

THE TAX TREATMENT OF INCOME FOR INDIVIDUALS FROM INDEPENDENT ACTIVITIES PERFORMED INDIVIDUALLY

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Abstract

Individuals who wish to regularly and continuously conduct independent activities to generate income from production, service provision, commerce, and liberal professions can choose one of the following organizational forms:

- *Individually:*
 - *Authorized natural person (PFA);*
 - *Independent natural person (PFI), if they possess a recognized and authorized qualification for professional services.*
- *In association:*
 - *As an entrepreneur holding an individual enterprise;*
 - *As a member of a family enterprise.*

The authorized natural person must request registration and authorization from the trade registry office of the court in the county where they establish their professional headquarters.

The independent natural person submits the necessary documents to the territorial structure of A.N.A.F. for registration as an independent natural person and obtains the tax registration certificate (CIF).

The determination of net income for authorized natural persons can be done, optionally, according to legal provisions [4]:

- *In the real system;*
- *Based on income norms.*

For independent natural persons, net income is determined exclusively in the real system.

The tax obligations of the authorized natural person and independent natural persons include income tax, social security contributions, and health insurance contributions.

The annual net income is determined as the difference between the gross income earned and deductible expenses incurred for income generation. Reported tax losses, social security contributions, and health insurance contributions are deducted from the annual net income, resulting in the annual taxable net income. A 10% rate applies to this income to determine the income tax due.

Keywords: tax treatment of income, independent activities performed individually, authorized natural person, independent natural person

Clasificare JEL: M41, H30

1. Introduction

The authorized natural person represents a form of organization of economic activity independently. The categories of activities for which he can opt are a maximum of five and can be chosen according to the CAEN Code. Economic activities for which a special exercise regime has been established or those for which restrictions or other prohibitions on carrying out have been established cannot be carried out.

P.F.A. carries out its activity, mainly using its workforce and professional skills [6]. The authorized natural person may have a maximum of three employees, with individual employment contracts, for auxiliary activities [6]. The authorized natural person cannot be his own employee,

but may carry out activities in the same field or in another field of activity, with other authorized natural persons, with individual employment contracts.

The independent natural person cannot have employees, the entire activity being carried out by the respective natural person. The independent natural person (P.F.I.) represents a form of organization of activity specific to liberal professions and is the natural person who registers, as such, with the ANAF territorial structure to which the headquarters where the activity will be carried out belongs. For this, the activity to be carried out must be found in the list of liberal professions. Such activities refer to doctors, notaries, lawyers, accountants, architects, athletes and other activities that are exercised on the basis of special laws.

For P.F.I. the field of activity is unique, depending on the professional training and, upon establishment, must present documents attesting to the training in the professional field in which it wishes to operate. From a fiscal point of view, P.F.A. and P.F.I. must determine, annually, the net income and income tax, and submit the 212 declaration to the tax authorities. Net income can be determined in the real system or based on the income norms [4] for P.F.A. and only in the real system for P.F.I. The tax record register [9] is completed differently, depending on the method of determining the net income.

The social security contribution is due if the self-employed person earns net income whose cumulative value is at least equal to 12 or 24 gross minimum wages in the economy. For the chosen income, the contribution rate of 25% is applied.

The health social security contribution is determined by applying the rate of 10% to the annual calculation base, respectively the net annual income achieved. There is a minimum ceiling for the calculation base of 6 minimum wages and a maximum ceiling of 60 gross minimum wages.

Accounting, as a rule, is organized in simple entry.

Authorized individuals and self-employed individuals must complete the Purchases Journal and the Sales Journal and register for VAT purposes, by option or when the exemption ceiling is exceeded [4]. If they make intra-community purchases, they must obtain the special VAT code for intra-community operations.

2. Establishing the income tax determined in the real system

Taxation in the real system for P.F.A. and P.F.I. involves determining the income tax by applying the 10% rate to the annual taxable net income established according to the accounting data.

To establish the annual taxable net profit, the following procedure is followed:

- a.** the annual net income is determined as the difference between the gross income earned and the deductible expenses incurred to earn the income.
- b.** the annual taxable net income is determined by deducting from the annual net income the tax losses carried forward, the social security contribution and the social health insurance contribution.

Deductible expenses are those expenses that are incurred for the purpose of obtaining income, according to the activity carried out [4]. They are limited deductible expenses, such as: expenses for sponsorship, patronage, as well as for granting private scholarships, within the limit of a 5% rate applied to the difference between gross income and deductible expenses, other than expenses for sponsorship, patronage and for granting private scholarships; protocol expenses within the limit of a 2% rate applied to the difference between gross profit and deductible expenses; social expenses, by applying a 5% rate on the annual value of expenses incurred with staff salaries; expenses for meal vouchers, vacation vouchers; expenses representing professional contributions, obligations due, according to legal regulations, to professional organizations to which taxpayers belong, within the limit of 5% of gross income and others.

The following are not deductible expenses: amounts or goods used by the taxpayer for personal or family use; income tax due; installments related to loans taken out; 50% of expenses related to motorized road vehicles that are not used exclusively for the purpose of carrying out the activity and whose maximum authorized total mass does not exceed 3,500 kg and do not have more than 9 passenger seats, and others.

Until May 25, inclusive, of the year following the year of taxation, P.F.A. and P.F.I. are required to submit form 212, “Single Declaration regarding income tax and social contributions due by individuals” [11] to declare the income earned, the annual income tax and the social contributions due for the previous year. Thus, starting with 2025, estimated income, income tax, or social contributions for the current year are no longer declared. For the year 2024, these are declared, according to the achievements, by May 26, 2025, and for the year 2025 by May 25, 2026, inclusive. This provision also applies to taxpayers who start their activity during the fiscal year, cease their activity, or who temporarily interrupt their activity.

To establish the income tax in the real system, the taxpayer is obliged to organize and maintain single-entry accounting [8], but may also opt for double-entry accounting [1].

In order to carry out their activities, P.F.A. and P.F.I. must acquire, from specialized units, standardized documents: the register of receipts and payments, inventory register, receipt book, invoices (if applicable) and other documents specific to each type of activity, according to legal provisions [1].

The tax register is completed in the current year with the income and expenses incurred in the previous fiscal year, until the date of filing form 212. The value added tax collected for deliveries made does not constitute income and is not recorded in the Tax Register. Deductible VAT for goods and services purchased does not constitute an expense and is not recorded in the Tax Register.

Starting with 2025, the single declaration will be filed by taxpayers to declare the tax on income earned and social contributions due for the previous year. Thus, in 2025, the single declaration for 2024 will be submitted. Also, individuals who have no income but who opt for paying the health insurance contribution will submit the single declaration.

3. Determining income tax based on income norms

Taxation at the income norm applies to income from independent activities that are provided for in the nomenclature of activities for which the net income can be determined at the norm and less for liberal professions. This form of taxation can be used, for individual activities, by authorized individuals.

The income norm represents a fixed amount, established by the territorial bodies of A.N.A.F., at the place of performance of the activity (regional general directorates of public finances, respectively of the municipality of Bucharest) during the fourth quarter of the year preceding the one in which it is applied.

The income norm for an activity cannot be less than the amount resulting from multiplying the minimum gross salary per country guaranteed in payment, in force on the date of the elaboration of the norms, by 12.

Authorized individuals who carry out several activities, for which taxation at the income norm may be applied, establish the annual net income by summing the norms related to the activities they carry out.

The income tax is determined by applying the 10% rate to the income norm corrected according to the legal provisions, for the respective year. If the activity is carried out for periods shorter than one year, then the income norm is recalculated in the sense of reduction, proportional to the period in which the P.F.A. activity was carried out.

The authorized individual may reduce the income norm by applying the correction coefficients established by the regional general directorates of public finances and of the municipality of Bucharest, depending on certain criteria such as:

- is employed by another entity with an 8-hour/day employment contract;
- falls into the first degree of disability;
- if she is a woman and is 60 years old or a man and is 65 years old;
- attends a higher education institution;
- if she carries out seasonal activities;
- the duration of the vacation leave.

The income norm can also be increased, for example for P.F.A. that has employees with individual employment contracts.

If the taxpayer meets several criteria for reducing or increasing the income norm, he will apply the highest coefficient. In the case where the authorized individual carries out activities that fall within the income norm but also carries out activities to which the real taxation system applies, then taxation will be made on all activities in the real system.

The option for taxation on the norm can be applied for an annual gross income below 25,000 euros, at the average annual exchange rate communicated by the National Bank of Romania, at the end of the fiscal year. The transition to the real system is mandatory starting with the fiscal year following the one in which the taxpayer achieved an annual gross income greater than the lei equivalent of the amount of 25,000 euros and is mandatory applied in the following two consecutive years.

The taxpayer who opts for the income norm must complete the Tax Record Register [9], only in the income column and has no accounting obligations[4].

4. Social security contribution

If they obtain net income, annually, in the amount of at least 12 or 24 gross minimum salaries per country, in force on January 1 of the respective fiscal year, individuals who obtain income from independent activities are required to pay social insurance contributions (CAS), by applying the percentage of 25% to the income chosen as the calculation basis, as follows:

- if the income earned exceeds 12 gross minimum wages, the minimum value of the social security contribution is established as follows: $C.A.S. = S.M.B. \times 12 \times 25\%$,
where: C.A.S. = social security contribution

S.M.B. = gross minimum wage per country on January 1 of the fiscal year. For the year 2025 the minimum value of C.A.S. is 12,150 lei ($4,050 \times 12 \times 25\%$).

- if the income earned exceeds 24 gross minimum wages, the minimum value of the social security contribution is established as follows: $C.A.S. = S.M.B. \times 24 \times 25\%$.

For the year 2025 the minimum value of C.A.S. is 24,300 lei ($4,050 \times 24 \times 25\%$).

The following are not required to pay CAS:

- pensioners who carry out various activities;
- individuals insured in their own social insurance systems;
- individuals for income earned below the minimum ceiling of 12 gross minimum salaries per country.

If income is lower than the ceiling of 12 gross minimum salaries per country, the taxpayer may opt for CAS payment at the level of a calculation base of 12 minimum salaries. For the year 2024, the gross minimum salary per country of 3,300 lei is used to determine the CAS due.

Starting with 2025, the gross minimum wage per country in force on January 1 of the year for which the social security contribution is established will be used.

The social security contribution is declared and paid, by submitting the 212 declaration, by May 25 of the year following the year for which the territorial structure to which the taxpayer belongs is submitted to A.N.A.F.

To establish the CAS owed by a taxpayer, the net income, respectively the annual income norms from self-employment, the gross income from sports activity and the net income from intellectual property rights achieved in the reporting year are cumulated.

5. Social health insurance contribution

Individuals who earn income from independent activities are required to declare and pay, annually, the social health insurance contribution. The calculation basis is the net income earned, which cannot be less than 6 gross minimum wages. The 10% rate is applied to the calculation basis to determine the C.A.S.S. due.

The maximum ceiling for which C.A.S.S. is declared and owed is 60 gross minimum wages per economy in payment on January 1 of the fiscal year for which C.A.S.S. is owed. Thus, for the year 2025, the maximum ceiling is 243,000 lei (4,050 lei x 60), and taxpayers who earned a net income lower than the ceiling of 6 gross minimum wages owe C.A.S.S. up to this ceiling, namely 2,430 lei (4,050 lei x 6 x 10%).

For the year 2025, the taxpayer who obtained a net income lower than the ceiling of 6 gross minimum salaries owes C.A.S.S. at this minimum ceiling, respectively 2,430 lei (4,050 lei x 6 x 10%).

The health social insurance contribution is not due at the minimum ceiling in the situation where the taxpayer obtained an income lower than 6 gross minimum salaries if he obtained income from salaries or other income for which C.A.S.S. was paid.

For the year 2024, the maximum ceiling for which C.A.S.S. is paid is 60 gross minimum salaries, respectively 198,000 lei (3,300 lei x 60), and the minimum ceiling is 6 gross minimum salaries, respectively the amount of 19,800 lei (3,300 lei x 6). For net, annual incomes between 6 and 60 gross minimum salaries, the taxpayer, a natural person with independent activities, declares and owes C.A.S.S. by applying the rate of 10% of the respective income, until May 26, 2025, the deadline for submitting the single declaration (form 212).

6. VAT registration of independent activities

Based on the data in the Sales Journal and the Purchase Journal, P.F.A. and P.F.I. must register for VAT purposes if they earn income above the ceiling of 300,000 lei/year, according to the invoices issued, within 10 days from the end of the month in which this ceiling was reached or exceeded. The sales journal highlights the deliveries of goods and the provision of taxable services. It can also be registered for VAT purposes, by option, at the time of registration in the Trade Register or with the A.N.A.F., respectively after this date, regardless of the value of the income earned [C.F.].

For VAT registration purposes, the authorized natural person and the independent natural person are required to submit, to the competent tax authority, form 700, "Declaration for the electronic registration/modification of the details subsequent to the tax registration" or form 070, "Tax registration declaration/Declaration of details/Deletion declaration for natural persons who carry out economic activities independently or exercise liberal professions", by the 10th of the month following the one in which the VAT ceiling was exceeded. The person carrying out independent activities becomes a VAT payer starting with the 1st of the month following the one in which form 700 or 070 was submitted.

They must also obtain the special VAT code for intra-community operations, before carrying out these operations for:

- purchases of goods or services from European Union countries exceeding 10,000 euros per year, respectively 34,000 lei at the exchange rate on the date of Romania's accession to the European Union;
- the purchase of intra-community services regardless of value;
- the provision of intra-community services, regardless of value.

For purchases made under the aforementioned conditions, the supplier requests the special VAT code and issues the invoice without VAT. Value added tax is declared and paid in Romania at a rate of 19%. The beneficiary must submit a special VAT return (Declaration 301) [4] and a recapitulative declaration regarding intra-community deliveries/acquisitions/services (Declaration 390) [10] for the months in which such operations were carried out.

For services, the P.F.A. and P.F.I. in Romania request the customer from the European Union for his intra-community VAT code. The value added tax will be paid by the customer in the country where the company is headquartered. Invoicing is done without VAT but the customer's intra-community VAT code is completed. For operations carried out with natural or legal persons in Romania, P.F.A. and P.F.I. do not owe VAT and do not deduct VAT, unless they register for VAT purposes as specified.

7. Conclusions

Depending on the level of estimated income, a natural person can choose between self-employment, a limited liability company or a micro-enterprise.

Income from self-employment can be achieved individually, such as an authorized natural person and an independent natural person and/or in a form of association.

The authorized natural person at the income norm has the advantage that, regardless of the activity he/she carries out, owes income tax at a fixed amount, unlike the P.F.A. in the real system which must establish the income tax by applying the 10% rate to the net taxable income. From an accounting point of view, the P.F.A. in the real system and the P.F.I. must organize and maintain accounting records in simple entries, the P.F.A. at the income norm not having such an obligation.

The authorized natural person and the independent natural person record expenses with lower accounting records and can dispose of the money from the respective activity at any time. The limited liability company can, quarterly, withdraw money, through dividends, with the obligation to pay the dividend tax, which in 2025 is 10%.

For people starting a business and this business is not complex, it is advisable to have a P.F.A. or a P.F.I., if they fall within the legal provisions, given that the investments for these are not as large as for a commercial company and the administration expenses are lower. P.F.A. and P.F.I. are liable for their obligations with the patrimony of the assignment and with the entire patrimony and personal goods.

Starting with 2025, individuals who carry out independent activities no longer declare their estimated income and social contributions for the current year [7]. The single declaration form 212 is submitted, in the following year, by May 25 for the activity of the previous year, with the income tax and social contributions owed by the taxpayer, eliminating the submission during the current year for various changes in the activity of the individual. A.N.A.F. will send, for the reporting of the achievements of 2025, by the reporting deadline of May 25, 2026, a single declaration form to each taxpayer which will be mandatory pre-filled by the territorial bodies competent in the administration of the taxpayer.

Until May 26, 2025, inclusive, the single declaration for the year 2024 is submitted using a gross minimum salary per country of 3,300 lei, as it was on the date of submission of the single declaration in the year 2024.

For the year 2025, when submitting the single declaration, a gross minimum salary per country of 4,050 lei will be used to establish the ceilings for C.A.S. and C.A.S.S. related to income in the year 2025, which is in force on January 1, 2025, according to the new specifications.

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