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Financial and Tax Accounting: Transparency and “Truth”

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Tax and Corporate Governance

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Part of the book series: [MPI Studies on Intellectual Property, Competition and Tax Law](#) ((MSIP, volume 3))

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Abstract

In the USA there have been calls for greater conformity between the rules producing tax accounts and those used for financial reporting purposes. A number of benefits are claimed for this so-called “book-tax conformity”, including reduced compliance costs and better opportunities for monitoring. In Europe, the debate around use of the financial accounts for tax purposes has arisen from a different conceptual starting point as well as differences in surrounding circumstances. Linkage between tax and financial accounts is common in Europe, although it takes varying forms. This does not result in complete book-tax conformity,

however, and recent developments in accounting may be increasing divergence rather than reducing it. Despite the strong arguments in favor of conformity, there are also good reasons for some divergences, meaning that the most likely outcome in any system, whatever the starting point, is partial convergence. The problem with a hybrid outcome of this kind is that, at the point of divergence, there can be conceptual confusion and difficulties in integrating and managing two conceptually very different rule systems. Clarity of the relationship between the rules and improved accounting disclosure requirements might be more important than convergence, and might be achieved with less distortion to either tax or financial accounting. The current U.K. position is used to illustrate these points.

The author thanks the organizers and participants of the Symposium on Tax and Corporate Governance at the Max Planck Institute for Intellectual Property, Competition and Tax Law in Munich for the helpful discussion. She has also benefited from the Kari Tikka Memorial Lecture delivered by Professor Claes Norberg at the University of Helsinki in June 2007 and the debate which followed.

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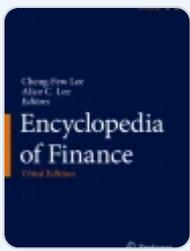
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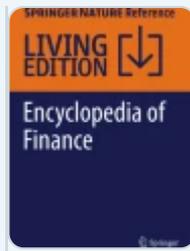
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