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Financial and Tax Accounting: Transparency and “Truth”

| Conference paper

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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.

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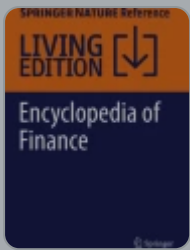
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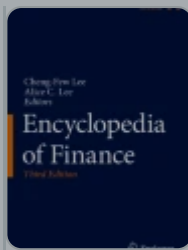
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for tax avoidance in the USA, which attempts to isolate only that part of the book-tax gap not attributable to accounting accruals *see* DESAI/DHARMAPALA, Corporate Tax Avoidance and High Powered Incentives, 79 Journal of Financial Economics 145 (2006); DESAI/DHARMAPALA, *supra* note 5. The difficulties involved in producing these figures are discussed in depth in HANLON/SHEVLIN, *supra* note 5.

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37 *Thor Power Tool Co. v Commissioner*, 439 US 522 (1979) and see SCHÖN, The Odd Couple, *supra* note 6.

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74 For some examples of such cases *see* FREEDMAN, *supra* note 6. On the question of the capital/revenue divide being a question of law *see* the unequivocal statement of Lord Denning in *Heather v P E Consulting Group Ltd*, [1972] 48TC293: “The courts have always been assisted greatly by the evidence of accountants. Their practice should be given due weight; but the courts have never regarded themselves as being bound by it. It would be wrong to do so. The question of what is capital and what is revenue is a

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case?, The Tax Journal, April 9, 2007, 6, their Lordships 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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81 Following this decision, LIFO was rarely considered to be good accounting practice either: contrast the U.S. where LIFO appears to have been used for tax reasons and attempts to limit this by a statutory conformity requirement failed because everyone accepted that this figure would be tax driven and accounts provided additional information in other ways: see SHAVIRO. The

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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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