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THE IMPACT OF APPLYING IFRS ON THE ACCOUNTING-TAXATION RAPPORT, AT EUROPEAN UNION LEVEL

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Abstract *The taxation gets attention of entities regardless the applicable accounting system. It has been developed and is still widely developed by legislative provisions, rules, regulations and guidelines often difficult applicable in practice, through countless changes, new releases of taxes, new bases of calculation whose foundation must meet financial and budgetary policy of the executive. The tax system in Romania, in recent years, has undergone many unpredictable and often controversial changes, which influenced both accounting and business.*

Key words:
IFRS, accounting result, fiscal result, the CCCTB, accounting treatment, compared Accounting – Taxation

1. Proposals from the European Union

The financial reports of general interest are part of the financial reporting process and are regulated at European level by the directives on individual and consolidated annual accounts, but also by the directive on the conditions of authorization of persons performing financial statement audit. *International Financial Reporting Standards*, *Conceptual framework* and international *provisions* just aim to establish concepts that underlie the preparation and presentation of financial statements for users.

If the value added tax and excise tax base are determined in detail by the European Directives which have been transposed into Romanian tax law, there is not a common basis for entity tax on direct taxes. However, during the closing of EU accession negotiations, all states have committed that they will not introduce national legislation on direct taxes only those tax provisions that are in accordance with the *Code of Conduct for Business Taxation.*[1]

Due to the fact that the principles of determining the profit are not clearly defined at the international level, there was approved at the level of the member of the States a Plan of activity of a group of experts appointed as the Working Group for the creation of a common consolidated tax base of companies.

The Common Consolidated Corporate Tax Base-CCCTB is a system according to which multinational entities would lead to a consolidated basis of the amount of taxable income. The concrete actions for the construction of this system began at the ECOFIN Council in 2004, when most of the Member States accepted the usefulness of some progress on the path of building a common tax base and decided to establish a working group consists in experts representing the Member States and chaired by the European Commission to examine possible solutions. In detail, in accordance with the objectives of 2004, the work of this group should materialize in a legislative proposal by the end of 2008; this goal was materialized in 2013 in a draft directive. The draft of this directive stipulates that if an entity of a Member State with branches in other Member States has to strengthen the tax base at the level of the main company, which will be split between group entities based on a formula that takes into account several criteria: number of employees, salary expenses, assets value and sales volume.

This concern has been stimulated by the implementation of IFRS in the Member States, a process that emphasizes differences between the accounting and tax result. The advantage is that since 1 January 2005 the directive has been applied at Community level which requires entities listed on the stock market to prepare their consolidated balance sheet under IFRS requirements. In this context, we can exemplify with two main reasons:

- IFRS are oriented towards the interest of investors, namely the knowledge of a relevant and credible accounting information based on clearly defined principles and concepts of the general

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framework of accounting, while taxation seeks compliance with tax legislation;

- IFRS emphasize the economic substance of transactions, the fair value, while fiscality taxes earnings.

In the context of the global financial crisis, the issue of the competitiveness of the economy of the Member States has been invoked with more conviction and a few programmatic documents have paved the way for the adoption of a directive on the establishment of a common consolidated tax base for companies.

In March 2011, the European Commission proposed a common system for calculating the fiscal basis of entities that operate in the European Union, which is expected to be materialized by a draft Directive for a common consolidated corporate tax (CCCTB) in 2013.[2]

The general objective of the proposal is to establish a common set of rules for calculating the tax base in the EU entities and its subsidiaries located in the European Union of entities from third countries. The rules will have an optional character.

The specific objectives are:

- To reduce the compliance costs of tax on profit entities;
- The elimination of double taxation for entities operating in the internal market;
- The elimination of excessive taxation of cross-border economic activities, mainly resulting from the absence or limited availability of cross-border loss compensation.[3]

This common approach should ensure coherence of national tax systems, but would not harmonize the tax rates. The Commission believes that fair competition should be encouraged on tax rates, differentiating tax rates allowing maintenance of effective competition in the internal market, and the existence of a fair tax competition, based on rates, gives more transparency and allows member states to take into consideration when they are setting tax rates not only the market competitiveness, but also the budgetary needs.

A very complex issue for *accounting rules* should be used *to define a common base*. Numerous studies have demonstrated that they can provide solutions for IFRS preparation the consolidated database, and may lead to a reduction in tax rates, which would increase the attractiveness of the European Union for investment.

On the other hand, according to officials from Brussels, the use of these standards would be difficult because in many states, where local companies, their use is not permitted and not all standards are compatible with the needs of taxation. Therefore, it was determined that it would start from generally accepted accounting regulations in all of the Member States, which will undergo some changes to meet the rules established for common consolidated tax base.

The fiscal framework envisages to establish common rules for calculating separate tax results of each entity (or subsidiaries), the consolidation of those results[4] when there are other members in the group, and to share the consolidated tax base to each eligible member countries. The distribution of the consolidated tax base is to be due to a formula that includes three factors of equal value (assets, labor and sales).[5]

The problem which however generated the most disputes was *the formula for allocation among member countries entitled*, *of a consolidated income tax base determined by the tax base decided*.[6] It is necessary that this formula should be simple and transparent, and does not involve excessive costs of compliance and administration, to reduce the possibility of moving entities allocation factors from a state to another and not to generate distortions in the business environment in the European Union.

2. Differences between accounting treatments based on IFRS and tax

In this research we identified numerous differences between the IFRS-based accounting treatments and the national tax differences shown in table no. 1:

Table 1: Differences between IFRS and accounting treatments based on tax

IAS/IFRS	National tax provisions
IAS 16 Tangibles	
- the longevity of tangible assets estimated by each entity on the basis of economic criteria;	- normal operating times established by enactment (GD no. 2139/2004)
- the value underlying the accounting recognition of tangible assets estimated by each entity on the basis of economic criteria;	- the value of tangible assets for tax purposes (GD no. 1553/2003);
- accounting depreciation recognized on the basis of the alternative treatment (revaluation);	- the depreciation of fixed assets amounted to for tax purposes is regulated by art. 24 of the Fiscal Code;

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IAS/IFRS	National tax provisions
- depreciation methods for accounting purposes: - The linear method; - The diminishing balance method; - The units of production method;	- Tax Code recognizes methods: linear, digressive accelerated;
- the book value of tangible assets contributed is determined by appraisers approved at fair value;	- the tax value of the assets contributed by a legal person in exchange for shares or shares is tax value of the asset to that asset person participating;
- adjustment for depreciation charges on fixed assets amounted to influence the accounting result;	- adjustment costs for depreciation of tangible assets are not tax deductible;
- win / loss on disposal of property and equipment accounts is determined as the difference between the proceeds of disposal and the net book value;	- win/loss from disposal of fixed assets amounted to tax is determined as the difference between the proceeds of the disposal and the net tax value ;
- the revaluation reserve is accounting gain: - At retirement or disposal of assets - As amortization	- the revaluation reserve becomes taxable income with the distribution in any form reserves (reserves from revaluation of fixed assets, including land, performed after 1 January 2004, which are deducted from taxable income through depreciation or expenditure on assets sold and/or scrapped taxed, while tax depreciation deduction or decrease when the management of these assets, as appropriate;
- the residual value of an asset is the estimated amount that an entity would be obtained from a disposal of an asset, after deducting the estimated costs of disposal.	- tax regulations recognize the expense with the depreciation of tangible uninfluenced by the residual value.

Source: own projection

3. Conclusions.

Tendencies that manifest themselves at European level on the relationship tax - accounting can be summarized thus:

- the record of a mutation of *the dependence of taxation/accountancy and insolvency /accountancy independence*;
- the establishment of accounting for assets and liabilities in the balance sheet other than the values reflected in the tax balance sheet;
- the need for clear provisions in the tax law in order to avoid non-imposition of certain income;
- the rethinking of tax systems and the transition to a greener and more favorable tax increase, promoted by the Europe 2020 strategy;
- IFRS provides solutions to reflect the taxes postponed, they were not created to meet the fiscal interest, for which no regulations in Romania does not recognize IFRS for fiscal interest. We believe that, although the reasons, for not applying just the IAS 12, can be considered a failure of the application of international accounting standards.
- Romania has made significant progress by ensuring consistency normative accounting regulations with international accounting standards and European Directives, as well as on tax accounting disconnection, but we must always bear in mind that there is never enough, because any accounting system no matter how modern, how performance, how consistent would be, it is always perfectible, if only because of the economy both nationally and globally is continuously changing and new requirements appear inevitably.

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4. http: // eur – lex. europa. Eu

[1] *It was adopted on 1 December 1997, the EU Council and a set of fiscal rules to combat unfair tax competition, is not a legally binding instrument.*

[2] *Available at http://eur-lex.europa.eu [consulted on 02/10/2013]*

[3] *Impact assessment of the proposal [SEC (2011) 315] states that there are only four Member States (Austria, Italy, Denmark and France) which have some form of cross-border loss compensation, while six Member States (Belgium, Czech Republic, Greece Lithuania, Hungary and Slovakia) does not indicate any form of compensation (internal or cross-border) losses within the group.*

[4] *Following two criteria: (i) control (more than 50% of voting rights), and (ii) the property (more than 75% of the capital) or right to profit (more than 75% of the profit sharing rights).*

[5] *As an exception to the general rule, if the result of the tax base between Member States does not reflect in a fair amount of activity, a safeguard clause (which will be able to be relied upon by the State concerned) should have the possibility of using other methods.*

[6] *http://ec.europa.eu/taxation_customs/taxation/company_tax/common_tax_base/ccctb_en.htm consulted on 30.05.2011.*

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