

Accounting Taxation and its Impact on Investment Decisions at UAE Banking Sector

Dr. Mohammad Hassan Ali Abdulrahman

Mohammad Al Hashmi Accounting & Auditing Chartered Accountants (United Arab Emirates)

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Abstract:

Investments happens when people are willing to sacrifice their money and put themselves in the risk of losing a part of their money, or the whole amount, in order to receive a return in the future, the risk associated with investments can be mitigated by doing elementary, technical analysis and, the use of their own judgment. Even with the help of financial measures and tools, investment decisions can still be difficult and complicated, influenced by the market vulnerability that is known with such uncertainty and unpredictability.

Keywords: Accounting tax, investment decision, tax evasion, GAAP

I. INTRODUCTION

Individual investment behavior is concerned with choices that deal with purchases of small amounts of securities for his or her account (Nofsinger & Richard, 2002). The choice of ploughing money into individuals' savings in order to augment their expenditure is made by them, it doesn't always work out for investors, as some investments will not be profitable, but the risks of individuals' choices need to be assessed, and what amount the individual is of a mind to risk, as the risks are high the potential return will be high as well.

Tax accounting is the method where firms do calculate tax without giving attention to their public financial records appearance, this procedure is mandatory for everyone even those who are not obliged to pay taxes, it is used to track in and out funds. In this paper, we are going to investigate the relationship between accounting taxation and investment decisions specifically in the UAE bank sector (Kagan, 2019).

OBJECTIVE OF THE STUDY

The main objective in this study is to investigate the impact of accounting taxation on investments at UAE bank sector, this study also aims to:

- To determine basic driving forces of UAE foreign banks' investment.
- To study the degree of financial managers' comfortability when making an investment decision.
- To highlight whether foreign banks use accounting taxation or GAAP accounting system.

Tax Accounting in the UAE

UAE government does not impose income taxes on individuals, it only imposes corporate taxes on two sectors oil firms and, foreign banks. Recently in 2017, UAE government introduced excise tax on particular goods which may do harm to the human or the environment, in 2018, value-added tax (VAT) was also introduced in UAE, which is the tax imposed on the use or the consumption of goods or services in the free zones (Taxation, n.d).

Governments achieve the developing goals that they already set on their annual financial budget by the use of taxes and other sources of revenues, Eshag(1983)stated that taxes are the most fundamental channel in which governments pay their expenditure. Taxpayers sometimes do not commit to paying their taxes by avoiding the

payment, or by full dodging at the extreme (Coskun & Savasan, 2009). From this point of view, enormous international concerns about tax evasion generated, as the evasions intimidate the government chance to gather public funds (Gerald & Leung, 2009).

There are two methods used in accounting; one is tax accounting principles and, the other one is financial accounting or generally accepted accounting principles (GAAP), under GAAP, companies do compile all their financial statements using common accounting standards and procedures. Tax accounting, on the contrary, focuses only on the transactions that have an immediate effect on tax burden, it is regulated by the internal revenue service (IRS), to make sure that all tax laws are followed by individual taxpayers or professionals

Investment Decisions

Financial managers are responsible to take the investment decision, taking such a decision is one of the most significant tasks they need to do, as this decision will affect the business environment confirmation of the firm, and raise its market share. Three types of investors can be classified as; aggressive, moderate, and conservative (Kavitha, 2015). Traditional financial theory describe individuals by rationality when making investment decisions, but, on the contrary, some individuals do take decisions irrationally which will in the future affect their financial situation (Velmurugan et al., 2015).

Recently behavioral finance research has prospered swiftly, it became a proven fact that investors' financial decisions are impacted by internal and external factors. Accounting information, market characteristics and, individual risk profiles do make up an investment decision. In traditional economic theory, individuals are considered rational when making decisions to benefit from the opportunities obtainable. Even though investors consider themselves rational and logical, still the way they perceive the globe and, how they make decisions is

largely influenced by their emotional tendency, inherent thought prototype, and psychological biases.

Factors Influencing Investment Decision

Accounting information is largely used by investors, they are impacted by sunk cost considerations and asymmetrical risk preferences for gain/loss situations, the corporates' financial statements situation and its evaluation technique are elements that excessively associated with the accounting information factor, investors are highly interested in expected corporate earnings, former firm stock performance, dividends paid, and affordable share price (Lui & Mole, 1998).

Firm self-image plays a fundamental factor affecting investor choices, such as the firm reputation, the way the investor perceives the company products, services, and ethics. Many investors consider buying stocks based on qualitative analysis of the firms' image (Epstein & Freedman, 1994).

Some investors use professionals' recommendation to make a decision, after thoroughly reviewing the professionals' recommendations they can decide whether to buy, hold or sell based on future prospects if future prospects seem favorable then buy, if marginally favorable then hold, sell if unfavorable (Malmendier & Shanthikumar, 2007).

Taxation and Investments Decisions

Financial decisions are influenced by internal, and external elements, internal elements include things that pour in the interests and objectives of the firm; managers and employees full participation in the achievement of the firms' objectives; the firms' products and, services; firms' units technical properties; and the interdependence in the firms' units to achieve objectives.

External elements include the tax legislation; goods suppliers; competitors for customers and suppliers; labor and equipment. Fiscal policy is the most important factor influencing investment decisions, taxation, in particular, does not only mean income

tax but wage tax, social security contributions, local taxes as well. Bălănescu(1994)identified fiscal policy as “all regulations on the taxes establishment and levying, characterizing the state options in terms of taxes”, while Corduneanu (1998) stated that fiscal policy includes “all fiscal decision taken by the tax authorities, to ensure financial resources for public needs and the purpose of achieving economic and social objectives”.

On corporates level when making an investment decision, they must consider the fact that limiting the possible investment decisions can affect the whole economic growth, meanwhile, although financial decisions are autonomously taken, corporates need to obey the existent juridical framework imposed through the decisions of public authorities that appear in the financial legislation at any time

METHODOLOGY

In this study, the researcher decided to use a qualitative method for collecting primary data needed to achieve the study objectives. Qualitative method is highly recommended when the researcher is looking for detailed in-depth information, they can be useful as they can clarify shady points by asking for elaborations, the existence of face to face element is also an advantage as it gives us clearer understanding of the interviewee. The population of this study is 25 foreign UAE banks. The sample will be 6 banks, and the names of the selected banks are United Bank limited ,Citi Bank ,Hsbc ,Samba ,Standard Chartered Bank ,Habib Bank and AG Zurich , interviews will be held at a managerial level specifically with financial managers..

DISCUSS THE RESULTS

The interview tool that was prepared and applied to the research sample contributed to the discussion of a set of questions. In this part, the questions raised in the interview will be presented and discussed:

Q1: What are the tax rules that affect investment decisions in the UAE banking sector?

The answers of the respondents were related to the first question that revolves around the tax rules that affect investment decisions in the UAE banking sector, as follows: The brand name value can be backed out as follows:

1. Taxes are listed under many laws that address a number of economic and accounting situations, which influence investment decisions such as tax rate, tax data, and sales tax.
2. The tax is considered a mandatory value or statute determined by the state through a legal framework, and the taxpayer (the owner of the project - who has signed the tax) is obligated to pay it to the state without compensation for this tax, in order to help and enable the state to achieve goals that serve the community.
3. The tax system is one of the important means that gives the state the power to influence economic, social and financial activities in order to achieve development in all its various aspects. There are many rules that are taken in this field that affect investment decisions, and the most important of these rules is that the state determines this value according to a legal framework, and it is an obligatory value imposed on the investor who pays it without return.
4. The tax policy and its system are among the most important means that give the state the ability to influence economic activity, and despite this, it is subject to a number of rules that affect it, some of which are related to determining the economic surplus and directing it towards the investment direction and some of them are related to a more fair redistribution of national income, and therefore Influencing investment decisions.
5. The tax in the UAE is subject to a number of rules. It is an amount of money that is determined by the state, and it is obligated to pay the investors.

6. Tax is a value or a mandatory law determined by the state through a legal framework. Taxes in the UAE are subject to a number of laws that support some economic and accounting procedures, which affect investment decisions such as tax rate, tax data, and sales tax.

Through conducting the interview tool on the study sample, it was found that there are a number of tax rules that affect investment decisions in the UAE banking sector, it is considered a mandatory value or statute determined by the state through a legal framework, the state determines this value according to a legal framework, and it is an obligatory value imposed on the investor who pays it without return.

Q2: What are the most influential factors that affect the investment decisions made by UAE-national investors in the UAE banking sector?

The answers of the respondents were related to the second question that revolves around the most influential factors that affect the investment decisions made by UAE-national investors in the UAE banking sector, as follows:

1. One of the most important factors affecting the investment decisions made by Emirati investors in the UAE banking sector is the annual reports as the main influencing source of information. Then verbal information follows, in addition to the daily share price.
2. The investment decision is one of the important decisions issued for the purpose of implementing the bank's strategy for the long-term and short-term. The investment decision is affected by a set of factors, the most prominent of which are: financial flows, changes in the level of prices, taxes, risk and uncertainty, competitors' behavior, and other factors that affect a low degree in investment decisions in the banking sector.
3. Local and foreign investment decisions in the banking sector are affected by several factors that can be classified into three groups:

- Factors based on the political and economic system, such as political and economic stability, public administration, and development in the banking sector.
 - Factors related to the financial market, such as the diversity of investment instruments, and the efficiency of the financial market.
 - Regulatory, supervisory and legal factors, such as developing systems and laws, and protecting investor rights.
4. There are many factors that affect investors during the investment decision-making process, the most prominent of which are factors related to psychology, rate of return, debt, culture, and customer perception.
 5. Investment decisions made by investors are affected by many factors, the most important of which are the real interest rate, the cost of capital goods, the real exchange rate, and the availability of financing.
 6. One of the factors affecting investment decisions is daily share price, annual reporting, advice from friends, acquaintances, advice, and rumors, and advice from stockbrokers.

Regarding the second question, the answers of the respondents were related to the second question. The responses of the sample members confirmed that one of the most important factors affecting the investment decisions made by Emirati investors in the UAE banking sector is the annual reports, verbal information, financial flows, changes in the level of prices, taxes, Regulatory, supervisory and legal factors, risk and uncertainty, competitors' behavior, and daily share price.

Q3: What are the main drivers of foreign banks' investments in the UAE?

The answers of the respondents were related to the third question, which revolves around the main drivers of foreign banks' investments in the UAE, as follows:

1. The UAE enjoys security and political stability, in addition to enjoying a

distinguished infrastructure, which encourages investments by foreign banks in it.

2. The safe environment in the UAE, political stability, quality of life and a distinct infrastructure are among the main factors that enhance foreign investment in the Emirates.
3. The facilities and incentives provided by the UAE to foreign investors contributed to the security and political stability in it to enhance foreign investment in various fields.
4. There are many factors that affect the encouragement of foreign investment in the Emirates; the most important of these are the high percentage of expatriates, the good infrastructure had by the Emirates, the high capital and the facilities and incentives that the state provides to foreign investors.
5. The UAE has a high degree of security and economic and political security, which encourages foreign investment in it, and the high number of expatriates in it and the good infrastructure in it may also contribute to encouraging foreign investment in it.
6. In the Emirates there are many advantages that distinguish it from other Arab countries that encourage foreign investors to invest in them, the most important of which are facilities in investment transactions and procedures, and environmental and political stability in them, they are among the countries that are distinguished by the scarcity of natural disasters, and they are also among the countries Politically stable because of its good relations with most of the countries of the world.

The respondents' answers were related to the third question, indicating that the main drivers of foreign banks' investments in the UAE are: The UAE has security and political stability, in addition to enjoying a distinguished infrastructure, facilities in investment transactions and procedures, which encourages investments by foreign banks in it.

Q4: What is the reality of foreign banks using accounting tax or GAAP?

The answers of the respondents were related to the fourth question, which revolves around the reality of foreign banks using accounting tax or GAAP, as follows:

1. The GAAP is considered the pinnacle of intellectual construction, as they are the essence of the theory. The principle is a general law that is reached through a logical link between goals, assumptions, and concepts. It is one of the basic principles that foreign banks in the UAE have come to adopt in accounting operations, in addition to operating an accounting tax.
2. Foreign banks in UAE adopt two basic methods of accounting; the first is the principles of tax accounting, and the second is financial accounting or generally accepted accounting principles (GAAP).
3. Foreign banks in the UAE use tax accounting as a tool for calculating taxes without paying attention to the emergence of their public financial records.
4. Accounting taxes and GAAP are considered as accounting procedures in all foreign banks in the Emirates. It is used to track money inside and outside.
5. Foreign banks in the UAE apply accounting taxes and generally accepted accounting principles in their accounting transactions, and these principles affect investment decisions in the banking sector.
6. Tax accounting and generally accepted accounting principles are among the basic rules that foreign banks must adhere to in their application in all their transactions and systems.

The participants' answers related to the fourth question indicate that The GAAP is considered the pinnacle of intellectual construction, the foreign banks in UAE adopt two basic methods of accounting; the first is the principles of tax

accounting, and the second is financial accounting or generally accepted accounting principles (GAAP).

Q5: How comfortable are financial managers when deciding to invest in the banking sector in the UAE?

The answers of the respondents were related to the fifth question, which revolves around How comfortable are financial managers when deciding to invest in the banking sector in the UAE, as follows:

1. Financial managers suffer from discomfort and anxiety when deciding to invest in the banking sector in the United Arab Emirates.
2. When making investment decisions in the banking sector, decision-makers have a sense of fear and anxiety about the consequences of these decisions that he will make, and fear of their failure and ineffectiveness.
3. Decision-making is one of the difficult things that affect the workflow and the extent of development of the institution, as decisions are what will determine the extent of the development or failure of the institution, and therefore the feeling anxiety and discomfort during the process of making these decisions for granted among decision-makers.
4. Decision-making is due to the decision-making experience and wisdom, and therefore the feeling of psychological comfort or tension and anxiety is mainly related to the decision-makers experience and wisdom, the more the decision-maker experience, the more his experiences and the more accurate and cautious when making the decision and the higher the feeling of comfort.
5. It is very difficult for decision-makers to feel comfortable when making decisions, as it is the main factor that will affect the success or failure of the organization.
6. The mood of decision-makers is affected in the period in which investment decisions are made, as the decision-maker may become a nervous person, irritable, due to the feeling of anxiety that controls over him.

The participants' answers refer to the fifth question, which revolves around the extent of the financial managers' comfort when making a decision to invest in the banking sector in the United Arab Emirates; it indicates that the financial managers suffer from discomfort and anxiety when making a decision to invest in the banking sector in the UAE.

Q6: What is the impact of accounting tax on investment decisions in the banking sector in the UAE?

The answers of the respondents were related to the sixth question, which revolves around the impact of accounting tax on investment decisions in the banking sector in the UAE, as follows:

1. Tax accounting defined as a branch of accounting science that is directly concerned with governments, the goal of which is the necessity of imposing some specific financial ratios that are payable to the government by individuals and companies in the Emirates for the purpose of raising the state's general budget, and this may affect decision-making in the bank sector.
2. Transactions that are recorded in the books of accounts on the basis of tax affect the information that is produced in the annual financial statements, and therefore they affect investment decisions.
3. Tax accounting affects the extent to which a financial source of revenue is generated for the country as an aid to implementing fiscal policies. It also contributes to encouraging foreign investors to invest in the Emirates.
4. Tax accounting contributes effectively to addressing economic problems such as cash inflation and covering the deficit in the balance of payments when they are realized. In addition to encouraging foreign investment.
5. Tax accounting helps provide protection to the national industry against the external industrial competition, by imposing rates of taxes to be paid on external import. And

incentivizing and encouraging foreign investment.

6. Tax accounting affects investment decisions, as it is a financial ratio that is determined by the state against investors.

The participants' answers refer to the sixth question, which revolves around the impact of accounting tax on investment decisions in the banking sector in the UAE. Tax accounting affects the extent to which a financial source of revenue is generated for the country as an aid to implementing fiscal policies. It also contributes to encouraging foreign investors to invest in the Emirates.

RECOMMENDATIONS

Based on the results reached in this research, the researcher presented a number of recommendations and directions that must be worked on and taken into consideration in the future. The most prominent of these recommendations were the following:

- The necessity of developing the current accounting systems in the banking sector in the Emirates.
- The development of many modern strategies that contribute to enhancing foreign investment in the Emirates.
- The need to prepare more studies and research related to the topic of tax accounting and its impact on investment decisions.

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