

## Contemporary issues in taxation and accounting

### *Introduction*

There is a close relationship between accounting and taxation, for taxation is a consequence of the ability to count, and account for resources, and it enables agents to provide their accounts to (divine and/or mortal) principals. As both language and taxation are coeval with human society, taxation was an early application, if not the occasion for, the rise of both writing and accounting (Schmandt-Besserat, 1992). The requirement to provide an account for social imposts necessitated the record-keeping of quantitative data. Among their many uses, accounting outputs continue to provide the primary inputs for tax calculation and recording.

Taxation and accounting are social activities that involve relationships of accountability and power. Burchell *et al.* (1980) note that the core functions of accounting include the provision of information for decision making, the allocation of resources and the maintenance of institutional accountability and stewardship. These functions pertain equally to taxation. Revenue authorities delegate the task of tax assessment to taxpayers and require taxpayers to submit documentary accounts to discharge their tax obligations. As an exercise of (state) power to enforce compliance, taxation is “a process of regulation [...] that relies on accounting practice to provide regulative techniques” (Lamb, 2001, p. 273). Given the asymmetry of power between the taxer and the taxpayer, taxation may be considered “the use of accounting to regulate behaviour [...] making individuals governable” (Annisette and Neu, 2004, p. 2). Conversely, governments maintain fiscal legitimacy by producing budgets and accounts to justify their intended and actual use of tax revenues, and to promote compliance.

Taxation is basic to the lives of many professional accountants. As taxation knowledge is a pre-requisite for entry into the accounting profession, it is taught in business school accounting programmes, for entry into the accounting profession requires knowledge of both accounting and taxation. Given its basis in the law, lawyers also claim the field of taxation for their profession. While income, as calculated for taxation and reporting purposes, may differ, accounting practices underpin all taxation liabilities, and accounting standards may even define aspects of the tax base.

Despite many close connections, accounting and tax are often stored in separate silos. Taxation scholars have called for researchers to “work outside the comfort of the core” (Lamb and Lymer, 1999, p. 750) and consider taxation “a problem of knowledge and practice that would best be understood and pursued in the round” (Lamb, 2005, p. 7). Similarly, accounting scholars have called for accounting to be recognised as more than just numbers. The social nature and human effects of both accounting and taxation are evident in recent research paradigms; the new accounting history (Miller, Hopper and Laughlin, 1991) and the

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This paper forms part of a special section “Contemporary issues in taxation and accounting”, guest edited by Julie Harrison, Lisa Marriott, Sue Yong and Rob Vosslander.

The Editors received 19 submissions for this special issue, which went through a rigorous editorial and review process. They would like to thank all the submitters for their contributions, and the many reviewers for the extensive and thoughtful reviews they provided. They also wish to thank the editors of Pacific Accounting Review and staff members of Emerald Publishing Limited for their help and support. Finally, they would commend the editor of Pacific Accounting Review, Professor Asheq Rahman, for providing the opportunity to produce this special issue, and for the guidance and support the editor provided along the way.



critical accounting literature reflect the new fiscal sociology (Martin, Mehrotra and Prasad, 2009) and critical tax theory (Infanti and Crawford, 2009). The social and human turn of these perspectives provides a common focus for conjoint taxation/accounting studies.

In stressing the necessity of an interdisciplinary approach, O'Neill and Orr (2018, p. 2) note that "thinking clearly on tax is not an easy task, as much that is of central importance is missed if one proceeds at too great a level of abstraction, and issues of conceptual and normative importance often only come sharply into focus when viewed against real-world questions of implementation and feasibility". The interdisciplinary and multifaceted nature of taxation makes it a challenging field for researchers.

This special issue of Pacific Accounting Review requested original submissions that explored the unique relationships between tax and accounting. It comprises five articles; four articles are based in countries that border the Pacific (Australia, Malaysia, China and South Africa) and one beyond its shores, in keeping with the intended geographical reach of this journal. That taxation and accounting are of international concern is demonstrated by the range of locations represented; however, in all cases the topics provide more than merely local relevance. The articles reflect a breadth of methodologies and indicate the vast terrain where tax and accounting overlap and interact. The articles are briefly introduced below.

McCredie and Sadiq suggest that Australian corporates are starting to view tax as a fourth dimension of corporate social responsibility (CSR), alongside the well-established economic, social and environmental dimensions. In justifying their claim, they argue that the way corporations are theorised affects the legitimacy of CSR. Under artificial entity theory, a corporation fulfils its tax responsibilities simply by paying its taxes in terms of the law. The real-entity theory goes beyond the legal to a moral imperative obliging an entity not to engage in overly aggressive tax minimisation. Finally, the currently dominant aggregate theory regards the corporation as the sum of its shareholders and, thus, places the onus for CSR not on the corporation, but at the level of the private shareholders. Innovatively using Leximancer software to analyse and map submissions and reports on tax avoidance and tax transparency, the study provides evidence of an incipient corporate tax conscience reflecting a shift in attitudes towards corporate taxation, and a transition from the aggregate to the real entity view of the corporation, suggesting that tax might be added to the CSR triad.

The difficult and complex relationship between taxation and accounting is clearly evident in accounting for income tax. Where different rules apply to the accounting and tax treatments of certain transactions, temporary and permanent differences between reported and taxable income may create (unintended) tax planning opportunities. Mgammal delves deeper into this matter by investigating the opportunities provided by the various components of tax accounting – permanent and temporary differences, foreign tax rate differentials and tax losses, which create tax planning opportunities. Although Mgammal bases his research on a developing nation, Malaysia, his findings are relevant to governments and businesses in all jurisdictions.

New Zealand's good and services tax (GST), a form of value-added tax (VAT), has been looked to by possibly every country that subsequently adopted a VAT "for guidance and example" (James and Alley, 2007). It provides a comparator for the more recent GST systems of other countries as disparate as Ethiopia and Kenya (Yesegat, 2008), Malaysia (Kraal and Kasipillai, 2016) and Hong Kong (Sawyer, 2013) – a benchmark for VATs generally (Maples and Sawyer, 2017). In the case of GST, taxation and accounting closely intersect; the introduction of GST not only raised tax revenues and "modernised" tax systems but was also a catalyst for the automation of accounting tasks. Once implemented, GST continues to affect accounting, as every transaction has to be analysed and recorded not only for accounting, but also for taxation, purposes. In their article, Davey, Wang and Singh-Ladhar outline the evolution of indirect taxation in the People's Republic of China over a period of more than two decades, as China

moved from its earlier business tax to a form of VAT. After identifying several administrative and revenue challenges, they conclude that China's VAT is still a relatively immature consumption tax when compared with developed countries like New Zealand. Given the ongoing evolution of both (creative or orthodox) accounting and (national and global) taxation, there remains considerable scope for further research to identify, if not the optimal tax, then at least preferable approaches to taxes that raise revenue but also better align with business and accounting practices.

Pidduck, Odendall, Kirsten, Pleace and De Winnaar address a possible gap in South Africa's tax base arising from the increasing popularity of customer loyalty programmes. The rewards provided by these programmes provide an alternative for cash, and the authors argue that the failure to tax them creates a gap, which affects both the quantum and the fairness of taxation. Based on case studies of five South African rewards schemes, they conclude that the government could raise substantial revenue with a very little amendment to existing tax legislation or administration. This article has international relevance, as reward programmes are popular throughout the world. It highlights a need for revenue authorities and tax legislation to adapt and extend existing methods of tax law and administration to address changing commercial forms. Although boundary issues of what constitutes income would need to be addressed, the taxation of such rewards could also lead to greater accounting and fiscal transparency.

The Middle East and North African (MENA) region is underrepresented in the accounting/tax literature and provides a range of contrasts with other regions and variations within itself. It comprises both resource-rich and non-resource-rich countries. Alsharari provides a detailed descriptive study of taxation and revenue trends in this region from 1990-2012, supported by quantitative analysis sourced from publicly-available accounts of tax revenue. His article demonstrates the role of accounting data in evaluating tax systems and government accountability. Although the region has its unique characteristics and challenges, familiar issues common to all jurisdictions are also evident in the MENA region: tax complexity and the need for simplification; concerns about equity and efficiency; and political economy issues. Only recently has taxation become an issue in those states that until now have met fiscal needs by way of resource revenues. Alsharari recommends the adoption of a low-rate broad-based approach that has typified much tax policy in the West over past decades, and that MENA countries improve transparency of their revenue systems.

By providing a sampling of research that engages both accounting and taxation, this issue confirms the close relationship between the two disciplines. It also indicates the need for further research, which addresses some of the pressing problems facing governments and societies today.

**Julie Harrison**

*Department of Accounting and Finance, The University of Auckland,  
Auckland, New Zealand*

**Lisa Marriott**

*School of Accounting and Commercial Law, Victoria University of Wellington,  
Wellington, New Zealand*

**Sue Yong**

*Department of Accounting, Auckland University of Technology,  
Auckland, New Zealand, and*

**Rob Vosslamber**

*Department of Accounting and Information Systems, University of Canterbury,  
Christchurch, New Zealand*

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