

IMPACT OF TAX CHANGES APPLICABLE IN 2018, ON THE CONSOLIDATED BUDGET

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Abstract: Year 2018 is the year with the most spectacular legislative changes in the tax field in the last period. The "fiscal revolution" is the tax term used by more and more specialists, and the impact of these changes is directly reflected in the consolidated state budget. The legal basis is the updated Law 227/2015. All these tax changes have a significant impact on state budget revenues but also on livelihood budgets. The reduction of the tax rate on income from the salary from 16% to 10% has as a direct result a reduction of the revenues to the state budget. The share of income tax revenue in the total consolidated budget was 13% in the first quarter of 2017 and 9.9% in the same period of 2018. At the same time another important tax, ie VAT, remained at the level of 19%, which was modified in January 2017.

Key words: Law 227 of 2015, income tax on micro-enterprises, profit tax, personal deductions, current income.

INTRODUCTION

The state budget is a fundamental category of finance science, linked to the existence of the state and the market mechanism [1]. Formally, the state budget is a list of state revenues and expenditures related to a certain amount of time, usually one year. From a legal point of view, the state budget is a law that provides for and authorizes State revenues and expenditures for one year. Economically, the state budget expresses in monetary form the economic relations that arise in connection with the formation and distribution, with the level and evolution of the gross domestic product, but also with the fulfillment of the functions of the state. The state budget reflects the state's economic, social and financial policy options over a one-year period [7]. The economic relations that it expresses are manifested both on the one hand as relations of mobilization of the state's annual money resources and on the other as relations of distribution of these resources.

The relations determined by the constitution of the public financial resources are manifested mainly, through taxes, fees, mandatory contributions and payments of the institutions public, as well as domestic and external borrowing [2]. Then social relations created between the state and its members in the process of allocation and use of public financial resources, takes the form of public and semi-public utilities and services that the state provides to them and society in general. Secondly, the state budget is a binding financial plan for all the members of the society and for the state itself, having the character of law, and bearing the giant of the supreme forum from the state (parliament and the president through promulgation) and, through the game of democracy, of the whole People [12]. The mandatory character of the state budget is manifested by the fact that against members of the company - taxpayers who fail to fulfill their obligations - can take extra-economic coercive measures, while against state authorities, if they can not fulfill their budgeted budgetary obligations, they can not be done like this measures [6].

Thirdly, the state budget tries to reflect an image as close as possible to the situation the real economy [8]. Therefore, it is a macro-financial, operational macroeconomic plan, established by the competent bodies of the state and on the basis of which the society will function and evolve from an economic, social and financial point of view, during the period for which it was drawn up [11]. Although the state budget is drawn up in Romania during one budget year, which corresponds to the year calendar, it often

provides the necessary conditions for continuing funding and in the medium term, by including public spending (in the field of investments) that can not finalize during a budget exercise.

The principal taxes and fees regulated by Law 227 of 2015 [13] are as follows:

- a) profit tax;
- b) income tax on micro-enterprises;
- c) income tax;
- d) tax on income obtained in Romania by non-residents;
- e) tax on representative offices;
- f) value added tax;
- g) excise duties;
- h) local taxes and fees;
- i) construction tax.

Starting January 2018, in line with the provisions of Law 227 of 2015, a number of changes have been introduced both in terms of the tax base and the value of the tax rates [14].

MATERIALS AND METHODS

Regarding the amendments to the profit tax, the main changes refer to the capitalization and classification rules as an independent entity. The thin capitalization rules are and will apply the new rule for limiting interest deductibility provided by Directive 2016/1164 / EU."Excessive debt costs" (including the difference between interest / currency and similar income) may be deducted within the limit of 10% of the reference value. The benchmark is the accounting profit (income minus expenses), adjusted, with the deduction of non-taxable income and with the addition of corporation tax, excessive debt and tax depreciation.

Given that the calculation basis is negative or equal to zero, the excess costs of indebtedness are non-deductible in the fiscal reference period and are carried forward. The taxpayer has the right to deduct, in a fiscal period, the excess cost of borrowing up to the deductible ceiling represented by the RON equivalent of 200,000 euros, calculated at the exchange rate communicated by the National Bank of Romania valid for the last day of the quarter / fiscal year, as the case may be.

If the taxpayer is an independent entity in the sense that it is not part of a consolidated financial reporting group and has no associated enterprise and no permanent establishment, it fully deducts the excess cost of the debt in the tax period in which they are supported.

Surplus costs of indebtedness that can not be deducted in the tax accounting period are carried forward without the limit of time in the following tax years under the same deduction conditions.

Changes in the Tax on Income of Micro-enterprises (Turnover Tax) the main changes refer to the definition of "microenterprise" [3]. The definition of "microenterprise" includes all private companies that have a turnover below 1 million euros and are active (other than those in bankruptcy or in liquidation). The definition excludes state entities and certain legal entities that are transparent for tax purposes (professional societies) provided by law. The micro enterprise will pay the corporate tax starting with the quarter in which the turnover exceeds the threshold of 1 million euros (profit tax will be calculated on the profit registered starting with the quarter in which the threshold is exceeded).

The following Romanian legal entities are not subject to the income tax on microenterprises:

- a) Deposit Guarantee Fund in the banking system, constituted according to the law;

- b) Investor Compensation Fund, established according to the law;
- c) Private Pension Guarantee Fund, established according to the law;
- d) Insurers' Guarantee Fund, constituted according to the law;
- e) the transparent tax entity with legal personality [15].

If, during the fiscal year, the number of employees changes, the tax rates are applied properly, starting with the quarter in which the change was made, according to the law. For micro-enterprises with an employee who apply a tax rate of 1%, whose employment relationship is terminated, the condition regarding the number of employees is considered fulfilled if during the same quarter a new employee who is to be employed with an individual labor contract for an indefinite period or for a determined period, for a period of at least 12 months [16].

If, during a fiscal year, a micro-enterprise earns more than 1,000,000 euros, it owes profit tax, starting with the quarter in which this limit was exceeded. The forecasted fiscal limit is verified on the basis of cumulative earnings from the beginning of the fiscal year. The exchange rate for determining the euro equivalent is the one at the close of the previous financial year. The calculation and payment of the profit tax by micro-enterprises that exceed the EUR 1,000,000 ceiling is made taking into account the revenues and expenditures realized starting with the respective quarter.

Changing the income tax rate starting with 01.01.2018 from 16%, as it currently stands at 10%, for all categories of taxable income, except for dividend income for which the 5% quota is retained.

As regards income tax, the only difference is the share used for its calculation, the new share being 10%. It is important to note that the level of personal deductions granted according to the number of dependents was increased. For taxpayers who have no dependents, the deduction increased from 300 lei to 510 lei/month, for a gross monthly income of up to 1,950 lei, inclusive. The value of personal deductions is adjusted in proportion to the increase in gross incomes and the number of dependents. Therefore, the income tax on salaries will decrease in the case of gross revenues, with a value between 1,950 lei / month and 3,600 lei / month, made for the basic function.

Personal deduction is granted to individuals who have a gross monthly income of up to 1,950 lei inclusive, as follows:

- for taxpayers who have no dependents - 510 lei;
- for taxpayers who have a dependent person - 670 lei;
- for taxpayers with two persons in maintenance - 830 lei;
- for taxpayers who have three persons in maintenance - 990 lei;
- for taxpayers who have four or more dependents - 1,310 lei.

RESEARCH RESULT

Study on the impact on the state budget as a result of the tax changes applicable from the financial execution of 2018, highlighted several important issues [4]. Thus, by comparing the level of budget revenues related to the first quarter of 2018 versus the period of 2017, there is an increase in total revenue of 9.4%. Noteworthy is the fact that the most spectacular growth is at the level of earnings from Other taxes on income, profit and capital gains [14].

Table 1.

Execution of the consolidated general budget

EXECUTION OF THE CONSOLIDATED GENERAL BUDGET								
	Achievements 1.01-31.03.2017			Achievements 1.01-31.03.2018			Differences 2018 compared to 2017	
	million RON	% GDP ratio	% of the total	million RON	% GDP ratio	% of the total	million RON	(%)
GDP	858,332.8			924,200.0				
TOTAL INCOME	59,537.4	6.9	100.0	66,377.2	7.2	100.0	6,839.8	11.5%
Current income	56,817.9	6.6	95.4	62,159.3	6.7	93.6	5,341.4	9.4%
Tax revenue	36,005.5	4.2	60.5	35,454.2	3.8	53.4	-551.3	-1.5%
Profit tax, salaries, income and capital gains	11,940.8	1.4	20.1	10,876.5	1.2	16.4	-1,064.3	-8.9%
Profit tax	3,815.7	0.4	6.4	3,689.1	0.4	5.6	-126.6	-3.3%
Tax on wages and income	7,722.2	0.9	13.0	6,574.3	0.7	9.9	-1,147.9	14.9%
Other taxes on income, profit and capital gains	402.9	0.0	0.7	613.2	0.1	0.9	210.3	52.2%
Taxes and property taxes	2,922.4	0.3	4.9	3,054.1	0.3	4.6	131.7	4.5%
Taxes and taxes on goods and services	20,604.1	2.4	34.6	21,003.0	2.3	31.6	398.9	1.9%
VAT	13,004.7	1.5	21.8	13,287.4	1.4	20.0	282.6	2.2%
Accize	5,698.9	0.7	9.6	5,847.2	0.6	8.8	148.3	2.6%
Other taxes and duties on goods and services	860.3	0.1	1.4	836.5	0.1	1.3	-23.8	-2.8%
Tax on the use of the goods, the authorization of the use of the goods or the carrying out of activities	1,040.1	0.1	1.7	1,031.9	0.1	1.6	-8.2	-0.8%
Taxes on foreign trade and international transactions (customs duties)	252.7	0.0	0.4	258.4	0.0	0.4	5.7	2.3%
Other Taxes and Fiscal Taxes	285.6	0.0	0.5	262.2	0.0	0.4	-23.3	-8.2%
Insurance contributions	16,763.1	2.0	28.2	21,969.2	2.4	33.1	5,206.1	31.1%
Non-fiscal income	4,049.3	0.5	6.8	4,735.9	0.5	7.1	686.6	17.0%
Revenue from capital	256.8	0.0	0.4	236.0	0.0	0.4	-20.7	-8.1%
Donations				2.7	0.0	0.0	2.7	
Amounts received from the EU on account of payments made and pre-financing	-53.0	0.0	-0.1	38.4	0.0	0.1	91.4	
Financial operations								
Amounts pending	-248.6	0.0	-0.4	-286.3	0.0	-0.4	-37.6	15.1%
Other amounts received from the EU for operational programs financed under the convergence objective	-171.9	0.0	-0.3	8.1	0.0	0.0	180.0	
Amounts received from the EU / other donors on account of payments made and pre-financing for 2014-2020 financial framework	2,936.2	0.3	4.9	4,219.0	0.5	6.4	1,282.8	43.7%

CONCLUSIONS

In Romania the consolidated general budget is obtained by aggregating the revenues, respectively the expenditures of the budgets of the public budget system provided by the Public Finance Law and the Local Public Finance Act. However, the methodology of the Ministry of Public Finance states that the consolidated general budget does not include the revenues and expenditures of the fully funded activities of own revenues, revenues and expenditures of self-financed public institutions. Consolidated transfers are amounts that go from a public budget to another public budget in accordance with the provisions of specific normative acts specifying the purpose of these transfers between budgets. Consolidated transfers occur both in the expenditure side (current expenditure) from the budget which departs both the amounts and the revenue side of the budgets benefiting from them. Most transfers are viraged to the state budget to other budgets in the public budget system, with numerous transfers and between the other components of the consolidated general budget. Determining the revenues and expenditures of the consolidated general budget leads to the estimation of the budget balance as the difference between the budgetary expenditures and the budget revenues.

I consider as a result of the tax changes brought by the Law 227 of 2015 with effect from the financial year 2018, a simplification of the way of taxing the income from wages and also a better collection of taxes on goods and services, respectively VAT, was attempted [5].

The fact, however, showed that if, at the level of the first quarter of 2017, the value of the receipts in the salary income tax was in the absolute amount of 7,722.2 million Ron for the same period of 2018 the value of the receipts was only 6,574.3 million ron, 14.9% less.

A different situation is related to the evolution of VAT and excise duties for the reference periods. Thus, in terms of VAT, during the first quarter of 2017 the receipts related to this type of tax were in the amount of 13,004,7 million lei, ie 1.5% of the gross domestic product. For the same period of 2018, the incasariilor corresponding to this type of tax remained relatively at the same level, ie 13,287.4 million lei, or 1.4% of the gross domestic product.

The increase of revenues to the consolidated general government based on the income tax on natural persons is based on the inclusion in the taxable income of the majority of the revenues realized by them.

Indirect taxes hold the largest share of tax revenues in the state budget. These taxes are value added tax, excise duties and other taxes and duties on goods and services. From the legal provisions contained in the budget laws, it is noticeable that in the case of VAT and excise duties, the share of tax revenues is relatively constant at high values (around 60% starting with 2001).

The fiscal policy of 2018 is also characterized by the increase of the budgetary revenues from the social insurance contributions. Thus, the scope of the contribution to health insurance is expanding on all types of income achieved.

The reduction in the tax rate on wage bills from 16% to 10%, starting with January 2018, has repercussions not only on the consolidated state budget, but also on local public budgets. Thus, an important share in the local budget revenues is represented by the income tax breakdowns (77% of the income position). Thus, these changes in tax rates on salary incomes are likely to influence not only the revenues to the consolidated general budget, but also the local budgets.

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