

ROLE OF TAX AND ACCOUNTING MECHANISM IN TAXATION SYSTEM

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Abstract

In the present research, we look into the tax issue in its entirety, as fiscal process, so that its ongoing fiscal perimeter process was defined and structured, participants in the fiscal process were nominated, financial flows were projected as well as the accounting information through which the taxation process activities are achieved.

Following the tax process perimeter structure projection, we have positioned two main participants, namely: the taxpayers (legal entities and individuals) and tax administration of the state and territorial administrative units; financial flows and tax and accounting information within each participant were identified and processed, they were called internal flows and financial flows and tax and accounting information of the participants in fiscal process called external flows.

*The area liaison in which financial flows and tax accounting information between participants in the tax structure are developed was defined in tax process perimeter structure namely external flows, the area that we have defined using the term **interface**.*

We defined this area as interface because following the study there came off as obvious the fact that it constitutes one of the most important structures of the fiscal process by which the tax flows and basic information and communication between participants are achieved; elements that are essential for achieving a good tax act.

Cuvinte cheie: taxation, tax process, tax mechanism, accounting;

Clasificare JEL : G20

1. Introduction

Premises of the research topic objectives, namely the fiscal process, have their origins in the preliminary remarks of theoretical research results and the documentation performed; observations that led us to determine that theoretical work in public finance, taxation and public accounting on the one hand, and the work of the enterprise finance and financial accounting entities, on the other hand, deals with the issue of the tax system in static conception, each from their own perspective, on their own. The books and methodologies for public finances, taxation and public accounting address fiscal problems in terms of the budget process, having small extent to the concern of connection with economic and social environment that is a source of tax claims. On the other hand works and norms of finance, taxation and accounting entities (taxpayers) are constituted sequentially, and treat their fiscal management problems largely from within, often omitting external flows in relation to public tax administration.

Such a manner of treatment and theoretical and methodological approach to the issue of the tax system, after analysis, we found that it is likely to present specific activities of tax system only tangentially, in its dynamics and their connection as a process, which in the present thesis I called *fiscal process*. The fiscal process, in our outlook, we believe that the study of dynamic tax system, specific activities in their chaining, the rigorously defined and managed flows within and between participants in the tax, can be the premise of a new approach to the tax issue, designed to help and improve the state fiscal position.

2. Fiscal process and financial-fiscal interface

Tax mechanism is treated in the literature and in financial and tax regulations as the assembly of methods and techniques for taxation designed to identify subjects of taxation, to evaluate taxable material and correctly determine and quantify charged rights of the State from taxes and contributions. Each of these methods and techniques are exposed sequentially, by itself, more in terms of tax Administrations, and less from the taxpayer's position. Thus, tax mechanism's elements are addressed statically.

From assessment of facts and documents arising from the settlement and collection of state tax receivables one can see that this is done in a certain sequence and describe their dynamic flows which take the form of a process allowing tax activities occurring in the state's financial resources. The approach and mechanism of dynamic tax system was the main motivation of their study as elements of a process of "**fiscal process**".

The notion of process is defined by the Explanatory Dictionary of the Romanian language as "... *the sequence of operations, states or phenomena which performs an activity, a transformation occurs; evolution, development,*

progress, action ... From the Italian term *processo*, the French *trial*, the Latin *processus* and the term "tax", the same bibliographic source defines it as "state institution that sets and collects contributions, seeks those who do not pay their contributions on time etc. (French - Fisc, Italian- FISCO)".

Bringing together the two definitions given by the cited above source we can formulate a definition of the tax process as a sequence of operations and techniques through which it is performed the necessary approach to tax payers of income taxes according to their income and wealth and the adoption of techniques and processes for enforced tracking for the wicked payers.

Fiscal process in the simplest meaning of the word is necessary for all the elements making up the tax system, that is, tax laws and regulations, institutions and their apparatus and through the tax mechanism, tax methods and techniques and put them in motion to meet targets in the budget process (the figures approved by the main components of general government).

We understand that the starting point of the process is to put fiscal tax legislation in agreement with tax public fund levels and contributions that must be set up to the state through the state budget, state's social insurance budget, local budgets and special budget funds. This often involves changing the tax normative acts or simply their repealing and issuing others through which tax rates, maturities, collection rules are corrected, in other words in the course of fiscal process there is an agreement with taxation degree and requirements imposed budgetary laws for the current financial year.

Only once the new tax legislation is reconciled with budgetary laws for that period, the fiscal process can begin.

The fiscal process continues with the primarily establishment of taxpayer's fiscal management and based on fiscal information contained in fiscal records fiscal receivables management is drawn with the ANAF and administrative units. The process also goes on with reflecting in the public accounting accounts State's receivable rights on which based on the tax process, there follows another step, the actual collection of resources.

Fiscal process study involves identifying and specifying the following elements:

- Fiscal process perimeter delimitation;
- Establishment of infrastructure (technical basis);
- Identification and investigation of the applicable tax laws and regulations;
- Naming participants in the nomination tax;
- Organization of participants' fiscal management in the tax administration process;
- Establishment of technology for performing specific activities;
- Description of the actual flows of ongoing fiscal facts and documents inside each participant management and external flows of these participants;
- Design and implementation of information system- accounting for the taxation process.

In order to design and implement an information system to support its efforts to streamline the tax, the budget settlement and debt collection, it is necessary to realize in advance an engineering design of tax process whereby all elements specified above are described and specified.

Also, the concept of fiscal process we can not break in the context of a broader concept that is the budget process, but with our research we plan to pursue fiscal activities carried out in the process and in particular the contact area between the participants in this ,contributor -state, that is the interface. For this purpose we have cut fiscal activity perimeter into phases of activity to better understand what is happening and what the areas of dysfunction are. Following this approach we concluded that the area of contact between the two participants in the distorted one, primarily caused by insufficient knowledge of the fiscal activities of partners, the settlement and collection of taxes and contributions. Thus, the study came to the conclusion that a very important segment in the fiscal process is played by the *interface* between process participants (taxpayer / tax administration).

Since the fiscal process that is moving to achieve the functions and purposes of taxation involves conducting technical and material support structure characteristic of this activity flows in the research, we identified two broad categories of feeds.

Thus, in the interface there are two series of streams, namely *informational-fiscal internal flows* that have an inner character and are achieved inside entities participating in fiscal process (taxpayer-state) and in their turn trigger informational fiscal flows we will call external flows taking place outside and in a sense and the other between the two participants in tax process in the contact area (the interface).

Thus, *external flows* of information (mutual information evidenced by documents: statements, taxation decisions, decisions to decrease the flow, control protocols that establish flow rates, extinguishing documents of any kind) are what define the common area of contact between the two and represents the subject of our research theme on which we decided to linger and to analyze it because we concluded that physical progress of fiscal process suffers primarily because tax partners do not know each other's tax activities well enough. Information-accounting interface through which external information-accounting flows are managed, respectively the financial and tax ones, represents a very important segment, on which essentially depends optimization, purpose and outcome of the tax process.

These external accounting information flows in the interface zone assume efforts to involve primarily training to improve communication between participants in the fiscal process, identifying and defining appropriate procedures to conduct such communications as well as improved tools and techniques and effective implementation of the requirement to complete in fiscal act of all tax principles, functions and fiscal policies.

Interface area, that is the area of contact between the participants in fiscal process, as we have defined it, must be analyzed from the perspective of one phase of the fiscal process, alongside the others, in such a way as to ensure optimization of expected outcomes and results on trim and collection taxes. It should help to correct the estimation of the tax base, the correct determination of taxes, reduce tax evasion, optimization of enforcement in the fiscal process.

Incidentally, all the mechanism that is to be set in motion in the fiscal process is a direct consequence of what has been established by the budget process, with figures on the volume and size of components approved by the general government budget, state’s social insurance budget, local budgets and special funds etc.

This is undeniable that the degree of taxation and everything that happens then in the process is generated by tax amount of public funds provided in the budget year that are to mobilize to the state’s disposal from mandatory contributions and which is the result of budgetary policies.

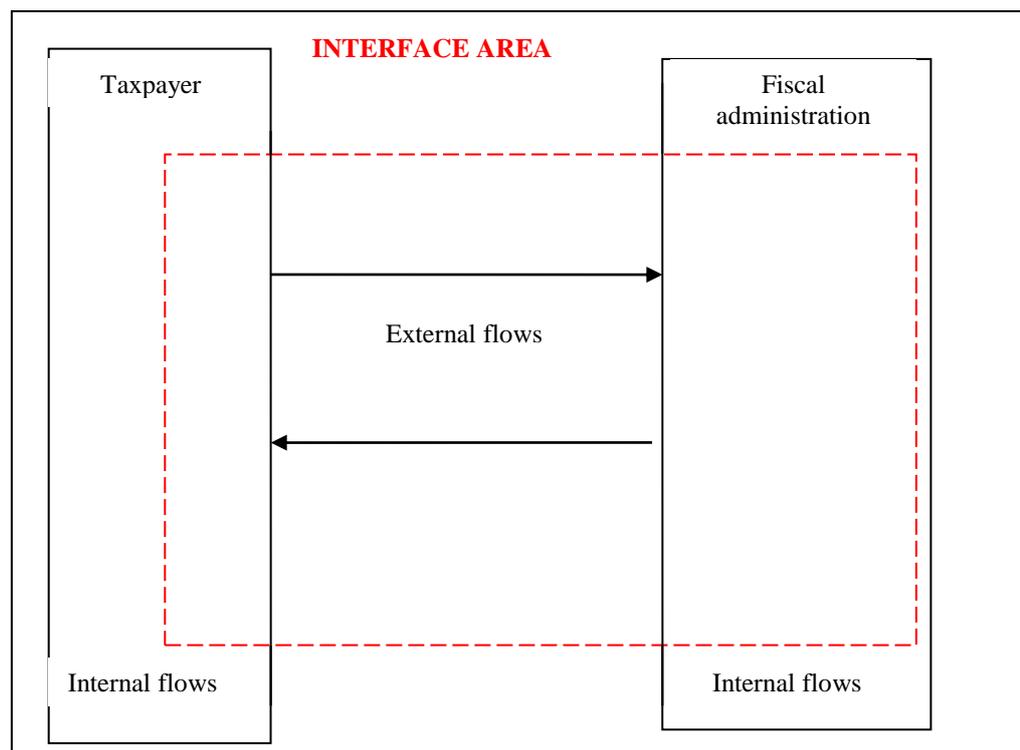
The starting point of fiscal process in the context described above starts with some economic subjects who on their own determine the amount of tax obligations they have to the state (legal) and others only declare their income and tax obligations makes quantifying the tax body. The fiscal process continues with the primarily establishment of taxpayer's fiscal management and based on fiscal information contained in fiscal records fiscal receivables management is drawn with the ANAF and administrative units. The process also goes on with reflecting in the public accounting accounts State’s receivable rights on which based on the tax process, there follows another step, the actual collection of resources.

The most difficult stage of the fiscal process even if it is not as complex as setting up stage is the stage for collecting tax debts of public financial resources. This phase / stage of the process is difficult and troublesome to fulfill due to a complex of objective and subjective factors.

Objective factors that often determine the taxpayer not pay his/her debts to the state on time are; not collection its customers, and bank loans requested and not honored, imminent payment of staff salaries and other cash difficulties .Among subjective factors we mention the most important one, the lack of tax culture of the Romanian taxpayer.

Therefore defective connection between the two partners on the work of tax revenue, in the interface via external flows is a source of dysfunction in implementing the state tax receivable that we will analyze in this paper because external flows are not covered and they are not well enough known ore they are neglected, on the other hand.

Schematically, fiscal process perimeter and information flows in fiscal scrolling menus are represented by Scheme No.1 on the next page.



3. The role of accounting in fiscal management organization and functioning

Accounting information system is extremely important in the establishment and operation of the taxpayer and the tax administrations of the state since the implementation phase to the execution and then reporting them.

Thus, referring then to the fiscal management of taxpayer's financial accounts relating to the accounting rules of economic agents play an important role on the provision of tax information relating to:

- taxes constituting cost elements such as: the tax on buildings, land, car taxes etc;
- excise or special taxes and other consumption taxes such as excise duties on crude oil from domestic production tax, special taxes on cars and motor vehicles taxes that are also elements of the cost price;
- taxes on taxable favorable results, as profit tax;
- taxes on taxable employee earnings and tax income of persons who have provided various services to the entity and for which payment services are taxable by withholding taxes;
- in this category of "withholding taxes" we also include dividends tax, which the paying company will retain from their beneficiaries and deposits to the state budget;
- another important category of withholding tax are social contributions with fiscal character that is CAS, the health contribution and the contribution for unemployment benefits, which the company deducted from employees' earnings, withholds and pay them to the appropriate budget;
- another important and meaningful tax is the VAT, which reunites selling price of the good or service which is collected from the buyer with delivery of the good or service and goes into the state budget.

To highlight all these categories of taxes as elements of cost of production, which are borne by others or who reunited profit selling price (VAT) participate in financial accounting through its dual recording system reflects via its accounts for expenses or results, and budget destination to which they are coming.

Specific financial accounting balances are basic information regarding the formation and establishment of the taxpayer's tax administration.

Also, the same information on the amount and type of taxes owed by the taxpayer resulting from state financial accounting data forms the basis for the construction of fiscal vector (tax returns) which, in turn, are data and basic information sources tax administrations of setting up central structures (ANAF) and local ones.

Financial accounting then reflects through its accounts all financial flows arising from the liquidation of the taxpayer's fiscal management through tax obligations to the state or local bodies of state administration. Thus, in this ongoing process of winding up and then extinguishing taxpayer's tax management financial accounting rules these streams of data and information that measure, quantifies and categorizes subdivisions budget classification.

Double registration of economic operations and accounts that synthetically but also analytically when needed, size, category of tax and the way it goes, fully demonstrates financial accounting role in the creation, implementation and liquidation of the taxpayer's tax administration.

Likewise, in the constitution and the conduct of fiscal management and liquidation of the ANAF structures and local authorities, public accounting through its two sections, the State Treasury and the accounts of public institutions, the general consolidated budget implementation plays an equally important role as the accounting entities on the fiscal informational segment referring to state's fiscal management.

It is the first time in our country when in the area quantifying state's receivable rights from taxes and contributions; the state through its specialized institutions does this by using double-entry accounts. It is well known that until 2004, fiscal management structures were organized within ANAF (central and counties) and the specialized bodies of state power bodies, was performed using a single entry accounting system with all the shortcomings and disadvantages that accounting organized on this principle can generate.

If by 2005 the establishment, development and fiscal management liquidation within ANAF structures and local bodies of state were made on the basis of double entry accounting but held on cash accounting principle, since 2006 this principle was changed by Minister of Finance nr.1917 / 2005, going on to its leadership on the principle of accrual, with the advantages of rigor.

In this context for the first time setting up, running and winding fiscal management organized within ANAF structures (central and counties) and local bodies specialized accounting is based on a dual registration and organized an accrual basis as if managements organized tax payers, which gives them additional opportunities that they are comparable and therefore greater compatible.

In this respect, an exception to this rule is still involved total State Treasury accounts in the liquidation of fiscal management during the collection of taxes and social contributions from contributors; accounting is organized as it is known throughout the accounting principle liquidity. This does not change with anything the importance of measures taken by the Romanian authorities in the accounting field on the organization and functioning of fiscal management. Maintaining accounts in the State Treasury system operating on the principle of liquidity is correct because it should reflect in its accounts only actual receipts from taxes.

4. Fiscal process-consequence allocating public finances function

The first function of public finances depends on the way which the state and its central and local institutions, manage to fulfill in good conditions and the parameters of the plan by achieving the first function, the distribution with its sub function, that of establishing public financial funds and that the state needs to fulfill its functions in the general interest of society.

We could appreciate from the beginning without making any mistakes at all, because of the functions of public finance, distribution function and establishing within it sub function of public financial resources is the most difficult to

achieve.

The inherent difficulties in the tax process are present in all its stages and especially in the final stage, i.e. state collection of earned rights from taxes and social security contributions.

In the stage of identifying taxpayers and subjects of taxation, difficulties encountered by the bodies of the state tax system, are that they are often confronted with the bad faith of those respective taxable income, tax evasion and then if however they were caught, mostly IRS face their bad faith with regard to the final declaration of all revenue and hardships related to their receipt.

In the same vein difficulty on achieving efficiency parameters of the tax system on the whole is generated by shortcomings of its construction that are obvious both at the local and central government on the correct determination charged rights of state¹ the vast majority both cases because of unfairness to the taxpayer on tax preparation and development vectors as the main database for the construction management of the state tax and a fiscal system less competent in many cases.

The difficulties encountered by taxpayers and even organs of central and local tax administration in setting up and running fiscal management is largely due to tax legislation which is frequently changed and not infrequently of its inconsistency across other laws and legal acts it intersects with. Here it is fair to mention about the importance of a tax legislation sufficiently fair to the interest and concern of the state to have as many public financial resources available to it on the one hand and the care that must manifest and promote to the same tax legislation to stimulate business and encourage through its regulations, on the other hand.

Once exceeded the construction phase of the taxpayer and fiscal management at central and local tax administrations, as I have stressed throughout this work, the greatest difficulties facing the tax authorities are related to the settlement of tax receivables.

In this direction we mention those related to civic failure of many taxpayers related to voluntarily pay tax obligations they have to the State or lack of financial liquidity temporary or permanent faced in many cases some contributors and for various reasons such as incorrect charges that the tax authorities administer, or extra-economic constraints often faced by firms.

5. The mechanism of taxation and tax process

Although both of the two concepts refer to the same category of economic and financial, taxation, I believe that each one can not equate, because fiscal mechanism as part of the financial mechanism, and it has the economic concerns rigging structure, economic and financial tools, methods and principles needed by the system for it to work hile fiscal process refers to the steps that must go through and meet these methods and techniques for the whole tax system to function, namely to be initiated and completed effectively. In other words during the fiscal process we use methods, tools and techniques as the financial mechanism for the tax to be triggered and completed effectively.

In this respect and to be more explicit fiscal process procedures take more than the techniques that must be met for it to be done as we have said.

So fiscal process uses techniques and instruments, levers and methods to achieve the financial mechanism and fulfill its intended purpose, which can not be achieved only by going through the entire tax process. In conclusion without lingering too much on the elements of identity and differentiating mechanism of the fiscal mechanism from tax process, we can say that these elements exist but that fiscal mechanism can not work and can not complete its *product*, ie the collection of budget revenues without scrolling systematically all fiscal stages, noting that income tax are for the most part².

6. Conclusion

In conclusion, we consider that the general constitution, fiscal management course and liquidation of the taxpayer and the central and local state authorities, based on double-entry accounting system operating on an accrual basis has meant a significant step forward especially for compatibility of both the taxpayer and the state management both conceptually by applying the same accounting principles technically and practically using the same criteria in the assessment and recognition of tax information. The materialization of these efforts are reflected in the provision by the two accounts, the entities and the public institutions of an interface which provides information on mirror on tax information useful as the two main users, state by ANAF directions of the administrative territorial and tax payers.

Therefore, improving tax mechanism is possible through a fair tax legislation that does not become a burden on business, on the one hand, but still provides an acceptable level of public financial resources it needs to perform the actions³ and duties, on the other hand, a taxpayer aware of its social mission on the rights and obligations it has; an

¹ Nicolaescu Cristina, Study of the Particular Accounting Practices of Small and Medium Companies, Journal of Economics and Business Research, vol XVII, no 2/2011, ISSN 2068-3537, pg. 169;

² Chirculescu Maria Felicia, Fiscalitatea directă în UE. Abordări teoretice și practice, Ed.Mirton, Timișoara, (2013), pg.99;

³ Cernușca Lucian, *Interferențe fiscale în contabilitate*, Editura Economică, București, 2007, pg.16-17.

elastic stable tax system and fiscal system built on competent and less corrupt elements constitute the three factors that together are reflected strongly on how satisfied primary function of public finance, the distribution of components for the formation of public financial resources and allocation.

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