



ATA Midyear Meeting
February 2009

BOOK/TAX CONFORMITY

Tax based on IFRS income

- Many advantages
 - Simplicity
 - Transparency
 - Lower compliance costs

Tax Executives Institute

- Survey of 1,400 companies
- 80% had revenues of \$5 billion or less
- Half of the tax departments had 5 or fewer employees responsible for 31 legal entities
- More than half of the tax departments had annual budgets of \$750,000 or less
- 7 in 10 companies are subject to SOX
- During the last three years, the typical tax department has increased by less than one full-time position.

Who needs to support proposal?

- Executives of large corporations
- AICPA and major accounting firms
- Federal and State Government/IRS
- Politicians

Questions for Executives

- Would this change enable US corporations to be more competitive in the world marketplace?
- Would you support paying tax based on your book income if there was not a significant change in the amount of tax?
- What transitional rules would you want?

European Union Activities

- EU task force is considering a *Common Consolidated Corporate Tax Base (CCCTB)* which would allow the use of the same tax base for 27 countries.
- Companies would file one tax return rather than 27.
- Recommendations include one administrative authority to handle filing and disputes.
- Optional
- Recommends using IFRS or some other common accounting base.

Questions for Regulators

- Would IASB and FASB be able to ignore the government revenue impacts when making changes in accounting principle?
- Would there be large changes in government revenues due to changes in accounting principle?
- How could transfer pricing problems be reduced?

Questions for Government

- Is the government willing to let a private entity's (FASB or IASB) pronouncements define income for tax purposes?
- Would state governments follow this change?

Questions for CPAs

- How would this change impact your practice?
- Do you believe that book income would be managed so as to reduce taxes?
- Would book/tax conformity lead to increased disputes with clients?

Questions for Politicians

- Would politicians be willing to abandon the use of the tax code to accomplish objectives other than raising revenue?
 - Currently politicians can support tax incentives and gain political support without any evidence that the tax incentives are effective.
 - Lack of political accountability.

Questions for Academicians

- Would there be any market impact of the change?
- Is this change placing too much reliance on book income for government finance and investor/creditor decisions?
- Would the change affect the mobility to raise capital?
- How would the use of valuations affect government revenues?

Recent Research

- Per Ali and Hwang, book earnings in countries with book-tax conformity are not as informative in explaining stock returns as are U.S. book earnings (*JAR*, Spring 2000).
- Hanlon and Maydew estimate a revenue neutral tax rate would be approximately 26 to 27% (Univ. of Michigan working paper, 2006).

McClelland and Mills (2007)

- Conduct a simulation of tax revenue using book income adjusted for tax depreciation.
- Estimates include anticipated behavioral responses
 - Defer recognition of income
 - Acceleration of income
 - Shift US income abroad
 - Conclude that the current 35% rate would raise equivalent or slightly higher revenues
 - Tax Notes, Feb. 19, 2007