to subsequent periods;
4. Measure the tax effect of deductible and taxable temporary differences by applying the expected tax rates.

2-3 Disclosure of deferred taxes
According to IAS 12, the main components of tax expense (income) must be disclosed as follows (IAS 12 Income Taxes, 2014, pages 21-22, paragraphs 79-82):
1. Current tax expense (income).
2. Any adjustments recognized during the period for income taxes of prior periods.
3. The amount of deferred tax expense (income) related to the origination and reversal of temporary differences.
4. The amount of deferred tax expense (income) related to changes in tax rates or the imposition of new taxes.
5. The amount of benefit from a previously unrecognized tax loss or tax credit.
6. Deferred tax expense resulting from a reduction or reversal of a previous deferred tax asset reduction.
7. The amount of tax expense (income) related to changes in accounting policies and fundamental errors included in the determination of net profit or net loss for the period, as per the alternative treatment allowed in IAS 8.

Additionally, the following must be disclosed separately:
1. The total current and deferred tax related to items recognized directly in equity.
2. The amount of income tax related to unusual items recognized during the period.
3. A reconciliation between the income tax amount and accounting profit in one or both of the following ways:
   - A numerical reconciliation between the income tax amount and the product of accounting profit multiplied by the applicable tax rate(s).
   - A numerical reconciliation between the average effective tax rate and the applicable tax rate.
4. Any changes in the applicable tax rate compared to the previous accounting period.
5. The total amount of deductible temporary differences, unused tax losses, and unused tax credits for which no deferred tax asset is recognized in the balance sheet.
6. The total amount of temporary differences related to investments in subsidiaries, branches, associates, and interests in joint ventures for which no deferred tax liability is recognized.
7. **Regarding each of the deductible temporary differences, unused tax losses, and unused tax credits:**
   - The amount of deferred tax assets and liabilities recognized in the balance sheet for each period presented.
   - The amount of deferred tax income (expense) recognized in the income statement, if it is not evident from the changes in the amounts recognized in the balance sheet.
8. **For discontinued operations, the tax expense related to:**
   - The gain or loss from discontinuation.
   - The profit or loss from the ordinary activities of discontinued operations for the period, with corresponding amounts for each prior period presented.

The entity must disclose the amount of a deferred tax asset and the nature of the supporting evidence when:
1. The realization of the deferred tax asset depends on future taxable profits exceeding those arising from the reversal of existing taxable temporary differences.
2. The entity has incurred a loss in either the current period or prior periods within the tax authority to which the deferred tax asset relates.

3. Treatment of Income Taxes in Algeria and Their Compliance with IAS 12 Requirements
3.1 Differences between Accounting and Tax Bases for Income Taxes under IAS 12: The direct impact of the tax system on accounting practices in Algeria is evident as the output of the financial accounting system serves as input for taxation purposes. However, there are several differences between accounting income and taxable income, summarized as follows (Asoul & Si, 2019, p. 428):

Table No. (01): Cases of Differences Between Accounting Profit and Taxable Profit

Adjustments	Tax loss carryforward	Timing differences
• Excluding some expenses and reprocessing revenues and expenses	• A deferred tax asset can be carried forward as long as there are future taxable profits or potential tax credits.	• Accounting recognition of certain revenues or expenses may differ from their tax recognition in future fiscal periods.

Source: Mohamed El-Amin Assoul, Mohamed Lakhdar Si, "Accounting Treatment of Taxes and Duties According to the Financial Accounting System Between Stability of Accounting Legislation and Continuous Amendments of Tax Laws," Journal of Human Sciences, University of Oum El Bouaghi, Volume 06, Issue 01, 2019, p. 428.

Before delving into the analysis of differences between accounting and taxable profits, it is essential to consider deferred taxes under the Algerian accounting system (SCF), as it is one of the significant aspects introduced by IAS 12 for addressing these differences.

3.2 Presentation of Deferred Tax under the Algerian Financial Accounting System: Deferred taxes are a new concept inspired by international accounting standards, introduced mainly to reduce differences between accounting and taxable income and reflect the entity's true financial position.

3.2.1 Definition of Deferred Tax: According to Bhagwan Jagwani, deferred tax is the process of allocating income tax over periods, regardless of when the taxes are paid. Its goal is to reflect the tax implications of all economic transactions recognized in the current and previous periods (Jagwani, 2008, pp. 6-7). The Algerian legislator defines it as a tax amount payable (deferred tax liabilities) or recoverable (deferred tax assets) in future fiscal years, recorded in the balance sheet and income statement (Ministerial Decree, July 26, 2008, p. 18, Article 134, Paragraph 2). Thus, deferred taxes under the SCF are classified into two categories (Ibrahim, Bourkaib, & Sid, 2024, p. 270).

- **Deferred Tax Assets**: These represent amounts of income taxes paid or prepaid to the tax authorities and are expected to be recovered (deducted from income taxes) in subsequent periods.
- **Deferred Tax Liabilities**: These represent amounts of income taxes that are due to be paid in future periods, although they result from transactions that occurred in previous periods before the tax liability year.

3-2-2 Cases of Recognizing Deferred Tax:
There are two methods to recognize deferred tax expenses (Hassous, 2018, pp. 73-74):

- **Deferral Method (Income/Profit and Loss Statement)**: The deferral method calculates the tax expense based on the difference between taxable income and accounting income. Under this method, the tax expense for the period is determined based on the accounting income, while the current liability is based on taxable income. The difference between the actual current liability and the income tax expense is either treated as a deferred expense or a creditable amount, which will eventually be subject to taxation when the timing difference reverses. Timing differences arising during the period are called "emerging differences," while the reversal of tax effects from differences that arose in previous periods are called "reversed differences." The deferral method was focused on the income statement, but it is not recognized under the amended **IAS 12**, even though it was accepted and used previously under the original IAS 12.
- **Liability Method (Balance Sheet)**: According to this method, the total value of income tax for the current period cannot be directly calculated. Instead, it must be the sum of two components: the value of current tax and the value of deferred tax. This total will not equal the current tax rate multiplied by the accounting profit. The company must recognize a deferred tax asset for all deductible temporary differences arising from investments in subsidiaries, branches, associates, and interests in joint ventures. The following table illustrates the tax and accounting effects on deferred tax due to the application of this method by comparing asset and liability elements (Olivier, 2013, p. 23).

Table No. (02): Recognition of Deferred Tax According to the Balance Sheet Method

Asset Elements	Liability Elements
Accounting value is greater than tax value	Results in a deferred tax liability
Accounting value is less than tax value	Results in a deferred tax asset

Source: Olivier De Brouckère, *INITIATION AUX IMPOTS DIFFERES*, copyright September 28, 2013, p.23. Available at http://www.abaq-rh.com/IMG/pdf/impotsdifferes, consulted on June 1, 2021, at 14:15.

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3-2-3 Accounting for Deferred Taxes Under the Financial Accounting System
The Algerian financial accounting system divides deferred taxes into deferred tax assets, recorded in account 133, and deferred tax liabilities, recorded in account 134. Below is an explanation of the accounting registration for both accounts:

- **Account 133 (Deferred Tax Assets):** This account is debited with the amount of taxes that will be reduced from taxes on future profits, making account 692 (Deferred Tax Assets Charge) credited when the deferred tax is recorded at the end of the year. Upon settling the deferred tax asset, a reverse entry is made, taking into account that some expenses are not deductible for tax purposes in the year they are incurred but in the year they are actually paid, resulting in deferred tax assets for the institution (Atia, 2014, pp. 140-141). The accounting entry for deferred tax assets is as follows:

Debit: Account 133 / Deferred Tax Assets (xxxx)
Credit: Account 692 / Deferred Tax Assets Charge (xxxx)

When settling the deferred tax asset, the following entry is made:
Debit: Account 692 / Deferred Tax Assets Charge (xxxx)
Credit: Account 133 / Deferred Tax Assets (xxxx)

- **Account 134 (Deferred Tax Liabilities):** This account is credited by debiting account 693 (Deferred Tax Liabilities Charge) with the amount of tax to be paid in future fiscal years when deferred tax liabilities are established for a given year. Upon settling the deferred tax liability, a reverse entry is made (for instance, in the case of a product recorded in the accounts but taxable in future years). An example includes operating subsidies, recorded as revenue when promised by a central or local authority, but included in taxable income only upon actual receipt (Atia, 2014, p. 145). The accounting entry for deferred tax liabilities is as follows:

Debit: Account 693 / Deferred Tax Liabilities Charge (xxxx)
Credit: Account 134 / Deferred Tax Liabilities (xxxx)

When settling the deferred tax liability, the following entry is made:
Debit: Account 134 / Deferred Tax Liabilities (xxxx)
Credit: Account 693 / Deferred Tax Liabilities Charge (xxxx)

3-3 Differences Between Accounting and Taxable Profit for Profit Tax in Algeria
3-3-1 Permanent Differences Between Accounting and Taxable Profit
These are differences that arise because certain costs or revenues are considered when measuring one type of income (accounting or taxable) but not the other. Tax laws include various treatments aimed at achieving specific financial, economic, social, or political goals, such as excluding certain revenues from taxation or preventing the deduction of certain expenses from taxable income. This leads to permanent differences between accounting income and taxable income.
The distinguishing feature of permanent differences is that their effect is limited to the period in which they occur and does not carry over to subsequent accounting periods, meaning they do not result in deferred tax effects. Their impact is mainly on the income statement rather than the balance sheet, either reducing or increasing the tax burden based on whether they result in tax savings or additional tax liabilities. Key examples include:

- **Gift Shares and Advertising Expenses:** The 2022 Finance Law specifies that non-deductible gifts, except for advertising gifts not exceeding 1,000 DZD per unit, are allowed within a total limit of 500,000 DZD. Donations to humanitarian organizations are deductible up to 4,000,000 DZD annually. For sports-related advertising and youth initiatives, the limit is set at 10% of the company's annual revenue, capped at 30 million DZD. The financial accounting system does not impose such limits for deducting these expenses, treating them as ordinary expenses.
- **Research and Development Costs:** According to International Accounting Standard (IAS) 38 and the financial accounting system, research costs are recorded as expenses, while development costs that enhance economic benefits are recorded as intangible assets. This affects the tax base through depreciation and value losses. However, Algerian tax law limits the deductibility of research and development costs to 10% of taxable income, with a maximum limit of 100,000,000 DZD, provided the amounts are reinvested and reported to tax authorities.
- **Non-Deductible Taxes and Fees:** Certain taxes and fees are non-deductible for tax purposes and must be added back to taxable income, including corporate profit tax, apprenticeship tax, and vehicle ownership fees for companies. Additionally, penalties and fines imposed for violating tax laws or contractual fines paid to non-taxable entities in Algeria are non-deductible.
- **Non-Deductible Depreciation and Provisions:** The 2022 Finance Law states that provisions and depreciation that do not meet the formal and objective tax criteria are non-deductible. Moreover, for passenger cars, only a depreciation value up to 3,000,000 DZD is deductible.

- **Non-Taxable Capital Gains:** Capital gains from the sale of fixed assets held for less than three years are 30% exempt from tax, while gains from assets held for more than three years are 65% exempt, with 100% exemption if reinvested within three years.
- **Income from Dividend Distribution:** Dividends distributed to companies are tax-exempt, as they are subject to withholding tax at the distributing company's level. However, accounting rules treat dividend distributions as financial income included in accounting profit.

3-3-2 Temporary Differences Between Accounting Principles and Tax Regulations
Temporary differences arise from the inclusion of certain expenses or revenues in accounting income but not in taxable income. This occurs for two main reasons: first, due to the differing tax bases for some assets or liabilities that may be settled at the end of the financial period based on their recorded book values or at different values, resulting in a taxable amount or a value deductible from future taxable income. The second reason is the difference in financial periods in which certain expenses or revenues are recognized in accounting financial statements compared to the periods in which the same items are recognized for tax purposes due to the divergence between accounting standards and applicable tax legislation (Al-Haddad and Al-Sidiq, 2012, p. 132). The impact of these differences extends beyond the period in which they occur, affecting subsequent financial periods, which leads to the emergence of deferred tax effects that may be recoverable or payable in the future. Among the most important of these differences are:

- **Financial Expenses, Royalties, and Fees:** For interest and other financial expenses, as well as royalties due for patents, exploitation licenses, and trademarks, along with technical assistance expenses and fees, their deduction from financial results is contingent upon actual payment during the financial year according to tax regulations. In contrast, the financial accounting system stipulates that these burdens are recorded linked to the financial year in which they were incurred, without regard to the actual payment date.
- **Low-Value Items:** According to the Finance Law of 2022, low-value items that do not exceed 60,000 DZD can be recognized outside the tax as deductible expenses for the relevant financial year. However, the financial accounting system does not set a specific ceiling for these items but allows economic entities to estimate their value, which can lead to temporary differences between accounting and tax results if the entity adopts a higher ceiling than what is accepted for tax purposes.
- **Discrepancy Between Accounting Depreciation and Tax Depreciation:** The method, duration, or even the applicable depreciation base used by the entity for accounting purposes may differ from the method, duration, or base stipulated for tax purposes. The financial accounting system allows entities to choose a depreciation method and define a useful life that it deems suitable for its investment strategy. However, tax depreciation is not necessarily the same as accounting depreciation according to the state’s tax policy, resulting in temporary differences between accounting and taxation addressed within the framework of deferred taxes. A new method of depreciation based on production units has been added to the financial accounting system, while it is not recognized for tax purposes (Ibrahim Issa, Bourkaib, and Said, 2024, pp. 270-271).
- **Previous Years' Losses:** Tax law permits entities to carry forward losses incurred up to the fourth year. This means that if a deficit is recorded in a particular financial year, this deficit is considered a burden that is included in the following financial year and reduces the profit earned during the same year. If this profit is insufficient to offset the entire deficit, the excess deficit is carried forward sequentially until the fourth year following the year the deficit was recorded (Direct Taxes and Similar Levies Law, 2018, p. 39, Article 147). In contrast, the financial accounting system records the incurred loss in account 11 (new carry forward) without considering it as a burden reducing the results of subsequent years.
- **Public Grants:** Operating grants are defined as the amounts provided by the state to enterprises to compensate for a deficiency in certain operating products (revenue cycle) or to cover some operating expenses (burdens). Stabilization grants are amounts provided by the state to enterprises to absorb budget deficits (operating result loss) (Boubir, 2014, p. 127). Equipment grants are defined as grants that the enterprise receives for acquiring or constructing specific assets, while other investment grants relate to those that the enterprise receives to finance its long-term activities, such as establishing branches abroad or seeking new markets (Jidar, Taqarat, and Ben Mahdi, 2018, p. 34). Regarding their treatment, the financial accounting system states that public grants should be included in accounts as products at the date of agreement for receipt without requiring the actual collection date as a condition for revenue realization. Meanwhile, tax legislation in Article 144 of the (Law No. 12 of 2016) stipulates that equipment and investment grants provided by the state or local authorities to enterprises should be included in the results of the current financial year upon payment, and they are linked to taxable profits for all subsequent financial years relative to their use. Additionally, operating and stabilization grants are included in the results achieved in the financial year in which they were collected (Tafighoult, 2015, p. 80).
- **Conversion of Rights and Debts in Foreign Currency:** The financial accounting system stipulates that payable and debt accounts in foreign currency should be settled in the same financial year in which fluctuations in the exchange rate resulted in gains or losses in conversion, with profits and losses recorded at the end of the cycle among expenses or

results as applicable. However, the tax system allows enterprises to show only losses from conversion and ignores the resulting positive differences (Bouzid and Najar, 2018, p. 135).

- **Provisions for Expenses (Hassous, 2018, p. 84):** The financial accounting system defines provisions for expenses as liabilities with uncertain maturity or amounts, which are recorded in the following cases:
  - When the entity has a current obligation (legal or implicit) resulting from a past incident.
  - When the possibility of resource outflow is necessary to settle this obligation.
  - When this obligation can be reliably estimated.

It is worth noting that provisions for expenses are not subject to revaluation at the end of each financial year, and they can only be used for the expenses for which they were established. Provisions for future operating losses are not prepared; however, their deduction from taxable results according to the Algerian tax system remains contingent upon actual payment and their association with the financial year in which they were realized, which results in the emergence of temporary differences between accounting profit and tax profit, thus resulting in deferred taxes.

- **Business Combinations:** Temporary differences may arise in business combinations, following IFRS 3, where an entity recognizes any deferred tax assets arising (to the extent that taxable income is available to offset the differences) or deferred tax liabilities arising as acquired assets and liabilities as of the date of the merger. Consequently, those deferred tax assets and liabilities affect the amount of goodwill, but the entity does not recognize the deferred tax liabilities arising from the initial recognition of goodwill (International Accounting Standard No. 12, Income Taxes, 2014, p. 18, paragraph 66). Since the recognition of acquired assets and liabilities in business combinations is at their fair values on the transaction date, temporary differences arise when the tax rules for acquired assets and liabilities are not affected by the business combination or when they are affected differently. For example, when the book value of an asset increases to its fair value, but the tax basis of that asset remains equal to the previous owner's cost, a temporary taxable difference arises, resulting in deferred tax liabilities since the value of the deferred tax liability affects goodwill (International Accounting Standard No. 12, Income Taxes, 2014, p. 05, paragraph 19).
- **Goodwill:** This refers to the excess of the purchase price of the acquired entity over the fair value of the net assets obtained. If the book value of the goodwill arising from a business combination is less than its tax basis, a deferred tax asset arises from the difference, which must be recognized as part of accounting for business combinations to the extent that it is probable that taxable income will be available to utilize the temporary deductible difference (International Accounting Standard No. 12, Income Taxes, 2014, p. 10, paragraph 32). While many tax legislations do not permit the reduction of the book value of goodwill as a deductible expense when determining taxable profit, some legislations state that goodwill costs are generally non-deductible because the subsidiary has relinquished its core activity. Under such legislations, goodwill has a tax basis equal to zero, and any difference between the book amount of goodwill and its tax basis of zero is considered a temporary taxable difference. However, recognition of deferred tax liabilities arising is not permitted because goodwill is measured as a residual amount, and recognizing deferred tax liabilities would increase the book value of goodwill (International Accounting Standard No. 12, Income Taxes, 2014, p. 06, paragraph 21).
- **Assets Measured at Fair Value:** IFRS standards require certain assets to be recorded at fair value or revalued, where revaluation of the asset or its presentation at fair value affects the taxable profit (tax loss) for the current period. Consequently, the tax basis of the asset is adjusted, resulting in a temporary difference arising from the difference between the book amount of the revalued asset and its tax basis (International Accounting Standard No. 12, Income Taxes, 2014, p. 06, paragraph 20).
- **Initial Recognition of an Asset or Liability:** According to (International Accounting Standard No. 12, Income Taxes, 2014, p. 07, paragraph 22), temporary differences may arise upon the initial recognition of assets or liabilities if the cost of an asset or part thereof is non-deductible for tax purposes. The accounting treatment for this temporary difference depends on the nature of the transaction that led to the initial recognition of these assets or liabilities (liabilities) as follows:
- In a business combination, the entity recognizes any deferred tax assets or liabilities, which affects the value of goodwill or a bargain purchase price it recognizes.
- If the transaction affects both accounting profit and taxable profit, the entity recognizes all deferred tax assets or liabilities, and it recognizes the deferred tax expense or revenue as part of profit or loss.
- If the transaction is not a business combination and does not affect either accounting profit or taxable profit, recognizing any deferred tax assets or liabilities would make the financial statements less transparent. Therefore, IAS 12 does not permit the recognition of any deferred tax assets or liabilities in this case.

3-4 Some Proposed Solutions to Avoid the Difference Between Accounting Results and Tax Results

Based on the existing differences between the financial accounting system and the tax law, the Algerian legislator has proposed several solutions to reduce these discrepancies, the most important of which is the reformation of certain tax rules to align with the standards set by the financial accounting system (SCF) as follows (Lissouni, 2017, p. 181):

- **Monitoring Long-Term Contracts:** By recording expenses and revenues from contract operations (long-term contracts) according to the percentage of completion method, it is possible to determine the annual result for this type of contract based on the project's progress. This was established in coordination with the new financial accounting system, as stated in Article 04 of the supplementary finance law of 2009, which states: "The taxable profit for long-term contracts related to the provision of materials and services, or a group of materials or services extending over at least two accounting periods or financial years, shall be acquired exclusively according to the advance payment accounting method, independent of the method adopted by the institution in this area, regardless of whether the contracts are lump-sum contracts or management contracts."
- **Deducting Depreciation and Provisions:** According to Article 05 of the supplementary finance law of 2009, the tax administration must deduct depreciation and provisions in line with the financial accounting system, which requires the formation of provisions in the event of expected value losses for inventories or rights.
- **General Framework:** According to Article 06 of the supplementary finance law of 2009, the tax administration must accept all proposals from the financial accounting system, unless they conflict with tax texts. In the case of a conflict, tax rules take precedence.
- **Deduction of Initial Expenses:** The SCF system stipulates that initial expenses should not appear in the balance sheet and must be deducted. In line with the principle of caution, even if these expenses have been treated as a final loss, they will still be deductible for tax purposes. This is outlined in Article 08 of the supplementary finance law of 2009, and confirmed by Article 10 of the finance law of 2010.
- **Revaluation of Assets:** According to Articles 185 and 186 of the Direct Taxation and Similar Taxes Law, a period of five years is established for recording the values resulting from the revaluation of fixed assets for tax results, which is considered an extension of the tax on capital gains to avoid the burden of tax liability. Additionally, it includes adding the surplus of depreciation allocations resulting from the revaluation to the annual result.

Second: The Practical Part

1. **Analysis of Interview Results with Accounting Department Employees at SCAEK and Some Academics and Professionals in Accounting**

A closed interview method will be used with some employees from the accounting and management department at the cement manufacturing institution in Sétif, along with a number of academics and professionals in accounting from outside the institution. This approach is aimed at achieving the study's objectives and generalizing its results. This procedure was necessary because the sample size within the institution did not exceed 11 employees in the accounting and finance department. Therefore, it was essential to seek expertise from academics and professionals outside the institution.

2. **Study Population and Sample:**

As previously mentioned, the study population consists of employees at the cement manufacturing institution in Sétif who are affiliated with the accounting and management department, in addition to a group of university professors and several accountants and auditors. The total study sample consisted of (30 individuals), with personal interviews conducted with (18 individuals), while phone interviews were conducted with (12 individuals). A range of descriptive primary data was obtained, reflecting the opinions of the study participants on various issues that are essential to understand their viewpoints, including inquiries about the existence of differences between accounting profit and tax profit, the extent to which economic institutions operating in Algeria comply with the application of the financial accounting system, and the benefits resulting from and reflected on these institutions due to its implementation. Additionally, inquiries were made about the main methods used to measure profit tax in Algeria, the advantages of the asset/liability method concerning the value and size of deferred taxes arising and reflected in the future, and whether the provisions of tax legislation lead to an increase in the value and size of tax differences, and consequently, deferred taxes, thus increasing the burden of accounting disclosure in financial statements.

3. **Statistical Analysis:**

Within the framework of a three-point Likert scale, response fields were established by providing three possible answers for each question (Yes – No – Other answer) to gauge the opinions of the study sample regarding various questions, as outlined in the table below:

Table No. (03): Degree of Responses from the Study Sample According to the Three-Point Likert Scale

trend	Category
Tend to other answer	**1.66 – 1**
Tend to “no” answer	**2.33 – 1.67**
Tend to “yes” answer	**3.00 – 2.34**

Source: Prepared by the Researcher

3-1) Analysis of the Demographic Characteristics of the Sample

Table No. (04): Percentages of the Demographic Characteristics of the Study Sample

Percentage	frequencies	Category	Variable
%24	**7**	**Phd**	Educational level
%13	**4**	**Master**	
%37	**11**	**Bachelor**	
%26	**8**	**Other**	
%100	**30**	Total	
%24	**7**	**University lecturer**	Job
%34	**10**	**Accountant**	
%26	**8**	**Editor**	
%16	**5**	**Financial Manager or Financial Administrator**	
%100	**30**	Total	
%24	**7**	**University**	مكان العمل
%37	**11**	**Ciment production company SCEAK**	
%39	**12**	**Other**	
%100	**30**	Total	
%16	**5**	**Less than 5 years**	Job experience
%54	**16**	**From 5 to 15**	
%30	**9**	**More than 15**	
%100	**30**	Total	

Source: Prepared by the researcher

- It is noted from the above table that most of the study sample members hold higher degrees, accounting for 74% of the total sample size, distributed as follows: 37% hold a bachelor's degree, 13% hold a master's degree, and 24% hold a doctorate. In contrast, 26% hold other qualifications, as evidenced by their interviews, indicating they have either a technical degree or a higher technical degree in accounting, and they are employees of the cement manufacturing company in Sétif.
- It can also be observed that the majority of the study sample consists of accountants at 34%, followed by auditors at 26%. The remaining 40% is distributed among accounting professors at 24% and financial managers and heads of the accounting department of the SCAEK, totaling 5 individuals, which represents 16% of the total sample.
- Regarding the workplace of the sample members, it is noted that the university employees, who represent the category of accounting professors interviewed, number 7 individuals, accounting for 24%. The percentage of employees from the cement manufacturing company in Sétif, as well as accountants and auditors with private offices, is close, at 37% and 39%, respectively.
- The above table shows that 84% of the study sample members have more than five years of experience. Those whose experience ranges from five to fifteen years account for 54%, totaling approximately 16 individuals, while those with more than fifteen years of professional experience represent 30%, totaling about 9 individuals. The remaining study sample members, who have less than five years of professional experience, number 5 individuals, representing 16%. This indicates that the study sample members possess sufficient professional experience to rely on their responses.

3-2) Analysis of Study Variables

3-2-1) Analysis of the First Axis: The Reality of Accounting Treatment of Income Taxes in Algeria Compared to the Requirements of IAS 12

Table No. (05): Results of the Analysis of the First Axis

Statement	**Average**	**Direction**
1. The accounting treatment of income taxes in Algerian institutions is in accordance with IAS 12.	1.99	No
2. Institutions in Algeria apply the deferred tax technique when processing income taxes.	2.17	No

3. The reason for the emergence of deferred tax is the existence of temporary tax differences for the current period, which have implications for future periods. 2.89 Yes

4. Permanent tax differences result in the recognition of deferred taxes. 1.96 No

5. The application of deferred tax allows for the reduction of the gap between accounting income and taxable income. 2.85 Yes

6. The application of the deferred tax mechanism has an impact on the quality and transparency of financial statements. 2.92 Yes

Trend	Mean	Item
No	1.99	**1. The accounting treatment of income taxes in Algerian institutions is in accordance with IAS 12.**
No	2.17	**2. Institutions in Algeria apply the deferred tax technique when processing income taxes.**
Yes	2.89	**3. The reason for the emergence of deferred tax is the existence of temporary tax differences for the current period, which have implications for future periods.**
No	1.96	**4. Permanent tax differences result in the recognition of deferred taxes.**
Yes	2.85	**5. The application of deferred tax allows for the reduction of the gap between accounting income and taxable income.**
Yes	2.92	**6. The application of the deferred tax mechanism has an impact on the quality and transparency of financial statements.**

Source: Prepared by the researcher based on the following relationship: Average = Sum of variable values / Number of values.

The table above shows the responses of the sample individuals regarding the reality of the accounting treatment of income taxes in Algeria compared to the requirements of IAS 12. It is evident from this table that the responses of the sample members were evenly distributed between "Yes" and "No." The responses to statements 1, 2, and 4 leaned towards "No," with average scores between 1.96 and 2.17. In contrast, statements 3, 5, and 6 leaned towards "Yes," with average scores of 2.89, 2.85, and 2.92, respectively. This indicates that the members of the sample acknowledge that the accounting treatment of income taxes in active institutions in Algeria does not comply with the stipulations of IAS 12 and that most active institutions in Algeria do not apply the deferred tax technique when processing income taxes due to various circumstances imposed by the internal environment of the state.

3-2-2) Analysis of the Second Axis: Requirements for Aligning the Accounting Treatment of Income Taxes in Algeria with the Requirements of IAS 12

Table No. (06): Results of the Analysis of the Second Axis

Direction Towards	Average	Statement
Other answer	1.55	**1. Is there a need for the accounting treatment of income taxes in Algeria to align with the requirements of IAS 12?**
Yes	2.78	**2. The process of aligning the accounting treatment of income taxes requires adapting the tax system to the SCF and continuously training tax frameworks and accounting professionals.**
Yes	2.63	**3. One of the requirements for developing the accounting treatment of income taxes in Algeria is to create new tax mechanisms capable of absorbing the differences between the SCF and the tax system.**
Yes	2.99	**4. It is necessary to update the Algerian tax system to comply with the stipulations of Accounting Standard No. 12 as one of the most important mechanisms for updating the accounting for taxes in Algeria.**
Yes	2.65	**5. Is updating the financial accounting system in accordance with changes at the level of international accounting standards necessary for developing the accounting treatment of income taxes in Algeria?**
Yes	2.55	**6. Does updating teaching methods and training accounting expertise, and linking the academic aspect with the practical side contribute to the development of the Algerian accounting and tax system?**

Source: Prepared by the researcher based on the following relationship: Average = Sum of variable values / Number of values.

The table aims to clarify the main requirements for aligning the accounting treatment of income taxes in Algeria with the requirements of IAS 12. We find that most members of the sample leaned towards answering "Yes" to all the questions posed, except for the first question, where most provided other responses. These responses were divided into two views: one group believed that aligning the accounting treatment of income taxes in Algeria with the requirements of IAS 12 lies in the obligation to apply it, no more, as what is required—alignment of accounting treatment with the stipulations of IAS 12—actually exists and is stated in the SCF. Meanwhile, other members of the sample argued that the alignment process should focus on the tax treatment, not the accounting treatment, as the tax system does not comply with what IAS 12 stipulates.

3-2-3) Analysis of the Third Axis: Identifying Barriers to Alignment between the Accounting Treatment of Income Taxes in Algeria and the Requirements of IAS 12

Table No. (07): Results of the Analysis of the Third Axis

Direction	Average	Statement
No	2.21	**1. Do Algerian institutions have the necessary resources to apply the requirements of Accounting Standard No. 12 regarding the treatment of income taxes?**
Yes	2.87	**2. Does the application of deferred tax face many problems and obstacles?**
Yes	2.98	**3. Is the tax system considered one of the obstacles that hinder the application of deferred taxes in Algeria?**
Yes	2.63	**4. The ambiguity and complexity of the accounting treatment of deferred taxes have made their application difficult.**
Yes	2.67	**5. The absence of tax incentives regarding the application of deferred taxes encourages non-compliance.**
Yes	2.89	**6. The lack of mandatory legislation to apply deferred taxes is one of the main factors for institutions' non-compliance.**

3-2-3) Analysis of the Third Axis: Identifying the Obstacles to the Compatibility of Accounting Treatment of Income Taxes in Algeria with the Requirements of IAS12
Table No. (07): Results of the Analysis of the Third Axis

Source: Prepared by the researcher based on the following relationship: Average = Total Values of the Variable / Number of Values

The table above indicates that all members of the sample agree that the compatibility of the accounting treatment of income taxes in Algeria with the requirements of IAS12 faces several difficulties. This is evident from their responses of "Yes" to statements (2, 3, 4, 5, 6) related to this axis, with average scores ranging from 2.63 to 2.98. Meanwhile, most members of the sample answered "No" to the first question regarding whether institutions have the necessary resources to apply the requirements of IAS12 when treating income taxes. Respondents explained that the cost of applying deferred tax as stipulated by IAS12 outweighs its benefits, as institutions may need to train their staff due to the ambiguity of the deferred tax mechanism. This situation forces them to spend money and waste time, especially given the lack of interest from the Algerian legislator in this matter.

3-2-4) Analysis of the Fourth Axis: Algeria's Qualifications Related to the Compatibility of the Accounting Treatment of Income Taxes with the Requirements of IAS12

Table No. (08): Results of the Analysis of the Fourth Axis

Direction	Average Score	Statement
Yes	2.97	**1. Is the flexibility of accounting and tax systems in Algeria one of the main qualifications for the alignment of accounting treatment of taxes on profits with the requirements of IAS 12?**
Yes	2.88	**2. Does Algeria's ongoing effort to adopt all international accounting standards positively impact its accounting and tax practices regarding taxes on profits?**
Yes	2.99	**3. Does Algeria's possession of many qualified experts in the accounting and tax fields qualify it to keep pace with international accounting and tax systems?**

Yes	2.64	**4. Does Algeria's direction toward updating educational and training systems contribute to the development of its accounting and tax practices?**
Yes	2.99	**5. Does Algeria's ongoing effort to create an active financial market through its recent initiatives to activate banks and financial institutions positively affect its adoption of various international accounting standards?**

Source: Prepared by the researcher based on the following relationship: Average = Sum of variable values / Number of values

From the table above, it can be observed that most respondents answered "Yes" regarding Algeria's qualifications to align its accounting treatment of taxes on profits with the requirements of IAS 12, with average scores as follows: (2.97, 2.88, 2.99, 2.64, 2.99), indicating that the majority of the sample acknowledges that Algeria possesses many qualifications that enable it to develop its treatment of taxes on profits.

Conclusion

The financial accounting system (SCF) is a result of the Algerian state's adoption of international accounting standards (IAS/IFRS), reflecting its desire to keep pace with the significant developments occurring on the international stage. However, the reality of the internal environment in Algeria has posed obstacles to this, particularly concerning the tax aspect, especially regarding the accounting and tax treatment of profits tax, which necessitated several reforms to eliminate the existing discrepancies between them. In light of what has been presented in this study, it was concluded that:

- The application of deferred tax allows for narrowing the gap between the accounting result and the tax result.
- The implementation of the deferred tax mechanism significantly impacts the quality and transparency of financial statements.
- The alignment of the accounting treatment of taxes on profits requires adapting the tax system to the SCF and continuously training tax staff and accounting professionals.
- Creating new tax mechanisms capable of absorbing the differences between the SCF and the tax system is a requirement for aligning the accounting treatment of taxes on profits in Algeria.
- Updating the tax system in accordance with IAS 12 is one of the most important mechanisms for updating tax accounting in Algeria.
- It is necessary to update the financial accounting system in accordance with the changes occurring at the level of international accounting standards to develop the accounting treatment of taxes on profits in Algeria.
- Updating educational methods and accounting expertise, and linking the academic aspect to the practical one, contributes to the development of the Algerian accounting and tax system.
- The tax system is one of the main obstacles hindering the application of deferred taxes in Algeria.
- The ambiguity and complexity of the accounting treatment of deferred taxes have complicated its application.
- The absence of tax incentives related to the application of deferred taxes encourages non-compliance with them.
- The non-mandatory nature of the Algerian legislator regarding the application of deferred taxes is considered one of the most important factors for non-compliance by institutions.
- The flexibility of the accounting and tax systems in Algeria is one of the main qualifications for aligning the accounting treatment of taxes on profits with the requirements of IAS 12.
- Algeria's continuous and ongoing effort to adopt all international accounting standards has a positive effect on the development of its accounting and tax practices concerning taxes on profits.
- Algeria possesses many qualified professionals in the accounting and tax fields, enabling it to keep pace with international accounting and tax systems.
- Algeria's direction toward updating educational and training systems can contribute to the development of its accounting and tax practices.
- Algeria's ongoing efforts to create an active financial market through its recent initiatives to activate banks and financial institutions positively influence its adoption of various international accounting standards.

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