

## **Fiscal and accounting policies on the income taxes. Conciliation between accounting and taxation at the company's level**

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**Abstract:** *In order to develop commercial relations, the harmonization of the tax system with the accountancy of the company is oriented towards the elaboration of accounting policies pursuing the interest of the management to enforce the development strategies and sending the necessary information to the shareholders in order to underlie the economic decisions. The purpose of this paper is to highlight the relation accounting – taxation and the tendency in the approach of this relation showed by the managers of the companies from the point of view of income tax. The research methods took into consideration qualitative methods. The reading and systematization of the specialty literature enabled an overview of the accounting – taxation and shaped an action direction for the harmonization process intensification at the company's level.*

**Key-words:** *accounting and fiscal policies, accounting – taxation conciliation, income tax, company*

### **1. Introduction**

The accounting and tax policies are the expression of the information needs of management, as the basis of the economic decision substantiation in different economic contexts. Viewed as a way of management and control of the economic operations, they offer credibility in sending the necessary information to the shareholders in order to adopt the decisions (Petre 2010, 12). The accounting policies adopted by the company must comply with the economic legislation as well as legislation in general. This is how the accounting and the tax policy are put together as an approach of the local and central authority, mainly as a source of the tax incomes of the state and economic arm in the process of economic growth.

While accounting aims at setting the bases for calculation of taxes, taxation has the burden to establish rules to adapt better accounting functions (Baba 2013, 534).

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The connection between accounting and taxation existed, exists and will exist continuously, the basic problem being the one of relation's intensity (Cuzdriorean 2011, 10). The intensity of the relationship between accounting and taxation must also be studied from the point of view of the authority regulating the two fields. Unlike the countries where accounting is disconnected from taxation (USA, for example where the regulation authorities are different), in the Romania the authority having attributions in the accounting field is the Ministry of Public Finances and in the fiscal field is the National Agency of Tax Administration – institution subordinated to the Ministry of Public Finances. In these circumstances the image projected on the connection between accounting and taxation is the one of partial connection.

Accounting is the determination basis of the taxes due by the companies to the state and in this context we cannot speak about total disconnection but only of partial disconnection of accounting from taxation. From the multitude of taxes and duties applied on the economic activity of the companies the interest is focused on the profit tax and on the value added tax. The two types of taxes govern the business administration process at microeconomic level and they are found in the strategy of determining the company's accounting policy strictly connected to the fiscal principles.

Nowadays, we acknowledge the dependence between taxation and accounting and the perspective orientation towards harmonization and disconnection in reaching the goal of increasing the role of the financial – accounting information in substantiating the economic decisions (Oprean 2012, 21).

The connection between taxation and accounting is felt within the companies at the level of the issues such as the evaluation of different elements of the financial statements, reevaluation and redemption of the tangible assets, accounting and fiscal treatment of the depreciation of assets, provisions, profit tax (Oprean 2012, 22).

## **2. Research Methods**

The paper aims at the identification and analyzing a set of accounting and fiscal policies on the profit tax and the way they influence the information presented by the company. Considering the particularities of their enforcement, we present the ways of reaching a conciliation of the two business fields at the company's level. The research methods used to draft this paper exclusively aim at the qualitative type methods. The documentation (study of the specialty literature) and the compared analysis are completed in the approach of the paper also by the critical observation and by the inductive and deductive type reasoning. Reading and the systematization of the specialty literature and especially the documents issued by professional authorities as well as articles and studies in the field of the accounting profession enabled us to shape an overview on the issues related to the aspects related to the relation of the accounting and taxation relationship from the point of view of the profit tax.

*The goals* aimed at in the documentation were:

- ◆ identifying the most important benchmarks on the relationship between the accounting and taxation at the company's level;
- ◆ determining the impact of the national regulations on the accounting – taxation relationship;
- ◆ identifying the accounting and fiscal policies having impact on the profit tax;
- ◆ identifying the impact of the analyzed policies on the conciliation process.

The obtained results are materialized in the design of potential accounting and fiscal policies useful for the companies in the evaluation the financial position and of the performances.

### **3. Results and Discussions**

Accounting is a strongly applicative science, its object of study evolving in time from the simple technique of recording into the accounts to the execution of economic – financial analyses.

Taxation is considered as a set of laws and rules referring to taxes (the legal aspects) and as a feature of the state policy in term of taxes and duties.

In the relation between accounting and taxation the analysis elements refer to: the use of the accounting information (management vs. state); the main interest of the management of a company; the authority regulating accounting and taxation; the harmonization process substantiating on the application of the IFRS (Cuzdriorean 2011, 10).

From the point of view of the intensity of the relationship, the ratio between the two fields can be considered from five perspectives: disconnection, connection referring to identity, taxation highly influencing accounting, taxation little influencing accounting, a balance between fiscal and accounting policies. Therefore, the relationship between accounting and taxation can be considered both from the point of view of mutual influencing and of the influence of one on the other.

At international level, IASB (International Accounting Standards Board) and FASB (Financial Accounting Standards Board) pays a particular attention to the accounting principle of the profit tax by means of “International Accounting Standard 12 – Income Taxes”, namely SFAS 109- Accounting for Income Taxes (Statement of Financial Accounting Standards No. 109) and at European level the interest is shown by means of directives. Therefore, deferred taxation is a reality stipulated by the international financial reporting standards IFRS, the laws of the European Union and the Romanian accounting and fiscal laws. To determine and register in the accounting the deferred taxes, the basic rules are included in “IAS 12 – Income Taxes” and in the Decision of the Ministry of Public Finances 9/2003 for the approval of the solutions on the application of the legal provisions on the profit tax, corroborated with the accounting regulations harmonized with the European

Directives and the Accounting International Standards.” The obligation to calculate and outline the deferred taxes is of the entities applying the international Standards of financial reporting.

The comparison between IAS 12-Income Taxes and the European Directives outline the deferred income (as defining elements featuring IAS 12) and the different orientations of the two references, IAS 12-Income Taxes having being more significantly oriented to the real needs of the shareholders as the main user of the accounting information, compared to the one of the European Directives where prudence represents one of the defining elements.

The reflection of the accounting – taxation ratio, in the practice of the companies is outlined by the existence of the accounting (Busuioceanu 2013, 19) and fiscal policies aiming at the profit tax.

### **3.1. The Implications of the Accounting Treatment According to International Accounting Standard 16-“Property, Plant And Equipment”**

A special situation is determined by the differences appearing between the estimated useful lives, according to IAS 16 –“Property, Plant and Equipment” and those determined according to the Government Decision no. 2139/2004 for the approval of the Catalogue on the classification and normal operation times of the assets. In this situation the deductible depreciation is calculated according to the Government Decision no. 2139/2004 and registered in the accounting.

Thus, analyzing the situation of the entry of an equipment in the studied company, we can draw a conclusion on the temporary differences considering the information: the equipment was purchased on 01.01.2002 (8.000 lei purchase price) and its estimated lifecycle is of 10 yeas and the cost redemption shall be fiscally deductible for 8 years; the profit tax is of 16%. The residual value is estimated to be insignificant and the benefits generated by the use of the asset are taxed by 16%. In the profit and loss account we shall have the following elements:

In the years 2002-2009, we shall register a deferred tax of 32 lei/ year:

<i>692 Deferred profit tax expenses</i>	=	<i>4412 Deferred profit tax</i>	32 lei
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In the years 2010-2011, we shall have a reduction of the deferred tax expense of 128 lei/year:

<i>4412 Deferred profit tax</i>	=	<i>792 Incomes from the deferred profit tax</i>	128 lei
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Below is the table presentation:

<i>Date</i>	<i>Balance sheet value</i>	<i>Taxation basis</i>	<i>Temporary differences</i>	<i>Deferred tax – liability</i>	<i>Variation in that year</i>
31.12.2002	7.200	7.000	200	32	32
31.12.2003	6.400	6.000	400	64	32
31.12.2004	5.600	5.000	600	96	32
31.12.2005	4.800	4.000	800	128	32
31.12.2006	4.000	3.000	1.000	160	32
31.12.2007	3.200	2.000	1.200	192	32
31.12.2008	2.400	1.000	1.400	224	32
31.12.2009	1.600	0	1.600	256	32
31.12.2010	800	0	800	128	-128
31.12.2011	0	0	0	0	-128
Total					0

Table 1. *Deferred tax according to „IAS 12 Income Taxes”*

In the 10 years of use, the accounting profit of the company evolved in the following way (the profit share is of 16 %):

<i>Year</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>2006</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>	<i>2010</i>	<i>2011</i>
Accounting profit	5000	7500	8500	10000	10500	11000	11500	12000	13000	13500
Non deductible expenses									800	800
Fiscal deduction	200	200	200	200	200	200	200	200		
Fiscal profit	4800	7300	8300	9800	10300	10800	11300	11800	13800	14300
Current / exigible profit tax expenses	768	1168	1328	1568	1648	1728	1808	1888	2208	2288
Evolution of the profit tax										
Deferred tax expenses	32	32	32	32	32	32	32	32		
Income from the profit tax									128	128
Profit tax expenses	800	1200	1360	1600	1680	1760	1840	1920	2080	2160

Table 2. *Accounting and fiscal profit in the period 2002-2011*

According to the Order 1690/2012 par. 124 on the amendment and completion of accounting regulations, published in the Official Journal no. 857 of December 18<sup>th</sup> 2012 – (1) Profit tax which, according to IAS 12, is recognized in other elements of the global result, thus defined according to the provisions of IFRS, outlines in the

account 1034 “Current profit tax and deferred profit tax acknowledged on the grounds of the equity”, distinctly monitoring the current profit tax and the deferred profit tax. This account also outlines the deferred profit tax according to the legal reserves and other reserves stipulated by Law no. 571/2003 on the Tax Code, with subsequent amendments and completions.

(2) In the account 1034 “Current profit tax and deferred profit tax acknowledged on the grounds of the equity” the profit tax according to balance carried forward or other components of the equity are not outlined and they are directly reflected in the particular element of the equity.

The determination and the registration of the profit tax can be studied considering the influences of the accounting policies afferent to the interest expenses, the accounting policies on the stocks, the accounting policies in the provisions and the adjustments for assets depreciation.

Therefore, the deference of the fiscal obligations can be made by drafting accounting and fiscal policies on *the optimum choice of the depreciation regimes and of the estimation of an asset economic life cycle*. The actual manner of using the principles, rules and specific practices applied by the company finds a correspondent in the impact on the indicators presented in the financial statements.

#### 4. Conclusions

In studying the relationship between accounting and taxation we assumed the existence of the special user of the accounting information - the state. In this context accounting adapts and develops the work instruments so as to satisfy the information needs of the consumer creating a source of information for the fiscal authorities.

The carried out study reveals the interdependence of accounting and taxation and sometimes we can consider that this is decisive in the fiscal administration of the company. The elements contributing to the definition of the accounting – taxation ratio within these coordinates are meant for the users of the accounting information, especially management and at the opposite end the state.

The debates on the relationship between accounting and taxation from the point of view of the prudence versus the accurate image principle (currently exact representation according to the Conceptual framework of IASB) are permanently on the agenda of the regulation authorities.

As far as the profit tax is concerned, at the European level, the European Directives governing accounting in the European Union (EU) do not stipulate a specific accounting treatment the only existing approach is the indirect approach from the point of view of the accounting principles (continuity of the activity, as far as the receivables on the profit tax are concerned, namely prudence, as far as the liabilities on the deferred tax are concerned, in this last case stipulating the creation of provisions for taxes as an alternative for the international accounting treatment ).

The acknowledgement and the evaluation of the deferred taxes cause a different accounting treatment within the two accounting referentials even if the end result had in mind is the same.

Thus, at the company's level, the elaboration of accounting policies strictly correlated to the fiscal principles can have implications on the indicators reported in the financial statements, particularly on the profit and loss, from the following points of view:

- ✓ Use of the depreciation method;
- ✓ Determination of the depreciation period;
- ✓ Deference of certain incomes recognition;
- ✓ Registration of incomes or expenses generated by the operations carried out with the affiliated parties.

The overview of the international accounting and fiscal environment where the presence of the connection between accounting and taxation is maintained, has as coordinates the approaches of the converge processes of the international referentials on the profit tax and on the determination of a common fiscal basis at the EU level.

The study of the taxation and accounting relationship at the level of the national regulations does not have as result a harmonious representation of the two fields, considering that "*the philosophy of the public finances is currently in flagrant contradiction with the principles of health economic development*" (Chițoiu 2009, 5). As such, fiscal relaxation, its simplification and the legal stability for the business environment, the measures to simplify and improve the administrative – fiscal capacity can be factors to develop the business environment that needs economic freedom and friendly taxation.

In expressing an opinion on the intensity of the accounting taxation relationship we must have as coordinates the complexity, the economic implications, the political and administrative implications also presented by the specialty literature.

The results of the study revealed the existence of connections between accounting and taxation whose intensity is differently shown depending on the complexity of the company's business, the interests of the accounting information users. The accounting treatment applied by each entity is selected depending on the influence factors of the accounting and taxation relationship.

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