ABSTRACT

Our study explores what potential benefit arises from conforming book income to taxable income. We expect that increased book-tax conformity can lead to lower audit fees because it simplifies the dual reporting system and consequently reduces the complexity in auditing this system. By conducting a cross-country analysis, we find that required book-tax conformity is negatively associated with audit fees. We also find that firm-level book-tax differences are positively associated with audit fees, and this positive relation is attenuated with higher level of required book-tax conformity. Our findings are robust to including country-level legal investor protection or other extra-legal institutions. Our study contributes to the literature by showing that one potential benefit of increasing book-tax conformity is the reduction in audit fees.