ABSTRACT
This paper examines the effect of tax planning and earnings management on the informativeness of book income and taxable income. We conduct two sets of tests documenting (1) the incremental effect of tax planning and earnings management on the informativeness of book and taxable income, and (2) the relation between the consistency of the book-tax difference and the informativeness of book and taxable income. The consistency of the book-tax difference depends on firm decisions regarding incremental earnings management and tax planning. Consistency of the book-tax difference is measured as the standard deviation of the discretionary component of the difference between book income and taxable income. Our results show that consistency of the book-tax difference, as a measure of the joint effect of earnings management and tax planning, is related to persistence of both book and tax income and has an incremental effect on information content of both book income and taxable income.

**JEL Classifications:** G12; G32; H24; H25.