NEW TAXATION AND ACCOUNTING COORDINATES ABOUT PROFIT TAX

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Abstract
Legal entities that carry out economic activities and earn income, from Romania and abroad, have the obligation to pay to the state budget profit tax or microenterprise income tax, as a form of taxation of profits [12]. Profit tax is due quarterly, cumulatively from the beginning of the fiscal year. Entities use the Fiscal Record Register to determine the payment tax. The recording of profit tax in accounting is done with the help of account 441 "Profit tax and other taxes", analytical account 4411 "Profit tax". The general rate, which is applied to the taxable profit, is 16%; as an exception, there is also a 5% rate applied to income from activities of the nature of night bars, night clubs, discotheques or casinos, if the amount due, resulting from the application of the general rate to the taxable profit, is lower than this. Fiscal losses established through the profit tax declaration, submitted to the competent fiscal body (Form 101), are recovered from the taxable profits made, within the limit of 70% inclusive, in the next 5 consecutive years. Taxable profit is determined taking into account the accounting result, non-taxable income, non-taxable expenses and tax deductions.

The new regulations regarding the profit tax will cause a reduction in economic growth and foreign investments and implicitly a reduction in net profit, moving some economic agents to countries with more favorable tax provisions.

In order to avoid paying fines and penalties, taxpayers must know the new fiscal provisions regarding the profit tax due and apply them.

Keywords: *tax profit, non-deductible expenses, minimum turnover tax, non-taxable income*

Clasificare JEL : *M40, M41*

1. Introduction

The profit tax is a direct tax owed by taxpayers, legal entities, who have not opted for the microenterprise income tax, even if they meet the legal conditions for its payment. The legislation of the profit tax [4], was achieved after the reorganization of the state economic units as autonomous kings and commercial companies and the emergence of commercial companies with private capital. To date there have been many changes to the corporate tax legislation. The last major change to corporate tax established new rules for entities that owe this tax, which apply from 2024.

An entity that opts for this tax and that meets, cumulatively, the following conditions, owes microenterprise income tax [11]:

• achieved income, in the previous year, up to 500,000 euros, calculated at the rate of exchange since the closing of the previous financial year, together with the income of the enterprises related to it;

• has associates/shareholders who own, directly or indirectly, more than 25% of the securities of participation or voting rights and is the only legal entity that is a tax payer on the income of micro-enterprises;

• submitted the financial statements for 2022 and previous years.

Profit tax is due quarterly, cumulatively from the beginning of the fiscal year. Entities use the Fiscal Record Register to determine the payment tax.

The recording of profit tax in accounting is done with the help of account 441 "Profit tax and other taxes", analytical account 4411 "Profit tax".

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Fiscal losses established through the profit tax declaration, submitted to the competent fiscal body (Form 101), are recovered from the taxable profits made, within the limit of 70% inclusive, in the next 5 consecutive years. Taxable profit is determined taking into account the accounting result, non-taxable income, non-taxable expenses and tax deductions.

We propose to present these regulations, namely the calculation method for the profit tax, the minimum turnover tax and additional taxes to the profit tax and their registration in the accounting records, using also practical applications that emphasize the main aspects of the research topic.

2. Establishing the fiscal result

Since, in Romania, accounting is connected to taxation, it is necessary to determine and reflect separately the accounting result and the tax result. The accounting result is determined before and after the determination of the profit tax due, using the data from the accounting records.

Accounting result (Rc) = Income - Expenses

If total revenues are greater than total expenses, the entity records gross accounting profit. In the opposite situation, when expenses are greater than income, an accounting loss is recorded reflected in the trial balance.

The current accounting loss is reflected in the debit balance of account 121 "Profit or loss", and the accounting loss from the previous financial years is reflected in the debit balance of account 1171 "The carried forward result representing undistributed profit", in the situation where it is not was covered according to the legal provisions. The fiscal result (Rf) is determined taking into account the accounting result, non-taxable income (VN), non-taxable expenses (CN) and tax deductions (Df).

Any other elements similar to income (Vs) and expenses (Cs) are also taken into account, such as:

• favorable exchange rate differences, resulting from the assessment of receivables and liabilities in foreign currency, recorded in the accounting records and reflected in the retained earnings, as a result of restatement or transposition (income).

• unfavorable exchange rate differences, resulting from the assessment of receivables and debts in foreign currency, recorded in the accounting records in the retained earnings, as a result of restatement or transposition (expenses).

Rf = Rc - VN + CN - Df +Vs - Cs

According to the legal provisions [4], taxpayers owe profit tax if the fiscal result is positive (taxable profit). The negative difference represents a tax loss and must be declared as such, to the competent tax authority, so that it can be used to calculate the profit tax due in the following periods (Annual profit tax declaration - code 101).

For the calculation of the profit tax due, from the taxable profit of the current year, any tax loss that is recovered according to the legal provisions is deducted. Total revenues recorded in a fiscal period are determined using the credit of account 121 "Profit or loss", and total expenses using the debit of account 121 "Profit or loss".

The balances of the income and expenditure accounts are transferred, at the end of each fiscal period, to account 121 "Profit or loss", and the income and expenditure accounts do not show a balance. The general rate that applies to taxable profit is 16%.

As an exception, taxpayers who earn income from activities of the nature of night bars, night clubs, discotheques or casinos, even if they come from associations and which determine a profit tax of less than 5% of the respective income, have the obligation to pay tax on profit at a rate of 5% applied to these revenues.

According to the general rule, the profit tax is calculated, declared and paid quarterly, up to and including the 25th of the first month following the end of quarters I - III (Form 100 "Declaration regarding payment obligations to the state budget"). The finalization and payment of the profit tax for the fiscal year is carried out by the deadline for submitting the profit tax declaration (Form 101, "Profit tax declaration").

Declaration 101 is submitted by March 25 of the following year. As an exception, for the period January 1, 2021 - December 31, 2025, the submission deadline is extended until June 25, inclusive, in the following year.

Taxpayers must use a tax record register in which they record:

- revenues and expenses;
- non-taxable income; - non-tax deductible expenses;
- tax deductions;
- elements similar to income;
- elements similar to expenses.

Profit tax payers, who in the previous year achieved a turnover of more greater than 50,000,000 euros, owes, starting from 2024, a minimum turnover tax.

Credit institutions – Romanian legal entities and branches in Romania of credit institutions – foreign legal entities owe, in addition to the profit tax, a turnover tax.

Legal entities that carry out activities in the oil and natural gas sectors and that in the previous year achieved a turnover of more than 50,000,000 euros, owe, in addition to the profit tax, a specific tax on the turnover for the period 2024-2025.

A micro-enterprise, which owes income tax, becomes a profit tax payer in the following situations:

• the micro-enterprise no longer fulfills the condition of having an employee employed for that the employment relationships have ended and within 30 days he has not hired another employee with a fixed-term employment contract of at least one year or indefinite;

• the micro-enterprise starts to carry out one or more activities in the field banking; insurance and reinsurance, including capital markets and brokerage; gambling; oil and gas exploitation or development;

• shareholders or associates, who own more than 25% of the value or number of securities participation or voting rights in more than one enterprise, have not established a single entity that applies the provisions on the income tax on micro-enterprises.

The micro-enterprise owes profit tax starting from the quarter in which it appeared one of the situations listed above.

3. Minimum turnover tax and taxes additional to profit tax

Starting from 01.01.2024, certain categories of taxpayers, depending on the profit tax owed or the turnover achieved in the previous year, may owe minimum turnover tax or additional tax to the profit tax [6].

a. Taxpayers, who registered in the previous year a turnover of over 50,000,000 euros and the payment terms (quarterly and annual) result in a profit tax lower than the minimum turnover tax (IMCA), they will pay profit tax at the IMCA level. If IMCA is negative, it is considered zero minimum tax.

The formula for determining the minimum turnover tax is:

$$IMCA = 1\% \times (VT - V_S - I - A)$$, where:

IMCA = minimum turnover tax;

VT = total revenue, calculated from the beginning of the year to the end quarter, respectively the reporting year;

Vs = revenues that are subtracted from total revenues for the same period;

I = the value of fixed assets in progress, recorded in the records accounting starting from January 1, 2024;

A = accounting depreciation at historical cost level related to assets purchased or produced after January 1, 2024, less for the assets mentioned in indicator I.

Taxpayers who owe IMCA will not reduce the amount owed representing minimum turnover tax by exempt, reduced and other amounts that are deducted from profit tax. For sponsorships and acts of patronage, the related amounts are deducted from the minimum tax due, at the level of the minimum value between the value calculated by applying 0.75% to the turnover or the value representing 20% of the profit tax.

b. Credit institutions – Romanian legal entities and branches in Romania of credit institutions – foreign legal entities, owe, in addition to the profit tax, a turnover tax calculated with the following rates applied to the turnover:

• 2% for the period January 1, 2024 – December 31, 2025, inclusive;

• 1% starting on January 1, 2026.

c. Legal entities carrying out activities in the oil and natural gas sectors and who in the previous year achieved a turnover of over 50,000,000 euros, owe, in addition to the profit tax, a specific tax on the turnover, calculated as follows:

ICAS = 0.5% x (VT - VS - I - A), where:

ICAS = specific turnover tax, calculated from the beginning of the year until the end of the reporting quarter or year;

VT = total revenues for the same period;

I = the value of fixed assets in progress, registered in accounting records starting from January 1, 2024;

A = accounting depreciation at the historical cost level of the assets purchased or produced starting January 1, 2024.

The minimum turnover tax and the specific turnover tax are determined, declared and paid quarterly, as follows:

- for quarters I - III, up to and including the 25th of the month following the quarter for which it is due;

- for the IV quarter, the turnover tax, up to and including March 25 of the following year, and the specific turnover tax until the date of submission of the annual profit tax return.

4. Non-taxable income

The following are considered non-taxable income when calculating the profit tax:

• dividends received from a legal entity for shares or shares held at that company;

• dividends received from a foreign person paying income tax or a a similar tax from a third country, with which Romania has concluded an agreement to avoid double taxation, if the Romanian legal entity owns, at least, 10% of the capital of the foreign company, for an uninterrupted period of 1 year;

• revenues from cancellation, recovery, including the re-invoicing of expenses for which no deduction was granted;

• the income obtained as a result of the revaluation of fixed assets in the situation where they offsets expenses with previous decreases related to the same fixed asset;

• revenues expressly provided for in agreements and memoranda approved by acts norms;

• amounts received for the fulfillment of management financing responsibilities waste;

• compensations received based on the decisions of the European Court of Human Rights;

• dividends received from the member states of the European Union.

5. Non-deductible expenses from a fiscal point of view

Expenses that are not deductible when calculating the profit tax: • are not related to taxable income;

• they are not recorded in supporting documents or they do not comply with the legal provisions;

• they exceed the limits established by law, respectively they are deductible to a limited extent;

• were invoiced by an inactive taxpayer;

• expenses recorded and proven to be related to acts of corruption;

We exemplify the following types of non-tax deductible expenses:

• expenses with the due profit tax; • interest, late fees, fines, forfeitures and penalties of delay due to the Romanian or foreign authorities, other than those stipulated in the commercial contracts;

• sponsorship or patronage expenses, expenses related to private scholarships, granted according to law;

• expenses regarding goods of the nature of stocks or depreciable fixed assets found to be missing in management or degraded and not imputable, including the related value added tax;

• expenses made in favor of shareholders or associates, other than those generated of payments for goods delivered or services rendered to the taxpayer, at market price.

For the calculation of the fiscal result, taxpayers who owe quarterly, tax on profit, determines at the end of each quarter the deductible expenses when calculating the profit tax.

The following expenses are tax deductible, limited [4]:

• protocol expenses within the limit of a 2% quota applied to the accounting profit to which are added the expenses with the profit tax and the protocol expenses; • social expenses, within the limit of a quota of up to 5% applied to the value staff salary expenses; • expenses regarding meal vouchers and vacation vouchers;

• expenses related to cars;

• losses, perishables, handling/storage losses;

• interest expense and other interest-equivalent costs economic;

• operating expenses, maintenance and repairs related to the premises and homes of service.

6. Tax facilities

• Taxpayers who carry out sponsorships or acts of patronage according to legal provisions [4], reduce the related amounts from the profit tax due at the level of the minimum value of the following:

1. the amount calculated by applying 0.75% to the turnover;
2. the amount representing 20% of the profit tax due.

• When calculating the fiscal result, for research and development activities, the following supplements are granted:

1. the additional deduction of 50% of eligible expenses for these activities;
2. application of the accelerated depreciation method also in the case of apparatus and equipment intended for research and development activities.

• Exemption is given for profit reinvested in assets produced or purchased and put up in operation, used for the purpose of economic activity: technological equipment; assets used in production and processing activity; assets representing refurbishment, electronic computers and peripheral equipment, cash register, control and billing machines and devices; computer programs.

• Agricultural cooperatives that meet the conditions of micro-enterprises cannot applies this tax and owes profit tax, but benefits from certain exemptions when calculating the profit tax [5].

• Profit tax reductions have been established, which are applied annually during the period 2021 – 2025, based on equity and adjusted equity [9].

7. Profit tax accounting

Debts and receivables regarding profit tax and other taxes are reflected in accounting with the help of the synthetic account of the first degree 441,,,Profit tax and other taxes'', which has the accounting function of liability.

Account 441 "Profit tax and other taxes" is developed on the following second-degree synthetic accounts [10]:

• account 4411 "Profit tax";
• account 4415 "Activity-specific tax";
• account 4418 "Income tax".

The credit of these accounts provides information regarding the income tax owed by entity, through the correspondent account 691 "Expenses with current profit tax", the income tax owed by micro-enterprises, by correspondence with the debit of account 698 "Expenses with income tax and other taxes" and with regard to the specific tax of some activities by correspondence with the debit of account 695 "Expenses with the specific tax of some activities".

At the same time, the credit of these accounts records information that refers to profit tax, income or specific activities related to previous years in case of correction of accounting errors, through the debit correspondent account 117,,,The carried forward result''. The debit of the same accounts reflects information regarding the amounts settled to the state budget on account of these fiscal obligations, by correspondence with the credit of account 5121 "Bank accounts in lei", as well as the amounts prescribed, exempted or canceled from the profit tax, the tax on income and respectively the specific tax of some activities, through the creditor correspondent account 758,,,Other income from exploitation''.

The balance can be creditor if the entity owes profit tax, income tax "nd specific tax for certain activities, or debtor when payments have been made in addition to the taxes owed.

For the profit tax due, the entity registers:

691 „Income tax expenses”	=	4411 „Tax profit''	the amount owed

Payment of this obligation:

4411 „Tax profit''	=	5121 „Bank accounts in lei''	the amount owed

Since the profit tax is due quarterly, cumulatively from the beginning of the year, when an entity owes, cumulatively, an amount lower than the tax established at the previous (quarterly) payment term, the following entry is made, in red:

691 „Income tax expenses”	=	4411 „Tax profit''	- the difference between the amount owed in the reporting quarter and the amount owed in the previous quarter

For the additional tax, the profit tax, the registration is made:

695 „Expenses with the tax specific to some activities”	=	4415 „The tax specific to certain activities”	the amount owed

Payment of this obligation:

4415 „Tax specific to certain activities''	=	5121 „Bank accounts in lei”	the amount owed

8. Income tax application

A commercial company, which carries out sales of goods through its own stores and services, registered during 01.01. – 30.06.2024 the following:

- total income = 225.000 lei, from which:
  - income from the sale of goods 147.000 lei;
  - income from services 68.000 lei;
  - income from dividends received from a Romanian legal entity 10.000 lei.
- total expences = 184.000 lei, from which:
  expenses with the fine applied by the control bodies of A.N.A.F. 900 lei;
  expenses with the amounts granted representing sponsorships 1.900 lei;
  - protocol costs 4.200 lei.

- in May 2024, the company purchased and put into operation a computer electronically worth 4,600 lei

- for the first quarter, the company declared and paid, to the state budget, profit tax in the amount of 4,270 lei

To determine the profit tax due for the second quarter of 2024, the following steps are taken:

1. determination of the profit tax related to quarter II

- determination of gross profit (Pb)

Pb = 225.000 - 184.000 = 41.000 lei

- establishing non-tax deductible expenses

a. non-deductible expenses representing fines 900 lei;

b. non-deductible protocol expenses:

Deductible protocol expenses = $(41.000 + 4.270 + 4.200) \times \frac{2}{100}$ =

$= 49.470 \times \frac{2}{100} = 989,40$ lei

Non-deductible protocol expenses = 4.270 - 989,40 = 3.280,60 lei

- Taxable profit = 41.000 - 10.000 + 900 + 3.280,60 = 35.180,60
- Profit tax = $35.180,60 \times \frac{16}{100}$ = 5.628,90 lei

2. Determination of exempt profit:

Accounting profit = 41.000,00 lei

Taxable profit = 35.180,90 lei

Profit tax related to taxable profit = $35.180,90 \times \frac{16}{100}$ = 5.628,90 lei

Investiție = 4.600 lei

Exempt, cumulative profit = 4.600 lei

Tax exempt, cumulative = $4.600 \times \frac{16}{100}$ = 736 lei

Tax due, calculated after deducting reinvested profit = 5.628,90 - 736 = 4.892,90

3. Sponsorship deduction:

20% of the profit tax = $4.892,90 \times \frac{20}{100} = 978,58$ lei

0.75% of turnover (C.A.) = $225.000 \times \frac{0,75}{100} = 1.687,50$ lei

The tax due, accumulated after deducting sponsorship expenses:

4.892,90 - 978,58 = 3.914,32 lei

Profit tax due for the second quarter of 2024

= 3.914,32 - 4.270 = - 355,60 lei

In conclusion, considering the accumulated revenues and expenses (quarter I and quarter II), non-taxable income, non-tax deductible expenses, reinvested tax and expenses with amounts representing sponsorship, the commercial company does not owe profit tax for the second quarter of 2024, since, cumulatively, the tax related to the first quarter and the second quarter is lower than the declared and paid profit tax for the first quarter 2024.

- Registration of the obligation regarding the profit tax related to the second quarter of 2024:

691 „Current income tax expenses"	=	4411 „Tax profit"	355,60 lei

9. Conclusions

The profit tax represents, along with the value added tax, an important source for the state budget. Depending on the field of activity and turnover, an entity may owe, in addition to the profit tax, an additional tax. Also, by comparing the profit tax due with the minimum turnover tax, entities with turnovers greater than 50,000,000 euros will pay the highest amount to the state budget. The new regulations regarding the profit tax will cause a reduction in economic growth and foreign investments and implicitly a reduction in net profit, moving some economic agents to countries with more favorable tax provisions.

In order to avoid paying fines and penalties, taxpayers must know the new fiscal provisions regarding the profit tax due and apply them.

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