

# ACCOUNTING AND FISCAL IMPLICATIONS RELATED TO THE TRANSITION FROM PROFIT TAX TO MICRO-ENTERPRISE INCOME TAX

Steliana BUSUIOCEANU<sup>1</sup>

**Abstract:** *In the years preceding the coronavirus pandemic, the Romanian economy experienced a constant economic growth, which determined a significant increase of the companies' profitability. Still, the budget revenues from the taxation of the profits obtained by the company did not perform as expected. This was also due to the fact that there were extensive legal changes referring to the way of taxing the company's profits. In this context, we intend to analyze the situation of a trading company whose business field is construction works of residential and non-residential buildings. The company operates in Brasov city area and in the recent years has seen several changes from the income tax of micro-enterprises to the profit tax and vice versa, which has had a considerable impact on the volume of taxes due*

**Key words:** *profit tax, microenterprise, microenterprise income tax, real estate developer*

## 1. Introduction

As a result of the fiscal policy adopted in our country, in the period 2015-2019 the process of shifting the taxation from the profits obtained by the companies to the taxation of the incomes obtained the companies is accentuated, due to the increase of the ceiling applied to the micro-enterprises. Therefore, the annual income ceiling up to which a company is classified as micro-enterprise has been increased several times, from 65,000 euros in 2015 to one million euros in 2018.

Analyzing the average taxation rates of the companies that obtained profit we find that in each year of the period 2015-2019 the micro-enterprises have benefited from a much lower taxation of the gross profit compared to the companies paying profit tax, the difference reaching even 8 percent (Fiscal Council, 2019).

Nevertheless, it should be outlined that this advantage is not evenly distributed among micro-enterprises as the main beneficiaries of the income tax regime are the companies with high profit rates. Low-profit and loss-making companies were

---

<sup>1</sup> *Transilvania University of Braşov, steliana.busuiocanu@unitbv.ro, ORCID ID: 0000-0002-2186-9683*

disadvantaged by this tax regime. Nevertheless they generated significant contributions to economic activity, accumulating between 60% and 42% of the aggregate revenues of micro-enterprises in 2015-2019 (Fiscal Council, 2019). At the same time, it was found that the extension of the income taxation regime to the detriment of the profit, determined an emergence of the profits that did not generate additional budgetary income.

## **2. Profitability of SMEs in the Construction Sector given the COVID-19 Crisis**

Since 2019, there has been a reduction in the growth rate of the Romanian economy, mainly due to the slowdown in external demand and the contraction of industrial production. Though, the pandemic year was a thriving year for the companies operating in the construction field. The first results of the companies mostly show increases in turnover in 2020. The year 2020, pandemic included, brought to the constructions field the second best evolution year by year in the last decade. "Growth" was the word that defined most construction companies in 2020, even though much of the economy has suffered from the Covid-19 pandemic. The first data provided by stakeholders in this business field for the last three months on the website of the Ministry of Finance or in the financial reports - shows average increases of 20-30% (Vasiliu, 2021).

The construction sector in Romania has started to grow steadily since 2019 also thanks to the introduction of fiscal facilities for the employees in the field, valid for a period of 10 years. In that year, the construction activity increased by 27.6%, mainly due to the evolution of the non-residential sector, registering an increase of 50% compared to 2018. The prospects in the field remain positive, the National Commission for Strategy and Forecast estimating increases between 6% and 9% over the next four years, above GDP dynamics. This evolution is possible due to low funding costs, the potential for infrastructure development and the implementation of programs with the European Union. As such, in the next financial year a consistent additional budget is granted for the recovery of savings as a result of the COVID-19 pandemic, of which Romania has been allotted over 30 billion euros (Smedoiu and Dimitriu, 2021).

The coronavirus crisis poses a threat to the European economy and the living standards of its citizens. The economic impact of the coronavirus crisis varies from one industrial sector to another and from one company to another. It depends on various factors, including the ability to adapt to supply chain disruptions, the existence of stocks or dependence on "just in time" production processes (European Commission, 2021).

The European Commission is working closely with the national authorities, industry and other stakeholders to monitor and assess the impact of coronavirus on the European industrial and trade sectors.

## **3. Fiscal Consequences of Applying the Profit Tax versus the Income Tax of Micro-Enterprises. Case Study of a Real Estate Developer**

The trading company Construct Imobiliare, according to the criteria stipulated by the Fiscal Code, falls in the financial year 2020 in the category of payers of income tax on

micro-enterprises. Therefore, the incomes that make up the tax base on 31.12.2019 amount to 4,485,154 lei, which at an exchange rate of 4,793 lei/euro means the equivalent of 938,454 euros below the threshold of 1,000,000 euros. The share capital is totally owned by natural persons and the company is not in liquidation or winding up procedure. Thus, in each of the four quarters of 2020 the company obtains the following incomes:

**Cumulative turnover according to the trial balance on 31.03.2020 :**

- 701 "Income from the sales of finished products" = 1,059,985 lei
- 704 "Income from executed services" = 25,932 lei
- 711 "Income pertaining to the costs of the stocks of products" = 1,269,380 lei

**Calculation on 31.03.2020 :**

Cumulative income = 2,355,297 lei

Taxation base = 2,355,297 lei – 1,269,380 lei = 1,085,917 lei

Considering that the company has several full-time employees, it will apply a tax rate of 1%. The micro-enterprise income tax calculated for the first quarter is

IV TR1 = 1,085,917 lei x 1% = 10,859 lei

We register in the accounting by the accounting note:

698 "Income tax expenses = 4418 "Income tax " 10,859 lei

and with other taxes that do not appear in the above elements "

It is declared by form 100 "Declaration regarding the payment obligations to the state budget" whose maturity date is 25.04.2020.

**Cumulative turnover according to the trial balance on 30.06.2020 :**

- 701 "Income from the sales of finished products" = 2,812,684 lei
- 704 "Income from executed services" = 27,566 lei
- 711 "Income pertaining to the costs of the stocks of products" = 2,379,764 lei

**Calculation on 30.06.2020 :**

Cumulative income = 5,220,314 lei

Taxation base = 5,220,314 lei – 2,379,764 lei = 2,840,550 lei

The micro-enterprise income tax calculated for the quarter is

IV S1 = 2,840,550 lei x 1% = 28,406 lei

The income tax on micro-enterprises for the second quarter is determined by the difference : IV TR2 = 28,406 lei – 10,859 lei = 17,547 lei

We register in the accounting by the accounting note:

698 "Income tax expenses = 4418 "Income tax " 17,547 lei

and with other taxes that do not appear in the above elements "

It is declared by form 100 "Declaration regarding the payment obligations to the state budget" whose maturity date is 25.07.2020.

**Cumulative turnover according to the trial balance on 30.09.2020 :**

- 701 "Income from the sales of finished products" = 5,325,053 lei
- 704 "Income from executed services" = 33,514 lei
- 711 "Income pertaining to the costs of the stocks of products" = 4,834,733 lei
- "Other operating income" = 30,768 lei

**Calculation on 30.09.2020 :**

Cumulative income = 10,224,068 lei

Taxation base = 10,224,068 lei – 4,834,733 lei = 5,389,335 lei

Considering the exchange rate from 31.12.2019 of 4,793 lei / euro, the taxation base is 1,127,641 euros, which means that from the third quarter the company will apply the profit tax.

**Statement of income and expenses for the third quarter in order to calculate the profit tax according to the trial balance:**

- 701 "Income from the sales of finished products" = 2,512,369 lei
- 704 "Income from executed services" = 5,948 lei
- 711 "Income pertaining to the costs of the stocks of products" = 245,707 lei
- 758 "Other operating income" = 30,768 lei

Total income = 2,794,792 lei

Total expenses = 1,991,099 lei

Gross accounting result (profit) = 803,693 lei

Non-deductible expenses

50% of the expenses related to the vehicles that are not used exclusively for economic purpose = 3,514 lei

Depreciation that exceeds the limit of 1,500 lei / month = 6,900 lei

Interest and penalties related to the fiscal obligations = 1,882 lei

Total non-deductible expenses = 12,296 lei

✓ Fiscal result (taxable) = Gross accounting result + Non-deductible expenses

✓ Fiscal result (taxable) = 803,693 lei + 12,296 lei = 815,989 lei

✓ Profit tax = 815,989 lei x 16% = 130,558 lei

It comes out that the company registers payable profit tax amounting to 130,558 lei, whose maturity date is 25.10.2020. The following are recorded in the accounting by the accounting note:

691 Income tax expenses = 4411 Income tax 130,558 lei

It is declared by form 100 "Declaration regarding the payment obligations to the state budget" whose maturity date is 25.10.2020.

**Statement of income and expenses for the second quarter in order to calculate the profit tax according to the trial balance:**

- 701 "Income from the sale of finished products" = 3,987,455 lei
- 704 "Income from executed services" = 14,242 lei
- 711 "Income pertaining to the costs of the stocks of products" = 1,197,661 lei
- 758 "Other operating income" = 30,768 lei

Total income = 5,230,126 lei

Total expenses = 3,968,014 lei

Gross accounting result (profit) = 1,262,112 lei

Non deductible expenses

- 50% of the expenses related to the vehicles that are not used exclusively for economic purpose = 14,480 lei
- Expenses with depreciation exceeding the limit of 1,500 lei / month = 13,800 lei
- Interest and penalties related to fiscal obligations = 1,882 lei
- Own expenses with the profit tax due = 130,558 lei

Total non-deductible expenses = 160,720 lei

- ✓ Fiscal result (taxable) = Gross accounting result + Non-deductible expenses
- ✓ Fiscal result (taxable) = 1,262,112 lei + 160,720 lei = 1,422,832 lei
- ✓ Cumulative profit tax = 1,422,832 lei x 16% = 227,653 lei
- ✓ Profit tax for the fourth quarter = 227,653 lei - 130,558 lei = 97,095 lei

The following are recorded in the accounting by the accounting note:

691 Income tax expenses = 4411 Income tax 97,095 lei

The annual tax is declared in the form 101 Declaration regarding the profit tax that is submitted, in the analyzed case until March 25 inclusive of the following year, namely the year 2021.

#### 4. Conclusions

In order to carry out a relevant study, it was necessary to extend the analysis over the entire financial year, which allows us to compare the results and to find the fiscal differences generated by the two types of taxes.

Summarizing the results obtained and the related taxes for the financial year 2020 of the analyzed company, the following results:

✓ Total gross result for the year	=	2,162,208 lei
✓ Total net result for the year	=	1,906,148 lei
✓ Total cumulative taxes for the year	=	256,059 lei
✓ Gross result for the first semester	=	900,096 lei
✓ Income tax for the for the first semester	=	28,406 lei
✓ Net result for the first quarter	=	871,690 lei
✓ Gross result for the 2 <sup>nd</sup> semester	=	1,262,112 lei
✓ Profit tax for the second semester II	=	227,653 lei
▪ Net result for the 2 <sup>nd</sup> semester		1,034,459 lei

It is found that at an increase of the gross profit by 40.22% in the second quarter, by the transition to the profit tax there is an increase of the taxation of 801.43%.

Therefore, it is highly visible that it is much more advantageous for the company to pay income tax to micro-enterprises and not profit tax. In order to better highlight the results of the company's activity in 2020, we will also calculate some profitability indicators of the company.

Profitability defines the ability of a company to make a profit from the activities it carries out. Therefore, it features the entire economic-financial activity of the company and its ability to generate profit. The most important profitability indicators are:

- a) *The net profit margin* that emphasizes the profitability of the total activity of a company in percentages. The higher the percentages, the more stable the company is and has a good financial situation from the profitability point of view.

$$\text{Net profit margin} = \text{net profit} / \text{turnover}$$

$$\text{Net profit margin} = 1,906,149 \text{ lei} / 6,800,438 \text{ lei} = 0.28$$

Turnover is a quantitative indicator of the company's business which must be taken into consideration referring to the company's target to maximize its value.

- b) *Profit rate relative to total assets*. It is a measure of profit for every leu invested in assets. It characterizes the efficiency of the set of the invested capitals (equity and borrowed). This rate can be calculated using the relation:

$$\text{PnA} = \text{Net Profit} / \text{Total Assets}$$

$$\text{PnA} = 1,906,149 \text{ lei} / 7,255,739 \text{ lei} = 0.27$$

- c) *The rate of profit related to equity*. It is a measure of how shareholders are satisfied with the investments made in the company.

$$\text{PnCp} = \text{Net profit} / \text{Equity}$$

$$\text{PnCp} = 1,906,149 \text{ lei} / 7,194,069 \text{ lei} = 0.27$$

*We find that the company has a good situation in terms of indicators calculated at the end of 2020 but we can compare these indicators over time or versus other companies in the field and consequently we can identify areas with problems or low profitability for which optimization measures shall be adopted.*

## References

- Fiscal Council, 2020. *Annual report for 2019*. < <http://www.consiliulfiscal.ro> >
- Law no. 227/2015 on the Fiscal Code, published in the Official Gazette of Romania, Part I, no. 688 of September 10<sup>th</sup> 2015, as subsequently amended.
- Micu, A., Oprea, A.-G., 2021. *Proiectele de construcții în vremea pandemiei de Covid-19*, < [https://www.hotnews.ro/stiri-specialisti\\_stoica\\_si\\_asociatii-23908451-covid-19-pandemie-coronavirus-proiectele-construcitii.htm](https://www.hotnews.ro/stiri-specialisti_stoica_si_asociatii-23908451-covid-19-pandemie-coronavirus-proiectele-construcitii.htm) >
- ORDER no. 1.802 of December 29<sup>th</sup> 2014 (\*updated\*) for the approval of the accounting Regulations on the individual annual financial statements and the consolidated annual financial statements
- Smedoiu, A., Dimitriu, I., 2021. *Construcțiile au sfidat pandemia. Evoluție de excepție în 2020*. < <https://www2.deloitte.com/ro/ro/pages/real-estate/articles/construcitiile-au-sfidat-pandemia-evolutie-de-exceptie-in-2020.html> >
- The European Commission, 2021. *Jobs and economy during the coronavirus pandemic*. [https://ec.europa.eu/info/live-work-travel-eu/coronavirus-response/jobs-and-economy-during-coronavirus-pandemic\\_ro#\\_aciuni-decisive-ale-bancii-centrale-europene-i-ale-bncii-europene-de-investiii](https://ec.europa.eu/info/live-work-travel-eu/coronavirus-response/jobs-and-economy-during-coronavirus-pandemic_ro#_aciuni-decisive-ale-bancii-centrale-europene-i-ale-bncii-europene-de-investiii)
- Vasiliu, A.-E., 2021. *Anul pandemiei, an prosper pentru firmele din construcții*. < <https://www.zf.ro/companii/anul-pandemiei-an-prosper-firmele-construcitii-primele-rezultate-20032370> >