The Impact of Taxation Accounting on Financial statementiraqi Kurdistan Region Taxation Organizations as a Sample

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Abstract

Taxation accounting is a wide-ranging field in the field of economy in general and accounting in particular. It is important to study this area in both public and private sectors, because it is in the core of the work of both government organizations and private sector companies. Preparing taxation statements is not an easy task. It needs professional accountants and institutions. The procedures used in preparing Iraqi taxation accounting and financial statements in general and the Kurdistan Region procedures in particular are not unifies and not up to date. Different organizations use different systems. Most of the systems are old and manual. They need to be updated and digitalized. This study is an attempt to investigate the gap in the Iraqi Kurdistan region taxation accounting and financial statements. It uses a quantitative descriptive method by using a survey tool and checking the financial statements. The data is taken from a number of private companies in Iraqi Kurdistan Region. It tries to compare the system used in different organizations with some other systems in the world to see the variance between these systems.

Key words

accounting, taxation, financial statement.

Introduction

Iraqi Kurdistan Region is a semi-independent territory in the Federal Republic of Iraq which has a separate parliament and government. The region is still under development and it's linked to Iraqi economy. Its financial and accounting legislations and regulations are similar to the central government in many ways.

Although there are many attempts to update the financial and accounting system, still both governments, central Iraq and Kurdistan region, suffer from the traditional one which is used in both the public and private sectors. The system is not up to date and not well – structured as per international standards, (Pankaj Dixit and Rahim Mohammed Sharifi, 2020).

The Iraqi Kurdistan Region has tries to have a kind of flexible financial and economical policy that can encourage investment and increase the government's revenue. Recently, it has issued two significant legislations, the investment law in 2006 and the production sharing oil law in 2007. These initiatives boosted the economy and increased the financial activities in the region.

The new cabinet, headed by PM Masrur Brzani, has enacted new taxes on different private sector companies in Kurdistan Region. This move, which is parallel and part of the anti-corruption law, need to monitor the taxation accounting and financial statements of the private companies more closely and to digitalize and update the taxation system. According to Rudaw TV AROUND 25000 private companies are registered in the region but only 1300 of them formally pay the corporate income tax, (Sirwan, 2021).

Tax Accounting

Public tax accounting has a long history in the world of finance and economy in Middle East, but private sector accounting is not very old, since many countries in the region followed a kind of social system which focused mainly on public sector and almost all businesses were controlled by the government. In Turkey, the closest neighboring country to Iraq, the private sector started in 1950s. the Uniform Accounting System was made obligatory in 1994. This system has a huge impact in the development of private sector and boosting the Turkey's economy.

Tax is an important factor in the development of any country. Tax collecting and accounting is the back bone of the economy growth of the country. That's why, governments need to develop a kind of a sound tax policy that benefits the public and private sector. In the global competitive economic and financial environment, governments need to develop a standard taxation accounting system to build a transparent and trustworthy economy, (Ernst & Young, 2013).

Accounting is a critical aspect of any economy. The purpose of accounting is to benefit all the stakeholders and interested parties in any provision or business. It helps the governments in controlling both the public and private sector and in making the sound economic and financial decisions depending on the data and information provided by the accountants and financial statements and reports. Usually, there are two kinds of interested parties, internal and external. Internal party related to management and external one can be stakeholders, creditors, tax authorities, etc, (Nobes, C. and Parker, R.H. 2002).

The link between taxation and accounting is defined in different angels. Words and phrases like dichotomy, subordination, convergence, etc are used to define this relationship. Rista (2003) states that "we have accepted a new formulation of the

relationship between accounting and taxation, the dichotomy **"connection and disconnection". Connection,** because by the same system, the accounting is done two purposes, accounting and taxation. Disconnect, considering the differences between rules and principles of accounting and tax." The connection between accounting and taxation is influenced by external factors, objectives and principles of both fields. So, one can say that the relationship is not direct and linear.

The purposes of accounting and taxations are different in many ways. As discussed previously, the purpose of accounting is to provide needed information for the decision makers to structure a sound economic and financial policy for the country in general and for the company in particular. The purpose of taxation is usually to increase the revenue of the government. Therefore, it is important for the public and private sector to prepare experienced and skillful accountants who are aware of both accounting principles and taxation rules and regulations. It is obvious that accounting and taxation exist for different reasons, as Green (1995) states "financial accounting and tax accounting are not the same. They have different objectives, are subject to different rules and serve different purposes."

The reasons for deviating taxation from accounting are many. While the main purpose of taxation is to increase the public revenue to finance the government expenditure, in modern economies the extent of taxation is a powerful instrument of the government to have a critical economic and social policy. Surry (1973) states that "concept of tax expenditures ably describes the situation that 'those provisions of the federal income tax containing special exemptions, exclusions, deductions and other tax benefits were really methods of providing governmental financial assistance."

Historically and internationally, the relationship between accounting and taxation is approached differently in different periods of time and different countries. As an example, the relationship is examined by Haller (1992) in Germany and Radcliffe (1993) studied it in the UK and France. They found out that there are some similarities and differences between the practice in these European countries:

Radcliffe found that there were some similarities between practice in France and the UK. For example in both countries commercial accounting principles allowed a deduction for provisions for a decline in the value of trading stock ordered but not delivered, but both countries denied tax relief for such provisions. However, Radcliffe found a difference in the approach of the courts to the issue – with a British judicial presumption that the accounting treatment is not necessarily the final word whereas in France it was conclusive in the absence of specific tax law to the contrary, (ibid).

The issue has been further studied in different countries. The relationship between taxation and accounting in number of European countries by Hoogendoorn (1996). He identified two possible different kinds of relationship, that he called them as independence and dependence structures. He believes that the independence structure uses different accounting policies for accounting and taxation. He finds out that there is no fully independence relationship between accounting and taxation, since they both influence each other.

The relationship between the two areas is evolving and complex. Accounting can be regarded as a basis for calculating tax liabilities, but tax legislations and regulations are different in different countries and in different periods of time which influences the practice of taxation. Some aspects of these legislations may be good for some countries but not for another. Littlewood (2002) studied Hong Kong system and states that "Judged by criteria regarded by most of the rest of the world as axiomatic, Hong Kong's tax system is grossly flawed. That it has nonetheless succeeded suggests that there may be something wrong with these criteria, and with the theory that surrounds them."

Financial Statement

Financial statement is regarded as a main source of information on any company or business. Lee (2006) believes that financial statements have a greatest strength in that it satisfies many needs, but its weakness is that sometimes it becomes a set of statements that don not totally realize the needs of any specific stakeholder. According to the Financial Accounting Standard Board FASB, (2010) the objectives of financial statement is to feed relevant administrators with the needed information for making sound economic decisions.

In addition to decision making, financial reporting can also help in predicting economic indicators. Accounting variables in the financial statements can influence tax policy and administration to forecast certain financial signs, as inflation and change in Gross Domestic Product (GDP). Whereas the previous studies have indicated the importance of accounting information in predicting many aspects of economy, its value in predicting tax return variables is not fully known, which are important information for fiscal policymakers, (Nallareddy and Ogneva 2017; Talisman 2000; Boynton, DeFillipes, and Legel 2005).

In many countries accounting principles and standards have been developed to account for financial statements and reporting. Generally Accepted Accounting Principles (GAAP) is used as a framework of accounting rules in the United States to prepare financial statements, which is made by the Financial Accounting Standards Board (FASB). One of the objectives of GAAP is to provide information for the companies and investors to choose which business or company to invest in, (FASB, 2010).

Accounting and financial reports

Tax accounting and financial reports are closely related to each other. Usually, financial reports are prepared by smart accountants. The topic of financial reporting is not an easy task because it interrelates several areas of a business in the public and private sector equally. The reports need to be exclusive and contain sufficient information for the government and the company alike. They both need this information for different purposes, as need for obvious, trustworthy and update tax information has increased recently. The government demands the reports for

observing the private sector and the shareholders expect to collect more data on their company's tax policy.

The trustworthy of financial reporting is a requirement demanded by the government, but there are several reasons why sometimes these reports are not appropriate for deciding on the final tax liabilities. These reasons are related to the purposes of both accounting and taxation. Sometimes the government requires an aspect of the report which is different from the shareholders' request. Cunningham (2008) believes that sometimes the tax authorities are very aggressive in some countries, claiming that they are doing their best to make sure that private companies are following the regulations and including everything in the financial reports.

Methodology

The study examines the relationship between tax accounting and financial statements by reviewing a number of private companies' financial reports in Iraqi Kurdistan Region. It uses two methods to arrive at the accurate conclusions and make some sound recommendations. First, the financial reports of the selected companies have been described, examined and analyzed. Second, a survey was designed and distributed among those accountants that work in the field of preparing and checking the financial statements in both the public and private sectors.

The study tries to answer the following research questions:

1. What kind of relationship are there between accounting and taxation?
2. What is the role of accounting in preparing financial reports?
3. To what extent, the financial reports contain sufficient information for policy makers?
4. To what extent, the financial reports benefit the private sector companies?
5. Do the companies in the Kurdistan Region use an electronic accounting system?
6. Is the accounting system up to date in the region?
7. Do the companies follow an international standard financial reporting?

The questionnaire:

A. Policy and decision makingQ1: To what extent the financial report helps the decision makers to develop the financial and economic policy in the region? Q2: To what extent the the report contains irrelevant data and information? Q3: To what extent the report benefit the shareholders to improve the company and overcome the obstacles?

B. Validity of the reportQ4: To what extent the financial statement contains valid information and data? Q5: To what extent the accounting concepts and principles are followed in the report? Q6: To what extent the financial report includes positive and negative issues objectively? Q7: To what extent do companies provide information regarding corporate governance?

C. Accounting vs. taxation

Q8: To what extent the professionality of the accountants are reflected in the report ? Q9: To what extent the financial statement depended on accounting?

Q10: To what extent comparative data is provided regarding previous accounting periods?

Q11: To what extent information provided in annual reports is comparable to the information provided by other organizations of the same industry?

D.   Verifiability and innovation Q12: To what extent provided information is verifiable? Q13: To what extent financial reports are provided timely to the users?

Q14: To what extent technology is used in the report?

Q15: To what extent the system used for preparing the report is electronic?

Q17: To what extend the system used for preparing the report is up to date?

Q18: To what extent the report follows international standards?

E.   Clarity Q19: To what extent the data of the financial report is organized properly?

Q 20: To what extent the notes and comments of the financial statements are clear and understandable? Q21: To what extent graphs, pictures and tables enhance the understanding of presented information? Q22: To what extent technical and other terms of the financial statements are explained?

Results and Discussions

Correlations		ACCTX	PDM	VR	VI	CL
ACCTX	Pearson Correlation	1	0.957**	0.919**	0.943**	0.969**
	Sig. (2-tailed)		0.000	0.000	0.000	0.000
	N	82	82	82	82	82
PDM	Pearson Correlation	0.957**	1	0.929**	0.938**	0.962**
	Sig. (2-tailed)	0.000		0.000	0.000	0.000
	N	82	82	82	82	82
VR	Pearson Correlation	0.919**	0.929**	1	0.928**	0.932**
	Sig. (2-tailed)	0.000	0.000		0.000	0.000
	N	82	82	82	82	82
VI	Pearson Correlation	0.943**	0.938**	0.928**	1	0.941**
	Sig. (2-tailed)	0.000	0.000	0.000		0.000
	N	82	82	82	82	82
CL	Pearson Correlation	0.969**	0.962**	0.932**	0.941**	1
	Sig. (2-tailed)	0.000	0.000	0.000	0.000	
	N	82	82	82	82	82
**. Correlation is significant at the 0.01 level (2-tailed).						

Through the above matrix, we note that there are strong correlations between the study variables, in addition to that they were all statistically significant, because the p-values are less than the level of significance (0.05). The correlations were as follows:

95.7% between ACCTX and PDM, 91.9% between ACCTX and VR, 94.3% between ACCTX and VI, 96.9% between ACCTX and CL, 92.9% between PDM and

VR, 93.8% between PDM and VI, 96.2% between PDM and CL, 92.8% between VR and VI, 93.2% between VR and CL, and 94.1% between VI and CL.

Descriptive Statistics			
	Mean	**Std. Deviation**	**N**
PDM	3.6138	1.15229	82
ACCTX	3.5955	1.15174	82

Mean of PDM dependent variable equal to (3.6138) with standard deviation equal to (1.15229) and mean of ACCTX independent variable equal to (3.5955) with standard deviation equal to (1.15174).

Correlations			
		PDM	**ACCTX**
Pearson Correlation	PDM	1.000	.957
	ACCTX	.957	1.000
Sig. (1-tailed)	PDM	.	.000
	ACCTX	.000	.
N	PDM	82	82
	ACCTX	82	82

The table shows that there is a strong positive correlation between PDM and ACCTX (95.7%) and very significant because p-value is less than (0.05) level of significance.

Regression

Model Summary

Model	**R**	**R Square**	**Std. Error of the Estimate**
1	.957a	.917	.33496

The ACCTX, explains 91.7% (coefficient of determination) of the changes in PDM with Standard error of the estimate equal to (0.33496).

ANOVAa						
Model		**Sum of Squares**	**df**	**Mean Square**	**F**	**Sig.**
1	Regression	98.573	1	98.573	878.563	.000b
	Residual	8.976	80	.112		
	Total	107.549	81			
a. Dependent Variable: PDM						
b. Predictors: (Constant), ACCTX						

Linear regression appropriate model for this data because F-statistic equal to (878.563), it's the largest of tabulated value under the (0.05) significantly level and degrees of freedom (1 and 80) which is equal to (3.98), this is confirmed by the p-value, which is equal to zero and is less than the significance level (0.05).

Coefficients[a]					
Model	**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**
	B0	**Std. Error**	**Beta1**		
1 (Constant)	.170	.122		1.394	.167
ACCTX	.958	.032	.957	29.641	.000
a. Dependent Variable: PDM					

Since t-statistic equal to (29.641) for the coefficient of independent variable (ACCTX), and it's the largest of tabulated value under the (0.05) significantly level and degrees of freedom (81) which is equal to (1.96), (the p-value is (0.000), which less than the significantly level (0.05)), its therefore significant and contribute to the interpretation of the model (PDM), and finally, the null hypothesis is rejected and accept the alternative hypothesis which states that "There is impact of the ACCTX on PDM", The model is as follows:

$$\hat{Y}_i = 0.170 + 0.958X_i$$

Regression

Model Summary

	R	**R Square**	**Std. Error of the Estimate**
1	.919a	.845	.43869

The ACCTX, explains 84.5% (coefficient of determination) of the changes in VR with Standard error of the estimate equal to (0.43869)**.**

ANOVA[a]					
Model	**Sum of Squares**	**df**	**Mean Square**	**F**	**Sig.**
1 Regression	83.925	1	83.925	436.080	.000b
Residual	15.396	80	.192		
Total	99.321	81			
a. Dependent Variable: VR					
b. Predictors: (Constant), ACCTX					

Linear regression appropriate model for this data because F-statistic equal to (436.080), it's the largest of tabulated value under the (0.05) significantly level and degrees of freedom (1 and 80) which is equal to (3.98), this is confirmed by the p-value, which is equal to zero and is less than the significance level (0.05).

Coefficients[a]					
Model	**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**
	B0	**Std. Error**	**Beta1**		
1 (Constant)	.501	.160		3.138	.002
ACCTX	.884	.042	.919	20.883	.000
a. Dependent Variable: VR					

Since t-statistic equal to (20.883) for the coefficient of independent variable (ACCTX), and it's the largest of tabulated value under the (0.05) significantly level and degrees of freedom (81) which is equal to (1.96), (the p-value is (0.000), which less than the significantly level (0.05)), its therefore significant and contribute to the interpretation of the model (VR), and finally, the null hypothesis is rejected and accept the alternative hypothesis which states that "There is impact of the ACCTX on VR", The model is as follows:

$$\hat{Y}_i = 0.501 + 0.884 X_i$$

Regression

Model Summary

Model	R	R Square	Std. Error of the Estimate
1	.943a	.889	.40224

The ACCTX, explains 88.9% (coefficient of determination) of the changes in VI with Standard error of the estimate equal to (0.40224).

ANOVAa					
Model	**Sum of Squares**	**df**	**Mean Square**	**F**	**Sig.**
Regression	103.251	1	103.251	638.159	.000b
1 Residual	12.944	80	.162		
Total	116.195	81			
a. Dependent Variable: VI					
b. Predictors: (Constant), ACCTX					

Linear regression appropriate model for this data because F-statistic equal to (638.159), it's the largest of tabulated value under the (0.05) significantly level and degrees of freedom (1 and 80) which is equal to (3.98), this is confirmed by the p-value, which is equal to zero and is less than the significance level (0.05).

Coefficientsa					
Model	**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**
	B0	**Std. Error**	**Beta1**		
1 (Constant)	.036	.146		.248	.805
ACCTX	.980	.039	.943	25.262	.000
a. Dependent Variable: VI					

Since t-statistic equal to (25.262) for the coefficient of independent variable (ACCTX), and it's the largest of tabulated value under the (0.05) significantly level

and degrees of freedom (81) which is equal to (1.96), (the p-value is (0.000), which less than the significantly level (0.05)), its therefore significant and contribute to the interpretation of the model (VI), and finally, the null hypothesis is rejected and accept the alternative hypothesis which states that "There is impact of the ACCTX on VI", The model is as follows:

$$\hat{Y}_i = 0.036 + 0.980 X_i$$

Regression

Model Summary

Model	R	R Square	Std. Error of the Estimate
1	.969a	.939	.29379

The ACCTX, explains 93.9% (coefficient of determination) of the changes in CL with Standard error of the estimate equal to (0.29379)**.**

ANOVAª						
Model		**Sum of Squares**	**df**	**Mean Square**	**F**	**Sig.**
1	Regression	105.550	1	105.550	1222.852	.000b
	Residual	6.905	80	.086		
	Total	112.455	81			
a. Dependent Variable: CL						
b. Predictors: (Constant), ACCTX						

Linear regression appropriate model for this data because F-statistic equal to (1222.852), it's the largest of tabulated value under the (0.05) significantly level and degrees of freedom (1 and 80) which is equal to (3.98), this is confirmed by the p-value, which is equal to zero and is less than the significance level (0.05).

Coefficientsª						
Model		**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**
		B0	**Std. Error**	**Beta1**		
1	(Constant)	.026	.107		.241	.810
	ACCTX	.991	.028	.969	34.969	.000
a. Dependent Variable: CL						

Since t-statistic equal to (34.969) for the coefficient of independent variable (ACCTX), and it's the largest of tabulated value under the (0.05) significantly level and degrees of freedom (81) which is equal to (1.96), (the p-value is (0.000), which less than the significantly level (0.05)), its therefore significant and contribute to the interpretation of the model (VI), and finally, the null hypothesis

is rejected and accept the alternative hypothesis which states that "There is impact of the ACCTX on CL", The model is as follows:

$$\hat{Y}_i = 0.026 + 0.991 \mathrm{X}_i$$

Conclusions

The study arrives at the following conclusions:

1.　There is a strong positive correlation between ACCTX (95.7%) and and PDM, 91.9% very significant because the financial report helps the decision makers to develop the financial and economic policy.

2.　The null hypothesis is rejected and accept the alternative hypothesis which states that "There is impact of the ACCTX the financial reports contain sufficient information for policy makers.

3.　The interpretation of the model (ACCTX), and finally, the null hypothesis is rejected, since the companies follow an international standard financial reporting.

4.　There is impact of the ACCTX on VI financial report. The extent data of the financial report is organized properly.

5.　There is a direct correlation between the quality of financial statements and taxation. When the statements are reliable the tax amount will increase.

Recommendations

1.　It's necessary to observe the financial statements by the government and by the administration of private companies; they need to compare the financial statements of different years to see the difference, since this would affect the ratio of the tax.

2.　The format of the financial statements need to be unified; it is not suitable that each public organization and each private sector company use a different template.

3.　After each financial year, the tax directorates need to monitor, follow up with and inspect the financial statements.

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