
Impact of Accounting-Tax Relationship on Managerial Decision

Author: **Robu Sorin - Adrian**, The Doctoral School of The Bucharest University of Economic Studies, sorin.robu@omegacm.ro

Achieving the continuous business performance is also closely related to the quality and timeliness of business decisions made based on the information provided by accounting in close relation to tax. In this context, in Romania there is an increasing trend to generalize the professional management and, therefore, we think it is of great interest to clarify the main issues related to the impact of accounting-tax relationship upon managerial decisions, which issues represent the theme of our approach.

Key words: *accounting-tax relationship, accounting policies, fiscal policies, management functions, managerial decisions, decision analysis, business security, tax consultancy.*

Jel classification: *A22 – Undergraduate; A23 – Graduate; H32 – Firm; L21 - Business Objectives of the Firm; M41 – Accounting; Q28 - Government Policy.*

Introduction

Volume, diversity and complexity of tax regulations in Romania and the specificity of relationship of accounting with tax raise more and more challenges in front of the management which is forced to perform analyses and make decisions in an environment becoming more complex and unpredictable.

Against this background, we have proposed a non-exhaustive analysis of the peculiarities of the managerial decision adaptation process in the context of using information generated by the accounting-tax relationship.

To this end, we started from the major duties of management for the enterprise and management of economic and financial activities in the above-mentioned context; we described the information generation and supply, as well as decision-making process. I also highlighted some specific elements of accounting-tax relationship, as well as the mechanism by which the information generated by this relationship influences the elements which contribute to the achievement of management functions and, by this, to the decision-making process.

Literature review

The accounting-tax relationship issue and how it influences the quality of management process has been approached by authors of specialized literature from different perspectives. This shows that it is still need to bring new clarifications mainly related to mechanisms by which accounting-tax interrelation generates the necessary elements for the configuration of the legal support and economic performance of managerial decisions.

From this point of view, an important contribution have Mihai Dumitru and Corina Graziella Dumitru (Freedom and compliance in accounting standards and regulations, 2012) that highlight the importance of variables underlying the development of accounting policies, as management attributes, among which we may emphasize: accounting depreciation and tax depreciation, corporate tax and management interest, at the company manager, distinction between expenses and assets etc.

Vasile Răileanu and Adriana-Sofia Răileanu (Tax and accounting approaches on taxes and fees, 2009) approach some important theoretical and practical matters concerning the tax mechanisms, as well as controversies persisting in managerial approach of taxes and fees.

Traian-Ovidiu Calotă (Accounting. From theory to practice. Method and modeling, 2013) highlights that the financial position and the organizational performance, as determined by processing and the correct use of information, are strictly necessary for the managerial decision making.

Viorel Cornescu et. al. (General management, 2001) treats the problem of organizational management efficiency, the fact that it is accountable for fulfilling the objectives and that, in terms of economy, efficiency is reflected in the size of profits.

Ionel D. Bostan (Business financial control, 2010) highlights important matters related to the financial control, in particular those related to the legality, accuracy and efficiency of economic and financial transactions and their impact on managerial decision performance.

Anca Mihaela Georoceanu (Establishing corporate tax liabilities, 2011) highlights the importance of knowing the rights or taxpayers who are debtors or those paying tax liabilities, as well as their obligations regarding proper implementation of the legal rules on the assessment and collection of budget revenues, granting legal facilities, appeals, request the recalculation of some taxes and fees, etc. .

Nicolae Hoanță (Tax evasion, 2010) draws attention to the harmfulness of this phenomenon, but highlights the mechanisms of expression of the tax burden as the evasion generating factor. Also, the relevance is given by ways of action based on accounting-tax relationship for making preventive decisions.

Corina Graziella Dumitru și Corina Ioanăș (Management accounting and performance evaluation) aim, in particular, at accounting policies on cost calculation and the result, where taxation elements are also involved, as well as the ways in which businesses want to permanently see the real economic and financial situation.

Belverd E. Needles, Jr., Henry R. Anderson, James C. Caldwell (Basic accounting principles, 2000) grant an important place to managerial accounting, managerial decision analysis and income tax, all these in terms of approaching accounting as an information system.

Costel Istrate (Corporate taxation and accounting, 1999) considers enterprise as part of an environment of which it is influenced, and which influences it, in its turn. It particularly aims at taxation and its influence on economic and financial activities of the enterprises, including the opportunities of using accounting information in the enterprise fiscal management.

Dumitru Porojan and Cristian Bișa (Business plan. Concepts, methods, techniques and procedures, 2005) make a significant contribution to knowledge of issues related to business initiation and development,

management role in their organization, planning and performance, identifying and counteracting the risks by decision making based on accounting and tax information.

List of works consulted is much higher, but the selected ones best meet the requirements of our approach.

Scientific content

Considerations on the specific character of substantiation of managerial decisions in the context of relationship of accounting with tax

Our approach starts from the consideration that, according to national legislation, management is bearing the accountability for the accounting organization and management, being at the same time under the impact of tax regulations. Therefore, three major liabilities result for the management, from this point of view.

Thus, first of all, he must constantly ensure correct and complete coverage by accounting, of all economic and financial transactions of the enterprise and, on this basis, the preparation and publication of financial statements, as well as the correct preparation and submission of tax statements (forms). "In this way, accounting is becoming the main source of knowledge by the management of the real condition of economic organization, who, through the analyses performed and documents (reports) prepared provide the real and legal support of decisions". (Calotă, T.O., 2013, page 11).

Secondly, the management must ensure compliance with tax regulations regarding full payment and within set deadlines of all tax liabilities.

Thirdly, but not least, a good management must constantly assess the impact of tax liabilities on the conduct of business, considering the configuration of information resulting from tax-accounting interrelation and, on that basis, to take the necessary decisions. That is why it is necessary to plead „ [...] for professional management to be based on sound economic training combined with personal skills in terms of organizational capacity, foresight and leadership" (Popescu S., Calotă, T.O., 2013, page 78).

Note that the fulfillment of the above-mentioned duties should have a significant place in the framework of duties incumbent on the management for carrying out its functions (forecasting, organization, coordination, training and control), finally aiming at fulfilling the primary objective of any economic organization, namely maximization of profit. But the fulfillment of this objective depends, among others, to a great extent, on tax liabilities related to economic and financial transactions, which are perceived by taxpayers as exerting pressure on conducting business, through significant reduction of income, profits, dividends and so on, as appropriate. Because of this, management must ensure that its decisions should aim at permanent tracking of the impact of measures to reduce the tax burden through tax optimization within the enterprise, in strict compliance with the legislation. This involves the adoption of own thoroughly grounded accounting and tax policies, to be implemented by competent persons.

In terms of the foregoing, we must however mention that the effectiveness and appropriateness of managerial decisions also depend, to a great extent, on the quality, reliability, timeliness of dissemination and coverage area for information resulting from the accounting and taxation relationship. To better highlight this, in Figure 1, we present a simplified flow chart (version) of the achievement and providing information and, respectively, decision making in the economic and financial area.

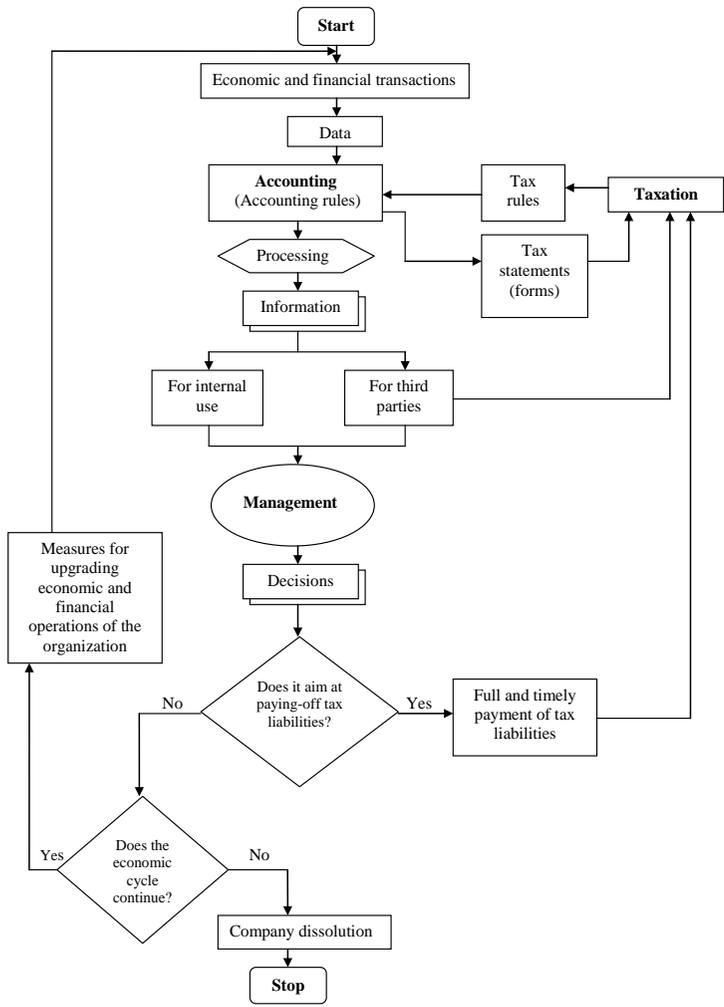


Figure 1: Simplified flow chart (version) of providing information and decision making in the financial and accounting areas.

It can be seen that, in the processing of data generated by the economic and financial operations, are also interfered tax rules,, besides accounting rules, which proves the existence in fact of an interdependence between accounting and taxation, impacting the configuration of information provided to management and finally, upon decisions.

In this respect, we refer primarily to the main areas needing reconciliation of accounting with tax principles due to the fact that, in their case, it is generated a complex intersection of accounting and tax interests. Thus, we consider, among other things, accounting assessment, taxation of profits and depreciation of fixed assets, which best reflects the connection relationship of accounting and taxation.

For example, if we refer to the assessment, it is known that any change in the methods and principles used in its performance will have an important influence on depreciation, as well as on profit. Therefore, in calculating income tax, both accounting and taxation agree that the same methods of assessing the assets should permanently apply. Otherwise, differences in reflecting the asset situation and financial status should be identified, due to the fact that the income tax level will undergo adequate changes. Such measures should be taken only in justified cases and they must be thoroughly reflected by accounting records in strict compliance with fiscal interest.

Another important issue is represented by the depreciation-income tax relationship. Therefore, from this point of view, it is very important to highlight in a correct manner, the influence of taxation by applying tax depreciation methods with an important impact on the tax base.

In other cases such as: taxation of lands, buildings, dividends, wages and so on, as well as in case of VAT, reconciliation is not needed anymore because tax uses information provided by accounting, as a computation basis.

I appealed to a few significant examples in order to highlight a number of issues useful for further development of our approach.

Thus, without proposing to be exhaustive, we shall take note of the following, as regards the foregoing:

- accounting-tax relationship is a very complex one because of the many rules, principles and practices that each has developed over time, for which the approach of this relationship requires a higher degree of professionalism of all practitioners in the field;
- configuration of information and, respectively, the implications generated by this relationship shows diversities and features closely related to the principles, methods and practices used, as well as with the result of the intersection of accounting and tax interests;

- there are a number of both objective and subjective factors, which contribute to increasing the complexity of accounting-tax relationship, but also to the enhancement of negative consequences related to the impact on the configuration and quality of information generated by this relationship (examples: excessive dynamic of legislative changes, increasing of costs for processing of accounting and tax information, deficiencies in compliance with quality standards, the attitude of some Tax Authority representatives, quality of some accountants' training, some occurrences of rule circumventing etc.).

But the matters noticed do not aim exclusively at those two areas, accounting and taxation. They represent, in fact, as many challenges for enterprise management and need that, in making decisions, to take into account a multitude of variables with various influence shares.

To highlight this, we return to management functions and give some examples of how the information generated by the accounting-tax relationship may influence them. Thus, the first example refers to decisions for achieving prediction function, which allows the enterprise future-orientation. To this end, in Figure 2 we have explained, in their sequence, the main determinants (highlighted by most authors of specialized literature) that influence the decisions for the achievement of prediction function.

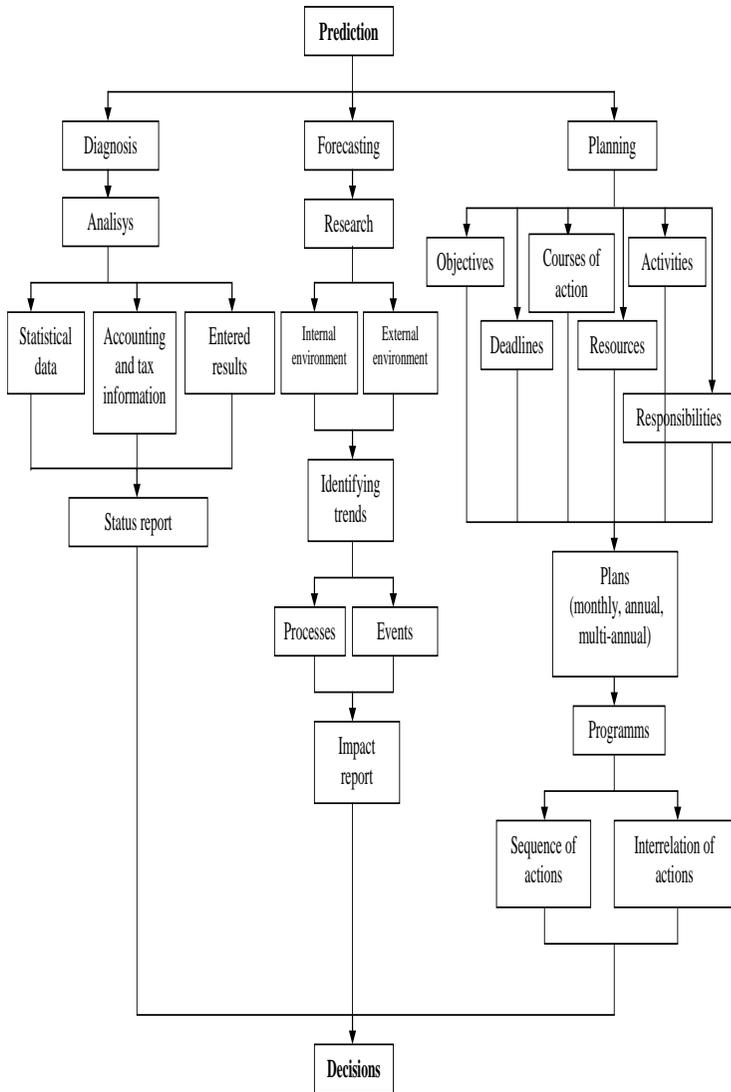


Figure 2: Explanation (variant) of determinants of decision for setting the prediction functions

It can be seen that the performance of prediction function requires complex actions for diagnosing of the state of things, forecasting trends and

their impact and, not least, planning activities. These, in turn, comprise a whole series of sub-elements and actions underlying the status and impact reports, plans and programs on which the management decisions are substantiated.

Among these, we notice accounting and tax information, in particular those resulting from the interaction of accounting and taxation, influencing also the results recorded and that, along with statistical data, are subject to the analyses completed by status reports. Therefore, these reports shall include mandatory assessments on the level of tax burden, of the impact of the previously taken measures for tax optimization, as well as efficiency of accounting and tax policies applied within the enterprise.

Similarly, research actions conducted within the forecasting activities also aim at trends in taxation evolution as an element of the external environment and assessment of its impact upon the internal environment, namely the enterprise accounting, as well as the way in which it will reflect the business outcome.

Status and impact reports and the impact will, in their turn, influence the content of enterprise plans and programs. Finally, all these will give the configuration of decisions for the implementation of prediction function.

Decisions aiming at organizational function will be also influenced by the accounting-tax relationship, particularly regarding the compulsoriness of clearly establishing of responsibilities in the financial and accounting departments, going to their accurate detailing in each employee's job description regarding the implementation of accounting and tax policies, preparation and publication of financial statements, filling-in and submission of tax statements (forms), full and timely payment of tax liabilities etc.

In carrying out the coordination function, it will be taken into account the prompt and competent prevention of possible errors or extreme situations in compliance with financial and tax legislation that may affect the security of business. To this end, an important role is also incumbent on the control function, especially the hierarchical, financial, budgetary and management ones, that need to detect, correct and punish deviations from lawfulness and applicable standards.

Conclusions

The issue of substantiation of managerial decisions, in the context of accounting –tax relationship, is a very complex one. It primarily starts from the responsibilities of management to ensure the proper conduct of all activities within the enterprise in order to meet the set objectives, but not anyhow, but under strict compliance with the legality in the field. In other words, through the decisions made, management must ensure the security of business on legal grounds. This requires not only the legal use of human, material and financial resources, but also a permanent analysis of the impact of information resulting from the interaction of accounting and taxation on business conduct.

Therefore, the managerial decision in the economic and financial field must have a flexible configuration, able to cover all objective and subjective factors that can compete to the enhancement of negative phenomena. Also, the effectiveness of decisions depends to a great extent on the ability of managers to identify all the elements which contribute to the achievement of management functions that fall under the impact of information generated by the accounting-tax relationship, as well as defining, timely and fair quantifying of the consequences of such impact.

From all the foregoing, there is also an extremely important issue that the tax legislation in Romania has currently reached a volume, diversity and complexity that exceed to a great extent the competence of management to make timely and accurate decisions without any advice provided by tax specialists (consultants). Therefore, it can be said that, in the near future, we will witness an unprecedented development of tax consulting field, with a positive impact on business security.

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