RELATIONSHIP BETWEEN ACCOUNTING AND TAXATION IN ROMANIA: A BEHAVIORAL ANALYSIS

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ABSTRACT: Accounting-taxation relationship is an always challenging topic. It seems, this relationship has moved from standards to practice and from practice to perception. Is taxation influencing accounting?
In this paper we studied this issue from a behavioral approach: we asked indiviuals pertaining to two separate professions (accountants and fiscal inspectors) to indicate the level of influence of certain factors. These factors describe the complex relationship between accounting and taxation. By indicating their preference, professionals revealed their choices for accounting- or fiscal-driven treatments/judgements which let us conclude on the direction and level of this influence.
Our results partially support fiscal influence; contrary to our expectations, some factors seem to be accounting driven, which provide evidence for less fiscal influence on perceptional level.

Key words: relationship between accounting and taxation, practitioners' perceptions, Romania

JEL Codes: H20, H25, M40, M41.

Introduction

Accounting and taxation, though taught separately in universities, are more or less connected in business practice. Connection seems natural, since both of them are applied in the same company, focus on the same set of transactions, and are done by (in case of SMEs by the very same) accountants. Disconnection however is an objective, since both of them a regulated separately, should be applied separately and serves different (usually conflicting) interests: accounting, through it's financial reporting function addresses users, the most important of which are the investors, and taxation is designed to serve the interest of the state, as the main revenue collection tool.

This relationship can be studied in different perspectives: analytical research focuses on regulation issues (Cuzdriorean, 2011; Cuzdriorean-Vladu et al., 2011; Pop, 2012), empirical research focuses on financial numbers (Fekete et al., 2009; Cuzdriorean et al. 2010; Cuzdriorean-Vladu, 2011). In this paper we address the issues of relationship from a behavioral perspective. We address professionals who use both referential in their daily work, asking them to indicate the level of agreement. This level of agreement measures the degree to which practical behavior and professional judgment is more accounting-driven or taxation-driven. Since the analysis has been done on several entity levels (small, medium and big entities), this may contribute to understanding the pattern of relationship between accounting and taxation.

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Literature review

The tax-accounting link is a topic very debated in the international literature. One of the most representative study in this field were conducted by Hoogendoorn (1996). The authors realized a comparative analysis in the case of 13 countries based on factors of influenced, being realized a delimitation between countries included in the case of Anglo-Saxon System (disconnection), and European Continental System (connection).

Lamb et al. (1998), realized also a delimitation between AS accounting system and EC accounting system, the analysis being conducted to the level of tax-accounting link in the case of UK, USA, Germany and France. The analysis was conducted based on 15 factors of influences and 5 level of influences. Based on this study, Nobes and Schwencke (2006) in the case of Norway, Nobes et al. (2004) in the case of Spain and Gee et al. (2010) in the case of Germay realized similar analysis.

In Romania, in the last period, many studies were developed regarding the relationship between accounting and taxation, fundamental and also empirical research.

Istrate (2011), based on the methodology developed by Lamb et al. (1998) and Nobes and Schwenke (2006), conducted a fundamental analysis regarding the tax-accounting link in Romania. The results illustrated a de jure disconnection between financial accounting and tax accounting, but the author mentioned that in many cases, especially in the case of SMEs, there is a strong link between accounting and taxation. The author din not demonstrated this affirmation empirically.

Based also on study conducted by Lamb et al. (1998), Deaconu and Cuzdriorean (2011) conducted an empirical analysis to the level of Cluj county. The interview, as statistical instrument was used, the sample including 20 managers of the biggest accounting firms. The results of the study conducted confirmed what Istrate (2011) affirmed, that there is a *de facto* influenced between accounting and taxation in the Romanian accounting environment. Also, Cuzdriorean (2012), conducted an empirical analysis, being used an analysis to the national level in the case of Romania. The survey as statistical instrument was used; the sample contained 1710 licensed accountants, the empirical analysis being conducted to 212 valid contacts. The results illustrated that there is a trend of de facto disconnection between accounting and taxation, but this link is manifested especially in the case of SMEs. Albu et al. (2011) also affirmed that the accountants competencies in the last period were changes, after the fall of communist these competencies being strongly influences by taxation; nowadays, as the results of market economy, these competencies must be more connected to the needs of users.

Fekete et al. (2009) and Cuzdriorean et al. (2010) conducted an empirical analysis regarding the relationship between accounting and taxation in the case of listed companies to BSE (Bucharest Stock Exchange). The authors illustrated that to *de facto*, based on model proposed, the taxation influenced over accounting is about 4%. The authors affirmed that this value cannot be interpreted as high or low, since there is no basis of comparison. Based on these studies, Fekete et al. (2012) applied the same methodology to a sample of 176 SMEs. The results also illustrated that in the case of SMEs accounting, there is a tax influence, this influence prevailing in the situation of accounting or tax legislation changes.

Istrate (2012) conducted an empirical analysis regarding the influence of IFRS over accounting and tax rules, in terms of tangible assets. Based on a longitudinal analysis since 1990, the author affirmed that the evolution of accounting and taxation in terms of tangible assets was spectacular, in the present being a separation between accounting and tax treatment.

Methodology

As discussed earlier the research question is understanding the perception of Romanian professionals on the accounting-taxation relationship. For this reason, we designed a questionnaire which has been sent to representative sample of 562 persons in Cluj county activating in the financial-accounting field. We received a total of 168 answers, from which 160 were valid (28,5% valid response rate). Since the representativeness of our sample was not tested yet at this stage of research, we analyze the results without making any infers/tests.

In the original research a dozen of professional categories were addressed, of which we focus in this paper only on two: accountants (59 persons) and fiscal inspectors (73 persons). Since not all the persons answered all the questions (some questions might not apply to a certain person) we have less responses that persons included in the sample. For example, some persons might work only with small entities; in this case we have responses only for small sized entities, but not for medium and big entities. For this reason, we always disclose the frequency of responses received, when mean values of qualification are presented.

We asked about their opinion on several factors by which the accounting-taxation relationship can be captured in practice. This operationalization process is based on previous literature (Gîrbină et al., 2011; Cuzdriorean-Vladu, 2011; Istrate, 2012) as well as our experience in the field. Opinions are measured on a Likert scale from 1 (no agreement) to 5 (total agreement).

The topics identified and used in this questionnaire are:

- Group 1: non-current asset
  - ✓ recognition of a non-current asset;
  - ✓ depreciation/amortization of a non-current asset;
  - ✓ revaluation of a non-current asset;
- Group 2: current assets
  - ✓ recognition of value adjustments (especially for current assets);
  - ✓ inventory valuation methods;
- Group 3: provisions
  - ✓ Recognition/derecognition of provisions;
- Group 4: expenses
  - ✓ accounting treatment of expenses, that are limitedly deductible from fiscal point of view (protocol, social expenses, perishable good's losses, donations and sponsorships, fuel);
  - ✓ accounting treatment of expenses, that are not deductible from fiscal point of view (missing inventory, missing document);
- Group 5: accounting policy
  - ✓ accounting policy changes and accounting errors.

Company size is defined according to current Romanian legislation (Law 346/2004):

- Micro: 9 employees, annual sales or total assets up to 2 million euro (equivalent in RON on the exchange rate valid at the date of balance sheet);
- Small: 10-49 employees, annual sales or total assets up to 10 million euro;
- Medium: 50-250 employees, annual sales up to 50 million euro or total assets up to 43 million euro;
- Big: entities not included in any of the previous categories.

For simplicity we consider three categories in the study: small (micro included), medium and big sized entities.

We structure the results as follows (discussed in the next section of the paper):

- Topic (non-current assets, current assets, provisions, expenses, income, accounting policy etc.)
  - Factor of influence
    - Professional category (accountant; fiscal inspector)
      - Size of entity (small, medium, big)
        - Opinion = average qualification (average of given qualifications; possible values from 1 to 5).

Figure no. 1. - Stucture of received responses

Source: Author's projection

Interpretation of results

As discussed in the previous section, results are generated as average qualifications on a vector of factor of influence – professional category – size of entity. We compare these means to understand the perception of accountants vs. fiscal inspectors in considering the complex relationship of accounting and taxation.

The first topic is non-current asset recognition. We can observe, that fiscal considerations (factor 2 and 3) tend to receive higher qualifications than the accounting one (factor 1) at all company sizes. For example, in case of small entities, accountants rated the first factor 3,78, the second 4,51 and the third 4,02. In case of big entities useful life is determined more by accounting considerations (4,36 > 4,17), however entrance value limit (fiscal consideration) is still widely used (4,54).

Fiscal inspectors gave higher qualifications for fiscal considerations in case of SMEs, but lower fiscal qualifications in case of big entities. Useful life is clearly determined by accounting considerations (4,41 >>1,65); entrance value is also more accounting driven (4,41 > 3,97).

Table no. 1

Factors of non-current asset recognition

FACTORS OF INFLUENCE	**Average qualifications – by entities's size**					
Professional categories in the sample	**small**		**Medium**		**big**	
	N	**Mean**	**N**	**Mean**	**N**	**Mean**
1. accounting considerations on useful life and way of usage						
Accountant	50	3,78	38	3,82	25	4,36
Fiscal inspector	71	3,45	70	3,87	32	4,41
2. fiscal considerations on entrance value (>1800 RON)						
Accountant	51	4,51	39	4,46	26	4,54
Fiscal inspector	70	4,73	69	4,71	32	3,97
3. fiscal considerations on useful life						
Accountant	49	4,02	38	4,00	24	4,17
Fiscal inspector	70	4,14	69	4,23	20	1,65

Source: Author's projection

Since depreciation is an important question, we analyzed further this issue deceomposing into useful life and choice over depreciation method. Results are disclosed in table 2a and 2b.

When determining useful life fiscally accepted predefined useful life intervals (catalogue defined by Government Decision no. 2139/2004) are used by both accountants and fiscal inspectors (factor 2). This happens at all entity levels. We conclude, that although useful life may be estimated according to accounting standards, in practice fiscal depreciation is preferred, therefore it is clearly fiscal-driven behavior.

Table no. 2a

Factors of determining useful life

FACTORS OF INFLUENCE		Average qualifications – by entities's size					
Professional categories in the sample		small		medium		big	
		N	Mean	N	Mean	N	Mean
1. useful life is estimated by firm specialist							
	Accountant	43	2,58	32	2,34	23	2,83
	Fiscal inspector	71	1,10	68	1,84	32	1,91
2. useful life is determined form catalogue (HG 2139/2004)							
	Accountant	48	4,56	37	4,41	24	4,13
	Fiscal inspector	71	4,48	69	4,36	32	4,00

Source: Author's projection

As the methods are concerned (i.e. linear, accelerated and degressive methods), linear method received the highest scorage in case of both accountants and fiscal inspectors. However, there are no extreme preferences, the rage of values for qualifications being from 1,90 to 3,50.

In this case, we also inquired about the reason of choice (i.e. economic, accounting and fiscal).

In case of accountants 'accounting reasons', which is simplicity of calculation and evidence seems to be overwhelming for linear method, economic and fiscal reasons for accelerated and degressive methods.

Fiscal inspectors consider firms choose linear method mostly for accounting reasons (3,65; 2,98; 3,20), accelerated method mostly for fiscal reasons (3,42; 2,71; 2,76) and degressive method also for fiscal reasons (2,97; 3,01; 2,66).

We conclude, that both professions consider linear method choice is accounting-driven and the other methods are chosen for fiscal reasons. Interestingly, economic considerations did not qualify as most important, which would be in line with accounting theory, however they received above average qualifications . For example, accountants consider linar method firstly for accounting reasons (3,50), secondly for economic reasons (3,22) and thirdly for fiscal reasons (3,17); they consider accelerated method firstly for economic reasons (2,73), secondly for fiscal reasons (2,62) and thirdly for accounting reasons (2,52); degressive method is considered firstly for fiscal reasons (2,77), secondly for economic reasons (2,62) and thirdly for accounting reasons (2,39).

Table no. 2b

Factors of choosing depreciation method

FACTORS OF INFLUENCE		Average qualifications – by entities's size					
Professional categories in the sample		small		medium		big	
		N	Mean	N	Mean	N	Mean
3. linear method is chosen for *economic* reasons (reflects better the usage of asset)							
	Accountant	47	3,30	35	3,23	23	3,22
	Fiscal inspector	69	3,22	64	2,91	30	3,03
4. linear method is chosen for *accounting* reasons (simplicity of calculation)							
	Accountant	47	3,43	37	3,57	24	3,50
	Fiscal inspector	72	3,65	64	2,98	30	3,20
5. linear method is chosen for *fiscal* reasons (fiscal advantage)							
	Accountant	45	2,73	36	2,94	23	3,17
	Fiscal inspector	70	2,29	62	2,37	30	2,50
6. accelerated method is chosen for *economic* reasons (reflects better the usage of asset)							

FACTORS OF INFLUENCE		Average qualifications – by entities's size					
	Accountant	45	2,44	33	2,85	22	2,73
	Fiscal inspector	72	2,63	52	2,71	30	2,60
7. accelerated method is chosen for *accounting* reasons (simplicity of calculation)							
	Accountant	47	2,32	35	2,60	23	2,52
	Fiscal inspector	72	1,85	68	1,87	30	2,40
8. accelerated method is chosen for *fiscal* reasons (fiscal advantage)							
	Accountant	44	2,93	34	3,09	21	2,62
	Fiscal inspector	71	3,42	68	2,71	29	2,76
9. degressive method is chosen for *economic* reasons (reflects better the usage of asset)							
	Accountant	44	2,36	33	2,76	21	2,62
	Fiscal inspector	70	2,46	68	2,04	30	2,30
10. degressive method is chosen for *accounting* reasons (simplicity of calculation)							
	Accountant	45	2,29	35	2,54	23	2,39
	Fiscal inspector	70	1,66	53	1,87	30	2,03
11. degressive method is chosen for *fiscal* reasons (fiscal advantage)							
	Accountant	44	2,80	33	2,91	22	2,77
	Fiscal inspector	69	2,97	68	3,01	29	2,66

Source: Author's projection

In case of non-current asset evaluation our findings are truly interesting. Accountants consider Fiscal Code requirement as the most important factor for revaluation at all entity sizes (4,17; 4,08; 4,40), when fiscal inspectors consider true and fair view is the most important factor why firms revaluate their assets, at all entity levels (4,25; 4,28; 4,28). We interpret this as an evidence for de facto influence of taxation over accounting.

Table no. 3

Factors of revaluating non-current assets

FACTORS OF INFLUENCE		Average qualifications – by entities's size					
Professional categories in the sample		**small**		**Medium**		**big**	
		N	**Mean**	**N**	**Mean**	**N**	**Mean**
1. it is economically necessary to enssure true and fair view							
	Accountant	48	3,81	38	4,08	23	3,91
	Fiscal inspector	72	4,25	68	4,28	40	4,28
2. it is required by auditor/censor							
	Accountant	47	2,74	38	2,97	24	3,38
	Fiscal inspector	72	2,32	68	2,79	40	2,97
3. it is deductible for taxation purporses (fiscal advantage)							
	Accountant	45	3,09	36	3,08	23	3,39
	Fiscal inspector	72	2,76	68	2,87	40	2,88
4. it is required by Fiscal Code (e.g. local taxes)							
	Accountant	47	4,17	37	4,08	25	4,40
	Fiscal inspector	70	3,97	68	4,01	40	3,80

Source: Author's projection

Accountants rated economic (3,35; 4,03; 3,88) and fiscal (3,59; 3,61; 3,68) considerations very close in case of accounting treatment (set up and disposal of) provisions on all entity levels.

Fiscal inspectors clearly indicated fiscal considerations for this factor (3,75; 4,19; 3,73). Our conclusion is this is further evidence for fiscal influence in practice.

Table no. 4

Factors of using provisions

FACTORS OF INFLUENCE		Average qualifications – by entities's size					
Professional categories in the sample		small		Medium		big	
		N	Mean	N	Mean	N	Mean
1. it is economicly necessary to enssure true and fair view							
	Accountant	48	3,35	37	4,03	25	3,88
	Fiscal inspector	72	3,21	69	3,72	30	3,70
2. it is required by auditor/censor							
	Accountant	46	2,35	35	2,77	23	3,61
	Fiscal inspector	71	1,94	69	2,90	30	2,90
3. it is deductible for taxation purporses (fiscal advantage)							
	Accountant	46	3,59	36	3,61	25	3,68
	Fiscal inspector	72	3,75	69	4,19	30	3,73
4. it is not deductible for taxation purporses (fiscal disadvantage)							
	Accountant	46	3,00	35	3,03	24	3,42
	Fiscal inspector	71	3,27	69	3,45	30	3,37

Source: Author's projection

Considerations over value adjustments are analyzed. Accountants indicate strong economic reasoning at all entity levels (3,40; 3,85; 4,00) which is followed by fiscal reasoning. Fiscal inspectors still indicate fiscal purposes at all entity levels as in the previous case (3,96; 4,21; 4,00). These results indicate a less fiscal influence. We have no empirical evidence at this stage of research, but based on our experience the overall problem in practice is that very few firms actually use value adjustments. Therefore these results seem to be conflicting; accountants for SMEs seem to have reported what they *would do* instead of what they *did*.

Table no. 5

Factors of using value-adjustments

FACTORS OF INFLUENCE		Average qualifications – by entities's size					
Professional categories in the sample		small		medium		big	
		N	Mean	N	Mean	N	Mean
1. it is economicly necessary to enssure true and fair view							
	Accountant	48	3,40	39	3,85	24	4,00
	Fiscal inspector	72	3,76	68	4,21	30	3,87
2. it is required by auditor/censor							
	Accountant	45	2,44	36	2,81	22	3,55
	Fiscal inspector	58	2,21	68	3,06	29	3,34
3. it is deductible for taxation purporses (fiscal advantage)							
	Accountant	47	3,11	37	3,32	23	3,17
	Fiscal inspector	71	3,96	68	4,21	29	4,00
4. it is not deductible for taxation purporses (fiscal disadvantage)							
	Accountant	46	2,67	36	2,92	22	3,23
	Fiscal inspector	71	3,23	68	3,47	29	3,52

Source: Author's projection

Inventory valuations are important topics for most of Romanian firms, especially in manufacturing and commerce. In case of this topic, both accountants' and fiscal inspectors' opinions seem to converge: all consider economic reasons as being most important at all entity levels (3,85; 4,16; 4,16 for accountants and 3,71; 4,22; 3,83 for fiscal inspectors).

Table no. 6

Factors of valuating inventories

FACTORS OF INFLUENCE	Average qualifications – by entities's size					
Professional categories in the sample	small		medium		big	
	N	Mean	N	Mean	N	Mean
1. it is economicly necessary to enssure true and fair view						
Accountant	48	3,85	37	4,16	25	4,16
Fiscal inspector	72	3,71	69	4,22	30	3,83
2. it is required by auditor/censor						
Accountant	45	2,73	35	3,00	23	3,57
Fiscal inspector	72	2,06	69	2,99	30	3,10
3. it is deductible for taxation purporses (fiscal advantage)						
Accountant	46	3,11	36	3,11	24	3,21
Fiscal inspector	72	3,71	69	3,88	30	3,23

Source: Author's projection

Expenses, that are limitedly deductible or non deductible when computing taxable income is clearly a fiscal concept. However, according to our experience, it tends to have significant accounting impact, especially in case of SMEs. We were curios if empirical results support this conjecture.

We analyzed first limitedly deductible expenses; results are presented in table 7a.

Interestingly, and contrary to our expectations accountants consider 'recorded with no consideration of deductibility' as the most important factor at all entity levels (4,08; 2,67; 2,80). Fiscal inspectors are also in line with this option (to no surprise), at all entity levels (4,19; 4,60; 4,06).

Table no. 7a

Factors of determining limitedly deductible expenses

FACTORS OF INFLUENCE	Average qualifications – by entities's size					
Professional categories in the sample	small		medium		big	
	N	Mean	N	Mean	N	Mean
1. recorded in accounting with no consideration of deductibility						
Accountant	48	4,08	36	2,67	25	2,80
Fiscal inspector	72	4,19	70	4,60	31	4,06
2. expenses are made to the extent of deductibility						
Accountant	46	2,61	36	2,67	25	2,80
Fiscal inspector	71	2,82	70	2,96	30	2,40
3. only deductible expenses are recorded in accounting						
Accountant	48	2,10	37	2,19	26	2,00
Fiscal inspector	71	2,04	69	1,80	30	2,00
4. it is required by auditor/censor						
Accountant	46	1,54	36	2,06	25	1,72
Fiscal inspector	70	1,47	70	2,13	30	2,20

Source: Author's projection

Non-deductible exepnses are consedered similary by both professions (table 7b), since 'recorded in accounting with no consideration of deductibility' factor is overwhelming. This we admit surprised us, at least in case of SMEs, since all firms try to minimize fiscal burden, and one clear way of doing it is minimizing non-deductible expenses. Again. Based on our results, no fiscal influence can be detected.

Table no. 7b

Factors of determining non-deductible expenses

FACTORS OF INFLUENCE		Average qualifications – by entities's size					
Professional categories in the sample		small		Medium		big	
		N	Mean	N	Mean	N	Mean
1. recorded in accounting with no consideration of deductibility							
	Accountant	49	4,27	37	4,35	25	4,16
	Fiscal inspector	72	4,13	70	4,49	30	4,40
2. expenses are avoided							
	Accountant	47	2,87	36	3,08	24	3,21
	Fiscal inspector	72	2,94	70	3,21	30	2,80
3. it is required by auditor/censor							
	Accountant	47	1,81	36	2,31	24	2,33
	Fiscal inspector	72	1,57	70	2,19	30	2,57

Source: Author's projection

Similarly, no fiscal influence can be detected in case of the last topic, accounting policy changes and accounting errors. Both accountants and fiscal inspectors considered the first factor as being the most important, therefore it is in line with accounting theory, at least on the perceptional level of studied individuals. In case of fiscal inspectors we can observe a second, but strong factor, the fiscal advantage. It seems that inspectors, contrary to accountants, recognize the possible fiscal advantages of accounting policy changes.

Table no. 8

Factors of treating accounting policy changes and accounting errors

FACTORS OF INFLUENCE		Average qualifications – by entities's size					
Professional categories in the sample		small		Medium		big	
		N	Mean	N	Mean	N	Mean
1. it is economicly necessary to enssure true and fair view							
	Accountant	48	3,92	38	4,26	26	3,96
	Fiscal inspector	72	3,67	70	4,17	30	4,37
2. it is required by auditor/censor							
	Accountant	47	2,21	36	2,69	25	2,88
	Fiscal inspector	72	2,03	70	2,91	30	3,00
3. it is deductible for taxation purporses (fiscal advantage)							
	Accountant	46	3,24	37	3,35	25	2,68
	Fiscal inspector	71	3,39	70	3,51	30	3,47

Source: Author's projection

Conclusions

In this paper we analyzed the perception of Romanian professionals on the accounting-taxation relationship. According to previous literature (e.g. Fekete et al., 2009, Cuzdriorean et al., 2010; Fekete et al., 2012) there is a detectable influence of taxation over accounting. In this paper we found evidence on behavioral level, that individuals indeed perceive some influence of taxation over accounting, since their choices in practice are fiscal-driven and not accounting driven. This is in case of recognition of non-current assets, depreciation, revaluation, provisions.

To our surprise we found conflicting results in case of value adjustments, and accounting policy changes. Further, fiscal influence is not supported by inventory valuation choices and accounting treatment of limitedly deductible/non deductible expenses. This is challenging, since many firms minimize their fiscal burden by reducing these expenses, which should be reflected in their accounting treatment and should impact behavior of accountants. Reponses received, however, do not support this theory. We consider further, more refined, research is required to clarify these issues.

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