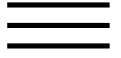


Can book-tax differences capture earnings management and tax management? Empirical evidence from China.

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### Can book-tax differences capture earnings management and tax Management? Empirical evidence from China

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#### Abstract

This study investigates the relationship between book-tax differences (BTDs) and earnings management, tax management, and their interactions in Chinese-listed companies. Using unique tax-effect BTDs obtained from Chinese B-share-listed firms, we find that firms with strong incentives for earnings and tax management exhibit high levels of abnormal BTDs. This suggests that BTDs can be used to capture both accounting and tax manipulations induced by managerial motivations. Our results indicate that earnings management explains 7.4% of abnormal BTDs, tax management accounts for 27.8% of abnormal BTDs, and their interaction explains 3.2% of abnormal BTDs. Tax-effect BTDs are more powerful than income-effect BTDs in capturing opportunistic reporting at both conceptual and empirical levels.



## JEL classification

M4; H2

## Keywords

Bookâ€“tax differences; Earnings management; Tax management; China

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