

# An Analysis of the Relationship between Accounting and Corporation Income Taxation: An Empirical Study in Vietnam

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This study aims to identify and record the provisions on corporate income tax, in accordance with international regulations, which have and are being implemented in Vietnamese enterprises. When initially applied, there were certain difficulties reflected in the accounting and tax regulations. In the process of studying international regulations in the relationship between accounting and taxation, from which to draw research gaps, lessons were learned. Accordingly, a process was developed to handle the steps in the relationship between accounting and taxation, which has been a concern of accountants and tax departments. This paper outlines the specific steps to implement in determining the relationship between accounting and taxation.

**Keywords:** *Tax, Tax accounting, Income tax, Corporate tax.*

## Introduction

The accountants perform the task of recording, processing and providing financial and economic information in enterprises, serving the making of economic and financial decisions. From the study of the history of accounting practices and tax policies in countries, there are two perspectives on the relationship between accounting and tax policies.

Firstly, the consistency between tax policy and accounting policy. According to this perspective, the provisions of tax policy and related accounting standards and regimes are consistent. Accounting information is used directly for tax purposes, without making adjustments. There is a consistency between accounting policy and tax policy, so it minimises the complexity of using accounting information for tax declaration and drawing the balance sheet of tax, especially for small and medium-sized enterprises (SMEs). In addition, the

consistency between tax policy and accounting policy also ensures the overall leadership and the centralised management of the State to the economy. However, the consistency of accounting policy and tax policy might lead to the fact that accounting information primarily concentrates on tax purposes, which reduces the usefulness of other information users. This limitation is even more present in the context of implementing the global economy. Therefore, nowadays, this perspective is scarcely applied when developing tax and accounting policies in countries.

Secondly, the relative independence between tax policy and accounting policy. Accordingly, the provisions of tax policy and accounting standards and regimes are relatively independent. Accounting information is provided to different users and adjustments need to be made for the calculation of tax obligation. This perspective ensures that accounting policy and tax policy are built according to different goals, consistent with the characteristics of each policy. As an economic regulatory tool, tax policy aims to regulate macroeconomics and ensure the revenue of the state budget in each period, in line with the development goals and other economic policies. Meanwhile, the accounting system is built to provide appropriate and reliable financial information to the information users, in order to help the subjects make appropriate economic decisions. Thus, accounting information has to be neutral and not necessarily inclinable to the tax purposes of the units.

On the contrary, the difference between tax and accounting policies increases the complication for accounting work at the units, as well as the complication in using accounting information for tax declaration and drawing the balance sheet of tax. In terms of state management, the difference between tax and accounting policies also causes certain difficulties and complications for the management and examination of units' compliance with tax obligations.

Based on the analysis of the two perspectives above, the choice to apply whichever viewpoint to formulate tax policy in relation to the accounting system has certain advantages and limitations, in accordance with the economic, political, and social conditions, and the economic management mechanisms of each country, in each development stage.

## Literature Review

Anson T.Y. Ho (2017), *Tax-deferred Saving Accounts: Heterogeneity and Policy Reforms*. Heterogeneity and policies are the basic content that the tax-deferred saving accounts (TDA) systematically use in many countries. As in the United States (US), households approaching the subproject point out the basic issues. The author developed a model to collect TDA income tax. The practical results indicate that the IRA always provides the whole income tax for all households. The level of influence will have certain characteristics. In other words, generating TDA allows a limited contribution of high-income households and will have a greater impact on the economy. When a household considers using the TDA system, the tax system in the US will reduce the contribution and benefits from consumption tax regulations by about half.

Salwa Hana Yussof et al. (2014), *An analysis of the gap between accounting depreciation and tax capital allowance in Malaysia*, refers to the Malaysian tax system, which separates the tax depreciation provisions from accounting depreciation provisions. At the same time, comparing and contrasting with the methods of accounting for depreciation and taxes for determining expenses in the period. The relationship between accounting and taxation results is from the recognition of the difference of the expense and primary price of fixed assets, depreciation rate, and the useful life for depreciation calculation.

Prem Sikka (2017), *Accounting and taxation: Conjoined twins or separate siblings?* This study showed the relationship between accounting and taxation through the purposes of corporate taxes to be avoided by organisations, such as the Organization for Economic Co-operation and Development (OECD), and the European Union (EU). The OECD is the price change and leads to accounting errors. The EU presents taxable profits. According to IFRSs, there is a reduction in the useful time of accounting compared to tax purposes. The EU also reveals the review of the basic content of accounting.

Lúcia Lima Rodrigues; Russell Craig (2018), *The role of government accounting and taxation in the institutionalization of slavery in Brazil*. The basic content is to use fundamental theory based on the notions of history, logic and idea to create an understanding of the regulations of accounting and taxation, which will help to make an establishment in Brazil by the interpretation of slavery as a commodity of the economy. The article also highlights and analyses the conflicts used in the period of 1531-1888. Indeed, accounting and taxation are reviewed under the same conditions of daily reporting. The authors specify the state accounting and taxation to establish the management of the rules according to the regulations of society, the social reality and the endurance period.

Clive Lennox; Petro Lisowsky; Jefe Jeffrey Pittman (2012), *Aggressiveness and Accounting Fraud*. There is an exchange and establishment of evidence when an enterprise performs a

financial statement that is either increased or decreased by the examination between the tax report and the accounting report. They relied on the corroboration of contradictions to make connections about their evidence. However, the authors noted that the results of the study were sensitive to the tax assessment when measuring. Furthermore, four or five factors for the tax rate of the business (difference in book value) were positive or negative during the period of 1981–2001. The implication also indicated that it was the enterprise's fault to reduce taxes.

Zhou, M. (2016), *Does accounting for uncertain tax benefits provide information about the relation between book-tax differences and earnings persistence?* The purpose of this study is to provide information on the application of the interpretation 48 of the Financial Accounting Standards Board (FIN48), in order to develop an understanding of the differences of tax and the relationship with gained profits. Theories indicate that the tax information provided in the financial statements, such as difference in book value, is useful for managing the obtained benefits and reducing the sign of long-term future earnings. However, a lot of information is necessary, such as the cause of the difference in book values and their ability, so as to show the discrepancy in the long-term earnings.

Dorel Mates; Puscas Adriana; Antonela Ursachi (2016), *The influence of accounting system regarding accounting and taxation of entities.* Accounting and taxation in Romania began in the third decade and continued to grow up, as a result of globalisation of the world economy. Furthermore, there is a connection between accounting and taxation for the world to the EU. The influence of the two cultures, Anglo-Saxon and Latin-European, brought the highlights of the Romanian accounting and taxation. The IFRS and EU guidelines established the relationship of accounting and taxation in Romania.

SimonaJirásková; JanMolín (2015), *IFRS Adoption for Accounting and Tax Purposes: An Issue Based on the Czech Republic as Compared with Other European Countries.* The study emphasised the application of the IFRS for accounting and tax purposes in the Czech Republic. However, it also mentioned the problems arising in EU countries. There were some differences in the extent of the acceptance of these standards in EU countries, while the Czech Republic applied them not only to the consolidated financial statements, but also to the separate financial statements. Many countries only accepted the IFRS for the consolidated financial statements because there was no influence on taxes. The author was also interested in discussing the relationship between accounting and tax.

Roy Clemons; Terry J. Shevlin (2016), *The Tax Policy Debate: Increasing the Policy Impact of Academic Tax Accounting Research.* While the accounting journals publish studies of implications, policy makers are often not concerned about these studies. The useful information is currently provided by accounting researchers, who may have better influential policies if they affect the integration, presentation, and dissemination to policy makers. This

study addresses five objectives of increasing the appropriateness of tax accounting research that will be used by policy makers, which is the discussion process about the issue of tax policy; the detailed explanations and implications of research results, referring to the situation of empirical studies; and providing the summaries of research contributions; and ultimately, an additional documentation channel to increase academic research in the field of tax policy.

## DISCUSSIONS

Why is there a difference between accounting profit and corporate taxable income? First of all, compare the methods of determination using the following formula:

$$\text{Accounting profit} = \text{Other revenues and incomes as stipulated by accounting} - \text{Expenses as stipulated by accounting} \quad (1)$$

⇒

$$\text{Corporate income tax according to accounting} = \text{Accounting profit} \times \text{Current corporate income tax rate (t\%)} \quad (2)$$

And:

$$\text{Corporate income tax according to tax} = \text{Corporate taxable income} \times \text{Current corporate income tax rate (t\%)} \quad (4)$$

This situation only occurs when there is a difference between tax regulations and accounting regulations (attitude to break the connection between accounting and tax). The cause of the discrepancy is due to the different method of determination as follows:

**Table 1**

Criterion	According to accounting regulations	According to tax regulations
Revenue	The total value of economic benefits gained in the accounting period contributes to the increase in the owner's equity, incurring from the ordinary production and business activities of the enterprise. Satisfying five conditions according to the accounting standards of revenue.	All sales, processing, service charges including subsidies and surcharges, additional benefits enjoyed by the business. The business issued invoices, or the rendered service was completed.
Depreciation	Over the estimated useful life of assets.	According to Decision No.206.
Provision for bad receivables	According to the Board of Directors.	According to the regulations of the Ministry of Finance.
Support expense	Recorded as expense.	Non-deductible expense.
Interest	Expense	Interest exceeding the limit is not considered as expenses.
Provision for job loss and probationary benefits	Expense	According to the specified rate.
Expense allocation of the parent company in foreign countries	Expense	Specifying the calculation method.
Expense without invoices and documents as stipulated	Expense	Not considered as expense.
Fine	Expense	Not considered as expense.
Earnings after tax from capital contribution to joint ventures and shares	Revenue	Not considered as revenue.

There are two types of differences between accounting and taxes, being permanent and temporary differences:

(1). *Permanent difference* is the difference between accounting profit and corporate taxable income incurring from other revenues and incomes, expenses recorded in accounting profit but not included in income, and expenses when calculating corporate taxable income. Or

conversely, in other revenues and incomes, expenses are included in corporate taxable income but not included in accounting profit. For example:

Dividend yield, interest from bonds that enterprises receive are non-taxable income and are excluded from the corporate taxable income.

The grants and presented amounts have to be taxed on their value. However, the accountants do not record them as an accounting profit but an increase in the owner's equity.

Regarding materials and labour exceeding the normal level, and fixed overhead expense, the remaining allocation is an accounting cost to determine the accounting profit, but not in corporate taxable income.

In the case of an individual buying a car but not transferring it into the company name yet, all expenses related to the operation and depreciation of this car shall be included in the accounting profit but not in the corporate taxable income.

The cost of advertising, commission, and marketing exceeding the limitation are expenses included in accounting profit but not included in corporate taxable income.

The fines imposed by enterprises are recorded in accounting profit but not in corporate taxable income.

(2). *Temporary difference* is the difference incurring from the variance in the time an enterprise records an income or expense and the time when the taxation law prescribes the calculation of taxable income or expenses deducted from taxable income. There are two types of temporary differences:

Taxable temporary differences are temporary differences that generate taxable income when determining future corporate taxable income when the book value of related assets or liabilities is recovered or paid.

Deductible temporary differences are temporary differences resulting in deductible amounts when determining future corporate taxable income when the book value of assets or liabilities is recovered or paid.

Nonetheless, there is also a relationship between accounting profit and corporate taxable income, as in the following expression:

**Table 2**

<b>Accounting profit =</b>	<ul style="list-style-type: none"> <li>+ Non-deductible expenses according to tax law</li> <li>+ Income which is subject to tax law but not recognised for accounting purposes</li> <li>- Expenses are deducted for tax purposes but not recognised for accounting purposes</li> <li>- Income which is not subject to tax law but not recognised for accounting purposes</li> </ul>	<b>= Corporate taxable profit</b>
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*\* On how to determine the corporate income tax, there are some basic steps:*

**Step 1:** Determining the Difference

Determine the differences between the book value of assets and liabilities according to accounting (figures in the balance sheet) and tax bases of assets and liabilities according to the tax regulations (which one is a temporary difference, which one is a permanent difference). Remove the permanent differences.

**Step 2:** Determine taxable income

Determine the deductible temporary differences or taxable temporary differences, then multiply these differences by the corporate income tax rate according to the current regulations (temporary difference x t%).

Determine the current income tax expense by multiplying the taxable income by the corporate income tax rate, according to the current regulations (taxable income x t%).

**Step 3:** Record current corporate income tax expense (A/c 8211, A/c 3334)

Record the corporate income tax expense or income in related accounts (A/c 8212, A/c 243, A/c 347).

Determine, compare and balance the total incurring amount on the debit side of A/c 8212, with the total incurring amount on the credit side of A/c 8212. At the end of the period, compare and carry to the income summary.

Consider the specific case of the ABC Company at the beginning of 2015: buying a fixed asset that is the plasticiser production line of Japan, costing VND 2.000 million. Based on the production plan, as well as the capital recovery, the enterprise depreciated the fixed asset using the straight-line method for four years. Meanwhile, the tax agency used the double-

declining-balance method. The depreciation rate for the first two years was 40 per cent, and in the last two years, depreciating evenly on the carrying value.

During the year, the enterprise had a prepaid revenue of rent for three years from 2015 to 2017, of VND 900 million. In 2015, the total net income before tax was VND 5.000 million. Assuming, that in addition to the depreciation expenses, the accounting incomes and expenses and corporate taxable income are equal. In previous years, the enterprise had no balance of accounts of income tax assets, deferred tax liability, and the corporate income tax rate was 28 per cent.

### Solving the problems

**Step 1:** Determine the difference between the book value and the tax base of assets

**Table 3**

Year	According to tax regulations		According to accounting regulations	
	Depreciation	Tax base	Depreciation	Book value/carrying value
2015	800	1.200	500	1.500
2016	480	720	500	1.000
2017	360	360	500	500
2018	360	0	500	0

Determining the difference between the tax base and book value of revenue received in advance:

**Table 4**

Year	According to tax regulations/tax base	According to accounting regulations/book value	Difference
2015	900	300	600
2016	0	300	300
2017	0	300	300

In this case, there is no permanent difference, but if the permanent difference occurs in practice, the permanent difference must be eliminated.

**Step 2:** There is a difference between tax bases and book values of assets in different years.

This is a taxable temporary difference because the tax base is smaller than the book value.

The difference between the book value and the tax base of assets in 2005 is:  $1.500 - 1.200 = 300$  (million dong).

⇒ Deferred tax liability:  $300 \times 28\% = 84$  (million dong)

There is a difference between the book value and the tax base of the advanced revenue in different years because according to tax regulations, the ABC Company has to pay corporate income tax for the whole amount received in advance of 900 million dong in 2015. According to accounting regulation, the revenue received in advance is recorded in the pro-forma income statement for three years, and each year it will be recorded at only VND 900 million divided by three years ( $900:3 = 300$  million dong/year). This temporary difference is a deductible temporary difference in 2005:  $900 - 300 = 600$  (million dong)

⇒ Deferred tax:  $600 \times 28\% = 168$  (million dong)

- Taxable income of ABC Company in 2015:  $5.000 - 300 + 600 = 5.300$  (million dong)

⇒ Current tax expense:  $5.300 \times 28\% = 1.484$  (million dong)

Thus, the current tax expense is VND 1.484 million, deferred tax is VND 168 million, and deferred tax liability is VND 84 million.

Profit after tax:  $5.000 - 1.484 = 3.816$  (million dong)

**Step 3:** The entry determining the current tax expense:

Dr A/c 8211 – Current tax expense    1.484 million dong  
Cr A/c 3334 – Corporate income tax   1.484 million dong

The entry determining deferred tax liabilities:

Dr A/c 8212 – Deferred tax expense   84 million dong  
Cr A/c 347 – Deferred tax liabilities    84 million dong

The entry determining deferred tax:

Dr A/c 243 – Deferred tax assets            168 million dong  
Cr A/c 8212 – Deferred tax expense    168 million dong

At the end of 2015,

+ Carrying current tax expense to determine result:

Dr A/c 911 – Income summary            1.484 million dong

Cr A/c 8211 – Current tax expense    1.484 million dong  
+ Carrying deferred tax expense:

The total incurring amount on the debit side of A/c 8212 is 84 million dong.

The total incurring amount on the credit side of A/c 8212 is 168 million dong.

The difference between the total incurring amount on the debit side and credit side of A/c 8212 is  $168 - 84 = 84$  million dong.

Dr A/c 8212 – Deferred tax expense	84 million dong
Cr A/c 911 – Income summary	84 million dong

\* *Presenting financial statement:*

- Presenting on the Balance sheet:

+ Dr A/c 243 – Deferred tax assets 168 million dong: the target is at code 262

+ Cr A/c 347 – Deferred tax liabilities 84 million dong: the target is at code 335

- Presenting Pro-forma income statement:

+ Total incurring amount of Dr A/c 8211 – Current tax expense: the target is at code 51 and is recorded in negative number (1.484 million dong).

+ The difference between the total incurring amount on the Dr side and Cr side of A/c TK 8212 – Deferred tax expense: the target is at code 52 and is recorded normally 84 million dong.

- Footnotes to the financial statement: the ABC Company has to present the items of deferred tax assets, deferred tax liabilities, current tax expense, and deferred tax expense.

\* Compare the process of determining corporate income tax according to previous and current regulations:

**Table 5**

Criteria	Previous regulations	Current regulations
<i>1. Work at the beginning of the year: preparing the declaration of corporate income tax and estimating the amount of corporate income tax payable for each quarter of the year.</i>		
+ The accountants record the temporarily paid corporate income tax for each quarter of the year	Dr A/c 4212 – Undistributed profit Cr A/c 3334 – Corporate income tax	Dr A/c 8211 – Income tax expense Cr A/c 3334 – Corporate income tax
+ Afterwards, when paying corporate income tax to the government	Dr A/c 3334 – Corporate income tax Cr A/c 111, 112	Dr A/c 3334 – Corporate income tax Cr A/c 111, 112
<i>2. Work during the year</i>		
- In the quarters of the year, when calculating and paying taxes to the Government	Dr A/c 4212 Cr A/c 3334 Afterwards, when paying corporate income tax to the government: Dr A/c 3334 – Corporate income tax Cr A/c 111, 112	Dr A/c 8211 Cr A/c 3334 Afterwards, when paying corporate income tax to the government: Dr A/c 3334 Cr A/c 111, 112



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