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DEFERRED TAX – The Effect of the Implementation of NZ IAS 12: *Income Taxes*

A thesis presented in partial fulfilment of the requirements for the
Master of Business Studies (Accountancy)
At Massey University, Albany,
New Zealand

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2011

ABSTRACT

Purpose: The purpose of this thesis is to document the changes to income tax and deferred tax due to the implementation of New Zealand International Financial Reporting Standards (NZ IFRS), particularly New Zealand International Accounting Standard 12: *Income Taxes* (NZ IAS 12).

Motivation: Stent, Bradbury and Hooks (2010) investigate the effect of the implementation of NZ IFRS on assets and liabilities generally. The results indicate that tax assets and tax liabilities increase but an in-depth analysis of income tax and deferred tax changes and the reason for these changes is not provided.

Research Question: What was the impact of changing from Standard Statement of Accounting Practice 12: *Accounting for Income Tax* (SSAP 12) under NZ FRS to NZ IAS 12: *Income Taxes* under NZ IFRS on income tax and deferred tax as recorded in the statement of financial position and notes to the financial statements?

Design/Methodology: Using a sample of entities listed on the New Zealand Stock Exchange (NZX), I analyse the dollar effect, percentage change and direction of change to income tax, deferred tax and net tax assets (liabilities) due to the mandatory change to NZ IAS 12 for the period 2005 to 2008. I analyse the variables that influence the change in income tax and deferred tax due to the implementation of NZ IFRS including users of the partial and comprehensive basis, asset revaluation reserves, unrecognised deferred tax assets, early and late adopters and small and large entities.

Findings: The results indicate that partial basis deferred tax users and those with asset revaluation reserves have larger decreases (increases) in net tax assets (liabilities). Late adopters and smaller companies are also less affected by the implementation of NZ IAS 12 than their counterparts.

Research Limitations: Small sample

Practical Implications: I provide an extensive comparison between SSAP 12 pre NZ IFRS and NZ IAS 12 post NZ IFRS and highlight the differences between the partial basis and comprehensive basis. My results also provide information to the International Accounting Standards Board (IASB) and Financial Accounting Standards Board (FASB) who are currently working towards convergence of United States Generally Accepted Accounting Policies (US GAAP) and IFRS.

PREFACE AND/OR ACKNOWLEDGEMENTS

I highly appreciate the helpful and beneficial comments of Michael Bradbury, Massey University.

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