



Tax Accounting: Theory and Practice

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<http://dx.doi.org/10.18415/ijmmu.v9i12.4297>

Abstract

This article is devoted to the consideration of the theoretical issues of tax accounting, which is considered a component of accounting. In addition, the article presents relevant conclusions and proposals on the formation of tax reports, which have been developed in reliance upon the research results.

Keywords: *Management Accounting; Tax Accounting; Financial Reporting; Tax Reporting*

Introduction

Economic information is crucially important for improving tax policy and accounting represents the source of such information.

Currently accounting is being improved in terms of both theory and methodology, and its types or subsystems are being developed. Relevant literary sources highlight the formation of financial and management reporting as a component of accounting, the concepts of “tax accounting”, “strategic accounting”, “ecological accounting”, “dynamic accounting” as a sub–system of accounting.

Literature Review

The investigation of economic literature and statutory acts demonstrate that the researchers and scholars interpret the tax calculation in different ways. We interpret the views of some authors.

Foreign economists recognize financial, management and tax statements as a separate type and subsystem of reporting.

In particular, economists D. Morse and J. Zimmerman divide accounting into three sub–systems: (1) management accounting; (2) financial accounting; (3) tax accounting [1].

R. Ainsworth, D. Deinss, R.D. Riumli and K.H. Larson divide accounting into four interrelated subsystems: (1) financial accounting subsystem; (2) management accounting subsystem; (3) tax accounting subsystem; (4) regulatory accounting subsystem [2].

V.Robert, S.Anthony, S.Jemis noted the following in their book “Accounting principles”: “In the United States, financial accounting, management accounting and tax accounting are separate processes in terms of their essence. GAAP defines the principles of financial accounting, top management accounting, and the IRS and Congress define the principles of tax accounting” [3].

In the opinion of O.N. Volkova, “As a result of the development and complexity of the tax system in developed countries, there has been arisen the need for accurate calculation of the taxation base. Both the government, the owner and the managers are aware that the only and objective information for such calculations is the accounting data compiled in accordance with generally accepted principles. This is how the tax accounting has emerged” [4].

Furthermore, V.V. Kachalin has admitted that tax accounting is handled in addition to financial and management accounting in the US practice [5].

From the point of view of Ya.V.Sokolov, V.Ya.Sokolov, “Unified accounting has been divided into financial accounting and management accounting. The account of small enterprises has been separated from it. Since 2002, the tax accounting has been officially announced in our country. New areas and types of financial accounting have appeared (creative accounting, social accounting, human resource accounting, accounting of working with insiders, environmental accounting)” [6].

In managing the state, Amir Temur paid particular attention to accounting, including tax accounting. In his historical book “Temur tuzuklari” (The Laws of Timur), our grandfather admitted the following about the tax accounting: “I also ordered three ministers to be appointed to each country. One of these should be for responsible for finance matters and he should monitor the collection of the taxes imposed him and handle reporting. This minister shall be in charge of recording the amount of tax, the names of taxpayers and keep the amount collected. The second minister shall manage the civil affairs. Let this official keep an accounting of the funds that have been given and should be given. And the third minister should arrange search for missing persons, travelers and merchants, crops collected in various ways, property of insane people, property without heirs, fines imposed by judges and Muslim courts” [7]. It is obvious that particular attention was paid to tax accounting in the state ruled by Amir Temur.

In the following years, the considerations of scholars and economists of the Republic of Uzbekistan on tax accounting, classification and improvement of accounting types, the interrelationship of accounting types are reflected in the literary sources.

In his works Z.N. Kurbanov defined tax accounting as follows: “Tax accounting is a system of recording information required for determining the tax base for taxes and other compulsory payments paid by economic entities and for compiling tax reports” [8].

According to Article 76 of the Tax Code of the Republic of Uzbekistan “Accounting for the purposes of taxation is the keeping by a taxpayer or a tax agent of accounting documentation in accordance with the requirements of this Code in order to summarize and systematize information about objects of taxation and (or) objects related to taxation, as well as the calculation of taxes, fees and preparation of tax reporting” [9].

In reliance upon the considerations specified above, we can conclude that tax accounting is a system of accounting for the information required to determine the tax base for taxes and fees paid by economic entities and to prepare tax reports.

Research Methodology

Comparative and systematic analysis methods have been used in the implementation of the research. The scientific database Web of Science has been used in the literature analysis. Scientific views of mature economists on tax accounting have been studied. Moreover, analyses have been conducted based on statistical data. In the article, relevant conclusions and proposals on the organization of the tax accounting and its improvement have been developed.

Analysis and Results Discussion

First of all, it should be noted that development of tax accounting is crucially important for the economy. In the current environment, the emergence of a new type of accounting, including tax accounting, is the result of the progression of scientific ideas.

In our opinion, the origin of tax accounting is the result of the intersection of accounting (financial) accounting and the taxation system, that is, their interdependence. The relationship between accounting, tax accounting and this tax system is illustrated in Figure 1 below.

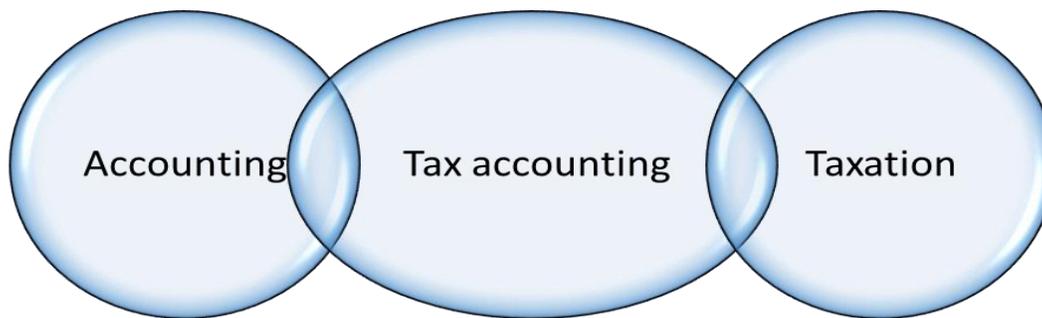


Figure 1. Diagram of the origin of the tax accounting at the macroeconomic level¹

It is of fundamental importance to find optimal points of correlation of accounting and taxation system through this picture. In our opinion, the optimal point of this correlation is the emergence of the tax reporting. A Venn diagram is the diagram that shows possible logical connections between sets represented by a number of circles. Each set is a set of data that are similar to each other.

There are three types of accounting based on the benefit of the users of the information, namely financial accounting, managerial accounting and tax accounting.

These 3 types of accounting are interrelated, and this relationship can also be represented in the form of a Venn diagram (Figure 2).

¹ Source: developed by the author

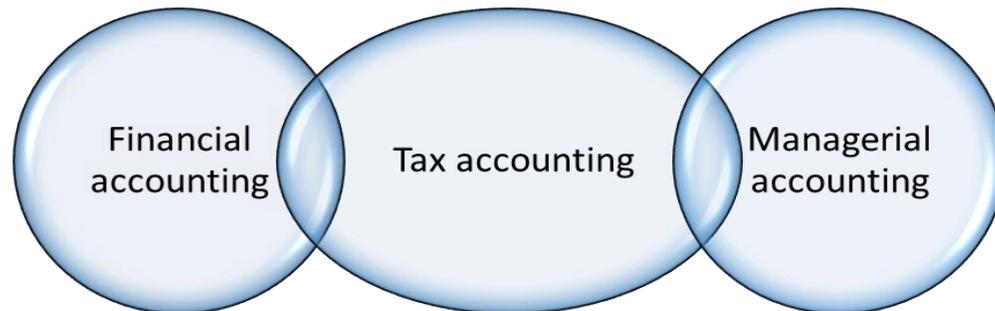


Figure 2. Venn diagram of the relationship between types of accounting²

As each type of accounting has its aim and function, so the tax accounting has its peculiar function as well.

The objective of tax accounting is to take into consideration the reliable data required for the accurate calculation of taxes and fees during the reporting period and to provide internal and external users with the necessary information.

Based on the considerations specified above, we provide some information on tax revenues. Currently over 90 percent of the state budget revenues are formulated based on tax revenues (Table 1).

Table 1. Dynamics of tax revenues in 2017–2021, bln.UZS³

	Indicators	Years					In 2021 in relation to 2017
		2017	2018	2019	2020	2021	
1	Revenue, total	49681,0	62229,5	112165,4	132938,0	164681	331,4 %
2	Direct taxes	11539,4	12805,4	31676,8	45206,9	58930	510,6 %
3	Indirect taxes	26133,2	33404,3	46427,2	46428,4	56292	215,4 %
4	Resource payments and the property tax	6867,4	9714,5	19680,7	21257,0	23036	335,4 %
5	The tax imposed on high income	1415,2	1367,7	–	–		–
6	Other revenues	3725,8	4937,6	14380,7	20045,8	26423	709,1 %

The state budget revenues in 2017 amounted to 49681.0 bln.UZS, in 2021 this indicator accounted for 164681.0 bln.UZS, which means the decrease by 331.4 percent. The amount of direct taxes rose from 11539.4 bln.UZS in 2017 to 58930 bln.UZS in 2021 demonstrating an increase of 510.6

² Source: developed by the author

³ Developed by the author in reliance upon the data of the web-site of the Republic of Uzbekistan www.mf.uz.

percent. Indirect taxes grew from 26,133.2 bln.UZS to 56292 bln.UZS with the increase by 215.4 percent, resource payments and property tax increased from 6867.4 bln. UZS to 23036 bln.UZS increasing by 335.4 percent, as well as other incomes grew by 3725,8 bln.UZS to 26423 bln.UZS demonstrating almost 7-fold increase.

As can be seen from the above table, the income of 164681.0 bln.UZS can be calculated using financial accounting and tax accounting. Moreover, it has important economic importance in the organization of tax accounting and preparation and submission of tax reports.

Now we consider the issue of tax reporting. In reliance upon the Tax Code of the Republic of Uzbekistan, the forms of tax reporting for all types of taxes are approved based on the resolution of the State Tax Committee of the Republic of Uzbekistan №2020-03 “On approval of the forms of tax reporting” dated January 28, 2020. Additions and alterations have been made by the resolution of the State Tax Committee of the Republic of Uzbekistan “On making additions to the decision on approval of tax reporting forms” [registered by the Ministry of Justice of the Republic of Uzbekistan on October 20, 2020, list number 3221-1]. Below there are the “Report on financial results” form №2 and the “Calculation of profit tax paid by legal entities” report of JSC “Uzbekneftgaz” for 2021 (Tables 2 and 3).

Table 2. “Report on financial results” (Form №2) of “Uzbekneftgaz” JSC for 2021, thousand UZS⁴

Indicators	Code of line	During this period of the last year		During reporting period	
		Revenues (profit)	Expenditures (loss)	Revenues (profit)	Expenditures (loss)
1	2	3	4	5	6
Net receipts from the sale of products (goods, work and services)	010		x	4 323 266 094	x
Prime-cost of sold products (goods, work and services)	020	x		x	1 663 230 373
Gross profit (loss) from the sale of products (goods, work and services) (line 010-020)	030	0,00	0,00	2 660 035 721	0
Periodic expenses, total (line 050+060+070+08), including:	040	x	85 877 583,44	x	1 099 715 722,99
Selling expenses	050	x		x	100 227 593
Administrative costs	060	x	39 258 957,46	x	73 671 653,81
Other operating expenses	070	x	46 618 625,98	x	925 816 476,18

⁴ Developed by the author on the basis of the data of “Uzbekneftgaz” JSC.

Expenses that will be deducted in the future from the taxable profit of the reporting period	080	x		x	
Other income related to core business	090	154 285 253,9	x	710 760 135,9 3	x
Profit (loss) of the core business (line 030-040+090)	100	68 407 670,46	0	2 271 080 133, 94	0
Income from financial activities, total (line 120+130+140+150+160), including:	110	2 048 594 910 ,7	x	5 061 127 128, 12	x
Income in the form of dividends	120	165 679 503,7 9	x	70 513 002,88	x
Income in the form of interest	130	430 405 639,2 3	x	342 030 738,2 4	x
Income received from financial rent	140		x	393 867	x
Income from the difference in exchange rates	150	1 452 509 767 ,68	x	1 087 807 113	x
Other income of financial activity	160		x	3 560 382 407	x
Expenses on the financial activity (line 180+190+200+210), including:	170	x	1 989 285 720,0 8	x	6 850 838 872,17
Expenses in the form of interest	180		398 853 900,18		530 362 872,85
Expenses in the form of interest by financial rent	190	x		x	
Loss incurred from the difference in the exchange rate	200	x	1 590 431 819,9	x	2 959 545 617,41
Other expenses related to financial activity	210	x		x	3 360 930 381,91
Profit (loss) of general economic	220	127 716 861,0 8	0	481 368 389,8 9	0

activity (line 100+110–170)					
Contingent profit and loss	230				
Profit (loss) before paying profit tax (line 220+/-230)	240	127 716 861,0 8	0	481 368 389,8 9	0
Profit tax	250	x		x	21 257 115
Taxes other than profit, as well as other compulsory payments	260	x		x	
Net profit (loss) for the reporting period (line 240–250–260)	270	127 716 861,0 8	0	460 111 274,8 9	0

Table 3. Calculation of profit tax paid by legal entities of “Uzbekneftgaz” JSCB for 2021⁵

Indicators (filled in ascending order)	Code of line	Amount
Profit (loss) before paying profit tax from legal entities (line 240 of Form 2 of “Report on financial results”)	010	481 368 390 000,00
Income not recognized as income for tax purposes (line 010 of Appendix 1 of calculations)	011	
Loss from selling goods (works, services) at prices lower than their cost and providing them for free	020	2 236 763 545,70
Property, property rights, works and services received by the taxpayer from other persons for free	030	932 761 976,11
The amount of rent calculated on the basis of the minimum rates of rent for using the real estate of the state in excess of the amount of rent specified in the contract	040	
Non-deductible expenses (expenses that are added back to the taxable base) (line 010 of Appendix 2 of calculations)	050	108 763 605 262,35
Expenses of the accounting period that are deducted from the future taxable profit (column 3 of line 010 of Appendix 3 of calculations, column 4 of line 010)	060	
Dividends and interest due (received) – total (line 071 + line 072), in particular:	070	412 543 741 000,00
From the sources in the Republic of Uzbekistan	071	412 543 741 000,00
From the sources outside the Republic of Uzbekistan	072	

⁵ Developed by the author on the basis of the data of “Uzbekneftegaz” JSC.

Taxable profit (line 010 – line 011 + line 020 + line 030 + line 040 + line 050 + line 060 –line 070)	080	180 757 779 784,16
Incentives – total (line 030 of appendix 4 of calculations)	090	3 615 155 595,68
Taxable base (line 080 – line 090), however not less than “0”	100	177 142 624 188,48
Fixed rate of profit tax from legal entities, in percent	110	12
Amount of profit tax received from legal entities – total (line 100 x line 110)	120	21 257 114 902,62
Adjusted amount of profit tax for enterprises employing persons with disabilities	130	0
Total amount of profit tax paid by legal entities calculated for the reporting period (line 120 – line 130 – line 090 of Appendix 7 of calculations + sum of 3 and 4 columns of line 060 of Appendix 8 of calculations), in particular:	140	212 57 114 902,62
according to the location of individual divisions (based on the calculation of the profit tax amounts corresponding to the individual division)	141	

It should be noted, in Table 2 above we have provided the financial statements of Form №2 “Report on financial results” of “Uzbekneftgaz” JSC in 2021, and Table 3 presents the data on the company’s profit tax in the forms of the tax report entitled “Calculation of profit tax paid by legal entities” and reflect the company’s financial results in 2021. It is obvious from the data in the reports that the information in the financial report and tax report corresponded to each other.

Financial statements are prepared as a result of financial accounting, management decisions are made as a result of managerial accounting, and a tax report is prepared based on tax accounting. Financial management and tax accounting are related and complement each other with information. This provides an opportunity to obtain the information necessary for users of accounting information.

Conclusion and Proposals

There are three types of accounting based on the interest of the users of the information, namely financial accounting, managerial accounting and tax accounting.

The origin of tax accounting is the result of the intersection of accounting (financial) accounting and the taxation system, that is, their interrelation.

We can make a conclusion that tax accounting is a system of recording information required for determining the tax base for taxes and fees paid by economic entities and for compiling tax reports.

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