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The contribution of accounting verification to controlling the tax base: A case study at the tax center of Sétif

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Abstract:

This study aims to highlight the role of accounting verification in increasing the declared tax base; it is regarded as a means of tax control for company tax declarations, which helps to establish the actual tax base through a revaluation of the declared tax base.

To this end, we adopted a descriptive and analytical approach, studying the theoretical aspects of accounting verification and the tax base, and a practical case study at the tax centre in the wilaya of Sétif for the period 2021–2024.

The study highlighted the importance of the tax administration's use of accounting verification for control purposes in order to verify the reliability of the declared tax base and to detect errors, with the application of penalties

Keywords: tax control; accounting verification; tax base; tax; penalties.

JEL Classification Codes: **H20**, **H25**, **H26**

ملخص:

تهدف هذه الدراسة إلى إبراز مساهمة التحقيق المحاسبي في زيادة الوعاء الضريبي المصرح به، إذ يعد التحقيق المحاسبي وسيلة للرقابة الجبائية عن التصريحات الجبائية المتعلقة بالمؤسسة، مما يساهم في تأسيس الوعاء الضريبي الحقيقي من خلال تقويم الوعاء الضريبي المصرح به، وذالك بالاعتماد على المنهج الوصفي التحليلي، من خلال دراسة الجانب النظري المتعلق بالتحقيق المحاسبي والوعاء الضريبي والتطرق إلى ذالك ميدانيا من خلال دراسة حالة بمركز الضرائب لولاية سطيف خلال الفترة (2021-2024)، وتم التوصل من خلال الدراسة إلى أهمية استخدام التحقيق المحاسبي للرقابة من طرف الإدارة الجبائية للتحقق من مصداقية الوعاء الضريبي المصرح والكشف عن الأخطاء المرتكبة مع تطبيق العقوبات.

كلمات مفتاحية:الرقابة الجبائية، التحقيق المحاسبي، الوعاء الجبائي، الضريبة، الغرامات.

تصنيفات JEL: **H20**, **H25**, **H26**

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1. Introduction

The Algerian tax system is based on the principle of self-declaration system for various taxes and duties, which requires taxpayers to submit their tax declarations using the forms and series established by the tax administration, after determining their tax bases on which the taxes and duties to which they are subject are calculated. The role of the tax administration is essentially to verify the accuracy of these tax declarations by conducting an accounting verification designed to establish the accuracy of the declared tax bases and to correct any omissions by issuing tax assessments. Tax control procedures vary depending on the type of tax control used to protect the interests of the Treasury. This is the reason an accounting verification is considered one of the forms of detailed tax control targeting the taxes and duties due by taxpayers registered within the actual income declaration regime for a period not subject to the expiry period.

-Study problem

In consideration of the preceding, the following main question can be posed:

How can the tax control determine the accuracy of the declared tax base through an accounting verification**?**

-the subsidiary question

The following subsidiary questions can be posed:

- What is meant by the tax base in the Algerian tax system?

-What procedures does the tax administration use to ensure the legitimacy of its accounting verification?

-Does the accounting verification contribute to increasing the tax base**?**

-Hypotheses

In order to answer the main problem and subsidiary questions of the study, the following hypotheses are formulated:

- The concept of tax base varies depending on the type of taxes and duties payable by taxpayers;
- The Tax Administration conducts accounting verification in conformity with the legal and regulatory texts in order to ensure the validity of the control results.
- the accounting verification contributes to increasing the declared tax base in order to guarantee the effective rights of the Treasury;

- Importance of study

The importance of this study resides in presenting the various concepts relating to the tax base and those related to accounting verification in the context of tax control, in addition to highlighting their role in rectifying irregularities that may affect the declared tax base. The study also highlights the significance of this issue for Algerian economic enterprises, given the additional tax burdens resulting from the tax adjustments imposed by the tax administration as a result of this type of verification.

-Research Objectives

This study aims to achieve the next objectives:

- The methods employed to establish the tax base for taxes and duties payable
- A description of the accounting verification procedures for tax control, in accordance with various legislative and regulatory texts;
- The study of the contribution of accounting verification to increasing the declared tax base.

- Research methodology

The study will use a descriptive approach to present the conceptual framework of the tax base and accounting verification, and the connection between them, using previous studies and references on the subject. It will also use an analytical approach to interpret and analyze the ideas and information contained in the study. A case study approach was used to analyze and examine the content of documents from the studied company for the years 2021, 2022, 2023 and 2024.

2- The conceptual framework for the tax base and tax verification

The tax base is a key element of the technical organization of the tax. It is used to calculate taxes and duties, and they are declared directly to the tax administration based on the specific rules imposed by the tax law. These declarations can be verified by the tax administration as part of their main functions, and it can use various forms of tax control, including accounting verification.

2.1 The notion of the tax base

The tax base is the taxable matter that represents the economic element that forms the basis of taxation. The tax base is determined by establishing specific rules designed to identify the elements that are subject to tax. These taxable elements form the essential basis of the tax. (دردوري لحسن، لقليطي الأخضر، 2018، صفحة 116)

It can be defined as an estimate applied to the tax base to determine the basis for calculating the tax. It may take the form of a physical fact, such as a hectoliter of alcohol in indirect taxes, an economic fact, such as the volume of sales or income, or a legal fact, such as ownership in property transaction tax. The various characteristics relating to the tax base can be used to establish tax classifications. (Grosclaude, 2017, p. 9) Thus, the tax base is the subject of tax that is defined by tax law.

2.1. Methods for determining the tax base

The tax base is determined as follows:

2.1.1. Direct determination method

The tax base is established directly by the taxpayer himself, or through a declaration filed by a party other than the taxpayer.

A.Declaration by the taxpayer

This is considered today to be the accepted method for determining the taxable base. It is the procedure by which the taxpayer informs the tax administration of the existence and amount of the taxable base, and of all the elements necessary for calculating the tax, including family situation, deductible expenses, and other relevant details**.** (Diallo, 2013, p. 32).

B- Declaration filed by a party other than the taxpayer

To follow this method, the tax declaration must be submitted to the tax administration by a third party who has a legal relationship with the taxpayer.This method has many applications, such as when an employer submits a report that details all salaries and wages received by their workers during the year. The tax administration often deducts and collects these amounts before the employee receives them. This method is known as deduction at source(ثابتي، 2011-2012، صفحة 26) .

In view of the importance of this declaration, the tax law has also granted the tax administration the right to control these declarations.

2.1.2. Indirect determination method

A.Index-based method

The index-based assessment method, which involves assessing taxable income based on certain external signs of wealth established by the legislator. It is not used as the primary method of taxation, but it may be employed as a verification procedure when the tax administration finds that there is a disparity between a taxpayer's lifestyle and the income they report (Sophie, 2018, p. 217).

B. flat assessment method

It is an indirect and simple method that consists of determining the tax base by calculating specific elements of the tax base. Microenterprises can use this method to determine their taxable income from their activity, by applying a lump sum representing their expenses to their sales. It is still possible to submit an incomplete tax return using this imprecise method, but it can sometimes be advantageous. (Vassiliadis, 2024, p. 30). In accordance with Algerian tax law, taxpayers subject to flat-rate taxation whose annual professional revenue does not exceed eight million Algerian dinars (8.000.000 DA (الجريدة الرسمية العدد 100، 2022، صفحة 30) .

2.2. The accounting verification

2.2.1. Definition of accounting verification

An accounting verification is defined as an audit is a collection of operations designed to verify the tax declarations made by the taxpayer for closed fiscal years, to examine the accounts and compare them with certain facts or material details in order to verify their accuracy and compliance (DGI, 2026, p. 6).

An accounting verification is considered one of the key forms of tax control used by the tax administration to verify the accuracy of taxpayers’ declarations for closed fiscal years that are not expired and to conduct all necessary investigations concerning the establishment of the tax base. An accounting verification allows for a complete examination of all accounting documents and documents to reveal attempts to evade and avoid paying the various taxes and fees to which these taxpayers are subject, thus contributing to the protection of the public treasury's interests.

2.2.2. Objectives of the accounting verification

The Tax Administration is committed to performing its mission by imposing quality to achieve the objectives defined in order to expand the application of tax control, and by adopting this form of investigation to achieve the following objectives:

-Verify the validity, accuracy, and sincerity of the information included in the tax declarations submitted by the taxpayer;

- Audits help reduce opportunities for tax evasion;

-Increase voluntary compliance in order to reduce the massive number of tax litigation cases;

-Ensuring the application of the principles of responsibility and accountability by imposing the penalties stipulated by law for any violation of the regulations governing the relationship between the tax administration and taxpayers; (سمان علي، 2023-2022، صفحة 21) ؛

-Achieving social justice among taxpayers by establishing the principle of equality of taxation and reflecting the principle of solidarity through preventing evasion of social responsibilities; (قوشيش أمينة، 2023-2022، صفحة 41)

- Preserving public funds and ensuring the generation of maximum revenue to cover public expenditures, and supporting economic development and the economic prosperity of society;

- The reputation of the tax administration can be improved through the investigators' ability to detect tax evasion;

2.2.3. Legal conditions for conducting an accounting verification

The legal procedures that are the most significant are as follows (قانون الاجراءات الجبائية، 2026، الصفحات 11-12-13) :

- The accounting verification is conducted on the site where the company is located;
- The period of investigation at the place of investigation shall not exceed a period of time determined depending on the nature of the company's activities and its sales.
- The taxpayer must be notified of the investigation;
- The taxpayer must be notified of the results of the investigation;

-The tax administration may not initiate a new control for the same period for which the taxpayer's accounting documents have already been verified, except in the event of fraudulent practices or if the taxpayer has provided incomplete or false information.

3. A Case Study of a company at centre Tax of the Sétif for the Period 2021–2024

After presenting the theoretical framework of accounting verification and the tax base, as well as the relationship between these two concepts, the following part applies to a company's tax file, through the presentation and analysis of the results of an control conducted at a company registered with the tax centre in the wilaya of Sétif, as well as the impact of this control on the tax base declared by the company to the tax administration, which comprises the various taxes and duties to which the company is subject.

3.1. Presentation of the company's case study

The company subject to the study is a physical person whose commercial activity concerns public works, construction and industrial production; it is subject to a VAT rate of 19% and its head office is located in the wilaya of Sétif.

It has been programmed for a tax control covering the financial years 2021, 2022, 2023 and 2024, with the aim of verifying its tax and accounting declarations.

3.2. The contribution of accounting verification to increasing the Company's tax base

This analysis examines the tax adjustment issued by the control team in relation to the irregularities identified in the final notice sent to the company by the Sétif tax centre for the four-year period not subject to the expiry period.

The main taxes were examined: professional activity tax, value added tax, gross income tax of the category of commercial and industrial income.

3.2.1. The role of accounting verification in increasing a company's sales

The sale is one of the taxable elements declared by the company to the tax administration. It is subject to a tax control, which may take the form of an accounting verification.

A. the recognized increase in sales compared with the declared sales

A new tax base has been determined corresponding to the sales resulting from the accounting verification, as compared with the sales declared by the company, as shown in the following table:

Table(01) : percentage increase in sales recognized compared with declared sales

	2 021	**2 022**	**2 023**	**2 024**
sales recognised	439.085.789	364.681.454	403.741.583	523.227.276
sales declared G50	437.861.914	349.541.338	403.612.415	523.227.276
Undeclared sales	1.223.875	15.140.116	129.168	/
percentage increase %	0.27	4.33	0.03	/

Source. Prepared by the researchers based on the accounting verification file.

The table above reveals an increase in the tax base corresponding to undeclared sales following the implementation of accounting verification for all the years covered by the verification. The amount was highest in 2022, exceeding fifteen million dinars. Based on the accounting verification file, the elements supporting the adjustment are as follows:

-A review of purchase records for all years covered by the control, in the case of certain raw materials, revealed that purchases had not been declared, based on information obtained from suppliers. These discrepancies were treated as undeclared purchases, and the undeclared sales were recalculated by applying the declared value-added coefficient .

-An examination of the import file revealed that the purchase cost did not include ancillary costs relating to purchases of raw materials used in industrial production. Consequently, the unaccounted invoice amount is treated as undeclared purchases and the undeclared sales are calculated on the basis of the declared value-added coefficient .

B. Increase in value added tax and professional activity tax

The value-added tax, the professional activity tax, and the penalties stipulated by tax legislation can all be applied by increasing the tax base for undeclared sales.

- **Increase in professional activity tax**

-In 2021: the professional activity tax was imposed at a rate of 2% on undeclared sales, with a 25% reduction for public works and a rate of 1% for industrial activity.

-In 2023 and 2022: the professional activity tax was fixed at 1.5% of undeclared sales, with a 25% reduction for public works, but industrial production was exempt.

-in 2024: The Professional activity tax was abolished in 2024.

Table(02) : Increase in the Professional activity tax

	2021	**2022**	**2023**	**2024**
Undeclared sales	1.223.875	15.140.116	129.128	/
Rate of tax	(%75-2)	/	1.5%	/
Tax undeclared	18.358	/	1.453	/
Re-payment of tax relating to ETB activities	74 873	76.197	242.469	/
Total of tax	93.231	76.197	243.922	/
Penalty rate	15%	%15	% 25	/
Penalty	13.985	11.430	60.980	/
total	107.216	87.627	304.902	/

Source. Prepared by the researchers based on the accounting verification file

The table above indicates the next:

-the increase in the taxable sales base, resulting from an accounting verification has made the company taxable for business activity tax, with the total tax due for the three years exceeding DA 410.000;

-the application of tax penalties varying from 15% to 25% depending on the value of the tax due, which increases the company's tax debt.

- Tax law allows for a reduction in the tax related to the professional activity tax resulting from adjustments made within the context of the accounting verification;

-Tax law does not allow for a reduction in penalties related to the professional activity tax resulting from a correction in the accounting verification.

-Increase in value added tax and professional activity tax

VAT is imposed at a rate of 19% on sales of goods. However, it is not possible to claim deduction of VAT on non-declared purchases as the conditions for deduction stipulated in the tax legislation are not satisfied.

Table(03) : Increase in the VAT

	2021	**2022**	**2023**	**2024**
Undeclared sales	1.223.875	15.140.116	129.128	0
Rate of tax	19%	19%	19%	19%
Tax undeclared	232.523	2.876.622	24.534	
Re-payment of tax	0	185.124	425.683	1.012.873
Total of tax	232.523	3.061.746	450.217	1.012.873
Penalty rate	25%	25%	% 25	% 25
Penalty	58.134	765.437	112.554	253.218
total	**290.670**	**3.827.183**	**562.771**	**1.266.091**

Source: Prepared by the researchers based on the accounting verification file.

The table above indicates the next:

-As a result of the increase in the tax base for sales resulting from an accounting verification, the company became taxable for value added tax, with total tax due over four years exceeding DA 4.700.000;

- the imposition of tax penalties varying according to the value of the tax due, which has increased the company's tax debt.

- The company's violation of the conditions for deducting value added tax (VAT) on purchases and services included in its monthly declarations. This required the company to repay the VAT.

-Tax law does not allow for a reduction in penalties related to the VAT resulting from a correction in the accounting verification.

- It's important to mention that the 19% tax rate and the turnover-based taxable amount are both the highest among all taxes currently in place.

3.2.2. The role of accounting verification in increasing a company's taxable income

A. **The increase in the recognized taxable income compared to the declared taxable income**

A revised tax base has been determined, corresponding to the difference between the taxable income resulting from the accounting verification and the taxable income declared by the company, as shown in the following table

Table(04): **Increase in taxable income**

	2021	**2022**	**2023**	**2024**
Income declared	32 144 143	23 113 045	22 887 812	20 883 166
Reintegration				
Undeclared sales (undeclared purchases)	1.223.875	15.140.116	/	/
Undeclared sales (undeclared performance bond)	/	1.515.490	/	599.358
undeclared (undeclared work situation)	/	/	/	6.414.563
Unsubstantiated purchase invoices	3.809.465	/		879.251
Unsubstantiated depreciation	176.422	56.679	218.759	567.787
Undeclared income from a commitment to reinvest income	2.861.804	/	/	
Reinclude stamp duty	/	/	/	174.115
Total reintegration	8.071.866	16.712.285	218.759	8.635.074
Deduction				
Consumption of undeclared sales	993.325	12.050.395	0	0
Professional activity tax	18.358	0	0	0
Total deduction	1.001.683	12.050.395	0	0
income recognised	39.214.326	27.774.935	23.106.571	29.518.240
Undeclared income	7.070.183	4.661.890	218.759	8.635.074

Source: Prepared by the researchers based on the accounting verification file.

The table above indicates the next:

The tax base relating to undeclared taxable income has increased as a result of the accounting verification covering all the years covered by the audit, with the highest amount registered in 2024, at over 8,600,000 dinars .

The case file revealed the reasons for the adjustment, in particular the company's violation of the tax rules stipulated in the tax code.

B- Increase in gross income tax of the category of commercial and industrial income

The increase in the tax base resulting from undeclared income involves the taxation of gross income at the progressive rate, with the penalties stipulated by tax code.

Table(05) : Increase in the gross income tax

	2021	2022	2023	2024
Income recognised	**39.214.326**	**27.774.935**	**23.106.571**	**29.518.240**
Income declared	32 144 143	23.113.045	**22 887 812**	**20 883 166**
Tax on recognized income	13.487.414	9.483.627	7.849.700	10.093.784
Tax on declared income	11.012.850	7.851.866	7.773.134	7.071.508
Differences in tax	2.474.564	1.631.661	76.566	3.022.276
Penalty rate	25%	25%	15%	25%
penalties	618.641	407.915	11.485	755.569
Total	3.093.205	2.039.576	88.051	3.777.845

Source: Prepared by the researchers based on the accounting verification file

The table above indicates the next:

The increase in the tax base for taxable income resulting from the application of the accounting adjustment has caused the company to be taxed on its total revenue, with the total amount of tax due for four years exceeding DZD 7,200,000, to which are added tax penalties comprising between 15% and 25% of the tax debt, which further increases the organization's tax debt.

The tax on gross income recovered through the application of the accounting verification represents the main source of revenue compared to tax on professional activity and value added tax.

4. Conclusion

This study, which comprised practical and theoretical aspects, it is clear that the method of accounting verification within the context of tax control is capable of increasing the tax base for declared sales and taxable income, through the examination of tax and accounting declarations for a period not subject to the statute of limitations, as well as all taxes and duties, resulting in an increase in tax revenue.

4.1. The study results

The following findings were obtained through this study:

- A reduction in the tax base allowed by the tax administration, in the context of the self-declaration system, results in a reduction in the taxes and duties due;
-The tax administration has vast authority to exercise tax control to ensure that the declared tax base is correctly determined;
-The use of the accounting verification approach is particularly effective in the context of tax control, as it covers all years, taxes and duties;

- The application of the accounting verification will reveal undeclared sales and will consequently contribute to an increase in the tax base for value added tax and professional activity tax;
- The application of the accounting verification will reveal undeclared income and will consequently contribute to an increase in the tax base for Income tax;
- A company's violation of tax rules results in additional burdens in the form of tax penalties that cannot be deducted or reduced when determining the tax result.
- The company can benefit from its mistakes in tax declarations and avoid them in the future, which will improve its tax compliance and improve its performance indicators.
-The availability of technical resources, particularly the digitization of tax administration, helps to improve the effectiveness of controls tax;
- accounting verification are conducted within the authority conferred on the tax administration to protect the interests of the public treasury.

4.2. The study recommendations

This study leads to a number of recommendations, such as:
- the importance of accelerating the modernization of the tax administration at all levels, which will enable an increase in the number of tax files programmed for tax control, particularly accounting verification
- Enhance the working environment for tax inspectors and promote top candidates from inside the tax administration.
- The necessity of collaboration between tax inspectors and the company being audited in order to build and maintain a relationship based on mutual trust
- It is necessary to stabilize tax legislation by limiting changes to tax laws, in the interest of both the tax administration and taxpayers
- The many tax law adjustments included in the yearly Finance Act and the Supplementary Finance Act must be noted by the company represented in the case study.
- The company must conduct a tax audit of its tax declarations in order to avoid tax penalties that would increase its tax burden.

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