



THE ROLE OF THE CHIEF FINANCIAL OFFICER IN EXPLAINING THE DIFFERENCE BETWEEN THE APPLICATION OF ACCOUNTING STANDARD12 AND THE IRAQI LAW OF AL-ZARIFI TO ACHIEVE JUSTICE

1-Aizdihar Jasim Muhamad

Babylon University, Faculty of Management and Economics, Department of Accounting, Iraq

bus.ezdehar.jasim@uobabylon.edu.iq

2-Aqdas Hussain AL-Naser

Babylon University, Faculty of Management and Economics, Department of Accounting, Iraq

Zahraz.zz573@gmail.com

3- Hawraa Falyiyh Hasan

AL-Mustaqbal University College, Iraq

Hawraa.falyiyh@mustaqbal-college.edu.iq

Article history:

Received: 3rd May 2022
Accepted: 3rd June 2022
Published: 10th July 2022

Abstract:

The research aims to clarify the importance of adopting IAS (12) "income taxes" as a tool for measuring and disclosing income taxes in financial statements by comparing the calculation of income tax according to the standard in question and the calculation of tax according to Iraqi accounting rule No. 13.

1. The problem of research focused on the discrepancy between the estimate of income tax in Iraq according to accounting standards and financial reporting and the estimate of income tax in accordance with tax laws and legislation, and this discrepancy led to differences between accounting profit and tax profit (temporary differences and permanent differences) and these differences, including those that affect the estimate of the tax in subsequent years, which are temporary differences, but the permanent differences, their effect is limited to the year of their emergence without having deferred tax consequences, The researcher concluded that the adoption of the standard under research achieves tax justice by interviewing the revenues for each year with the expenses of the same year to ensure the independence of the financial years, and the researcher in his study relied on the following hypotheses: -

2. The problem of research focused on the discrepancy between the estimate of income tax in Iraq according to accounting standards and financial reporting and the estimate of income tax in accordance with tax laws and legislation, and this discrepancy led to differences between accounting profit and tax profit (temporary differences and permanent differences) and these differences, including those that affect the estimate of the tax in subsequent years, which are temporary differences, but the permanent differences, their effect is limited to the year of their emergence without having deferred tax consequences, The researcher concluded that the adoption of the standard under research achieves tax justice by interviewing the revenues for each year with the expenses of the same year to ensure the independence of the financial years, and the researcher in his study relied on the following hypotheses: -

Disclosure in accordance with IAS (12) affects the income tax estimate. IAS (12) achieves fair tax disclosure in financial statements. The adoption of the loan international accountant No. (12) achieves the fairness of tax accounting.

The practical study showed ongoing tax obligations resulting from permanent differences, as well as deferred tax obligations resulting from temporary differences, and recommended the need to amend the Iraqi tax



law and make it conform to the requirements of international and local standards, as well as recommended the need to develop the accounting base No. 13 and bring it in line with international standards in terms of measurement and disclosure.

Keywords:

FIRST RESEARCH

Research methodology

Introduction

Since the tax is a key pillar in the financing of public expenditures, it is subject to its own legislation and laws, and these laws vary from country to country according to the economic, political and social nature of the state, and this difference in laws has led to a lack of compatibility between accounting regulations and tax laws, which has led to differences between calculating net accounting profit and net tax profit, Therefore, a special standard for measuring and disclosing tax income was required, and the agreement between the laws in force in each country and the accounting regulations was achieved, as IAS 12 "income taxes" were issued for the purpose of facilitating the tax accounting process, under which the amount of tax is measured and then disclosed in the financial statements. In Iraq, the process of tax accounting for companies is carried out in accordance with local accounting rules, if the Financial Supervisory Office issues several accounting rules, including accounting rule No. (13) on the tax accounting process, but the researcher and through the study noted that this rule does not rise to the level of international standard No. (12) by not including all disclosures contained in it...

First: Search problem

The problem of research is the differences that arise as a result of calculating accounting profit in accordance with accounting and financial reporting standards and between calculating tax profit in accordance with Iraqi tax law and as a result of this difference we can formulate the following questions:

1. Do Iraq's income tax laws and legislation fit international accounting standards?
2. Does the recognition of permanent and temporary differences affect the calculation and estimate of tax.
3. Does the adoption of IAS (12) bring fairness to tax disclosure by recognizing deferred taxes on financial lists?
4. Is the adoption of the international standard (12) fair in tax accountability?

Second: The importance of research

After 2004, Iraq witnessed a major development in the economic sector as a result of opening up to the world, which led to an increase in the number of Iraqi joint stock companies and the entry of foreign companies invested in Iraq, which requires Iraq to

keep up with these developments by amending tax laws and adopting new foundations in measurement and accounting disclosure commensurate with developments, so the importance of research comes from the need to adopt international standards in the disclosure of accounting data in general financial lists and the adoption of the accounting standard (12) in determining the amount of income tax due in particular.

Third: Search objectives

The research seeks to achieve the following objectives:

1. Make a comparison between calculating the tax according to the international standard (12) and the accounting rule (13).
2. Find out the impact of deferred taxes (tax assets and obligations) on tax revenues by recognizing temporary differences.
3. Find out how to disclose deferred taxes within the terms of the income and financial position lists.

Fourth: The research hypothesis

Based on the problem posed by the study, the following hypotheses were formulated:

The first hypothesis:

Disclosure in accordance with international standard (12) affects the estimate of income tax by recognizing the persistent and temporary differences in the income and financial position lists.

The second hypothesis.:

The adoption of the International Accounting Standard (12) brings fairness to tax disclosure by disclosing tax obligations on the income and financial position lists.

Second research

Practical application of the standard to the financial statements of a private bank

The current research aims to identify how to address the permanent differences in the income list and to show the extent to which they affect the estimate of a tax, as well as to learn how to calculate the deferred tax resulting from temporary differences, as well as the disclosure of deferred tax in the income and financial center lists, so this research will address the data of a bank from the private banks of **the Iraqi Investment Bank** and as follows:

Bank statements for the fiscal year ended 31 December 2019



Temporary and permanent tax differences

A. Permanent tax differentials :

1. Unacceptable expenses for tax purposes: -
 The guessing note below showed that (8) a tax amount of (2,149,344,838) dinars, while the disclosure of the adjustment of profits for income tax purposes attached to the bank's annual report attached to the list of supplements showed a tax amount of (1,760,412,000) dinars.

Guess Note (replica)

Branch Name: Companies			
Guess number: 16.		Year: 2019 Estimated	
The name of the taxpayer: Iraqi Investment Bank			
Occupation and source of income:			
The number of the evidence: no		Grade type: Reserve	
Quotes			
Amount in dinars	Type of work	The name of the circle.	Book Number and Date
23,827,059,000	Revenue by records		
11,736,082,000	Surplus under settlement disclosure		
14,328,965,587	Surplus after addition of expenses rejected by the reservoir		
Calculating taxable income			
14,328,965,587	Income tax surplus		
15%	Tax rate		
2,149,344,838	Income tax due		
Income amount (JD)	Allow (JD)	Net income (JD)	Tax amount (JD)
14,328,965,587			2,149,344,838
Department approvals			Informing the person

			in charge or his agent
<u>Mr. Department Manager</u>			Name: Authorized Director Signature: Location History: No
Please see and approve the reserve estimate under the excess adjustment statement plus the tax-rejected expenses shown at the back of the note until the completion of the study of the financial statements	Reservoir/ Location	History / None	

After examining and investigating the difference between the amount of tax estimated by the tax examiner under the guesswork note and the amount of tax estimated by the auditor under the settlement statement, it was found that the tax examiner rejected a set of expenses by (2,592,883,587)*JD in addition to the expenses rejected under the settlement statement, and after inquiring the reservoir about why he refused these expenses he replied that these rejected expenses are contrary to the provisions of the Tax Act For income no. (113) for 1982, the fact that some of them are not enhanced by the fundamentalist accesses that support the exchange process if the provision of the law in the general conditions paragraph for the download of expenses on ((maintenance must be confirmed and enhanced by fundamentalist access for the purpose of downloading it), and others are not allowed to download it in accordance with the law referred to above, and has been included in the expenses as an attempt to evade by reducing the amount of tax, He also inquired from the reservoir about how the new tax amount was calculated, and replied that he had calculated the amount of taxable profit shown in the settlement statement by (11,736,082,000) dinars, added to it the expenses rejected by him and extracted a new surplus on the basis of which the tax amount was calculated at the rate of 15% specified under the Above-mentioned Iraqi Income Tax Act, and table (3) below shows how the tax is calculated by the reservoir.

Table (3) Analysis of the guess note reveals how the tax is calculated by the guessworker

to	Amount / Iraqi dinar	Statement
1	23,827,059,000	Revenue by records
2	11,736,082,000	Surplus under profit and loss adjustment statement for income tax purposes



3	2,592,883,587	Tax-rejected expenses are added by the reservoir
4	14,328,965,587	New surplus after addition of rejected expenses (total field 2+3)
	2,149,344,838	Income tax at 15%

Table prepared by the researcher based on the guesswork note and revealed the adjustment of profits for tax purposes

*A statement has been prepared with rejected banks The tax store, and it's been included in the list of supplements.

2. Income tax-free income:- The profit and loss adjustment statement for income tax purposes attached to the list of supplements showed income tax-free income income shown in table (4) below: -

Table (4) Tax unacceptable income disclosure

Amount / Iraqi dinar	Statement	Corresponding income item in the income list
152,940,000	Rent fixed assets	Manufacturing and other revenues
64,819,000	Capital losses	Transformational and other expenses
217,759,000	Total	

Table prepared by the researcher based on the disclosure of the adjustment of profits for income tax purposes

The rental clause of the fixed assets above represents the rent of a property belonging to the bank, which is exempt from income tax under the income tax law referred to earlier, as it is subject to the Property Tax Act, so this amount is a difference. Permanent tax, if it affects income in the year of its stars during 2019 and does not reflect its effects at subsequent accounting periods, while the item of capital losses added to the surplus within the rejected expenses as it is an allowance and not income and it also represents permanent differences if capital losses can not be downloaded Based on the provisions of the Income Tax Act No. (113) of 1982.

In order to show how the tax is calculated by the reservoir, the researcher has issued a new settlement disclosure numbers as in table 5, which includes expenses rejected under the previous disclosure and expenses rejected under the guessing note and then extracted the amount of tax according to the rate

established under Article 13 of the Income Tax Act by 15%.

Table (5)
Disclosure of income tax adjustment (adjusted) for the fiscal year ended 31 December 2018

Total/Iraqi dinar	Sub/Iraqi dinar	Statement
11,678,862,000		Profits under profit and loss account
		Added: Unacceptable expenses for tax purposes
	272,018,000	Compensation and fines
	2,961,000	Write-off debts
	17,859,000	Supplies and tasks
	14,872,500	Stationery
	217,200,000	Other deferred revenue expenses
	119,151,500	Maintenance services
	9,969,000	Advertising
	18,867,500	Publish and print
	11,920,000	Research and consulting services
	46,089,000	Hospitality
	6,400,000	Conferences and seminars
	286,000	Relocation
	81,134,000	Travel and dispatch
	40,505,000	Public communications
	1,173,058,488	Contributions
	39,892,000	Insurance premiums
	349,472,000	Bonus for non-workers
	107,875,000	Other service expenses
	23,069,000	Foreign currency valuation differences
	250,444,599	Taxes and fees
	64,819,000	Capital losses
2,867,862,		Total tax-rejected expenses



587		
		Subtracted from it: Income not subject to income tax
	152,940,000	Rent fixed assets
	64,819,000	Capital losses
217,759,000		
14,328,965,587		Taxable income
2,149,344,838		Tax amount at 15%

Table prepared by the researcher based on the settlement statement and the guessing note

We note from the previous disclosure that taxable income corresponds to the surplus after the addition of the expenses rejected by the guessworker shown in the guessing note as well as the amount of tax shown in the disclosure identical to the amount of tax shown in the guessing note.

In order to show how the permanent differences affect income tax, the researcher, relying on the statements of profit and loss and distribution attached with the bank's lists, prepared the profit and loss statement and distribution according to the Iraqi accounting rule No. 13 after adjusting the amount of tax by the tax store as in table (6), and then comparing it with the amount of tax shown in the disclosure of the distribution of profits, losses and distribution prepared according to the International Accounting Standard (12) for the year ended 31/12/2018

Table (6)

Profit, loss and distribution disclosure for the year ended 31 December 2018 And the equipment according to the Iraqi accounting rule no. (13))

Statement	2019	2018
Current activity revenue	Iraqi dinar	Iraqi dinar
Banking income	23,531,457,000	19,603,572,000
Investment income	111,265,000	1,559,474,000
Total	23,642,722,000	21,163,046,000
Current activity expenses are down		
Banking expenses	4,278,436,000	3,017,824,000
Extinction and extinguishment	988,649,000	899,249,000
Administrative expenses	6,143,457,000	5,315,170,000
Total	11,410,542,000	9,232,243,000
Surplus operations under way Phase 1	12,232,180,000	11,930,803,000
Manufacturing and other revenues are added	184,337,000	35,480,000
Transfer and other expenses are lowered		
Manufacturing expenses	737,655,000	1,499,568
Other expenses	0	0
	737,655,000	1,499,568
Surplus operations under way Phase II (distributable surplus)	11,678,862,000	10,466,715,000
Distributed as follows		
Income tax allowance 15%	2,149,344,838	1,564,707,000
Legal reserve	495,922,000	445,041,000
Unstriated profits	9,033,595,162	8,456,967,000
	11,678,862,000	10,466,715,000

Table prepared by the researcher based on profit and loss disclosure, distribution and guessing note

According to the researcher, the disclosure of profits, losses and distribution above does not give a clear



picture of how to extract the amount of tax because the amount of tax shown in the income list by (2,149,344,838) dinars was calculated under the profit and loss adjustment statement for the purpose of income tax adjusted by the tax collector after adding unacceptable tax expenses to him as a result of violating the income tax law as mentioned earlier and not on the basis of the distributable surplus shown in the income list, This means that the effect of these permanent tax differentials, which will result if the income list is prepared according to IAS No. 12, has been excluded by a difference of (2,650,103,587) dinars, which is calculated as in table (7) below: -Table (7)

Disclosure showing the difference between tax-free and tax-unacceptable revenues

Amount / Iraqi dinar	Statement
274,979,000	Tax-rejected expenses under the settlement statement
2,592,883,587	Tax-rejected expenses under the guesswork note
(217,759,000)	Income tax-free income
2,650,103,587	Net permanent differences

Table prepared by the researcher based on the profit and loss adjustment statement and the guessing note

The above difference between tax-unacceptable expenses and tax-free income is an amount added to the tax base, Thus, it increases the amount of tax and if we multiply it by the tax rate of (15%) it will result in ongoing tax obligations of (397,515,538) dinars, if these obligations represent an additional tax resulting from net permanent differences added to the tax calculated under the distributable surplus shown in the disclosure of profits, losses and distribution prepared according to international standard No. (12) without being reflected its impact on subsequent years.

Table 8 shows us the impact of the application of International Standard No. (12) on income tax estimates by recognizing the permanent differences in profit, loss and distribution disclosure, if this recognition will result in the emergence of ongoing tax obligations in the disclosure of profits, losses and distribution as follows:

Table (8) Profit, loss and distribution disclosure for the year ended 31 December 2018
The equipment is in accordance with IAS No. 12.)

Statement	2019	2018
Current activity revenue	Iraqi dinar	Iraqi dinar
Banking income	23,531,457,000	19,603,572,000
Investment income	111,265,000	1,559,474,000
Total	23,642,722,000	21,163,046,000
Current activity expenses are down		
Banking expenses	4,278,436,000	3,017,824,000
Extinction and extinguishment	988,649,000	899,249,000
Administrative expenses	6,143,457,000	5,315,170,000
Total	11,410,542,000	9,232,243,000
Surplus operations under way Phase 1	12,232,180,000	11,930,803,000
Manufacturing and other revenues are added	184,337,000	35,480,000
Transfer and other expenses are lowered		
Manufacturing expenses	737,655,000	1,499,568
Surplus operations under way Phase II (distributable surplus)	11,678,862,000	10,466,715,000
Distributed as follows		
Income tax allowance 15%	1,751,829,300	1,564,707,000
Ongoing tax obligations	397,515,538	
Income tax due (Tax allowance + ongoing obligations)	2,149,344,838	
Legal reserve	495,922,000	445,041,000
Unstriated profits	9,033,595,162	8,456,967,000
	11,678,862,000	10,466,715,000



Table prepared by the researcher based on the profit and loss statement and attached to the list of supplements

The difference referred to in table 8 (current tax obligations) confirms that disclosure in accordance with IAS (12) "income taxes" affects the estimate of income tax and achieves fair disclosure in the income list, which means accepting the two the assumptions of the study.

The Iraqi tax law does not comply with the requirements of international standard No. 12 and accounting rule No. 13, so it is necessary to amend the tax law in accordance with the requirements of international and domestic standards.

CONCLUSIONS

1. Incompatibility between Iraqi Tax Law No. (113) of 1982 with the requirements of international and domestic standards by not adopting clear grounds (merit basis or monetary basis) in how to deal with the revenues generated by the taxpayers, whether due or received in advance.

2. The incompatibility of Iraqi tax law with the requirements of domestic and international standards has led to: - a - failure to take into account what is stated in the accounting rule (13) "income taxes" with regard to the recognition of temporary differences (deferred tax assets and obligations). (b) Failure to take into account the accounting rule (10) "disclosure of the financial statements of banks and similar financial institutions" in relation to the disclosure of deferred taxes as stated in annex (1) of the rule above (disclosures relating to financial statements and accounting policies in their preparation)

RECOMMENDATIONS

According to the conclusions reached, a number of recommendations can be made that can be used for the purpose of applying international standard 12 in the tax accounting process as follows:

1-The tax law is the basis for the imposition, collection and collection of tax, so the researcher believes that the Iraqi tax law No. (113) of 1982 should be amended and made to comply with the requirements of international and local standards, in order to ensure the integrity of the application.

2- After amending the tax law, it is necessary to coordinate with the Central Bank of Iraq in order to oblige banks registered on the Iraqi Stock Exchange and other activities, to disclose

requirements in accordance with the 12th International Standard of Income Taxes, in order to meet the requirements for disclosure of statements in financial statements, in accordance with the principle of fair offer.

3-The researcher also considers that after amending the tax law, the 12th international standard should be adopted as a framework for accounting for income taxes for other sectors, as it is appropriate for the purposes of fair presentation of income data and financial position, so that the differences that arise between tax profit and accounting profit are recognized in order to achieve the principle of independence of financial years and the principle of meeting revenues with expenses..

SOURCES

1. ▶ Laws, resolutions and official documents
2. Iraq Accounting and Supervisory Standards Board, Accounting Rule No. (13), 2012
3. . 2. International Accounting Standards Board (2006).
4. Ministry of Justice, Income Tax Act No. 113 of 1982 amended.
5. Instructions No. (4) for 2018 to facilitate the implementation of the Banking Act No. (94) of 2004