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-RESEARCH ARTICLE-

THE ROLE OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) IN NARROWING THE DIGITAL GAP BETWEEN FINANCIAL STATEMENTS AND TAX RETURNS

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—Abstract—

The increasing adoption of continuous transaction controls and algorithm-driven audit selection by revenue authorities has transformed discrepancies between financial income reported under International Financial Reporting Standards (IFRS) and taxable income determined by statutory provisions from a conventional reconciliation concern into a significant operational challenge. Legitimate temporary differences arising under IAS 12, IFRS 9, IFRS 15 and IFRS 16 may consequently trigger automated anomaly alerts when digital tax systems lack the parameters required to distinguish these differences from genuine irregularities. Against this background, the study examines whether greater IFRS compliance depth contributes to reducing the digital tax gap and assesses the mediating role of enterprise-level accounting integration. Survey responses from 240 financial controllers, tax directors and chief accountants were evaluated using partial least squares structural equation modelling (PLS-SEM). The measurement model fulfilled the prescribed reliability and validity criteria. Structural estimates revealed that IFRS compliance depth positively influenced digital tax gap reduction (β = .324) and exerted a substantial effect on digital accounting integration (β = .618),

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which independently contributed to gap reduction (β = .514). The significant indirect relationship (β = .318) confirmed complementary partial mediation, with integration accounting for 49.53% of the total effect. Multi-group analysis further demonstrated that the influence of integration was more than twice as pronounced among enterprises operating unified accounting systems compared with those dependent on offline reconciliation. These findings indicate that deeper IFRS compliance cannot independently achieve effective digital tax gap reduction unless supported by an integrated data architecture capable of translating compliance practices into operational outcomes.

Keywords: International Financial Reporting Standards; Book-Tax Differences; Digital Tax Administration; IAS 12; Enterprise Resource Planning; Algorithmic Auditing; PLS-SEM.

INTRODUCTION

Background

Financial reporting and taxation operate within distinct institutional frameworks, each shaped by fundamentally different objectives. IFRS prioritises the faithful representation of an entity's economic position and performance for capital providers, thereby emphasising fair-value measurement, prospective estimates and revenue recognition based on the transfer of control. Conversely, statutory taxation frameworks seek to establish revenue bases that are administratively feasible, legally defensible and capable of verification, often favouring historical cost, realisation principles and objectively substantiated transactions. Consequently, differences between accounting profit and taxable income should not automatically be interpreted as reporting inaccuracies. Rather, they represent an inherent outcome of applying measurement frameworks designed to fulfil separate purposes (Wang et al., 2020). IAS 12 provides the accounting mechanism for addressing these differences through the balance sheet liability method, requiring deferred tax assets and liabilities to be recognised by reference to the tax bases of recognised assets and liabilities.

Although the underlying divergence between financial and taxable income remains, the administrative setting in which organisations must justify it has undergone substantial transformation. Revenue authorities increasingly rely on continuous transaction controls, electronic invoicing and automated risk-assessment mechanisms instead of traditional retrospective audit sampling. Tax returns are consequently processed as structured datasets that undergo systematic comparison with information obtained from other sources, rather than merely as documents examined by individual tax officers (OECD, 2023). Comparative evidence indicates that this transition is occurring across developed and emerging economies. Moreover, electronic filing has been associated with measurable reductions in compliance expenditure and discretionary interactions

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between taxpayers and administrators (Kochanova et al., 2020; Okunogbe & Pouliquen, 2022). Automated information cross-checking has also been shown to increase reported tax liabilities (Naritomi, 2019), while machine-learning-based audit selection demonstrates substantially greater precision than conventional rule-based screening approaches (Baghdasaryan et al., 2022; Murorunkwere et al., 2022; Savić et al., 2022).

The principal difficulty emerges where sophisticated financial reporting requirements intersect with automated tax verification. Systems configured around statutory classifications may encounter contract assets recognised under IFRS 15, right-of-use assets arising from IFRS 16 or expected credit loss provisions established under IFRS 9 without identifying equivalent categories within the applicable tax legislation. Without an appropriate interpretative mechanism, these differences may be classified as potential understatements rather than legitimate accounting adjustments. Such misclassification generates false-positive audit alerts against enterprises that have correctly complied with both financial reporting and taxation requirements. The resulting consequences extend beyond unnecessary assessment disputes and taxpayer compliance costs to include inefficient allocation of administrative enforcement resources, particularly in jurisdictions characterised by complicated tax provisions (Hoppe et al., 2023). Research concerning accountability in algorithmic public administration identifies a related institutional weakness: the authority attached to automated decisions may develop more rapidly than the mechanisms required to explain and justify them (Busuioc, 2021).

The measurement implications of the relevant standards are established in the accounting literature. Under IFRS 15, revenue recognition follows the satisfaction of performance obligations rather than the issuance of invoices, potentially creating temporary differences where taxation depends on delivery or cash receipts. Empirical research confirms that the standard has materially affected reported financial information (Napier & Stadler, 2020). Similarly, IFRS 16 replaces the previous operating lease treatment with the recognition of depreciation and interest expenses, thereby modifying the timing and classification of expenses relative to statutory deductions. Evidence concerning lease recognition demonstrates that these adjustments alter reported financial positions without necessarily changing the underlying economic transactions (Ma & Thomas, 2023). IFRS 9 introduces expected credit loss recognition in place of the incurred-loss approach, generating provisions that generally remain non-deductible under tax legislation until the relevant losses are realised (Gomaa et al., 2019). Although each treatment is consistent with the applicable accounting requirements, automated verification systems lacking suitable parameters may interpret the resulting differences as irregularities.

The expansion of automated transaction screening substantially increases the practical significance of these discrepancies. Under conventional retrospective audits, organisations exhibiting unusual but defensible accounting measurements faced

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periodic scrutiny and could provide supporting explanations directly to tax officials. Continuous transaction controls fundamentally alter this arrangement because recurring differences can trigger exceptions whenever relevant information is submitted. Consequently, the justification must be available in a format recognised by the automated system before human assessment becomes possible. Compliance therefore shifts from responding to occasional enquiries towards anticipating and preventing recurring automated exceptions. This burden may be particularly pronounced for enterprises applying more sophisticated IFRS treatments, as these frequently involve additional estimates, temporary differences and accounting classifications without direct statutory equivalents.

These developments also redefine the operational requirements of effective tax compliance. Previously, an accurate return supported by retained reconciliation schedules and working papers was generally sufficient, with supplementary documentation provided when requested. Automated verification instead requires reconciliation information to be accessible in machine-readable form at the point of submission, when cross-system matching takes place. Supporting records that remain confined to internal documents and cannot be transmitted electronically may therefore have little practical value within the automated assessment process. The transformation concerns the way compliance must be demonstrated rather than necessarily imposing more demanding substantive obligations. Enterprise accounting systems consequently become integral to the compliance mechanism itself, extending their importance beyond conventional improvements in administrative efficiency.

Statement of the Research Problem

The central research problem concerns disagreement over the mechanism through which enterprises can overcome discrepancies between IFRS-based reporting and automated tax assessment. One perspective attributes the solution primarily to accounting quality. Under this interpretation, comprehensive implementation of IFRS, including transaction-level identification of temporary differences and systematic maintenance of IAS 12 reconciliation schedules, establishes sufficiently detailed audit trails for automated verification. Greater compliance depth should therefore independently minimise the digital tax gap. An alternative perspective emphasises the operational accessibility of accounting information. Even where reconciliation procedures are technically rigorous, records maintained in disconnected spreadsheets may remain inaccessible to electronic tax platforms. Consequently, an enterprise possessing complete but electronically isolated documentation may encounter the same verification difficulties as one that has not undertaken the reconciliation.

These competing explanations imply substantially different organisational resource priorities. Emphasising compliance depth directs investment towards accounting policies, professional development and reporting practices, whereas prioritising

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information transmission requires expenditure on enterprise architecture, chart-of-accounts configuration and electronic interfaces with tax administration platforms. The relative importance of these mechanisms can be evaluated empirically by separating the direct influence of compliance depth from its indirect influence through accounting integration. A predominantly mediated relationship would support the importance of integrated information systems, while a stronger direct relationship would indicate that accounting compliance produces substantial benefits independently. Accordingly, the research problem requires quantitative assessment of these competing pathways rather than an assumption that either mechanism is inherently sufficient.

Existing scholarship provides limited guidance concerning their relative contributions. Studies investigating book-tax differences have predominantly interpreted them through the perspectives of tax avoidance and earnings management, treating observed discrepancies as potential indicators of managerial behaviour rather than failures of information alignment (Kovermann & Velte, 2019). Research examining IFRS compliance has largely concentrated on the completeness of required disclosures, without systematically addressing the technological infrastructure through which the underlying information is communicated (Tsalavoutas, 2020). Meanwhile, investigations of tax administration digitalisation generally assess administrative performance without incorporating the financial reporting standards responsible for generating the submitted accounting information. Consequently, the interaction among accounting compliance, enterprise integration and digital tax discrepancies remains insufficiently examined.

The relevance of this problem extends beyond individual national tax systems. Wherever investor-oriented financial reporting standards coexist with revenue-oriented statutory provisions, differences in measurement objectives create an inherent possibility of divergence. As automated tax verification expands across developed and emerging jurisdictions, these structural differences increasingly acquire operational consequences. However, the compatibility of electronic tax platforms with the reporting frameworks supplying their data varies across administrations. Such variation reflects choices concerning institutional and technological design rather than an unavoidable limitation of digital verification.

Significance of the Study

From a theoretical perspective, this research offers an alternative interpretation of book-tax differences by examining them as information-transmission difficulties between systems applying different measurement principles to identical underlying transactions. Whereas established scholarship frequently associates such differences with managerial incentives and reporting discretion, the present approach locates the problem within the communication of accounting information across institutional boundaries. Within an agency-theoretical framework, book-tax discrepancies represent a potential source of

information asymmetry. The principal contribution is therefore the identification of a mechanism capable of reducing this asymmetry: not merely the availability of disclosed information, but its accessibility in a format that the receiving system can interpret and process.

At the organisational level, distinguishing direct from mediated effects provides financial controllers with evidence relevant to investment decisions. Resources devoted to strengthening IFRS implementation and those allocated to enterprise accounting infrastructure frequently compete within the same organisational budget. Estimating the relative magnitudes of these pathways offers a basis for assessing their respective contributions and informing resource allocation. Furthermore, comparing enterprises with unified accounting platforms against those dependent on offline reconciliation clarifies the extent to which existing technological arrangements influence the benefits associated with integration. The findings also have implications for tax administration policy and digital platform development. Where accounting integration explains a substantial proportion of digital tax gap reduction, revenue authorities may facilitate improved compliance by designing electronic submission interfaces capable of accepting IFRS-structured information. Such an approach could reduce the need for individual taxpayers to convert accounting records repeatedly into statutory classifications. Portal compatibility therefore represents an administrative design decision through which authorities may independently support more effective information exchange. This interpretation aligns with digital transformation research that regards interface architecture as a fundamental component of institutional capability rather than a secondary technological consideration (Mergel et al., 2019).

To examine these theoretical, organisational and policy implications, the study develops a three-construct framework linking IFRS compliance depth, enterprise accounting integration and digital tax gap reduction. The model estimates both the direct relationship between compliance depth and gap reduction and the indirect relationship transmitted through integration. It additionally investigates whether the mediated mechanism varies according to the enterprise system environment. By modelling integration as an explanatory pathway rather than simply an adjustment variable, the research enables the respective contributions of accounting compliance and technological integration to be distinguished and evaluated.

Research Objectives

The study establishes four objectives to examine the role of IFRS in reducing the digital discrepancy between financial statements and tax returns:

- To quantify the direct influence of IFRS compliance depth on digital tax gap reduction.
- To assess the relationship between IFRS compliance depth and enterprise accounting integration, together with the effect of integration on digital tax gap

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reduction.

- To establish whether enterprise accounting integration mediates the relationship between IFRS compliance depth and digital tax gap reduction, and to measure the proportion of the total effect attributable to this pathway.
- To examine whether the effect of integration differs between enterprises employing unified accounting systems and those dependent on offline reconciliation procedures.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Theoretical Framing: Asymmetry, Signalling and the Receiving System

The relationship between enterprises and revenue authorities can be understood through agency theory, although it differs from conventional principal–agent arrangements in an important respect. While tax authorities possess the legal power to demand financial disclosures, they cannot directly observe every accounting judgement underlying the reported figures. Mandatory reporting therefore does not eliminate information asymmetry, because the disclosed information represents the outcome of measurement decisions that remain largely internal to the reporting enterprise. Book-tax differences are particularly relevant in this context because they expose the consequences of these otherwise unobservable judgements. Accordingly, previous research has frequently interpreted such differences as potential evidence of opportunistic reporting behaviour. A discrepancy arising from a legitimate temporary difference may resemble one associated with an aggressive tax position, making reliable external differentiation difficult (Kovermann & Velte, 2019; Wang et al., 2020).

Signalling theory provides a basis for expecting rigorous application of financial reporting standards to reduce this uncertainty. Comprehensive implementation of a demanding reporting framework can restrict discretionary practices and generate documentation through which accounting decisions become traceable. Nevertheless, the effectiveness of such signals depends on whether the intended recipient can recognise and interpret them. In traditional audit environments, detailed reconciliation schedules could communicate the legitimacy of accounting adjustments to human examiners. Automated tax assessment fundamentally changes this communication process because verification depends on structured information that can be electronically processed.

Consequently, even technically complete reconciliation documentation may fail to convey the intended signal if its contents cannot be incorporated into the receiving platform. The relevant explanatory mechanism therefore combines the quality of accounting information with the technological capacity required for its transmission. This relationship provides the theoretical justification for positioning enterprise accounting integration as a mediator rather than merely a control variable. Research on

algorithmic accountability reinforces this argument by emphasising that automated administrative systems require mechanisms for explanation and contestation to be incorporated into their design, rather than introduced only after implementation (Busuioc, 2021).

Book-Tax Differences and the Mechanics of IAS 12

The accounting treatment prescribed by IAS 12 is based on the balance sheet liability method, under which the carrying amounts of recognised assets and liabilities are evaluated against their corresponding tax bases. Differences arising from this comparison may create deferred tax assets or liabilities, reflecting temporary discrepancies expected to reverse in subsequent accounting periods. By contrast, permanent differences associated with exempt income or non-deductible expenditure do not generate future reversals and therefore fall outside deferred tax recognition. This distinction is central to the present investigation because temporary differences possess identifiable origins, measurable amounts and expected reversal patterns. Accordingly, transaction-level monitoring provides a means of systematically explaining the components of divergence between accounting profit and taxable income.

Although empirical studies establish an association between book-tax differences and taxation-related risk, this relationship is neither unconditional nor sufficient to establish aggressive reporting behaviour. Evidence indicates that tax avoidance generates uncertainty in reported tax positions only under particular circumstances, suggesting that the existence of a discrepancy alone provides limited evidence of opportunistic conduct (Dyreng et al., 2019). Similarly, research drawing on administrative records demonstrates that identifying problematic tax positions requires information extending beyond published financial statements (De Simone et al., 2019). These findings have direct implications for algorithmic tax assessment. Automated models that interpret the magnitude of book-tax differences as an independent risk indicator may incorrectly classify compliant enterprises whose financial reporting involves complex but legitimate measurement treatments. Merely modifying the numerical threshold for identifying discrepancies would not resolve this problem. Instead, effective classification requires disaggregating the overall difference into its underlying components, a process supported by IAS 12 and capable of electronic transmission through integrated accounting systems.

Three Standards that Widen the Gap

The introduction of IFRS 15 established a five-step revenue recognition framework centred on identifying performance obligations and determining when control transfers to customers, replacing the previously fragmented rules-based approach. Where statutory taxation provisions recognise revenue upon invoicing or delivery, discrepancies may arise from contracts incorporating variable consideration, multiple performance obligations or significant financing components. Such differences are

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embedded in the respective recognition principles and may therefore recur systematically rather than emerge as isolated exceptions. Empirical evidence concerning implementation of the standard confirms that its effects extended to reported revenue amounts and associated disclosures, rather than constituting a purely terminological change (Napier & Stadler, 2020).

A comparable divergence arises under IFRS 16, which removed the operating lease classification previously applied by lessees and introduced recognition of right-of-use assets alongside corresponding lease liabilities. Consequently, the accounting treatment of lease expenditure shifts from a relatively constant rental expense towards depreciation and interest charges, with a greater expense concentration in earlier periods. However, statutory taxation frameworks commonly retain deductions based on rental payments. The resulting divergence therefore concerns both the timing of expense recognition and the classification of the underlying transactions. Research examining lease recognition demonstrates that these reporting changes influence recognised financial positions and contractual arrangements associated with them, despite the underlying economic activity remaining unchanged (Ma & Thomas, 2023).

Under IFRS 9, the incurred-loss impairment approach was replaced by an expected credit loss model requiring recognition of anticipated losses before their actual occurrence. Experimental findings indicate that this framework identifies credit deterioration earlier than the preceding approach (Gomaa et al., 2019). Although earlier recognition is consistent with the standard's intended reporting outcome, it creates discrepancies where tax legislation permits deductions only after bad debts have been realised. These three standards consequently exhibit a common structural characteristic: accounting recognition may precede the corresponding recognition permitted under statutory taxation rules. The resulting differences may give rise to deferred tax assets or situations in which recognised accounting expenses exceed currently deductible expenditure. Such discrepancies follow identifiable measurement principles and are therefore systematic and directional rather than randomly occurring anomalies.

Considered collectively, these standards demonstrate why eliminating the digital tax gap cannot reasonably depend on modifying an individual accounting requirement. Each standard governs a different economic phenomenon and was developed to improve financial reporting independently of statutory taxation considerations. The resulting divergence is therefore a consequence of pursuing more appropriate accounting measurements rather than an inherent deficiency in either framework. Reconfiguring tax legislation solely to reproduce financial reporting outcomes could undermine its revenue-related objectives, while modifying accounting standards to conform to statutory tax rules would compromise their distinct reporting purposes. Accordingly, the more feasible intervention concerns the information infrastructure through which the outputs of these separate measurement frameworks are communicated and reconciled.

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Compliance Depth as a Construct

Conventional assessments of IFRS compliance generally employ disclosure indices that evaluate whether prescribed reporting items are included in financial statements. A structured review of this research identifies considerable variation in reported compliance levels and their associated determinants, while also highlighting the predominant emphasis on disclosure completeness rather than the operational processes and systems responsible for generating reported information (Tsalavoutas, 2020). The present study adopts a more specifically operational definition of compliance depth. Under this conceptualisation, compliance depth reflects the extent to which accounting requirements responsible for book-tax differences are implemented within transaction-level processes, allowing discrepancies to be identified, categorised and monitored from their initial recognition through subsequent reversal. This approach differs from procedures in which reconciliation is reconstructed retrospectively at the reporting-period end. Accordingly, the relevant characteristic is not simply whether published disclosures are complete, but whether the underlying accounting processes produce sufficiently detailed information for automated verification.

Within this framework, greater IFRS compliance depth is expected to contribute directly to digital tax gap reduction. Enterprises that systematically identify and classify temporary differences when transactions occur should be better positioned to provide revenue authorities with comprehensive reconciliations explaining the divergence between accounting and taxable income. By accounting for the sources of these differences, such procedures reduce the likelihood that unexplained residual discrepancies will generate automated risk alerts. This theoretical expectation provides the foundation for the first hypothesis:

H1: *IFRS compliance depth has a positive direct effect on digital tax gap reduction.*

Enterprise Systems as the Transmission Mechanism

Digital transformation has fundamentally altered both the organisational location and technological execution of accounting measurement and control activities (Möller et al., 2020). Research examining accounting automation indicates that the effectiveness of digitalised processes depends principally on their degree of standardisation, reliance on clearly defined rules and availability of reliable, well-structured data. Within established technological environments, interface-based automation offers operational improvements without requiring extensive reconstruction of legacy infrastructure (Hofmann et al., 2020; Syed et al., 2020). Tax departments have emerged as relatively early adopters of these technologies, largely because their activities involve substantial volumes of repetitive reconciliation procedures (Cooper et al., 2019). Initial empirical investigations document measurable improvements in processing efficiency and reductions in error rates following automation (Kokina & Blanchette, 2019).

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Nevertheless, implementation research demonstrates that these benefits are contingent upon existing process standardisation and organisational governance maturity, rather than being attributable solely to technological deployment (Gotthardt, 2020). Comparable conclusions emerge from frameworks developed to determine the suitability of assurance activities for automation, which emphasise similar operational prerequisites (Huang & Vasarhelyi, 2019).

The operational complexity associated with comprehensive IFRS implementation provides a further explanation for enterprise adoption of integrated accounting systems. At organisational scale, transaction-level monitoring of performance obligations under IFRS 15, individual lease components under IFRS 16 and progressive changes in credit deterioration under IFRS 9 imposes substantial information-processing requirements that are difficult to accommodate through manual procedures. Consequently, enterprises pursuing greater compliance depth are likely to require increasingly integrated accounting architectures capable of systematically recording, classifying and monitoring these transactions. This reasoning establishes the basis for the following hypothesis:

H2: *IFRS compliance depth has a positive direct effect on enterprise accounting integration.*

Enterprise accounting integration is also expected to contribute independently to digital tax gap reduction, irrespective of the underlying accounting treatments. By establishing automated connections between general ledger accounts and statutory tax return fields, integrated systems can generate IAS 12 reconciliation schedules and transmit pre-reconciled information in machine-readable formats. This functionality enables revenue authorities to distinguish substantive reporting discrepancies from inconsistencies arising solely from data structures or submission formats, thereby reducing unwarranted anomaly classifications. Empirical evidence indicating that investment in intelligent automation enhances output quality while reducing dependence on routine labour in assurance activities provides further support for this relationship (Fedyk et al., 2022). Accordingly, the following hypothesis is proposed:

H3: *Enterprise accounting integration has a positive direct effect on digital tax gap reduction.*

The simultaneous confirmation of H2 and H3 would indicate that enterprise accounting integration transmits a proportion of the relationship between IFRS compliance depth and digital tax gap reduction. This mediating mechanism is consistent with established research on taxation technologies, which demonstrates that the fiscal benefits of electronic systems depend on their actual adoption rather than their mere availability (Night & Bananuka, 2020). Supporting evidence further indicates that technological implementation produces limited benefits when it is not accompanied by effective administrative follow-through (Mascagni et al., 2021). These findings provide the

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theoretical justification for the following hypothesis:

H4: *Enterprise accounting integration mediates the relationship between IFRS compliance depth and digital tax gap reduction.*

Finally, if enterprise accounting integration functions as the mechanism through which compliance depth influences digital tax gap reduction, its effectiveness should depend on the underlying technological architecture. Enterprises operating unified data environments across accounting, financial reporting and taxation functions are expected to derive greater marginal benefits from integration capabilities than organisations relying on offline reconciliation procedures. In the latter, fragmented information flows constrain the end-to-end application of integration capabilities, thereby limiting their potential contribution to gap reduction. This expectation provides the basis for the following hypothesis:

H5: *The effect of enterprise accounting integration on digital tax gap reduction is stronger in enterprises with unified enterprise systems than in those relying on offline reconciliation.*

Algorithmic Audit Selection and the False-Positive Problem

The analytical techniques increasingly adopted by revenue authorities play a decisive role in *determining* how accounting measurement discrepancies are identified and interpreted. Evidence demonstrates that unsupervised anomaly-detection methods applied to administrative taxation datasets identify potential evasion with substantially greater accuracy than conventional rule-based screening procedures (Savić et al., 2022). Incorporating relational information among taxpayers further strengthens audit selection beyond the predictive capabilities of models relying exclusively on individual taxpayer attributes (Baghdasaryan et al., 2022). Similarly, neural-network classifiers trained on income tax records exhibit strong performance in identifying fraudulent declarations (Murorunkwere et al., 2022). These improvements represent substantive advances in enforcement effectiveness and help explain the increasing adoption of automated audit selection.

Nevertheless, the enhanced detection capabilities introduce a particular limitation relevant to the present investigation. Algorithms designed to identify deviations from established patterns may classify departures as suspicious irrespective of whether they arise from inaccurate reporting or legitimate accounting treatments. When expected patterns are constructed around statutory tax classifications, IFRS measurements lacking directly corresponding statutory categories inherently appear anomalous. Such outcomes do not necessarily indicate algorithmic failure; rather, they reflect the criteria embedded within the detection model. The resulting false-positive classifications generate compliance and administrative costs for taxpayers and revenue authorities, respectively, with these burdens becoming more pronounced as the complexity of the

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applicable tax framework increases (Hoppe et al., 2023). Furthermore, empirical evidence indicates that tax audits can influence compliance behaviour across several subsequent reporting periods (Advani et al., 2023). Consequently, enforcement resources diverted towards incorrectly identified cases entail opportunity costs extending beyond the immediate investigation (Kadhim 2026) examined how AI-supported budgetary planning can enhance financial reporting quality in Iraqi commercial banks.

Human professional judgement cannot be assumed to eliminate these limitations. Experimental findings suggest that practitioners' reliance on algorithm-generated evidence varies according to the complexity of the underlying accounting estimates, a characteristic particularly relevant to sophisticated IFRS measurements (Fedyk et al., 2022). Accordingly, effective mitigation requires addressing potential classification errors within the underlying information architecture before automated risk alerts are generated, rather than relying exclusively on subsequent manual review. Structured electronic transmission of IAS 12 classifications provides a means of achieving this objective by enabling automated systems to recognise and interpret legitimate measurement differences. This reasoning also explains why the present study conceptualises the mediating mechanism as information-transmission capability rather than expenditure on technological systems. The issue additionally raises questions of institutional accountability. Where algorithm-generated alerts produce administrative consequences, responsibility for explaining the reasoning underlying those decisions resides with the public authority implementing the model rather than the taxpayer subjected to its assessment (Busuioc, 2021). Consequently, resolving inappropriate automated classifications should be understood partly as an obligation concerning public-sector system design, rather than exclusively as an additional compliance responsibility imposed on enterprises.

Synthesis and Research Gap

Existing scholarship provides substantial but largely disconnected insights into the relationship between financial reporting differences, accounting compliance and digital tax administration. Research on book-tax differences establishes the sources of divergence between accounting and taxable income while frequently interpreting these discrepancies as potential indicators of managerial intentions. Studies examining IFRS compliance primarily evaluate disclosure completeness without considering the technological mechanisms through which accounting information reaches external recipients. Meanwhile, investigations of tax administration digitalisation document improvements in administrative performance arising from electronic systems but generally overlook the financial reporting frameworks responsible for producing the information processed by those systems. Consequently, the combined relationship among these dimensions remains insufficiently established. Existing research has not estimated whether comprehensive implementation of the standards responsible for

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book-tax divergence reduces the operational discrepancies encountered during automated tax verification, or whether the magnitude of this reduction depends on enterprise accounting architecture. Addressing this omission is practically important because strengthening accounting compliance and developing integrated technological infrastructure represent competing organisational investment priorities, while the existing evidence provides limited guidance for determining their relative effectiveness.

METHODOLOGY

Research Design

A quantitative, deductive research strategy was adopted using a cross-sectional questionnaire survey, with the resulting observations evaluated through PLS-SEM. The selection of this analytical approach reflects three methodological considerations. First, the proposed framework incorporates a mediating variable, requiring non-parametric estimation of the indirect relationship. Second, the theoretical constructs are latent variables operationalised through reflective perceptual indicators. Third, the investigation prioritises maximising the explained variance of the dependent construct rather than validating a fully established theoretical specification. These characteristics support the suitability of PLS-SEM for the proposed analytical framework (Hair et al., 2019).

Sample and Data Collection

Primary data were obtained through a structured questionnaire administered to senior financial controllers, tax directors, internal auditors and chief accountants employed in medium-sized and large enterprises subject to IFRS reporting requirements. Respondents occupying these professional positions were selected because meaningful assessment of the study constructs requires specialised knowledge of both financial reporting implementation and enterprise accounting infrastructure. Such expertise cannot reasonably be assumed among respondents without corresponding organisational responsibilities. A stratified sampling strategy was implemented, whereby enterprises were classified according to their existing system environments before respondent selection. Following data collection and screening, 240 valid questionnaires were retained, constituting the analytical sample used throughout the investigation. The resulting sample substantially exceeds the minimum requirement established by the inverse square root rule, considering that the maximum number of structural relationships directed towards any endogenous construct is two. Accordingly, the available observations provide ample statistical power for estimating the specified pathways (Hair et al., 2019).

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Construct Operationalisation

The conceptual framework comprises three reflectively specified latent constructs, each assessed using a five-point Likert response scale. IFRS compliance depth was operationalised through four indicators representing the principal accounting requirements associated with book-tax divergence.

Table 1: Construct Operationalisation and Measurement Items

Construct	Code	Measurement Item	Standard
IFRS Compliance Depth (IFRS)	IFRS_12	The organisation identifies and tracks deferred tax assets and liabilities at transaction level.	IAS 12
	IFRS_9	Expected credit loss provisions are calculated and mapped against statutory bad-debt rules.	IFRS 9
	IFRS_15	Performance obligations and revenue timing differences are catalogued for tax reconciliation.	IFRS 15
	IFRS_16	Right-of-use depreciation and lease interest are separated from statutory rent deductions.	IFRS 16
Enterprise Accounting Integration (DIG)	DIG_ERP	The enterprise system integrates natively with statutory e-tax portals without offline handling.	—
	DIG_IFMIS	Standardised charts of accounts automatically generate IAS 12 reconciliation schedules.	—
	DIG_AUTO	The system automates origination and reversal pipelines for temporary differences.	—
Digital Tax Gap Reduction (GAP)	GAP_VAR	Unexplained variances between the general ledger and e-tax declarations have fallen.	—
	GAP_AUD	False-positive audit flags and automated anomaly scores have decreased.	—
	GAP_TIME	Administrative time required to finalise electronic tax audits has declined.	—

Note: N = 240. All items were measured on a five-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree). All three constructs are specified reflectively.

These indicators assess transaction-level monitoring of deferred taxation under IAS 12; reconciliation of expected credit loss provisions with statutory bad-debt deduction requirements under IFRS 9; systematic identification of performance obligations and associated revenue recognition timing under IFRS 15; and differentiation of right-of-use asset depreciation and lease interest from statutory rental deductions under IFRS 16. Enterprise accounting integration was measured using three indicators addressing direct connectivity with electronic tax portals, standardised charts of accounts capable of automatically producing IAS 12 schedules, and automated processes for recording the origination and reversal of accounting differences. Digital tax gap reduction was likewise represented by three indicators evaluating unexplained discrepancies,

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incorrectly generated audit alerts and administrative processing time. The complete measurement items are presented in Table 1.

Analytical Procedure

Model estimation was conducted using the established two-stage assessment procedure. The initial stage evaluated the reflective measurement model in terms of indicator reliability, internal consistency, convergent validity and discriminant validity. Discriminant validity was examined using the heterotrait-monotrait ratio, applying the conservative threshold of .85, with additional verification through the Fornell-Larcker criterion. The subsequent stage examined the structural model by estimating path coefficients and determining their statistical significance through non-parametric bootstrapping involving 5,000 resamples. Model assessment additionally incorporated explanatory power, predictive relevance estimated through blindfolding with an omission distance of seven, and approximate model fit evaluated using the standardised root mean square residual. Mediation was examined by estimating the bootstrapped specific indirect effect and calculating the variance accounted for. Differences in structural relationships between enterprise system environments were subsequently investigated through permutation-based multi-group analysis.

Validation of Reported Estimates

To establish numerical consistency, all reported estimates were systematically cross validated before substantive interpretation. Average variance extracted was independently calculated from squared indicator loadings, while composite reliability was recalculated using the corresponding loadings and residual variances. The diagonal elements of the discriminant validity matrix were verified against the square roots of their respective average variance extracted values. Structural consistency was assessed by independently deriving the indirect effect from the product of its constituent path coefficients and confirming that the total effect equalled the combined direct and indirect effects. The variance accounted for was then recalculated as the ratio of the indirect effect to the total effect. Additionally, adjusted coefficients of determination were verified using their unadjusted counterparts and the sample size, while each coefficient of determination was examined for consistency with the mathematical relationship connecting structural path coefficients and latent variable correlations. These verification procedures confirmed the internal consistency of all reported estimates except one discrepancy, which is identified in the note accompanying Table 6 and examined further in Section 5.5.

Three methodological considerations underpin the model specification. First, the constructs were operationalised reflectively because their observed indicators represent expressions of shared underlying characteristics rather than distinct elements that collectively define the constructs. Under this specification, excluding an individual

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indicator would reduce measurement coverage without fundamentally changing the conceptual meaning of the associated construct, thereby supporting reflective measurement. Second, enterprise accounting integration was retained as a unified mediating construct rather than separated into enterprise resource planning (ERP) and integrated financial management information systems (IFMIS) dimensions. This decision reflects the theoretical emphasis on general information-transmission capability rather than the functionality of any specific technological platform. Third, the multi-group classification was based on enterprise system environments rather than organisational size or industry sector, consistent with the proposition that technological architecture constitutes the hypothesised boundary condition.

Methodological Limitations

Three methodological constraints should be considered when interpreting the findings. First, the cross-sectional research design limits causal inference, meaning that the estimated structural relationships demonstrate associations consistent with the proposed theoretical sequence rather than establishing causal effects. Although the hypothesised direction from IFRS compliance depth to enterprise accounting integration is theoretically justified, the alternative possibility that more sophisticated accounting systems facilitate deeper compliance remains equally plausible and cannot be ruled out. Second, all constructs were assessed through perceptual responses obtained from individual organisational informants, introducing potential common method variance. Procedural safeguards, including assurances of respondent anonymity and separation of questionnaire sections corresponding to different constructs, were implemented to mitigate this concern; however, no statistical assessment of common method variance is reported. Third, respondents evaluated automated tax authority screening practices from an external organisational perspective. Consequently, the dependent construct captures perceived improvements in anomaly classifications rather than objectively recorded changes in algorithm-generated risk scores.

RESULTS

Measurement Model

Table 2 presents the measurement model results concerning indicator loadings, internal consistency and convergent validity. All ten indicators exceed the recommended loading threshold of .708, with values ranging from .835 to .912, demonstrating that their respective latent constructs account for more than half of the variance in each observed indicator. Indicator communality ranges from .697 for IFRS_12 to .832 for DIG_IFMIS. Internal consistency is similarly established, with Cronbach's alpha values between .862 and .886 and composite reliability estimates ranging from .916 to .925. These results satisfy the minimum reliability criterion of .70 while remaining below the .95 threshold associated with potential indicator redundancy. Furthermore, average

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variance extracted values fall between .745 and .804, consistently surpassing the required .50 benchmark and confirming adequate convergent validity. Independent recalculation using the indicator loadings reproduced all three reported reliability and validity statistics across the constructs, supporting the numerical consistency of the measurement results. Discriminant validity findings are subsequently presented in Table 3.

Table 2: Measurement Model: Indicator Reliability, Internal Consistency and Convergent Validity

Construct	Indicator	Loading	α	CR	AVE
IFRS Compliance Depth	IFRS_12	.835	.886	.921	.745
	IFRS_9	.842			
	IFRS_15	.887			
	IFRS_16	.886			
Enterprise Accounting Integration	DIG_ERP	.871	.878	.925	.804
	DIG_IFMIS	.912			
	DIG_AUTO	.906			
Digital Tax Gap Reduction	GAP_VAR	.864	.862	.916	.784
	GAP_AUD	.898			
	GAP_TIME	.894			

Note: α = Cronbach's Alpha; CR = Composite Reliability; AVE = Average Variance Extracted. Thresholds applied: loading > .708, α and CR > .70, AVE ≥ .50.

The discriminant validity results presented in Table 3 demonstrate that all heterotrait-monotrait ratios remain below the conservative threshold of .85. The highest ratio, .796, occurs between enterprise accounting integration and digital tax gap reduction, consistent with their closely connected positions within the hypothesised causal pathway.

Table 3: Discriminant Validity: Fornell–Larcker Criterion and Heterotrait–Monotrait Ratios

Construct	1. IFRS	2. DIG	3. GAP
1. IFRS Compliance Depth	(.863)	.684	.721
2. Enterprise Accounting Integration	.618	(.897)	.796
3. Digital Tax Gap Reduction	.652	.714	(.885)

Note: Values in parentheses on the diagonal are the square root of the average variance extracted; values below the diagonal are latent variable correlations; values above the diagonal are heterotrait–monotrait ratios. Discriminant validity requires HTMT < .85 and a diagonal value exceeding the construct's correlations; both conditions hold.

The Fornell-Larcker criterion provides corroborating evidence, as the square roots of average variance extracted for the respective constructs (.863, .897 and .885) are greater than their corresponding correlations with all other constructs. The convergence of these two assessment methods confirms satisfactory discriminant validity, indicating that the latent constructs represent empirically distinguishable dimensions.

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Structural Model and Hypothesis Tests

The structural estimates presented in Table 4 establish that all three hypothesised direct relationships are positive and statistically significant at $p < .001$. IFRS compliance depth exhibits a significant positive association with digital tax gap reduction ($\beta = .324$, $t = 4.812$), thereby supporting H1 and fulfilling RO1. A stronger relationship is observed between compliance depth and enterprise accounting integration ($\beta = .618$, $t = 11.230$), while integration independently demonstrates a significant positive relationship with gap reduction ($\beta = .514$, $t = 7.945$). These findings provide empirical support for H2 and H3 and satisfy RO2. Notably, the relationship linking compliance depth to integration represents the largest structural coefficient, with a magnitude approximately twice that of the direct relationship between compliance depth and gap reduction. This pattern provides preliminary evidence that integration constitutes an important mechanism through which compliance depth is associated with the outcome.

Table 4: Structural Model: Direct Path Coefficients and Hypothesis Tests

Hypothesis	Path	β	M	SE	t	p	Decision
H1	IFRS → GAP	.324	.326	.067	4.812	< .001	Supported
H2	IFRS → DIG	.618	.620	.055	11.230	< .001	Supported
H3	DIG → GAP	.514	.512	.065	7.945	< .001	Supported

Note: β = Standardised Path Coefficient; M = Bootstrap Sample Mean; SE = Bootstrapped Standard Error. Estimates are based on 5,000 bootstrap resamples. IFRS = IFRS Compliance Depth; DIG = Enterprise Accounting Integration; GAP = Digital Tax Gap Reduction.

Three characteristics of the measurement findings warrant consideration when interpreting these structural relationships. First, enterprise accounting integration demonstrates the strongest convergent measurement properties, recording an average variance extracted of .804 compared with .745 for IFRS compliance depth. This difference is consistent with the more narrowly defined conceptual scope of the integration indicators, which collectively represent characteristics of a unified data-transmission process, whereas compliance depth encompasses requirements associated with four separate accounting standards. Second, IFRS_12, which measures transaction-level deferred tax monitoring, exhibits the lowest indicator loading (.835). Because this activity is particularly dependent on technological capabilities, its measurement may be more sensitive to differences in respondents' organisational system environments. Third, the correlation between enterprise accounting integration and digital tax gap reduction (.714) exceeds the corresponding association between IFRS compliance depth and gap reduction (.652). This relative difference is consistent with the mediating relationship examined in the subsequent analysis.

Mediation

Table 5 presents the decomposition of the total effect into its direct and indirect components. The mediated pathway exhibits a positive and statistically significant

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coefficient (β = .318, t = 6.489), providing empirical support for H4 and fulfilling RO3. The simultaneous significance and positive direction of both pathways establish complementary partial mediation, rather than complete mediation or competitive suppression.

Table 5: Decomposition of Direct, Indirect and Total Effects

Effect	Path	β	t	p	95% BCa CI	Verification
Direct (H1)	IFRS → GAP	.324	4.812	< .001	—	—
Indirect (H4)	IFRS → DIG → GAP	.318	6.489	< .001	[.221, .418]	.618 × .514 = .318
Total	IFRS → GAP	.642	12.115	< .001	—	.324 + .318 = .642
VAF	Indirect ÷ Total	49.53%	—	—	—	.318 ÷ .642 = .4953

Note: BCa = Bias-Corrected and Accelerated; VAF = Variance Accounted For. Mediation Type: Complementary partial, since the direct and indirect effects are both significant and identically signed.

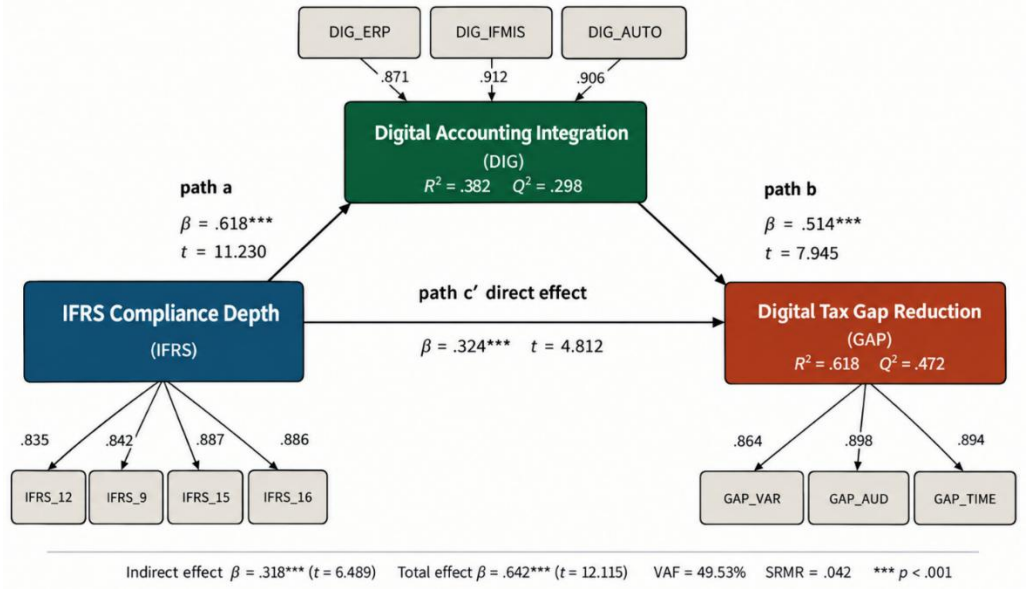

Figure 1: Estimated Structural Model with Standardised Path Coefficients, Indicator Loadings and Effect Decomposition

Note: *** p < .001. Coefficients are standardised; t-statistics derive from 5,000 bootstrap resamples. VAF = variance accounted for; SRMR = standardised root mean square residual.

Numerical verification confirms that the indirect effect corresponds to the product of the constituent structural coefficients (.618 × .514 = .318), while the total effect equals the combined direct and indirect contributions (.324 + .318 = .642). Accordingly, the variance accounted for, calculated as the proportion of the total effect transmitted

through integration, is .318 ÷ .642 = 49.53%. These estimates indicate that enterprise accounting integration mediates slightly less than half of the overall relationship between IFRS compliance depth and digital tax gap reduction, whereas the remaining proportion is associated with the direct pathway. The estimated structural model is illustrated in Figure 1.

The approximately equal contributions of the direct and mediated pathways constitute a central finding, although their interpretation requires careful distinction. This distribution does not imply that one group of enterprises benefits exclusively through integration while another experiences improvement independently. Rather, for the average enterprise represented in the sample, approximately half of the total improvement in digital tax gap reduction associated with a one standard deviation increase in IFRS compliance depth is transmitted through the accompanying strengthening of enterprise accounting integration. The remaining proportion operates through mechanisms independent of integration, including greater reconciliation transparency and fewer genuine reporting errors. Both pathways therefore contribute meaningfully to gap reduction, indicating that neither accounting compliance nor technological integration can be regarded as dispensable.

Explanatory Power and Predictive Relevance

Table 6 summarises the model's explanatory capacity, predictive relevance and approximate fit. The reported coefficients of determination indicate that the structural model accounts for 61.8% of the variance in digital tax gap reduction and 38.2% of the variance in enterprise accounting integration. The latter estimate is mathematically consistent with the squared coefficient of its sole predictor ($.618^2 = .382$). Blindfolding analysis produces Q^2 values of .472 and .298, respectively, both exceeding zero and indicating positive predictive relevance for the endogenous constructs. Furthermore, the standardised root mean square residual is .042, satisfying the recommended threshold of .08. Nevertheless, an inconsistency was identified in the reported explanatory power of digital tax gap reduction. For a structural equation containing two predictors, the coefficient of determination can be expressed as the sum of each standardised path coefficient multiplied by the corresponding predictor–outcome correlation. Substituting the estimates reported in Tables 3 and 4 yields $(.324 \times .652) + (.514 \times .714) = .578$, rather than the stated .618. This difference of approximately four percentage points requires verification against the original estimation output before the reported coefficient is accepted. However, the substantive interpretation remains unchanged, as either estimate indicates considerable explanatory power.

The predictive relevance estimates also reveal a meaningful distinction between the two endogenous constructs. Digital tax gap reduction records a Q^2 value of .472, substantially exceeding the .298 obtained for enterprise accounting integration. This difference suggests that the model demonstrates stronger predictive performance for the

outcome than for the intermediate construct. Such a pattern is consistent with the structural specification, in which integration is explained by a single antecedent, whereas gap reduction is predicted by two constructs. Consequently, practical implications derived from the outcome equation are supported by comparatively stronger predictive evidence than estimates of integration levels based exclusively on IFRS compliance depth.

Table 6: Explanatory Power, Predictive Relevance and Approximate Model Fit

Endogenous Construct	R^2	Adjusted R^2	Q^2	Assessment
Enterprise Accounting Integration	.382	.379	.298	Moderate
Digital Tax Gap Reduction	.618[a]	.615	.472	Substantial
Model-Level Fit Index	SRMR = .042	—	—	Below the .08 threshold

Note: Q^2 obtained by blindfolding at an omission distance of seven; values above zero indicate out-of-sample predictive relevance. SRMR = standardised root mean square residual. The SRMR is a model-level index and is shown on a separate line; the source placed it in the row for a single construct. [a] This value did not reconcile on recomputation: for a two-predictor equation R^2 equals the sum of each path coefficient multiplied by its correlation with the outcome, which from Tables 3 and 4 gives (.324 × .652) + (.514 × .714) = .578. The reported .618 is also numerically identical to the H2 path coefficient and to the IFRS–DIG correlation.

Multi-Group Analysis

Table 7 presents the comparative analysis of the structural relationship between enterprise accounting integration and digital tax gap reduction across different technological environments. The estimated coefficient for enterprises operating unified systems (β = .621) is more than twice that observed among organisations dependent on offline reconciliation (β = .284). The between-group difference of .337 is statistically significant at $p < .001$, providing empirical support for H5 and fulfilling RO4.

Table 7: Multi-Group Analysis: Enterprise Accounting Integration to Digital Tax Gap Reduction by System Environment

Group	n	β	Difference	p (MGA)	Decision
Unified Enterprise Systems	145	.621			
Offline Reconciliation	95	.284			
Group Difference	240	—	.337	< .001	H5 supported

Note: MGA = Permutation-Based Multi-Group Analysis.

These findings establish enterprise system architecture as a boundary condition influencing the effectiveness of accounting integration, rather than merely a contextual organisational characteristic. Specifically, the contribution of integration to digital tax gap reduction varies according to the underlying technological environment, with substantially stronger associations observed where unified data infrastructure enables

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integration capabilities to function throughout the entire information-transmission process.

DISCUSSION

Compliance Depth Matters, But Not Only Through Accounting

The empirical support for H1 (β = .324) challenges the conventional assumption that more comprehensive IFRS implementation necessarily intensifies book-tax reconciliation difficulties. Because IFRS incorporates fair-value measurements and prospective accounting estimates, its application is frequently associated with greater divergence between financial reporting outcomes and statutory taxable income. However, the findings suggest that deeper implementation can mitigate the operational consequences of this divergence, even where the underlying differences become more extensive. The critical distinction lies between the magnitude of a discrepancy and the ability to explain its origin. Enterprises systematically identifying and monitoring temporary differences at transaction level can construct comprehensive reconciliations that account for the sources of divergence, thereby minimising unexplained balances susceptible to automated anomaly detection. This interpretation is consistent with evidence demonstrating that the informational significance of book-tax differences depends more heavily on understanding their underlying causes than on their absolute magnitude (De Simone et al., 2019; Dyreng et al., 2019).

The Mediated Route is the Larger Half of the Mechanism

The decomposition of the overall relationship into direct and indirect components represents the study's central empirical contribution. With enterprise accounting integration transmitting 49.53% of the total effect, the results indicate that neither of the competing explanations introduced in Section 1.2 adequately accounts for digital tax gap reduction independently. Strong accounting practices cannot realise their full operational value when the resulting reconciliation information remains inaccessible to automated verification platforms. Conversely, sophisticated information-transmission infrastructure provides limited substantive benefit without sufficiently detailed accounting records to communicate. The findings therefore establish the complementary nature of investments in IFRS compliance and enterprise integration, rather than supporting their treatment as alternative strategies. Organisations possessing advanced capabilities in one dimension but remaining deficient in the other consequently risk foregoing substantial potential improvements. This relationship is consistent with evidence from taxation technology research indicating that the fiscal effectiveness of electronic systems depends on their operational utilisation rather than their mere availability (Mascagni et al., 2021; Night & Bananuka, 2020).

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Standards as a Driver of System Modernisation

The substantial coefficient associated with H2 (β = .618) highlights a relationship between accounting requirements and technological development that has often received primarily descriptive attention. Comprehensive implementation of IFRS imposes demanding transaction-level information requirements, particularly concerning the identification of performance obligations, the separation of lease components and the monitoring of progressive credit deterioration. Managing these activities manually becomes increasingly impractical as transaction volumes expand, creating operational incentives for enterprises to adopt integrated accounting architectures. The documented measurement implications of IFRS 15 and lease recognition provide further support for this interpretation (Ma & Thomas, 2023; Napier & Stadler, 2020). Nevertheless, the cross-sectional research design does not establish the direction of causality, and the possibility that more advanced enterprise systems facilitate deeper compliance remains equally plausible. Irrespective of the direction of influence, the estimated relationship demonstrates a strong empirical association between compliance depth and technological integration.

Architecture as a Boundary Condition

The multi-group findings provide additional insight into the organisational conditions under which accounting integration contributes most effectively to digital tax gap reduction. The substantially stronger integration coefficient observed among enterprises with unified systems (.621), compared with those relying on offline reconciliation (.284), indicates that the benefits associated with comparable integration capabilities depend considerably on the surrounding technological environment. This pattern accords with implementation research demonstrating that automation outcomes are conditioned by established process standardisation rather than technological deployment alone (Gotthardt, 2020). It is also consistent with evidence that automation performs most effectively when applied to structured, rule-based activities supported by reliable data (Syed et al., 2020). From an implementation perspective, these findings suggest that investments in integration capabilities may generate weaker outcomes when undertaken before the underlying data architecture has been unified.

The between-group comparison further distinguishes the observed relationship from a conventional technology-adoption effect. Because the analysis evaluates the integration capabilities reported within each system environment, the coefficient difference of .337 cannot be explained solely by assuming that enterprises dependent on offline reconciliation possess lower levels of integration capability. Rather, the results indicate that the relationship between a given capability and digital tax gap reduction varies according to the infrastructure supporting its application. The central finding therefore concerns differences in the effectiveness of integration, highlighting the complementary

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relationship between technological capability and the enterprise architecture required for its end-to-end operation.

Reliability of the Estimates and the Role of the Authority

Independent verification of the measurement statistics, structural coefficients and mediation calculations confirms the numerical consistency of the principal empirical findings. The sole identified discrepancy concerns the reported coefficient of determination for digital tax gap reduction, which exceeds the value implied by the corresponding structural paths and construct correlations by approximately four percentage points. Although this inconsistency requires re-estimation and correction before publication, it does not materially alter the substantive interpretation because both values indicate considerable explanatory power. Beyond this statistical consideration, the findings highlight an important distribution of responsibility between enterprises and revenue authorities. While taxpayers currently bear much of the burden associated with automated misclassification, administrative institutions possess the capacity to address part of the problem through system design. Electronic tax platforms can be configured to accommodate IFRS-structured information, while algorithmic screening procedures can incorporate parameters capable of recognising legitimate IAS 12 classifications. Where automated assessments produce administrative consequences, responsibility for ensuring that such decisions can be adequately explained rests with the authority implementing the system (Busuioc, 2021). Comparative evidence nevertheless demonstrates substantial variation among jurisdictions in the extent to which this responsibility has been incorporated into digital tax administration practices (OECD, 2023).

CONCLUSION, RECOMMENDATIONS AND IMPLICATIONS

Conclusion

This investigation examined whether greater IFRS compliance depth contributes to reducing the digital discrepancy between financial statements and statutory tax returns, with particular emphasis on the explanatory role of enterprise accounting integration. Applying PLS-SEM to survey data obtained from 240 financial and taxation professionals, the analysis established a positive direct relationship between compliance depth and digital tax gap reduction ($\beta = .324$), alongside a stronger association between compliance depth and enterprise integration ($\beta = .618$). Integration was also positively associated with gap reduction ($\beta = .514$), confirming its partial mediating role. Specifically, the mediated pathway accounted for 49.53% of the total effect ($\beta = .642$). The reported model explained 61.8% of the variance in digital tax gap reduction, while both endogenous constructs demonstrated positive predictive relevance. Furthermore, the relationship between integration and gap reduction was more than twice as strong among enterprises operating unified accounting systems ($\beta = .621$) compared with those dependent on offline reconciliation ($\beta = .284$). Collectively, these findings establish that

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comprehensive IFRS implementation and integrated data architecture operate as complementary organisational capabilities, with neither independently realising the full potential benefits associated with digital tax gap reduction.

Recommendations

Table 8 establishes a correspondence between the empirical findings and their associated practical recommendations. Importantly, the proposed implementation sequence is as consequential as the individual interventions. Configuring automated screening models to recognise legitimate accounting differences represents the least costly initial measure and does not require taxpayers to modify their existing practices. It should therefore take precedence over interventions that impose additional organisational adjustment costs. The multi-group findings further indicate that establishing a unified data architecture should precede investment in advanced integration capabilities, as the former provides the technological foundation necessary for the latter to operate effectively. Similarly, incorporating transaction-level monitoring into system specifications during initial IFRS adoption would reduce the need for subsequent technological modifications, such as those currently required by enterprises dependent on offline reconciliation.

Table 8: Recommendations Mapped to Empirical Findings

Finding	Recommended Action	Responsible Party
Integration transmits 49.53% of the total effect	Fund accounting competence and enterprise architecture as a single programme rather than sequentially, since each forgoes roughly half its benefit without the other.	Chief financial officers; tax directors
The integration effect is .621 under unified systems against .284 offline	Unify the data layer before investing further in tax-specific integration capability, as the same capability yields less than half the return in a fragmented environment.	Chief information officers; enterprise architects
False-positive flags arise from unparameterised screening	Parameterise audit selection models to recognise IAS 12 temporary differences, IFRS 9 expected credit loss provisions and IFRS 16 lease adjustments as explicable categories rather than anomalies.	Revenue authorities
Roughly half the benefit is reachable without taxpayer action	Specify portal fields that accept IFRS-structured reconciliation data directly, removing the requirement to translate into statutory categories before submission.	Revenue authorities; standard setters
Compliance depth drives integration (β = .618)	Treat the transaction-level tracking demanded by IFRS 15, IFRS 16 and IFRS 9 as a system requirement at adoption rather than a reporting task to be solved at period end.	Controllers; ERP vendors

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Implications

From a theoretical perspective, the study reconceptualises book-tax differences as challenges arising from information transmission between distinct reporting systems, rather than interpreting them primarily as indicators of managerial intentions. The findings demonstrate that resolving these discrepancies depends on the combined effectiveness of financial reporting quality and technological transmission capability, neither of which is independently sufficient. At the organisational level, decomposing the total effect into direct and mediated components provides an evidence-based foundation for resource allocation. Investments in accounting expertise and enterprise architecture should therefore be pursued as complementary priorities, with the multi-group findings indicating that establishing a unified data infrastructure should take precedence where existing systems remain fragmented. From a policy perspective, the results suggest that revenue authorities could independently facilitate a substantial proportion of the potential improvement, corresponding to approximately half of the overall benefit, by developing electronic tax portals capable of processing IFRS-structured information and configuring automated screening models to recognise legitimate IAS 12 classifications. Such administrative interventions could reduce digital tax discrepancies without requiring corresponding changes in taxpayer behaviour. For future theoretical and empirical investigations, the findings further demonstrate the importance of conceptualising digital capability as an information-transmission mechanism operating under identifiable architectural conditions, rather than treating it merely as a statistical covariate. Modelling integration exclusively as a control variable would have obscured both its mediating contribution to digital tax gap reduction and the extent to which that contribution varies across enterprise system environments.

LIMITATIONS AND FUTURE RESEARCH

The conclusions remain subject to the methodological constraints identified in Section 3.6, particularly the inability of the cross-sectional design to establish causal direction between IFRS compliance depth and enterprise accounting integration, the reliance on perceptual assessments obtained from individual respondents, and the measurement of perceived rather than objectively recorded changes in automated anomaly scores. These limitations identify three directions for subsequent research. First, replication using administrative datasets containing observed anomaly alerts, tax assessment adjustments and actual audit processing durations would address the limitations of perceptual measurement while enabling validation of the direct and mediated relationships against recorded administrative outcomes. Second, longitudinal investigations encompassing the implementation of tax portal upgrades could provide stronger evidence concerning the direction of the relationship between accounting compliance and technological integration. Third, comparative research across jurisdictions characterised by different levels of statutory tax complexity could determine whether the proportion of the total

effect transmitted through integration remains consistent or varies according to the regulatory framework governing book-tax reconciliation.

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