

Original Paper

Income Taxes: Objective Values or Subjective Values as They Result from Financial Statements that Contain Subjective Data or Values Determined Subjectively by Financial Reporting

Preparers?

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Abstract

Research on more than 1500 Italian companies from 2016 to 2019 shows that the inclusion of tax values in financial reporting without any economic content is a widespread accounting practice. Tax interferences in financial reporting have various motivations and prove consequences both inside and outside the company. In the following pages, we will illustrate the results of the analysis carried out, the motivations leading to the incorrect accounting behaviour of the implementation of tax interferences and the consequences resulting from this widespread practice. It should be noted that tax interference causes problems both inside and outside the company. Such tax contamination of financial reporting affects the rights of third parties outside the company, and creates the conditions for challenges to financial reporting due to invalidity of the document. It also creates a basis for incorrect accounting data that can lead to wrong decisions by management.

Keywords

tax, financial reporting, truthfulness, fairness and understandability, tax contamination of financial reporting, inclusion of tax items in financial reporting, tax interferences in financial reporting

1. Introductory Remarks (Note 1)

Income taxes are one of the main items that enable a central government to meet the ordinary and extraordinary expenses that the nation requires. We can study taxes from a macroeconomic, microeconomic and business economic point of view. In this article, we will deal exclusively with income taxes in the field of business economics, with particular reference to companies, i.e. production companies. The focus will be placed only on the types of companies characterised by a corporate form, both of persons and capital, since individual companies, in general, are subject to different tax regulations from those of companies in all countries.

It is well known that financial reporting can identify objective items and items deriving from subjective evaluations. The former is true, and therefore there is no discussion on their amount. At the same time, items directly or indirectly linked to personal assessment cannot be defined as true.

Income taxes for the year are determined based on tax regulations that vary from country to country. It is not our intention to compare the tax laws of different countries. We aim to understand whether taxes are a general item applicable to all countries globally and an objective item, onjective in that it is derived from financial statements containing personal data or a value determined onbjectively by financial statements reporting preparers.

The question may seem redundant and superficial. Everyone is aware that the primary objective of tax law is to place stringent limits on the taxpayer's freedom to calculate taxes. Tax legislation in every country in the world is characterised by an extreme rigidity that allows the tax legislator to avoid leaving zones of liberty to the taxpayer that would enable the latter to compress to the utmost the taxes accrued during the year and consequently the taxes to be paid.

Based on this sentence, it could say that taxes are objective values because they are determined in a true manner and without any subjective intervention by the taxpayer.

However, since income taxes are always linked to financial reporting values, it is not possible to say that such data are true and objective since financial reporting itself contains valuation estimates that are, by definition, subjective. The presence of personal values in financial reporting, i.e. concerning the primary document to which all tax legislation in any country refers, directly or indirectly, prevents the claim that taxes are objective and true values.

The presence in financial reporting of subjective values, i.e., valuation estimates, means that, by definition, taxes are partly personal because they are calculated on values characterised by this element. However, the question arises as to whether income taxes are in part subjective only insofar as they are calculated on taxable income, which, in turn, contains values determined through valuation estimates, or whether the subjectivity goes beyond this limit.

It can only answer this question by analysing the tax legislation of the various countries. In this article, we refer to Italy in the certainty that, in the context of the evolution that has taken place in our country, all nations can find their legislation in force.

It should note that any theory should be tested by empirical research. The writer is currently conducting research lasting 25 years (2002-2027). This exceptional period for empirical research on financial reporting aims to verify the changes that have taken place over time in the relationship between civil law governing financial reporting and tax legislation. We want to find out how the relationship between civil law and tax law has evolved and will evolve over the next four years.

In the following pages, we will outline partial results for the period 2016-2019 to assess whether there have been changes over this period or whether the situation has not changed over time.

Before illustrating the partial results of the research concerning the 2016-2019 period, it is necessary to fully understand the differences and similarities between the regulations governing the preparation of financial reporting and the tax regulations whose objective is to identify the rules to be applied to determine the taxes for the year.

In Italy, as is the case in many other EU countries, listed companies (along with different particular types of companies) must prepare their financial reporting by EU IAS/IFRS. All other companies, on the other hand, must refer to the Civil Code. This article will focus our attention on unlisted companies that must prepare financial reporting according to the civil code articles.

First of all, it is necessary to underline that the objective of civil law is to ensure true, fair and understandable communication to third parties outside the company. Therefore, the purpose of the regulations is to indicate postulates, principles, and rules that allow the company's income, financial, and asset situation to be represented truthfully and understandably. Information to the outside world is the primary objective of the civil code so that those outside the company can take decisions based on values that represent the company's reality. It must be accepted, by definition, the circumstance that part of the information requires a subjective evaluation by the financial reporting writer. However, it must determine these items according to truthfulness. They are not true in absolute terms but must reflect, as far as possible, the reality that they are intended to indicate in a financial report.

The code focuses particularly on personal items, i.e. financial reporting items that require an estimated valuation. However, like all laws, the code is synthetic and, concerning financial reporting, deliberately lacunose. It is not possible to assume that the code regulates every item of financial reporting in detail. The articles would be 40 or 50 pages long, and, of course, this is not possible in law. Civil law is therefore concise and incomplete. It provides essential elements and reference principles that give the general line of conduct but do not detail valuation issues.

This is true for every item of financial reporting. For this reason, accounting standards have been issued that supplement the code on a confidential basis and illustrate the subjective assessments to be applied in determining particular financial reporting items in an exceptionally detailed manner.

In Italy, national accounting standards are issued by the Organismo Italiano di Contabilita (OIC). Although not a law, they are, in essence, mandatory following a decree that established their task of supplementing civil legislation concerning financial reporting. Each country has its Accounting Standards Board. Within the European Union, there is an objective to make national accounting

standards more and more similar to each other within the European Union. For this reason, each National Committee refers, when issuing new accounting standards, to the EU IAS/IFRS international standards. This is intended to achieve a homogeneity that should ensure greater global transparency of the financial statements of all EU companies.

On 20 August 2014, Law No. 116 of 11 August 2014, converting Decree Law 91/2014, was published in the Official Gazette, recognising the role and functions of the OIC. Article 9-bis states that:

“Art. 9-bis - Role and functions of the Italian Accounting Board

1. The Organismo Italiano di Contabilità, the national accounting standards institute

a) issues national accounting standards, inspired by best practice, for the preparation of financial statements under the provisions of the Italian Civil Code;

b) provides support to the activities of Parliament and Government Bodies in the field of accounting regulations and expresses opinions, when required by specific legal provisions or at the request of other public institutions;

c) participate in the process of developing international accounting standards adopted in Europe, maintaining relations with the International Accounting Standards Board (IASB), the European Financial Reporting Advisory Group (EFRAG) and the accounting bodies of other countries.

Concerning the activities referred to in (a), (b) and (c), it shall coordinate with the national authorities that have competence in accounting matters.

2. In exercising its functions, the Italian Board of Auditors shall pursue public interest purposes, act independently and adapt its statute to the principles of efficiency and cost-effectiveness. It reports annually to the Ministry of Economy and Finance on the activity carried out”.

Therefore, the national accounting standards, at least in Italy, but this happens in many EU countries and in other non-EU countries, integrate and complete what is imposed by the civil code. Their application is therefore not optional but mandatory. Only in this way, financial reporting will be truthful, correct and understandable. And only this accounting behaviour leads to the preparation of financial reporting that cannot be challenged and is therefore valid. On the other hand, if civil code rules and accounting principles are not applied, financial reporting is invalid. The invalidity, it is pointed out, can be twofold:

1) civil

2) criminal.

In the hypothesis of civil invalidity, errors are found in the financial statements, but good faith and lack of profit from the wrong accounting behaviour are recognised. In this case, anyone with interest can one to have the judge annul the resolution approving the financial reporting. If the company loses the case at the third instance (Court of Cassation), the financial reporting must be redone, but there are no criminal sanctions such as imprisonment.

On the other hand, if the case falls under criminal law, there is an offence, and the maximum penalty is imprisonment.

The criminal articles governing false financial reporting provide that the criminal sanction) of the dissemination of fraudulent communications only in the presence of specific subjective elements which, in the civil law context, on the contrary, are absent.

The articles as mentioned above state that false corporate communications are sanctioned under criminal law (or under administrative law if the thresholds mentioned above are not exceeded) only if

- 1) it can identify a precise intention to deceive the shareholders or the public
- 2) and it is proven that the ultimate aim of the active party was to obtain an unjust profit for himself or others.

The absence of one of these subjective elements prevents the applicability of criminal sanctions.

In criminal law, therefore, deception must be accompanied by intention, which, in addition, must have the purpose of unfair profit. The lack of even one of the above-mentioned subjective elements prevents the concept of false corporate communications from being criminally (or administratively) sanctioned.

This article will focus on the statutory aspects of financial reporting, i.e., the relationship between statutory rules, accounting standards, and tax rules.

In the previous pages, we have highlighted how the main objective of the statutory rules is to guarantee a true, correct and clear communication of the income, equity and financial situation of the company. Tax regulations, on the other hand, as is well known, only aim to identify a taxable income devoid of subjective elements that the taxpayer can manipulate. Therefore, the purpose of tax legislation is to limit the taxpayer's discretion when determining the components of taxable income. The tax regulations aim to limit the taxpayer's choice when selecting the components of taxable income. For years now, the international doctrine has pointed out that the optimum should be the coincidence between the operating income shown in financial reporting and the taxable income. All of this is a hope, but it is not the reality since, precisely to limit the taxpayer's discretion, the tax legislator places impassable limits on the deductibility of costs. This situation is found in all the tax laws of every country. Therefore, even if we refer to Italian legislation in this article, we can see the basic principles of tax legislation in all the laws of the various countries. The laws of the different countries will differ. Still, the fact that tax legislation is organised and structured in such a way as to limit the taxpayer's discretion as much as possible is typical of any tax legislation.

The principles according to which financial statements must be drawn up, i.e. statutory rules and accounting principles, should never be influenced by tax rules. And in various countries, including Italy, tax legislation, to bring taxable income closer to the income realised by the company has laws that allow statutory values to be accepted as deductible even though they are subject to a subjective valuation. However, most of the valuation assessments escape this rule, which in Italy is called enhanced derivation point. For estimative valuations such as amortisation, depreciation, provisions for risks and charges, closing inventories, etc., what is called "reinforced derivation" in Italy is not applicable. For these financial reporting items, therefore, it must determine the value entered in the balance sheet and the profit and loss account according to statutory principles and the principles set out

in the accounting standards, while the costs and revenues relevant for tax purposes must be determined according to the provisions of tax legislation. There is, therefore, a total absence of osmosis between statutory principles/accounting principles and tax law. It must determine the two categories of values according to the principles the item in question relates. Suppose the value is to be included in financial reporting. In that case, the statutory and accounting standards must be applied, whereas if the figure is used to calculate taxable income, it must apply the tax rules. Between the two categories of laws, there is, at least in theory, an impassable wall that should never breach. We shall see in the following pages why I have used a verb with the conditional form in this sentence.

Assuming tax values included in statutory profit and loss is equivalent to taking tax contamination of financial reporting. The concept of tax interference means just that. Tax interference occurs when, instead of including economically correct values in statutory financial reporting, tax values are included that have nothing to do with the truthfulness and correctness of the reported amounts. Entering tax values in civil law financial reporting causes the determination of incorrect operating income and assets, i.e. polluted by values that are not necessarily economically correct. For this reason, tax interference in financial reporting is to be deprecated from an informative point of view as the external communication of the company's income, financial and economically incorrect values contaminate the asset situation. As we will see later, the fiscal contamination of financial reporting, i.e., the inclusion of tax values in the financial reporting for the year, also causes other consequences of a managerial and legal nature, which we will discuss in the following pages.

2. Types of Interrelation between Civil and Tax Rules: The Stages of Evolution in Italy that can be Assimilated to the Situation in many other Countries

The type of interrelation between civil rules and tax provisions varies from country to country. In Italy, there has been an evolution through various stages. In the different countries, it is possible to find a situation similar to one of the phases of development that has occurred in Italy.

In general terms, it can stop that the relationship between civil and fiscal legislation and, therefore, between items of profit and loss and amounts fiscally relevant can fall comma in essence, in 4 categories of situations:

- 1) In financial reporting, two specific items highlight the value adjustments made exclusively in the application of tax regulations and the provisions solely made in the application of tax regulations;
- 2) in the financial reporting, in particular in the profit and loss, there are no items referred to in point number 1, but in the notes to the financial statements, i.e., in the report that makes up the financial reporting, there is an obligation to indicate the amount present in the financial reporting data that is exclusively for tax purposes;
- 3) the third option concerns the hypothesis in which values not present in financial reporting but indicated in a special section of the profit and loss can be deducted for tax purposes;

4) the fourth option is that there is no reference to the fiscal values in the financial reporting. In this case, the preparer of the financial reporting is obliged to indicate in the balance sheet in the profit and loss section the values and economically correct according to the application of the statutory principles and the accounting principles.

These four situations can occur at any time in history and in any country. Therefore, it is very likely that a comparison of the various tax laws applied in different States will identify one of the hypotheses identified above because, outside of these four options, it is difficult to hypothesise a tax law interrelated to civil law.

In Italy, the evolution in recent decades has seen the application of all four hypotheses.

Indeed, in 1991, the profit and loss account had two items identifying the value adjustments made exclusively in applying tax rules and the provisions solely made in using tax rules. In this case, the tax interference in the financial reporting was evident as the items were present in the profit and loss. Therefore the tax contamination was not hidden but evident when reading the profit and loss.

In 1994, the two items mentioned above were eliminated because they undermined the integrity of the operating income shown in the financial reporting and frustrated the objective of providing an understandable and correct communication of the company's situation. The above could lead one to think that in 1994 comma in Italy, corporate communication took a big step forward. Nothing could be more wrong. In 1994, legislation allowed the detection of value adjustments and provisions determined exclusively in compliance with tax laws (although without an obligation to highlight them as special items), provided that the reasons for these value adjustments and tax items be explained in the Explanatory Notes, where their nature of items determined and booked exclusively for tax purposes, and therefore devoid of any economic meaning, should eventually be highlighted. During those years, each item of the profit and loss account could contain portions exclusively related to taxes.

Under said laws, the notion of "true and fair view" for a financial statement took on a very peculiar meaning: in the presence of tax-related items lawfully posted without a correspondence with economic facts, the balance sheet and the profit and loss account did not give a *true and fair* view of the financial situation of a company.

However, the true and fair view was ensured by compliance with the provision set forth in point no. 14 of art. 2427 of the Civil Code, since the Explanatory Notes were, and still are today, an integral part of the financial statements. Even though the balance sheet and the profit and loss account contained items that were not "true and fair", the information provided in the Notes would contribute to give a really true and fair view of the financial situation of the company since the whole of the forms that make up the financial statements included the balance sheet, the profit and loss account (or income statement) and the explanatory notes. The determination of economically correct values was in any case compulsory for the financial statement to be lawfully prepared according to the legislation, even before the reform.

This period and by applying this procedure, it is evident that the tax interference was highest. In the countries that currently use this methodology, it can therefore say that the tax contamination of financial reporting reaches exceptionally high levels.

Because of the unacceptable situation with the regulations in force since 1994, the civil legislator proceeded to reform in 2003, which, at least in the legislator's intentions, should have allowed for correct and understandable financial reporting and the determination of a perfect taxable income. The 2003 reform allowed deducting of purely tax-related items in a particular framework called the EC form of the tax return. The possibility of deducting tax items without economic content by simply entering the value in the tax return, specifically in the EC form, was intended by the legislator to lead to the preparation of true, correct and understandable financial statements without any tax interference. At least from a theoretical point of view, the fiscal interference had no longer any reason to be implemented in the profit and loss. The financial reporting editor could insert in the profit and loss and in the balance sheet economically correct items deriving from the application of the principles of the Civil Code and the accounting principles and at the same time he could count on the deductibility of the fiscal values without economic content by simply inserting in the income tax return the amount that the tax legislator foresaw could be deducted even in the absence of profit and loss.

In the 2008 comma in Italy, a civil and tax reform took place, completely changing the previous situation.

In 2008, the option to deduct, only in the tax return, tax-relevant amounts without an economic content was repealed. So, these are the requirements of the current legislation: if a cost is recognised in the profit and loss account, it is theoretically tax-deductible; otherwise, if it is not recognised in the profit and loss account, it cannot be deducted from taxes; Since the tax law has established some maximum limits for the deductibility of costs, if the item shown in the balance sheet is below that limit, tax deductibility will be total; otherwise, if the cost shown in the balance sheet exceeds this statutory limit, the excess of the cost may not be deducted. After the 2008 reform, the requirement of entering only true and fair items in the balance sheet should have forced, at least theoretically, accountants to use correct reporting principles with the objective, *inter alia*, to facilitate international harmonization. Only later, and particularly when filing tax returns and consequently determining the applicable taxes, would said accounting people monitor the presence of any discrepancy between balance sheet items and tax-deductible amounts. At present, the financial statement is required to contain only true and fair values, regardless of the fact that any tax benefit might be lost. The presence of tax-deductible costs exceeding economic costs should not affect the financial statement, which should still be prepared based on true and fair values, outside any tax-related consideration .

It is clear from the above that the interrelationship between civil law/accounting principles and tax provisions can only fall into one of the four options mentioned above. In Italy, each option has been tried, and there have been no further reforms since 2008. The legislation in force may be different in other countries, but it cannot fail to fall under one of the four hypotheses illustrated above.

The four options for the identifiable relationship between civil law and tax provisions are structurally different but have one essential element. Each option provides the calculation of the economically true and correct amounts and, separately, for determining the deductible amounts according to the tax provisions.

Whichever option is chosen, even if it is not one of those set out above, it always requires that two figures be compared: the value resulting from an economically correct valuation and the tax-relevant figure. Double determination is mandatory. Always. The methods of recognition, on the other hand, may change, but what cannot be changed is the obligation to determine, on the one hand, the value deriving from the application of accounting principles and civil law and, on the other hand, the amount deriving from the application of tax law.

The economically correct and true values and the tax data must always be calculated and mixed. The law may provide for the inclusion of tax items in financial reporting by highlighting particular items. It is also possible that there is an obligation to indicate, separately, the amount entered in financial reporting without economic content and marked only by fiscal reasons. However, it is always mandatory to identify the two types of values separately and then follow the financial reporting legislation in force at the time of application of the regulations.

This double determination is the last bastion that ensures the preparation of financial reporting from which information can be drawn to determine the company's correct and true income and equity.

Including, for whatever reason, tax data without economic content in the financial reporting without identifying the tax part marked by the lack of economic relevance means preparing false, incorrect and unclear financial reporting.

At this point, the question arises as to how companies respond to these observations. As we have already pointed out, we are currently undertaking a 25-year field study to assess the evolution of this phenomenon.

In this article, we would like to point out the Italian situation from 2016 to 2019. After presenting the data, we will highlight the consequences of the accounting behaviour of most Italian companies.

3. The Relationship between Financial Reporting and Tax Rules: Results of a Field Research Carried out by Analysing 1354 Italian Companies' Financial Statements of the Years 2016, 2017, 2018 and 2019.

To verify the relationship between civil law principles/accounting principles and tax regulations, as already highlighted in the previous pages, the writer is conducting research that will last 25 years. The research aims to highlight the evolution that has taken place over this period in the field of the issue under study. The field analysis on the financial statements of the 25 years analysed (2002-2027) will make it possible to understand how the subject of the fiscal contamination of financial reporting has evolved. Therefore, the research aims to verify whether the financial reporting preparer adopts a harmonious and correct accounting behaviour. The accounting behaviour that should maintain

presupposes the inclusion of economically truthful data in the financial reporting and the determination of the tax values, which should determine the taxable income. If for any reason, the preparer of the financial report enters tax values in the balance sheet and the profit and loss, these documents are not true and correct. If these documents contain values that have no economic content and are only relevant for tax purposes, the income and assets shown in the financial reporting are not meaningful. In the following pages, we will highlight the reasons that can lead to this behaviour and the consequences of this tax interference.

Before dealing with these issues, we will highlight the results of the analysis concerning the years mentioned above in synthetic terms. The research was carried out using a questionnaire that sought to ascertain whether or not the accounting behaviour of financial reporters was correct. The questionnaire is as follows:

QUESTION NO 1) Depreciation of tangible fixed assets, recorded in the income statement, is account, are results lower or coincident with the values deductible for tax purposes?

QUESTION NO. 2a) The amortisation of goodwill recorded in financial reporting is upper, lower or coincident with the values deductible for tax purposes?

QUESTION NO. 2b) For amortisation relating to intangible assets (except goodwill), are the values upper, lower or coincident with the values deductible for tax purposes?

QUESTION No. 3) Is the write-down of trade receivables results upper, lower or coincident with the deductible value allowed by tax regulations?

QUESTION No. 4) Has the valuation of closing inventories carried out in financial reporting been shown to be upper, lower or coincident with the value allowed by tax regulations?

QUESTION No. 5) Have you carried out write-downs of non-deductible equity investments? Not deductible for tax purposes?

QUESTION NO. 6) Have you entered into leasing contracts with a duration that does not allow for a tax deduction of the lease installments?

QUESTION NO. 7) Which provisions have you complied with in drawing up the financial reporting? (multiple answers possible)

Civil law provisions

National and/or international accounting standards

Tax regulations (TUIR)

Civil law and accounting principles

Civil law and tax regulations

Accounting standards and tax regulations

Civil law, accounting standards and tax regulations

The research was conducted on 1354 small, medium and large unlisted companies. The sample was formed so that all Italian regions were involved in the analysis. Therefore, the companies have their registered offices in the various Italian areas and have been chosen to have companies of multiple sizes

subject to research for each area. However, not a statistical sample in the strict sense of the term, the group of companies studied optimally reflects the situation in our country.

The results of the analysis, expressed in highly synthetic terms, were as follows:

QUESTION N. 1

Depreciation of tangible fixed assets, recorded in the income statement, in account, are upper, lower or coincident with the values deductible for tax purposes?

Results

Anno 2016

Total number of companies: 1354

Replies received	1354 on 1354	100% of the sample
Upper	105 on 1354	7,75% of the sample
Lower	25 on 1354	1,85% of the sample
Coincident	1224 on 1354	90,40% of the sample

Anno 2017

Total number of companies: 1354

Replies received	1354 on 1354	100% of the sample
Upper	105 on 1354	7,75% of the sample
Lower	25 on 1354	1,85% of the sample
Coincident	1224 on 1354	90,40% of the sample

Anno 2018

Total number of companies: 1354

Replies received	1354 on 1354	100% of the sample
Upper	105 on 1354	7,75% of the sample
Lower	25 on 1354	1,85% of the sample
Coincident	1224 on 1354	90,40% of the sample

Anno 2019

Total number of companies: 1354

Replies received	1354 on 1354	100% of the sample
Upper	105 on 1354	7,75% of the sample
Lower	25 on 1354	1,85% of the sample
Coincident	1224 on 1354	90,40% of the sample

Depreciation of tangible fixed assets is undoubtedly one of the most manipulated items in financial reporting. The above data shows that more than 90% of the sample has statutory values that coincide with tax values. Since the tax values, for costs that are relevant for tax purposes and deductible for tax purposes, derive from an average sector value established by a ministerial decree and therefore cannot refer to each company but represent an average figure for the sector analysed, it is possible but not obligatory that the economically correct statutory value and the value deductible for tax purposes are the same. If this happens in some companies, it can say that everything falls within the normality of randomness. The economically correct item may be identical to the value relevant for tax purposes, not only for depreciation but for all the other items that we will see later. When, however, we find the equality between the two civil and fiscal items in many cases, the obvious doubt arises that the financial reporting editor has not calculated the economically correct value and the fiscal figure and has included the first in the financial reporting and the second in the tax return, but has simply included the fiscal figure in the financial reporting. In this case, we can understand how the fiscal contamination is very high. A percentage of over 90% of companies that find equality between the correct economic figure and the fiscal figure shows a logical and clear fiscal interference in the financial reporting. Therefore, in many companies, there is tax contamination, at least as far as the depreciation of tangible assets is concerned. This is also proven by the limited value of economic depreciation lower than tax depreciation only about. Only about 11% of the companies have recorded in financial reporting depreciation of tangible assets more inferior than the tax depreciation, losing, for this reason, the possibility of deducting for tax purposes the portion that could potentially deduct for tax purposes. Still, comma not being recorded in financial reporting becomes a fiscally irrelevant portion.

The comma research data on depreciation of property, plant and equipment, at least for the years 2016 to 2019, therefore show a strong presence of tax regulations in the area of financial reporting. Although it is not possible to exclude that there is an equality between the economic value and the tax value, the writer believes that such a high percentage of equality between the two values is indirect evidence of the tax contamination of financial reporting, at least concerning to the item analysed here.

QUESTION N. 2a

The amortisation of goodwill recorded in financial reporting is upper, lower or coincident with the values deductible for tax purposes?

Results

Anno 2016

Total number of companies: 1354

Replies received	1354 on 1354	100% of the sample
Upper	222 on 1354	16,40% of the sample
Lower	155 on 1354	11,45% of the sample
Coincident	977 on 1354	72,16% of the sample

Anno 2017

Total number of companies: 1354

Replies received	1354 on 1354	100% of the sample
Upper	222 on 1354	16,40% of the sample
Lower	155 on 1354	11,45% of the sample
Coincident	977 on 1354	72,16% of the sample

Anno 2018

Total number of companies: 1354

Replies received	1354 on 1354	100% of the sample
Upper	222 on 1354	16,40% of the sample
Lower	155 on 1354	11,45% of the sample
Coincident	977 on 1354	72,16% of the sample

Anno 2019

Total number of companies: 1354

Replies received	1354 on 1354	100% of the sample
Upper	222 on 1354	16,40% of the sample
Lower	155 on 1354	11,45% of the sample
Coincident	977 on 1354	72,16% of the sample

The data analysis concerning the amortisation of goodwill shows the same situation as for the amortisation of tangible assets. Since civil law differs from tax law, the coincidence of goodwill amortisation from a civil and tax point of view appears to be an event that should be pretty rare, although it may occur. More than 72% of the sample, on the other hand, have economically correct values and tax data coincident. Even in this case, only 11% of the companies analysed have economic values lower than the tax values with the consequent loss of deductibility of the difference. Also, in this case, we notice a situation that leads to thinking about robust fiscal contamination of the statutory financial reporting. Also, concerning the amortisation of goodwill, therefore, and in most companies, there is a tendency to record the tax-relevant and deductible value in the financial reporting making it appear, incorrectly, that this value also represents the true and correct figure from an economic point of view.

Also, for this item, therefore, it can say that the tax contamination in financial reporting is very high.

QUESTION N. 2b)

For amortisation relating to intangible assets (except goodwill), are the values in financial reporting upper, lower or coincident with the values deductible for tax purposes?

Results

Anno 2016

Total number of companies: 1354

Replies received	1354 on 1354	100% of the sample
Upper	119 on 1354	8,86% of the sample
Lower	135 on 1354	9,97% of the sample
Coincident	1.100 on 1354	81,17% of the sample

Anno 2017

Total number of companies: 1354

Replies received	1354 on 1354	100% of the sample
Upper	119 on 1354	8,86% of the sample
Lower	135 on 1354	9,97% of the sample
Coincident	1.100 on 1354	81,17% of the sample

Anno 2018

Total number of companies: 1354

Replies received	1354 on 1354	100% of the sample
Upper	119 on 1354	8,86% of the sample
Lower	135 on 1354	9,97% of the sample
Coincident	1.100 on 1354	81,17% of the sample

Anno 2019

Total number of companies: 1354

Replies received	1354 on 1354	100% of the sample
Upper	119 on 1354	8,86% of the sample
Lower	135 on 1354	9,97% of the sample
Coincident	1.100 on 1354	81,17% of the sample

The same applies to the amortisation of tangible assets and goodwill as to the amortisation of intangible assets. In this case, too, more than 81% of the companies in the sample have values for civil law purposes that coincide with the tax-relevant and deductible data. Therefore, the considerations made above regarding the high tax contamination of financial reporting also apply to this item.

QUESTION N. 3

Is the write-down of trade receivables in account upper, lower or coincident with the deductible value allowed by tax regulations?

Results

Anno 2016

Total number of companies: 1354

Replies received	1354 on 1354	100% of the sample
Upper	543 on 1354	40,10% of the sample
Lower	303 on 1354	22,38% of the sample
Coincident	508 on 1354	37,52% of the sample

Anno 2017

Total number of companies: 1354

Replies received	1354 on 1354	100% of the sample
Upper	543 on 1354	40,10% of the sample
Lower	303 on 1354	22,38% of the sample
Coincident	508 on 1354	37,52% of the sample

Anno 2018

Total number of companies: 1354

Replies received	1354 on 1354	100% of the sample
Upper	543 on 1354	40,10% of the sample
Lower	303 on 1354	22,38% of the sample
Coincident	508 on 1354	37,52% of the sample

Anno 2019

Total number of companies: 1354

Replies received	1354 on 1354	100% of the sample
Upper	543 on 1354	40,10% of the sample
Lower	303 on 1354	22,38% of the sample
Coincident	508 on 1354	37,52% of the sample

The situation regarding the valuation of receivables appears to be slightly better than the items previously considered. First of all, it should note that in Italy, the Civil Code and the accounting principles state that the valuation of receivables must be made at estimated realisable value, which is determined by considering the nominal value, taking into account deductions linked to uncollectible receivables, discounts and coupons, interest that has not yet matured and any invoicing adjustments. However, tax regulations require that the conclusion is up to a maximum of 0.50% of the amount of trade receivables existing at the time of the financial reporting, up to a maximum of 5% of the receivables. An analysis of the current economic situation in countries around the world shows a high

rate of business failures and another percentage of consumers who are unable to pay their debts. The 0.50% of outstanding trade receivables appears to be a low percentage that does not generally reflect the receivables that are considered uncollectable at the end of the year.

And for this reason, one would expect to find an extremely high percentage of an economically correct value above the tax-deductible item. Looking at the data from the sample, it can be seen that in all four years considered, around 40% of the companies reported a higher amount in financial reporting than the tax-deductible amount. However, what is striking is the almost 38% of the sample that, on the other hand, recorded in financial reporting a figure identical to the value deductible for tax purposes. Although lower than that of the depreciation considered previously, this percentage of coincident values appears very high, above all because the item under analysis, i.e., the presumed losses on receivables, especially in this historical period, is extremely high. In conclusion, it can be stated that also for this item there is fiscal contamination in the financial reporting, even if lower than what happens about the depreciation and amortization of tangible and intangible assets.

QUESTION N. 4

Has the valuation of closing inventories carried out in financial reporting been shown to be upper, lower or coincident with the value allowed by tax regulations?

Results

Anno 2016

Total number of companies: 1354

Replies received	1354 on 1354	100% of the sample
Upper	25 on 1354	1,85% of the sample
Lower	295 on 1354	21,79% of the sample
Coincident	1034 on 1354	76,37% of the sample

Anno 2017

Total number of companies: 1354

Replies received	1354 on 1354	100% of the sample
Upper	25 on 1354	1,85% of the sample
Lower	295 on 1354	21,79% of the sample
Coincident	1034 on 1354	76,37% of the sample

Anno 2018

Total number of companies: 1354

Replies received	1354 on 1354	100% of the sample
Upper	25 on 1354	1,85% of the sample
Lower	295 on 1354	21,79% of the sample

Coincident	1034 on 1354	76,37% of the sample
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Anno 2019

Total number of companies: 1354

Replies received	1354 on 1354	100% of the sample
Upper	25 on 1354	1,85% of the sample
Lower	295 on 1354	21,79% of the sample
Coincident	1034 on 1354	76,37% of the sample

Also, concerning closing inventories, the coincidence between the economically correct value governed by the Civil Code and accounting principles and the tax value appears to be extremely high, with more than 76% of the companies in the sample indicating that the two values coincide. In this regard, however, it must consider that the tax law provides for principles that, in reality, can coincide with what is established by the code and the accounting principles. The differences are slight, and therefore it seems less relevant that more than 76% of the companies have the economically correct value and the tax figure coincide. As can be seen, about 22% have an economically correct figure lower than the value deductible for tax purposes. These companies have opted for a valuation that, while losing a part of deductibility, reflects, in their opinion, in a correct way the economic component of inventories also points for this item we can stop there is tax contamination of financial reporting although the incidence of this tax interference in financial reporting has a lower weight than the items previously considered

QUESTION N. 5

Have you carried out write-downs of non-deductible equity investments? Have you in financial reporting amount not deductible for tax purposes?

Results

Anno 2016

Total number of companies: 1354

Replies received	1354 on 1354	100% of the sample
Si	427 on 1354	31,54% of the sample
No	927 on 1354	68,46% of the sample

Anno 2017

Total number of companies: 1354

Replies received	1354 on 1354	100% of the sample
Si	427 on 1354	31,54% of the sample
No	927 on 1354	68,46% of the sample

Anno 2018

Total number of companies: 1354

Replies received	1354 on 1354	100% of the sample
Si	477 on 1354	35,23% of the sample
No	877 on 1354	64,77% of the sample

Anno 2019

Total number of companies: 1354

Replies received	1354 on 1354	100% of the sample
Si	477 on 1354	35,23% of the sample
No	877 on 1354	64,77% of the sample

Concerning the issue of valuation of shareholdings, it can be noted that the percentage of the negative response ranged from 68% to 64.77%, and the decrease is very slight, so it can be said that there is a substantial constancy in the negative response. The majority of companies have therefore not done any non-deductible valuations for tax purposes. Of course, this may also be because the participations were not to be devalued. Thus, the negative response is not linked to the fiscal contamination of financial reporting but derives from a managerial consideration and is correctly applied at an accounting level. However, the fact that in recent years equity investments, i.e., shares and quotas in limited liability companies, have often been written down due to the global economic downturn suggests that the negative answer, i.e., the lack of non-tax-deductible write-downs, is due, at least in part, to the fact that the cost would not have been relevant for tax purposes. Undoubtedly, if the main reason were that the impairment would not be tax-deductible, the failure to do so would represent a typical tax interference in financial reporting.

QUESTION N. 6

Have you entered into leasing contracts with a duration that does not allow for a tax deduction of the lease installments?

Results**Anno 2016**

Total number of companies: 1354

Replies received	1354 on 1354	100% of the sample
Si	495 on 1354	36,56% of the sample
No	859 on 1354	63,44% of the sample

Anno 2017

Total number of companies: 1354

Replies received	1354 on 1354	100% of the sample
Si	495 on 1354	36,56% of the sample
No	859 on 1354	63,44% of the sample

Anno 2018

Total number of companies: 1354

Replies received	1354 on 1354	100% of the sample
Si	495 on 1354	36,56% of the sample
No	859 on 1354	63,44% of the sample

Anno 2019

Total number of companies: 1354

Replies received	1354 on 1354	100% of the sample
Si	495 on 1354	36,56% of the sample
No	859 on 1354	63,44% of the sample

Also, about the problem of leasing, the percentage of the negative answer is higher than 63% for each year considered. This circumstance means that many enterprises have not answered the stipulation of leasing contracts with a duration that does not allow the deduction of annual fees. Also, in this case, the motivation may be managerial but, from the interviews carried out verbally to many enterprises, it understood that the reason of the answer is linked to the fact that identifying different rents would not have been fiscally deductible; therefore, most enterprises are careful to sign a leasing contract that allows the total deductibility of the annual rents. Again, based on the above considerations, it can be stopped that in connection with the accounting item lease rentals, there is a high probability of tax interference in the financial reporting for the year.

QUESTION N. 7

Which provisions have you complied with in drawing up the financial reporting? (multiple answers possible)

Civil law provisions

National and/or international accounting standards

Tax regulations (TUIR)

Civil law and accounting principles

Civil law and tax regulations

Accounting standards and tax regulations

Civil law, accounting standards and tax regulations**Results****Anno 2016**

Total number of companies: 1354

Replies received	1354 on 1354	100% of the sample
Civil law provisions	135 on 1354	9,97% of the sample
National and/or international accounting standards	25 on 1354	1,85% of the sample
Tax regulations (TUIR)	0 on 1354	0% of the sample
Civil law and accounting principles	844 on 1354	62,33% of the sample
Civil law and tax regulations	190 on 1354	14,03% of the sample
Accounting standards and tax regulations	70 on 1354	5,17% of the sample
Civil law, accounting standards and tax regulations	90 on 1354	6,65% of the sample

Anno 2017

Total number of companies: 1354

Replies received	Replies received	1354 on 1354	100% of the sample
Civil law provisions	Normativa civilistica	135 on 1354	9,97% of the sample
National and/or international accounting standards	Principi contabili nazionali e/o internazionali	25 on 1354	1,85% of the sample
Tax regulations (TUIR)	Disciplina tributaria (TUIR)	0 on 1354	0% of the sample
Civil law and accounting principles	Normativa civilistica e principi contabili	844 on 1354	62,33% of the sample
Civil law and tax regulations	Normativa civilistica e disciplina tributaria	190 on 1354	14,03% of the sample
Accounting standards and tax regulations	Principi contabili e disciplina tributaria	70 on 1354	5,17% of the sample
Civil law, accounting standards and tax regulations	Normativa civilistica, principi contabili e disciplina tributaria	90 on 1354	6,65% of the sample

Anno 2018

Total number of companies: 1354

Replies received	Replies received	1354 on 1354	100% of the sample
Civil law provisions	Normativa civilistica	135 on 1354	9,97% of the sample
National and/or international accounting standards	Principi contabili nazionali e/o internazionali	25 on 1354	1,85% of the sample
Tax regulations (TUIR)	Disciplina tributaria (TUIR)	0 on 1354	0% of the sample

Civil law and accounting principles	Normativa civilistica e principi contabili	844 on 1354	62,33% of the sample
Civil law and tax regulations	Normativa civilistica e disciplina tributaria	190 on 1354	14,03% of the sample
Accounting standards and tax regulations	Principi contabili e disciplina tributaria	70 on 1354	5,17% of the sample
Civil law, accounting standards and tax regulations	Normativa civilistica, principi contabili e disciplina tributaria	90 on 1354	6,65% of the sample

Anno 2019

Total number of companies: 1354

Replies received	Replies received	1354 on 1354	100% of the sample
Civil law provisions	Normativa civilistica	135 on 1354	9,97% of the sample
National and/or international accounting standards	Principi contabili nazionali e/o internazionali	25 on 1354	1,85% of the sample
Tax regulations (TUIR)	Disciplina tributaria (TUIR)	0 on 1354	0% of the sample
Civil law and accounting principles	Normativa civilistica e principi contabili	844 on 1354	62,33% of the sample
Civil law and tax regulations	Normativa civilistica e disciplina tributaria	190 on 1354	14,03% of the sample
Accounting standards and tax regulations	Principi contabili e disciplina tributaria	70 on 1354	5,17% of the sample
Civil law, accounting standards and tax regulations	Normativa civilistica, principi contabili e disciplina tributaria	90 on 1354	6,65% of the sample

This last question can be considered as a check on the correctness of the answers given to the previous questions. The question was therefore structured in such a way as to understand whether the possibly incorrect accounting behaviour of the financial reporting manager is due to intention or to ignorance of the regulations. It can be seen, as was often the case in the previous questions, that the answers are the same in all four years, which means that the companies have adopted the same accounting behaviour from 2016 to 2019 inclusive. From the previous answers we have deduced that the tax interference in the financial reporting for the year is very high and the tax contamination of tax items in the balance sheet or in the profit and loss is considerable because, as we have already been able to highlight, it is statistically impossible that for many years in a row, the statutory value coincides perfectly with the tax deductible value. Correctly interpreting the answers we obtained in the previous questions, one would expect the financial reporting editor to make it clear that many financial reporting items are tax items.

However, the analysis of the data shows a slightly different situation that is, however, perfectly interpretable and understandable. Analysis of the data shows that 62% of the companies responded that they prepare financial reporting in accordance with statutory regulations and accounting standards. This would represent the perfectly correct behaviour involved in preparing valid and legitimate financial reporting. From the analysis of the data of question 7 it can be deduced that 62% believe that they adopt a correct behaviour or affirm that they adopt a correct behaviour. The first observation that can be made is that 62% is a very low percentage because in reality the correct percentage should be 100%, i.e., all companies should adopt the correct behaviour to prepare financial reporting. In addition to this you are to notice however how you are to notice however how the reference to principles the reference to tax principles is found in various answers that is to say 14% of the companies affirm to apply affirm to apply the civil and tax regulations, more than 5% of the companies state that they refer to accounting principles and tax regulations, and almost 7% of the sample state that they draw up their financial reporting in accordance with statutory regulations, accounting principles and tax regulations. Onmming up the companies that refer to tax regulations, 28% of the companies explicitly state that they pollute their financial reporting with tax data, and therefore implicitly state that they draw up illegitimate, incorrect and untrue financial reporting. It should also be noted that 62% of the companies that state that they refer to civil law and accounting principles are probably not telling the truth because this situation is in contrast with the data of the previous answers where a strong tax contamination in the financial reporting data is evident. On the basis of the results of question number 7 it can therefore be stated that many companies implement the tax contamination of financial reporting voluntarily and knowingly, while others implement it either out of ignorance or voluntarily but hidden. That is, these companies claim to behave correctly but adopt accounting attitudes that lead to the preparation of untrue financial statements polluted by tax values devoid of any economic content. This may be due to a lack of knowledge of the rules or to a desire to hide the real behaviour adopted. Some companies therefore claim to be acting correctly in their accounting, even though they know that, on the contrary, they are illegally polluting their financial reporting with tax data.

At the conclusion of the data analysis carried out in the field from 2016 to 2019 on more than 1,500 companies, it can be stated that most Italian companies implement tax contamination in their financial statements and that, therefore, in many financial statements there are accounting items that are totally devoid of economic content or lower than those that should reflect the real cost incurred by the company.

Therefore, tax contamination is still a widespread behaviour and, although it is not possible here to highlight the data collected from 2002 to 2016, it can be stated that, from the complete research that will end in 2017, at least until now, tax interference in financial reporting prevails, regardless of the civil and tax legislation in force.

4. Motivations and Consequences of Tax Interferences: Concluding Remarks

As regards the reasons for the recognition in the balance sheet or profit and loss of tax items without any economic content or the distinction in financial reporting of values lower than those economically correct because the recognition of higher values would not have allowed the full deductibility of the value recorded, it can be stopped that can be traced to two major categories of reasons.

The first motivation is undoubtedly related to the determination of the tax point. Whoever prepares the financial reporting can include economically incorrect profit and loss but tax-deductible values to enjoy a higher tax deduction. Writing, therefore, comma a value Writing an economically insubstantial but tax-deductible comma value generally motivates saving tax payments. Such behaviour leads to invalid, incorrect and untrue financial reporting. Indeed, this behaviour is widespread since every taxpayer tends, if possible, to reduce the taxable income on which to determine taxes.

However, there is a second reason that should not underestimate. It is possible that the financial reporting editor directly enters taxable values and does not economically correct data in profit and loss and balance sheets simply because he does not calculate economically accurate data. Take depreciation, for example. Determining annual depreciation rates according to the civil code's accounting principles requires calculations, reasoning, comma assumptions, and perfect knowledge of the accounting principles themselves. Sometimes this is very complex, and it is, by far, simpler to apply the tax-relevant percentage of depreciation for the sector and the asset to which the depreciation relates as this saves energy and work. Failure to determine the economically correct value prevents the comparison between the valid value and the tax value. It consequently also contains the best choice of value to be included in financial reporting. In this case, there is no value with which to make a comparison. In this case, the inclusion of a tax-deductible amount in the financial reporting results from the fact that the preparer has not calculated the economically correct figure. Determining the latter value requires hours and hours of work, reasoning, perfect knowledge of the accounting principles and the desire to choose the legally valid figure. Very often, in companies, this desire is lacking. Therefore, the inclusion of tax data in financial reporting occurs without even knowing whether the value deductible for tax purposes is lower or higher than the economically correct figure.

It should note that this type of behaviour is more widespread than one might think. Therefore, the so-called coincidence of the economic value and the fiscal value does not exist in the sense that the financial reporting editor does not know the economic data but merely enters in the financial reporting a value that is undoubtedly deductible for tax purposes.

Regardless of the motivation, it is undoubtedly true that recording an incorrect value in financial reporting leads to drawing up an invalid balance sheet and profit and loss. The tax contamination, regardless of the reasons that lead the preparer to such behaviour, causes the preparation of a financial reporting without the three basic postulates of financial reporting itself, namely truthfulness, correctness and understandability.

Regarding the consequences of improperly including tax values in financial reporting, they can aggregate into two broad categories: internal effects and external influences.

At an internal level, the circumstance of recognising tax values in the accounts means that any calculations subsequently made at the company level will be based on those data that are not economically correct and truthful. Accounting is the basis from which the most important information is taken to subsequently make very advanced calculations that have nothing to do with mere financial reporting. If, for example, one wants to make calculations regarding the cost of products, the cost of departments, the cost of company sectors, or other partial costs, the first reservoir from which all the values deriving from valuation estimates are drawn is the general accounts. As is well known, the data for calculating the values that fall under management control are interim values. For this reason, for example, if we want to determine the cost of a product, we will not consider the value written in the accounts that leads to the preparation of financial reporting. Still, we will determine the accrual value of the costs that make up that product. For example, to determine the cost of raw materials, we do not look at the amount of invoices received, i.e., the value entered in the general accounts. Still, we determine the accrual value, i.e., the amount entered into the company and taken to stock. Between the accrual value and the value recorded in the accounts, there can be a big difference for objective costs, i.e., for negative income components that result from recording an invoice or receipt in the general accounts and are true by definition. For these values, the accrual value and the value recorded in the accounts can be different. For example, the value recorded in the accounts for raw materials derives from the moment the invoice arrives.

In contrast, the accrual value derives from the moment the goods arrive in the company's warehouse. At the level of internal management, the accrual costs are essential, but the problem arises with objective values resulting from an estimated valuation, such as depreciation, provisions, inventories, etc. These values, in practically all companies, are the result of an assessment of the economic situation. In almost all companies, these values are determined by considering the value entered in the general accounts. Thus, for example, in the case of depreciation, in most companies, the value taken into account for internal analysis will be the figure recorded in the accounts, which will then include in the financial reporting. If this value is economically incorrect because it is a purely fiscal value, all the internal data determined considering this cost will be inaccurate. If there are many tax interferences, the errors add up. If this hypothesis occurs, one can easily understand how an incorrect and untrue part forms the internal value determined by these values. The first consequence of tax interferences is the potential determination of false and wrong values valid for analysing the business situation. Suppose the above is true concerning product costs, departmental costs, segment costs, or other corporate sub-costs. In that case, it is even more accurate concerning the analysis of financial reporting. It is evident that if financial reporting analysis is performed on true and fair financial reporting, both ratios analysis and cash flow analysis will be meaningful. If, on the other hand, such research is conducted on a balance sheet and a profit and loss statement containing values devoid of economic substance, the

REONLTS obtained from the analysis of ratios and cash flows will be misleading and potentially dangerous. Basing decisions on erroneous cash flow ratios and cash flows has the inevitable consequence that implementing will not lead to the expected results.

Internally, the fiscal contamination of financial reporting has deleterious consequences because it leads to decisions based on economically incorrect values.

Concerning the relationship with the outside world, the taxation of financial reporting has two types of consequences:

- 1) The first consequence concerns the problem of external communication;
- 2) The second effect concerns the legal implication of the invalidity of financial reporting, which occurs when economically untrue values mark the balance sheet and profit and loss.

About the problem of communication to third parties, it can say that the fiscal contamination of financial reporting affects, sometimes substantially, the right to corporate information that all third parties outside the company now recognise. A financial statement prepared only according to tax accounting rules does not reflect the actual financial standing of the company. Communication with the external world is biased, with the consequence that the stakeholders of the organization (e.g., corporate creditors, shareholders, employees, backers and investor) for whom the financial statement is the source of information concerning the entity, are presented with data that do not actually describe the real situation, either in strictly financial terms or as regards the larger environmental impact of the organization, including its economic performance. The consequence of this is that external stakeholders are left in the condition of making decisions based on values that do not reflect the real situation of the enterprise in which they have an interest.

Internal management implications - In most cases, general accounting books are also the source of useful information to be used for the control of the organization; the determination of the costs and returns of a product, calculated on the basis of tax values without any economic content, potentially leads to a wrong decision-making process, because they are grounded on false and unfair information and assumptions [28-32]. I apologize with the reader for using this comparison, but this behaviour reminds me of someone who reviews the financial statement in depth in the awareness that it is false. To implement a decision-making process on data without a concrete meaning may lead to management policies not aimed at maximizing efficiency and effectiveness, which inevitably adversely impacts the cost-performance of the company.

The second effect of tax interferences in financial reporting concerning the legal implications of preparing a balance sheet or a profit and loss statement containing economically incorrect values considers the issue of challenges to financial reporting. If the financial reporting is not true, correct and understandable, this document can be challenged by anyone interested, even if not a shareholder. The danger of a challenge to financial reporting is a sword of Damocles over the company because a third party could notice discrepancies between values and, consequently, take the company to court for

violating its fundamental rights to financial reporting. Requests that are now unanimously recognised by all third parties outside the company.

From these brief considerations made in the preceding pages, it can be understood how the tax contamination of financial reporting with tax data without economic content causes detrimental effects even on the same company that carries out the tax interference. It is to be hoped that, with time, the culture of financial reporting will increase in all companies, both large and small. That tax interferences will definitively disappear from the overview of financial reporting. As we have pointed out above, this is not a problem of civil and tax law, but rather it is linked to the existing financial reporting culture in companies. Only when companies understand that informing third parties and their managers with correct and truthful data is the only way to prevent decisions being made based on incorrect data, challenges to financial reporting and denied third parties' rights to information will this problem continue to exist.

In the title, we asked whether taxes are objective values, partially objective because they are determined on a taxable income containing personal values or values determined objectively by the preparer of the financial statements. Theoretically, taxes should be objective values characterised by the fact that there are also objective values in the costs. However, due to the prevalence of tax interference in financial statements, it is possible to say that in reality, taxes are objective values determined by the preparer of the financial statements due to the possibility that there are personal values in taxable income that do not correspond to the values on which taxes should be determined.

It is said that beauty and culture will save the world, and I do not know if this is true. But surely, the spread of the culture of financial reporting will avoid, in the future, the tax contamination of statutory financial reporting.

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Note 1.

To facilitate reading, I have decided not to include in the text, except in exceptional cases, the names of the scholars who have dealt with the subject under analysis. Since the bibliography is endless, I have opted not to indicate all the terms of the scholars in the text because this would have meant a continuous interruption of the reading of the complete sentence in which I express my thought. All bibliographical references are cited in the references.