REVISTA ELECTRÓNICA DE DIREITO

RED

Are IFRS Standards a Good Starting Point for a Corporate Tax Base? Tax Principles for a CCCTB

São as normas IFRS um bom ponto de partida para uma base tributária corporativa? Princípios Tributários para uma CCCTB

Antonio Lopo Martinez

PhD Candidate in Law

Faculdade de Direito da Universidade de Coimbra

Pátio da Universidade, Coimbra, Portugal, 3004-528

lopomartinez@student.uc.pt

https://orcid.org/0000-0001-9624-7646

September 2019

ABSTRACT: This article discusses whether IAS/IFRS should be used as a starting point in the context of the Common Corporate Tax Base in the European Union. Non-European countries may also have an interest in the analysis on the use of IFRS to compute the corporate tax base, as well. After a background discussion on the application of IAS/IFRS as the start point for a tax base, some principles of tax bases are analyzed. Additionally, the disadvantages and advantages of using IAS/IFRS as the start point are presented. In the end, the creation of an independent tax accounting framework is recommended, which should have as the primary purpose taxation, and taxpayers and governments as the users of the information. In this new arena, the IAS/IFRS should be a valuable toolbox of concepts that can be adjusted for a tax perspective.

KEY WORDS: Common Corporate Tax Base; IFRS; Tax Principles; Tax Accounting.

RESUMO: Este artigo discute se as IAS/IFRS devem ser utilizadas como ponto de partida para uma base tributária comum consolidada do imposto sobre as pessoas coletivas na União Europeia. Países não europeus também podem ter interesse na análise da utilização das IFRS para calcular a base tributária das empresas. Após uma discussão de fundo sobre a aplicação do IAS/IFRS como ponto de partida para uma base tributária, alguns princípios das bases tributárias são analisados. Além disso, as desvantagens e vantagens do uso do IAS/IFRS como ponto de partida são apresentadas. No final, recomenda-se a criação de um conjunto de princípios de normas de contabilidade fiscal independente, que deve ter como principal finalidade a tributação, e os contribuintes e governos como os usuários dessa informação. Nesta nova arena, o IAS/IFRS deve ser uma valiosa caixa de ferramentas de conceitos que deverá ser ajustado para uma perspectiva fiscal.

PALAVRAS-CHAVE: Base Tributária Corporativa Consolidada; IFRS; Princípios Tributários: Contabilidade Fiscal.

Summary*

1. Introduction

2. Formal Linkage of the Corporate Tax Base to Financial Accounting

3. Background to IAS/IFRS as a starting point to CCTB

3.1. Different objectives of IFRS and Tax Accounting

3.2. Different Institutional Frameworks from IAS/IFRS and Tax Accounting

3.3. IAS/IFRS uses fair-value accounting

3.4. Are the differences so hard to reconcile?

4. What are the Tax Principles for a Tax Base?

4.1. Neutrality/Efficiency

4.2. Equity/Equality

4.3. Legal Certainty

4.4. Simplicity/Practicability

5. What are the Problems with IFRS?

5.1. Lack of certainty

5.2. Subjectivity in the valuation and recognition

5.3. Difficulty in tax law to accompany the economic essence

6. Critical Evaluation of Favorable Arguments for IAS/IFRS Standards

7. Conclusions

7.1. Use IAS/IFRS as a toolbox of concepts but not as a starting point

7.2. Create a different, new set of accounting rules oriented to tax

References

* The author wrote this article when he was an Erasmus+ exchange student at Amsterdam Law School in the academic year of 2018/2019.

1. Introduction

The European Union has been working for some years on the dream of a *Common Consolidated Corporate Tax Base* (CCCTB), which is believed to be the panacea to several corporate tax problems, among them a partial elimination of abusive tax planning practices and enhanced fairness of corporate income tax within the EU. Some believe that with the adoption of the CCCTB, the EU will stimulate growth and investment.

After the relaunch of the CCTB/CCCTB Proposal in 2016, as a clear sign of hope of success Germany and France, in June 2018, agreed on tax reform in the European Union by generating a report defending a *Common Corporate Tax Base* (CCTB).[1] France and Germany, as proposed by the European Commission, share the objective and substance of the CCTB Directive. In general, both countries argue that the tax base should proceed from the accounting principles expressed in the Proposal for a Council Directive on a Common Corporate Tax Base (CCTB),[2] 13024/18 (5 Dec. 2018).

Nevertheless, as the Commission has stressed, a formal link between the base of the Directive and constantly changing IAS (International Accounting Standards) /IFRS (International Financial Reporting Standards) would not be acceptable. Many State Members from EU do not permit the use of IAS/IFRS for individual company accounts and not all of the IAS/IFRS norms are appropriate for tax purposes.

There is a belief that a specific and direct link to the IAS/IFRS[3] accounting rules in the Directive will contra-indicate many national accounting rules. Besides, there are significant concerns that because the IAS/IFRS are developed by the *International Accounting Standards Board* (IASB), a private standard setter, these norms are usually subject to frequent changes and not in the direction of simplification, leading to a more complex and volatile set of criteria.

Although the use of IAS/IFRS as starting point would lead to greater harmonization, it is legally questionable to use rules that are beyond the control of national authorities within a Directive. Another critical point to remember is that IAS/IFRS are, in most of the EU countries, mandatory only for publicly listed companies, whereas the vast majority of companies in the European Union, and in the rest of the world are SMEs that do not apply

[1] According to German-French Common Position Paper on CCTB Proposal (19 June 2018) (the Meseberg_Declaration),https://www.bundesfinanzministerium.de/Content/EN/Standardartikel/Topics/Europe/Articles/2018-06-20-Meseberg-att2.pdf?__blob=publicationFile&v=3 . "*France and Germany agree on the general principles for profit and loss recognition, as proposed by the CCTB Directive. Nevertheless, they consider that these principles should be supplemented with a general rule providing that the tax base is determined on the basis of accounting principles and calculated by applying the business asset comparison method, in order to apply a simple and comparable method and keep bureaucratic effort at a minimum*."

[2] The Proposal for a Council Directive on a Common Corporate Tax Base (CCTB), 13024/18 (5 Dec. 2018), is available at http://data.consilium.europa.eu/doc/document/ST-13024-2018-INIT/en/pdf.

[3] The International Financial Reporting Standards, also known by its acronym in English as IFRS (*International Financial Reporting Standard*), are adopted by the IASB (International According Standards Board), a private institution based in London. The standards are known by the acronym IAS and IFRS depending on when they were approved. The accounting standards issued between 1973 and 2001 are called "*International Accounting Standards*" (IAS) and were issued by the IASC (International Accounting Committee), a precedent of the current IASB. *Vide:* ANUSCHKA BAKKER / TJEERD VAN DEN BERG / BART JANSSEN (eds.), *Tax accounting: unravelling the mystery of income taxes*, Amsterdam, IBFD Publications, 2015, 422 p.

these accounting rules. Undeniably, IAS/IFRS could, however, have been used as a tool in providing a common language and some standard definitions.[4]

Another option, the Accounting Directive (2013/34), could be eligible for such a principle as well. Generally, the Accounting Directive could have been used as a starting point for the CCTB Directive since, in respect to profit determination, it is limited to general framework principles that could be carried over to the latter. Further specifications could then have been autonomously regulated in the CCTB Directive. Finally, Germany and France suggested that national accounting principles should be carried over instead, provided that they are not incompatible with the rules laid down in the CCTB Directive.[5]

Before going into detail on how the tax base should be determined, first, the proposed CCTB system introduces autonomous rules for calculating and defining the tax base of companies and should not interfere with financial accounts. While the debate in the preliminary stages has focused on the questions of whether and to what extent accounting rules would be used, at this moment the focus is to see which laws would be used as a starting point for the definition of a tax base.[6]

At this moment, a formal starting point for the tax base is missing. It is essential that the proposed Council Directive provides a comprehensive set of general principles and rules that will cover all aspects of determining the common tax base to ensure consistent application and treatment across all Member States. In this context, the purpose of this paper is to discuss if IAS/IFRS should be used as a starting point for the tax base and the advantages and disadvantages of using IFRS/IAS as the starting point for tax base computation.

To have an answer to these questions is important not only for the European Union but for several countries all over the world that may use the IFRS as the starting point for their tax base. In this sense, the article should be helpful not only for European Union countries but from a global perspective. An understanding of the strength and weakness of IAS/IFRS can help to define the best method to be considered as a starting point. A non-European country may also have a direct interest in the CCTB format, as it is a significant factor affecting investment decisions in Europe, even though these topics have not yet drawn considerable attention in studies outside the EU.

---

[4] Lisa Aumayr / Gunter Mayr, "European Union CCTB – Is There a Chance of a Breakthrough?," *European Taxation*, vol. 59, no. 4, 2019, p. 2–4.

[5] According to Christoph Spengel / York Zöllkau, *Common Corporate Tax Base (CC(C)TB) and Determination of Taxable Income: An International Comparison*, Edición, 2012, Heidelberg; New York, Springer, 2012, p. 19. There is no single country in the European Union where there is no relation between financial accounting and tax accounting. While the degree of dependency of financial accounting for tax accounting obviously differs, there is no doubt that, in all countries considered, the tax base cannot be quantified without the financial accounts as the primary source of information for the tax accounts and a key element in determining the tax base.

[6] IFRS could for instance act as a fall back system without dominating the calculation of the tax base. Another similar solution would be to appoint a separate body (comparable to the IASB) to make standards for applying the tax base, similarly the members would have to be a good representation of the users. In practice more than one form of guidance will probably be necessary as there is a number of issues that have a pure tax background for which IFRS or a similar system holds no solutions Ronald Russo, "Principles and Characteristics of CCTB after the Relaunch," *in* D. M. Weber / Jan van de Streek (eds.), *The EU Common Consolidated Corporate Tax Base: critical analysis*, Alphen aan den Rijn, The Netherlands, Kluwer Law International B.V, 2018 (EUCOTAX series on European taxation, volume 58), p. 15.

The rest of the paper will be organized as follows. First, how the determination of the tax base is linked with accounting events will be discussed. After this, the IRFS is presented and how it can play a role in tax computation. Also, similar characteristics between the IFRS and the proposal for Council Directive on a CCTB will be discussed. Toward the overall goal of the paper, the guiding tax principles will be presented that should be observed to have a proper corporate tax income system. Finally, some advantages and disadvantages to use IAS/IFRS as a starting point for a corporate income tax base are given.

2. Formal Linkage of the Corporate Tax Base to Financial Accounting

When we speak of a "formal linkage" between taxable profit and financial accounting, we are referring to a specific rule of tax law that uses the judgments made in the financial accounting on the evaluation of relevant facts for tax purposes.[7]

There are different historical reasons for following this rule or principle of formal linkage. The first reason to use accounting practices is practicability, since a formal linkage between the taxable profit and the financial accounting avoids managers having to prepare a second series of financial accounts based on two different sets of rules. Nevertheless, it is mandatory to say, that this argument lost much of its importance since, with the current state of information technology, it is very easy and inexpensive to overcome the difficulties derived from having to prepare two sets of accounts based on two different sets of rules.

The second reason for a formal linkage lies in the role of proof attributed to financial accounts. If to verify the economic facts that appear on the tax return, the tax administration had to examine all the documents supporting the accounting, this would involve a task so demanding that it would make the operation of corporate tax almost impossible. In this sense, the accounting statements when making a synthesis of all the relevant economic facts that must be considered for the calculation of income is constructive. Also, these accounting statements, especially in public and usually in big companies, are certified by auditors that attest that the affirmations that are found in the financial statements are correct. In sum, taking the financial statements as a means of proof of these objective economic facts is essential for efficiency in the taxation of companies.

However, for financial statements to fulfill their role as proof of the objective economic facts, it would not be required that the discretionary valuation and judgments made on the same

[7] Following Margaret Lamb / Christopher Nobes / Alan Roberts, "International Variations in the Connections Between Tax and Financial Reporting," *Accounting and Business Research*, vol. 28, no. 3, June 1, 1998, pp. 173–174. It is possible to identify five case that express the degree of connection or conformity between tax and financial reporting rule, i) disconnection of tax rules and practice from financial reporting rules and practice. ii) identity is where the tax rules and financial reporting rules are the same. iii) accounting leads, since the accounting rules are more detailed than the tax rules, and tax practice is to follow accounting practice. iv) tax lead, there is no precise financial reporting rule, so a tax rule is followed for convenience or a tax option is chosen in order to reduce tax liabilities and v) tax dominates, so that financial reporting rules are overridden. Some countries may have more than one accounting system. For example, group accounts may use different rules from individual accounts.

financial statements be applied for tax purposes. In other words, a total formal linkage would not be necessary. If the legislature considers the fact that discretionary judgments are inappropriate for tax effects (tax options), it could diverge freely from those made in the financial accounting statements. The determination of the taxable profit could be based on the financial statement (for reasons of simplification only), yet it might still be possible to transformed them using different discretionary judgments made under financial accounting standards. This transformation could be done in the tax return.[8]

In other words, the legislature or tax regulator can establish that the role of proof of the mercantile financial statements concerning discretionary judgments is applied according to tax law. To achieve this, the tax authority must establish the rule that discretionary decisions made in the commercial balance will be preclusive for tax purposes. So, if this rule is established, the taxpayer is prohibited from replacing, for tax purposes only, the discretionary judgments made in the financial statements under the justification that a different criterion would be more appropriate for tax purposes. The alternative between establishing or not establishing a formal linkage concerns this role of the financial statements as a means of proof of economic facts.

Another point relevant to justify the linkage between financial and tax accounting is that it ensures that the state, like a silent partner, participates in the business's profits and also its losses. This profit and loss participation should ensure the neutrality of income tax, because it does not influence the amount or direction of the taxpayer's risk-taking. Additionally, creating a formal linkage between the financial accounting and tax reports minimizes the conflicting interests. Taxpayers generally have an interest in showing high profits in the financial accounts and low earnings in the tax accounts. These conflicting interests may balance out and lead to reasonable accounting policies overall.

In sum by using financial accounting, we have an expression of the taxpaying capacity expressed in the financial statements approved for commercial law. To confirm the formal linkage, two assumptions must be confirmed: 1) that discretionary accounting judgments are adequate for tax purposes and 2) that the benefit calculated for commercial law expresses or translates the subject's tax capacity. These two assumptions are the Gordian knot of the formal linkage problem.

So if the measurement of income under a particular set of accounting rules has all the necessary characteristics to match the ability to pay, or even if the taxing authority prescribes that taxable profit must deviate widely from financial accounting profit, such deviation is not technically incompatible with formal linkage between taxable income and financial accounting profits. The formal linkage is justified by the requirements of proof concerning discretionary choices incentivized by financial accounting.

---

[8] Following António Moura Portugal, *A dedutibilidade dos custos na jurisprudência fiscal portuguesa*, Coimbra, Coimbra Editora, 2004, pp. 78–79. The tax legislator seems to accept (with higher intensity) the regulation made by international accounting institutions and bodies themselves. However, this reception of the proper accounting standards should be accompanied by growing accountability, as the "full reception" solution presupposes a reliance on the ethical judgment and good faith of the accounting decision-maker.

The formal linkage unfolds into two categories of precepts: i) The first, from the perspective of dependency, associated with the initial assimilation of accounting, ii) The second, revealed in the partial divergence in the face of accounting rules, incorporated in the so-called "adjustment rules." Assimilation is shown in material and formal dependence. The tax rules that are subsumed in material and formal strict sense dependence are not covered in law.[9]

The German term *Maßgeblichkeitsprinzip* characterizes the relationship between financial accounting and taxation, a word which has been translated into the English language as "authoritative principle" (or "congruence principle"). It indicates a secure linkage, indeed the strongest within the EC, between financial and tax accounting. This approach has always been characterized by the strong emphasis on creditor protection, and the maintenance of company capital has been the essential principle to ensure these goals. For this reason, *Maßgeblichkeitsprinzip* guaranteed moderate taxation of business profits, in such a way that benefits were not taxed before they had been realized and that losses would already be considered.

However, according to Prof. Essers,[10] the Netherlands system of financial accounting has always been more oriented towards the Anglo-Saxon approach seen in countries like the United Kingdom and Ireland, characterized by a focus on the interests of shareholders instead of those of creditors. In such a system, the emphasis is on providing information to the capital market based on an accurate and fair view. IAS/IFRS also disclose their roots in this Anglo-Saxon approach, e.g., by prescribing fair-value accounting for some assets. This explains why, in countries like the Netherlands and the UK, the linkage between tax and financial accounts is weaker.

Nevertheless, in the case of CCTB, the Commission examined the idea of using the IAS/IFRS and consider it to be inappropriate as the starting point to the tax base. The only role reserved by the Commission for the IAS/IFRS was a tool to guide and inform the discussion and to provide a common vocabulary during the preparatory work on the common tax base.

3. Background to IAS/IFRS as a Starting Point to CCTB

Historically, financial reporting standards have been developed as early as the nineteenth century. Accounting standards were issued, and before that, local law tended to have (limited) requirements for bookkeeping and accounting for financial reporting. Already at the beginning of the last century, academics and professionals started to talk about harmonizing accounting standards.

[9] According to TOMÁS CANTISTA TAVARES, *IRC e Contabilidade: Da Realização ao Justo Valor*, Coimbra, Almedina, 2018, pp. 179–180.
[10] PETER ESSERS, "The precious relationship between IAS/IFRS and CCCTB with respect to with respect to Provisions and Liabilities," *in* Michael LANG (ed.), *Common consolidated corporate tax base*, Wien, Linde, 2008 (Schriftenreihe zum Internationalen Steuerrecht, 53), pp. 392–393.

The IASB developed a conceptual framework, much as other rule-setting entities like FASB in the U.S. This framework defines the financial statements, stating the underlying assumptions as well as qualitative characteristics that financial statements should meet. Furthermore, it provides definitions of the constitutive elements of financial statements and criteria for recognition and derecognition (recording as an asset or on the balance sheet or as an item of income or expense in the income statement).

Although the general principles, like the accrual principle, underlying the proposed CCTB reflect common accounting principles and practice, the lack of a formal link with IAS/IFRS or national GAAP (Generally Accepted Accounting Principles) constitutes one of the most fundamental differences between the proposed Council Directive and general national rules on tax accounting. All of the latter refer to financial accounts as the starting point for the computation of taxable profits and losses.[11]

Overall, the determination and recognition of revenue on an accrual basis and the strict application of the realization principle under the proposed Council Directive follows internationally accepted tax practice. Still, there is some basis for criticism, given that the proposed Council Directive does not interfere with financial accounting regulations, e.g., IAS/IFRS, and considering that commercial law is not yet harmonized within the EU. For example, as most countries rely on national commercial law to determine the triggering event of revenue recognition, e.g., the transfer of risk, the Directive's vague revenue timing recognition is likely to yield non-uniform timing of revenues across countries. In this context, it seems advisable to establish a more extensive framework underlying the proposed Council Directive to guarantee the uniform application of the proposed regulations in all Member States in the EU.[12]

To determine the taxable income at the level of each group member, different solutions seem to be possible. A popular option, based on their factual importance, is to have a strict dependency of International Financial Reporting Standards (IFRS) for the determination of taxable accept full dependence of IFRS.[13]

---

[11] IRMA JOHANNA MOSQUERA VALDERRAMA, "The CCCTB Compatible with National GAAP? What's Next?," *Intertax*, vol. 36, no. 8, August 2008, pp. 363–364. The following difference make it difficult to have a translation and/or harmonization of financial accounting and tax accounting: 1) differences in classification of legal systems for instance between common law, civil law, Germanic, Nordic legal systems among others, 2) differences in the relationship of autonomy or dependency between tax and accounting among the countries. 3) differences in the type of instruments used to regulate in taxation or accounting. These differences need to be addressed in the legal transplant of IFRS into taxation and/or accounting systems.

[12] Cfr. MICHEL AUJEAN, "The CCCTB Project and the Future of European Taxation," *in* MICHAEL LANG (ed.), *Common consolidated corporate tax base*, Wien : Linde, 2008 (Schriftenreihe zum Internationalen Steuerrecht, 53), p. 23. "*Moreover, each Member State has its own sets of rules, in particular laws and conventions on financial accounting, rules for determining taxable profit, arrangements for the collection and administration of tax and its own network of tax treaties. The need to comply with a multiplicity of different rules entails a considerable compliance cost. This multiplicity of approaches at all levels is an important obstacle to cross-border economic activity, involving not only financial costs, internal and external, but also significant frictional losses and braking effects. The costs and risks associated with complying with more than one system.*"

[13] According to JOHANNA HEY, "CCCTB-Optionality," *in* MICHAEL LANG (ed.), *Common consolidated corporate tax base*, Wien : Linde, 2008 (Schriftenreihe zum Internationalen Steuerrecht, 53), p. 96, the most significant simplification will be achieved by the adoption of a common set of rules for the determination of the tax base. However, simplification, would not only be derived from the harmonization of the tax base, but also from the attribution of profits by formula apportionment, Abandoning the troublesome determination of transfer prices

In the EU, the use of IAS/IFRS has been mandatory since 2005 for consolidated accounts of all listed companies, but the application of IFRS differs between individual countries and non-listed companies. Some countries allow or permit more extensive use of the standards than others, depending on their accounting traditions. IAS has similar principles to those of the Anglo-Saxon accounting system, so it is more likely that more extended use of IAS/IFRS is allowed. On the other hand, countries with more creditor protection–orientated accounting traditions are more likely to restrict the application of IAS/IFRS and prefer the use of national standards.

Most of all, the IAS/IFRS produce much information that is only tangentially relevant for income tax purpose, i.e., a group of financial statements that include i) the statement of financial position, ii) the statement of profit and loss and other comprehensive income, iii) the statement of changes in equity, and iv) the statement of cash flow. By comparison, a taxpayer produces one statement, that of taxable income.

3.1. Different objectives of IFRS and Tax Accounting[14]

The IAS/IFRS provides financial markets with high-quality, timely, and useful information on company performance to enhance financial market efficiency and lower the cost of capital to investors (stockholders and creditors). The IAS/IFRS aims to produce relevant and reliable information to support investor decision-making, whereas tax accounting is more concerned with the determination of taxable income.[15]

In terms of the IASB Framework, the objective of financial statements is "*to provide information about the financial position, performance, and changes in the financial position of an enterprise that is useful to a wide range of users in making economic decisions*." Information is provided to meet the needs of the users. The users of the financial statements include present and potential investors and lenders that are particularly interested in information oriented to the future.

Other difference is that the IAS/IFRS are principle-based standards, where usually a tax accounting represents more a rules-based approach. Tax calculation needs to be more detailed, which leads to the use of rules rather than principles in the calculation of a tax base.

Moreover, IAS/IFRS allows the use of fair-value accounting and consider non-realized profits and losses. Inversely, tax accounting is based on the company's ability to pay so realized

---

and the extensive documentation required by the application of the arm's length standard would save business money.

[14] IIDA JAATINEN, "IAS/IFRS: A Starting Point for the CCCTB?," *Intertax*, vol. 40, no. 4, 2012, p. 263–265.

[15] The purpose of accounting is usually stated to be the provision to interested parties of information relevant to stewardship, control and decision-making. The interested parties may be internal (management) or external (such as shareholders, creditors, tax authorities) Cfr. CLINTON ALLEY / SIMON JAMES, "The Use of Financial Reporting Standards-Based Accounting for the Preparation of Tax Returns," *International Tax Journal*, 2006, p. 32.

gains and losses are emphasized, and the objectivity of historical cost is preferred.[16] Undoubtedly, IAS/IFRS were not designed for taxation purposes, because their primary role is to convey information to financial markets. Also, financial accounting standards are designed to provide reliable and relevant information and depict market volatility. The use of fair value accounting, more principle-based accounting rules and detailed notes reflect this aim.

Because of the clear market orientation of IFRS, the priority of accounting lies in future profits, and positive and negative factors are considered equally important. Controversially, tax accounting has a more conservative and prudent approach to accounting for earnings. Taxation aims to collect revenue equitably and efficiently, at the same time treating taxpayers objectively, and accounting is based on the realization principle depicting entities' real ability to pay.[17]

3.2. Different Institutional Frameworks from IAS/IFRS and Tax Accounting

The institutional framework differs between IAS/IFRS and tax accounting. The standard-setting body, the IFRS Foundation, which is responsible for issuing and developing IAS/IFRS, is a private organization. This means that national authorities do not control the development of IAS/IFRS, so there is no democratic authorization of these principles.

Undoubtedly, in adopting IFRS as a starting point, national states partially lose power to control the effective collection of taxes to meet their tax needs. As the IFRS is published for capital markets and investors in their decision-making, they do not care about tax issues. It is quite possible that a single change in whatever standard may lead to an extreme variance in the tax base. This is a severe risk that inevitably arises in the connection to IFRS.

If IAS/IFRS were to be used as a tax base for the CCCTB, a similar advisory procedure would likely be required for tax considerations. An advisory committee could consider the

---

[16] Some of the tensions between financial accounting and tax accounting are captured by court judgments. For example, in the US case of *Thor Power Tool Company* v *Commissioner 439 U.S. 522 (1979)*, the presiding judge said that "*The primary goal of financial accounting is to provide useful information to management, shareholders, creditors, an others properly interested; the major responsibility of the accountant is to protect these parties from being misled. The primary goal of the income tax system, in contrast, is the equitable collection of revenue; the major responsibility of the Internal Revenue Service is to protect the public. Consistently with its goals and responsibilities, financial accounting has as its foundation the principle of conservatism, with its corollary that "possible errors in measurement [should] be in the direction of understatement rather than overstatement of net income and net assets.¨ In view of the Treasury's markedly different goals and responsibilities, understatement of income is not destined to be its guiding light. Given this diversity, even contrariety, of objectives, any presumptive equivalency between tax and financial accounting would be unacceptable*."

[17] Further, income tax is concerned about additions of wealth that have already been allocated to a person, typically over a tax year. While IFRS is concerned about historic events, one of its primary purposes in doing so is to look forward. IFRS seeks to provide 'existing and potential investors, lenders and other creditors... information to help them assess the prospects for future net cash inflows to a reporting entity. Cfr. PETER HARRIS, "IFRS and the structural features of a income tax law," *in* G. M. M. MICHIELSE / VICTOR THURONYI (eds.), *Tax design issues worldwide*, Alphen aan den Rijn, the Netherlands, Kluwer Law International, 2015 (Series on international taxation, volume 51), pp. 40–41.

appropriateness of IAS/IFRS for tax accounting and evaluate the IAS/IFRS's applicability for taxation purposes. On the other hand, one might think the functionality of the referred endorsement process that also consists of evaluation for tax purposes. It would also require IAS/IFRS to be appropriate for taxation purposes as well. This might diminish the relevancy of adopting IAS/IFRS as the base for financial reporting and affect the quality of information reported to the market.

3.3. IAS/IFRS uses fair-value accounting

Fair-value accounting is often regarded as one of the main reasons not to apply IAS/IFRS for taxation purposes, because fair-value accounting would lead to taxation of non-realized profits and would be against the realization principle.

However, it should be noted that fair value is not regarded as the central principle in IAS/IFRS, and its use is limited to certain specific cases. The realization principle reflects the taxpayer's ability to pay, meaning the taxable capacity or ability to generate cash to meet the tax liability. If taxation were based on unrealized gains, it would lead to the forced realization of assets to cover the tax liability. Also, taxation only on realized profits decreases the volatility of tax liability. On the other hand, applying just the realization principle could lead to a situation where economic decisions are based on the most favorable tax treatment instead of economic judgment.

Fair-value accounting is more suitable for financial assets than other assets because a fair value is more likely to be established on the market. Fair valuation as adopted in IAS/IFRS could serve as a reference for the CCCTB in those articles where fair value is required. The valuation technique can equally commonly be used by other market participants and should rely more on market input than on entity-specific contributions. Because IAS already defines and directs the use of fair valuation, this framework could also serve the CCCTB's needs.

3.4. Are the differences so hard to reconcile?

IAS/IFRS were often referred to as the starting point for the CCTB, but no formal linkage was created between the systems. The different objectives were mentioned as the main reason for this; IAS/IFRS are directed towards future performance measurement and producing relevant information for financial markets, whereas the CCTB is more oriented to past performance. Also, tax accounting is based on the realization principle and the measurement of real tax capacity; in contrast, in financial accounting, information relevancy and reliability are emphasized.

According to the opinions of Professors Essers and Russo,[18] it would be a mistake not to benefit from the great achievement of the IAS/IFRS concepts and rules. Taking IAS/IFRS as the starting point does not mean that all theories of IAS/IFRS also must be followed for tax aspects. The *'fair-value accounting'* concept is often used as a strength of IAS/IFRS and it seems as if tax accounting is irreconcilable with it because of the realization principle of tax accounting. However, one should realize that IAS/IFRS only allow or prescribe fair-value accounting in specific cases. If necessary, specific tax solutions can be found for these items.

Additionally, legal and political arguments exist against IAS/IFRS as a tax base. The constitutionality of using standards set by a private, multinational, with its own agenda could be problematic. It is straightforward to assume that the is little political will to surrender parts of fiscal sovereignty to the IASB. Also, one must say that IAS/IFRS in their present state are still not suitable for SMEs.

4. What are the Tax Principles for a Tax Base?

This part will address the fundamental tax principles that should be observed in general terms by the corporate income tax base.

Even though there does not exist an explicit and comprehensive statement of what would be the tax principles, it is crucial to remember the four "canons of taxation" of Adam Smith (1776) for the design and operation of a taxation system: i) equality of sacrifice, ii) certainty in manner, quantity and time, iii) convenience in assessment and collection, and iv) economy in operation.[19]

They are frequently referred to and have served well as a guide to the structure of the tax system. With the changes the world has seen since Smith laid the foundations of these principles, there may be a need to revisit these fundamentally basic premises to the structure of and reason for the taxation system. They can also be applied to define the tax base, but other than that some other tax principles can be discussed.

---

[18] P. H. J. Essers / R. Russo (eds.), *The influence of IAS/IFRS on the CCCTB, tax accounting, disclosure and corporate law accounting concepts: a clash of cultures*, Austin: Frederick, MD, Wolters Kluwer Law & Business; Sold and distributed in North, Central, and South America, 2009 (Eucotax series on European taxation, vol. 23), pp. 47–49.

[19] Adam Smith, *The wealth of nations*, Blacksburg, VA, Thrifty Books, 1776; "Canons/Principles of Taxation By Adam Smith - Some other Canons/Principles of Taxation Rather Than Adam Smith - Economicsconcepts.com," n.d. URL: https://economicsconcepts.com/canons_of_taxation.htm. Accessed March 12, 2019.

4.1. Neutrality/Efficiency

Freedman and Macdonald consider that neutrality represents a broad objective that all transactions should be taxed equally; otherwise, choices between operations will be distorted and cause economic inefficiency. Even though it is quite possible that some objectives of the tax system might themselves be explicitly non-neutral. The fundamental aim of a tax might be to encourage or discourage certain types of behavior, not to intentionally distort economic decisions. In such cases, the neutrality criterion is subordinate to the policy objective.

In a global world, neutrality is an essential topic for the definition of investments and capital allocation. The jurisdictional restraints concerning the tax base are vital in this respect. This affects what is to be included in the tax base, and there are relevant binding rules that may be considered. A neutral tax base should balance the state's desire to increase revenue and the interest of the taxpayer to be taxed fairly. In some sense, financial accounting rules are seen as "neutral" law that provides a fair balance between the interests of the state and the taxpayer. Tax neutrality could be achieved if only pure and neutral profits were taxed. Taxation of pure and neutral profits would also be consistent with the principle of taxpayer equity.

According to Schön,[20] the tax base should not distort the economic decisions of the taxpayer in the allocation of resources like human labor or capital. In the end, two approaches that address this requirement. The first is cash-flow taxation, which merely looks at the inflow and outflow of cash and cash equivalents. Under the second, income is defined as the amount of economic power that the taxpayer may consume during a given period without reducing his economic funds.

This approach is quite the opposite to cash-flow taxation, as it forces the taxpayer to show at their full fair value all the assets and liabilities in the context of a relevant source of income. It is quite like the framework of financial accounting IAS/IFRS, which supplies the investor with information on future inflows and outflows of benefits. The problem with the second approach is the loss of objectivity for a neutral analysis of investments.

4.2. Equity/Equality

Equity is concerned primarily with the position of the taxing unit in the tax system. The horizontal equity criterion is very much a reflection of neutrality in that it is considered that those who are equal before tax should be equal after tax. As with neutrality, the judgment of equality is based upon the perception of the tax base, and the comparison between

[20] WOLFGANG SCHÖN, "The Odd Couple: A Common Future for Financial and Tax Accounting?," *Tax Law Review*, vol. 58, 2005, p. 131–132. To give an example of how IAS/IFRS hurt efficiency: "*Under the rules of the International Accounting Standards, participations in listed companies are subject to fair-value accounting while participations in private companies are not. In the tax world, this different treatment would lead to a distortion of the taxpayer's decision to invest in listed vs. nonlisted companies*."

taxpayers is intended to be objective. The tax base, therefore, has to be susceptible to objective measurement; objective in this sense does not mean accurate or correct, but unbiased and valid.

Equality can also be regarded as a matter of the constitutional relationship between government and taxpayer—that the laws imposing the charge to tax should be transparent (so that the taxpayer can engage in transactions with certainty as to the tax consequences) and should be applied equally to all taxpayers.[21]

In the design of taxation measures, discretion is limited by some general principles of taxation. For the tax authority, this principle of equality includes the general requirement that the tax burden is distributed as evenly as possible. The consequence of this for tax legislation is that taxation must be aligned to the taxpayer's ability to pay. Although the principle of taxation according to the ability to pay is widely accepted, the precise determination of the taxpayer's ability to pay is quite challenging to provide.[22]

Since the ability to pay is not easily separated from the willingness to pay, it is far too vague to a regulator as a guide to taxable income. This applies to the question as to what is to qualify as income—both composition and measurement. It is important to remember that equality does not mean paying an equal amount of taxes, but that someone should be taxed to an equal proportion of their incomes.

It is thus a given that to define the tax base, someone should aim to measure the capacity to pay tax. Taxpayers can only be subject to tax liability when they can pay the tax. Given imperfect capital markets, it is difficult to pay taxes without sufficient liquidity. Against this background, realization should be ideally aligned to cash flows rather than to the stage of completion of a transaction. This would be consistent with the idea of imposing taxes when liquid assets are available.

At the same time, the taxing authority must ensure that the definition of income[23] is such that the various methods and evaluation processes employed in its determination are applied equally. The concept of profit is not itself simple; it is an abstraction that reflects the purpose for which it is undertaken. The use, in this case, is to provide a base according to which

---

[21] Who came first – Tax or Accounting? Accounting sometimes thought to be a product of the Italian Renaissance, brought Luca Pacioli. His achievement was not accounting per se the foundation of much of today's book-keeping. Tax is much older than medieval times into fruition by but the double entry idea. One way or another, tax and accounting clearly needed each other and the pace of development in that relationship has quickened notably in the last half century. Cfr. JOHN WHITING, "Tax and accounting," *British Tax Review*, 2006, p. 268.

[22] Saint Thomas Aquinas indicates the tax should perform the function of distributive justice. In particular, he states: "*Unicuique secundum equalitatum proportionis*", to which he adds: "*secundum suam possibilitatem*".Cfr. FABRIZIO AMATUCCI, "Foundation of the Contemporary Ability-To-Pay Principle in Taxation in the Thought of Saint Thomas Aquinas," *in* JÖRG MANFRED MÖSSNER / HEIKE JOCHUM (eds.), *Practical problems in European and international tax law: essays in honour of Manfred Mössner*, Amsterdam, The Netherlands, IBFD, 2016, p. 3.

[23] The CCCT profit is an independent concept and as such new and unique. In order to have substance it needs to be used by taxpayers and tax authorities (and Courts if these parties disagree). In practice two methods exist to create substance for a concept: i) list some principles and leave the creation of substance to case law and standards, or ii) incorporate a detailed set of rules in the legislation. Cfr. RONALD RUSSO, "CCCTB: General Principles and Characteristics," *in* D. M. WEBER / AMSTERDAM CENTRE FOR TAX LAW (eds.), *CCCTB: selected issues*, Alphen aan den Rijn: Frederick, MD, Kluwer Law International, 2012 (EUCOTAX series on European taxation, v. 35), p. 70.

taxable capacity can be measured using recognized and well-known definitions of income as set out by Haigh, Simons, and Hicks.[24]

4.3. Legal Certainty

The legal certainty belongs to the principles of a constitutional state. According to this principle, taxation can only be levied if the taxpayer realizes a taxable event to which tax liability is attached by law. Therefore, the taxable event must be precisely defined. The content, object, aim, and extent have to be prescribed in a legal provision establishing grounds for taxation. Thus, the tax burden has to be foreseeable and predictable for the taxpayer. Imprecise legal terms allowing for variations in interpretation endanger the legal certainty of taxation.

Therefore, corporate taxable income cannot be adequately assessed if the taxable event is not clearly defined. Objective and verifiable criteria must be provided so that the taxpayer and state can anticipate the tax liability. In other words, tax accounting rules should be clearly defined and avoid as much as possible estimations and individual judgments.

4.4. Simplicity/Practicability

A logical and straightforward position would be that there should be no variance from accounting standards for tax purposes, unless there is legislation to that effect. A sufficient degree of simplicity should be guaranteed in the statute so that equalities are not violated through imperfect enforcement of the law.[25]

Standardization is one of the measures used for simplification. For this, it is decisive that the administrative costs incurred should be in reasonable proportion to the tax revenue received. Administrative costs also rise for the taxpayer in the form of compliance costs, however. These costs occur not only from fulfilling tax reporting requirements but also from the efforts

---

[24] JUDITH FREEDMAN / GRAEME MACDONALD, "The Tax Base for CCCTB: The Role of Principles," *in* MICHAEL LANG (ed.), *Common consolidated corporate tax base*, Wien, Linde, 2008 (Schriftenreihe zum Internationalen Steuerrecht, 53), pp. 217–269. "*Income is the money-value of the net accretion to economic power between two points of time*" (Haigh, 1921), "*Personal income may be defined as the algebraic sum of (a) the market value of rights exercised in consumption and (b) the change in value of the store in property rights between the beginning and end of the period in question... The essential connotation of income, to repeat, is - gain to someone during a specified period and measured according to objective market standards*." (Simons, 1938) "*Income…. equals the value of an individual's consumption plus the increment in the money value of his prospect which has accrued during the week; it equals consumption plus capital accumulation*" (Hicks, 1946).

[25] Even though, it would be desired to achieve a standardization in term of financial accounting and tax accounting, according to PREM SIKKA, "Accounting and taxation: Conjoined twins or separate siblings?," *Accounting Forum*, vol. 41, no. 4, 2017, pp. 399–400. the relationship between accounting and tax practices is complex, and since the 1970s the two have followed divergent paths. Consequently, the gap between the two has increased as accounting standards seek to meet the assumed needs of capital markets, whereas taxation practices are closely aligned to law, and social objectives pursued by the state.

made to determine the tax base. Simplicity implies that a tax base tax should be reasonably simple to compute, as well as be understandable and comprehensible to the taxpayer. If it is complicated and difficult to understand, then it will lead to excessive costs and inefficiencies.

5. What are the problems with IFRS?

In this part all arguments contrary to the adoption of the IFRS as a start point for a tax base will be presented, seeking to identify the main deleterious effects corresponding to the allocation. It is essential to note that the default IFRS, like every accounting standard, has its merits and its demerits, so that, despite having been firmly consolidated in several countries of the world, it is still far from being a perfect standard.[26]

For tax purposes, the IFRS has received numerous criticisms, but these do not preclude its adoption. Nevertheless, if it were adopted for this purpose, tax problems could occur and, because of this, the relations between the accounting and tax profits could be much more complicated, demanding great effort from the tax authorities, as well as from accounting and law professionals to understand and mitigate these issues.

5.1. Lack of certainty

The criticism of a lack of certainty is recognized in the literature, especially for those countries that have more conservative accounts, supported by principles such as prudence and objectivity. In this line, profits constituted from subjective assessments (fair values and brought-to-present value) should be disregarded for taxation purposes, since these, even in the case of responsible evaluations, are not guaranteed and therefore may be changed in the future.[27]

Moreover, the idea is to disregard economic events carried out within the field of probability, because it is not known when and how these will occur and if they occur within a given exercise. In the case of fair and present values, the assessment that arises from market assumptions that can or do not occur and, moreover, if they occur can reach other exercises.[28]

---

[26] The areas in the IFRS that raise major concerns when it comes to tax base are the following, (i) the concept of the user, i) the materiality principle, and (iii) the application of fair value accounting. These correspond with the fact that the overall goal of the IFRS accounts is different from the tax accounts Cfr. MILENA HRDINKOVA, "IFRS any Good for Tax?," *in* G. M. M. MICHIELSE / VICTOR THURONYI (eds.), *Tax design issues worldwide*, Alphen aan den Rijn, the Netherlands, Kluwer Law International, 2015 (Series on international taxation, volume 51), p. 99.

[27] *See:* CARLOS HENRIQUE CROSARA DELGADO, *Contabilidade IFRS e IRPJ: efeitos de nova contabilidade internacional sobre a tributação da renda*, 1st ed., Rio de Janeiro, Lumen Juris, 2017, pp. 253–254.

[28] According to PETER ESSERS, "Tax Risks: A Dynamic Interplay between Financial and Tax Accounts," *in* Jörg Manfred MÖSSNER and Heike JOCHUM (eds.), *Practical problems in European and international tax law: essays in*

The principle of legal certainty provides a preference to work with objective and realized data, since they are not subjected to any controversy, nor subsequent alteration. It is urgent to remember that the objective of taxation is to ensure a constant flow of tax revenues to the State so that it has enough resources to fulfill its institutional obligations.

5.2. Subjectivity in the valuation and recognition

Subjectivity in the valuation of assets and liabilities is a trademark of IAS/IFRS although done responsibly, will always depend on the judgment of managers who oversee a given entity. As a rule, the assessment of fair and present values should follow only the economic essence, which is the reason for the IAS/IFRS, by a discretionary judgment may promote earnings management and income smoothing.

There are those who understand that the assessments at fair or present values, being responsible, motivated and based on robust economic criteria (or even in reports, when applicable), should be imposed by the tax authority. In case of abuse, specifically, when faced with an illegal act, the tax authority may disregard it for taxation purposes. How would the tax authority provide proofs to demonstrate that the evaluation of the fair values estimated by the taxpayer was made in a manner compatible with the economic essence?

On the other hand, how would the tax authority demonstrate that the evaluation performed by the taxpayer was fraudulent or erroneous, to the point of being disregarded? It is hard to confront the taxpayer's word with that of the tax authority. In such cases, forensic evidence to demonstrate whether the assessments were fair or present values would have been carried out to prevent any assessments from being carried out subjectively by the tax authorities. It is presumed that the information provided by the taxpayer in its financial statement is correct. The burden of proof is thus on the tax authority to show the taxpayer's accounts contain misconceptions that produce negative reflections on taxation.[29]

While IFRS looks at the present and, also, to the future, the interest in tax law is only in facts already occurring definitively, that is, carried out in a given exercise. Tax law prefers

---

honour of Manfred Mössner, Amsterdam, The Netherlands : IBFD, 2016, p. 1. "*In the process of determining the yearly taxable profit for corporate income tax purposes, many uncertainties surface. For example, what is the factual economic lifetime and expected residual value of an asset, when will hidden reserves be realized, when is it to be expected that losses from the past can be offset against future profits, when will specific tax reserves such as rollover reserves be realized, when will provisions fall free, and what are the chances that tax planning schemes will succeed?*"

[29] The high influence of the accounting result from IAS/IFRS in the mathematical calculation of the tax base can be viewed as a double influence, direct and indirect. The direct relation between accounting result and tax result can be analyzed from the mathematical calculations: accounting results + non deductible expenses – non taxable income = tax base. The indirect relation is linked the professional judgment of the professionals, who are important element in the determination of the accounting results and tax base. They can be a bad influence for the accounting result because by their judgment it can be distorted to obtain a smaller tax result. Thus, the tax result indirectly influences the accounting result. Also, the professional judgment of the professionals can be affected by the linkage of the two domains, and they can apply the accounting legislation and adopt the accounting polices taking into consideration the best choice from the fiscal point of view. Cfr. BĂCANU MIHAELA-NICOLETA, "The Relation between Accounting Result and Tax Result in the Case of the Profit Tax," *Ovidius University Annals: Economic Sciences Series*, XVII, no. 1, 2017, pp. 411–412.

certainty to probability, since it is guided by principles of legal confidence, the certainty of law and contributive capacity, which is very different from those who govern the IFRS. Thus, the early taxation of a potential income, when it does not take place, will eventually imply the imposition of a non-income and therefore be illegitimate, providing the illicit enrichment of the State, likely even if later refunded.

5.3. Difficulty in tax law to accompany the economic essence

The direct result is that the normal practice of accounting, due to its intrinsic characteristics, will ultimately lead to the taxation of unrealized income. The default IFRS standards for accounting use the criterion of achievement, i.e. the only events to be accounted for, are those that will come to fruition in the future with a reasonable probability. The problem is that there will be a time interval between the accounting of events and their taxation, so that they might be taxed before the economic events happen.

It turns out that, on account of this interval (timing), the taxpayer will not have in hand the resources necessary for the corresponding taxes, often having to decapitalize for this purpose or seek new sources of funds, even loans, under penalty of delinquency. The problem of timing is directly associated with the notion of liquidity of companies. Taxes charged independently of achievement creates severe issues for companies, because they must take money from the turnover of business to pay taxes, which significantly harms their activities as well as interferes negatively in the results and payment of dividends.

Taxpayers will need to recognize for taxation purposes all positive and negative accounting oscillations inherent in the standard IFRS, which, consequently, subjects them to large swings in taxation. Everything will depend on the terms in which the taxpayer makes his/her judgment at the time of the bookkeeping. This phenomenon is well-named the "rollercoaster effect."

For the tax authority, this rollercoaster effect is unwanted, since it makes the collection indexes fluctuating greatly, interfering with the predictability of tax revenues, impacting the budget and the definition of fiscal policy. Additionally, there will be an increase in compliance costs for tax authorities as well, because instead of examining and inspecting only events held, usually documented by the taxpayer, they will have to check all taxpayer accounts. The audits and inspections resulting from this will tend to be more intense and time-consuming, not to mention the risks of questioning that may arise from the part of the tax authorities and the possible tax assessments.

6. Critical evaluation of favorable arguments for IAS/IFRS standards

There is a believe that one of the great arguments in favor of IFRS is the reduction in the cost of compliance. This argument is part of the premise that taxpayers, by adopting the standard IFRS requirements will not need to prepare another financial statement for taxation purposes. In this line, there will be a balance sheet only for corporate purposes, which may or may not be fully used for taxation (with or without adjustments), depending on the tax systems prevailing in each country (total and partial dependence). In the absence of the need for a balance sheet, there will be a reduction in the costs of conformity.

Nevertheless, in case of companies that do not use IFRS for financial reporting, the adoption of IFRS as a starting point means significant changes to the accounting practices of some taxpayers and this may, in turn, give rise to some substantial tax compliance implications. When taxpayers use accounting profits as a starting point for their tax computation, the adjustments that they will have to make to define their tax liability may be significantly different under IFRS, compared to other accounting standards. So for a significative amount of companies there will be a significant increase in compliance costs.

Another belief is that IFRS reduces the information asymmetry. Also, in choosing the standard IFRS for taxation, the degree of accounting information asymmetry will be reduced, so that the income tax, around the world, will be able to be better understood by investors who invest globally, strengthening the transparency and the reliability of information provided to them. As is known, the concept of realization is not necessarily associated with the notion of cash availability, i.e., the entry or exit of financial resources. In this line, when there is a reasonable probability of realization, and the financial resources are received, one can speak in terms of realization.

With the adoption of the IFRS standard, unlike the previous accounting standard, it will be possible to disclose unrealized profits, which are taken into account for the measurement of the results of companies, which brings to companies a number of advantages in the corporate world, as potential increase in distributing dividends, valuing market shares and new investments. These unrealized profits, today, are recognized by the new IAS/IFRS, notwithstanding that contributors to such increases in economic capacity of were not recognized by the previous accounting standard, and not subject to taxation. Therefore, the possibility of taxation of these unrealized profits, with the coming of the IFRS standard, can strengthen the principles of equality and contributory capacity, allowing taxpayers to collect more taxes than received before; in theory, such an increase can be entirely borne by the companies, for they should immediately have or soon have sufficient resources to do so.

In other words, the default IFRS standards may make taxation more fair, charging more taxes to those who can pay more, which would also contribute to better tax justice and the strengthening of vertical equality by taxing taxpayers in better accord with their contributory capacities. This argument is relative, since on one hand it can provide an improvement to the principle of equality and contributive capacity, depending on the timing between the accounting and the realization of the event. On the other hand, the IFRS may, from a tax standpoint, entail decapitalization or taxation of "non-income."

Other great advantage of taxation by the accrual system is to avoid the perpetual deferral of tax by taxpayers, which can extend, for a long time, via the practice of entirely legal acts, the realization of income and with this, delay taxation. Also, taxpayers who can use means to defer taxation will benefit over those who cannot, resulting in an unequal tax burden among taxpayers who boast similar contributory capacities. It is true that there are countries that tax unrealized income, and this is possible when adopting the IFRS standard. Others prefer only to tax income, mainly due to the requirements of their legal order, such as the principle of contributive capacity or even because of the other tenets that guide taxation, such as the principle of legal certainty.

7. Conclusions

As final thoughts, it will be summarized below the importance of IAS/IFRS as a toolbox; however, its inadequacy as a starting point, in the sequence, it is suggested the formulation of accounting principles specific to the taxation purposes.

7.1. Use IAS/IFRS as a toolbox of concepts but not as a starting point

The relationship between profit in financial accounting and taxation is an intriguing one, and more difficult than it looks at first. In general, there are good reasons for IAS/IFRS to form the basis for calculating tax liabilities. From the IAS/IFRS standpoint, the accrual system allows the accounting of events that will promote the increase and decrease of equity, avoiding the dependence of a corresponding cash flow, which does not always coincide with the dates in which the events in question are accounted for, which can cause distortion and separation between accounting and cash flow, confusing investors.

However, the accrual system, although it bears precision regarding the bookkeeping of the accounting events (i.e., matching), can create some difficulties regarding the methods for recognition of revenues and expenses, interfering directly in how otherwise identical events are treated. By the accrual system and fair value accounting, there may be inflated or even undervalued assets or income, depending on the judgment of accountants and executives at the head of the business that makes then to have an indirect influence in the tax base.

It is worth mentioning that investors, in general, prefer investments with greater liquidity, for which they usually require a lower rate of return. For investments with a lower liquidity level, investors usually ask for higher returns, precisely to compensate them for the risk of illiquidity. It may occur that when the income tax on IAS/IFRS standards enters the scene, then illegitimate gains are taxed, which makes investors demand higher returns to compensate for the effects of taxation. There is also the risk of higher complexity of the accrual and fair-value system, so that at least at first they tend to demand higher compliance costs. In other words, the taxation of unrealized income will cause taxpayers to prefer the most liquid assets, with the migration of capital from one direction to another, changing the logic of the economy.

The different objectives make it hard, if not impossible, to reconcile financial accounting objectives with taxation. So, in my opinion, the use of the IAS/IFRS as a starting point will compromise the tax neutrality of the system. Nevertheless, the IAS/IFRS framework provides a valuable toolbox of concepts and references to design a unique system for tax purposes.

7.2. Create a different, new set of accounting rules oriented to tax

Based on the existing linkage of financial and tax accounting there is a strong support to accept IFRS as a starting point for a common tax base, but it seems that it will create more problems than solutions. Truthfully, in the face of the limitations appointed to the use of IAS/IFRS as a starting point for a tax base, it would be advisable to first introduce a new order for tax accounting, independent of financial accounting, then to reach a mutual recognition of common standards for a harmonized tax base.

These tax accounting norms must be based in rules and not on principles as is the IAS/IFRS, to provide the legal certainty that is crucial for tax issues. These tax accounting norms can be changed with time, as necessary, but they should have the characteristic of being much more stable than the IFRS norms so that the tax base may be somehow more predictable, and the government can have a forecast of what will be the tax revenue. Unrealized gains, in general, should not be included in the tax base, except for situation in the public interest, so the ability-to-pay would be respected for the tax authority in imposing the tax liability.

For the CCTB, the EU has to define the meaning of transactions (revenues, profits, inventory valuation, depreciation) from a tax perspective, in a very detailed fashion, observing the core tax principles as applied to the Tax Base of i) Neutrality/Efficiency, ii) Equity/Equality, iii) Legal certainty, and iv) Simplicity/Practicability.

The CCTB debates about tax accounting present several opportunities for further research. So, the EU decision to define the nature of some accounting transactions from a taxation perspective seems to motivate the emergence of a possible conceptual framework for accounting for taxation purposes. This new tax accounting framework may use some concepts from IAS/IFRS or even from the US GAAP (FASB), but will have taxation as the primary purpose, with taxpayers and governments as the primary users of this information.

In due course, this tax accounting framework will probably need to cover tax treatment of diverse topics such as revenue recognition, expense matching, tangible assets, intangible assets, borrowing costs, leases, provisions and many other crucial elements from a tax perspective. Accounting standards for taxation would make States more sensitive to the impact of accounting on public revenues and may well challenge the International Accounting Standards Board, and its sponsors, to make accounting rules that also consider the tax perspective. New research can help to understand these processes, and more of the consequences of developing accounting standards for taxation purposes.

References

ALLEY, CLINTON / JAMES, SIMON, "The Use of Financial Reporting Standards-Based Accounting for the Preparation of Tax Returns", *in International Tax Journal*, Spring 2006, pp. 31–48

AMATUCCI, FABRIZIO, "Foundation of the Contemporary Ability-To-Pay Principle in Taxation in the Thought of Saint Thomas Aquinas", *in* MÖSSNER, JÖRG MANFRED; JOCHUM, HEIKE (Eds.) *Practical problems in European and international tax law: essays in honour of Manfred Mössner,* Amsterdam, The Netherlands, BFD, 2016

AUJEAN, MICHEL, "The CCCTB Project and the Future of European Taxation", *in* LANG, MICHAEL (Ed.) *Common consolidated corporate tax base,* Wien, Linde, 2008, (Schriftenreihe zum Internationalen Steuerrecht, 53). pp. 11–35

AUMAYR, LISA / MAYR, GUNTER, "European Union CCTB – Is There a Chance of a Breakthrough?", *European Taxation*, Vol. 59, n.º 4, 2019

BĂCANU MIHAELA-NICOLETA, "The Relation between Accounting Result and Tax Result in the Case of the Profit Tax". *Ovidius University Annals: Economic Sciences Series*, Vol. XVII, n.º 1, 2017, pp. 407–412

BAKKER, ANUSCHKA / BERG, TJEERD VAN DEN/ JANSSEN, BART (EDS.), *Tax accounting: unravelling the mystery of income taxes,* Amsterdam, IBFD Publications, 2015

DELGADO, CARLOS HENRIQUE CROSARA, *Contabilidade IFRS e IRPJ: efeitos de nova contabilidade internacional sobre a tributação da renda*, 1.ª ed., Rio de Janeiro, Lumen Juris, 2017

ESSERS PETER / RUSSO RONALD. (EDS.), *The influence of IAS/IFRS on the CCCTB, tax accounting, disclosure and corporate law accounting concepts: a clash of cultures*, Austin, Frederick, MD, Wolters Kluwer Law & Business, 2009 (Eucotax series on European taxation, vol. 23)

ESSERS, PETER, "Tax Risks: A Dynamic Interplay between Financial and Tax Accounts", *in* MÖSSNER, JÖRG MANFRED; JOCHUM, HEIKE (Eds.) *Practical problems in European and international* *tax law: essays in honour of Manfred Mössner*, Amsterdam, The Netherlands, IBFD, 2016, pp. 35–54

ESSERS PETER, "The precious relationship between IAS/IFRS and CCCTB with respect to with respect to Provisions and Liabilities," *in* MICHAEL LANG (ed.), *Common consolidated corporate tax base,* Wien, Linde, 2008, (Schriftenreihe zum Internationalen Steuerrecht, 53). pp. 385-420

FREEDMAN, JUDITH / MACDONALD, GRAEME. "The Tax Base for CCCTB: The Role of Principles", *in* LANG, MICHAEL (Ed.), *Common consolidated corporate tax base*, Wien, Linde, 2008, (Schriftenreihe zum Internationalen Steuerrecht, 53). pp. 217–269

HARRIS, PETER, "IFRS and the structural features of a income tax law", *in* MICHIELSE, G. M. M.; THURONYI, VICTOR (Eds.), *Tax design issues worldwide*. Series on international taxation, Alphen aan den Rijn, the Netherlands, Kluwer Law International, 2015, pp. 37–97

HEY, JOHANNA, "CCCTB-Optionality", *in* LANG, MICHAEL (Ed.), *Common consolidated corporate tax base,* Schriftenreihe zum Internationalen Steuerrecht. Wien, Linde, 2008

HRDINKOVA, MILENA. "IFRS any Good for Tax?" *in* MICHIELSE, G. M. M. / THURONYI, VICTOR (Eds.) *Tax design issues worldwide,* Series on international taxation. Alphen aan den Rijn, the Netherlands, Kluwer Law International, 2015. pp. 99–119

JAATINEN, IIDA, "IAS/IFRS: A Starting Point for the CCCTB?", *in Intertax*, Vol. 40, n.º 4 ,2012, pp. 260–269

LAMB, MARGARET/ NOBES, CHRISTOPHER/ ROBERTS, ALAN, "International Variations in the Connections Between Tax and Financial Reporting", *in Accounting and Business Research*, Vol. 28, n.º 3, 1998, pp. 173–188

MOSQUERA VALDERRAMA, IRMA JOHANNA, "The CCCTB Compatible with National GAAP? What's Next?", *Intertax*, Vol.36, n.º 8, 2008, pp. 359–370

RUSSO, RONALD, "CCCTB: General Principles and Characteristics", *in* WEBER, D. M.; AMSTERDAM CENTRE FOR TAX LAW (Eds.) *CCCTB: selected issues,* EUCOTAX series on European taxation, Alphen aan den Rijn: Frederick, MD, Kluwer Law International, 2012, pp. 67–77

RUSSO, RONALD, "Principles and Characteristics of CCTB after the Relaunch", *in* WEBER, D. M.; STREEK, JAN VAN DE (Eds.), *The EU Common Consolidated Corporate Tax Base: critical analysis,* EUCOTAX series on European taxation, Alphen aan den Rijn, The Netherlands, Kluwer Law International B.V, 2018, pp. 11–16

PORTUGAL, ANTÓNIO MOURA, *A dedutibilidade dos custos na jurisprudência fiscal portuguesa,* Coimbra, Coimbra Editora, 2004

SCHÖN, WOLFGANG, "The Odd Couple: A Common Future for Financial and Tax Accounting?" *in* *Tax Law Review*. Vol.58, 2005, pp. 111–148

SIKKA, PREM, "Accounting and taxation: Conjoined twins or separate siblings?" *in Accounting Forum*. Vol.41, n.º 4, 2017, pp. 390–405

SMITH, ADAM, *The wealth of nations*, Blacksburg, VA, Thrifty Books, 1776

SPENGEL, CHRISTOPH/ ZÖLLKAU, YORK, *Common Corporate Tax Base (CC(C)TB) and Determination of Taxable Income: An International Comparison*. Heidelberg, New York, Springer, 2012

TAVARES, TOMÁS CANTISTA, *IRC e Contabilidade: Da Realização ao Justo Valor*, Coimbra, Almedina, 2018

WHITING, JOHN, "Tax and accounting". *in British Tax Review*, n.º 3, 2006, pp. 267–281

(texto submetido a 5.05.2019 e aceite para publicação a 4.09.2019)