

The effect of tax legislations and their amendments on the quality of the financial statements submitted to the Income and Sales Tax Department of Government of Jordan

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Abstract: This study aims to measure the effect of the tax legislations and its continuous amendments which are represented in the tax laws, regulations and instructions issued there under, which govern the process of tax audit while auditing of the accounts (financial statements) which are submitted to the income and sales tax department in Jordan to determine the amount of taxable income. As it is known before, tax legislation which is one of the most important elements of the tax audit process has a major role in improving the quality of the financial statements submitted to the Department. It has been observed that Income and Sales tax collectors are obliged to hold fundamental accounts according to Article 23(a) which stipulates that the taxpayer is committed to organize the required records and documents to determine the amount of tax payable on the condition that it is prepared in accordance with International Accounting Standards and audited and certified by a legal accountant which must be retained for a period of four years (1 Income Tax Law No. 28 of 2009). Therefore, this study will seek to measure the effect of these legislations and amendments to raise the quality of the presented financial statements to the department in subsequent years by auditing them by the Department to determine the taxable income to be paid by the taxpayer. The study has proved that tax legislations play an efficient role and provide positive results which contribute to enhance the quality of submitted documents to the Department in previous years.

Keywords: Tax, Tax audit and Tax payer.

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I. Introduction

Today, Income and sales tax is considered one of the most important sources of revenue for developing countries. This requires monitoring and intensive attention in order to review effective tax audit procedures practiced by the tax authorities in these countries, which means "a process consisting of several successive works, each business is considered a result of previous work, and a legal introduction to the successive work. Therefore, the tax assessor aims to determine the fairness of the financial statements presented in the tax declaration using the audit methods derived from the rules of auditing (Muhammad Mahmud Husso, Auditing for Tax Purposes, Al-Najah National University 2005).

Subject to the provisions of Articles 5 and 6 of the Jordanian Income Tax Law, the taxpayer shall be obliged to organize the required records and documents to determine the required amount of tax, but it should be prepared in accordance with the International Accounting Standards (IAS) and must be audited and certified by a licensed legal accountant or practicing auditing profession (Instructions for Regulating Records and Documents No. 4 of 2011 issued according to the provisions of Articles 23, 24 of Income Tax law No. 28 of 2009). For the purposes of accounting, information from financial statements such as credibility and reliability must be ascertained with regard to administrative decisions and maintains standards to make accounting information useful for users so as to achieve the desired goals. (Fouad Mohamed Laithi, Qualitative Characteristics of Accounting Information, Accounting Theory, Dar Al-Nahda Al Arabiya, Second Edition 2002, 2003)

Therefore, several specialized accounting boards have put in consistent efforts to issue various accounting standards that guide the management of the company to adhere to its standards in the process of recognition of the nature of business operations on which it is based and to disclose accounting information (Zaher Shafer Al Qashi, Accounting Standards Towards Fair Values, Al Zaytoonah Journal of Scientific Research, No. 2, 2004, p. 6).

In this study, the impact of tax legislation and its amendments shall be studied which are considered as the most important element in the process of tax audit of the financial statements This defines the quality of tax returns submitted to the Income and Sales Tax Department annually along with payment of taxable amount by

the taxpayer. Any positive effects found shall contribute to enhancing the quality of financial reporting and making appropriate decisions that may be required by the tax authorities while auditing various industrial and commercial sectors with regards to determining their real income.

II. Review of Literature

Tax auditing is considered as a type of audit appointment that gives the highest degree of reasonable certainty to the financial statements with respect to the determination of taxable income (ACS Publications, *Advanced Auditing Concepts*, Amman, 2001, p. 34). This is a procedure that consists of a series of successive works and each work is considered a result of previous work along with a legal introduction to carry out the work that follows. Hence, the tax assessor verifies the credibility and fairness of the financial statements submitted along with a tax declaration through the tax audit methods and recognition and compliance of auditing standards.

Thus, some of the previous studies that examined this topic can be summarized as follows:

Mohammad Mahmood Husso (2005) in his article entitled "Auditing for Tax Purposes" aimed to achieve tax control through the establishment of an effective tax control system by linking the relationship between the standards of the system and auditing standards for the various aspects of auditing activities currently practiced in economic units in Palestine or countries where taxes are one of the revenue sources. The study showed that the establishment of an effective tax audit system to combat Tax fraud and fraud in the accounts are not only in punitive means in the tax laws, but in the good use of the tax administration of available resources. One of the most important recommendations of the study is to coordinate between the tax legislation and the professional constitution of the Association of Chartered Accountants to find stringent legal articles against violators and smugglers from holding official accounts according to the law.

Qout Jassim Yousef Hamadeh (2014) in the article entitled "The extent of the tax auditor's compliance with the requirements of the auditing profession and the impact of this in improving the effectiveness of the tax audit" aimed at determining the impact of the tax auditor's compliance with auditing requirements in improving the effectiveness of the audit from the point of view of the auditors and the employees of the audit offices in the State of Kuwait. The study reached a number of results, the most prominent of which are: a statistically significant effect of the tax auditor's compliance with the requirements of practice the audit profession (legislative requirements, personal requirements, and functional requirements) improves the effectiveness of the tax audit from the point of view of auditors working in the offices Coordination. In light of these findings, the study recommended that tax legislation in the State of Kuwait should address the international auditing standards and agreed auditing standards in order to improve the effectiveness of the tax audit in various aspects such as the procedures and methods of auditing, preparing the report and the qualifications and qualifications of the tax auditor and urged him to take the necessary professional care.

Al-Zubi (2010) in the article entitled "The Effect of Ethical, Psychological and Social Factors on the Level of Tax Compliance from the Income Tax Perspective in Jordan" investigated the impact of ethical, psychological and social factors on the level of tax compliance. In Jordan's income tax assessors' perspective, the study population was one of Jordan's income tax authorities. A questionnaire was designed for this purpose. The descriptive statistics methods were used to analyze the data and test the hypotheses. There were a number of results, including: that there was an impact on the level of tax compliance (ethics, integrity, honesty, compliance with ethical rules). And that psychological factors (sense of shame, positive feeling towards taxation, sense of fairness of distribution, sense of national duty and sense of guilt) had an effect on the level of tax compliance. It also showed that social factors (sense of responsibility towards the state and society, society's negative view of tax evaders and respect for social norms) had an impact on the level of tax compliance. The results also indicated that the perceptions of income tax assessors in Jordan for the level of tax compliance were average. The study recommended the need to strengthen ethical principles and raise tax awareness among taxpayers, and to announce the names of tax evaders through the various media.

A study by **Abdul Wahab Musa Al-Jaali Mohammed (2010)** after the companies were judged on the degree of disclosure in the financial statements and the achievement of the quality of accounting information aimed to identify the impact of companies on accounting disclosure in stock markets and benefit from corporate governance in improving the quality of accounting information. The study results showed that applying the concept of corporate governance helped to have an effective accounting system that took into account the interest of all parties. In terms of corporate governance in Sudan, the conditions of the Sudanese economic environment were consistent.

Objectives of the Study:

1. To understand the tax legislations and amendments brought by the tax authorities in regard with the quality of financial statements.
2. To determine and analyze the effect of tax legislations and their amendments on the quality of the financial statements submitted to the Income and Sales Tax Department.

Hypothesis of the Study:

H₀: There is no statistically significant effect at the level of (0.05) of the tax legislation on the quality of the financial statements of the industrial companies listed on the Amman Stock Exchange.

H₁: There is a statistically significant effect at the level of ($\alpha \geq 0.05$) of the tax legislation on the quality of the financial statements of industrial companies listed on the Amman Stock Exchange.

Research methodology

Study sample

The study sample was chosen absolutely from the population study; among whom, there were 179 tax auditors, 47 supervisory location experts of tax audit acts which comprised industrial, commercial and services sectors. The questionnaire was prepared and distributed in the senior and intermediate directorate's taxpayers from commercial, industrial and service sectors with a focus on the industrial sector.

Small taxpayers were excluded from the study sample because they did not handle assets bookkeeper and the study sample (226) included tax auditor, the head of section, manager and supervisor tax auditor.

Table 1: Community and study sample as per the Directorate & Designation.

Directorate	Total number of employees in the Directorate	Director	Head of Department	Head of Division	Checker	Number of study sample	Percentage of study sample
Senior taxpayers	66	1	4	6	48	59	89%
Commercial 1	58	1	4	4	38	47	81%
Commercial 2	54	1	4	4	30	39	72%
Industrial	53	1	4	4	23	32	60%
Service	64	1	4	4	40	49	76%
Total	295	5	20	22	179	226	226/295=76.6%

Variables used for the Study:

- a. Variable independent tax legislation.
- b. Continued quality of the financial statements.

Statistical tools used for the Study

After distributing the questionnaire to the study sample and gathering the necessary information with regard to the objectives of the research, SPSS (Statistical Package for Social Science) and other appropriate statistical tests were used in order to analyze the data collected.

The research method used in this study is the questionnaire survey. It was selected in order to receive as many responses as possible from qualified respondents. The questionnaire asked about the actual performance of audit committees in Jordanian public listed companies. The respondents were told to answer the questions based on their own experience in practice, and not necessarily what is required by laws or governance codes. The questionnaire used a five choices Likert-scale, with value 1 being assigned for strong disagreement, and value 5 for strong agreement. In addition to personal background questions, the questionnaire consisted of five groups of questions. These groups included the characteristics of audit committees, audit committee responsibilities regarding financial statements, general supervision, internal auditing, and external auditing.

Impact of Tax Legislations and its amendments on Quality of Financial Statements

The questionnaire primarily covered the degree to which Tax auditors in Jordan possess qualities necessary for them to perform their required roles according to Jordanian regulations and any other international-recognized best practices. These Tax auditor characteristics include financial and industry knowledge of tax legislations and income and Sales Tax Laws and their responsibility and desire to perform duties effectively. Table below summarizes the respondents' views on these issues.

Table 2: Mean and Standards Deviation of Tax Legislations and its amendments

Sl. No.	Statement	Mean	Std. Deviation
S1	Tax legislations are comprehensible and unambiguous.	3.98	0.758
S2	Tax legislations adhere to advanced adjustments process in a tax audit.	3.56	0.920
S3	Tax legislations compel the persons concerned to maintain the asset accounts in accordance with the international accounting standards.	3.87	0.808
S4	Tax legislations are used in compliance with other related legislations	3.58	0.793
S5	Tax systems and regulations are amended regularly in order to fill and avoid any gaps present in Income and Sales Tax Law	3.54	0.910
S6	Tax legislations enforce or create a binding on the taxpayers to disclose their actual income	3.57	0.883
S7	There are legal provisions under which an additional tax shall be put in case the persons concerned refuse to maintain the asset accounts.	4.32	0.582
S8	The Law maintains a balance between general treasury and taxpayer's interest	3.49	0.825
S9	The tasks and responsibilities of a tax auditor and joint-stock companies are limited by Law	3.92	0.602
	Average mean for all the statements	3.76	

The above table 2 exhibits the mean and standard deviation of views of respondents when impact of Tax legislations on Quality of Financial Statements was measured. Legislations with respect to tax are formulated by every country with an aim to ensure compliance and payment of taxes. The statement S7 was the highest supported among the respondents which stated that there were legal provisions under which an additional tax shall be put in case the persons concerned refuse to maintain asset accounts. Respondents opined that Tax legislations were comprehensible and unambiguous. It is notable that the tax law was considered to be clear and comprehensible by the respondents as this would augment complying with the law. The tasks and responsibilities of a tax auditor are important as they play a big role in administering all internal audits and ensure compliance. The tax audit should ensure compliance to all statutes and analyze accounting systems and evaluate all tax controls to assist to reduce taxes. But the least supported statement was S8 which stated that the law maintains a balance between general treasury and taxpayer's interest. This is likely to indicate that the tax legislations can be made stricter yet easy to understand and comply.

Results of Hypothesis testing:

H₀: There is no effect of tax legislation on the quality of the financial statements of selected public companies in Jordan.

Table 3(a): Descriptive statistics for Tax Legislation Factors

Variable	N	Mean	Std. Deviation	Std. Error Mean
Tax Legislation Factors	215	33.8279	5.02081	.34242

Table 3(b): Results of one-sample 't' test for mean Tax Legislation Factors

Variable	Test Value = 36			
Tax Legislation Factors	t	df	P value	Mean Difference
	-6.343	214	.000	-2.17209

When one sample t test was performed to verify the impact of Tax Legislation Factors on quality of financial statements, taking 36 as standard, it was found that Tax Legislation Factors was lesser than the expected. The observed mean for Tax Legislation Factors was 33.927 as against expected 36.0 scores. 't' value of 6.343 was found to be significant at 0.000 level. In other words, there is need to enhance tax legislations and enact stricter rules so that the taxpayers abide by the rules and do not evade tax. The statistical results showed that the independent variable (tax legislation) accounted for 15.5% of the variance for the dependent variable (the quality of the financial statements of industrial joint stock companies listed on the Amman Stock Exchange). Hence, the null hypothesis is rejected and alternate hypothesis is accepted.

The variable Tax Legislation and its amendments have a statistically significant linear relationship ($p < .001$) which means that the direction of the relationship is positive and the variables tend to increase together.

III. Conclusion:

The study found that there was an effect of tax legislation on improving the quality of the financial statements submitted to the Income and Sales Tax Department. The researcher found that tax legislation that regulates the organization of required records and documents prepared in accordance with International Accounting Standards eliminates all differences and enhances the quality of financial reporting, credibility and ability to meet the needs of the users. The development of tax legislation in the standards of tax audit is updated and in order to avoid frauds and any malpractices, the Tax legislation imposes more fines on companies that do not hold official and original accounts and those who evade taxes. The researcher suggested adoption of better policies to strengthen the trust between taxpayers and Income and Sales Tax Department.

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