Accounting Treatment of Tax on Income According to NAS and IFRS

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Abstract

In the following article, a study is carried out on the accounting treatment of tax on income according to the provisions of the National Accounting Standards (NAS) and the International Financial Reporting Standards (IFRS). The research aims to identify the specific aspects of the application of NAS and IFRS for income tax accounting. The following scientific research methods are used in the study: analysis of the normative framework governing the study, synthesis of information, comparison to identify distinctive features.. The results of the research identified the existence of a different approach to income tax accounting according to NAS applied in the Republic of Moldova and IFRS (IAS 12). The result of the study shows that public interest entities that must apply IFRS require a more complex approach to tax on income versus entities that apply the provisions of the national accounting regulatory framework (NAS) of the Republic of Moldova.

Key words: accounting, current tax on income, deferred income on tax, regulatory framework
J.E.L. classification: M41

1. Introduction

In the context of settlements with the state budget, the main problem is represented by how to determine the values related to these settlements (Săcărin, 2021). Over time, as a result of the development of businesses and the placement of capital in various states, the need for the accounting treatment of income tax has become increasingly acute.

One of the most sensitive issues regarding tax on income is the relationship and the links between accounting and taxation on one hand, and on the other hand, it is the accounting treatment of tax on income according to the national accounting framework of the Republic of Moldova (NAS) and the international (IAS 12), in the context of the application of both references by different categories of entities. Accountants are positioned to deal with the ever-changing tax environment on behalf of taxpayers, and the field of income tax, due to its complexity, is imposed on accounting. Tax on income being the first element in state taxes and fees in the Republic of Moldova (Fiscal Code). The following research involves the examination of the provisions of the national accounting regulations but also of IAS 12, establishing the common provisions but also the differences, and their influence on the indicators presented in the financial statements.

The trend of aligning tax legislation with international standards presents a new challenge to the Republic of Moldova, and the imposition of income tax is the main element of reforming the tax system, the importance of which is becoming increasingly evident during its evolution (Vieru, 2020).

2. Literature review

In order to determine the obligations towards the state budget, priority is given to the regulations of the Fiscal Code of the Republic of Moldova and the corresponding regulations specific to tax on income, and their application is based on the accounting regulations, which in the context of tax of income are complex. The current research is based on the following concepts: income tax accounting through the prism of the national accounting regulations of the Republic of Moldova but also of the international regulations based on the International Financial Reporting Standards (IFRS) because, for the entities in the Republic of Moldova, both normative frameworks are applied according to the method established by legislation or voluntarily selected by the entity.

Existing research on tax on income was identified using data from the National Bibliometric Tool and data provided by Google Scholar shown in Table 1.

Table no. 1. Search strategy for scientific articles

Search source	National Bibliometric Tool		Google Scholar	
Keywords	Tax accounting on		income	profit
	income	profit	tax accounting	
Period	2015-2023			
Results	2 scientific articles (local authors)	3 scientific articles (local authors)	37 300 articles	24 400 articles
Publication source	Articles in conference and journal materials		Journal articles	

Source: developed by authors based on the National Bibliographic Tool and Google scholar

According to the information in Table 1, an imposing difference can be found between the research on tax on income at the national level found in the National Bibliometric Tool from the Republic of Moldova and the existing research at the international level established by Google Scholar. The period subject to the identification of research is 2015-2023 (9 years), the national finding being up to 10 scientific articles and at the international level being tens of thousands of publications, which represents a field that is little known and researched at the national level and of great interest at an international level, this fact also represents an interest for the following research.

3. Research methodology

The aim of this study is to research what is the accounting treatment of tax on income from entrepreneurial activity according to the National Accounting Normative Framework (NAS) and the International Accounting Framework (IFRS). According to the functional purpose, being an exploratory research whose objective is to establish what are the similarities and differences between the two accounting references regarding income tax accounting, and from the point of view of the way of analyzing the information subject to the research, being a qualitative research of both the framework normative related to the study, as well as the existing researches, the synthesis of information being used, the comparison to identify the distinctive features, the deduction of the challenges. Based on the research carried out, the following aim was established: what are the aspects of tax on income based on NAS and IFRS? The analysis of income tax accounting and financial reporting is a complex and sensitive subject, and the research results have important implications for the entities that must apply it.

4. Findings

During the examination of the accounting normative framework from the national (NAS) and international (IFRS) standards regarding the regulation of income tax accounting, it was established the lack of a national accounting standard regarding income tax similar to the existing international level IAS 12 "Income Taxes", nevertheless, income tax accounting according to national accounting standards is governed by the provisions of NAS "Equity and liabilities" in terms of establishing income tax liabilities, by NAS "Expenses" in terms of recognizing income tax expenses from the activity of entrepreneur and by NAS "Receivables and financial investments" for the recognition of income tax receivables. Regarding the financial reporting of patrimonial elements, including receivables, debts, and income tax expenses at the national level, it is regulated by the NAS "Presentation of Financial Statements" similar to the international IAS 1 "Presentation of Financial Statements". Likewise, the national regulation provides for the application of only the current income tax method, and the international regulation provides for both the current income tax method and the deferred income tax method.

We would like to mention that if we examine the evolution of income tax accounting in the Republic of Moldova, then in the period 1998 - 2015 was applied NAS 12 "Income tax accounting" developed on the basis of IAS 12, which has been missing since 2015.

4.1 The regulatory framework of income tax accounting

The accounting of income tax from entrepreneurial activity is the compartment that can be found within each entity, which represents the base from the fiscal regulatory framework and the accounting regulatory framework. Regarding the fiscal regulatory framework of the Republic of Moldova, the provisions of the Fiscal Code of the Republic of Moldova are applied by all entities, and the accounting one is based on two regulations: the national one (NAS) for all entities, except for the public interest ones (willingly can apply the international framework), and the international one (IFRS) for entities of public interest (the entity whose securities are admitted to trading on a regulated market; bank; insurer(reinsurer)/insurance company; body for collective investment in securities with legal personality; a large entity that is a state enterprise or is a joint-stock company in which the state’s share exceeds 50% of the share capital) (Accounting and Financial Reporting Law, 2017, art. 5). In this context, two benchmarks are applied by entities from the Republic of Moldova: NAS and IFRS. Table 2 presents the normative acts that regulate income tax accounting from each reference:

Table n0. 2. Normative acts regulating income tax accounting

The regulatory framework of income tax accounting	
Accounting and Financial reporting Law	
Entities that organise accounting based on NAS	The National Accounting Standard „Equity and liabilities”
	The National Accounting Standard „Expenses”
	The National Accounting Standard „Presentation of financial statements”
	The general chart of accounts
Entities that organise accounting based on IFRS	IAS 12 “Income Taxes”
	IAS 1 “Presentation of Financial Statements”
	IFRIC 21 “Levies”, IFRIC 23 “Uncertainty over Income Tax Treatments”

Source: developed by the authors based on the accounting regulatory framework

Based on the information presented in Table 2, the regulatory accounting framework of the Republic of Moldova does not contain a national accounting standard for income tax like the international IAS 12 “Income Taxes”, a fact that determines the regulation through provisions in several accounting standards.

4.2 Accounting elements determined by income tax

Emerging from the normative frameworks applied to the accounting treatment of the income tax, several patrimonial elements are generated, and their knowledge also determines the correctness of the accounting records. Table 3 will present the patrimonial elements generated by the tax on income with their description.

Table no. 3. The patrimonial elements generated by the tax on income

The accounting regulatory framework			
National		**International**	
Normative Act	**Patrimonial Element**	**Normative Act**	**Patrimonial Act**
Related to the current tax			
NAS „Expenses”	*Income tax expenses* – the total amount of income tax expenses considered when determining the net profit		*Tax expense (tax income)* is the aggregate amount of current and deferred tax included in the determination of profit or loss for a period

	(net loss) of (a) management period.	IAS 12 "Income Taxes"	
NAS "Equity and liabilities"	*Debts to the budget regarding income tax include the entity's commintments to the state budget regarding income tax, including debts regarding penalties applied for violating the provisions of tax legislation*		The current tax of the current period and previous periods must be recognized as a liability, within the limit of the unpaid amount. If the amount already paid for the current period and previous periods exceeds the amount owned for those periods, the exceeds must be recognized as a receivable. The benefit of a tax loss that can be carried forward to recover the current tax of a previous period must be recognized as a receivable.
NAS "Loans and financial statements"	*The budget claim regarding income tax is the amounts paid in advance/instalments paid in addition to the budget*		
Related to deferred tax			
It does not appear in the national regulation		IAS 12 "Income Taxes"	*Deferred tax liabilities* are the amounts of income tax payable in future periods in respect to taxable temporary differences.
			Deferred tax assets are represented by the amounts of profit tax recoverable in future periods regarding: deductible temporary differences; reporting unused tax losses; and carrying forward unused tax credits.

Source: developed by the authors based on the accounting regulatory framework

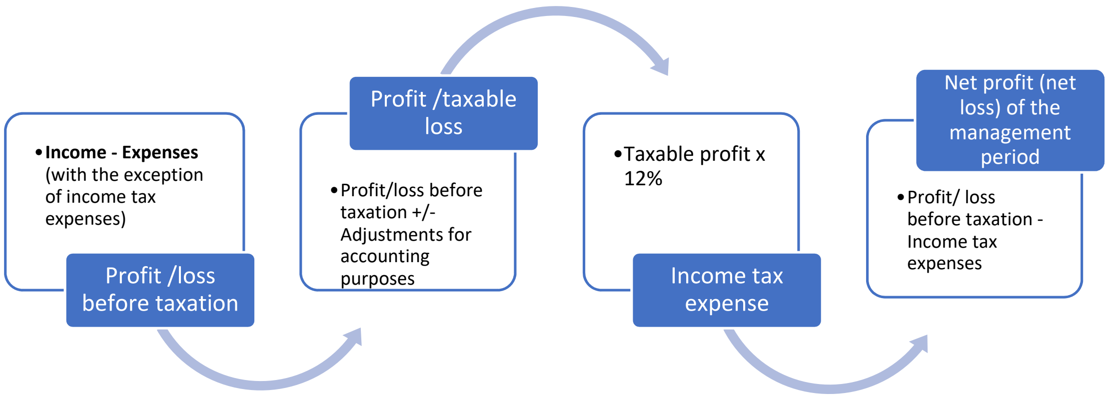
The regulations in force, for entities that organize accounting according to the national regulatory framework (NAS), expressly indicate the use of the current tax method (Grigoroi, 2021), so the effects generated by the temporary differences between the accounting result before taxation and the taxable result are not taken into account, (Burada, 2002) which can certainly influence the obtaining of the true image in the financial statements, a requirement established in the Accounting and Financial Reporting Law. The usage by entities of public interest of international accounting framework (IAS 12) by applying the deferred tax method through the recognition of temporary differences, leads to solving this deficiency. The inclusion in the national accounting standard (NAS) of the possibility of applying the deferred income tax would lead to the establishment of the taxable result, not allowing an overestimation of it. The objective of IAS 12 is the comprehensive treatment of current and future tax consequences regarding the tax on income, as well as the presentation of income tax in the financial statements and the presentation of information related to income tax. Nonetheless, the increase in information that deferred taxes bring is far outweighed by the difficulty of understanding specific mechanisms and the complexity of specific calculations (Istrate, 2016).

The signing of the Association Agreement with the European Union and the tendency to align the laws of the Republic of Moldova with international standards and practices amplified the importance of studying the issue of income tax mechanism for legal entities in the Republic of Moldova and made it absolutely necessary in order to develop and harmonize the taxation system. In this context, we mention that tax legislation and accounting standards require a metamorphosis, in order to be adjusted to international practices. Considering the long and varied application of this tax instrument by the states that have gone through similar steps towards harmonizing the taxation system, we have every confidence that it will allow Moldova to accelerate efficiently and with fewer obstacles in order to achieve the set goals (Vieru, 2022).

The international accounting doctrine considers two types of distortions between the accounting and fiscal results, which manifest themselves in the form of permanent and temporary differences (Cernușca, 2017).

For the purpose of financial reporting, tax receivables and liabilities are presented in the balance sheet, in separate positions from other assets and liabilities. When applying the deferred tax, the receivables and liabilities regarding the deferred tax are presented separately from the receivables and liabilities regarding the current tax. Whereas income tax expenses are presented in the Profit and Loss Statement (IAS 1, NAS). The issue of financial and tax reporting and the relationship between these two areas of reporting has always existed and has continuously developed over time. In this context, the relationship between the rules for calculating the accounting profit and the taxable profit for tax purposes, shown in Figure 1, is of particular importance.

Figure no. 1. The relationship between the accounting financial result and the taxable result



Source: developed by the authors based on the study

According to Figure 1 it can be noted that the basis for calculating the income tax is taken over and recognized from the accounting information, which is subsequently adjusted by the provisions of the tax regulations. In this context, it can be mentioned that the pre-tax loss adjusted for tax purposes can determine taxable profit. Whilst, for an accurate image of the activity of an entity, as provided by the accounting rules, the accountant must resolve the situations arising between the accounting treatment and the tax treatment of the information regarding the tax on income (Gurău, 2017).

5. Conclusions

Tax on income is an important source for the national budget and implicitly for investments at the national level (Ciumag, 2021). The objective of this research was to reproduce the aspects of the national and international accounting references regarding the income tax. The results of this research have identified the existence of a different approach between the tax on income according to the National Accounting Standard and IFRS, even though both regulatory frameworks are applied to the Republic of Moldova. The result of the research shows that the entities of public interest that must apply IFRS require a more complex approach to the profit tax from entrepreneurial activity by aggregating the current tax with the deferred one, versus the entities that apply the provisions of the national regulatory framework of the Republic of Moldova applying only the current tax. For compliance, it is recommended to adopt the national accounting regulation and the deferred tax method.

Within the current income tax, the differences that appear are between accounting revenues and expenses – corresponding to the elements of financial performance, and approach to the result. Within the deferred income tax, the accounting values are compared with the tax values for each element of assets and liabilities – corresponding to the elements of the financial position, and balance sheet approach. A peculiarity of the application of the deferred tax is the fact that the receivables and liabilities regarding the deferred tax are presented separately from the receivables and liabilities regarding the current tax in the financial reporting.

The study of income tax accounting is also current in the context of the initiation of activities to modernize the Fiscal Code for the period 2023 – 2026 with the aim of harmonizing the national legislative framework with the provisions of the European Union directives (The concept of modernization of the Fiscal Code).

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