

THE RELATIONSHIP BETWEEN ACCOUNTING AND TAXATION – THE ROMANIAN ACCOUNTING ENVIRONMENT

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The paper analyses the relationship between accounting and taxation in the Romanian accounting environment. In this respect the paper illustrates the results of the main research conducted in the national and international literature in terms of the relationship between accounting and taxation in Romania and also the main research directions in terms of tax-accounting link. The paper concludes that the level of influence was decreased over time (de jure and de facto) as a result of changes made in the Romanian accounting and tax environment.

Keywords: accounting, taxation, tax-accounting link, accounting environment, Romania

JEL Classification: H29, M40, M41

1. Introduction

The relationship between accounting and taxation is a topic highly debated in the international accounting and tax literature. In the last two decades a lot of paper and analysis was conducted in order to capture the influence which exists between them.

In this respect, this paper overtakes, under the spectrum of a fundamental analysis, the main research which was conducted in the case of Romania regarding the relationship between accounting and taxation or vice-versa.

After a brief review of the literature (section 2) of the European countries in terms of tax-accounting link, section 3 illustrate the main aspects which was analyzed in the national and international literature in terms of the relationship between accounting and taxation in Romania. Section 4 concludes the study.

2. Literature review

The tax-accounting link is one of the most debated items to the European level, more analysis being conducted in this respect. Hoogendoorn (1996) analyses the tax-accounting link in 13 European countries, being identified 12 factors of influence. Lamb *et al.* (1998) conducted an empirical study regarding the tax-accounting link in four countries (Germany, France, UK and USA), in this respect 5 cases of the link between accounting and taxation being identified (disconnection, identity, accounting leads, tax leads and tax dominates). The conducted analysis was made based on 15 factors of influence of tax-accounting link. The study concludes that in terms of connection between accounting and taxation, in case of Germany and France (countries included in the EC accounting system) there is a strong link between them, in the opposite with the case of UK and USA, countries dominate by more flexible rules.

The last study mentioned above is one of the most representative studies in the area of tax-accounting link, several studies being conducted based on this study. In this respect, studies conducted by Nobes *et al.* (2004), Nobes and Schwencke (2006) and Gee *et al.* (2010) can be mentioned.

Gallegro (2004) analyzed the relationship between accounting and taxation in terms of Spanish listed firms, the author identified several items such as: income tax expense, welfare schemes, provision for pensions, monetary correction, accelerated depreciation, or exemption for reinvestment, as point of differences between accounting and tax profit. The studies conducted by Oliveras and Puig (2005) and Blake *et al.* (1998) are representative for the research regarding the Spanish tax-accounting link.

Also, several studies analyzed the case of Sweden as one of the main representative Nordic country, the evolution of the tax-accounting link being almost similar with the case of Norway (Nobes and Schwencke, 2006) or other European countries (from a strong link between accounting and taxation to an decrease of the intensity). In this respect, the study conducted by Blake *et al.* (1997, 1998, 1999) are representative.

The literature from the Eastern Europe is also representative, several studies being conducted in terms of tax-accounting link. In this respect, studies conducted by Sucher and Jindrichovska (2004), Krzywda and Schroeder (2007) and Bosnyák (2003) can be mentioned. The relationship between accounting and taxation was seen as a main obstacle in the process of accounting harmonization in the case of Czech Republic (Sucher and Jindrichovska, 2004) and Poland (Krzywda and Schroeder, 2007). The case study of Hungary was analyzed by Bosnyák (2003), the author mentioned that, the tax-accounting link has an important role in the case of SMEs.

3. The main directions of tax-accounting link in the Romanian accounting environment

Romania is member of the European Union from 1st of January 2007, in this respect the accounting regulation being conforming to the European Directive in the current period. Over the last two decades (after the fall of the communist regime), the accounting regulation pass from several stages from a strong influence of French accounting system to the influence of the AS accounting system (the adoption of IAS/IFRS), in this moment (as member of European Union), the accounting regulation being conforming to the European Directive but with strong influences of IAS/IFRS.

Based on description mentioned above, the following classification of the Romanian accounting period can be realized:

- *The first period (1991-2000)* of the Romanian accounting regulation (influenced by the French system) is known as a period dominated by a strong influence of taxation over accounting in terms of tax-accounting link.
- *The second period (2001-2005)* is influenced by the adoption of IAS/IFRS (OMFP 94/2001) in the case of listed companies, this period being aware a decrease of the link between accounting and taxation in terms of accounting regulation, but the Romanian accounting practice remaining influenced to the tax practice, in the case of individual financial statements, the accounting regulation being harmonized with the European Directives (OMFP 306/2002).

- *The third period (2006 – present)* is governed by regulation conforming to the European Directives (OMFP 1752/2005 amended with the OMFP 3055/2009), the Romanian accounting regulation being strong influenced by the AS accounting system as the effect of the period of implementation of IAS/IFRS (2001-2005) and as result of the mandatory for listed companies from European Union to implement the IAS/IFRS in their consolidated financial statements.

In this respect, the study conducted by Deaconu and Buiga (2009) is representative, the authors demonstrated empirical that the first period governed by the French influence is governed by the EC accounting system from the perspective of tax influence, the second and the third period being governed by the AS accounting system based on the tax influence over accounting (*de jure* analysis).

Around these three stages, several studies were conducted in the international and national literature in terms of tax-accounting link in the Romanian environment.

One of the first *international studies* regarding the Romanian accounting environment was conducted by King *et al.* (2001). In this study it is realized an extensive analysis of the evolution of accounting reform in Romania, the authors mentioned that the tax law and the accounting law was developed separately in Romania, but the *de facto* differences between tax and accounting profits are less clear. The authors gave as similar example the case of Poland, Hungary and Czech Republic.

Another illustrative analysis of the accounting environment and also the influence of tax-accounting link it is realized in the study conducted by Ionascu *et al.* (2007). Referring to the cost of IAS/IFRS implementation in Romania, the authors affirmed that it was taken the decision of a gradual reform that led to an approximate application of IAS/IFRS ('a tax application' in certain audit reports) which conducted to no assistance for those companies that needed or would need financial statements conforming to IAS/IFRS (p. 195). The study conducted by the Larson and Street (2004) are also representative from the perspective of adoption of IAS/IFRS in Romania.

The national literature regarding the relationship between accounting and taxation can be separated in two categories: fundamental and empirical research, the most studies being included in the first category, these being characterized by a normative and interpretative methodology.

Sucala (2002) affirmed that the relationship between accounting and taxation is defined by dynamicity and the meanings which relate to the cultural, economic and judicial environment.

Berinde (2004) analyzed the implication of the introduction of deferred tax accounting in the Romanian legislation, seen as an effort undertaken in the way of tax accounting disconnection, given the close relationship between accounting and taxation.

Several studies (Petre and Lazar, 2006; Cotlet and Megan, 2007) analyzed the relationship between accounting and taxation from the perspective of the accounting and tax regulation. The authors conclude that accounting rules are not connected to the fiscal rules in terms of legislation (*de jure*), but in practice (*de facto*) companies can use the tax rules in the favor of accounting rules (Bunget and Dumitrescu, 2008).

The analysis of the accounting versus tax principle is also discussed, the study conducted by Ciugan (2004) being representative in this respect. Also, Istrate (2011) mentioned that each of the nine principles explicitly listed in the Romanian Accounting Standards could be restricted by the tax rules. In this respect, the author identified several cases where the tax rules has priority, such as: tax implications of the lack of continuity, tax recognition of a change of the accounting method (inventories and revaluation), tax regime of the provisions, tax vs. accounting timing of revenues and charges (interests, subsequent costs), lease-back as a finance lease, recognition of some revenues from sales of goods. Also, the author mentioned that in the last period *de jure* influence of the tax-accounting link decreased.

In the last period a new field of interest was developed in the case of SMEs research, as the effect of a possible implementation of IFRS for SMEs which also has an impact over the relationship between accounting and taxation. In this respect, several studies were conducted in this field, based on the Romanian accounting environment.

Berinde and Răchișan (2005) in their fundamental analysis argued that in the case of SMEs, there is a strong link between accounting and taxation.

Deaconu *et al.* (2008) conducted an empirical analysis regarding the main elements in order to define the SMEs, the analysis being performed in the case of Romania. In this respect several items was identified in order to conduct the analysis, the authors mentioned that the inflexible legislation and the link between the accounting and taxation standards make the reporting mandatory at least for tax-related purposes. On the other hand, Deaconu *et al.* (2009) conducted an empirical analysis regarding the technical aspects in terms of the implementation of IFRS for SMEs in Europe, the analysis being conducted also in the case of Romania. The authors concluded that Romanian market presents other technical options as well as the proposal of IFRS

for SMEs standards, one of the main causes of these differences being represented by the tax-accounting link.

Albu *et al.* (2010) conducted an exploratory study regarding the possible implementation of IFRS for SMEs in Romania. The authors identified as one of the main obstacles in the way of implementation the extant emphasis on the conformity with tax regulations.

Cuzdriorean *et al.* (2011) conducted an empirical analysis regarding the evolution of profit tax in Romania. The authors concluded that the profit tax regulation are dominated by instability, a number of 217 amendments were made in 57 regulations over the period of 20 years of analysis. The empirical analysis regarding the tax-accounting link in the Romanian accounting environment began to be conducted in the last few years.

Fekete *et al.* (2009) and Cuzdriorean *et al.* (2010) developed in their studies an attempt of measuring the fiscal influence over accounting. In this respect, the authors developed an empirical model in order to capture this influence. The analysis was conducted on a sample of 433 listed companies on Bucharest Stock Exchange and a period of 3 years. The results illustrated that the level of influence of taxation over accounting is about 4%, the model being statistical validated, and the value cannot be interpreted as high or low in the case of lack of other items of comparison.

Based on study conducted by Fekete *et al.* (2009) and Cuzdriorean *et al.* (2010), Fekete *et al.* (2012) conducted a similar analysis in the case of Romanian SMEs. The authors conducted a longitudinal analysis over a period of 11 years (1999-2010), The analysis included a total sample of 336 companies, the analysis being conducted over a sample between 117 and 176. The results illustrated that the SMEs accounting is strongly influenced by taxation, the level of fiscal influence seems to be connected with changes in accounting and/or fiscal regulations in the sense that changes in both accounting and fiscal regulations lead to smaller level of taxation impact on accounting (to disconnection), but the strength of this phenomenon is rather low (the level of influence varies over time from a level of 99.8% in 1999 to 2.6% in 2004 and again to 99.6% in 2009).

Deaconu and Cuzdriorean (2011) conducted an empirical study based on the factors of influence developed in the international research (e.g. Hoogendoorn, 1996; Lamb *et al.*, 1998) and adapted to the Romanian accounting environment. The interview was selected as statistical instrument, in this respect, the first 20 accounting firms from Cluj-Napoca being included in the sample. Based on 15 factors of influence of the relationship between accounting and taxation (closed questions), and also open questions in order to capture the tax-accounting link over the period, the study concludes that there is a link between accounting and taxation in the accounting practice (*de facto*), but the trend is to a decreasing of the influence.

In order to realize an extensive analysis of tax-accounting link from the perspective of factors of influence, Cuzdriorean (2012) conducted an analysis based on 11 factors of influence of tax-accounting link to the national level. In this respect, the survey was selected as statistic instrument; the sample included 1710 licensed accountants expert, the analysis being conducted to a sample of 179 questionnaires. The results illustrated that in the Romanian accounting environment, there is a strong link between accounting and taxation in terms of accounting practice based on the factors of influences identified in the literature in the case of small entities, this link decreasing along with the increasing of the size of entity. As an overall analysis, the study concludes what also concluded the study conducted by Deaconu and Cuzdriorean (2011), namely, a decrease of the influence of accounting over taxation or taxation over accounting.

4. Conclusion

In this study it is performed an exploratory analysis regarding the main research conducted in the international and national literature in terms of the relationship between accounting and taxation in Romania.

As a result of the analysis performed, few studies were identified in the international literature in terms of tax-accounting link. All studies conducted debated the Romanian accounting environment from the perspective of IAS/IFRS adoption, only exploratory studies being conducted.

The national literature includes also fundamental and empirical studies, the main studies being included in the first category. In this respect, the main research directions identified are: deferred tax, tax and accounting regulations, tax and accounting principles. The fundamental studies conducted concludes that in the Romanian accounting environment can be made a distinction between accounting and tax regulation, the main direction being conducted to a *de jure* disconnection.

The accounting of SMEs as particular research area was presented, the tax-accounting link having an important role in the way of a possible implementation of the IFRS for SMEs. Several exploratory and empirical studies were conducted, further research are welcome in order to fundament the decision of implementation.

From empirical perspective, several studies were conducted in order to measure the influence of taxation over accounting in the case of listed companies and SMEs. Also two studies were conducted in order to capture the accounting practice based on the factors of influences identified in the international literature. As main conclusion of the empirical investigation in terms of tax-accounting link, can be mentioned, a trend of *de facto* disconnection between accounting and taxation.

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