THE RELATIONSHIP BETWEEN ACCOUNTING AND TAXATION INSIGHT THE EUROPEAN UNION: THE INFLUENCE OF THE INTERNATIONAL ACCOUNTING REGULATION

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ABSTRACT: In this paper it is realized an overview of the impact of IFRS over European accounting environment in terms of tax-accounting link. Based on previous studies conducted regarding the relationship between accounting and taxation to individual financial statements, it is developed a theoretical framework regarding the differences between accounting profit and tax profit as starting point of this link. The adoption of IAS/IFRS in the European Union had an important impact over the accounting environment in countries where it is a binding link between accounting and taxation, this impact being in the sence of decreasing the link. The last part of this paper is focus on the Romanian accounting environment, the analysis concludes that in Romania, the adoption of IAS/IFRS had a strong influence, in the present the accounting regulation being conforming with the European Directives but with important influence of IAS/IFRS.

Keywords: relationship between accounting and taxation, IAS/IFRS, European Union

JELCodes: H20; H25; M40; M41

Introduction

Since the current trend of an integrated global economy, the accounting, tax and economic issues cannot be treated only in the main jurisdiction; they have become important factors of a complex global mechanism. This mechanism appears to maintain the heterogeneity rather than homogeneity of constituent items.

In the search of new opportunities and benefits, the international companies have expanded beyond national borders, leading to outline the need to regulate their activity, but also to ensure transparency and comparability to an unprecedented level (Blouin *et al.*, 2011). Efforts were made by national and international organizations working on economic field, leading to joint projects, such as the implementation of IFRS and CCCTB, thus changing accounting and taxation (in a lesser extent) in revolutionary processes characterized by flexibility.

Although no doubt, both projects are under unprecedented range of needs, many of the items attached, leading to discussion and challenge, as the scope of these approaches. Although IFRS outlined the path of the comparability and transparency of financial statements, these not yet arrived to answer to needs of the unlisted companies, in this case, maintaining the need for national accounting standards. On the other side, international expansion of these accounting standards has led to new challenges for fiscal regulators, given that historically, accounting represents the genesis for the computation of the tax base in many jurisdictions. Moreover, changes in accounting rules have led inevitably, to changes or debates to the level of tax authorities, in order to establish the taxable items accurately.

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Our study is based on previous literature which analyzed the relationship between accounting and taxation based on individual financial statements (Section 2). In section 3 is realized a comparative analysis between accounting profit and tax profit, as starting point of the dispute between accounting and taxation and also for the relevance of the influence of IAS/IFRS regarding this link. In section 4 is drawing a map of the relationship between accounting and taxation, based on the most important countries where the influence of IFRS regarding this link was analyzed. Section 5 concludes the study.

Literature review

Hoogendoorn (1996) has developed a taxonomy regarding the relationship between accounting and taxation in major EU countries. 13 countries were selected according to the stringency of the relationship and the possibility of maintain this connection was taken into consideration. The taxonomy considered is presented as follows:

- Accounting and taxation are characterized as being dependent and this relationship is not expected to change. In these cases we do not find deferred tax regulations, and as a result, several alternatives are allowed. Both individual and consolidated accounts are therefore influenced by tax regulations, and representing countries such as Belgium and Italy are mentioned;
- Accounting and taxation are dependent and this relationship is not expected to change. There are few deferred tax regulations and fiscal influences. France and Germany are included in this category (Germany also may be included in the first category);
- Accounting and taxation are still dependent, but the aim of breaking the relationship between them is desired. We do not find strict regulations regarding deferred taxation, and representing countries such as Sweden and Finland are mentioned;
- Accounting and taxation are formally independent; in practice the connection between them being characterized as very strong. We can find there strict deferred taxation regulations, and representing countries such as Poland and Czech Republic are mentioned;
- Accounting and taxation are independent. Alternative regulation allows deferred taxation, and as representative country is recalled Denmark;
- Accounting and taxation are independent and there are also specific deferred taxation regulations, representing countries such as Ireland, UK, Netherlands and Norway are mentioned.

Blake *et al.* (1997) analyzed the relationship between accounting and taxation from Sweden, the authors capturing two approaches of the relationship, as a formal legal accounting system based on a binding tax-accounting link and a private-sector, standard-setting body seeking to break that link. The authors also concluded that a binding relationship between accounting and taxation is an impediment to the harmonization of accounting. The main benefits claimed for breaking the tax-accounting link in Sweden relate to companies with an international orientation or a stock exchange listing, these being Sweden's larger companies, and the main benefits for retaining the link, as a control measure and for economy, apply particularly to smaller companies.

Based on study conducted by Blake *et al.* (1997), Aisbitt (2002) conducted an analysis of the relationship between accounting and taxation in the Nordic countries (Denmark, Norway, Sweden and Finland). The author mention a break of the relationship between accounting and taxation in Denmark, while the implementing the EC Directives in 1995. However, the relationship between accounting and taxation has remained in certain situations (e.g. immediate write down of small tangible investments). Like Denmark, in Norway, while of introduction in 1992 as certain situations the temporary differences, as a tax reform measure (write downs of stock to net realizable value; provisions for bad debts; provisions for contingencies; certain methods for foreign currency translation; depreciation; and profits or losses on disposal of fixed assets), accounting regulations was amended, introducing deferred taxes to eliminate temporary differences. The effect was to align the Norwegian accounting regulations to international accounting regulations, eliminating the relationship between accounting and taxation. However, in Norway, there were situations where the relationship was maintained through items such as: accounting for research and development costs; interest costs of self-constructed assets. In the case of Sweden and Finland, the breaking of the relationship between accounting and taxation has been achieved only through to consolidated financial statements. For Finland has been recommended the use of French model in terms of consolidated financial statements.

Blake *et al.* (1993) conducted a comparative analysis between financial and tax regulations in Germany, Spain and UK, countries which have a different approach regarding the relationship between accounting and taxation, so: (1) Germany has a binding link between accounting and taxation; this is attributable to a broader set of user needs for which a conservative approach to accounting is appropriate; (2) in UK the relationship between accounting and taxation is strong both in principle and in practice, although there is no formal link between them, tax factors have a variety of powerful impacts on accounting regulations; (3) in Spain the relationship between accounting and taxation has been strong, but there is a major change in their relationship as a result of implementation of the EC Fourth Directive.

Lamb *et al.* (1998) have developed a classification of the relationship between accounting and taxation, classification which includes five cases listed below:

- *Case I - Disconnection:* Different tax and financial reporting rules (or different options) are followed for their different purposes.
- *Case II - Identity:* There is identity between specific (or singular) tax and financial reporting rules.
- *Case III - Accounting leads:* A financial reporting rule or option is followed for financial reporting purposes, and also for tax purposes. This is possible because of the absence of a sufficiently specific (or singular) tax rule.
- *Case IV - Tax leads:* A tax rule or option is followed for tax purposes, and also for financial reporting purposes. This is possible because of the absence of a sufficiently specific (or singular) financial reporting rule.
- *Case V - Tax dominates:* A tax rule or option is followed for tax and financial reporting purposes instead of a conflicting financial reporting rule.

Based on this classification, the authors conducted a test of the four countries, two countries from Anglo-Saxon System (UK and U.S.) and two countries from Continental System (France and Germany), using 15 items (Fixet asset recognition and valuation; Financial and operating leases; Depreciation; Contingencies, provisions; Grants and subsidies; Research and development costs; Inventory valuation; Long-term contracts; Interest expense; Foreign currency transactions; Non-consolidation purchased goodwill; Pensions; Policy changes and fundamental errors; Scope of the group; Fines, charitable donations, entertaining expenses).

The analysis results confirmed a strong relationship within the Continental countries (France and Germany), most items falling in Case IV and Case V, unlike the Anglo-Saxon countries (UK and U.S.) where most items were fell in Case I.

Blake *et al.* (1998) conducted a comparative analysis of accounting harmonization in Spain, Sweden and Austria; the authors mention that one of the obstacles to accounting harmonization is the relationship between accounting and taxation. Regarding the three countries under review, the authors highlight the differences of perception concerning this relationship, both in terms of companies and tax authorities. Thus, in Spain there was a close relationship between accounting and taxation, but the implementation of EC Directives in 1989 broke this relationship. However many companies are using tax depreciation instead of accounting depreciation, the companies are not using the broken relationship from this perspective. In Sweden, there is a close relationship between accounting and taxation, the authors making the comparison with Germany, which is considered the country with the strongest link in this regard. Swedish practitioners' regrets keeping of the close relationship between accounting and taxation, following the implementation of EC Directives in 1995, considering this link an obstacle to accounting harmonization. An advantage of keeping the relationship is for tax authorities and small entities, for which the breaking it would increase compliance cost. In Austria, as in Sweden, there is a strong relationship between accounting and taxation, the Austrian accounting system being very similar to German accounting system; Austrian practitioners agree with this strong relationship, one reason being that accounting depreciation is different from the tax depreciation. The break of relationship is the desire of the Austrian tax authorities who want to increase tax yield from the corporate sector as not to be bound by traditional accounting conservatism in profit measurement.

Theoretical framework

The connection between accounting and taxation has the complexity and dynamics as main attributes. Given this connection, introduction of IFRS in Europe generated a whole set of accounting standards analyzed by tax authorities and not only.

A whole theoretical framework could be developed based on this fact. One thing is certain, when this connection is addressed, the following factors have to be mentioned: accounting and fiscal regulations; accounting and tax concepts; the European economic environment under the IFRS and CCCTB influence; accounting and tax principles; the relationship between accounting and taxation based on the EU states experience (approaches, typologies, history). Figure 1 suggests such a framework, for an integrated approach to the relationship between accounting and taxation.

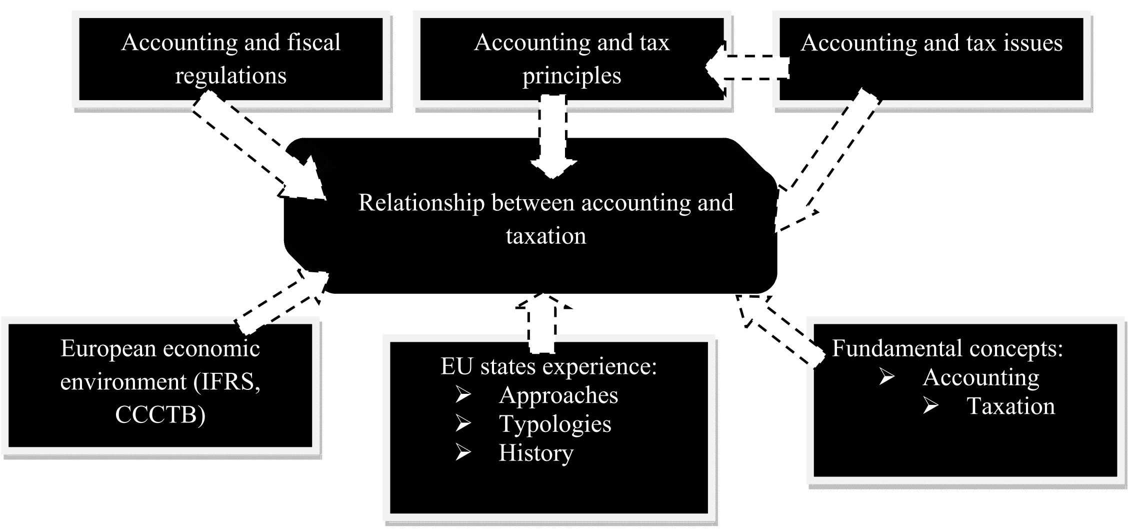

Figure no. 1. - Theorethical framework of the relationship between accounting and taxation
Source: Authors projection

Each of these factors was addressed in the literature, giving them a wider or lower space of debate, depending on the direction of the connection between accounting and taxation. Thus, the accounting and tax concepts as operating in this area are also discussed under the spectrum of their homogenity definition, the most discussed phrase being: accounting profit – tax profit (Freedman, 1995; Manzon and Plesko, 2002; Desai, 2003; Ayers *et al.*, 2009; Crabtree and Maher, 2009; Graham *et al.*, 2011).

Accounting profit versus tax profit

The objectives of accounting and taxation are different both at the conceptual level and as optical of various regulatory bodies in each jurisdiction, depending on local circumstances. Until all jurisdictions of the European Union will reach a common agreement on unitary computation of the tax profit will take time, given that each have different objectives that they pursue.

While, the tax process is designed to not harm the decision-making, but at the same time to compress the viability of this system by collecting taxes, accounting provisions are focused on informing accounting users on financial risks that accompany economic transactions in order to enable them to make rational decisions (Weber, 2009). Likewise, it is intended the companies ability to generate profit in the future, hence the anlysis based on balance sheet, nor on profit and loss accounts as for taxation.

Thus, the taxation issues summarize the following directions: ensuring steady revenue to the state budget; reallocation of resources by redistributing income; efficiency the fiscal device; social policy (James and Nobes, 2002). Accounting issues include useful and relavant information provided to stakeholders, in order to shape the managerial and decision-making process (Nobes and Parker, 2002).

The introduction of IFRS in Europe was not and is not yet an easy process, as a result to the desire of uniformity of a complex diversity. The different vision reffering to *the true and fair view principle* and *going concern principle,* rather than the *prudence principle,* were difficult accepted by some representative states, such as Germany (Macharzina and Langer, 2004). On the other side, applying the *fair value* as valuation basis and the *substance over form principle* introduced a different optic from France, leading only to a partial implementation of IFRS in this juristdiction.

The accounting and tax principle are included in the area of different goals set for financial accounting (Freedman, 1993) and tax accounting, so each principle once stated towards a goal (James and Nobes, 2002). The tax accounting based on Gielen and Hegarty (2007) opinion, must be based on the following fundamental principles:

- neutrality (investments schemes must be analyzed without tax influence);
- tax rules simplicity: application, understanding, capacity to promote efficiency and competitiveness;
- facilitate the enforceability of fiscal regulations;
- the ability to tax, the tax profit in general including the realized capital gains and losses;
- establish a constant periodicaly minimum income tax for authorities (by limiting taxpayers to reallocate revenue or expense for different tax periods);
- active instrument of public policy (by tax incentives allowed, tax authorities can use the tax system as an incentive for development and accelerate the investments);
- return the tax rules changes (it is take account the costs associated with a change in tax rule, and also, the benefits of change implementation outweight the cost attached).

The relationship between accounting and taxation is best represented to the level of accounting practice by alternatives commonly used to taxable income computation which depend by the level of connection between them. As the level of influence by taxation over accounting, or the magnitude of the connection between them, it has evolved over time and space.

While countries like Germany, Spain, France, and Italy have maintained a connection between accounting and taxation in order to avoid two sets of rules, others like UK or Denmark thought two separate systems for these, developing accounting rules and tax rules, where the tax profit is compute based on tax rules such in USA.

The accounting and fiscal regulations are close link by the European economic environment where are implemented. As methodology, the study is focused also on those regulations from European space as an integrate system (IFRS, CCCTB), and also, sporadical, on the most important countries from EU. The regulations were selected based on the impact over the relationship between accounting and taxation.

The economic environment and specific accounting and fiscal regulations as well as historical experience of Member States regarding the relationship between accounting and taxation, maybe it is the most important segment of this relation. The introduction of IFRS is considered a strictly legal approach and appeared as a capital market needs and accounting information users. Althought only listed companies were concerned to implement and apply IFRS; the process itself is dynamic and constantly expanding, given the growing need for comparability between financial statements, but also the fact that the European Union left open the option of applying IFRS for unconsolidated financial statements.

One of the main reasons to apply the IFRS in the consolidated financial statements was that we not find tax influences at this level. The changes introduced by IFRS were varied, some of them leading to change the old optical with a new one, though not without detractors (Haller and Eierle, 2004; Kvaal and Nobes, 2010). An example in this sence is the fair value and new value-based approach designed to focus on balance sheet, towards the historical cost focused on profit and loss account. In terms of IFRS, the accounting and taxation are disconnected and the accounting information is obtained as a result of the accounting rules used by financial accounting.

It is known that, the accounting profit is obtained following the accounting rules and the tax profit is obtained following the tax rules, where the accounting and taxation are disconnected. The difference between those has generated and still generates multiple discussion to international research (Gee *et al.*, 2010). The debates included in this field of research are the best snapped by Prebble (1994), the author mentioned that the profit computation is one of the main dificulties faced by tax law, given the complexity of this approach to capture as fairly "all the facts of economic life".

Therefore, those are obtained based on different optical rules that gave different objectives. The debates between the two optics were reflected also in the IFRS and perhaps only in the optical devevoped by Schanz-Haig-Simons (1921, 1938) these can be approach.

To define the profit, beyond to qualify it as accounting profit, but simply to define, it is a debate itself (Freedman, 1995). To understand all the values which can be included in the profit, the opinion of Fisher (1930:3) and Hick (1946) may represent a starting point, even further, in understanding the differences that exist between tax and accounting profit.

Fisher (1930:3) defined the profit as a consequnce of a set of events, while examining the relevance of each of them and the dialing mode on this basis. Hicks (1946) addressed a slightly different view, such that, the profit of the period has to be compute according to the future income prediceted by the companies. If the ammount of income will not change, the profit of the period is correct. If, however, it is expected a lower ammount of income in the future, it is reasonable for the amount established for profit to be recalculated.

The definition of Hicks (1946) could hardly be accepted, and more, the computation method of tax authorities, but reflects a starting point to an accurate determination of profit which is corelated with the future trend and not only with the past events.

Solomon (1961) completed the Hick's view and appreciated his contribution to the connection between economic profit and accounting profit. He laid the foundation to one of the most debated areas, as following: the periodical profit is not the best tool for planning and control that management can use. Solomon (1961) also mentioned that taxation is removed from the concept of profit in the economic sense, when accelerated depreciation is accepted as the method of depreciation or it is allow differential treatment of capital gains.

These different approaches it is going to one indisputable truth: what may be considered appropriate to be taxed, can not be considered to be appropriate from economic view and further, the computation method of tax base in view of tax authorities it is likely to differ from financial accounting view.

Naturally, these divergences lead to differences between accounting profit and tax profit, beginnig with the difinition untill their setting. We have summarized below the most important views on the computation of economic, accounting and tax profit that have contributed and still contribute to their conceptual and operational differences despite the time passed since they were developed.

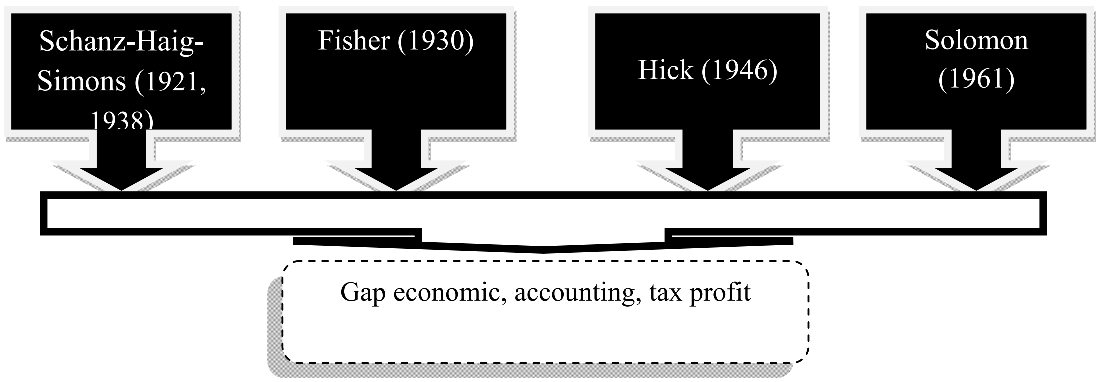

Figure no. 2. - Conceptual framework regarding the most important views on the gap between economic profit, accounting profit and tax profit
Source: *Authors projection*

To estimate the amount of accounting profit and tax profit at the operational level is also an area characterized by dynamic under classical economic doctrines approach within the definition of tax. Given that the taxation seeks to be based on accounting rules established in the transactions carried out, it can lead to conceptual differences as effect of traditional orrientation of accounting estimates based on accrual accounting (James, 2009). Whittington (1995) assessed the tax system orientation and the need to be based on verificable transactions, while, financial accounting includes issues such as estimates.

IAS/IFRS influence in the EU

Other discussions with direct reference to the subject addressed and influences of the new fair value optic were created around the definition of an asset and a liability in terms of optics based on the balance sheet approach. More precisely, the ammendments by definition of intamgible assets (IAS 38) and the possibility of including in deferred tax schemes (IAS 12).

In the European Union, the introduction of the Fourth Directives represented an important step, before the implementation of IAS/IFRS who can lead to disconnection between accounting and taxation. Gallego and Galende del Canto (1995:361) have addressed this approach in Spain, mentioned that with the introduction of the new provisions, the relationship between accounting and taxation was relax. Likewise, changes in this direction have been registered with the introduction of rules governing by VR 16 (1997, 2002) and IAS 12. However, current studies do not confirm their hypothesis for the case of Spain, but argue that the Fourth Directive of the European Union had such an impact on other jurisdictions (Nobes *et al.*, 2004).

Starting from the regulation in question and the potential influence that might have on fiscal rules, the question arises is the impact it could have on the fiscal rules, mentioned here the influence of accounting over taxation amd not only the classical approach from literature. Could be IAS/IFRS relevant from tax perspective? Could IAS/IFRS create an impact over the tax rules? The answer leads to the level of connection between accounting and taxation. If the accounting is not influenced by taxation, the impact of IFRS is neutral over tax regulations. If it is a link between accounting and taxation, rather then the tax rules can be influenced where IAS/IFRS apply totally.

The connection between accounting and taxation is one of the main reasons that the implementation of IFRS has become a point of debate at EU level, debate based on legislative and cultural diversity.

Whereas this connection was documented as to be one which varying temporal and spatial as magnitude, form strong to non-existent, it is necesarly a comparative approach.

The studies conducted by Hoogendoorn (1996); Blake *et al.* (1997); Blake *et al.* (1998); Aisbitt (2002); Freedman (2004); Gallego (2004); Nobes *et al.* (2004); Van Hulle (2004); Schon (2004,2005); Gielen and Hegarty (2007); Schultz and Fogarty (2009); Weber (2009); Gee *et al.* (2010); Graham *et al.* (2011) were the starting point to draw a map of the relationship between accounting and taxation to the EU level.

In this research area the connection has been treated as variation, but the extremes were used as point of distinction between different jurisdictions, dividing the European map at this level between countries where accounting is not influenced by taxation and countries where accounting is influenced by taxation, the level of influence or the direction of influence being introduced by taxonomy of Lamb *et al.* (1998).

To appreciate this connection to the European level, a brief overview of regulations is necessary. As it is discussed in the literature, it is made distinction between two main accounting systems, The European-Continental and Anglo-Saxon system. Based on Nobes and Parker (1981) and Choi and Muller (1992), the European-Continental System is macro-oriented, while Anglo-Saxon system is micro-oriented. The micro orientation provides that financial statements to be prepared especially for shareholders and to not be influenced by tax regulations. The true and fair view principle is governing this system, and the division between accounting and taxation produce a double typology of the profit, such as: accounting profit obtained fillowed the accounting rules and tax profit obtained followed the tax rules.

The macro orientation allowed the influence of taxation over accounting, and the financial statements are oriented especially for creditors, the main objectives being the computation of the taxable profit. Based on Gallegro (2004), as micro-oriented accounting systems we can find the case of UK, Canada or USA. As macro-oriented accounting systems, we can mention the case of Germany, France, Spain or Belgium.

Given the contribution of different accounting regulations, the differences between them decreased and the connection between accounting and taxation recorded brief changes, in this respect, Gallegro (2004) and Nobes and Schwencke (2006) mentioned that this connection is characterized by dynamism and a good treatment of this field involves longitudinal studies.

Based on macro-oriented approach, the tax burden is a reallocation of a part of profit, while, the micro-oriented approach regards it as a period expense (Gallegro, 2004).

In the Europe, the case of UK is representative for micro-oriented approach. The accounting regulations from this jurisdiction were made without taking into account the tax influences, or more than that, what changes to the tax level could shape the options determined. Being a representative case for Anglo-Saxon system, the accounting regulations are designed to provide relevant informations for the capital market and users of financial statements, taking into account the accounting profit without tax incidence. The only formal link is the taxation of profits.

Similar is the case of Finland and USA, where the reporting period, the depreciation regulations and the deductions to the taxable profit computation are different to the accounting level and tax level. In this respect, to compute the taxable profit, it is necessary to use the interperiod allocation method (SSAP 15, FRS 19), the liability method (SSAP 15, IAS 12), the deferred tax assets and deferred tax liabilities (IAS 12), which can vary simultaneously with the changes made in the amount of tax burden.

The case of USA, although no member of the European Union, can be addressed though the disconnection between accounting and taxation which later influenced other accounting systems or jurisdictions. Thus, we find two different systems, with reference to tax accounting and financial accounting. Although, the accounting profit is the base for determine the taxable profit, the logic for computation of each of the two results is different. However, in this case the tax authority is able to interpret if the accounting options used by a company reflect the needs of the Generally Accepted

Accounting Principles (GAAP). The tax profit, unlike the accounting profit, is computed taking into account the interperiod tax allocation (based on APB 11, ammended by SFAS 96, which was ammended by SFAS 109), the liability method (SFAS 109), deferred tax assets/liabilities (SFAS 109).

Denmark represents also a specific case, where after 1980, since the introduction of accounting regulations, the relationshipbetween accounting and taxation has decreased as magnitude, but it is not a classical case of disconnection, nor currently. As history, in the danish economic environment fave found roots of European-Continental system and also Anglo-Saxon system and moreover, the principles under which it outlined the connection between accounting and taxation are characterized by items based on common law. The introduction of the Fourth Directives conducted as in the Spanish case, to the decreasing of the tax-accounting link, so no we can say that the two are not strongly connected since a distinction is made between the levels of connection (Lamb *et al.*, 1998).

About Norway, Westermark (1995), cited by Kindberg and Persson (2005), mentioned that this country is in the middle if axis: connection-disconnection, if we imagine in this respect the tax-accounting relationship. In the present, It seems that efforts were made to disconnection, thus Nobes and Schwencke (2006) mentioned that the norvegian accounting system is developed based on the Anglo-Saxon system. In the period 1976-1992, the accounting and taxation was connected and the tax regulation, based on taxes were established, was represented by the Fiscal Code since 1911, ammended in 1981; the accounting rules were established by Company Law from 1857, ammended in 1976 and 1984. The regulation from 1992 is that allows to Westermark (1995) to affirm that the tax-accounting link was decreased, becase the deferred taxation was introduced, this being considered as the first step for disconnection. The period 1998-2004 was influenced by the Fourth Directuve, which conduced to a decrease of the tax-accounting link. After 2005, as in the case of other European countries, the accounting system was influenced by the introduction of IFRS for consolidated financial statements, recording a step in the way of disconnection, so that the accounting system was shifted to a micro-oriented approach.

Although the degree of connection can be considered broadly similar, how that connection is made, it is different from country to country, leading to the idea that, choosing a pattern to fold all possible cases is redundant, because it is not possible to apply as diversity consequences.

Although the short comparative approach can be concluded that exists similarities between countries (e.g., Norway, Denmark, UK in the case of disconnection, or France, Germany, Italy, Spain in the case on connection) to draw accurately the degree of similarity is impossible, given the lack of empirical studies in this field.

The case of UK, it is a special one, given the need for appropriate fiscal measures in the taxation of financial transactions, approach who has led many legislative changes. The Anglo-Saxon accounting system is the system who governs the economic environment of this country, and the tax burden is especialy on direct taxation rather the indirect taxation. Given the need for accounting harmonisation, IFRS was implemented as in other EU countries, leading to changes in tax laws for computing the taxable profit in terms of financial instruments. This approach leads initially to an increase in complexity of the tax system (Gielen and Hegarty, 2007), but also increase the taxation on certain categories of financial instruments, leading to lower profitability, respectively, breaking of neutrality (Gielen and Hegarty, 2007).

After 2006, the tax authorities has changed the legislation, thus, in the present, the principle of neutrality is respected. The case of IK is a tipical one, regarding the influence of IFRS over the tax system, considering the tax-accounting disconnection and also a tipical case of indirect involvement, but sharp of tax system in the investment decission, as in the case of financial instruments, conducted to successive changes, hesitation and uncertainty (Gielen and Hagarty, 2007).

The relationship between accounting and taxation in France is supported by the principle of connection between tax and accounting (The French Fiscal Code, Article 38, Appendix III). Having as foundation this principle, two consequences can be mentioned: in the balance sheet, the estimates have to take into account also the accounting and tax rules, and in the profit and loss account, such items can be recognized as deductible expenses only if there is no tax provision contrary to this.
Due the orientation on civil law, France did not preferred the substance over form principle (one of the most important principle supported by IFRS) and the fair value as valuation method. Given the connection between accounting and taxation, the influence of IFRS was felt at tax level, but not to create a system with higher complexity as in the case of UK, France has been accepted only a partial implementation of IFRS, changing the national accounting rules with important items from this regulation.

Germany is another important example of connection between accounting and taxation, implementation and support of the principle of prudence. As cited are France, Italy and Spain. Based on German accounting system, it can be mentioned that it is one of European-Continental system. The main feature of this system is still the link betwwen accounting and taxation, supported by the *principle of conformity (germ. Maßgeblichkeitsprinzip)* (Haller, 1992), partial similar with the principle of connection between accounting and taxation from France. One special think in the case of Germany is that this principle *is assisted by the eligibility of conformity principle (germ. Umgekehrtes Maßgeblichkeitsprinzip)* that allows companies to choose a particular accounting treatment or policy in order to choose a particular tax treatment.
The influence of taxation on the consolidated financial statements under IFRS is the subject of study conducted by Gee *et al.* (2010), the authors realized a comparative analyze of Germany and UK. The two countries were chosen for analysis because they are often used in the literature as exemplars of opposing traditions in this context (the relationship between accounting and taxation). The results of analyze show that the influence of taxation in the consolidated financial statements in Germany has decreased, and this influence is also identical to the UK. The authors also say that with HGB Act revision in 2010, the influence of taxation on accounting in terms of the unconsolidated financial statements in Germany was reduced relative to the situation in early 1990.

Eberhartinger and Klostermann (2007) conducted an empirical analysis on the use of IFRS for tax base, the analysis been conducted in the case of Austria. Austria, as is known, has the accounting connected to taxation, Austrian accounting relying on the German principle of accounting “Massgeblichkeitsprinzip”. The authors mention that one of the arguments for using the IFRS for taxation is simplification, “for reporting as well as for taxation, the economic profit has to be determined”. The objective of empirical analysis conducted was to discuss the change in the discounted tax burden if IFRS were relevant for taxation, the analysis being conducted on individual financial statements for 61 Austrian Companies from three sectors: manufacturing, utility and wholesale and retail trade (the data from financial statements made available by the Austrian Institute for SME Research together with the Austrian National Bank) The information was multiplied with an “IFRS factor” and “Tax factor” in order to achieve the comparability of information, the factors reflecting the changes in measurement in the different settings. The analysis performed was based on three scenarios analyzed according to sector level and companies size:

- IFRS are fully and without any restriction relevant for taxation
- IFRS are relevant for taxation except for all cases where measurement above historical cost is involved, since taxation of unrealized profits constitutes a breach of core tax principles
- IFRS are relevant for taxation under the assumption that the present mandatory tax rules are maintained

The analysis results based on three scenarios concluded that the discounted tax dis-/advantage is very small, one could argue that IFRS prove to be a suitable basis for taxation, the authors do not supporting this view.

The connection between accounting and taxation is matterialized in this system by the fact that financial accounting represents the starting point for taxable income computation. The influence of taxation over accounting is also a strong one.The principle of prudence and the accounting conservatism are also specific items that acompanying the environment which mentain the tax-accounting link.

The figure below (fig. no. 3) can be starting point to drawing a map of the connection between accounting and taxation to EU level, based on previous literature, beinf included also Romania, the case of this country being analyzed in the next section.

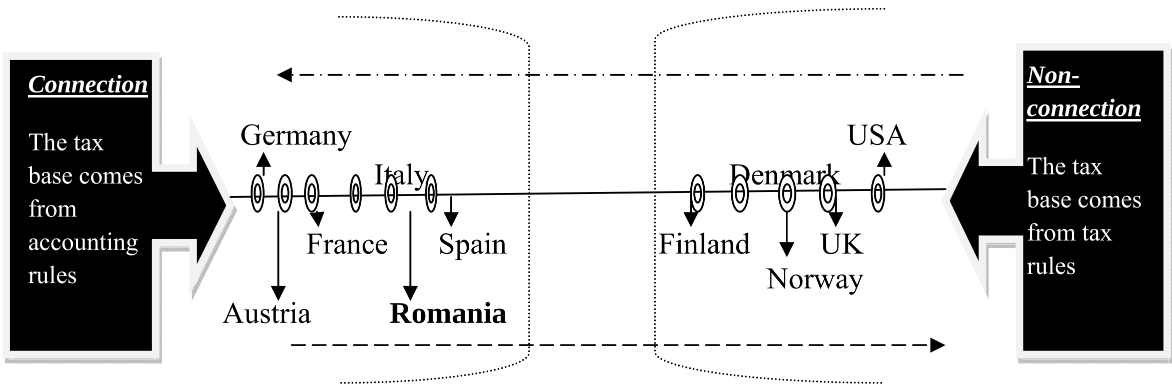

Figure no. 3. - The magnitude of the connection between accounting and taxation

Source: Authors projection

The relationship between accounting and taxation in Romania

The Romania's case is not easy to quantify, but base on the empirical analysis conducted by Deaconu and Cuzdriorean (2011), the influence of taxation over accounting makes is presence, the tax base being determined based on accounting rules which shows a relation by dependence between them.

The fall of communism and the transition to the market economy represents the main events with significant influence over accounting from Romania after 1989. From that moment until now, the Romanian accounting reform through several stages, outlined the various accounting regulations issued by the Minister of Public Finance, the accounting regulatory authority in Romania.

Romanian and foreign authors conducted over time such studies regarding the Romanian accounting reform (Feleagă, 1996; Delesalle and Delesalle, 2003; Roberts, 2000; King *et al*., 2001; Calu, 2005; Ionaşcu *et al.,* 2007; Mustață, 2008; Fekete, 2009; Albu *et al*., 2010; Albu *et al*., 2011). Stopped on issues concerning the chronological development of accounting regulations after 1989, we can identify French, British, IFRS and European Directives sources of influence.

Since the integration approach in the European Union, the national regulations were oriented over the implementation of European Directives, similar case with other countries from CEE (Borbely and Evans, 2006; Strouhal, 2007; Fekete *et al.*, 2008; Deaconu and Cuzdriorean, 2011); the harmonization process, leading to the implementation of IFRS, after the adheration of Romania to the EU. As for any of the above mentioned Member States, the implementation process was not an easy one, the Romanian's case din not distinguish (Ionaşcu *et al.*, 2007; Deaconu and Cuzdriorean, 2011).

In terms of legislative changes to the national level with direct influence over the tax-accounting link, it can be characterized, as to the European level, by repeated attempts to find the best solutions due to the diversity of external influences. Deaconu and Cuzdriorean (2011) share the post communist in three different stages and explain the legislation influence over the relationship between accounting and taxation. Thus, the authors found three distinguish stages, such as: period from 1991 to 2000; period from 2001 to 2005; period from 2006 to 2009. Our study complete these classification with the period from 2009 untill now.

The period between 1991 and 2000 is one of the most important in terms of Romanian accounting regulation. In this stage, the influence of European-Continental system is overhelming, since the influence of French system (Calu, 2005) over the Romanian accounting system, that form addoting the Accounting Law no. 82/1991 and the Government Decission no 704/1993 regarding the application of the Accounting Law. These two, as Deaconu and Cuzdriorean (2011) confirmed, represented the beginning of the accounting reform to the national level, giving up to the Sovietic accounting regime installed during the communism area. Due to the opening to the European market (Feleagă, 1996; Matiş, 2001), this subsequently led to other changes in accounting, component of mechanism of market control (Deaconu and Cuzdriorean, 2011), trend which is both influenced by internal factors (Matiş, 2003) and external factors (Deaconu and Cuzdriorean, 2011).

In this context, the influence of taxation over accounting were strong, since the fact that, the accounting regulations were established by the Minister of Public Finance, the accounting profession, based on Feleagă (1996) and Malciu (1998) having no power to impose.

The legislative changes in accounting had not the power to impose, due the insufficient development of market economy, the debate on carried accounting reform (Pop, 2003:48), the approaches toward the excessive control of the legality of commercial transactions realized by the Romanian companies.

The transition from cash accounting to accrual accounting occur against the growing awareness to the complet need of accounting information, as well as the development of conceptual structures, having as main instrument of normalization the chart of accounts (Matiş, 2003) by French influence (Horomnea, 2008) with the weaknesses at that moment (Pop, 2002). Once with this changes are emphasizing the important role played by accounting in economy, role which covers the information need of accounting users (Malciu, 1998) and also the plan of forecast-prevision-analysis (Matiş, 2003:54).

The period between 2002 and 2005 differs by the fact that, the transition to the market economy becomes more evident, the need of accounting information becomes more important, but are moving towards more complex information due to the international capital market need and beyond.

Given the openness of Romanian companies beyond the national borders, the tendency to adopt the IFRS to the national level becomes more evident. As accounting regulation, it was imposed the Order no. 94/2001 *for the approval of the accounting regulations harmonized with European Directives and International Accounting Standards*, which was applied by the big companies for their individual accounts. It was the first step of national accounting harmonization with the IFRS, but a step not without many debates, together with pros and cons arguments. It was addressed in particular: the influence of Anglo-Saxon system over the Romanian accounting environment (Ionaşcu *et al.*, 2007); the mandatory adoption of IFRS for consolidated financial statements based Romanian market; the modernization of accounting standards and implementation of international ones inder the preasure of World Bank (Ionaşcu *et al.*, 2007); simultaneous application of the Directives and IFRS on the same sets of financial statements where it is necessary (Ionaşcu *et al.*, 2007; Deaconu and Cuzdriorean, 2011); need for European integration of Romania and comparability of accounting information in time and space (Matiş, 2003).

In this context, the trend of the Romanian accounting systems is to approach the Anglo-Saxon accounting system (Ionaşcu *et al.*, 2007; Albu *et al.*, 2011). Thus, the Romanian accounting regulations will be modified consistent (Matiş, 2001; Deaconu, 2009; Deaconu and Cuzdriorean, 2011) and will compress items as: the substance over form principle, differentiated valuation of assets, equity and debts principle; materiality principle; increased the need for introduction of cash flow statement and the statement of changes in equity; new rules of valuation; changes the optics of European-Continental System to the Anglo-Saxon optics in terms of shareholders information and the information regarding the solvability and others.

The connection between accounting and taxation is store, the taxable profit being compute based on accounting profit, the accounting judgement inlcuding fiscal influences in a large extent (Ionaşcu *et al.*, 2007; Deaconu and Cuzdriorean, 2011).

The period between 2006 and 2009 is under the influence of Order no. 1752/2005 *regarding the approval of accounting regulation conforming to European Directives*, which requires all companies to apply, starting with January 1, 2006 to apply accounting regulation based on these Directives. Order no. 1121/2006 provided also the application of IFRS for consolidated financial statements, keeping the close trends with the Anglo-Saxon system (Deaconu, 2009).

This is not the only influence, whereas the European Continental system makes its presence felt under the link between accounting and taxation, since the prudence manifested by the tax authority regarding the computation of taxable profit. Other influences are reflected by failling the qualitative characteristics of financial information and the recognition of start-up expenses as assets, although not achieve the recognition criteria required by IFRS (Deaconu, 2009).

The period 2010 until present is characterized by continuing the application of accounting regulation conforming to European Directives (based on Order no. 3055/2009) with important influences of IAS/IFRS. A major change is mention by the requirement to update the foreign balances at the end of each month, which will ensure a greater transparency of accounting information and also it provides reconciliation between accounting and tax rules.

Conclusions

In our paper we realized an analysis regarding the implication of IFRS in the EU accounting systems. Based on the two majors accounting systems (European-Continental and Anglo-Saxon systems), it is realized an overview of the major changes over time in the European accounting regulations, the last major impact over them being the adoption of the IFRS for consolidated financial statements.

Based on the older dispute between accounting and taxation, it is realized an comparative analysis between accounting and tax profit as the central point of this link and the point of the analysis regarding the influence of IFRS.

As we can mentioned in the study, the adoption of IFRS was decreased the link between accounting and taxation in the countries where this link is strong (e.g. Spain, France, Italy), in Germany, the power of this link being mentioned, the principle of prudence being the most important item in the German accounting environment.

Also, in Romania the IFRS was an important impact over time, the application of these standards between 2000 untill 2005 have been an important influence over the present regulation which is conforming with the European Directives, but with important influence of IAS/IFRS. The use of IAS/IFRS in the case of consolidated financial statements, also contribute to this influence.
As limit of our study, we can mention the lack of empirical analysis regarding the link between accounting and taxation, this objectives being the perspectives of our research for Romanian accounting environment and also for other European countries as a major project to the European Union.

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