

HARMONIZING THE ACCOUNTING AND TAXATION SYSTEMS IN ROMANIA¹

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Abstract:

The changes during the last years, in an unstable economy, are reflected in the continuous improvement of the accounting and taxation systems in Romania. In its relation with the taxation system, accounting has two important patterns: the continental and the Anglo-Saxon one. The continental pattern (the one used in Romania) is highly influenced by the taxation system, being dominated or even submissive to it. The accounting information is subject to taxation rules and many times it is useful to the state, conferring little importance to the other users. The accounting information provided to the accounts serve as raw material to make a diagnosis based on the economic-financial reality, but also to establish the taxes for the enterprise. While developing the business, every operation generates a fiscal element. The tax is related to every transaction, an intersection between the enterprise and the economic-social environment, accumulating and distributing resources.

Key words: accounting information, enterprise, accounting system, taxation system

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1. Introduction

In a real market economy, accounting is considered as the area of knowledge and control of enterprise management. The statement is valid, while the traditional image of taxation, that is the rules and regulations that generate obligations whose non-observance attracts sanctions, is replaced by the enterprise management incentive tool. Under these conditions, the enterprise shall be fitted with fiscal management, characterized by a certain approach, dominated by the criterion of efficiency in bearing the taxes².

The changes during the last years, in an unstable economy, have been reflected in the continuous improvement of the accounting system in Romania. The continental accounting system is based on the Fourth Directive of the European Economic Community regarding the structure of annual accounts and on the Seventh Directive on consolidated accounts. Within this system, the accounting information is strongly influenced by the legal form of events and transactions, and tax rules and regulations have a significant influence on accounting.

Since in Romania both the tax and accounting rules are developed by the Ministry of Finance, the interdependence between accounting and taxation is very tight, so the influence of taxation upon accounting be even more apparent.

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² Mateș D., *Normalizarea contabilității și fiscalitatea întreprinderii*, Editura Mirton, 2003

2. The accounting and taxation systems

Accounting and its role in society have continuously evolved, even in times of slower economic growth. It passed through various stages, such as: recording, organization and structuring techniques of commercial transactions, control instrument and evidence in dispute, and now we can consider a "social stake" where the interests of the users are collated with those of the producers of the accounting information.

The upturn in the global economic activity and the development of the transactions between entities, required adjustments and improvements of the accounting system and the balance sheet became the main reflection of wealth while the profit and loss account are the reflection of the results of the activity.

Over the years the accounting system evolved according to the economic progress, aiming to better meet the information requirements of an increasingly larger and more elevated category of users, increasing the accuracy and significance of the data provided, a development made possible by³:

- using precise terminology and structure for recording events in the accounts;
- an organization of accounts to meet the internal requirements of the management control and the external information needs;
- expressing those accounts in comparable monetary units;
- regrouping accounts for their publication in understandable universal periodic arrays
- respecting certain principles, as defined above, which guarantee the sincerity of the information.

Nowadays, a new way of organizing detaches itself in the accounting field, and it highlights two complementary aspects: the provision of information to external users on the one hand, and to internal users, on the other hand.

Accounting should provide information to all users, that is, the capital investors, taxation as representative of the state, the bankers, customers, the suppliers as business partners, governmental summary bodies and employees.

Accounting is a prime source of information for tax authorities, most tax liabilities being determined based on the accounting data.

The information has existed in all periods of the history and any decision regarding human actions was supported by elements of knowledge. In a general sense, information represents communication, news sent to the receiver, and it triggers decisions and actions.

Accounting information is specific economic information, obtained by processing accounting data and it is the basis of management decisions. It is true, accurate, complete, and provides information about the company's profit or loss, but also about the assets, liabilities, claims and equities and is considered the only source to show us the picture and state of an entity, in time, becoming the basis of the fiscal management of economic entities.

Taxation development generates the need for a tax information system to take into account the multitude of tax rules. Fiscal regulations influence, directly or indirectly, the activity of an economic unit. The taxation system operates with notions like tax authorities, tax. Experts define the revenue authority as the administrator that has within its responsibilities the calculation, collection, tracking payment of taxes, fees and contributions payable by the taxpayer to the state.

Tax is defined as all methods, means, forms, instruments and institutions used by the state to get the fiscal resources and using them to fund public actions and

³ Rousse, F., *Normalisation comptable, Principes et pratiques*, Collection Méthodologie, Ed. Ministère de la Coopération et du Développement, Paris, 1989

influence economic and social life. It mainly covers the issue of taxes and public spending. Nowadays, taxes have a specific role and integrate in all financial issues, acting within the broader financial policy.

Seeking a relational-systemic approach to taxation, some authors define the tax system as "all taxes imposed by the state that secure an overwhelming part of its revenue, each tax having a specific contribution and regulation in the economy" or as, "a set of concepts, principles, methods, processes on a lot of elements (taxable matter, allowances, tax subscriptions) that have relationships that occur as a result of design, regulation, settlement and tax collection and that are managed under tax law, in furtherance of the scheme. "

Taxation has always been seen as a burden on any taxpayer, however slight it may be. The existence of taxation is justified because the functioning of any society requires certain costs to cover collective needs, and these must be supported from collective resources.

Taxation detaches today as a special science, apart from the other social and economic sciences, and it can be defined as a coherent set of concepts, ideas, theories and theoretical reflection, but also of techniques, methods and measurement, evaluation, management and incentive economic and social activity. Their empowerment and independent development was delayed, however, due to negative perception of taxation, of rigid rules and difficult goals grounds which had removed the taxation of interest in academic research. A long period of time, taxation has been perceived as an agglomeration of rules and techniques, employed in an unpredictable operating system and that does not allow prediction, knowledge, mastery and understanding of the operation.

From the state's point of view, however, taxation plays an important role in correcting market imperfections, being **the** one that provides resources and income redistribution. Taxation is the lever by which the state regulates, in some instances, some market failures. For example, products that carry higher costs than the selling price accepted by the market, can be subsidized, leading to lower costs, thus stimulating increased production. Considering high-polluting cars, by charging higher fees we reduce production of less competitive cars, and thus lower the costs allocated to reducing pollution. In this respect, in Romania, one has to pay a pollution fee on the first registration of a vehicle in the country taking into account the Government's objective of having a national car park with higher environmental performance and, consequently, better air quality.

The relationship between accounting and taxation is a complex relationship, as Charles Penglaou said: "Taxation is to accountancy what snobbery is to art. One should not speak well of it because it has done much harm but equally you should not criticise it because it has done it much good "(Penglaou, 1947).

In the relationship between accounting and taxation there is an important issue which is that the principles, the rules, and the regulations of the two components are not similar in all cases. In a regulated accounting, the accounting information is based on established principles, rules and specific rules. Instead, tax information serves as a taxation base, according to the principles, rules and regulations defined by tax law. It has constantly been proved the conflicts between the two but also the need for harmonization between "the two enemies" and tremendous efforts have been made, both in accounting and taxation, in order to define a system of rules, which led to a truce between the two rivals.

It is therefore difficult to establish a sequence relationship between accounting and taxation, that is to determine which influences the other more, because in reality they are interrelated as follows:

- Accounting "provides" the raw material to taxation at the stage of setting fiscal taxes and other fiscal obligations;
- Taxation "influences" accounting by specific regulations aimed at attracting to the state budget, local budgets and other public financial resources necessary both to the state and to local administrative units ⁴.

At this moment, Romania is trying to support businesses by offering tax incentives, such as: creating a simplified taxation system for small taxpayers, creating an opportunity for gradual reduction of social contributions, because they make creating and maintaining employment in Romania difficult. But this will be quite difficult, since locally for every employee there is one unemployed.

An important problem is the Tax Code, which is very complicated in Romania, but officials say that they want to rewrite and republish the Tax Code in order to increase its transparency and predictability.

3. Conclusion

The tax system has undergone numerous, unpredictable and sometimes controversial changes in the last few years, which have influenced the business environment in Romania, annihilating them many times.

Due to frequent changes in legislation, the Romanian tax system can lose competitiveness and one may identify two causes of the frequent changes: the need to align with EU legislation and the lack of strategy on medium and long term planning. Frequent changes and legislative instability, the lack of serious substantiation rules are the main causes of the precarious balance of business, an example being the flat-rate tax, which required numerous returns on the regulation, given the implications it has demonstrated in the management of the enterprise, but also to professional accountants. Flat-rate tax was to be introduced in January 2011 as a compensatory measure to the minimum tax, which was removed from 1st October, but it was concluded that it is costly and impractical in Romania, so it reverted to the micro, with intention to support economic growth.

A process of improving the accounting and taxation systems is in progress and it requires special attention in the future, because on international and European level the areas mentioned are very dynamic, fact that influences the national environment under conditions in which businesses do not know boundaries and their effects, favorable or unfavorable, spread rapidly, and Romania is facing the end of a period of economic prosperity: in today's business environment, organizations are constantly developing and evolving. Currently, due to frequent changes of legislation, the business environment is constantly changing.

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