

Accounting treatment of taxes according to the Algerian fiscal system and SCF

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Abstract:

The aim of the study is to identify the accounting and tax treatment of taxes and duties in the economic institution according to the financial accounting system.

In order to achieve effective goals, a field study is applied in an economic institution in the district of Tlemcen. Some concepts related to the different taxes and duties were discussed by the way of calculating and treating them in the economic institution, in addition to the way of declaring them at the tax administration.

It was found that in order to achieve the objectives of the institution on the one hand and the objectives of the fiscal administration on the other hand, it is necessary to adapt the tax laws and legislation with the financial accounting system, this is done to achieve compatibility between the two systems.

Key words: The financial accounting system, tax system, gross income, corporate profits, professional activity.

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Introduction :

Taxes are of great importance in all economies, as they are one of the main sources of state revenue that it uses to spend on public services to achieve prosperity and economic development, especially direct taxes are one of the most important sources of funding for the state treasury, enabling it to perform its tasks. It is also worthily that the role of the tax is no longer limited to achieving financial profitability only, but it also has an impact on the political, economic and social aspect of the state in order to achieve the desired goals.

Many reports also indicate that accounting is not born today, but rather has roots throughout history, as it gradually developed with the increase of its need until it became a science that is based on rules, principles and concepts as a result of development in economic and social conditions, as it occupies an important position in the life in the economic institution. The institution relies on for being a basic means of communication and the first source of financial information for making decisions, and accounting treatment in economic institutions can be considered a main tool to know what is going on inside them, and to give a true and accurate picture to all those interested in its affairs internally and externally.

For this reason, the financial accounting system has given a primary position to this user through a set of accounts directed to the treatment of taxes. In this context, the direct tax and fees law have seen continuous periodic changes; no financial law is therefore devoid of fiscal amendments for aiming at enhancing tax collection.

Determining the tax result in the economic institution, which is related to calculating the tax on corporate profits, is based on the

accounting result after the treatment process in accordance with the principles and rules of the Algerian tax system, by the tax result.

Research problem: This research paper tries to deal with the following question:

“What are the stages of accounting treatment of the result according to the Algerian tax system in the economic institution?”

Research goals:

In addition to answering the research question, this research seeks to study and analyze the rules of accounting treatment for the tax on corporate profits in the economic institution and to highlight the various operations carried out by the accountant, as well as to shed light on what actually they exist and comparing with the theoretical study.

Research Methodology:

To achieve the desired goal of this scientific research, the descriptive analytical method was used, due to its suitability to the quality of the studied issue.

1- Theoretical aspect of the corporate profit tax (IBS)

1-1. The concept and characteristics of the tax on corporate profits.

A- The concept of tax on corporate profits

“Article 135 of the Direct Taxes and Similar Fees Law states that: An annual tax shall be established on the total profits or income generated by companies and other legal persons referred to in Article 136. This tax shall be called “corporate profits tax.” (Article 135, 2020)

B- Characteristics of tax on corporate profits

Accordingly, the characteristics of the tax on corporate profits can be extracted:

- a) **Single tax:** because it relates to a single tax imposed on legal persons.
- b) **General tax:** it is imposed on the total profits without distinguishing their nature.
- c) **Annual tax:** its basis includes a profit for one closed year.
- d) **Proportional tax:** for the tax profit that is subjected to a single rate and not to a progressive schedule.

A tax that depends on: the obligatory declaration of the taxpayer by sending his tax budget to the tax inspector before the first of April of each year following the year of making the profit. (CHALGHOUM, 2012, p. 16)

1-2. Scope of tax application on corporate profits

A- Scope of application of tax on corporate profits:

“The tax is imposed on the profits exist in Algeria, whether those profits are for national companies or foreign companies located in Algeria, according to the principle of the territoriality of the tax as a result of the abolishment of the previous distinction between national companies and foreign companies, as well as the case of public companies and private companies”. (CHABANI, 2017)

B- The basis for taxation of corporate profits:

They are considered profits achieved in Algeria in particular:

- Profits realized by of all companies, which practice normal activity of an industrial, commercial or agricultural nature when there is no permanent residence.

- Profits of institutions that hire Algerian representatives who do not have a distinct professional personality from these institutions.
- Profits of establishments, even if they do not have a residence or specific representatives, but they directly or indirectly practice an activity that is the completion of a full circle of business operations.
- If an enterprise simultaneously carries out its activity in Algeria and outside the national territory, the profit achieved from production operations or from sales operations when necessary carried out in Algeria, it is recognized in it, except in the case of proof of the opposite by holding two different accounts”. (Article 137, 2020)

3-2 Tax rates on corporate profits:

Companies subject to corporate profit tax are charged the following rates:

A- Normal rate:

“This normal rate has undergone several changes since 1991 to the present day, as a result of the fiscal reforms implemented by the Algerian authorities. This rate was 42% in 1992, then it was reduced to 38% in 1994, (Article 16 of the Finance Act of 1994, 1994), “ And then it knew another reduction in 1999 to 30%, (Article 14, 1999) “ The second half of the year 2006 was also marked by a reduction, bringing the rate to 25% through the Finance Law, and it was within two rates: 25% and 19%, starting from the second half of 2008 (Lotfi, 2017, p. 29)

a- “The tax rate on corporate profits is determined as follows:

- 19%, for merchandise production activities;
- 23%, for construction, public works and irrigation activities, as well as tourism and baths activities, excluding travel agencies;

- 26%, relative to other activities.

Legal individuals who are subject to corporate profits tax and who engage in several activities at the same time, must provide a separate accounting for these activities, allowing the determination of the share of profits for each activity appropriate to the applicable corporate profit tax rate.

Failure to respect the maintenance of separate accounting leads to the systematic application of a rate of 26% (Article 150 , 2020)

B- Special rates: Determining the rate of deductions from the source for the tax on corporate profits as follows: (Article 150, 2020)

Table 1: Rates of withholding to source for tax subject on corporate profits and activities.

Subject activities	The rate
<ul style="list-style-type: none"> - Debts returns, deposits and guarantees. - As for the amounts received by foreign shipping companies if their countries of origin impose tax on the Algerian shipping companies. However, as soon as these countries apply a high or minimum percentage, the rule of reciprocity is applied to them. 	10%
<ul style="list-style-type: none"> - As for the amounts collected by the establishments within the framework of the management contract that is subject to deduction from the source. This deduction has an editorial character. 	20%
<ul style="list-style-type: none"> - Amounts received by foreign institutions that do not have permanent professional establishments in Algeria within the framework of services rendering deals, for the amounts paid for services of every kind performed or used in Algeria or proceeds paid to inventors residing abroad, either under the concession of a license to exploit their patents, or by the assignment or concession of a mark, style, or formula. 	24%

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- In regard to the incomes resulting from the bonds of non-nominal funds or to their bearer, this deduction has a written character.	40%
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Source: People's Democratic Republic of Algeria, Ministry of Finance, Directorate General of Taxes, Article 150 of the Direct Taxes and Similar Fees Law 2020.

2-4 Taxable bases for corporate profits:

The taxable bases for corporate profits are the net profit resulting from the difference between the revenue generated by the corporation and the burdens resulting from the exercise of the activity.

The rate shall be applied to the tax profit, which is equal to the accounting profit authorized by the institution in addition to the costs rejected by the tax administration, and from exemptions or reductions, if they are deducted:

$$\text{Tax profit} = \text{accounting profit} + \text{refunds} - \text{discounts}$$

The accounting profit is the difference between the revenues and costs recorded according to their nature during the fiscal year. As for the refunds, they represent those costs that were included in the accounting profit account. However, the tax administration may reject them permanently or temporarily, because they are not considered exploitative expenses, or they exceed the maximum limit specified by the tax administration. As for the Discounts, they are those costs that are not included in the accounting profit, and the tax administration considers them costs subtracted from the institution's revenues" (Lotfi, 2017, p. 18)

The taxable profit is determined after deducting all costs, in addition to taking into account the following elements:

- General expenses of any nature, rent amounts of real estate rented by the Corporation, expenses of employees and labor, subject to

the provisions of Article 169 of the Direct Taxes Law and similar fees;

- Taxes paid by the corporation during the fiscal year, excluding the tax on corporate profits.
- Provisions formed on inventory accounts and third party accounts, to meet clearly established burdens and losses, which are expected to occur as a result of current events, provided that they are actually recorded in the accounts of the financial year, and shown in the institution's provisioning table.” (Article 141, 2020)

2-5- How to pay tax on corporate profits:

Corporate tax is paid in two ways:

1- Automatic payment system (temporary advances):

This method is considered one of the most important ways to pay the tax, as the tax is calculated according to this system by the taxpayer himself, and it is paid automatically to the tax treasury without prior notice from the tax administration.

2- Source truncation system:

This system includes some income related to the tax on corporate profits, as was previously exposed in the rates subject to tax on corporate profits.

The automatic payment system consists of three temporary advances, to be paid during the same financial year, and a settlement balance to be paid after the closing of the financial year.” (Algerian tax system: taxes on corporate profits, P: 10)

Table 2: Dates of Payment of Advances to Tax on Corporate Profits.

Advances	Payment date
first advance	From February 20 to March 20
second advance	From 20 May to 20 June
The third advance	From October 20 to November 20
settlement balance(Adjustment Balance)	April 30th of the following year as the last date

Source: Algerian tax system: taxes on corporate profits, P: 10.

The value of the advances is calculated on the basis of 30% of the tax profit declared in the last financial year, bearing in mind that the first advance is calculated on the basis of the previous financial year in the event that the tax profit for the previous financial year is not determined, and it is adjusted upon the second advance.

Therefore, the advances are calculated as follows:

First advance = tax profit for the year (N-2) x tax rate x 30%

Second advance = tax profit for the year (N-1) x tax rate x 30% -(tax profit for year (N-2) x tax rate x 30% - tax profit for year (N-1) x tax rate x 30 %)

Second advance = [2 x tax profit for the year (N-1) - tax profit for the year (N-2)] x tax rate x 30%

Third advance: tax profit for the year (N-1) x tax rate x 30%

Adjustment Balance = (Profit for the year (n) x tax rate) – the sum of the three advances paid.

From the foregoing, three cases can be observed:

- The first case: the sum of the temporary advances equals the tax amount, which is a rarely, in this case there is no settlement balance.
- The second case: the sum of the temporary advances is less than the amount of the tax due, in this case the balance of the settlement is positive, that is, the taxpayer must pay the difference between the value of the tax and what was paid in the advances.
- The third case: The sum of the advances is greater than the amount of tax, and therefore the settlement balance is negative, and thus that balance is recovered from the advance of the next year or the settlement balance for the next year.

In the case of newly established companies, advances are calculated on the basis of 30% of the tax calculated from the taxable profit assessed at 5% of the required social capital.

- Declaring tax on corporate profits:

Corporations is subjected to corporate profit tax must submit the declaration of **Series No. 04 (G04)** to the tax inspectorate in which their head offices is located, and the declaration of the amount of taxable profit relating to the previous fiscal year, before April 30 of the year following the year of making submissive profit” (Lotfi, 2017, p. 26)

3- A field study to address the accounting result in the economic institution in the state of Tlemcen

3.1 Calculation of tax on corporate profits

A- Calculation of the results of the institution for the year 2016:

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Table 3: Calculation of results for the year 2016

DESIGNATION	Debit	Creditor
Sales of merchandise		100,070,827
Sales of finished products		178,944,611
net turnover number		279,015,439
Stored Production or out of stock production		18,006,298
I. Production for the year		297,021,738
Consumable purchases	222,664,247	
External services and other consumables	12,041,113	
II. Exercise consumption	234,705,364	
III. The added value of the exploitation (I-II)		62,316,373
User burdens	27,160,215	
Taxes, fees and similar payments	3,906,339	
IV. Total surplus From exploitation		31,249,818
Other operational products		4,015,451
Other operational burdens	1,012,201	
Allotments for depreciation and provisions	20,321,290	
Resumption About value losses and provisions	-	
V. operative Result		13,931,778
financial products		5,287
financial burdens	2,171,802	
VI. Financial result	2,166,515	
VII. Normal result before taxes (V+VI)		11,765,262
VIII. Extraordinary result	-	-

Taxes to be paid on the result	2,300,001	
IX. The result Net from the financial year		9,465,261

Source: Calculation of results provided by the institution's accountant.

B- Calculating the tax on corporate profits:

$$\text{Corporate profit tax} = \text{tax profit} \times \text{tax rate}$$

Note that:

$$\text{Tax profit} = \text{accounting profit} + \text{refunds} - \text{discounts}$$

* **Accounting profit:** see Table No. (3) Calculation of results (VII. Normal result before taxes)

* **Refunds:** are costs that have been included in the accounting profit calculation, but are taxably rejected, because they are not considered exploitative expenses, or they exceed the maximum limit specified by the tax administration

* **Discounts:** they are costs that are not included in the accounting profit, as the fiscal administration considers them costs subtracted from the institution's revenues.

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Tax on corporate profits for the year 2016 =
 $870,229.57 + 1,429,771.81 = 2,300,001.38$ DZD

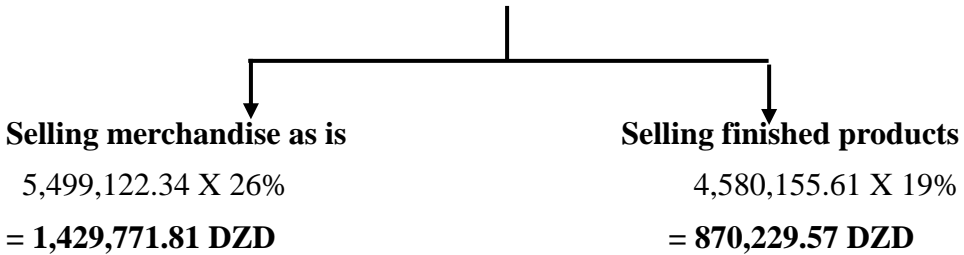
Accounting profit = 11,765,262.65 DZD

Refunds = 505,514 DZD +

Discounts = 2,191,498,70 DZD –

Tax profit = 10,079,277.95 DZD

This tax profit is divided as follows



* **The value of 3 advances for 2016** = 2,201,961 DZD

- Note that the value of the advances is calculated on the basis of 30% of the tax profit declared in the last fiscal year. (The institution's tax profit for the year **2015** was estimated at **7,339,870 dinars**).

- Bearing in mind that in the event that the tax profit for the past fiscal year is not determined, the first prepayment is calculated on the basis of the preceding fiscal year, and it is adjusted upon the second prepayment.

Adjustment Balance = Corporate Profit Tax 2016 – Total of the 3 advances paid

Adjustment balance = $2,300,001.38 - 2,201,961 = 98,040,38$ DZD

3-2 Dates of Payment of Advances to Tax on Corporate Profits

Table 4: Dates for the payment of advances to tax on corporate profits in the organization for the year 2016

advances	Payment date	Payment date	the amount (DZD)
first advance	From February 20 to March 20	08/03/2016	733,987
second advance	From 20 May to 20 June	06/06/2016	733,987
The third advance	From October 20 to November 20	16/11/2016	733,987
Adjustment Balance	April 30th of the following year as the last date	02/04/2017	98,040

Source: from the company

3-3 Accounting entry

- For the first advance:

Account number		08/03/2016	Amount		
Debit	Credit		Debit	Credit	
4441	51211	tax on results	the bank	733,987	733,987
		Pay the first advance by bank check			

- For the second advance:

account number		06/06/2016	Amount		
Debit	Credit		Debit	Credit	
4441	51211	tax on results	the bank	733,987	733,987
		Pay the second advance by bank check			

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- As for the third advance:

Account number		16/11/2016	Amount	
Debit	Credit		Debit	Credit
4441	51211	tax on results the bank Pay the third advance by bank check	733,987	733,987

- The process of proving the tax on corporate profits:

• For the sale of finished products:

Account number		31/12/2016	Amount	
Debit	Credit		Debit	Credit
6950	4440	Taxes on profits based on the results of normal activities tax on results The process of establishing the tax on corporate profits for the sale of finished products (4,580,155.61 x 19%)	870,229.57	870,229.57

• For the sale of goods as is:

Account number		31/12/2016	Amount	
Debit	Credit		Debit	Credit
6950	4442	Taxes on profits based on the results of normal activities tax on results The process of establishing the tax on corporate profits for the sale of goods as it is (5,499,122.34 x 26%)	1,429,771.81	1,429,771.81

As for the settlement balance: (Adjustment)

Account number		02/04/2017	Amount	
Debit	Credit		Debit	Credit
4440		Taxes on results (sale of finished products)	870,229.57	
4442		Taxes on results (goods sold as is)	1,420,771.81	
	4441	Taxes on results (the three advances)		2,201,961
	51211	the bank		98,040

3-4 Tax declaration

* The tax declaration for the three advances (1, 2 and 3) is made through series No. 50 (G50), according to the deadlines specified in Table No. (4)

* The settlement balance is declared through series No. 50 (G50), according to the deadlines specified in Table No. (4),

* Also, before April 30 of the year following the year of making the subject profit, the institution must subscribe to a permit represented in Series No. 04 (G04) for the tax administration to which its head office is located.

Conclusion:

Through this research paper, in which the accounting and tax treatment of corporate profits tax was discussed between the stability of accounting legislation and amendments in direct tax laws and similar fees, which calls for the financial accounting system to be sufficiently flexible to enable it to face these fiscal adjustments,

the most important possible results recorded through this study is the difference between accounting profit and fiscal profit, as it led to a difference in the tax result from the accounting result, which affects the tax on corporate profits, which has become

receiving great attention from companies and all economic dealers due to the volume of its cost as well as its impact on the financial level of the institution.

Through which it can tax the profits of companies from performing their tasks and achieving economic, social and political goals.

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