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Illustrating the Relationship between Accounting and Taxation – A Romanian Approach. The Ishikawa Diagram

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Abstract

It can be stated that in Romania there is a clear dependence of taxation on accounting that one can argue biases the quality of the information provided by the accounting information system. In this paper the authors analyzed, by use of environmental analysis and different methodological methods several possible causes that conduct to the statement of the following paradigm: “The accounting information quality is biased by taxation”. In order to achieve this, as an environmental analysis tool the Ishikawa diagram or cause-effect diagram was used. The main findings are that in Romania, to a large extent, accounting is not disconnected from taxation, although steps were made in this direction through the adoption and implementation by the listed companies of the IFRS. There can be noticed a book-tax alignment tendency in what concerns the accounting result and the tax result, although there are regulatory differences meant to address the possible temptation towards the manipulation of the accounting result by the taxpayer. To some extent it can be argued that the main user of the financial reports issued according to accounting rules and regulations is mainly the state and to a smaller extent the other stakeholders and that sometimes professional judgments made by specialists when choosing accounting policies and treatments are influenced by taxation.

Keywords:

Accounting, taxation, cause and effect, the Ishikawa diagram.

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1. Introduction

The current scientific research conducted regarding the subject debated in this paper presents the relationship between accounting and taxation as an intertwined one, some worth of mentioning perspectives being those of Ristea [1] who believes that there is a dichotomy between accounting and taxation, the two being connected in some ways and disconnected in others.

Bunget et. al. [2] define the relationship between accounting and taxation as representing “a field of convergence and divergence, of tolerance and intolerance”, at present a great importance being granted to accounting judgments, considering the fact that most fiscal taxes and contributions are based on accounting information.

Paliu-Popa et. al. [3] affirm that in Romania, as in other continental European countries (France, Germany, Spain) accounting is obviously influenced by taxation. An empirical study achieved by Fekete et al. [4] came to the conclusion that in Romania, the secondary influence factor of accounting policy decisions is taxation, which explained a large number of the choices made by specialists in accounting policies and treatments.

2. Problem Statement

Although the purpose of accounting is the presentation of an accurate image of the economic entity and the main objective of taxation at macroeconomic level is the collection and management of fiscal resources and at the level of legal and natural persons the taxation of profit or income, in many aspects it can be stated that the two – accounting and taxation – are neither divergent nor neutral to one another.

In our opinion there is a clear dependence of taxation on accounting that one can argue biases the quality of the information provided by the accounting information system.

3. Research Questions/Aims of the research

The main aim of this paper is to identify and analyze at country level, in Romania, the main possible causes that conduct to the statement of the following paradigm: “The accounting information quality is biased by taxation”.

4. Research Methods

In order to identify and analyze several possible causes that conduct to the statement that, to some extent, in Romania the accounting

information quality is biased by taxation, an environmental analysis tool will be used, that is the Ishikawa diagram or cause-effect diagram, along with other different methodological research methods (deductive research, descriptive research and synthesis).

According to Stanciu et. al. [5] “the cause-effect diagram (Ishikawa or fishbone diagram) starts from the problem and determines the causes. The causes are examined by differentiating the main ones from the secondary ones in determining the effect.”

5. Findings

In our opinion the causes that lead to the bias of the information provided by accounting due to the taxation influence, can be illustrated as depicted in Figure 1.

Figure 1: The Ishikawa diagram illustrating the relationship between accounting and taxation. Source: projection by the authors

The main causes leading to the effect that in Romania the accounting information quality is biased by taxation are the following:

Cause 1: The accounting is not disconnected from taxation

A research [6] carried on the relationship between accounting and taxation revealed that there are two types of reports: integrated reports – that presume an intersection between tax and accountant interests, which lead to the need of presenting reconciliation between accounting and taxation, and neutral reports – when accounting information is used for taxation purposes.

According to Romanian regulations the tendency is to connect the fiscal and the accounting results as much as possible, in other words a book-tax alignment and at the same time to keep a disconnection between them, in order to address the possible temptation towards the manipulation of the accounting result by the taxpayer.

Moreover, usually the same person, the professional accountant is the one in charge both with the accounting and the taxation responsibilities (keeping accounting and tax records, issuing and submitting tax declarations, issuing and submitting annual financial statements, etc.).

Cause 2: The lack of accounting and tax harmonization

In terms of accounting and tax harmonization, according to some opinions [7] “the adoption of IAS/IFRS in the European Union had an important impact over the accounting environment in countries where it is a binding link between accounting and taxation, this impact being in the sense of decreasing the link.”

In Romania only the companies whose securities are accepted to be traded on a regulated market must apply IFRS while preparing individual annual financial statements, the unlisted entities using the national accounting regulations (the Order no. 1802/2014 of the Minister of Public Finance approving the accounting regulations).

The most recent research that focuses on the link between accounting and taxation concludes mainly that there has been a noticeable dilution of the intensity of this relationship, under the influence of the accounting harmonization. However, according to Jiraskova et. al. [8], none of the European Union’s countries have accepted profit and loss under IFRS as the tax base for income.

Cause 3: The necessity of satisfying the tax authorities’ need of information by accounting

The accounting information is addressed to a large number of users, whose needs and expectations are diversified and varied and sometimes even diametrically opposed. Therefore the accounting must supply an asymmetrical demand for information.

To some extent it can be argued that the main user of the financial reports issued according to accounting rules and regulations is mainly the state and to a smaller extent the other stakeholders (owners, shareholders, investors, employees, lenders, etc.).

Moreover, in accordance with some opinions [9], “the accounting information system structure and its functionality are oriented towards satisfying taxation purposes”.

Cause 4: The accounting result and the tax result

The computation method of tax base in the tax authorities' optics is different from the financial accounting view. There are different fiscal and accounting rules for determining the accounting and the tax result, from a legislative framework point of view accounting and taxation being disconnected.

Cause 5: The same regulatory institution

In Romania, taxation is regulated by the National Agency for Tax Administration, which is under the subordination of the Ministry of Public Finance, and accounting is also regulated by the Ministry of Public Finance, under the supervision of the Board for Accounting and Financial Reporting. Thus, taking into account that both the accounting rules and the tax rules are drawn up by the Ministry of Finance, the interdependency between accounting and taxation is omnipresent.

Cause 6: The accounting decisions are sometimes influenced by taxation

This paradigm refers to the cases in which the decision factors in the entities, in order to be able to use a certain tax regime or legal tax advantage have to adapt the accounting to certain criteria.

Another aspect would be that the professional accountant, as a habit derived from practice, many times judges the economic transactions in terms of taxation. To support this idea, the result of a study conducted by Pop et. al. [10] on the perception of practitioners about the accounting-tax relationship showed that "accountants consider the concept of true and fair value having three significant components: the economic content of accounting information, tax regulation and accounting rules."

Cause 7: The fiscal data is drawn from the accounting information system

It can be stated that the accounting represents the database from which the fiscal data is collected in order to provide it to the final users, in this case the tax authorities. In order to establish the tax base, the accounting information system is used for extracting data which afterwards is to be processed as per the fiscal rules and regulations.

According to the studies completed by Fekete et. al. [11], by means of statistical tools it can be concluded that the fiscal influence over accounting numbers varies by firm size: while big entities clearly separate their accounting and tax records, small and medium-sized entities have mixed records, and the micro entities have (almost exclusively) tax records in their accounting system. Therefore, the lowest influence of taxation over accounting is manifested on the big entities' level.

6. Conclusions

In conclusion, the research conducted by use of the Ishikawa diagram as an environmental analysis tool determined that in Romania to a large extent accounting is not disconnected from taxation, although steps were made in this direction through the adoption and implementation by the listed companies of the IFRS.

There can be noticed a book-tax alignment tendency in what concerns the accounting result and the tax result. However, in what concerns the computation formula there are regulatory differences meant to address the possible temptation towards the manipulation of the accounting result by the taxpayer.

The fact that in Romania the same public institution, the Ministry of Public Finance regulates the accounting and the taxation domains, as well as the fact that the professional accountant in an entity has both accounting and tax duties and responsibilities the interdependency between accounting and taxation is omnipresent.

Other particularities that illustrate this interdependency are:

- currently the accounting is providing the necessary data input to tax authorities, in many ways accounting serving tax purposes;
- professional judgments made by specialists when choosing accounting policies and treatments are influenced by taxation;

although there are regulated analytical records that have to be kept for fiscal purposes a large amount of fiscal data is extracted from various accounting books and accounts;

- the process of choosing accounting policies has a quantifiable impact on the quality of the information provided to all interested users, including the tax authorities, etc.

All the above mentioned factors combined lead us to the general conclusion that between financial accounting and taxation there co-exists both a merge and a split. The informational accounting system is providing the ends for both accounting and taxation, but there are substantial differences between accounting and taxation's rules and regulations. Therefore we can state that to some extent the accounting information quality is indeed biased by taxation.

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