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INFORMATION RELEVANCE OF DEFERRED TAX

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ABSTRACT

The International Accounting Standards Board (IASB) has undertaken research on accounting for income taxes. The IASB research suggests that a fundamental change from International Accounting Standard 12: *Income Taxes* (IAS 12), the balance sheet method, to another method may be considered. Other methods for accounting for deferred tax include the taxes payable method, the comprehensive basis under the income statement method, and the partial basis under the income statement method. This thesis provides evidence on this issue by using non-United States data to examine these deferred tax methods.

This thesis examines the research question “are deferred tax methods, relative to the taxes payable method, information relevant?” Information that is ‘information relevant’ has two components: predictability and value relevance (Ohlson, 1995). The predictability of deferred tax methods is measured by its ability to predict future tax payments relative to the taxes payable method. The value relevance of deferred tax methods is measured by its association with share price relative to the taxes payable method.

Literature examining deferred taxes predominately uses United States US data and US Generally Accepted Accounting Principles (US GAAP), and only partially examines deferred tax methods. This thesis contributes to the literature by examining all three deferred tax line items: deferred tax liabilities, deferred tax assets and deferred tax expense. The data is collected from the financial information for firms listed on the NZ Stock Exchange. Two samples of firms are examined: from 2000 to 2004 (pre IFRS) and 2008 to 2012 (post IFRS).

The results show that the comprehensive basis under the income statement method is a better predictor of future tax payments and is value relevant relative to the taxes payable method. This indicates that it is information relevant. The partial basis under the income statement method is a better predictor of future tax payments relative to the taxes payable method however it is only value relevant for firms in the highest three deciles of mean increases in tax paid over the period. The balance sheet method is not a better predictor of future tax payments relative to the taxes payable method. The balance sheet method is, however, value relevant. The balance sheet method using disaggregated deferred tax is also value relevant relative to the balance sheet method.

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LIST OF ABBREVIATIONS

APB:	Accounting Principles Board
BLDGS:	Buildings
BSM:	Balance Sheet Method
BV:	Book Value of Equity Excluding Deferred Tax Assets and Liabilities
DDT:	Disaggregated Deferred Tax
DT:	Deferred Tax
DT_CFH:	Deferred Tax on Cash Flow Hedges
DT_DFI:	Deferred Tax on Derivative Financial Instruments
DT_EB:	Deferred Tax on Employee Benefits
DT_IA:	Deferred Tax on Intangible Assets
DT_IN:	Deferred Tax on Inventories
DT_INV:	Deferred Tax on Investment Properties
DT_OT:	Deferred Tax on Other Items
DT_PPE:	Deferred Tax on Property, Plant and Equipment
DT_TL:	Deferred Tax on Tax Losses Carried Forward
DTA:	Deferred Tax Assets
DTE:	Deferred Tax Expense
DTL:	Deferred Tax Liabilities
IAS:	International Accounting Standard
GAAP:	Generally Accepted Accounting Practices
IASB:	International Accounting Standards Board
IFRS:	International Financial Reporting Standards
ISM_CB:	Comprehensive Basis under the Income Statement Method
ISM_PB:	Partial Basis under the Income Statement Method
MVE:	Market Value of Equity
NetDTL:	Net Deferred Tax Liabilities
NI:	Net Income after Income Tax plus Deferred Tax Expense
SFAS:	Statement of Financial Accounting Standard
SSAP:	Statement of Standard Accounting Practices
TP:	Tax Paid
TPM:	Taxes Payable Method
US:	United States