

THE SEPARATION BETWEEN ACCOUNTING PROFESSION AND TAX PROFESSION IN THE CONTEXT OF SUSTAINABLE DEVELOPMENT IN ROMANIA

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Abstract

The relation between accounting and taxation is a complex issue. The development of this relation is still in progress in Romania. The purpose of this paper is to analyze the evolution of the accounting and tax profession in Romania for the last twenty-five years and to establish the moment of the separation between the two professions and the impact of this separation on the application of the accounting and taxation treatments, in the context of the sustainable development. This evolution is important to the three dimensions of sustainable development. In this paper it will be taken into consideration a theoretical and qualitative research using as methodology the analysis of the social documents: the regulations regarding the profession of chartered accountant and the profession of tax advisory. The starting point in this research is the fall of the communism when Romania is in research of a new identity. There can be identified three major stages of evolution: between 1990-2000 when the accountant was really important for accounting and fiscal issues, between 2001-2006 when the accountant professionals and tax professionals had different activities and after 2007 when there appeared the Chamber of Tax Consultants and the two professions have been separated through two professional bodies.

Keywords: accounting, taxation, professionals, relation, evolution

Clasificare JEL: H20, M41, Q01

1. Introduction

Living in a world in continuous change in which the differences between individuals and countries exist by culture, the medium in which an individual grow up, the profession, the religion, the size, geographical position, the natural wealth of each country, economical possibilities, and the needs of people become increasingly more, there was a need to develop various processes such as the globalization and sustainable development, in order to diminish these differences and to manage the necessary resources for satisfying the needs.

The three components of the sustainable development: environmental, social and economic performance can be maximized using efficiently the limited resources. Accounting and taxation are two important domains for the management of the world's limited resources therefore the relation between them is important too.

The professionals could be factors that influence significantly the environmental, social and economic performance by the way in which the duties are fulfilled, or by the way in which the legal provisions are applied. The accountant is important because he must chronologically and systematically record all the transactions of an entity, processing the information related to the activity performed and presenting the financial position of an entity taking into consideration the fact that this must offer a true and fair view of the financial position. The tax consultant is also important because he provides services in the field of taxation, performing assistance for tax issues.

The purpose of this paper is to establish the moment of separation of the two professions and to determine the impact of this separation on the application of the accounting and taxation treatments, in the context of the sustainable development. Also, the aim of the paper is to determine the impact of these issues on the three dimensions of the sustainable development.

2. Literature review

We will start the paper by defining the process of sustainable development through the most used definition: Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs. It contains within it two key concepts: the concept of 'needs', in particular the essential needs of the world's poor, to which overriding priority should be given; and the idea of limitations imposed by the state of technology and social organization on the environment's ability to meet present and future needs. [11]

The environmental dimension is generally well understood, even if the measurement of external impacts gives rise to debate. Reporting rarely extends to biodiversity issues. Social performance is normally linked with ethical issues and includes labor practices, human rights policy, product responsibility and the enterprise's relationship with society.

Typical economic indicators in a sustainability report would cover job creation, productivity, outsourcing expenditure, employment diversity and training as a contribution to the wider economy. Economic performance is not the same as the creation of shareholder value. [10]

Albu N. (2013) has analyzed the evolution of accounting profession and stated that international bodies, such as ACCA and ICAEW, have a visible implication in wider accounting issues such as corporate governance and sustainability and these developments extend the role and competencies of accountants. [1]

According to Băcanu (2015) the accounting and taxation have different objectives. So, there was a need to separate the profession of chartered accountant of the profession of tax advisory. [2]

IFAC strongly believes that professional accountants can influence the way organizations integrate sustainability into their mission, goals and objectives, strategies, management and operations, definitions of success, and stakeholder communications. By having a clear and sustainable vision professional accountants can significantly change the way organizations operate. [3]

Strengthening domestic resource mobilisation is not just a question of raising revenue: it is also about designing a tax system that promotes inclusiveness, encourages good governance, responds to society's concerns over income and wealth inequalities, and promotes social justice. More fundamentally, the centrality of taxation in the exercise of state power means that more efficient, transparent and fairer tax systems, and less corrupt tax administrations, can spearhead improvement on wider governance issues. [6]

3. Research Methodology

This paper is based on a theoretical and qualitative research, using as methodology the analysis of the social documents.

The main research directions are: establishing the role of the accounting and taxation in the context of sustainable development, analyzing the regulations regarding the profession of chartered accountant and the profession of tax advisory, establishing the moment of the separation between the two professions.

It will be pointed out the impact the two professions have on the elements of the sustainable development.

4. Accounting and taxation in the context of sustainable development

Accounting is an important tool in determining the performance of an entity, in providing the information related to the performance of an entity and in establishing the indicators by which the resources can be efficiently managed for meeting the needs. Alongside with accounting, taxation is also an important tool in establishing and determining the fees and taxes owed by taxpayers, the final objective being the collection of the amounts of money by the state for financing the public expenses.

As it can be seen even if the two domains aim the performances of an entity, they have different objectives: accounting is a tool useful for entities themselves for determining its performance and establishing the strong and weak points of their business for improving the prosperity of the entity, but also for all the users of financial information in making their own decisions and taxation is a tool useful for the state for gathering the amounts of money owed by the taxpayers.

Both accounting and taxation target a common point namely the management of the resources, but these resources and the purpose of using these are different. By accounting the resources are managed to be used for the company's purposes and by taxation resources are managed to be used for public expenses.

Analyzing the accounting and taxation in the context of sustainable development it can be seen that the objectives themselves are identified in the context of the three dimensions. Thus, the objective of accounting, to present an accurate view of the financial performance of a company, can be linked by social performance because the information presented by a company is used by a wide range of users. If the information presented is true and fair, the relation of the company with the society will be improved as the users are the investors, the suppliers, the clients, the creditors, the employees, the state institutions and the audience. It can be linked also by the environment performance because analyzing the information from the Financial Statements the management of a company can measure the position of the company with the others companies similar to it, can make provisions and reorganize efficiently the resources of the environment used and can prevent the waste of the resources. Also, the decisions made by the users, participants in the economic circuit, are influencing the environment performance. Accounting is an important tool for determining factors such as: employment, job creation, productivity, wealth, debts or investments. Analyzing the accounting objective in the context of the economic performance, we can say that the financial information presented by a company is very important for the quality of the activity performed. All the factors presented above are directly influenced by the quality of the activity of the companies.

On the other hand, the objective of taxation, to collect the amounts of money owed by the taxpayers as fiscal revenues, gathers all the three dimensions of the sustainable development. There can be identified a circle process: the economic performance is linked by the factors mentioned above which influence the business environment. The quality of the business environment can be improved by providing practices and policies which help to enhance the methods of

collecting the taxes. By collecting the taxes the state procures the fiscal revenues which are further managed for improving the living standards and the environment in which the society is living.

To accomplish these goals in good conditions the professionals dealing with the compliance and enforcement of the provisions of the law have an important role. Also, the relation between the accountant professionals and the tax professionals is important.

Further it will be analyzed the evolution of the relation between the two professions.

5. History of the relation between the accounting profession and tax profession in Romania

In the communist period, Romania applied a centralized economy in which the Body of Chartered Certified Accountants and Authorized Accountants was not accepted, thus in 1951 this body was disbanded. The accounting became an instrument of gathering information for the state, so the accountant had to fulfill financial and accounting responsibilities taking into consideration the practices applied at that moment by organizing the preparation of the financial planning works. According to the Decree No. 79/1971 applied in that period, the accounting expertise and the technical expertise were means of evidence used to clarify certain facts or circumstances of a case in which the knowledge of an expert were required. Thus the chartered accountants were nominated only for performing judicial accounting expertise.

After the fall of the communism, the centralized economy had been replaced by the market economy in which the state does not plan the economic activities. Thus, the economic agents could negotiate the prices and the enterprises were no longer dependent on the state planning. The accountant had to update his responsibilities to the requests of the new economy applied.

This is why in 1992 the Body of Chartered Certified Accountants and Authorized Accountants of Romania was reestablished. The organization of the accounting expertise and that of the activities of the authorized accountants was established by the Government Ordinance no. 65/1994.

So, starting with 1994, the accounting profession unfolds according to the provisions of a law.

During that period, according to the article 2 line 3 from the Ordinance no. 65/1994 [7] “Chartered accountant can also organize and lead the accounting of companies, can analyze by specific accounting procedures, the economic, financial and fiscal situations of the companies”. At the same time, according to the article 6, letter e) from the same Ordinance, the chartered accountant “performs other work with a financial and accounting character, tax character, work of administrative organization and informatics”. As we can see from the all presented above the chartered accountant could also perform works of fiscal type. Analyzing the responsibilities described in the law applied in the post-communist period and taking into consideration the classification of the relation between accounting and taxation determined by Lamb, Nobes si Roberts (1998), the relation between accounting profession and tax profession can be characterized by identity, because both the accounting profession and tax profession were in fact the same. Moreover all the fiscal issues were fulfilled by the accountant according to the law.

Over time the Ordinance no. 65/1994 was modified and improved by various ordinances: Government Ordinance no. 50/1997, Government Ordinance no. 89/1998 and Government Emergency Ordinance no. 75/1999, but the most representative change for the relation between accounting and taxation was the Government Ordinance no. 71/2001 on the rules of functioning for the tax consulting activity.

This is the moment when the tax profession appears in Romania. The new Ordinance delimited the tax consulting responsibilities: “Activity of tax advisory consists in providing expert assistance in the preparation of the taxes statements, other tax matters and budgetary duties, such as fines, penalties and compliance with legal provisions and representation before the tax bodies” [8].

Once published, this Ordinance repealed the provisions from the Ordinance no. 65/1994 regarding the exercising of fiscal works by the accountant. So, starting to this moment the accounting profession and the tax profession have separated.

The application of the Ordinance no. 71/2001 have been suspended for a short period of time by the Ordinance no. 94/2004 starting to the 3rd of September 2004 until 30th of March 2005, when the Ordinance no. 24/2005 entered in force.

In 2007 is founded the Chamber of Tax Consultants in Romania. Now the exams for obtaining the qualification of tax consultant are organized by the Chamber of Tax Consultants and not by the Ministry of Finance as they were until 2007.

The two professions are now separated by the organization of two separated bodies. The chartered and authorized accountants are members of the Body of Chartered Certified Accountants and Authorized Accountants and the tax consultants are members of the Chamber of Tax Consultants.

The Government Emergency Ordinance no. 53/2007 for the amendment of the Government Ordinance no. 71/2001 on the rules of functioning for the tax consulting activity establishes more tax consulting responsibilities such as “provision of professional services in the field of taxation; provision of services and specialized assistance for the preparation of declarations of taxes; support and services on procedural tax issues; assistance with the preparation of documentation for legal remedies against debt securities and other administrative acts; assistance for the claims on

general consolidated budget, with the fulfilling of legal provisions in force; assistance and representation before tax authorities, including specialized assistance during the course of the tax audit; implementation of tax expertise at the request of the Judiciary bodies, criminal investigation bodies, tax authorities and other responsible bodies; tax assistance in proceedings before a judicial authority”. [9]

Thus, starting with 2007 the responsibilities of the tax consultant and those of the chartered accountant have been clearly defined. The tax consultant can perform activities of fiscal character and the chartered accountant can perform activities of financial and accounting character.

In order to establish clearer the separation between the two professions, in 2013 entered into force the Law no. 149/2013 which specifies that the tax advisors can practice the profession of chartered accountant only if they register as members in the organizations that coordinate these professions and the persons who have the quality of chartered accountant could exercise the tax advisory profession, after they register as members in the organizations that coordinate these professions. [4]

Starting with the 1st of February 2014, the date of entering into force of the Law no. 187/2012 - for the implementation of Law no. 286/2009 on the Criminal Code, “exercising tax consultancy activities by individuals who do not acquired the qualification of tax consultancy, or who have not become active members of the Chamber and by legal entities that were not authorized by the Chamber or which have not been registered in the Register of tax consultants and tax consulting companies constitutes a crime and it will be punished according to the law. Also, exercising any activity specific to the qualification of the chartered accountant and the authorized accountant by unauthorized individuals constitutes a crime and it will be punished according to the law”. [5]

As we can see, in the last years, the separation of the two professions became obvious by adding explicit provisions in the law regarding the exercise of the two professions.

6. The impact of the separation of the two professions

The separation of the two professions had a positive impact over the economic circuit in the context of the sustainable development process.

To present a true and fair view of a company, the professional accountant must fulfill the practices and the policies established for this domain. There were also established the ethical policies the professionals must fulfill in applying the practices. This has a positive impact over the social performance, because if the accountant remains honest and objective with respect to the application of his profession in the business environment, the financial information prepared by him for a company is transparent and real. The users of the financial information are not negatively influenced if the information published is true and fair and the decisions made are improving the quality of the environment. Also, the shareholders can make provisions and enhancements for their activity based on the information from the Financial Statements prepared by the accountant. The resources used for their activity can be efficiently used. This can improve also the economic environment, there can be created new jobs, the productivity can be improved, the unemployment rate can be reduced etc.

On the other hand, the tax professionals have different attributions: tax consultant must provide professional services in the field of taxation. He has also an ethical code to respect so there is a positive impact over the social performance in this case, too.

We can observe that there are different attributions for each of the two professions and the two domains have different objectives, thus the separation of them is a positive aspect. The companies want bigger profits, but small taxes and the state wants bigger taxes for obtaining bigger fiscal revenues. The targets of the companies are opposites from those of the state, so the professionals’ role intervenes there. The accountant must assure that the Financial Statements of the company are transparent and present a true and fair view, and the tax professional must assure that the taxes are correctly computed, declared and paid. The fulfillment of this principle help to a better development of the three dimensions of the sustainable development.

7. Conclusions

Accounting and taxation are two tools with an important role in the sustainable development process.

Starting from the objectives of the two domains, we can observe that both of them influence the three dimensions of this process. Through accounting a company must present the true and fair view of its financial position and through taxation the state collects the fiscal obligations as fiscal revenues. Both of the objectives can be linked by social performance, economic performance or environment performance. These can be reached if the professionals fulfill their obligations.

There can be identified three stages of evolution of the relation between accounting profession and taxation profession: between 1990-2000 when the accountant has to fulfill both accounting and fiscal issues, between 2001-2006 when the tax profession appears in Romania and the accounting professionals and tax professionals had different activities established by different laws and after 2007 when the two professions have been separated through two professional bodies.

For the first period, between 1990 and 2000, the accountant was the main subject for accounting and for fiscal issues, and he had to fulfill the regulation existent in that moment for both of them. The accounting legislation applied in that moment was influenced by the French system, which is characterized by an intense connection between accounting and taxation. So, the legislation had also a large influence on the profession.

Between 2001 and 2006, the period when the accounting legislation and tax legislation were separated through the appearance of the Fiscal Code, the profession had to be separated too, thus the tax profession appeared. This is the period in which an important step for the separation of the two domains was made.

After 2007, the two professions have been completely separated. This is the year when the Chamber of Tax Consultants was founded in Romania. So, the accounting professionals must respect the obligations and the attributions according to their professional body, which is the Body of Chartered Certified Accountants and Authorized Accountants of Romania and the tax professionals must fulfill the attributions and obligations according to the Chamber of Tax Consultants in Romania.

The chartered accountant must present a true and fair view of the transactions performed by a company, and the tax consultant must provide professional services in the field of taxation. This clear separation of the attributions has a positive impact on the economic performance, but also for the environment performance, because if the Financial Statements are not influenced by the tax issues and the companies present transparent and real information, the taxes will be computed at their real value.

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