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DYNAMICS BETWEEN TAXATION AND ACCOUNTING AT THE LEVEL OF NATIONAL ECONOMIC REALITY

PhD. Eugeniu TURLEA[1]*, PhD. candidate Mihaela Daciana NANU[2]
[1] Faculty of Accounting and Management Information Systems
The Accounting and Audit Department, E- mail: eturlea@yahoo.com
University of Economic Studies, Bucharest, Romania
[2] Faculty of Accounting and Management Information Systems
The Accounting and Audit Department
University of Economic Studies, Bucharest, Romania

Abstract

The economic reality within the recent years has rushed the re – grouping of priorities, the re-thinking of business, has led to a number of alliances between companies so as to be able to focus on the efforts to maintain the latter on the market, with the consequence of one being extremely concerned with providing for liquidities in an attempt to enhance and consolidate one company's financial stability.
In their attempt to get and also maintain an economic efficiency, companies begin to pay more and more attention to accounting policies, trying to maintain the balance between the latter and the tax policies.

Keyword: Accounting systems, tax systems, tax policies

JEL Classification: M41

Corresponding author: Eugeniu TURLEA, E-mail: eturlea@yahoo.com

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I. Introduction

The accounting being dependant on taxation, or the influence that taxation seems to exercise on accounting in certain economical environments, have been approached and subject to fundamental or empirical studies for a long period of time, and the spectrum of connection has stood for and still keeps on representing one studied area (Graham et al., 2011) with a great deal of future directions for one to research, interpret and clarify.

At the level of transitional economies, such as the case of Romania, one has highlighted several specific aspects, such as the cultural influence, the post – communist background, which was capable of impressing some sustainable behaviors, just as highlighted by a number of studies on similar economies (Sucher and Jindrichovska, 2004) and which impress several conceptual frameworks which cannot be translated from other economic environments, regardless of the method of implementation (Broadbent and Laughlin, 1998).

Romania, finding itself within the recent years under the cultural and political influence of the European Union states based upon its adherence to the European Union as well as given the post – adherence period of time, stands for an interesting research environment in terms of the connection between accounting and taxation and even more than that, it may also provide some new items.

Given such circumstances, the research has been focused on aspects relating to:

1. The relationship between accounting and taxation in terms of the connection and disconnection from the perspective of the influential factors.

The most plausible premise when talking about a possible relationship between accounting and taxation is related to the intention of each and every single economic entity to pay as small taxes and fees to the local budget as possible, when at the basis of each such tax computation there lays the information coming from accounting.

In order to classify the relationship between accounting and taxation from the perspective of the connection or disconnection by means of the influential factors, the aims have been:

1.1 The determination of the range in which such accounting and taxation express themselves;
1.2 The accounting systems vs. the tax systems at the international and national legislative level;

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1.3 Connection vs. disconnection – *the dilution of the relationship between accounting and taxation.*

I.1. The determination of the range in which such accounting and taxation express themselves:

Economy internationalization leads to economic globalization which expresses itself by its components, of which a particular interest to us is represented by the accounting and tax globalization. In the evolution towards a modern society, within the economic and social environment there is room for the two management sciences, accounting and taxation, which have some specific objectives, principles and norms.

Accounting globalization aims at turning the accounting system into an economic and financial model, which shall provide more accurate and faster information to the users of such accounting information, particularly investors, shareholders and creditors.

The International Accounting Standards are the outcome of the globalization process, if one considers the role played by the globalization process within our contemporary society. The facilitation of communication, by which such globalization process extends and is carried out, passes thus through the accounting field, and the latter has been forced to take the necessary steps towards internationalization.

In terms of the tax globalization, there occurs the international tax double taxation which undermines the cooperation between the states, such taxes becoming thus a sort of barriers. To this end, the focus is laid on the development of the international tax legislation, there being required an international tax system which should come to avoid both such double taxation and the avoidance of the double “non – taxation” of the same income, as well as the accomplishment of a certain balance between the need for budgetary resources of a given country, in the need to attract foreign investments.

The beginning of the 21st century confirms the fact that the national development is influenced by the world global competition, so that the operating, financial and investment related decisions have accounting and tax implications, and the knowledge of the regional and international accounting and tax rules stands for the connection so as to have a fair interpretation and understanding within the business connections around the world.

Thus, we are part in an accounting and tax globalization process, as component elements of economic globalization.

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I.2. Accounting systems versus tax systems at the national and international legislative level:

The accounting systems stands for methods for getting the financial information by the external users, as concerned. The latter are influences, from the perspective of production and of the presentation of such accounting information, by several factors determining the objectives of accounting. The general framework is the Anglo – Saxon framework, standing for a coherent system of fundamental objectives and principles well connected in between them, susceptible of leading to the formation of norms and indicating the nature, role and limits of financial accounting as well as of the financial standings. The most relevant such accounting systems are:

- The accounting system of the Continental Europe, based upon the general accounting plan;
- The accounting system of the Anglo – Saxon countries, based upon the general framework;

Companies using the continental system finance their activity mainly by using the bank loans, and the normalization (regulatory) process has a public origin. The accounting rules (norms) are presented through detailed normative deeds (laws).

Taxation is present in the accounting process, by the public nature of the accounting normalization (regulation), the government being interested in information on the level of the taxable mass and the related taxes and fees.

The financial information is dominated by the prudence principle, which leads to the limited character of publishing such accounting information, one may notice a certain alignment of the accounting rules to the tax ones. The main countries where one such accounting system operates are: Belgium, France, Germany, Switzerland, Italy, Portugal, Greece, Japan, etc.

The companies using the Anglo – Saxon accounting system achieve their finance mainly by their own equities (the financial capital markets), and the accounting culture has an individualist character.

Accounting rules are elaborated by professional bodies, the latter being dominated by jurisprudence. In any such cases, accounting gets disconnected from taxation, since the main beneficiaries of the financial information are the investors, and not the government. The main countries using this accounting system are: the United Kingdom of Great Britain and Northern Ireland, the USA, Australia, New Zeeland, Singapore.

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The characteristic of the current system of Romanian accounting norms is represented by the latter's being comparable with the accounting law of the European Union, by the integration within the Romanian accounting law of the provisions of the 4th European Directive regarding the annual accounts of companies, of those from the 7th Directive regarding the consolidated accounts and of the 8th Directive on the norms relating to the auditing of such financial standings.

The accounting classifications, as presented, come to suggest just how diverse and distinct the accounting regulations and practices can be. A significant part in terms of substantiating the national accounting system should be assigned to accounting policies. By complying with the existing legislation, without limitation to the accounting legislation (see the economic entity whose activity has a monopolistic character – namely the energetic industry), the accounting policies are on the one hand the "internal legal framework" for the internal user, and on the other hand they show the position and financial performance of one given economic entity – such information being useful for external users.

The international body for accounting normalization (IASC-IASB) defines such accounting policies as being the overall of specific principles, bases, conventions, rules and practices as adopted by one given entity within the process of the current running of its business activities, of the latter's accounting, in view of drawing up and presenting the financial standings.

Within the meaning given by the International Accounting Standard (IPSAS 1), accounting policies are the specific accounting principles, bases, conventions, rules and practices, as adopted by one entity upon drawing up and presenting the said financial standings.

Whereas the accounting policies sum up the principles, methods and procedures, the computation bases, the assessment rules, the own practices, as specific to each and every single legal entity (company), according to the International Accounting Standards as well as according to the European Union Financial Regulation, "one requires the elaboration of a set (book) of such procedures by the management of every single such legal entity (company) for all operations being carried out, starting from the drawing up of the documents in proof and up to the completion of the quarterly and annual financial standings".

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Upon establishing the accounting policies, one should take into account the strategy of the said economic entity (company), be it towards the idea of developing itself by investments in technology, or towards the idea of maximizing the profit.

In addition to the aforementioned concepts, upon establishing such accounting policies one should take into account both the economic context where the company conducts the latter's business activity and the applicable legislation, by ensuring that the enforcement of such accounting policies shall comply with the going concern principle.

Therefore, the external users of information (for instance investors), for the purpose of choosing the investments they are to make, should be provided with true and complete information on the comparability of the annual financial standings.

At the same time, upon establishing the said accounting policies, one should also focus on the harmonization of these accounting policies, as adopted based upon the accounting regulations compliant with the European directives, with those having been adopted based upon the International Standards of Financial Reporting.

Last but not the least, upon establishing such accounting policies, one should consider the company's appurtenance to a certain group of companies or the consolidated drawing up of the annual financial standings.

As such, under such circumstances, one requires that in the case where one member of the group uses other accounting policies than those adopted in the consolidated financial standings, one should apply appropriate adjustments to this end.

In the case of a group of companies, where the parent company has a branch with a distinct object of activity than that of the group – the conglomerate group, but which however does not draw up any consolidated annual financial standings, the accounting policies shall be established on an individual basis by every single company with the specification within the accounting policies book of the operating variant which shall be constant for every type of event, starting from the fact that the International Accounting Standards and the interpretations of the Constant Committee for Interpretations provide a number of methods of solving certain issues, as well as a number of alternative solutions, by complying with the "professional reasoning", which allows for the choosing of alternatives, the "value judgment" – the basis of accounting solutions, the "significance threshold" – the limit as of which a piece of information is to be treated as significant subject to one's interest.

According to the Romanian legislation, which is based upon the accounting regulations compliant with the 4th Directive of the Council no. 78/660/CEE from

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25.07.1978 on the annual accounts of certain forms of private entities, with the latter's subsequent amendments and adjustments and the Directive VII of the Council 83/349/CEE/1983 on the consolidated accounts, with the latter's subsequent amendments and adjustments, a parent company is exempted from the drawing up of the consolidated annual financial standings, if upon the date of its balance sheet, the entities which are to be consolidated do not exceed on a joint basis, as per the most recent financial standings of the later, the limits of two of the following three criteria:

- Total assets in the amount of 17.520.000 Euros
- Net turnover: 35.040.000 Euros
- Average number of employees during the financial year: 250.

The objectives of the accounting policy differ from one company to another. Thus, *a company turning to public saving pays importance to the financial consequences of the decisions having been taken* (the impact on the distribution of dividends, on the stock exchange ratio, on the vulnerability to a certain public offer of purchase, as well as on the relationship with third parties), *and a small or medium – sized company often tends to favor the tax optimization.*

As a consequence, subject to context, accounting policies may have as their objective, the following: the decrease of the published losses, the decrease of taxable benefits, the increase or decrease of the current result, the increase or decrease of assignable dividends, the temporary flattening of the accounting results so as to reduce the risk perceived by the financial environment, etc.

While in a given strategy for optimization, the accounting policies aim at choosing the most adequate accounting methods within a given regulatory framework, the management decisions shall be required in a strategy for the purpose of avoiding the norms and frontiers (both legal and organizational) of the said company.

The management decisions have as their main finality the presentation of a distinct image of the result, although, deep down in the essence, the two of them do not amend in any way the status and standing of the said company.

Therefore the accounting result stands for an elastic concept, the today company being in a process of constant change, where big technological transformations occur, and where priorities also constantly change.

Also, former ideas are already being abandoned, even discredited, and they are substituted by new ones.

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Evolution is so fast that everything that is visible today, tomorrow it may not get the same coordinates and it may be obsolete. New companies are constantly incorporated and not long after that they go bankrupt. The need for information becomes more and more acute in terms of the coordinates of constant development of the civilized world and requires several new demands in the way of approaching things, as well as presenting and using such development.

Any such piece of information is useful if it affects the decision that any user has to make, within a given context, if the latter had not had any such information.

One pretty non – neglect able aspect is represented by the *influence of professional reasoning on the accounting policies***.**

One such example in terms of the influence of professional reasoning is presented within the Order of the Public Finance Minister, no. 3055/2009 for the approval of the accounting regulations in line with the European Directives, where one makes a clear specification on the use of such professional reasoning in terms of drawing up the accounting policies, as related to the correction of errors.

Significant or non – significant errors may be estimated by establishing a share (0,5%, 1%, 2%) of the assets total, the turnover total, or the own equities total. The significance threshold shall be established subject to the share one has chosen, so as to identify if the errors are non - significant (in any such case the carried forward result shall be affected) or if there are any non – significant errors (in which case the impact falls on the profit and loss account for the current year).

As anyone can notice this, one has to use professional reasoning in a constructive manner, so as not to mislead external users of such financial standings. How could this be? If, for instance, one shall not establish the significance threshold in an objective manner and if one considers a non – significant income (so as not to influence the concluded year result), and if one displays such income in the profit and loss account of the current year, one shall postpone the payment of the tax relating to such income. Or the following scenario may also exist: a company wishing to contract a bank loan, displays a certain expense (a significant one) from the previous year into the profit and loss account of the current year (so as not to diminish the profit for the concluded year), being aware of the fact that bank companies require the most recent financial standings.

In addition to establishing the method of correcting the accounting errors, the accounting policies shall also include the following:

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Estimation techniques – Amortization methods (estimation techniques) shall be chosen and presented in such a manner so as to show the way how economic benefits brought by assets are consumed by the company, the value of such amortization being acknowledged as an expense element. The entity should consider the production capacity, as estimated, it should make a coherent estimation of the physical wear and tear subject to the operating conditions and it should estimate the moral wear and tear as a consequence of the amendments brought to the production process.

For instance, there is a big difference between the expense generated by the linear amortization and the accelerated amortization, the former having an impact with a constant expense for the entire length of such amortization of the financial year outcome, while the accelerated amortization has an impact on the profit and loss account in the first year with an expense which may equal 50 % of the value of the fixed asset which is under amortization process.

One may show either prudence or aggression when it comes to choosing the amortization methods, given the fact that art. 24 of the Tax Code allows us that in the case of technological equipments, computers and the latter's accessories, we may choose between the linear, digressive and accelerated method, however the most important thing is for us to be prudent by specifying the amortization methods, as used, within the accounting policies and we should also keep them on a constant line, from one financial year to the other, by complying with the consistency principle.

Capitalization of expenses with interest **–** One should pay a great deal of attention when displaying the expenses with interest within the accounting policies. Why? Because the latter lead to an increase of the value of the said asset, within the balance sheet position, and if one acknowledges it as an expense element, there shall be an impact on the profit and loss account and, implicitly, this shall lead to an impact on the obtained result.

One may notice that there are several matter leaving room for interpretations and that's why criteria classifying the interest to expenses or the cases when the same shall be capitalized, should be dealt with and displayed in a prudent manner, so as one shall be able to draw up a set of accounting policies, which one shall comply with while drawing up the financial standings and which shall save us from various suspicions coming from control bodies.

Research related expenses and development related expenses **–** A company using the policy relating to the capitalization of the development related expenses may

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have an influence on the said company's result, by classifying these expenses within the research related expenses. As we all know it, research related expenses do not get capitalized and if a company wishes to diminish its taxable profit, it may classify the designing of a technological system (Which under normal circumstances would have been represented a development related expense for the said company and it would have been capitalized), within the research – related expenses, with an impact, thus, on the outcome of the financial year. In order to avoid any eventual problems with the control bodies it is recommended that within the accounting policies, one shall explain the criteria making a difference between research related expenses and development related expenses.

***The assessment methods,* as used –** Assessment methods (the weighted average price, first in – first out method, last in – first out method, etc.) have a significant impact on the balance sheet assets and also on the profit and loss account, where one shows the expenses relating to raw materials. Thus, choosing one method for the assessment of stocks of the entire accounting reference methods, as applied in this case, should be done with utmost objectivity and should be well substantiated in the accounting policies, since such methods have an impact on expenses and therefore, on the financial standings as well.

***Reassessment of assets* –** Reassessment of one tangible asset has an impact on the financial standings. Under no circumstances should we treat the re – assessment with "aggression" within the accounting policies. For instance: we should avoid displaying a higher value of the capital by turning to the re – assessment method, since in the following years the increase of the assets value shall be found in the profit and loss account, at the position representing the expenses relating to amortization and thus, in time, the entire value increase shall be acknowledged as an expense element. Maybe this is the reason why in the Government Emergency Ordinance no. 34/2009, one stipulates the fact that following a surplus of re – assessment, the amortization of the surplus coming from reassessment shall be deemed as an element similar to incomes, therefore it shall be taxed.

Despite the existing differences between the national accounting systems, there are, however, a large number of cultural, social, political and / or any other kind of limitations, in two big accounting orientations, which stand for two models of accounting information requests, generically called the accounting model of the continental Europe, on the one hand, and on the other hand the Anglo – Saxon accounting model.

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At present, *we believe that the trend is to get closer to the Anglo – Saxon model, the interpretation of the faithful image concept still having a main character, the divergence in the harmonization of the accounting structures at the international level.*

Tax systems stand for the expression of the political will of a society organized on a certain territory, they are the result of a historical becoming showing the level of development, a major factor in terms of the decisions and mentalities of the said people.

For so many times the meanings assigned to the taxation term place to the fore only the first side of the processes designated by the latter, namely the processes relating to the mobilization of several financial (tax) resources at the government disposal, with a neglect of the processes relating to the use of such resources through public expenses. This trend is however justified in the conditions under which in the approach of taxation we consider only the legal approach. Instead, from an economic perspective, *taxation should be regarded* from its both sides, the focus falling *both on the side relating to the mobilization of resources (by taxes and fees), and on the side relating to the use of such resources (through public expenses)*. Within this acceptance, taxation focuses on the processes of financial redistribution (secondary distribution) of one part of the gross domestic product.

Taxation stands for a business cost, regardless of the type, size or geographical positioning of the latter.

At present, as a consequence of globalization, of the development of economic relationships between states, we witness a process of getting closer and closer in terms of the tax institutions as well as an increase of the role and involvement of the Organization for Economic Cooperation and Development (OECD) and of the EU in terms of the drawing up of several common rules of conduct. *Subject to the nature of predominant taxes,* one may differentiate between the following:

- tax systems, where there is the predominance of direct taxes, as specific to the governments which are the most advantaged from an economic perspective and which are based upon the global income tax and the tax on the incomes of legal entities;
- tax systems where there is the predominance of the indirect taxes, as specific to underdeveloped countries or those which undergo an economic crisis;
- tax systems with a complex predominance, as specific to economically developed countries, with some balanced social – economic structures and with social – democratic political regimes;

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- tax systems where the predominance is held by general taxes, as specific to the most developed countries, where there is a tax body and an accounting that is very well organized and where one applies the tax on global income, as well as the tax on the gross turnover or VAT;
- tax systems where the predominance is held by particular taxes, as characteristic to non – assessed tax structures, where taxes are placed as per various categories of incomes under the lump sum form.

Subject to the number of taxes, one may differentiated between:
- tax systems with several taxes, which may be found in all countries;
- tax system with a single tax, which are nothing but theoretical constructions.

The tax system is conceived so as to meet the requirements imposed by the social and economic reform, which is currently in process.

The enforcement of a progressive or proportional taxation has triggered some polemics which, in time have contributed to the evolution of the tax systems.

The sole quota was a rule in all industrialized states in the first half of the 19^{th} century, and the idea of the said sole quota has been re – enforced a couple of times after that, with a number of 11 countries adopting a variant or another of the sole quota regime. Yet still, even today there is no “major” western economy which has readopted the sole quota regime. A tax system should consider the economic issues of the period where the latter applies. Of the taxation systems used in the international tax practice, the system based upon progressive taxation is believed to be the one that meets the best the said tax requirements, and for that reason it is applied by the large majority of the developed countries. The achievement of one fair tax system means, as a compulsory condition, in addition to the use of the tax system based upon the composed progressive quotas, the as fair as possible application of each and every single one of the principles of taxation, which shall be correlated and harmonized both one between the other and together with the overall provisions within the entire tax legislation.

By a number of projects on stability and convergence, as elaborated and updated, the EU member states express their intention to amend their tax systems. The reforms of their tax systems differ both in length and in profoundness.

In order to be standardized and applied somehow in a unitary manner, we should come to get know and understand what the common tax coordination of the EU member states actually mean.

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Within the EU, each member state, subject to its tax policy, has several related tax systems. Subject to the objectives they have to meet, the tax policies have been some controversial subjects, however the member states agreed that the purposes of such tax policies should:

- Enable all categories of economic agents, but also the people, to benefit from the advantages of the sole market;
- Aim at accomplishing the objectives, as set, of the EU tax policy;
- Be compliant with other EU policies, such as for instance the policy on the job positions, the environmental policy, etc.

In terms of international taxation, tax policies in Romania have undergone a constant legislative evolution, with the taxation going through the most significant changes. In the recent years, one has implemented some significant provisions from the European legislation, such as the transposition of the directive on the payment of interests and royalties between affiliated companies, of the directive on the common tax regime, which applies to parent companies and the latter's branches from the various member states, or of the directive on the common tax regime, as applicable in the case of the re – organizations between the companies from the various EU member states. Also, in terms of the issue of the constant studies, one has taken over the interpretation agreed at the OECD level.

Unfortunately, the tax environment has been perceived in Romania as an instability factor in terms of the development of the national economic environment and this is either because the amendments have occurred perhaps too slowly or perhaps too fast. The deficit administrative capacity of the Romanian tax system, the increased frequency of legislative changes have led to malfunctions in terms of the tax administration as well as to the dropping of the level of predictability and certainty of the Romanian tax system.

Within the Romanian tax system there should be an expression of will from both sides, including the political will. The tax reform that Romania is going through should tend to improve the structure of taxes: by enhancing the role (weight) of indirect taxes, mainly by increasing the role, excise taxes, value added tax and customs duties.

At the same time, the weight of direct taxes should drop (the tax on profit, the income tax, the tax on dividends, etc.), as related to the weight of indirect taxes.

According to the economic analysts tax policies goes "on the opposite direction" and has several adverse effects, which one shall see in a pretty short period of time, by

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blocking the creation of jobs and lowering the capacity of the power of purchase of the population, taxes are mainly oriented on labor and on the citizen and less on the property, that is on the capital. "*This is where one should place a very careful balance whish shall not have a lethal effect on the capital. Property should be much more taxes since the unbalance begins to have some visible effects in terms of the economic growth, that is in a negative sense*" (Cosea, 2013).

The Romanian system of taxes and duties is characterized by an inefficient correlation of the latter, with an inefficient administration and excessive bureaucracy, a relatively reduced taxation basis, with too many exceptions and legal deductions and a high degree of tax evasion(Deloitte,2009).

In the annual report for 2012 as drawn up by the Tax Board, one shows that Romania has one of the lowest weights of the budgetary incomes in GDP (tax and non / tax incomes), the latter standing in 2012 for only 33,5% of GDP, holding 11,9 percentage points in GDP lower than the European average, according to the annual report of the Romanian Tax Board.

The weight of tax incomes in GDP is significantly lower than in the similar economies such as Hungary (38,1%), Slovenia (37,8%), Czech Republic (34,8%) and Poland (32,4%). " *From the perspective of the number of taxes, the difference is obvious. We have more such taxes because we have a very far-behind institutional system, which has failed to adopt a synthetic vision on taxation* "(Cosea, 2013).

Summing up the analyses and perceptions of the tax – budgetary system in Romania, there is a certain opinion that is shaping, as per which there are two vicious circles in this field (Dumitru, 2014). Thus there is one such vicious circle of the economy that is shaping up, which gets unobserved due to several factors, such as: low budgetary incomes, as compared to the European standards, a high level of tax evasion (in 2013 the total of tax evasion, as measured, reached 16.2% of the total of taxes and duties, as owed), due to the opaque character of budgetary expenses which lead to voluntary non – compliances and last, but not least, the low degree of collecting the budgetary incomes. A second such vicious cycles that is shaping up relates to the low ratio of taxpayers versus beneficiaries within the social insurance systems, this leading to the opinion that the multitude of laws and regulations requires the unification of social contributions.

One tax system that is beneficial for the business environment cannot be built but based upon a transparent and efficient dialogue between the law enforcement agent and the taxpayer (Deloitte, 2009) .

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The efficiency of the tax policy is associated within the mind of the Romanian taxpayers mainly with the investments made in the public sector, as well as the people's welfare.

Those with a clear perception on the role taxation should play in any society are those associating the efficiency of the tax policy with the public assets supplied, as well as they are those from the category of the informed people, those who possess economic knowledge.

The perception of subjects is a major psychological factor having an influence on the compliance conduct, however it is not by far the only single such factor. The compliance intentions are in accordance with the tax compliance level in Romania, which reaches the value of 75 %.

I.3. Connection versus disconnection – the dilution of the relationship between accounting and taxation:

The study of the connection between accounting and taxation cannot be accomplished by making abstraction from the economic environment that we refer to and moreover, without attempting to make a comparative approach with the economic environments which share legal regulations and similar development conditions.

The connection between accounting and taxation has existed and shall keep on being present, the issue is that related to inter – dependency, the intensity of such connection and last but not least, the one relating to the generation of mutual consequences.

The case with Romania shows some similarities with the economic environments from Hungary, Poland, Czech Republic and Slovakia (Ionascu *et* al., 2007; Fekete *et* al., 2009).

The shaping up of Romania's position from the perspective of the connection between accounting and taxation (Fekete *et* al.2009), in the empirical study accomplished at the level of the economic entities quoted on BVB (Bucharest Stock Exchange), has started from the grouping of the economic entities subject to the connection which exists between accounting and taxation, from the perspective of the trend that expresses itself in the economic environment. This is the grouping displayed in *Figure 1.*

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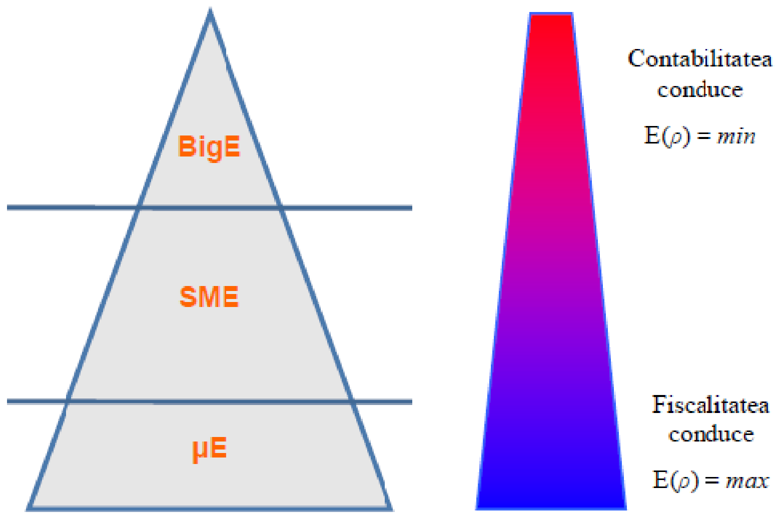
Figure 1 - The pyramid of the size of economic entities from the perspective of the relationship between taxation and accounting



Source: (Fekete *et* al., 2009:11)

Where:

BigE – big entities (big economic entities) – including private and public economic entities;

SME – small and medium size entities;

µE – very small, micro-entities;

E(p) – measurement of the relationship between accounting and taxation by help of the Pearson coefficient.

One may notice the fact that the intensity of the relationship between accounting and taxation is given by the size of the said economic entity, thus a strong relationship (E (ρ) = *max*) between accounting and taxation exists at the basic level of the pyramid (very small economic entities), this relationship getting more and more diluted to the extent one goes up to the top of the pyramid (E(ρ) = *min*).

Another element confirming the existence of the relationship between accounting and taxation is represented by the body regulating such taxation and accounting, in this case there existing two scenarios:

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- In those countries where accounting is disconnected from taxation, the Ministry of Finance is the one regulating taxation, while the accounting professional body has attributions in terms of accomplishing the accounting regulations (for instance in the United States – the country where accounting is disconnected from taxation – taxation is assigned to the IRS (Internal Revenue Service), and accounting is the attribution of FASB (Financial Accounting Standards Board));
- In the countries where accounting is connected to taxation, the attribution relating to accounting and tax regulations falls in the duty of the state bodies (for instance in Romania, taxation is regulated by ANAF (the National Agency for Tax Administration), a body which is under the subordination of the Ministry of Public Finance (MFP), and accounting is regulated by MFP, under the supervision of the Board for Accounting and Financial Reporting, which fact provides for a partial connection of accounting to taxation.

The level of such connection between accounting and taxation is acknowledged to be in itself a significant element of the unitary structure at the level of financial reporting. There are some studies (Ionascu *et al.*, 2007) which believe that the introduction of the International Financial Reporting Standards (IFRS) has stood for a step forward towards the dilution of the connection between taxation and accounting and towards getting closer to the Anglo – Saxon accounting system and they have estimated that the impact of introducing such IFRS is a non – defined one, and the differences are non – noticeable (Spengel, 2006).

In contradiction with the aforementioned, other authors have believed IFRS to be inadequate as a basis for the calculation of the tax burden (Eberhartinger and Klostermann, 2007).

One of the arguments brought by detractors has been the fact that, a less degree of prudence as stipulated by IFRS shall lead to the establishment of some higher and faster profits, this leading to the payment of taxes and fees in a more rapid manner and at a higher value (Eberhartinger and Klostermann, 2007).

As such, the connection between accounting and taxation is a subject matter for research and study purposes which has several valences one hereby making an attempt to approach this matter from the perspective of the latter's dynamics.

The introduction of IFRS as compulsory standards for the consolidated accounts of the economic entities listed within the European Union is a step forward towards changing the accounting at the international level, which may have some of the most

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diverse consequences also on the individual accounts, as far as those non – listed economic entities are concerned.

In the vision of Norberg (2007) this action stands for a challenge for the tax legislation and makes people become more aware of the need for a revision of the theoretical and practical fundament of accounting, as a starting point for the establishment of the tax burden for every single economic entity. Given this context, there appears the need for approaching the common consolidated tax basis (abbreviated CCCTB) at the EU level, and therefore, the need for a revision of the accounting legislation at the level of small and medium – sized enterprises (IMM).

The connection between accounting and taxation has as its main attributes both the complexity and the dynamics.

In Europe, the introduction of IFRS has triggered some accounting standards to be analyzed also by the national tax authorities and not only by several factors getting in connection, such as for instance: the European economic environment finding itself under the influence of IFRS and CCTB; accounting and tax regulations; fundamental accounting and tax concepts; accounting principles, tax principles; accounting objectives and tax objectives; the relationship between accounting and taxation from the perspective of the experiences lived by member states (approaches, typologies, history).

From the empirical studies accomplished by Nobes and Schwencke (2006), Gee *et* al*.*, (2010) one has retained several influential factors of taxation on accounting. Of the latter: the legal reserves, the amortization of fixed assets, value depreciations (adjustments), changes of policies and fundamental errors, the assessment of stocks, research – development related expenses, incorporation related expenses, expenses relating to interests, leasing (both financial and operational one), provisions, fines, donations, protocol related expenses, long term contracts, losses from the differences of currency exchange rates, outcomes of the sales of capital elements, changes of policies and fundamental errors, acknowledgment and assessment (reassessment), etc.

Thus, the recent trend in terms of research that focuses on the area of study approaches mainly the dilution of the intensity of the relationship between accounting and taxation, under the influence of the accounting harmonization.

Accounting and tax harmonization faces some difficulties of the most diverse type. Starting from conceptual debates and up to the latter's related costs, the role played within the latter by the faithful image principle and by the prudence principle.

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Overall, these two actions have as a significant point of resistance the relationship between accounting and taxation, as approached within the context of the Theory of Stakeholders and Society Dynamics.

The relationship between accounting and taxation should be regarded both from the perspective of the existing similarities between the various jurisdictions at the European level and from the perspective of the conceptual differences, as contested.

In Romania, the connections between accounting and taxation are characterized by the fact that the tax authority borrows a large number of rules from accounting.

The influences of accounting on the tax law are explained by the fact that, in order to measure the taxable mass, the tax body has been forced to find some assessment rules, for the delimitation in time, as well as for amortization, etc. It would have been useless to create one's on rules, given the fact that the accounting already had several well – established procedures.

Since in Romania both the accounting rules and the tax rules are drawn up by the Ministry of Finance, the inter – dependency between accounting and taxation is very tight, so that the influences of the tax authority on accounting are more obvious.

II. Conclusion

Our opinion is that the role of accounting should be reconsidered both from the perspective of the international accounting harmonization process, and from the perspective of the influences that globalization has, so that the financial reporting shall be valid and feasible in the social reality of the globalized world.

According to the international conceptual framework, the accounting information is relevant if it influences its users' decisions, as it helps the latter users to make predictions according to previous expectations.

Accounting should provide information for all users, namely the capital investors, the taxation as a representative of the government, the bankers, clients, suppliers – as companies' business partners, the information synthesis bodies of the government and the companies' employees.

In the relationship between accounting and taxation there is a significant issue consisting of the fact that the principles, rules, norms and regulations characteristic to the two components are not similar in all cases. In a regulated accounting, the accounting information is elaborated based upon own principles, regulations and norms. Instead, the

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tax information serves as a basis for taxation, according to the principles, rules and norms defined by the tax law.

While presenting the most significant aspects within accounting policies, we just cannot notice that we are at the beginning of a road where the accounting profession is starting to be given the attention it deserves, with a focus on the objective sincerity as per which an accountant should express his professionalism, within the process of drawing up the accounting policies because it's on these policies that one draws up the financial standings which should not bring and prejudices to the state, or to the shareholders, to that end.

The accounting practices may enable economic operators to present, within certain limits, the results compliant rather with their objectives than with reality.

Some of these practices, called accounting policies come out of the choosing between various methods of accounting and have as a purpose either the improvement of the current result and of the net result, or the amendment of the structure of such result without any impact on the net result.

We should show respect to our profession by drawing up accounting policies that are both objective and prudent. Aggression may lead us towards the area of creative accounting, as from where there is only one step to breaching upon the law. The information within the financial standings should reflect the reality and should lack any subjectivity whatsoever.

The group of economic operators – companies is tempted to optimize its tax regime by localizing its maximum profit, through the commercial operations between the group companies, where the tax, as owed, is lower. Given these circumstances, the business ethics dictates that non – financial transactions and operations between the group companies should be made at the common market price.

The separation of the management of risks (see for instance the conflicts of interests, which may stand for a risk in terms of an independent fulfillment of the risks management), the inconsistent application of the accounting policies from the tax ones, avoiding the latter, knowing the difference that exists between the accounting interest and the tax one, the related distinct rules and the alternatives and opportunities offered by the tax legislation, the tax management should have already become for the economic operators the most up to date component in the activity of professional practitioners.

Although we live in the era of computers, of the precision of advanced technology, where data are being taken over and processed with the utmost precision and

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accuracy, still the economical – financial data precision remains tributary to the reference list in terms of reporting and to the techniques for handling results.

Corroborated with the tendency that taxation should prevail accounting, the administrators of the economic operators get into the apparent spell of company's profitability, minimizing the vitality of the coexistence of the internal control with the internal audit and the financial risk management by the existence of several possible "options" in the accounting field, which correspond either to some real accounting choices, or to a freedom of appreciation within the context of presenting the individual or consolidated financial standings, which may have an impact on the company's performance.

The tendency is towards a dilution of the intensity of the connection between accounting and taxation and to this end, the actions such as those having been previously mentioned (accounting harmonization, tax harmonization through IFRS, respectively CCCTB) may stand for one first step in addition to others such as: the influence of corporate governance, the increasing influence of investors, the passing towards the market economy, the cultural dominant; OECD recommendations.

Regardless of what angle we are looking from, the most adequate approach would be under the sign of precaution on the degree of association between accounting and taxation, however also considering the economic environment of the jurisdiction under focus, with the current and past influences and also considering the fact that the decisions of the association or disconnection are not the same for all European Union member states, as concerned.

Both accounting and taxation are two areas within a constant process of change, as regarded from an individual perspective.

However, when one approaches several areas which include items from both sciences, the research directions seem to increase the level of dynamics to a very high degree, the relationship between accounting and taxation expresses itself at a distinct intensity, subject to the size of economic entities, the influence decreasing to the extent a company's size increases.

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