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ACCOUNTING AND TAXATION - RELATIONSHIP OF CONNECTION OR DISCONNECTION. A ROMANIAN CASE STUDY

Nicoleta IULIA POPESCU (BODEA), Mihaela Ionela SOCOLIUC
Doctoral School of Social and Human Sciences, "Ștefan cel Mare" University of Suceava, Romania
bodeaiulia@yahoo.com, stanciuc_mihaela@yahoo.com

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Abstract:
The relationship between accounting and taxation is quite controversial in the contemporary global context, due to the fact that there is no convergence and harmonization especially in what concerns the tax national rules and regulations. The main purpose of the research is quantifying the relationship between accounting and taxation by means of analytical accounting procedures and regression analysis and determining the degree of connection or disconnection between the two domains. As operational objectives, the research establishes whether accounting is dependent in practice on taxation, that is, if the fiscal rules influence the quality of the accounting information and determines the degree of influence that taxation has on the accounting information, policies and decisions. The research involved the use of SPSS statistical software version 22 and Microsoft Excel as methodological tools, the sources for the primary data, representing the economic and financial indicators of the entities included in the analysis, were extracted from the databases of the Ministry of Finance.

The main results showed that taxation and accounting are connected in practice, the degree of influence tax rules and regulations have on the accounting information, policies and decisions, being quantified at 43,9%, a very high percentage that is justified by the specific regulations of the analyzed economic sector. Over time, the influence of taxation on accounting registers a fluctuating evolution, determined by the frequent changes of the tax legislative framework. Thus, if in 2018 the influence was quantified at 73,5%, in 2015 the influence was of only 10,1%.

Key words: accounting, taxation, relationship, regression analysis

JEL classification: M41**,** D81, H26

1. INTRODUCTION

Quantifying the relationship between accounting and taxation is a scientific endeavour whose usefulness is justified by both macroeconomic policy implications and microeconomic decision-making implications. On the one hand, by knowing the regional and temporal profile of the evolution of the connection in practice between accounting and taxation in the national framework, timely, necessary and reasoned decisions can be taken in order to achieve the goals of the governance strategy. On the other hand, by knowing the de facto situation of the tax-connectedness or disconnection of accounting, optimal decisions can be made to ensure the reporting of quality, undistorted and tax-polluted accounting information to ensure long-term business sustainability.

2. LITERATURE REVIEW

In the national context, in Romania, the relationship between accounting and taxation is a theme addressed in many theoretical studies in the literature as well as in some empirical studies. In summary, this relationship is characterised as both dichotomous and convergent, with accounting and taxation being connected in some respects and disconnected in others. Moreover, it is considered that there is tolerance and intolerance between accounting and taxation, and it is not possible to determine a dominance of either of them, since they are interdependent, accounting being certainly influenced by taxation (Ristea, 2003), (Paliu-Popa and Ecobici, 2007), (Bunget and Dumitrescu, 2008), (Istrate, 2011), (Oprean, 2014), (Mateș et al., 2016), . According to (Popa and

Paunescu, 2013) the current global context, leads to the need to harmonize accounting standards, but also to develop harmonized but independent tax principles.

In the European context, the relationship between accounting and taxation is characterised by instability and is in a continuous process of change in relation to the interests that need to be mediated with regard to the management of the result, due to pressures from stakeholders pursuing different objectives.

Hoogendoorn (1996) developed a taxonomy on the relationship between accounting and taxation based on an analysis of regulatory frameworks in 13 European Union countries as follows:

- accounting and taxation are characterised as dependent and this relationship is not expected to change. In this case, accounting rules are influenced by taxation - the example of Belgium and Italy.

- accounting and taxation are characterised as dependent but there is a desire to change this relationship (Sweden and Finland).

- accounting and taxation are formally independent but in practice they are connected (Poland and Czech Republic).

- accounting and taxation are formally and in practice independent (Denmark, UK).

In the global context, the general trend is towards harmonisation, convergence and conformity of accounting at international level, but this is at a standstill as far as taxation is concerned, as no framework has been developed. In this context, the study carried out by Lamb et al. (1998) in four countries: the United Kingdom, the United States, France and Germany, on the basis of 15 items (covering the recognition and valuation of fixed assets, operating and financial leases, depreciation, provisions and contingent assets and liabilities, research and development costs, inventory valuation, borrowing costs, etc.) is relevant.

Other studies investigate the relationship between accounting irregularities and aggressive tax planning (Hashim, Ariff and Amrah, 2016), finding a positive but insignificant relationship between them. Other research is conducted to capture the relationship between accounting and tax outcomes (Deitch, 2014) and a number of international researches are conducted in the sphere of compliance between accounting and tax rules and outcomes and their link to creative accounting or earnings or earnings management (Atwood, Drake and Myers, 2010), (Hanlon, 2002), (Watrin, Ebert and Thomsen, 2014).

From this perspective, the study carried out by Timofte and Socoliuc (2019), focused on the assessment of the level of tax evasion at the level of the European Union states, highlighted the existence of a positive correlation between tax evasion and the complexity and high bureaucracy of the taxation system, with effects directly proportional to the increase in tax evasion.

From a tax policy perspective, the results obtained by (Mills and Newberry, 2001) suggest that accounting-tax differences may be a less useful indicator in the area of private business and a more useful indicator in the area of public entities.

3. QUANTIFYING IN PRACTICE THE ACCOUNTING – TAXATION RELATIONSHIP

3.1. RESEARCH METHODOLOGY AND SAMPLE OF ANALYZED DATA

The research involved the use of SPSS statistical software version 22 and Microsoft Excel as methodological tools. The sources for the primary data, representing the economic and financial indicators of the entities included in the analysis, were extracted from the databases of the Ministry of Finance (https://mfinante.gov.ro/ro/web/site), as well as the open databases provided by the authorities and public administration institutions available at: https://data.gov.ro/.

The sample analysed consists of economic entities whose declared objects of activity are CAEN 1101 - *Distilling, refining and blending of alcoholic beverages* or CAEN 1105 - *Brewing of beer*, two fields of activity that require strict and specific legislation regarding the authorisations required to carry out the activity, the way of carrying out the activity, the specific tax obligations

consisting of: authorisation as a production tax warehouse, carrying out production activities exclusively in authorised tax warehouses, carrying out the activity under the conditions of the tax warehouse authorisation, marking of excise products released for consumption, specific distribution and marketing conditions, specific and updated records of the activity in the tax warehouse starting from the purchase of raw materials, the production obtained, the excise products received, obtained and dispatched from the warehouse, supervision and movement of excise products under suspension of excise duty, specific reporting and declarations to the tax authorities.

The economic operators included in the sample were selected in order to ensure national representativeness, and the time span analysed was 5 consecutive fiscal years, 2015 - 2019. As main criteria for inclusion in the sample, we mention:- sediul social în România;

- principal object of activity: CAEN 1101 or 1105;
- reporting values in the annual financial statements from 2015 to 2019 for the indicators: *Net turnover*, *Gross profit*, *Net profit* and *Total assets*;
- the achievement of positive results (loss-making entities have been excluded);
- company status: in operation.

As a result of the application of these criteria, the database constituted in Excel consisted of 287 observations, presented according to size, temporal and geographical (spatial) dispersion criteria as shown in (Figure no. 1) belonging to 81 economic entities from 34 administrative-territorial units in Romania. Entities were expected to report values for the indicators mentioned above for at least two consecutive financial years.

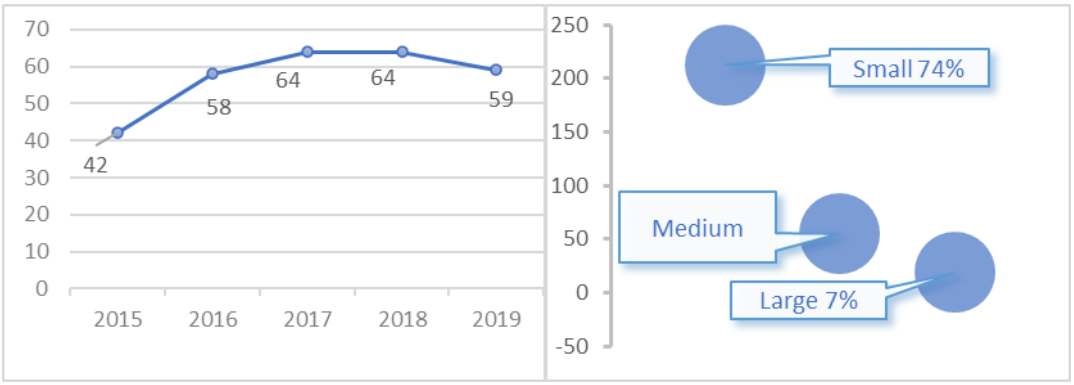

Figure no. 1. Size structure and temporal and territorial dispersion of the data sample studied
Source: own elaboration

3.2. DEFINITION OF WORKING HYPOTHESES AND RESEARCH VARIABLES

The definition of the research hypotheses was informed by reference to the relevant literature and the accounting and tax legislation applicable to excise products.

Thus, two research hypotheses were formulated as follows:

H1: There is a high level of interdependence between accounting and taxation at a practical level, generated by the specific nature of the operators of excisable products.

H2: The relationship between accounting and taxation evolves over time and is driven by frequent changes in tax legislation.

As regards the definition of variables, after the databases were set up, the variables that best reflected the two areas studied were chosen, taking as a reference point the study conducted by Fekete et al. (2012) for the period 1999-2009. Thus, as surrogate measure for accounting, the *Turnover indicator* was chosen, which is considered to have low effects and tax adjustments, being little influenced by discretionary choices, while for taxation the following was selected the *Corporate Income Tax* indicator, which is an appropriate proxy measure to capture tax data, including changes in the definition of income or the tax base, or tax rates. In order not to affect the

data by the size of the entities included in the study, the surrogate sizes were weighted by the *Total Assets* indicator reported in the annual financial statements.

The calculation of the surrogate amounts for accounting (Var.CAAT) and taxation (Var.IMPAT) was carried out according to the formulas shown in equations (1) - (3) below:

$$Accounting\ dates = \frac{CA}{AT} \quad (1)$$

where:
CA – Turnover; AT – *Total Assets*.

$$Fiscal\ dates = \frac{IMP}{AT} \quad (2)$$

where:
IMP – Corporation tax, calculated as follows:

$$IMP = PrB - PrN \quad (3)$$

where,
PrB – Gross profit; PrN – net profit.

As a novelty, the research carried out in this paper focuses on areas of activity that should better capture the phenomenon of linking accounting to taxation in practice than other areas of activity, given the specific regulatory framework applicable. Also, our research comes as a complement to that conducted by Fekete et al. (2012), the timeframe being 2015 - 2019.

4. RESEARCH RESULTS AND DISCUSSIONS

This section presents the results of the research carried out, from the perspective of quantifying the grade of taxation influence on accounting, specifically through an analysis by size of economic entities analysed, and the results concerning the quantification of taxation influence on accounting, from the perspective of identifying a time profile for the sampled entities, through a regression analysis.

Thus, the following subsections detail the issues mentioned above.

4.1. DEGREE OF INFLUENCE OF TAXATION ON ACCOUNTING – ANALYSIS ON THE SIZE OF ANALYZED ECONOMIC ENTITIES

The following descriptive statistics were generated for the variables analysed, presented in (Table 1):

Table no.1. Descriptive statistics for the variables studied

Variable	Cases	Minimum	Maximum	Average	Standard deviation
Var.CAAT	287	0,001	12,697	1,03777	1,218845
Var.IMPAT	287	0,000	0,231	0,01661	0,023539

Source: own elaboration in Microsoft Excel

Following the analysis of the values recorded for the overall average for the variable Var.CAAT according to the size of the entity (small, large or medium) - according to the size criteria defined in the tax legislation, it is found that for small taxpayers the average is 1.091 points (value above the overall average of 1.03777), for medium taxpayers 0.843 points (value below the overall average of 1.03777) and for large taxpayers 1.001 points (value slightly below the overall average of 1.03777). The evolution of the overall averages for the variable Var.CAAT according to the size of the entity (small, large or medium) - according to the size criteria defined in the tax legislation is shown in (Figure no. 2):

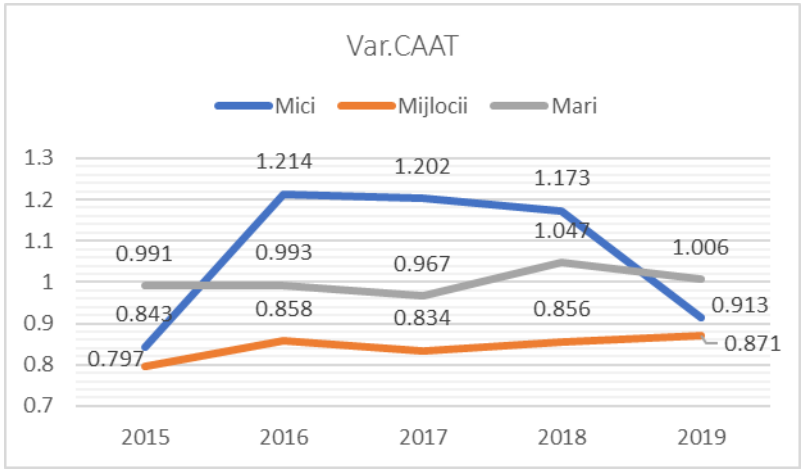

Figure no. 2. Evolution of overall means for the variable Var.CAAT by entity size

Source: own elaboration in Microsoft Excel

Similarly, an analysis of the values recorded for the overall average for the variable Var.IMPAT according to the size of the entity (small, large or medium) - according to the size criteria defined in the tax legislation, shows that for small taxpayers the average is 0.017 points (value above the overall average of 0.01661), for medium taxpayers 0.014 points (value below the overall average of 0.01661) and for large taxpayers 0.016 points (value around the overall average of 0.01661).

The evolution of the overall averages for the variable Var.IMPAT according to the size of the entity (small, large or medium) - according to the size criteria defined in the tax legislation is shown in (Figure no. 3):

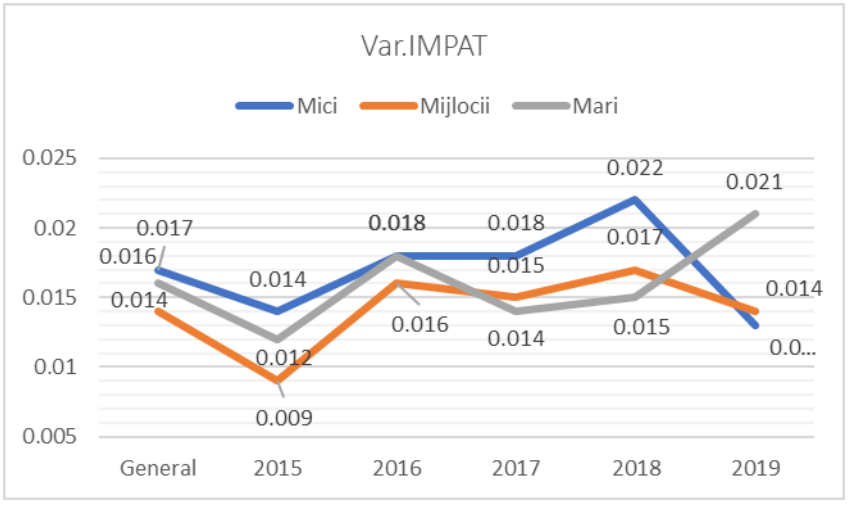

Figure no. 3. Evolution of overall averages for the variable Var.IMPAT according to entity size

Source: own elaboration in Microsoft Excel

4.2. REGRESSION ANALYSIS FOR QUANTIFYING THE INFLUENCE OF TAXATION ON ACCOUNTING – TEMPORAL PROFILE

After performing regression analysis in SPSS version 22 statistical software, by setting as dependent variable the surrogate measure for accounting, the indicator Turnover in Total Assets (Var.CAAT) and as independent variable the indicator Income Tax in Total Assets (Var.IMPAT), the following general model resulted, shown in (Table no. 2):

Table no. 2. Summary of the general regression model

Model Summary[b]										
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
General	,662[a]	,439	,437	,914881	,439	222,614	1	285	,000	1,450
a. Predictors: (Constant), Var.IMPAT										
b. Dependent Variable: Var.CAAT										

Source: own elaboration in SPSS

So the correlation coefficient is 0.662 and the R-squared value is 0.439, which means that about 43.90% of the variation in the surrogate measure Accounting is due to the value attributed to taxation and is predicted by it, which shows a statistically significant positive relationship.The regression equation can be plotted as follows:

$$y = 0{,}468 + 34{,}291x \quad (4)$$

Figure no. 4 below shows the scatter plot for the variables analysed:

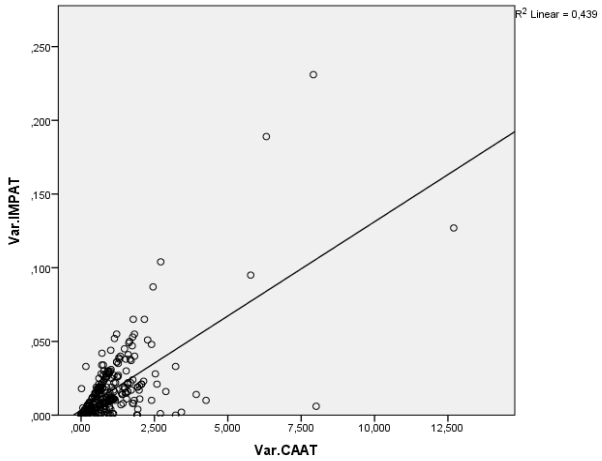

Figure no. 4. The distribution graph of the values of the variables Var.IMPAT and Var. CAAT

Source: own elaboration in SPSS

A detailed analysis was carried out to customize the regression function on each year included in the study. Thus, after performing the regression analysis in SPSS statistical software version 22, by setting as dependent variable the proxy measure for accounting, namely the indicator Turnover in Total Assets (Var.CAAT) and as independent variable the indicator Income Tax in Total Assets (Var.IMPAT): for the year **2015** resulted in the model shown in (Table no. 3):

Table no. 3. Summary of the regression model for 2015

Model Summary[b]										
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
2015	,317[a]	,101	,078	,564450	,101	4,482	1	40	,041	1,644
a. Predictors: (Constant), Var.IMPAT2015										
b. Dependent Variable: Var.CAAT2015										

Source: own elaboration in SPSS

The correlation coefficient is 0.317 and the R-squared value is 0.101, which means that about 10.10% of the variation in the surrogate quantity *Accounting*, is due to the value attributed to taxation, being predicted by it,a much smaller proportion than in the general model. The regression equation in this case took the form:

$$y = 0{,}677 + 13{,}376x \quad (5)$$

- for the year **2016** resulted in the model shown in (Table no. 4):

Table no. 4. Summary of the regression model for 2016

Model Summary[b]										
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
2016	,460[a]	,212	,198	1,193566	,212	15,038	1	56	,000	1,992
a. Predictors: (Constant), Var.IMPAT2016										
b. Dependent Variable: Var.CAAT2016										

Source: own elaboration in SPSS

The correlation coefficient is 0.460 and the R-squared value is 0.212, which means that about 21.20% of the variation in the surrogate size *Accounting*, is due to the value attributed to taxation, being predicted according to it,a much lower proportion than in the general model and slightly higher than the value in the previous year. The regression equation in this case took the form:

$$y = 0{,}608 + 29{,}947x \quad (6)$$

- for the year **2017** resulted in the model shown in (Table no. 5):

Table no. 5. Summary of the regression model for 2017

Model Summary[b]										
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
2017	,752[a]	,566	,559	1,066839	,566	80,848	1	62	,000	1,803
a. Predictors: (Constant), Var.IMPAT2017										
b. Dependent Variable: Var.CAAT2017										

Source: own elaboration in SPSS

The correlation coefficient is 0.752 and the R-squared value is 0.566, which means that about 56.60% of the variation in the surrogate size *Accounting*, is due to the value attributed to taxation, being predicted according to it,a statistically significant and much higher proportion than in the previous year and above the value in the general model. The regression equation in this case took the form:

$$y = 0{,}141 + 56{,}484x \quad (7)$$

- for the year **2018** resulted in the model shown in (Table no. 6):

Table no. 6. Summary of the regression model for 2018

Model Summary[b]										
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
2018	,857[a]	,735	,731	,686060	,735	171,795	1	62	,000	1,848
a. Predictors: (Constant), Var.IMPAT2018										

b. Dependent Variable: Var.CAAT2018

Source: own elaboration in SPSS

The correlation coefficient is 0.857 and the R-squared value is 0.735, which means that about 73.50% of the variation in the surrogate size *Accounting*, is due to the value attributed to taxation, being predicted according to it,a statistically significant and much higher proportion than in the previous year and above the value in the general model. The regression equation in this case took the form:

$$y = 0{,}488 + 30{,}713x \quad (8)$$

- for the year **2019** resulted in the model shown in (Table no. 7):

Table no. 7. Summary of the regression model for 2019

Model Summary[b]										
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
2019	,471[a]	,222	,208	,671507	,222	16,251	1	57	,000	1,969
a. Predictors: (Constant), Var.IMPAT2019										
b. Dependent Variable: Var.CAAT2019										

Source: own elaboration in SPSS

The correlation coefficient is 0.471 and the R-squared value is 0.222, which means that about 22.20% of the variation in the surrogate size *Accounting*, is due to the value attributed to taxation, being predicted according to it,a statistically significant and much higher proportion than in the previous year and above the value in the general model. The regression equation in this case took the form:

$$y = 0{,}536 + 27{,}154x \quad (9)$$

The results of the statistical research carried out indicate that for the areas studied: Distilling, refining and blending of alcoholic beverages and Brewing, tax rules, rules and regulations exert a statistically significant influence on the quality of information and accounting decisions at national level, quantified at 43.90% for the period 2015 – 2019, which confirms the first research hypothesis (H1).

Following the customisation of the regression model on each year included in the study, the data presented in (Figure no. 5) below resulted:

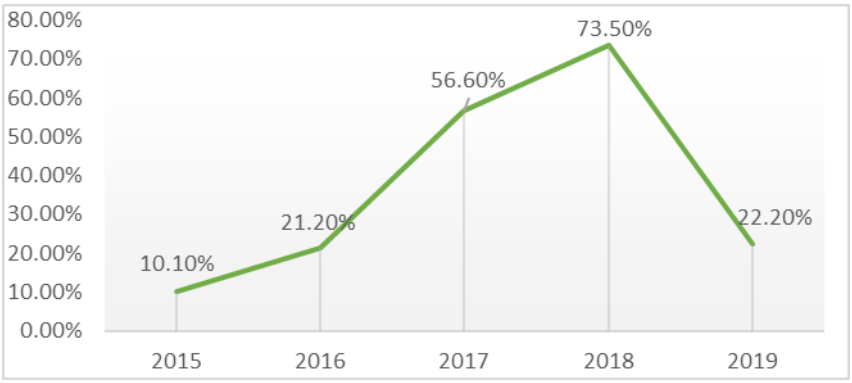

Figure no. 5. Evolution of the degree of influence determined based on the R-squared value of taxation on accounting from 2015 to 2019

Source: own elaboration

Therefore, as can be seen in Figure no. 5 above, the greatest influence of taxation on accounting is recorded at the level of 2018, 73.50%, and can be attributed to the legislative changes that occurred in the method of setting the level of applicable excise duties, variable values updated annually with the increase in consumer prices and harmonized with Community rules.

The immediate consequence of the increased fiscal pressure throughout the production - distribution chain is a reduction in the consumption of excise products, a decrease in turnover with a negative impact on the accounting and fiscal results of economic operators. At the opposite pole, the lowest influence of taxation on accounting is recorded at the level of 2015, of 10.10% and may be due to the fact that the method of calculating, recording and registering the excise tax liability was regulated by previous legislation. The aspects mentioned in the last two paragraphs also confirm the second hypothesis of our research (H2).

According to the provisions of the law, the level of excise duty applied was a fixed value in lei related to the unit of measurement (hectolitre of pure alcohol or hl/1 degree plato), a predictable and constant value included in the value added tax base and implicitly recognised in the selling price of excise goods.

5. CONCLUSIONS

The quantitative research was carried out by using the financial-accounting information of authorised economic operators in the production of ethyl alcohol as raw material and alcoholic beverages and beer production. The choice of these economic activities is justified by the fact that these areas are strictly and specifically regulated from a fiscal point of view, from the point of view of the authorisation and conduct of activities, production, holding, movement and marketing of excise goods and the fiscal obligations of excise duty payers, in order to effectively monitor and control this area considered vulnerable, as having a high degree of fiscal risk. In this case, therefore, the premise is created of a significant connection in practice between accounting and taxation, given that with the resources at its disposal, the economic entity must comply with both accounting and tax rules and regulations, the accounting professional being the person responsible for both areas.

The quantitative research carried out, using analytical accounting procedures and statistical regression analysis, established that taxation and accounting are in a dependent relationship in practice. Tax rules influence the quality of information issued by the accounting system. The degree of influence of taxation on accounting information, policies and decisions was quantified at 43.90%, a very high percentage, justified by the particularities of the fields of activity studied.

Over time, the influence of taxation on accounting has fluctuated, driven by frequent changes in tax legislation in this area. Thus, in 2018 this influence is quantified at 73.50%, and in 2015 at only 10.10%.

We believe that the research results can be useful both to the state and to accounting and tax regulatory bodies, which can adapt their accounting and tax policies starting from these results, to tax control bodies, which can base their control actions, starting from to the financial indicators used, but also to the managers of the entities in these sectors who can undertake fiscal optimization measures at the level of the entities. As future research directions, we propose to expand the research carried out at the level of the entire field of excisable products, to test whether the levels of dependence between accounting and taxation register large differences or remain at the levels of those recorded in the two sectors analyzed by us.

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