**EXERCISE 2 – INCOME TAXES 6 POINTS**

**Please indicate whether the following items give rise to permanent or temporary differences and to deferred tax assets or liabilities. Indicate also the sign and the amount of each permanent or temporary difference and of each deferred tax asset and liability, assuming that the rate of tax is 20%.**

Depreciation of plants

The company owns plants, whose historical cost is equal to 50.000 €. For accounting purposes, the company depreciates the asset at a rate of 15%. Under tax law depreciation is permitted up to 12%.

**3%, being the difference between the maximum accounting and tax depreciation → temporary difference of +1.500 → deferred tax asset 300.**

Gain on sale of machinery

The company has recorded in its Income Statement a gain on sale of a machinery for an amount equal to 5.000 €. Under tax law the taxation of gain on sale of tangible assets is deferred in 5 years, starting from the accounting period in which the gain on sale is recorded in income statement (1/5 a year).

**Temporary difference 4/5 of -4.000 → deferred tax liability 800.**

R&D expenses

Under tax law of the concerned State, it is possible to deduct 125% of the amount spent on research and development during the year. For accounting purposes the company has recorded in its Income Statement R&D expenses for an amount of 2.000 €.

**25% → permanent difference of -500€→ no deferred tax.**