Deferred tax liability

Letters: 1989, 1986 · Difficulty: Intermediate

> *"In effect, this deferred tax liability is equivalent to a very large transfer tax that is payable only if we elect to move from one asset to another." (1989)*

1. Berkshire holds stocks with an unrealized gain of $1,000 million. At a 21% tax rate, what deferred tax liability is recorded ($ millions)? **210**

2. When would that deferred tax actually be paid?

   A. When dividends are received

   B. When the stocks are sold and the gain is realized

   C. Every year

   D. Never

Source: Warren E. Buffett, Letters to Berkshire Hathaway Shareholders: 1989, 1986 (berkshirehathaway.com/letters). Quotation © Berkshire Hathaway Inc., all rights reserved; quoted for non-commercial teaching. Numbers in the questions are made up unless stated.