

The Impact of Adopting International Accounting Standards on Taxation – A Theoretical Preview

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Abstract

International Accounting Standards has become an important requirement for accounting system, as a result of the increasing trend towards standardization of accounting practices at the global level, which requires the preparation of financial statements characterized by reliability, appropriateness, free from significant errors and bias.

The relationship between IFRS and the tax system is not always straightforward. In some countries, the accounting standards used for tax purposes may differ from those used for financial reporting, this can lead to differences in the way income, expenses, and other financial data are reported for accounting and tax purposes.

In some cases, countries may allow or require adjustments to be made to financial statements prepared using IFRS to calculate taxable income under the tax system. These adjustments are made to account for differences in the way certain items are treated for accounting and tax purposes.

International Standards (IAS/IFRS) paid great attention to disclosure considerations in order to increase the quality of accounting information, as there is more than one standard dealing with accounting disclosure and how to present the financial statements in terms of form, content, structure and accounting policies.

Financial analysts and investors need comparable and comprehensible financial information of foreign companies to be better help in their decision whether to buy a particular share or invest in other ventures.

The key issues that investors and financial analyst look for are reliability and comparability of the financial information.

This study aims to examine the impact of the determinants of improvements of international accounting standards on the tax status of enterprises? The use of international accounting standards in global arena was patiently waited in order to actively use in business, financial aspects, private sector etc.

Currently the new innovations in International Accounting Standards and Taxation System resulted into rapid growth of using the International Accounting Standards and Taxation System. During this paper I highlighted advantages of using the International Accounting Standards, its future challenges.

The study, by knowledge the most important reasons for their emergence, the most important improvements made to them, and identify the determinants of improvements to international accounting standards on the tax status of corporations. It reached the following results: them or work to reduce or at least avoid them.

(2) It is possible to achieve many goals if there is agreement between international accounting standards and the tax system, so it is necessary to work to bring about compatibility to be able to achieve these goals and in order to also be able to achieve tax governance and reduce the process of tax evasion.

(3) improvements in international accounting standards have a positive impact on the tax position of companies The transformation of these standards contributes to improving the financial performance of the company. The study recommended the need to adopt international accounting standards as certified accounting rules to determine the net results in the tax system in order to increase the tax burden and thus increase the effectiveness of the tax system.

Keywords: International accounting standards, tax status, financial statements, accounting disclosure

Introduction

The shift of attention from solving applied problems of accounting to searching for its theoretical foundations, reflects the seriousness of the need to develop a general framework that provides a theoretical reference for evaluating, interpreting and predicting the integrity of practices. So individual writers and official bodies made considerable efforts in order to define the goals, principles and standards of accounting (Luthans et al, 2021).

Many attempts have been made especially in the United States of America, where many organizations have undertaken the task of defining a theoretical framework for accounting. Perhaps the most powerful and important of these bodies is the Financial Accounting Standards Board, which has been charged with the task of issuing accounting standards, based on a fixed theoretical framework rather than defining principles of general acceptance.

Accounting standards play a very important role in providing guidance and direction in measuring and presenting operations and events. Therefore, most countries in the world (such as - United States. United Kingdom, Canada, Australia, Japan, Germany, France, China, India, and Brazil) hastened to organize accounting by issuing its standards. However, the issuance of standards is not a procedural and research process, but depends on several factors with theoretical and applied dimensions that differ from one country to another.

Existing standards necessarily differ as these factors differ In general, standards are determined in a country on the basis of the approach used in issuing them. Accordingly, two major accounting models appeared at the international level, one Anglo-Saxon and the other European (Pinto et al, 2020). The effects of different accounting standards between countries have emerged clearly, especially in the wake of the fundamental transformations that the global

economy has witnessed in recent times, and the consequent increase in the role of information contained in the financial statements at the international level. This imposed on accounting the need to respond to these new requirements in order to move away from dealing with accounting problems at the local level to addressing them on an international scale. This led to the emergence of international accounting, which is embodied in achieving a degree of compatibility between the accounting practices of different countries through the development of a set of principles and standard accounting standards that are suitable for application in various countries of the world (Al-Mashhadi, 2021).

The idea of international accounting standards which knew its true beginning, came after the establishment of the International Accounting Standards Committee in 1973, The committee began its activity with a limited entity in terms of composition, in terms of purpose or in terms of the authority to enforce the application of the standards it issues. However, during the years following its establishment, and thanks to the relations it established with various international bodies and organizations, it was able to prove its presence in the global arena as the first source of standards especially after its restructuring. Where a group of international bodies, led by the International Accounting Standards Board, IASB, sought to activate accounting practice by working to adapt international standards to the accounting policies of countries. And urging the use of international accounting standards as a basis for building national standards and seeking to eliminate the essential differences between national and international standards, as well on developing and activating accounting reference frameworks based on the effective organizational structure methodology. Then issuing standards that amount to general acceptance to be relied upon in building the parameters of accounting practice, according to the mechanisms of standardization or accounting compatibility (Mihret et al, 2017).

Most countries in the world depend on determining the tax profit on the result of the accounting profit. Some countries that applied international accounting standards found some problems in their incompatibility with the tax system, which is characterized by the specifics of the laws applied in each country. This is what prompted some specialists in this field to propose the establishment of a special committee, which undertakes the development of tax laws and rules in the form of unified standards applied throughout the world, and the creation of what is known as tax governance (Hearson et al, 2023). These countries have studied some of their current tax laws in order to reduce the gap between them and international accounting standards.

Problem statement

The literature of accounting thought states that there is a complete conviction by academic and professional accountants of the importance of international accounting standards and the improvements that occur in them. And the significant role that can be played in the change that occurs in the financial positions of the establishments and the consequent achievement of good tax accounting in the light of credibility accounting information This conviction has been largely translated into accounting thought and even professional practices, whether in the field of financial reports as part of the accounting information system or in non-financial reports as additional information.

Considering that the tax examiner is the one who measures and determines the value of the tax base based on the results of the disclosure function and the accounting presentation of accounting information through reports and financial statements, it becomes clear the role and importance of accounting disclosure in determining the tax base under the tax law; Which required such a determination to be within the framework of international accounting standards,

all for the purpose of giving more credibility to the accounting information to strengthen the tax accounting relationship between the taxpayer and the tax examiner.

On the other hand, the financial accounting system also took care of the users of financial information, and this is through the amount of information that stipulates the need to disclose it in the financial statements and their appendices. In the sense that the application of the financial accounting system led to changes in the content and form of the basic financial statements and their appendices to comply with the international financial and accounting changes, and to make these lists available on the qualitative characteristics useful to their users. The expected development in the tax accounting process, which depends on the development of the tax examination method by moving from the comprehensive tax examination method to the sample examination method, but its success, has become dependent on accounting disclosure of credible accounting information to support trust between the taxpayer and the tax examiner. Since the credibility of accounting information represents an important and necessary requirement to keep pace with the complete transformation process towards the application of a unified tax system, the success of tax legislation depends on mutual trust between the taxpayer and the tax examiner.

Despite the importance of the credibility of taxpayers, it was found that the tax accounting thought had not dealt with it before, and its employment for the purposes of tax accounting, which represents an accounting shortcoming that reflects the extent of the accounting failure to enhance and give objectivity to the tax accounting system, which prompted the researcher to try to study the credibility of the taxpayers in the light of accounting standards and requirements of the tax law, to be a guide for the tax examiner when selecting the statistical sample subject to the tax accounting examination, and accordingly the problem of the study can be expressed in the following main question: "What is the impact of the determinants of improvements of international accounting standards on the tax status of the originations?"

Questions of the study

1. What is the reality of the determinants of improvements to international accounting standards?
2. What is the extent of the efficiency of the determinants of improvements to international accounting standards in managing the tax status of corporations?

Objectives

1. Knowledge of international accounting standards, the most important reasons for their emergence, and the most important improvements made to them
2. Identify the determinants of improvements to international accounting standards on the tax status of corporations.

Significance of the Study

In this research article, the main significance is to take the review of international accounting standards, its different innovations, and its future challenges. The main significance of this research study is to present the detailed study of obstacles application as well as implementation of International Accounting Standards in the private section such as banking, IT section, manufacturing companies, automobile companies etc. The implementation of International Accounting Standards and taxation system in global arena private sector always

associated with challenges; hence it becomes necessary to point the possible future challenge as well.

Review of International Standards and Taxation System

Different countries with different accounting practices is an accepted situation, however it is not without its disadvantages. As the idea of global corporations and markets without borders began to become a reality, members of the accounting profession realized the need for international standards. In 1971, the International Accounting Standards Committee (IASC) was formed. It was a loosely formed at the behest of Accounting Committee Australia, Canada, France, Germany, Japan, Mexico, the Netherlands, and it is the same framework from the United Kingdom as the British and Australian frameworks that the u.s. financial accounting standards Board (FASB) boards. The same, about international accounting bodies in different countries of the International Federation of Accountants (IFAC under) business activities time. IASC and IFAC member IFAC tangent to each other automatically IASC (Albu, et al, 2020). The structure international accounting standards, established IASC with autonomy and international accounting documents relating to the publication of the issues discussed. 1970 roughly forty IASC standards have been issued; that went largely unused by most large corporations and countries with already established accounting systems. Its greatest progress was in Europe and with developing or newly industrialized countries (Vitola et al, 2019)

In recent years, due to the increasing internationalization and much interest rate deals with financial information from countries other countries. To harmonize international accounting standards regulators, preparers and users of financial information is a lot of concern there is that professionals and effective financial decisions need financial information from different countries a whole host of. These include the following Firstly, financial analysts and investors need comparable and comprehensible financial information of foreign companies to be better help in their decision whether to buy a particular share or invest in other ventures. The key issues that investors and financial analyst look for are reliability and comparability of the financial information. There are even differences between countries in accounting standards, better still, investors and financial analysts are clear about the nature and magnitude of difference. and of course, foreign companies that another country's domestic market share at its shares list in order to provide sound and reliable financial information home country which meets local standards would be required by the stock exchange regulators have similar such as the World Bank., International grantors compatible accounting standards for their borrower countries performance comparison feature (NS & Emhemad Omar, 2014).

Technical regulation of the tax

The technical organization of the tax means defining the technical conditions and procedures related to the imposition and collection of taxes. Since the tax system reflects the image of taxes imposed on economic units and individuals in society, the state must, after defining its tax policy and the objectives it seeks to achieve, determine the technical rules upon which the tax system is built. The technical regulation involves a set of procedures related to determining the tax destination (the tax base), realizing the tax, and collecting the tax. Each stage will be shown as follows:

- Tax base
- Rate or tax rate.
- Check and collect tax

Tax base

The tax base means the taxable material. The first action of the legislator when regulating taxes is to choose the tax base, because of the state's increased interest in economic life and the increased role played by taxes in the economic, social and financial spheres; there were many tax bases and their artistic images differed from one society to another and from one period to another (Sultonov & Soatova, 2022).

Taxes on persons and taxes on money

Taxes can be divided according to the tax base into two types of taxes:

a) Taxes on persons

They are taxes that consider the person himself to be the tax base, regardless of the money he owns. Human existence is the basis for imposing the tax and the material subject to it. This type of tax is called poll tax; in which each member of society is obligated to pay a certain amount of money during certain periods of time as a result of his presence in a particular country. Individuals are divided into groups according to their social and economic status; So that each person in each group pays his amount. different from the individual in the other group. In this type of taxation, the taxpayer cannot avoid paying taxes; In contrast to money taxes which the taxpayer can evade paying by avoiding the event that created them (Olaoye & Ekundayo, 2019).

The poll tax has almost completely disappeared in the prevailing contemporary tax systems. This is due to (Partelow, 2019):

- The state's development in economic activity and the increase in the burdens placed on it, until the poll tax has become unable to meet the requirements of government spending in contemporary countries. Thus, this tax became unable to achieve the financial objective of the tax system.
- The development of the scientific foundations of the tax has proven that the capital tax has disadvantages that no other tax has in terms of distance from tax and social justice. Where it is difficult to take into account the personal circumstances of the taxpayer. It is also difficult to rely on it effectively in achieving the various goals of society. Especially with the evolution of the tax role; as it has become one of the main tools in achieving economic growth, stability and justice.
- With the development and convincing of societies, the view of the individual has changed. The individual is no longer seen as a taxable subject; Rather, he is the one who leads society to progress and sophistication. Likewise, all economic and social systems are devoted to serving him and searching for the means of his happiness and well-being.

b) Money taxes.

They are taxes that consider a person's money (income or wealth) to be the tax base, without taking his person into consideration. Where the tax is deducted on the basis of the money he owns or the income he earns (Baker & Murphy, 2020).

You usually have to pay tax when you earn money from employment, pensions, government payments, investments, and foreign income. The amount you pay depends on: how much you earn, and any deductions you can claim or offsets you're entitled to.

Direct taxes and indirect taxes

The division of taxes into direct taxes and indirect taxes is based on a set of criteria such as the method of collection, the criterion of remaining the tax burden, and the criterion of the method of accessing the base. Based on these criteria, both direct and indirect taxes can be defined as follows:

1. Direct taxes:

It is direct deductions from income or capital. It is imposed on elements that enjoy continuity and stability and settle on the taxpayer and cannot be transferred in kind. They are verified nominally through payee verification tables. Direct taxes have a number of advantages, and perhaps the most prominent of these advantages is their dependence on the concept of the taxpayer's cost capacity. Its proceeds are also fixed compared to indirect taxes, due to the stability of the base on which the tax is imposed. Direct taxes are easy to collect and suitable for taxpayers, due to the ability to withhold tax from those who abstain. It is also considered more fair compared to indirect taxes, as it takes into account the personal circumstances of the taxpayer when imposing the tax. Many criticisms are directed at the direct tax system, as it requires an executive administration with a great deal of efficiency and effectiveness to prevent tax evasion, and requires a period of time between the date of imposing the tax on the subject matter and the date of collection so that it can be accurately determined, which affects the flow of financial resources to the treasury. In addition to the complexity and length of procedures for counting, linking and collecting tax burdens (Emmenegger et al., 2021).

2. Indirect taxes

They are the taxes that are imposed on goods and services either for their production, sale, circulation, consumption, or for their import or export. It is imposed on a specific incident without the possibility of identifying the taxpayer. Indirect taxes are characterized by the fact that control and collection procedures are easier and less complicated, as they do not require efficiency in the tax system, but are collected when the commodity is sold, imported, or exported. Hence, it is relatively easy to obtain. The value of indirect taxes is also incorporated into the value of goods and services, which makes the majority of consumers not feel its burden, which reduces the attempt of tax evasion. In addition to its abundance. Its importance is increasing as an appropriate means to achieve the financial goal in achieving the public expenditures of the state (Abd Hakim,2020).

The indirect taxation system is subject to a number of criticisms including that it violates the principles of tax justice because it disregards the individual circumstances of the taxpayer, that raising indirect taxes causes injustice for taxpayers with limited cost-estimating skills, and that its imposition causes economic confusion and change due to its inflationary effects and low demand, which results in a decrease in per-unit income economics. (Egbuhuzor & Tomquin, 2021).

Unified tax and multiple taxes

Taxes can be divided according to the taxable elements criterion into (Panousi & Reis, 2021):

1. Single taxes: a tax that is imposed on only one of the elements that may be subject to tax.
2. Multiple taxes: These are the taxes through which more than one basic tax is levied on multiple types of income and funds. The greater the state's need for money, the more types of taxes imposed

A distinction can be made between single and multiple taxes through the following (Matsumoto, 2022):

1. Social justice: Single taxes are considered unfair because they do not take into account the ability of the taxpayer to pay, as they affect one item that can be used by the rich and the poor.
2. Tax Expenses: The only tax is low in expenditure, being a simple tax, easy to organize, and less disturbing to the taxpayer.
3. Tax evasion: Multiple taxes limit the phenomenon of tax evasion. As there are some taxes that are not easily evaded.
4. Objectives: Multiple taxes are considered flexible and fit the modern concept, which made the tax aim at achieving a set of economic and social goals, in contrast to the single tax, which only achieves the financial goal.

Income tax

They are taxes imposed on the income of natural or legal persons, which are imposed on the income of natural persons and imposed on the profits of legal persons, Income tax is the general type of tax at the present time, as public finance thinkers agree that the tax should be imposed on income, and this is due to several considerations, the most important of which is, since the tax is a renewable and recurring financial deduction that must be imposed on a renewable and recurring item as well, i.e. on income. If the tax is imposed on the capital so that it will be paid from the capital itself; This would eliminate the capital itself, and this would lead to the elimination of the subject of the tax imposed on it. As a result of the development of economic life and the increase in the importance of commercial and industrial activity, free professions, and work, so that they have become no less important in terms of real estate wealth, income has become seen as more expressive of the taxpayer's capacity (Abuselidze, 2020).

Methods of Imposing Income Tax (Tax Systems)

Income taxes are among the most important types of taxes imposed in all tax systems; the reason for this is due to its large resources, and income is considered the best measure of the taxpayer's ability to pay the tax in a way that achieves justice and the opportunity for tax revenue. Two methods can be identified for imposing income tax as follows (Marpaung, 2020):

1. Specific tax system

According to the specific tax system, a distinction is made between types of income according to their source. Each source of income is subject to a separate specific tax, as the salary and wages tax is levied on the income generated from work only. The tax on the proceeds of current

capital is levied on the income resulting from the investment of capital only. The income tax on industrial, commercial and non-commercial profits is levied on the income resulting from the combination of work and capital together. Specific taxes have several advantages, including:

1. The difference in tax treatment for each type of income leads to achieving tax justice among those charged with each tax.
2. Simplify identification procedures for each type of entry.
3. Each type of tax is set at specific dates that suit the nature of the income, making it more appropriate and acceptable to the taxpayers.
4. Contribute to directing economic activity towards certain branches over others.

On the other hand, many criticisms were directed to the specific tax system, the most important of which are:

1. Different tax rates: There are many types of income taxes, each with its own rate or rates. There are tax rates on industrial, commercial and non-commercial profits, there are tax rates on salaries and wages, and there is a fixed rate applied to the tax on the proceeds of working capital.
2. Too many procedures: the taxpayer must submit more than one statement to the financial departments and undergo more than one examination and audit. This has negative repercussions on the taxpayer, which pushes him towards tax evasion.
3. Failure to achieve tax justice among taxpayers in general and achieving qualitative justice among taxpayers at the level of each tax base.
4. Not subjecting some revenues to tax in case some activities were omitted and counted.

The general income tax system

According to this system, the tax affects the total income that a person achieves and therefore it is a combined tax in that all cost revenues from its various sources fall into one tax base, and a general revenue tax is imposed on this base. The general revenue tax is considered one of the best types of direct taxes on income, for the following reasons (Zamzam et al, 2022):

- Total income is a measure of the taxpayer's ability to pay.
- It helps in applying the principle of personal tax by overcoming the personal, family and financial burdens of the taxpayer.
- It helps in applying tax escalation, so that the tax is imposed on the various revenues combined in one container, and the larger this container becomes, the higher the taxable segments will expand.
- It is characterized by the unit of assignment, meaning that the procedures applied are related to all sources of income and therefore do not cause inconvenience to the taxpayer and the financial departments.

Despite the aforementioned advantages, the general revenue tax has a set of disadvantages, including:

1. Difficulty defining a single subtraction for the single tax

2. The difficulty of correcting an injustice that occurs to a particular class or group as a result of the use of the unified tax.
3. The state's reliance on a single tax to cover all its expenses makes this tax a burden on the taxpayer and pushes him to evade
4. The single tax is considered to have few financial resources and therefore is not sufficient to meet the state's expenditures.
5. The sole tax is not considered a tool to achieve the economic and social purposes of the state in the form required by the modern fiscal policy

Capital taxes

They are taxes imposed on the total funds that an individual owns at a specific time, whether these funds produce cash or in-kind income or services or do not produce any income, whether real estate or movable, and this means that they do not differentiate between capital in the strict sense and between wealth, and it is characterized by something It is relatively stable, whether it is intended for investment, consumption, or simply saving. The tax on capital is imposed on money, whether its production is continuous or contingent, and it can be imposed on capital and deducted from its income if its rate is light, and it can also be imposed on capital and deducted from it if its rate is high. Application in many developed countries in recent years. Capital taxes can be divided into (Abdelfattah & Aboud, 2020):.

Periodic taxes on capital:

They are taxes imposed at low rates so that the taxpayer can pay them from the capital and not from the original capital. It is an additional income tax that is imposed periodically, and its aim is to reduce the freezing of funds without investment.

Incidental taxes on capital

They are taxes imposed at high prices, as the income of the capital is not sufficient to pay them, and here the taxpayer deducts part of the capital to pay. Therefore, they are not imposed periodically, otherwise they lead to the annihilation of capital, and they include three types:

- a. Exceptional taxes: which are imposed on capital that is formed in exceptional circumstances such as wars or disasters, and its aim is to provide the public treasury with funds in these compelling circumstances, and to reduce the differences between the rich and the poor whose wealth was formed as a result of these circumstances.
- b. Tax on capital increase: It is imposed on any increase in the assets of the taxpayer due to economic conditions, and the taxpayer has no income from it.
- c. Inheritance tax: It is imposed on the net estate of the inheritor, i.e. on the total estate, before distributing it to the heirs and after deducting the debts owed by it.

Relative taxes and progressive taxes

A distinction can be made between proportional tax and progressive tax by looking at the tax rate, as it is defined according to the following:

- a. Relative tax is the tax whose rate is fixed whatever the tax subtraction, and does not change no matter how much the value of this subtraction changes. The tax is paid at the same rate, whether the tax subtraction is large or small, and whether the taxpayer is poor or rich, and the tax proceeds increase in the same proportion as the subtraction.
- b. Progressive tax: It is the tax whose rate changes with the change of the tax subtraction, so that its rate increases as the value of its subtraction increases. The tax rate varies according to the tax subtractor, and the tax proceeds increase by more than the rate of increase in the value of the tax subtractor.

Estimating the tax base

The process of determining the tax base is considered the most accurate in the tax realization process, as it requires several monitoring operations by the tax administration, in order to determine the subject subject to tax, and there are two ways to reach the determination of the tax base, which are:

1. The financial departments themselves determine the tax base
2. These methods are among the most widely used methods in modern tax systems, and they can be done in one of the following ways:

The direct assessment method:

the financial department resorts to this method when the taxpayer refuses to submit a declaration about the amount of his income during the specified legal period, and according to this method, the financial department estimates the tax base either by a free estimation method so that the financial departments determine the subject subject to tax without being obligated. By any rules set in advance, or by the method of restricted estimation, so that the financial departments search for taxable items in accordance with legal texts, and the tax is determined according to fixed legal rules. Although this method is characterized by its fairness and abundant yield, it is criticized for the following:

1. Do not specify the taxpayer's real income correctly.
2. Interferes in the private affairs of the taxpayer and raises doubts about him and his financial position and may lead to direct harm to him.
3. Tax departments control the assessment of the taxpayer's income

Appreciation style on outward appearances

According to this method, the financial department determines the taxpayer based on a set of external appearances or signs determined by the law as evidence of the income of the taxpayer, and these aspects include: the rental value of the real estate in which the taxpayer carries on his activity, the number of employees in the establishment, the type of trade he practices, the location of the real estate, but There are many advantages to this method, including:

- a. Simplicity and ease in determining the taxable money, and it does not cause many problems between the taxpayer and the financial departments.

- b. It places the taxpayer in a safe position from the interference of the financial departments and their control over his affairs.

However, this method is flawed in several respects, the most important of which are:

- a. Many outward appearances are deceptive and have nothing to do with the truth.
- b. This method cannot be relied upon to estimate some incomes that do not have external manifestations.
- c. The use of this method leads to the stagnation of tax revenues.
- d. It does not achieve justice, nor does it take into account the social circumstances of the taxpayer.

Cut estimation method

According to this method, the financial department estimates the tax subtraction in total and approximate form. Depending on objective evidence determined by the legislator, this method is imposed on taxpayers who cannot keep accounting books, as it was found to meet the special circumstances of some taxpayers with profit tax. However, the disadvantages of this method are often approximate because it is based on an underestimation of the tax material and thus negatively affects tax revenues. In addition, it deprives the taxpayer of keeping regular accounting books, and thus affects project management and direction

Effectiveness of the tax system:

There are many opinions about the form of an effective tax system, more specifically economists, about the criteria that should be used to evaluate the advantages and disadvantages of a particular tax system or tax policy, as there are several criteria used to evaluate the tax system. These standards often contradict each other, and there is a discrepancy in considerations between the standards when a particular tax is evaluated. Some standards such as fairness and transparency are more personal, while others may be objective, such as economic effectiveness. Taxpayers may also differ about the relative importance of the standards. Therefore, Opinions about what the ideal tax system looks like are likely to differ. The following defines the concept and indicators of the effectiveness of the tax system and an explanation of the set of principles used in evaluating the effectiveness of the tax system, which help to reform the tax system through:

1. The concept of indicators of the effectiveness of the tax system
2. Principles of effective taxation

The concept of indicators of the effectiveness of the tax system

The effectiveness of the tax system is one of the most important concerns of decision makers in economic policy, as the more effective the tax system is, the more positive the repercussions will be on the national economy. The effectiveness of the tax system is determined by the ability of the tax system to achieve financial, economic and social goals in a consistent manner, because these goals may conflict with each other. As a result of the conflict between these objectives, the tax legislator must take into account the interest of the state, the interest of the taxpayer, and the interest of society as follows (Atuahene, Kong & Bentum-Micah, 2018):

- a. The interest of the state: The interest of the state is achieved by the funds provided by the tax to the public treasury of the state and by contributing to covering public expenditures, and to the extent that helps it achieve its economic and social policies.
- b. The interest of the taxpayer: The interest of the taxpayer is realized in imposing the tax to the extent that the tax is not an obstacle to his aspirations and the returns that he achieved from his investments. The interest of the taxpayer is also achieved through the assistance provided by tax imposition to the taxpayer in performing his work by protecting him from external competition.
- c. Community interest: The community interest is achieved through the positive effects of tax imposition, such as using the tax proceeds to improve the free services that the state provides to society, such as public utilities, health, education, and achieving community welfare to limiting some undesirable social habits.

Many studies have identified the features of a good tax system. Indicators of a good tax system have been selected as follows (Owenvbiugie & Owenvbiugie,2020):

1. Concentration indicator What is meant by the concentration indicator is that a large part of the total tax revenue is concentrated on a relatively small number of taxes, because this would contribute to reducing administrative and executive costs. Avoiding a large number of taxes and tax rate schedules could facilitate the assessment of the effects of tax changes. tax policy and avoid creating the impression that taxes are excessive.
2. Dispersion index: This indicator relates to low-revenue taxes, and the need to get rid of this type of tax in an effort to simplify the tax system without having an impact on tax revenue.
3. The erosion index, that is, the actual tax bases are close to the possible ones, because the tax base can be satisfied through increased revenues despite the adoption of relatively low rates. The tax base, and thus resorting to raising tax rates to compensate for the shortfall in tax revenues.
4. Indicators of delayed collection: related to determining tax collection times so that the taxpayer can pay tax dues within their due dates, because delay leads to a decrease in the real value of tax revenues due to inflation, and therefore the tax system must include strict penalties that limit the tendency to be late in paying dues.
5. Selection indicator: This indicator means that the tax system relies on a small number of taxes with specific rates, and this does not preclude the possibility of replacing some taxes with other taxes. For example, the tax on corporate profits and the income tax can be replaced by a single tax on all wealth with a low rate.
6. Objectivity indicator: This indicator means the need to collect taxes from objects that are measured objectively, in a way that guarantees taxpayers a clear appreciation of their tax obligation in the light of their planned activities, and this falls within the principle of certainty, which means, according to Adam Smith, that the taxpayer is able to assess the tax incurred on him. .
7. Implementation indicator: It relates to extending the effective implementation of the entire tax system. This also relates to the validity of estimates and forecasts and the level of qualification of the tax administration because it is the main basis for implementation, as well as the reasonableness of legislation and its enforceability in light of the social and economic reality.

8. Collection cost index: It is an indicator derived from the economic principle of taxation, and this makes the cost of tax collection reflect negatively on the level of tax revenue.

Principles of effective taxation

There are several principles used to evaluate the tax system, the most important of which are:

1. Justice

The government should exercise equity while designing a good tax system. Individuals should be taxed based on the amount of income they earn. Those that earn a lot of money should be taxed based on the large income earned an individual who earns less amount of money should be tax proportional to the income earned. The fairness of the tax system also includes a set of principles, including:

- **Ability to pay:**

It is taken to mean that those who are best able to pay should pay more than those who are less able to pay. Vertical equity implies that those on higher incomes should pay more in tax and that the amount of tax paid should increase with income. In practice most income tax systems impose progressive taxes so that as income goes up not only does the amount of tax increase, but the proportion of tax paid also increases. The argument for progressive taxation has a long history and, for example, was favored by Adam Smith who put the case for progressive income tax very eloquently when, in 1776, he said: “The necessities of life occasion the great expense of the poor. They find it difficult to get food, and the greater part of their little revenue is spent in getting it. The luxuries and vanities of life occasion the principal expense of the rich, and a magnificent house embellishes and sets off to the best advantage all the other luxuries and vanities which they possess. ... It is not very unreasonable that the rich should contribute to the public expense, not only in proportion to their revenue, but something more than in that proportion”.

This principle becomes complicated when we consider the different circumstances of taxpayers. Two people with the same income may appear to have the same capacity to pay. However, one of them may have young children or other dependents. Another might have health problems that require expensive treatments. For these reasons, the tax system makes other arrangements. For example, the family tax benefit pays households for the additional responsibilities that come with children. Until recently Australia’s tax system allowed deductions for health expenses. These have been abolished and incorporated into a higher tax-free threshold below which no income tax is payable.

- **Horizontal and vertical justice:**

Horizontal tax equity refers to the principle that people who earn similar incomes should pay similar amounts of tax. While this may seem uncontroversial, in Australia older people pay significantly less income tax than younger people with similar incomes (thanks to the concessional treatment of capital gains and superannuation); and people who spend a large proportion of their income on private schools or private health insurance, will pay significantly less than those who spend less or no money on those service.

Vertical tax equity refers to the differences, if any, between the amount and percentage rate of tax that people on different incomes pay in tax. A common, but not universal or uncontroversial, version of vertical tax equity is that people on higher incomes should pay both more tax than those on lower incomes and pay a higher average rate of tax than those on lower incomes. A tax system that taxes higher income earners at a higher rate is called a 'progressive' tax system, which can be contrasted with a 'flat rate system' in which all incomes are taxed at the same rate, and a poll tax in which the amount of tax paid does not vary with income (which in turn, means that higher income earners pay a lower rate of tax).

- **The principle of recovery of benefits:**

It refers to a theory of income tax fairness whereby citizens who use or benefit from certain government goods and services pay taxes for them in equal measure. In all fairness, citizens who do not use certain government services should not be taxed for such services. For instance, motor vehicle owners should pay more taxes to maintain roads compared to those who do not own or drive vehicles. In addition, citizens using a certain road or bridge are charged to pay for the maintenance of the road or bridge. Another example is when citizens who pay for gas are charged taxes for road maintenance. Also, certain licenses are charged taxes because they are related to a certain service (for example, marriage licenses). Finally, education in public schools is free from kindergarten to high school, but in college, there are fees that can be classified as taxes paid to the government for receiving higher education.

Under this principle of taxation, individuals receiving the benefits of a particular service should be responsible for paying for those benefits. As such, individuals who do not use vehicles or certain highways are not charged for the maintenance of those roads because they receive no benefit from the road or highway. Conversely, those who benefit ought to pay for the good roads. The same case applies to individuals who attend higher education. They pay the taxes due to the advantages they receive from acquiring this education, whereas those who do not attend higher education ought not to pay for it.

2. Transparency

One of the most important principles of a good tax system is transparency and clarity. A good tax system should be designed in such a way that individuals should be able to understand when and where to pay the tax. The payee should be able to understand the concept and terminologies used and how the government comes up with such a figure. Simplicity principle also holds during periods of tax collections. The government should design a simple way of collecting the tax. E.g. at the end of each month for employed workers. The transparent tax system is the system that allows the taxpayer to:

- The taxpayer can easily calculate his tax obligations: that is, the taxpayer is able to determine the tax rate and determine his tax base, the marginal tax rate, and his tax obligations to the government.
- The taxpayer realizes the purpose of tax laws: so that the taxpayer can look at the tax formula or the tax rates tables and understand the thinking of legislators, for example: the taxpayers can be able to understand the purpose behind the progressive tax rates tables.

- The taxpayer's perception of the extent of commitment by others: That is, the taxpayers can determine the extent to which tax laws are imposed, and thus know the extent of the commitment of competitors and friends to pay their tax obligations.
- reduces direct and indirect compliance costs for both the taxpayer and the tax administration.
- Reduces rates of tax evasion, as well as reduces the incentive to use illegal tax evasion techniques.

Factors causing the emergence of the difference between international accounting standards and the tax system

The timing difference for the issuance of each of the tax laws and accounting tax standards (NS & Emhemad Omar, 2014). It's

This factor is relatively important, and it cannot be ignored, as international accounting standards may be issued before the issuance of the tax law and vice versa, and there may be some important economic variables that may occur in the time period between the issuance of accounting standards and the issuance of the tax law, and therefore these accounting variables may be taken into consideration. Without taking it into account taxally, or vice versa, where it is taken into account as taxation without taking into account accounting. In light of this, we find that the difference in their timing may work to take some economic variables from one side, and not take them from the other side, which leads to a difference between international accounting standards and the tax system.

a. Different tax objectives and accounting objectives:

Tax laws differ from the concepts and rules of international accounting standards in terms of objectives, as there are some tax rules that seek to maximize tax revenues, and they interfere in economic and social life, as they are a means of the political and social economy of the state (stimulating investment, improving social conditions for workers).. This makes the tax rules oriented towards achieving the economic and social goals of the state, and helping the tax authority to determine the tax base, while the international accounting standards seek to enhance transparency and credibility in presenting the financial statements while following complete impartiality, and disclosing the financial information of the company. The difference in goals ultimately leads to the issuance of tax laws and international accounting standards in the light of the desired goals for each of them, which creates a conflict between them, and leads to a difference between the tax system and international accounting standards.

b. Accounting policies resulting from earnings management practices:

Earnings management always tries to maximize revenue and accounting profit, in an attempt to improve the financial position of the company in which it operates, and in light of that. You may resort to applying some accounting policies that reduce the tax profit, and in this way the conflicting accounting policies will follow what came in the tax system and thus lead to a difference or the emergence of a gap between the two profits, which is one of the factors leading to the difference in international accounting standards and the tax system.

c. Differences in the timing of recognition of some elements of expenses and revenues:

It may often require that some elements of revenue be recognized at an accounting time that differs from the timing of its tax recognition. As well as on the elements of expenses, and therefore the difference in the timing of recognition in this case leads to a difference between the international accounting standards and the tax system.

d. Existence of tax exemptions

What is meant by tax exemptions is the compulsory deduction from the accounting profit of the taxpayer, and it represents the state's waiver of some of its rights in the public treasury as a tool of tax incentives, which aims to encourage investments. tax) and accounting profit under international accounting standards

The importance of compatibility between international accounting standards and the tax system

This importance appears especially in several aspects, including (Shtewi, 2016):

- Formulation of the tax system based on a sound scientific basis, which is to act according to the international accounting standards.
- Possibility of attracting more foreign investments in developing countries.
- Reducing tax evasion and tax disputes due to the clarity in the provisions of the tax law.
- Adopting what developed countries adopt in making international accounting standards the basis upon which tax law is based.
- Continuous improvement of the tax system and the performance of the tax system as a whole

The impact of different rules of international accounting standards and the tax system on tax evasion

Many studies have proven that the financial scandals of Enron have been based on both the tax report and the financial report, as well as on the gap between the accounting profit and the tax windage. As well as misleading about the value of expenses or losses that may be deducted in the tax law, and thus reducing the value of taxes, or not paying taxes at all. The intent of all of this is tax evasion. It becomes clear to us that there is a direct relationship between fraud in financial reports, as well as fraud in tax reports This resulted in an increase in the gap between accounting and tax profit. Therefore, compatibility and congruence between accounting and tax profit would work to eliminate this gap, and reduce the intention of tax evasion, by adopting the tax system with the principles of international accounting standards.

The impact of the compatibility of international accounting standards and the tax system on the tax revenue:

The application of tax accounting standards leads to a package of negative effects on the tax proceeds, but in the medium and long term it will compensate for this talk, as there are many gains that will be achieved by the psychological and behavioral impact that will be very positive on the taxpayer and the auditors, as a result of their sense of the straying of the gap between

them and the IRS. And another thing is. Reducing the volume of current tax evasion is not only the psychological compatibility that occurs, but also because there will be an additional obligation for tax legislation to apply these standards, and this will lead to a kind of double control, with the development of human capacities for workers in the Tax Administration, and this is something very natural. As long as we apply accounting standards taxally, and training of tax authority workers will take place on all these aspects, the last thing is the costs when we adopt them taxally, including costs related to research and development, which will lead to an increase in companies' ability to compete and their profits will rise and their tax revenue will increase, and thus the tax revenue will increase (Badawi, 2017).

Requirements for adapting international accounting standards to the tax system:

Achieving the adaptation process requires taking into account the following data (Al Nasrawi, & Thabit, 2020):

- a. The issuance of both international accounting standards and the tax law at the same time, because it is possible that during the issuance of one of them before the other, some events and treatments that are taken into account may appear from one of them without the other. In the event of any amendment by the International Accounting Standards, the tax law must take into account it immediately.
- b. Attempting to unify the objectives between the international accounting standards and the tax system. This is intended to unify the intellectual or theoretical framework of the international accounting standards and the tax system. This requires coordination between them, and the tax system must be familiar with all the principles, loans and objectives on which international accounting standards are built. We mention for example. Among the goals of well-known international accounting standards is the investor and helping him to make his decisions regarding the investment preference in a particular company, while the taxes look at this investor from one angle, which is to encourage him to invest in this country, and therefore the tax system must work to unify the visions and objectives, and look at the investor In the view of international accounting standards themselves.
- c. Conducting an analytical study by the Tax Administration of the most important companies that preceded their collapse, in order to try to understand the most important items that can be manipulated. In this case, the Tax Administration concludes agreements that allow it to obtain copies of the lists and financial reports of the most important companies that preceded its collapse, as well as obtain copies of their tax returns, because that would also identify how and means of manipulation in these lists, as well as knowledge of the most important items that can be manipulated, especially when among these companies are multinational companies and different tax laws, the aim of doing so is to gain More experience.
- d. Evaluate the tax system periodically to determine the extent to which it takes what is stated in the international accounting standards. This evaluation must be conducted to find out the extent to which the tax system follows the international accounting standards, and if the current tax system takes into account all the provisions of the international accounting standards, and to know any of the accounting treatments. Those contained in these standards have not been followed, and it is also known

whether the employees of the tax administration, as well as the taxpayers, are trained on how to understand and apply these standards.

- e. Setting rules for tax examination on the basis of international accounting standards. The application of tax legislation to what is stated in these international accounting standards leads to support and increase trust between the taxpayer and the tax authority due to the clarity of the basis followed in the tax examination process, as well as to reducing the rates of tax disputes.

Results:

1. Accounting standards express principles and guidelines necessary to unify practical practice, and certain entities issue and obligate them to various entities to achieve the purpose of their existence.
2. The new financial accounting system gave a new impetus to the outputs of the accounting system after its adoption of international accounting standards.
3. There are many factors that cause the emergence of differences between international accounting standards and the tax system, and for this it is necessary to eliminate them, or work to reduce them or at least avoid them.
4. Many goals can be achieved if there is agreement between the international accounting standards and the tax system, so we must work to bring about compatibility in order to be able to achieve these goals, and in order to also be able to achieve tax governance and reduce the process of tax evasion.
5. The multiplicity of positive effects of international accounting standards, the most important of which are: reducing the differences between these standards in different countries, strengthening the comparability of financial information, improving its explanatory ability as an indicator of the company's performance, reducing its cost, improving transparency, reducing information asymmetry, and increasing the quality of financial reports. Management is given ample opportunity to reduce earnings management practices and forecast fraud.
6. Improvements in international accounting standards have a positive impact on the tax position of companies; Conversion to these standards contributes to improving the company's financial performance

Recommendations:

1. The need to increase interest in disclosing non-financial data and expand this by issuing separate reports from the final financial reports.
2. The need to adopt international accounting standards as approved accounting rules to determine the net results in the tax system in order to increase the tax burden and thus increase the effectiveness of the tax system.
3. The need to publish the complete annual financial reports, accompanied by all the clarifications, without deleting any of them, because they are considered an integral part of the financial reports, as well as because they contain all items of information needed by the different groups.

Conclusion

In this paper, I have studied the details of International Accounting Standards and its innovations and challenges. The use of international accounting standards in global arena was patiently waited in order to actively use in business, financial aspects, private sector etc. Currently the new innovations in International Accounting Standards and Taxation System resulted into rapid growth of using the International Accounting Standards and Taxation System. During this paper I highlighted advantages of using the International Accounting Standards, its future challenges.

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