The Connection between Accounting and Taxation

The most practical one in relation to accounting harmonization!

Master's thesis within accounting
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Abstract

The harmonization of accounting among the member states of the EU has been going on since the late 1960s. In 2001 it was decided that all listed groups within the EU should use the accounting standards IAS/IFRS issued by the International Accounting Standards Board in their consolidated accounts from 2005. All countries are also free to allow use of IAS/IFRS in individual accounts as well if they want to, which would be a step towards further harmonization. The use of these standards imply a changed way of accounting, adapted to provide relevant information to the capital market instead of the traditional continental European use of the prudence concept of conservatism to protect creditors.

The use of these new standards creates problems in relation to the Swedish connection between accounting and taxation which implies that the financial accounting is the base for taxation. To continue to use this connection while introducing IAS/IFRS in individual accounts would have effects on the tax base as there will be a risk of distribution of untaxed profits and having to pay tax on unrealized profits. Therefore the purpose of this thesis is to investigate how the most practical connection between accounting and taxation in Sweden should be formulated within the near future in relation to the use of IAS/IFRS and the development of accounting harmonization within the EU.

To gain relevant data to be able to fulfill our purpose we have chosen a qualitative method. We have conducted four semi-structured interviews with five interviewees knowledgeable in accounting and taxation. The data retrieved through the interviews have been analyzed by the use of data reduction in matrixes.

Our overall conclusion is that the connection between accounting and taxation needs to be changed. The most likely and suitable solution in the near future would be to keep the connection where the accounting is used as a base for taxation and remove the connection where tax rules affects the accounting. We advocate a use of IAS/IFRS in individual accounts for larger companies and that potentially arising issues due to the kept connection will be solved with specific tax rules. We do not deem complete disengagement with development of a new tax rule system to be a usable solution at the moment. Furthermore, we cannot see any signs of accounting harmonization among SME:s within the near future.
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Introduction

1 Introduction

In this chapter we will give a background to the subject of this thesis and then discuss why it is a problem of interest. The main problem areas and the purpose of the thesis are clearly stated to display the direction of the thesis.

1.1 Background

The process of harmonizing accounting between the member states of the European Union started in the 1970s. The first major step towards a harmonized accounting was the Fourth Council Directive (78/660/EEC) on annual accounts of limited liability companies, usually referred to as the Fourth Directive, which was adopted in 1978 (van Hulle, 2004). Since then further directives has been adopted and changes has been made to the old ones up until 2002 when a regulation on application of international accounting standards was adopted, the IAS-regulation (Regulation (EC) No 1606/2002). A regulation is always directly applicable in all member states, as oppose to a directive which has to be transposed into national law. This means that a regulation is a stronger instrument since there is no room for interpretations in different states when it is applied directly (van Hulle, 2004).

The IAS-regulation states that all consolidated accounts for listed companies should be prepared in accordance with the accounting standards issued by the private organization International Accounting Standards Board, IASB (Regulation (EC) No 1606/2002, art. 4). The standards are referred to as IAS/IFRS since the older standards issued by the predecessor to IASB, International Accounting Standards Committee, IASC, are called International Accounting Standards, IAS, and the ones issued now by IASB, International Financial Reporting Standards, IFRS. The standards has to be endorsed by the EU commission and translated into all official EU-languages before they can be applied throughout the union. This is a continuously ongoing process since IASB issues new standards regularly. The IAS-regulation is in effect from January 1st, 2005, meaning that all listed groups’ consolidated accounts now should be prepared according to IAS/IFRS. The regulation also includes a number of possibilities for using IAS/IFRS that the member states can chose to implement if they want to. Each country is free to decide if IAS/IFRS should be required, allowed or not allowed in annual accounts for listed as well as non listed companies (Regulation (EC) No 1606/2002, art. 5). This also includes consolidated accounts for non listed companies. A country could for example allow non listed groups to use IAS/IFRS in consolidated accounts and listed companies to use it in annual accounts and at the same time forbid non listed companies to use it in annual accounts.

The Swedish government appointed an investigation on August 8th, 2002, with the commission to consider the issues that the IAS-regulation gives rise to in relation to international accounting in Swedish companies (SOU 2003:71). The investigation gave the official report to the government on July 31st, 2003 with suggestions on how Sweden should handle and adapt to the options in the IAS-regulation. The report concluded that the use of IAS/IFRS should be allowed for all annual accounts for both listed and non listed companies (SOU 2003:71). It also suggested that the Swedish annual accounts act, ÅRL, should be adapted to IAS/IFRS to make it easier to adopt IAS/IFRS one step at the time for smaller companies. The government bill on the matter was not ready until October 7th, 2004, which was quite late when the new standards were to be introduced on January 1, 2005. The government opposed the report’s suggestion to let all companies use...
IAS/IFRS for their annual accounts and proposed that only consolidated accounts, for listed as well as non listed companies, should be allowed to use IAS/IFRS (Prop. 2004/05:24). The suggestion was that all annual accounts should continue to be prepared in accordance with ÅRL, which will be adapted to IAS/IFRS.

Even though most of the bodies, to which the report was referred to for consideration, agreed with the report the government gave another suggestion. The government’s major reason for not allowing IAS/IFRS in annual accounts is the tax consequences that a changed accounting standard would result in. It is considered that the tax base would increase with a use of IAS/IFRS and it is not deemed appropriate that the Swedish tax base is decided by a foreign private organization such as the IASB (Prop. 2004/05:24). IASB is focusing on information for capital markets when developing standards and has no intention for their standards to be used as a tax base. The report agreed that IAS/IFRS is not suitable as a tax base and suggested increased disengagement between accounting and taxation if IAS/IFRS should be made (SOU 2003:71).

Sweden has a long tradition of a strong connection between accounting and taxation. The Swedish connection between accounting and taxation implies that the accounting of a company is used as a basis for taxation (Dir. 2004:146). The principal rule is that the taxation should follow the distribution over time of incomes and expenses that is made in accordance with accruals concepts.

The connection between accounting and taxation can be manifested in three ways in Sweden, which is also displayed in figure 1.

1. First is the principal rule of accounting, deciding when a transaction should be brought up for taxation, which is called the material connection (Dir. 2004:146).

2. Secondly there are specific tax rules that demands that transactions are accounted in a specific way in the accounting records to be allowed fiscally (Dir. 2004:146). The appropriations of the formal connection are what create the untaxed reserves that exist in Swedish accounting (Artsberg, 2003).

3. The third case is when there is a specific tax rule but no demand for any connection to the accounting records, an example is financial instruments and real estates that are not inventory items from a fiscal point of view (Dir. 2004:146).

The first two situations are usually called the connected area and the third the non-connected area. There are however some difficulties to decide exactly where the line is drawn between these two areas (Dir. 2004:146).
Introduction

### Financial accounting

<table>
<thead>
<tr>
<th>Generally accepted accounting principles</th>
<th>Appropriations creating untaxed reserves</th>
<th>Accounting methods applied in the companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>True and fair view</td>
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**Material Connection**

**Formal Connection**

**No Connection**

- Not regulated in the legislation
- Tax rules requires adjustments in the financial accounting to be recognised
- Specific tax rules that differ from the financial accounting

**Tax accounting**

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Figure 1. The connection between accounting and taxation. Model based on Artsberg, 2003, p. 310 and RSV Rapport 1998:6, p. 18.

Due to the internationalization of accounting it becomes more difficult to keep the current connection between accounting and taxation. To investigate the need for an increased disengagement, as suggested in the official report SOU 2003:71, the government has appointed an investigation with the commission to examine how the connection between accounting and taxation should be changed. The investigation should be finished and an official report presented by June 2007 (Dir. 2004:146).

### 1.2 Problem Discussion

That the connection between accounting and taxation can be an obstacle to accounting harmonization was something that got our attention at a seminar concerning the harmonization of accounting in a Scandinavian perspective. We got the opportunity to write an article about the seminar and realized while working with it that the connection between accounting and taxation would be an interesting subject for our upcoming master thesis.

The lecturers at the seminar brought up the connection as a major obstacle to implement IAS/IFRS in Swedish annual accounts. Such a strong and far reaching connection between accounting and taxation as the one in Sweden is not the only way to create a basis for taxation. Denmark removed the connection in the early 80s and is planning to allow use of IAS/IFRS for both consolidated and annual accounts (F. Thinggaard, lecture, 2004-11-20). Norway also has a different system than the Swedish one, with more disengagement (H. R. Schwenccke, lecture, 2004-11-20). Most industrialized countries have less of a connection than Sweden but there is no clear opinion on how the connection is best designed.

To be able to continue the harmonization of accounting with other member states of the EU a change in the Swedish connection between accounting and taxation is necessary. This was the opinion of most of the bodies to which the report SOU 2003:71 was referred to for consideration. The government would, as mentioned in the background, not accept a tax base decided by a foreign organization. It is also a general opinion that the development of financial accounting would benefit from disengagement as companies would not need to consider the tax consequences that a certain way of accounting may cause. Accounts
prepared without consideration to tax effects can be more focused on a true and fair view of the company’s situation which is the goal of IASB as well as the EU Commission.

As IAS/IFRS now is an established standard that all listed companies has to use for consolidated accounts it creates a lot of unnecessary work for these companies when they have to prepare their annual accounts according to Swedish regulations. A change in the connection between accounting and taxation would reduce the workload for these companies as IAS/IFRS could be used in both annual and consolidated accounts. The issue is what kind of changes that would make it possible to use IAS/IFRS for accounting but still not create too much work due to specific tax rules.

Even though there may be several other issues that can create obstacles for an accounting in accordance with IAS/IFRS in Sweden we believe that these are of less importance as long as the difficulties associated with the connection between accounting and taxation is not dissolved. For this reason we find the subject interesting for, as well as in need of, further investigation. This thesis deals with how the connection needs to be changed based on the following problem statement:

What is the practically most suitable connection between accounting and taxation in Sweden in relation to a use of IAS/IFRS and the creation of a harmonized accounting within the EU?

To answer this overall problem statement we intend to treat five underlying problem areas identified through our preparations and use of the frame of reference:

- IAS/IFRS
- The Current Connection between Accounting and Taxation
- A Changed Connection
- Use of IAS/IFRS
- Other Countries Approach to the Connection

As IAS/IFRS is the background to the problem we need to know something about how these standards work, what principles they are based on, and how these will be introduced in the EU. To know how IAS/IFRS works is also relevant to be able to draw conclusions for a potential future connection. The current connections between accounting and taxation is the reason why the introduction of IAS/IFRS becomes an issue, we will try to understand what parts of the connection creates this problem. The most important problem area, a changed connection will be given most part of the analysis as well as the conclusion. We want to understand how the most suitable change should be made, or if the connection perhaps should be kept as present. The practical use of IAS/IFRS in Swedish accounting causes a lot of issues in relation to the connection and therefore it is important to review how the use affects a potential new connection. The final problem area of other countries connections is intended to relate ideas from the solutions used by others to the development of a new Swedish connection.

1.3 Purpose

The purpose of this thesis is to investigate how the most practical connection between accounting and taxation in Sweden should be formulated in relation to the use of IAS/IFRS and the development of accounting harmonization within the EU.
1.4 Outline of Thesis

Chapter 1 - Introduction
In this chapter we will give a background to the subject of this thesis and then discuss why it is a problem of interest. The main problem areas and the purpose of the thesis are clearly stated to display the direction of the thesis.

Chapter 2 - Scientific Approach
In this chapter will present our basic scientific direction as well as our chosen way to connect secondary and primary data.

Chapter 3 - Method
In this chapter we will describe our chosen qualitative method for retrieving data through interviews, present our selected interviewees, and finally describe the method used to reduce and analyze the interview data.

Chapter 4 - Frame of Reference
In this chapter we will give a background of the harmonization process in the EU and describe the connection between accounting and taxation. We will also discuss the use of IAS/IFRS and how other countries have solved the issues that occur in relation to accounting harmonization. The whole chapter consists of secondary data which will, together with the interview data, form the underlying material for our conclusions.

Chapter 5 - Previous Studies on the Connection
In this chapter we will present four theses written on the connection and their conclusions on if and how it should change. We will then try to find their answers to the questions of our problem areas.

Chapter 6 - Analysis of Interview Data
In this chapter we will give a description of the first and second step of our analysis, data reduction and data display of the data retrieved from the interviews. We then proceed to an analysis of each individual problem area based on the data displays.

Chapter 7 - Conclusions
In this chapter we will do the third and final step of our analysis, which implies drawing conclusions for our major problem areas and the purpose of the thesis as a whole based on our analysis of the interviews and the secondary data from the frame of reference.

Chapter 8 - Final Discussion
In this chapter we will review the choices made during the research process as well as the usefulness of our method. We will discuss the credibility of the research and give some criticism of our sources. We will also give some suggestions for further research within the area.
2 Scientific Approach

In this chapter will present our basic scientific direction as well as our chosen way to connect secondary and primary data.

2.1 Basic Philosophical Perspective

A subjectivist believes that knowledge is dependant on the individual and that it is impossible to create knowledge that is objective and the same to all. An objectivist on the other hand considers that there is only knowledge that is independent from the individual and that it is possible to objectively explain the reality (Hult, 2004). Subjectivism and objectivism are the two overall perspectives on science. It was considered for over a century that a researcher could make unbiased observations and thereby draw general and objective conclusions. This is today highly criticized and there is not considered to be an objective reality (Ryen, 2004).

It has been our intention to work towards as an objective analysis as possible, this is however difficult when we intend to use an interpreting method based on interviews. A method like that implies use of pre-understanding and interpretation in the analytical work and the research process is therefore affected by our subjective views.

2.2 Scientific Direction

Scientific work is done within a frame of specific rules. The choice of rules is not obvious; they depend on the chosen scientific approach. There are two main scientific approaches, hermeneutics and positivism (Lundahl & Skärvad, 1992). The main ideas in the hermeneutic approach are interpretation and understanding (Lundahl & Skärvad, 1992; Thurén, 1991). The researcher should get involved and take an active part in the situation studied, to be able to do that the researchers’ personal knowledge and experiences are of importance. In consequence the research can not be completely objective when using the hermeneutic approach in the research (Lundahl & Skärvad, 1992).

The positivistic approach on the other hand strives for objectiveness and logic. In the positivistic approach observations are made in reality and patterns and regularities are identified and used as the base for formulating laws. The research should be based only on objects that are observable and the approach aims to explain and find casual relations (Lundahl & Skärvad, 1992). According to the positivistic approach there are only two sources to knowledge, our senses and our logic. The senses are used to observe and the logic is used to calculate (Thurén, 1991). Having a hermeneutic approach, which stresses understanding and recognition in the research, implies an opportunity to get further, and deeper, and gain more varied knowledge (Thurén, 1991). The hermeneutic approach focuses on the whole while the positivistic approach pays attention to the pieces one at the time (Patel & Davidsson, 2003).

Since the purpose of our thesis is to investigate how the connection between accounting and taxation can look in the future, understanding and interpretation of the empirical information will be essential and it is therefore hard to say that we are completely objective. In order to come to an as relevant conclusion as possible we will however try to use logic and come to an as objective conclusions as achievable in a positivistic way. We will
however be limited by the fact that our interview persons have more knowledge within the area than we do and therefore there is a risk that our objectivity is affected. It is also likely that we are affected by our pre-understanding of the subject when analyzing and drawing conclusions.

We are of course aware that our possibilities to interpret answers from our interviewees are limited by lacking experience in research, and a hermeneutic approach of some kind is therefore not possible. However, to claim that we could simply observe and use logic to fulfill our purpose is difficult. We claim to lean towards a positivistic approach but do not claim to be using it fully as we believe that a conservative use of any scientific direction is impossible for us to master.

2.3 Connecting Secondary and Primary Data

The way to relate theory and empirics in methods or conclusions can be inductive, deductive or abductive, which is a combination of induction and deduction (Lantz, 1993). Using the deductive method the researcher starts out from existing theory and tries to verify and test it empirically, in order to verify, develop or reject the theory. The inductive method uses the opposite approach starting in reality with empirical data and tries to build a theory (Artsberg, 2003). The inductive conclusion is based on probability and says something about the future as oppose to the deductive conclusion which concludes if a theory is applicable on a specific case (Lantz, 1993).

![Figure 2. Dimensions of qualitative analysis (Saunders, Lewis & Thornhill, 2003, p. 380)](image)

As we have started in an empirical issue, the introduction of IAS/IFRS, and intend to find a way to adapt the Swedish system to the new regulations we have a more inductive approach. As Saunders, Lewis and Thornhill (2003) display in their figure it is possible to be in between different approaches, which is the case in many analytical methods. Our purpose is to investigate how the current connection should be changed thus creating an idea for how the future can look. Lantz (1993) connects the use of inductive conclusions to problems where the knowledge is limited or just consists of a basic model of concepts, and when the purpose is to gain further understanding. Suitable in this situation is also to use unstructured or semi-structured interviews as the mean to gain empirical data (Lantz, 1993). There can be a number of good reasons for choosing the inductive approach, among others; a theoretical model may restrain both interviewers and interviewees. Newly developed theories will also be better testable in other situations if not based on old theoretical ideas (Saunders et al., 2003). Saunders et al. (2003) describes a number of different approaches in inductive analysis. We will go deeper into one of these in section 3.5 where we describe our method of analysis.
Scientific Approach

As mentioned in the text for figure 2 above, it displays dimensions of qualitative analysis. We will start the next chapter by going deeper into the issue of quantitative and qualitative research methods and motivate our selection.
3 Method

In this chapter we will describe our chosen qualitative method for retrieving data through interviews, present our selected interviewees, and finally describe the method used to reduce and analyze the interview data.

3.1 Qualitative Method

Ryen (2004) has listed four distinctions of qualitative research that are generally agreed upon. First; qualitative data is in words or pictures, not numbers. Second; natural data is collected through observations and unstructured interviews. Third; meaning comes before action, but in the perspective of the actor. Fourth; hypothesis generating inductive research is preferred to hypothesis testing research. The choice of method should be based in the purpose of the thesis (Holme & Solvang, 1991; Ryen, 2004). Since it is our purpose to investigate how a new connection can be created we believe that a qualitative approach is the most suitable.

A qualitative method implies that the researcher is interpreting the collected data as oppose to a quantitative method when the information collected is transformed to numbers and quantities (Holme & Solvang, 1991). What we are looking for is qualitative knowledge about the connection between accounting and taxation and not quantitative measures on it, and therefore a qualitative method is appropriate for this study. We believe that a survey would not yield sufficient information as the knowledge about the issues at hand is limited and interviews with experts will therefore provide more suitable data than any form of quantitative method. Flexibility, which gives the researcher the possibility to make changes in the structure during the research process, is also something that is characteristic when using a qualitative method (Holme & Solvang, 1991). This is vital for us as we have the possibility to be flexible during the interviews and thereby collect more appropriate data. We intend to generate a hypothesis rather than testing and verifying one and a qualitative approach is then suitable in accordance with Ryen’s fourth point.

3.2 Research Preparations

Saunders et al. (2003) points to the importance of gaining pre-understanding even when using an inductive approach. To just go out and collect data without having extensive knowledge and understanding in the research area will make it impossible to come to relevant conclusions. It will be impossible to evaluate and make continuous analysis during the work if the researcher is not familiar with previous research or debates of the problem at hand.

To gain knowledge of IAS/IFRS and the connection between accounting and taxation we have read a number of articles written within the area, mainly from Balans, but also from several other publications such as Svensk Skattetidning and Skattenytt. We have also read the two government investigations that deal with the connection and IAS/IFRS (SOU 1995:43, SOU 2003:71) to get an understanding of how the issue has been treated within the government. To gain an understanding of the central bodies’ attitude towards the issue we read several of the comment letters on the government investigation concerning international accounting in Swedish companies (SOU 2003:71). The Swedish Tax Agency is one of the central bodies when discussing the connection between accounting and taxation and their report from 1998 (RSV Rapport 1998:6) was therefore important to increase our
knowledge. A seminar on the harmonization of accounting held in November 2004 at Jönköping International Business School, which we attended, has also been very helpful for our pre-understanding.

The secondary data of the frame of reference has been essential for us when preparing the interviews, accomplishing them and finally in the process of analyzing the data, which is done throughout the research.

3.3 Formulation of Interviews

To be able to retrieve suitable data for our analysis and reaching the desired conclusions we deem interviews to be the most suitable way to gain information. Our research has an exploratory nature, as we intend to explore how the connection could be formulated in the future. As there is a large number of questions to be answered and most of these are complex, and there might be a need to formulate questions different to different interviewees, interviews are suitable for our thesis based on what Saunders, Lewis & Thornhill (2000) explains. To be able to get data from the different interviews that can be processed and compared a semi-structured interview is most suitable (Krag Jacobsen, 1993). Semi-structured interviews are a form of non-standardized interviews where the approach can differ somewhat between the different interviews (Saunders et al., 2000).

A list of themes and questions to be covered during the interview is the basis for a semi-structured interview. The researcher has the opportunity to alter the order of the questions or add additional questions depending on the flow of the conversation (Saunders et al., 2000). Using this interview method the researcher can make sure that all interviewees will be approached with the relevant issues but the interview is not limited by strict questions and there is a possibility to adapt the interview to the interviewee’s special knowledge (Krag Jacobsen, 1993). As our interview persons are specialized in different areas we will gain the most relevant data with a semi-structured interview were questions can be altered, removed or added depending on the area of knowledge of the interview person.

To formulate a list of questions and themes as a basis for the interview, an interview guide, is of major importance for the quality of the data collected during the interviews. It is important that the order of themes and questions are logical and relevant to the interviewees rather than the interviewer (Lantz, 1993). To develop our interview guide we started in our frame of reference and the previous studies that we have consulted. The purpose of the interview guide has been to try to get data on the same issues from all interviewees and to get a structure for the interviews. With the help of our frame of reference and the previous studies we have identified major problem areas of interest for our purpose. Our interview guide is attached as appendix 3.

As IAS/IFRS is the reason why the connection between accounting and taxation has become a problem in Sweden we find it relevant to talk about IAS/IFRS with the interviewees to be able to relate it to the connection between accounting and taxation. We move on to the current connection to gain data on how it is experienced by experts and what problems they see today. As we intend to find a changed connection that can work with the new standards it is of major interest to discuss what potential changes that can be made and what these would result in. The practical use of IAS/IFRS in Swedish accounting causes a lot of issues in relation to the connection and therefore it is important to review how the use affects a potential new connection. In relation to any changes it is also important to know how other countries have acted and how that can be used as a role
model for Sweden, this was something that National Swedish Tax Board (Riksskatteverket) found important to investigate in their report (RSV Rapport 1998:6) as well. The problem areas has been created to gain relevant data for our purpose but also to gain further understanding of the subject. Each has gotten a specific purpose, to clarify why it is needed and what we want to gain through using it.

- **IAS/IFRS**
The purpose of this problem area is to gain an idea of the general opinions on IAS/IFRS, what problems and possibilities the interviewees see with the new standards, and for whom.

- **The Current Connection between Accounting and Taxation**
As we already know how the current connection works the purpose of this problem area is only to gain information on the advantages and disadvantages of the current connection and how these can create a need for change.

- **A Changed Connection**
The purpose of this problem area is to gain information on how and why the connection should be changed. What effects a change might have and how it can affect different parties. This is the most important problem area as the purpose of the whole thesis is to understand how the connection can or should change.

- **Use of IAS/IFRS**
The purpose of this problem area is to gain data on how IAS/IFRS is or can be used. How the interviewees feel about the use of different rules for groups and legal entities and the suitability of IAS/IFRS for smaller companies. The use of IAS/IFRS as potential tax base is also a part of this problem area.

- **Other Countries Approach to the Connection**
The purpose of this problem area is to get an idea on how other countries have solved the issues related to the connection and if Sweden can follow any of these.

For the problem areas a number of relevant questions were created. During the interviews follow up question related to special knowledge of each interviewee were asked. This was done to make use of the special competence that the interviewees posses. As a consequence the interviewees have not gotten the exact same questions and the problem areas have been given different amounts of attention, adapted to the special knowledge of the interviewees.

About a week ahead of each interview we sent a simplified interview guide to our interviewees for them to be able to prepare for the interviews and gain a further understanding of what we wanted to bring up during the interview. The actual interviews took place at the interviewees’ respective offices. The interviews were recorded by mp3-player and notes were taken as well by both of us during the interview. The interviews lasted between 40 and 60 minutes.

### 3.4 Selection of Interviewees

It is important to consider the selection of interviewees, or the sample, in qualitative research as much as in quantitative one. A purposive or judgemental sample makes it possible to select a sample that will help you to best answer the research question. The
logic for making a purposive selection should be based on the research question (Saunders et al. 2000). A purposive selection is also suitable for semi-structured interviews to be sure to get relevant responses.

Since the connection between accounting and taxation is the subject of interest in this thesis, and the basis for the research question, it is our opinion that data from both sides should be collected and analysed in it. Therefore we initially chose to have two interviews representing the accounting side and two representing the taxation side, figure 3. To be able to understand a new connection between accounting and taxation we believe that we need information from experts in both accounting and taxation and that the contributions of the selected interview persons will make this possible. We expected to, with this selection, retrieve data about as many aspects as possible of our problem and that this will make it possible to draw conclusions for a future connection.

![Figure 3. Model for interviewee selection.](image)

It was also our intention to have at least one on each side that is involved in the ongoing government investigation of the connection. On the accounting side we decided to find one person concerned with accounting and one concerned with auditing, since we wanted both the preparers and the auditors opinions. As we looked through the list of experts in the government investigation we found Gunvor Pautsch. Pautsch is the newly assigned head of division at the Swedish Accounting Standards Board (BFN). She has also been running a book-keeping agency of her own since the 80s. Furthermore, she is the author of several books within accounting and taxation. Based on her current position at BFN along with her other experiences we found her suitable to represent the accounting profession.

To find a representative for the auditing side we contacted KPMG’s IAS/IFRS specialists in Stockholm. Our intention was to talk to someone with extensive knowledge in IAS/IFRS to be able to actually connect the introduction of the new standards to the need for a change in the connection between accounting and taxation. We were contacted by Jorma Kyro, an IAS/IFRS specialist at KPMG and decided to interview him. As Kyro is a chartered accountant and specialised in IAS/IFRS his knowledge in tax issues is limited, our intention was however to get the viewpoints of an auditor and how he believes the future development will be.

On the taxation side we wanted to turn to the taxed ones, i.e. companies, as well as to the taxer, i.e. the Tax Agency (Skatteverket). We believed that the opinions could differ quite a lot between these two groups and therefore we wanted to talk to both. We did not deem speaking to one individual company as suitable for our purpose as that would give the opinion of just that one company, which would give too limited data. Instead we decided...
to turn to the Confederation of Swedish Enterprise (Svenskt Näringsliv), an organization representing the interests of Swedish companies. Ingrid Melbi is tax lawyer working with company taxation at the Confederation of Swedish Enterprise and also an expert on the government investigation and therefore fulfilled our request for an interviewee. As we approached Melbi for our thesis, she suggested that Carl-Gustav Burén also should join the interview. Burén is accounting expert at the Confederation of Swedish Enterprise. Respecting the suggestion from Melbi and also realizing the potential in getting the views from the accounting side in the Confederation of Swedish Enterprise as well we accepted the participation of Burén even though it was not part of our initial model for the interviews.

Finally, from the Swedish Tax Agency we talked to Göran Olsson, at the Linköping office. He works at the department for law and development, and is responsible for accounting questions. He has a long experience of tax auditing from SMEs up to consolidated accounts. As he has extensive knowledge in both tax and accounting issues we deemed that he would be able to provide relevant information for our purpose.

3.5  Method for Analysis of Interview Data

To analyze and understand qualitative data should not be seen as an easy option to that of quantitative data analysis. It requires preparation and attention and analysis during the collection in order to get a usable result (Saunders et al., 2003). Saunders et al. (2003) gives a general overview of how a qualitative analysis may be conducted. They also go further into a number of inductive approaches for qualitative analysis. Out of these we believe that the method used by Miles and Huberman (1994) is most suitable for our purpose. Their model for qualitative analysis has been central for a long time. Their starting point was the fact that qualitative analyses were given limited attention and that researchers were in need of clearer methods for it (Ryen, 2004). The model by Miles and Huberman contains three sub-processes of the analysis, together with the collection of data, which creates an iterative process that are continuous during the whole research process. The three steps or sub-processes are displayed in figure 4, together with the collection of data.

![Figure 4. The process of analyzing qualitative data (Miles & Huberman, 1994, pp. 10-12)](image)

Step number one implies summarizing and simplifying the collected data in order to make it manageable. The amount of potential data is reduced already in the research preparations when methods and approaches are chosen before the actual collection of data takes place (Miles & Huberman, 1994). It is further reduced as interviews are conducted and notes are taken down and finally when it can be coded to search for patterns (Ryen, 2004; Saunders
et al., 2003). It is important to remember that the reduction of data is part of the analysis and not a separate action. The decisions made during the reduction can be extremely relevant for the outcome of the research process (Miles & Huberman, 1994). As we made the interviews we typed them out fully and proceeded to try to extract relevant information from them. To reduce the initial 43 pages of interview data we used our interview guide as a starting point. We extracted statements and responses which we found to be relevant in relation to the questions on each problem area. We were also careful to pay attention to other information which were not direct responses to the questions but still relevant to the purposes of the problem areas. Each interview was analyzed and the data relevant for our problem areas was assigned to the right area. After the individual analysis we proceeded to the next step of the analysis.

The second step is the display of the collected data. Miles and Huberman (1994) describe an extensive number of analytical techniques for arranging qualitative data mainly through different matrixes and networks. Many of these are more suitable for long-term research projects. However, they especially point to the benefits of using matrixes when trying to create a structure in the units of data. The matrixes can be created any way the researcher likes as long as it is helpful to create structure and meaning from all the data units (Miles & Huberman, 1994). Just as with data reduction it is important to see data display as part of the analysis. Deciding on how to structure a matrix or network is analytical tasks and also implies a certain amount of data reduction (Miles & Huberman, 1994).

In order for us to be able to make an analysis and draw conclusions from the data retrieved during our interviews we decided to create a matrix based on the problem areas in the interview guideline and insert the responses made by the interviewees in it. Each question in the problem areas has gotten an individual matrix and one additional matrix has been created for information that could not be divided to one question but still is relevant for the problem area. The matrixes have been created differently depending on the kind of question asked. Generally we have tried to divide the answers based on the aspects of the question, for example positive, negative, or neutral. A further description of the division for each individual question can be found in relation to the creation and display of the matrixes in chapter 6. Thereafter we moved on to the third step of the analysis, conclusion drawing based on the data display.

In the third step conclusions are drawn and verified by the help of the data display of the second step (Ryen, 2004; Saunders et al., 2003). For us, the matrix has been used as a way to map out how the interviewees' responses relate and what ideas for a new connection that can come from these. We have done this by the use of our matrixes, developing them to improve the structure of our analysis. Conclusions can be drawn in several ways using this model; by comparing, by searching for patterns, by using metaphors, by looking for divergent opinions, and many other methods (Ryen, 2004). However, the drawing of conclusion starts already in the beginning of the data collection process as interviews are made and follow up question constructed (Miles & Huberman, 1994).

As described above we have divided the answers in relation to the five problem areas and then in relation to the questions within each area created several matrixes for each problem area including all responses. As mentioned Ryen (2004) says that conclusions can be drawn in several ways, we have decided to use two of the methods she mentions, comparing data and looking for divergent options. However, the most frequent answer might not be the one that results in our conclusion as we have paid attention to the interviewees’ special knowledge when comparing their answers. For example, we deem an answer by Ölsön, who has many years of experience at the Tax Agency, to weigh more on a tax related issues
than an answer by Kyrö, who mainly works with accounting issues in consolidated accounts. To not pay attention to this would result in illogical conclusions.

The Miles and Huberman approach is structured and formalized, but it is important to point at the fact that their models are intended to be flexible and adaptable for the researcher (Saunders et al., 2003). We also want to refer back to Saunders et al.’s (2003) model, figure 2, to display that our analysis leans towards the inductive and less structured approaches.
4 Frame of Reference

In this chapter we will give a background of the harmonization process in the EU and describe the connection between accounting and taxation. We will also discuss the use of IAS/IFRS and how other countries have solved the issues that occur in relation to accounting harmonization. The whole chapter consists of secondary data which will, together with the interview data, form the underlying material for our conclusions.

4.1 IAS/IFRS - Accounting Harmonization in the EU

The harmonization of accounting in the EU is what makes the connection between accounting and taxation a problem in Sweden. To be able to understand how a new connection can be created it is relevant to know something about the process of accounting harmonization. We will present a brief history of the EU’s work with accounting harmonization to display why it is the background to the problem at hand.

Figure 5. Timeline of accounting harmonization.

The harmonization of accounting in the EU started in the late 1960s. The adoption of the Fourth Directive (78/660/EEC) in 1978 was the first step towards a harmonized accounting in the member states. The Directive contained rules for how companies should prepare annual accounts that shows a true and fair view of the company. An annual report must also be published, and audited by a qualified professional. These rules apply to limited liability companies and give the countries freedom to introduce favorable rules for small and medium-sized companies. A directive has to be incorporated into the national law of the member states before it is applicable and usually allows for different options. Since countries have chosen different options in the Directive the accounting differs even though all states can be said to follow the rules.

Following the Fourth Directive was the Seventh Directive (83/349/EEC) in 1983. New in this Directive was the requirement to prepare consolidated accounts and a consolidated financial statements.

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1 This section is based on van Hulle, 2004, unless nothing else is said.
annual report. All member states implemented the Accounting Directives but due to such issues as national company law, the relation between accounting and taxation, and the accounting treatment of SMEs the implementation process was not without problems. To ensure further work for harmonization after the Directives the Commission introduced a Contact Committee that included representatives from all member states. The Committee would meet regularly to deal with practical problems related to accounting and harmonization. However, due to the resistance of Germany and United Kingdom in several issues, the work of the Committee did not result in much further progress of the harmonization.

Since the harmonization was not progressing during the 1980s the European Commission decided in 1990 to organize a conference on the future of the harmonization of accounting standards in the EU. During this conference a number of important decisions were made for the future of accounting harmonization. It was decided, among other things, that it was premature to reduce the number of accounting options in the Directives but that the work towards further harmonization should continue. Even though the quality of accounting improved significantly as an effect of the Directives new problems arose in the early 1990s because of the increasing importance of international capital markets. As large European companies searched for capital outside their home countries they were faced with the problem that their financial statements were not accepted. It was mainly in the US that the European financial statements were considered not to give enough and sufficient information on all the issues requested by investors. Information required by the Directives were often different to that requested by US GAAP or IAS.

At this point the Commission realized that something had to be done and consulted the member states for options. Four main ideas were examined and evaluated. The first alternative was, since the US market was the main problem, to try to obtain an agreement of mutual recognition of financial statements. However, since US financial statements were already recognized in Europe there was no interest from the US side to come to an agreement, making this alternative an unrealistic solution. The second option was that large listed companies should be excluded from application of the Directives. This gave rise to a number of issues, for example how to decide which companies to be excluded and what rules that would apply to excluded companies. It would also be a step away from, rather than towards, harmonization.

As the Accounting Directives are not very detailed the third alternative would be to develop the directives to include more specific and detailed regulations. To agree on how this should be done and how to regulate every issue would not be realistic due to the long time and extensive resources it would require. The fourth option would be to create a European Accounting Standards Board for development of new accounting standards. However, creating a new body would require both time and money and would not be easy to motivate as there already existed standards, such as IAS, that could be used.

The Commission concluded that none of the options would create a sufficiently strong base for accounting harmonization and in 1995 it was decided that the Commission would support the standards developed by IASC, including the interpretations made by SIC, later renamed IFRIC. IAS would be the preferred standard for European companies on the international market. The Commission was aware of the fact that applying IAS would require a separation of annual and consolidated accounts. This was especially the case in countries with a close connection between accounting and taxation since the application of IAS on accounts that are basis for taxation would have immediate effects for the tax amount to be paid.
Two conditions were stated if the implementation of IAS in European companies would come about. First, the EU had to get increased influence on, or at least increased possibilities to observe, the work of IASC. The Commission was granted an observer seat on the IASC board and on the SIC. Secondly, to be able to use IAS there could not be any conflicts between IAS and the Directives. This was investigated, and the surprising conclusion was that there were no conflicts between IAS and the Directives. It was expected, since IAS and the Directives are completely different and based on different principles, that the clashes would be several. However, since both IAS and the Directives contain several options for many accounting issues it was possible to come to the conclusion that there were no conflicts. For individual countries there could be conflicts between national law and IAS since they could have chosen to implement one of the options in a Directive that contradicted IAS.

In June 2000 the Commission gave a proposal for a Regulation on accounting which was adopted on a single reading, which is very uncommon. The Regulation states that all consolidated accounts of publicly traded companies must be prepared in accordance with IAS/IFRS for each financial year starting after January 1st 2005 (art. 4). It also states that member states are allowed to permit or require that publicly traded companies prepare their individual annual accounts in accordance with IAS/IFRS. They may also permit or require use of IAS/IFRS for other companies in both consolidated and/or annual accounts (art. 5). The reason for choosing the more efficient instrument, a Regulation instead of a Directive, was that the time frame for developing a common market for financial services was 2005 and a Directive takes more time to introduce. A Regulation also ensures that application will be identical in all member states since it does not have to be transposed into national law.

The Regulation only requires companies that are subject to laws of a member state to use IAS/IFRS. The reason for not forcing for example US companies to use IAS/IFRS if listed in Europe is that the Commission hopes that European companies listed in the US will not have to adopt the US GAAP if EU accepts accounting according to US GAAP. As it is likely that countries would want to have the same accounting requirements for all companies they can introduce IAS/IFRS all at once for all companies or make a gradual move. The Accounting Directives has been adapted to allow for a gradual transition to IAS/IFRS. A reason for choosing this approach is the connection between accounting and taxation that hinders a full introduction of IAS/IFRS at once in some countries.

Before an IAS/IFRS is introduced in the union it has to be endorsed by the Commission. A standard has to be fully endorsed, or not at all. Since there are no intentions of creating a “euro-IAS” the Commission is not allowed to make changes to a standard. Most likely, if a standard is not endorsed, is that it goes back to IASB for a revision. There are three criteria for a standard to get endorsed; it may not be contrary to the true and fair view, it must be conducive to the European public good, and conform to understandability, relevance, reliability, and comparability in accordance with the conceptual framework of the IASB.

IAS/IFRS is developed by the private organization the International Accounting Standards Board, IASB. To create an understanding of how the standards are created we will give a brief presentation of the IASB and its predecessor, the International Accounting Standards Committee, IASC’s history. IASC started in 1973 as cooperation between accounting bodies in ten countries to develop international accounting standards. The organization has since then published accounting standards on various accounting areas. Over time IAS has gained more and more acceptance and with the support from the EU in 1995 it became a very important player as an international standard setter. In 2001 IASC was replaced by
IASB and the name of the new standards was changed to IFRS. Today both IAS and IFRS standards are in effect why they usually are referred to as IAS/IFRS (IASB webpage, 2005-03-09). The IASB consist of 19 trustees and a board with 14 members and advisory groups (Buisman, 2004). The IAS has been present in Swedish accounting since the early 90s since the Swedish Financial Accounting Standards Council (RR) has used them as basis for their recommendations (Knutsson, 2004).

As mentioned the connection between accounting and taxation is a major obstacle to a full introduction of IAS/IFRS. We will now go further into explaining this connection and why it creates difficulties.

4.2 The Connection between Accounting and Taxation

A strong connection between accounting and taxation has been applied for a long time in Sweden. This connection has implied that rules for accounting has affected taxation and vice versa. Several pros and cons have been brought up as the connection has been discussed. The debate in Sweden has for different reasons been going on since the 80s, often depending on changed conditions for a harmonization of accounting in the EU. Lately, the major question has been if accounting according to IAS/IFRS is suitable as a base for taxation or not. The general opinion has been that it is not suitable, and that the connection therefore has to be changed before a decision on application of IAS/IFRS in annual accounts can be made.

4.2.1 The Current Connection

To create an understanding of the current connection and to be able to evaluate new suggestions for a connection we need a thorough understanding of how the connection looks today. The basis for taxation is the result calculated according to accruals concepts, which is stated in the tax legislation, IL 14:2. The expression accrual concept is not used in the civil law; however, the meaning is that incomes and expenses should be assigned to the right period in time in accordance with generally accepted accounting principles. This is the principal rule that should be used when deciding the basis for taxation, if no other rule is dictated. This is the material connection; there are also situations with a formal connection or no connection at all, as presented in figure 6 (Dir. 2004:146; RSV Rapport 1998:6).

In 1928 the material connection was introduced in the Swedish system and since then accounting methods has been accepted as a basis for taxation. In the 1950s it was considered that the current practice in Swedish accounting did not give a sufficiently large tax base, and specific tax rules for valuation of inventories and depreciation on fixed assets were formulated to increase the tax base. Prior to this change the financial accounting was the base for taxation, but now a reversed connection was designed when fiscal rules effected the accounting as well (Artsberg, 2003). This connection, when a tax rule demands an adjustment in the accounts, is called a formal connection (Dir. 2004:146).
The formal connection implies that for a deduction or allocation to be allowed by the Tax Agency the same transaction has to be made in the accounts. Furthermore, the method used to value assets must be the same in the financial accounts as well as the tax accounts to be permitted. The fiscal reform in 1990 implied a reduction of the areas controlled by the formal connection (RSV Rapport 1998:6). An example of the formal connection today is the tax rules for distribution of the costs related to the purchase of equipments (IL 18:14). Application of depreciation as recorded in the books, which is the most favorable tax rule, is allowed only if the same deduction is made in the annual account. Another example is provision to tax allocation reserves (IL 30:3), which is also allowed only if a corresponding provision is made in the accounts (Kellgren, 2004).

Due to the formal connection companies have to show appropriations and untaxed reserves in their annual accounts (SOU 1995:43). The burden of appropriations on the result leads to a decrease in the profit available for distribution. Consequently dividend to stockholders will never include funds that have not already been taxed since the taxation rules are favorable for the company. This implies that double taxation will arise when dividend is paid. The formal connection is not essential to ensure the double taxation in the long-run since tax allocation reserves will be dissolved in a few years and the profit available for distribution will be reduced by the same amount (Kellgren, 2004).

The third situation for the relation between accounting and taxation is created through the tax legislation. Accounting and taxation are completely disengaged on some points since items may be non-deductible fiscally but brought up in the financial accounting since they are a cost to the company (Artsberg, 2003). This can also be the case when there are tax rules for specific items but the company is not required to bring it up in the accounts (Dir. 2004:146). An example of this is fines, which are non-deductible even if they can be referred to business activities. The circumstance that the connection between the financial accounting and the taxation works in three different ways creates a relatively complicated system, causing different results financially and for taxation (Artsberg, 2003).

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<table>
<thead>
<tr>
<th>Financial accounting</th>
<th>Tax accounting</th>
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<tbody>
<tr>
<td>Generally accepted accounting principles</td>
<td>Appropriations creates untaxed reserves</td>
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<tr>
<td>True and fair view</td>
<td>Accounting methods applied in the companies</td>
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<tr>
<td><strong>Material Connection</strong></td>
<td><strong>Formal Connection</strong></td>
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<tr>
<td>Not regulated in the legislation</td>
<td>Tax rules requires adjustments in the financial accounting to be recognised</td>
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<tr>
<td><strong>No Connection</strong></td>
<td>Specific tax rules that differs from the financial accounting</td>
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4.2.2 The Current Connection - Pros and Cons

When creating a proposition for a new connection it is important to compare its pros and cons to those of the old connection to be sure that the new one actually is an improvement. In the following we present some commonly mentioned pros and cons of the current connection.

The current connection between accounting and taxation implies that just one annual account has to be prepared. Without any major changes the financial accounting can be the base for taxation which decreases the workload for the companies (SOU 1995:43; RSV Rapport 1998:6). Small and medium sized companies benefit the most from this system since the number of external stakeholder in these companies are relatively few (SOU 1995:43). The system is however becoming more complex, which makes it unsure if it actually simplifies and reduces workload for the companies (Hilling in Ask, Envall & Olsson, 2004). An annual account already controlled by an accountant reduces the necessity for the Tax Agency to control the accounts further at the time for taxation. A specific control of the tax accounting or a statement made by an auditor is not necessary. The current connection therefore simplifies the work for the Tax Agency as well (SOU 1995:43, SOU 2003:71).

Moreover, a general opinion is that the quality of the Swedish accounting is very high due to the connection, since all decisions made are considered from a tax aspect as well as an accounting aspect (SOU 1995:43; SOU 2003:71; RSV Rapport 1998:6). The principle of ability to pay tax (skatteförmågeprincipen), which means that a company's tax base and profit should be as similar as possible, supports the close connection. The connection between accounting and taxation in turn leads to a close connection between the taxable income and the amount available for distribution in the company. From a financial policy point of view this is an advantage since profits corresponding to tax deduction and appropriations which are the source for tax credits are excluded from distribution (SOU 1995:43, SOU 2003:71).

A system where corporate taxation is based on the accounting, like the one in Sweden, implies negative effects from an accounting perspective. The companies aim to get as low taxable income as possible and then tend to put less focus on if an accounting solution in fact shows the most true and fair view of how the company is actually doing. Instead a method giving the lowest taxable result will be preferred. As a consequence the connection affects the quality of the accounting and creates an obstacle for the development of generally accepted accounting principles (SOU 1995:43; SOU 2003:71; RSV Rapport 1998:6).

Furthermore, the strong connection is, as mentioned above, linked to the distribution of profits. Companies might have to choose not to take advantage of the possibility to use the appropriations aimed at equalizing reported net profit. The use of this rule will decrease the amount available for distribution. The effect of the connection is that companies choose not to pay dividend because of the favorable rules that can be used to reduce the tax base (SOU 2003:71; RSV Rapport 1998:6). Another disadvantage is that the Swedish system with untaxed reserves and appropriations makes the annual accounts difficult for foreign readers to understand. They are not familiar with the formal connection in the accounting and that is the reason why they consider the annual accounts difficult to comprehend (RSV Rapport 1998:6). According to Kellgren (2004) this is not a major problem nowadays since the untaxed reserves and the appropriations are eliminated in the consolidated accounts, which are the accounts that are of most importance for the foreign stakeholders.
The connection between accounting and taxation has been continuously debated for 20 years where the pros and cons brought up in this section has more or less been reflected on by different authors.

4.2.3  A Changed Connection - Suggestions

The connection has been debated and criticized for several other reasons than IAS/IFRS. To gain an understanding for these other reasons why the connections should be changed and what propositions for changes that have been made before we will take a look at what has been debated over the years. The debate on how the connection should be formulated has been going on since the middle of the 1980s when one of the reasons for the discussion on a separation of the annual account and the tax return was a request from a working team in the OECD (Malmström, 1985). A second reason was the growing need for international capital in Swedish multinational companies (RSV Rapport 1998:6). The OECD request was one of the major issues discussed in BFN at the time. The Board got divided into two groups due to different viewpoints on the connection between accounting and taxation. One group deemed that it is an advantage with a strong connection between tax legislation and generally accepted accounting principles since the tax rules will have an impact on every part of the accounting (Malmström, 1985).

The other group was of the opinion that the development of the annual accounts was restrained because of tax issues. They preferred a disengagement of the two annual accounts and a development of two new separated systems (Malmström, 1985). Edenhammar (1983) discussed the possibility to disengage accounting and taxation as well. He suggested a change in the tax legislation which would imply that appropriations were just recorded in the tax return. Consequently, the appropriations would not be shown in the income statement and untaxed reserves could be transferred to equity.

The two viewpoints on the connection discussed above are also brought up by Hesselman and Tidström (1991). It had been suggested that the connection should remain as present, but this was criticized since generally accepted accounting principles might not be able to develop because of consideration to tax consequences. Disengagement would therefore be more beneficial for this development. Hesselman and Tidström (1991) implied that international development within accounting would have an impact on national accounting practice.
Furthermore, they claimed that the harmonization within the EU should be the end of the connection since the OECD recommended the member states to remove the connection between accounting and taxation. However, Hesselman and Tidström’s (1991) suggestion for the future was based on a remained, but changed, connection between accounting and taxation. The Tax Agency needed to accept the generally accepted accounting principles, which would also put some pressure on the accounting profession to maintain the development of generally accepted accounting principles on a high level (Hesselman & Tidström, 1991).

Christer Westermark has published several articles on the connection between accounting and taxation. In two articles from 1988 and 1995, he provides a model for formulating connections between accounting and taxation. Westermark explains three extreme scenarios that might not be likely in reality but gives a starting point for analyzing a system in change. (Westermark, 1988; Westermark, 1995).

In August 1991 the accounting committee was given instructions to investigate the Swedish accounting legislation. One of the questions to be considered in the investigation was the connection between accounting and taxation. In February 1992 the committee was requested to accomplish the investigation with a closer relation to the EU as a starting point, due to the plans of entering the union in the near future. To adapt to the accounting regulations set by the EU some tax rules, especially the once concerning appropriations and untaxed reserves, would probably have had to be reconsidered. A report, SOU 1995:43, was completed which focused solely on the tax issues (Knutsson & von Bahr, 1995). The investigation proposed a system where untaxed reserves and appropriations should be abolished. But, due to negative reflections from some of the bodies to which the proposed measure was referred to for consideration, mainly the National Swedish Tax Board (Riksskatteverket), the government did not present any new ideas when it came to the connection between accounting and taxation (Westermark, 1995).

The content and the conclusion of the investigation were critically commented by Hellman (1995). He criticized that the simplification of accounting for the companies and the effectiveness of the control made by the Tax Agency, were claimed by the Tax Agency to be the most important advantages of the current connection between accounting and taxation. Hellman (1995) advocated that for the accounts to be prepared in accordance with the EU-directives the tax appropriations had to be disengaged from the accounts. But, the resistance towards disengagement was still very strong from the tax legislator in 1995 (Hellman, 1995).

The disengagement that was proposed by the investigation was according to Hellman (1995) not a complete disengagement, since the untaxed reserves would still be present in the companies’ accounts and tax returns as if the disengagement was not realized. The suggestion to record deferred taxes was clearly in conflict with the EU-directives, and a fiscal limit for dividend allowed (utdelningssspärr) had an obvious connection to the former idea about tax issues in the annual accounts. The criticism made by Hellman (1995) was mostly based on the authorities’ unwillingness to change the connection between accounting and taxation. He believed that this was something that had an effect on the Accounting Committee, which made the investigation, and also on the Swedish Parliament when they made their final decision based on the investigation and the comment letters on it.

The National Swedish Tax Board was one of the bodies to which the proposed measure was referred to for consideration. They stated in their pronouncement that to be able to
implement the directives a more thorough analysis of the connection between accounting and taxation had to be done. Moreover, a comparison of other countries experiences and approach to the connection would have to be considered. Therefore, a working-team was appointed to describe the current situation, give suggestions for a possible connection, and illustrate which items that was in need of specific tax rules (RSV Rapport 1998:6).

The conclusions of the investigation were presented in a report, 1998:6. The suggestions for a change in the connection implied ceasing of the formal connection, an unchanged material connection, introduction of disengaged tax rules when needed, and that tax rules should be defined to make the distinction between taxation and accounting more obvious. The material connection should be kept since the purpose and the approach of accounting and taxation are often similar (RSV Rapport 1998:6). The proposal made by the National Swedish Tax Board implied partly disengagement of the connection and partly changes in the tax legislation (Möller, 2000).

The current cause for discussion on the connection between accounting and taxation is the use of IAS/IFRS. It does not consider tax consequences or national situations when formulating standards, and IAS/IFRS is therefore not a proper standard with a kept connection (Bjuvberg, 2004). The purpose of the system is to show an as true and fair result as possible from an economic point of view, which can speak in favor of a kept connection (Bjuvberg, 2004). To have a strict connection would be to tax the most true and fair result (Knutsson, 2004). Bjuvberg (2004) implies that if the IAS/IFRS will be considered not to be suitable as a base for taxation, the connection between accounting and taxation has to be removed.

Knutsson (2004) argues that there are several reasons why an increased application of IAS/IFRS should not be the base for taxation. On the other hand she thinks that IAS/IFRS should be used to a larger extent in the accounting. To make this solution possible, the connection between accounting and taxation has to be disengaged. It is difficult to develop a system that implies suitable rules both for small and large companies. All companies should be treated the same way when it comes to taxation and therefore it is not possible to introduce different tax rules depending on the companies' size. Application of a system like that would also imply difficulties for the Tax Agency. On the other hand Knutsson (2004) thinks that all companies cannot be forced to use the same set of tax rules, which are adjusted to make it easier for larger companies to apply IAS/IFRS. It would have consequences for small companies and would imply limited benefits for them. The most suitable solution to the problem according to Knutsson (2004) is to introduce an increased, but voluntary, disengagement. She does not discuss how the connection should be formulated in detail, and thinks that it needs further attention. Knutsson (2004) believe that in some areas such disengagement is somehow obvious while other areas have to be more thoroughly considered. To secure the double taxation, which is at risk when the use of net realizable values in IAS/IFRS is used with the current connection, some kind of fiscal limit for dividend allowed needs to be introduced.

We can conclude that the main reason for the older debate has been that the connection has limited the possibility for generally accepted accounting principles to develop in the best way. The more resent debate has instead been based on what implications that the principles of IAS/IFRS will have for the taxation, mainly in relation to issues of valuation.
4.3 Use of IAS/IFRS

Using IAS/IFRS in Swedish accounting may be problematic on many levels. This part will give a brief introduction to the basics of IAS/IFRS and then how it would work as a tax base since that would happen if the current connection is kept and IAS/IFRS introduced in legal entities.

4.3.1 Basic Principles of IAS/IFRS

To use IAS/IFRS implies some fundamental changes in the way of accounting compared to the traditional continental European way. We will make a short overview of the basic principles of IAS/IFRS and the major differences compared to the old way of accounting in Sweden. IASC has created a framework which states the basic principles and starting points for formulating the standards. Most important of these are the accruals concept and the principle of going-concern. The framework also treats qualitative aspects of the financial information such as understandability, relevance, reliability, comparability, and a true and fair view (Axelman, Phillips & Wahlquist, 2003).

The traditional opinion in accounting has been to see the balance sheet as less important than the income statement. It has historically been seen as the basis to create an income statement and a result for a business. Due to this, the use of historical costs has been most relevant to create a basis for future result. The purpose of financial reporting today is to supply the capital market with relevant financial information for investment decisions. For that the balance sheet is more important than the income statement as it displays what possibilities a company has to invest and develop in the future. To give a true and fair view of a company’s situation a use of net realizable values is more correct than a use of historical costs. IASB has in the late 90s made a transition to a use of net realizable values in most of its standards. They have also clearly favored the balance sheet to the income statement as a mean of information for financial investments, and thus also net realizable values to historical costs (Jönsson Lundmark, 1999).

4.3.2 IAS/IFRS as Tax base

As a complete introduction of IAS/IFRS with the current connection between accounting and taxation would imply that IAS/IFRS would be used as a tax base it is important to evaluate if this actually is an appropriate solution. In the investigation on IAS, SOU 2003:71, made by the Swedish government, several reason why accounting according to IAS/IFRS is not a proper base for taxation are brought up. IAS/IFRS are developed by the international private organization IASB. Sweden does not have any possibility to control or influence the work done by the IASB. This implies that the regulation which is the base for taxation is decided by an organization which does not take the Swedish tax situation into account. Furthermore, the rules in IAS/IFRS are characterized by an investor perspective and therefore valuable to the international capital market. The information in the accounting should then be presented in a way that is useful for investors. The intention of IAS/IFRS regulation is simply not to be the base for taxation.

Another aspect in the discussion whether IAS/IFRS can be a correct basis for taxation or not is the method used when valuating assets and liabilities. The method that is increasingly

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2 This section is based on SOU 2003:71.
used is valuation to net realizable value instead of historical cost which is the most commonly used method in Sweden. The starting point when deciding net realizable value is approximations and forecasts made by the management, which could lead to a subjective decision-making even though the management are following IAS/IFRS. In turn, the financial accounting will be subjective as well, and difficulties for the Tax Agency will probably occur since it is more difficult to control net realizable values than historical costs and these values might be too uncertain for use as a basis for taxation. The numbers in the income statement and on the balance sheet can appear to be uncertain when based on real values.

Complementary disclosure is an important part when preparing annual accounts according to IAS/IFRS and can be used to further explain the numerical information in the income statement and the balance sheet. In addition to the numerical information the reader of the annual account can use the complementary disclosure to get an opinion about the trustworthiness of the net realizable values used. The information in the complementary disclosure is of the same importance as the information in the income statement and the balance sheet. But, the complementary information can not be taken into account when deciding the base for taxation.

Moreover, the use of IFS/IFRS means that the revenue recognition will be made earlier than before. As a consequence, the insecurity connected to the measurement of the result will increase. To use that result to determine the tax is therefore not appropriate according to the investigation. To bring the revenue recognition forward might lead to a more careful valuation by the companies since the unrealized profits that might occur will be taxed, which is something the companies would want to avoid, and a loss that might occur later will not be a cause for tax refund.

IAS/IFRS is considered to be a regulation that is complicated and hard to understand, not just for the companies but also for accountants, who often come to dissimilar conclusions on the same issue despite their knowledge within the area. Consequently, employees at the Tax Agency, who do not have as much knowledge within accounting as the accountants do, have difficulties to interpret IAS/IFRS and make correct decisions. This can be a source to lengthy and complicated disputes between the Tax Agency and the companies, which will be costly for both parties, if the use of IFS/IFRS will be extended to include individual annual accounts when the connection is kept.

We have tried to find a source which does not oppose a use of IAS/IFRS as tax base but as the literature on the subject is limited we have not found any, which we find unfortunate for our research.

4.4 Other Countries Approach to the Connection

As we have described, the connection between accounting and taxation can be formulated in different ways. The connection could be anything from extremely strong to non existent. To be able to understand what options Sweden might have when, or if, changing the connection we will take a look on how other countries has formulated their rules.

England

The English accounting recommendations has been formulated without consideration to what tax effects may occur due to them. The recommendations have been intended to create financial statements that provide relevant information to the capital markets. The
fiscal result is based on the result in the accounts with the exception of certain tax rules. This means that the English system has a material but no formal connection; there are no requirements on the accounting from the fiscal side. There is however an overriding rule which limits the material connection by implying that it is the total amount of the operating profit and capital gain that should be taxed. This rule means that there can be no anticipation of profits or losses, no tax deduction can be made before expenditures have been materialized. As for SMEs, there are no specific rules in the English system (RSV Rapport 1998:6).

**Denmark**

Since the introduction of the Danish Annual Accounts Act in the early 1980s the disengagement of taxation from accounting has increased. Denmark has two separate systems for accounting and taxation; these are however based on the same principles, which imply similarities in the systems. Industrial and business activities have to prepare a tax return and financial information in accordance with specific standards (RSV Rapport 1998:6).

**Norway**

The allocation to periods of costs and revenues in the accounts is the basis for taxation of companies in Norway, which implies a material connection. Specific fiscal rules for allocation to a period for important items in the accounts were introduced in the tax reform of 1992. These rules are strictly based on a realization concept and so extensive that they appear to be the principal rule in Norway (RSV Rapport 1998:6). The change has mainly meant a transition to account for deferred tax liabilities, the transition has not been smooth and a lot of issues connected to deferred tax liabilities have come up (Westermark, 1995).

**Finland**

The Finnish Book-keeping Act and the Act on taxation of business activity both contain complete accounting rules. The financial and the fiscal results are decided based on independent systems of rules. This means that there is no material connection in the Finnish system, but on the other hand there is a strong formal connection. There is an extensive amount of rules which requires registration in the accounts if an item should be deductible in the taxation. The allocation to periods, depreciation rules, and the deduction rules are also different in the two systems (RSV Rapport 1998:6).

**USA**

The US has two clearly divided systems, referred to as Tax accounting and Financial accounting. The financial result is however the starting point for the taxation, but since the purpose of the two reports are different there are a lot of variations in the requirements for the reports. The fiscal profit is connected to the company's selection of accounting method. There are some possibilities to choose accounting method, but the general rule is that the accrual concept should be used in business activities. The tax authorities has the preferential right of interpretation when it comes to deciding if an accounting method used by a company in accordance with generally acceptable accounting principles really reflects real income. In the Tax accounting system real income is what should be taxed, and as long as it reflects real income simplified cash based accounting is allowed for tax purposes. There is a possibility in the US system to prepare a consolidated tax return for groups (RSV Rapport 1998:6).
Germany

The general rule of German accounting and taxation is that a rule of connection (Maßgeblichkeitsprinzip) should be followed, something which is very uncommon in Anglo-Saxon countries but not in Sweden. The rule implies that the financial accounting should serve as the main base for fiscal purposes unless there are some exceptions, just as the Swedish system works. This implies that there is a strong material connection in the German system. To this comes a formal connection of favorable tax rules which requires a registration in the financial accounting to be allowed for deduction. The German system is characterized by a strict use of the realization concept and a conservative use of the prudence concept of conservatism (RSV Rapport 1998:6).

As no countries have the same connection the best way to compare them and be able to understand them in relation to each other is through a rating of the different connections. RSV has displayed it as a line where the two extreme points are, on one end that the taxable result is the same as the one in the accounting and on the other end that tax rules are the basis for the taxable result. However, a close placing on the line does not imply similar connections only that the degree of the connection is similar.

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Figure 7. The degree of connection. (RSV 1998:6, p. 19)

It is not easy to clearly relate the Swedish connection to the ones in the countries mentioned. Sweden can be said to be relatively close to Germany in the formulation of the formal connection. The material connection has however more similarities with the other Nordic countries and possibly Britain. Separate systems exist in Denmark, Finland, and the US, implying that these countries are most different to Sweden. The Finnish has however as mentioned a formal connection between the systems. Since England, Norway, and Germany have material connections their systems are more similar to the current Swedish system (RSV Rapport 1998:6).

To choose one formulation as the best or most suitable for all countries is not possible. If going for separate systems or at least a removal of the formal connection in Sweden, Denmark and Norway are probably the best two countries to look at. These countries have both moved from a closer connection so there has been an experience of change to learn from as oppose to the countries that has had separate systems all along. The business environments as well as the state systems are similar to the Swedish which makes it likely that solutions working in Denmark and Norway might be something to consider for Sweden as well.
5  Previous Studies on the Connection

In this chapter we will present four theses written on the connection and their conclusions on if and how it should change. We will then try to find their answers to the questions of our problem areas.

To create a better understanding for how the connection between accounting and taxation has been academically treated previously we have chosen some theses which we think will add to our frame of reference as a basis for conclusions. The number of theses directly concerned with the connection between accounting and taxation in relation to the accounting harmonization through IAS/IFRS are few. However, there are some theses dealing partly with the issue and this chapter will describe the conclusions previously made and relate them to the problem areas and the purpose of our study. We have chosen three master theses and one bachelor thesis, which we consider relevant and related to our subject. The problems, purposes, methods, and conclusions of these theses will be presented in the following; we will only pay attention to the parts of the theses that are relevant in relation to our purpose. To relate the previous theses to ours we have tried to find their responses to the questions in our interview.

5.1  Presentation of Selected Studies

Master Thesis 1 – “The link between accounting and taxation – a disengagement or not?”

This first thesis was written by Karlsson and Svanberg at Linköping University in 2004. The purpose of the thesis is to describe the existing connection between accounting and taxation in Sweden and to describe the alternatives to the current connection. Furthermore, an explanation of the prolonged debate on the issue is made and also an explanation of the important bodies which have an influence on the work towards a disengagement. A qualitative approach was used to fulfill the purpose and the study included 14 persons from important bodies in Sweden within the area of accounting and taxation. Karlsson and Svanberg conclude that the optimal formulation of the connection is a total disengagement with two separated systems, except for small non-listed companies. The reason why the connection has not been changed in Sweden is the perception that disengagement will affect large and small companies in different ways that the issue is not prioritized by the government and the lack of a suitable alternative to the current connection. The Tax Agency is considered to be the most important body in the discussion if there should be disengagement or not.

Master Thesis 2 – “IAS and taxation – Application of International Accounting Standards in a Tax Law Perspective”

The second thesis was also written at Linköping University by Halvarsson in 2003. The problems dealt with in the thesis are how the taxation of companies would be affected if the use of IAS/IFRS became mandatory in the individual accounts as in the consolidated accounts and if the taxation would be affected when IAS/IFRS is applied in consolidated accounts. The purpose is to analyze consequences, in a tax law perspective, of the EC Regulation 1606/2002, the IAS regulation. A qualitative analysis was made on the secondary data used, such as investigations, articles and literature. The conclusions made by
Halvarsson (2003) was that accounting in accordance with IAS will probably be allowed in legal entities as well, which could increase the lack of neutrality in taxation. She also concludes that the connection limits the accounting harmonization due to the tax considerations that has to be made in accounting. An application of IAS is a reason to question the current connection between accounting and taxation.


The third thesis from 2005 was written by Mello, Stålberg and Sultan at Gothenburg University. The problem area brought up in the thesis is the qualitative effects of an IAS/IFRS introduction in annual accounts and tax returns of listed companies. The problem also includes the qualitative effects of disengagement between accounting and taxation, a changed ÅRL and new standard setting. The purpose of this thesis is to describe and give the reader an understanding of the changes that will occur due to the introduction of IAS/IFRS and how these will affect the quality of the annual accounts and the tax returns. A qualitative method has been used, chartered accountants and representatives from important bodies within the area have been interviewed personally or through e-mail. The conclusion made by the authors is that disengagement will happen some time in the future. Currently, the disengagement will be limited to changed rules for valuation. The formal connection is likely to remain as current. The main conclusion is that the qualitative effects of IAS/IFRS on annual accounts and tax returns will be limited. It might be possible for companies though to show a more true and fair view in their accounting. The tax returns are deemed to become more complex and complicated. The authors believe that the qualitative effects will be dependant on how the affected parties deal with the change.

**Bachelor Thesis 1 – “IAS/IFRS in Relation to Accounting/Taxation and the Swedish Principle of Legality”**

The last thesis was written by Ask, Envall and Olsson in 2004 at Jönköping International Business School. Adjusting the accounting in accordance with IAS/IFRS will have a significant influence on the normative and legislative process in Sweden. The purpose is to account for the normative process behind the IAS/IFRS and to which extent this affects the Swedish legislation and normative process. Furthermore, the authors intend to study the consequences of IAS/IFRS accounting in relation to the connected area between accounting and taxation as well as to the principle of legality. The authors take a qualitative approach and a questionnaire has been answered by four academics at Swedish universities. The authors conclude that the adjustment to the new normative process with IASB as a central normative organization will not create a constitutional conflict, in regard to the principle of legality embedded in the Swedish Constitution. The study also shows that IASB probably is the right organization to have this normative function. In order for Sweden to completely adjust to IAS/IFRS, also in legal entities, it is necessary that disengagement takes place between accounting and taxation.

**5.2 Our Study Compared to Previous Ones**

Since our purpose is to investigate if the connection should be changed and in that case how it should be changed, which could mean a removal, we are mostly interested in the
conclusions of the previous studies regarding the current connection and conclusions on how an alternative connection could be formulated and look like in the future. We will in this part present the conclusions from each thesis that are related to the questions of our problem areas. As several of the authors have used a lot of the same sources as we have their frame of reference has a lot of the same information as ours on the related issues.

**The Current connection**

This problem area is intended to find out the perceived advantages and disadvantages with the current connection, and as we already know how it works we are not interested in investigating that. The problem area only contains one question, which the other theses have answered in the following way:

**What are the main pros and cons of the current connection between accounting and taxation? (3)**
- Halvarsson (2003) concludes that the connection to taxation is limiting an international harmonization of accounting and the connection therefore needs to be questioned. She also mentions the disadvantage of the connection that taxable result can be taken into consideration when choosing accounting method, as well advantage of simplification for smaller companies.
- Ask et al. (2004) also comes to the conclusion that the strong connection between accounting and taxation is the main problem to be able to apply IAS/IFRS in legal entities. The rules will be complex and difficult to grasp if a strong connection is kept.
- Karlsson and Svanberg (2004) conclude that practitioners’ opinion about the current connection is that it is not formulated in the most proper way and that there are some imperfections in the system. The problems are to a great extent related to the presence of appropriations and untaxed reserves. The current connection also makes it difficult for companies to implement new accounting standards. The advantages of the current connection are according to the study that it simplifies the administrative work, that untaxed fund can not be handed out, and that two separate systems are not needed.
- In Mello et al. (2005) we found the opinion that the use of net realizable values when valuating assets such, as forests, would with a kept connection result in taxation of unrealized profits.

**A changed connection**

The problem area a changed connection contains five questions intended to explore how and why the connection should change and why it has not happened yet, as well as some additional issues. All of the questions are not dealt with in the every thesis; consequently all questions will not be answered with conclusions from all of the four theses.

**Do you believe that the connection should change? How? (4)**
- Karlsson and Svanberg (2004) say that there are a lot of arguments both for and against disengagement as it would affect companies of different size in different ways. They argue that a complete disengagement, implying two separate systems one for accounting and one for taxation, is the optimal solution but exceptions for small non-listed companies has to be created. Several of their interviewees advocate a strict connection for small companies.
- Mello et al. (2005) believe that complete disengagement will happen in the future and that the disengagement probably will be present when valuating to net realizable value. They do not say that this is the optimal solution and they believe that it will take time, at least until the investigation is ready in 2007. They also believe that the disengagement will be limited to areas of net realizable values today, and that the formal connection will be kept.
Previous Studies on the Connection

- The thesis by Ask et al. (2004) also comes to the conclusion that disengagement, partly or fully, is necessary for a complete use of IAS/IFRS.
- Halvarsson (2003) believes that the connection between accounting and taxation has to be seriously reviewed for a full harmonization to take place.

What difficulties do you think a changed connection might cause? (5)
- This question is not answered in any of the other theses.

A changed connection has been debated for a long time. Why do you think nothing has happened until now? (6)
- One of the reasons why the connection has not been changed earlier is according to Karlsson and Svanberg (2004) that the government has not prioritized the issue and the lack of suitable alternatives to the current connection. As small and large companies have different needs and stakeholders, and are affected differently from a changed connection it has been difficult to find a proper formulation for a new connection.
- The conclusion by Mello et al. (2005) is that the ministry of Finance and the government do not want to lose either control or incomes and also that there is a lack of resources to accomplish a change. This is the reason why nothing has happened before and according to Mello et al. (2005) that it will take time before a changed connection will be reality. A representative of the ministry of finance also says in this thesis that they deemed a further investigation then the one made by RSV in 1998 to be needed before any decisions could be made.
- Halvarsson (2003) says that that the fact that the opinions on the connection has varied is a reason why no change has happened. There is no agreement on what the purpose of the accounting should be and therefore impossible to agree on one best way to go.

Do you consider other issues, except the harmonization of accounting through IAS/IFRS, to increase the need for a changed connection? (7)
- This question is not answered in any of the other theses.

Different connections for companies of different sizes have been considered by other authors, what is your opinion on that? (8)
- The use of a closer connection for smaller companies and more disengagement for the larger using IAS/IFRS are suggested in Karlsson and Svanberg (2004).
- Halvarsson (2003) has some arguments why a similar connection could be useful, for example, both small and large companies benefit from the simplifications of connection.

The other problem areas

As the other theses are generally concerned with the connection and not the use of IAS/IFRS the answers to our questions within the three other problem areas, IAS/IFRS, Use of IAS/IFRS, and Other Countries are limited.

What is your general view on IAS/IFRS? (1)
- Ask et al. (2004) conclude that IASB, who is developing the IAS/IFRS can be accepted as the body that will set the standards for the accounting in Sweden.

What problems and possibilities do you think that the introduction of a new accounting standard (IAS/IFRS) creates? (2)
Previous Studies on the Connection

- Halvarsson (2003) means that a full implementation of IAS/IFRS in legal entities as well could increase the lack of tax neutrality, which the current freedom of choice within accounting implies.

- Mello et al. (2005) believes that the short time between the government decision and the implementation of the rules can be a reason why problems might arise in the future. They also believe that the use of net realizable values can be a source of problem for the companies, as well as the increased workload that the implementation implies. The many changes that have been made to the IAS/IFRS in the last couple of years also makes it difficult for companies and others to prepare for a use of them.

- Accounting in accordance to IAS/IFRS implies a abandoning of the traditionally used prudence concept of conservatism according to Halvarsson (2003).

**What is your opinion on the use of different standards in the consolidated accounts and the individual annual accounts in a group? (9)**

- Ask et al. (2004) deems it necessary to introduce IAS/IFRS in individual accounts as well within the near future due to practical reasons and reasons of competition. Difference should only be allowed in case of very special reasons.

- In Karlsson and Svanberg (2004) it is said that in would be an advantage with the same standards for both groups and legal entities. Similar rules would also simplify comparisons and the practical use. To keep an objective position it is important that a stakeholder can compare consolidated and individual accounts on the same basis.

- Halvarsson (2003) concludes that the best option would be to use the same standards in consolidated and individual accounts. This would also increase the comparability.

**How suitable would IAS/IFRS be for smaller companies? (10)**

- In Mello et al. (2004) some interviewees say that as the workload for small companies in the current system is too extensive a use of IAS/IFRS would be too much for these companies.

- As the small companies do not have a lot of external stakeholders there is no need for them to use IAS/IFRS Karlsson and Svanberg (2004) shows.

**It is probably not likely that IAS/IFRS will be used as tax base. What are according to you the major reasons why it is not suitable, if you agree, otherwise, why is it suitable? (11)**

- Karlsson and Svanberg (2004) also brings up that IAS/IFRS is not a suitable base for taxation as they are not developed with that purpose.

- In Mello et al. (2005) it is said that the larger room for interpretations that the use of IAS/IFRS implies makes it unsuitable as tax base.

- As IAS/IFRS is not intended for taxation purposes it is probably not suitable according to Halvarsson (2003).

**Do you know anything about how other countries has created their connection and solved problems related to it? (12)**

- In Mello et al. (2005) it is mentioned that Norway removed the connection a couple of years ago, but nothing further on how this was done, just that it created difficulties.

- The only other thesis that mentions the connections in any other countries is Karlsson and Svanberg (2004), but all their information is from the report RSV 1998:6, the same source as we have used.
6 Analysis of Interview Data

In this chapter we will give a description of the first and second step of our analysis, data reduction and data display of the data retrieved from the interviews. We then proceed to an analysis of each individual problem area based on the data displays.

After conducting the interviews we transcribed them fully to be able to conduct the first and second step of the analysis, data reduction and data display. To reduce the initial 43 pages of interview data we used our interview guide as a starting point. We extracted statements and responses which we found to be relevant in relation to the questions on each problem area. We were also careful to pay attention to other information which were not direct responses to the questions but still relevant to the purposes of the problem areas. As Burén and Melbi were interviewed at the same time the responses in some areas comes only from one of them.

When the relevant data, within each problem area, had been reduced from the whole interviews we preceded to the second step of analysis, the data display. Miles and Huberman’s (1994) model advocates that the display of data can be created any way the researcher likes as long as it is purposeful and makes it possible to draw conclusions based on the data. We decided to create a rather simple matrix based on the questions as we did not want to reduce the statements from our interviewees too much. Each problem area has its own display which follows in this chapter. The displays differ for different questions as it is not possible to treat all questions in the same way. Where possible the interviewees’ answers have been divided according to contradicting viewpoints, explained in relation to each question. For each problem area we have created one additional matrix, including information relevant to fulfill the purpose of the area but that is not a response to any of the questions. All data displays are then analyzed in relation to the purposes and questions of the problem areas. The analyses then form the basis for the conclusions in chapter 7.

6.1 IAS/IFRS

The purpose of this problem area is to gain an idea of the general opinions on IAS/IFRS, what problems and possibilities the interviewees see with the new standards, and for whom. This problem area contains two major questions, which are intended to give information to fulfill the purpose.

- What is your general view on IAS/IFRS? (1)
- What problems and possibilities do you think that the introduction of a new accounting standard (IAS/IFRS) creates? (2)

6.1.1 Data Displays

Question (1) - What is your general view on IAS/IFRS?

The data display for question one has been created based on if the responses are positive, negative, or neutral to IAS/IFRS.
Analysis of Interview Data

Positive responses

Olsson - Positive to the use of IAS from the start. Ever since it was introduced in Sweden through RR in the early 90s.

Olsson - To get a true and fair view net realizable values are unavoidable, mostly for financial instruments etc.

Burén - IAS is based on principles, as oppose to US GAAP which is based on rules, and that's a reasonable starting point so in that way IAS is good.

Burén - The use of IAS is generally good, you can’t lose sight of the international accounting harmonization.

Pautsch - Same set of rules for listed companies no matter where they are listed, is good.

Pautsch - Same information from companies no matter where they are listed, creates a neutral market.

Pautsch - Criteria of justice for investors, same information for all.

Kyrö - The basic thought of IFRS, to have a common standard which creates comparability between companies in the EU, is very good.

Kyrö - It simplifies for analysis and creates a better capital market.

Negative responses

Melbi - It’s complicated that you have to search for rules in so many places, at least you know where to find the tax rules.

Burén (replying to Melbi’s statement) - You can start in ÅRL which in turn refers to the EC regulation and so on…. But there are not many persons who have the whole picture clear.

Neutral responses

Burén - Since they have become a reality through the EC regulation, you just have to like them.

Pautsch - Necessary for the group that will use them since they are used in the rest of the western world more or less.

Pautsch - The use of IAS implies that analysis is made already in the accounting.

Question (2) - What problems and possibilities do you think that the introduction of a new accounting standard (IAS/IFRS) creates?

The responses for question two have been divided based on problems and possibilities with the introduction of IAS/IFRS. Some of the answers can be a problem in some situations or a possibility in other depending on different attitudes. Therefore these responses are displayed under both problems and possibilities.

Problems

Olsson - The use of net realizable value divides people of different opinions and creates problems.

Burén - The development over such a long time has created some contradictions among the standards, which is a problem.

Burén - So far there are a lot of gaps in the standards.

Pautsch - Net realizable value is an Anglo Saxon tradition, used to give investors relevant information.

Pautsch - The issue of net realizable values is that it is a problem if you need security to borrow money. The accounting can however be cleared from unrealized items.

Pautsch - Difficult to appreciate net realizable value when there is no market for an asset.

Pautsch - Hard to valuate intangible assets at net realizable value, there are models but they are difficult, hard to appreciate the future usefulness.

Pautsch - There is a risk of including untaxed capital in dividends when net realizable value is used. Potential fiscal limit for dividends allowed (utdelningsspärr)?

Kyrö - The standards are a framework, which implies difficulties of interpretation. They are more detailed than we are used to, but not as detailed as the US GAAP.
Analysis of Interview Data

Kyrö - IFRS is something completely new, something else than the traditional prudent accounting that has been used in Sweden and most of Europe.

Kyrö - A lot of interpretation and valuation issues.

Kyrö - Judgments are the main problem of IFRS, especially in valuation.

Kyrö - The administration in the companies, cost, time, resources, and competence required for the transition.

Kyrö - Most questions have concerned the rules in IFRS 1 concerning first time adopters.

Kyrö - The standards are not pedagogical, formulated as law text.

Possibilities

Burén - The use of net realizable values is good if you can do it in a proper way.

Pautsch - Net realizable value is an Anglo-Saxon tradition, used to give investors relevant information.

Pautsch - Using net realizable value is possible if you know why and how it is made, and then you can deal with it.

Kyrö - It simplifies for analysts and creates a better capital market.

Kyrö - IFRS is something completely new, something else than the traditional prudent accounting that has been used in Sweden and most of Europe.

Other responses relevant to the problem area

Olsson - Most of IAS is already implemented through the recommendations of RR. They have been strictly implemented since about 1998 except for some issues in legal entities which were not allowed according to ÅRL.

Burén - The options to using IAS would be that each country continued on its own or that a new standard was developed by the EU and none of these options are realistic today.

Melbi - It is not enough to secure the tax amount by putting it in restricted equity, it should be paid.

6.1.2 Analysis of Data Displays

The use of IAS/IFRS is a reality for listed companies, and we want to know how our interviewees feel about the new standards. Olsson at the Tax Agency says that he has been positive to the whole idea of IAS/IFRS since it was first introduced in Sweden through the implementation in the recommendations from the RR in the early 90s. Burén at the Confederation of Swedish Enterprise believes that it is a very sound idea that IAS/IFRS is based on principles rather than on rules as the US GAAP is. He perceives that to base standards on principles creates more stability. The fact that the standards has been developed over such a long time has however led to gaps and even contradictions in them even though they are based on the same principles. This is a problem today but will hopefully be solved as standards are updated. Since the standards has become a reality through the EC regulation you might as well like them and get used to them, Burén explained.

Pautsch at BFN argues that since the rest of the western world uses the standards they are necessary for the companies that will use them. They create comparability between companies no matter what stock market they may be listed on. The fact that the same information will be provided by all listed entities will also create a more just environment for investors, implying a more neutral market. Kyrö from KPMG agrees with the others that the basic thought of using IAS/IFRS, to have a common standard throughout the EU, is a good idea. It creates comparability and simplifies for analysts, thus creating a better capital market.
Melbi perceives it as a problem that to get a full picture of the standards, and accounting rules in general; you have to look in so many places, as oppose to the taxation rules which are easily found in one place. There is logic to the rules if you for example start in ÅRL it refers to the EC regulation which in turn refers to IAS/IFRS and so on, Burén explains, but at the same time admits that few persons have the full picture of all the rules and standards. Burén’s conclusion is that the standards generally are good, you have to remember the international harmonization which is a good cause, he says. The alternatives to using IAS for accounting would be that each country continued on their own or that the EU developed a new set of standards, and according to Burén none of these options are realistic today.

The use of net realizable values in IAS/IFRS is, as Olsson puts it, what divides people in two camps and creates problems. He continues however, to say that if a true and fair view is desired in the accounting net realizable values are unavoidable for certain assets, especially financial instruments etc. Burén agrees that net realizable values are good if you know how they are calculated and the calculations are based on clear facts. Pautsch thinks that net realizable values are possible if you know how and why they are used so that you can deal with them in a proper way. She perceives that the use of net realizable values can be a problem when you need security to borrow money as the balance sheet may contain unrealized items. This problem can be solved as the accounts can be cleared from unrealized values and create a realized account. It is always difficult to valuate assets for which there is no official market, Pautsch says. To valuate intangible assets creates additional issues for the valuation as it is more problematic to appreciate future usefulness for it, than for example for a machine. Kyrö agrees that valuations are the trickiest part of IAS/IFRS. The issues of valuation and interpretation of standards has created difficulties as IAS/IFRS was introduced, and will probably continue to do so.

To summarize this problem area we can say that the interviewees are mostly positive to IAS/IFRS as accounting standard, despite the fact that they mention a lot of potential problems. There are no clearly negative opinions on the IAS/IFRS as a whole. The problems that the interviewees perceive are mostly related to the valuation of assets that IAS/IFRS implies. However, this is only a part of the standards and the overall impression is that the interviewees perceive IAS/IFRS as something good and useful.

6.2 The Current Connection

As we already know how the current connection works the purpose of this problem area is only to gain information on the advantages and disadvantages of the current connection and how these can create a need for change. The problem area contains one major question, which is intended to give information to fulfill the purpose.

- What are the main pros and cons of the current connection between accounting and taxation? (3)

6.2.1 Data Displays

Question (3) - What are the main pros and cons of the current connection between accounting and taxation?

As this question asks for pros and cons of the current connection, the responses has been divided based on that. As for the previous question a response can end up under both headings.
Analysis of Interview Data

<table>
<thead>
<tr>
<th>Pros</th>
</tr>
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<tbody>
<tr>
<td>Melbi - It simplifies not to have to do one financial annual account and one tax annual account.</td>
</tr>
<tr>
<td>Olsson - In RSV 1998:6 new tax rules were suggested on some areas and removal of tax rules in others areas. However, what was relevant in -98 might not be today.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cons</th>
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<tbody>
<tr>
<td>Olsson - The connection is manifested in the taxation law (14:2) and therefore the taxation should be adapted to the accounting and not the other way around.</td>
</tr>
<tr>
<td>Burén - Swede on visit in the states asking a business man there “If you have a profit of one million dollar, and you want to show only 100 000 dollar, what do you do?” - The presence of appropriations in Swedish accounting has shaped the way of thinking in terms of taxable result instead of financial results.</td>
</tr>
<tr>
<td>Melbi - The taxation affects the accounting since generally accepted accounting principles is not specific rules, it can be interpreted in the way most suitable from a tax point of view.</td>
</tr>
<tr>
<td>Pautsch - The current connection is not very good since it has started from a very close connection and disengagement has been made continuously as new issues have occurred.</td>
</tr>
<tr>
<td>Pautsch - Since there are more and more specific tax rules and adjustments the connection no longer simplifies.</td>
</tr>
<tr>
<td>Kyrö - Display and valuation of deferred tax liability in the consolidated accounts can be an issue.</td>
</tr>
</tbody>
</table>

Other responses relevant to the problem area

| Olsson - The Tax authority was critical to the proposals for a changed connection made by the accounting committee in 1995, which made the department of finance skeptical to any changes. |
| Burén - Using IAS you will want to avoid both over- and under valuation and a net realizable value is then usable. The margins will be smaller compared to the old Swedish system. The purpose is to create a better functioning capital market. (Made a figure on the whiteboard to explain) |
| Burén - Taking the tax situation into consideration when choosing accounting method is probably not as common as previously in listed companies, but probably in small ones without external stakeholders. |
| Melbi - When using net realizable value the connection gives an immediate tax effect which implies that you have to find a new way to ensure double taxation. It should never be possible to pay dividend that has not been subject to corporate taxation. |
| Melbi - The accounting sets a roof for valuations, through the use of generally accepted accounting principles and the prudence concept of conservatism, while the tax regulation sets a floor. |
| Melbi - The tension between tax rules and accounting rules increase and further tax rules are needed to ensure state income and prevent companies from being taxed for unrealized profits. |
| Kyrö - Doesn’t affect the work since only concerned with group account. |

6.2.2 Analysis of Data Displays

The Tax Agency, which Olsson represents, was critical to the proposal for a changed connection made by the accounting committee in 1995. The fact that the Tax Agency had some objections to the suggestions made the ministry of finance skeptical to any changes. When Olsson comments on the current connection he refers to the report, RSV Rapport 1998:6. In the report new tax rules were suggested in some areas and removal of tax rules in other areas. Olsson is aware of, and emphasizes, that what was relevant in 1998 when the report was finished might not be relevant today. The conditions might have changed and they would probably have come up with other suggestions today.

Pautsch argues that the current connection is not very good since there was a very close connection from the beginning and as new issues have occurred disengagement has been made continuously. She also claims that due to increasing amount of specific tax rules the
connection no longer simplifies the work. Melbi on the other hand sees it as an advantage that the connection implies just one annual account. It is not necessary to prepare one financial annual account and one tax account, which means less workload for the companies.

Generally accepted accounting principles are not specific rules, which leave a lot of room for interpretations. According to Melbi the taxation affects the accounting since the interpretations of generally accepted accounting principles can be made in a way that is most advantageous from a tax point of view. Ölsson is of the same opinion as Melbi. He explains it as since the connection is manifested in the taxation law (14:2) the taxation should be adapted to the accounting and not the other way around. The tax rules are often seen as something that can not be changed and the accounting rules therefore has to be formulated taking the tax rules into account, which he says is not true.

The fact that appropriations are present in Swedish accounting has shaped the way of thinking when it comes to the taxable result. To strengthen this statement Burén referred to a comment made by a Swede when having a conversation with an American. "If you have a profit of one million dollar, and you want to show only 100 000 dollar, what do you do? the Swede said, clearly displaying a priority of the taxable result before the financial one. Burén does not believe that taking the tax situation into account is as frequent as it used to be in listed companies. Small companies on the other hand, who do not have as many external stakeholders, probably consider it more.

Kyrö declare that how the connection is formulated does not affect the consolidated account to a great extent. The questions that can come up in consolidated accounts in relation to taxes are how deferred tax liabilities should be displayed and valued in the account. Since Kyrö only works with consolidated accounts it affects his work very little and he could not give any further comments within this problem area.

According to Burén when using IAS/IFRS you would want to avoid both over- and under valuation and net realizable value is then the most appropriate method to use. Melbi continued the discussion on net realizable values and argue that the connection gives an immediate tax effect when using these values. This implies that you have to find a new way to ensure the double taxation. It should according to Melbi never be possible to pay dividend that has not been subject to corporate taxation.

Melbi explains the relation between valuation in accounting and taxation as the accounting sets a roof for the valuation through the use of generally accepted accounting principles and the prudence concept of conservatism, while the tax regulation sets a floor for the valuation. She further says that the tension between tax rules and accounting rules is increasing as the use of net realizable values implies more restrictions in the valuation situation. Further tax rules are needed to ensure the national income, the double taxation and also to prevent companies from having to pay tax on unrealized profits.

Summarizing this problem area we conclude that as our interviewees sees a lot more negative issues than positive with the current connection, it speaks in favor of a change of some kind. This confirms our expectation that the connection needs to be changed.

### 6.3 A Changed Connection

The purpose of this problem area is to gain information on how and why the connection should be changed. What effects a change might have and how it can affect different
parties. This is the most important problem area as the purpose of the whole thesis is to understand how the connection can or should change. The problem area contains five major questions, which are intended to give information to fulfill the purpose.

- Do you believe that the connection should change? How? (4)
- What difficulties do you think a changed connection might cause? (5)
- A changed connection has been debated for a long time. Why do you think nothing has happened until now? (6)
- Do you consider other issues, except the harmonization of accounting through IAS/IFRS, to increase the need for a changed connection? (7)
- Different connections for companies of different sizes have been considered by other authors, what is your opinion on that? (8)

6.3.1 Data Displays

**Question (4) - Do you believe that the connection should change? How?**

All responses on the first part of this question are that the connection should change. The division of the responses has therefore been based on the second part of the question, how it should change. This could imply disengagement to some extent, fully or partly, or a stricter connection. The responses are therefore divided into those that want a stricter connection and those that favor disengagement. K1 to K4 is the size and type of company based categories that BFN has created as a base to develop a new accounting in Sweden. It is further discussed in the analysis of the data display.

<table>
<thead>
<tr>
<th>Stricter Connection</th>
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<tbody>
<tr>
<td>Pautsch - K1 - unregistered firms and partnerships between natural persons (enskilda firmor och HB mellan fysiska personer) – strict connection, the annual account = the tax return.</td>
</tr>
<tr>
<td>Pautsch - K2 – Limited liability companies under 50-25-50 (Employees-turnover-assets), simplified rules with a strong connection.</td>
</tr>
<tr>
<td>Kyrö - The dream would be if IFRS could just be used as generally accepted accounting principles and thereby the basis for taxation.</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Disengagement</th>
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</thead>
<tbody>
<tr>
<td>Olsson - Tax rules can always be changed so it is better to formulate good accounting rules and then adjust tax rules to them.</td>
</tr>
<tr>
<td>Olsson - There is no general best solution between no connection and a complete connection; it has to be considered on a case by case basis.</td>
</tr>
<tr>
<td>Olsson - Keep the connection where you consider it to work for taxation as well and create new tax rules where it becomes too complex.</td>
</tr>
<tr>
<td>Burén - Appropriations could be recorded directly in the tax return.</td>
</tr>
<tr>
<td>Pautsch - K3 – Limited liability companies over 50-25-50 but not listed, disengagement, not clear yet (Potential connection to IASB’s SME project.)</td>
</tr>
<tr>
<td>Kyrö - Don’t really know anything about how a disengaged world would work.</td>
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</tbody>
</table>

**Question (5) - What difficulties do you think a changed connection might cause?**

As this question only is intended to find difficulties the responses cannot be set against each other on opposing sides. The responses are therefore just presented as a list. As no division can be made here the analysis will be based on connections and differences between the responses.
**Question (6) - A changed connection has been debated for a long time. Why do you think nothing has happened until now?**

Just as for question five the responses for this question cannot be divided according to any measure. The interviewees mention different reasons why the connection has not changed and these are presented in the following list. As no division can be made here the analysis will be based on connections and differences between the responses.

- **Olsson** - Even though many of the bodies who commented on the report by RSV agreed nothing forced the department of finance to do anything and since there is always a lack of resources nothing happened.
- **Olsson** - The investigation on the connection could have been appointed a lot earlier if it had been understood that it was needed.
- **Olsson** - The Tax authority was critical to the proposals for a changed connection made by the accounting committee in '95, which made the department of finance skeptical to any changes.
- **Burén** - It has been considered that the taxation should not have an affect on the accounting i.e. appropriation, but no real suggestions have been made just directions of principle.
- **Burén** - The use of net realizable values has come up quite late in IAS as well and was not relevant in connection to the investigation in '95 about the connection.
- **Melbi** - It requires money.
- **Melbi** - The accounting has started to “move” lately.
- **Melbi** - The possibility to use net realizable values implied that something had to be done.
- **Pautsch** - According to the ministry of finance there has not been a good reason so far, even though the Tax Agency wanted to.
- **Pautsch** - After being a part of the IAS investigation the need was recognized by the ministry of finance and the investigation on the connection was appointed. They realized that several things couldn’t be suggested due to tax rules.

**Question (7) - Do you consider other issues, except the harmonization of accounting through IAS/IFRS, to increase the need for a changed connection?**

Just as for question five and six the responses for this question cannot be divided. The interviewees mention some other issues than IAS/IFRS which advocate a change and these are presented in the following list. As no division can be made here either the analysis will be based on connections and differences between the responses.

- **Olsson** - In the work to simplify (BFN) it is considered the only way to go to have the same rules in all companies in a group. There cannot be different rules for different sizes in the same group.
- **Olsson** - The previously used principle of lower of cost and net realizable value only considers unrealized losses and never unrealized profits, which creates a strange effect on the accounting as well as the tax base. This might not give a correct view as unrealized profits might be much larger than the losses.
Pautsch - IAS/IFRS will lead to a completely new way of thinking and a completely different income statement and to use that as a tax base would be pretty weird. Can’t see that it would be possible.

Pautsch - The tax rules are old-fashioned, ancient, i.e. there is no logic in depreciation as recorded in the books if you weren’t there in 1953. Even if there should be a connection the rules has to be overlooked and updated.

Pautsch - It is not easy to create a system with a connection when using net realizable values.

Question (8) - Different connections for companies of different sizes have been considered by other authors, what is your opinion on that?

The responses for question eight has been divided according to if they are positive or negative to the use of different connections. As in earlier displays responses can end up under both headings in the matrix.

Positive

Olsson - Not likely with different connections for companies of different sizes, except in exceptional cases if it is thoroughly investigated.

Buren - For the smallest companies the intention is to have an as close connection as possible, hopefully 100%.

Buren - The larger the company the more disengagement.

Pautsch - Previously mentioned description of the categories by BFN. (K1-K4)

Negative

Olsson - Not likely with different connections for companies of different sizes, except in exceptional cases if it is thoroughly investigated.

Olsson - A way to solve the division into categories is that you have one connection and different accounting rules for different categories.

Olsson - As general tax rules for all categories as possible and just limited exceptions to reduce the difficulties when changing category.

Melbi - If smaller companies have a close connection there can be difficulties when it grows if the differences are large.

Other responses relevant to the problem area

Olsson - Common rules are introduced for accounting and taxation to simplify mostly for the companies but also for the Tax Agency.

Olsson - It is a problem that the definitions today are aimed at the capital market, and not for taxation.

Olsson - There are a few areas where a connection could be used instead of specific tax rules which are the case today.

Olsson - Proposition for change in both IL and ARL in the suggestion from BFN.

Buren & Melbi - Difficult to use the same division of the tax rules as planned for the accounting rules.

Melbi - It has been decided that valuations to net realizable value should be put in non-restricted equity in Sweden.

Melbi - A potential fiscal limit for dividend allowed (utdelningsspårr) to secure the double taxation violates the parent companies and subsidiaries Directive according to an EC verdict from 2001.

Melbi - Might be simpler to put the net realizable value in restricted equity since it is almost impossible to create another system due to the EC verdict.

Melbi - Net realizable values will be allowed in more situations according to ARL from January 1st 2006 and then the issue of the double taxation has to be solved.

Melbi - Real estate businesses have said that they would like to use restricted equity since they would not
An analysis of interview data...

Pautsch - There has to be tax neutrality between K2 and K3.

Pautsch - Potentially special tax accounting for K3 and K4, not clear how yet.

Kyrö - But there will likely be a lot of exceptions if IFRS would be considered as Generally Accepted Accounting Principles.

Kyrö - Could use IFRS in legal entities if there was disengagement but we’re only talking groups now.

6.3.2 Analysis of Data Displays

Most of the interviewees agreed that the connection between accounting and taxation has to change in some way due to the introduction of IAS/IFRS. If not, there is a major risk that the double taxation is lost. Olsson explains an important point, that you have to remember that tax rules always can be changed and adjusted to the accounting rules. The best way according to him is to look at each item on a case by case basis and decide if a connection is suitable or not. There is always the possibility to introduce specific tax rules, which Olsson believes is the key to most issues. Where the connection is considered to work, it should be kept and where not specific tax rules should be introduced.

Melbi sees as the main reason for a change and the most urgent issue to solve the risk of losing the double taxation when net realizable values are used. She explains that this is what the investigation on the connection is currently working with. As net realizable values will be introduced to a larger extent in ARL on January 1st 2006 it is important to solve the issue before then. The main obstacle for the investigation today is that it has been decided that valuation at net realizable values should be put in non-restricted equity in Swedish accounting. This implies that a fiscal limit for dividend allowed (utdelningsspärr) could be a usable solution to the problem. But there is a problem connected to an EC verdict from 2001, Melbi says, a fiscal limit for dividend allowed does, according to the verdict, violate the parent companies and subsidiaries Directive and can therefore not be used to solve the problem. She thinks that the simplest solution might be to use a fund for restricted equity anyway which would make it impossible to pay dividend including untaxed funds. This would however be in conflict with the Swedish aim to use non-restricted equity for the valuations.

Pautsch says that the investigation will probably give a suggestion for a solution in June, but at the same time recommend that the solution will not be used. She also says that it is very difficult to create a system with a connection when net realizable values are used. Melbi says that companies in the real estate business has expressed that they would like a use of a restricted fund for the valuations. It would imply that they could show a stronger balance sheet but at the same time they will not get demands from shareholders for dividend as the restricted equity is non-distributable.

Different connections for companies of different sizes have been considered by other authors, and we want to know what our respondent feel about that. Burén says that he thinks that the smaller the company the closer the connection, and then more disengagement as the companies’ size increases, this is in line with the ideas from BFN to create new accounting categories. Melbi means that if the differences in the connection are large depending on the size of the company problems can occur when a smaller company grows, and has to adapt to another connection.

Pautsch gives a brief presentation of the work to simplify the accounting that is going on in the BFN, which gives a good idea of how the connection might be formulated in the near future. The intention of BFN is to create four categories, from K1, being small...
partnerships etc. to K4, being large listed groups using IAS/IFRS. K1 will do a very simple accounting and have a strict connection to the taxation meaning that the tax return will be identical to the annual report. For K2, which is smaller limited liability companies, there will be simplified accounting rules and a strong connection with some exceptions for specific tax rules. Between K2 and K3 there is intended to be a borderline for the connection. K3 will be larger unlisted limited liability companies, probably using rules similar to the IAS/IFRS and there will be disengagement. K4 will be the listed companies that have to use IAS/IFRS and for them it will be complete disengagement. A company may choose a higher standard than they have to so it is important to create tax neutrality between the categories, especially between K2 and K3. There is a potential for a specific tax accounting for K3 and K4 but nothing is clear yet, as the development of rules for these categories has not started yet.

Olsson says that to create common rules for accounting and taxation simplifies a lot for the companies but also for the Tax Agency. He advocates a system of as similar connections for all categories as possible to simplify the transition from one category to the next.

Olsson makes a good point when answering our question concerning potentially arising problems in case of a changed connection. He says that the purpose of changing the connection of course is that it should solve problems, rather then creating, and it should be made sure that the solution will be the best possible before it is introduced. Otherwise he perceives one potential problem, as always when new laws are introduced there is a risk of interpretation issues. Melbi says that it could be difficult to create tax rules that are good for all businesses. Both she and Burén also points to the importance of cooperation between the accounting and taxation professions. The best solution can not be created on one side, communication is necessary for a functional solution. Pautsch believes that the lack of tradition of specific tax auditing can be a problem in Sweden if the connection is changed and a reason for its delay. She says that Germany for example has a much longer tradition of tax auditing. Kyrö thinks that it would be important to understand the tax system when preparing the consolidated accounts to be able to display the correct deferred tax liability if the connection is changed. Otherwise he sees no real issues with a changed connection.

As the connection has been an issue of debate since the early 80s we asked what the interviewees believed to be the reasons why nothing has happened until now. Olsson referred to the report presented by the Tax Agency in 1998 (RSV Rapport 1998:6) which suggested a number of changes, and he says that many bodies who commented on the report agreed with the suggestions in it. But, since nothing forced the ministry of finance to take any measures, the lack of resources made it a question that was not prioritized. Melbi agrees that the lack of resources has been a major reason why nothing has happened. Pautsch says that according to the ministry of finance there has not been any good reasons for a change even thought the Tax Agency wanted it.

Melbi says that the fact that the accounting has been starting to “move” a bit lately might have had a positive influence for changes in the connection. The possibility to use net realizable values also made it necessary to do something now, she explains. Burén says that the use of net realizable values was introduced quite late in the IAS as well, in 1995 when the last investigation on the connection was presented; the use of net realizable values was not discussed at all. Pautsch thinks that as the ministry of finance was part of the IAS investigation in 2003 they recognized the need to investigate the connection and the new investigation on the connection was then appointed. They realized that several of the changes they wanted to make in relation to the introduction of IAS/IFRS were not
possible due to tax reasons. Olsson says that if the need had been realized the investigation of the connection could have been appointed a lot sooner.

The accounting harmonization through the introduction of IAS/IFRS might not be the only reason for a changed connection today. We want to know what the interviewees perceive as other reasons for a change. Pautsch says that as many of the tax rules today are old fashioned, an update of these rules is a contributing reason for a changed connection. Old rules such as depreciation as recorded in the books from 1953 are not relevant in today's accounting system and hard to understand.

The many different rules that exists today makes it necessary to do the overview of accounting rules that BFN is currently doing and this implies a need for changes in the connection, Olsson explains. He also says that as the previously used principle of lower of cost and net realizable value only considers unrealized losses and not unrealized profits, which creates a strange effect on the accounting as well as the tax base. This can in many situations give an incorrect view as unrealized profits might be larger than losses, and to give a more true and fair view a better connection could correct this. Pautsch says that the use of net realizable values is a completely different way compared to the old continental use of historical cost, which will create a totally different income statement and to use this as a tax base without a changed connection would be pretty weird.

To summarize the analysis of this problem area we can say that the interviewees are positive to a change of the connection and since the change probably will be different for different companies it is hard to say if there will be any problems. That it has taken so much time to start the change is mainly due to a lack of resources and understanding from the ministry of finance.

6.4 Use of IAS/IFRS

The purpose of this problem area is to gain data on how IAS/IFRS is or can be used. How the interviewees feel about the use of different rules for groups and legal entities and the suitability of IAS/IFRS for smaller companies. The use of IAS/IFRS as potential tax base is also a part of this problem area. The problem area contains three major questions, which are intended to give information to fulfill the purpose.

- What is your opinion on the use of different standards in the consolidated accounts and the individual annual accounts in a group? (9)
- How suitable would IAS/IFRS be for smaller companies? (10)
- It is probably not likely that IAS/IFRS will be used as tax base. What are according to you the major reasons why it is not suitable, if you agree, otherwise, why is it? (11)

6.4.1 Data Displays

Question (9) - What is your opinion on the use of different standards in the consolidated accounts and the individual annual accounts in a group?

The responses for question nine has been divided according to if they are positive, negative, or neutral to the use of different standards in consolidated and individual accounts. It is mainly the potential use of IAS/IFRS in individual accounts in parent companies that is of interest as that would have the largest simplification effect.
### Analysis of Interview Data

| Positive | Kyrö - Sees no difficulties since a group account is a freestanding “story”.
| Positive | Kyrö - The subsidiaries have sent adjusted figures to the parent company earlier as well as they used BFN and the group RR.
| Negative | Olsson - If there are specific tax rules the use of IAS in legal entities will not imply any problems. In areas where there can be issues it is only a matter of introducing new tax rules to be able to use IAS.
| Negative | Olsson - There are no good reasons for different rules except the fact that tax regulations could be more or less beneficial unless adjustments are made.
| Negative | Olsson - The same rules should be used in the individual accounts as in the group accounts. (Others might feel differently).
| Negative | Burén - For administrative reasons it would be easier to have the same rules in the individual accounts as in the group accounts.
| Negative | Burén - Listed companies presume that the same rules will be used in legal entities as in the group in the future but there is probably no rush for it to happen.
| Neutral | Burén - Using different rules implies a lot of extra work in terms of keeping up with changes. Capacity, competence and systems cannot be used in the best way.
| Neutral | Pautsch - It is not good that different rules are used.
| Neutral | Kyrö - One issue could be for the parent company to make sure to get the right information to prepare the consolidated accounts.
| Neutral | Kyrö - It would be nice with the same rules in the parent company as the consolidated accounts…., simplifies for financial administration.

| Neutral | Burén - Even if the parent company would use IAS it doesn’t imply that all subsidiaries have to do it.
| Neutral | Burén - All companies within a group do not have to have the same accounting rules. To prepare the group accounts an internal report system is used so that the parent company can get the correct information for the group account.
| Neutral | Burén - The use of IAS in group accounts has never been an issue among companies, just parts of some standards.
| Neutral | Pautsch - Sweden has had that system before as the recommendations by RR have been used in listed companies.
| Neutral | Pautsch - Exceptions in the recommendations for legal entities due to tax regulations.
| Neutral | Kyrö - The accounting made by the subsidiaries is not relevant; analysts look at the consolidated accounts.

### Question (10) - How suitable would IAS/IFRS be for smaller companies?

The data display for question ten has been created based on if the responses are that IAS/IFRS are suitable or not suitable for small companies. Some responses have been deemed neutral.

| Suitable | Burén - It is IASB’s opinion that the standards can be used by non listed companies as well.
| Suitable | Burén - IAS might very well be the leading standard for non listed companies in the future. Currently it’s being controlled in Europe how usable IAS is.

| Not Suitable | Olsson - To use IAS in “small” companies is not in line with the Swedish work to simplify the accounting made by BFN. It would complicate the situation for both companies and accountants to have multiple options.
| Not Suitable | Pautsch - The use of IAS for smaller companies in Sweden is no option, it is not considered at all.
Analysis of Interview Data

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<thead>
<tr>
<th>Interviewee</th>
<th>Statement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pautsch</td>
<td>There is a big difference between small and small. The SME project by IASB deals with companies larger than 50 employees etc.</td>
</tr>
<tr>
<td>Pautsch</td>
<td>The IASB definition of smaller would not work in Sweden.</td>
</tr>
<tr>
<td>Pautsch</td>
<td>A smaller company does not have the resources to keep up a valuation at net realizable value in the long run.</td>
</tr>
<tr>
<td>Pautsch</td>
<td>A small company doesn’t have any stakeholders that are interested in net realizable values. Banks want security.</td>
</tr>
<tr>
<td>Kyrö</td>
<td>It is administratively impossible for small companies to use IFRS.</td>
</tr>
<tr>
<td>Kyrö</td>
<td>No interest from small companies to use IFRS, no external stakeholders.</td>
</tr>
<tr>
<td>Kyrö</td>
<td>No interest for middle sized companies either since their stakeholders are not interested in such information, banks etc.</td>
</tr>
<tr>
<td>Kyrö</td>
<td>Smaller companies can not pay the audit of net realizable values.</td>
</tr>
<tr>
<td>Neutral</td>
<td>Burén - Non listed companies have probably not seen that much of IAS and are probably happy that way. They have no real opinion.</td>
</tr>
<tr>
<td>Neutral</td>
<td>Burén &amp; Melbi - Depends on how small is defined.</td>
</tr>
<tr>
<td>Neutral</td>
<td>Pautsch - Many countries create their rules for smaller companies from the large ones instead of seeing the specific needs of the small companies and create rules from that. There is a risk of gaps in the rules if you cut down instead of start from scratch.</td>
</tr>
</tbody>
</table>

Question (11) - It is probably not likely that IAS/IFRS will be used as tax base. What are according to you the major reasons why it is not suitable, if you agree, otherwise, why is it suitable?

The data display for question eleven has just as for question ten been created based on if the response is that IAS/IFRS as tax base is suitable, not suitable, or neutral. Some answers can as before end up under more than one heading.

| Suitable      | Olsson - Does not consider IAS to be inappropriate as a tax base except under certain circumstances. |
|---------------| Olsson - The investigation on IAS was skeptical to a connection on several points which Göran opposes for example gradual income recognition (successiv vinstavräkning) and leasing. |
|               | Olsson - IAS as a tax base is only appropriate for listed or other large companies (i.e K3), not for small ones. |
|               | Melbi - The basis for the taxation has to be the accounting in some way. To create new rules for how to allocate items to the right period in time for tax purposes does not seem realistic. |

| Not Suitable  | Olsson - IAS as a tax base is only appropriate for listed or other large companies (i.e K3), not for small ones. |
|---------------| Pautsch - It is not sane to tax unrealized profits. |
|               | Pautsch - It is difficult to secure tax dept even if a restricted fund is used. From a perspective of priority rights for tax dept there has to be an ability to pay them. |
|               | Pautsch - As certain revaluations only go to the balance sheet, How do you get the net realizable values that go to non-restricted equity to be included in the tax base? |
|               | Pautsch - This will lead to a completely new way of thinking and a completely different income statement and to use that as a tax base would be pretty weird. Can’t see that it would be possible. |
|               | Kyrö - How could unrealized profits be brought up and unrealized losses deducted? If you would be taxed for unrealized profits the companies would want to lower the valuations. |
| Neutral       |
Analysis of Interview Data

Olsson - The basic issue is to what extension you will want unrealized items to affect the basis for taxation. (The double taxation!)
Pautsch - If you get a full use of net realizable value it is a completely different principle compared to the continental use of historical cost.
Kyrö - Tax income for the state might have to be secured if IFRS should be tax base

Other responses relevant to the problem area

Olsson - Tax rules can always be changed so it is better to formulate good accounting rules and then adjust tax rules to them.
Burén - Listed companies are used to the use of the recommendations by RR so a transition to IAS will probably not imply that much problems.
Kyrö - Swedish companies are used to apply standards due to the use of the recommendations from RR.
Kyrö - The changes in ÅRL makes it possible for the parent company to have an accounting as close to IFRS as possible.

6.4.2 Analysis of Data Displays

The way the accounting regulation in Sweden will be in the nearest future will imply that IAS/IFRS will be used in consolidated accounts but not in individual accounts. Olsson thinks that the same rules should be used in individual accounts as the consolidated. Even if this can create effects on taxation it is no real problem to change the tax rules and adapt them to the generally accepted accounting principles used. He believes that there are no relevant reasons for different rules in groups and legal entities except the fact that tax regulation could be more or less beneficial unless adjustments are made for that. Olsson concludes that if adjusted specific tax rules are introduced where needed the use of IAS/IFRS in legal entities will not imply any problems.

For administrative reason it would be easier to use the same regulations in the individual accounts as in the consolidated accounts, says Burén. To use different rules implies a lot of extra work in terms of keeping up with changes in different regulations and is not the best way to utilize capacity, competence and business systems in a company. He also believes that listed companies presume that some time in the future they can use the same standards, probably IAS/IFRS, in both accounts, but that there is no hurry to come to it. If a parent company uses IAS/IFRS it does not automatically imply that all subsidiaries have to, all companies in a group does not have to use the same accounting rules. To prepare the consolidated account the parent company uses an internal report system through which the subsidiaries report the numbers requested for the preparation, and then it is not important what system the subsidiaries use, Burén explains.

That different rules are used in individual and consolidated accounts are not good at all, according to Pautsch, she even refers to it as unfortunate. However, she goes on to explain that we have had that kind of system before as well as listed companies has used the recommendations from RR. In that case there have however been exceptions for legal entities in the recommendations, due to tax rules. Kyrö sees no difficulties in using different standards since the consolidated account is a free-standing “story”. The accounts prepared by subsidiaries are not relevant since analysts only look at the consolidated accounts, and these are prepared through the use of special report systems, Kyrö says. Previously the subsidiaries had to send adjusted information as well since they used the recommendations from BFN while the recommendations by RR where used in the group. The only issue Kyrö sees is that the parent company has to be careful to develop systems
that make it possible for subsidiaries to supply the needed information. He says that, of course it would be nice to have the same rules in the parent company as in the consolidated accounts as it would simplify for the administration of finances.

When it comes to the issue of using IAS/IFRS in small companies all interviewees provides arguments why it is not a good solution in Sweden. All of them remarks that there are differences between small and small. Anything from small partnerships to quite large unlisted limited liability companies can be considered as small compared to the listed groups that will use IAS/IFRS. IASB has currently a development project for standards for Small and Medium sized Enterprises (SMEs). Pautsch explains that the development project in IASB for an SME standard would not imply a standard for small listed companies in Sweden as the definition of small is completely different. Of course the suitability of IAS/IFRS is different for these groups.

Olsson says that to use IAS/IFRS in smaller companies would not at all be in line with the work to simplify the Swedish accounting that BFN is currently working with. At the Confederation of Swedish Enterprise Burén explains that it is IASB’s opinion that their standards can be used by non listed companies as well. However, a non listed company is not the same as a small Swedish company. What IASB considers an SME is quite different to, and especially a lot larger than, what is a small company in Sweden, Pautsch says.

Burén does believe that IAS/IFRS might very well be the leading standard for non listed companies as well in the future, but not for the smallest ones. These companies do not have the resources that would be required to keep up a realistic use of net realizable values in the long run, Pautsch believes. To pay an accountant to audit the values would also be very expensive for them, Kyrö says. They do not have any stakeholders that are interested in these kinds of values either, Pautsch goes on, a bank wants real security to lend money and not a true and fair view from the financial markets point of view. Kyrö agrees with the argument that the small and medium sized companies do not have any external stakeholder that would be interested in this kind of information.

Many countries try to develop rules for small companies by reducing and removing parts from the rules for larger companies, instead of starting from scratch and review the needs of small companies and develop something suitable for them. This may often lead to gaps in standards as it can be hard to remove the right rules in the right way, Pautsch says, as oppose to the way the new rules are currently being developed in Sweden, from the start based on small companies’ needs.

The IAS-investigation (SOU 2003:71) was skeptical to the use of IAS/IFRS as a tax base, the opinions and arguments on this matter differ among our interviewees. Olsson does not consider IAS/IFRS as inappropriate as tax base for listed and other large companies, which are suitable for use of the standards. He believes that many of the points where the investigation was skeptical to a connection might very well work, for example gradual income recognition and leasing. The basic issue that has to be solved is to what extent you will want unrealized items to affect the basis for taxation, he says.

Melbi believes that somewhere in the basis for taxation the accounting has to be. She does not perceive creating new rules for such issues as allocating items to the right period in time for tax purposes a good solution when usable rules already exits in the accounting. Pautsch’s opinion is that it is not good at all to tax unrealized profits, as would be the case if IAS/IFRS was used as tax base. It is difficult to secure tax liabilities even if a fund for restricted equity is used.
To summarize we can say that the interviewees are generally negative to the use of different standards for consolidated and individual accounts, which speaks in favor of an introduction of IAS/IFRS in individual accounts of larger companies. However, for smaller companies they deem that IAS/IFRS is not usable at all. The interviewees do not agree at all on if IAS/IFRS can be used as tax base, however we put a lot of weight on Olsson’s opinion as he is most knowledgeable in tax issues and works at the Tax Agency.

6.5 Other Countries

The purpose of this problem area is to get an idea on how other countries have solved the issues related to the connection and if Sweden can follow any of these. The problem area contains one major question, which is intended to give information to fulfill the purpose.

- Do you know anything about how other countries has created their connection and solved problems related to it? (12)

6.5.1 Data Display

Question (12) - Do you know anything about how other countries has created their connection and solved problems related to it?

This question cannot be divided as it is just investigating the interviewees’ knowledge in how other countries has treated the connection. The responses were quite limited which makes it even more difficult to divide them.

<table>
<thead>
<tr>
<th>Interviewee</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Olsson</td>
<td>Has not followed up the RSV 1998:6. Does not really know anything.</td>
</tr>
<tr>
<td>Olsson</td>
<td>There are a number of specific tax rules in Denmark for the benefit of some businesses.</td>
</tr>
<tr>
<td>Burén</td>
<td>“Denmark lives in a world of size based company divisions.”</td>
</tr>
<tr>
<td>Burén</td>
<td>Denmark says that they have 100% disengagement, but some items are identical and some are recalculated.</td>
</tr>
<tr>
<td>Burén</td>
<td>There are laws in Denmark that has to be changed if it should be possible to fully apply IAS.</td>
</tr>
<tr>
<td>Burén</td>
<td>England has a complete disengagement. Unsure how the double taxation is solved.</td>
</tr>
<tr>
<td>Burén</td>
<td>The Netherlands - Don’t know that much.</td>
</tr>
<tr>
<td>Burén &amp; Melbi</td>
<td>Denmark? A country that it could be useful to take a look at.</td>
</tr>
<tr>
<td>Melbi</td>
<td>The Danish said that there were no difficulties at all with the double taxation in relation to the disengagement, and when you get to know about the restricted equity fund that they use you understand why.</td>
</tr>
<tr>
<td>Melbi</td>
<td>Norway probably uses restricted equity as well to secure the double taxation.</td>
</tr>
<tr>
<td>Melbi</td>
<td>Finland is doing some kind of reform and looks at the Swedish system.</td>
</tr>
<tr>
<td>Melbi</td>
<td>Will take a look at it in the investigation on the connection if possible.</td>
</tr>
<tr>
<td>Pautsch</td>
<td>Many European countries have a weak connection.</td>
</tr>
<tr>
<td>Pautsch</td>
<td>Taxation on a standardized basis is commonly used for smaller entities - more expensive tax administration.</td>
</tr>
<tr>
<td>Pautsch</td>
<td>Disengagement and specific tax annual account common for larger companies.</td>
</tr>
<tr>
<td>Kyrö</td>
<td>Nothing.</td>
</tr>
</tbody>
</table>

6.5.2 Analysis of Data Display

Olsson says that the information about other countries in the report from RSV from 1998, which he was involved in, has not been followed up. At least not that he is aware of and he could therefore not contribute with any further information on the issue. However, Olsson said that in Denmark there are a number of specific tax rules for the benefit of some
Analysis of Interview Data

businesses. To be able to fully apply IAS/IFRS some of the laws in Denmark have to be rewritten, Burén argues.

According to Burén, Denmark claims that they have 100 percent disengagement but he explains that some items are identical in the financial accounting and the tax return and some are recalculated. Burén’s statement is supported by what is mentioned in the report, RSV Rapport 1998:6 that Olsson refers to, which is that Denmark is using two separate systems built on the same principles and therefore similarities in the systems occur. It is a complete disengagement but naturally some of the figures will be the same in the financial accounting as in the tax return.

Pautsch says that many of the European countries have a weak connection between accounting and taxation. For smaller companies it is rather common to apply taxation on a standardized basis. Using this kind of taxation implies a more expensive tax administration than the Swedish one, Pautsch claims. She further explains that for larger companies in Europe disengagement between accounting and taxation are more common and consequently a specific fiscal annual account is then prepared.

It is the double taxation that means problem when introducing IAS/IFRS, Melbi explains. In relation to the disengagement the Danish expressed that they did not experience any difficulties related to the double taxation at all, which Melbi found very confusing. But, as she got aware of the use of restricted equity funds in Denmark she understood why the Danish meant that no problems occur. Melbi believes a restricted equity fund is present in Norway as well. Burén talks about England as another country that applies a complete disengagement, but he is not certain how they have solved the problem when it comes to the double taxation.

The interviewees all have limited information about the situation in other countries, but Melbi, who is a member of the ongoing investigation, declared that the investigation will take a look into other countries’ systems if possible. Burén consider Germany and the Netherlands as other countries interesting for Sweden to look at and examine.

Through the results of the analysis, together with the data of the frame of reference, we have drawn conclusions for a new connection which will be displayed in the next chapter.
7 Conclusions

In this chapter we will do the third and final step of our analysis, which implies drawing conclusions for our major problem areas and the purpose of the thesis as a whole based on our analysis of the interviews and the secondary data from the frame of reference.

The purpose of this thesis has been to investigate how the most practical connection between accounting and taxation in Sweden should be formulated in relation to the use of IAS/IFRS and the development of accounting harmonization within the EU.

Our overall conclusion is that the connection between accounting and taxation needs to be changed. The most likely and suitable solution in the near future would be to keep the material connection and remove the formal connection. We advocate a use of IAS/IFRS in individual accounts for larger companies and that potentially arising issues due to the material connection will be solved with specific tax rules. We do not deem complete disengagement with development of a new tax rule system to be a usable solution at the moment. Furthermore, we cannot see any signs of accounting harmonization among SME:s within the near future.

To find the overall answer for our thesis we have focused on five main problem areas. The conclusions from these will be presented below and forms a basis for the conclusion of the whole thesis, the above stated answer to our purpose.

The use of IAS/IFRS is the underlying reason for why the connection between accounting and taxation is questioned today. Based on the positive opinions of our interviewees and what they told us about company attitudes toward IAS/IFRS we believe that a change in the connection which will simplify the use of IAS/IFRS will be welcome. It is probably easier to accomplish a change in the connection when attitudes towards the underlying issue are positive. We can also conclude that the valuations that the use of IAS/IFRS implies and the use of net realizable values are what can be perceived as a problem for both users and authorities.

The current connection creates several disadvantages in relation to the use of IAS/IFRS. There is a lot which speaks in favor of a changed connection if it should be possible to use IAS/IFRS and what the standards imply in terms of valuation of assets. We can conclude that the advantages with the current connection are few in today’s environment; the introduction of IAS/IFRS advocates a total overview of the connection for all companies, even those who will not use the full standards. This confirms the conclusion by Halvarsson (2003), which says that the connection should be questioned due to the introduction of IAS/IFRS.

During our interviews a picture of how a new connection can be has materialized. As all interviewees agree that a change has to take place we deem it reasonable to come to the conclusion that something will happen. The most likely formulation of the connection, in the near future, is that it will follow the new guidelines developed by BFN, at least for small companies. These will imply that the smallest companies (K1) will have a strict material connection between accounting and taxation. The second smallest (K2) will have a strong connection with some tax exceptions, see figure 8. As these groups are not in question for the use of IAS/IFRS disengagement would not be useful. Not even the SME version of IAS/IFRS which IASB is currently developing can be useful for such small Swedish
companies as they are intended for larger unlisted companies, and are a reduction of the standards for listed companies.

### Financial accounting

<table>
<thead>
<tr>
<th>Generally accepted accounting principles</th>
<th>Appropriations creates untaxed reserves</th>
<th>Accounting methods applied in the companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>True and fair view</td>
<td></td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Material Connection</th>
<th>No Connection</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not regulated in the legislation</td>
<td>Tax rules requires adjustments in the financial accounting to be recognised</td>
</tr>
<tr>
<td></td>
<td>Specific tax rules that differs from the financial accounting</td>
</tr>
</tbody>
</table>

**Figure 8.** The future connection for small companies, K1 and K2. The dotted line implies that K2 will have a small amount of specific tax rules. (Model based on Artsberg, 2003, p. 310 and RSV Rapport 1998:6, p. 18.)

When it comes to larger unlisted companies (K3) and listed companies (K4) the opinions among our interviewees differ and it is therefore difficult to come to one clear conclusion. There has not been any clear direction presented from BFN of their intentions for these categories either which makes it difficult to appreciate the future of the development. The interviewees all agree that the connection should change, but since the opinions on the suitability of IAS/IFRS as a tax base differ it is not possible to conclude one best solution. We can however, based on the interviews, come up with some possible options for the future of the connection for these larger companies.

It is likely that some kind of disengagement will happen as net realizable values used with the current connection are not usable, and these will be further introduced in ÅRL in 2006, implying a need for a quick change even if IAS/IFRS is not used. It is possible that the future solution can be complete disengagement but at the moment a solution where IAS/IFRS is used as tax base and specific tax rules are introduced in problematic areas is most likely, see figure 9. Our conclusion for different connection depending on company size is in line with the suggestion by Karlsson and Svanberg (2004). We do not agree with them however, on the solution for larger companies where they suggest a complete disengagement, something we believe will not be possible in the near future.
Conclusions

<table>
<thead>
<tr>
<th>Financial accounting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Generally accepted principles</td>
</tr>
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<td>True and fair view</td>
</tr>
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<table>
<thead>
<tr>
<th>Material Connection</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Not regulated in the legislation</td>
<td>Tax rules requires adjustments in the financial accounting to be recognised</td>
</tr>
</tbody>
</table>

Figure 9. The most likely future connection for larger companies, K3 and K4. (Model based on Artsberg, 2003, p. 310 and RSV Rapport 1998:6, p. 18.)

To completely disengage the connection, which implies creating a separate tax accounting system, is not realistic as it would require too much resources and time. To have specific tax rules for problematic items is a lot easier both for authorities to create and companies to implement. The previous studies we have read all conclude that complete disengagement is the best solution. We do agree with this in theory, but at the moment we perceive the work needed for that kind of change is too extensive and not realistic in the current situation. Therefore we believe that a kept material connection with specific tax rules is more realistic to solve the issues that the connection creates in relation to IAS/IFRS, or the changed ÅRL. However, the kept material connection implies that companies will still be able to choose the accounting methods that create the lowest taxable result and it makes it completely necessary to solve the issue of the double taxation. Complete disengagement would be a lot better in theory but we do not deem it as possible to create and implement today.

We deem it to be the most likely future that IAS/IFRS will be used in the individual accounts of parent companies of listed groups as well, as they use the recommendations by RR today and these are based on IAS/IFRS. It is also according to our interviewees the most logical solution to have the same standards in a parent company as in the consolidated accounts. To continue to develop accounting exceptions from IAS/IFRS for legal entities is not a stable future. It would be a more sound solution to use IAS/IFRS as tax base for these companies and create specific tax rules for the items that are not suitable for a connection. This would imply a removal of the formal connection as appropriations could not be made in an accounting which is said to follow IAS/IFRS. This is not at all in line with the conclusion by Mello et al. (2005) as they believe that the formal connection should be kept as present, which we cannot understand how it would work since that would interfere with the use of IAS/IFRS.

It is urgent to come to a solution for how valuations to net realizable values should be accounted for, thus changing the connection and securing the double taxation. As the investigation on the connection cannot come up with a valid solution we cannot make any conclusion for how this will be done either but based on what Melbi and partly Pautsch says the general direction of using non-restricted equity for these values might have to be
Conclusions

changed. The use of a fund for restricted equity as in Denmark might be the only possible solution when disengaging. We can however not be sure about anything on this issue as the investigation cannot even come up with a solution.

All of the interviewees say that there are few disadvantages that could come up in case of a changed connection. It is mostly the issues that always occur in case of new laws and regulations, such as issues of interpretation and creation of the new rules. We can therefore conclude that a new system, however it will work will be an improvement with more advantages than disadvantages.

The main reason why the ministry of finance has become active in the issue of the connection now is probably that they realized, while being part of the IAS investigation that a lot of new ideas were not possible to carry through if the current connection was kept. Of course there has been a lack of resources as nothing has happened before, but a very strong argument, such as the introduction of IAS/IFRS, was needed to bring out the resources for a change. As introduction of net realizable values was quite late it has not been part of the earlier discussions on the connection and is a new and very persuasive argument for a change today.
8 Final Discussion

In this chapter we will review the choices made during the research process as well as the usefulness of our method. We will discuss the credibility of the research and give some criticism of our sources. We will also give some suggestions for further research within the area.

As we started on this research process we had the idea that IAS/IFRS could be used by all companies and that a connection suitable for that purpose should be formulated. As our work progressed we have realized that a more realistic approach is that IAS/IFRS is used by larger companies with external stakeholder, while smaller companies use simpler accounting standards. This has made it impossible to reach a conclusion with one best connection for all companies and as we wrote in the conclusion different connections will have to be used depending on company size. Our conclusion is quite similar to the suggestions that RSV made in their report in 1998 and we believe that this is due to the fact that this is most realistic solution to introduce in practice even though it might not be the theoretically optimal solution, as considerations still can be made to tax effects when choosing accounting method. It is not impossible that a complete disengagement takes place sometime in the future but for the nearest future we do not deem it as a usable solution.

The fact that the government would not exactly like that the tax base is decided by foreign private organization might reduce the chance of our solution being implemented in reality. However, if the ongoing investigation can come up with a good and convincing argumentation for a use of IAS/IFRS in that way it is not impossible that the government changes direction. Many of the IAS/IFRS is implemented anyway through the introduction in ÅRL, and the change would therefore not be major. It is also important to remember that governments can change and argumentation cannot be built solely on the opinions of the current one.

As our interviewees gave very limited information on how other countries have treated the connection our possibilities to draw conclusions relevant for the Swedish situation is limited. The only thing that can be used which we are aware of is the Danish system with a restricted equity fund for valuations at net realizable values. This is not an option in Sweden today as it has been decided that non-restricted equity should be used and as long as that is not changed restricted equity is out of the question. We do believe however that the Danish system could be used in Sweden as well as the options seem to be limited if the double taxation should be secured. We look forward to see what the ongoing investigation will find out about other countries solutions.

8.1 Criticism of Method

Since there is limited research and theories on this subject we believe that the use of an inductive approach has been suitable for the purpose of the thesis. We also think that the qualitative approach gave us more usable data than a quantitative would have done. Since the interviews included a lot of follow up questions and discussions we retrieved more information than would have been possible with strict numerical answers.

The selection of interviewees has been rather good and they provided a lot of useful data. Kyrö could not contribute with as much relevant data as we had expected due to the fact that he was not that aware of the current investigations and processes going on. The other
Final Discussion

four interviewees were on the other hand very knowledgeable and actually knew more than we expected on varying issues. Even though Burén was not a part of our initial selection his contribution has been useful to provide information on accounting issues from a business perspective. We based our selection on the division between accounting and taxation to get the opinions of both sides. In retrospect we cannot really see that the opinions differ between the accounting and the taxations side, which is good and promising for the future cooperation needed to develop a sustainable connection. We still believe that the selection was useful as we would not have been able to come to this conclusion based on another one. A selection for a study with this purpose could probably be based on other criteria and still yield a useful result.

Our selected method for analysis has been suitable and the three steps of it have helped us to come to conclusions. Our formulation of some of the questions in the interview guide could however have been better as they created some difficulties when we were creating the matrixes as they could not be divided into contradicting views. This made some of the data displays more complicated to analyze and draw conclusions from.

8.1.1 Credibility of Research

It is important to evaluate the different aspects of the research which can affect the credibility of it. In the following we will discuss the aspects of objectivity and subjectivity, and validity and reliability to increase the credibility of our research.

Objectivity and Subjectivity

When it comes to being objective in research Eriksson and Wiedersheim-Paul (1999) deem it to be impossible to have complete objectiveness. However, one can always strive for some kind of limited objectivity (Eriksson & Wiedersheim-Paul, 1999). This is what we have tried to do by using logic and paying as little attention as possible to our own values. As we discussed the objectivity of our research in chapter two we will refer to that instead of repeating the discussion again.

Validity and Reliability

According to Saunders et al. (2003) it is impossible to know if the data gathered through research is completely accurate. The risk of getting incorrect data can be reduced by paying attention to what the chosen method implies in terms of validity and reliability.

The concept validity is defined as the ability of the measuring instruments to measure what it is supposed to (Eriksson & Wiedersheim-Paul, 1999). There are two aspects of validity that has to be considered during the research, internal and external validity. Internal validity implies that the measurement instrument has to be developed in accordance with the definition of the variables which is the base for the research. Imperfections in the internal validity can occur in three situations. Firstly, the measurement instrument, in our study the interview guide, could be covering less than it is supposed to do. Secondly, more than what is supposed to be covered in the research is measured and finally the accurate issues are only measured partly and data that are irrelevant for the purpose of the study might be included unintentionally (Winter, 1982).

We are aware of the fact that the questions we asked and the formulation of them were of major importance in order to get the appropriate data, to be able to reach relevant conclusions in relation to the purpose of the thesis. To formulate relevant questions, and thereby increase the validity of the study, we designed the interview guide based on the
problem areas identified through the frame of reference. Furthermore, to ensure a high level of internal validity in our study we chose to interview people that we, after some research, knew had a lot of knowledge within the area we are studying and therefore could contribute with relevant information for our study. The topics supposed to be covered during the interview were e-mailed to the interviewees one week before the interview. The interviewees then got the opportunity to prepare. They also got the opportunity to read the interview afterwards and give us feedback. We believe that these actions also increased the validity to some extent.

The external validity means that the result from using one measurement instrument should be the same as the result when using another instrument intended to measure the same thing (Winter, 1982). If our conclusions are in line with previous research that has measured a similar issue that increases our external validity. We agree with the previous studies that disengagement probably will be needed in the future, but it is not the most practical solution today. As the interest of the previous studies mainly is to investigate what will happen in the future, while we want to know how the current situation can be solved the conclusions of our study is not exactly the same as the others. However, we do not deem that it decreases the validity, as we do agree with their conclusions.

Creswell (1994) mentions the limitations of generalizing the findings in a qualitative research when discussing the external validity. Through the thorough description of our method and what conditions we have set up and delimitations we have made, our conclusions can be generalized to some extent. There can be no statistical certainty that our ideas for a new connection is relevant, but by bringing up weak points of the conclusions, as we have done in the beginning of this chapter, and comparing to previous studies the external validity can be increased.

The definition of reliability is the ability to replicate the study and end up with the same result. A high level of reliability implies that the result should be the same if another researcher uses an identical approach but in another time and with a different selection. When doing research which implies interpretations done by the researcher it causes difficulties for the reliability (Eriksson & Wiedersheim-Paul, 1999). The results are then based on the researcher's interpretations and the probability to come up with the same conclusion might be small. According to Creswell (1994) a few things can be considered to increase the chance for the study to be replicated. These are the central assumptions, the selection of informants and the biases and values of the researcher. The researcher's biases should be clearly stated, a thorough description of the informants should be made, and also an explanation of how the collection of the data was carried out should be made to make it easier to replicate the study (Creswell, 1994).

To ensure a high level of reliability in the study we have in chapter three described the process of formulating the interview guide and the selection of interviewees in detail. How and where the interviews were conducted and how we carried out our analysis is described in detail as well. These actions are described to make it possible for someone else to replicate the study. However, our pre-understanding, knowledge and biases might be described but it would still be difficult for another researcher to create the same conditions.

There is a possibility that we have been affected by the respondents' image and feelings as the interviews were conducted, which could have lead to misinterpretations of the data. Since we made a lot of preparations before the interviews we might have been affected by aspects in literature and other sources in one way or another and unconsciously formulated and asked questions in a way that did not give us the most adequate data. We are aware that
the persons we have interviewed do have a lot more knowledge within the subject than we do, which could have had both positive and negative effects. A positive effect is that we have been able to take advantage of the situation and gain extra information through asking additional questions during the interviews. It could also have had a negative effect in that we might not have been able to understand and interpret the data in a correct way.

8.2 Criticism of Sources

The purpose of sources criticism is to decide if the sources are valid, reliable and relevant (Eriksson & Wiedersheim-Paul, 1999). The selection of sources has to be made with consideration to such things as age of the material, author, distributor, and dependence between sources. The main written sources that we have used are the government investigations and the report from RSV. We deem these sources to be both reliable and relevant as they come from what we deem to be trustworthy organizations; however they are in no way objective. The older material used has of course been given less attention. For example are pros and cons of the connection displayed in the investigation from 2003 given more relevance than those in the investigation from 1995, as a lot of new aspects have arose. When describing the harmonization of accounting within the EU in 4.1 we have only used one source, van Hulle, 2004. He can be perceived as subjective as he has worked with the harmonization and is in favor of it. However, the text only consist a historical description of what has happened and none of his' own opinions.

As for sources for scientific approach and method we have used well known books and authors that we deem trustworthy. When it comes to the articles we have used all of them are written by authors well known within their area of research. Of course they write some of their own opinions but this is something that we are aware of and have taken into consideration.

8.3 Suggestions for Further Research

We will finish off by giving some suggestions for further research that we find interesting after completing this thesis.

- The use of net realizable values will be further introduced in ÅRL on January 1st 2006. It would be interesting to study how the issues of the double taxation will be solved and its affect on companies.

- A study of what a practical implementation of BFN’s new rules for small companies (K1 and K2) would imply for both companies and Tax Agency.


- A study on if the Tax Agency is prepared and has the knowledge for a use of IAS/IFRS as tax base.

- Valuation to net realizable values, a study on the models for valuation and an evaluation of how these actually work and if the values that come from them can be trusted.
References


IL, Inkomstskattelag (1999:1229).


References


### Appendix 1 - Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>BFN</td>
<td>Swedish Accounting Standards Board, Bokföringsnämnden</td>
</tr>
<tr>
<td>GAAP</td>
<td>Generally Accepted Accounting Principles</td>
</tr>
<tr>
<td>IAS</td>
<td>International Accounting Standards</td>
</tr>
<tr>
<td>IASB</td>
<td>International Accounting Standard Board</td>
</tr>
<tr>
<td>IASC</td>
<td>International Accounting Standard Committee</td>
</tr>
<tr>
<td>IFRIC</td>
<td>International Financial Reporting Interpretation Committee</td>
</tr>
<tr>
<td>IFRS</td>
<td>International Financial Reporting Standards</td>
</tr>
<tr>
<td>IL</td>
<td>The Swedish law on income taxes, Inkomstskattelagen</td>
</tr>
<tr>
<td>OECD</td>
<td>Organization for Economic Co-operation and Development</td>
</tr>
<tr>
<td>RR</td>
<td>Swedish Financial Accounting Standards Council, Redovisningsräet</td>
</tr>
<tr>
<td>SIC</td>
<td>Standard Interpretation Committee</td>
</tr>
<tr>
<td>SME</td>
<td>Small and Medium sized Enterprises</td>
</tr>
<tr>
<td>SOU</td>
<td>Government Investigations, Statens Offentliga Utredning</td>
</tr>
<tr>
<td>US GAAP</td>
<td>United States Generally Accepted Accounting Principles</td>
</tr>
<tr>
<td>ÅRL</td>
<td>The Swedish Annual Accounts Act, Årsredovisningslagen</td>
</tr>
</tbody>
</table>
# Appendix 2 - Dictionary

<table>
<thead>
<tr>
<th>English</th>
<th>Swedish</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts</td>
<td>Räkenskaper</td>
</tr>
<tr>
<td>Accruals concept</td>
<td>Bokföringsmässiga grunder</td>
</tr>
<tr>
<td>Allocation</td>
<td>Avsättning</td>
</tr>
<tr>
<td>Annual accounts</td>
<td>Årsredovisning/årsbokslut</td>
</tr>
<tr>
<td>Appropriations</td>
<td>Bokslutsdispositioner</td>
</tr>
<tr>
<td>Balance sheet</td>
<td>Balansräkning</td>
</tr>
<tr>
<td>Complementary disclosure</td>
<td>Tilläggsupplysningar</td>
</tr>
<tr>
<td>Confederation of Swedish Enterprises</td>
<td>Svenskt Näringsliv</td>
</tr>
<tr>
<td>Consolidated accounts</td>
<td>Koncernredovisning</td>
</tr>
<tr>
<td>Deferred tax liability</td>
<td>Latent skatteskuld</td>
</tr>
<tr>
<td>Depreciation</td>
<td>Avskrivning</td>
</tr>
<tr>
<td>Depreciation as recorded in the books</td>
<td>Räkenskapsenlig avskrivning</td>
</tr>
<tr>
<td>Distribution over time</td>
<td>Periodisering</td>
</tr>
<tr>
<td>Equity</td>
<td>Eget kapital</td>
</tr>
<tr>
<td>Generally accepted accounting principles</td>
<td>God redovisningssed</td>
</tr>
<tr>
<td>Gradual income recognition</td>
<td>Successiv vinstavräkning</td>
</tr>
<tr>
<td>Historical cost</td>
<td>Anskaffningsvärde</td>
</tr>
<tr>
<td>Income statement</td>
<td>Resultaträkning</td>
</tr>
<tr>
<td>Item</td>
<td>Post</td>
</tr>
<tr>
<td>Legal entity</td>
<td>Juridisk person</td>
</tr>
<tr>
<td>Limited liability companies</td>
<td>Aktiebolag</td>
</tr>
<tr>
<td>Listed</td>
<td>Börsnoterad</td>
</tr>
<tr>
<td>Lower of cost and net realizable value</td>
<td>Lägsta värdes-principen</td>
</tr>
<tr>
<td>Net realizable value</td>
<td>Verkligt värde</td>
</tr>
<tr>
<td>Non-restricted equity</td>
<td>Fritt eget kapital</td>
</tr>
<tr>
<td>Partnership</td>
<td>Handelsbolag</td>
</tr>
<tr>
<td>Prudence concept of conservatism</td>
<td>Försiktighetsprincipen</td>
</tr>
<tr>
<td>Restricted equity</td>
<td>Bundet eget kapital</td>
</tr>
<tr>
<td>Revenue recognition</td>
<td>Intäktsredovisning</td>
</tr>
<tr>
<td>Swedish Accounting Standards Board</td>
<td>Bokföringsnämnden (BFN)</td>
</tr>
<tr>
<td>Swedish Financial Accounting Standards Council</td>
<td>Redovisningsrådet (RR)</td>
</tr>
<tr>
<td>Tax Agency</td>
<td>Skatteverket</td>
</tr>
<tr>
<td>Tax allocation reserve</td>
<td>Periodiseringsfond</td>
</tr>
<tr>
<td>Tax on a standardizes basis</td>
<td>Schablonbeskatta</td>
</tr>
<tr>
<td>Tax return</td>
<td>Deklaration</td>
</tr>
<tr>
<td>True and fair view</td>
<td>Rättvisande bild</td>
</tr>
<tr>
<td>Untaxed reserves</td>
<td>Obeskattade reserver</td>
</tr>
</tbody>
</table>
Appendix 3 - Interview Guide

The purpose of this interview guide is to give a similar basis for all our interviews and to make sure that relevant areas are covered. The major questions for each problem area has been asked to most to the interviewees while other relevant follow up questions has been adapted to the interviewee to retrieve the requested data for the problem area.

**IAS/ IFRS**

The purpose of this problem area is to gain an idea of the general opinions on IAS/ IFRS, what problems and possibilities the interviewees see with the new standards, and for whom.

The problem area contains two major questions:

- What is your general view on IAS/ IFRS? (1)
- What problems and possibilities do you think that the introduction of a new accounting standard (IAS/ IFRS) creates? (2)

**The Current Connection between Accounting and Taxation**

As we already know how the current connection works the purpose of this problem area is only to gain information on the advantages and disadvantages of the current connection and how these can create a need for change.

The problem area contains one major question:

- What are the main pros and cons of the current connection between accounting and taxation? (3)

**A Changed Connection**

The purpose of this problem area is to gain information on how and why the connection should be changed. What effects a change might have and how it can affect different parties. This is the most important problem area as the purpose of the whole thesis is to understand how the connection can or should change.

The problem area contains five major questions:

- Do you believe that the connection should change? How? (4)
- What difficulties do you think a changed connection might cause? (5)
- A changed connection has been debated for a long time. Why do you think nothing has happened until now? (6)
- Do you consider other issues, except the harmonization of accounting through IAS/ IFRS, to increase the need for a changed connection? (7)
- Different connections for companies of different sizes have been considered by other authors, what is your opinion on that? (8)
Use of IAS/IFRS

The purpose of this problem area is to gain data on how IAS/IFRS is or can be used. How the interviewees feel about the use of different rules for groups and legal entities and the suitability of IAS/IFRS for smaller companies. The use of IAS/IFRS as potential tax base is also a part of this problem area.

The problem area contains three major questions:

- What is your opinion on the use of different standards in the consolidated accounts and the individual annual accounts in a group? (9)
- How suitable would IAS/IFRS be for smaller companies? (10)
- It is probably not likely that IAS/IFRS will be used as tax base. What are according to you the major reasons why it is not suitable, if you agree, otherwise, why is it suitable? (11)

Other Countries Approach to the Connection

The purpose of this problem area is to get an idea on how other countries have solved the issues related to the connection and if Sweden can follow any of these.

The problem area contains one major question:

- Do you know anything about how other countries has created their connection and solved problems related to it? (12)

To the interviewees that work in the ongoing investigation: What do you do? What is the direction of the investigation? Etc.
## Appendix 4 - Initial Data Display of Responses

### IAS/IFRS

#### Responses relevant to question (1) - What is your general view on IAS/IFRS?

<table>
<thead>
<tr>
<th>Name</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Olsson</td>
<td>Positive to the use of IAS from the start. Ever since it was introduced in Sweden though RR in the early 90s.</td>
</tr>
<tr>
<td>Olsson</td>
<td>To get a true and fair view net realizable values are unavoidable, mostly for financial instruments etc.</td>
</tr>
<tr>
<td>Burén</td>
<td>IAS is based on principles, as oppose to US GAAP which is based on rules, and that’s a reasonable starting point so in that way IAS is good.</td>
</tr>
<tr>
<td>Burén</td>
<td>Since they have become a reality through the EC regulation, you just have to like them.</td>
</tr>
<tr>
<td>Burén</td>
<td>The use of IAS is generally good, you can’t lose sight of the international accounting harmonization.</td>
</tr>
<tr>
<td>Melbi</td>
<td>It’s complicated that you have to search for rules in so many places; at least you know where to find the tax rules.</td>
</tr>
<tr>
<td>Burén</td>
<td>(replying to Melbi’s statement) - You can start in ÅRL which in turn refers to the EC regulation and so on.... But there are not many persons who have the whole picture clear.</td>
</tr>
<tr>
<td>Pautsch</td>
<td>Necessary for the group that will use them since they are used in the rest of the western world more or less.</td>
</tr>
<tr>
<td>Pautsch</td>
<td>Same set of rules for listed companies no matter where they are listed, is good.</td>
</tr>
<tr>
<td>Pautsch</td>
<td>Same information from companies no matter where they are listed, creates a neutral market.</td>
</tr>
<tr>
<td>Pautsch</td>
<td>Criteria of justice for investors, same information for all.</td>
</tr>
<tr>
<td>Pautsch</td>
<td>The use of IAS implies that analysis is made already in the accounting.</td>
</tr>
<tr>
<td>Kyro</td>
<td>The basic thought of IFRS, to have a common standard which creates comparability between companies in the EU, is very good.</td>
</tr>
<tr>
<td>Kyro</td>
<td>It simplifies for analysts and creates a better capital market.</td>
</tr>
</tbody>
</table>

#### Responses relevant to question (2) - What problems and possibilities do you think that the introduction of a new accounting standard (IAS/IFRS) creates?

<table>
<thead>
<tr>
<th>Name</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Olsson</td>
<td>The use of net realizable value divides people of different opinions and creates problems.</td>
</tr>
<tr>
<td>Burén</td>
<td>The development over such a long time has created some contradictions among the standards, which is a problem.</td>
</tr>
<tr>
<td>Burén</td>
<td>So far there are a lot of gaps in the standards.</td>
</tr>
<tr>
<td>Burén</td>
<td>The use of net realizable values is good if you can do it in a proper way.</td>
</tr>
<tr>
<td>Pautsch</td>
<td>Net realizable value is an Anglo-Saxon tradition, used to give investors relevant information.</td>
</tr>
<tr>
<td>Pautsch</td>
<td>Using net realizable value is possible if you know why and how it is made, and then you can deal with it.</td>
</tr>
<tr>
<td>Pautsch</td>
<td>The issue of net realizable values is that it is a problem if you need security to borrow money. The accounting can however be cleared from unrealized items.</td>
</tr>
<tr>
<td>Pautsch</td>
<td>Difficult to appreciate net realizable value when there is no market for an asset.</td>
</tr>
<tr>
<td>Pautsch</td>
<td>Hard to valuate intangible assets at net realizable value, there are models but they are difficult, hard to appreciate the future usefulness.</td>
</tr>
</tbody>
</table>
**Bilagor**

**Pautsch** - There is a risk of including untaxed capital in dividends when net realizable value is used. Potential fiscal limit for dividend allowed (utdelningsspärr)?

**Kyrö** - It simplifies for analysts and creates a better capital market.

**Kyrö** - The standards are a framework, which implies difficulties of interpretation. They are more detailed than we are used to, but not as detailed as the US GAAP.

**Kyrö** - IFRS is something completely new, something else than the traditional prudent accounting that has been used in Sweden and most of Europe.

**Kyrö** - A lot of interpretation and valuation issues.

**Kyrö** - Judgments are the main problem of IFRS, especially in valuation.

**Kyrö** - The administration in the companies, cost, time, resources, and competence required for the transition.

**Kyrö** - Most questions have concerned the rules in IFRS 1 concerning first time adopters.

**Kyrö** - The standards are not pedagogical, formulated as law text.

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**Other responses relevant to the problem area**

**Olsson** - Most of IAS is already implemented through the recommendations of RR. They have been strictly implemented since about 1998 except for some issues in legal entities which were not allowed according to ÅRL.

**Olsson** - The SME project by IASB is very close to the regular IAS, there are just some rules removed, but there is not much difference.

**Burén** - The options to using IAS would be that each country continued on its own or that a new standard was developed by the EU and none of these options are realistic today.

**Melbi** - It is not enough to secure the tax amount by putting it in restricted equity, it should be paid.

---

**The Current Connection**

**Responses relevant to question (3) - What are the main pros and cons of the current connection between accounting and taxation?**

**Olsson** - The Tax authority was critical to the proposals for a changed connection made by the accounting committee in -95, which made the department of finance skeptical to any changes.

**Olsson** - In RSV 1998:6 new tax rules were suggested on some areas and removal of tax rules in others areas. However, what was relevant in -98 might not be today.

**Burén** - Swede on visit in the states asking a business man there: “If you have a profit of one million dollar, and you want to show only 100 000 dollar, what do you do?” – The presence of appropriations in Swedish accounting has shaped the way of thinking in terms of taxable result instead of financial results.

**Melbi** - It simplifies not to have to do one financial annual account and one tax annual account.

**Melbi** - The taxation affects the accounting since generally accepted accounting principles is not specific rules, it can be interpreted in the way most suitable from a tax point of view.

**Pautsch** - The current connection is not very good since it has started from a very close connection and disengagement has been made continuously as new issues have occurred.

**Pautsch** - Since there are more and more specific tax rules and adjustments the connection no longer simplifies.

**Kyrö** - Doesn’t affect the work since only concerned with group account.

**Kyrö** - Display and valuation of deferred tax liability in the consolidated accounts can be an issue.
Other responses relevant to the problem area

Olsson - The connection is manifested in the taxation law (14:2) and therefore the taxation should be adapted to the accounting and not the other way around.

Burén - Using IAS you will want to avoid both over- and under valuation and a net realizable value is then usable. The margins will be smaller compared to the old Swedish system. The purpose is to create a better functioning capital market. (Made a figure on the whiteboard to explain)

Burén - Taking the tax situation into consideration when choosing accounting method is probably not as common as previously in listed companies, but probably in small ones without external stakeholders.

Melbi - When using net realizable value the connection gives an immediate tax effect which implies that you have to find a new way to ensure double taxation. It should never be possible to pay dividend that has not been subject to corporate taxation.

Melbi - The accounting sets a roof for valuations, through the use of generally accepted accounting principles and the prudence concept of conservatism, while the tax regulation sets a floor.

Melbi - The tension between tax rules and accounting rules increase and further tax rules are needed to ensure state income, and prevent companies from being taxed for unrealized profits.

A Changed Connection

Responses relevant to question (4) - Do you believe that the connection should change? How?

Olsson - Tax rules can always be changed so it is better to formulate good accounting rules and then adjust tax rules to them.

Olsson - There is no general best solution between no connection and a complete connection; it has to be considered on a case by case basis.

Olsson - Keep the connection where you consider it to work for taxation as well and create new tax rules where it becomes to complex.

Burén - Appropriations could be recorded directly in the tax return.

Pautsch - K1 - unregistered firms and partnerships between natural persons (enskilda firmor och HB med fysiska personer) – strict connection, the annual account = the tax return.

Pautsch - K2 - Limited liability companies under 50-25-50 (Employees-turnover-assets), simplified rules with a strong connection.

Pautsch - K3 - Limited liability companies over 50-25-50 but not listed, disengagement, not clear yet (Potential connection to IASB’s SME project.)

Pautsch - K4 - IAS/IFRS - disengagement.

Kyrö - The dream would be if IFRS could just be used as generally accepted accounting principles and thereby the basis for taxation.

Kyrö - Don’t really know anything about how a disengaged world would work.

Responses relevant to question (5) - What difficulties to you think a changed connection might cause?

Olsson - It should solve problems, not create.

Olsson - A risk of problems of interpretation as always when new laws are introduced.
Responses relevant to question (6) - A changed connection has been debated for a long time. Why do you think nothing has happened until now?

Olsson - Even though many of the bodies who commented on the report by RSV agreed nothing forced the department of finance to do anything, and since there is always a lack of resources nothing happened.

Olsson - The investigation on the connection could have been appointed a lot earlier if it had been understood that it was needed.

Burén - It has been considered that the taxation should not have an affect on the accounting, i.e. appropriation, but no real suggestions have been made, just directions of principle.

Burén - The use of net realizable values has come up quite late in IAS as well and was not relevant in connection to the investigation in -95 about the connection.

Melbi - The accounting has started to “move” lately.

Melbi - The possibility to use net realizable values implied that something had to be done.

Pautsch - According to the ministry of finance there has not been a good reason so far, even though the Tax Agency wanted to.

Pautsch - After being a part of the IAS investigation the need was recognized by the ministry of finance and the investigation on the connection was appointed. They realized that several things couldn’t be suggested due to tax rules.

Responses relevant to question (7) - Do you consider other issues, except the harmonization of accounting through IAS/IFRS, to increase the need for a changed connection?

Olsson - In the work to simplify (BFN) it is considered the only way to go to have the same rules in all companies in a group. There can not be different rules for different sizes in the same group.

Pautsch - The tax rules are old-fashioned, ancient, i.e. there is no logic in depreciation as recorded in the books if you weren’t there in 1953. Even if there should be a connection the rules has to be overlooked and updated.

Pautsch - It is not easy to create system with a connection when using net realizable values.

Responses relevant to question (8) - Different connections for companies of different sizes have been considered by other authors, what is your opinion on that?

Olsson - Not likely with different connections for companies of different sizes, except in exceptional cases if it is thoroughly investigated.

Olsson - A way to solve the division into categories is that you have one connection and different accounting rules for different categories.

Olsson - As general tax rules for all categories as possible and just limited exceptions to
reduce the difficulties when changing category.

**Burén** - For the smallest companies the intention is to have an as close connection as possible, hopefully 100%.

**Burén** - The larger the company the more disengagement.

**Melbi** - If smaller companies have a close connection there can be difficulties when it grows if the differences are large.

**Pautsch** - Previously mentioned description of the categories by BFN.

---

### Other responses relevant to the problem area

**Olsson** - Common rules are introduced for accounting and taxation to simplify mostly for the companies but also for the Tax Agency.

**Olsson** - It is a problem that the definitions today are aimed at the capital market, and not for taxation.

**Olsson** - There are a few areas where a connection could be used instead of specific tax rules which are the case today.

**Olsson** - The previously used principle of lower of cost and net realizable value only considers unrealized losses and never unrealized profits, which creates a strange effect on the accounting as well as the tax base. This might not give a correct view as unrealized profits might be much larger than the losses.

**Olsson** - Proposition for changes in both IL and ÅRL in the suggestion from BFN.

**Burén & Melbi** - Difficult to use the same division of the tax rules as planed for the accounting rules.

**Melbi** - It has been decided that valuations to net realizable value should be put in non-restricted equity in Sweden.

**Melbi** - A potential fiscal limit for dividend allowed (utdelningsspärr) to secure the double taxation violates the parent and subsidiaries Directive according to an EC verdict from 2001.

**Melbi** - Might be simpler to put the net realizable value in restricted equity since it is almost impossible to create another system due to the EC verdict.

**Melbi** - Net realizable values will be allowed in more situations according to ÅRL from January 1st 2006 and then the issue of the double taxation has to be solved.

**Melbi** - Real estate businesses have said that they would like to use restricted equity since they would not get demands for dividends in that case but will be able to show a better balance sheet.

**Pautsch** - There has to be tax neutrality between K2 and K3.

**Pautsch** - Potentially special tax accounting for K3 and K4, not clear how yet.

**Kyrö** - But there will likely be a lot of exceptions if IFRS would be considered as Generally Accepted Accounting Principles.

**Kyrö** - Could use IFRS in legal entities if there was disengagement but we’re only talking groups now.

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### Use of IAS/IFRS

**Responses relevant to question (9) - What is your opinion on the use of different standards in the consolidated accounts and the individual annual accounts in a group?**

**Olsson** - If there are specific tax rules the use of IAS in legal entities will not imply any problems. In areas where there can be issues it is only a matter of introducing new tax rules to be able to use IAS.
Olsson - There are no good reasons for different rules except the fact that tax regulations could be more or less beneficial unless adjustments are made.

Olsson - The same rules should be used in the individual accounts as in the group accounts. (Others might feel differently).

Burén - For administrative reasons it would be easier to have the same rules in the individual accounts as in the group accounts.

Burén - Even if the parent company would use IAS it doesn’t imply that all subsidiaries have to do it.

Burén - All companies within a group do not have to have the same accounting rules. To prepare the group accounts an internal report system is used so that the parent company can get the correct information for the group account.

Burén - Listed companies presume that the same rules will be used in legal entities as in the group in the future, but there is probably no rush for it to happen.

Burén - Using different rules implies a lot of extra work in terms of keeping up with changes. Capacity, competence and systems can not be used in the best way.

Burén - The use of IAS in group accounts has never been an issue among companies, just parts of some standards.

Pautsch - It is not good that different rules are used.

Pautsch - Sweden has had that system before as the recommendations by RR have been used in listed companies.

Pautsch - Exceptions in the recommendations for legal entities, due to tax rules.

Kyrö - Sees no difficulties since a group account is a free-standing “story”.

Kyrö - One issue could be for the parent company to make sure to get the right information to prepare the consolidated accounts.

Kyrö - The accounting made by the subsidiaries is not relevant; analysts look at the consolidated accounts.

Kyrö - It would be nice with the same rules in the parent company as the consolidated accounts…, simplifies for financial administration.

Kyrö - The subsidiaries has sent adjusted figures to the parent company earlier as well as they used BFN and the group RR.

Responses relevant to question (10) - How suitable would IAS/IFRS be for smaller companies?

Olsson - To use IAS in “small” companies is not in line with the Swedish work to simplify the accounting made by BFN. It would complicate the situation for both companies and accountants to have multiple options.

Burén - It is IASB’s opinion that the standards can be used by non listed companies as well.

Burén - IAS might very well be the leading standard for non listed companies in the future. Currently it’s being controlled in Europe how usable IAS is.

Burén - Non listed companies have probably not seen that much of IAS and are probably happy that way. They have no real opinion.

Burén & Melbi - Depends on how small is defined.

Pautsch - The use of IAS for smaller companies in Sweden is no option, it is not considered at all.

Pautsch - There is a big difference between small and small. The SME project by IASB deals with companies larger than 50 employees etc.

Pautsch - The IASB definition of smaller would not work in Sweden.

Pautsch - A smaller company does not have the resources to keep up a valuation at net
realizable value in the long run.

Pautsch - A small company doesn’t have any stakeholders that are interested in net realizable values. Banks want security.

Pautsch - Many countries create their rules for smaller companies from the large ones instead of seeing the specific needs of the small companies and create rules from that. There is a risk of gaps in the rules if you cut down instead of start from scratch.

Kyrö - It is administratively impossible for small companies to use IFRS.

Kyrö - No interest from small companies to use IFRS, no external stakeholders.

Kyrö - No interest for middle sized companies either since their stakeholders are not interested in such information, banks etc.

Kyrö - Smaller companies can not pay the audit of net realizable values.

Responses relevant to question (11) - It is probably not likely that IAS/IFRS will be used as tax base. What are according to you the major reasons why it is not suitable, if you agree, otherwise, why is it suitable?

Olsson - Does not consider IAS to be inappropriate as a tax base, except under certain circumstances.

Olsson - The investigation on IAS was skeptical to a connection on several points which Göran opposes, for example gradual income recognition (successiv vinstavräkning) and leasing.

Olsson - The basic issue is to what extent you will want unrealized items to affect the basis for taxation. (The double taxation!)

Olsson - IAS as a tax base is only appropriate for listed or other large companies (i.e. K3), not for small ones.

Melbi - The basis for the taxation has to be the accounting in some way. To create new rules for how to allocate items to the right period in time for tax purposes does not seem realistic.

Pautsch - It is not sane to tax unrealized profits.

Pautsch - It is difficult to secure tax dept even if a restricted fund is used. From a perspective of priority rights for tax dept there has to be an ability to pay them.

Pautsch - As certain revaluations only go to the balance sheet, How do you get the net realizable values that go to non-restricted equity to be included in the tax base?

Pautsch - If you get a full use of net realizable value it is a completely different principle compared to the continental use of historical cost.

Pautsch - This will lead to a completely new way of thinking and a completely different income statement and to use that as a tax base would be pretty weird. Can’t see that it would be possible.

Kyrö - Tax income for the state might have to be secured if IFRS should be tax base.

Kyrö - How would unrealized profits be brought up and unrealized losses deducted? If you would be taxed for unrealized profits the companies would want to lower the valuations.

Other responses relevant to the problem area

Olsson - Tax rules can always be changed so it is better to formulate good accounting rules and then adjust tax rules to them.

Burén - Listed companies are used to the use of the recommendations by RR so a transition to IAS will probably not imply that much problems.

Kyrö - Swedish companies are used to apply standards due to the use of the recommendations from RR.
**Kyrö** - The changes in ARL makes it possible for the parent company to have an accounting as close to IFRS as possible.

### Other Countries

<table>
<thead>
<tr>
<th>Responses relevant to question (12) - Do you know anything about how other countries has created their connection and solved problems related to it?</th>
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<tbody>
<tr>
<td><strong>Olsson</strong> - There are a number of specific tax rules in Denmark for the benefit of some businesses.</td>
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<tr>
<td><strong>Burén</strong> - “Denmark lives in a world of size based company divisions.”</td>
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<td><strong>Burén</strong> - Denmark says that they have 100 % disengagement, but some items are identical and some are recalculated.</td>
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<td><strong>Burén</strong> - There are laws in Denmark that has to be changed if it should be possible to fully apply IAS.</td>
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<td><strong>Burén</strong> - England has a complete disengagement. Unsure how the double taxation is solved.</td>
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<tr>
<td><strong>Burén</strong> - The Netherlands - Don’t know that much</td>
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<td><strong>Burén &amp; Melbi</strong> - Germany? A country that it could be useful to take a look at.</td>
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<tr>
<td><strong>Melbi</strong> - The Danish said that there were no difficulties at all with the double taxation in relation to the disengagement, and when you get to know about the restricted equity fund that they use you understand why.</td>
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<td><strong>Melbi</strong> - Norway probably uses restricted equity as well to secure the double taxation.</td>
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<td><strong>Melbi</strong> - Finland is doing some kind of reform and looks at the Swedish system.</td>
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<td><strong>Melbi</strong> - Will take a look at it in the investigation on the connection if possible.</td>
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<td><strong>Pautsch</strong> - Many European countries have a weak connection.</td>
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<td><strong>Pautsch</strong> - Taxation on a standardized basis is commonly used for smaller entities – more expensive tax administration.</td>
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<tr>
<td><strong>Pautsch</strong> - Disengagement and specific tax annual account common for large companies.</td>
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<td><strong>Kyrö</strong> - Nothing</td>
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