

FISCAL POLLUTION OF FINANCIAL STATEMENTS. EMPIRICAL STUDY

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Abstract:

Accounting should provide a representation of the economic reality of an economic entity. But what is the economic reality and how we might quantify? By choosing different policies, "economic reality" has different faces. Can we say that one of these faces is wrong, false? We think not.

This paper is a part of the research from the field regarding the relationship between accounting and taxation, field that I approached in several papers.

We conducted our approach starting from the evidence that in Romania still exist a dependence of accounting from fiscality. This is maintained from specialists in accounting who prefer to choose accounting policies in accordance with the fiscal rules.

Key words: *accounting policies, principle of consistency, financial statements, fiscal pollution*

JEL classification: *G1*

Introduction to objectives of the research

Accounting theory was developed to support and unify accounting practices, by providing explanations targeted at defining it and served as a force of understanding necessary to ensure a system and logic for accounting practice. In time, the concepts of accounting theory and accounting practice were separate, and sometimes even they came to be contradictory. The practice has become less dependent on random and error.

In the Romanian economic environment we can meet often dependence of accounting practice from fiscality, even if the theory is striving to disconnect them. In order to conduct the research we had as a starting point a series of studies focused on factors that can influence economic reality provided by financial statements, studies which we briefly describe below.

In our approach we took as a starting point the research achieved at international level and taken from his "national professional standards - an imperative requirement" of Stefan Bunea, research that are considering the dynamics of legislation, with repercussions on the growth of consumption for resources, but also of the costs associated with putting them into entity's practice.

In this sense, it underlines in the material recalled, in France, where the link between the two areas is still very strong, in the Reflection group accounting -taxation, created by the Chamber of Commerce and Industry of Paris, has been made a study (2005) whose conclusions have caused concern in French business. One of these conclusions was that the accountant specialists allocate between 40% and 60% of his work time for assimilation of changes in tax law and preparation of tax returns.

A year later (2006), a similar study conducted by CECCAR concludes that Romanian accounting experts and specialists spend up to 80% for the same activities.

From 2006 until now, this situation has not changed significantly. Sometimes, fiscal processing costs of accounting information are significant and from here, the temptation to avoid them. Even an educated professional accountant may be determined to make rebate from accounting principles in the hope of obtaining reduced administrative costs. An honest accounting provided in compliance with quality

standards has more costs, and not every company can support these costs. Obviously this situation that causes such behavior, keep wrong perception on the mission of the accountant in company.

Audit and consulting company Deloitte, in trying to place the role of fiscality in accounting decisions, stresses the need for a tax system simple, transparent and stable, enabling companies and investors to plan long-term strategies to ensure consistent management of business (2009, "Romanian fiscality. An radiography of incomplete reform"). Searching the premises of optimal tax environment for business development, the study noted, "Asked which should be the priorities in the agenda of the Minister of Finance of fiscal measures, respondents indicated not so much fiscal stimulus measures as first steps to remedy current situation.

In this sense business environment highlights the need that the authorities follow a medium and long term fiscal strategy and focus their efforts on reducing the frequency of legislative changes. Thus, about 34% of the participants say that the premise for a favorable tax environment for business development is the stability of the law. In this way business environment can establish and follow a coherent strategy and sustainable budget.

Also, 22% of participants chose for the introduction of clear procedures in tax administration. Although progress has been made on the introduction line single account to pay taxes or related electronic submission of declarations, tax mechanism is not yet well developed. Thus, the correlation administrative procedures in practice draw additional costs and delays in the conduct of companies.

In the same research area belongs the paper "Study regarding the harmonization of accounting result with the fiscal result," published in Financial Audit, 02/2011. The work consists, as the authors say, on the one hand, in the analysis and synthesis of relevant regulations for the topic chosen, and on the other hand, in the correlation of obtained conclusions with formulation of some considerations regarding harmonization and reconciliation of the accountant result with the fiscal one.

The aim of this study was to show the importance of understanding and proper implementation of accounting and tax principles and rules that best respond to the objective of accounting to achieving true and fair view of performance shown in the Statement of Comprehensive Income, by arguing the tax base applicable to entity.

According to the study "Payng taxes 2011" despite the economic crisis is desired adjustment of tax legislation in order to facilitate payment of taxes and reducing the time allocated tax returns. Thus, of the 183 countries included in the study, 60% of them have made fiscal reforms between 2006 to 2010 that led to a decrease of 5% in fiscal costs, with a week of time allocated to fiscality, and the number of payments average .

The study places Romania on the rank 151 in the 183 economies studied, in the total tax rate (44.9%), the large number of contributions (113) of which 72% of TTR is the taxes on wages. The number of hours needed to comply with tax laws has increased in recent years, from 202 hours in 2006 to 222 hours in 2010, as a consequence of the introduction of burdensome regulations regarding employment contracts and other frequent changes in tax legislation.

Paying Taxes 2010 was widely publicized in Romania. It attracted significant media attention, and has stimulated debate on the matter. Therefore, at present several actions were taken by the Romanian Government on simplifying the tax system and to ease the tax burden of the taxpayer. The study also highlighted the fact that the available electronic deposits are reduced.

Based on these considerations, of which the most noteworthy is proving to be the amount of time that must be allocated taxation, our study aims to show understanding of the differences between accounting and tax rules, on the one hand,

and instability implications of the tax system, of the large number of tax declarations and the repercussions on the true and fair view reflected on financial statements.

Formulation of research hypotheses and interpretation of results

For the realization of the empirical study we used as scientific research methodology, the accounting positivism.

The accounting positivism is based on hypotheses, even arbitrary, proceed to their empirical testing based on observed data, seeking to explain and predict facts that identify an accountant predictable behaviour. Focus of accounting theory is not represented by a conceptual edifice, the whole accounting postulates and principles, because principles are intended now to explain the experimental results without themselves being explained. "If the assumptions do not correspond to the results of empirical observation, theory is invalidated, requiring either abandoning assumptions either their reformulation.

Starting from a general hypothesis according to which, *choice of accounting methods and policies is made in such a way as to comply with the fiscal policies and treatment at the expense of the first, for saving labour and time*, resulting research hypotheses we want to test.

H1. Generally, to the depreciation of fixed assets, companies take into account tax provisions (normal life, depreciation method), in the detriment of accounting (useful life).

H2. Evaluation at inventory and reflection in the balance sheet is only for the debts and liabilities denominated in currencies other than the national one.

H3. Recognition of assets acquired not always includes supply costs.

H4. Fiscal pollution of Financial Statements is due to the fact that much of the work of an accountant is allocated for assimilation of fiscal changes and to preparation of fiscal declarations.

In formulating hypotheses we have considered working basis and benchmarks, specific requirements for recognition and measurement as required by accounting regulations face to face with the tax laws in this area.

Assumptions being made were confirmed, namely, a large part of economic agents is somewhere on the edge between accounting and taxation in the financial statements in terms of recognition and evaluation of balance. Because the time allocated and the costs with fiscal processing are significant, even a trained professional accountant may be determined to make rebate for accounting principles in the hope of obtaining lower administrative costs and for savings time.

H3 hypothesis according to which "Initial recognition of assets acquired for which supply is made by their own efforts do not always include supply costs" was not confirmed, obtaining a total of 36% of respondents.

For hypothesis H4 that "fiscal pollution of Financial Statements is due to the fact that much of the work of an accountant is allocated for assimilation of fiscal changes and to preparation of fiscal declarations " we obtained a ranking of measures that should be taken so that accounting specialist may be more concerned with the application of accounting principles in financial statements, the following results were obtained:

- Reduction in the frequency of legislative changes 58% ;
- Reducing the number of tax declarations 22%;
- Introduction of clear procedures for both accounting and fiscal rules 16%;
- Improving accounting and tax knowledge of civil servants 0%;
- Other 2%.

In addition to checking the assumptions made, further study through open questions in questionnaires, I obtain further information about the level of knowledge

amongst of the respondents' accountants about accounting and fiscal rules and the difference between the two.

Thus, from responses to questions submitted in support of the first hypothesis testing, we found that a large number of specialist accountants, not only not are concerned with finding the best solutions to present a true and fair view through the financial statements without taxation interference.

They offer of state institutions biased information through the "Declaration on tax". In this sense, because they choose accounting depreciation the same like fiscal amortization, do not provide information about their value in the declaration mentioned. Logical explanation for this omission is that those responsible for drawing up declarations are not sufficiently prepared in terms of accounting and tax.

Eight respondents indicated different periods in which change valuation methods, methods of depreciation, amortization period used respectively demonstrating not knowing accounting principles.

Some of the questions were related to how the type and reasons for provisioning. It was found that, even when accounting requirements for recognition of provisions, namely: the existence of a current obligations generated by a previous event, the probability of exit from resources that are needed to meet that obligation, and the possibility of making reliable estimates of the amount of the obligation are fulfilled, some entities responding not only to cases where the provisions are tax deductible provisions and other entities in the sample using poor policy of provisions, thereby distorting financial position, with a negative impact on the quality of information provided to users through financial statements.

More specifically:

- 7.85% of the companies declared that they do not constitute provisions;
- 68.13% of respondents constitute provisions for the cases where they are fiscally deductible;
- 24.02% said they constituted provisions in all cases where accounting and / or tax conditions were fulfilled, depending on accounting policy adopted by the company too.

Limits of study and suggestions for future research

In order to achieve the first part of the study dedicated to literature review we have benefited from existing materials that have provided a comprehensive framework for research. Regarding the second part of the study, although we have secured area by developing first part of action research, it was limited by the degree of participation of companies from questionnaire-based study.

The assumptions set we referred to the fiscal pollution of financial statements in terms of recognition and valuation, but also of the time allotted to frequent changes in tax legislation. The study is not exhausted; remain open for pollution analysis of financial statements in terms of company results from a different perspective than recognition and measurement.

Through our research we studied how to reflect the theoretical elements that shape framework financial reporting in practice preparing financial statements and found that there is not always consistency. For closer the theory to practice, we propose for future research a study witch start from the practical needs to the existing theoretical structures, to explain the extent requires all companies to enter in this carousel of convergence regarding submission of accounting information unpolluted from fiscality.

Understanding of the application of accounting principles through the components and joints philosophy of Recognition and Measurement (as practical) and rules on financial statements and disclosure (that theoretically) are at a very low level,

which broadens very abyss between specialists in creating accounting standards and those applying them in practice.

CONCLUSIONS

The objective of the study on identifying problems encountered by economic agents as a result of the intersection of accountant and fiscal interest, was materialized by making an empirical study on fiscal pollution of financial statements.

Assumptions being made were confirmed, respectively, most of the economic agents combined accounting provisions with the fiscal in the financial statements in terms of recognition and evaluation of balance sheet, drawing a mix that does not transgress the firstly fiscal rules. Because the time allocated as well as the costs of fiscal processing are significant, even a professional accountant, with sufficient knowledge, can be determined to rebate from accounting principles in the hope to obtaining lower administrative costs and to savings time.

Another weak point in the taxation is, as shown in our study, fiscal changes made during the financial year. This creates major distortions in expenditure budgets set and clearly have an impact on margin considered, including any investment decisions.

Tampering of fiscalty in accounting rules is supported by fiscal instability, the multiplicity of taxes and tax declarations for all of these being allocated a lot of accountant's time.

In addition to verifying hypotheses, further research I found a poor knowledge, in some cases of accounting and fiscal rules, respective incorrect completing income tax declaration and failure from ignorance of the principle of consistency and prudence principle.

Starting from the fact that to be relevant, credible and comparable accounting information must be built respecting the accounting principles, rules and regulations, we have demonstrated through our research that financial statements are polluted by fiscal rules sometimes under pressure of normative provisions instability, or because of large number of tax declarations, sometimes the reason being the lower knowledge or, perhaps, even from convenience.

We recognize the limitations of the study due, primarily, to the small number of respondents; however, we believe that the views collected are significant and characteristic, firstly, for companies preparing simplified financial statements.

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