INCOME TAX – A PRODUCT OF THE RECONCILIATION BETWEEN THE ACCOUNTING RESULT AND TAX RESULT

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ABSTRACT
The income tax is one of the present problems of accounting, because in the most countries the rules of measuring and accounting of the accounted and tax result have been realized taking into account different objectives. If the accounted profit reflects the application of the accounted principles of real measurement activity, the tax profit represents the interests of fiscal organs in each country.

Keywords: income tax, accounting result, tax result

Introduction

Within the present context of acceptance and application of the common accounting rules by European Union countries and application by Romania of the accounting settlements according to the European directives, and also of maintaining of a national tax legislation regarding the income tax, the proportion between accounting and taxation must be revised both in the connection relations and in the fiscal disjunction relations, too.

Accounting-taxation connection results from the fact that taxation has as main information basis accounting, which offers all the necessary information and data for the replacement especially of revenue and expenditure budget. As a science with practical character, accounting should offer information about the economic and judicial events of the economic operations performed, so that all the rights of the business enterprises to be assured on one hand, and of the state, on the other hand, for the amounts that should be paid as taxes.

Accounting-taxation disconnection results from the differences between the accounting rules and principles and tax law. By respecting the accounting principle fundamental, professional accountant has a liberty in developing the rules. Adopting this principle at European level, represents an important progress in evolution towards an accounting independent from the tax rules. Because of the different interests that the accounting and tax information should respond to, it is impossible that the accounting result to be equal to the tax result.

The basis of assessment varies according to the accounting model applied; there are internationally used two models:

- continental model, applied in the countries in which accounting is connected to taxation;
- Anglo-Saxon model, applied in the countries, where accounting is not connected to taxation.

In the current legislation, there are many changes that must respond to the existing national interests at a time, as there are not uniform European rules regarding easing income tax.

In order to establish the relations between the accounting and tax result, in practice, two reasons have been outlined:

- the method of current tax and
- the method of deferred tax or of available report on the balance sheet.

By applying IFRS, a conciliation solution of the accounting result with tax result is offered by accounting through the calculation of the deferred income tax, by applying IAS -12 “Income tax”.

Taking into account the difference between accounting result and tax result, for easing income tax is necessary the processing of accounting information, by compiling a register of tax records, where there are described all the adjustments made to the accounting result, in order to determine the tax result for that period. In the reconciliation action of the accounting result with tax result, it should be defined the subject of the financial accounting, which is limited to:

- organizing and managing specific tax records (tax depreciation, VAT records) which are not identical and overlap and are not homogeneous with the other accounting records;
- preparation and submission of tax returns of all types and forms;
- preparation and submission, as distinct notes, of the fiscal balance sheet and tax profit and loss account, as informational support for the tax returns that can not find the source of information in the distinct tax records. In the same time are used to the fiscal analysis and interpretation of the own fiscal management, as a component of the company's management.

The accounting regulations in accordance with the European directives do not present, in an explicit form, the reports between accounting and taxation, but in a tacit form, it is released the idea of a particular settlement of tax accounting.

Taking into account the establishing of a tax accounting, the setters from our country have considered that is the moment that the same system, of the entity accounting, to be organized in a subsystem based on limited restatements, named Tax Accounting. Through IAS-12 "Income tax", it may be realized an accounting/taxation homogenization based on accounting rules and standards, that distinguish IFRS, and on code and tax rules, sustaining the necessity of realizing a tax management together with the financial – accounting management.

The rationale behind the decision of the Romanian setters on accounting/tax have led to the inclusion of the provisions of the reconciliation between the accounting result and the tax result, in the explanatory note, as shown in the tax statement, annex to the balance. Nowadays in our country, IAS-12 "Income tax" assumes the referential quality and nucleus of tax accounting, being considered one of the most difficult standards made by IASC and regulates the issue of deferred taxes. The objective of IAS-12 "Income tax" is that of prescribing the accounting treatment for the income tax, because the main issue of the process of income tax accounting is the manner in which current and future tax consequences are accounted regarding the future reception (settlement) of the accounting value of the assets (liabilities), which are recognised in the financial position of an entity and transactions and other events of the current period.

IAS-12 "Income tax" requires to an entity to account the tax consequences of the transactions and other events, in the same manner in which it accounts the transactions and other occurred events, knowing that IAS-12 "Income tax" offers solutions for the accounting result and tax result (taxable) realized through the permanent differences. It is found that the resulted differences may lead to an increase or a decrease in profit.

Taking into account IAS-12 "Income tax", we can conclude regarding the manner of determining temporary differences:

- tax base of an activity or a liability is the value attributed to that asset or liability for tax purposes
- tax base represents the value that will be deductible for tax purposes from any taxable profit which will return an entity when the asset accounting value is recovered

When this economic profit is not taxable, the asset tax base is equal to its accounting value.

The tax base of a liability is its accounting value diminished by any amount which will be deducted for tax purposes, on account of this liability.

Taxable temporary differences lead to the recognition of a liability from the deferred tax (tax rate multiplied with the temporary difference) when either the accounting base of an asset is bigger than the tax base, or the accounting base of a liability (including a provision) is less than the tax base.

Deductable temporary differences lead to the recognition of claim regarding the deferred tax (tax rate multiplied with the temporary difference) when either the tax base of an asset is bigger than the accounting base, or the tax base of a liability (including a provision) is less than the accounting base.

Practical Application

1. *Current tax method*

Current and previous taxes should be accounted as liabilities to the extent that it is unpaid. If the amount already paid in effecting current exercise and previous exercises, exceeds the amount due for this exercise, the exercise should be accounted as an asset.

"X" Company obtain a cumulative taxable income of 500.000 lei at the end of the year. The income tax is 16%, and the tax due for the first three quarters is 100.000 lei.

We calculate the tax: 500.000 x 16% = 80.000 lei.

Under these conditions, the income tax for the entire year is less than the one already calculated and registered, which means that the difference 100.000 – 80.000 = 20.000 lei, represent a current tax asset. This asset is accounted at the end of the year.

Income tax – revenues from income tax 20.000 lei

If the tax income announced in the first three quarters were 70.000 lei, it should be supplemented with the difference 10.000 lei (80.000 – 70.000 lei), representing the total income tax for the entire year minus the amount already registered for the first three quarters. This difference is a liability with the current income tax, which is registered like this:

Income tax expenses = Income tax 10.000

2. *The deferred tax method*

The "X" company registers formation expenses of 100.000 lei. In terms of taxation, they are deductible in 2 years, but in terms of accounting they do not meet the criteria and conditions for recognition of an asset and they will be directly registered in profit and loss account. The company gross profit is 1.000.000 lei.

Tax depreciation panel is drawn:

Year	Accounting value	Tax value	Tax depreciation	Tax value at the end of the year	Temporary differences	Deferred tax (16%)
1	0	100.000	50.000	50.000	50.000	8.000
2	0	50.000	50.000	0	0	0
Total	-	-	100.000	50.000	50.000	8.000

The accounting value is null, because the forming expenses are recognized in the profit and loss account and not in the balance.

In the first year the situation is:

Tax result = 1.000.000 lei + 100.000 lei – 50.000 lei = 1.050.000 lei

Income tax= 1.050.000 lei x 16% = 168.000 lei

Current income tax registration

Expenses with = Current income tax 168.000

The income tax

Comparing the accounting value, which is null with the tax value, which is 50.000 lei, a deductive temporary difference of 50.000 lei is determined. It results a claim with the deferred tax of 8000 lei.

Deferred income tax registration:

Deferred income tax = Income tax revenues 8000 lei

In the second year, the situation is:

- Tax result = 1.000.000 – 50.000 = 950.000 lei
- Income tax = 950.000 lei x 16% = 152.000 lei

Income tax registration:

Income tax revenues = Current income tax 152.000 lei

The claim with the first year deferred tax is 8000 lei.

In the second year, because the accounting value is equal with the tax base, there are not temporary differences; therefore the claim already registered with the deferred tax should be resumed through the accounting registration.

Conclusion

In conclusion, it can be said that through the accounting of the deferred tax, as it is designed by the international accounting regulatory body, it is eliminated the tax effects on net income distributable accounting.

Eliminating tax effects occurs in the sense that, irrespective of the provisions of the tax legislation of the country concerned or tax plan using different methods in to those applied in the spirit of accounting regulations and generates temporary differences; it remains the same during the development of transactions or events; this lead both to comparability in time and space and true reflection of the entity financial position and performance.

While the accounting objective is to play the true picture of the financial position and performance of the company, based on a series of principles and rules in accordance with the international practice, which gives the possibility to compare the information in time and space at national and international level, the taxation is based on another logic related to preservation tax base, has its own principles and rules, it often conflicts with those of accounting and more so there is no question of an international depreciation.

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