

STUDY ABOUT THE RELATIONSHIP BETWEEN ACCOUNTING AND TAXATION. PROPOSALS FOR DISCONNECTION

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Abstract

The observation that many practitioners, by virtue of strong dependence between accounting and taxation encountered in our country after years of '90, find with difficulty the way to detachment of accounting and taxation by making cautious steps, lack of courage, was the impulse for choosing this research topic. Therefore, we consider that research in accounting and taxation field must represent the combination of information obtained as a result of theoretical research with information from economic reality.

By its content, this study, perform extensive research on the intersection of accounting information with tax elements, combination oriented to disconnection between the two areas.

Keywords: *integrated reports, neutral reports, relations between accounting and taxation, convergence, divergence*

Introduction

The relationship between accounting and taxation was characterized over the time by words and phrases such as *dichotomy, subordination, convergence, divergence*, and more also, who takes imagination to see the eternal status of conflict between the two. Professor Ristea¹ believes that "we have accepted a new formulation of the relationship between accounting and taxation, the dichotomy **"connection and disconnection"**. **Connection**, because by the same system, the accounting is done two purposes, accounting and taxation. **Disconnect**, considering the differences between rules and principles of accounting and tax. "

In a regulated accounting, accounting information is built on the principles, rules and regulations intended to serve their objective. Instead, tax information, subordinated to tax interest, serves as a basis for taxation, an according to the principles, rules and standards defined by tax law. The relationship between accounting and taxation is influenced by the objectives and principles of both areas aimed at helping to fulfilling them.

We propose, through this study, several measures to help disconnecting between accounting and taxation.

Relationship between accounting and taxation

Accounting is an instrument for understanding and managing of the financial position and the result obtained by an economic entity. It must provide accurate information to investors' capital, for state institutions (including tax), suppliers, and employees.

Excessive taxation and tax regulations instability leading to the choice of accounting methods that, ultimately, does not reflect a true and fair view of the financial position, but one adapted to the tax and conjectural.

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¹ Ristea Mihai, *Bază și alternativ în contabilitatea întreprinderii*, Tribuna Economică Publishing, Bucharest, 2003.

The relationship between accounting and taxation is influenced by the reports between the two. Given this situation, the question what arises is demarcation and hierarchy of reports between accounting and taxation.

These reports can be grouped into two categories: *integrated reports* and *neutral reports*.

Integrated reports (employees) are connection reports, being determined by the intersection between tax and accountant interest. In case of these reports reveal differences between accounting and tax principles that must be harmonized. Employed reports are considering reconciliation of relations between accounting and taxation.

In the area of these reports are part mainly three problems:

- Depreciation of non current assets;
- Evaluating, and
- Taxation of profits.

In the area of integrated reports between accounting and taxation, falling rules on deductibility of expenses in determining taxable profit of the company. To this direction must be applied the principle of connection between expenses and income, which requires recognition in the financial statements for only those expenses which are incurred in carrying on the company's current activity. Other costs that it generates should not be recognized in the financial statements.

This point of view is more purely accounting. But, given the fiscal aspect of the problem, the company must record all documents that are prepared on its behalf, which means that some of them contain costs that are not recognized. These expenses must be accounted for, but when calculating income tax should be eliminated, thus obtaining a higher taxable income and consequently of the income tax payable to the budget.

Another consequence of application of the principle of linking expenses at the revenue is that: an expense is deductible for tax purposes only if they are generated by revenue. For example, if a company records expenses in the period when not engaged, expenses are considered nondeductible from a fiscal standpoint.

Neutral reports between accounting and taxation do not directly affect the profitability of the company. They occur when the dividend tax, income tax, social security contributions, VAT (when it has a pro-rate deductibility of 100%). The information provided by accounting is used from taxation in the calculation and settlement of taxes and contributions.

Neutral reports between accounting and taxation have in mind that accounting information is used for taxation like a support and purpose for determination and settlement support for taxes and contributions. These reports do not require conciliation of differences between accounting and taxation; do not generate usually problems on the harmonization of the two interests.

These reports can be exciting for the company's fiscal management, accounting default, only to the extent mobilize the imposed subject to a behavior recorded in fiscal effectiveness.

Relations resulting from the reports between accounting and taxation

The relationship between accounting and taxation must be analyzed beginning from the evidence that objective of accounting is different from the taxation one. In addition, two other factors are involved in this equation: entity, through associates or shareholders, and professional accountant, each of them with its own objective. Thus, four factors of interest are found four different objectives:

This objective sustains structures described and recognized in the financial statements.

According to financial reporting conceptual framework, the objective of general purpose financial statements is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in the decisions they take on providing resources to the entity.

Information about the financial position aims:

- economic resources controlled by the entity and that are useful for anticipating the entity's ability to generate future economic benefits;

- structure of funding sources, it is necessary to anticipate future needs credit and the possibility of obtaining such loans;
- the distribution of profits and future cash flows, liquidity, solvency of the entity and the ability to adapt to changes in the economic environment in which it operates.

The objective of taxation consists in calculating, charging, placing, tracking payment of taxes and contributions due from economic units, state.

These objectives are achieved by promoting financial policy economic and social. Taxes are a form of sampling a part of the income or property of individuals or legal entities to the state to cover its expenses. This sampling is necessarily non-refundable basis and without consideration of the state. It is necessary that fiscal rules to be known and respected as from payer and the tax authorities.

The objective of the economic entity, of the owner is to make a profit. Ownership unbundling and power within the entity favored the development and other objectives, but whose implementation remains subject to obtaining a satisfactory profit. These goals relate to increasing or maximizing sales and the quality of service rendered or goods.

Making a profit remains, therefore, the first purpose of the entity, but not only.

Accountant objective is to achieve the first three objectives respecting accounting and tax rules so that:

- To present a true and fair view of the financial position, financial performance of the entity and changes in financial position and financial performance (the objective of accounting);
- Ensure the correctness of the calculation and recording taxes owed by the economic entity (which consists of fiscal objective);
- To build the desired result as beneficial owners using tax incentives and accounting and tax treatments, when the choice (within the limits of the objectives of the two fields of accounting and taxation).

When accounting principles are in conflict with the taxation, arise the problem about the reconciliation between accounting, which represents the interests of society, and taxation, representing the interests of the State.

Relation accounting-taxation is a subject that can be analyzed in the context of optimizing fiscal management company.

Tax administration is considering tax parameter, respectively the entity's tax obligations. Effective realization of the fiscal management objectives is by fiscal policy entity as concrete manner using specific tools and techniques.

Searching and performing of fiscal security must ensure relationships between entity and taxation regarding substance and form and payment postponement imposed by tax law. Achieving this objective involves the carrying out of appropriate allocation of financial resources to avoid delay penalties, fines and tax penalties.

Searching and performing fiscal efficiency refers to the fact that the entity needs to optimize its economic and financial relations with taxation. Entity behavior in this direction is possible in the system of taxes and contributions provide ways of instigating entity taxable amount on line growth or profit use in certain destinations. For example reinvestment of profits involves tax reduction.

In a research study on normative type concerning change that occurred in the accounting regulations in Romania² in the last ten years, the authors concluded that "at present, in Romania, accounting and taxation is disconnected, only barrier left to overcome in custom accounting practitioner to think in terms of economic transactions tax".

² M. Ristea, I. Jianu, I. Jianu, *Experiența României în aplicarea Stadardelor Internaționale de Raportare Financiară și a Standardelor Internaționale de Contabilitate pentru sectorul public*, Transilvanian Journal of Administrative Sciences, 1 (25)/2010, p. 188.

Although formally accepted, disconnecting between accounting and taxation, in the implementation process continues to face many difficulties. It can see great progress, sometimes unexpected, followed by recovery and reinterpretations, as noted G. Popescu³.

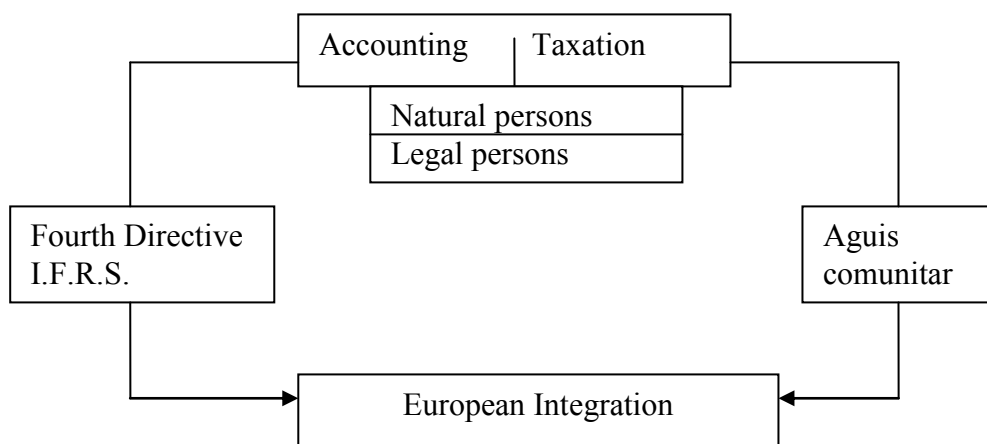
But there remains an artificial dependency between taxation and accounting, maintained by the practice. And we refer to situations in which, although there are accounting rules, it choose the taxation rule to the detriment of accounting one, for several reasons: convenience, saving time and administrative costs. An example of this is the depreciation: accounting rules may differ significantly from fiscal rules, which has the effect of keeping the two records amortization: accounting (in the accounting records) and tax records (in a special register for this purpose).

In practice it is usual to use the same method of depreciation for accounting purposes and tax purposes to avoid complications regarding double records depreciation. Most often, however, the accounting rule is deliberately circumvented in favor of the tax. Is the valuation of the inventory reflected on the balance sheet, assessing the taxation is not recognized. There are few accountants specialists who respect the accounting rule in this regard.

In general, in case of separate tax rules, different from accounting rules, must be applied two sets of rules, which may increase the bureaucratic burden on businesses. It can lead most of the time, to the failure to comply with accounting principles.

Taxation has also passed through many changes in the last twenty years. Some of the changes were dictated by state fiscal policy, by the political interests of various parties in power, and some of integrating, in 2007 the European Union. All changes related to harmonized taxation had a direct impact on each category of taxpayers, individuals and businesses, and from an accounting viewpoint changes confirms that all plans must be made for the image correlation both fiscal and accounting statements financial statements to reflect reality and to be comparable at both micro and macro level.

Briefly we can imagine the relationship between actors participate in the economic and tax in close interdependence, each generating a stimulus on the other, as shown below:



We can conclude that an important step has been made regarding the separation by the tax accounting rules on a regular, but not enough specialists as long as your account remains still victims of economic transactions habit of thinking in terms of taxation. It is imperative to achieve this separation in practice, involving the need for thorough preparation for mastery of accountants to detail the laws and accounting rules, so as to understand and to learn and to master those taxes.

³ Gheorghe Popescu, Adriana Popescu, Cristina Raluca Popescu - *Imaginea fidelă versus fiscalitate în contabilitatea românească a anului 2006*- Gestiunea Publishing, Bucharest, 2006.

But there are many problems that an accountant is forced to face and largely state they are caused by excessive bureaucracy, the greater the number of laws that come into amending the Tax Code and accountants who make trouble.

In our opinion, although difficult path from addiction to disconnect taxation accounting has been completed, there is still a hard and difficult road from theory to practice. Theorists believe that it is the duty of helping practitioners, through their work, understand and follow this path.

Our proposals which aim to disconnecting between taxation and accounting refer to the following:

1. Assurance of a stability regarding legal provisions at least at the level of a financial period, although we consider that normative acts should have effect over a greater period. Our proposal stops at the financial period in the conditions in which the legislative modifications take place in Romania with great frequency and in any period of the year. Otherwise the fiscal stability represents an essential condition for the predictability of the fiscal and business system from our country.

2. Publication of legislation and modifications brought to this in an adequate period of time before the date of coming into force, so that the entities affected by the new legislation can take the required organizational measures.

3. Publication of application norms, not only at the adoption of a normative act but also at its modifications, at the same time with the regulation act. At present, in most cases there are provisions regarding the publication of norms in terms of thirty days. Since they are not published at the same time with the regulation referred to, a dysfunctionality occurs, many of the normative acts giving rise to misinterpretations for lack of application norms. Besides this, the foreseen term is not observed very often.

4. Use in the normative acts of a common terminology which does not create confusions. In this sense, the Fiscal Code uses at present the term of „provisions” meaning the adjustments for the debts depreciation.

5. A better analysis of the legislation, so that provisions contradictory to those from accounting regulation and fiscal legislation be eliminated, as it is the legislation regarding the fixed assets (corporeal fixed assets in accounting regulations) or at the acquisition of non-corporeal fixed assets which is considered from the VAT point of view, respectively of the Fiscal Code, as an acquisition of delivery of services, even if from an accounting point of view we have a acquisition of non-corporeal fixed assets.

6. Republication of legislation in the accounting and fiscal field after the successive modifications which take place as to enable its adequate comprehension.

7. Simplification or taxes reduction (of the number of taxes) as well as of the fiscal statements which would lead to the diminution of time and resources used in this sense with a result, as it followed from the empirical study made, and upon the true and fair view presented in the financial statements.

8. For the situations in which the accounting regulations foresee more accounting treatments, leaving to economic entities the choice of one of them, we consider that it should exist some conditionings and norms in this sense which would minimize the impulse to creativity. The Romanian economic environment is not prepared to use the options with the purpose to present a true and fair view.

9. From the empirical study, we draw the conclusion that in most cases, where the taxation doesn't recognize an accounting treatment, this doesn't apply in practice. It is the case of balance sheet evaluation where adjustments of depreciation are not registered in most cases because they are not allowed by taxation. We propose in this sense the setting up of an obligation, so that the information from the accounting reports be complete and also comparable with those of the entities which observe the principle of prudence and recognize the depreciations in the financial period in which they appear.

10. We consider that the only solution to prevent the financial statements from fiscal pollution is to separate the accounting 'work' from the fiscal one, so that these two be performed by different persons. Although it requires an additional consumption of financial resources, this measure will guarantee the presentation of an image not altered by fiscal provisions by means of financial statements.

11. We consider that raising more awareness of all who contribute to the drawing up of financial statements, starting from recognition and evaluation and finishing with their elaboration, will have an impact upon the observance of accounting reports' objective. We propose in this sense the delegation of responsibilities when drawing up the financial statements starting from the regular level, the lowest on the managerial chain.

12. For a good informing of the factors implied, not only of institutions but also of those who prepare and assume the responsibility for the information comprised in financial statements, it is necessary the setting up of **a strategy of communication** which should have in view at least the following aspects:

- communication between the institutions of the State and professional organisms on one side and the business environment on the other side;
- communication between the economic academic environment and professional organisms in view of correlation of studies programs with the demands imposed by professional organisms, demands which result as a rule from European Directives or from standards regarding education.

13. Last but not least, we believe that it is necessary the periodical evaluation of professional accountants and even of auditors and of the way in which they respond to the demands imposed by the norms and standards issued by the specialty organizations to which they belong.

Conclusions

As a **general conclusion** of the present work, we can consider, without reserves that **significant progress was made in Romania regarding accounting and taxation as well as regarding the disconnection of taxation from accounting**. This process of perfection of the accounting and fiscal system needs a special attention in the future because on an international and European plan, the mentioned fields are very dynamic, fact which also influence the national environment in the conditions in which business doesn't know boundaries and its effects, favourable or not, spread very quickly.

The conclusions, the results of the research and the examples expressed in this work can be a source of information which can be taken into consideration by the management of entities in order to establish, apply or change their own accounting policies in the context in which we all should be aware that accounting regulations corresponding to European directives encourage the disconnection of accounting from taxation.

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