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Corporate Income Tax: A European Context

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INSTITUTO POLITÉCNICO DA GUARDA

Nota Introdutória

A Escola Superior de Tecnologia e Gestão (ESTG) do Instituto Politécnico da Guarda IPG) congratula-se pelo facto do Professor Doutor *David Crowther*, da *London Metropolitan University*, Reino Unido ter aceite o convite para realizar uma visita de trabalho e investigação científica a decorrer entre os dias 9 a 15 de Novembro de 2002. Temos a certeza que com esta visita será possível desenvolver um debate privilegiado entre toda a comunidade Docente e Discente.

É igualmente um enorme privilégio dar início à série *Estudos e Documentos de Trabalho* com seis *papers* da autoria do Professor David Crowther. Esperemos que este seja o estímulo e o incentivo que falta para que, em particular a comunidade académica da ESTG, apresente trabalhos científicos que estimulem a discussão científica.

Não se poderá deixar de agradecer à Fundação para a Ciência e Tecnologia que, através do Fundo de Apoio à Comunidade Científica, generosamente aceitou a nossa candidatura, bem como todos aqueles que directa e indirectamente contribuíram para a sua concretização.

Constantino Rei

Professor Doutor do Departamento de Gestão

Director da Escola Superior de Tecnologia e Gestão do IPG

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ABSTRACT

This research is focused on corporate income tax and the authors examine theoretically the relationship between accounting and fiscal standards. Although the international accounting system is very well developed, some difficulties appear as a result of the particularities of the different taxation systems of each country. Thus, those aspects that influence more the corporate income tax system are the result of the multinational phenomenon that firms face in a global society.

The authors present and discuss the fact that corporate income tax that is not defined in the same way in all the European Union (EU) member states, in spite of being calculated in agreement with the generally accepted accounting principles, and that this affects what appears in financial reports. Also, there exist among the EU member states significant differences in application: for example amortization methods, different fiscal incentives to promote investment in specific geographical areas, and several treatments of revenue and capital expenses.

The adoption of accounting standards among the EU member states revolves around accounting harmonization. However, the authors argue that, in the same measure, several legislations that regulate corporate income tax could equally be utilised to facilitate fiscal harmonization.

Key Words: Corporate Income Tax, Accounting context, Fiscal context, European Union.
Topic: TAX – Taxation and Accounting.
Category: Non-Empirical: Analytical.
JEL Classification: H20 – Taxation general; M40 – Accounting general.

1. Introduction

This research analyzes inside the international framework of the European Union (EU) the relationship in the professional level between accounting and fiscal standards, centering in those aspects that influence more the corporate income tax system. Among the efforts developed to establish a group of international standards that guide the preparation and presentation of financial statements in the different countries, stands out the work developed by the EU and the International Standard Accounting Board (IASB)[1] [Jarne *et al.* (1997) and Pereira (2002)]. Besides the previous ones, López (1997) include the International Organization of Securities Commissions (IOSCO) as a cooperation organization among the world stock markets.

Indeed, the growing of the firms operations, including the multinational phenomenon in that firms operating in the global marketplace, increased the search of financial

[1] About this entity, its organization, functions and international accounting standards emitted up to 1997 see Gonzalo & Tua (1997). For a more recent vision see Knorr & Ebbers (2001), and the chapter 1 of the Epstein & Mirza (2002) book's.

information, elevating this need of the local to the international level. Tua (1983: 263) states that:

> *The markets globalization and the growth at the same level of the investment processes generated a similar evolution in the needs of information presented by the economic institutions, in such way that can be spoken about the existence of an international interest in relation to the users of a certain and only information source.*

Thus, one of the main concerns inside the EU is to get the accounting harmonization with the objective that the economic and financial information presented by firms of the EU member states must be comparable. A European accounting harmonization is associated to a very significant number of European firms that have values listed in several markets and for that have to present its financial report in agreement with different normative systems.

Effectively, the harmonization permitted a common performance among everybody implied in the financial information, constituting an unquestionable support for who elaborates it, for the different users and for the professionals that verify it (Cañibano *et al.*, 1985). However, the most serious practical barrier to accounting and fiscal harmonization is the widespread cultural differences that exist internationally: in language, differences in law and in governments' priorities. The fiscal harmonization, especially at the direct taxes level, still has a long course to travel, therefore the high number of reports and directives proposed are an obstacle to the materialization of the same, either in the European or international level.

Following this introduction, section 2 of this paper presents a brief discussion of the accounting context. The course from accounting context to fiscal context is discussed in section 3. Section 4 described the European member states reality in Corporate Income Tax. Finally, the authors summarize and discuss the paper in the fifth and last section.

2. The Accounting Context

Actually, the EU decides added its efforts to developed by the IASB and the IOSCO to get a wider harmonization of the accounting standards. Since in 1995, these entities celebrated an agreement in that IOSCO recognized the importance of IASB in the domain of the global accounting harmonization, with view to obtain a coherent core of standards that could be used internationally in the preparation and presentation of financial statements of the listed companies. Indeed, Epstein & Mirza (2002) consider that the development of IASB in three stages: the first, between 1975-1988, created a common core of standards; the second, between 1989-1995, implemented the project of the financial statements comparability; and the third, between 1995 until today, with the accomplishment of the agreement with IOSCO, completed a comprehensive core set of standards.

In this context, the international accounting harmonization, to get a reduction on the accounting practical at a international level, represents the only alternative to United States power - Generally Accepted Accounting Principles (US-GAAP), jointly with the satisfaction of the investors' needs, when facilitating the work of the multinationals and

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when sharing accounting experiences among the different issuing organisms (Amat & Blake, 1996).

However, Fernández (2002) defends that one cannot forget the need of a fiscal harmonization once in the community market the taking of economic decisions one doesn't see conditioned. Thus, a double harmonization, accounting and fiscal, is demanded, so that in EU the markets work in an efficient way. Nevertheless, Thorell & Whittington (1994) state that:

> *a process of internal harmonization which increased differences between EU members and the rest of the world might be damaging to the EU's economic competitiveness in the world economy and might also seem to be contrary to the free trade principles upon which the EU was founded.*

According to Tay & Parker (1990) and Van der Tas (1988; 1992a; 1992b), harmonization can be understood as *formal* or *material.* The:

- *formal harmonization* refers to harmony or uniformity of accounting regulations (which may be contained in the law and/or professional accounting standards).
- *material harmonization* refers to the actual practices of firms.

However, for Herrmann & Thomas (1995), this notion ignores the possibility that firms can be subject to different facts that justify the use of different accountinf methods. In the perspective of Archer *et al.* (1996) this implies an alternative notion of international harmony. A state of international harmony exists when, other things being equal, the odds of selecting a given accounting method are identical in each country.

This suggests that, with the European harmonization we tried to reach two objectives, on one side, that the information went "formally comparable", that the financial statements of firms presents an identical structure in all the EU member states. On the other hand, that the information went "comparable materially", that not only used the same models, but also that the information contained in each models had the same meaning, for having been elaborated following the same standards (Lucas, 1996).

In fact, we cannot confuse "harmonization" with "normalization". Harmonization can understand each other as the reconciliation of different point of view, with the objective of homogenizing the accounting practical of different countries to obtain the financial statements comparability. Normalization supposes uniformity in the standards of all the countries that share the effort [Carvalho (1990), Giner & Mora (1999; 2001)], any that the sector activity, being characterized by a nomenclature of accounts, for a precise definition of the content of the same ones and for the definition of financial statements models (Rousse, 1992). Following this, harmonization and normalization do not mean the same thing, before they can understand each other as realities that are complemented in one transnational context.

Between the EU member states exists some differences that are reflected, consequently, in different objectives, in the accounting standards and in the financial statements presentation. They exist, in general, two fundamental conceptions of accounting normalization: the anglosaxon and the continental.

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Table 1 presents the principal elements of the accounting diversity of the EU member states. Schroeder *et al.* (2001) argue that the accounting diversity is the result of the environmental influence, and because the countries have values, cultures, political and economic systems different, for besides they present different levels of economic development. To the first group of countries classified as Anglosaxon Influence belong, for example, United Kingdom, Ireland, United States, Canada, Australia and New Zealan (Nobes & Parker, 2002). While Portugal jointly with Germany, Spain, France, Italy, Holland and Japan belongs to the countries group of continental influence or of Roman law (Nobes & Parker, 2002), as well as Austria, Belgium, Denmark, Finland, Greece, Luxembourg and Sweden.

Table 1. Accounting diversity elements of the EU member states

Topic / Elements	Anglosaxon Influence	Continental Influence
Responsibility for the standards emission	The standards are elaborated by private associations of accounting professionals	The standards have government source and they base on the Roman Law
Degree of standards detail	The standards only indicate the general accounting principles	The standards are more detailed
Obligatority and foundations in the standards application	The standards application bases on the general acceptance	The standards application bases on the legal imposition
	The standards are of voluntary application	The standards are of obligatory application
More common firms in the corporate structure	Prevalence of the capital firms	Prevalence of the small and medium-sized enterprises
	Separation between the direction and the property	Non separation between the direction and the property
Main investors of the firms	Capital markets more developed	Capital markets minus developed
	The resource to the capital markets is frequent	The financing is channeled through the bank sector
Users of the accounting información	Mainly the shareholders	Firstly the State, following by the creditors in general
Relation between accounting and tax	Separation among the accounting and fiscal standards	Influence of the fiscal standards in the accountung standards
	The accounting information prepared for the shareholders and for the State is different	The accounting information prepared for the shareholders and for the State is coincident

Source: Adapted of Ferreira (1999: 792).

As Gallego (2004: 796) defined:

> *The first group settled the question of the independence of both kinds of rules some years ago, stating that firms should prepare their financial statements without taking into account any possible divergence between accounting and taxation criteria. The second group of countries has allowed the influence of taxation on reporting financial information for many years; however, the situation has been changing in recent years, to a new situation of autonomy and independence between tax and accounting rules.*

The existence of only standards in the breast of the UE will allow the harmonization of financial information, assure the effective comparability of the same, facilitate the

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circulation of capitals and the access to new markets, and contribute to its transparency (Cravo, 2002). As pointed out by Turner (1983), the comparability of international financial information would eliminate the current misunderstandings about the reliability of "foreign" financial statements and would remove one of the most important impediments to the free flow of international investment.

In this sense, the European Parliament and the Council approved the Regulation (EC) n° 1606/2002 of 19 July 2002 for adoption and use of international accounting standards (IAS) in the Community with a view to harmonising the financial information presented by the firms in order to ensure a high degree of transparency and comparability of financial statements and hence an efficient functioning of the Community capital market and of the internal market (EC, 2002a). Previously, El-Gazzar *et al.* (1999), Street *et al.* (1999), and Taylor & Ann-Jones (1999) accomplished studies about the adoption of the IAS in European multinationals firms, evaluating the execution of these standards.

Additionally, the European Commission approved the Regulation (EC) n° 1725/2003 of 29 September 2003 adopting the international accounting standards in existence on 14 September 2002 (IAS 1 to IAS 41 and related interpretations) in accordance with Regulation (EC) n° 1606/2002 (EC, 2003), except in the cases of IAS 32 - Financial instruments: disclosure and presentation, IAS 39 - Financial instruments: recognition and measurement and a small number of interpretations related to these standards, SIC 5 - Classification of financial instruments - Contingent settlement provisions, SIC 16 - Share capital - reacquired own equity instruments (treasury shares) and SIC 17 - Equity - Costs of an equity transaction[2].

More recently, European Commission, through the adoption of International Financial Reporting Standard (IFRS) that modify or substitute the existent IAS, approved the IFRS presented in Table 2.

Table 2. International Financial Reporting Standard

IFRS	Scope	Date	
		Publication	Effective
1	First-time Adoption of International Financial Reporting Standards (EC, 2004a)	2004	01-01-2005
2	Share-based Payment (EC, 2005a)	2005	01-01-2005
3	Business Combinations (EC, 2004b)	2004	01-01-2005
4	Insurance Contracts (EC, 2004b)	2004	01-01-2005
5	Non-current Assets Held for Sale and Discontinued Operations (EC, 2004b)	2004	01-01-2005
6	Exploration for and Evaluation of Mineral Assets (EC, 2005b)	2005	01-01-2006
7	Financial Instruments: Disclosures (EC, 2006)	2006	01-01-2007

In general, the accounting harmonization should promote in all EU member states freedom of establishment for firms by providing an equivalent level of protection for members (shareholders and employees) and other persons as creditors (Van Hulle & Van der Tas, 2001); also should facilitate trade within the EU as well as cross-border transactions and help to bring about a European capital market.

[2] See IASB (2002).

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Thus, although the international accounting system is very well developed, some difficulties appear as a result of the particularities of the different taxation systems of each country.

3. From Accounting Context to Fiscal Context

Riahi-Belkaoui (2000) states that exists a legal and tax relativism that affect the determination of accounting standards, whereby accounting concepts in any given country rest on the legal and base concept of that country. In relation to the coordination of tax European policies, the fiscal harmonization not has interest as independent area in itself, but as support or consequence of another community politics. The EU considers *fiscal harmonization* as an approach of the fiscal legislations of each country to the supranacional level with view to the accomplishment of certain objectives (Grau & Herrera, 2002).

Nevertheless, the fiscal harmonization meets express in several goods of the Treaty establishing the European Community. Through the article 93 the European Council adopt provisions for the harmonisation of legislation concerning turnover taxes, excise duties and other forms of indirect taxation to the extent that such harmonisation is necessary to ensure the establishment and the functioning of the internal market (EC, 2002b). In this sense, the harmonization of the direct taxation was always underlying to the European politics, being due its scarce development to the fact of constituting an instrument in favor of the integration, and not an end in itself (Alonso *et al.*, 1997).

As stages of the fiscal harmonization of the corporate income tax, already existe some Community directives:

- Directive 77/799/EEC of 19 December 1977, concerning mutual assistance by the competent authorities of the EU member states in the field of direct taxation (EEC, 1977);
- Directive 88/361/EEC of 24 June 1988, concerning full liberalisation of capital movements between EU member states with effect from 1 July 1990 (EEC, 1988);
- Directive 90/434/EEC of 23 July 1990, concerning common system of taxation applicable to mergers, divisions, transfers of assets and exchanges of shares concerning companies of different EU member states (EEC, 1990a);
- Directive 90/435/EEC of 23 July 1990, concerning common system of taxation applicable in the case of parent companies and subsidiaries of different EU member states (EEC, 1990b).

Following this, the fiscal harmonization results politically acceptable it is also important that is drawn in such a way that doesn't harm any EU member state in the process (Izquierdo, 1997). In addition, a great probability exist that the taxation differences among the EU member states originate the investors' deslocalization to the countries with less tax rate (Aparicio, 1996). However, the authors defend that the taxation cannot be a condition of the investment decision.

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In this sense, the Regulation (EC) n° 1606/2002 of 19 July 2002 originated consequences starting from 1 January 2005 in the accounting law from each EU member states, as well as in the taxation law. The IAS/IFRS can serve as reference point of the fiscal harmonization, through the development of a common base of the taxation, as for example of the corporate income tax.

Although the international accounting regimes coincide to registration the accounting incidences of the corporate income tax, the same don't guarantee the homogeneity in relation to corresponding quantification of the different fiscal departures existent (as the deferred taxes). However, the adoption of accounting standards among the EU member states revolves around accounting harmonization. In the same measure, several legislations that regulate corporate income tax could equally be utilised to facilitate fiscal harmonization. Thus, the authors recommend the reduction of the differences among accounting and taxation.

4. The Corporate Income Tax

An important issue in the debate over the accounting for income taxes has been the nature of income taxes: understands as an expense of doing business or distribution of income. Kissinger (1986: 91) defends that:

> *If income taxes are an expense, then presumably the matching principle applies and the reported amount should follow pretax accounting income. If, however, income taxes are a distribution of income (e.g., similar to dividends), then the matching principle does not apply and the reported amount should follow taxable income.*

While the current practice defines the corporate income tax as an expense (Hill, 1957), Barton (1973) states that income taxes do not have any of the above characteristics of expenses - they are not incurred by management in anticipation of future benefits, and they are not costs of facilities used up to earn the period's revenue.

Nevertheless, the corporate income tax as an expense is unanimously defended by the EU member states with larger accounting tradition (Giner & Mora, 1991). The corporate income tax is not defined in the same way in all the EU member states, in spite of being calculated in agreement with the generally accepted accounting principles, and that this affects what appears in financial reports. Effectively, several standards in accounting for income taxes devoted attention to this area after the 1960s and particularly Levy (1981: 97) who argues:

> *One indication of the level of difficulty in accounting for income taxes is the number of authorities pronouncements and other writings on the subject...*

The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current year and to recognize the future tax consequences of temporary differences as well as net operating losses and unused tax credits (Schroeder & Clark, 1998). In this sense, differences may exist between the treatment of certain transactions in the annual accounts and their treatment in the tax report. Underlying to this is the principle of the *true and fair view* (Cooke *et al.*, 2001). In the European setting, *true*

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and fair view is used as an "override", which means that it is intended to be the governing criterion by which financial statements are to be judged (Alexander, 1999). Following perhaps the implications of the all-embracing "Anglo-Saxon" idea, it is commonly implied or stated that true and fair view and fair presentation, are alternative terms for what is basically the same notion (Alexander & Archer, 2000).

In relation to the differences in the recognition and measurement of transactions, Pais (2000), as well as Silva (2002), refers that those differences results from the existence of several objectives, specifically because accounting intends that financial statements present a true and fair view of the firm while taxation is concerned with obtaining revenues and meeting political and economic objectives.

Those differences can be classified as temporary differences and permanent differences. Also the IAS 12 – Income taxes – of IASB (revised 2000) considers that the principal issue in accounting for income taxes is how to account for the current and future tax consequences of: the future recovery (settlement) of the carrying amount of assets (liabilities) that are recognized in an firm's Balance sheet; and transactions and other events of the current period that are recognized in an firm's financial statements (EC, 2003).

Following this, the IAS 12 states that:

> *It is inherent in the recognition of an asset or liability that the reporting enterprise expects to recover or settle the carrying amount of that asset or liability. If it is probable that recovery or settlement of that carrying amount will make future tax payments larger (smaller) than they would be if such recovery or settlement were to have no tax consequences, this Standard requires an enterprise to recognise a deferred tax liability (deferred tax asset)* (EC, 2003: 66).

Schroeder & Clark (1998: 537) consider that:

- *Temporary differences between pretax financial accounting income and taxable income affect two or more accounting periods and, thus, are the focus of the income tax allocation issue.*
- *Permanent differences do not have income tax allocation consequences.*

Deferred taxes normally relate to temporary differences only (Van Hulle & Van der Tas, 2001).

On the other hand, the paragraph 5 of IAS 12 reinforces that temporary differences are differences between the carrying amount of an asset or liability in the balance sheet and its tax base. Temporary differences may be either:

> *(a) taxable temporary differences, which are temporary differences that will result in taxable amounts in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled; or*
> *(b) deductible temporary differences, which are temporary differences that will result in amounts that are deductible in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled* (EC, 2003: 67).

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Additionally, the IAS 12 recognizes current tax liabilities and current tax assets. The paragraph 12 of IAS 12 states that current tax for current and prior periods should, to the extent unpaid, is recognised as a liability, and as an asset the excess between the amount already paid and the amount due (EC, 2003).

In this context, the accounting for income taxes is a controversial them of financial accounting and of very difficult normalization (García-Olmedo, 1998). In a study, Hoogendoorn (1996) analised the deferred versus the liability method, or the comprehensive method versus the partial recognition method in 13 European countries (Portugal and Spain are not included). He provides some examples of important situations which may give rise to temporary differences in each of the countries in analysis:

- depreciation (in all the countries);
- valuation of inventory (in Denmark, Germany, Norway, Sweden);
- long-term construction contracts (in The Netherlands, Norway, Sweden);
- unrealised losses on securities (in Norway);
- bad debt provisions (in Denmark, Ireland, Norway, Poland, UK);
- provision for maintenance, warranties, restructuring (Finland, Germany, Italy, The Netherlands, Norway, Poland, Sweden, UK);
- pension costs and other post-retirement benefits (in France, Germany, Ireland, Norway, UK);
- interest expenses (in Ireland, Poland, UK); and
- research and development costs (in Ireland, UK).

In Portugal as well as in Spain, some operations causing positive temporary differences (deferred tax assets) are: depreciation of tangible fixed assets; depreciation of intangible fixed assets; and provisions. Among the operations that bring about negative temporary differences (deferred tax liabilities), we may highlight: freedom of depreciation; accelerated depreciation; and exemption for reinvestment.

In relation to Spain, Gallego (2004) also states that the operations that give rise to positive permanent differences are: income tax expense; fines and sanctions; disallowable expenses; accounting expenses with consideration of concessions; and. provision for pensions, provision for tax, and other provisions. Operations that occasion negative permanent differences could be: donations and other tax-deductible contributions; monetary correction, welfare schemes; exemption for reinvestment; and the recovery, utilisation and application of funds.

Following this, there exist among the EU member states significant differences: for example amortization methods, different fiscal incentives to promote investment in specific geographical areas, and several treatments of revenue and capital expenses.

Already the Fourth Directive 78/660/EEC (EEC, 1978) argues in article 43 (10) that the notes on the accounts must set out information in respect of the extent to which the calculation of the profit or loss for the financial year has been affected by a valuation of the items which was made in the financial year in question or in an earlier financial year with a view to obtaining tax relief. Where the influence of such a valuation on future tax charges is material, details must be disclosed. Additionally, the article 43 (11) states that the

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difference between the tax charged for the financial year and for earlier financial years and the amount of tax payable in respect of those years, provided that this difference is material for purposes of future taxation. This amount may also be disclosed in the balance sheet as a cumulative amount under a separate item with an appropriate heading.

More recently, the modifications to incorporate in the normative of each EU member state, in consequence of the Regulation (EC) nº 1606/2002 of 19 July 2002 to execute the date of 2005 and for adoption and use international accounting standards in the Community, will force the European firms to familiarize with aspects as, for example, a new concept of "income" that forces them to apply different approaches from the current ones to quantify its benefits (Mallo & Pulido, 2004).

A form of eliminating the divergences among the different European countries could be the common definition of the taxable amount (Bond *et al.*, 2002), although each country maintains its corporate income tax, and the tax rates fixation. The harmonization of the different types of tax rates could be obtained through the establishment of a tax rate or interval of tax rate, as suggested Ruding in 1992 (EEC, 1992).

Also known as the Committee of Independent Experts on Company Taxation, the Ruding Committee played an important role: chaired by Onno Ruding, which was set up by the Commission of the European Communities in December 1990, following its communication 'Guidelines on company taxation' of 20 April 1990, to evaluate the need for greater harmonization of business taxation within the European Community (CEC, 1992: 106). Following this, the harmonization of taxable amount definition should follow four steps: harmonize the deductible expenses; harmonize the allowable deductions and the gains and other add back items; define the treatment of the revenues obtained in other EU countries; and harmonize the tax law in the relations between the EU countries (David & Abreu, 2005).

Face to the existence of three positions in the relationship among accounting and taxation, specifically domain of accounting on the taxation standards, prevalence of the taxation standards, and autonomy of both slopes, AECA (1992) considers the last as the more logic, although constitutes a problem harmonizing some aspects of accounting and taxation firms'. This harmonization is a priority (Moreno & Rodríguez, 1989).

5. Discussion

The conceptual framework of the accounting normative sugest that a significant improvement exists actually, in relation to the international comparability of practices as well as in relation to the largest level of purification of the concepts used in the accounting system. According to Regulation (EC) nº 1606/2002 of 19 July 2002, the EU member states altered its understanding of the accounting system and consequently of the fiscal system, with the main objective of satisfy the users' needs, for opposition to the preparation and presentation of the annual accounts to Fiscal Administration.

However, the differences in the taxation bases of each EU member state exist and, they will probably continue to exist, owing the solution pass for the approach, the fastest

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possible, to the taxation harmonization imposed by the EU directives, to the likeness than happened with the accounting harmonization.

The Fourth Directive of EEC was one of the instruments used to sum up the approach among the accounting normative of the EU member states, besides existing in most of the European countries a strong connection among accounting and taxation, tends in attention that the taxation was influenced strongly by the accounting, which is modifying face considerably to the autonomy among accounting and taxation. Thus, the application of IAS 12, Income Taxes, that has as objective to prescribe the accounting treatment for income taxes, has accounting and taxation consequences, approaching the normative of all EU member states.

For a correct delimitation of the functions of accounting and taxation, it is important that, on one side, of the fiscal standards do not result impositions that interfere in the essential function of financial information and, on the other hand, of the accounting standards do not result distortions to the principle of equality treatment, putting in risk the normal competition of the firms, nor increases the inherent expenses uselessly to the preparation and presentation of financial statements firms'.

The divergences among accounting and taxation imply corrections to the accounting income, to obtain the taxable income. Consequently, the accountancy of the deferred taxes, as well as the accountancy of the expenses and losses and the profits and gains, finds its justification in the need of executing the generally accepted accounting principles with the objective that the financial statements presents a true and fair view of the financial report and the results of the accomplished transactions.

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