The Impact of Firm Characteristics on Book-Tax-Conforming and Book-Tax-Difference Audit Adjustments

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This study empirically investigates the differential impact of firm characteristics on book-tax-conforming and book-tax-difference noncompliance. Tax noncompliance is measured in terms of tax audit adjustments made by tax authorities in response to the violation of tax laws. We decompose the tax audit adjustments into book-tax-conforming adjustments (adjustments that affect both book and tax incomes) and book-tax-difference adjustments (adjustments that affect only tax income) using archival tax audit data. Based on the decomposed noncompliance, we explicitly examine the tax and nontax cost trade-off for exporters and high-tech companies when they underreport both book and tax incomes. Our results indicate that export-oriented and high-tech companies, respectively, have larger book-tax-conforming adjustments but smaller book-tax-difference adjustments than domestic-market-oriented and non-high-tech companies. Our study contributes to the literature by further explaining the determinants of corporate-tax noncompliance, and is the first to provide archival evidence of tax noncompliance on such a decomposed basis. These archival evidences on noncompliance help us understand more about the incentives or disincentives for corporations to comply with tax laws. Our results also offer guidance for public policy makers, especially those in developing economies, to design their tax policies to attract foreign investment, and for tax authorities to plan more effective and efficient tax audits.

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This causes large book to tax adjustments in and itself. It is also correct that some policy choices for accounting (such as amortization) are more defined under tax law and need to be accounted for differently. Most companies use financial accounting data as the starting point and make “book to tax adjustments” to account for any variances in policy in order to conform with tax regulations.

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Impact of direct taxation – income tax.

Income tax is a levy on income earned. In the UK, the basic rate of income tax is 20%. If there is an increase in income tax, what impact does it have? Raise revenue for the government. The logic of taxes on demerit goods and goods with negative externalities is to make consumers pay the social cost of the good and internalise the externality. Without the tax, the market price of producing chemicals may be less than the social cost. The tax can increase the price to reflect the greater social marginal cost. In the above diagram, the tax of P2-P0 increases the price to P2 and reduces demand from Q1 to Q2.

Books by Tejvan Pettinger.


Types of IRS Tax Audits. When you first hear from the IRS, they will send you an official letter letting you know the type of audit that will be conducted. Do you get a letter from the IRS saying that you owe an additional small amount of tax? How your auditor perceives you can have a significant impact on the outcome of your audit. "I could take [an] audit in front of 10 different auditors and get 10 different results. It’s an art as well as a science," says Daily. Tax professionals are trained in how to handle this type of situation and can advise you on what your options are.

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This study empirically investigates the differential impact of firm characteristics on book-tax-conforming and book-tax-difference noncompliance. Tax noncompliance is measured in terms of tax audit adjustments made by tax authorities in response to the violation of tax laws. Book-tax-conforming adjustments refer to those made to correct misstatements arising from violations of both financial and tax reporting regulations; they affect both book income and taxable income. Will a departure from tax-based accounting encourage tax noncompliance? Archival evidence from a transition economy. Tax audit is the official examination or audit of the tax department to the tax return that declares by taxpayers as required by law. Different countries and different jurisdictions may have different laws and requirements and due to the audit process. In general, taxpayers declare their tax return monthly and annually to the tax department; however, just because declaring tax returns to the tax department does not mean that taxpayers have completed their obligation. There are many different kinds of tax return and the term that used to call those terms may be the difference from one country to another. And before visiting the taxpayer office, or requesting additional documents and clarification, the tax department should normally notify taxpayers. The following are the types of taxes audit.