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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  
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## **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**

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## 1. Introduction

Deferred tax is “one area of accounting that will be dramatically affected” (Wong 2006 p.55) by the implementation of NZ IFRS. Wong (2006) examines the changes that will have an effect on an entity’s deferred tax due to the implementation of NZ IAS 12. Ernst and Young (2004) also estimate that the impact of NZ IAS 12 will increase both deferred tax assets and deferred tax liabilities.

However there is limited research on the actual impact of this expected dramatic change to deferred tax. Stent, Bradbury and Hooks (2010) investigate the effect of the implementation of NZ IFRS on assets and liabilities generally and find that tax assets and tax liabilities increase. However an in-depth analysis of income tax and deferred tax changes and the reasons for these changes is not provided.

I extend the summary of changes to income and deferred tax provided by Stent *at al.* (2010) due to the implementation of NZ IAS 12, and analyse these changes in financial statements over the period 2005 to 2008.

Deferred tax is created as accounting profit (defined as “profit or loss for a period before deducting income tax expenses” NZ IAS 12 paragraph 5) can be quite different to the assessable or taxable profit (defined as “profit for the period, determined in accordance with the rules established by the taxation authorities” NZ IAS 12 paragraph 5). Prior to the implementation of NZ IFRS the differences between these two calculations for profit were categorised into permanent differences (those that “do not reverse in future periods” SSAP 12 paragraph 3) and timing differences (“differences between accounting results and assessable income...and reverse in one or more subsequent periods” SSAP 12 paragraph 3). Timing differences include warranty expense, restructuring charges, employee benefits, and accelerated depreciation. Pre NZ IFRS deferred tax was the tax on these timing differences using the tax rate announced at the date of authorising the financial statements. The calculation of deferred tax pre NZ IFRS was often referred to as the income statement approach (Wong 2006). In simple terms, pre NZ IFRS, tax is calculated on the difference between accounting profit and taxable profit and accumulates in the statement of financial position as either a deferred tax asset or liability.

Post NZ IFRS, deferred tax is calculated using the “balance sheet” approach (Wong 2006). Deferred tax assets are defined as “amounts of income tax recoverable in future periods in respect of deductible temporary differences...” (NZ IAS 12 paragraph 5) and deferred tax liabilities are defined as “amounts of income tax payable in future periods in respect of temporary differences” (NZ IAS 12 paragraph 5). Temporary differences are a significant shift from timing differences, and are defined as “difference between carrying amount of an asset or liability in the statement of financial position and its tax base” (NZ IAS 12 paragraph 5). Temporary differences include all timing differences previously recorded under SSAP 12 (Wong 2006). The tax base of an asset is “the amount that will be deductible for tax purposes against any economic benefits that will flow into the entity when it recovers the carrying amount of the asset” (NZ IAS 12 paragraph 7). Whereas the tax base of a liability is “its carrying amount, less any amount that will be deductible for tax purposes in respect of that liability in future periods” (NZ IAS 12 paragraph 8). In simple terms, post NZ IFRS deferred tax is the tax on the difference between the carrying amount of assets and liabilities and their respective tax bases and accumulates in the statement of financial position.

There has been much research on the difference between accounting or book income and taxable or assessable income, being a combination of permanent and timing or temporary differences (Phillips, Pincus and Rego 2003, Hanlon 2005, Cho, Wong and Wong 2006). It is these timing/temporary differences, that deferred tax is calculated on, that has created a large debate on whether deferred tax contributes to the objectives of general purpose financial reporting.

Specifically critics question whether deferred tax is useful for investors in predicting future cash flows (Cheung, Krishnan and Min 1997, Legoria and Sellers 2005, Chluddek 2011, Laux 2011), or has any influence on share prices (Chaney and Jeter 1994, Lev and Nissam 2004, Diehl 2010), or is useful for analysts (Van Horne and Wachowicz Jnr 2008). The cost of calculating deferred tax is also questioned (Cheung *et al.* 1997), and whether the costs of preparing deferred tax outweigh the benefits (Chluddek 2011).

The method of calculating deferred tax is also subject to much debate. Prior to NZ IFRS deferred tax was calculated using either the partial basis or comprehensive basis

on an income statement approach. The partial basis calculated deferred tax on only those timing differences that will reverse in the foreseeable future (SSAP 12 paragraph 4) whereas the comprehensive basis calculated deferred tax on all timing differences. The comprehensive basis has been criticised as being “complex, costly, irrelevant and inconsistent with the conceptual framework” (Chaney and Jeter 1989 p.7) and that the partial basis should be used. Others supported the comprehensive basis stating it “makes accountants’ financial statements allocations consistent ... and can be implemented in a manner that is entirely consistent with the current accounting model” (Kissinger 1986 p.100-101). Post NZ IFRS the only method available for calculating deferred tax is the balance sheet approach. The research on the balance sheet approach has not been as extensive as the income statement approach, however it has been stated that the “balance sheet approach is significantly different to the income statement approach” (Stent *et al.* 2010 p.102) and that the arguments for the balance sheet approach are logically inconsistent (Sidhu 1996).

There is minimal empirical research on the transitioning from the income statement approach to the balance sheet approach due to the implementation of NZ IFRS. Hung and Subramanyam (2007) investigate the impact on German firms due to the implementation of IFRS. Wong (2006) summarises NZ IAS 12, and Ernst and Young (2004) describe the expected changes to deferred tax assets and liabilities reported in the balance sheet due to NZ IFRS. Stent *et al.* (2010) provide a more detailed research on the change to all assets and liabilities due to NZ IFRS, but do not provide any in-depth analysis on income tax and deferred tax.

I investigate the changes to income tax, deferred tax and net tax assets (liabilities) using a sample of companies from the New Zealand Stock Exchange over the period 2005 to 2008 which encompasses the move from the income statement approach to the balance sheet approach due to the implementation of NZ IFRS, in particular NZ IAS 12. I analyse the variables that influence the change in income tax, deferred tax and net tax assets (liabilities) 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.

I find that the greatest impact is on those previously adopting the partial basis pre NZ IFRS, early adopters of NZ IFRS and larger firms. The results also indicate that the asset revaluation reserve is the most significant variable affecting the change to net tax assets (liabilities).

This research contributes to the literature in three ways. First, I provide an extensive comparison between SSAP 12 pre NZ IFRS and NZ IAS 12 post NZ IFRS which extends the analysis provided by Stent *et al.* (2010).

Second, my findings highlight the differences between the partial basis and comprehensive basis which has been the subject of much debate.

Third, I 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.

This paper is organised as follows. Chapter 2 reviews the literature, chapter 3 discusses the adoption of NZ IFRS and the change from SSAP 12 to NZ IAS 12, and chapter 4 develops the hypotheses. Chapter 5 provides a background to the Income Tax Act and its relationship to deferred tax, and chapter 6 reports the sample and data collection. Chapter 7 summarises the results, and chapter 8 presents the conclusions and limitations.

## 2. Literature review

I have segregated the literature review into four categories. These are (1) the differences between accounting (book) income and taxable income, (2) usefulness of deferred tax, (3) calculating deferred tax and (4) implementing NZ IFRS.

### 2.1 Book and tax income differences

The difference between book income and taxable income can be divided into permanent and temporary or timing differences. The tax on timing/temporary differences is reflected in deferred tax in the statement of financial position. Therefore previous studies on these differences in relation to earnings are relevant to my research.

Phillips *et al.* (2003) use deferred tax expense as a proxy for book-tax income differences to investigate the usefulness of deferred tax in detecting earnings management. The results indicate that it is only useful in classifying firm successfully avoiding a loss.

Hanlon (2005) analyses a sample of book-tax income differences for the period 1994 to 2000 (post-SFAS No 109 “balance sheet approach”). The results indicate that firms with book income that is consistently larger than taxable income have less persistent earnings than firms with smaller book-tax income differences. This persistence of earnings is given as a definition of earnings quality. It is suggested that large book-tax differences could be a result of managers choosing income increasing accruals, or as part of an overall tax strategy. The sample excludes firms with pre-tax reporting losses, and those with a negative current tax expenses. Permanent differences are not incorporated in the analysis which would have added further depth to the study. It would be interesting to know the effect of permanent and temporary differences separately on earnings persistence. It also would be interesting to know if the results would be the same pre SFAS No 109.

Cho *et al.* (2006) examines a sample of completed tax audits during 1991 to 2000 to arrive at the conclusion that there is a positive relationship between book-tax differences and audit adjustments. The results suggest that book-tax differences indicate

aggressiveness of a tax payer in minimising tax. The research is limited to the audits completed during the nine years and provides a relatively small sample. However these results are similar to the United States study (Mills 1998).

The subject of book income versus taxable income is an interesting area. While most studies agree that book income is generally higher than taxable income over a longer period, and that this difference can create tax audits, they do not provide detailed information on the causes of this difference, such as tax strategies to minimise future tax outflows.

## *2.2 Usefulness of deferred tax*

Deferred tax should assist the users in investment decisions in entities, and in particular predicting future cash flows and stock returns (Lev and Nissam 2004).

Cheung *et al.* (1997) investigates the link between deferred tax and future tax payments. Future tax payments can of course be converted to future taxable earnings using the average effective tax rate. This research uses a pooled time series cross sectional regression to predict one step ahead tax payments for 1979 to 1994 which covered three different accounting standards. There are three scenarios (1) tax paid in the current year regressed against tax paid in the previous year, (2) tax paid in the current year regressed against tax paid and deferred tax in the previous year and (3) tax paid in the current year regressed against tax paid in the previous year and deferred tax two years prior. The conclusion is that deferred tax aids in predicting future tax payments. However the limitations to this study include the deferred tax variable two years prior excluded current changes in deferred tax liabilities and deferred tax assets (as they were not identifiable on Compustat) and it spanned three accounting standard time periods.

Legoria and Sellers (2005) test whether SFAS 109 provides an incremental ability to predict future cash flows over APB No 11 (“income statement approach”). A sample is taken from 1994 to 1998 and a cross sectional regression model used to estimate future operating cash flows. The results indicate that SFAS 109 is incrementally better at predicting cash flows, and where deferred tax assets, liabilities and valuation allowance are disaggregated it is even more useful.

Chludek (2011) investigates the significance of deferred tax in a regression model used to predict taxes paid. The sample period is 1975 to 1994, covering three different accounting standards affecting deferred tax. The research establishes that while deferred tax information is relevant for explaining two years ahead tax paid, its contribution to the prediction model is insignificant. It also establishes that in certain industries deferred tax is more useful. This study would be more interesting if the time series was segregated by the different accounting standards.

Laux (2011) segregates deferred tax in to those adjustments that are included in GAAP prior to taxable income such as warranty expense, restructuring charges and those that are included in GAAP after taxation income such as depreciation. The results indicate that the first type of deferred tax increases (decreases) future tax payment when they reverse. The second type do not increase (decrease) future tax payments when they reverse. These results contradict both previous research and financial statement analysis text books. The magnitude of the effect on future cash flows is also questionable.

There has been much empirical research on the effect of deferred tax on security prices. If deferred tax does have an effect on future cash flows as suggested in the previous research then the discounted value of that effect should be reflected in the share price.

Chaney and Jeter (1994) use a sample from 1969 to 1985, where APB Opinion No 11 is applied, to investigate whether there is an association between security returns and the deferred tax component of earnings. A number of theories are developed and the results show there is a negative association between deferred tax and security returns.

Lev and Nissam (2004) develop a tax fundamental formula which includes temporary differences, permanent differences and tax accruals to explain an extended earnings/price ratio of a company. The new earnings/price ratio includes tax and deferred tax. The findings indicate that pre-SFAS No 109 the tax fundamental including deferred tax is negatively related to earnings/price ratio. This suggests that the tax fundamental is not reflected in the stock prices. However post-SFAS No 109 there is a weak relationship to stock returns. The explanation for this is that investors had learnt how to include tax information into pricing of stock returns. However this

type of analysis is based on the assumption that the market is efficient in adjusting stock prices for information.

Diehl (2010) took this research one step further and investigated which components of deferred tax are associated to security prices. The components of deferred tax assets include depreciation (where more depreciation is claimed for accounting purposes than tax purposes), employee benefits, unearned income, and losses. The components of deferred tax liabilities include depreciation, prepaid expenses, and deferred revenues. It suggests that financial statements users often view deferred tax assets as beneficial to future earnings (as they reduce the future tax payments) and deferred tax liabilities as detrimental. However this is not always the case as deferred tax liabilities are important to the market as they indicate the extent to which each entity is minimising income taxes. Diehl (2010) also suggests that deferred tax liabilities in aggregate tend to be larger for successful companies than deferred tax assets. A sample is taken from the end of 2008 to the end of 2009 from the Fortune 500 and the disaggregated deferred tax components are correlated with the share prices. The results indicate that increases in unearned revenue reduce stock prices and increases in deferred revenue increase stock prices.

Van Horne and Wachowic Jnr (2008) summarise the approach taken by analysts when valuing shares and find analysts add deferred tax expense back to net income and deferred tax assets or liabilities to equity as it is not useful for their calculations.

The majority of these studies, while concluding that deferred tax is incrementally useful, do not resolve the issue of the cost of calculating deferred tax under either the balance sheet approach or income statement approach in comparison to the additional information deferred tax provides.

### *2.3 Calculating deferred tax*

Chaney and Jeter (1989) discuss that many believe that deferred tax bears no relation to what taxes will be paid in the future and because it has no relevance the change to the comprehensive basis will increase record keeping burdens and therefore costs without

any further benefits. Chaney and Jeter (1989) recommend the partial basis with discounting as the most useful and cost effective method of calculating deferred tax.

Kissinger (1986) has an opposing view to Chaney and Jeter (1989) and suggests that the comprehensive basis for calculating deferred is the better option as it provides consistency amongst financial statements. Sidhu (1996) agrees with Chaney and Jeter (1989) and concludes that a narrower structure for deferred tax and assets is preferable rather than the comprehensive basis.

Under NZ IFRS New Zealand no longer has an option of using the partial or comprehensive basis and is now required to use the balance sheet approach. This contradicts many researchers, financial statement preparers and users who believe that deferred tax should be less complex.

#### *2.4 Implementing NZ IFRS*

There are limited studies on the effect of implementing IFRS or NZ IFRS on income tax and deferred tax.

Hung and Subramanyam (2007) use a sample of German firms to investigate the impact of adopting International Accounting Standards (IAS) during 1998. This paper investigates the impact of IAS on all assets, liabilities and income. The results indicates that deferred tax is the most frequent adjustment item and 95% of all firms report a deferred tax change due to IAS. However the size of the change only has a mean of 0.28 million due to both deferred tax assets and deferred tax liabilities increasing.

In 2005 NZ introduced NZ IFRS. Wong (2006) summarises the expected changes to deferred tax due to the implementation of NZ IAS 12. These are the change to the balance sheet approach, no longer allowing the partial basis, the change for recognising deferred tax assets from being virtually certain of future taxable income to being probable, and the requiring of deferred tax on revalued assets. Ernst and Young (2004) also estimate that the impact of NZ IAS 12 would increase both deferred tax assets and deferred tax liabilities.

Stent *et al.* (2010) investigate the effect of the implementation of NZ IFRS. The results indicate that tax in the statement of financial position, including both current income tax (defined as “amount of income taxes payable (recoverable) in respect of the taxable profit (tax loss) for the period” (NZ IAS 12 paragraph 5)) and deferred tax increase but they do not differentiate between the types of tax. They find that tax assets increase 16% and tax liabilities increase 24%. This research, in addition to not segregating the tax types, also does not identify the number of observations with zero tax balances before and after NZ IFRS or explain in any detail the potential reasons for the changes in tax.

My research identifies the reasons for income tax and deferred tax assets and liabilities changes due to NZ IAS 12. I then use a sample of financial statements from 2005 to 2008 to test the dollar effect, percentage change, and direction of change and the significance of the change.

### **3. Background on the adoption of NZ IFRS and change from SSAP 12 to NZ IAS 12**

Wong (2006) notes there are four important areas of change due to the move from SSAP 12 to NZ IAS 12. These are: (1) orientation to a balance sheet approach, (2) no longer allowing the partial basis, (3) change to recognition of deferred tax assets, and (4) recognition of deferred tax on revalued assets. In the next two chapters I summarise both SSAP 12 and NZ IAS 12 and I describe these four significant changes. In addition I identify one further changes, being the guidance provided on offsets. I discuss the effect that these changes are likely to have on income tax, deferred tax and net tax assets (liabilities) in the statement of financial position in the year of change to NZ IFRS.

#### *3.1 Pre NZ IFRS*

SSAP 12: *Accounting for Inter-period Allocation of Income Taxes* was introduced in 1980 and was superseded by SSAP 12: *Accounting for Income Tax* for accounting periods commencing on or after 01 October 1991.

SSAP 12 (1991) is a simplistic document which briefly describes the accounting requirements for income tax (“taxes levied on or in respect of assessable income” (SSAP 12 paragraph 3.6)), deferred tax, future tax benefits (“debit balance in the deferred tax account” (SSAP 12 paragraph 4.20)) and the presentation of these in the financial statements. It describes two different methods for calculating tax, the taxes payable method (defined as “income tax expense in respect of the current period is equal to income tax payable for the same period” (SSAP 12 paragraph 4.4)) and tax effect accounting (where the “income tax effects of timing differences are included in income tax expense (benefit)” (SSAP 12 paragraph 4.5)). In simple terms the taxes payable method records income tax expense as the income tax due on the entities taxable income and therefore excludes deferred tax on timing differences. Tax effect accounting requires deferred tax to be calculated. SSAP 12 then states after describing the two methods that the taxes payable method is not acceptable if timing differences exist.

SSAP 12 segregates tax effect accounting into the liability method and deferral method. The liability method calculates deferred tax using the current income tax rate and the deferral method uses the tax rate as at the time the original timing difference occurred. SSAP 12 prohibits the deferral method.

Limited number of definitions is used in this standard. A definition is provided for deferred tax but not for deferred tax asset or liability. Income tax and income tax expense are also defined. A reference is made in paragraph 4.20 for future tax benefit.

The Standard allows two bases for calculating deferred tax, the partial basis and the comprehensive basis, although the comprehensive basis is the preferred option (SSAP 12 paragraph 4.18). The partial basis calculates deferred tax on timing differences that will reverse in the foreseeable future (SSAP 12 paragraph 4) whereas the comprehensive basis calculates deferred tax on all timing differences. An example of calculating deferred tax using the comprehensive basis and the partial basis is as follows:

*Example using comprehensive basis and partial basis under SSAP 12*

*Year 1:*

For the year ended 31 March 2001, Company X Limited has earnings before depreciation and wages of \$100,000 for both tax and accounting purposes and the company tax rate in 2001 is 33%. Depreciation and wages are to be calculated as follows:

- (a) Depreciation - On 1st April 2000 Company X Ltd purchases a building that has a useful life of 100 years for \$200,000 and an expected residual value of zero. The depreciation rate for tax purposes is 3% diminishing value.
- (b) Wages –The accrual for holiday pay for accounting purposes at year end is \$1,000 and for tax purposes is zero. Therefore wages for the year for accounting purposes is \$50,000 and for tax purposes is \$49,000. For tax purposes only holiday pay within sixty three days of balance date is deductible for tax purposes (Master Tax Guide 2011 Determination E12) which creates a timing difference between accounting and tax holiday pay expense.

	Tax Payable Method	Tax Effect Accounting	
		Comprehensive Basis	Partial Basis
<b>Tax Purposes</b>			
Earnings Before Depreciation and Wages	\$100,000	\$100,000	\$100,000
Depreciation	\$6,000 <sub>(1)</sub>	\$6,000 <sub>(1)</sub>	\$6,000 <sub>(1)</sub>
Wages	\$49,000	\$49,000	\$49,000
Taxable Profit	\$45,000	\$45,000	\$45,000
<b>Accounting Purposes</b>			
Earnings Before Depreciation and Wages	\$100,000	\$100,000	\$100,000
Depreciation	\$2,000 <sub>(2)</sub>	\$2,000 <sub>(2)</sub>	\$2,000 <sub>(2)</sub>
Wages	\$50,000	\$50,000	\$50,000
Profit	\$48,000	\$48,000	\$48,000
Tax Expense	\$14,850 <sub>(3)</sub>	\$14,850 <sub>(3)</sub>	\$14,850 <sub>(3)</sub>
Deferred Tax Expense	\$0	\$990 <sub>(4+5)</sub>	\$0
Total Tax Expense	\$14,850	\$15,840	\$14,850
Profit After Tax	\$33,150	\$32,160	\$33,150

(1) Depreciation for tax purposes:  $\$200,000 \times 3\% = \$6,000$

(2) Depreciation for accounting purposes:  $\$200,000/100 = \$2,000$

(3) Tax expense:  $\$45,000 \times 33\% = \$14,850$

(4) Deferred tax expense on depreciation  $(\$6,000 - \$2,000) \times 33\% = \$1,320$

(5) Deferred tax expense on wages  $(\$49,000 - \$50,000) \times 33\% = (\$330)$

If the company uses the taxes payable method, they would record \$14,850 as the tax expense in the profit and loss statement with a credit entry to income tax payable in the statement of financial position.

If the company uses the comprehensive basis, they would record \$15,840 as the tax expense in the profit and loss statement with a credit entry to income tax payable of \$14,850 and deferred tax liability of \$990 in the statement of financial position.

If the company uses the partial basis and does not consider that the overall deferred tax liability will crystallise in the foreseeable future they do not include the deferred tax in the financial statements. Therefore Company X Ltd would record \$14,850 as the tax expense in the profit and loss statement with a credit entry in income tax payable of \$14,850 in the statement of financial position.

Another possible interpretation of the “partial basis” is that each individual timing difference is considered separately to see whether it reverses. However, under the liability method the entity would consider whether the liability (based on all timing differences) will reverse.

Year two provides a similar result.

*Example using comprehensive basis and partial basis under SSAP 12*

*Year 2:*

For the year ended 31 March 2002, Company X Limited has earnings before depreciation and wages of \$100,000 for both tax and accounting purposes and the company tax rate in 2002 is 33%. Depreciation and wages are to be calculated as follows:

- (a) Depreciation – The building continues to be depreciated on the same basis as last year.
- (b) Wages – The accrual for holiday pay for accounting purposes at year end is \$3,000<sub>(6)</sub> and for tax purposes is zero. Therefore wages for the year for accounting purposes is \$50,000<sub>(7)</sub> and for tax purposes is \$48,000.

	Tax Payable Method	Tax Effect Accounting	
		Comprehensive Basis	Partial Basis
<b>Tax Purposes</b>			
Earnings Before Depreciation	\$100,000	\$100,000	\$100,000
Depreciation	\$5,820 <sub>(1)</sub>	\$5,820 <sub>(1)</sub>	\$5,820 <sub>(1)</sub>
Wages	\$48,000	\$48,000	\$48,000
Taxable Profit	\$46,180	\$46,180	\$46,180
<b>Accounting Purposes</b>			
Earnings Before Depreciation	\$100,000	\$100,000	\$100,000
Depreciation	\$2,000 <sub>(2)</sub>	\$2,000 <sub>(2)</sub>	\$2,000 <sub>(2)</sub>
Wages	\$50,000	\$50,000	\$50,000
Profit	\$48,000	\$48,000	\$48,000
Tax Expense	\$15,239 <sub>(3)</sub>	\$15,239 <sub>(3)</sub>	\$15,239 <sub>(3)</sub>
Deferred Tax Expense	\$0	\$601 <sub>(4+5)</sub>	\$0 <sub>(3)</sub>
Total Tax Expense	\$15,239	\$15,840	\$15,239
Profit After Tax	\$32,761	\$32,160	\$32,761

(1) Depreciation for tax purposes:  $(\$200,000 - \$6,000) \times 3\% = \$5,820$

(2) Depreciation for accounting purposes:  $\$200,000/100 = \$2,000$

(3) Tax expense:  $\$46,180 \times 33\% = \$15,239$

(4) Deferred tax expense on depreciation  $(\$5,820 - \$2,000) \times 33\% = \$1,261$

(5) Deferred tax expense on wages  $(\$48,000 - \$50,000) \times 33\% = (\$660)$

(6) Holiday Pay Provision: Opening balance	1,000
Reverse accrual from last year	(1,000)
Plus accrual this year	<u>3,000</u>
Closing balance	<u>3,000</u>

(7) Wages : Cash wages paid	48,000
Less accrual reversal of holiday pay provision	(1,000)
Plus accrual this year of holiday pay provision	<u>3,000</u>
Wages for accounting purposes	<u>50,000</u>

If Company X Ltd uses the taxes payable method they would record \$15,239 as the tax expense in the profit and loss statement with a credit entry in income tax payable in the statement of financial position.

If Company X Ltd uses the comprehensive basis they would record \$15,840 as the tax expense in the profit and loss with a credit of \$601 in deferred tax liability and \$15,239 in income tax payable in the statement of financial position. The deferred tax liability accumulates over the two years to \$1,591.

If Company X Ltd uses the partial basis and does not expect deferred tax liabilities to crystallise in the foreseeable future they would record \$15,239 as the tax expense in the profit and loss statement with a credit entry in income tax payable of \$15,239 in the statement of financial position.

*Year 3:*

If the building is revalued at the beginning of year three to its fair value of \$250,000, SSAP 12 allows the deferred tax on revaluations that are “expected to crystallise through the realisation by sale of the asset in the foreseeable future” (SSAP 12 paragraph 4.29) to be included in deferred tax and recognised against the revaluation reverse. Deferred tax that is not expected to reverse in the foreseeable future is required to be disclosed in the notes to the financial statements. If the entity intends on holding the asset for a longer period of time they are not required to recognise the deferred tax on revaluations. I expect that under SSAP 12 the majority of deferred tax on revaluations is not recognised.

A full example of calculating deferred tax under SSAP 12 is reported in Appendix A.

There are many advocates for using the partial basis. The primary reason for this is that it is believed that timing differences of a reoccurring nature (such as depreciation) are generally offset by equal or larger differences so are unlikely to reverse (Chaney and Jeter 1989). In the above example it is not until year 38 that the tax on depreciation will begin to reverse and it can be argued that the company is likely to have bought more buildings by this stage if it is growing so the reversal in the first buildings deferred tax is offset by increases in deferred tax from other buildings. It should be noted that from the 2011 income tax year depreciation of buildings with a useful life of over 50 years is no longer an allowable deduction for tax purposes in New Zealand (Taxation (GST and Remedial Matters) Act 2010).

SSAP 12 makes two further important points. The first of these is that deferred tax assets or future tax benefits are not to be recognised unless there is *virtual certainty* that they will be realised. Tax benefits through losses carried forward are to be recognised to the extent there is sufficient accumulated timing differences in the statement of financial position to offset the tax effect of the losses or it is *virtually certain* that the tax on the losses will be realised (SSAP 12 paragraph 5.5). The second is that deferred tax expense is to be calculated on the current tax rate unless a new rate is announced prior to the financial statements being authorised in which case it is calculated on the announced rate (SSAP 12 paragraph 5.12).

SSAP 12 paragraph 5.14 lists the disclosure required in the notes to the financial statements. The current income tax payable and receivable is required to be disclosed, along with any unrecognised deferred tax assets and the basis for calculating deferred tax.

### 3.2 Post NZ IFRS

In 1997, the Financial Reporting Standards Board (FRSB) made a decision to develop accounting standards to ensure neutrality and consistency (Bradbury and van Zijl 2006). On 21 October 2002, the Accounting Standards Review Board (ASRB) announced adoption of NZ IFRS as mandatory for accounting periods beginning 01 January 2007, with optional adoption in the accounting period from 01 January 2005. There was an exception for small to medium sized business announced on 12 September 2007 stating a delay subject to review.

Post NZ IFRS, NZ IAS 12: *Income Taxes* governs the accounting for income tax and deferred tax.

#### **4. Hypothesis development**

NZ IAS 12 requires that “a deferred tax liability shall be recognised for all temporary taxable differences” then excludes initial recognition of certain items (NZ IAS 12 paragraph 15). The change from timing differences to temporary differences is the most significant change from SSAP 12 (Wong 2006). Instead of reviewing the statement of comprehensive income for timing differences, each item on the statement of financial position must have its carrying amount compared with its tax base to arrive at temporary differences. The tax base of an asset is “the amount that will be deductible for tax purposes against any economic benefits that will flow, into the entity when it recovers the carrying amount of the asset” (NZ IAS 12 paragraph 7). Whereas the tax base of a liability is “its carrying amount, less any amount that will be deductible for tax purposes in respect of that liability in future periods” (NZ IAS 12 paragraph 8). Deferred tax is then calculated.

An example of calculating deferred tax using the balance sheet approach is as follows:

*Example using the balance sheet approach under NZ IAS 12*

*Year 1:*

For the year ended 31 March 2005, Company X Limited has earnings before depreciation and wages of \$100,000 for both tax and accounting purposes and the company tax rate in 2006 is 33%. Depreciation and wages are to be calculated as follows:

(a) Depreciation - On 1st April 2005 Company X Ltd purchases a building that has a useful life of 100 years for \$200,000 and an expected residual value of zero. The depreciation rate for tax purposes is 3% diminishing value.

(b) Wages –The holiday pay provision for accounting purposes at year end is \$2,000 and for tax purposes is \$1,000. Therefore wages for the year for accounting purposes is \$50,000 and for tax purposes is \$49,000. For tax purposes only holiday pay within sixty three days of balance date is deductible for tax purposes (MTG Determination E12) which creates a temporary difference between accounting and tax holiday pay accruals.

	Carrying Amount	Tax Base	Temporary Difference
Asset – Building	\$200,000 - \$2,000 = \$198,000	\$200,000 - \$6,000 = \$194,000	\$198,000 - \$194,000 = \$4,000
Liability - Holiday Pay Provision	(\$1,000)	\$0 <sub>(1)</sub>	(\$1,000)
Deferred Tax (33%)			(\$4,000 - \$1,000) x 33% = \$990

(1) Tax base of provision for holiday pay:

Carrying amount	1,000
Less amount that will be deductible in future periods	<u>(1,000)</u>
Tax base for provision for holiday pay	<u>0</u>

When compared to the same example under SSAP 12, for those entities using the comprehensive basis there is no change in the deferred tax amount. However as NZ IAS 12 does not allow the partial basis, for those using the partial basis deferred tax liabilities has now increased by \$990. Due to the partial basis no longer being a recognised method of calculating deferred tax I hypothesize that:

**H1: Post NZ IFRS net tax assets (liabilities) will decrease (increase) more for entities using partial basis than those using the comprehensive basis pre NZ IFRS.**

I use net tax assets (liabilities) as the sum of income tax receivable, deferred tax assets and future tax benefits, less income tax payable and deferred tax liabilities. As entities offset deferred tax assets and liabilities and there is evidence of transfers between income tax receivable and deferred tax assets, net tax assets (liabilities) provides a more accurate measure of the effect of NZ IAS 12 on observations tax balances.

The following year for this example would provide a similar result.

*Example using the balance Sheet approach under NZ IAS 12*

Year 2:

For the year ended 31 March 2007, Company X Limited has earnings before depreciation and wages of \$100,000 for both tax and accounting purposes and the company tax rate in 2007 is 33%. Depreciation and wages are to be calculated as follows:

- (a) Depreciation – The building continues to be depreciated on the same basis as last year.
- (b) Wages – The accrual for holiday pay for accounting purposes at year end is \$3,000<sup>(1)</sup> and for tax purposes is zero. Therefore wages for the year for accounting purposes is \$50,000<sup>(2)</sup> and for tax purposes is \$48,000.

	Carrying Amount	Tax Base	Temporary Difference
Asset - Building	\$200,000 - \$4,000 = \$196,000	\$200,000 - \$11,820 = \$188,180	\$7,820
Liability - Holiday Pay Provision	(\$3,000)	\$0 <sup>(3)</sup>	(\$3,000)
Deferred Tax (33%)			(\$7,820 - \$3,000) x 33% = \$1,591

(1) Holiday Pay Provision:

Opening balance	1,000
Reverse accrual from last year	(1,000)
Plus accrual this year	<u>3,000</u>
Closing balance	<u>3,000</u>

(2) Wages :

Cash wages paid	48,000
Less accrual reversal of holiday pay provision	(1,000)
Plus accrual this year of holiday pay provision	<u>3,000</u>
Wages for accounting purposes	<u>50,000</u>

(3) Tax base of provision for holiday pay:

Carrying amount	3,000
Less amount that will be deductible in future periods	<u>(3,000)</u>
Tax base for provision for holiday pay	<u>0</u>

The balance of deferred tax liability in the statement of financial position is increased to \$1,591 with the contra entry to deferred tax expense in the profit and loss.

The carrying amount of property, plant and equipment can also be revalued under NZ IAS 16: *Property, Plant and Equipment*. This revaluation in conjunction with NZ IAS 12 will also have an impact on entities using either the partial or comprehensive basis as reported in the following example.

*Example using the balance sheet approach under NZ IAS 12 for asset revaluation*

*Year 3:*

At the beginning of the third year the company revalues the building to \$250,000 based its fair value. If the property was sold for fair value, for tax purposes there will be depreciation recovered to the extent depreciation has been claimed, and a capital gain of \$50,000.

	Accounting Purposes	Tax Purposes
Cost 01 April 2005	\$200,000	\$200,000
Depreciation Year 1	\$2,000	\$6,000
Carrying Amount Year 1	\$198,000	\$194,000
Depreciation year 2	$\$200,000 / 100 \text{ years} = \$2,000$	$\$194,000 \times 3\% = \$5,820$
Carrying Amount Year 2	\$196,000	\$188,180
Revaluation Year 3	\$54,000	\$0
Revalued Amount to be Depreciated in Year 3	\$250,000	\$188,180

Before depreciation is calculated for year 3 deferred tax under NZ IAS 12 is affected by this revaluation:

	Carrying Amount	Tax Base	Proceeds in excess of cost	Cumulative Depreciation
Building	\$250,000	\$188,180	\$50,000	\$11,820
Deferred Tax (33%)			\$0	\$3,901

The deferred tax in the statement of financial position in this example is increased to \$3,901 from \$1,591 recorded at the end of year 2.

NZ IAS 12 requires the deferred tax on revaluations to be recognised regardless of whether it will be realised in the foreseeable future. Therefore I hypothesize:

**H2: Post NZ IFRS net tax assets (liabilities) will decrease (increase) more for entities recording an asset revaluation reserve than entities not recording an asset revaluation reserve.**

A full example of calculating deferred tax under NZ IAS 12 is reported in Appendix B.

NZ IAS 12 also changes the recognition criteria for deferred tax assets from that of SSAP 12. It states that “a deferred tax asset shall only be recognised for all deductible temporary differences to the extent that it is *probable* that taxable profit will be available against which the deductible temporary difference can be utilised” (NZ IAS 12 paragraph 24). This is less stringent than requiring the entity to be *virtually certain* that the profit will be available to utilise the deferred tax asset under SSAP 12. Due to this change I hypothesize that:

**H3: Post NZ IFRS entities that have unrecognised deferred tax assets pre NZ IFRS will recognise more increases (decreases) in net tax assets (liabilities) than entities not recording unrecognised deferred tax assets.**

There is no change to the requirement under SSAP 12 that an entity must use the tax rate that is current or announced at the end of the reporting period (NZ IAS 12 paragraph 47).

NZ IAS 12 provides additional guidance on offsetting both current tax assets and liabilities and deferred tax assets and liabilities than that in SSAP 12. Current tax assets and current tax liabilities can only be offset if the entity intends to pay the current tax after deducting the refund and there is a legally enforceable right to do this (NZ IAS 12 paragraph 71). Deferred tax assets and deferred tax liabilities can also be offset if the taxes owing are due to the same taxation authority and there is a legally enforceable right to offset current tax assets and liabilities (NZ IAS 12 paragraph 74). With the improved guidance or rules in offsets, I hypothesize:

**H4: Post NZ IFRS entities will reduce offsets in deferred tax assets and deferred tax liabilities.**

The disclosure requirements under NZ IAS 12 are more extensive than SSAP 12 and are detailed in paragraphs 79 to 88. The standard requires disclosure of each type of temporary difference included in deferred tax assets and liabilities which is considered to provide valuable information to the reader on the likelihood of temporary differences reversing.

NZ IAS 1 also includes minimum requirements for reporting income tax expense on the face of the profit and loss statement (rather than in the footnotes) and deferred asset and liabilities and income tax payable and receivable on the statement of financial position. Under SSAP 12 there was no requirement to identify income tax payable and receivable on the face of the statement of financial position.

The discussion to date does not give any indication on how early and late adopters' income tax and deferred tax assets and liabilities will change due to NZ IFRS, nor does it indicate the impact on larger or smaller firms.

Stent *et al.* (2010) find that NZ IFRS has a lower impact on early adopting firms when compared to late adopting firms. I apply these findings to income tax and deferred tax assets and liabilities and hypothesize:

**H5: Net tax assets of early adopters are less affected by the implementation of NZ IAS 12 than late adopters.**

Stent *et al.* (2010) also analyse the effect of NZ IFRS on total assets and liabilities for smaller entities and larger entities (based on the median figure for total assets). The findings indicate that small firms are less affected by the implementation of NZ IFRS than their counterparts. Based on these findings, I hypothesize:

**H6: Net tax assets of smaller entities are less affected by the implementation of NZ IAS 12 than larger entities.**

This far I have discussed the partial and comprehensive basis, asset revaluation reserves, unrecognised deferred tax assets, early and later adopters and small and large entities. There has been no research on which of these is more significant in explaining the change to income tax and deferred tax assets and liabilities from NZ FRS to NZ IFRS. However, based on Stent *et al.* (2010) tax liabilities increased 24% whereas tax assets only increased 16%. I therefore expect the variables that directly affect tax liabilities will be most significant in predicting the change between tax assets and liabilities pre NZ FRS and post NZIFRS, being the change to the partial basis and the asset revaluation reserve.

## **5. Background on income tax legislation**

The impact of NZ IFRS on income tax and deferred tax cannot be investigated by solely examining the change in accounting standards; income tax is also governed by income tax legislation. During the period of change from NZ FRS to NZ IFRS there were two main pieces of tax legislation, Income Tax Act 2004 and the Tax Administration Act 1994.

The purpose of the Income Tax Act 2004 is to define and impose tax on net income, impose obligations concerning tax and to set out rules for calculating tax and meeting the obligations (Income Tax Act 2004 paragraph AA1).

The Tax Administration Act 1994 provides for administrative and procedural rules for income tax (Master Tax Guide 2011). It sets out the reporting and disclosure obligations of tax payers, in addition to offences and penalties for noncompliance, including use of money interest.

Use of money interest may influence the timing of tax payments and therefore the balance of income tax payable and receivable in the statement of financial position. Use of money interest applies to any underpayment or overpayment of provisional tax and terminal tax on each of the applicable tax due date, in addition to any late payment penalty which may apply (Master Tax Guide 2011).

For a company with residual income tax of greater than \$2500, at each provisional tax instalment date it is expected to have paid either 1/3 (1st instalment), 2/3 (2<sup>nd</sup> instalment) or 3/3 (3rd and final instalment) of its income tax liability for the full year. Any short payment results in use of money interest payable and any overpayment results in use of money interest recoverable. This incentive to correctly estimate and pay the income tax liability for the year affects this research. I expect there are more entities recording income tax receivable or no income tax payable than those recording income tax payable due to the influence of use of money interest.

The tax rate plays an important role in calculating not only income tax payable but also deferred tax. Both SSAP 12 and NZ IAS 12 require the tax rate for calculating deferred

tax to be the current tax rate or if a new tax rate has been announced prior to the authorisation of the financial statements, then the announced tax rate.

The annual taxing Act fixes tax rates each year (Master Tax Guide). Tax rates for companies from 2005 to 2008 were 33%. A reduction in company tax rates to 30% was announced in the May 2007 budget and was to come into effect from 01 April 2008 (Income Tax Act 2004). Therefore companies that presented financial statements following this announcement were required to alter their deferred tax to 30% (NZ IAS 12 paragraph 47), which would have resulted in a decrease (increase) in deferred tax liabilities (assets).

Appendix C provides a summary of tax terminology.

## 6. Sample selection and data

### 6.1 Sample procedures

I manually collect income tax and deferred tax information from the 2005 to 2008 financial statements and notes to the financial statements from firms listed on the New Zealand Stock Exchange (NZX) on 30<sup>th</sup> December 2008.

The sample selection procedures are described in Table 6.1. From the 136 listed, I lose 26 observations that provide invalid search results, 11 observations that did not report previously under NZ FRS, 12 observations that use other GAAP instead of NZ IFRS, and 3 observations that are not in NZ dollars.

The available population of 84 is classified into early adopters (those adopting NZ IFRS in periods on or after 01/01/05 but before it became mandatory) and late adopters (those adopting on or after 01 January 2007). The sample is also classified into comprehensive and partial tax users. A stratified random sample of 40% of the remaining 84 is taken, providing 34 observations to analyse. My sample size is a trade off between cost of collecting information and benefits of a larger sample size. A comparison of the sample and population is provided in Table 6.2.

Table 6.1: Selection criteria

Population	
Total number of companies listed on NZX on 30/12/08	136
“Invalid results” reported by NZX Deep Archive	-26
No prior financial statements complying with FRS	-11
Not using NZ IFRS	-12
Not in NZ Dollars	<u>-3</u>
Available Population to Sample	<u>84</u>

Table 6.2: Population and sample

Panel A: Population

Population	Partial Basis		Comprehensive Basis		Total
	Early Adopters	1	5.9%	23	
Late Adopters	16	94.1%	44	65.7%	60
Total	17	100%	67	100%	84

Panel B: Stratified Sample

Sample Size 40%	Partial Basis		Comprehensive Basis		Total
	Early Adopters	1	14.3%	9	
Late Adopters	6	85.7%	18	66.7%	24
Total	7	100%	27	100%	34

6.2 Data collection

I refer to the year prior to the adoption of NZ IFRS as the “reported year”. Appendix D displays the Warehouse Limited’s 2007 reported year using NZ FRS as an example. In the year of adoption of NZ IFRS the financial statements are required to report the comparatives using NZ IFRS. I refer to these comparatives as the restated year. Appendix E displays the Warehouse Limited’s 2007 restated year under NZ IFRS as an example.

For the pre post NZ IFRS comparison I collect two sets of financial statements for each reporting entity, the reported year, and the first year of adoption showing the comparatives restated under NZ IFRS, being the restated year. That is for early adopters I gather the 2005 (2006) financial statement information then compare it with the 2005 restated (2006 restated) figures in the 2006 (2007) financial statements. For late adopters I gather the 2007 financial statement information and compare it with the 2007 restated information in the 2008 financial statements.

For the pre NZ IFRS year I collect tax information from both the face of the financial statements and the notes to the financial statements. There was no requirement to display all tax balances on the face of the financial statements (FRS 2 paragraphs 8.1 to

8.8). Post NZ IFRS current income tax receivable (payable) and deferred tax assets (liabilities) are required to be displayed on the face of the financial statements (NZ IAS 1 paragraph 54). I also collect information on income and deferred tax adjustments from the reconciliation from NZ FRS to NZ IFRS (required by NZ IFRS 1 paragraph 24 – 28) in the notes to the financial statements. Appendix F displays the Warehouse Limited's reconciliation from NZ FRS to NZ IFRS as an example. I note that the difference between the reported year and restated year is not consistently explained by the reconciliation between NZ FRS and NZ IFRS and discuss this later.

Initially I compare the changes between the reported year and restated year for income tax and deferred tax. That is the 2005 (2006, 2007) year is compared to 2005 (2006, 2007) restated year. I then analyse the income tax and deferred tax information provided in the reconciliation between NZ FRS and NZ IFRS to explain these changes.

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. I compare the results from early and later adopters and small and large entities with the results reported by Stent *et al.* (2010).

The results chapter proceeds as follows. Section 7.1 reports the pre NZ IFRS descriptive statistics (reported year) for income tax and deferred tax in the statement of financial position, section 7.2 reports the post NZ IFRS descriptive statistics (restated year) for income tax and deferred tax in the statement of financial position, and section 7.3 reports the descriptive statistics for the change recorded in the NZ IFRS reconciliation. Section 7.4 reports the results of the first hypothesis on the partial basis compared to the comprehensive basis, 7.5 on hypothesis two testing the effect of the asset revaluation reserve on net tax assets and 7.6 on hypothesis three testing observations that offset deferred tax assets and liabilities. Section 7.7 reports on hypothesis four testing observations with and without unrecognised deferred tax assets. Section 7.8 reports on hypothesis five testing the effect of adopting early on net tax assets followed by section 7.9 which reports on the sixth hypothesis which tests the effect of smaller entities net tax assets compared to larger entities. Section 7.10 reports

the most significant variables influencing the change in net tax assets and section 7.11 provides a summary of the results to date.

## 7. Results

The results tables report statistics for tax assets as current income tax receivable (CITR), current future tax benefit (CFTB), current deferred tax asset (CDTA), non-current deferred tax asset (NCDTA), non-current future tax benefit (NCFTB) and total tax assets ((TTA) the sum of the tax assets). The results for tax liabilities are reported as current income tax payable (CITP), non-current deferred tax liabilities (NCDTL) and total tax liabilities ((TTL) the sum of tax liabilities). Net tax assets (NTA) are total tax assets less total tax liabilities. The dollar values are reported in thousands in the tables. For example in Table 7.1, the maximum current income tax receivable (CITR) is reported as \$45000.000 and is \$45.000 million. The non-zero balances are the observations that report a balance in the tax type in either pre or post NZ IFRS. For example from Table 7.1 there are seventeen observations reporting income tax receivable in either pre or post NZ IFRS and seventeen observations record no income tax receivable either pre or post NZ IFRS. Table 7.3 onwards report the number of observations reporting debit and credit changes to each tax balance.

Where the table has been deflated by total assets pre NZ IFRS, the results are reported in decimals. For example Table 7.5 reports the minimum change in net tax assets as - 0.046793. This is a reduction on net tax assets of 4.7%.

### *7.1 Pre NZ IFRS descriptive statistics (reported year)*

Table 7.1 reports on the descriptive statistics of income and deferred tax in the reported year under NZ FRS, being the final year pre NZ IFRS.

Table 7.1: Descriptive statistics of income tax and deferred tax in the reported year under NZ FRS (n=34)

Statistic	CITR	CFTB	CDTA	NCDTA	NCFTB	TTA	CITP	NCDTL	TTL	NTA
Minimum	0.000	0.000	0.000	0.000	0.000	0.000	-604.000	0.000	0.000	-431295.000
Maximum	45000.000	2523.000	50.000	154000.000	10133.000	154000.000	6194.000	457534.000	457534.000	153000.000
1st Quartile	0.000	0.000	0.000	0.000	0.000	53.500	0.000	0.000	0.000	0.000
Median	2.500	0.000	0.000	0.000	0.000	863.500	0.000	0.000	20.000	60.000
3rd Quartile	800.750	0.000	0.000	1004.000	0.000	7620.000	167.500	0.000	3515.250	2761.500
Mean	3700.294	124.382	1.471	6796.912	578.853	11201.912	505.500	30812.647	31318.147	-20116.235
No of Observations										
Non Zero Balances	17	2	1	14	4	27	11	8	17	28
Zero Balances	17	32	33	20	30	7	23	26	17	6

CITR – Current income tax receivable

CFTB – Current future tax benefit

CDTA – Current deferred tax asset

NCDTA – Non-current deferred tax asset

NCFTB – Non-current future tax benefit

TTA – Total tax assets

CITP – Current income tax payable

NCDTL – Noncurrent deferred tax liability

TTL – Total tax liability

NTA – Net Tax assets

In Table 7.1 there are 50.0% (17/34) of observations that have current income tax receivable and 67.6% (23/34) of observations that have no current income tax payable. The median (mean) income tax receivable is \$0.002 million (\$3.700 million), indicating the data is skewed by a few observations. The maximum income tax receivable is \$45.000 million (Telecom Corporation Limited in 2005). There are eight observations that have current income tax receivable of over \$1.000 million and of these three have current income tax receivable of over \$20.000 million.

There are 32.4% (11/34) of observations with current income tax payable, with median (mean) of zero (\$0.505 million). The maximum current income tax payable is \$6.194 million, and the minimum is negative \$0.604 million. There is one observation of negative income tax payable which should be recorded as income tax receivable.

The majority of companies reporting income tax receivable or nil rather than payable is consistent with the theory that use of money interest is an incentive to estimate and pay tax at the correct level or overpay it.

There are 5.9% (2/34) of observations with current future tax benefit and 2.9% (1/34) with current deferred tax asset.

41.2% (14/34) of observations report non-current deferred tax assets and the maximum of \$154.000 million is reported by Fletcher Buildings Limited in 2005. The median (mean) of non-current deferred tax assets is zero (\$6.796 million). This is compared to 23.5% (8/34) of observations reporting non-current deferred tax liabilities. The maximum non-current deferred tax liability is \$457.534 million and the median (mean) is zero (\$30.812 million).

Overall there are a greater number of observations reporting current income tax receivable or zero balances, than current income tax payable, and also a greater number of observations reporting non-current deferred tax assets than non-current deferred tax liabilities.

## *7.2 Post NZ IFRS descriptive statistics (restated year)*

Table 7.2 reports on the descriptive statistics for income tax and deferred tax in the restated year under NZIFRS.

Table 7.2: Descriptive statistics of income tax and deferred tax in the restated year under NZ IFRS (n=34)

Statistic	CITR	CFTB	CDTA	NCDTA	NCFTB	TTA	CITP	NCDTL	TTL	NTA
Minimum	-1000.000	0.000	0.000	0.000	0.000	0.000	-604.000	0.000	0.000	-555838.000
Maximum	45000.000	2523.000	28.000	148000.000	10139.000	147000.000	6412.000	580478.000	580478.000	85000.000
1st Quartile	0.000	0.000	0.000	0.000	0.000	34.000	0.000	0.000	0.000	-6729.500
Median	10.000	0.000	0.000	80.000	0.000	863.500	0.000	0.000	774.000	0.000
3rd Quartile	805.750	0.000	0.000	3122.750	0.000	6493.250	103.000	12939.000	14225.750	412.750
Mean	3649.559	74.206	0.824	7317.912	298.206	11340.706	464.706	33961.882	34426.588	-23085.882
No of Observations										
Non Zero Balances	19	1	1	18	1	27	11	15	21	29
Zero Balances	15	33	33	16	33	7	23	19	13	5

Post NZ IFRS there are 55.9% (19/34) of observations that have current income tax receivable and 67.6% (23/34) observations continue to have no current income tax payable however the median (mean) refund is now \$0.010 million (\$3.649 million). The maximum income tax receivable remains at \$45.000 million; the minimum is negative \$1.000 million. Post NZ IFRS there is one observation that reports a negative current tax receivable which should have been recorded on the statement of financial position as current income tax payable. This observation was also not presented on the face of the financial statements as required by NZ IAS 1 paragraph 54.

There are 32.4% (11/34) observations with current income tax payable, with median (mean) of zero (\$0.464 million). The maximum current income tax payable is \$6.412 million and the minimum is negative \$0.604 million. Similar to income tax receivable this negative observation was not recognised on the face of the financial statements but rather disclosed in the notes to the financial statements.

The number of observations with current future tax benefit is one and current deferred tax asset is one.

The number of non-current deferred tax assets is 52.9% (18/34) and non-current deferred tax liabilities is 44.1% (15/34).

### *7.3 Descriptive statistics on change from reported year to restated year*

Table 7.3 reports on the descriptive statistics of income tax and deferred tax for the change from the reported year to the restated year.

Table 7.3: Descriptive statistics of income tax and deferred tax for the change from the reported year to the restated year (n=34)

Statistic	CITR	CFTB	CDTA	NCDTA	NCFTB	TTA	CITP	NCDITL	TTL	NTA
Minimum	-1612.000	-1706.000	-22.000	-16996.000	-4254.000	-16996.000	-1302.000	-243000.000	-243000.000	-124543.000
Maximum	1706.000	0.000	0.000	32000.000	6.000	32000.000	697.000	122944.000	122944.000	243000.000
1st Quartile	0.000	0.000	0.000	0.000	0.000	-373.500	0.000	0.000	0.000	-6184.250
Median	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
3rd Quartile	0.000	0.000	0.000	39.750	0.000	0.000	0.000	7767.000	7767.000	4.500
Mean	-50.735	-50.176	-0.647	521.000	-280.647	138.794	-40.794	3149.235	3108.441	-2969.647
No of Observations										
Credit Change	4	1	1	5	3	10	2	12	13	16
No Change	13	1	0	3	0	2	8	0	5	4
Debit Change	3	0	0	10	1	7	2	3	3	9
Zero Balances	14	32	33	16	31	7	22	19	13	5

This table highlights the discussions to date; the non-current deferred tax assets has the largest number of debit changes (increases) with a median (mean) change of zero (\$0.521 million) while non-current deferred tax liabilities records the highest number of credit changes with a median (mean) change of zero (\$3.149 million).

At this point I have compared the reporting year using NZ FRS to the restated year using NZ IFRS which may incorporate other adjustments. I now discuss the changes that are recorded as directly being related to the change from NZ FRS to NZ IFRS in the IFRS reconciliations in the following section.

#### *7.4 Descriptive statistics of change recorded in the NZ IFRS reconciliations*

Table 7.4 reports on the descriptive statistics of income tax and deferred tax for the change from NZ FRS to NZ IFRS recorded in the IFRS reconciliation in the notes to the financial statements.

Table 7.4: Descriptive statistics of income tax and deferred tax for the change from NZ FRS to NZ IFRS recorded in the IFRS reconciliation in the notes to the financial statements (n=34)

Statistic	CITR	CFTB	CDTA	NCDTA	NCFTB	TTA	CITP	NCDTL	TTL	NTA
Minimum	-1599.000	0.000	-22.000	-16996.000	-4254.000	-16996.000	-1302.000	-243000.000	-243000.000	-122944.000
Maximum	497.000	0.000	0.000	32000.000	0.000	32000.000	0.000	122944.000	122944.000	243000.000
1st Quartile	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	-6081.250
Median	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
3rd Quartile	0.000	0.000	0.000	0.000	0.000	0.000	0.000	7767.000	7767.000	24.750
Mean	-32.412	0.000	-0.647	341.559	-125.118	215.794	-38.294	3140.088	3101.794	-2886.000
No of Observations										
Credit Changes	1	0	1	6	1	8	0	12	12	15
No Change	18	2	0	4	2	12	11	0	6	5
Debit Changes	1	0	0	8	0	7	1	3	3	9
Zero Balances	14	32	33	16	31	7	22	19	13	5

The median change across all income tax and deferred tax asset (TTA) observations is zero consistent with Stent *et al.* (2010). The mean change however is an increase (debit) of \$0.215 million.

There is one observation reducing current income tax receivable (Vector Limited 2006) and one increasing current income tax receivable (Fisher and Paykel Appliances Ltd 2007). Similarly one observation reports a decrease in current income tax payable (Fisher and Paykel Appliances Ltd 2007) but none reporting an increase in the same. Of the twenty non-zero observations reporting current income tax receivable 90% (18/20) report no change and of the twelve observations reporting income tax payable 91.7% (11/12) report no change.

The change in current income tax receivable and payable is a concern as this account represents income tax payable to and receivable from the Inland Revenue Department (IRD). Other than a change in minimum presentation requirements there should be no effect on the account due to the implementation of NZ IFRS. One explanation for these changes to income tax payable and receivable is that pre NZ IFRS the entities may have been offsetting these accounts. NZ IAS 12 provided improved guidance on offsets which may have altered both income tax payable and receivable by the same amount. Another explanation could be that tax on losses carried forward are included in current income tax receivable pre NZ IFRS and with the additional definitions given in NZ IAS 12 are then transferred to deferred tax assets post NZ IFRS.

For non-current deferred tax assets there are 23.5% (8/34) of observations reporting increases (debit changes) and 17.6% (6/34) reporting decreases (credit changes). The increases are possibly due to the recognition of deferred tax assets changing from being recognised “when virtually certain of its recovery in future periods” (SSAP 12 paragraph 4.20) to being recognised if it is “probable that taxable profit will be available against which the deductible temporary difference can be utilised” (NZIAS 12 paragraph 24).

The range of change for total tax assets is \$48.996 million (-\$16.996 million to +\$32.000 million) which is predominately related to the increase in noncurrent deferred tax assets. Stent *et al.* (2010) calculate a range of \$15 million which is significantly

less than the range for my sample. I record the number of observations showing a change in total tax assets as 44.1% (15/34) compared to 23% recorded by Stent *et al.* (2010).

Stent *et al.* (2010) did not report on the number or percentage of those with no change to tax assets having a zero account balance before and after NZ IFRS. However as reported in Table 7.4, 55.6% (15/27) of observations record tax assets that are affected by the implementation of NZ IFRS, specifically NZ IAS 12.

The median change for income tax and deferred tax liabilities (TTL) is zero consistent with Stent *et al.* (2010). The 75<sup>th</sup> percentile shows a change of \$7.767 million indicating there are a few observations with large increases to tax liabilities. The range of movements for total tax liabilities is \$365.944 million (-\$243.000 million to +\$122.944 million) compared to Stent *et al.* (2010) of \$905.000 million. Stent *et al.* (2010) minimum reduction (debit change) is -\$243.000 million, as is mine, but they had a maximum of \$665.000 million compared to my sample of \$122.944 million.

The change in tax liabilities is in the majority due to a significant change is non-current deferred tax liabilities. The maximum increase of \$122.944 million is Vector Limited in 2007 and is explained as being due to revalued property, plant and equipment. NZ IFRS requires deferred tax to be calculated on the depreciation timing differences (SSAP 12 paragraph 4.6) whereas NZ IFRS requires deferred tax to be calculated on the temporary differences between the tax base and carrying amount including revaluations (NZ IAS 12 paragraph 7). There are 35.3% (12/34) of observations (or 80.0% (12/15) of non zero observations) that report and increase in non-current deferred tax liabilities and this could possibly be due in part to revalued property, plant and equipment.

Consistent with Ernst and Young (2004) deferred tax assets and liabilities increase due to the implementation of NZ IFRS. Also consistent with Stent *et al.* (2010) that the increase is considerably larger for tax liabilities than tax assets.

The changes to the net tax accounts (NTA) are predominately credit changes and therefore decrease (increase) net tax assets (liabilities). 70.6% (24/34) of all

observations or 82.8% (24/29) of non-zero observations have been affected by the implementation on NZ IAS 12. I will now discuss the extent of the impact.

Table 7.5 reports on the descriptive statistics of income tax and deferred tax for the change from NZ FRS to NZ IFRS deflated by total assets recorded in the IFRS reconciliation in the notes to the financial statements. This change is measured by  $(\text{NZ IFRS}_{(t)} \text{ less NZ FRS}_{(t-1)}) / \text{Total Assets}_{(t-1)}$ . Stent *et al.* (2010) measured the magnitude of the change from NZ FRS to NZ IFRS using  $\text{NZ FRS} / \text{NZ IFRS} - 1$ , however this is not appropriate for our study as there are many tax accounts with zero balances.

Table 7.5: Descriptive statistics of income tax and deferred tax for the change from NZ FRS to NZ IFRS deflated by total assets recorded in the IFRS reconciliation in the notes to the financial statements (n=34)

Statistic	CITR	CFTB	CDTA	NCDTA	NCFIB	TTA	CITP	NCDTL	TTL	NTA
Minimum	-0.000279	0.000000	-0.000252	-0.019689	-0.027628	-0.019689	-0.000749	-0.049150	-0.049150	-0.046793
Maximum	0.000286	0.000000	0.000000	0.023283	0.000000	0.010339	0.000000	0.046793	0.046793	0.049150
1st Quartile	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	-0.018480
Median	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
3rd Quartile	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.016183	0.016183	0.000309
Mean	0.000000	0.000000	-0.000007	-0.000071	-0.000813	-0.000891	-0.000022	0.006277	0.006255	-0.007147
No of Observations										
Credit Changes	1	0	1	6	1	8	0	12	12	15
No Change	18	2	0	4	2	12	11	0	6	5
Debit Changes	1	0	0	8	0	7	1	3	3	9
Zero Balances	14	32	33	16	31	7	22	19	13	5

Table 7.5 reports that the only range of change greater than 1% of assets due to NZ IAS 12 for tax assets is non-current deferred tax assets with a range 4.3% (-2.0% to +2.3%) and non-current future tax benefit with a decrease of 2.8% (-2.8% to +0%). The latter is one observation (Steel and Tube Limited in 2005) decreasing non-current future tax benefit and increasing non-current deferred tax asset. This reduction in current future tax benefit is possibly due to the change in definitions where future tax benefit is now part of the definition for deferred tax assets under NZ IAS 12.

The only range of change to tax liabilities greater than 1% is as expected non-current deferred tax liabilities with a range of 9.6% (-4.9% to +4.7%).

The range of change in the remaining income and deferred tax accounts is less than 1% in comparison to total assets.

$NTA_{(t)}$  is net tax assets in the restated year after implementing NZ IFRS, and  $NTA_{(t-1)}$  is net tax assets in the reported year prior to implementing NZ IFRS. The movement between these two variables however is not all related to the implementation of NZ IFRS. Table 7.3 reports the change in net tax assets median (mean), from information gathered from the statement of financial position, is zero (-\$2.969 million), however the median (mean) change from information gathered from the NZ IFRS reconciliation in the notes to the financial statements is zero (-\$2.886 million) as reported in Table 7.4.

Table 7.6 reports of the descriptive statistics of income tax and deferred tax for the change from the reported year to the restated year not recorded as being due to the implementation of NZ IFRS.

Table 7.6: Descriptive statistics of income tax and deferred tax for the change from the reported year to the restated year not recorded as being due to the implementation of NZ IFRS (n=34)

Statistic	CITR	CFTB	CDTA	NCDTA	NCFTB	TTA	CITP	NCDTL	TTL	NTA
Minimum	-1612.000	-1706.000	0.000	-73.000	-2876.000	-1599.000	-1000.000	-2.000	-1000.000	-1599.000
Maximum	1706.000	0.000	0.000	2418.000	6.000	697.000	697.000	248.000	697.000	497.000
1st Quartile	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Median	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
3rd Quartile	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Mean	-18.324	-50.176	0.000	179.441	-155.529	-77.000	-2.500	9.147	6.647	-83.647
No of Observations										
Credit Changes	3	1	0	0	2	5	2	2	3	6
Debit Changes	2	0	0	4	0	2	1	1	2	2

The range of change of net tax assets is \$2.096 million (-\$1.599 million to +\$0.497 million) of which six of these observations are reducing the assets and two increasing assets. The median (mean) of the tax asset changes is zero (-\$0.083 million).

It is important to consider these variances in terms of materiality. Table 7.7 reports on this.

Table 7.7: Descriptive statistics of income tax and deferred tax for the change from the reported year to the restated year deflated by total assets not recorded as being due to the implementation of NZ IFRS (n=34)

Statistic	CIIR	CFTB	CDTA	NCDTA	NCFTB	TTA	CITP	NCDTL	TTL	NTA
Minimum	-0.009689	-0.004816	0.000000	-0.000206	-0.074421	-0.018942	-0.000275	-0.000023	-0.000275	-0.018942
Maximum	0.005162	0.000000	0.000000	0.055479	0.000025	0.005162	0.005162	0.000568	0.005162	0.000286
1st Quartile	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
Median	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
3rd Quartile	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
Mean	-0.000139	-0.000142	0.000000	0.002158	-0.002435	-0.000558	0.000162	0.000018	0.000180	-0.000738

The range of change of net tax assets as a percentage of total assets is -1.9% (-1.9% to +0.0%).

On reviewing the financial statements concerned I separate these changes not recorded as being due to the implementation of NZ IFRS in to “reclassifications” and “other” variances.

“Reclassifications” are transfers between various income tax and deferred tax accounts. Appendix G provides an example of a “reclassification”. Cavalair Corporation Limited reports under NZ FRS in 2007 deferred tax of \$2.391 million. In 2008, the restated 2007 year using NZ IFRS, deferred tax is reported as \$3.327 million. On reviewing the reconciliation from NZ FRS to NZ IFRS, the increase of \$0.936 million is explained as a reduction of \$0.676 million due to the implementation of NZ IFRS and an increase of \$1.612 million as a reclassification from income tax receivable to deferred tax.

“Other” variances are the balance. Appendix H provides an example of “other” variances. ING Property Trust reports under NZ FRS in 2007 no deferred tax on the statement of financial position. There is also no further information provided in the notes to the financial statements indicating that deferred tax is included in any other asset or liability. In the 2008, the restated 2007 year using NZ IFRS, deferred tax is reported as \$33.257 million. On reviewing the reconciliation from NZ FRS to NZ IFRS, the increase of \$33.257 million is explained as \$0.055 million deferred tax reported under NZ FRS, an increase of \$33.192 million due to the implementation of NZ IFRS, and an increase of \$0.120 million due to acquisition of joint venture. The latter being an example of an “other” variance.

“Reclassifications” between tax assets and liabilities has no effect on net tax assets however the variance reported under “other” has an effect. There are three observations with an “other” variance.

Therefore for the hypothesis testing I use the change from NZ FRS to NZ IFRS deflated by total assets recorded in the IFRS reconciliation in the notes to the financial statements as reported in Table 7.5.

*7.5 H1: Post NZ IFRS net tax assets (liabilities) will decrease (increase) more for entities using partial basis than those using the comprehensive basis pre NZ IFRS.*

Hypothesis one states that net assets (liabilities) will decrease (increase) more for entities using the partial basis than those using the comprehensive basis pre NZ IFRS.

Table 7.8 reports on the descriptive statistics of net tax assets for the change from NZ FRS to NZ IFRS deflated by total assets for the observations using the partial basis for deferred tax.

Table 7.8: Descriptive statistics of net tax assets for the change from NZ FRS to NZ IFRS deflated by total assets for the observations using the partial basis and comprehensive basis for deferred tax

Statistic	Partial Basis (n=7)	Comprehensive Basis (n=27)	Partial Basis With Asset Revaluation Reserve (n=5)	Partial Basis Without An Asset Revaluation Reserve (n=2)	Comprehensive Basis With An Asset Revaluation Reserve (n=9)	Comprehensive Basis Without An Asset Revaluation Reserve (n=18)
Minimum	-0.046793	-0.038766	-0.046793	-0.033261	-0.038766	-0.017020
Maximum	0.000000	0.049150	0.000000	0.000000	0.049150	0.007665
1st Quartile	-0.032345	-0.004383	-0.031429	-0.024946	-0.023623	0.000000
Median	-0.020471	0.000000	-0.020471	-0.016631	-0.018676	0.000000
3rd Quartile	-0.008945	0.000653	-0.017891	-0.008315	-0.004356	0.000705
Mean	-0.021406	-0.003449	-0.023317	-0.016631	-0.009556	-0.000396
No of Observations						
Credit Changes	5	9	4	1	7	3
No Change	0	5	0	0	0	4
Debit Changes	0	10	0	0	2	8
Zero Balances	2	3	1	1	0	3

The median (mean) change for net tax assets for observations using the partial basis is -2.0% (-2.1%). There are 71.4% (5/7) or 100.0% (5/5) of non-zero balances reporting credit changes and no observations reporting debit changes.

This decrease (increase) in net tax assets (liabilities) is expected as entities using the partial basis only “... recognise as deferred tax, the income tax effect only to the extent that it can be foreseen to crystallise in the future” (SSAP 12 paragraph 4.11) pre NZ IFRS. Post NZ IFRS temporary differences must be accounted for (NZIAS 12 paragraph 15).

Table 7.8 also reports on the descriptive statistics of net tax assets for the change from NZ FRS to NZ IFRS deflated by total assets for the observations using the comprehensive basis for deferred tax.

For users of comprehensive deferred tax the median (median) change due to NZ IFRS for net tax assets is zero (-0.3%) which is less than partial deferred tax users. There are 33.3% (9/27) of observations reporting credit changes (decreases in assets and increases in liabilities) or 37.5% (9/24) of non-zero observations, compared to partial deferred tax users of 71.4% (5/7) or 100% (5/5) of non-zero observations. There are 37.0% (10/27) of observations recording debit changes (increases in assets or decreases in liabilities) or 41.7% (10/24) of non-zero observations, compared to zero for partial users of deferred tax.

I question whether observations that are partial and also record an asset revaluation reserve influence this result. I segregate the sample further into those using the partial basis that have an asset revaluation reserve and those that do not, and the same for the comprehensive basis.

Table 7.8 reports on the observations that use the partial basis pre NZ IFRS and do not have an asset revaluation reserve. There are only two observations using the partial basis without an asset revaluation reserve, of which one has zero net tax assets pre and post NZ IFRS. The median (mean) change for net tax assets is -1.7% (-1.7%). This compares to the observations using the comprehensive basis without an asset revaluation reserve which records a median (mean) change of zero (0.0%).

The observations using the partial basis with an asset revaluation reserve record a median (mean) change of -2.0% (-2.3%). This compares to the observations using the comprehensive basis with an asset revaluation reserve which record a median (mean) change of -1.9% (-1.0%).

Therefore from the sample collected, as predicted by hypothesis one, those observations using the partial basis report a decrease (increase) in net tax asset (liabilities) to a higher extent than those observations using the comprehensive basis measured by mean and median regardless of the asset revaluation reserve. Partial users also record a higher percentage of changes that are credit in nature indicating an overall decrease (increase) in net tax assets (liabilities) more than those using the comprehensive basis.

*7.6 H2: Post NZ IFRS net tax assets (liabilities) will decrease (increase) more for entities recording an asset revaluation reserve than entities not recording an asset revaluation reserve.*

Hypothesis two states that observations with an asset revaluation reserves are likely to have larger decreases in net tax assets than those without asset revaluation reserves.

Table 7.9 reports the descriptive statistics of net tax assets for the change from NZ FRS to NZ IFRS deflated by total assets for the observations with and without an asset revaluation reserve.

Table 7.9: Descriptive statistics of net tax assets for the change from NZ FRS to NZ IFRS deflated by total assets for the observations with and without an asset revaluation reserve

	With An Asset Revaluation Reserve (n=14)	Without An Asset Revaluation Reserve (n=20)
Statistic		
Minimum	-0.046793	-0.033261
Maximum	0.049150	0.007665
1st Quartile	-0.029477	0.000000
Median	-0.019574	0.000000
3rd Quartile	-0.004369	0.000601
Mean	-0.014471	-0.002020
No of Observations		
Credit Changes	11	4
No Change	0	4
Debit Changes	2	8
Zero Balances	1	4

There are fourteen observations with asset revaluation reserves. Of these there is a median (mean) change in net tax assets of -2.9% (-1.4%) and a range of change of 9.6% (-4.9% to 4.7%). Predominately the changes are credit in nature with 78.6% (11/14) of the total observations or 84.6% (11/13) of those observations with non-zero balances reporting credit changes.

Table 7.9 also reports on the descriptive statistics of net tax assets for the change from NZ FRS to NZ IFRS deflated by total assets for those observations without an asset revaluation reserve. This table reports that there is minimal change for net tax assets for observations not recording asset revaluation reserves. The median (mean) change was zero (-0.2%) and only 20.0% (4/20) of observations report decreases in net tax assets, with 20.0% (4/20) not recording net tax assets pre or post NZ IFRS.

This supports hypothesis two.

*7.7 H3: Post NZ IFRS entities that have unrecognised deferred tax assets pre NZ IFRS will record more increases (decreases) in net tax assets (liabilities) than entities not recording unrecognised deferred tax assets.*

Hypothesis three states that reporting entities with unrecognised deferred tax assets will report more increases (decreases) in net tax assets (liabilities) due to the reduction in the recognition criteria from “virtually certain” to “probable”, than entities not recording unrecognised deferred tax assets.

Table 7.10 reports on the descriptive statistics of net tax assets for the change from NZ FRS to NZ IFRS deflated by total assets for the observations with unrecognised deferred tax assets.

Table 7.10: Descriptive statistics of net tax assets for the change from NZ FRS to NZ IFRS deflated by total assets for the observations with and without unrecognised deferred tax assets

Statistic	With Unrecognised Deferred Tax Assets (n=14)	Without Unrecognised Deferred Tax Assets (n=20)	With Unrecognised Deferred Tax Assets and Without An Asset Revaluation Reserve (n=9)	With Unrecognised Deferred Tax Assets and With An Asset Revaluation Reserve (n=5)	Without Unrecognised Deferred Tax Assets and Without An Asset Revaluation Reserve (n=11)	Without Unrecognised Deferred Tax Assets and With An Asset Revaluation Reserve (n=9)
Minimum	-0.046793	-0.038766	0.000000	-0.046793	-0.033261	-0.038766
Maximum	0.009471	0.049150	0.007665	0.009471	0.005855	0.049150
1st Quartile	0.000000	-0.020718	0.000000	-0.033337	-0.004204	-0.023623
Median	0.000000	-0.004350	0.000000	-0.017891	0.000000	-0.020471
3rd Quartile	0.000779	0.000103	0.001039	0.000000	0.000480	-0.004410
Mean	-0.005559	-0.008258	0.001192	-0.017710	-0.004647	-0.012671
No of Observations						
Credit Changes	3	12	0	3	4	8
No Change	1	3	1	0	3	0
Debit Changes	4	5	4	1	4	1
Zero Balances	6	0	4	1.	0	0

There are fourteen observations with unrecognised deferred tax assets pre NZ IFRS. Interestingly the median (mean) change in net tax assets is zero (-0.6%) with only 28.6% (4/14) recording an increase or debit change or 50.0% (4/8) of non-zero balances. This compares to credit changes of 21.4% (3/14) or 37.5% (3/8). These results indicate that while there are more incidences of increases in net tax assets there are some large decreases in this account influencing the mean. There is one large decrease in net tax assets for Nuplex Industries Limited in 2005 with a decrease of \$16.996 million. There is no explanation for this in the financial statements. However I note that post NZ IFRS the entity continued to report unrecognised non-current assets suggesting the change in net tax assets is not related to unrecognised deferred tax assets.

The observations not reporting unrecognised deferred tax assets are also reported in Table 7.10 and report a 25.0% (5/20) increase and a 60.0% (12/20) decrease in net tax assets. The median (mean) change is -0.4% (-0.8%). This increase in net tax assets is similar to the increase for observations reporting unrecognised deferred tax assets which does not support the hypothesis. A possible explanation for this is that the entities disclosing unrecognised tax assets pre IFRS did have an increase in net tax assets however that increase was offset by a decrease due to an asset revaluation reserve. I therefore segregate the observations into those with unrecognised tax assets and also asset revaluation reserves and those without asset revaluation reserves.

Table 7.10 reports on the nine observations with unrecognised deferred tax assets without asset revaluation reserves. The results record a median (mean) increase net tax assets of zero (0.1%), with 44.4% (4/9) of debit changes or 80% (4/5) of non-zero balances. Table 7.10 reports on five observations with unrecognised deferred tax assets with asset revaluation reserves. The results record a median (mean) increase in net tax assets of -1.8% (-1.8%) and 20.0% (1/5) debit changes. This indicates observations with unrecognised deferred tax assets but without asset revaluation reserves have a higher increase in net tax assets than those observations with unrecognised deferred tax assets and an asset revaluation reserve.

Table 7.10 reports on those observations without unrecognised deferred tax assets and without an asset revaluation reserve. There are eleven observations with a median (mean) of zero (-0.5%), and 36.4% (4/11) with debit changes. Table 7.10 also reports

nine observations without unrecognised deferred tax assets but have an asset revaluation reserve. There is a median (mean) of -2.0% (-1.3%), with 9.0% (1/11) debit changes.

Comparing the observations with unrecognised deferred tax assets and without an asset revaluation reserve against those without unrecognised deferred tax assets and without an asset revaluation reserve the median increase in net tax assets is higher for those with unrecognised deferred tax assets. The percentage increase is also higher for those with unrecognised deferred tax assets and no asset revaluation reserve.

This confirms that those observations with unrecognised deferred tax assets experience a larger increase in net tax assets than those without unrecognised deferred tax assets as predicted when excluding the asset revaluation reserve variable.

*7.8 H4: Post NZ IFRS entities will reduce offsets in deferred tax assets and deferred tax liabilities.*

As deferred tax assets and liabilities are undergoing so many changes due to NZ IFRS it is difficult to isolate the change attributable to offsetting, I am unable to test this hypothesis.

*7.9 H5: Net tax assets of early adopters are less affected by the implementation of NZ IAS 12 than late adopters*

Hypothesis five states that early adopters are less affected by the implementation of NZ IAS 12 than late adopters.

Table 7.11 reports on the descriptive statistics of net tax assets for the change from NZ FRS to NZ IFRS deflated by total assets for early adopters.

Table 7.11: Descriptive statistics of net tax assets for the change from NZ FRS NZ IFRS deflated by total assets for early and late adopters

	Early Adopters (n=10)	Late Adopters (n=24)
Statistic		
Minimum	-0.033337	-0.046793
Maximum	0.005855	0.049150
1st Quartile	-0.015093	-0.018536
Median	0.000000	0.000000
3rd Quartile	0.000917	0.000000
Mean	-0.008015	-0.006784
No of Observations		
Credit Changes	4	11
No Change	1	4
Debit Changes	4	5
Zero Balances	1	4

The median (mean) change to net tax assets is zero (-0.8%) for early adopters. There are an equal number of debit changes and credit changes to net tax assets with the implementation of NZ IFRS affecting 80% (8/10) of observations or 88.9% (8/9) of non-zero observations of tax balances. The range of change for net tax assets is 3.9% (-3.3% to 0.6%).

This can be compared to late adopters as reported in Table 7.11. The median (mean) change to net tax assets is zero (-0.7%) for late adopters. There are 45.8% (11/24) of observations recording credit changes, compared to 20.8% (5/24) recording debit changes. The implementation of NZ IFRS affects 66.7% (16/24) of observations or 80.0% (16/20) of non-zero observations. The range of change for net tax assets is 9.6% (-4.7% to +4.9%).

I conclude that NZ IAS 12 affects early adopters more than late adopters. This is inconsistent with Stent *et al.* (2010) conclusion that NZ IFRS had a lower impact on those adopting early. This may be in part due to Stent *et al.* (2010) looking at the effect of NZ IFRS over all of the assets and liabilities and not just tax.

*7.10 H6: Net tax assets of smaller entities are less affected by the implementation of NZ IAS 12 than larger entities*

Hypothesis six states that smaller entities' net tax assets are less affected than larger entities by the implementation of NZ IAS 12. I segregate the sample into large and small entities based on the median total asset amount (\$14.500 million) in the financial statements pre NZ IFRS.

Table 7.12 reports on the descriptive statistics of net tax assets for the change from NZ FRS to NZ IFRS deflated by total assets for smaller entities.

Table 7.12: Descriptive statistics of net tax assets for the change from NZ FRS to NZ IFRS deflated by total assets for smaller and larger entities

	Smaller Entities (n=17)	Larger Entities (n=17)
Statistic		
Minimum	-0.033261	-0.046793
Maximum	0.009471	0.049150
1st Quartile	0.000000	-0.023623
Median	0.000000	-0.017020
3rd Quartile	0.000757	0.000000
Mean	-0.001810	-0.012483
No of Observations		
Credit Changes	5	12
No Change	2	1
Debit Changes	5	4
Zero Balances	5	0

The observations in the smaller total asset sample have a median change due to NZ IFRS for net tax accounts of zero (-0.2%). There are an equal number of credit and debit changes for this sample with the total percentage of observations that report a change in net tax assets as 58.8% (10/17) or 83.3% (10/12) for non-zero balances. The range of change for net tax assets is 4.2% (-3.3% to +0.9%).

For the larger entities reported in Table 7.12 the median (mean) change to net tax assets is -1.7% (-1.2%) due to NZ IFRS. The range of the change is 9.6% (-4.7% to +4.9%). The percentage of observations affected is 94.1% (16/17).

For all four measurement bases, median, mean, range of change and percentage of changes the larger entity sample net tax assets are more affected by NZ IFRS than the smaller entity sample. This is consistent with Stent *et al.* (2010) that suggests smaller firms are less affected by NZ IFRS than larger firms.

### 7.11 Significant variable

The results to date indicate that partial basis users and observations with asset revaluation reserves record higher decreases (increases) in net tax assets (liabilities) than their counterparts; observations with unrecognised deferred tax assets record a higher increase (decrease) in net tax assets (liabilities) than those without unrecognised deferred tax assets; early adopters and larger entities are more affected by the implementation of NZ IAS 12 than their counterparts. I question which of these variables have the most significant effect on net tax assets. I use the following models to test this:

$$\text{Model 1: } NTA_{(t)} = \alpha + NTA_{(t-1)} + \epsilon_{(t)}$$

$$\text{Model 2: } NTA_{(t)} = \alpha + NTA_{(t-1)} + P_{(t-1)} + ARR_{(t-1)} + UDTA_{(t-1)} + E_{(t-1)} + L_{(t-1)} + \epsilon_{(t)}$$

$NTA_{(t)}$  = Net tax assets post NZ IFRS

$NTA_{(t-1)}$  = Net tax assets pre NZ IFRS

$P_{(t-1)}$  = Dummy variable for observations using the partial basis users pre NZ IFRS – Partial basis = 1, comprehensive basis = 0

$ARR_{(t-1)}$  = Dummy variable for observations with an asset revaluation reserve pre NZ IFRS – Asset revaluation reserve = 1, otherwise = 0

$UDTA_{(t-1)}$  = Dummy variable for observations with unrecognised deferred tax assets pre NZIFRS – Unrecognised deferred tax assets = 1, otherwise = 0

$E_{(t-1)}$  = Dummy variable for early adopters of NZ IFRS – Early adopters = 1, late adopters = 0

$L_{(t-1)}$  = Dummy variable for large entities – Large entities = 1, small entities = 0

When applied to the sample, these models empirically test which of the variables are more highly associated with the net tax assets post NZ IFRS and which model has the highest predicting ability of post NZ IFRS net tax assets. A statistically significant coefficient indicates an association to post NZ IFRS net tax assets and the model with the largest  $r^2$  indicates a better prediction power of post NZ IFRS net tax assets.

I exclude three observations with “other variances” from the regression to avoid any potential influence over the results.

Table 7.13 reports on the correlation between the variables.

Table 7.13: Correlation matrix

Correlation matrix (Pearson):

Variables	NTA <sub>(t)</sub>	NTA <sub>(t-1)</sub>	P <sub>(t-1)</sub>	ARR <sub>(t-1)</sub>	UDTA <sub>(t-1)</sub>	E <sub>(t-1)</sub>	L <sub>(t-1)</sub>
NTA <sub>(t)</sub>	<b>1</b>	<b>0.876</b>	-0.045	<b>-0.380</b>	0.320	0.118	-0.229
NTA <sub>(t-1)</sub>	<b>0.876</b>	<b>1</b>	0.015	-0.188	0.287	0.123	-0.094
P <sub>(t-1)</sub>	-0.045	0.015	<b>1</b>	0.287	0.258	-0.246	-0.180
ARR <sub>(t-1)</sub>	<b>-0.380</b>	-0.188	0.287	<b>1</b>	-0.139	-0.216	0.291
UDTA <sub>(t-1)</sub>	0.320	0.287	0.258	-0.139	<b>1</b>	0.177	<b>-0.430</b>
E <sub>(t-1)</sub>	0.118	0.123	-0.246	-0.216	0.177	<b>1</b>	0.234
L <sub>(t-1)</sub>	-0.229	-0.094	-0.180	0.291	<b>-0.430</b>	0.234	<b>1</b>

Values in bold are different from 0 with a significance level  $\alpha=0.05$

Pre and post NZ IFRS net tax assets are positively correlated (0.876) with a significance level of less than 0.05 which is expected. The asset revaluation reserve and post NZ IFRS net tax assets are also correlated (-0.380) which supports the previous tests that observations with asset revaluation reserves are more affected by the implementation of NZ IFRS than those without. Interestingly there is a correlation between large entities and unrecognised net tax assets (-0.430). This indicates that large entities are less likely to have unrecognised deferred tax assets.

Table 7.14 reports the results for model one.

Table 7.14: Results of regression of model 1:  $NTA_{(t)} = \alpha + NTA_{(t-1)} + \epsilon_{(t)}$

Source	Value	Standard error	t	Pr >  t
Intercept	-0.004	0.003	-1.557	0.130
NTA <sub>(t-1)</sub>	0.866	0.088	9.785	< 0.0001
	Adjusted R <sup>2</sup>	F	Pr > F	
Model	0.760	95.752	< 0.0001	

NZ IFRS net tax assets are significantly associated to post NZ IFRS net tax assets with a co-efficient of 0.866 which is expected. Pre NZ IFRS net tax assets predict 76.0% of the change to post NZ IFRS net tax assets.

Table 7.15 reports the result for model two.

Table 7.15: Results of regression of model 2:  $NTA_{(t)} = \alpha + NTA_{(t-1)} + P_{(t-1)} + ARR_{(t-1)} + UDTA_{(t-1)} + E_{(t-1)} + L_{(t-1)} + \epsilon_{(t)}$

Source	Value	Standard error	t	Pr >  t	VIF
Intercept	0.001	0.003	0.404	0.689	
$NTA_{(t-1)}$	0.824	0.082	10.100	< 0.0001	1.124
$P_{(t-1)}$	0.000	0.000			1.346
$ARR_{(t-1)}$	-0.014	0.005	-2.706	0.011	1.371
$UDTA_{(t-1)}$	0.000	0.000			1.586
$E_{(t-1)}$	0.000	0.000			1.365
$L_{(t-1)}$	0.000	0.000			1.618
	Adjusted R <sup>2</sup>	F	Pr > F		
Model	0.803	61.976	< 0.0001		

The adjusted R<sup>2</sup> is higher than model one at 80.3% indicating that this model has a higher prediction power. The asset revaluation reserve variable and pre NZ IFRS net tax are significant at less than 0.05 and 0.01 respectively. The results did not report p-values for the balance of the variables due to the low power of the regression. The VIF indicates that multicollinearity is not a concern.

### 6.12 Summary of results

From the descriptive statistics I note three points. First, the majority of observations record income tax receivable or no income tax due compared to income tax payable. Second, there are unexpected changes to current income tax receivable and current income tax due which I explain as being due to possible offsets between the two accounts and/or tax losses carried forward being redefined as deferred tax assets.

Third, non-current deferred tax assets and liabilities are the most affected income tax and deferred tax account in terms of median, mean, range and number of observations by the implementation of NZ IFRS.

From the hypothesis testing, I can conclude that due to the implementation of NZ IFRS, particularly NZ IAS 12:

- H1: The partial basis users records higher decreases (increases) in net tax assets (liabilities) than comprehensive basis users and there are no debit changes for this sample;
- H2: Those observations with an asset revaluation reserve report larger decreases (increases) in net tax assets (liabilities) than those without an asset revaluation reserve;
- H3: The entities reporting unrecognised deferred tax assets without an asset revaluation reserve record a higher increases (decreases) in net tax assets (liabilities) than those observations without unrecognised deferred tax assets and no asset revaluation reserve;
- H4: Could not be tested;
- H5: Early adopters net tax assets are more affected by the implementation of NZ IFRS than late adopters; and
- H6: Larger entities net tax assets are more affected by NZ IFRS than smaller entities.

Excluding the pre NZ IFRS net tax assets variable, the asset revaluation reserve is the most significant independent variable in explaining the change to NZ IFRS net tax assets.

## 8. Conclusions and limitations

In this paper I examine the impact of the implementation of NZ IFRS and in particular NZ IAS 12 on a samples income tax and deferred tax accounts. I begin with the 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.

Stent *et al.* (2010) investigate the effect of the implementation of NZ IFRS on assets and liabilities generally and find that tax assets and tax liabilities increase. However chapter five suggests, and the results indicate, that the tax balances under NZ IFRS were also affected by tax legislation. Thus the analysis reported by Stent *et al.* (2010) cannot solely be attributed to the move to NZ IFRS.

The results indicate that 44.1% (15/34) of the observations report a change in income tax and deferred tax assets (TTA) (or 55.6% (15/21) of those recording non zero tax assets) due to the implementation of NZ IAS 12. Of this percentage there are slightly more observations that decreased, 23.5% (8/34), than increased, 20.5% (7/34). These changes are predominately due to the non-current deferred tax asset accounts that reported 23.5% (8/34) increasing and 17.6% (6/34) decreasing. The median (mean) change in non-current deferred tax assets deflated by total assets was zero (0.0%). The increases could in part be justified as being due to the change in the recognition criteria for deferred assets.

There are 44.1% (15/34) of observations that report a change in income tax and deferred tax liabilities (TTL) (or 71.4% (15/29) of those recording non zero tax liabilities) due to the implementation of NZ IAS 12. There are substantially more increases or credit changes, 35.3% (12/34) than decreases or debit changes, 8.8% (3/34). These changes in tax liabilities are predominately due to non-current deferred tax changes which recorded 44.1% (15/34) (or 100% of change for those with non zero balances), 35.3% (12/34) increased (credit change) and 8.8% (3/34) decreased (debit change). The mean percentage change deflated by total assets is higher for non-current deferred tax liabilities at 0.6% than non-current deferred tax assets at 0.1%. This change is reflected

in the change of net tax assets and is explained as being due to firstly partial basis tax users recording a 71.4% (5/7) decrease (increase) in net tax assets (liabilities) (or 100% for those recording non-zero balances) and those observations with an asset revaluation reserve recording a 78.6% (11/14) decrease (or 84.6% (11/13) for those recording non-zero balances) in net tax assets (liabilities).

There are some changes to current income tax payable and receivable which I could only explain as possibly being due to the changes surrounding offsets or the changes to the definitions of income and deferred tax.

In addition to the change due to NZ IAS 12, my results also indicate that the majority of companies (67.6% (23/34)) have either a tax refund due or a zero tax balance at year end. I explain the reason for this is that use of money interest is due on outstanding taxes and provides an incentive to pay the correct amount of tax or overpay it.

The results also indicate that NZ IAS 12 affects early adopters more than late adopters in terms of the percentage of changes whether debt or credit which was inconsistent with Stent *et al.* (2010). For the early adopters, 80.0% (8/10) record a change in net tax assets (or 88.9% (8/9) of those recording non zero balances), whereas late adopters only record a change of 66.7% (16/24) (or 80.0% (16/20) of those recoding non zero balances). The median (mean) change in net tax assets for early adopters is zero (-0.8%) compared with zero (-0.7%) for late adopters.

Smaller reporting entities report a lesser number of changes to net tax assets, 58.8% (10/17) (or 83.3% (10/12) of those recording non zero balances) compared to larger reporting entities of 94.1% (16/17). The median (mean) change is also higher for larger entities at -1.7% (-1.2%) compared to smaller entities at zero (-0.2%), concluding that smaller entities are less affected by NZ IAS 12 than larger entities.

Finally the regression results indicate that, apart from pre NZ IFRS net tax assets, the asset revaluation reserve variable is the most significant variable in increasing the explanatory power of the regression in model 1, when compared to the other variables. It increases the explanation power of model 1 by 4.3% to 80.3%.

As asset revaluation reserves influence deferred tax, further studies could investigate the effect of the introduction of The Taxation (GST and Remedial) Act 2010 resulting in depreciation on buildings with a useful life of less than 50 years no longer being an allowable deduction for tax purposes. An article published in response to this new legislation reiterates the view that deferred tax liabilities had no practical application or purpose (National Business Review, August 2010).

Future research could also extend Cheung *et al.* (1997) to include predicting future tax payments using a time series using a model for taxes payable, comprehensive and partial with a view to finding which model is the most useful for investors. Similarly the results provided in Hanlon (2005) on earnings persistence could be extended to provide information on the contribution of deferred tax to earnings quality.

There are a few limitations to this study. First, the sample size is limited, especially for the regression but it was a trade off between size and the cost of manually collecting the information. Second, I limited the analysis to the statement of financial position. Third, the study does not research the effect of other standards on deferred tax. And finally the results could have been deflated by another variable such as equity.

The results are important to policy makers as firstly there is continued debate on the relevance of deferred tax under the balance sheet approach and the results indicate the significance of the change to tax accounts due to the move to this approach. Secondly the FASB and IASB are working on converging to IFRS. The results give an insight into the effect of this move on income and deferred tax.

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## 10. Appendices

### Appendix A: Example of NZ FRS income tax and deferred tax

An extract from The Warehouse Limited 2007 financial statements is as follows:

#### Statement of Comprehensive Income

##### Income Tax Expense:

Income tax on current years taxable income	55535
Income tax on current years temporary differences in deferred tax account	<u>(1898)</u>
Total income tax expense	<u>53637</u>

#### Statement of Financial Position

##### Income Tax Receivable/Payable

Opening balance – Income tax receivable	37610
Income tax on current years taxable income (Statement of CI)	(55535)
Tax paid (also on Statement of Cash Flows)	17537
Supplementary dividend tax credit	1316
Use of money interest and other adjustments	<u>1490</u>
Closing balance – Income tax receivable	<u>2418</u>

##### Deferred Tax Asset/Liability

Opening balance – deferred tax asset	11255
Timing differences in current year (Profit and Loss)	<u>1898</u>
Closing balance – deferred tax asset	<u>13153</u>



## Appendix B: Example of NZ IFRS income tax and deferred tax

An extract from The Warehouses 2007 financial statements is as follows:

### Statement of Comprehensive Income

#### Income Tax Expense:

Income tax on current years taxable income	55535
Income tax on current years timing differences in deferred tax account	<u>(1701)</u>
Total income tax expense	<u>53834</u>

### Statement of Financial Position

#### Income Tax Receivable/Payable

Opening balance – Income tax receivable	37640
Income tax on current years taxable income (Statement of CI)	(55535)
Tax paid (also on Statement of Cash Flows)	17537
Supplementary dividend tax credit	1316
Use of money interest and other adjustments	<u>1490</u>
Closing balance – Income tax receivable	<u>2418</u>

#### Deferred Tax Asset/Liability

Opening balance – deferred tax asset	11356
Temporary differences in current year (Statement of CI)	1701
Temporary differences in current year (Other CI)	<u>8054</u>
Closing balance – deferred tax asset	<u>21111</u>



Income Tax Receivable	1490	
Interest Received		1490
(Use of money interest received from IRD)		

## Appendix C: Tax terminology

Adapted from page 97 of the Master Tax Guide (MTG) 2011:

Assessable Income:

Income from technology projects	4,000	
Investment income	100	
Dividends received	<u>100</u>	
Annual Gross Income		4,200

Deductions:

Technology expenditure	3,000	
General expenses	<u>50</u>	
Annual total deductions		<u>3,050</u>
<b>Net income</b>		1,150

Less:

Available losses		<u>150</u>
<b>Taxable Income</b>		<u>1,000</u>

**Income tax liability** 300

Less non refundable credits:

Credits in respect of supplementary dividends	0	
Imputation credits on dividends	<u>30</u>	
		<u>30</u>
		270

Less refundable credits:

Resident withholding tax		<u>0</u>
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**Residual Income Tax** 270

**Provisional tax paid** 250

**Terminal tax liability** 20

Following is a summary of the terminology being used.

From page 97-98 of the MTG I use six terms:

Terms	Definitions
Net Income	Gross income less total deductions
Taxable Income	Net income less available tax losses
Income Tax Liability	Tax on taxable income
Residual Income Tax	Income tax liability less any tax deducted at source such as resident withholding tax on interest, imputation credits on dividends
Provisional Tax	Tax paid towards the residual income tax – usually during the income year
Terminal Tax Receivable or Payable	Residual income tax less provision tax payments

From The Warehouse Group Limited's 2007 financial statements included in Appendix A and B there are five terms.

Terms	Definitions
Current Tax Expense	Income tax liability less non-refundable credits
Deferred Tax Expense	Tax on all temporary taxable differences for the year according to NZIAS 12
Total Tax Expense	Current tax expense plus deferred tax expense – the breakdown of these is shown in the notes to the financial statements
Income Tax Payable or Receivable	Under the Income Tax Act 2004 this was terminal tax payable or receivable
Deferred Tax Liability or Asset	Accumulated deferred tax expenses to date

## Appendix D: Example of reported year

An extract from The Warehouse Limited 2007 statement of financial position is as follows:

**Statement of Financial Position**  
AS AT 29 JULY 2007

**REPORTED  
YEAR**

		GROUP	GROUP	PARENT	PARENT
	NOTE	2007 \$ 000	2006 \$ 000	2007 \$ 000	2006 \$ 000
<b>ASSETS</b>					
<b>Current assets</b>					
Cash balances	19	77,909	21,443	1,066	930
Receivables	11	25,530	18,761	247,772	167,826
Inventories	12	254,770	247,527	-	-
Taxation receivable	9	2,418	37,610	1,338	8,908
<b>Total current assets</b>		<b>360,627</b>	<b>325,341</b>	<b>250,176</b>	<b>177,664</b>
<b>Non-current assets</b>					
Investments	13	8,051	4,889	42,000	42,000
Property, plant and equipment	16	305,154	305,625	-	-
Deferred taxation	10	13,153	11,255	-	-
<b>Total non-current assets</b>		<b>326,358</b>	<b>321,769</b>	<b>42,000</b>	<b>42,000</b>
<b>Total assets</b>		<b>686,985</b>	<b>647,110</b>	<b>292,176</b>	<b>219,664</b>
<b>LIABILITIES</b>					
<b>Current liabilities</b>					
Bank overdraft	18	905	184	-	-
Payables and accruals	15	142,974	158,401	-	-
Borrowings	18	-	9,600	-	-
<b>Total current liabilities</b>		<b>143,879</b>	<b>168,185</b>	<b>-</b>	<b>-</b>
<b>Non-current liabilities</b>					
Borrowings	18	120,000	120,000	-	-
Borrowings – secured	18	-	7,081	-	-
Provisions	14	7,301	17,648	-	-
<b>Total non-current liabilities</b>		<b>127,301</b>	<b>144,729</b>	<b>-</b>	<b>-</b>
<b>Total liabilities</b>		<b>271,180</b>	<b>312,914</b>	<b>-</b>	<b>-</b>
<b>EQUITY</b>					
Share capital	20	245,692	218,976	245,692	218,976
Treasury stock	21	(14,699)	(7,628)	-	-
Employee equity-settled benefits reserve	22	1,970	990	-	-
Foreign currency translation reserve	23	-	(3,068)	-	-
Retained earnings	24	182,547	124,647	46,484	688
<b>Parent shareholders' interest</b>		<b>415,510</b>	<b>333,917</b>	<b>292,176</b>	<b>219,664</b>
Minority interest	26	295	279	-	-
<b>Total equity</b>		<b>415,805</b>	<b>334,196</b>	<b>292,176</b>	<b>219,664</b>
<b>Total equity and liabilities</b>		<b>686,985</b>	<b>647,110</b>	<b>292,176</b>	<b>219,664</b>

On behalf of the board



Keith Smith

Authorised for issue on 13 September 2007



Ian Morrice

## Appendix E: Example of restated year

An extract from The Warehouse Limited 2008 statement of financial position is as follows:

RESTATED YEAR
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### Consolidated Balance Sheets

AS AT 27 JULY 2008

	NOTE	GROUP 2008 \$ 000	GROUP 2007 \$ 000	PARENT 2008 \$ 000	PARENT 2007 \$ 000
<b>ASSETS</b>					
<b>Current assets</b>					
Cash and cash equivalents	18	17,392	77,909	2,510	1,066
Trade and other receivables	21	26,599	25,530	-	-
Inventories	19	275,581	254,770	-	-
Derivative financial instruments	22	4,816	276	-	-
Taxation receivable	23	12,379	2,418	3,402	1,338
<b>Total current assets</b>		<b>336,767</b>	<b>360,903</b>	<b>5,912</b>	<b>2,404</b>
<b>Non-current assets</b>					
Property, plant and equipment	25	270,693	283,586	-	-
Computer software	26	23,814	21,568	-	-
Investments	27	7,191	8,908	42,000	42,000
Derivative financial instruments	22	2,301	4,405	-	-
Intercompany advances		-	-	214,423	251,823
Deferred taxation	24	14,171	21,111	-	-
<b>Total non-current assets</b>		<b>318,170</b>	<b>339,578</b>	<b>256,423</b>	<b>293,823</b>
<b>Total assets</b>	5	<b>654,937</b>	<b>700,481</b>	<b>262,335</b>	<b>296,227</b>
<b>LIABILITIES</b>					
<b>Current liabilities</b>					
Bank overdraft	29	-	905	-	-
Borrowings	29	57,000	-	-	-
Trade and other payables	20	124,018	110,546	-	-
Derivative financial instruments	22	-	18,343	-	-
Provisions	28	24,364	35,444	-	-
<b>Total current liabilities</b>		<b>205,382</b>	<b>165,238</b>	<b>-</b>	<b>-</b>
<b>Non-current liabilities</b>					
Borrowings	29	100,000	120,000	-	-
Derivative financial instruments	22	-	418	-	-
Provisions	28	14,899	14,642	-	-
<b>Total non-current liabilities</b>		<b>114,899</b>	<b>135,060</b>	<b>-</b>	<b>-</b>
<b>Total liabilities</b>	5	<b>320,281</b>	<b>300,298</b>	<b>-</b>	<b>-</b>
<b>Net assets</b>		<b>334,656</b>	<b>400,183</b>	<b>262,335</b>	<b>296,227</b>
<b>EQUITY</b>					
Contributed equity	30	238,773	235,598	251,445	250,297
Reserves	31	7,174	(6,618)	-	-
Retained earnings	33	88,518	170,908	10,890	45,930
<b>Total equity attributable to shareholders</b>		<b>334,465</b>	<b>399,888</b>	<b>262,335</b>	<b>296,227</b>
Minority interest	32	191	295	-	-
<b>Total equity</b>		<b>334,656</b>	<b>400,183</b>	<b>262,335</b>	<b>296,227</b>

## Appendix F: Example of NZ IFRS reconciliation

An extract from the notes to the financial statements from The Warehouse Limited's 2008 financial statements is as follows:

### 39. EXPLANATION OF TRANSITION TO NEW ZEALAND EQUIVALENTS TO IFRS (NZ IFRS) (CONTINUED)

(c) Reconciliation of the Group Balance Sheet reported under previous NZ GAAP to that under NZ IFRS (continued)

(ii) At 29 July 2007

GROUP	PREVIOUS	FINANCIAL	SHARE BASED	EMPLOYEE	ASSOCIATE	MAKE GOOD	SALES	PRESENTATION	NZ IFRS
	NZ GAAP	INSTRUMENTS	INVESTMENTS	BENEFITS	(D)	COSTS	RETURNS	ADJUSTMENTS	
	NOTES (25-27)	(A)	(B)	(C)	(D)	(E)	(F)	(G)	
	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000
<b>ASSETS</b>									
<b>Current assets</b>									
Cash and cash equivalents	77,909	-	-	-	-	-	-	-	77,909
Trade and other receivables	25,530	-	-	-	-	-	-	-	25,530
Inventories	254,770	-	-	-	-	-	-	-	254,770
Derivative financial instruments	-	276	-	-	-	-	-	-	276
Taxation receivable	2,418	-	-	-	-	-	-	-	2,418
<b>Total current assets</b>	<b>360,627</b>	<b>276</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>360,903</b>
<b>Non-current assets</b>									
Property, plant and equipment	305,154	-	-	-	-	-	-	(21,568)	283,586
Computer software	-	-	-	-	-	-	-	21,568	21,568
Investments	8,051	-	-	-	857	-	-	-	8,908
Derivative financial instruments	-	4,229	-	-	-	-	-	176	4,405
Deferred taxation	13,153	4,819	-	1,638	-	632	869	-	21,111
<b>Total non-current assets</b>	<b>326,358</b>	<b>9,048</b>	<b>-</b>	<b>1,638</b>	<b>857</b>	<b>632</b>	<b>869</b>	<b>176</b>	<b>339,578</b>
<b>Total assets</b>	<b>686,985</b>	<b>9,324</b>	<b>-</b>	<b>1,638</b>	<b>857</b>	<b>632</b>	<b>869</b>	<b>176</b>	<b>700,481</b>
<b>LIABILITIES</b>									
<b>Current liabilities</b>									
Bank overdraft	905	-	-	-	-	-	-	-	905
Trade and other payables	135,608	-	-	-	-	-	-	(25,062)	110,546
Derivative financial instruments	-	18,343	-	-	-	-	-	-	18,343
Provisions	7,366	-	-	-	-	207	2,633	25,238	35,444
<b>Total current liabilities</b>	<b>143,879</b>	<b>18,343</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>207</b>	<b>2,633</b>	<b>176</b>	<b>165,238</b>
<b>Non-current liabilities</b>									
Borrowings	120,000	-	-	-	-	-	-	-	120,000
Derivative financial instruments	-	418	-	-	-	-	-	-	418
Provisions	7,301	-	-	5,462	-	1,879	-	-	14,642
<b>Total non-current liabilities</b>	<b>127,301</b>	<b>418</b>	<b>-</b>	<b>5,462</b>	<b>-</b>	<b>1,879</b>	<b>-</b>	<b>-</b>	<b>135,060</b>
<b>Total liabilities</b>	<b>271,180</b>	<b>18,761</b>	<b>-</b>	<b>5,462</b>	<b>-</b>	<b>2,086</b>	<b>2,633</b>	<b>176</b>	<b>300,298</b>
<b>Net assets</b>	<b>415,805</b>	<b>(9,437)</b>	<b>-</b>	<b>(3,824)</b>	<b>857</b>	<b>(1,454)</b>	<b>(1,764)</b>	<b>-</b>	<b>400,183</b>
<b>EQUITY</b>									
Contributed equity	230,993	-	4,605	-	-	-	-	-	235,598
Reserves	1,970	(9,202)	614	-	-	-	-	-	(6,618)
Retained earnings	182,547	(235)	(5,219)	(3,824)	857	(1,454)	(1,764)	-	170,908
<b>Shareholders' equity</b>	<b>415,510</b>	<b>(9,437)</b>	<b>-</b>	<b>(3,824)</b>	<b>857</b>	<b>(1,454)</b>	<b>(1,764)</b>	<b>-</b>	<b>399,888</b>
Minority interest	295	-	-	-	-	-	-	-	295
<b>Total equity</b>	<b>415,805</b>	<b>(9,437)</b>	<b>-</b>	<b>(3,824)</b>	<b>857</b>	<b>(1,454)</b>	<b>(1,764)</b>	<b>-</b>	<b>400,183</b>

## Appendix G: Example of reclassification

An extract from Cavalair Corporation Limited 2007 financial statements is as follows:

### STATEMENTS OF FINANCIAL POSITION

As at 30 June 2007

	Notes	GROUP		PARENT	
		2007 \$000	2006 \$000	2007 \$000	2006 \$000
Shareholders' equity	5, 6, 7				
Attributable to shareholders of the Company		65,000	63,069	24,795	25,812
Attributable to minority shareholders of subsidiaries		1,823	1,415	-	-
SHAREHOLDERS' EQUITY		66,823	64,484	24,795	25,812
Term liabilities	8	65,161	59,976	-	-
Current liabilities	9	34,388	28,563	40,372	34,420
SHAREHOLDERS' EQUITY AND TOTAL LIABILITIES		\$166,372	\$153,023	\$65,167	\$60,232
Fixed assets	10	79,488	60,404	-	-
Investments	11	174	3,736	24,640	24,590
Goodwill		3,341	1,906	-	-
Deferred tax asset		2,391	2,232	-	-
NON-CURRENT ASSETS		85,394	68,308	24,640	24,590
Current assets	15	80,978	84,715	40,527	35,642
TOTAL ASSETS		\$166,372	\$153,023	\$65,167	\$60,232

Deferred Tax  
using NZ  
FRS



These statements are to be read in conjunction with the Statement of Accounting Policies on pages 22 to 24, the Notes on pages 29 to 48, and the Audit Report on page 20.

An extract from Cavalair Corporation Limited 2008 financial statements is as follows:

## CONSOLIDATED BALANCE SHEET

As at 30 June 2008

	Note	GROUP		COMPANY	
		2008 \$000	2007 \$000 RESTATED	2008 \$000	2007 \$000
<b>ASSETS</b>					
Property, plant and equipment	12	99,669	89,374		
Intangible assets	13	11,137	4,270		
Investments in subsidiaries	5, 35	-	-	30,240	640
Investments in equity-accounted investees	14	169	174		
Deferred tax assets	15	1,999	3,327		555
<b>Total non-current assets</b>		<b>112,974</b>	<b>97,145</b>	<b>31,000</b>	<b>25,195</b>
Cash and cash equivalents	16	335	804	4	4
Advances to subsidiaries	34	-	-	47,351	40,523
Trade and other receivables	17, 28	44,217	33,527	-	-
Inventories	18	64,239	44,731	-	-
Derivative financial instruments	28	360	1,074	-	-
Tax receivable		-	116	-	-
Plant and equipment held for sale	4	20	-	-	-
<b>Total current assets</b>		<b>109,171</b>	<b>80,252</b>	<b>47,355</b>	<b>40,527</b>
<b>Total assets</b>		<b>\$222,145</b>	<b>\$177,397</b>	<b>\$78,355</b>	<b>\$65,722</b>
<b>EQUITY</b>					
Share capital	20	17,967	12,840	17,967	12,840
Cash flow hedging reserve	20	(390)	(2)	-	-
Foreign currency translation reserve	20	1,768	(759)	-	-
Share rights reserve	20, 21	759	559	759	559
Retained earnings	20	65,000	59,930	9,891	10,102
<b>Total equity</b>		<b>85,104</b>	<b>72,568</b>	<b>28,617</b>	<b>23,501</b>
<b>LIABILITIES</b>					
Loans and borrowings	23	81,000	65,161	-	-
Employee benefits	24	3,317	2,804	1,968	1,849
Other payables	22	3,049	-	-	-
Deferred income	25	227	186	-	-
Provisions	26	242	125	-	-
<b>Total non-current liabilities</b>		<b>87,835</b>	<b>68,276</b>	<b>1,968</b>	<b>1,849</b>
Bank overdraft	16	483	342	-	-
Loans and borrowings	23	2,697	2,832	-	-
Advances from subsidiaries	34	-	-	47,115	40,237
Trade creditors, accruals and provisions	26, 27	40,541	25,963	628	49
Other payables	22	3,480	6,551	-	-
Deferred income	25	35	22	-	-
Derivative financial instruments	28	1,564	723	-	-
Tax payable		406	-	27	66
<b>Total current liabilities</b>		<b>49,206</b>	<b>36,553</b>	<b>47,770</b>	<b>40,372</b>
<b>Total liabilities</b>		<b>137,041</b>	<b>104,829</b>	<b>49,738</b>	<b>42,221</b>
<b>Total equity and liabilities</b>		<b>\$222,145</b>	<b>\$177,397</b>	<b>\$78,355</b>	<b>\$65,722</b>

Deferred Tax  
using NZ  
IFRS

This statement is to be read in conjunction with the Auditors' Report on page 23 and the Notes on pages 28 to 89.

An extract from Cavalair Corporation Limited 2008 notes to the financial statements is as follows:

37. EXPLANATION OF TRANSITION TO NEW ZEALAND EQUIVALENTS TO IFRS (NZ IFRS) (continued)

2. Reconciliation of equity under previous NZ GAAP to equity under NZ IFRS (continued)

[d] At the end of the last reporting period under previous NZ GAAP: 30 June 2007 (the Group)

	Note	PREVIOUS NZ GAAP \$000	EFFECT OF TRANSITION TO NZ IFRS \$000	RECLASSI- FICATION \$000	NZ IFRS \$000
<b>Assets</b>					
Property, plant and equipment	b, h	79,488	9,886		
Intangible assets	a, j	3,341	929		
Investments in equity-accounted investee		174	-		174
Deferred tax asset	e	2,391	(676)	1,612	3,327
<b>Total non-current assets</b>		<b>85,394</b>	<b>10,139</b>	<b>1,612</b>	<b>97,145</b>
Cash at bank		815	(11)		804
Trade and other receivables		33,704	(177)		33,527
Inventories		44,731	-		44,731
Derivative financial instruments	c	-	1,074		1,074
Tax receivable		1,728	-	(1,612)	116
<b>Total current assets</b>		<b>80,978</b>	<b>886</b>	<b>(1,612)</b>	<b>80,252</b>
<b>Total assets</b>		<b>\$166,372</b>	<b>\$11,025</b>	<b>-</b>	<b>\$177,397</b>
<b>Equity</b>					
Share capital		12,840	-		12,840
Cash flow hedging reserve	c	-	(2)		(2)
Foreign currency translation reserve		(374)	(385)		(759)
Share rights reserve	d	513	46		559
Retained earnings		52,021	7,909		59,930
<b>Total equity attributable to equity holders of the Company</b>		<b>65,000</b>	<b>7,568</b>	<b>-</b>	<b>72,568</b>
Minority interest	i	1,823	(1,823)		-
<b>Total equity</b>		<b>66,823</b>	<b>5,745</b>	<b>-</b>	<b>72,568</b>
<b>Liabilities</b>					
Loans and borrowings		65,161	-		65,161
Employee benefits	f	-	2,358	446	2,804
Deferred income	l	-	186		186
Provisions	g	-	125		125
<b>Total non-current liabilities</b>		<b>65,161</b>	<b>2,669</b>	<b>446</b>	<b>68,276</b>
Bank overdraft		342	-		342
Loans and borrowings		2,932	-		2,932
Trade creditors and accruals		26,264	165	(446)	25,983
Other payables	j	4,850	1,701		6,551
Deferred income	i	-	22		22
Derivative financial instruments		-	723		723
<b>Total current liabilities</b>		<b>34,388</b>	<b>2,611</b>	<b>(446)</b>	<b>36,553</b>
<b>Total liabilities</b>		<b>99,549</b>	<b>5,280</b>	<b>-</b>	<b>104,829</b>
<b>Total equity and liabilities</b>		<b>\$166,372</b>	<b>\$11,025</b>	<b>-</b>	<b>\$177,397</b>

Reclassification

Deferred Tax using NZ FRS

Deferred Tax using NZ IFRS

## Appendix H: Example of other variances

An extract from ING Property Trust 2007 financial statements is as follows:

# Statement of Financial Position

As at 31 March 2007

	Note	Group 2007 \$000s	Trust 2007 \$000s	Group 2006 \$000s	Trust 2006 \$000s
<b>Equity</b>					
Units on issue	2	553,732	553,732	534,933	534,933
Revaluation reserve	3	144,446	–	65,843	–
Retained earnings	4	7,118	(27,484)	14,055	(22,518)
<b>Total Unitholders' Funds</b>		<b>705,296</b>	<b>526,248</b>	<b>614,831</b>	<b>512,415</b>
<i>Represented by:</i>					
<b>Assets</b>					
<b>Current assets</b>					
Cash & deposits		1,006	15	1,055	93
Accounts receivable	9	5,310	211	14,237	149
Taxation refund		1,190	13,050	4,089	8,126
Other current assets	10	14,221	130	490	137
<b>Total current assets</b>		<b>21,727</b>	<b>13,406</b>	<b>19,871</b>	<b>8,505</b>
<b>Non-current assets</b>					
Advances to subsidiaries	5	–	859,316	–	796,205
Investment properties	6	853,958	–	769,378	–
Properties intended for sale	7	125,462	–	54,829	–
Investment property under development	8	–	–	38,218	–
Investments	11	41,409	–	18,712	–
Other non-current assets	12	13,547	102	14,436	146
<b>Total non-current assets</b>		<b>1,034,376</b>	<b>859,418</b>	<b>895,573</b>	<b>796,351</b>
<b>Total assets</b>		<b>1,056,103</b>	<b>872,824</b>	<b>915,444</b>	<b>804,856</b>
<b>Liabilities</b>					
<b>Current liabilities</b>					
Accounts payable & accruals	13	8,925	5,453	10,099	2,708
Other current liabilities		759	–	2,196	1,415
<b>Total current liabilities</b>		<b>9,684</b>	<b>5,453</b>	<b>12,295</b>	<b>4,123</b>
<b>Non-current liabilities</b>					
Term loan	14	341,123	341,123	288,318	288,318
<b>Total non-current liabilities</b>		<b>341,123</b>	<b>341,123</b>	<b>288,318</b>	<b>288,318</b>
<b>Total liabilities</b>		<b>350,807</b>	<b>346,576</b>	<b>300,613</b>	<b>292,441</b>
<b>Net Assets</b>		<b>705,296</b>	<b>526,248</b>	<b>614,831</b>	<b>512,415</b>

For and on behalf of the Manager, ING Property Trust Management Limited



Michael Smith  
Chairman



Trevor Scott  
Director

Date: 20 June 2007

The notes on pages 36–52 form part of and are to be read in conjunction with these financial statements.

An example from ING Property Trust 2008 financial statements is as follows:

## Balance Sheets

As at 31 March 2008

	Note	Group 2008 \$000:	Trust 2008 \$000:	Group 2007 \$000:	Trust 2007 \$000:
<b>Non-current assets</b>					
Investment properties	6	1,111,487	–	1,023,270	–
Property, plant and equipment	7	55,830	–	19,084	–
Investments	8	18,665	–	19,635	–
Derivative financial instruments	9	6,483	6,094	7,692	7,692
Other non-current assets	10	11,789	935,156	11,308	859,418
<b>Total non-current assets</b>		<b>1,204,254</b>	<b>941,250</b>	<b>1,080,989</b>	<b>867,110</b>
<b>Current assets</b>					
Cash and cash equivalents		707	26	1,059	15
Trade and other receivables	11	4,316	123	18,880	197
Other current assets	12	3,544	174	729	126
Derivative financial instruments	9	1,294	1,294	621	621
Taxation receivable		–	3,614	1,190	13,050
<b>Total current assets</b>		<b>9,861</b>	<b>5,231</b>	<b>22,479</b>	<b>14,009</b>
<b>Total assets</b>		<b>1,214,115</b>	<b>946,481</b>	<b>1,103,468</b>	<b>881,119</b>
<b>Unitholders' funds</b>					
Units on issue	13	522,876	522,876	553,732	553,732
Hedging reserve	14	4,974	4,974	5,355	5,355
Retained earnings	15	172,678	(29,441)	147,854	(27,305)
<b>Total unitholders' funds</b>		<b>700,528</b>	<b>498,409</b>	<b>706,941</b>	<b>531,782</b>
<b>Non-current liabilities</b>					
Borrowings	16	457,413	440,848	353,053	341,000
Derivative financial instruments	9	509	509	479	–
Deferred tax	17	44,265	2,440	33,257	2,621
<b>Total non-current liabilities</b>		<b>502,187</b>	<b>443,797</b>	<b>386,789</b>	<b>344,223</b>
<b>Current liabilities</b>					
Trade and other payables	18	9,313	4,119	8,979	5,452
Derivative financial instruments	9	224	156	–	–
Taxation payable		1,091	–	–	–
Other current liabilities		772	–	759	–
<b>Total current liabilities</b>		<b>11,400</b>	<b>4,275</b>	<b>9,738</b>	<b>5,452</b>
<b>Total liabilities</b>		<b>513,587</b>	<b>448,072</b>	<b>396,527</b>	<b>349,675</b>
<b>Total unitholders' funds and liabilities</b>		<b>1,214,115</b>	<b>946,481</b>	<b>1,103,468</b>	<b>881,119</b>

Deferred  
Tax using  
NZ IFRS

For and on behalf of the Manager, ING Property Trust Management Limited



Michael Smith  
Chairman



Trevor Scott  
Director

24 June 2008

The notes on pages 45–80 form part of, and are to be read in conjunction with, these financial statements.

An example from ING Property Trust notes to the financial statements is as follows:

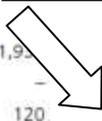
Reconciliation between previous NZ GAAP and NZ IFRS  
 Reconciliation of Group balance sheet  
 As at 31 March 2007

	Note	Previous NZ GAAP \$000s	Effect of transition to NZ IFRS \$000s	Acquisition of joint venture \$000s	NZ IFRS \$000s
<b>Non-current assets</b>					
Investment properties	a	853,958	154,907	14,405	1,023,270
Property, plant and equipment	b	–	–	19,084	19,084
Investments	c	41,409	–	(21,774)	19,635
Properties intended for sale	e	125,462	(125,462)	–	–
Derivative financial instruments	f	–	7,692	–	7,692
Other non-current assets	d	13,547	(2,239)	–	11,308
<b>Total non-current assets</b>		<b>1,034,376</b>	<b>34,898</b>	<b>11,715</b>	<b>1,080,989</b>
<b>Current assets</b>					
Cash and cash equivalents		1,006	–	53	1,059
Trade and other receivables		18,586	–	294	18,880
Other current assets	d	889	(163)	3	729
Derivative financial instruments	f	–	621	–	621
Taxation receivable		1,190	–	–	1,190
<b>Total current assets</b>		<b>21,671</b>	<b>458</b>	<b>350</b>	<b>22,479</b>
<b>Total assets</b>		<b>1,056,047</b>	<b>35,356</b>	<b>12,065</b>	<b>1,103,468</b>
<b>Unitholders' funds</b>					
Units on issue		553,732	–	–	553,732
Revaluation reserve	h	144,446	(144,446)	–	–
Hedging reserve	i	–	5,355	–	5,355
Retained earnings	j	7,118	140,775	–	147,893
<b>Total unitholders' funds</b>		<b>705,296</b>	<b>1,684</b>	<b>–</b>	<b>706,980</b>
<b>Non-current liabilities</b>					
Borrowings		341,123	–	11,905	353,028
Derivative financial instruments	f	–	479	–	479
Deferred tax	g	(55)	33,192	120	33,257
<b>Total non-current liabilities</b>		<b>341,068</b>	<b>33,671</b>	<b>12,025</b>	<b>386,764</b>
<b>Current liabilities</b>					
Trade and other payables		8,925	–	54	8,979
Taxation payable		–	–	–	–
Other current liabilities		759	–	–	759
<b>Total current liabilities</b>		<b>9,684</b>	<b>–</b>	<b>54</b>	<b>9,738</b>
<b>Total liabilities</b>		<b>350,752</b>	<b>33,671</b>	<b>12,104</b>	<b>396,527</b>
<b>Total unitholders' funds and liabilities</b>		<b>1,056,047</b>	<b>35,356</b>	<b>12,065</b>	<b>1,103,468</b>

Deferred  
Tax using  
NZ FRS



Deferred Tax  
using NZ  
IFRS



An example from ING Property Trust notes to the financial statements is as follows:

#### 17. Deferred tax

The following are the major deferred tax liabilities and assets recognised by the Group, and the movements thereon during the current and prior year:

	Group 2008 \$000s	Trust 2008 \$000s	Group 2007 \$000s	Trust 2007 \$000s
Balance at the beginning of the year	33,257	2,621	3,219	330
Acquisition of joint venture	–	–	440	–
Deferred tax on depreciation	6,302	–	15,567	–
Unrealised gains on revaluation of buildings	7,986	–	11,779	–
Unrealised gains on SWAP revaluations	(187)	(187)	2,307	2,307
Impact of change in tax rate to 30%	(3,023)	–	–	–
Other	(69)	6	(55)	(16)
<b>Balance at the end of the year</b>	<b>44,265</b>	<b>2,440</b>	<b>33,257</b>	<b>2,621</b>

The accumulated deferred tax related to the unrealised gain on building revaluations is \$16,417,293 (2007: \$11,838,192).