



Modalities of Income Tax From Independent Activities. Case Study, Romania

KEYWORDS

– tax, income norm, authorised natural person PFA, real system, net income

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ABSTRACT

The agricultural activities for which the income can be determined based on income norms are established by the Tax Code, and the value of the associated norms is established in each county by the General Directorate of the County Public Finances. For the income from independent activities, there are two systems of tax collection: the real system: the tax applies to the net achieved income; the income norm: the tax applies to the amount that is considered to be obtain on an average from the activity. The general rule for income tax from independent activities is the real system, which involves organizing single-entry accounting.

INTRODUCTION

Any economic activity developed permanently, casually or temporary in Romania by natural persons must be registered and licensed. Authorized natural persons (PFA) obtain **income from independent activities**, namely: commercial incomes; income from professional services, incomes from intellectual property rights (copyright).

The tax liabilities of an authorised natural person (PFA) are:

A). Payment of Individual contributions to health insurance-CASS - 5.5%. The health contribution is payable on the net income from all income obtained. For example, if PFA is also an employee, he will pay 5.5% of salary to 5.5% of the net income earned as PFA. If he is not an employee, only **PFA**, he pays a **minimum contribution for health insurance**, regardless of the net incomes (taking into account that this is the only income on which contributions are calculated). The basis for calculating the minimum contribution is the minimum wage to which 5.5% is applied.

B). Payment of individual contributions to social insurance – CAS (pension) – 31.3%.

The pension contribution is payable on the net income. Thus, if the PFA is employed, this contribution shall be forfeited automatically and it is not required the contribution from the income earned as PFA. If he is not employed, **only PFA**, the pension contribution must be paid, **only if the annual income** is higher than average gross earning used to support the state social insurance budget (respectively 2,223 lei/ year for 2013).

C). Tax payment – 16%.

The tax is payable on the net income, namely from the gross income (revenue) minus direct expenses incurred in the direct interest of the activity (deductible expenses), including the social security costs for pensions (CAS) and health (CASS) and to the remaining amount, 16% is applied.

D). Payment of added value tax (TVA) – 24%.

When established, PFA can decide it he will pay or not VAT. If the annual sales exceed the value of 65,000 euro (equivalent of 220,000 lei), he will be automatically charged for VAT.

The option to pay or not VAT is quite important because it can be an advantage for PFA.

CASE STUDY

Once established, an authorised natural person will decide if

he pays tax and other contributions in **the real system** or at **the income norm**. Further on, we will present the two situations, with the advantages and disadvantages of each of them.

If PFA chooses to impose the real system, he must maintain the option for **two consecutive fiscal years**. At the end of this period, PFA can submit a statement to disclaim this option until January 31st of the year following the expiration of two years period.

Notwithstanding the general rule of tax in the real system, the taxpayers who obtain income from independent activities can pay income tax at the income norm, according to the list of activities that fall into this category, developed by the Ministry of Public Finance. If in the previous year, the income from obtained by PFA exceeds 100,000 euro, that PFA is required to determine the annual net income in real system.

If he develops activities for which the net income is determined based on the income norms, it is not required to hold a simple entry accounting for the respective activity, but to keep the Register - Official receipts and payments where chronological order all receipts and payments are recorded.

At the level of each county, a series of reductions applied to the annual income norms are established for the agricultural sector, depending on the situation or typology of taxpayers.

In case PFA chooses the tax on income norm, the tax and social contributions are calculated as percent from this norm, **regardless the income collected and costs made**. It can be chosen for the income norm only in case the activity developed is found in the List of income norms.

The option for income norm is recommended when the activity developed brings a net income higher than the norm value.

Comparison between real system and income norm

Example 1. We will take into consideration the hypothetical case of a dairy and cheese producer **who is not an employee too**, from a county where the income norm for this type of activity is of 9,000 lei/year.

**TABLE – 1
TAX IN REAL ASYSTEM AND AT INCOME NORM**

PFA chooses for tax in real system	PFA chooses for tax at income norm
<p>Case A1. Net incomes obtained are lower than 9,000 lei/an</p> <p>We consider that this producer obtains net income before social contributions payment of 8,000 lei/year.</p> <p>Annual tax liabilities: Health contribution: 495 lei (minimum contribution as 5.5% x 8,000 lei = 440 lei and he is not also an employee) Pension contribution: 31.3% x 8,000 = 2,504 lei/an (only if you want) Net income: 8,000 lei – 495 lei – 2,504 lei = 5,001 lei Tax: 16% x 5,001 = 800.16 lei</p> <p>Total taxes and contributions: 3,799.16 lei/year Remained incomes: 5,001 lei – 800.16 lei = 4,200.84 lei/year</p>	<p>Case B1. Net incomes obtained are lower than 9,000 lei/year (for example 8,000 lei/year)</p> <p>The income norm related to this activity is 9,000 lei.</p> <p>The annual tax liabilities, regardless the income obtained: Health contribution: 5.5% x 9,000 lei = 495 lei/year Pension contribution: 31.3% x 8,000 = 2,504 lei/year (only if you want) Tax: 16% x 9,000 lei = 1,440 lei/year</p> <p>Total taxes and contributions: 4,439 lei/year Remained incomes: 8,000 lei – 4,439 lei = 3,561 lei/year</p>
<p>Case A2. Net incomes obtained are higher than 9,000 lei/year. We consider that this producer obtains net incomes before social contributions payment of 12,000 lei/year.</p> <p>Annual tax liabilities: Health contribution: 5.5% x 12,000 lei = 660 lei. Pension contribution: 2,922.36 lei (mandatory for incomes over 9.336.60 lei) Net income: 12,000 lei – 660 lei – 2,922.36 lei = 8,417.64 lei Tax: 16% x 8,417.64 lei = 1,346.82 lei</p> <p>Total taxes and contributions: 4,929.18 lei/year Remained incomes: 8,417.64 lei - 1,346.82 lei = 7,070.82 lei/year</p>	<p>Case B2. Net incomes obtained are higher than 9,000 lei/year (for example 12,000 lei/year). Income norm related to this activity is of 9,000 lei.</p> <p>Annual tax liabilities, regardless the income obtained: Health contribution: 5.5% x 9,000 lei = 495 lei Pension contribution: 31.3% x 8,000 = 2,504 lei/year Tax: 16% x 9,000 lei = 1,440 lei</p> <p>Total taxes and contributions: 4,439 lei/year Remained incomes: 12,000 lei – 4,439 lei = 7,561 lei/year</p>

If the incomes obtained are lower than the norm value (in this example 8,000 lei) is more advantageous to tax in the real system, since the remained incomes are higher (4,200.84 lei/year in the real system than 3,561 lei/year for income norm).

Example 2. We will take into consideration a diary and cheese producer who is also an employee, from a county where the income norm for this type of activity is of 9,000 lei/year.

**TABLE – 2
TAX IN REAL ASYSTEM AND AT INCOME NORM**

If he chooses for tax in real system	If he chooses for tax at income norm
<p>Case A1. Net incomes obtained are lower than 9,000 lei/year. We consider that this producer obtains incomes before social contribution payment of 5,000 lei/year.</p> <p>Annual tax liabilities: Health contribution: 5.5% x 5,000 lei = 275 lei (contribution also from the salary with at least 495 lei) Pension contribution: 0 lei (contribution already paid from the salary) Net income: 5,000 lei – 275 lei = 4,725 lei Tax: 16% x 4,725 lei = 756</p> <p>Total taxes and contributions: 1,031 lei/year Remained incomes: 4,725 lei – 756 lei = 3,969.00 lei</p>	<p>Case B1. Net incomes obtained are lower than 9,000 lei/year (for example 5,000 lei/year). Taking into consideration that the producer is also an employee, the norm value diminishes with 30%, reaching 6,300 lei (70% x 9,000 lei = 6,300 lei).</p> <p>Annual tax liabilities: Health contribution : 5.5% x 6,300 lei = 346.5 lei Pension contribution: 0 lei (contribution already paid from the salary) Tax: 16% x 6,300 = 1,008 lei</p> <p>Total taxes and contributions: 1,354.5 lei/ year Remained incomes: 5,000 lei – 1,354.5 lei = 3,645.50 lei/year</p>
<p>Case A2. Net incomes obtained are higher than 9,000 lei/year. We consider that this producer obtains net incomes before social contributions payment of 12,000 lei/year.</p> <p>Annual tax liabilities: Health contribution: 5.5% x 12,000 lei = 660 lei Pension contribution: 0 lei (contribution already paid from the salary) Net income: 12,000 lei – 660 lei = 11,340 lei Tax: 16% x 11,340 lei = 1,814.4 lei</p> <p>Total taxes and contributions: 2,474.4 lei/year Remained incomes: 11,340 lei – 1,814.4 lei = 9,525.60 lei/year</p>	<p>Case B2. Net incomes obtained are higher than 9,000 lei/year (for example 12,000 lei/year). Taking into consideration that the producer is also an employee, the norm value diminishes with 30%, reaching 6,300 lei (70% x 9,000 lei = 6,300 lei).</p> <p>Annual tax liabilities, regardless the income obtained: Health contribution: 5.5% x 6,300 lei = 346.5 lei Pension contribution: 0 lei Tax: 16% x 6,300 = 1,008 lei</p> <p>Total taxes and contributions: 1,354.5 lei/year Remained incomes: 12,000 lei – 1,354.5 lei = 10,645.50 lei/year</p>

If the incomes obtained are higher than the norm value, it is more advantageous to tax at the income norm, since the remained incomes after paying all contributions and taxes are higher (7,561 lei/year at income norm than 7,070.82 lei/year in the real system).

CONCLUSIONS

As it can be seen in case of income norm, the tax liabilities remain constant and they do not depend on the income achieved effectively. In case of tax in the real system, the tax liabilities are calculated related to the net income achieved.

Thus, they increase or decrease while the income increases or decreases.

When choosing the tax system, it should be considered in addition to the net estimated income, that if the real tax system should be organized also the simple entry accounting. This means that a series of accounting registers must be completed to date. If the income norm is chosen, it is used only the register of receipts and payments and this can be considered an advantage.

The income norms are established at national level for 2013 and starting with the fiscal year 2014, the income norms are established by the **local specialist departments** of the Ministry of Agriculture and Rural Development. Thus, the income norms will be established according to the characteristics of each area (prices in the area, mountain area, plain area etc.) being more fair to farmers.

REFERENCE

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