

A Brief Analysis of The Differences Between Accounting Standards and Tax Laws

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Abstract: In the process of management and operation, the tax laws and accounting standards have unique regulations of the same economic activities in different areas. However, there are certain differences between accounting standards and tax laws, which constantly increases the compliance costs. Due to the differences in accounting standards and tax laws, distinctions and contradictions also exists in activities of enterprises. How to view these differences and accomplish the coordination between them has caused heated debate.

Keywords: Tax laws, Accounting standards, Differences.

1. Introduction

1.1. Research Background

Accounting and taxation are two important areas of economy, both of which affect the development of the whole society. The accounting standards and tax laws of various countries have been dynamically changing and adjusting with the development of economy. For China, in the era of the planned economy, the principles of accounting and taxation basically converged, and the differences between accounting standards and tax laws could be ignored. However, with the continuous development of the economy, especially the reform of the accounting system and fiscal and taxation system in the 1990s, accounting standards and tax laws gradually separated, and the differences kept expanding. The promulgation and implementation of the new accounting standards take the relevance and usefulness of accounting information as the main goal, which highlights the independent status of accounting. At the same time, the continuous reform and deepening of the fiscal and taxation system has made the tax system constantly improved, and more attention has been paid to the regulatory role of taxation on national income and national economy. With the establishment and improvement of the socialist market economy, in the process of the continuous improvement of the accounting system and the tax system and their integration with the international standards, there are various problems in the coordination between the accounting standards and the tax laws, which affect the authenticity of accounting information and the seriousness of tax laws to a certain extent. Therefore, how to analyze and study the differences between accounting system and tax laws, and try to reduce or even eliminate the differences between the two, and then promote the sustainable development of economy has important value[1].

1.2. Significance

With the continuous improvement of the socialist market economic system, the regulations of accounting and taxation are constantly optimized. Accounting is the basis of tax revenue, and tax revenue also influence accounting activities. Therefore, in the process of improving the accounting and tax laws systems, studying how to control and coordinate the differences between them will help to further enrich the

theoretical system of socialist market economy, and also has important guiding significance and theoretical support for improving the reform of fiscal and tax systems.

At present, China's new accounting standards emphasis on the independence of accounting to ensure the relevance and usefulness of accounting information result in the fact that accounting standards and tax laws coordination is not enough, resulting in the separation of the two. This kind of problem affects the accounting activities and tax management of enterprises, it is urgent to solve the problems between accounting standards and tax laws. By analyzing the differences between the two, it is helpful for enterprises to prevent accounting risks, reduce accounting costs and tax collection costs as well as improving taxpayers' tax compliance.

1.3. Research Status

For developed countries, in the development of market economy for hundreds of years, the government has gradually solved the problem of differences between accounting and taxation through various macro-control and micro-control according to the political, economic and cultural conditions of the country. With the advancement of the marketization process, the cooperation between the accounting system and the tax laws system is more mature. For developing countries, most of them ensure fiscal revenue through taxation and other means. When formulating accounting standards and tax laws, various departments communicate with each other to form relevant laws and regulations after reaching consensus. Generally speaking, there is no big difference between accounting system and tax laws, so there are few studies on coordination between accounting system and tax laws in the world. More emphasis is placed on the study of identification of tax and accounting models and their influencing factors. Internationally, the reasons affecting the tax and accounting model is mainly divided into economic environment, cultural environment and legal system constraints.

With the reform of China's accounting system and tax system in the 1990s, accounting system and tax laws began to be separated. At this time, the domestic discussion on whether tax and accounting should be separated has gradually emerged. Since entering the 21st century, with the rapid economic development and economic globalization, China's tax and accounting systems have been adjusted for many

times. Researchers also hold different opinions on whether accounting system and tax laws should be separated. Some scholars believe that the accounting system and the tax laws should be separated, while others believe that the separation of the accounting system and the tax laws is relative, and we should not blindly pursue the independence of the two, but should be as consistent as possible, neither completely unified nor absolutely separated. On this basis, how to coordinate the differences between the accounting system and the tax laws has also draw a lot attention. Some scholars advocate that the cooperation between the tax department and the accounting department should be strengthened. When formulating laws and regulations, the requirements of both sides should be comprehensively considered and the implementation of both should be combined to revise the incompatibility between the tax system and the accounting system and the actual situation. At the same time, some scholars point out that there is no coordination model in the world that can be directly applied, so we should think about the situation of our country in dealing with the differences between the accounting system and the tax laws.

1.4. Content

The first part of this paper is the background and research significance, and then this paper briefly explains the current research status, and on this basis, further proposed the research content of this paper.

Secondly, this paper analyzes the difference between accounting system and tax laws. The accounting system and the tax laws differ in the recognition and measurement of economic events in many aspects, such as objectives and principles, resulting in differences in the recognition, measurement, recording and reporting of accounting elements such as assets and income. On this basis, it analyzes the differences in objectives, basic principles, basic premises, recognition and measurement between accounting standards and tax laws.

Thirdly, this paper points out that although the differences between accounting system and tax laws will affect economic development to some extent, the differences can be coordinated. Therefore, we should take various measures to coordinate the differences between the two and seek coordination with tax laws in the process of applying accounting system and in the implementation of the tax laws to seek coordination with the accounting system, so as to reduce the differences between the two.

2. The Differences of Objectives and Principles Between Accounting Standards and Tax Laws

2.1. The differences of objectives between accounting standards and tax laws

From the perspective of enterprise operation, it can be found that accounting is a more complex problem of measuring benefits to some extent. Or to be specific, accounting problem is a more complex profit distribution problem, and this profit distribution way influences all kinds of subjects who have interests with enterprises. Accounting objectives generally refer to the accounting results that people expect to get through management activities. Therefore, in order to ensure the accuracy of measurement and distribution and make economic activities of various enterprises,

industries and capital markets proceed smoothly, accounting activities should be used to standardize and restrict enterprises.

The objectives of tax activities is to gain revenue, and eventually to raise fiscal revenue compulsively. Therefore, the objectives of accounting standards and tax laws are different, and differences are inevitable. Accounting standards requires factual accounting. The objectives of tax laws is to prevent underpayment of taxes. If the tax laws does not clearly stipulate and restrict the scope of income, expense and asset disposal of all enterprises, but simply measure these factors according to accounting standards, tax evasion will occur. Accounting standards regulate the objectives of accounting behavior. Tax laws regulate all the tax payment behaviors. Therefore, a certain degree of difference between the two is inevitable.

2.2. The differences of principles between accounting standards and tax laws

(1) Historical Cost Principle

The tax laws has long upheld and affirmed the historical cost principle. Except in the case of asset impairment, the book value shall not be adjusted without authorization. However, the accounting standards does not recognize this principle.

The tax laws regulates legal behaviors which means evidence is the preferred element. Although historical cost cannot objectively reflect asset value in all cases, this principle of measurement facilitates the tax authorities' determination of tax revenue. Other measurement attributes, on the contrary, rely on judgment and professional knowledge, and the frequency of change is fast, so these principles can not be well adapted to the needs of tax management.

(2) Accrual Basis principle

The basis of accounting is accrual basis principle. However, the tax laws does not fully adopt the accrual basis. According to the relevant explanation, any income or expenses incurred in the current period, whether collected or paid, are regarded as the current period, and those that do not belong to the current period cannot be accounted for. In other words, it emphasizes the cause and time matching of income and expenses.

Most tax laws adopt the "modified" accrual basis. However, due to the differences in policies in different periods, special emphasis is placed on the accuracy of time period. In order to facilitate management, "exceptions" are set up, which may be contradictory with the accrual Basis principle system. For example: VAT input tax must be certified and deducted at the specified time, otherwise, it can not deducted [2].

(3) Correlation principle

Accounting standards correlation is for accounting information and are reflected in meeting the daily accounting demands. The tax laws emphasizes taxation, the principle of strict correlation is not observed, for example: substituted money on VAT is calculated and recognized according to sales amount, but VAT input tax's recognition is based on the tax of invoices, the formally condition exceeds the substantive content.

(4) Objectivity principle

Objectivity requires accounting activities to be based on real transactions. The objectivity of tax laws stipulates the basis for tax calculation and be affected by special policies. For example, research and development expenses that meet the requirements can be deducted by 50%; Although the actual expenditure generated by the donation activities of the

donor enterprise is required to be truly reflected in the accounting, the cost generated by the donation of the enterprise needs to be clearly distinguished at the time of tax payment, and it is subject to the regulation of proportion. In general, the principle of objectivity has not been fully and clearly implemented in all relevant provisions of our tax laws.

(5) Substance over form Principle

Accounting activities should generally not only be in accordance with national laws and regulations of the form, or should fully consider the real economic activities of the actual situation of operation. For example, in the production and management activities, the source of assets has the characteristics of diversification among which there is a special way to obtain assets, that is, financial leasing, which has been widely used by most enterprises. However, this method also has its own special features. Since the ownership of the asset is still in the hand of the leasing enterprise, from the perspective of relevant laws and regulations on the ownership of the asset, the enterprise can control the interest of the asset from the perspective of long-term economic benefits, so in the accounting activities, the measurement of the financing leased assets and the measurement of its own leased assets are calculated equally.

Principles are also implemented in the specific provisions, especially some of the western developed countries are implementing tax regulations that violate the provisions of tax avoidance policies and Chinese enterprises restructuring and other special tax regulations. However, be subjected to legal constraints, all principles must be restricted by clear provisions in the tax laws, so as to define the economic essence and avoid policy abuse. However, as far as the current reality is concerned, the current national tax laws system still has a great distance compared with the fully implementation of the requirements of the principle of substance over form, the main reason is reflected in the existence of many tax laws provisions that over-emphasize the specific formal application conditions, and the existence of these provisions is actually opposite to the spirit of many laws makers and makes some loopholes for taxpayers to avoid tax[3].

3. The Differences of Premises Between Accounting Standards and Tax Laws

3.1. The differences of basic premise between accounting standards and tax laws

(1) Accounting entity

Specific accounting entities are reflected by accounting information. This premise regulates the spatial scope of accounting activities. Therefore, in the real market, it is the legal subject or the economic subject.

The subject of tax payment is the legal subject generally, except for special occasions. At the same time, due to some reasons in China's enterprise registration system, it has not fully defined the tax payment subject based on the concept of legal subject. In the market economy, both parent and subsidiary companies have the conditions and qualifications to become accounting subjects, and the whole enterprise group including both parent and subsidiary companies can also be considered as an accounting subject to reflect the operation of the whole group. However, in the provisions of tax laws, the parent company and subsidiary company are independent taxpayers.

(2) The accounting period

The accounting period will divide the ongoing business

activities of the enterprise by a fixed period. Due to the different purposes of accounting standards and tax laws, the recognition time and scope of various elements are also different. In the daily accounting management work, the accounting activities should be carried out timely according to the accounting period which both internal and external audit bear the responsibility of fixed time audit. According to the requirements of the tax laws, it is only necessary to ensure that the taxpayer truthfully pays the declared tax within the fixed period stipulated in the accounting provisions, and the supervision and examination of audit work is mainly undertaken by tax authorities.

3.2. The difference of other premises between accounting standards and tax laws accounting

There are differences in premise between the two. If the subject is different, the tax laws allows the merger of tax, for example, the subject can be a group company. In general, the accounting entity can be a group, and the subsidiaries of the parent company can also be qualified and capable to become independent accounting entities.

4. The Differences of Recognition and Measurement Between Accounting Standards and Tax Laws

4.1. The differences in Measurement basis

The accounting measurement of all companies at any stage needs to follow the accrual basis. In contrast, the tax laws does not have such specificity. Compared with the accounting standards that use the accrual basis entirely in accounting activities, the tax laws requires that the accrual basis be fully followed in most of tax payment cases, and this requirement is to unify the tax caliber and reduce the tax collection cost to the greatest extent. But it should not be ignored that the tax laws will violate the accrual basis under certain occasions.

4.2. The differences in Measurement attribute

Accounting standards provides five types of measurement attributes: historical cost, replacement cost, fair value, net realizable value and present value. In the current system, relevant local financial departments and other tax service departments will continue to re-formulate preferential tax and accounting policies with the current situation of China's national economic and social reform and development. The moderate separation of finance and taxation is being implemented to help enterprises and public institutions comply with the requirements of accounting standards, but in tax declaration, tax laws are also taken into account[4].

4.3. The differences in revenue recognition scope

This refer to differences in revenue recognition caliber. Accounting income refers to the inflow of total economic benefits. Tax revenue refers to the sum of all kinds of income. It is worth noting that a portion of the income included in the gross income in tax laws is called deemed sales income. For this portion of revenue, the accounting write-off costs or capital reserves. Similarly, interest income from maturing Treasury bonds is incorporated into the system by the national accounting standards for accounting and is not recognized in the tax laws. It can be concluded that the defining range of tax

laws is greater than accounting in the explicit identification of the income range. Similarly, there are differences in methods and approaches to confirmation.

4.4. The differences in the scope and standard of expense deduction

Accounting standards clearly require that expenses measurement should be recognized and accounted for strictly based on the actual deduction. The tax laws adopts standard deduction, which will adjust the accounting recognition to a certain extent. The actual expenses are not allowed to deduct according to the tax laws, for example, fines, late fees, etc., are deducted from profits as non-operating income, but may not be deducted before tax.

5. Suggestions on the Coordination of Accounting Standards and Tax Laws

At present, there are three main views on the debate about accounting standards should be coordinated with tax laws, tax laws should be coordinated with accounting standards and mutual adaptation.

First of all, some scholars believe that, affected by the nature of taxation, the authority and compulsion of the tax laws is higher than that of accounting standards, so the provisions of the tax laws are rigid. When conflicts arise, taxpayers are bound to make adjustments. Therefore, accounting standards should fully consider the content of tax laws to keep tax laws strong and accounting standards weak.

Secondly, some theories propose that the tax calculation basis of enterprises is the current accounting standards, and the difference between the two will only affect tax revenue and tax payment. Therefore, the tax laws should be properly coordinated with accounting standards on the basis of maintaining its principle.

The third view is that the above views all have reasonable points, but should not be one-sided, but should be determined by multi-departmental consultations, under what circumstance should the company take more consideration of tax laws and under what circumstance should take more consideration of accounting standards, rather than split development.

Therefore, accounting standards and tax laws should be interactive and coordinated, and the two should establish a systematic coordination mechanism, not only to strive for the normal development of enterprise in the short term, but also to form a long-term mechanism to promote the moderate harmony between the tax laws and accounting standards. Under the current system, the differences between accounting standards and tax laws is inevitable, we should promote the organic integration of the two, and deal with the differences between accounting income and taxable income. Further strengthen the practical application of tax laws and accounting standards. The two methods can be combined, the company can use accounting methods to calculate tax but should combine the measurement with tax laws to fine-tuning.

We need to realize that in order to achieve the harmonious state of accounting standards and tax laws, different social subjects need to undertake different tasks and face different requirements. First of all, for relevant departments, administrative means are powerful and efficient, and the current accounting standards and tax laws system are also formulated and implemented by relevant departments, which leads to the existence and expansion of tax and accounting

differences. Therefore, research should be strengthened to achieve the purpose of coordination, rather than to meet the needs of a certain aspect of accounting standards or tax laws. Due to the rapid development of the current reform and update of the accounting system, the tax laws system should minimize the existing differences on the basis of maintaining the tax principle, during which it is inevitable to discuss and revise in many aspects. Similarly, the accounting system can not remain unchanged. On the premise of ensuring the basic principles, it should be consistent with the tax regulations that enterprises and institutions need to follow as far as possible, and finally, with the joint efforts of the two, the major differences caused by the two should be eliminated to the greatest extent. Therefore, the makers of the two sides need to strengthen communication and cooperation on the existing basis, and prudently revise and analyze the tax system, so as to achieve long-term coordination between the two sides and ensure the legalization and authority of these systems themselves[5].

For other entities, they can also contribute their different roles in this respect. For researchers, not all of them can participate in the formulation of actual regulations. For researchers with strong theory knowledge but no opportunity to participate in the formulation of actual regulations, they should conduct in-depth theoretical research on accounting standards and tax laws. They should not only master their respective goals, principles and methods, but also understand the purpose and possibility of coordination between the two. The existing principles and feasible implementation methods are studied to effectively promote the development of tax and accounting theory and contribute their strength to better realize the goal of coordination.

For enterprises, the first bottom line that needs to be preserved is to comply with the requirements of the tax laws and accounting standards to carry out daily business activities. Secondly, in order to better and more complete reflect the differences, the relevant detailed accounts and audit accounts should be established. The financial statements provided by enterprises mainly reflect accounting information, and the tax differences is often not reflected in the book, so it should be standardized record and timely disclosure. At the same time, for large enterprises with broad domestic and foreign markets, they can learn from other countries' coordination methods, on the one hand, they can realize the optimal treatment of their own business, and on the other hand, promote the improvement of China's coordination system through this way. For small and medium-sized enterprises with small power, they are more affected by tax, and their information users are mostly relevant departments, and some individual enterprises do not have professional accounting books and accounting personnel, so tax avoidance has become a problem that needs to be paid more attention. Therefore, compared with accounting, the characteristics of small enterprises determine that tax laws should be paid more consideration, so in accordance with the provisions of the tax laws, small enterprises can carry out accounting activities in accordance with the provisions of the tax laws to achieve the coordination of the two.

We need to realize that the new accounting standards improve enterprises' tax planning and provide enterprises with a variety of accounting policy choices. In the process of tax planning, enterprises can fully consider the impact of accounting policies and choose the right strategy to increase their own efficiency. At the same time, with the progress of

the development of the two, the differences between them have become more and more obvious, and the influence has gradually increased, which puts forward new requirements for financial personnel. Traditionally, the requirement for accounting staff is to have the knowledge of related fields, but in the new situation, not only basic accounting and tax knowledge as well as understanding ability are required, but staff are supposed to understand the differences between accounting standards and tax laws, and on the basis of fully understanding the differences, they can reasonably deal with the problems and consequences of the differences. All in all, financial personnel need to have higher quality and knowledge ability, in order to better carry out financial work under different occasions.

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