

IS ACCOUNTING-TAXATION RELATION A CONTRIBUTOR TO THE SUSTAINABILITY?

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Abstract

The interdependence between accounting and taxation is a much debated issue that highlights the degree of connection or disconnection between the two areas. This paper brings to the fore the relation between accounting and taxation in the context of sustainability. Both accounting and taxation are two areas that target the performance of the organizations, which are an important factor both for the economy and for society, but also for the environment. These three elements that sustainable development embraces can be directly or indirectly influenced by the relation between the two domains. By accounting a company presents a real and transparent image of his activity and through taxation are established, computed and collected taxes and fees, representing the tax revenues of the state budget. In Romania, most of the taxes are established based on the accounting results, therefore the interdependence between accounting and taxation can influence the professional judgment of the professionals and the level of revenues collected from the taxpayers. So the scope of the paper is to analyze if the relation between accounting and taxation is or not a contributor to the sustainability.

Keywords: accounting, taxation, relation, sustainability

Classification JEL: H20, M41, Q01

1. Introduction

Sustainable development is an important issue discussed and analyzed all over the world. The increasing needs of humans and the limitations of the resources are subjects of debate for the development of a country. Humans must manage efficiently the limited resources to fulfill in a proper way the needs they have.

First, they have the elementary needs: the food, the water, the air, indispensable elements, on which survival depends. For obtaining such elements humans need environmental protection. Furthermore, for acquiring the indispensable elements, humans work and through their work they contribute to the economy for a country. They need also the family, friends and people for creating relationships both personal and professional. This is way humans need social equity for relationships to last longer.

The economic growth, environmental protection and social equity are the components of the sustainable development which must be maximized to increase the development of a country.

Between the three dimensions of the sustainable development must be an interaction for the good functioning of these. If the economic growth is fulfilled, the environmental performance is also fulfilled and vice versa. Having the environmental elements at the highest quality, the performance of them will increase, increasing also the efficiency in economy. Having the two dimensions at a higher level, the social equity will also increase.

The three components can be influenced by a series of factors such as the decisions of the governments, of the private companies, the harmony between people, the natural wealth of each country, economical possibilities, etc.

The aim of this paper is to respond to the question “Is accounting-taxation relation a contributor to the sustainability?” and to analyze if accounting and taxation and the relation between them are domains that can influence also the three components of the sustainability.

The research methodology used is the analysis of the official and unofficial documents. The legislation of the two domains will be analyzed to determine the influence of the two over the three dimensions of the sustainability. It will be analyzed also the articles and publications of the researchers from this area.

2. Literature review

Sustainable development is recognized as the framework for our future at many levels and most of the strategic thinking uses its tenets. This includes global approaches prepared by the United Nations, but also European and national strategies. Among the methods envisaged for its accomplishment, improved efficiency found an important role, although it is accepted that there are several limits. The most important critic in this respect is the fact that increased consumption rate would cancel the improvement brought by higher efficiency. (Bran, Radulescu and Ioan, 2011) [1]

Accounting and taxation are important issues in the sustainable development process.

Corporate social reporting has been developed to extend the traditional model of financial reporting which emphasizes company's economic prosperity, to incorporate social and environmental dimensions (Elkington, 1997). [3]

Kee P. and de Haan M. discuss in their paper (Kee and de Haan, 2001) two different approaches to measuring sustainability issues within an extended accounting framework. The first approach extends the core system with modules or satellite accounts, which are specifically developed to gain more insight into the existing economic, environmental and social interrelationships. The second approach broadens the asset boundary of the system by including more assets that are of interest in a sustainable development context. Monitoring sustainability then means tracking stocks of assets over time. [4]

Tax revenues are the most fundamental component of home-grown revenues, and they grow in importance as a country develops 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. (De Paepe and Dickinson, 2014) [2]

Governments are employing a wide range of taxes and subsidies to internalise external environmental costs and incentivise organisations and individuals to act in a more sustainable way. More analysis of the operation of each form of tax or subsidy is probably needed but evidence suggests that taxes on emissions and water use are regressive and may have harmful economic effects. Differences between tax regimes operated in the UK, the EU and elsewhere in the world may limit the effectiveness of taxes as a means of promoting sustainability. (ICAEW, 2004) [7]

3. The relation between accounting and taxation in Romania

The companies are important elements for the economy. The performance of the companies is a target of the accounting but also of the taxation.

As we can see from the Fiscal Code, the aim of the taxation is to establish, compute and collect the taxes and fees from the taxpayers. [5] The amounts collected are the state revenues. These revenues are the public money based on which a country can improve the environment in which an individual lives.

On the other hand, as we can see from the accounting regulations, the aim of the accounting is to present a real and transparent image of a company activity. All the transactions of a company

are registered based on the supporting documents and the information is gathered in the annual financial statements, which present the performance and the position of the company. [6]

Thus, the two domains have different objectives, but in Romania they are interdependent because the fiscal result is computed based on the accounting result for the majority of the taxes, as it can be seen from the legislation. The profit tax is computed based on the accounting result, from which we must deduct the nontaxable revenues and add the non-deductible expenses to obtain the fiscal result. Also, for the microenterprises, the income tax is computed based on all revenues of the company, from which are deducted some revenues such as the one registered in accounting register as trade discounts granted after invoicing and are added some elements such as the one registered in accounting register as trade discounts received after invoicing.

4. The influence of the accounting on the three dimensions of the sustainability

Accounting is one of the most important elements in organizing a company. The outcome of the accounting is represented by the annual financial statements.

The annual financial statements present the material information about the performance of a company, its financial position, and other information regarding the activity performed.

The companies can perform strategies to govern its activity based on the financial informations from the annual financial statements, can prospect the commercial market within which it operates in order to conclude some business or some contracts. The context in which the financial statement are interpreted can influence the economic, social and environmental performance, because the information from the financial statements are used by various users which can be the improvement for each of the three elements.

The financial information, management commentary, governance and remuneration, and sustainability are elements of a company which should be connected and should be combined to improve the performance for that company, to maintain the stability of the company.

The connectivity between these elements can also improve the capacity of an organization to create and sustain value in the short, medium and long period of time.

The value created by a company is important on a market. This is way a company must reflect a true and fair view of its position and performance. The performance of the companies can be reflected in the economy of a country, in the society of a country, but also in the environment of a country.

The economy of a country can be a factor that contributes to its development. The higher the performance of the companies the higher the development of a country. Companies with high performance can create new job offers, so it can improve the social element, because the poverty rate will decrease and people will be less stressed.

Also, having a high performance, the companies can invest in equipment and machinery whith a low grade of polution, so the environment will be more protected.

5. The influence of the taxation on the three dimensions of the sustainability

On the other hand, taxation is one of the most important elements in organizing the collection of the taxes and fees as revenues for the state budget.

The state organize the revenues collected from the taxpayers to improve the quality of the services provided by it. So it is interested in collecting more revenues for improving the services such as the hospital services, the cultural services, the educational services, the transport services etc. Improving these services, the quality of a human live can increase. It is important for humans to have a high quality of living their lives, they need to decrease the daily stress, they need to relate with other humans, to create new relationships or to maintain the older ones, this is way, if the

quality of the services provided by the state is improved, also the social performance will be improved.

Taking into consideration services such as the public transport or services against pollution, we can observe that the environment is also important in the humans life. This is way the state must organize a part of its resources gathered from taxpayers in improving the quality of the environment.

The economic growth is also influenced by the revenues collected by the state budget. Furthermore, the state can influence the economic growth by the legislation it provides. The higher the quality of the provisions of a legislation code, the higher the gathering of the taxes and fees.

6. The influence of the relation between the two domains on the sustainability

The financial information, presented in the annual financial statements, is important for financial analyzes made by the users of the annual financial statements. So, it is important that the companies present the reality of the transactions made. Based on these analyzes the users can see the performance of a company. The higher the performance, the higher the investments or the employment are. Thus, the accounting is a contributor to the sustainable development.

One of the users of the financial information is the state. The taxes collected as revenues are important for the economic growth, for the environmental performance and the social equity. Thus, the taxation is also a contributor to the sustainable development.

The two important subjects from the two domains: the state and the companies can improve the economic, social and environmental performance, by their behaviour on the market. The companies being the core of the accounting domain and the state being the core of the taxation are elements that show us that the subjects of a market must cooperate together, but also show us that the accounting and taxation are connected and interacts.

7. Conclusions

As we could see above, each of the two domains are contributors to the sustainable development and both of them are interdependent. Thus, the relation between accounting and taxation is also a contributor to the sustainable development.

If the accounting results are presented at their real values, and they are high, the fiscal results can also be high, but this depends on the fiscal elements that are added or deducted from the accounting results. The higher the fiscal results, the higher the taxes are, so the fiscal revenues are higher, improving in this way the economic performance and also the environmental and social performance.

8. References

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