vol.2, No.3 (s), pp. 1126-1131 ISSN 1805-3602

The comparative analysis of national accounting standards and Iranian taxation laws

Elias Sarvi [1], Ali Fayyaz [1], Mohsen Sarvi [2]

[1] Department of Accounting,Science and Research Branch, Islamic Azad University, Yazd, Iran; [2] Department of Accounting, Tehran University, Iran

Abstract

There is difference and conflict between accounting standards and taxation laws in many countries of the world. Creating the needed coordination among accounting standards and taxation laws has many advantages. By removal or minimizing the contradiction and conflict among them, a stride may be taken toward contribution to users and beneficiaries. In this article, the existing contradictions and conflicts in Iranian accounting standards with taxation laws are explored and also it will refer to international taxation accounting standards and some issues are purposed concerning to preparation of financial statements based on accounting standard and separated fiscal statements based on taxation laws through full interaction among them as well.

Keywords: Iranian Accounting Standards, Taxation Laws, International Taxation Accounting Standards, Contradictions and Conflicts

Introduction

While two organizations are subordinates of Ministry of Economic Affairs and Finance in Islamic Republic of Iran; namely, Audit Organization that is the reference for codification of accounting standards and accounting and auditing regulations on the one hand; and Iranian National Tax Administration (INTA) which is sponsor for status of taxation policy on the other hand, and despite of this fact that all these two organizations are subsystem for the given ministry it seemed at first place that the least contradiction and conflict exist with respect to interactions among standard and taxation law in Iran but it is not so in practice and there are some contradictions.So this may cause the users and providers of financial statement to encounter several problems. It is due to the fact that Audit Organization follows international accounting standards in codifications of Iranian accounting standards while in any country taxation laws are approved with respect to political, social, and economic conditions in that country by parliament. Accordingly, the governing situations over the aforesaid country require ratification and enforcement of laws in accordance with given conditions. In any case, the presence of contradiction may lead to wasting of time, cost, and idleness for directors of economic enterprises. Some of this potential, time, and energy should be spent for resolving the dispute between taxation officials and director of economic corporations at several stages of tax operation.

In a study under title of “International rules for measuring uniform book- recorded profit and loss regarding tax”, Daniel Shaviro (2009) reviewed this point that following up traditional uniform norm might held back from definition of taxable and accounting financial profit. Under present conditions of the world, it requires coordination in and approaching to purposing financial reports and taxation reports.

Fang Jaw (2006) argues that taxation laws may affect on accounting operation and as a technique, accounting has some specific principles and standard per se that they are affected by taxation laws and this affection should be in such a way that could lead to uniform procedure.

Chang Won (2001), in an investigation that he has conducted under title of the impacts of tax regulations on investors’ decision in economic corporations during inflation period, declares the re-

Corresponding author: Elias Sarvi, Department of Accounting,Science and Research Branch, Islamic Azad University, Yazd, Iran. E-mail: eliassarvi@yahoo.com.

sult that taxation laws affect on declared profit that earned by economic corporations, which provide more profit at time of inflation. This may lead to creating conflict in the presented financial statements based on accounting standards and reporting according to taxation laws, which are followed by doubt and uncertainty in decision maker.

Gil Matron and George Pelsker (2001) in a survey that has been carried out on relationship among measurement of profit of financial report and profit of taxation report, concluded that profit measurement in financial reporting differs from taxation report. This difference exists among taxation laws and standards.

Iranian Taxation Laws

Tax is deemed as price of civilization or tax serves as social living cost. At the same time taxation life is considered as the same as life of governments. During ancient times in Iran, taxation was done in different ways. For the first time after Constitutional Revolution, taxation was ratified as a written law in Iran. Within period of Constitutional Government, 45 principles of the Constitution were allocated to subject of tax. Afterwards, the most perfect taxation law was approved in 1966. Also some amendments and changes were enforced in this law during next years but Taxation Law approved in 1987 exerted some fundamental changes in Iranian taxation law and finally with approval of Rider February 2001, the amendment was included in the ratified aforesaid law. At present, it is used as Direct Tax Law. Many definitions have been purposed about tax but as more perfect definition it can be implied that tax is part of asset or income earned by natural persons and legal entities, which reside in a certain political community (country) and it is paid by the aforesaid persons based on necessity of their participation in providing services that the government is responsible for their supply and they shall pay it by virtue of taxation law in that country and in the case of rejection, its payment will be obligatory. In Article 51 from IR Constitution also it is referred to tax. Then it specifies tax- inclusion or tax- exemption in the law. Based on types of direct and indirect taxes which are taken from asset, income, goods, and services, taxation sources can be generally classified into several categories.

1. Income earning sources in which tax is paid from this revenue;
2. Cost sources in which tax is paid from purchases and costs;
3. Other source, which neither income nor cost such as asset and wealth;
4. Earnings from services and work;
5. Composition of services and product; and
6. The last one is dealers and brokers that they pay less or no tax in Iran

Taxation parameters may be implied as a) tax basis (taxation and tax basis), b) tax rate (fixed- relative- progressive- lump sun- discount rates). Tax is a tool for achieving economic goals in any country that is collected based on the law approved in the government.

Article 272- Direct Taxes Law

According the request of the aforesaid persons, Audit Organization, certified accountants, auditing institute as member of Iranian Association of Certified Public Accountants (IACPA), which are responsible for doing tasks of auditing and legal investigation of auditing for several persons, shall draw up taxation auditing report that is prepared according the sample by INTA and submit it to the related taxation administration in order to put it at taxpayer's disposal.

This clause explicitly emphasizes on observance of taxation law and regulation. In the case of absence the related procedures, direction, and awards from taxation supreme council, accounting standards may be used and deemed as criterion for action. Provision no 1 from article 272 is contradicted to article 219 from Direct Taxes Law, which denotes that Taxation Administration is responsible for recognition and determination of taxable income and its collection. Likewise, article 272 is in conflict with article 237 of Direct Taxes Law that concerns with it as issuing body for recognition of liability (of audit inspectors) and responding to the terms tax application form. It is observed that occurrence of dispute among certified accountants who conduct tax auditing and taxation officials who revise taxation form may create conflict and difference in addressing and recognition of tax rate. For example, two cases of conflicts (2008 and 2009) are mentioned in table 1.

The question is that to what level this problem of contradiction is referred? Is the magnitude of this defect considered as its correctness? What group is right? How can remove such differences between certified accounts and taxation officials? This is the subject that masters, experts, and practitioners should respond to it in this sector. It seems necessary to execute article 272 in order to correct and balance the recognizing taxation rate and eventually to find a solution to resolve differences and prepare a fixed, appropriate, and transparent procedure for this purpose.

Table 1. Two cases of conflicts

Year	Number of file	Number of ambiguous points	Coordination board	
			Approval if audit inspector's view	Approval of auditors view
2008	1676	5803	4874	969
2009	1677	8346	7336	1010

Iranian Accounting Standards

In Iran, according to clause 4 of N.B. 2 from Auditing Organization Establishment Law and article 6 of statutes of Audit Organization, this organization is tasked with codification and generalization of auditing principles and standards. Similarly, based on clause VII of statutes of Auditing Organization, the expert and official reference body for codification of accounting and auditing principles and standards is Auditing Organization in Iran.

By virtue of clause 6 of Iranian accounting standard no 1, financial reporting is aimed at presentation of the classified information about financial status, performance, and flexibility of commercial unit that may be useful a large spectrum of users of financial statements in making economic decisions. In 1992, this organization started codification of accounting standard.

Currently, 32 approved national accounting standards have been notified and these standards are binding since 2001.

Employing the standards has many advantages which may include:

1) Observance of principle of uniformity inside industry and the constant procedure in economic units

2) Providing the appropriate basis to prepare financial statements with general purposes and way of reflecting the accounts in financial statements

3) Purposing transparent and reliable and valid method

4) Presentation of a group of useful applied rules and regulations for accounting profession

5) Building confidence by comparability of financial statement and eventually activity output in financial statements and explanatory notes to use by decision makers and users, beneficiaries, and adherents that might be effective in their decisions.

For the first time, Bolton declares in the accounting research project 23 (ARP-23) that the cost of taxable income in the relevant period may be allocated to a type of correspondence among accounts by creating this cost.

The cases of contradictions between national accounting standards with Iranian taxation law

According to article 95 from Direct Taxes Law, owners of businesses shall keep the adequate evidentiary documents and vouchers in order to recognize taxable profit and at the same time that group of professions which should record their own businesses in the book and general ledger based on the subject of trade law and the given regulation, they shall restore the relevant books, documents, and vouchers by observance of the accepted accounting principles and rules and standards.

According to Direct Taxes Law, financial statements shall be prepared and drawn up by accounting accepted standards that are specified by recognition and measurement regulations. On the other hand, due to extraction of financial information of accounting elements as basis for calculation, taxation, and from the legal books and the formulated financial statements according to the accounting standards, taxpayers expect that the computed accounting profit corresponds to taxable income. But due to some reasons, the declared profit by taxpayer is contradicted to the taxable income that has been recognized by taxation administration or differs from this rate (permanent or ad hoc difference). This contradiction may be bilateral; namely, with the conducted balancing sometimes taxable profit may be greater than accounting profit and often taxable profit is lesser than accounting profit. For this reason, taxpayers or accountants and taxation officials have agreed anonymously since years ago that taxation laws are not matched with the accounting standards. Difference and conflict between Iranian accounting standards with its taxation laws are as follows:

1- Unreasonable real estate costs that are 25% higher than leasing object (depletion costs and other costs of the rented property are not acceptable).

2- Rejection of costs incurrence and accepting the proprietorship conveyance by leasing companies (identification of leasing cost and assets)

3- According to national accounting standard no 17, goodwill was depletable. Depletion cost of intangible asset is calculated and subtracted from profit and loss for the current fiscal year while this point has not been mentioned in taxation laws that its costs are not accepted by state taxation bodies.

4- The costs which have been subtracted from profit account of the current year but their identification has been deferred to the next periods in terms of computation of taxable profit like goods guarantee costs which are recorded in profit- and/ loss statement for current year but its calculation will be deferred to financial period of their real payment as acceptable taxation costs.

5- According to accounting standards, upon occurrence of an important event, some equalization should be done after date of balance sheet and this important point has not been considered in taxation regulations.

6- Transactions are classified into two groups of readily marketable contract and long- term contract in accounting standards. Unrealized profit and loss caused by appraisal of contractual investments will be recorded in profit and loss account of the same period at the end of fiscal year at the same time the unrealized loss due to log- term investments is recorded in profit and loss account of the period every year while unearned profit is transferred to shareholders' account and it is not recorded in the profit and loss account at the studied year.But in taxation rules, unrealized loss caused by appraisal of investments at the end of year is not considered acceptable and acceptance of loss is deemed as reasonable cost and taxable in the absence of profit due to transferring it to account of shareholders is taxation logic.

7- In accounting standards some terms are considered to determine income and they have been discussed for several times but according to taxation logic, sale or income should be recorded in books upon conducting transaction and in the case of not collecting income fund or sale of goods, they are considered as reasonable cost based on clause 23 of article 148.

8- According to accounting standard, the possible incidents should be considered at date of balance sheet and their financial consequences should be estimated and the reserves to be allocated to these accounts but in this regards no reasonable cost has been predicted in taxation rules and this is not acceptable.

9- The items which have been mentioned in declaration no 9 from accounting standards regarding the cases like determining income equal to the incurred expenses that their loss should be spent, identifying contract expenditures upon is occurrence as cost, recognizing predictable loss at the same period, are not acceptable in taxation rules and tax is computed based on realized profit cause by annual operation and or by considering the given coefficient that applies to external contractors (second case) as rate of 12%.

10- Regarding exchange of asset with other asset in the case of real estates, conveyance tax is collected from the given party and concerning to exchange of property, the party, who has been benefitted from this transaction should pay tax against the surplus taxable income.

11- In accounting standards, profit and loss caused by unprecedented events should be indicated as separate from operational and intermittent profit and loss and taxation in each section should computed separately but this separation does not exist in taxation rules.

12- Provided that taking a uniform technique by taxpayer during several years, the loss caused by currency exchange rate is considered as a cost and naturally the profit that earned by conversion and discounting liabilities and assets is also deemed as income and taxable and according to article 136 from General Computations Law, profit and loss which is derived from currency exchange of assets and liabilities in public enterprises should be recorded in reserve account of currency exchange of liabilities and assets.

13- From accounting standard view, increase in the book value of assets caused by renewed appraisal should be classified under title of surplus value of renewed appraisal and as some part of shareholders' equity and it should be reflected in comprehensive profit and loss and its deduction should be recorded as cost as well. But according to taxation rules, increase in price of asset due to renewed appraisal of assets shall not be taxable and it is not depletable based on N.B. 10 of depletion table in article 151. Reduction of assets value has not been predicted in chapter of reasonable costs.

14- Based on taxation rules, establishment costs, surplus costs of income and pre- exploitation costs from date of exploitation will be equally depletable for 10 years while according to standard, this institution may record total cost of establishment in profit- and- loss account since beginning of exploitation.

15- The profit, which derived from sale or taxable incomes is lump sum (Income as result of conveyance of properties and right of transfer; income derived from sale of stocks, and share lien from other companies outside Bourse)

16- Profits and incomes, which according to taxation rules and regulations (chapter of tax exemptions from articles 132 to 145 and article 81 of Direct Tax Law and third and fourth Development Plan, budget laws, law concerning to method of publishing partnership share papers, and law for method of administration in free trade zones, are tax- exempted.

17- The profit caused by selling assets of companies and institutions, which their incomes are totally tax- exempted by virtue of law and rules (e.g. included group in article 133) excepts for the profit that is earned by selling assets in manufacturing- industry and mines where tax exemption is only restricted to production and mineral incomes. Other non manufacturing incomes of them shall not be exempted from tax. It should be noticed that where there are tax- exempted profit and income, the relevant loss and costs for that income are not recoded as reasonable costs.

18- The normative wastes from production- if wastes are not convenient they are reflected as other costs in accounts but it is not acceptable by taxation officials.

19- The costs relating to essential change in depletable assets are considered as a part of asset final cost while in accounting standard, basis for enforcing in final cost of asset is subjected to increasing useful life and renovation

20- The cultural- sport and welfare costs, which have been paid by laborers to Ministry of Work and Social Affairs maximally up to ten thousand Rials per worker, are also included in these costs.

21- Penalties for postponement of the received facilities are recorded in accounts as costs while this article may not be accepted by taxation officials.

22- The costs which have not been absorbed in production are classified as other costs in the economic unit but they have not been as reasonable costs in article 148.

23- Registration and sealed legal books: The code procedures for methods of keeping books, documents, and evidences, and techniques of recording financial events and way of drawing up final financial statements as subject of N.B. 2, article 95;

24- Reducing investment value is reflected and recorded according to investment standard in accounts while in Taxation law this point has been implied as reasonable cost.

25- Deduction of balances value is recorded in accounts based on standard of goods inventory as costs but this is not acceptable for taxation officials.

26- The pre- exploitation cost as subject of clause 4 from article 147 in taxation law but this cost should be recorded in cost account according to the standard in the same fiscal year.

27- The payable interest and charge to persons rather than what it mentioned in clause 18 of article 148 in Direct Taxes Law is not acceptable for taxation officials while they should be recorded as cost of economic unit in accounts.

28- The cost of identification (loss compensation) as the stipulated terms in clause 9 from article 148 of Direct Taxes Law where all the incurred losses should be recorded and kept as cost in accounts.

29- Regarding acceptance of Bad Debts cost based on the stipulated conditions in clause 11 of article 148 of Direct Taxes Law so that according to accounting standards this item should be recorded and reported as Bad Debts cost in the accounts.

30- Contingent liabilities should be identified and disclosed in accounts while this subject has not been predicted in taxation laws.

31- The equalizing effects of inflation should be identified and disclosed in accounts while in taxation laws this item has not been anticipated.

International taxation accounting standards

The lack of international accounting standard no 12 (i.e. accounting for taxes on income) in system of Iranian accounting standards may manipulate financial standards. This standard is a tool to distinguish financial accounting sizes from taxation laws measure and allocation of spread of these measures to financial periods of life cycle contains the some exchanges that caused such a difference.

Conclusion and Suggestion

It seems necessary to enjoy literacy in accounting and auditing knowledge and proficiency in rules and regulations of taxation laws in order to compute taxable income in an economic enterprise.

With respect to statistics of Central Bank of Iran (CBI) the rate of liquidity in Iran, which has reached to 3740 thousand billion Rials, it seeks for a profitable opportunity with the accelerated and quick growth but unfortunately this trend further moves in brokerage and dealership market in different sectors i.e. sometimes in housing, often in gold and exchange sale and or on some occasion in Bourse. It seems that in order to facilitate investment and to reduce tax rate, execution of article 105 of Direct Taxes Law is one of the methods for attraction of liquidity in production and employment sectors and economic contribution. As a matter of fact, by further developing of investment in production the Gross Domestic Product (GDP) will increase and at the same time this reduces unemployment while this is considered as profit and good source for taxation income but this law should be simplified and amended at next step.

The other point is that members of Dispute Settlement Board should be perfectly independent and at last pursuant to international accounting standard no 12, codification of accounting standard for taxation on earned income may essentially affect on quality of reporting and it should be formulated and executed in Iranian standard system.

References

Arab Mazad, A. A. (2011). Interpretation of relationship among transparency of financial reports and taxation reports in Iran, *Journal of accounting and auditing studies, 9.*

Arab Mazad, A.A.(2007).Developments in management of taxation system, *Auditing, 36.*

Accounting and tax panel discussion. (2007). *Journal of auditing,36.*

Chang P.K. &D.Cjeter. (2002). Accounting for deferred income taxes: simplicity, usefulness, *Book of approved taxes law and amendment of February.*

BozorgAsl, M. (2000). A critique of profit taxation accounting, allocation of interim tax, *Journal of auditing, 8.*

Beigipour, M. A. (2006). The existing problems in successful execution of article 272 of Direct Taxes Law, *Quarterly of auditing, 35.*

Davani, G.H. (2009). Let's take serious the essay of accounting tax in age of high- technology, *Journal of Saman, 27.*

Davani, G.H. (2006). Accounting information transparency, *Ettelaat newspaper,19.*

Masihi, M. (2006). Accounting standards and Direct Taxes law, *Journal of economic news, 293.*

Mahmoodi, M. (2005). *The review of difference among Iranian accounting standard; taxation rules and regulations,* Method of writing thesis, Islamic Azad University, Tehran Science & Researches Branch (SRB)

Noravesh, I. (2007). Codification of the needed accounting standards for capital market, *Economic World Newspaper,* (14660)., 23/02/2008

The principles and standards of accounting and auditing (2011)., *Accounting standards of Audi Organization, Committee of Codification of Accounting Standards.*

Shaviro, Daniel (2009). The optimal relationship between taxable income and financial accounting income, *Georgetown Law Journal, 97,* 423-84.