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A Research on Deferred Taxes: A Case Study of BIST Listed Banks in Turkey

Prof. Dr. Halim Sözbilir
Faculty of Economics and Administrative Sciences, Afyon Kocatepe University,Department of Management
E-mail: sozbilir@aku.edu.tr

Prof. Dr. Veysel Kula (Corresponding author)
Faculty of Economics and Administrative Sciences, Afyon Kocatepe University,Department of International Trade and Finance
E-mail: kula@aku.edu.tr

Lecturer Ender Baykut
Faculty of Economics and Administrative Sciences, Afyon Kocatepe University,Department of Management in English
E-mail: ebaykut@aku.edu.tr

Abstract
This study attempts to investigate the general profile and drivers of the deferred tax assets and liabilities of sixteen banks listed in Borsa Istanbul (BIST). The issue of deferred taxes is regulated by Turkish Accounting Standard No-12 (TAS-12), which is a verbatim Turkish translation of the International Accounting Standard (IAS) of the same number. The article discusses deferred taxes by establishing a link between them and temporary differences. Based on the examination of the annual financial statements of sixteen BIST-listed banks for the period of 2005-2013, it is found that the banks have generally reported deferred tax assets. The analysis of the financial statements of 2013 revealed that "severance payment rights" is the leading cause for deferred tax assets whereas the primary factor for deferred tax liabilities is the "valuation of financial assets".
Keywords: IAS-12, TAS-12, Banks, BIST, Temporary Differences, Deferred Tax Assets, Deferred Tax Liabilities.

1. Introduction

Financial statements report the results of the activities of companies for several decision making entities including managers, investors and creditors. In order to provide relevant, reliable, and comparable financial information to the decision makers, the financial statements are prepared in compliance with the International Financial Reporting Standards (IFRS) issued by International Accounting Standards Board (IASB). As stated by Harrison et.al. (2014), the IASB was formed in 2001 to replace the International Accounting Standards Committee that issued International Accounting Standards (IAS). Those previously issued IASs still continue to remain effective. Therefore, the IFRSs and IASs constitute the main body of standards that are widely adopted and used by several countries around the world. In Turkey, mainly the listed entities have been required to use these standards since 2005. Presently, the regulatory body of Turkey responsible for issuing those standards is the Public Oversight Accounting and Auditing Standards Authority (POB), which was preceded before 2011 by Turkish Accounting Standards Board (TASB). POB simply translate those standards and name the IFRSs and IASs as Turkish International Reporting Standards (TFRS) and Turkish Accounting Standards (TAS), respectively. Of those standards, TAS-12 is the standard which prescribes the accounting treatment for income taxes in Turkey.

While the aim of IFRSs and IASs is to create financial statements that would provide fair and true view of the company, tax agencies have different priority of ensuring and collecting tax income. Therefore, there are two different profit concepts: accounting profit and taxable profit. Accounting profit is profit or loss of a period before deducting tax expense, whereas taxable profit is the profit for a period, determined in accordance with the rules established by the taxation authorities. The differences between those profits feature the emergence of deferred taxes.

2. Deferred Taxes

As indicated in the starting paragraph of IAS-12, the main subject of the standard is the accounting treatment for income taxes. As a financial statement, balance sheet reports assets and liabilities of companies at carrying amounts. The carrying amount of a balance sheet account is the amount reported in line with the accounting standards. In fact, reporting entities expect in future to recover assets and settle liabilities at carrying amounts. Deferred taxes would never emerge if the recovery of the assets and settlement of liabilities produce the same amount of future tax payments as with the recovery or settlement with no tax consequences. In other words,

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deferred taxes come into play when recovery of carrying amount of assets or settlement of carrying amount of liabilities makes future tax payment different than they would be if such recovery or settlement had not created any tax consequences. Deferred taxes are divided into two groups of deferred tax assets and deferred tax liabilities. There is deferred tax asset if recovery of carrying amount of assets or settlement of carrying amount of liabilities makes future tax payments smaller than that of the recovery or settlement with no tax implications. If the recovery of assets or settlement of liabilities makes future tax payments larger than that of the recover or settlement lacking any tax effect, then deferred tax liability is recognized.

From another perspective, deferred taxes are the result of temporary differences between the carrying amount of balance sheet accounts and their relevant tax base. As shown in Table 1, temporary differences are divided into two sub-groups of taxable temporary differences and deductible temporary differences. Taxable temporary differences are the temporary differences that produce taxable income in future periods. Consequently, the amounts of income taxes payable in future periods in respect of taxable temporary differences are called deferred tax liabilities.

Table 1: The Link Between Temporary Differences and Deferred Taxes

If temporary differences **increase** taxable income of future periods								
Temporary differences	=	Taxable temporary differences	→	Deferred tax liability	=	Taxable temporary differences	×	Tax rate

If temporary differences **decrease** taxable income of future periods								
Temporary differences	=	Deductible temporary differences	→	Deferred tax asset	=	deductible temporary differences	×	Tax rate

Temporary differences that reduce the taxable income in future periods are called deductible temporary differences. Deferred tax assets, then, are the amounts of income tax recoverable in future periods in respect of deductible temporary differences.

Before studying in detail the nature and types of temporary differences, permanent differences should be mentioned briefly. Similar to temporary differences, permanent differences are the differences between carrying amount and tax base of accounts on balance sheet. However, permanent differences do not change the taxable income of future periods, they just change the taxable income of current period. As Demir (2009) and Kayak (2008) indicate, permanent differences are the result of expenses which will never be deducted from taxable income, and of income which will never be taxed. The permanent differences do never create deferred tax asset or liability for the enterprises, either in the current period or in the future periods (Arslan, 2009:307). Non-deductible expenses such as traffic tickets and tax penalties, as drivers of permanent differences, are recognized as expenses in calculating accounting profit, not taxable income. Tax-exempt revenues, such as dividends from affiliates, are not recognized as income in the determining taxable income though they contribute to accounting income.

3. The Link Between Temporary Differences and Deferred Taxes

Income and revenues are reflected on balance sheet as either increase in assets or decrease in liabilities. Expenses and losses produce effects on balance sheet in the opposite way: they mean decrease in assets or increase in liabilities. As illustrated in Figure 1, similar relations appear in comparing accounting profit and tax base in the process of determining deferred taxes.

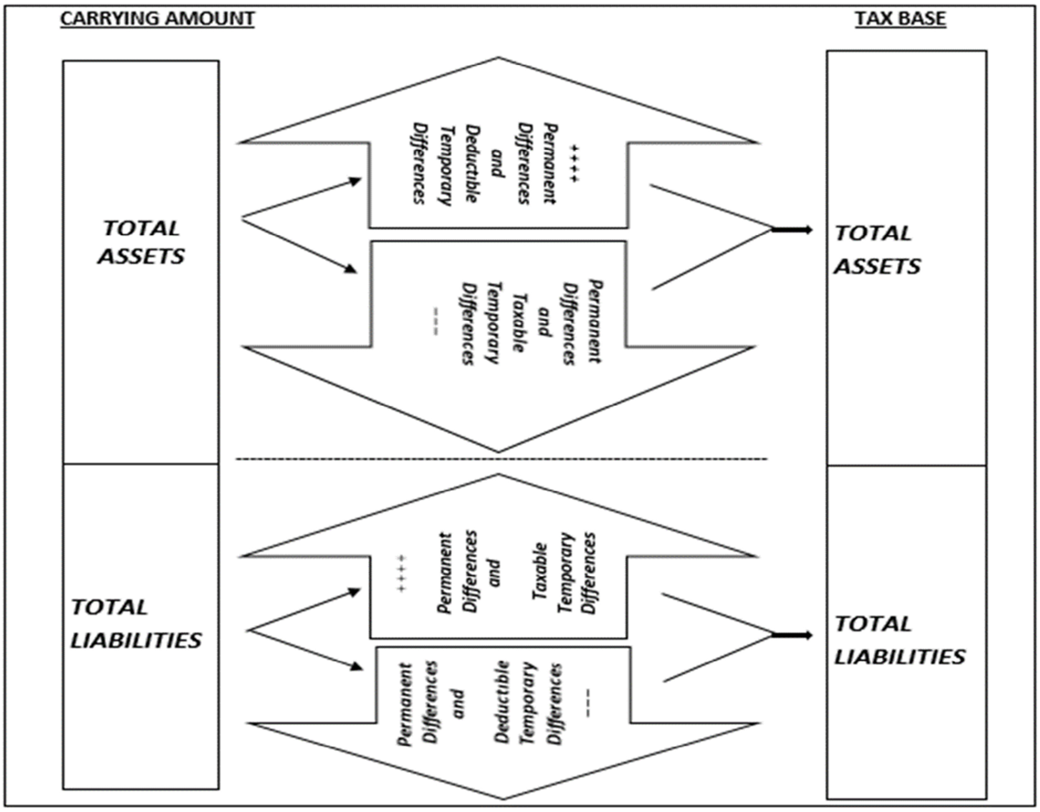

Figure 1: Temporary Differences as the Difference Between Carrying Amount and Tax Base

Figure 1 show that, differences between accounting carrying amount and tax base of accounts are explained either as permanent or temporary differences. Permanent differences do change the taxable income of current period with no consequences for future taxable incomes. However, temporary differences change the current and future taxable income in opposing ways. For example, if tax base of assets is more than the carrying amount, the temporary difference will increase the taxable income of the current period while decreasing the taxable income of future periods. If tax base is less than the carrying amount due to temporary decreases, it means decrease in the taxable income of the current period and increase in the taxable income of future periods. As shown in the figure, the differences in liability accounts produce just the opposite results.

The review of the literature provides discussion of the several examples of temporary differences. Depreciation expense, for example, is a kind of expense with a capacity to create temporary differences. As discussed by Ayanoglu (2001:82) and Sisman (2008:43), companies are free to choose depreciation method appropriate for their operations. But, tax laws might restrict the type and amount of periodic depreciation. In that case, tax base of fixed assets will be higher than the carrying amount, leading to deductible temporary differences. On the other hand, periodic depreciation amount computed for tax purposes by the company might be larger for reasons such as assumed shorter life of assets. In that case, taxable temporary differences emerge as tax base amount gets lower than the carrying amount.

Allowances for drop in the value of inventories and marketable securities, which reduce the carrying amount of the related assets, are another source of temporary differences (Alpman 2009: 40, Sisman, 2008:43, Akbulut, 2008:1). Deductible temporary differences emerge as tax laws cause increase in tax base by not recognizing those allowances in the period they accrue. Allowances for severance payments produce the similar result (Turel and Turel, 2006:237). Tax laws recognize those allowances not in the period they accrued, but in the period they are paid. That results, in the period they accrue, in a lesser amount of tax base, creating deductible temporary differences.

Rediscounting on receivables and payables, is another item that leads to temporary differences (Dinc, 2008:75; Sari, 2006:85, Kaval, 2005:405, Orten et.al. 2007:150). Standards require all receivables and payables to be subjected to rediscounting process whereas tax regulations leave it optional. Opting not to apply rediscounting on notes receivables and payables will result in deductible temporary differences and taxable temporary differences, respectively.

As Figure 2 illustrates, deferred tax assets and deferred tax liabilities can be computed after determining deductible temporary differences and taxable temporary differences. What is needed is to multiply temporary differences by the tax rate.

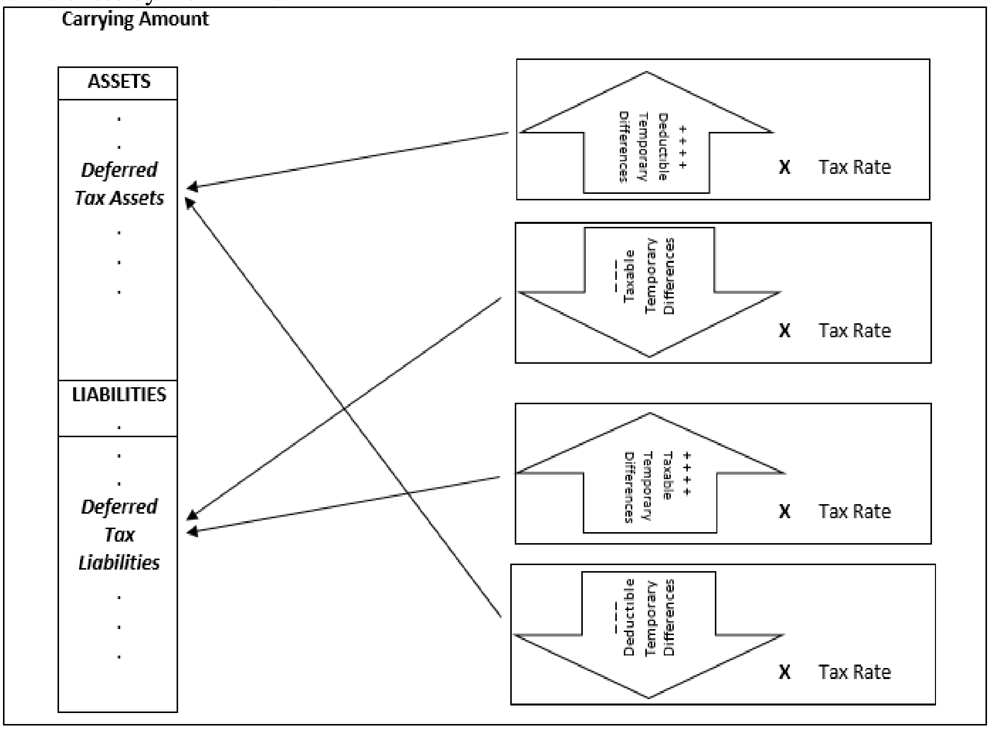

Figure 2. Sources of Deferred Tax Assets and Deferred Tax Liabilities

Deductible temporary differences result in more tax expense in the current period. But the excessive amount of tax that is paid will be reported on the balance sheet as deferred tax asset, allowing the company to deduct it in future periods. In the same vein, as Akdogan (2006:3) puts forward, taxable temporary differences will decrease the tax expense of the current period which will be paid in the future periods. That is why they are reported as deferred tax liabilities on the balance sheet.

For the purpose of illustrating the link between temporary differences and deferred taxes, it is helpful to consider following example by Sozbilir (2014). It is originally assumed that Company X has no temporary differences. Then, as of the end of year 2014, the company will make following journal entry if accounting profit is 1,000 Turkish Liras (TL) and tax rate is 20%.

---------------------------	Dec./31/2014/	--------------------------	
Tax Expense		200	
	Current Tax Payable		200
------------------------------	….. / ….. /	---------------------------	

It is now assumed that accounting profit is still 1,000TL, whereas taxable income is 800TL due to the straight line depreciation amount of 300TL for accounting purposes, and accelerated depreciation amount of 500TL for tax purposes. Then, there is deductible temporary difference of 200TL, which will result in the deferred tax liability of 40TL (200TL*0,20). The journal entry will be as follows:

Tax expense: 1,000TL x 20 % = 200TL
Current tax payable: 800TL x 20 % = 160TL

------- ---------------------	Dec./31/2014/	----------------------------		
Tax Expense		200		
	Current Tax Payable			160
	Deferred Tax Payable		40	
-----------------------------	….. / ….. /	-----------------------------		

In this example, due to the taxable temporary difference, the company will pay 40TL less tax this year. But, this amount, which is reported on the balance sheet as deferred tax payable, will be paid in the future periods.

Deductible temporary differences of 200TL emerge if it assumed that taxable income 1,200TL resulting from, for example, accounting purposes depreciation amount of 500TL and tax purposes depreciation amount of 300TL. There will be a resultant deferred tax asset of 40TL which will be deducted from tax payments in future periods.

Tax expense: 1,000TL x 20 % = 200TL
Current tax payable: 1,200 x 20 % = 240TL

--------------------- Dec./31/2014/ ----------------------------		
Tax Expense	200	
Deferred Tax Asset	40	
Current Tax Payable		240
------- ---------------------- …../ …../ ----------------------------		

Though the company pays 40TL more tax due to deductible temporary difference of 200TL, the company will deduct deferred tax asset of 40TL from the taxes of the future periods.
The next part of the study will explore the structure of deferred taxes of 16 banks listed in Borsa Istanbul (BIST).

4. Analysis of Deferred Tax Structure of BIST-listed Banks

As of the end of 2014, there are 16 banks listed in BIST. The list of those banks is provided in Table 2. As seen from the table, majority of the banks are depository (12 banks), others evenly divided as participation (two banks) and investment (two banks). While four banks are foreign-owned, the remaining 12 banks are domestic banks.

Table 2: Banks Listed in BIST

Banks	*Type*	*Capital Structure*
Akbank	Depository	Private Capital /Domestic
Albaraka	Participation	Private Capital /Foreign-owned
Alternatif Bank	Depository	Private Capital /Foreign-owned
Asya Bank	Participation	Private Capital /Domestic
Denizbank	Depository	Private Capital /Foreign-owned
Finansbank	Depository	Private Capital /Foreign-owned
Garanti	Depository	Private Capital /Domestic
Halkbank	Depository	Public Capital /Domestic
İş Bankasi	Depository	Private Capital /Domestic
Kalkinma	Development and Investment	Public Capital /Domestic
Şekerbank	Depository	Private Capital /Domestic
TEB	Depository	Private Capital /Domestic
Tekstilbank	Depository	Private Capital /Domestic
TSKB	Development and Investment	Private Capital /Domestic
Vakifbank	Depository	Public Capital /Domestic
Yapi Kredi	Depository	Private Capital /Domestic

The analysis used consolidated financial statements of the banks from 2005 to 2013. The financial statements were obtained from two sources: the website of Public Disclosure Platform (PDP) for the years of 2009-2013, and the websites of banks for the remaining years of 2005 to 2008.

Annual deferred tax balances of the banks are reported in Table 3. As evident in the table, deferred tax assets (125 times) outnumber deferred tax liabilities (19 times). During the whole period, eight banks (Albaraka, Garanti Bank, İş Bank, Kalkinma Bank, TEB, Tekstilbank, TSKB and Yapı Kredi Bank) have only deferred tax assets each year. The table, then, clearly indicates the prevalence of deferred tax assets in the financial statements for the whole period under consideration.

Table 3. Annual Deferred Tax Balances Between (TL) 2005-2013

	Type of Deferred Tax	2005	2006	2007	2008
Akbank	Deferred Tax Assets	-	-	14.763.000	120.348.000
	Deferred Tax Liabilities	65.255.000	830.000	-	-
Albaraka	Deferred Tax Assets	8.826.000	6.580.000	1.405.000	2.915.000
	Deferred Tax Liabilities	-	-	-	-
Alterbatif Bank	Deferred Tax Assets	21.169.000	7.889.000	7.526.000	1.614.000
	Deferred Tax Liabilities	-	-	-	-
Asya Bank	Deferred Tax Assets	21.969.000	4.412.000	978.000	-
	Deferred Tax Liabilities	-	-	-	1.250.000
Denizbank	Deferred Tax Assets	-	-	14.789.000	17.225.000
	Deferred Tax Liabilities	1.560.000	2.372.000	-	-
Finansbank	Deferred Tax Assets	-	-	20.123.000	-
	Deferred Tax Liabilities	11.262.000	23.574.000	-	27.334.000
Garanti	Deferred Tax Assets	45.189.000	38.188.000	52.944.000	34.185.000
	Deferred Tax Liabilities	-	-	-	-
Halkbank	Deferred Tax Assets	71.920.000	54.854.000	63.924.000	74.091.000
	Deferred Tax Liabilities	-	-	-	-
İş Bankasi	Deferred Tax Assets	379.482.217	263.704.130	225.356.547	340.285.296
	Deferred Tax Liabilities	-	-	-	-
Kalkinma	Deferred Tax Assets	10.975.000	8.618.000	8.041.000	8.523.000
	Deferred Tax Liabilities	-	-	-	-
Şekerbank	Deferred Tax Assets	14.680.000	2.582.000	14.990.000	4.784.000
	Deferred Tax Liabilities	-	-	-	-
TEB	Deferred Tax Assets	8.072.000	12.375.000	44.129.000	12.973.000
	Deferred Tax Liabilities	-	-	-	-
Tekstilbank	Deferred Tax Assets	10.900.000	2.700.000	5.023.000	3.009.000
	Deferred Tax Liabilities	-	-	-	-
TSKB	Deferred Tax Assets	459.000	1.225.000	6.044.000	15.713.000
	Deferred Tax Liabilities	-	-	-	-
Vakifbank	Deferred Tax Assets	100.185.000	-	49.720.000	86.057.000
	Deferred Tax Liabilities	-	43.686.000	-	-
Yapi Kredi	Deferred Tax Assets	387.171.000	157.594.000	207.799.000	171.747.000
	Deferred Tax Liabilities	-	-	-	-

Table 3. Annual Deferred Tax Balances Between 2005-2013 (TL) (cont.)

	Effect of Tax	2009	2010	2011	2012	2013
Akbank	Deferred Tax Assets	183.830.000	70.888.000	99.166.000	-	66.843.000
	Deferred Tax Liabilities	-	-	-	73.520.000	-
Albaraka	Deferred Tax Assets	7.789.000	7.677.000	8.603.000	7.918.000	8.356.000
	Deferred Tax Liabilities	-	-	-	-	-
Alterbatif Bank	Deferred Tax Assets	5.175.000	5.382.000	-	12.527.000	15.795.000
	Deferred Tax Liabilities	-	-	3.923.000	-	-
Asya Bank	Deferred Tax Assets	4.754.000	9.811.000	19.398.000	16.348.000	32.315.000
	Deferred Tax Liabilities	-	-	-	-	-
Denizbank	Deferred Tax Assets	71.836.000	40.314.000	37.324.000	80.416.000	70.187.000
	Deferred Tax Liabilities	-	-	-	-	-
Finansbank	Deferred Tax Assets	-	-	-	-	78.670.000
	Deferred Tax Liabilities	83.168.000	75.673.000	28.869.000	28.369.000	-
Garanti	Deferred Tax Assets	18.536.000	117.224.000	6.359.000	177.515.000	129.218.000
	Deferred Tax Liabilities	-	-	-	-	-
Halkbank	Deferred Tax Assets	207.189.000	221.471.000	72.164.000	224.281.000	-
	Deferred Tax Liabilities	-	-	-	-	8.303.000
İş Bankasi	Deferred Tax Assets	510.514.026	715.333.231	488.609.742	594.487.036	538.588.409
	Deferred Tax Liabilities	-	-	-	-	-
Kalkinma	Deferred Tax Assets	9.064.000	6.375.000	6.308.000	6.846.000.00	6.939.000
	Deferred Tax Liabilities	-	-	-	-	-
Şekerbank	Deferred Tax Assets	10.536.000	10.187.000	-	-	-
	Deferred Tax Liabilities	-	-	18.302.000	8.130.000.00	39.127.000
TEB	Deferred Tax Assets	7.869.000	13.093.000	66.748.000	124.686.000	34.242.000
	Deferred Tax Liabilities	-	-	-	-	-
Tekstilbank	Deferred Tax Assets	2.022.000	1.617.000	4.529.000	1.726.000	2.515.000
	Deferred Tax Liabilities	-	-	-	-	-
TSKB	Deferred Tax Assets	25.117.000	16.798.000	14.140.000	4.844.000	15.036.000
	Deferred Tax Liabilities	-	-	-	-	-
Vakifbank	Deferred Tax Assets	79.899.000	87.234.000	131.153.000	119.625.000	51.606.000
	Deferred Tax Liabilities	-	-	-	-	-
Yapi Kredi	Deferred Tax Assets	211.670.000	215.964.000	236.753.000	52.535.000	17.625.000
	Deferred Tax Liabilities	-	-	-	-	-

Table 4 provides the components of deferred tax balances of the banks for 2013. With the exception of two banks, all remaining 14 banks have deferred tax assets in 2013. The difference between the values of deferred tax assets and deferred tax liabilities gives the balance of the deferred taxes. If the deferred tax asset is larger than the deferred tax liability, the difference generates the deferred tax asset balance. However, if the deferred tax liability is larger than deferred tax asset, the difference will yield deferred tax liability balance.

Table 4. Deferred Tax Assets/Liabilities Amounts of 2013

Banks	*Deferred Tax Assets (TL)*	*Deferred Tax Liabilities (TL)*	*Deferred Tax Balance (TL)*	*Balance Type*
Akbank	332.740.000	265.897.000	66.843.000	Deferred Tax Assets
Albaraka	33.398.000	25.042.000	8.356.000	Deferred Tax Assets
Alternatif Bank	31.445.000	15.650.000	15.795.000	Deferred Tax Assets
Asya Bank	32.315.000	-	32.315.000	Deferred Tax Assets
Denizbank	166.671.000	96.484.000	70.187.000	Deferred Tax Assets
Finansbank	184.270.000	105.600.000	78.670.000	Deferred Tax Assets
Garanti	369.090.000	239.872.000	129.218.000	Deferred Tax Assets
Halkbank	118.704.000	127.007.000	8.303.000	Deferred Tax Liabilities
İş Bankası	567.175.000	28.586.591	538.588.409	Deferred Tax Assets
Kalkınma	6.939.000	-	6.939.000	Deferred Tax Assets
Şekerbank	15.976.000	55.103.000	39.127.000	Deferred Tax Liabilities
TEB	138.233.000	103.991.000	34.242.000	Deferred Tax Assets
Tekstilbank	2.515.000	-	2.515.000	Deferred Tax Assets
TSKB	23.692.000	8.656.000	15.036.000	Deferred Tax Assets
Vakıfbank	161.089.000	109.483.000	51.606.000	Deferred Tax Assets
Yapı Kredi	543.104.000	525.479.000	17.625.000	Deferred Tax Assets

As discussed in the previous part, there are several causes of deferred tax assets and liabilities. Those drivers with their relevant amounts are reported in the footnotes to the banks' annual reports. Table 5 shows the two largest drivers of deferred tax assets and deferred tax liabilities for each bank for 2013.

Table 5. The Largest Drivers of Deferred Tax Assets/Liabilities in 2013

Banks	*Deferred Tax Asset Items*	*Deferred Tax Liability Items*
Akbank	Allowances for severance payments Valuation of financial assets.	Valuation of financial assets. Valuation of fixed tangible assets.
Albaraka	Unearned revenues Allowances for severance payments	Valuation of fixed tangible assets.
Alternatif Bank	Losses from previous years Allowences for managers bonus	Valuation of financial assets. Valuation of derivative assets.
Asya Bank	Unearned revenues Allowances for severance payments	Valuation of financial assets.
Denizbank	Losses of previous years Unearned revenues	Valuation of financial assets. Valuation of derivative assets.
Finansbank	Valuation of financial assets. Allowances for severance payments	Valuation of financial assets. Valuation of fixed tangible assets.
Garanti	Allowances for severance payments Valuation of financial assets.	N.A.
Halkbank	Allowances for severance payments	Valuation of financial assets.
İş Bankası	Allowances for severance payments Valuation of financial assets.	Valuation of fixed tangible assets.
Kalkınma	Allowance of financial assets.	N.A.
Şekerbank	Allowances for severance payments	Valuation of fixed tangible assets. Valuation of financial assets.
TEB	Valuation of financial assets.	N. A.
Tekstilbank	Losses of previous years	N.A.
TSKB	Unearned Revenues Allowances for severance payments	Valuation of financial assets.
Vakıfbank	Allowances for severance payments Valuation of financial assets.	Valuation of financial assets. Valuation of affiliations.
Yapı Kredi	Allowances for severance payments Valuation of financial assets.	Valuation of derivative assets. Valuation of financial assets.

N.A.: Not Available

As shown in the table, the main account leading to deferred tax assets is “allowances for severance payments“. This account is largest driver for half of the banks, and stands as the second largest driver for four banks.

The second largest item in the deferred tax assets category is the **“**valuation of financial assets**”** account, which refers to the undervaluation of assets. Being the top driver for two banks, this driver is effective for eight banks (50% of the sample) in 2013. Just the opposite effect of deferred tax liability is observed in the form of increase in the value of financial assets. This is experienced by ten banks (62,5% of the sample) in 2013. This account is the largest item that causes deferred tax liabilities.

Other factors specified as the largest drivers of deferred tax assets are “unearned revenues” and “losses from previous years” accounts, experienced by four and three banks, respectively.

When it comes to the drivers of deferred tax liabilities, the “valuation of financial assets”, as mentioned above, is the largest factor causing deferred tax liabilities. This is followed by the “valuation of fixed tangible assets”. This factor is relevant for five banks (31, 25% of the sample). The remaining drivers of deferred tax liabilities are the “valuation of derivative financial instruments” and the “valuation of affiliates”. For four banks, no driver of deferred tax liability is observed.

5. Conclusion

The paper aimed at exploring the types and drivers of deferred taxes for BIST-listed banks in Turkey. There is a link established between temporary differences and deferred taxes. Temporary differences, which are the differences between carrying amount and tax base of balance sheet accounts, either increase or decrease taxable profit of future periods.

The amount of increase in taxable income of future periods because of temporary differences is called taxable temporary differences. The amount of income taxes what will be paid in future in respect of taxable temporary difference is called deferred tax liability. On the other hand, deductible temporary differences reduce the taxable income of future periods. Consequently, income taxes that will be recovered in future periods in respect of deductible taxable income is named as deferred tax assets. Deferred tax assets and deferred tax liabilities are reported on balance sheet.

The study investigated the deferred tax structure of 16 banks listed in BIST by analyzing the financial statements of the banks from 2005 to 2013. During the period, the banks overwhelmingly reported deferred tax assets. The analysis of deferred taxes of 2013 revealed that "allowances for severance payments" is the account largely responsible from deferred tax assets. The existence of deferred tax liabilities is mainly explained by "valuation of financial assets".

The study is an attempt to shed light on the deferred tax structure of the BIST-listed banks. Therefore, it features a potential to contribute to the growing common body knowledge regarding the topic of deferred taxes. Moreover, financial analysts may reach a plausible interpretation through an intuitive analysis of deferred tax items on financial statements before attempting to delve into pinpointing the characteristics of investments of companies. The future studies might compare BIST-listed companies with non-listed ones in this respect. Other sectors might be evaluated as the subject of study, too.

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