ACTIVE MEASURES TO COMBAT THE EFFECTS OF THE COVID-19 PANDEMIC IN ROMANIA BY STIMULATING THE MAINTENANCE OR INCREASE OF OWN CAPITAL

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Abstract
In addition to the passive measures meant to combat the effects of the Covid-19 pandemic, in Romania some active measures have been regulated to stimulate the activity of entrepreneurs. Passive measures have focused on helping employees and encouraging employers to maintain employment through measures such as technical unemployment supported by public funds, incentives for telework, kurzarbeit, etc. Active measures aim to stimulate the establishment and development of small and medium enterprises by granting grants in the form of financial support from non-reimbursable external funds, as well as stimulating the maintenance or increase of equity on account of granting reductions between 2% and 15% during the years 2021-2025 to income taxes, income or specific tax. The paper will present an analysis of existing active measures, focusing on those to stimulate the maintenance or increase of equity, while providing answers on the measures that economic agents can take to facilitate the fulfillment of the criteria for granting reductions in profit / income / specific tax during the period 2021-2025.

Keywords: *working capital, accounting / adjusted equity, profit / income / specific tax reduction*

Classification JEL: *H25, M41*

1. Introduction

The modern world is going through a period of extremely serious health crisis caused by the Covid-19 pandemic, quite similar to the Spanish flu pandemic of 1918-1920 [4].

As 100 years ago, and now, the only solution that has yielded some results in reducing the evolution of the infection among the population has been lockdown, wearing masks and interpersonal distance. The domestic and international lockdown of 2020 has failed and will not succeed in fully preventing contamination with the new coronavirus, but only slows the pace of contagion, but bringing the global economy into recession.

The effects of the pandemic, through the loss of life and the quarantine imposed or recommended (as was the case in Sweden) can be likened to the effects of a planetary war which brought the global economy on its knees in a very short period of time. Mankind`s hope is linked to the effectiveness of vaccination in the near future [1].

The COVID-19 pandemic is having a severe effects on both workers and employers in different countries and industries worldwide with a severe impact of the corona crisis on the global economic growth which will take years to recover [5].

The pandemic coming from China will pass; but it will leave behind a severe economic crisis and important geopolitical and geoeconomic changes, a trend towards de-globalization and the prospect of an expansion of Beijing's international influence, however major [3].

The COVID-19 pandemic has negatively affected society as a whole. Private policies are needed which, in addition to reducing the negative effects, also ensure sustainable development in the medium and long term. Businesses must find a way to survive, to grow sustainably in the medium term at least. Thus, they must find solutions that they can apply as soon as possible. These solutions could be represented by the policies that organizations establish and implement [6].

However, it is necessary the involvement of public authorities.

Thus, in order to combat the effects of the Covid-19 pandemic, the Romanian legislator has legislated since March both passive and active measures. The latter stimulate, on the one hand, the release and resumption of economic activities severely affected by the Covid-19 pandemic by providing grants to provide the necessary working capital, and, on the other hand, it encourages entities to maintain or increase their own capital through offering tax reductions for the next 5 fiscal years.

The paper will analyze the legislative measures, starting from January 1, 2021, regarding the stimulation of maintaining or increasing the own capitals on account of granting some reductions granted to the profit / income / specific tax in the period 2021-2025.

2. Active measures to relaunch economic activity by stimulating the maintenance or increase of equity

Since March 2020, Romania has been in a state of emergency, followed by a successive state of alert to combat the effects of the Covid-19 pandemic. The passive measures that have been applied and are applied during these periods in connection with the employment relationships are divided into 3 categories, namely protection measures for employers, incentive measures for employers and last but not least protection measures for employees.

Also, some measures provided for in pre-pandemic legislation, such as reducing the working week from 5 to 4 days and technical unemployment, telework, have undergone changes to effectively combat the effects of the Covid-19 pandemic.

Combating the effects of the pandemic through passive measures lies in: kurzarbeit, paid days off for one of the parents who supervise the children during the suspension of classes or the temporary closure of schools, work at home, telework, shift work, settlement of 41.5% of salary for a period of three months, incentives for hiring unemployed people under 29 and over 50, etc. [1].

The active measures fall into two broad categories, namely:

1. support the resumption of the activity of SMEs severely affected by the decrease in turnover caused by the prohibition and restriction of activities in times of emergency and alert, on the basis of the granting of working capital necessary to unblock economic activities (working capital grants of up to EUR 150,000; grants for productive investments between EUR 50,000 and EUR 200,000) [9];

2. granting reductions to the profit / income / specific tax during the next 5 fiscal years (2021-2025) [8], depending on the maintenance or increase of equity. This measure is intended to stimulate the provision of additional financial resources by reducing the tax burden on taxpayers facing severe liquidity shortages caused by restrictions imposed during the Covid-19 pandemic emergency and alert periods and to stimulate the payment of maturity tax liabilities.

The tax reductions are granted during the financial years 2021-2025 and are conditioned by the fulfillment of some requirements that refer to the maintenance or increase of the own capitals (accounting and adjusted).

The main condition is the existence of positive accounting equity in the period 2021-2025. These accounting equitys are determined by summing up the following elements: paid-in subscribed capital (account 1012) and unpaid (account 1011), the patrimony of the directorate (account 1015), the patrimony of the national research-development institutes (account 1018), other equity elements account 103), capital premiums (account 104), revaluation reserves (account 105), legal reserves (account 1061), statutory reserves (account 1063), other reserves (account 1068), gains related to equity instruments 141), the profit or loss carried forward (account 117) and the profit or loss for the financial year (account 121), minus: treasury shares (account 109), losses related to equity instruments (account 149) and profit sharing (account 129), being determined on the basis of the annual financial statements (line 46, total equity from the format 10 "balance sheet").

Obtaining the reductions in the calculation of the profit / specific / income tax (micro-enterprise) is conditioned, as I said before, mainly by the existence in the financial statements of a positive accounting equity, and the latter being at the same time higher than 50% of subscribed share capital (only for taxpayers who have the obligation to set up share capital). Thus, if in any financial year from 2021-2025 this condition is met, taxpayers will apply a 2% discount on the entire annual tax. Furthermore, and only if the previous condition (positive accounting equity) is met, the adjusted equity is determined, and depending on the fulfillment of other requirements related to it, the reductions can reach a maximum of 12% in 2021, and from 2022 to 2025 including 15% (3 categories of discounts that are granted cumulatively) [7].

Adjusted equity is determined on the basis of accounting equity by deducting the following items: unpaid subscribed capital, profit or loss for the current financial year and revaluation reserves.

At the 2% reduction, a variable reduction can be cumulated in the financial years 2021-2025 in which the adjusted annual equity is increasing compared to the previous year, respectively an additional tax reduction between 5% and 10%:

- if the annual increase is less than 5%, the additional tax reduction is 5%;
- if the annual increase is between 5% -10%, inclusive, the additional tax reduction is 6%;
- if the annual increase is more than 10% and up to and including 15%, the additional tax reduction is 7%;
- if the annual increase is more than 15% and up to and including 20%, the additional tax reduction is 8%;
- if the annual increase is more than 20% and up to and including 25%, the additional tax reduction is 9%;
- if the annual increase is more than 25%, the additional tax reduction is 10%.

The annual increase in adjusted equity (AE) is determined as follows:

Annual increase = (AE current year –AE previous year) / AE previous year * 100 (1)

Starting with the financial year 2022, a tax reduction of 3% can be cumulated (at the reduction of 2% for the positive accounting equity, and at the reduction of 5-10% granted for the increases of the adjusted equity of the current year compared to the previous year, after case) if the current AE (as of 2022) is higher than the 2020 AE, namely:

- AE 2022 is at least 5% higher than AE 2020;
- AE 2023 is at least 10% higher than AE 2020;
- AE 2024 is at least 15% higher than AE 2020;
- AE 2025 is at least 20% higher than AE 2020.

The annual increase is determined similarly to (1), the basis remaining constant (AE 2020):

Annual growth = (AE current year - AE 2020) / AE 2020 * 100 (2)

For entities established during the year, the year of establishment is the base year that replaces 2020.

3. Conclusions

Analyzing the elements that make up the adjusted equity category and the way in which the 3 categories of profit / income / specific tax reductions granted for the period 2021-2025 are determined, the main conclusions are also revealed.

Thus, depending on the fulfillment of the criteria on accounting equity and adjusted equity, reductions of only 2%, or a maximum of 15% (cumulative: 2% + 10% + 3%) may be applied, either for the entire period 2021-2025, or only in the years when the requirements are met (all three, two of them, or only one; in 2021 the reductions are of maximum 12%, and from 2022 the reductions can be of maximum 15% or minimum 2% or 5% or 10 %).

The reductions are conditioned by the maintenance of positive annual accounting equity that exceeds 50% of the subscribed share capital (fixed reduction of 2%). In the years in which this requirement is met, one or two more reductions can be cumulated, respectively a variable reduction, between 5-10% conditioned by the percentage increase of equity adjusted compared to the previous year, and starting with fiscal year 2022 a fixed reduction of 3% for the increase of equity adjusted compared to 2020, considered the base year.

Therefore, entities have until the end of the fiscal year 2020 (until 31 December 2020 for entities with a fiscal year that coincides with the calendar year, or a certain date in 2021 for those with a fiscal year other than the calendar year) intended to facilitate their fulfillment of the criteria for granting reductions in profit / income / specific tax in the period 2021-2025:

a) measures to increase the adjusted equity for the fiscal year 2020 (for entities that currently have negative adjusted equity), in order to be able to calculate the percentage increases compared to 2020 starting with 2022:

- increase of the paid-in subscribed share capital;
- increasing the legal reserves based on the current profit of 2020;
- capitalization of revaluation surplus - debiting account 105, by direct transfer to equity, when this surplus represents realized gain - crediting of account 1175 "Retained earnings representing surplus realized from revaluation reserves" and consequent modification of accounting policies regarding the use of revaluation method fixed assets or cost method;

b) measures to reduce adjusted equity for fiscal year 2020 (for entities that currently have high positive adjusted equity values) so as to ensure, on the one hand, a percentage increase between 2021 and 2020 as high as possible (having a positive and minimized base accordingly), respectively, starting with 2022 the calculation base should be as small as possible (the percentage increase is determined only in relation to the capitals of 2020, regardless of whether it is 2022, 2023, 2024 or 2025):

- distribution of profits from previous years to dividends (calculations will take into account the dividend tax of 5% and possibly the contribution due to social health insurance in a fixed amount of 2,676 lei / year / associate or shareholder for which net dividends distributed and paid in 2020 are over 26,760 lei). The same effect can be obtained by allocating other reserves (account 1068) to dividends (the measure may or may not be cumulated with the distribution of profits from previous years, taking into account at the same time the size of the dividend tax and contribution to social health insurance, as appropriate);

- the reduction of the share capital which will ensure the decrease of the adjusted own capitals of 2020 and will also facilitate the fulfillment in 2021 of the condition regarding reaching at least half of the subscribed share capital;
- obtaining a favorable net result for 2020 (current accounting profit) will not be taken into account in the calculation of adjusted equity, but it must be borne in mind that in 2021 it will be carried forward and increase adjusted equity from 2021 or used to reduce deferred losses; also, the net profit of 2020 is part of the accounting equity, which favors the fulfillment of condition 1 and the obtaining of the 2% reduction.

The active measures regulated so far are stimulating (by granting grants and reducing the profit / income / specific tax), obtaining investment grants creating the premises for increasing the accounting and adjusted equity in the following years by using those investments and increasing the profitability of the beneficiary entities.

Also, the reductions granted (minimum 2% and maximum 15%) can stimulate the efforts of the entities to find those innovative ways that lead them to obtain positive equity and their increasing rates.

It can be concluded that these measures are both positive, both for the business environment by overcoming the burdens generated by COVID-19 representing financial instability, undercapitalization and job reduction, and for the state, by increasing budget revenues in the coming period.

Therefore, the two measures are as necessary to combat the economic effects of the Covid-19 pandemic, as smart as they will lead to the recovery of the economic environment which will lead to a decrease in the unemployment rate and an increase in the state budget in a sustainable way.

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