A Unifying Model of How the Tax System and Generally Accepted Accounting Principles Affect Corporate Behavior

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This paper models the impact of the tax system and GAAP on the real and financial reporting decisions of corporations. It provides a first step toward joint evaluation of taxation and financial reporting in the standard economic analyses of corporate behavior. The key finding is that value arises from real decisions that provide firms with discretion in their tax and financial reporting. This desire for flexibility modifies the optimal decisions of firms, in theory, and we provide examples that illustrate this behavior in the real world.

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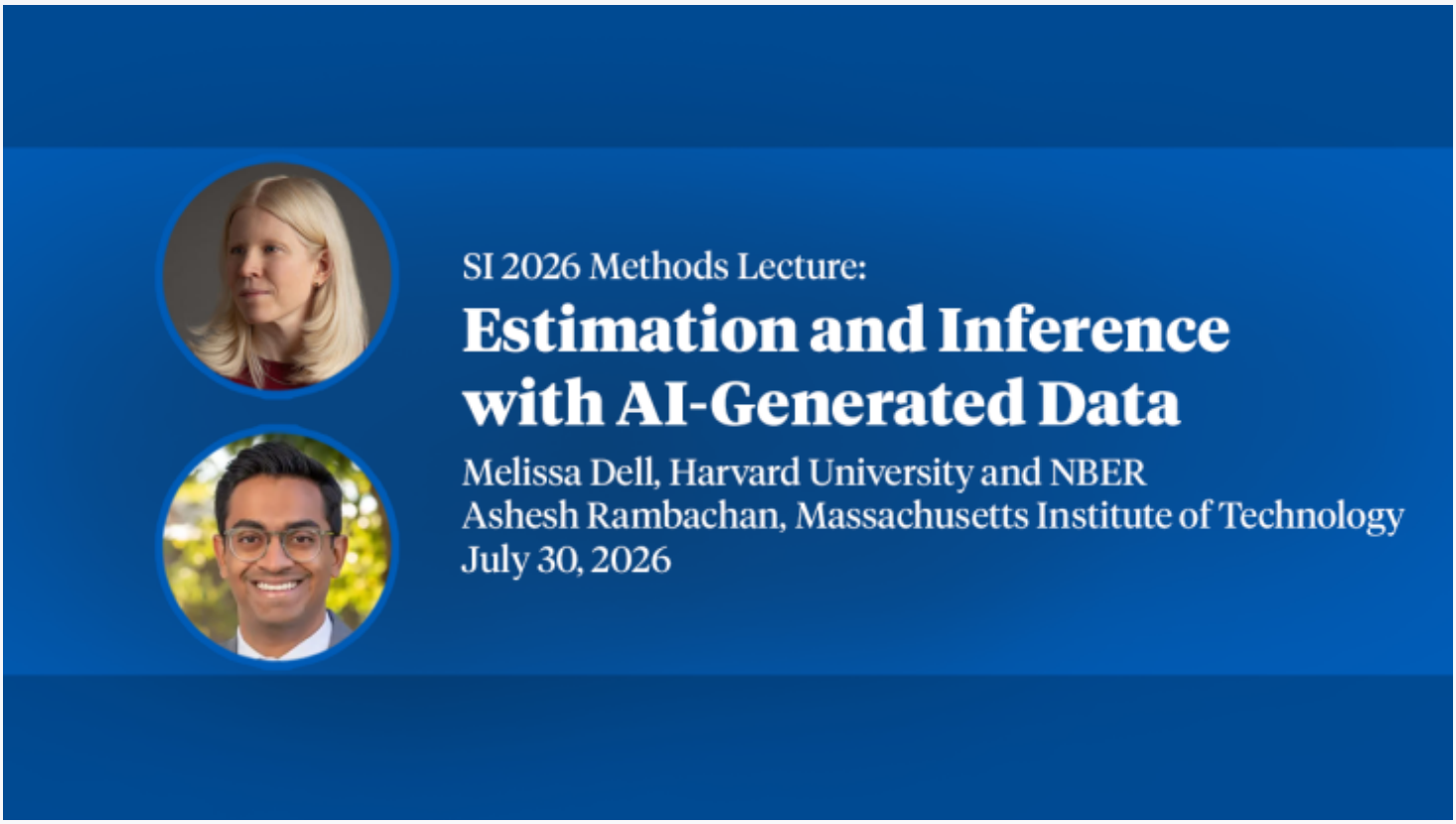


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