

# FISCAL AND ACCOUNTING ASPECTS RELATED TO VAT SYSTEM IN ROMANIA

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## **Abstract**

*New regulations related to VAT generate significant changes in the accounting of economic entities operating in Romania. The purpose of the research is to present the main accounting and tax issues regarding value added tax, especially the new regulations related to the split VAT system. This paper seeks to identify the advantages and disadvantages and the impact of implementing this system in Romania. To achieve the objective, an empirical analysis was conducted on a group of accounting experts. For this study, a questionnaire was used as a research tool. The survey was conducted between October 1-31, 2017, in the Western Region of Romania, on a target group of 150 chartered accountants.*

**Keywords:** *VAT, accounting, treatment, analysis*

**JEL Classification:** *M41*

## **1. Introduction:**

Value added tax under Directive 2006/112 / EC is a general consumer tax that applies to business activities involving the provision of services and the production of goods.

Under Article 265 of the Fiscal Code, value added tax is an indirect tax owed to the State budget, which is calculated over the entire supply of goods and services, from the supplier / producer to the final consumer as the difference between the VAT collected (resulting from the sale goods and services) and deductible VAT (related to purchases). According to Chapter VIII, art. 291 of Law 227/2015, the standard VAT rate in Romania in 2017 is 19%, applicable to the tax base for taxable transactions, with the exception of those exempted or subject to reduced tax rates of 9% and respectively 5%.

In the current economic context, we note that value added tax, this general consumer tax, which encompasses all phases of the economic circuit, and through which the state has the possibility to cash in the fastest way to the budget, generates important changes in the accounting of entities it operates in our country.

This paper aims to present the changes made in the Romanian legislation through GO no. 23/2017, an ordinance regulating the split VAT payment - a system known as "split VAT" and the perception of professional accountants about the advantages and disadvantages of these legislative changes.

## **2. Methodology and data**

The methodology used refers to the study of the specialized literature, the applicable accounting regulations and the comparative analysis of the accounting treatments applicable to VAT both from the OMFP 1802/2014 perspective and from the perspective of GO no. 23/2017 published in the Official Gazette of Romania, Part I, of 31 August 2017.

Empirical research was conducted to determine the perceptions of accounting professionals within entities regarding the main advantages and disadvantages of implementing the new system, and to assess the impact on entity performance, taking into

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account the perceptions of practitioners. Thus, the research is carried out in a quantitative approach, assuming measurement of the perception of practitioners.

The questionnaire on the "advantages and disadvantages of the application of the VAT split payment system within the entities in Romania" was disseminated among the professional accountants, our work being carried out between 1 and 31 October 2017. The purpose of the questionnaire is to identify the perception of professional accountants activity within entities in different areas of activity on the advantages and disadvantages of the system, and measurement of the impact of adoption on the performance of the entity. In order to carry out the research, we distributed the questionnaire in 500 copies, of which 150 respondents completed the interview, resulting in a 30% response rate and processed with Excel.

According to GO. no 23/2017, both taxable persons and public institutions are required to apply the VAT splitting system. By VAT-taxable persons, we understand all companies, whether registered or not for VAT purposes, national companies, self-employed registrars, or self-employed or self-employed persons if they are registered for VAT purposes. The split VAT payment applies to all VAT-charged transactions where the place of delivery of the goods or place of supply of services is considered in Romania.

The VAT split payment system does not apply to transactions where the recipient is liable to VAT by means of a simplification method, a method known as reverse charge

In the VAT accounts, we will be charged the amounts coming from:

- VAT on sales of goods / services;
- VAT deposits for cash or bank card sales;
- transfers from other VAT accounts;
- transfers from the current account opened either to the same banking institution or to the treasury;
- mounts earned as a result of material error fixes;
- amounts representing the VAT transfer between the members of the single tax group;
- amounts received as a result of correcting invoices or as a result of adjusting the taxable VAT base.

From the VAT account we can make the following payments:

- VAT paid to the supplier's VAT account;
- VAT paid to the state budget;
- transfer to another VAT account of the holder;
- VAT refunds for which refund is made to another VAT account;
- corrections for adjusting the VAT base due to the correction of invoices, for which the payment is made in another VAT account;
- refunds to the holder's current account, within the initial feed limit;
- VAT amounts settled within the single group.

Before analyzing the advantages, disadvantages and implications of the application of the VAT system broken down in our country, we wanted to find out what is considered to be the main reasons underlying this decision. The results were synthesized in the following table:

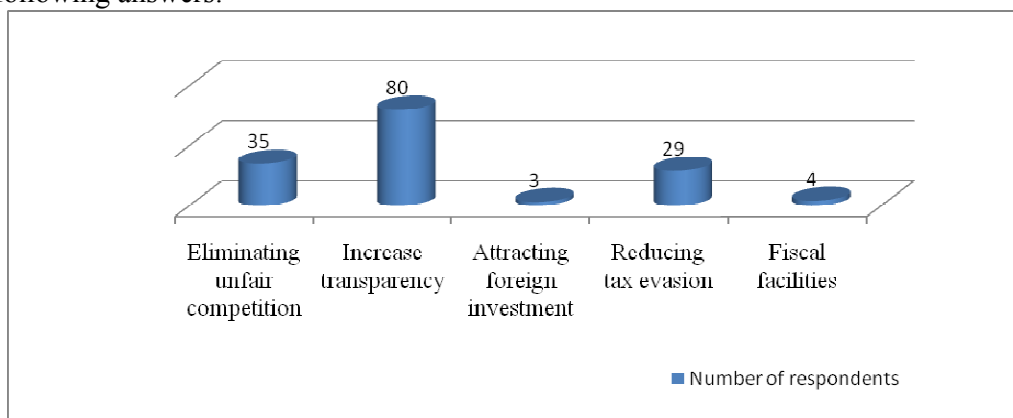
**Tabel no.1 Reasons for split VAT**

<b>Reason</b>	<b>Number of respondents</b>
Legal obligation	110
Increase the degree of budgetary debt collection	20
Reducing tax evasion	18
Tax facilities	2
<b>TOTAL</b>	<b>150</b>

Source: author's interpretation

From the answers received, we find that for the vast majority of respondents, the basis for the adoption of the split VAT system is given by the legal requirements, 73% of the respondents being of the opinion that the legal obligation is the basis for the application of this system in Romania. 13% of respondents believe that the split VAT payment will increase the collection of budgetary receivables by voluntary compliance of economic operators, 12% think the system will reduce tax evasion in Romania and 2% motivate the choice of VAT split the tax advantages the State offers to those applying this system, such as the cancellation of late payment penalties for the tax obligations of the main tax obligations of VAT.

Asked about the advantages of the VAT split payment system, the respondents offered the following answers:

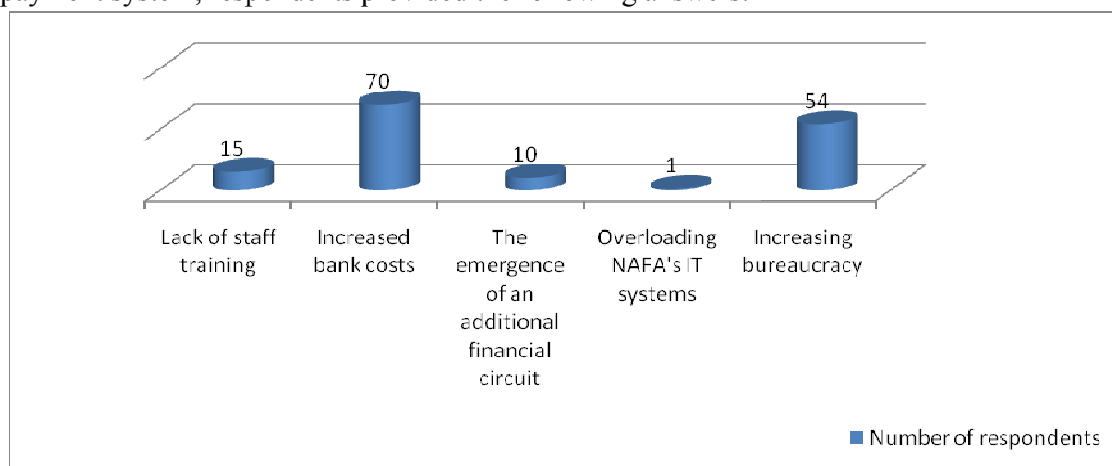


**Figure no.1 Advantages of split VAT system**

Source: author's interpretation

From the figure presented, it can be noticed that out of the total of 150 interviewees, 53% (80 respondents) consider that the VAT split VAT payment system will increase the transparency in the Romanian business environment. 35 respondents (23%) believe that VAT split will ensure a fair competition environment and 29 (19%) of the 150 people surveyed believe the new system will reduce tax evasion. Only 4 (3%) think that the scheme will create tax incentives for entities opting for voluntary application before the mandatory implementation deadline, and 3 (2%) respondents believe the VAT split will attract new investors to the business environment.

Regarding the factors that may cause difficulties in applying the VAT split VAT payment system, respondents provided the following answers:



**Figure no.2 Factors that can cause difficulties**

Source: author's interpretation

From the figure presented, it can be noticed that of the total of the 150 interviewees, 47% (or 70 respondents) consider that the split VAT payment system will increase the bank costs. 54 respondents (36%) believe that VAT split will generate increased bureaucracy, and 15 (10%) of the 150 people surveyed believe the new system will require staff training. 10 (6%) think that the system will create an additional financial circuit, and a respondent believes the VAT split will overload NAFA's IT system, which will generate significant issues for entities.

In order to identify the economists' perception of the advantages and disadvantages of the application of the VAT split VAT system within the entities in Romania, we used the Likert scale with 5 levels of appreciation, as follows:

- Mark 1 - to a very small extent;
- Mark 2 - to a small extent;
- Mark 3 - on average;
- Mark 4 - to a great extent;
- Mark 5 - to a great extent.

resulting in the following hierarchies for system benefits:

**Table no. 2** Professionals' perception of the benefits of split VAT

<b>Advantage/ Mark</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<i>Eliminating unfair competition</i>	3	4	9	110	24
<i>Increase transparency</i>	1	2	7	10	130
<i>Attracting foreign investment</i>	19	78	50	2	1
<i>Reducing tax evasion</i>	5	8	95	40	2
<i>Fiscal facilities</i>	70	50	27	2	1

Source: author's interpretation

Those responding to our questionnaire considered that the most important benefit of adopting the VAT split VAT system was given by increased transparency (1), both at national and international level. Next, eliminating unfair competition (2), reducing tax evasion (3), tax incentives (4), and attracting foreign investors. (5).

**Table no. 3** Professionals' perception of the disadvantages of split VAT system implementation

<b>Disadvantage/ Mark</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<i>Lack of staff training</i>	30	25	70	15	10
<i>Increased bank costs</i>	3	19	10	18	100
<i>The emergence of an additional financial circuit</i>	43	55	30	15	7
<i>Overloading NAFA's IT systems</i>	73	50	24	1	2
<i>Increasing bureaucracy</i>	14	30	6	98	2

Source: author's interpretation

Those responding to our questionnaire considered that the most important factor that may cause difficulties in adopting the split VAT system is the increase in bank costs (1). Then there is an increase in bureaucracy (2), personnel training costs (3), the introduction of a new financial circuit (4) and the overloading of IT systems. (5).

To calculate the practitioner's perception of the advantages and disadvantages of adopting the split VAT system, we will calculate the following statistical indicators:

- *Weighted arithmetic mean* ( $\bar{x}$ ): this average is applied for a series of frequency distribution and is calculated by summing the frequency products ( $xi * ni$ ) and reporting the result obtained to the total frequencies ( $ni$ ). In our case, the relationship is:

$$\bar{x} = \frac{\sum_{i=1}^n xi * ni}{\sum ni}$$

- *Variable perception of the advantages / disadvantages of adopting the system: this indicator will be calculated for each benefit / disadvantage as follows:*

$$P_{A/DIFRS} = \frac{Sv \text{ split TVA}}{5}$$

Sv Split TVA– Variable split VAT advantages / disadvantages

$P_{A/D \text{ split TVA}}$  – The perception of professionals about the benefits and disadvantages of VAT split

Interpretation:

If:

- ✓  $P_{A/D \text{ split TVA}} \leq 0,4$  – low potential to generate benefits / economic costs after implementation
- ✓  $0,4 < P_{A/D \text{ split TVA}} \leq 0,7$  – medium potential to generate benefits / economic costs after implementation
- ✓  $P_{A/D \text{ split TVA}} > 0,7$  – high potential to generate benefits / economic costs after implementation

**Table no. 4 Analysis of the benefits**

Advantages	$\bar{x}$	$P_{A.\text{split TVA}}$
<i>Eliminating unfair competition</i>	3,99	0,80
<i>Increase transparency</i>	4,77	0,95
<i>Attracting foreign investment</i>	2,25	0,45
<i>Reducing tax evasion</i>	3,17	0,63
<i>Fiscal facilities</i>	1,76	0,35

Source: author's interpretation

**Table no.5 Analysis of the costs**

Disadvantage	$\bar{x}$	$P_{D.\text{split TVA}}$
<i>Lack of staff training</i>	2,67	0,53
<i>Increased bank costs</i>	4,29	0,86
<i>The emergence of an</i>	2,25	0,45

<i>additional financial circuit</i>		
<i>Overloading NAFA's IT systems</i>	1,73	0,35
<i>Increasing bureaucracy</i>	3,29	0,66

Source: author's interpretation

### 3. Results

$$PA_{\text{split TVA}} = \frac{0,80 + 0,95 + 0,45 + 0,63 + 0,35}{5} = 0,64$$

$$PD_{\text{split TVA}} = \frac{0,53 + 0,86 + 0,45 + 0,35 + 0,66}{5} = 0,57$$

In our situation,  $P_{A.\text{split TVA}}$  has a value of 0,64, being placed in the range of  $0,4 < P_{C.\text{IFRS}} \leq 0,7$  – reflecting the fact that the investigated sample gives the advantages of adopting the system within the entities in Romania an average potential to generate benefits after implementation.

$P_{D.\text{split TVA}}$  has a value of 0,57, being placed in the range of  $0,4 < P_{C.\text{IFRS}} \leq 0,7$  – reflecting the fact that the sample investigated gives the costs of adopting the split VAT system an average potential to generate obstacles, respectively difficulties after implementation.

### 4. Conclusions

Considering the fact that in Romania the legislation is in constant change, from the desire to improve and facilitate the collection of state budget receivables, the business environment and the professional accountants have to cope with and adapt to the new legislative requirements.

As can be seen from the study, the 150 professional accountants observe and hierarchize both the advantages and disadvantages of this VAT split VAT payment system, which will become operational in Romania in a short time.

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