

FISCAL CHANGES IN 2024 AND THEIR IMPACT ON TOURIST UNITS IN ROMANIA

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Abstract: Starting in 2024, the conditions for Romanian legal entities to classify as micro-enterprises are changing and becoming stricter, making it harder for legal entities to meet the required demands for fitting into this beneficial classification. As such, this paper provides an insight into the possible impacts this change will exert upon small-sized tourist enterprises throughout Romania.

Key words: *micro-enterprise tax, legal entities*

INTRODUCTION

Beginning in the year 2024, Romanian legal entities will have a harder time when trying to be classified as micro-enterprises within the Romanian Fiscal Code. The change in demands to be met for the micro-enterprise qualification are as follows, the legal entity must have shareholders/associates who own, directly or indirectly, over 25% of the value, shares or voting rights within the company, and, on top of that, these associates can only be associated with a maximum of one micro-enterprise. The previous conditions allowed shareholders to own more than 25% of shares in up to three companies that are classified as a micro-enterprise. Along with the income ceiling of a maximum of 500,000 EUR per fiscal year to be considered a micro-enterprise, these new changes mean that less tourist units providers will be able to benefit from the taxation system of 3% of total revenue, and will instead be forced to pay the normal corporate tax of 16% on profit. Throughout this paper, we will observe the possible ramifications this fiscal change will exert upon small-sized companies whose business is providing and servicing tourist units throughout Romania.

MATERIALS AND METHODS

Realizing this paper required the following steps: understanding the current legal framework for legal entities to be classified as micro-enterprises in Romania, clarifying the new changes as opposed to the requirements prior to January 1st 2024, and then analyzing the possible outcomes, both financial and social for tourist units throughout the country.

The materials analyzed and researched for the completion of this paper are represented by Laws published in the Official Gazette of Romania as well as published papers that describe current phenomena in the business world with regards to taxation laws and the tourism industry.

RESEARCH RESULTS

In Romania, a micro-enterprise is a legal entity, which must pay taxes to the Romanian Government in the form of 1% or 3% of total revenues in each fiscal year. For micro-enterprises in the tourism industry, the tax is represented by 3% of total revenues. For an example, if a tourist unit provider firm earns 100,000 Euro in a given year, 3,000 Euro will be the tax paid to the fiscal authorities for that given year. This is beneficial to certain enterprises, as they get to pay this specific tax instead of the normal corporate tax for Romanian companies, which stands at 16% of the profit in each fiscal year. To quantify this, let's assume the company mentioned before does not classify as a micro-enterprise

anymore, and records a profit of 25,000 Euro, out of the same revenue of 100,000 Euro. For this specific example, the company will owe the fiscal authorities 16% of that 25,000 Euro profit, so a total of 4,000 Euro, which means a tax that is 34% higher than if the company was still classified as a micro-enterprise.

With the beginning of January 1st, 2024, new rules regarding the classification requirements for legal entities in Romania to be able to classify themselves as micro-enterprises were introduced. Prior to this moment, micro-enterprises could be represented by legal entities who owned more than 25% of the enterprise's shares as well as more than 25% of the shares of up to 2 other micro-enterprises, and/or had the right to revoke or appoint the administrator/the majority of the administration council members in up to 2 other micro-enterprises. On top of that, the micro-enterprise could earn revenues of a maximum of 1,000,000 Euro per year [9], without having to consider the revenues of other companies in which the legal entities tied to the micro-enterprise in discussion (as described above) also owned more than 25% of the shares and/or rights to revoke/appoint the majority members of the administration council/the administrator. Along with these requirements, the micro-enterprise could have a maximum of 9 employees, according to Law no. 346/2004 with regards to stimulating the founding and development of Small and Medium Enterprises (from here on referred to as "SME") [10].

Now, with the introduction of the Emergency Order of the Romanian Government no. 115/2023 regarding certain fiscal measures in terms of public expenditure, fiscal consolidation, as well as the reduction of tax evasion behaviors, certain changes and new rules were introduced to the requirements to be met by legal entities in Romania that wish to classify as micro-enterprises. These changes specifically emphasized a revenue ceiling of 500,000 Euro per year, with the additional regulation that the revenue of each micro-enterprise is calculated, for fiscal purposes, as the sum of the revenue of the specific legal entity, as well as the revenue of each legal entity related to the micro-enterprise (those entities that own more than 25% of the enterprise's shares and/or have the right to revoke/appoint the administrator/majority administration council members), as well as the personal revenues of each legal entity related to the enterprise, in case such entities are also Authorized Physical Persons ("PFA's" in Romanian, which are the people authorized to perform commercial activities by themselves, such as private tutors). This new regulation means that it becomes harder for companies to remain within this 500,000 Euro revenue ceiling, as the revenue of the micro-enterprise suddenly becomes increased by all the revenues of the different entities mentioned above. On top of that, the entities related to the micro-enterprise (as specified above) can only be related to a maximum of 1 micro-enterprise, according to this newly introduced regulation, which means that investors who wish to purchase more than 25% equity in a micro-enterprise can only do so for a maximum of one such legal entity [6].

The newly introduced regulation will have varying impacts and implications across all business sectors throughout Romania, all the while serving as a tool to increase the public budget and decrease the ability of medium and big companies to use legal loopholes to benefit from this micro-enterprise classification through dishonest means. To understand the possible implications this can have on Romanian tourist units providers, we must look what tourism means for the country and its economy. In terms of contribution to the GDP, tourism was directly responsible for 1.74% of Romania's GDP in the year of 2021 [1], after being negatively affected by the COVID-19 pandemic. So, this sector is significant for the economy of the country, as well as for providing stable employment across different regions of the country, especially in mountainous regions, which represent 31%

of the country's territory [11], and other remote areas of the country, where employment opportunities are otherwise limited.

The following regulation can have multiple impacts on tourist units providers across Romania, that previously met the needed requirements to classify as micro-enterprises. We have discovered three possible ways in which such legal entities across the country might be affected and their response:

- 1) Certain SME in the tourist industry that used to be micro-enterprises might decide to sell off parts of their assets (tourist units such as hostels, villas, etc.) to new entrepreneurs in order to reduce their business size (scale down) and maintain their classification as micro-enterprises [15].
- 2) More micro-enterprises will become dependent on bank loans as main financing sources, due to the increased difficulty of attracting investors who are willing to buy less than 25% of the entity's shares, and, at the same time, invest without gaining the right to revoke/appoint the administrator or specific board members [14].
- 3) Micro-enterprises that own one villa, hostel, etc. will be able to provide more competitive prices to their clients due to having to pay lower taxes as opposed to SME tourist units or hotel chains that are required to pay the 16% profit tax.

Romania's tourism sector, like many others, is sensitive to changes in taxation. If the government decides to alter the Value Added Tax (VAT) rates specifically for the hospitality industry, the consequences could be significant [13]. A reduced VAT rate could lead to lower prices for consumers, potentially increasing demand for accommodations, dining, and activities [12]. This could be especially beneficial for attracting budget-conscious travelers and boosting domestic tourism. Businesses might also have more flexibility in pricing, allowing them to invest in marketing and promotional activities [4]. Conversely, an increase in VAT could lead to higher prices for services, which might deter some tourists, particularly in a competitive regional market. This scenario could force tourist units to absorb costs, impacting profitability and potentially leading to job cuts or service reductions [5].

In 2024, the Government of Romania can implement policies aimed at stimulating investments in the tourism sector, such as:

- Tax credits and deductions: By providing tax credits for renovations or improvements, the government could encourage tourism establishments to upgrade their facilities. This could include modernizing rooms, improving technological capabilities or improving energy efficiency [2].
- Public-Private Partnerships: Establishing partnerships between government entities and private investors could lead to the development of new tourist attractions or infrastructure improvements, such as transport links, that would increase accessibility and attractiveness for tourists [7].
- Impact on quality: As tourism establishments upgrade their facilities, the overall quality of tourism in Romania could improve, making the country a more desirable destination for international travelers and increasing competitiveness with neighboring countries [8].

With a growing global focus on sustainability, Romania could introduce new environmental taxes in 2024, targeting areas such as waste management, carbon emissions and resource use.

- Operational Costs: These taxes could increase operational costs for tourist units, particularly those that are less environmentally friendly [3]. However, they may also

encourage businesses to adopt sustainable practices, such as waste reduction and energy efficiency, which could become a selling point for eco-conscious travelers.

- **Consumer Preference:** Many travelers today prioritize sustainability when choosing destinations. Tourist units that invest in environmentally friendly practices may attract a growing demographic of eco-conscious tourists, potentially offsetting any increased costs.

CONCLUSIONS

Overall, these new changes to the regulation regarding the classification of legal entities in Romania as micro-enterprises, while certainly having a positive effect on the Governmental budget, present both positive and negative possible outcomes for micro-enterprise owners in the tourism industry. On one hand, it helps small tourist units owners compete more effectively against established hotel chains or SME with multiple tourist units, by making it harder for the latter mentioned legal entities to classify themselves as micro-enterprises, and thus giving small business owners a competitive advantage represented by a lower tax burden. However, on the other hand, it also makes it less appealing for micro-enterprise owners to develop and grow, in terms of both employees and revenue, because the moment they breach the revenue/associated entities/no. of employees ceiling, they will end up with a higher tax burden that might decrease the overall money they can make from their business. This will lead to certain tourist units deciding to stagnate in terms of growth and it will also lead to decreased innovation within the tourism industry.

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