EXAMINING THE TAX IMPLICATIONS FOR THE ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) IN GHANA

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Abstract

This paper examines the tax implications of listed companies in Ghana for the adoption of International Financial Reporting Standards (IFRS), particularly International Accounting Standard (IAS) 12. Financial statements from annual reports for twenty two (22) firms were used for the analysis. A theory of accounting choice was used as the theoretical framework with all other relevant related literature reviewed. A sequential explanatory strategy for mixed methods research approach was used with data sourced from three different sources; that is observation and extraction from financial statements, questionnaire and an interview guide. The results triangulate to indicate that there are tax implications following the adoption of IFRS particularly IAS 12 by listed firms in Ghana. Current year tax expenses of entities on average reduce marginally by 0.7% when restated in IFRS from GNAS. In terms of reported tax amounts by industries, manufacturing / trading entities showed increases in current year tax expenses by 13% while financial/insurance/information technology companies saw decreases in their current year tax expenses by 13.3%. It also reveals that there are no differences between GNAS and IFRS reported amounts of corporate taxes. The study provides empirical evidence to create the awareness of tax implications for the adoption of IFRSs in Ghana.

Key Words: International Accounting Standards, International Reporting Standards, Financial Reporting, Positive Accounting Theory, Generally Accepted Accounting Principles, Ghana National Accounting Standards Board.

Background to the Study

Globalisation of capital markets and the internationalization of businesses require a unified universal and international accounting, reporting and disclosure set of standards. Internationalization of businesses leads to increasing volume of cross border capital flows and the growing number of foreign direct investments via mergers and acquisitions. As a result, the need for the harmonization of different practices in accounting and the acceptance of worldwide standards has arisen. Financial reporting is the preparation of published reports for users of financial statements. The issues relating to financial reporting could be traced back to 1975 with the advent of what was then known as corporate report, in England. In Ghana, following the increasing demand for financial information on companies, financial reporting has now assumed an appreciable position because it provides information that is useful to current and potential investors, shareholders, creditors and other users in making rational investment, credit, and other financial decisions. It also enables users of financial statements to assess the amount, timing, and uncertainty of prospective cash receipts about economic resources, the claims to those resources and the changes in them. Olakunori (2009) argues that, to achieve the basic objectives of financial reporting, there is the need for an acceptable coherent framework. Financial reporting framework therefore, refers to fundamental accounting assumptions, principles and methods used to prepare, present, and report financial statements for a wide variety of entities, including publicly traded and privately – held entities, non-profit organizations, and governments (Olakunori, 2009). The framework for financial reporting include localized accounting laws, regulations, rules and standards, that are determined by regulatory authorities such as the Ghana National Accounting Standard Board (GNASB), which operates under a set of assumptions, principles, and constraints. According to Yusuf (2006), accounting framework, which is commonly described as Generally Accepted Accounting Principles (GAAP), should not be seen as a constitution but mere guidelines to those who prepare financial statements.

Accroding to Jubb, (2005) and Jubb (2006), adoption of the International Financial Reporting Standards (IFRS) in Australia has had a profound impact on the recognition, measurement and disclosure of assets, liabilities, equity and profitability. The decision for Australia to adopt IFRS (which came into effect from 1 January 2005 for all reporting entities) has changed the reporting framework. The conversion to IFRS has a fundamental impact on a number of important areas of financial reporting and taxation. Potentially, Jubb (2006) argues that Australia's adoption of IFRS may adversely impact on an entity's thin capitalisation calculations. This is important as these firms may be denied income tax deductions relating to interest payments and associated borrowing fees on loans. This study has important implications for accounting standard setting and income tax (Taylor and Tower 2008). According to Taylor, Tower, and Neilson (2010), implementation of the International Financial Reporting Standards (IFRS) and its implication on taxes in Ghana should call for a background knowledge of IFRS, the theoretical foundation or basis on which it is rooted, empirical studies on financial reporting, definitions and components of IFRS Financial Statements, Ghana's adoption and implication of IFRS on taxes together with the benefits and challenges of IFRS to government and tax professionals generally in Ghana.

Statement of the Problem

In recent times the development of the adoption of the International Financial Reporting Standards (IFRS) in Ghana has created concerns from various stakeholders, business-entities and other users of financial statements information in the world of accounting. It is very imperative to note that the introduction of the IFRS has brought with it various developments in different spheres and specializations of accounting. The advent of this standard has not only advanced the manner of financial reporting, but has financial implications for its users in Taxation, Auditing, Finance / Lenders of funds and Corporate Governance in general. Understanding tax implications of IFRS adoption will be important for finance and tax officers to consider - if they would like to help support appropriate tax results for the organization in its existence and operations. It also has a tax implication based on the divergence of the tax reporting of transactions as against the financial reporting of the same transactions as per IFRS standards and the Internal Revenue Act, 2000 (ACT 592) of Ghana. In Ghana, the Tax Authority does not impose any separate book keeping system on businesses for tax purpose. Therefore, the financial statements and books of accounts of the businesses form the basis for taxation – both direct and indirect. In such a scenario, any change in the accounting system is bound to impact the tax levy and collection. There appears to be minimal empirical studies on the transitioning from the income statement approach to the balance sheet approach due to the implementation of IFRS. Mulyadi, Soepriyanto and Anwar (2012) examine IFRS adoption and taxation issues in four regions: Africa, America, Asia Pacific and Europe. In a seminar presentation also, several presenters provided insights into the Tax Implications of Implementing IFRSs generally. Hung and Subramanyam (2007) examine the impact on German firms due to the implementation of IFRS. Wong (2006) also investigates NZ IAS 12[1] effect on deferred taxes, and Ernst and Young (2004) evaluated the expected changes to deferred tax assets and tax liabilities reported in the financial position statement due to NZ IFRS[1]. Stent et al. (2010) also provide a more detailed study on the change to all assets and liabilities due to NZ IFRS, but did not provide any in-depth analysis on income tax and deferred tax. Mear (2011) followed Stent et al. (2010) and documented changes to income tax and deferred tax due to the implementation of New Zealand IFRS. Arguably, there have been some studies on IFRS in Ghana (Tackie, 2006; Amoako, 2010; Gyasi 2010; Agyei-Mensah, 2012) among others. Nonetheless, they fail to look at the tax implication for the adoption of IFRS in Ghana. There is however an absence or limited empirical study on the tax implications for the adoption of (IFRS) in Ghana. There is therefore the need for a study that will examine the tax implication for the implementation of IFRS in Ghana following the transition in 2007.

Objectives of the Study

The general objective of the study is to examine the tax implications of IFRS reporting in Ghana. Specifically the study sought to:

i. Examine the impact of post-IFRS adoption on corporate income taxation in Ghana.
ii. Determine the disclosure quality level of financial and non-financial information of corporate taxes in the annual reports of Ghanaian listed companies before and after adopting IFRS.
iii. Assess the tax costs and challenges of IFRS adoption to listed companies generally in Ghana.
iv. Outline how corporations can manage the implication of IFRS adoption on their corporate taxations.

Research Questions

From the forgoing objectives the study set out to achieve, the following research questions are also set for answers:

i. What is the impact of IFRS adoption on corporate income taxation in Ghana?
ii. What is the disclosure quality level of financial and non-financial information of corporate taxes in the annual reports of Ghanaian listed companies before and after adopting IFRS?
iii. What are the tax costs and challenges of IFRS adoption to listed companies generally in Ghana?
iv. How can corporations manage the implications of IFRS adoption on their corporate income taxes?

Research Hypotheses

From the intended research objective and questions, the following hypotheses were set for testing. They are as follows:

H1: There is no difference in the IFRS current year tax expense as restated and the GNAS current year tax expense.
H2: There is no relationship between changes in disclosure quality level of IAS 12 and current year tax expenses changes.
H3: There is no relationship between the magnitude of changes in disclosure quality index and the magnitude of change in current year tax expenses.

Significance of the Study

Results of the study will help in examining the tax implications of IFRS reporting in Ghana and assess the benefits and challenges of IFRS adoption to government and tax professionals generally in Ghana. The findings will contribute immensely to policy formulation on the value of having a shared body of accounting standards in the corporate and financial world which will boost transparency and minimize tax evasion by corporate entities in the face of increasing globalised transaction and trading among nations and corporate entities. Furthermore, this research is expected to increase awareness of the tax implication for the adoption of IFRS in Ghana among the accountancy and tax professionals in Ghana. It would also significantly serve as literature that would add to academic knowledge in the area of accounting standards and taxation for this specialised technical area of study in Ghana. It will do this by enriching the literature base of tax implication for IFRS reporting globally.

Theoretical Framework - Accounting Choice

Accounting information can be looked at as having two functions: thus producing information for stakeholders, such as shareholders, and distributing the results of wealth creation. The two functions both have wealth effects for stakeholders of the business. Bushman & Smith, (2001) argue that the evaluation of projects and the control of management is influenced by the information task, and the wealth transfers are influenced by the distribution function, for instance, determining how much is on hand for dividends. It is generally agreed that any objective to construct a theory of accounting choice has to recognize the economic forces facing individuals and the egocentric character of human beings. Positive Accounting Theory (PAT) is one theory that is exclusively committed to these characteristics. It can be argued that stakeholders are inclined to influence the accounting system of the business. PAT has focused on this aspect of the accounting system, forecasting the choice of accounting rules according to the wealth effects it has for dominant stakeholders (Watts & Zimmerman, 1986). Accounting choice is one such central theory of accounting research that came out of PAT. Accounting choice basically includes the firm manager's choice of one accounting method or procedure over another. An example is the manager's choice of using reducing balance method of depreciation over straight-line method of depreciation. Watts, (1992) suggests that accounting choice also includes the choice of using accounting standards for financial statement reporting. Watts (1992) also argues that accounting choice is important to market-based studies because without a theory of accounting choice, an entity cannot correctly specify tests of the relationship between accounting numbers and stock prices. Consistent with this argument, accounting choice should be important to taxation based studies because it could correctly specify tests of relationship between accounting numbers and the tax burden or liability of business entities. The literature investigating the relationship between accounting numbers such as earnings and tax liability typically assumes, explicitly or implicitly, that accounting numbers communicate information to the tax authority. For example, it can be assumed that accounting earnings provide information on current and/or future tax liability or burden. Watts, (1992) posits that in the absence of taxes, the valuation model under stock market prices valuation has no predictions about accounting choice. When taxes are introduced the objective of accounting choice becomes minimization of taxes, and predictions about accounting choice can be generated to the extent that calculation of taxable income is tied to the calculation of reported income. The weakness of this theory however is to the extent that the various valuation models as in stock prices which investigate the relationship between accounting numbers and stock prices have few implications for accounting choice. Watts (1992) argues that they provide little insight into or predictions of accounting choice and its stock price effects. In addition, the critics of PAT contend that a serious theory cannot ignore the human competence to build shared phenomena, such as normative and cognitive set-ups, called institutions, that hold back and facilitate the human ability to interpret society and hence influence human choice and action. Accounting choice studies also, have been occupied with the motives behind the accounting choice itself, and neglected the actual outcome of the choice (Francis, 2001). However, this study delves deep into examining the actual outcome, that is the tax implications for the adoption of IFRS in Ghana. The practical reason for selecting this theory follows from the fact that this theory not only distinguishes itselves from separate theoretical focus, but also from separate empirical fields. In fact, according to Watts & Zimmerman, (1986) PAT has been extensively tested in capitalistic firms and principally listed firms. To conclude this theoretical framework review, it is clear that accounting choice includes choices made at firm/manager level as well as at industry, country and international level. Watts (1992) concludes by cautioning against the Securities Exchange Commission's interest in current value accounting. These comments of Watts (1992) appear relevant to IFRS and this paper in the light of increased trend of companies using IFRS as a reporting standard for their accounting financial statements.

The Concept of International Financial Reporting Standards (IFRS)

Accounting and for that matter financial accounting may be defined as the process of recording, classifying, summarising, analysing and interpreting the financial transactions and communicating the results from those financial transactions to the persons or users interested in such information. Accounting like any field of study is governed by rules and regulations or norms and these rules and regulations or norms are regarded as standards. Omunuk, (1999) as cited in Proscovia (2003) defined accounting standards as the guideline statements or rules governing the preparation and presentation of financial statements issued and their application monitored by accounting boards. Globally, as of 2001, the standards guiding or regulating financial accounting is the IFRSs / IASs issued by IASB. According to Lasmin (2011) as cited in Kangarlouei, Agababa and Motavassel (2013), in the year 2010, more than 120 countries permitted the use of IFRSs in their jurisdictions. IFRS stands for International Financial Reporting Standards issued by the International Accounting Standards Board (IASB). This Board was previously known as International Accounting Standards Committee issuing International Accounting Standards (IAS). According to Oyedele (2011), IFRS essentially comprises four types of documents: that is International Accounting Standards (IASs), International Financial Reporting Standards (IFRSs), interpretations of the International Financial Reporting Interpretations Committee (IFRICs) formerly the Standing Interpretations Committee (SICs) and IASB Framework for the Preparation and Presentation of Financial Statements. By comparison, Ghanaian GAAP is made up of the following: The Companies Code 1963, Act 179, Statements of Accounting Standards (SAS) issued by the Ghana National Accounting Standards Board (GNASB), other local legislation and industry specific guidelines such as regulations of Bank of Ghana, Insurance Commission, and the Ghana Stock Exchange Listing Regulation 1990, (Legislative Instrument No. 150), tax laws, legislative instruments establishing SOEs, Banking Act, Security and Exchange Commission Rules, International best practice (optional). IFRSs represent a set of guidelines and principles a company may follow in financial reporting. In order to follow IFRS properly, companies must use specific regulations often called assumptions inherent in IFRS. Generally, the components of IFRS regulations include accrual basis, going concern, stable measuring unit, and units of constant purchasing power. However, Essien-Akpan (2011), suggests that the areas of IFRS financial statements include fair representation, accounting policies, going concern, accrual basis of accounting, consistency, materiality, off-setting and comparatives. Businesses must at least adhere to these IFRS requirements in order to use these principles effectively for their financial operations.

Relationship between Financial Accounting Reporting and Tax Accounting Reporting

Accounting is normally called the language of business and as a language: it evolves in response to the changing needs of society as the times demand. According to King (2006) as cited in Duhanxhiu and Kapllani (2012), tax accounting is developed as a separate dialect from financial accounting due to public decisions and commerce guidelines. Although at the beginning of their relationship, financial accounting and tax accounting were in some accord, today the accountants have to work hard to reconcile their respective conflicting objectives. Accounting rules and tax rules are two concepts developed by different authorities and serving different purposes. It is the contrariness of financial accounting and tax accounting objectives which make attempts to reconcile the two difficult. While the IFRSs are formulated to accomplish the objectives of financial reporting, tax rules are formulated, in part, to promote and elicit certain kinds of behavior by taxpayers. It is indeed acknowledged that financial accounting and tax accounting have diverse purposes and requirements. Financial accounting on the whole involves the preparation of information for the purpose of control and decision-making and may require interpretation as well as basically recording factual information. The main rationale of taxation accounting is typically not only to raise revenue but also to be used as a tool of government fiscal and social policy. According to Alley and Simon (2005), for a tax system to operate successfully within the law it requires a degree of certainty that may not always be appropriate for financial and commercial accounting. Furthermore, there may be alternative methods of preparing accounts that are equally acceptable in terms of accounting standards but the choice of which might be inappropriately influenced by the taxation implication. According to Alley and Simon, (2005), an example of the adoption of the Financial Reporting Standards into the New Zealand tax legislation shows that there will always be differences, and that perfect harmonization between taxation and accounting is unlikely. Kager and Niemann (2011) however argues that there is little proof of the real extent of financial accounting differences between IFRS and tax rules (IFRS-tax differences) because firms' tax accounts are usually anonymous to the general public. There are different levels of dependences within countries and no country is able to avoid the difficult relationship between accounting and taxation. The global move towards IFRS / IASs is seen as a reason for reviewing the tenuous relationship between accounting principles and practice and taxation laws in Ghana. Several studies have explored the relationship between financial accounting and taxation and the possible implications related to the IFRSs adoption. According to Nobes (2003), current international accounting standards setters pay little regard to tax implications and would be unlikely to add taxes to the list of considerations and pressures they must take on board already. Alley and Simon (2005) argues that the relationship between accounting and taxation is an evolving one, and countries should not be developing tax policy and practice in isolation. Freedman (2008 and 2004) demonstrated that full convergence of commercial and tax accounts will not be achieved and should not be the aim. Gielen and Hegarty (2007) have evaluated IFRSs against the principles generally considered to be appropriate for corporate taxation purposes and concluded that the accounting profit determined in conformity with IFRSs would require a significant number of adjustments to serve as a relevant tax base (taxable profit). The degree of relationship between tax and financial accounting varies greatly across countries. Countries across the globe have tended to be divided between those where there is a statutory relationship (meaning that financial accounting principles follow tax accounting rules or that tax accounting rules follow financial accounting rules) and those where there is no relationship (meaning that there are different rules for financial accounting and tax accounting). The fact that IFRS must go through due process of endorsement before becoming effective law in the Ghanaian financial regulatory system does not completely allay the constitutional concerns of the state. Furthermore, IFRS and tax law differ in their objectives. IFRS statements should provide information that is useful to a wide range of users in making economic decisions. In order to supply the capital markets with indicators for the future performance of a firm, IFRS permit greater managerial discretion than tax rules, for example in estimating fair values. This is often assumed to be contrasting to the purpose of taxation to ensure a reliable and objective determination of taxable income. Academic literature also offers theoretical explanations for typical and essential accounting differences between IFRS and tax rules (Endres, Oestreicher, Scheffler, Spengel, Alt, Koehler, Riesselmann & Wendt, 2007). However, Kager and Niemann (2011) argue that there is not much evidence of the real scale of these differences because firms' tax accounts are generally not made known to the public. Kager and Niemann, (2011) in their study conclude that if a firm's estimated tax equity is lower (higher) than IFRS-equity, adjusted for the effect resulting from the recognition of deferred taxes, an IFRS based taxation would increase (decrease) the firm's tax burden. They also found that estimated tax equity is mostly lower than IFRS-equity.

The Effects/Impact of IFRS Adoption on the Taxation of Companies

It is argued that the implementation of IFRS will impact almost every aspect of a company's operations, everything from its information technology systems, to its tax reporting requirement, to the way it tracks stock-based compensation (Yusuf, 2006). According to Mulyadi, Soepriyanto and Anwar (2012), with IFRS implementation, a new accounting standard will come with impact to the taxation issues of a country. This impact will be more obvious for Multinational Corporation as they will face tax impact of IFRS implementation in more than one taxation jurisdiction. Implementation of IFRS will create an increase of effective tax rates (ETR) or more volatile ETR. IFRS implementation could equally create an opportunity to decrease foreign tax. According to Eberhartinger and Klostermann (2007), usage of IFRS-financial report for tax calculation will simplify reporting process and minimize compliance cost. Although usage of IFRS as tax basis will increase ETR in some specific industry (Haverals, 2007) it might not do same in other industries. Leuz, Lins and Warnock, (2009) theorized that the main impact of the transition to IFRS would be concentrated on firms, who would have to respond to changes in both financial reporting rules and also tax regulations. In the Africa region, Mulyadi, Soepriyanto and Anwar (2012) analyze the impact of IFRS adoption on tax in four countries: Libya, Nigeria, Tunisia and South Africa. They concluded that, in these four countries they still use national GAAP as tax-basis. Their overall conclusion is that, with different IFRS implementation and convergence processes between one country and another, there appears to be different responses to taxation issue. For example, for income determination, inventory valuation accepted for taxation purpose is lower of cost or net realizable value as determined in Libya Commercial Code while the Federal Inland Revenue Service (FIRS) allow usage of FIFO, average and standard cost method for inventory valuation. Policy of taxation due to IFRS implementation might be different due to the different stages of implementation i.e. early adopters, convergence process, IFRS still voluntary or IFRS is strictly required as reporting standard. They argue that there are mixed response from government or tax authority in response of IFRS implementation. These responses vary from adjustment or change of tax regulation to support IFRS implementation, no change to the tax regulation so that tax payers are required to prepare financial report according to national GAAP or do not allow IFRS-based financial report for taxation purposes at all. It is generally understood that the adoption of IFRS would change the structure and content of financial statements. It was also predictable that the implementation of a new set of financial reporting standards may change the reported outcome and financial position of reporting entities (Hickey, Spencer, van Zijil & Perry 2003). Though the financial impact from the implementation of IFRS would vary from entity to entity, commentators have been suggesting the areas where the effects were likely to be significant. Teixeira (2004) and Bradbury and van Zijl (2005) identified income tax as among five areas where impact on a number of entities was expected. Their arguments for income tax are because of the fundamental changes in the concepts and method for recognizing deferred tax assets and liabilities when using IFRS. A large number of studies in various parts of the world have analysed the impact of IFRS on business corporations. They have found that the adoption of IFRS has had a mixed impact on various entities financial reporting and wider economic settings. Daske, Hail, Leuz, and Verdi, (2008) and Li (2010) examined the impact of IFRS adoption on international capital markets. Daske et al. (2008) found that firms adopting IFRS in the year of mandatory adoption experience large increases in market liquidity but mixed results for the cost of capital. However, Li (2010) examined the effect of IFRS on the cost of equity in the European Union and found that compulsory adopters of IFRS saw significant reductions in the cost of capital in the years of mandatory adoption, but only in countries with strong legal enforcement. Other studies have examined the effects of IFRS adoption on accounting quality. Goodwin and Ahmed (2006) studied the impact of IFRS in Australia in relation to the size of business entities. Smaller firms saw fewer adjustments upon IFRS adoption and experienced increases in net income and equity. Larger firms in contrast, had many adjustments, insignificant increases to net income, as well as a decrease in equity. Their conclusion is that the adoption of IFRS has been found to have little impact on the accounting quality of smaller firms, and a larger impact on the accounting quality of larger firms. In a similar study, Goodwin, Ahmed and Heaney (2007) found, that on an average, IFRS caused increases in liabilities and leverage ratio and decreases in equity and earnings. These findings are consistent with the results of Hung and Subramanyam (2007), who focused on the detailed financial statement effects of adopting IFRS by using a direct comparison of financial statements prepared under IFRS and German GAAP. Additional information about the impact of IFRS adoption on financial statements comes from studies that extended the analysis to common financial ratios (Stent et al. 2010). Stent et al. (2010) found that adoption of IFRS in New Zealand led to a significant increase in liabilities and a decrease in equity for private sector entities. Adjustments to income taxes, employee benefits and financial instruments were the main reasons for increases in liabilities and decreases in equity. Wong (2006) did an investigation into the changes that will have an effect on a firm's deferred tax due to the implementation of NZ IAS 12 and Ernst and Young (2004) analysed the expected changes to deferred tax assets and deferred liabilities reported in the statement of financial position due to NZ IFRS. Mear (2011) did a more in-depth analysis on income tax and deferred tax due to the adoption of NZ IFRS. But as can be seen all these studies are outside the African terrain. There is minimal empirical study on the tax impacts or effects of reporting entities following the transition from GNAS to IFRS by Ghanaian companies. The research paper therefore investigated the changes to income tax expenses, using a sample of entities from the Ghana Stock Exchange over the period 2007 / 2006 to 2008 / 2007 which encompasses the move from GNAS to IFRS, particularly IAS 12.

Accounting Quality of Disclosures

The objective of every financial statement is to present information on the financial position, performance and financial compliance of an enterprise that is useful to a wide range of users, including tax authorities, in making their economic decisions. The International Accounting Standards Board's (IASB) Framework states that: "The objective of financial statements is to provide information about the financial position, performance and changes in financial position of an entity that is useful to a wide range of users in making economic decisions",(IASB 2010). It must be noted that every statement prepared also shows the tax obligation of the entity's towards the tax authority. Sloan (2001) argues that the financial statement is the first source of independent and true communication about the performance of an entity. To be able to meet the needs of the tax authority as a user, the financial statements must not only comply with the IFRS, but must also be of high quality. The quality of financial statements is measured using four key qualitative characteristics of financial information set out within the Framework for the Preparation and Presentation of Financial Statements issued by International Accounting Standards Board (IASB 2010). These qualitative characteristics include relevance, faithful representation, comparability and understandability. IASB (2010) suggest that relevance and faithful representation are the fundamental qualities, whilst comparability and understandability are considered as enhancing qualities. The Framework suggests that these qualitative characteristics are the attributes that make the information provided in financial statements useful to users. Even though defining corporate taxes is not straightforward, corporate taxes can be seen as the tax obligation by corporate entities towards the taxing authority reached by calculating a number of intermediate income definitions as spelt out by the various tax legislations. Corporate taxes are a substantial and important part of financial reporting. Income taxes as part of corporate taxes pose a special challenge due to the complex interaction between tax laws and accounting principles. The disclosure of these income taxes by the entities can serve as a useful starting point for the tax authority in assessing the tax liability of such an entity. In the words of Fekete (2008), IFRS disclosure compliance literature is considered as part of disclosure research. It is per this suggestion and the fact that the Chartered Institute of Chartered Accountants Ghana (ICA-G) expects all listed entities in the country to comply with these regulations that this study as part of one of its objectives, is being undertaken to check whether Ghanaian companies are complying with the disclosure requirements of IAS 1 and IAS 12. IAS 1 requires that a company whose financial reports comply with IFRSs make an explicit and complete statement of such compliance in notes. It must be noted that financial statements shall not be described as conforming with IFRSs except they submit it with all the requirements of IFRSs (including interpretations) (IAS 1.16). The research therefore, examines the quality of disclosure of taxes on their financial statements before the adoption (2006/2007) and after the adoption (2007/2008) of IFRS in Ghana.

Costs and Challenges of IFRS Adoptions

The adoption of International Financial Reporting Standards by various jurisdictions around the globe is viewed with mixed reactions. Proponents of IFRS adoption argue that a single global accounting standard has the benefits of improving information quality across borders and will foster cross border investments. They further argue that with a single set of global accounting standard, comparability of financial statements would be achieved leading to reduction in information processing costs associated with different national accounting standards and thereby reducing the overall cost of capital as shown by previous researches (Diamond and Verrecchia 1991; Baiman and Verrecchia 1996; Leuz and Verrecchia 2000; Easley and O'Hara, 2004; and Barth, Konchitchki, and Landsman, 2006). Indeed, there are proponents as well as opponents who have arguments for and against the global adoption of IFRS. According to Barth (2007), the adoption of a common body of international standards is expected to have the following benefits: lower the cost of financial information processing and auditing to capital market participants as users, familiarity with one common set of international accounting standards instead of various local accounting standards by Accountants and Auditors of financial reports, comparability and uniformity of financial statements among companies and countries making the work of investment analysts easy, attraction of foreign investors in addition to general capital market liberalization. Ball (2006) stated that in many developing countries where the quality of local governance institutions is low, the decision to adopt IFRS will be beneficial. What he falls short of mentioning is whether or not, IFRS's are relevant to the developing countries and what could be the challenges of IFRS adoption to those countries. On the African continent for example, with the exception of South Africa that has shown strong commitment to IFRS adoption, most African countries (which are mostly part of the developing countries) that adopted IFRS have not managed to document clear benefits following the adoption of IFRS. Generally proponents of IFRS argue in favor of enhanced firm comparability, transparency in financial reporting and corporate governance, better regulation in financial markets, reduced cost of capital, better management of overseas operations and the list can go on. However, skeptics on the other hand argue that what shapes financial reporting is not accounting standards but rather, the institutional arrangements in a particular economy. There is evidence to suggest that, IFRS provides better information quality than that of Local Generally Acceptable Accounting Standards. While this might seem very convincing, it is also documented that IFRS is not suitable for developing economies which are struggling to cope with issues of poverty. This is more so if the state has to raise more revenue through taxation and IFRS happens to be an impediment to this goal. As to the extent of costs, it could be argued that it would vary relative to specifics of firms, as entities earlier usage of GNAS came with or without international variation of certain standards by the firms. However, publications issues preceding the implementation of IFRS by the accounting profession hint otherwise. Ernst and Young, (2004) went far to suggest that New Zealand accounting professional should not underestimate the enormity of the change management process required in conversion from NZ GAAP to NZ IFRS. Revealing an indication to the extent of these costs, Li (2010) observed that the average compliance cost for adopting IFRS is estimated to be around £360,000 for UK companies, rising to £625,000 for companies with a market value between £1 billion and £2 billion. This paper therefore seeks to estimate the average cost of compliance to IFRS especially IAS 12 by sample entities during the transition to IFRS in the 2008 / 2007 financial year.

Managing the Impact of IFRS on the Organisation's Tax Liability

Before 31st December 2008 Ghanaian businesses were preparing financial statements in accordance with Ghana National Accounting Standards (GNAS), a version of the Generally Accepted Accounting Principles (GAAP) as established by the Ghana National Accounting Standards Board. In comparing the two sets of standards, the IFRS differs from GNAS GAAP in a number of areas. For example, as identified by previous authors, GNAS GAAPs are rules-based, consider historical cost, provide specific guidance, focus on application, and place emphasis on form. In contrast, the IFRS are principles-based, consider value, provide general guidance, focus on results, and place emphasis on substance. This variation obviously calls for ways for accountants, tax experts, and finance / tax officers to manage this change. When preparing tax filings, there is no requirement in the Internal Revenue Act 2000 (ACT 592) of Ghana directing the use of one particular accounting framework or a particular methodology for calculating profit for income tax purposes. Taxpayers therefore may decide to choose the method of calculating taxable profit they believe arrives at the "truer picture" of taxable profit. This can include, but is not restricted to, GNAS. The conversion to IFRS from GNAS therefore does not in itself change the obligations of taxpayers; it merely provides them with an alternate basis of accounting for the purposes of calculating taxable profit. Consequently, as entities convert to IFRS for financial reporting purposes, the CFOs will need to assess whether this new accounting framework is a reasonable foundation to use as a basis for tax calculations or otherwise. Following the adoption of IFRS in Ghana, as the basis for the income tax calculation or whether some alternate approach will lead to a truer picture of taxable profit that exist is not known. Just as is the case of previously usage of the GNAS, since IFRS has been adopted as the starting point for calculating taxable profit by these listed Ghanaian companies, the CFOs / CEOs need to ensure that their companies assess what, if any adjustments to accounting profit are required to arrive at taxable profit based on the provisions of the IR Act 2000 (ACT 592) and well established business principles. These call for guidance by the tax authority or the professional body to follow in preparing their financial statements as is done in Nigeria, New Zealand, and Australia among others. However, from 2007 to date neither the GRA nor the ICA-G has issued any formal statement or guidance on how to manage the transition from GNAS to IFRS for CEOs / CFOs. The paper therefore explores the views of experts in the industry to compile by way of empirical study on how to manage the challenges of this transition from GNAS to IFRS reporting in Ghana.

Tax Implication for Adopting IFRS

Getting to understand the tax consequences of IFRS will be imperative for finance officers and tax practitioners to consider if they would like to help maintain appropriate tax results for their firms. As with any tax accounting issue, the effort for an IFRS conversion will require close collaboration between finance and tax departments. According to Deloitte (2008) and Alexander and Britton (2004), the key tax considerations include conversion timing, differences in accounting for income taxes, tax accounting methods and Global tax planning. Evidently from the findings of prior studies, it is not just about the quantity of corporate taxes but the quality level of information disclosure that is vital to users of the financial statements. If there is no gain in terms of disclosing better quality level information, then the entire principle of IFRS based reporting would seem inconsistent. The quality level of information is a subjective matter, but studies have been carried out to determine whether the qualities of financial statement disclosures are materially improved on the change to IFRS. For example, a recent study suggests that moving to IFRS improves the information setting, allowing users of the financial statements to make more precise forecasts (Horton, Serafeim and Serafeim, 2013). Another study also concluded that IFRS adoption leads to better quality of information as well as more comparability among firms (Yip and Danqing, 2012). Consequently, for users of the financial reports there is some ease that while they have more information to assimilate under IFRS that information should in addition be more important to their information needs. For the finance officer / tax officers, providing all additional information can be quite burdensome. Evidence from entities that have gone through IFRS transition indicates that a considerable amount of the transition implementation involves ensuring that the precise data are collected for disclosure in the notes. This is evident in the case of companies with complex financial instruments, where an entire standard, e.g. IFRS 7 Financial Instruments: Disclosures, is committed to descriptive and numerical revelation requirements. The implications of the decision to adopt IFRS are as numerous as they are profound. According to Okoye and Akenbor, (2014) for the accounting profession in Nigeria, the use of IFRS by Nigerian publicly held companies will create the need for effective training and education. Akinmutimi (2011) stated that corporate entities need to build capacity to drive the process and revisit their operational and internal control systems. More so, the laws need to be amended and the transition processes need to be handled efficiently, effectively and professionally in order to sustain the confidence of users of accounting services in the skills of professional accountants and tax experts or preparers.

Research Design

The research procedure in this paper is designed to clearly examine the tax implications of listed companies in Ghana. To respond to these questions, the research design is based on what Creswell (2003) explains as a "Mixed Methods Approach", in view of the fact that it involves collecting and analyzing both quantitative and qualitative forms of data in a single study. Creswell (2003) describes this approach as "one in which knowledge claims have a tendency to be based on pragmatic justification". To him pragmatism is extra distinct as not being committed to any one system of philosophy and reality. Mixed method approach as a research methodology involves philosophical assumptions that guide the direction of the collection and analysis of data and the mixture of qualitative and quantitative approaches in many phases in the research process. The nature of this study demands that the researcher focuses on collecting, analyzing, and mixing both quantitative and qualitative data. Its core objective is that the use of quantitative and qualitative approaches in combination provides a better understanding of research problems than either one approach only. Drawing from this, Creswell, (2003) suggests and explains six major strategies for mixed methods approach even though he points out that these do not exhaust all other possibilities. Among these six major strategies is, 'Sequential Explanatory Strategy', which best describes the method taken for this study. According to Creswell, Plano Clark, Gutmann and Hanson, (2003) sequential explanatory strategy involves the collection and analysis of quantitative data followed by the collection and analysis of qualitative data. This study used this sequential explanatory strategy because it made use of quantitative data from annual reports of listed companies in Ghana followed by questionnaire and interview guide which solicited qualitative data from finance officers of the sample entities as shown in the appendixes.

Sampling Procedures and Sample Size

Consistent with Hung & Subramanyam (2007), Stent et al. (2010) and Mear (2011), this study adopted two sets of financial statements for all sample entities: the first full-year IFRS financial statements and the year prior to adoption of IFRS. Prior year comparative figures, as restated under IFRS, for total income tax, deferred tax liability, deferred tax assets etc. The equivalent figures reported under old GNAS are extracted from the 'Pre-IFRS Year' financial statements. The impact of corporate income tax element was then measured as the difference between figures reported under IFRS and those reported under old GNAS (i.e. IFRS differences). Similar to prior studies (e.g., Goodwin, Ahmed & Heaney, 2008; Hung & Subramanyam, 2007; Kabir, Laswad & Islam, 2010; Stent et al., 2010), the reasons for the above IFRS differences are then investigated by analysing the reconciliations required by IFRS 1 to determine the amounts attributable to specific accounting standards. The sample choice procedures description is presented in table 1. From the 37 listed entities, less six observations that provided invalid search results for the related years under consideration, five observations that did not report previously under GNAS as well as observations that are not in Ghana Cedis, two observations that were not listed at the time and two others that have delisted since 2008 and 2013 respectively and one other company that is under free zone and as a result, has a tax incentive from 2004 to 2014. The available population of twenty two (22) firms was classified into industries sectors. The sample size is therefore a survey of all the remaining 22 listed firms. An analysis of the population and sample is provided in Table 1.

Table 1. Description of sample size

Details	Number
Number of Entities listed as at 31st December 2014	37
Less: Observation of entities lacking data	(6)
Not in Gh¢, Not previously in GNAS observation	(5)
Observations that were not listed	(2)
Observations that delisted after 2008 and 2013	(2)
Free zone Company	(1)
Sample size	**22**

Source: Field Survey, December 2014

Data Collection Procedures

In this study, for the first two research objectives, the researcher manually collected income tax and deferred tax information from the 2007 / 2006 to 2008 / 2007 financial statements and notes to the financial statements from listed companies on the Ghana Stock Exchange on the 31st December, 2014. Annual audited financial statements were retrieved from GSE Annual Reports Ghana (ARG) for each company in the sample. This was counter confirmed by published annual financial statements from the entities own websites but it must be noted that not all the entities had their up to date annual report published on their own websites with reference to the period under consideration for this study. The financial statements in IFRS were retrieved for the year of transition (2008 / 2007) to IFRS while those in GNAS were retrieved for the prior year (2007 / 2006). The data collection followed a three-step process: first, IFRS figures (2007 restated) which correspond with comparative figures presented for the year prior to the shift were collected from IFRS financial statements (i.e. balance sheet, income statement, statement of comprehensive income/loss, and notes). Second, GNAS figures were collected from original GNAS statements (published in the year prior to the adoption) for the same date and period. Third, the reconciliations and explanations provided in the transition notes to IFRS statements were used to further detail differences observed in the values collected through steps 1 and 2, and categorized them into the accounting adjustments identified. In addition to the figures from financial statements, non-financial information was also collected. The non-financial information was collected through a survey questionnaire and telephone interviews to clarify responses where necessary and to obtain more detailed answers to open-ended questions.

Data Analysis Procedures

Initially the researchers compare the changes between the reported year and restated year for income taxes and deferred taxes. That is the 2007 / 2006 year is compared to 2008 / 2007 restated year. The researchers then analysed the income taxes and deferred taxes information provided in the reconciliation between GNAS and IFRS to explain the changes. The researchers analysed the variables that influence the change in income taxes expenses and industry sectors. The study compared the results of industry sectors with the results reported as Mear (2011) and Stent et al. (2010) in respect of current year income taxes expenses. The research also compared the disclosure quality of GNAS and IFRS financial statements and calculated the magnitude of changes in the disclosure quality level. It went further to test the relationship between the IFRS financial statements disclosure quality level and the magnitude of change in disclosure quality level with the current year income tax expense of sampled entities.

Findings, Interpretations and Analysis

The firms were classified into industries to investigate the impact of IFRS adoption by industries. Equally, a disclosure quality was arguably expected to vary with industry, as such, investigation was also done to explore the differences. First, a descriptive statistics analysis of industry classification was done. From the data gathered, 45.5% were found to be the Financial / Insurance / Information Technology category; 40.9% were Manufacturing / trading category; 4.5% from Agro-processing and 9.1% from petroleum and Oils categories. They were grouped into these categories because apart from the security and exchange commission being their regulator, they are regulated by other legislation peculiar to their industries. As part of assessing the tax costs and challenges of IFRS adoption in Ghana by listed companies, the study solicited information on the cost incurred during the transition period of IFRS especially in respect of IAS 12. From the responses received from the respondents, the general view was that entities did not incur cost on individual standards per se during the implementation of the transition. But holistically they incurred cost on the entire IFRS standards as adopted and effected in the transition year. Data gathered from the questionnaire and the interview guide revealed that majority (50%) of the survey entities spent between GH¢5,000 to GH¢10,000 during the implementation of IFRS as a whole in the transition year of 2006/2007 preparation of annual reports. The least spenders were three (3) observations which represented 13.6% of the sampled firms and they spent on an average between the ranges of GH¢1 to GH¢5,000. Probing further, it was revealed that these costs were spent on areas including but not limited to external consultants' fees, staff training and capacity building cost, hiring of new expert staff and system changes. In this analysis, the study compared the 2007/2006 financial statements using GNAS to the 2006/2007 financial statements as restated in IFRS which is expected to have incorporated other adjustments as per IAS 12. The researcher then followed it with the discussion of the changes that were observed as directly being related to the change from GNAs to IFRS in the IFRS reconciliation notes. From the comparison of the 2007/2006 and 2008/2007 financial statement, the mean magnitude of change in current year tax expense due to the adoption of IFRS is -0.7 percent. The -0.7% implies that on average, the sample firms' current year tax expenses reduced by a 0.7% in the restated amounts using IFRS. The little negative change in magnitude of change for current year tax expense is seen as a result of most of the sample entities adopting IFRS but not effecting IAS 12 in the restated year figures. By this, it implies that most firms still used GNAS standard on taxation to prepare the restated amounts in the 2008/2007 financial statements. The adoption of IFRS resulted in a no change in current year tax expense for 77.3 percent (17/22) of the observations, a decrease for 13.6 percent of the observations and 9.1 percent showed increases. The data indicate that 22.7% (5/22) of the observations reported a change in their current year tax expense. Of this percentage, there are slightly more observations at the decrease (-13.6%) than the increase (9.1%). These changes are predominately due to the deferred tax assets account that reported 11.1% (1/22) decreases. The decrease is in part justified as being due to changes in the recognition criteria for deferred taxes under IFRS as against GNAS. The net effect of this is that even though 4.5 percent of the sampled firms had their overall current year tax expense obligation reduced, the overall aggregate of that reduction is only 0.7 percent. However, the maximum and minimum values indicate that the effect of IFRS can be quite substantial for some firms especially in the case of current year tax expenses. For example, the range is

2.152 (1.153 – (-.999)) for current year tax expense. The impact of IFRS is not widespread as 59 percent (13/22) of firms sample were unaffected by the adoption of IFRS. Invariably, only 41 percent of sample firms were affected in one way of increase or decrease as a result of adopting IFRS. They were not widely affected because, as can be seen from the notes from the annual reports, though most of the firms adopted IFRS and restated the prior year figures in IFRS; they did not adopt IAS 12 as from IFRS but rather still used income taxes standard from the GNAS. Overall, there were 77.3% of the observations that did not report any changes to current year tax expenses in restating GNAS amounts into IFRS amounts as reported by sample firms in Ghana. The changes were further analyses into industry sector to investigate which industry had a greater magnitude of change as a result of the adoption of IFRS by the sample firms. From the calculations done, the financial/information technology sector saw a reduced mean magnitude of change of 13.3% in their current year tax expenses, the manufacturing/trading sector on the other hand saw an increase mean magnitude of change of 13% in their current year tax expense while the petroleum/oil sector saw no change in magnitude following the adoption of IFRS. The financial/IT sector saw this reduction as a result of fair value valuation of its assets and financial instruments which led to a drastic reduction in deferred tax assets culminating in a reduction in current tax liabilities as well. On the other hand, the manufacturing / trading sectors saw a mean increase in magnitude of its current year tax expense as reflected in the income statement because of a huge increase by one entity deferred tax liabilities. An example of this deferred tax liability is where an accelerated depreciation of assets led to a deferred tax expense following the adoption of IFRS. In terms of the direction of changes by industries, the effects revealed that the manufacturing / trading sector had a substantial number (88.9%) of entities that never saw any change in their current year tax expense followed by the financial / IT sector which saw a 70% of entities having not experienced any change to their current year tax expenses following the adoption of IFRS. The financial/IT sector experienced a 30% of entities having their current year tax expense being reduced following the restating of the 2007 financial year statements into IFRS as reflected in the 2008/2007 annual reports. Widely spread is the observation that only the manufacturing/trading sectors saw an increase of 22.2% of sample entities having experienced in increase in their current year tax expense for the restated figures into IFRS.

Test of Differences Between IFRS – IAS 12 and GNAS Standard on Taxations

To further examine the impact of IFRS adoption on corporate income taxation in Ghana, the study carried out a test for difference and significance (if any). This was done to show whether the IFRS – IAS 12 gives an improved corporate tax element amount as against the GNAS standard on taxation following the adoption of IFRS in Ghana. A pair sample test for independence was useful here because the variable of current year tax expenses had been measured in two different accounting standards thus the GNAS and IFRS. It is therefore the objective of the study to investigate whether the IFRS financial statements give improved corporate tax element figures than the GNAS financial statements. In other words, will the IFRS financial statements give a higher tax expense to the firms which invariably are revenue to the government? It must be noted that it is the same transactional data from which the sample firms are expressed. The pair sample t-test was performed here because the study sought to determine whether the sample firms differ on GNAS and IFRS in respect of their tax obligation to the tax authority. Also the data observed were from the same transactional activities but only reported in two different accounting standards. The analyses are group into hypotheses set up in respect of the objectives of the study.

H1: There is no difference in the IFRS current year tax expense as restated and the GNAS current year tax expense.

This first hypothesis suggests that there would not be differences in current year tax expenses amounts as reported by IFRS restated and GNAS. A paired-samples t-test was conducted to evaluate the tax impact of the adoption of IFRS on current year tax expenses amounts. There was a statistically significant decrease in current year tax expenses amount from GNAS (M = GH¢3,387,102.64, SD = GH¢7,564,545.92) to IFRS (M = GH¢1,784,452.09, SD = GH¢2,617,572.01), t (21) = 1.00, p = .328 (two-tailed). The mean decrease in current year tax expenses was GH¢1,602,650.55 with a 95% confidence interval ranging from GH¢-1,723,810.58 to GH¢4,929,111.67. Following from Cohen (1988) guidelines of interpretation, the p-value of .328 indicated a large effect size. Also, as usual, probabilities more than .05 indicate the null hypothesis fails to be rejected. In this case, the p-value is more than .05 hence it can be concluded that there is no difference in the IFRS current year tax expense as restated and the GNAS current year tax expense reported in the 2007 / 2006 and 2008 / 2007 financial statements. Thus the adoption of IFRS does not lead to business entities incurring more or less current year tax expenses.

Disclosures Quality Levels of Survey Firms

From the financial statements, notes to the financial statement, reconciliation notes to the transition in the various annual reports, the researchers extracted and measured the disclosure quality levels of all sampled firms using the IASB's IFRS qualitative characteristics adopted and modified. From Table 10, the mean score for the disclosure quality index in respect of corporate taxes disclosures for the GNAS period, (2007/2006) is 76.95% and the maximum is 92.86%, with a standard deviation of 23.83%. For the IFRS period (IFRS restated from GNAS) adoption period, 2008/2007 the mean is 95.12% and maximum of 100% and a standard deviation of 10.66%. The outcome of the disclosure quality level in respect of corporate taxes of reported firms, had a mean of 95.12% as restated, for 2008/2007 indicating an improvement in the quality of corporate taxes disclosure following the adoption of IFRS in 2007. It also indicates that most of the entities listed on the GSE are not only overwhelmingly complying with the IAS 1 and IAS 12 disclosure requirements but also fulfilling the IASB's IFRS qualitative characteristics of relevance, faithful representation, understandability, and comparability as noted by Agyei-Mensah (2013). The implication is that generally, disclosure quality of corporate taxes has increased. The magnitude of change in respect of current year tax expense also saw a mean score of -0.7%, a maximum of 115.28%, a minimum of -99.94% and a standard deviation of 33.90%. This magnitude of change in respect of current year tax expense (-0.7%) indicates that a general increase in disclosure quality level did not necessarily bring about higher taxes from the sample firms but rather reduced their current year tax expense marginally.

H2: There is no relationship between changes in disclosure quality level of IAS 12 and current year tax expenses changes.

The second hypothesis states that no relationship would be detected in changes in disclosure quality level of IAS 12 and the current year tax expense changes. The current year tax expense changes are measured by the amount of changes of current year tax expense in GNAS financial statement and as restated in IFRS financial statement. It is simply the IFRS restated year current tax expense minus the GNAS prior year current tax expenses. Even though there were high changes in disclosure quality level of IAS 12, the correlation is weak with r = 0.104, n = 22, p = .645. Therefore, the null hypothesis fails to be rejected. The correlation coefficient of .104 indicates that there is a weak relationship between the changes in disclosure quality level of IAS 12 and current year tax expense changes following the adoption of IFRS. The corresponding p-value of .645 implies that the weak correlation observed is due to chance factors since it is not significant and that in reality, a relationship does not exist between the changes in disclosure quality level of IAS 12 and current year tax expense changes following the adoption of IFRS.

H3: There is no relationship between the magnitude of change in disclosure quality index and the magnitude of change in current year tax expenses.

The third hypothesis states that no relationship would be detected in the magnitude of changes in disclosure quality level of IAS 12 and the magnitude of change in the current year tax expense of reported firms. The magnitude of change is measured by the restated year in IFRS divided by the GNAS prior year minus one. It is simply the IFRS restated year current tax expense divided by the GNAS prior year current tax expenses minus one. The magnitude of change is to measure the extent of changes, and whether these volumes of change have any relationship with the size of changes in the amount of current year tax expenses payable as restated in IFRS due to the adoption of IFRS – IAS 12. Again, though a high change in disclosure quality level was reported, a moderate positive linear relationship was observed with $r = 0.371$, $n = 22$, $p = .090$. The seventh null hypothesis fails equally to be rejected. The correlation coefficient of .371 indicates that there is a moderate relationship between the magnitude of change in disclosure quality level of IAS 12 and the magnitude of changes in current year tax expense following the adoption of IFRS. The corresponding p-value of .090 implies that the moderate correlation observed is due to chance factors since it is not significant and that in reality, a relationship does not exist between the magnitude of changes in disclosure quality level of IAS 12 and the magnitude of changes in current year tax expense changes following the adoption of IFRS.

Tax Challenges of IFRS Adoptionin Ghana

Making changes to accounting standards may not appear to be like a strategic change by the business community, but it may change fundamentally the way that businesses are run, the way businesses success are measured and reported, and the information that firms need to keep so as to appear compliant with those changes. Finance officers/ Financial controllers/directors of sample Ghanaian firms believe that the adoption of IFRS have had significant impact on their financial reporting as well as on their internal orientation of managing the entities. Prominent among the tax challenges from the study are outlined as follows: IFRS appears too difficult to combine with national requirements e.g. IR Act, 2000 (Act 592), IFRS which uses fair value accounting is biased and not easy to manage for tax purposes, IFRS comes with high cost of compliance by way of accounts preparations, and there is the unavailability of or limited qualified chartered accountants to help in the preparation financial and tax accounts. Included in the above tax challenges following the adoption of IFRS in Ghana are the apparent complexities and voluminous nature of financial statement in disclosure, measurement, and recognition of items, increase adjustment from financial accounting to tax accounting, the absence of general guidelines from ICA-G/CIT-G/GRA on tax treatment following IFRS adoption, the demand for a new set of skills and expertise following the emergence of technical areas and terminologies, and last but not least, the frequent reviews of IFRS standards.

Managing the Tax Implications of IFRS Adoption

Getting to appreciate the tax consequences of IFRS will be absolutely imperative for finance officers and tax practitioners to consider if they would like to help maintain appropriate tax results for their firms. As with any tax accounting issue, the effort for an IFRS conversion will require close collaboration between finance and tax departments. This part of the thesis objective sought to examine how corporation through their finance/tax officer can manage the tax implication of adopting IFRS. Evidently from the findings, it is not only about the quantity of corporate taxes but the quality of information disclosed that is crucial to users and ought to be included in the financial statements. There is therefore a big issue of disclosure quality and its attended voluminous notes and information. To manage this, there should be proper collaboration between finance team(s) and tax team(s) to share data and information for effective account preparations. Respondents contend that the ICA-G which is the regulatory body of IFRS should collaborate with tertiary institutions to include IFRS in their accounting programmes syllabi. This, respondents believe can enhance the knowledge base of students who are opined to be the sustainers of IFRS future in Ghana. Equally, the ICA-G needs to align its periodic professional training requirements in line with IFAC guidelines on IFRS. They also suggest a committee of chartered accountants/tax practitioners be formed to carry out peer review and to also discuss technical and uncertain tax positions affecting IFRS measurement, recognition and interpretation. Another suggestion by respondents was that the current tax legislations may necessitate abrupt amendments in accordance with the demands of IFRS in order to guarantee a flawless adoption of the IAS 12 standard and reduce the possible areas of conflict. They agreed that, it was imperative to amend existing tax laws to achieve enforcement of compliance with the IFRS. Respondents contend that whereas a result of IFRS implementation a different tax treatment is needed other than what is specified in the tax legislation, the relevant provisions should be amended with the intent of giving IFRS adoption a full effect and thus provide clarity to ordinary taxpayers. This, respondents indicated should include but not limited to training of staff of the large tax division of the GRA in the form of seminars, workshops, conferences among others. Capacity building of finance/tax team members of sample entities should adopt new approaches which may include a mix of classroom trainings, interactive sessions and other external workshops with the intent of acquiring a broader understanding of IFRS and its tax implications given the enormity of the challenges and technicalities that will arise each time the IAS 12 is updated.

Summary of Findings

To examine the tax implications of IFRS adoption in Ghana by listed companies, mixed methods research is applied to three different sources of data. Even though, the population size is small (N = 37), the sample size (n = 22) was arrived at after eliminating samples with invalid search results, non-previous reporting under GNAS among others. The summary of the findings are as follows: First, descriptive analysis of the data collected revealed that the majority (45.5%) of firms listed on the GSE are the financial/insurance/information technology entities whereas the least are those in agro-processing with 4.5% of total sampled firms. On the issue of cost of adopting IFRS, majority (50%) of firms were reported to have spent between GH¢5,000 to GH¢10,000 during the implementation of IFRS. Areas that these amounts were spent on included consultants fees, staff training and capacity building costs, hiring of fresh expert staff as well as system changes as in software and hardware. On the impact of post-IFRS adoption on corporate income taxation in Ghana, the research provide evidence of no differences generally between GNAS and IFRS reported amounts of corporate tax elements of current year tax expenses. However, there were individual firm differences and the magnitude of these differences and the extent to which individual entities were affected varies considerably. There is however, no enough evidence of statistically significant differences when the differences are tested using the paired sample t-test. Overall, the paired sample t-test of GNAS and IFRS reported tax amounts showed no differences between IFRS and GNAS computed amounts collectively. Largely, 77.3% of firms observed did not report any changes to current year tax expenses. In terms of industry sectors, the manufacturing/trading industry saw a positive change of 13% in current year tax expenses while the financial/insurance/information technology industry reported a decrease of 13.3% in current year tax expenses. These results have implications for the tax authority (GRA), firms, analysts, and accountancy and tax professionals both here in Ghana and other countries yet to adopt the IFRS. The disclosure quality level of IFRS showed an increase over the GNAS disclosure quality level of about 39.6%. This study provides evidence of association between the improved magnitude of disclosure quality level and the current year tax expenses as reported by the sampled firms. Largely, there is a positive (ranging from moderate to weak) relationship between the magnitude of change in disclosure quality level of IAS 12 as in IFRS and the current year tax expenses. Nonetheless, this relationship was not statistically significant when tested with the Pearson correlation test. The tax challenges of IFRS adoption as enumerated by respondents included but not limited to apparent complexities and voluminous in disclosure, measurement, recognition of items (86%), increased adjustment from financial accounting to tax accounting (86%), the absence of general guidelines from ICA – G / CIT-G and the GRA on tax treatment following IFRS adoption (95%). The other challenges saw respondents ranging from 63% to 82% attesting that they have encountered them. Last but not least, on managing the tax implications of IFRS adoption, researchers suggested closed collaboration between finance and tax departments, a guide on tax treatment be prepared by the ICA-G / CIT-G and the GRA for financial and tax accountants, collaborating with tertiary institutions to integrate IFRS issues in their syllabi. There were few limitations to the study. First, the sample size was limited or small. This notwithstanding, the needed data were solicited. Secondly, due to the inability of all firms to fully apply IAS 12, the results may not fully reflect the aim of this study. Counter to this, though some did not fully apply IAS 12, they applied other IFRSs that invariably have effects on corporate taxes. In addition, the study does not research the effects of other standards on corporate taxes. Another limitation is the timing of data collection since some of the respondents responsible for preparing firms' accounts were not at post during the transitions. However, most of the quantitative data were observed and extracted from reported annual reports statements published.

Conclusion

The results triangulate to suggest that there are tax implications following the adoption of IFRS by listed entities in Ghana. The GSE is dominated by the financial/insurance/information technology followed by manufacturing/trading entities. Financial/insurance/information technology entities saw decline in their corporate income taxes burden while manufacturing/trading saw an increase in their corporate income tax liability due to the adoption of IFRS. The increased tax burden of manufacturing/trading companies implies more burden and repercussions for the Ghanaian manufacturing and trading companies. Overall, there was a marginal insignificant increase in the corporate income tax liability of all the sampled companies used in this study. By and large, there were no differences between the GNAS and IFRS reported amounts of taxes by sample entities looked at generally. This was observed because, though a number of firms adopted IFRS, they did not apply IAS 12 but rather still applied the GNAS standard on taxations. However, entities generally showed large impact due to the adoption of IFRS but were not statistically significant in the magnitude of change of their current year tax expenses. On the disclosure quality level, it can be concluded that IFRS disclosures quality is higher than GNAS disclosure quality. Magnitude of disclosure quality level relates with corporate tax expenses but fails in statistical significance test. Tax challenges exist following the adoption of IFRS and the way forward to managing these implications are collaboration and professional guidance by expert/professional bodies.

Recommendations and Suggestion for Future Research

From the foregoing findings and conclusion on the tax implication of IFRS adoption in Ghana, the researchers recommend that the management of tax implication should or can be shared with industry stakeholders for further discussions and debates in framing the guideline on tax treatment due to IFRS adoption. Government should also review the corporate income tax rate of manufacturing/trading companies downwards since the adoption of IFRS led to an increase in income tax liability. Or better still government should grant tax incentives like tax holidays, location incentives among others. Future research can be done to examine the effective tax rates of entities since the adoption of IFRS in a trend analysis longitudinal approach of study. Also, a further study to examine any sectorial differences in corporate income taxes between manufacturing companies, banking companies and insurance companies among others could be carried out.

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