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Research Article

AN INVESTIGATION INTO THE RELATIONSHIP BETWEEN EXTENT OF ANNUAL ADJUSTMENTS AND DIFFERENCE ON DIAGNOSTIC AND DECLARATION TAXES IN THE COMPANIES LISTED IN TEHRAN STOCK EXCHANGE

Majid Rivandi and *Mohammad Reza Abdoli
Department of Accounting, Shahrood Branch, Islamic Azad University, Shahrood, Iran
**Author for Correspondence*

ABSTRACT
The present research aims to examine the relationship between extent of Annual Adjustments and difference on diagnostic and declaration taxes in the companies listed in Tehran stock exchange. The sample group has been selected using random sampling method. Information of these companies has been extracted during five years, and then the collected data has been calculated using software Excel and analyzed using software Eviews. As the present research seeks to examine extent of Annual Adjustments and difference on diagnostic and declaration taxes in the companies listed in Tehran stock exchange, thereby the descriptive method using correlation test and regression has been used to examine the relationship between these two variables. The results indicated that there is a significant relationship between extent of annual adjustments and extent of difference on diagnostic and declaration taxes. On the other hand, there is a significant relationship between frequency of annual adjustments and extent of difference on diagnostic and declaration taxes. In other words, the coefficient of determination adjusted for the first hypothesis, the research showed. 60% of the difference between the tax changes and diagnostic tools listed companies in the stock market depends on the amount of annual adjustments. The second hypothesis is also adjusted coefficient of determination showed that 54% of changes in tax differences and diagnostic tools listed companies in exchange for annual adjustments will depend on the frequency. These results suggest the companies that distort financial, legal, tax and other distortions are higher, the difference between the taxes with the tax expression is diagnostic.

Keywords: *Annual Adjustments, Diagnostic Taxes, Declaration Taxes*

INTRODUCTION
One of the qualitative characteristics of the financial statements has been regarded as the capability to compare it. To acquire this characteristic, consistency is essential on how the accounting practice works out at each financial period or from one financial period to the next financial period. On the other hand, in another section of the accounting standards, an emphasis has been put on this point that the financial statements must encompass comparative figure at the previous period except the cases in which an accounting standard has allowed another's practice.
Then, with regard to the necessity of representation of comparative figure and maintenance of consistency from a period to the next period, it is expected that the figure proposed for each of financial elements in the financial reports at current period be equal to the proposed revised figure for the same case in the financial reports in the next year; yet in some cases, due to some causes referred in following, this equality does not come true. Inequality of the first figures of financial statements with the proposed revision figures generally derives from one or several cases of the factors of change in the process of accounting, errors, revision in the estimates by management and change in classification of figures (Saei *et al.,* 2013). Empirically identifying the effect of taxes on capital structure is challenging owing to a variety of endogeneity problems. Using variation in state corporate income taxes helps overcome these challenges. Unlike changes in federal tax rates, which occur infrequently and affect all firms at the same time, changes in state tax rates are both numerous and affect only a subset of firms at a time: those doing business in the state concerned. The staggered nature of state tax changes thus provides a set of counterfactuals for how leverage would have evolved in the absence of a tax change and so allows us to

disentangle the effect of taxes on leverage from other forces shaping debt policy (Florian and Alexander, 2015).

Further, with regard to socioeconomic outcomes from use of tax planning and change of balance in power between market and various states, individuals and organizations around the world especially Europe, the issue of taxes is considered as an inseparable segment in the second generation (Harari *et al*., 2012). Clear information can be known as one of the means for managers' accountability. The more distribution of information increases within communities, the possibility for decision making and accountability in the private and public sector on how the training and consuming occur increases and the possibility for growth of corruption decreases (Vishwanath and Kaufmann, 1999). On the other hand, companies will work out successfully in their accountability to the beneficiaries, and as the result supply of clear information causes exact calculation of taxes (Abdoli *et al*., 2013). In a very influential paper, Slemrod (1990) notes that ‘‘[. . .] in its current state, optimal tax theory is incomplete as a guide to action concerning the [. . .] critical issues in tax policy. It is incomplete because it has not yet come to terms with taxation as a system of coercively collecting revenues from individuals who will tend to resist’’.1 In short, the theory of optimal taxation presumes that taxes can be fully enforced, but the literature on tax compliance clearly demonstrates that this assumption is not realistic (see, for example Andreoni *et al*., 1998). As a result, the empirical relevance of optimal tax theory and its impact on practical tax policy are weak (Slemrod, 1990). Indeed, the normative policy implications derived from the existing theory may be misleading when tax evasion is feasible. A distortionary commodity tax in fact may become part of the optimal tax policy when an efficient income tax can be evaded, but the distortionary commodity tax cannot be evaded (Gueth and Sausgruber, 2004). 2 Furthermore, the theory of optimal taxation has placed a very low emphasis on the intrinsic motivations of why people pay taxes, i.e. on tax morale (Gueth and Sausgruber, 2004; Torgler and Schaltegger, 2005). The concept of tax morale was introduced in the tax compliance literature to resolve the tax compliance puzzle, i.e. to explain the high degree of tax compliance in the presence in many countries of a very low deterrence level (Torgler, 2007; Slemrod, 2007). A high tax morale (individual attitude) does not necessarily translate into a high level of tax compliance (individual behavior); nevertheless, several studies show that tax morale has a significant positive effect on tax compliance decisions (see e.g. Cummings *et al*., 2009; Halla, 2012; Molero and Pujol, 2012). Hence, there is a strong need to incorporate behavioral aspects of tax compliance into the debate on optimal tax policy (Gueth and Sausgruber, 2004; Torgler and Schaltegger, 2005). In this study, an investigation into the relationship between extent of annual adjustments and difference on diagnostic and declaration taxes in the companies listed in Tehran stock exchange is considered.

Theoretical Background and Literature Review

Independent Variable

Annual Adjustments

Annual adjustments imply the figures associated to the annuals considered in adjusted profit before Accumulated, limited to the figures which derive from change in the accounting process and modification of errors. Annual adjustments do not encompass the repeated modifications and adjustments of the estimates in previous annuals (Mousavi, 2010).

Frequency of Annual Adjustments

Frequency of annual adjustments implies the number of times a company has had adjustment during five years ago, that the least and most times can be 0 to 5 times, respectively.

Dependant Variable

Taxes

Taxes are called to a figure that the government takes it from individuals, companies and institutions based on the law to supply the expenditures, that the main feature of taxes can be impartiality and lack of balance between taxes and value of public services (Ghorbani, 2012).

Difference between* Diagnostic and Declaration *Taxes

The companies, based on their knowledge and understanding, has organized the tax declaration and determined the tax debt and cost using the tax rules, and has reported what obtained in their loss, interest and balance sheet. Yet, the consideration fulfilled by the auditors at tax department based on their recognition from the tax rules that the managers might not be informed of them, is used to determine the taxes in companies. In most of companies, these figures associated to the debt of taxes in companies differ from each other, and it is called to the difference on diagnostic and declaration taxes. These information are revealed in the note of taxes in companies (Safra, 2006). This variable is acquired from the difference between diagnostic and declaration taxes.

Literature Review

Lanis and Richardson (2011) examined the effects of boards on biased tax policies. Results of logit regression for the selected sample consisting of 32 companies indicated that a high share of foreign members in boards reduces the possibility of biased behaviors.

The least regression squares indicate susceptibility of analysis on 401 companies and confirm the leading results about merging the boards and tax behaviors. Alastair, Miguel & Ping 2011 examined this issue "whether difference on quality indicators of auditing in large accounting enterprises against small enterprises associates to unique characteristics?". One of the quality indicators of accounting has been abnormal accruals under study.

They perceived that there is no significant difference on effects of big accounting enterprises on accruals compared to the effects of small accounting enterprises on accruals.

Modares and ZareianBorji (2013) conducted a study entitled "an investigation into the information content: difference between declaration and definite taxes and its connection with quality of interest within companies". Followed by an investigation into the extent of correlation in difference on declaration and definite taxes within companies, the difference on value of stock market and stock return will be seen. Further, this study considers this issue that how is the extent of correlation in difference on declaration and definite taxes within the companies with low interest quality with the value of market share.

The results of research indicate that there is not a significant relationship between difference on declaration and definite taxes with the value of market share and stock return. Further, in the companies with the low-interest quality, difference between declaration and definite taxes does not play a major role in evaluation of companies' function.

The reasons which can be forecasted for lack of effect on value of stock market lie on the difference between declaration interest and income calculated by the tax affairs organization.

MATERIALS AND METHODS

Research Method

This study, concerning the nature of an investigation into the relationship between variables, is an applied research, for which f-test, t-test and regression have been used to test hypotheses.

In an investigation into the information, firstly descriptive analysis of data and testing of hypotheses have been considered.

Further, software Excel is used to analyze data and Panel data is used to test hypotheses. This study has been conducted during 2006 to 2012.

RESULTS AND DISCUSSION

Empirical Results

An Investigation into the Research Hypotheses

Testing the First Hypothesis

H0: there is not a significant relationship between extent of Annual Adjustments and difference on diagnostic and declaration taxes in the companies listed in Tehran stock exchange

H1: there is a significant relationship between extent of Annual Adjustments and difference on diagnostic and declaration taxes in the companies listed in Tehran stock exchange

$0 = H_0 : \rho$

$$H_1 : \rho \neq 0$$

Firstly, this hypothesis has been tested using the regression test without involvement of the control variables. The results from this investigation have been indicated in table below.

Table 1: Summary of results from regression of the first hypothesis without involvement of control variables

Variable	r-squared	Std. Error	t-statistics	f-statistics	F probability	Mean	Durbin-Watson statistic	Sig
Annual adjustments	0.60	0.01	20.81	26.18	0.000	30287.83	1.75	0.000

With regard to table above, the results of t-test were tested at probability 95% and significant level (0.000), as the result H0 is rejected and H1 is accepted concerning the relationship between extent of Annual Adjustments and difference on diagnostic and declaration taxes in the companies listed in Tehran stock exchange. Further, R-squared indicates validity of regression which equals to 0.60, that the more this coefficient is close to 1, the power of justification for the regression will be indicated. In other words, 60% of changes in difference on diagnostic and declaration taxes in the companies listed in Tehran stock exchange rely on the extent of annual adjustments. Further, Durbin-Watson statistic equals to 1.75 indicating that all the effects associate to the independent variable of extent of annual adjustment. Furthermore, t-statistics indicate validity of regression slop, because its probability is under 0.05, thereby the regression is valid and H1 is confirmed.

Testing the Second Hypothesis

H0: there is not a significant relationship between frequency of Annual Adjustments and difference on diagnostic and declaration taxes in the companies listed in Tehran stock exchange

H1: there is a significant relationship between frequency of Annual Adjustments and difference on diagnostic and declaration taxes in the companies listed in Tehran stock exchange

$0 = H_0 : \rho$

$$H_1 : \rho \neq 0$$

Firstly, this hypothesis has been tested using the regression test without involvement of the control variables. The results from this investigation have been indicated in table below.

Table 2: Summary of results from regression of the second hypothesis without involvement of control variables

Variable	r-squared	Std. Error	t-statistics	f-statistics	F probability	Mean	Durbin-Watson statistic	Sig
Frequency of Annual adjustments	0.54	1217.76	5.91	0.0002	30737.05	1.08	26.43	0.000

With regard to table above, the results of t-test were tested at probability 95% and significant level (0.000), as the result H0 is rejected and H1 is accepted concerning the relationship between frequency of Annual Adjustments and difference on diagnostic and declaration taxes in the companies listed in Tehran stock exchange. Further, R-squared indicates validity of regression which equals to 0.54, that the more this coefficient is close to 1, the power of justification for the regression will be indicated. In other words, 54% of changes in difference on diagnostic and declaration taxes in the companies listed in Tehran stock exchange rely on the frequency of annual adjustments. Further, Durbin-Watson statistic equals to 1.08 indicating that all the effects associate to the independent variable of extent of annual adjustment. Furthermore, t-statistics indicate validity of regression slop, because its probability is under 0.05, thereby the regression is valid and H1 is confirmed.

Table 3: Summary of results from regression of extent of annual adjustments, frequency of annual adjustments with difference on the declaration taxes

Variable	r-squared	Std. Error	t-statistics	f-statistics	F probability	Mean	Durbin-Watson statistic	Sig
extent of annual	0.63	0.01	14.10	26.17	0.00002	30737.05	1.55	0.0000
adjustments, frequency of annual adjustments with difference on the declaration taxes		1095.58	3.37					0.0008

Conclusion
One of the qualitative characteristics of the financial statements has been regarded as the capability to compare it. To acquire this characteristic, consistency is essential on how the accounting practice works out at each financial period or from one financial period to the next financial period. On the other hand, in another section of the accounting standards, an emphasis has been put on this point that the financial statements must encompass comparative figure at the previous period except the cases in which an accounting standard has allowed another's practice. Then, with regard to the necessity of representation of comparative figure and maintenance of consistency from a period to the next period, it is expected that the figure proposed for each of financial elements in the financial reports at current period be equal to the proposed revised figure for the same case in the financial reports in the next year; yet in some cases, due to some causes referred in following, this equality does not come true.

Analysis of the First Hypothesis
With regard to the results from regression test which were tested at the probability level (95%) and significance level (0.000) concerning that the significance level is under 0.05, there is a significant relationship between extent of annual adjustments and difference on diagnostic and declaration taxes in the companies listed in Tehran stock exchange. Further, it can say that a correlation exists between these two variables including extent of annual adjustments and difference on diagnostic and declaration taxes. With regard to the adjusted determination coefficient (0.60), it can say that 60% of changes in difference on diagnostic and declaration taxes in the companies listed in Tehran stock exchange rely on the extent of annual adjustments.

Analysis of the Second Hypothesis
With regard to the results from regression test which were tested at the probability level (95%) and significance level (0.000) concerning that the significance level is under 0.05, there is a significant relationship between frequency of annual adjustments and difference on diagnostic and declaration taxes in the companies listed in Tehran stock exchange. Further, it can say that a correlation exists between these two variables including frequency of annual adjustments and difference on diagnostic and declaration taxes. With regard to the adjusted determination coefficient (0.60), it can say that 60% of changes in difference on diagnostic and declaration taxes in the companies listed in Tehran stock exchange rely on the extent of annual adjustments. With regard to the adjusted determination coefficient (0.54), it can say that 54% of changes in difference on diagnostic and declaration taxes in the companies listed in Tehran stock exchange rely on the frequency of annual adjustments. With regard to the results from two hypothesis and value of adjusted determination coefficient(0.60) for the first test and value of adjusted determination coefficient(0.54) for the second test, it can deduce that extent of annual

adjustments than frequency of annual adjustments affects more difference on diagnostic and declaration taxes. The results from this hypothesis are contradictory to the results of study by Safar (2010).

Since the financial statements as the most important financial information set each company are doubts about the reliability of the above information is the result of a conflict of interest, For companies in the world today is very harmful because it makes the be eliminated from the carousel of competition. One of the main reasons for this omission, the lack of direct access to the information users is one of the most important Tax issue. Recent trends in tax reform, a strong focus on minimizing the effects of distorted tax policies, in order to maintain the competitiveness of the economy. Diversification reduces tax rates in order to reduce unwanted distortion in relative prices, according to the Justice horizontal instead of vertical equity, simplify taxes, expand the tax base, lower rates and a variety of new approaches to limit the role of taxes and tax reform programs companies in order to get reliable information is. Should consider the simplification of the tax system is one of the key goals of tax reform programs in various countries. This is not only because of the complexity of the costs of compliance and tax evasion but the income tax system will be considered a big obstacle to fairness and efficiency. According to the explanations given in this study, we tried, we tax the difference between the expression levels of annual adjustments to the diagnostic check So that we can reduce the gap between taxes and diagnostic expression and its correlation with annual adjustments study. It can be a good theoretical foundation for other research, as the results show, the annual adjustment in reducing the gap between taxes and diagnostic expression is very fruitful.

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