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Fiscal Reconciliation Qualitative Analysis: Bridging The Orientation Of Commercial Accounting And Tax Accounting In Financial Reporting

Iwa Karniwa
Master of Accounting Study Program, Postgraduate University of Pasundan, Bandung, Indonesia
E-mail: iwa.karniwa@unpas.ac.id

Abstract

Background. The philosophical and orientation differences between commercial accounting based on Financial Accounting Standards (SAK) and tax accounting based on tax regulations pose a financial reporting dilemma for business entities. Companies must provide stakeholders with reasonable financial performance information while fully complying with tax regulations.

Aims. This study aims to qualitatively analyze the role of fiscal reconciliation as a mechanism of cognitive harmonization and compliance that bridges these two orientations, with a specific focus on entertainment and donation expense accounts.

Methods. By using a descriptive qualitative approach through the library *research* method with content *analysis* techniques on the latest SAK regulations and the Income Tax Law (Income Tax Law).

Result. The results show that fiscal reconciliation functions as a qualitative bridge through positive and negative fiscal correction mechanisms. This process converts commercial profits into taxable income without altering or damaging the integrity of the commercial financial information required by investors.

Conclusion. Fiscal reconciliation is not just a mathematical calculation on paper, but a strategic qualitative instrument to minimize *compliance costs* and the risk of tax disputes.

Keywords: Commercial Accounting; Tax Accounting; Entertainment Expenses; Fiscal Reconciliation; Donations.

INTRODUCTION

Financial reporting is a crucial instrument in presenting transparent, relevant, and reliable economic information to *stakeholders*. However, in modern business practice, preparing financial statements often involves conceptual dilemmas because commercial accounting and tax (fiscal) accounting differ in orientation. Commercial accounting, guided by Financial Accounting Standards (SAK), focuses on presenting financial performance in a fair-value manner and reflecting economic substance (*substance over form*) for the benefit of investors, creditors, and the capital market. On the other hand, tax accounting focuses on optimizing state cash revenues and enforcing legal compliance under tax laws.

These philosophical differences create gaps in the criteria for *recognizing, measuring, and disclosing* income and expenses. As Mardiasmo (2016) notes, the disparity in objectives between fiscal regulation and business entities drives differences in how transaction recognition is determined. Commercial accounting applies the principles of accrual, *conservatism*, and matching expenses. Meanwhile, tax accounting prioritizes legal certainty, administrative simplicity, and the ability *to pay*. As a result, profit before tax under commercial accounting almost always differs from Taxable Income (PKP).

To bridge the gap between these two equally legitimate interests, entities must prepare a fiscal reconciliation. Meliala and Oetomo (2010) define fiscal reconciliation as a mechanism for adjusting commercial profits to fiscal profits. This adjustment is classified by Resmi (2016) into two fundamental categories, namely:

1. Permanent *Differences*: Differences in recognition due to fiscal provisions that do not recognize an income/expense.
2. Time Differences (*Temporary Differences*): The difference in the allocation of the period of recognition of expenses or income between SAK and tax law.

Table 1. Dimensions of The Differences of Commercial Accounting and Tax Accounting

Dimensions	Commercial Accounting (SAK)	Tax Accounting (Income Tax Law)
Main Objectives	Present financial position & performance information in a reasonable manner	Calculating the tax base (PKP) for state revenue
Legal Basis	PSAK / ISAK published by DSAK-IAI	Income Tax Law, PP, Regulation of the Minister of Finance (PMK), SE DJP

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Key Principles	*Matching concept*, Accrual, *Substance over form*	*Certainty*, Cash/Accrual Modifications, Legal Formalities
Key Users	Investors, Creditors, Management, Market Analysts	Directorate General of Taxes (Fiskus)

Most previous literature examines fiscal reconciliation purely quantitatively, such as measuring the computational value of fiscal corrections to *deferred taxes* based on PSAK 46. A research gap remains in qualitative analysis that explains how the fiscal reconciliation process functions as an instrument of cognitive harmonization. This study fills this gap by in-depth analysis of the role of fiscal reconciliation in ensuring tax compliance without damaging or reducing the quality of commercial information presentation on critical accounts, especially entertainment costs and donation costs.

Research on fiscal reconciliation has generally developed around the relationship between commercial accounting and taxation, particularly the differences between accounting profit and taxable income. Commercial accounting is oriented toward the fair presentation of financial position and performance for investors, creditors, management, and other stakeholders, whereas tax accounting emphasizes determination of taxable income, legal certainty, and compliance with tax regulations. These different orientations create permanent and temporary differences that require fiscal reconciliation.

Earlier studies have mainly examined fiscal reconciliation from a **computational, technical, and tax-determination perspective**. Studies such as Meiryani et al. focused on fiscal reconciliation of commercial financial statements for determining income tax payable, while Mills and Plesko addressed the reconciliation of book and tax income. Other research has considered the relationship between financial reporting and taxation, tax management, justice in fiscal reconciliation, and the accuracy of financial reporting. The literature therefore establishes fiscal reconciliation as an important mechanism for explaining and adjusting differences between accounting income and taxable income.

However, the present study advances this literature by interpreting fiscal reconciliation as a qualitative bridge between two different institutional and accounting orientations. Rather than focusing primarily on the amount of fiscal corrections or tax payable, it analyzes how reconciliation enables companies to maintain the integrity of commercial financial information while simultaneously satisfying taxation requirements. This perspective is specifically applied to entertainment expenses and donation or assistance expenses, which are vulnerable to permanent fiscal differences and positive fiscal corrections.

Table 2. State-of-the-Art Positioning

Previous Research Orientation	Main Focus	Limitation / Position of the Present Study
Book–tax income reconciliation	Differences between accounting income and taxable income	Primarily explains reconciliation of accounting and taxable profit rather than its qualitative harmonization function
Fiscal reconciliation and corporate income tax	Calculation of fiscal corrections and income tax payable	Dominated by computational and quantitative perspectives
Fiscal reconciliation and financial reporting accuracy	Improvement of accuracy in financial and tax reports	Limited emphasis on philosophical differences between SAK and tax regulations
Tax management and fiscal compliance	Tax efficiency and compliance	Focuses more on taxation outcomes than preservation of commercial reporting integrity
Financial accounting–tax accounting relationship	Relationship and differences between the two reporting systems	Does not specifically explain fiscal reconciliation as a mechanism of cognitive harmonization
Present Study	Fiscal reconciliation as a qualitative harmonization and compliance mechanism	Explains how commercial-reporting integrity and tax compliance can coexist through positive and negative fiscal corrections, particularly for entertainment and donation expenses

The current manuscript therefore shifts the discussion from "how much fiscal correction should be made" toward "how fiscal reconciliation functions conceptually and institutionally to accommodate two different reporting orientations."

METHODS

This study uses a descriptive qualitative approach with a library *research method*. The qualitative approach was chosen to interpret and explain the nature of the qualitative regulatory relationship between the SAK and the Income Tax Law comprehensively, not to test the quantitative hypothesis.

Data Sources

The data analyzed are normative-qualitative secondary data which are divided into two main clusters:

1. Commercial Accounting Cluster: Conceptual Framework for Financial Reporting (KKPK) and relevant PSAK (such as PSAK 1 and PSAK 46) issued by the Indonesian Institute of Accountants (IAI).
2. Tax Cluster: Law Number 7 of 1983 concerning Income Tax and its amendments (including the Income Tax cluster in the HPP Law), Government Regulation (PP No. 93/2010), Regulation of the Minister of Finance (PMK), and Circular Letter of the Director General of Taxes (SE-27/PJ.22/1986).

Data Collection and Analysis Procedures

Data collection is carried out through an inventory of legal documents and accounting standard norms. Data analysis uses textual and comparative content analysis methods with the following stages:

- Data Reduction: Focusing the object of the study on transactions that are most vulnerable to triggering *permanent differences*, namely *entertainment costs* and donations.
- Data Presentation (*Display*): Compile a matrix and correction flow chart to visualize the clash of accounting and taxation principles.
- Conclusion: Formulate a qualitative proposition regarding the role of fiscal reconciliation as a tool for harmonization of financial reporting.

DISCUSSION

The fiscal reconciliation process produces fiscal financial statements through adjustments (*working paper adjustments*) without changing the numbers on the commercial ledger.

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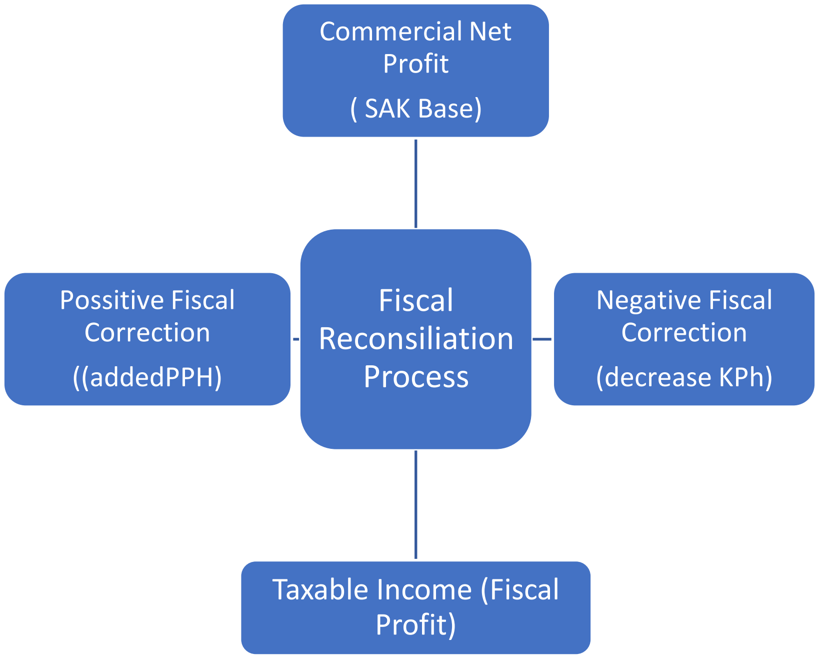
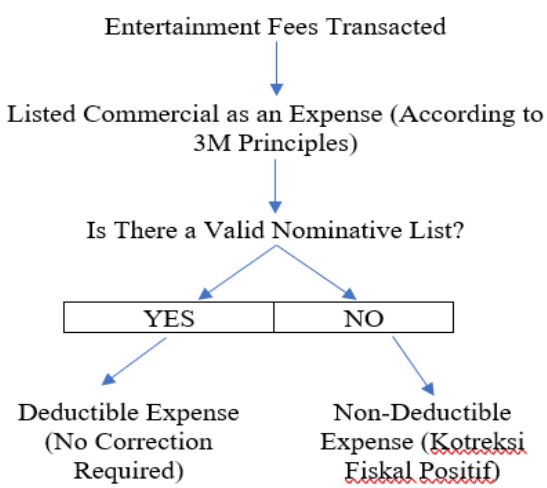


Figure 1. Fiscal Reconciliation Process

Qualitative Analysis of Entertainment Costs and Representation

Entertainment costs are one of the operational expenses often subject to fiscal correction due to differences in substantive requirements and formalities.



Perspectives Comparison:

- Commercial Accounting Perspective: Based on the matching *concept*, all expenses to obtain, collect, and maintain income (3M) must be recognized as expenses in the current period. The SAK does not require a special administrative format other than proof of a valid and economically relevant transaction.
- Tax Accounting Perspective: Prioritizing the principles of *certainty* and formal verifiability. In accordance with SE-27/PJ.22/1986 and Article 6 of the Income Tax Law, *entertainment* costs are only allocated as *deductible expenses* if the company attaches a complete Nominative List (including name, position, agency of the party being entertained, location, and nominal).

Qualitative Implications: If these administrative requirements are not met, qualitatively the expenditure is categorized as *a non-deductible expense*, which requires a Positive Fiscal Correction.

Qualitative Analysis of Donation and Assistance Costs

Donation accounts reflect the implementation of *Corporate Social Responsibility* (CSR). However, its recognition is fiscally regulated in a restrictive manner to prevent the erosion of the tax base.

Table 3. Assessment Characteristics of The Differences of Commercial Accounting and Tax Accounting

Assessment Characteristics	Commercial Accounting	Tax Accounting (Government Regulation No. 93/2010)
Nature of Recognition	Recognize all donations as operational/non-operational expenses.	Restricted *deductibility* is only on certain types of contributions.
Eligibility Criteria	Management decisions for the sake of the reputation & sustainability of the business.	It must be a national disaster, R&D in Indonesia, education,

		sports facilities, or social infrastructure.
Impact of Reconciliation	No adjustments.	Donations outside the criteria must be Positive Fiscal Correction (Fixed Difference).

General donations (such as participation in local celebrations or non-qualifying voluntary assistance) are still legally recognized as an encumbrance under the SAK. However, fiscally, the Income Tax Law Article 9 paragraph (1) letter g emphasizes that donations are basically *non-deductible*, except for those that meet the criteria of PP No. 93 of 2010. This difference in recognition is a *Permanent Difference,* meaning it will never be reversed in the future.

Fiscal Reconciliation as a Bridge of Harmonization

The results of the analysis confirm that fiscal reconciliation bridges two separate interests:

1. Maintain Integrity of Commercial Information: Companies do not need to tamper with the structure of commercial Income Statements in order to comply with tax rules. Investors still receive information on the company's economic reality purely in a nutshell.
2. Ensuring Legal Compliance (*Tax Compliance*): Through fiscal adjustment working papers, Taxpayers present Taxable Income in accordance with the provisions of the law, thereby reducing the risk of administrative fines and tax disputes during audits.

Although fiscal reconciliation has been extensively discussed in accounting and taxation literature, several research gaps remain.

First, previous research predominantly examines fiscal reconciliation from a quantitative perspective, particularly by calculating fiscal corrections, taxable income, deferred tax, and corporate income tax liabilities. The manuscript itself identifies that most previous studies emphasize computational fiscal adjustments, leaving limited qualitative explanation of the reconciliation process.

Second, limited research explains the philosophical and conceptual conflict between commercial accounting and tax accounting. Commercial accounting emphasizes accrual principles, matching concepts, economic substance, and fair presentation, while taxation emphasizes legal certainty, administrative verification, and compliance. Existing studies rarely examine how fiscal reconciliation allows these two orientations to coexist without requiring alteration of the commercial accounting records.

Third, earlier studies have not sufficiently conceptualized fiscal reconciliation as an instrument of cognitive harmonization. Fiscal reconciliation is generally treated as an end-of-period calculation, whereas this study considers it a mechanism that translates commercial accounting information into taxable income while preserving the original commercial information.

Fourth, there is still limited qualitative analysis of specific high-risk expense accounts, particularly entertainment expenses and donations. These accounts are important because expenses recognized legitimately under commercial accounting may not automatically qualify as deductible expenses for tax purposes. Entertainment expenses require compliance with specific administrative documentation, while donation deductibility is restricted to particular categories under taxation rules.

Accordingly, the principal research gap can be formulated as follows:

There is insufficient qualitative understanding of how fiscal reconciliation functions as a harmonization mechanism that preserves the informational integrity of commercial financial reporting while simultaneously ensuring compliance with tax regulations, particularly in the treatment of entertainment and donation expenses.

Novelty

The novelty of this study lies primarily in its qualitative reconceptualization of fiscal reconciliation as a strategic harmonization instrument rather than merely a mathematical tax-adjustment procedure. The study offers several interconnected elements of novelty. It introduces the concept of fiscal reconciliation as a cognitive bridge between commercial accounting based on SAK and tax accounting based on tax legislation. It demonstrates that fiscal corrections can be made through separate reconciliation working papers without modifying the underlying commercial ledger, thereby allowing companies to preserve economic information for investors while producing taxable income in accordance with tax regulations. The manuscript confirms that this mechanism simultaneously protects commercial information integrity and strengthens tax compliance.

A second novelty is the account-specific qualitative analysis of entertainment and donation expenses. For entertainment expenses, the study demonstrates how a commercially legitimate expense can become a non-deductible fiscal expense when required documentation is incomplete, resulting in a positive fiscal correction. For donations, the study explains how recognition under commercial accounting can differ permanently from fiscal recognition when contributions do not meet the categories permitted by tax regulation.

A third contribution is interpreting reconciliation as a strategic compliance mechanism that can reduce administrative risks, potential tax penalties, disputes, and compliance costs while maintaining the reliability of financial information. This moves fiscal reconciliation beyond its traditional technical role and places it within the broader framework of financial-reporting governance and tax compliance.

Novelty Statement

This study introduces a qualitative perspective on fiscal reconciliation by conceptualizing it as a cognitive and regulatory harmonization mechanism between commercial accounting and tax accounting. Unlike previous studies that primarily emphasize quantitative fiscal corrections and income tax calculations, this research demonstrates how positive and negative fiscal corrections—particularly in entertainment and donation expense accounts—can simultaneously preserve the integrity of SAK-based commercial financial reporting and ensure compliance with tax regulations without altering the underlying commercial accounting information.

Concise Research Gap–Novelty Link

Research Gap: Previous studies predominantly treat fiscal reconciliation as a computational procedure for converting commercial profit into taxable income, with insufficient attention to its qualitative role in reconciling the different philosophical orientations of commercial accounting and tax accounting.

Novelty: This study reframes fiscal reconciliation as a qualitative and strategic harmonization mechanism and demonstrates its application to sensitive entertainment and donation expense accounts, showing how companies can maintain commercial-reporting integrity while fulfilling fiscal compliance requirements.

CONCLUSIONS

Fiscal reconciliation has proven an effective qualitative instrument for bridging the philosophical differences between commercial accounting and tax accounting. The disparity between the fairness-oriented SAK *and the legal certainty-oriented Income Tax Law has been successfully harmonized without sacrificing either function*. Through positive and negative fiscal correction mechanisms—especially for sensitive accounts such as entertainment and donations—the company can maintain the reliability of financial statements for the capital market while enforcing tax compliance overall.

Suggestions

1. Accountant Practitioner: Implement an integrated documentation system in *real-time* (such as the preparation of an automatic Nominative List when *claiming reimbursement*) to minimize the risk of fiscal correction due to administrative weaknesses.
2. Directorate General of Taxes (DGT): Considering simplifying and digitizing the format of compliance document completeness (such as *e-nominative*) and continuing to improve the alignment of fiscal regulations with the development of IFRS-based SAK to reduce *compliance costs* for business entities.

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