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)? _____

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.