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## **Conciliación de impuestos a las ganancias. Un estudio bajo la normativa fiscal y normativa contable**

### **Reconciliation of income taxes. A study under tax regulations and accounting regulations**

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## **ABSTRACT**

In Ecuador, the application of International Financial Reporting Standards (IFRS) arises from the globalization of the economy. This process has generated some differences between tax and accounting matters, thus creating deferred taxes. In consequence, this

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investigation proposes to design a guide for the reconciliation of income tax, as well as the accounting and tax treatment of deferred taxes, from inception to the liquidation or recovery as a mechanism to adjust temporary differences in the APC Technology company. This study had a quantitative approach with a descriptive scope, the instruments were based on the survey and the documentary review, using the analytical method of the financial statements. Among the main results, it was determined that the company under study has not made a full application of the IFRS for SMEs.

**Descriptores:** Taxation; business management; private enterprises; profits. (Words taken from the UNESCO Thesaurus).

## **INTRODUCTION**

Throughout the years, accounting sciences have influenced global economic activities, developing a history that has led to the collaborative creation of international standards applied with certain differences to great powers and to developing countries. In this sense, the International Financial Reporting Standards (IFRS), born in 2001, aim to make the accounting information of companies transparent (Chávez-Pullas & Herrera-Estrella, 2018).

In Ecuador, IFRS were introduced in 2008, according to resolution of the Superintendency of Companies, Securities and Insurance (SUPERCIAS) 08.G.DSC.010 of 2008.11.20, R.O. No. 498. Its establishment made it necessary to modify the presentation of financial information since its implementation promoted foreign investment and made it possible for national companies to be at the level of their international peers.

Ecuadorian companies began the path of transition from the Ecuadorian Accounting Standards (NEC) to IFRS, adapting their accounts and training staff to comply with the provisions of the control body (SUPERCIAS) and issuing financial information in accordance with the current accounting regulations. From this transition divergences arise between accounting and tax regulations. The biggest drawback is originated at the time of liquidating the income tax, that is, when making the annual income tax.

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Given the above, the objective of this article is to design an accounting guide for the tax reconciliation of income tax in the APC Technology company as a mechanism for adjusting the temporary differences.

APC Tecnología is a family company established in 2007 in the city of Cuenca - Ecuador, dedicated to the wholesale and retail sale of computer equipment, parts, pieces, peripheral modules and maintenance of technological equipment. Nowadays, its growth has been considerable, since it has three commercial premises in the city of Cuenca and one in the city of Machala, so it is necessary to regularize the temporary differences.

## **METHOD**

This research was non-experimental. The approach was descriptive, the instruments used were the survey and the documentary file, through which the financial information provided by the company was analyzed. This analysis determined the accounting and tax basis applied in the preparation of the reconciliation of the income tax and the accounting treatment of deferred taxes (Calle-Calle, Narváez-Zurita & Erazo-Álvarez, 2019).

## **RESULTS**

The following results were determined:

**IFRS application:** The company has complied with the provisions of the control body (SUPERCIAS), applying IFRS in the preparation of its financial statements.

**Accounting policies:** They serve as a guide for the preparation of financial statements. The company does not have established accounting policies and accounting records were made according to the criteria of the accountant.

**Preparation of financial statements:** The financial statements are the responsibility of the accountant; these have been prepared under the accounting regulations (IFRS) and current tax regulations.

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**Divergence between accounting and tax policy:** When there is opposition between accounting and tax regulations, the company applies the accounting regulations.

**Reconciliation of income tax:** At the end of the fiscal year, discrepancies are established between the accounting and tax base due to the appearance of temporary differences, whether taxable or deductible. For this situation, adjustments are made to the financial statements, arising taxes deferred. The company has made these adjustments appropriately.

**Treatment of deferred taxes:** Deferred taxes arise when assets and liabilities are recognized throughout the accounting year and are evidenced in the tax reconciliation. In this case, the deferred taxes in the company are recorded in the accounting and then adjusted to the tax regulations. The company applies deferred taxes since 2017 due to the requirement of an external audit.

**Contribution of deferred taxes:** Deferred taxes in company accounting provide real and reliable financial information for internal and external users. The deferred taxes are extensive and complex, however, by compulsion they have been applied as far as possible.

## **PROPOSAL**

According to the results obtained in the investigation, the difficulty of identifying the differences between the accounting and tax regulations was determined, for which a guide is proposed to settle the income tax at the end of the financial year.

The proposed guide includes five phases for the tax reconciliation of income tax, under tax regulations and accounting regulations.

### **Phase 1: Accounting basis**

The company records the different daily transactions based on IFRS. At the end of the fiscal period that runs from January 1 to December 31 of each year, the basis for calculating income tax is obtained as follows:

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$X = \text{Income} - \text{Expenses}$

Where  $X = \text{Tax base for the calculation of income tax.}$

## **Phase 2: Tax base**

In this phase it is sought to determine the taxable base for the calculation of income tax obtained from accounting. The problems presented are due to the lack of total acceptance by the tax administration, since not all income and expenses that are recorded in the accounting are accepted by the current tax regulations.

The main tax differences are given by: exempt income, non-deductible expenses, special deductions, among others, they are detailed in the LORTI and its respective regulations. When carrying out the tax conciliation, the main differences found are:

1. Exempt income.
2. Temporary non-deductible expenses.
3. Permanent non-deductible expenses.

At the end of the annual financial year, the companies prepare the reconciliation between the accounting base and the tax base. In accounting, this comparison is made by applying the liability method based on the balance sheet (MPBB).

When applying the MPBB, the deferred assets or liabilities that were generated or reversed in the fiscal year are reflected in the accounting. Fiscally, it is done through the tax conciliation in which the items that increase or decrease the tax base for the calculation of income tax are identified. Once the differences in the income tax calculation base obtained from the accounting and the application of the tax regulations have been identified, extra-accounting adjustments are made, in this way, the differences between the accounting and tax bases are eliminated. Then the current and deferred tax caused can be calculated by applying the corresponding tax rate.

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### **Phase 3: Differences between the accounting and tax base**

When making the income tax reconciliation, it is highlighted that the most complex items to identify are non-deductible expenses, these can be originated by:

1. Expenses without tax support.
2. Expenses without application of withholding.
3. Fines paid.
4. Lack of banking.
5. Excess in depreciation (accelerated depreciation) without authorization by the tax administration.
6. Excess in spending limits allowed by current tax regulations.
7. Disbursements of money that are not related to the line of business. Among other situations.

### **Permanent and temporary differences**

1. Permanent temporary differences do not generate deferred taxes since they are settled in the accounting period they originate.
2. Temporary differences generate deferred taxes when they are recovered or settled in future accounting periods.

At the end of the fiscal year, the company obtains the accounting profit, from this tax base, the extra-accounting adjustments are made by applying IAS 12 and section 29 of the IFRS for SMEs, in this way, the differences between the accounting base and tax base are eliminated. The off-the-books adjustments will only be recorded when there are deductible temporary differences; these affect both deferred assets or liabilities and the tax reconciliation. On the other hand, temporary differences are already registered in the accounting, affecting only the tax reconciliation.

Given the above, it should be noted that taxable temporary differences generate deferred liabilities and deductible temporary differences generate deferred tax assets.

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#### **Phase 4: Accounting record of adjustments**

The temporary differences found are recorded in the accounting of the company, thus eliminating the disagreements between the accounting regulations and the tax regulations. The deferred taxes generated by the temporary differences are expected to be recovered in subsequent accounting periods, recording them in the tax reconciliation and obtaining the tax base for the application of the income tax rate.

#### **Phase 5: Determination of the tax incurred**

The tax base for calculating income tax increases. As there are non-deductible expenses, both for temporary difference and for deductible temporary difference, it increases the income tax incurred.

Once the permanent and temporary non-deductible expenses are identified, the income tax to be recovered in subsequent accounting periods can be established, considering that the temporary non-deductible expenses are the only ones to be recovered.

The generation of deductible temporary differences is taxed in advance and recovered in accounting periods subsequent to the settlement of the obligation.

Verification of the net realizable value (NRV) of the existing inventory must be carried out on a mandatory basis, due to the accelerated deterioration suffered by this type of technological products. The adequate accounting treatment is set out in IAS 2 and in Article 10 of the OLITR (Organic Law of Internal Tax Regime) numeral 1.

In accounting terms, the RNV is recorded in the current fiscal year as impairment in inventory, while the tax standard indicates that this provision is recognized as a non-deductible expense generating deferred taxes and will be recovered at the time of disposal or consumption.

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## **DISCUSSION**

In Ecuador, as of 2010, SUPERCIAS established that the accounting of companies be kept under the IFRS or IFRS for SMEs and, at the same time, the current tax regulations apply. This transition requires not only companies to establish new policies and procedures, but also control bodies such as SUPERCIAS and the SRI to issue new procedures and regulations that contribute to the adequate financial control of companies.

The rules governing the joint accounting and tax management of companies have generated certain divergences. On the one hand, the accounting regulations seek to faithfully demonstrate their financial situation; whereas, the tax regulations are intended to determine the income tax, establishing the taxable base of the income tax, which is supported by the OLITR and its regulations.

As there is no concordance between the tax rule and the accounting rule, a point of equilibrium called deferred tax has been sought; its objective is to recover the taxes that companies have paid in advance in subsequent economic periods by preparing the tax reconciliation. In the particular case of the APC Technology company, it is evident that, as it has not established accounting policies and the financial information does not faithfully reflect its economic reality. Therefore, the weak points to reinforce are:

1. Implementation of accounting policies under IFRS.
2. Reasonableness of inventories by applying RNV tests that provide real data on the value of inventories.

As an objective of the research, a guide is proposed for the reconciliation of income tax under tax regulations and accounting regulations. The purpose of this guide is to identify the deferred taxes that arise from the determination of income tax by preparing the tax conciliation developed within this document in five phases, ranging from its inception to its recovery or settlement.

Through the application of this guide, it is intended to identify deferred taxes in a timely manner, providing the company with a tool that presents the financial situation based on



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accounting and tax regulations, as well as their initial recognition, adequate treatment, recovery and settlement of the deferred taxes.

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