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## Financial and Tax Accounting: Transparency and “Truth”

[Judith Freedman](#)

Conference paper

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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.

Keywords

[Supra Note](#)

[Accounting Standard](#)

[Financial Account](#)

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70 MACDONALD, *supra* note 13.

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made the case seem so simple that they left us with a real problem to understand why it ever got as far as it did; this suggests some over-simplification of the issues.

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80 [1956] AC 85.

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83 KING/ THORNHILL, *supra* note 1, and see the discussion of systems theory in FREEDMAN, *supra* note 6, at 96 and below.

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85 As explained by Lightman J [2005] STC 958 at para. 39.

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86 [2005] STC 958 at para. 36.

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87 See *supra* note 74.

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88 See TRUMAN, *supra* note 82.

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89 [2004] STC (SCD) 253 at para. 267.

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90 Similarly in the case of *Gallagher v Jones*, accounting standards were in fact followed only in part — see FREEDMAN, *supra* note 68.

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91 See *supra* note 68.

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92 *Id.*, at 544, line h. In another case dealing with the conversion of rental payments into a capital lump sum by way of assignment, the entire question was treated as one of law, to the surprise of the dissenting judge in the Court of Appeal, Arden LJ, who thought that the accountancy treatment was a relevant consideration: *IRC v John Lewis Properties*,



[2003] STC 117. Legislation has not introduced a solution to the issue addressed in that case which comes close to the accounting treatment. 93 Finance Act 2006, Schedule 8 amending Capital Allowances Act 2001.

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94 For examples of such a response under the present system, see, in addition to *Gallagher v Jones*, the cases on “judicial gap filling” discussed in FREEDMAN, *supra* note 6, at 87 *et seq.*

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95 KING/ THORNHILL, *supra* note 1, at 26-27; NOBLES/SCHIFF, *A Sociology of Jurisprudence* (2006).

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96 KING/ THORNHILL, *id.*

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98 DESAI/ DHARMAPALA, *supra* note 5; DESAI, *supra* note 59.

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99 See SHAVIRO, *supra* note 81, who considers the difficulties created by conformity make it inferior to partial conformity. By this he means, however, a form of partial conformity, this would not be based on altering the detailed rules for profit computation but would take the form of an adjustment of the final figures. This is a practical proposal to address the tax avoidance problem although the rationale is not entirely clear. If it is

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103 NATIONAL AUDIT OFFICE, *supra* note 10.

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