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TOMA, LOREDANA OANA

Univ. Al.I.Cuza Iași, Romania

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The ethics of tax accounting. Is there a conflict?

Loredana Oana Toma¹

Alexandru Ioan Cuza University, Bd. Carol I nr. 22, 700505, Iasi, Romania
loredanaoana.toma@yahoo.com

Abstract. *Until the last century, the business environment use a variety of tax engineers in order to distort the tax base. The starting point in calculating taxes are accounting information but in accounting, ethics standards are based on integrity, fairness and impartiality. Can be considered taxation the main factor of accounting truth distortion or the engine of creative accounting? In such cases the present paper provide a framework with which to evaluate these situations. This paper also presents a summary of the different study that analyses the history of ethics and morality in accounting and is based on account qualitative methods.*

Keywords: tax, accounting, ethics, morality

J.E.L. Classification: D21, L21, M14, M41

INTRODUCTION

The issue of ethics in business and financial accounting permanently has generated controversy. Ethics in accounting is a matter of great importance, because it has a fundamental impact on the formation the value system of the future generations of economists in the field. Also, we live in an era of financial information where the rules that govern the creation and transmission of real financial statements become more important than the creation and transmission of the goods. Application the uncompromising moral principles is a step absolutely necessary and fundamental to building an economy based on real information.

¹ PhD Student, Alexandru Ioan Cuza University, Iasi, Romania

Every time that an accountant breaks the regulations to manipulate the information presented on the financial statements, those financial statements do not reflect reality and become useless for its users.

Fiscal policy followed by a particular state is represented by the measures implemented by the government through public budgets, so that, the concept of taxation is often perceived as an expression of taxes paid to the public budgets by natural persons and legal persons (Stefura G., 2007).

In capitalist society was placed the idea that taxation serves state interests and not the interests of the taxpayer. Correlating this with the fact that no law in the world does not oblige a firm to undertake an economic activity to pay taxes, more companies are trying to minimize the tax base by distorting their financial results often reaching at tax evasion (legal or illegal).

The main purpose of a company is enriching shareholders and therefore getting higher and higher profits. For this a company is free to dispose of its own resources how wants as long as do this in good faith and not in order to circumvent the tax.

In practice, things are different. Managers seek payment of taxes as low as possible to maximize the shareholders' wealth especially if they discover different tax loopholes.

The revolt of business environment, is based on the fact that most of the time fiscal measures taken by the authorities both on direct and indirect taxation are only political action without an economic foundation.

To remain tributary to the purpose with which started a business, their own enrichment, shareholders and business managers are increasingly mobilizing to finding all sorts of omissions of the legislature that can take advantage.

1. A brief literature review

In Romania the foundations of ethics in accounting have been strengthened through a sustained effort of professionals in accounting and auditing as Emil Horomnea, Ioan Andone, Ion Ionașcu, Marin Toma or Dumitru Rusu.

Accounting is a form of representation of an organization (a production company, a bank, a public school, and so on). "Art" of this representation is practiced by persons qualified professional accountants who have training (university) appropriate. In this sense we speak of accounting as a "management technique" that allows notification (by work out primary documents), the collection, processing and analysis of information on transactions and events of an organization (Ionașcu, 2005, p.33).

By its nature, financial and accounting activity is closely related to ethics, morality and religion. Concepts of morality, ethics and religion are close related and complementary. Already established in principles already structured, ethical values gives morality a religious connotation with restrictive character (Horomnea, 2002).

Ethical problem arises when talking about corporate responsibility, about how the trade balance is disturbed by eluding taxes, by using tax havens, transfer pricing, and so on. Ethics in accounting exceeds philosophical dimension of the theme and refers to the way that the codes, rules and principles once violated may trigger unpleasant consequences: the loss of credibility with others at serious consequences - exclusion from the professional group and even imprisonment. Therefore, ethics in accounting and in business not only preserving of professional ethical codes and moral philosophy role, but also has a punitive role. Therefore some researchers

believe that business ethics is concerned not only of ethics, but also has a personal agenda.

"It is a truth without return that the truth accountant is really built according to a set of principles, bases of valuation, rules, conventions and specific practices. But equally true is that the truth accountant occurs at the intersection of a compromise between the producers of information, auditors and users of information. Such a situation has birth issue approach between creative accounting and bookkeeping regulative (normative), between principles-based accounting and rules based accounting, between innovation accounting and accounting manipulation, between regulative truth and wanted truth, between accounting virtuous and accounting perverse "(Ristea et al., 2008).

Financial communication has a natural object, to responding obligations and legal regulations. At the same time, has a priority, which is to value the better the economic and financial picture of the company and of her actions course. Economic communication must seduce different audiences, but especially the shareholders. In this context it may be treated as customers. The company must use, therefore, all communication techniques to achieve a relationship management shareholders in the same manner as done a customer relationship marketing (Léger, 2008).

2. Ethical and moral in accounting practice

The concept of ethics comes from the greek word ethos (habit, character). Starting from the word ethos in the sense of character, Aristotle, the ancient Greek philosopher, created "ethical" adjective to clarify a specific class of human qualities, that he called ethical virtues. These

qualities represent some faculties, character and temperament characteristics of man, which are called spiritual qualities.

In order to translate precisely the notion of ethics from greek into latin, the great philosopher of Ancient Rome, Cicero, created “moralistic” notion (habit, character). Cicero wrote about moral philosophy, meaning by it, the same sphere of knowledge that Aristotle called ethics.

Ethics is the science of morality, about behavioral norms which governs relations between people and their attitude towards society.

Ethics and morality find the dialog in many scientific and social although they have a philosophical structure and normative religious. Religion is not the only source that throws doubt on the moral and ethical verticality of companies that are often portrayed as greedy for money and power corrupt. Newspapers abound in information and articles about scandals, corrupt people and influence peddling. Countless books and films have as subject, inadequate ethical from companies, shady characters who are at the forefront of corporate whose moral and ethical sense is corrupted by power and money (Apostol, 2009).

Internationally, I.F.A.C. - International Federation of Accountants is one of the bodies that has focused attention on ethics in accounting. IFAC Board has established the Ethics Standards Board for Accountants, whose role is to develop high quality ethical standards and other provisions for worldwide accounting professionals. Nationally, in the accounting profession, the rules of professional conduct applicable to members are set by The Body of Expert and Licensed Accountants of Romania. These can be summarized as follows: integrity, objectivity, professional competence and prudence, confidentiality, professional behavior, professional and technical compliance.

In the area of professional culture, ethics is the norm of moral verticality, way in which individuals, institutions act morally. Ethics is not an aspiration of society, but is a way of life that business he must learn and obey his principles. It provides predictability and stability of the business environment, the safety of long-term profitable relationships (Apostol, 2009).

Professionals have a duty to always sit in the balance their obligations to the profession, employer and society and to manage the dilemma in an ethical manner. Because, in fact, "being ethical is an ongoing process and not a correct answer to a question" (Johnson et al., 2008).

3. The issue of ethics in the financial activity

For today's world, accounting is a practice carried out by professionals who have the role to provide useful information for decision making in organizations. But few know that the practice of accounting representation of economic transactions has a history of millennia and started from the human need to build economic environment. Over time, this practice has become the preserve of skilled people who possess some knowledge to exercise their profession. In other words, accounting emerged in the modern sense of the word, practiced today, by accountants that working in professional bodies established at national and international level, and the discipline of accounting is a scientific field that studies in universities and offers a field of research scientists.

Some aspects incite the accounting profession, issues that are primarily aimed at: professional ethics, independence and credibility of this beautiful, exciting and controversial profession. You say that it is a profession like any other and should not be confined overregulation, but no

rise above them by freedom or flexibility in reasoning. But who knows the story of creative accounting, which is more aware of the issues at stake when a firm's financial statements are prepared and how is with fair view or observing a code of ethics and professional conduct, is captured by the subject (Horomnea, 2004).

An issue of ethics in financial-accounting activity is related to creativity and innovation. Most of us look at the financial-accounting activity as rigid that not letting the possibility of using the imagination. This was however refuted by numerous cases in which it was found that imagination in the financial-accounting activity may have an important role when the distortion of reality becomes a primordial necessity. Thus appeared the concept of "creative financial-accounting activity," normally used to describe the process by which accountants use their knowledge to manipulate figures (Feleagă et al., 2002).

We believe that creative accounting activity may be defined as:

- the process of manipulating accounting figures and taking advantage of the flexibility, it choose those practices that allow the transformation of the financial statements of what they should be in what they want managers;
- the process by which transactions are structured in such a way to allow "obtain" desired accounting result.

Table 1 shows the name below which the creative accounting can be found in the literature.

Table nr.1 Global nomenclature of creative accounting

COUNTRY	THE EQUIVALENT OF THE ROMANIAN „CREATIVE ACCOUNTING”
Switzerland	Bilanzmanipulation, Bilanzkosmetik ,heisse Luft
Germany	Tricksereien, Bilanzartistik, geschönte Jahresrechnung, Seifenblasen
Holland	Winstegalisation (profit equalization), Creatief boekhouden, Creatievejaarverslaggeving, Winststuring (earnings management), Winstflattering, Verliesmaximalisatie
France	Bricolage (DIY), Fabricated accounts, Unlimited creativity
USA	Cooking the books, fabricated numbers, fiddle the numbers, more debits than credits, earnings management
Italy	Politiche di bilancio
Japan	Furyo Kessan (improper accounting); Funshoku (window-dressing), Kara-uri (dummy or “empty sales”); Mae-daoshi (bringing sales forward)
Australia	Fudging, Manipulative accounting, Feral accounting
Great Britain	Window-dressing, Accounting for profits, Bubbles, Enronitis

(Source: Audit Committee Newsletter, KPMG, June, 2003 published in Balaciu et al., 2009)

Financial professionals sell their services in a market where experiencing supply and demand for accounting information. Thus, despite the fact that there have been many debates on ethical issues in business, "accountants artists" will provide a **fiscal picture** for countries where the state plays a significant role in accounting (believe to be the case of our country), **an image of equilibrium** to the countries where companies are financed by the banks and **the image of a high efficiency** for countries where investors are the main users of financial statements and financing is predominantly in the capital market.

Only good faith belief of the accountant certify in such cases the image fidelity. Company image fidelity is the qualitative criterion of normalization. You can not make the claim that the image captured by the accounting is the "correct" because this word has the connotation of "accurate", while assessing the accounting information depend on accountants and auditors, discretion, appreciation that has a certain degree of subjectivity.

"Michael Capron has accredited the idea that there may be more accurate images of the same reality, as there may be several photographic representations of the same object depending on the angle from which it is viewed, light, distance, and consequently should choose what is largely under the law or circumstances. The question arises that users of accounting information less experienced do not confuse, due to lack of accounting experience, the image with reality, and being well aware of the distance between the two for not generate alone accounting illusion "(Ristea, 2008).

Creative accounting is the process by which accounting figures are manipulated and distorted without infringing the law and accounting standards. It respects "the law but not the spirit of accounting" creative accounting has a negative character, distorting results and financial position of the company.

While it is quite obvious that it can not equate between creative accounting and fraud some doubts remain if the various accounting "inventions" are ethical or not. Often used financial statements in order to create the illusion of a more healthy and prosperous societies.

Ethics of professional accountants consists not in the accuracy of the information products or in the lack of imagination and creativity, but in the intention and attitude underlying their behavior. Financial accounting

information is now used as a means to promote the company image among current and prospective investors. An intentionally deceptive way follows behind achieving selfish purposes, regardless of the means used, and which may affect the interests of others is and will always be unethical. Ethics can help to increase responsibility for results of actions.

Therefore, accounting is far from being ethical as long as it deviates from the rules of conduct by making or falsifying data, inducing false information to investors and others' people interested in the activity of a company. For accounting reports to maintain credibility and not witnessing a distortion of the truth patrimonial requires a uniform and homogeneous accounting referential that reduce the variations between accounting systems. This can only be achieved through international accounting harmonization.

4. Is the lack of ethics in accounting the foundation of tax evasion?

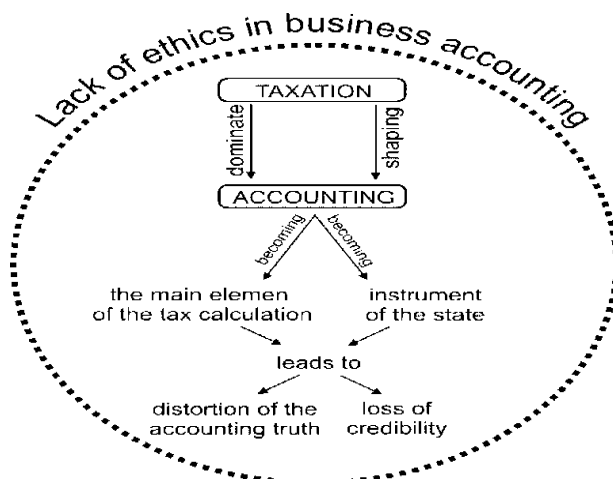


Figure nr.1 The effects of poor ethics in accounting
Source: Author projection

Ethics in accounting requires balancing the interests of shareholders and the interests of affected groups or implied, from partners to consumers and society as a whole. The basic idea is elementary: even more the number of those who comply with a minimum set of rules is higher even more increase the chances of winning for each of the players in the market (Popescu et al., 2009).

In practice, both individuals and businesses, tend to pay only what in any form can not be avoided.

The discrepancy between image which depicts financial reporting and reality occurs not only due to the fact that the tax base is reduced because of non-deductible expenses (which are not made for the purpose of obtaining income) but also due to acts of evasion aimed at reducing turnover and reduce trade margins.

Lack of manager's ethics has one's say when it comes to contractual staff costs. An element that distorts financial accounting information are staff salaries and their related taxes and contributions. Deformation truth accountant is owed tax burden that taxpayers incur as a result of higher contributions applied wages. Iulian Braşoveanu (2010) states that "although we have some of the highest tax rates in the EU for both VAT and mandatory social contributions (two components that have, on average, more than 2/3 the current taxation in the Member States EU), Romania is the last in the EU in terms of government revenue collected as a share of GDP. "

Using loopholes in the tax legislation lays the foundation of creative accounting whose effect is the degradation of accounting information. The *aim* for most *managers* is not accounting pollution (especially in large companies) but this is reached because the great majority of companies do not take different tax situations compared to financial reporting.

The diversity of tax evasion practices is based in most cases on the positive interpretations of legislation that lately show an increasing degree of ambiguity and interpretability.

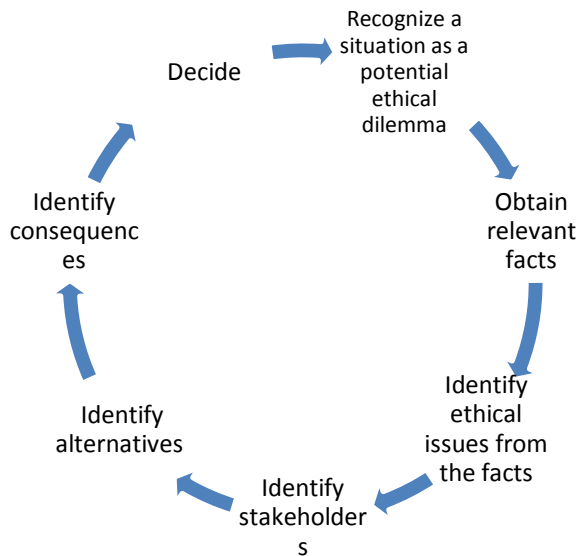
The effects which have on the accounting the elements of fraud and tax evasion, leads to financial reporting staying strictly in the service of reducing the tax burden and not in the real presentation of the situation of the companies.

Thus, in the last years interest in accounting ethics has become increasingly prominent because in the context of globalization and the emergence of multinationals providing real financial situation is crucial.

As long as the accountants do not obey ethical standards in their work, investors and other users can not have trust in the financial statements provided by the company.

Professional accountants are always forced to resort to financial maneuvers from which benefit the company. Under pressure from the shareholders, they get to distort financial statements in order to reduce the amount of taxes that must be paid to the state. The steps that should be followed by an accountant to be ethical are listed in the figure number 2.

Figure nr.2 Steps followed by an accountant to be ethical



Source: Author projection after "What's the Right Thing to Do? An Ethics Toolkit for Accountants A presentation to the Association of Government Accountants March 12, 2014."

The veracity of financial information is considered vital in making an investment so it is essential that accounting reports submit to strong moral standards.

Many businesses regard the payment of taxes as an end established of state, as a value perceived because they were left to start a business and not as a conditioning result.

The main concern of managers is getting bigger profits factual, but at the same time is concerned about finding different fiscal engineers that diminish financial results on paper.

CONCLUSIONS

Accounting underlies the functioning of all systems of state, the ethics is the backbone that supports the proper functioning of all processes integral. As long as the professionals actions in the accounting and auditing will be subjected to some rules and codes perfectly harmonized financial statements will serve of corporate objectives.

Having regard to ever-changing financial and fiscal environment, often financial and accounting professionals are forced or compelled to resort to various techniques or professional reasons, but largely depends on each to decide which is limited to not break the law and to act in an ethical manner.

Cases of companies that digress from the ethical standards by manipulating accounting information (Enron, Parmalat, WorldCom) have generated negative effects highly publicized and led to decreased confidence in companies' financial statements. With the recent economic crisis, seen as technical accounting will have to fit well into the requirements of ethics and morality.

Financial accounting practice creativity and its effects, depend on what managers want to offer through the information they provide and

therefore what they want to achieve through decisions that users take using this information.

This dependence has yet to create a responsibility to act ethically not take account of the interests to provide equal opportunities for information. The moral value of an action is finally in compliance with the rule imposed that does not create the possibility of manipulation of information in order to mislead. However, the creative accounting practices that make their presence felt, indicates the need for further improvements to accounting standards and code of ethics. Thereby, accounting and financial reporting will not be compromising the quality and will serve the market requirements.

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