

ÁREA TEMÁTICA: 4 ESTRATÉGIA

***BOOK-TAX DIFFERENCES: THE PRIMACY OF ESSENCE ABOUT FORM
THE DOUBLE ACCOUNTING DILEMMA IN BRAZIL***

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Resumo

O objetivo do artigo foi identificar a relevância da aplicação da primazia da essência sobre a forma e esclarecer os dilemas práticos na geração das informações para adequada elaboração das demonstrações contábeis, em conformidade com os pronunciamentos emitidos pelo *International Financial Reporting Standard* e Comitê de Pronunciamentos Contábeis. A pesquisa é qualitativa, bibliográfica e a etnografia foi realizada por meio de pesquisa de campo com Contadores em busca da percepção das práticas contemporâneas de contabilização e gerenciamento dos lucros. A contribuição social repousa na disseminação do conhecimento para administração, contabilidade e demais interessados no adequado gerenciamento da assimetria das informações entre a norma e o *compliance* tributário como estratégia de *disclosure* social.

Palavras-Chave: *Book-Tax Differences*; Contabilidade Financeira; Contabilidade Gerencial; gestão empresarial; IFRS.

Abstract

The purpose of the article was to identify the relevance of applying the primacy of essence over form and to clarify the practical dilemmas in generating information for the proper preparation of financial statements, in accordance with the pronouncements issued by the International Financial Reporting Standard and the Accounting Pronouncements Committee. The research is qualitative, bibliographic and the ethnography was carried out through field research with Accountants in search of the perception of contemporary practices of accounting and profit management. The social contribution rests on the dissemination of knowledge for administration, accounting and other interested parties in the adequate management of the information asymmetry between the standard and tax compliance as a social disclosure strategy.

Keywords: *Book-Tax Differences*; Financial Accounting; Management accounting; business management; IFRS.

1. Introduction

The globalization process revolutionized the development of cultural, economic and social in Brazil and in the world, there was a transformation in the form of communication at a global level. In this scenario, the need to standardize accounting emerged, a universal language for communicating accounting information has become the new language of business. In this context, the pronouncement of the International Accounting Standards, known worldwide as the International Financial Reporting Standard (IFRS), issued by the International Accounting Board (IASB), with fundamentals that guide the accounting standardization.

In Brazil, the Federal Accounting Council (CFC) led the foundation of the Accounting Pronouncements Committee (CPC) in order to restructure the IFRS and adapt it to the Brazilian reality in order to meet local peculiarities, as well as users of information accounting. In this way, the CPC issues pronouncements in line with IFRS and contributes to the understanding of entities and their stakeholders.

The first CPC pronouncement introduced the basic conceptual framework through CPC 00-R1, approved and disclosed in 2011, the wording stipulates the basic concepts for the preparation and disclosure of the accounting and financial report, guiding the basic structure for preparation and disclosure financial statements. The decision-making process by stakeholders has become more assertive in view of the new structure that allows for a better analysis of the companies' financial and operational situation. The aim of the article is to introduce the primacy of essence over form by clarifying the practical and contemporary dilemmas that are representative in the process of generating wealth in the business world. The social contribution rests on the dissemination of knowledge for the adequate management of information asymmetry between the standard and tax compliance and to understand the effects of Book-Tax Differences and how Accountants currently deal with the so-called double accounting.

2 Theoretical Background

After preliminary notions, there is an undeniable need to investigate contemporary accounting practices in the light of international accounting standards from the point of view of the Authors themselves, the laws, standards and other authors who supported the ideas.

2.1 Book-Tax Differences

According to Zavatieri (2019) Book-Tax Differences is the difference between accounting profit and taxable profit. This difference is attributed to the types of users of accounting information that would basically be managers, shareholders and stakeholders in the enterprise. The management of Book-Tax Differences is a double accounting practice.

The authors explained that the time is ripe for introducing and reflecting on the theme because it considers the so-called double accounting phantom. It's an approach that permeates a problematic introduced with the changes in Brazilian corporate law introduced by laws 11638 / 07 and 11941 / 09, which introduced greater flexibility, approaching Brazilian norms and international norms; regarding the issue of recognition, measurement, disclosure of accounting information and reduction of tax effects. Considering the new scenario which transformed accounting

in Brazil, the management of financial statements became volatile, allowing managers to act through discretionary practices, in general, with the objective of manipulating accounting information to obtain advantages such as economic incentives. Hanlon (2005). Comments on Book-Tax Differences as a management indicator has been positively associated with financial reporting, encouraging standards, solvency difficulties and gaining advantages.

Scenario that set precedents for discussions on the best way to carry out accounting records by rules or principles, pointing out the benefits and harms of each one. Mister emphasizes that it's a mismatch that does not interest the tax authorities.

Atkinson, Kaplan and Matsumura (2015) elucidate that financial accounting and management accounting share relevant similarities based on financial and other information related to the operation of the business, but that differ in their objectives.

With regard to results, in the conception of Dechow, Ge and Schrand (2010) several mechanisms to evaluate accounting information are important, but conservatism in the management of results of accounting information has an impact on the reaction of investors. Agreeing with Deschow, Ge and Schrand (2010) who also discuss the problem of weak internal controls and that in order to improve information quality it's necessary, in addition to the legal approach to improve the quality of audits. Therefore, take conservative measures to minimize the problem of distortions in the management of the disclosed accounting information.

Mitigating the informational asymmetry problem is a challenge. Aboody and Lev (2000) studied the information asymmetry and concluded that the gains occur in the face of the use of privileged information, that manipulated information leads to the information asymmetry and there are usually internal gains. In reality, the way to mitigate the problem is through disclosure policies with prevalence of common sense in the use of the manager's discretion, since the Government's focus is only legal.

2.2 Accounting Essence

International accounting standards stem from the transformation of the world economy from the opening of the borders promoted by the advent of the internet. The need for more agile information introduced the need in the world that revolutionized the accounting area.

In Brazil, the introduction of Law No. 11638 / 2007, introduced changes that took accounting into the future, changed and revoked provisions of Law No. 6,404 / 1976, which allowed the introduction of international accounting standards. On the one hand, it revolutionized accounting for the freedom given by the standard, demanding from the Accountant the need for constant improvement, with the aim of expanding his capacity for judgment regarding the essence of form. On the other hand, it introduced the compliance dilemma.

The accounting information must be represented faithfully portraying the facts that have occurred. Reliable representation must be guided in its essence and not just in the form of the law. In practice, what is common sense are records only in the form of the law, since there is a gap between the norm and the law. In this regard, it's difficult for companies to bear the burden of so-called double accounting.

Of course, the legal form must be met, but reliable economic representation is necessary for business management and decision making by stakeholders.

International standards were created to harmonize information so the application of the essence on the form is imperative to portray the truth, through criteria for accounting for assets such as recognition, measurement and disclosure. In this sense, Nyama (2013) argues that the standardization of accounting is related to harmonization.

It's important to note that the essence of form is the proposal for a solution to dilemmas such as accounting for revaluation of assets, financial instruments, goodwill, research and development, among others.

The global relevance of IFRS is undoubtedly outlined in the accounting essence because it's a harmonization that translates into assertive communication for business management.

One of the great advantages of adopting IFRS is the implicit aspect of transparency and comparability in the financial statements. There is a variation in the integration of IFRS between countries in view of the peculiarities of each location.

Undoubtedly, the financial statements based on the IFRS added value to strategic planning, enabling the prediction of the future of business and more assertive decision making.

2.3 Essence on form

The primacy of the essence over the form is preponderant in the adoption of international accounting standards, due to the need to adapt the qualitative characteristics in the preparation of the financial statements, there were significant changes in the transit of the accounts.

In the contemporary moment the big question is the asymmetry between the standard and tax compliance. The impact on the application of the essence on the form in the preparation of the financial statements. It's hoped that the good sense of the managers about the discretionary aspect given by the standard that enables the management of Book-Tax Differences.

The implementation of the norm following the rigor of the primacy of the essence over the form results in economic and financial valuation of the operations, representing a detailed perspective of the reality of the business facts. Thus, allowing the financial statements to present the real picture of assets, liabilities, segregating own resources from third party resources, enabling better management and negotiation of liabilities.

The statements of the CVM Securities Commission No. 37/2011, determines that the accounting standards must faithfully portray the primacy of the essence over the form for representing the economic and legal effects.

It must be considered that the application of the essence on the form in the preparation of the financial statements with the thought of disclosure for accountability to internal and external stakeholders. According to CPC 00-R1, financial statements are prepared and disclosed to external users in general, considering their objectives.

The primacy of essence over form values the essence of each transaction, in order to demonstrate the company's real economic situation. Regarding classification, it's carried out by means of supporting documents, however, reality and legality are not always in line, resulting in informational asymmetry.

The essence of form is a principle that guides accounting and the Accountant must understand it as an attribute of maximum relevance. It's the basic supremacy that aims to link operational information with the reality of transactions. The standard states that one of the main fundamental qualitative characteristics and is called reliable representation. In conclusion, the foundation of accounting is the understanding of the supremacy of the primacy of essence over form.

Essence is elucidated as the operational phenomenon occurred implicit in the economic reality, in short, it's the authentic characteristic of the transaction. The form concerns the legal mechanism based on the form of the law.

Obviously, the accounting must be guided by documents with legal validity so that the professional, duly registered with the Regional Accounting Council, can perform the registration properly. In situations of uncertainty of form, the primacy of essence over form should prevail considering the economic reality of the occurrence. A primordial condition for bookkeeping of facts, the primacy of essence over form helps the professional in situations of uncertainty in which professional judgment is necessary with confidence.

Indisputable is the documentation that validates the transactions of the companies, it's the legal validation that proves the veracity of the information transacted detailing the facts to be registered. The legal form is an element of security for the Accountant, the proof of the transactions that change the assets allows the inspection by the stakeholders. The form is traditionally carried out by contracts with guarantee clauses for the parties.

2.4 Quality of Accounting Information

According to CPC No. 00-R1 / 2011, the accounting information needs to be useful, relevant and reliable so that they can demonstrate the accounting records with authenticity. Despite the complexity of applying the CPC pronouncement, the characteristics are segregated into two groups: the fundamental qualitative ones formed by relevance and reliable representation; and the qualitative improvements outlined by comparability, verifiability, timeliness and comprehensibility.

With regard to fundamental qualitative information, the relevant characteristics are the information required by legislation that form the necessary framework, eliminating irrelevant information so that the result is objective, clear and concise and can assist stakeholders in the decision-making process. On the other hand, relevance and reliable representation, have as principle the disclosure with fidelity, according to CPC n° 00-R1 / 2011.

To make the process of fundamental qualitative information efficient, the utmost rigor in the accuracy of fundamental characteristics is required. From the above, the characteristics of the qualitative information for improvement help in the choice between relevance and reliable representation about certain accounting operations. Therefore, the characteristics that make up the improvement information must have the aspect of comparability for better analysis by the stakeholders. For the comparability aspect, it's not necessary that the information be uniform, but similar, as stated in CPC n° 00-R1 / 2011.

Equally important, the information for improvement is verifiability, which represents all the information enabling a consensus on business operations. The verification can take place directly or indirectly, as expressed in CPC No. 00-R1 /

2011. This qualitative characteristic will not always allow the verification of the veracity of the information. According to CPC nº 00-R1 / 2001, for the aspect of verifiability to be relevant, the facts that occurred may not be through distant periods because it makes it difficult to verify the facts.

Timeliness and comprehensibility are qualitative characteristics of accounting information for important improvement. They collaborate to the level of understanding by the stakeholders interested in accounting and financial reports.

Ultimately, the qualitative information on improvements expands the usefulness and relevance of the information in the financial statements that portrays business operations.

3 Methodology

The nature of the research was qualitative, bibliographic and ethnographic, the research was carried out through interviews to understand the view of the contemporary Accountant.

The authors intended to introduce the approach of the theme aimed at understanding how the essence of form was internalized after the introduction of IFRS in Brazil. Based on the perspective of the authors, seeking to understand the perceptions of Accountants from a contemporary perspective.

The research was supported by bibliographic studies on materials published as national and international, books and websites available to the public.

According to Marconi and Lakatos (2014), bibliographic research refers to all bibliography already published that includes books, magazines, article publications. The purpose is to reinforce the scientist's research.

According to Gil (2010) the use of ethnographic research is used in the study of complex and increasingly constant organizations and societies in the field of Administration. The purpose is to study people in your environment using an interview procedure, observing the participant in depth. Therefore, it involves a detailed description of the object of study.

Ethnography was carried out through an interview to search for the answers that make up the framework of the article, taking into account the dynamics of the contemporary accounting environment, in order to investigate the application of the primacy of essence over form. In the investigation process, the authors researched 30 Accountants and wanted to know the Accountants' understanding and practices in the bookkeeping process. And, based on the answers obtained in the dialogue with the Accountants, the article offers a social contribution in the dissemination of relevant knowledge in order to understand the application of IRFS in Brazil.

4 Research

Based on the analysis of the content of the questions, the practices of accounting choices were identified. In this way, the 30 accountants were ready to share their experiences, their difficulties and challenges working with accounting in Brazil.

The accountants under study were selected in different cities in Brazil to better understand the local culture.

Table 1 - Research Locations in Brazil

Quantity	City	State
2	Americana	São Paulo
1	Campinas	São Paulo
1	Fortaleza	Ceará
1	Rio de Janeiro	Rio de Janeiro
1	Nova Odessa	São Paulo
1	São Bernardo do Campo	São Paulo
23	São Paulo	São Paulo

Source: Authors

5 Results and Discussions

From the sample of 30 Accountants, only four are managerial accountants, with 26 being financial accountants, owners and employees of accounting offices.

There was a consensus among management accountants to focus on accounting for operating results, so they are focused on the application of IRFS. Diametrically opposed, financial accountants work with the focus on tax authorities working only to protect their clients from overwhelming pecuniary punishments and compliance with ancillary obligations. Everyone is aware of the need for management accounting, but complains about the lack of time, the lack of recognition from customers who generally do not want to pay fair value for the performance of services. Thus, making management accounting unfeasible, both offices and companies cannot absorb the costs of double accounting. There are exceptions, but they are rare. Multinational companies and publicly traded companies bear the costs of double accounting because they are inserted in the global market and need accounting that does not only meet the tax authorities and is based on international accounting standards.

Companies that do not have this profile do not apply additional resources are only concerned with complying with legislation and avoiding losses with the tax authorities.

The difficulty of selling the additional management accounting service is unanimous among Accountants. The culture of professional devaluation on the part of the client, that everything is the accountant's obligation, is an intrinsic barrier in everyday reality. Few customers perceive the Accountant as their main business partner.

Dissatisfaction with Brazilian e-Government is prevalent, accountants complain about the asymmetry between IFRS and Brazilian law. The tax system is focused on tax collection and not on business and social development; and because it's a complex and unfair tax system, financial accounting professionals are too burdened for the managerial approach.

Despite the appreciation for the profession, many think of leaving the profession due to the Burnout syndrome resulting from too much pressure to work with a complex, punitive and unfair tax system. In this path, they complained about the short time available to the client and new business because the Government occupies the entire time of the Accountant and that no support offers the accounting class.

In conclusion, they comment that the primacy of essence over form is observed, however, they always prioritize the legal document.

6 Conclusions

The introduction of international accounting standards (IRFS) directed Brazil towards the future, enabling cross-border accounting comprehensibility, a unified language in the business world.

Earnings management directly influences the quality of profit, considering the conflict of interests between manager and shareholder. The manager acts with discretionary judgment. However, reality is not always properly portrayed in the accounting information, taking into account that the manager knows the peculiarities of the company and has the ability to manage results in order to ensure good operational management. Consequently, the high level of earnings management impacts on a lower quality of profit, which is not good for the market. The thought of Hendriksen and Van Breda (1999) about the ethical approach, emphasizing the concepts of justice, truth and equity with the absence of biased bias, should be avoided, while maintaining a neutral position. It's true that the freedom given by the rule should not be abused by the primacy of the essence over the form and avoid distortions in the disclosure of accounting information.

The Book-Tax Differences, not always the company's vision before the market is interesting, since the companies that have a big difference between accounting and taxable profit are related to the low quality of the profit and thus investors attribute low expectations.

Another dilemma is that in practice, entrepreneurs and Accountants already bear the costs of double accounting, and this is already a fact, in addition to supporting the very high tax burden. According to the research analysis, there are not a few companies that do accounting only for the tax authorities because they do not support the burden of double accounting.

In this sense, it's hoped that there will be no setback in accounting, which is the future of business prosperity. It should be noted that there is no development in a country that works against businessmen and accountants.

It's opportune to say that fighting for business success means that double accounting is not acceptable. This is a setback in Brazilian accounting, at a time when borders are open to the world of business and Brazilian tax authorities focus only on collection and inspection.

Accountants in Brazil must fight against Brazilian e-Government and take accounting into the future by reducing the asymmetry between IFRS and legislation.

Research is suggested regarding the prognosis of changes in the Brazilian tax system.

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