

## A Study on the VAT Accounting Regime in Romania

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**Abstract:** VAT is one of the most important taxes in the Romanian fiscal system, both as a public revenues source and a tax evasion issue. Given its social impact it was at times a subject of political and social debate, being at the same time a tool to control the consumption levels. The paper's aim is to describe the accounting treatment regarding the VAT in Romania. We discuss both accounting and fiscal issues regarding VAT.

**Key words:** VAT, Romania, accounting, fiscal

### 1 Introduction

The VAT regime in Romania was the subject of many changes during the last 25 years. From 1993 when it was established as an indirect tax related to goods consumption, passed through several regulation changes and social approaches.

Being an indirect tax with a vast number of contributors, it is largely considered by the decision makers as one of the main sources for public financial resources collecting process. As the tax evasion in Romania is still high it is unclear if a fiscal relaxation would be beneficial for the public budget. VAT it is an important component of the tax evasion phenomena. If the tax evasion related to income tax were around 2 percent of GDP in the economic crisis years and after (2008-2012), the VAT evasion grew from 3.8% in 2008 to 6.3% in 2012 (Stanica, 2014).

It is also an issue if the VAT regime was a matter of rational decisions based on public policies or just according to contextual interests (Nuță, 2012).

**Table 1. VAT rates in Romania from 1993 when it was introduced**

Year	1993	1995	1998	2000	2002	2004	2010
Rate (%)	18	18	22	19	19	19	24
Special rate (%)	0	9 and 0	11 and 0	0	-	9 and 0	9 and 0

It is obvious from the following graphic that the only control of the decision makers upon the level of public revenues from VAT is the rate.

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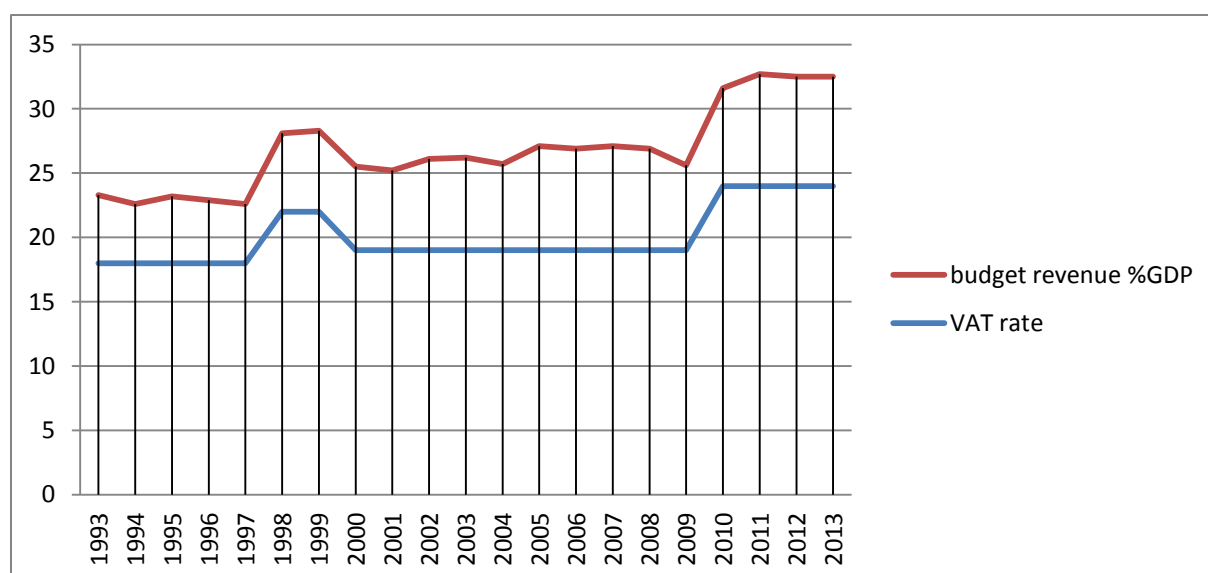


Fig. 1. VAT rate vs. VAT budget revenues as % of GDP

Source: IMF, Eurostat

It is expected that in 2015 or 2016 the VAT rate to be reduced as a fiscal incentive and as a result of the budgetary deficits relaxation.

## 2 VAT accounting treatment

To describe the VAT treatment in Romanian accounting we consider the case of an enterprise buying an asset (transportation vehicle) for a price of 30,000 RON, plus VAT. The standard VAT rate for such a transaction is 24%.

First the enterprise will register the acquisition as follows:

	%	=	401 "Suppliers"	<u>37,200</u>
2133 "Transportation vehicles"				30,000
4426 "Deductible VAT"				7,200

If we consider that the "Collected VAT" for the same financial interval raises to 10,000 RON at the end the enterprise should pay to the public budget VAT in sum of 2,800 RON as follows:

"Collected VAT":	10,000
"Deductible VAT":	<u>7,200</u>
<b>VAT payment:</b>	<b>2,800</b>

The accounting registrations for the payment should be as follows:

4427 "Collected VAT"	=	%	<u>10,000</u>
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4426 "Deductible VAT"	7,200
4423 "VAT to be paid"	2,800

And afterwards the payment:

4423 "VAT to be paid"	=	5121 "Bank account"	2,800
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The effective cash flow for the enterprise is of 2,800 RON.

Let us consider that the "Collected VAT" is not 10,000 RON but 5,000 RON. In this case the enterprise will have to recover VAT in amount of 2,200 RON from the public budget.

"Deductible VAT":	7,200
"Collected VAT":	5,000
<b>VAT to be reimbursed:</b>	<b>2,200</b>

And the accounting registrations will be as follows:

%	=	4426 "Deductible VAT"	7,200
4427 "Collected VAT"			5,000
4424 "VAT to be reimbursed"			2,200

And the reimbursement from the public fiscal authorities:

5121 "Bank account"	=	4424 "VAT to be reimbursed"	2,200
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In this case the enterprise has a positive cash flow in sum of 2,200 RON representing VAT reimbursements.

### 3 Conclusion

Due to the actual VAT regime, the commercial enterprises registered as VAT payers, act as intermediaries for the public fiscal authorities and collect the VAT.

The rule is that the deductible VAT is registered in accounting related to purchases and the collected VAT is registered related to the sales performed. So if the enterprise purchases exceed the sales the deductible VAT will exceed the collected VAT and as a result the enterprise is entitled to receive the difference from the fiscal authorities. If the sales exceed the purchases, the collected VAT exceeds the deductible VAT and the enterprise should pay the difference to the public budget.

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