



Features of VAT Accounting and Fiscalty – History, Practices and Prospects

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ABSTRACT

The value-added tax (VAT) is an indirect tax, supported by the final consumer of the good/service that it is applied. During the productive and commercial cycle, the companies pay VAT according to the value added on the good/service. Quite recently appeared in the fiscal system of different states, VAT has a big spreading area. The taxation rates are different from a country to another, according to the economic conditions and the fiscal law (in EU, from 15% for Cyprus and Luxembourg to 27% for Hungary, and outside EU, from 3% for Iran, to 25% for Norway). In Romania, the rates are: the standard rate of 24% and the reduced rates of 9% and 5%, the payment term being monthly or quarterly, according to the company turnover. In the accounting and fiscalty area, VAT presents special features, conditioned by the type of activity and the company size. In order to support the small companies, starting with 01.01.2013 the "VAT Encashment System" was introduced, that relates the VAT payability to the encashment moment of the invoice. The VAT impact on the profitability is an aspect that must be considered when we discuss about: costs, cash-flow, results, liquidity, solvency or efficiency rates.

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1. Introduction

VAT represents a general taxation on the consumption, that is applied once on the goods and services. In its area, the sales and buying of goods and services are included (inclusive the imports). (O.G. no.3/1992). There are not taxed: the exports, the liberal professions, the social, cultural and sportive manifestations, the activities in hospitals, schools etc.

The payment duty is solidary for all the companies that participate at the production and sale of the same product/service, proportionally with the contribution of each of them in the product/service value. VAT is calculated by applying the rate on the sale price in a certain level, and the payers have the duty to keep a detailed evidence of the sale and buying operations and of the due and paid tax. The specific elements of VAT stipulated by the Fiscal Code are: tax name, taxable persons, taxations base, taxation area, tax unit, tax rate, calculation, tax payers, payment term, fiscal sanctions.

2. VAT History

VAT was introduced in 1954 in France, being the invention on an engineer – Maurice Laure – who worked as a fiscal inspector, banking employee and as an employee of a big retailer. If at the beginning VAT was created and destined for big companies, from 1996, at the proposal of the Finance Minister, it begins to be applied also in the retail sector.

At the end of his career, the tax author remembered: *"In 1952-1953 I had the occasion to conceive a reform regarding the turnover taxation, that I named VAT. Proposed in the Parliament by the Finance Minister, it was rejected. Despite the fact that I wasn't the adept of the production taxation, because it stifled finally the investments, I defended until the end my idea, and, when Edgar Faure became Finance Minister, he proposed my tax be introduced in the Finance Law for 1954. After many political negotiations, VAT passed through the Parliament and was voted, but not without adventures!"*

After the First World War, France had passed at the direct taxation on the expenses. In 1917 a proportional tax on the payers was introduced, and in 1920, this one was replaced with the tax on the total sales (turnover tax).

If between 1925-1936, unique taxes on type of products were applied (they reached 30 taxes), starting with 1937 the unique tax on the production and the unique tax on the services were introduced. From 1948 the segmented payments system is applied and the indirect tax with the unique rate of 15,35% is introduced, that precedes the VAT introduction. The cascade tax knew, in time, the following forms: industrial and commercial tax, general tax on the circulation, circulation tax on only one level and the value-added tax.

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Starting with 1954-1955, VAT on the total turnover is introduced, paid in different stages of the production. The year 1966 marks the decrease of VAT rates number to: normal rate, increased rate, intermediary rate and reduced rate. From 1968, VAT became the main source in the State Budget supply, being adopted in 1970 also by the countries members of the Common Market.

Otherwise, from its appearance in France, many countries were interested in the introduction of this tax in their own fiscal system, being unsatisfied about the turnover tax, which represented a type of cumulated tax, generating cascade taxation. Also, it took place a taxation of a taxable sum that has already contained the previously due tax. The tax was calculated on a taxable income, which included the previous taxes. The VAT appearance eliminated this inconvenient and, gradually, it spreaded in a large area of activities. All the EU countries applied VAT, and their legislation regarding this TAX harmonizes, a rate (percentage) of this tax being destined for the EU Budget. The VAT harmonization in the EU countries finished in 1977, and ten years later, VAT was adopted in more than 50 countries in the world, facilitating the commercial international relations. Countries like Hungary, Russia, Czechoslovakia and Poland introduced VAT at the beginning of the '90 years.

Nowadays, VAT represents one of most modern and efficient components of the European countries fiscal policy. It was created and introduced respecting some principles (Stoian, 2001):

- ◆ Universality (the application area) – VAT is applied on all the operations that requires payments, also on all the traded goods and services, with the exemptions stipulated by the law.
- ◆ Territoriality – it's about the goods source (local or from import) and their destination (the goods consumption take place in the country or abroad). VAT is applied only where the product is consumed (the export is not taxable, but the import is taxable).
- ◆ Deductibility – it's about buyings VAT deduction from the collected VAT (from sales), to obtain the VAT due to the State Budget.
- ◆ Transparency – VAT due to the state is calculated on the value added by the company on the sold good, giving to the company the possibility to know exactly and definitely which is its payment duty.
- ◆ Unicity – the tax gradually perceived is equal with that one resulted by applying the lawful rate on the entire final value that the good reaches the consumer.
- ◆ Segmentation – VAT is calculated and perceived segmented, on each level of the product cycle, according to the value added on each level, that the state has the necessary resources all the time, without the final sale moment.

These principles show actually the VAT advantages opposite the cascade tax:

- ◆ unique (two, until four rates) and neutral tax, which stimulates the small producers with fiscal facilities and eliminates the fiscal inequalities between the products sale circuits;
- ◆ proportional application on a value that doesn't contain previous taxes;
- ◆ segmented taxation in each stage of the economic circuit (to the budget it is paid only the difference between VAT collected from sales and VAT deductible paid to the suppliers with the occasion of buyings);
- ◆ encouragement of investments and costs decrease (the old tax was included in their value, making the investments more expensive).

3. A general view about VAT in Romania

In Romania, the transition from cascade tax to VAT, after 1989, as a condition of EU adhesion, required the application of some measures like: the number of cascade tax rates decrease (at 5 rates); the inclusion of majority of goods and services in the taxation area (agriculture, post and telecommunications, products and persons transportation etc.), the introduction of the excises as indirect tax on luxury products. The cascade tax was further used until 1993, but with the modifications imposed by the passing to the market economy.

Starting with 01.07.1993, VAT was introduced in Romania and it was elaborated the methodology of tax application on the entire economic circuit, until the final consumer, but only on the value added on each level of this circuit (the difference between the value of sold goods and services and the value of bought goods and services, during one month). After the tax introduction, the prices increased between 10% and 16% monthly, as a result of subventions elimination measures and because of the economic recession period that coincided with the moment of VAT introduction.

Until the Fiscal Code introduction at 01.05.2004, the measures adopted were in order to harmonize the taxation model with the European one, and between the years 2004-2006, the law changes in this purpose continued. VAT became the main income source at the State Budget, representing $\approx 32\%$ from total budgetary incomes. The tax rates were permanently modified:

Period	Rates
01.07.1993 - 31.12.1994	18% and \emptyset
01.01.1995 - 31.01.1998	18% and \emptyset
01.01.1998 - 31.12.1999	22%; 11% and \emptyset
01.01.2000 - 31.05.2002	19% and \emptyset
01.06.2002 - 31.12.2003	19%
01.01.2004 - 30.06.2010	19% and 9%
01.07.2010 - present	24%; 9% and 5%

At 01.07.2007, there were applied the settlements regarding the VAT transitory system, applied only in the relation with the states EU members. According to the Romanian legislation, we have the following elements to define the tax:

- ◆ Application area:
 - Operations submitted to the tax: **taxable: exempted with deductibility right** – for which it doesn't due the tax, but the deductibility is allowed, the cases of export and international goods and persons transportation; **exempted without deductibility right** – for which it doesn't due the tax, but the deductibility isn't allowed, the cases of operations in schools, hospitals, postal services, financial-banking services, sport, insurance etc.);
 - Operations exempted (the case of companies with turnover < 65000 Euro);
 - Operations taxable by option (the exempted companies can become tax payers by request);
- ◆ Taxation base – the sale price of goods and the tariff of sold services, with the exceptions stipulated by the law;
- ◆ Rates – 24% (standard); 9% (for entering the museums, manuals, books, newspapers, reviews sales, orthopedic products and prothesis sales, hotels accommodation, medicines); 5% (dwellings sale in certain conditions).
- ◆ Fiscal period – the month (for the companies with annual turnover > 100.000 Euro) and the quarter (for the companies with annual turnover <100.000 Euro). Also, the payment term is 25 from the next month in the first case, and 25 from the first month in the next quarter, in the second case.
- ◆ Regularization – is made monthly, comparing VAT collected from sales, with VAT deductible from buyings. If VAT collected is bigger, the excedent will be paid to the budget, and if VAT deductible is bigger, the difference will be recovered from the budget.

The repayment is made for sums > 5000 lei and requires that ANAF makes a risk analysis on the VAT Statement, that takes place in two stages: the company achievement of fiscal duties in the last year is analyzed and a score is given; the required sums is compared with the sum possible to give with an acceptable risk from the fiscal authority.

We have three cases:

- ◆ small risk (the repayment is allowed);
- ◆ medium risk (suplimentary documents are required and the repayment is allowed);
- ◆ big risk – the fiscal control is made.

VAT recoverable can be compensated with VAT due from the next months.

In the export case, the repayment is made without risk analysis, because we always have VAT recoverable, the tax rate for sales being zero.

- ◆ Mixt System – is applied when the company makes buyings destined for operations with deductibility right, and also for that without deductibility right and requires the calculation of prorata.

4. Characteristics of VAT Accounting – from A to Z

The VAT bookkeeping in the company Accounting is a special, complex operation and, in some cases, even disputed. Starting with the information written in the accounting primary documents (fiscal invoice, fiscal bill), commercial advice etc.), the daily evidence of VAT is realized with: the Register for Sales and the Register for buyings, and at the end of fiscal period, the VAT Statement is lay down to ANAF. The complexity of accounts, that situates VAT in a special place among the other taxes due by the company, is generated by the diversity of economic operations and also by the fiscal legislation.

The characters of VAT Accounting can be grouped in the following cases (Isai, 2003):

a. The taxation base is calculated in different ways, according to the activity type:

- ◆ for internal sales – the sales price (inclusive excises);
- ◆ for services performances – the negotiated tariff;
- ◆ for intermediary operations – the value of the obtained commission (import in commission, sales in junk shops);
- ◆ for imports – the customs value + customs duty + excises;
- ◆ for tourism – the price/tariff cashed from the tourists – the services invoiced by suppliers (transportation, accommodation, restaurant, insurance, different taxes etc.);
- ◆ for second-hand sales – the sale price – the acquisition price;
- ◆ for operations in pawn houses – the sale price of goods that became the house property.

b. The commercial and financial decreases aren't included in the taxation base

VAT is calculated at the sum rested about the decreases subtraction (rebate, remise and discount).

In the risturn case (global decrease), that is applied retroactive, the supplier rectifies VAT collected and the client rectifies VAT deductible for the risturn, based on the storno invoice emitted by the supplier.

c. The return of goods by the client (the payment refusal) – requires the emission of a storno invoice by the supplier and the VAT collected rectification for the refused goods. At the storno invoice reception, the client rectifies VAT deductible.

d. For the returnable packing a storno invoice is necessary. The supplier invoices to the client their value with VAT collected, and the return moment, he emits a storno invoice, rectifying VAT collected for packing. The client, who has initially registered the packing with VAT deductible, at the moment of storno invoice reception, rectifies VAT deductible for the returned packing.

- e. The interests and penalties for delay payment are subtracted from the taxation base** – they are invoiced on the value without VAT.
- f. The advances cashed from the client / paid to the supplier require a storno invoice.** They are invoiced to the client with VAT collected, and at the moment of sale invoice emission, the advance and its VAT collected are rectified. The client receives the advance invoice with VAT deductible, and at the moment of acquisition, he receives the total invoice and rectifies the advance one, with the VAT deductible.
- g. The sales / acquisitions based on commercial note (advice), the invoice being later emitted / received** – require the registering of undue VAT, by the supplier and also by the client. When the invoice is emitted, the undue VAT becomes collected for the supplier and deductible for the client.
- h. The sales / acquisitions of goods with rates cashing / payment require the registering of undue VAT** both to the supplier and client. After each cashed / paid rate, undue VAT becomes collected to the supplier and deductible to the client.
- i. The mixt VAT system – requires the calculation of prorata** – as a report between the incomes with deductibility right and total incomes (inclusive those one exempted without deductibility right). Prorate is applied on VAT deductible and results VAT for subtraction, that is considered at regularization. The difference between VAT deductible and VAT for subtraction is registered by reducing VAT deductible on tax expenses.
- j. In the retail sector – VAT is a component of the sale price – as undue VAT.** At the input, the tax is calculated: 24% (acquisition cost + commercial supplement). At the sale moment, it becomes collected, calculated by applying the recalculated rate (24/124) on the cashed value. At the sold goods output, undue VAT is reduced with the value of collected one, from sale.
- k. In the junk shops – for the sale price calculation, VAT collected is applied only on the commission practiced by the shop.** The input and output require the undue VAT registering, as a part of the input/output good value, in equal sum with VAT collected for the commission.
- l. In the tourism agencies – when the touristic package is invoiced, VAT collected for the practiced commission is calculated.**
- m. In the pawn houses** VAT is calculated for the practiced commission, and collected at the moment when the person pays the borrowed (credit). If the credit isn't paid, the company can choose **for selling the goods** – in this case, undue VAT is calculated as a part of sale price: 24% (acquisition cost + commercial supplement); VAT is collected at sale and undue VAT is reduced at output (in equal sum with VAT collected), or, **for keeping the goods in the company** – in this case, VAT collected is calculated on goods value at the market price and is registered as expense.
- n. For the work equipment partly paid by the employees – VAT collected is calculated only on this part** and recovered from the employees by salary subtraction.
- o. The import by own – requires VAT payment in two stages:**
- At the goods reception in the customs, VAT deductible is registered, calculated on: customs value (external value + external transportation + external insurance) + customs taxes + customs commission + excises. VAT deductible is due at the moment of Customs Import Statement emission;
 - At the imported goods sale, VAT collected is calculated on sale price. About the regularization, VAT payment results, due monthly / quarterly.
 - The importer pays VAT at the budget in two moments:
 - At the import moment, VAT deductible;
 - At the payment term, VAT payment.
- In total, he pays to the budget the entire collected tax from sales.
- p. The import by commission – requires the VAT calculation on the commission.** The importer calculates VAT deductible in customs (like in the previous case) and pays it to the budget. He invoices to the internal client the import value with VAT collected (in equal sum with the deductible tax) and also the import commission, with VAT collected. After regularization, VAT payment results, in equal sum with VAT collected for the commission.
- r. The Export (by own and by commission) has zero VAT rate** – and it's included in the category of operations exempted with deductibility right, also the exporter deducts VAT from the suppliers invoice, and for the export sales he applies zero rate (he doesn't collect VAT). In the export commission case, it's applied also the zero rate. After regularization, the exporter always obtains VAT recoverable that he cashed from the budget.
- s. The Operational Leasing – requires that the leasing company invoices to the user the leasing rate (amortization + profit margin) with VAT collected.** At the invoice reception, the user (lodger) registers VAT deductible.
- ș. The Financial Leasing – requires that the leasing company invoices to the user: the advance, the leasing rate (the capital rate + interest) and the residual value, all of them with VAT collected.** Further, the advance with its VAT collected will be rectified. The user (lodger) will register VAT deductible at the reception of all these invoices.
- t. The Operational Leasing with foreign leasing company – requires the VAT payment at the reception of external invoices.** The user (lodger) receives the rent invoices from abroad, paying VAT deductible to the State Budget.

t. The Financial Leasing with foreign leasing company – requires the VAT payment at the reception of external invoices. The user (lodger) receives the invoices for: advance, leasing rates and residual value from abroad and pays VAT deductible to the State Budget.

u. For the Stocks and fixed assets non imputable lacks – VAT collected is registered on the company expenses, calculated on the stock value / remained fixed assets value. It's considered a fiscal non deductible expense.

v. For the donations to other companies / persons (stocks and fixed assets) – VAT collected is registered on the company expenses, calculated on the stock value / remained fixed assets value.

x. For the perishability in excess over the legal limit – VAT collected is registered on the company expenses, calculated on the exceeding value. It's considered a fiscal non deductible expense.

z. The reverse taxation (the system of VAT self liquidation) requires the registering of collected VAT to the level of the deductible one, at the client (like a payment to the supplier), and the deductibility of VAT to the level of the collected one, at the supplier (like a cashing from the client).

The system follows the fiscal evasion prevention and the settlements with the State Budget simplifications. It's a measure applied in following cases: acquisitions inside EU, sales of ferrous and non-ferrous residues, recyclable materials residues, materials resulted from residues processing, wood, timber and wooden materials, certificates transfers for gas with greenhouse effect.

5. The VAT Impact on the company profitability

The way how VAT influences the profitability inside the company, can be analyzed through: costs, results, cash-flow, profitability threshold, assurance margin, liquidity, solvency and efficiency rates.

VAT produces inside the company three types of costs: direct costs, management costs and treasury costs (Stoian, 2001):

- **Direct costs** – appear in following cases:
 - The company is VAT exempted or applies the mixed taxation system, and it must introduce VAT deductible in the acquisition cost for the bought goods;
 - For delaying at VAT payment, the company must pay interests and penalties, registered as fiscal non deductible expenses, generating also a profit tax increase (in the present we have interests of 0,04% and penalties of 0,02% for each day of delay, starting with the next day after the pay term, until the payment day inclusive);
 - For non imputable lacks, perishability in excess over the legal limit and donations, VAT collected is registered on the company expenses for the first two cases, generating also a profit tax increase.

In all these situations the exploitation expenses increase and the commercial (gross) margin, the added value and the result decrease. The situation can be rectified if the company chooses to become VAT payer and get a better goods and assets administration.

- **Management costs** – appear because of the special documents and registers required for VAT bookkeeping (form expenses) and specialized employees (salary costs).
- **Treasury costs** – appear because of the delays between the VAT debts and liabilities, between the advances cashed from clients and the moment of good sale (the both are taxable), because of damages during the transportation to the client, that require storno invoices etc.

If all these costs increase, the variable costs increase too and all the derived indicators will change (profitability, threshold, assurance margin), the profit decrease and also the economic and financial profitability rates. VAT influences also the company treasury, because, if VAT collected is cashed from the client during the month, the VAT payment term, on 25 from the next month, generates a cash-flow exceeding. In the contrary case, if the debts are cashed with delay and the cash-flow decreases, the company must require banking credits, with interests (the profit decreases because of financial expenses). (Vintila, 2006) The cashing of debts in time increases the liquidity and solvability degree, making possible the VAT payment in time. The cash-flow makes also possible the increase of financial autonomy rates and stocks financing rates, but also the decrease of duties rates (liabilities).

6. The Encashment VAT System – a fiscal measure for small companies

Starting with 01.01.2013, the companies with an annual turnover of 2,25 millions lei (500.000 Euro) apply the Encashment VAT System (EVS), according to the Fiscal Code stipulations, with the condition to have the headquarter in Romania. The measure comes to support the small companies, to whom the Bill VAT System generated big difficulties.

Requiring VAT to be exigible from the moment of invoice emission, no matter the cashing / payment moment, the old system generated a financial disequilibrium. EVS relates the VAT payability with the cashing / payment moment, thus, when the invoice is emitted, both the supplier and client register undue VAT, and, in the moment of cashing / payment, the supplier collects VAT and the client deduces VAT (the invoice must have written the mention "Encashment VAT"). (ANAF, 2013)

The VAT Registers for sales and acquisitions must contain separated columns for the date of invoice emission – with the sum (base + VAT) and for the date of cashing / payment – with the sum (base + VAT). The invoices remain in the Register each month, until the date of total cashing / payment.

EVS is applying only for the banking payments and isn't applying for: cash payments, reverse taxation and VAT exempted operations.

Schematic, the EVS is:

Cases	Client	Supplier
1. The client and the supplier apply EVS	Registers undue VAT, which becomes deductible in the moment of invoice payment	Register undue VAT, which becomes collected in the moment of invoice cashing.
2. The client applies EVS, but the supplier doesn't apply it	Registers undue VAT which becomes deductible in the moment of invoice payment	Register collected VAT in the moment of invoice emission, no matter if this one is totally cashed or not
3. The client doesn't apply EVS, but the supplier applies it.	Registers undue VAT, which becomes deductible in the moment of invoice payment	Registers undue VAT, which becomes collected in the moment of invoice cashing
4. The client and the supplier don't apply EVS	Registers VAT deductible in the moment of invoice reception	Registers VAT collected in the moment of invoice emission, no matter if this one is totally cashed or not.

❖ For compensations between supplier and client, considered payments for the client and cashing for the supplier, the both of them register undue VAT as collected (the supplier) and undue VAT as deductible (the client). (Ministerul Finantelor, 2013)

❖ For payments with commercial effects – VAT becomes exigible at the moment of effect payment, and not in the moment of its emission.

❖ If the invoice is partly cashed in cash, for these sum, VAT will be exigible (collected / deductible), and for the difference, VAT will be undue, being submitted to EVS.

❖ If the invoice is partly banking cashed / paid, or compensated, VAT becomes exigible proportionally with the sum payed / cashed. The proportional VAT calculation is made by applying the recalculated rate (24/124).

❖ The undue VAT account requires to be detailed on analytics, separated for sales and for acquisitions.

EVS generates opposite opinions. One of them considers the system as advantageous, having a positive influence on the cash-flow of small companies, confronted in the last time with the liquidities lack (the company pays VAT to the budget only after cashing the invoice from the client). At the opposite pole, is the opinion according which, the new system generates discriminations between the companies and requires a huge bureaucracy, with obvious supplementary costs (expensive soft adaptations; a detailed evidence of invoices: on companies types – apply EVS / don't apply EVS; on operations types – with EVS / without EVS; on cashing / payments types – cash / banking). Also, if for the small companies the new system delays with 90 days the moment of tax collection and the deductibility right, until the payment moment, for the big companies, it produces only a delay of deductibility right until the payment moment. Because the fact that it was introduced without a study about its profitability, EVS remains a disputed system, but obligatory to apply. The practice will prove if it was a good measure for the small companies, or only a procedure difficult to apply.

7. Conclusions

Appeared in France in the half of XX century, VAT got an international character, being adopted by a big number of countries in the world. Inside EU, the tax adoption is an adhesion condition, all the EU members practicing this taxation system. In the company, VAT Accounting and Fiscality presents many special features, related by the activity type and company size, stipulated and permanently actualized in the Fiscal Code. Having a large area application, VAT represents in many countries the main source of income to the State Budget. In order to modernize the taxation system supporting the tax payers, **Romania has introduced the Encashment VAT System**, with its advantages and limits.

Being an essential component of the company fiscal administration, VAT has a considerable influence on the cash-flow and profitability, an also on the liquidity and solvency.

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