

PARTICULAR ASPECTS CONCERNING THE ACCOUNTING OF TRAVEL AGENCIES

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In professional practice, the accountant may be required to perform services for the accounting records of economic agents that involve some particularities. Regardless of the purpose of these services - accounting records, auditing, certification of financial situations - the accountant must stay in touch with all these particularities as well as with all accounting and fiscal proper regulations. In this article I present a series of particular issues of tour-operatour accounting, mostly considering the special rules established by the Tax Law.

Cuvinte cheie:

Clasificare JEL : M40, M41

1.Introduction

Tourism is an industry with a complex profile, bringing together a set of services and goods, own for several sectors, being their point of interference. On the other hand, by the competent authorities, tourism provide the link between the providers through the sale of services required by them. Therefore, they are born a series of relationships between the organizers of tourism activities and various producers of goods, providers of tourist services or their beneficiaries, which requires a series of operations to correct and efficient conduct tourism activities. Travel agencies accounting is interesting in that it presents particular issues and aimed, among other manner of preparation of invoices, VAT, accounting registration of documents, etc. Lately the travel agencies raises quite a few problems for accountants. The main issues raised are related to the calculation of annual turnover for framing the agency to income tax or tax on small business. The second main issue raised was that of VAT.

2. Particularities in travel agencies accounting

In Romanian Official Monitor No 923 of 18 December 2014 Government Emergency Ordinance – GEO-84/2014 was published to complete Government Ordinance – OG- no. 58/1998 on the organization of tourism activity in Romania, so that the reduced VAT rate of 9% to be applied to accommodation services and its accessories, sold at a total price.

Basically, by GEO 84/2014 they have not made changes to tax legislation but has introduced a mapping of existing accommodation types.

In MOF No. 46 of 20 January 2015 was published HG 20/2015 amending paragraph. (6) pt. 23 of Title VI „Value Added Tax” of the Methodological Norms for the application of Law no. 571/2003 regarding the Fiscal Code.

Tax Code provides for the application of reduced VAT rate of 9% for accommodation in the hotel sector or similar sectors. Until this change in the content of the implementing rules it says that 9% VAT only applies to single or breakfast accommodation, where the cost of breakfast was included in the price, without separately.

Given how defined the concept of accommodation in specific legislation in the field of tourism, reduced VAT rate of 9% applies to accommodation and ancillary services for accommodations, sold or offered for sale at the price including tour packages, such as lunch, dinner, snacks between meals or other services provided by its own tourism facilities of tourist reception. The Law no.571/2003 on Fiscal Code provides in Article 161, para. (4) that „the rules are different for brokering tourism ...”. The rules for the application of Law no.571/2003 on the Fiscal Code, approved by Government Decision No. 44/2004 (OJ No L 12/06.02.2004), hereinafter „rules” established in Article 68 „Special Rules for brokering tourism”. Summarizing, these special rules consist of the following:

- preparing the invoices and other documents with special regim with included VAT for tourists - natural or legal persons. Travel agencies are not entitled to enroll VAT separately in invoices or other documents with special regim that are given to tourists;
- VAT for invoiced tourism services by providers is not deductible by the travel agencies;
- VAT collected by agents is calculated by applying the hundred increased process on the tax base (selling price - real cost package travel/tourism services component).

-tax base for the travel agencies is the benefit (commission) conducted by the agency, decreased by the amount of VAT included in that benefit;

- the profit made by the agency = sales price - the real cost of the package holiday/ components thereof;
- VAT chargeability occurs after the necessary elements determining the tax base are clear.

Travel agents can choose, according to article 68 par. (8) from the Rules, for application of the normal value added tax, except for the following, for whom application of special rules is mandatory:

- when the tourist is an individual;
- when travel package that contains components for the place of performance is believed to be abroad.

Normal VAT arrangements consist of:

- in invoices or other documents with special regime is not enrolled distinct the commission charged by the agency and the VAT is registered at all the value of services provided, to the quota established by the Tax Code;
- travel agency has the right to deduct VAT on tourism services invoiced by domestic providers;
- the rate of VAT is applied as follows:
 - reduced rate of 9% for accommodation services provided in Romania in which is included the agency commission, given that the bill is part of the consideration for these services separately;
 - standard rate of 24% for other services performed on Romanian territory, in which is included the travel agent commissions, with separate entry in the invoice of the value of these services.
- VAT becomes chargeable on the date the invoice is issued.

When travel agencies carried out both transactions, subject to the normal value added tax and transactions subject to special rules, they must lead separate accounts (Article 68 para. (10) of the Rules). To simplify accounting, travel agents choose to apply special rules laid down in article 68 of the rules for all operations of intermediation in tourism they carry, whether they are for individuals or companies.

The document management, in the case of a travel agency, must aim at sorting them into categories of activities (foreign trips, domestic trips, tickets for rest, flights, transport, etc.) and within these, in each action tourist basis. This sort, supplemented with the use of distinct analytical accounts, both in financial and in management accounting, allows better tracking of every tourist activities and establishing the benefit (in the form of commission) at this level and then, through centralization, establishing the benefit for each category of services and, further, the entire activities. Such information enables the management staff of the travel agency to make decisions to optimize results. Most of the time, in tourism activity should be considered increasing market share and a diversified service to meet different types of customers, can provide this.

A first feature is the method of preparation of invoices by customers (tourists). So:

- on the invoices is not registered the value added tax separately but is mentioned „VAT included”;
- travel agency is not required to issue invoices for advances received from tourists, within 5 working days.

Another feature is that the entire sale price of tourism services is collected in advance (prior to the action of interest) and, on the other hand, service providers are paid, most of the time, in advance. A tourist can receive two or more invoices in the situation in which he pays the amount owed, partly in national currency, partly in foreign currency/ currencies. Drafting up the invoices not within the time specified above derives from the fact that VAT is chargeable only on the date of preparation and registration in accounting statement for that tourist activities (by which time all the cost elements of the action are clear), unconcerned of the data that the advances are received (in practice these proforma invoices received from them by fax or e-mail).

Because of this fact, using 401 accounts „Supplier” and 4111 „Customers” becomes difficult:

- cashing the advance payments from tourists:

531	=	419 „Advance payments from customers”
„Petty cash”		(analytical distinct for respective tourism action)
or		
512		
„Cash at bank”		

- a possible way for the registration of invoices for tourists is:

4111	=	%
„Customers”		
		-account for the amounts due to suppliers
		for the provision of tourism services
		-revenue accounts for the agency commission
		(is used, usually, the 704 account „Services rendered”)
		-output VAT (account 4427 „Output VAT”)

If the invoice is drawn before all the cost elements about the touristic action are known, the above accounting article can not be completed due to the fact that the providers do not know the amounts that should be recorded in the accounts credit. If, however, on the date in which the invoice is drafted, these amounts are known, remains to be

analyzed which account is more suitable to be used for highlighting amounts due to suppliers. The choice, for example, of the account 462 „Sundry creditors” is not a good solution because, at the time the invoice is drafting, suppliers shall not be counted as creditors of the agency as it paid its debts to them. Direct use of account 409 „Advance payments to suppliers” involves „closing” it and, therefore, no longer makes sense recording invoices received from suppliers, by crediting the account 401 „Suppliers”. On the other hand, if we still register invoices received from suppliers, crediting account 401 „Suppliers”, the question is about the accounts that should be debited on this occasion. The equivalent of the services provided them by these suppliers is part of the cost of travel and therefore we should debiting the spending accounts (with the full amount stated on the invoice as value added tax is not deductible in the case of special rules). Debiting such spending accounts (eg 628 „Other third party services”) requires crediting the account 704 „ Services rendered” with the whole sale price of tourism services (less VAT calculated on the amount of agency commission) not only with the amount of the commission, by drafting the following accountant article:

$$\begin{array}{rcl} 4111 & = & \% \\ \text{„Customers”} & & 704 \\ & & \text{„Services rendered”} \\ & & 4427 \\ & & \text{„Output VAT”} \end{array}$$

By doing so, the commission for a tourist action is determined as the difference between the amount registered in the account 704 „ Services rendered” and the amounts registered in the debit of the corresponding expense accounts. Or, the use of his variant leads to unjustified increase in the turnover of the travel agencies (with fiscal implications for micros). In conclusion, the simplest solution that eliminates these drawbacks, consists in recording the statement of the action tourism by direct „closing” the advances accounts (from customers and to suppliers), with highlighting the agency commission and the output value added tax under the following accountant article:

$$\begin{array}{rcl} 419 & = & \% \\ \text{„Advance payments from customers”} & & \begin{array}{l} \text{- The amounts of advances} \\ \text{received from tourists} \\ \text{(sales price corresponding to the touristic action)} \end{array} \\ & & 409 \quad \text{- The amount of advances paid to suppliers} \\ & & \text{„Advance payments to suppliers”} \\ & & \quad \text{(= actual cost of the touristic action)} \\ & & 704 \quad \text{- The amount of the commission} \\ & & \text{„Services rendered”} \quad \text{(the benefit)} \\ & & \quad \text{(= sales price - the actual cost of touristic action)} \\ & & 4427 \quad \text{- VAT related to the commission} \\ & & \text{„Output VAT”} \end{array}$$

This solution eliminates any calculations on exchange differences related to the collection/payment of advances in the foreign currency.

This is explained by the fact that the closure of these advances, for an certain touristic action, is made exactly with the national currency equivalent of the collected/paid amounts made in foreign currency (equivalent value in national currency registered on the collection/payment date and not on the date when the above accountant article, presented above, is done). As a result, in doing so, it does not appear exchange differences to be registered. It can be seen, on this issue, the importance of proper development of the chart of accounts used by creating analytical accounts to facilitate tracking advances (especially advances from tourists because they are more numerous and more difficult to follow, being collected either in national or foreign currency, either by cashier or through bank account).

Sometimes, in the accountant article specified above, may occur the account 401 „Suppliers” who is credited with any amounts remaining to be paid to certain suppliers in the following conditions:

- the supplier emitted invoice for the entire touristic prestation (invoice value not beeing paid fully at the time when is done the registration of the action expense account);
- the respective invoice to be completed in national currency (otherwise, the expense account will be recorded only after the full payment of the invoice, when we will know the equivalent in national currency of payment in foreign currency).

A third feature is that the registration of the supporting documents in accounting is not always chronological and systematical. It is the case of the invoices emitted by the travel agency and the invoices received from suppliers which, as noted, do not appear registered in accounting on the date in wich they are emitted, but appear as documents supporting expense account of that tourist activities, serving to establish agency commission. Because of this, among accounting documents archived in the map of certain period we can find such documents with emmitted date from the previous calendar period.

A fourth feature concerns the VAT journals whose completion is simplified. Under special rules laid down in Article 68 from the norms of application, for determining the amount of value added tax are held sales journals or sales slips/receipts which highlights only the amount of the sales documents, including value added tax and acquisition journals which highlights the purchases of goods/services, including value added tax.

It should be mentioned here that the agency may buy goods/services for their own needs (for instance related to administrative activities) and, for those acquisitions the value added tax is deductible. For this reason, it is necessary to prepare separate the acquisitions journals for their own needs (with highlighting the value added tax taken from the respectively acquisitions documents. In order to establish the tax base and the collected value added tax by the agency for operations made in a fiscal period are prepared separate statements calculation.

The verification of the amounts registered in the accounts representing the agency commission (the credit of account 704 „Services rendered”) and the collected value added tax (credit of the account 4427 „Output VAT”) for the respective fiscal period shall be:

- total sales journals (eventually sales dockets/receipts) - total acquisition journals related to provided tourism services = credit footing 704 „Services rendered” + credit footing 4427 „Output VAT”;

- credit footing 4427 „Output VAT” = credit footing 704 „Services rendered” x 24% (when checking this equality may appear slightly different of value since the establishment of value added tax for each expense account registered for the tourist action required rounding).

Values representing the tax base and output VAT determined in the situations mentioned above are taken into the expense account of the value added tax. In terms of deductible value added tax, deduction of value added tax is taken from the acquisition journals for own needs.

Establishment of the agencies profit is made, as I showed, in each tourism services but the profit made in a given fiscal period is influenced in a lesser or greater measure by the amount pf the period spending (expenditure on salaries, rents, fuel, telephone banking, etc.). Taxation of the profit (income for micros) is done according to legal provisions.

3. Conclusions

Tourism is an industry with a complex profile, bringing together a set of services and goods, specific for several sectors, being their point of interference. By insuring the connection between providers and tourists through selling services, are emerging a series of relationships between organizers of tourist activities and various producers of goods, providers of tourism services and their beneficiaries, which requires a series of operations to conduct to an fair and efficient tourism activities. A travel agency shows particularities both in terms of determining the base for profit tax (or income tax for micro-enterprises) and in relation to the treatment of VAT.

4. Bibliography

- [1] *** HG nr. 20/2015 pentru modificarea alin.(6) al pct. 23 din titlul VI „Taxa pe valoarea adăugată” din Normele metodologice de aplicare a Legii nr. 571/2003 privind Codul fiscal, aprobate prin Hotărârea Guvernului nr.44/2004
- [2] *** Legea nr.571/2003 privind Codul fiscal, cu modificările și completările ulterioare
- [3] *** Hotărârea Guvernului României nr.44/2004 pentru aprobarea Normelor metodologice de aplicare a Legii nr.571/2003 privind Codul fiscal, cu modificările și completările ulterioare
- [4] *** Ordinul ministrului finanțelor publice nr. 1846/2003 pentru aprobarea Instrucțiunilor de aplicare a scutirilor de taxă pe valoarea adăugată pentru export și alte operațiuni similare, pentru transportul internațional și pentru operațiuni legate de traficul internațional de bunuri, prevăzute la art.143 alin.(I) și la art.144 alin.(I) din Codul fiscal (M.O. nr. 10/2004)