



## The reality of The Accounting and Tax Treatment of the value added tax (VAT): A field study in an economic institution in the state of Tlemcen during the period (2015-2021)

Lotfi MEGHELLI \*

University of Abu Bakr Belkaid  
Tlemcen, Algeria

*lotfi.meghelli@univ-tlemcen.dz*

Salim Badreddine BENLOULOU

University of Abu Bakr Belkaid  
Tlemcen, Algeria

*salimbadraddin.benloulou@univ-tlemcen.dz*

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### Abstract :

The aim of this study is to identify the accounting treatment of the value-added Tax in the economic institution according to the financial accounting system and the Algerian tax system, as well as to show its impact on the financial position of the institution. In order to achieve this goal, some concepts related to the value-added tax, how to calculate and account for it, and how to declare it to the tax administration have been discussed.

In order to reach the goal of the study, the descriptive and analytical method was followed in the first topic, while in the second topic, a case study method was adopted with the aim of projecting the theoretical study on the reality of the economic institution. It was concluded that the calculation and payment of the amount of the value-added tax by the economic institution does not reflect its true financial position, i.e. it does not take into account the costing capacity of the economic institution.

**Key Words:** the value added tax, tax declaration, accounting treatment.

**JEL Classification :** M41, E62

\* Corresponding author: MEGHELLI Lotfi (*lotfi.meghelli@univ-tlemcen.dz*)

### Introduction :

Taxes are of great importance in all economies, as they are one of the main sources of state revenue that they use to spend on public services to achieve prosperity and economic development. It is also worth saying that the role of the tax is no longer limited to achieving financial profitability only, but also has an impact on the political side. The economic and social of the state in order to achieve the desired goals.

Many writings also indicate that accounting is not born today, but that it has roots throughout history, as accounting is considered a link between the institution and the tax administration, as it contributes to providing it with all data and information related to the institution's activity, and gives a true and accurate picture to all those interested in its affairs internally and externally.

The value-added tax is one of the components of the Algerian tax system, as it witnessed an important financial development, as it constitutes one of the most



effective sources of government revenues, and this tax occupies a fundamental place in public finances. For this, it was deemed essential to provide some answers to the following research question:

“What is the reality of the accounting and tax treatment of the value-added tax in the economic institution?”

**Research aims:** In addition to answering the research question, the research seeks to study and analyze the rules of accounting treatment for the value added tax in the economic enterprise and to highlight the various operations carried out by the accountant as well as shed light on what actually exists and compare it with what is theoretically studied.

**Research Methodology:** To achieve the desired goal, the descriptive analytical method was used to suit the quality of the topic studied, in addition to the case study.

## **I. Theoretical aspect of the value-added tax:**

“The value-added tax appeared in Algeria, and it is among the indirect taxes that are imposed on the turnover, according to Article 65 of Law 36-90 dated 31/12/1990 containing the Finance Law of 1991, and the general rules related to the value-added tax were established.

The method of applying the value-added tax was detailed and specified, according to Articles 72-99 of Law No. 91-25 of 18/12/1991 that includes the Finance Law of 1992” (2014-2013, ثابتي, p. 163).

### **1. Definition of value added tax and its characteristics:**

#### **1.1. Definition of value added tax:**

“Before defining the value-added tax, the concept of added value must be defined, which lies in "the difference between the value of the total production of the production unit and the value of the intermediate production requirements that it obtained and used in its production operations during a specific period of time” (2017, لطفي, p. 184)

“The value-added tax is defined as an indirect tax imposed on the turnover, i.e. on sales of final goods and services, and the tax rate is unified on all goods sold” (ثابتي, 2014-2013, p. 163).

#### **1.2. The characteristics of the value-added tax:**

“The value added tax has the following characteristics:

- a real tax, as it relates to the use of income, i.e. to expenses or to the final consumption of goods and services;
- An indirect tax, that is paid to the treasury not directly from the final consumer, who is considered the real debtor, but from the institution that is the legal debtor that guarantees the production and distribution of goods and services;
- proportional tax value, which is collected in proportion to the value of the products, and not based on the physical quality of the product;
- A tax paid according to the segmented payments mechanism, where pertains the added value tax to granted to the product only;



- A tax that depends on the deduction mechanism, i.e. applied by the debtor calculating the tax due in sales or in the provision of services, deducting from it the tax that includes the elements forming the cost price, and then paying the difference between the collected tax and the discounted tax;

- Tax neutral, for legitimate debtors, since it is borne by the final consumer”. ( لظفي, 2017, p. 185).

## 2. Persons subject to the value-added tax:

“The status of subject to the tax arises from the realization of operations related to industrial, commercial, artisan or free activity, i.e. every person who performs operations existing in the field of applying the value-added tax is considered subject to tax, whether these operations are actually paid or exempt.

The concept of the taxable person is of particular importance in the value-added tax system, since the taxable person is the one who carries the calculated tax to his customers after calculating it, i.e. adds it to the selling price, and thus guarantees the collection of the tax.

The producers, wholesalers, retailers and subsidiary companies are subject to the value-added tax” (2017, لظفي, pp. 185-186).

## 3. The rates of the value-added tax and how they are calculated:

### 3.1. Value Added Tax Rates:

**Normal rate:** “the value added tax is collected at the standard rate of 19%”. ( المادة 2022 , من قانون الرسوم على رقم الأعمال , 2022 )

**Reduced rate:** “The reduced rate for the value-added tax is set at 9%”. ( المادة 23 من , 2022 , قانون الرسوم على رقم الأعمال )

**Table 1 : « The evolution of value-added tax rates in Algeria during the period (1992-2017)»**

-	1992	1995	1997	2001	2017
<b>The rate Special Reduced</b>	7%	7%	7%	7%	9%
<b>Reduced rate</b>	13%	13%	14%	cancelled	cancelled
<b>Normal rate</b>	21%	21%	21%	17%	19%
<b>The high rate</b>	40%	cancelled	cancelled	cancelled	cancelled

**Source:** Prepared by researchers based on financial laws for the years: 1992, 1995, 1997, 2001, 2017.

### 3.2. Calculating the value-added tax:

“The value added tax is calculated by following steps:

The first step, the tax due on sales is calculated by multiplying the appropriate rate by the turnover outside the tax;

The second step, extracts the deductible tax for the various purchases made while respecting the deadlines;

The third step is to calculate the tax to be paid by calculating the difference between the tax due on sales and the deductible tax on purchases.



Accordingly, three cases of this difference can be distinguished:

The first case, the value of the tax due is greater than the value of the deductible tax. In this case, the institution must pay the amount of the tax to be paid within a maximum deadline of twenty (20) of the following month.

In the second case, the value of the due tax is equal to the deductible tax, and in this case the institution does not pay any amount.

The third case, the value of the tax due is smaller than the value of the deductible tax, in this case the institution has the right of direction of the tax administration; Therefore, she does not pay any amount. This right is settled by following up the tax due on sales for the coming months.

The no-payment of the value-added tax by the institution, according to the second and third cases, does not prevent it from filing the tax declaration within the deadlines specified by law.

The tax declaration used for the declaration of the value-added tax is represented in Series No. 50 (G50), and the declaration is deposited at the level of the tax administration to which the institution's headquarters belongs, within the first twenty days following the end of the operations of the month concerned with the declaration". (2017, لطفي, p. 192)

#### 4. Accounting registration:

##### 4.1. The refunded tax on purchases and services:

###### Purchase of goods and services:

<b>38.. 44561</b>	<b>401</b>	Purchases stored Vat Returnable for goods and services inventory and service providers <b>Purchase invoice No....</b>	xxx xxx	xxx
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###### Purchase of fixed assets:

<b>2.. 44562</b>	<b>404</b>	fixed assets Vat Refundable on fixed assets Suppliers of fixed assets <b>Purchase invoice No....</b>	xxx xxx	xxx
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##### 4.2. The tax collected on sales:

<b>600</b>	<b>30</b>	Purchases of sold goods Goods stock	xxx	xxx
<b>411</b>	<b>700 4457</b>	Customers Sales of merchandise VAT collected <b>invoice No....</b>	xxx	xxx xxx



#### 4.3. Registration of the tax declaration (the status of the due taxes is greater than the refunded):

<b>4457</b>		The due of the value-added tax	xxx	
	<b>4456</b>	Value added tax refundable		xxx
	<b>44577</b>	Value added tax payable		xxx

#### 4.4. Registration of the tax declaration (the status of the due tax is less than the refunded):

<b>4457</b>		The due of the value-added tax	xxx	
<b>44566</b>		Advance of the Value added tax	xxx	
	<b>4456</b>	Value added tax refundable		xxx

#### 4.5. liquidation stage of the value added tax:

<b>4457</b>		VAT collected	xxx	
	<b>4456</b>	VAT refundable		xxx
	<b>4458</b>	VAT payable		xxx
		<b>Process of liquidation of the value-added tax</b>		
<b>4458</b>		VAT payable	xxx	
	<b>512</b>	Bank		xxx
		<b>Pay the due tax</b>		

## II. The field study of the accounting treatment of the value-added tax (VAT):

1. Calculation of the value-added tax: the turnover for the month of December 2017

1.1. The value-added tax collected for the month of December 2017:

\* Production:

Table 2: « The value-added tax collected in relation to the production process»

Designation	Turnover HT (D.Z.D)	The value-added tax at a rate of 19% (D.Z.D)	The value-added tax at a rate of 9% (D.Z.D)	The value-added tax Approximate (D.Z.D)
<b>Company Headquarters</b>	226,017	-	20,341.53	<b>20,342</b>
<b>Attachment in Algiers the capital</b>	2,268,553.5	431,025.18	-	<b>431,025</b>
<b>Attachment Chetouane Tlemcen</b>	14,640,758.6	2,781,744.13	-	<b>2,781,744</b>
<b>Total</b>	<b>17,135,329.10</b>	<b>3,212,769.31</b>	<b>20,341.53</b>	<b>3,233,111</b>

Source: Information provided by the organization's accountant.



## \* Resale as is:

Table 3 : « The value-added tax collected for resale as is»

Designation	Turnover HT (D.Z.D)	The value-added tax at a rate of 19% (D.Z.D)	The value-added tax Approximate (D.Z.D)
Attachment Chetouane Tlemcen resale as is	2,835,746,06	538,791.76	<b>538,792</b>

Source: Information provided by the organization's accountant

## 1.2. The deductions of value-added tax on purchases:

Table 4 : « The deductions of value-added tax on purchases »

-	Goods and Services (D.Z.D)		depreciable property (D.Z.D)		Total (D.Z.D)
	19%	9%	19%	9%	
<b>Amount</b>	<b>3,252,164.43</b>	-	<b>55,537.00</b>	-	<b>3,307,701.43</b>

Source: Information provided by the organization's accountant

We know that:

- **Approximate of The amount of deductions = 3,307,701 D.Z.D. (Table N° 4)**
- **Previous Precompte = 0.00 D.Z.D**

✓ **Total of deductions: 3,307,701 D.Z.D**

From Table No. (2) and Table No. (3):

- **The value-added tax collected for the month of December 2017 =**

3,233,111 + 538,792 = **3,771,903 DZD.****The value-added tax for payment in December 2017=**

<i>The value-added tax to pay = The value-added tax collected - Total of deductions</i>
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**The value-added tax to pay = 3,771,903 – 3,307,701 = 464.202 D.Z.D****2. Accounting entry:**

44571		VAT Collected from (Rate of 19%)	<b>3,751,561</b>	
44572		VAT Collected from (Rate of 9%)	<b>20,341</b>	
	44562	VAT Refundable from the depreciation		<b>55,537</b>
	44566	VAT Refundable from Purchases of goods and services		<b>3,252,164</b>
	44551	VAT payable		<b>464,202</b>



### 3. Tax declaration:

The tax declaration used for the declaration of the value-added tax is represented with the Series No. 50 (G50), and the declaration is deposited at the level of the tax administration (C.D.I) to which the institution's headquarters is affiliated, within the first twenty (20) days following the end of the operations of the month concerned with the declaration.

### 4. The burden of the value-added tax on the economic institution under study during the period 2015-2021:

**Table 5 : « The rate burden of the value-added tax on the economic institution for the period (2015-2021)»**

Years	Net turnover	Value of the VAT value-added tax paid	The result ordinary before taxes	The rate burden tax
<b>2015</b>	296,781,051.60	4,379,363.00	14,295,854.12	30.63%
<b>2016</b>	266,018,329.12	12,588,178.00	10,079,277.95	124.89%
<b>2017</b>	261,443,013.92	14,683,673.00	-646,954.90	-2,269.66 %
<b>2018</b>	312,662,100.33	10,049,173.00	4,385,551.06	229.14%
<b>2019</b>	315,420,334.17	17,013,942.00	5,686,873.81	299.18%
<b>2020</b>	254,185,026.35	13,046,441.00	-1,316,426.20	-991.05 %
<b>2021</b>	275,655,351.58	23,953,893.00	8,011,560.62	298.99%

Source: Prepared by the researchers based on the data provided by the institution's accountant

**Table analysis:** Through the previous table we note:

- **In 2015:** the value-added tax for the year 2015 was estimated at 4,379,363,00 DZD, which represents 1.48% of the value of the turnover, which was estimated at 296,781,051.60 DZD, and represented 30.63% of the value of The result ordinary before taxes, which was estimated at 14,295,854.12 DZD.

**In 2016:** The result ordinary before taxes for the year was estimated at 10,079,277.95 DZD, and the value-added tax paid was estimated at 12,588,178.00 DZD, i.e. 4.73% of the realized turnover estimated at 266,018,329.12 DZD.

• Starting from the beginning of 2017, the “value-added tax shall be collected at the normal rate of 19%” (2022، قانون الرسوم على رقم الأعمال، المادة 21)، “And The reduced rate of the value-added tax is set at 9%” (2022، قانون الرسوم على رقم الأعمال، المادة 23).

**In 2017:** The institution under study opened an annex in the city of Oran in order to expand its activity, which led to achieving a loss in the year, it paid the value-added tax 14,683,673.00 DZD, representing 5.62% of the turnover, which was estimated 261,443,013.92 DZD.

**In 2018:** the value-added tax for the year 2018 was estimated at 10,049,173.00 DZD, which represents 3.21% of the value of the turnover, which was estimated at 312,662,100.33 DZD, and represented 229.14% of The value of result ordinary before taxes, which was estimated at 4,385,551.06 DZD. What shows the lifting



effect rate of the the value-added tax from 17% to 19% for the normal rate, and from 7% to 9% for the reduced rate.

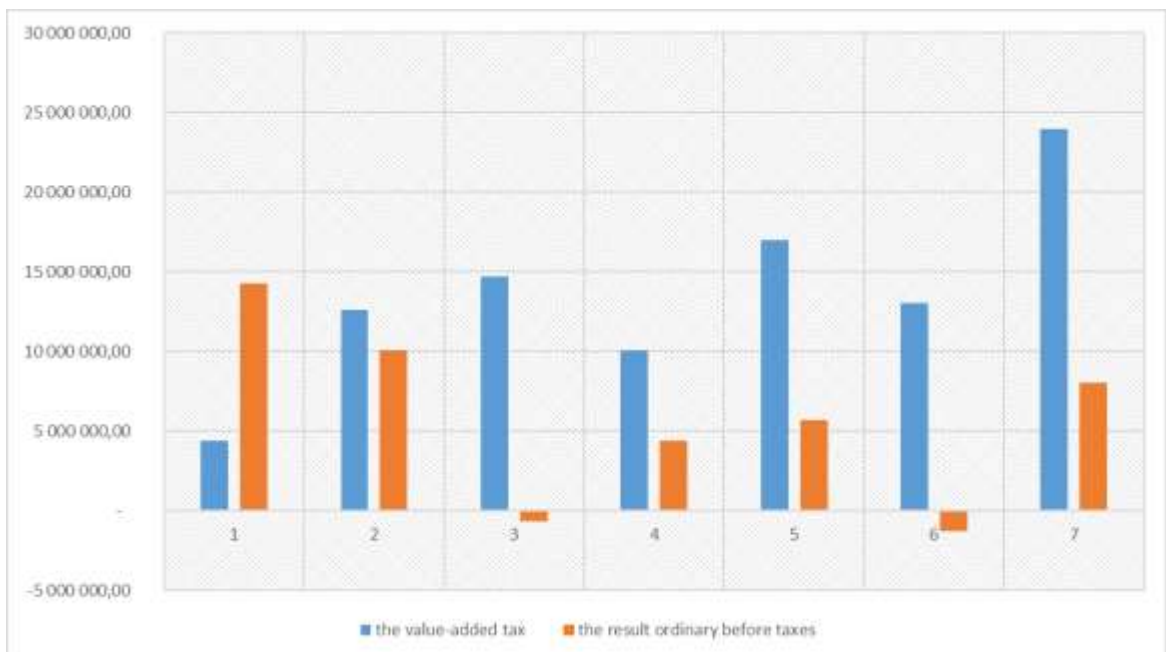
**In 2019:** the value-added tax for the year 2019 was estimated at 17,013,942,00 DZD, representing 5.39% of the value of the turnover, which was estimated at 315,420,334.17 DZD, while the value of result ordinary before taxes was estimated at 5,686,873.81 DZD.

**In 2020:** Although the institution achieved a loss in the year, it paid the value-added tax 13,046,441.00 DZD, which represents 5.13% of the turnover, which was estimated at 254,185,026.35 DZD.

**In 2021:** the value-added tax for the year 2021 was estimated at 23,953,893.00 DZD, which represents 8.69% of the value of the turnover, which was estimated at 275,655,351.58 DZD, while the value of the result ordinary before taxes was estimated at 8,011,560.62 DZD.

- Through the following figure, we will clarify the value of the value-added tax in the institution under study compared to the result ordinary before taxes during the period 2015-2021.

**Fig. 1 : « The Value-Added Tax of the economic institution for the period (2015-2021) compared to the result ordinary before taxes »**



**Source:** Created by researchers.

From the previous table and figure, we can conclude the following:

- The value-added tax is considered an indirect tax, that is, it is paid to the tax administration not directly from the final consumer, but the economic institution plays the mediating role in this process.





- The calculation and payment of the amount of the value-added tax by the economic institution does not reflect its real financial position, in other words in the year 2017 and 2020, although the institution recorded a loss in its financial results, but it paid the value-added tax, and therefore the value-added tax does not take into consideration the costing capacity of the economic institution, It is imposed on goods and services without taking into account the circumstances assigned to them.

**In 2020:**

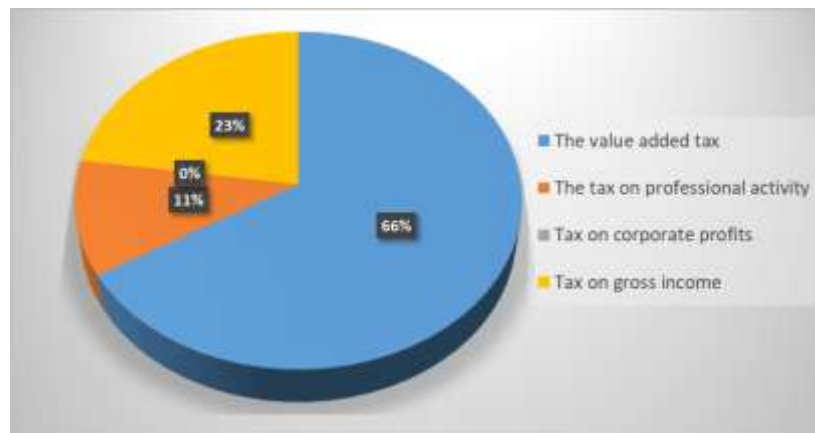
**Table 6: « The value of the various taxes paid by the economic institution during the year 2020»**

-	2020	%
<b>The value added tax</b>	13,046,441.00	66.34 %
<b>The tax on professional activity</b>	2,156,742.00	10.97 %
<b>Tax on corporate profits</b>	0.00	0.00 %
<b>Tax on gross income</b>	4,462,632.14	22.69 %
<b>Total</b>	<b>19,665,815.14</b>	<b>100.00 %</b>

Source: Prepared by researchers based on data provided by the institution's accountant.

**Table analysis:** The table shows the value and rate of the tax burden for the various taxes paid by the economic institution under study during the year 2020, as the value-added tax, the professional activity tax, the tax on corporate profits and the tax on gross income are estimated respectively by: 13,046,441.00 DZD; 2,156,742.00 DZD; 0.00 DZD; 4,462,632.14 DZD.

**Fig. 2: « The percentage of various taxes paid by the economic institution during the year 2020 »**



Source: Created by researchers.



From Table (6) and Figure (2), we can conclude the following:

- The value-added tax, the professional activity tax, the corporate profit tax, and the gross income tax paid by the economic institution during the year of 2020 were estimated respectively at the following rates: 66%, 11%, 0%, and 23%.

**In 2021:**

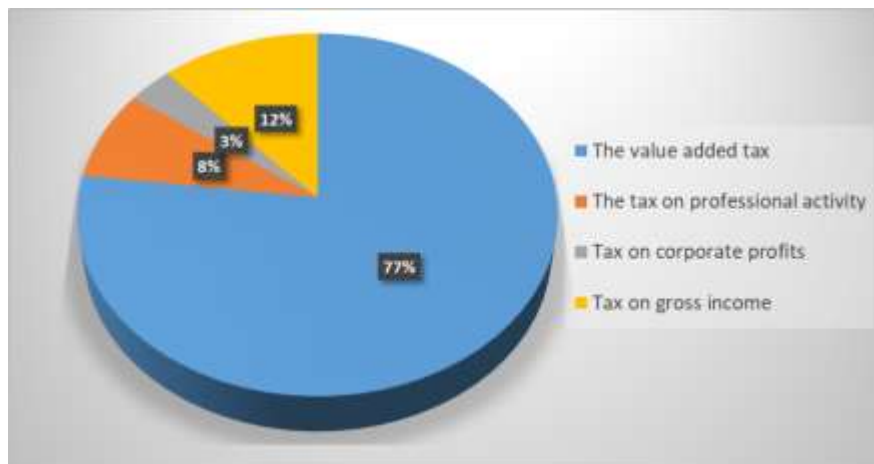
**Table 7: « The value of the various taxes paid by the economic institution during the year 2021 »**

-	2021	%
<b>The value added tax</b>	23,953,893.00	76.97 %
<b>The tax on professional activity</b>	2,469,800.00	7.94 %
<b>Tax on corporate profits</b>	1,042,699.84	3.35 %
<b>Tax on gross income</b>	3,654,904.95	11.74 %
<b>Total</b>	<b>31,121,297.79</b>	<b>100.00 %</b>

Source: Prepared by researchers based on data provided by the institution's accountant.

**Table analysis:** The table shows the value and rate of the tax burden for the various taxes paid by the economic institution under study during the year 2021, as the value-added tax, the professional activity tax, the tax on corporate profits and the tax on gross income are estimated respectively by: 23,953,893.00 DZD; 2,469,800.00 DZD; 1,042,699.84 DZD; 3,654,904.95 DZD.

**Fig. 3: « The percentage of various taxes paid by the economic institution during the year 2021 »**



Source: Created by researchers.

From Table (7) and Figure (3), we can conclude the following:

- The value-added tax, the professional activity tax, the corporate profit tax, and the gross income tax paid by the economic institution during the year of 2021 were estimated respectively at the following rates: 77%, 8%, 3%, and 12%.



### Conclusion:

Through this research paper, in which the accounting and fiscal treatment of the value-added tax was addressed between the stability of accounting legislation and the continuous amendments to the law of tax on turnover, which requires the financial accounting system to be flexible enough to enable it to embrace these amendments.

Also, The calculation and payment of the amount of the value-added tax by the economic institution does not reflect its real financial position, in other words in the year 2017 and 2020, although the institution recorded a loss in its financial results, but it paid the value-added tax, and therefore the value-added tax does not take into consideration the costing capacity of the economic institution, It is imposed on goods and services without taking into account the circumstances assigned to them.

To clarify, the subject of our research came to shed light on the value-added tax imposed on the economic institution, how it is calculated, its accounting treatment as well as its declaration to the tax administration, where our study consisted in addressing the problem posed, represented in: "What is the reality of the accounting and tax treatment of the value-added tax in the economic institution?"

On this basis, we have tried to study the theoretical side of the subject of our research on the one hand, and on the ground in one of the economic institutions on the other hand.

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