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The Deferred Tax and the Usefulness of Financial Information

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Abstract
The purpose of this Article is to determine whether the method of accounting for profit tax in Section 29 of IFRS for SMEs is appropriate. This objective was raised in the context of the international debate on this subject, since it is considered that it is costly for such companies to implement them. The theories analyzed deal with the usefulness of financial information and deferred tax. The method used was quantitative. Some statistical tools were used that helped to determine the distribution of the data and to obtain the equality of means. These tools were that of Shapiro Wilk and the W of Wilcoxon. The results found denote that in the small companies of Ecuador the change of regulations of the NEC Equatorian Accounting Standards to IFRS International Financial Reporting Standards are beneficial, therefore, it would be entering within the logic of the tax effect method as a profit tax registration model.

Keywords: *Deferred tax, financial information utility, IFRS, small businesses.*

Introduction

Latin America has had for more than 30 years a common denominator, the presentation of financial statements, and it is that in these jurisdictions most companies prepared their accounting information using fiscal rules of each country, and not necessarily financial principles.

These regulatory discrepancies have led companies to tax accounting, creating a hybrid that is neither financial information nor tax information, in addition to the objective of the financial statements.

With the application of the International Financial Reporting Standards IFRS in Latin America, greater emphasis is given to financial principles, and consequently, accounting would be distributed.

However, in the professional visits made to several of the companies in Ecuador in order to advise in their processes of implementation of IFRS it has been possible to verify that there is no application of the same, due to the uncertainty on the tax treatment of new

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types of income and expenses, among others, which should be accounted for by the implementation of IFRS.

Therefore, if the preparation and presentation of this financial information applies financial principles, it is imperative that the fiscal rules of a country evolve to consider all new cases and provide tax certainty to the companies and investors, always safeguarding fundamental principles such as: contributory capacity and neutrality.

The confidence of the companies would be such and would guide them to apply without suspicion all the IFRSs, because it would always be on the radar their economic reality for a better decision making, and in parallel, they will achieve to comply with the tax regulations of the country.

This regulatory package includes IFRS for SMEs with their different sections. One of these sections refers to the methods of accounting for income tax.

The problem occurs in SMEs due to the cost of implementing the legislation, since there are several methods of accounting for the income tax, which is assumed to be the model that the IFRS Section 29 brings to the SME effect. tax, it would be too costly to apply in small businesses.

Next, the state of the art, the theories and the conceptualizations of the IFRSs and the usefulness of the financial information will be analyzed more specifically in order to frame the theoretical context within this research.

Review of the literature

A tour of the main aspects of IFRS

The purpose of the financial statements for general information purposes is to provide the entity with information about the financial situation, performance, cash flow and its administration, that is, the purpose is to meet the needs of the financial institutions. information primarily from investors, lenders and other existing and potential creditors to make decisions. In other words, the financial statements that are prepared under IFRS are intended for capital providers, primarily for financing decisions.

This objective entails and seeks to make the information transparent and timely, showing a true picture of economic transactions, as it is aimed at those who have put their economic resources into the company, or for a capital provider. potential. In short, a company that does not fully apply IFRS will not be able to reflect its true economic situation and performance, and will be at a competitive disadvantage in obtaining capital by failing to provide transparent and high financial information. quality.

Among the basic principles set out in IFRS for the preparation of financial statements, they stand out: the accrual and the going concern.

These principles provide for the effects of transactions and other facts, i.e. on the one hand, the accounting records of the economic fact when they occur and not necessarily when money is received or paid and, on the other hand, they show how financial statements are prepared on the basis that the company is in operation, and will continue its operating activities within the foreseeable future.

The financial statements prepared on the basis of accrual inform users not only of past transactions that have meant charges or payments of money, but also of the payment obligations and the resources that represent cash to charging in the future.

In the past, such states provide the type of information about transactions and other past events that are most useful to users when making economic decisions.

Main differences between IFRS and tax rules

In the review that has been carried out, it is noted that the financial regulation and the tax rules pursue different objectives. The IFRSs seek to reflect the economic reality of a company and, through the tax, it seeks to establish rules to safeguard the objectives of tax collection.

Because IFRS are rules that apply in companies with different economic realities, those rules cannot claim to reflect a true image of all companies through fixed rules. Therefore, IFRS provides for the application of principles that require the use of professional judgment and the best information available to reflect in the financial statements the economic reality of a company.

With the above, it is not intended to denote that a principle is superior to a rule or vice versa, but rather that the application of principles allows the proper achievement of the own objective of the IFRS; and that the application of rules, in the case of Tax regulations, it also allows you to achieve your objective.

Benefit cost considerations

The issue of cost-benefit in the implementation of the profit tax is generating strong debate at international level, in view of the fact that there is not enough empirical evidence to justify whether the benefit of implementing this new It has exceeded the associated costs, that is why it is of vital importance to study this relationship in order to provide with evidence to help decision making.

In the European Union the definition of SMEs for the presentation of financial information is based on quantitative criteria such as size, total assets, income, and number of employees. This definition is based on arguments of the benefit of the disclosure " (Eierle and Haller, 2009, taken from Albu, Catalin, 2013, p.425).

Small businesses should be willing to invest resources in their process of adopting and implementing international financial reporting standards, the question is how much are these companies willing to invest in this process? The costs associated with the total investment of this matter, should necessarily include " the training of their employees, adaptation of software, times of the employees destined to the process and technical advice for the development of the project, to quote some of them. "(Rodríguez, 2011 pp. 16-17).

Schipper (2010) and Efrag (2011 taken from Litjens, Bissessur, Langendijk and Vergoossen, 2012) argue that the costs associated with new regulations are the costs of development and application of the rules, cost of maintaining the same, and, the cost of the analysis of the information. They also point out that the benefits associated with normativity are the credibility of financial information, the functioning of the capital market, access to capital, the cost of capital, and the decision-making of management.

There is scientific evidence that indicates "the difficulties that the change of regulation means" (Callao, S.; Jarne, J. & Lainez, J. 2007 p.149), as well as " the magnitude of the differences that exist between countries and the high cost that the change of the standard " (Jermakowicz & Gornik-Tomaszewski, 2006).

According to FASB 109 the information provided in the financial reports, implies a cost of preparation, and generally, the benefits must at least equal the cost involved.

The cost includes, not only resources directly intended to provide the information, but may include other types of costs.

Johnson and Leone (2008 taken from Castillo and Zambrano, 2015) show that in Ecuador a developing country, it would be convenient to make a change of regulations when the costs of changing are low, especially for the SME.

But the question would be: what does it mean under?

The Securities and Exchange Commission, which regulates public companies ' relations with financial markets in the United States, estimates that companies will allocate 0.125 percent to 0.13 percent of their annual income in the transition to standards. international.

Since the adoption of a new regulation, Giner (1997), Depoers (2000), Précipe (2004) argue that the interaction between cost and benefit must always be taken into account in order to understand companies about their policies. disclosure.

Given the size of SMEs their budget is generally limited, so the cost-benefit analysis has practical limitations "costs cannot be transferred directly to the beneficiaries of financial information" FASB (1991).

Chludek in his research paper entitled Perceived versus Current Cash Flow Implications of Deferred Taxes-An Analysis of Value Relevance and Reversal under IFRS holds that the cost of recording deferred taxes is very onerous for the companies in general, while preparers and users have confirmed that such deferred tax information is often not considered a relevant decision-making input.

This empirical analysis highlights "the lack of relevance of deferred tax information by disclosing that investors, the main recipients of financial statements, do not consider deferred taxes to provide information." relevant to future cash flows. "(Chludek, 2011d, p.33)

Now, according to Hail (2010) the general premise of a new regulation, is that the benefits must exceed the associated costs.

The usefulness of financial information

The usefulness of financial information has been studied throughout the same evolution of accounting and finance. In the conceptual framework and in the IFRS, this term is incorporated as a central point to be considered in the decision making in terms of the application.

The new profit-tax registration model is no stranger to the fulfilment of this utilitarian paradigm, since users of the financial information would expect the approach presented in Section 29 of IFRS for SMEs, provide useful information for decision making.

This model shows that some scholars are interested in their understanding; among these are Reid and Smith (2007), which highlight that the benefits can be perceived in small companies from countries with early adoption. This is also reaffirmed by the firm Deloitte and Touche (2010) whose criterion is that the new regulations will bring several benefits, translated these, in saving costs for the preparation of financial information.

It is important to note that the usefulness of financial information has been addressed from different approaches to: a) as a predictor of future results, b) in the presentation of information by the internet, c) as mandatory information for (d) the usefulness of financial information in the presentation of intangible assets; and) the usefulness of financial information in the preparation of documents by SMEs.

Studies on the prediction capacity of financial information appear from the models of Ohlson and Feltham and Ohlson. (Maya, 2002) . In this sense, Lee (1999) makes a reflection as to what " future empirical research needs to look beyond past and net worth results and, try to find that other financial and non-financial information could be useful to predict future abnormal results [...] " (p. 415).

Within this useful information is the accounting information contained in the financial statements, and according to Ou (1990, cited by Maya, 2002), " can help to identify the transient component of the result of the period that does not persist in the long term and, to reflect management decisions that have implications for future results " (p.195).

These studies of financial information as predictors have been mostly developed in the Anglo-Saxon zone; among which are mentioned: Ou and Penman (1989), Bernard and

Noel (1991), Holthausen and Larcker (1992), Stober (1992), Lev and Thiagarajan (1993), Sougiannis (1994), Lee (1996), Sloan (1996), Abbarbanell and Bushee (1997), Joos and Joos (1998), which conclude that the accounting information is a useful tool for evaluating the future results of the companies.

Another aspect analyzed within the useful information is the predictive capacity of the market prices, focused on the accounting conservatism, derived from the principle of prudence.

Maya (2002) on this subject manifests:

The results of this line of research suggest that the results prediction models would be better specified if accounting information and market price information were combined in the same predictive model. In this way, the inadequacy of the accounting system could be alleviated in capturing all relevant information for the assessment of the company's future results over a given period (p. (198).

In this sense, this author generates a model that combines the accounting information and the market prices, to analyze through the results, its usefulness, concluding that,

The results show that both the net and the market prices provide additional information to that provided by the exercise result for the prediction of future results. In addition, "prices have anticipated the results from even three years ago, which reaffirms the findings found in the studies applied to the Anglo-Saxon field" (p. (198).

Development of the empirical study

Revised the theoretical framework that bases and configures the application of a new regulation by small companies, in this section, we analyzed the benefit that the financial information has had with the accounting of the deferred tax.

Being the first time that Ecuador has applied Section 29 Earnings Tax, the transactions studied do not yet have a high level of standardization, since many of the SMEs did not meet the date set by the Superintendence. of Companies, regarding the dates of the presentation of the information under international norms.

In reality, what happened, is translated into the fact that the new regulations were not aware, which caused only the SMEs that were prepared to present this information and comply with the control entity.

However, the approach of the work, part of considering that companies should carry out the same adoption procedure, and, consequently, the costs and benefits of the implementation should be similar in each one.

Based on this premise, and despite the heterogeneity seen from the point of view mentioned above, it is possible to identify a number of variables present in this adoption, and which will allow the empirical contrast of the starting hypothesis, by means of the application of various statistical procedures.

Population and sample

Regarding the population, this study focused on those companies considered small in Ecuador, which applied section 29 from 2012, and which, consequently, their transition period was 2011.

In this group of companies, limited liability companies and companies are found. These companies cover the greatest number of business activities in Ecuador; and, in short, the financial statements of these types of companies, will obtain the variables that need to be contrasted in this part of the work.

Based on these population budgets, the information presented by the Superintendence of Companies, which is made available to the interested parties, the consolidated financial statements of the different companies, was taken as a fundamental basis. economic activities, classified in small and medium-sized enterprises in the transitional period. This database has been configured as reliable in the first phase of the collection process, consisting of the identification of the companies that met the requirement demanded by the said entity.

Once the companies were located in space and time, the information was recorded in order to begin to carefully review the data provided by the SMEs, after having structured a baseline in Excel.

The process of data collection has in some way covered a specific difficulty, and it is that this information in the year 2011 when presented under local regulations and international regulations, certain companies that met the first requirement, not the second, which provoked, that the starting population for this research work, conformed the 336 companies that met the requirements of the control entity.

In itself, the methodology applied, demanded that a thorough analysis of the information be carried out, and that the recalculation of the information should not be used, since the companies themselves prepared and presented the accounting accounts with the two regulations. The information of the activities, and the number of companies with which it was worked in the development of the empirical study are shown in the following table:

Table 1 Initial population

CODE	ACTIVITY	Small
A	Agriculture and fisheries	21
B	Mines and quarries	7
C	Industries	22
D	Electricity, gas ...	5
E	Water and sanitation	1
F	Construction	21
G	Trade	79
H	Transport and storage	10
I	Accommodation and meals	3
J	Information and communication	14
K	Financial and insurance	39
L	Real estate activities	20
M	Professional activities	73
N	Administrative services	11
P	Education	5
Q	Health and social assistance	4
R	Arts and recreation	0
S	Other services	1
		336

Sample

Badi, Castillo and Landeros (2007), argue that in order to determine which SMEs are going to be analyzed, first, the optimal sample size should be obtained. The question of how big a sample should be, immediately arises at the beginning of the approach of any survey or experiment.

This is an important question and should not be dealt with lightly. Taking a larger sample than necessary to obtain the desired results is a waste of resources, while, on the other hand, the samples too small, often give results that lack practical use, and can be missed in the attainment of the objectives of the analysis.

In the information provided by the Superintendence of Companies, the consolidated data of the 336 companies to be analyzed, classified by economic activity and by size of the company, therefore, are recorded for the treatment of the same, it was decided to eliminate from the population the activities Arts and Recreation and Other Services, since these, in their financial statements do not record the accounting of the deferred tax.

In short, the sample of companies classified by size and economic activity is shown in the following table:

Table 2 Sample

CODE	ACTIVITY	Small
A	Agriculture and fisheries	21
B	Mines and quarries	7
C	Industries	22
D	Electricity, gas ...	5
E	Water and sanitation	1
F	Construction	21
G	Trade	79
H	Transport and storage	10
I	Accommodation and meals	3
J	Information and communication	14
K	Financial and insurance	39
L	Real estate activities	20
M	Professional activities	73
N	Administrative services	11
P	Education	5
Q	Health and social assistance	4
		335

Definition and establishment of hypotheses

The starting hypothesis to be tested in this empirical study is:

- H_1 The application of Section 29 Earnings Tax increases the utility of financial information.

The IASB's conceptual framework is not an international accounting standard, so it does not contain specific requirements regarding the valuation of the elements of the financial statements, or on their presentation in these. Its purpose is the financial statements of general purpose, so any financial statement with special purpose is outside this scope.

In its framework for the elaboration and publication of financial information, the IASB sets out the objectives of the financial statements, the assumptions on which its accounting model is based, the basic qualitative characteristics that determine the usefulness of the information contained in the financial statements, the definition and the criteria for the recognition and assessment of the components of the annual accounts and, finally, the concepts of capital and capital maintenance; which are a fundamental pillar of the conceptual framework (Foundation for Financial Studies, 2003) .

In addition, this framework considers that, to be useful, accounting information should be understandable, relevant, reliable and comparable (García, Fonseca, 2017). The IASB assumes materiality as a determining attribute of relevance and veracity; the predominance of the substance on form, neutrality and integrity, as attributes related to reliability.

With this background, the usefulness of financial information will be defined according to the following key aspect: the greater compliance with the accrual principle.

Analysis of the methodological application

The variables to be compared are:

- Accrued tax (ID): income tax expense accounted for that according to the method of tax effect take into account the differences between the accounting and the tax result. This data will be obtained from the state of results prepared with international regulations.

- Tax paid (IP): amount paid by the company in terms of income tax in each financial year, but, in the case of non-payment, it may indicate with negative sign the amount to be recovered in the future by negative tax bases. This data will be obtained from the state of results prepared with local regulations (focused on the tax laws).

Comparisons of these two variables provided the best valuation of the differences accounted for as anticipated and deferred taxes when applying the tax effect method.

The approach of hypothesis contrasts

To take the approach of this hypothesis, a statistical analysis of the significance of the differences presented between the tax paid and the tax due in the transition period was carried out using the parametric T test of Student or Wilcoxon's W test These statistics allow for contrasting hypotheses of equality of means between two variables or populations.

In the beginning, for the T Student's to work, it is necessary for the difference population to follow a normal distribution. In case that distribution of the data is abnormal, the appropriate statistic will be the Wilcoxon W.

The level of confidence with which all the statistical tests were carried out was 95%, which means that a level of significance of 5% is used.

Then, in the statistical study, the null hypothesis to contrast was:

$H_{\text{or (1):}}$ There are no significant differences between the taxes paid and the taxes accrued on small businesses in the transition period.

If the null hypothesis is accepted, it will mean that no greater compliance with the accrual principle is being given, which would be in the logic of the current tax pragmatics, and in this way the use of the method of the tax would be justified. (a) the payment of the tax in this type of company.

Process and results obtained

To complete the analysis of the improvement of the financial information, it was analyzed whether with the implementation of the income tax there has been an improvement in this information, through the study of the greater compliance with the principle of the accrual.

And we began analyzing the descriptive statistics that gave a vision regarding the behavior of the mean and the standard deviation of the study subject.

Table 3 Descriptive statistics

	N	Average	Standard desviation
IDPEQUE	16	107830,420	109376.5266
IPPEQUE	16	81468,426	92832.8032
DIFIMPPEQUE	16	26361,9938	45588,17984
N valid (per list)	16		

Once the descriptive of the two variables of the small business is seen, the next step is to analyze whether the data is from a normal distribution, for this the Shapiro Wilk test was applied, in view of the fact that the observed data are less than 30.

Table 4 Tests of normality

	Kolmogorov-Smirnov [a]			Shapiro-Wilk		
	Statistical	gl	Sig.	Statistical	gl	Sig.
IDPEQUE	, 262	16	, 004	, 857	16	, 017
IPPEQUE	, 303	16	, 000	, 808	16	, 003
DIFIMPPEQUE	, 290	16	, 001	, 800	16	, 003

a. Lilliefors significance correction

Applied the proof of normality to the tax paid as to the tax due and its differences, it can be observed that for these variables and their differences, the P-Valor is less than the level of asymptotic significance, therefore, the assumption that the data comes from a normal distribution.

Wilcoxon's W-test to global results

In this part of the work the W test was carried out to the differences between the tax paid and the tax due, taking into account that they are the ones that transcend in the accounting as credits and tax debits.

Table 5 Test Statistics

	IPPEQUE-IDPEQUE
Z	2,385 [b]
Asymptotic Sig (bilateral)	, 017

a. Wilcoxon test of the signed ranges

b. It is based on positive ranges.

The non-parametric Wilcoxon test applied to the differences between IPPEQUE and IDPEQUE, to its true amounts, provides the results presented in Table 5.

Now, since the value of the bilateral critical level or bilateral asymptotic significance level is less than 0.05, the null hypothesis of equality of means is rejected and in this way the means of the IPPEQUE-IDPEQUE variables are confirmed. differ significantly.

Conclusions

The debate generated on how to register the income tax on small businesses took its enhancement in Ecuador with the resolution issued by the Superintendence of Companies. That resolution states that those entities should apply IFRS and, within the package, Section 29 was included.

This section which forms part of the IFRS for SMEs included the tax effect method as the most appropriate for the income tax record. However, the criticism was immediately seen by those who analyze and prepare that information indicating that it is very onerous for small businesses.

As a final conclusion of this article it can be stated that, in Ecuador the application of section 29 of the IFRS for SMEs under the method of tax effect is beneficial for small businesses, since variations between the tax paid and tax due are statistically significant.

In other words, greater compliance is being made at the beginning of the accrual, which leads to more information being given in the accounting documents prepared by this type of company.

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