Considerations on the Fiscal Consequences of Accounting Result

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Abstract

The concepts of accounting result and the fiscal result, the manner of determining and recording in accounting have always aroused interest for different categories of users. The concept of accounting result is used by all entities compelled to submit annual financial statements, regardless of how the performance of the business is taxed, while the notion of fiscal result is only used by the entities liable to pay corporation tax.

In terms of information provided by the accounting result, those are intended for a wide range of users among which shareholders, investors, financial creditors, the general public, while information given by the fiscal result are mainly intended for the government and fiscal management institutions. Both accounting result and fiscal result are determined based on revenues and expenses recorded in the accounts, while respecting accounting policies and principles and tax laws.

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Any economic activity involves obtaining a result that reflects how material and human resources have been used. For economic entities paying profit tax, the result of their activity is viewed through the prism of two points of view: on the one hand, we can talk about accounting result and, on the other hand, about fiscal result.

1. Introduction

Accounting result is calculated as the difference between total revenue and total expenditure during a financial year, without applying any fiscal correction.

Accounting Result = Total Revenue – Total Expenditure

Accounting result is also known under the name of the gross result of financial year before taxation, its calculation being performed by taking into account the accrual accounting rules and respecting the principles regulated by the Minister of Finance Order no. 1802 from 2014. Accounting result is determined at the closing of a financial year, according to article 19 of the Accounting Law no. 82/1991, as amended and supplemented: "*in accounting, the profit or loss is determined cumulatively at the beginning of the financial year, while the closing of revenue and expenditure accounts is usually carried out at the end of a financial year. The final result of a financial year is determined at its closure*."

Based on these provisions, a company can get in terms of accounting either profit or loss(Contabilul.manager.ro/a/2808/venituri-și –cheltuieli-rezultat- contabil-și –fiscal.html).

When accounting profit is gained, the total revenue recorded from the business conducted are higher than the costs incurred and we can say that we have a surplus of activity, an increase of economic benefits(Avram, 2010, p.49).

Accounting Profit → Total Revenue > Total Expenses

When the gross revenues are lower than gross expenses, we talk about accounting loss, or underperforming activity, which represents a decrease of economic benefits.

Accounting Loss →   Total Revenue < Total Expenses

The accounting result obtained after recording revenues and expenses, according to the applicable accounting rules, is the starting point in determining the fiscal result. Unlike accounting result that reflects the effectiveness of the activity performed, the fiscal result is in fact the calculation basis used by any economic entity to calculate the corporate tax. Fiscal result is calculated based on the accounting result, performing the fiscal corrections according to legal regulations. Thus, the fiscal result is determined according to Law no. 227 from 2015 regarding the Fiscal Code, which in art. 19 of Chapter II "Calculation of fiscal result," states that " *the fiscal result is calculated as the difference between revenues and expenses recorded in accordance with the applicable accounting rules, from which are deduced the non-taxable income and tax deductions plus the non-deductible expenses*". For determining the fiscal result are also taken into account elements similar to incomes and expenses, according to the methodological norms, as well as the tax losses that are recovered in a certain time period established under the regulations of the Fiscal Code.

Fiscal result = Vt – Cht – Vn – Df+Chn

where:

Vt = income recorded according to accounting rules in force

Cht = expenses recorded according to accounting rules in force

Vn = non-taxable income

Df = tax deductions

Chn = non-deductible expenses

or

Fiscal result = Accounting result – Vn – Df +Chn

The positive fiscal result represents taxable profit and negative fiscal result is tax loss(Law no. 227 from 2015 regarding the Fiscal Code, art.19). The fiscal result is calculated quarterly / annual, cumulated from the beginning of financial year, outside the field of accounting, using the tax register(Law no. 227 from 2015 regarding the Fiscal Code, art.19).

In the financial and accounting records the fiscal result is not registered, respectively the taxable profit or tax loss, but only the obligation to pay corporation tax resulted from applying the tax rate to the taxable profit when the entity has taxable profit. By deducting corporation tax expenses from the gross accounting profit results the net accounting profit, which is reflected in the income statement at the end of financial year.

The net accounting profit, after approval of the annual financial statements, is distributed to different destinations, as decided by the general meeting of shareholders in accordance with legal regulations in force. When the company paying corporation tax has recorded both accounting loss and tax loss, the manner to recover those differs. Thus, the accounting loss can be recovered in future years on an indefinite period and annual tax loss determined by the declaration on corporation tax is recovered from the taxable profits obtained in the following 7 successive years (Law no. 227 from 2015 regarding the Fiscal Code, art.31).

2. Calculation Elements of the Accounting and Fiscal Result

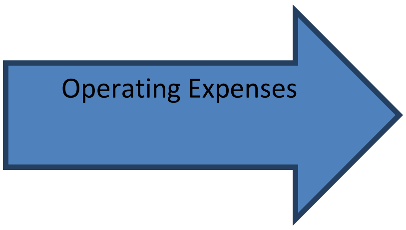
As shown in the preceding paragraph, the accounting result is calculated as the difference between total revenue and total expenditure incurred by the entity.

According to OMPF 1802/2014 revenue/income represents "*both sums and amounts receivable in its own name from current activities and gains from any other source*" and include:

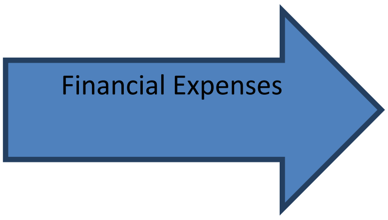
- Income from sale of products and goods and provision of services; this category also includes revenue from the sale of housing by entities that are engaged in the procurement and sale of housing;
- Income related to the cost of production;
- Income from production of intangible assets;
- Other current operating revenues ;
- Income from financial intangible assets;

- Income from short-term investments
- Income from disposal of financial investments;
- Income from exchange rate differences;
- Interest income;
- Revenues from discounts obtained as a result of financial cuts;
- other financial incomes;

Expenses of the entity are the amounts paid or payable for consumption of stocks and services rendered from which the entity is benefiting, personnel expenses, and execution of legal or contractual obligations and include(Avram and Avram, 2012, p.143):



- Expenses on raw materials and consumables;
- Third-party services expenses, royalties, management and rental locations;
- Expenses on insurance premiums
- Personnel expenses;
- Other operating expenses;



- Losses from claims related to shares;
- expenses on disposal of financial assets;
- Unfavorable exchange rate differences;
- Interest on the current financial year;
- Discounts to customers;
- Other financial expenses

The difference between operating revenues and operating expenses represent operating result and the difference between financial income and financial expenses represent the financial result.

Operating Result = Operating Revenue – Operating Expenses

Financial Result = Financial Revenue –Financial Expenses

In terms of the fiscal result, the categories of income and expenses that are taken into account in calculating it are the same as in the accounting result, namely those registered under the regulations in force, with the difference that they are treated in terms of tax depending on their deductibility.

Thus, from the fiscal perspective, revenues recorded in the financial accounting are grouped into two categories:

- Taxable income
- Non-taxable income

In the category of non-taxable income we mention(Law no. 227 from 2015 regarding the Fiscal Code, art.23):

- dividends received from a Romanian legal entity;
- Dividends received from a foreign entity that is payer of income tax or a similar to it, located in a third country, as it is defined in art. 24, paragraph (5), letter c) of the Fiscal Code, with which Romania has concluded a convention for the avoidance of double taxation, so if the Romanian legal entity which receives dividends owns in the foreign legal person from the third country, at the date of their registration in accordance with the applicable accounting regulations, for an uninterrupted period of one year, 10% of the share capital of this legal entity distributing the dividends;
- Revenue from cancellation, recovery and re-invoicing of expenses for which no deduction was granted, income from the reduction or cancellation of provisions for which no deduction was granted, income from the reimbursement or cancellation of interest and / or penalties for which no deduction was granted, as well as income representing cancellation of the reserve recorded as a result of participation in nature in the capital of other legal entity or due to the legal entity's increase of capital to which equity securities are held;
- Deferred income tax revenues determined and recorded by taxpayers applying accounting regulations in accordance with the International Financial Reporting Standards, etc.

The expenses recorded in the financial accounting evidence are grouped in terms of taxation into:

• Deductible expenses;
• Non deductible expenses;
• Expenses with limited deductibility

Deductible expenses are the expenses incurred by an entity to conduct economic activity in order to obtain revenue.

Examples of deductible expenses are(Law no. 227 from 2015 regarding the Fiscal Code, art.25):

- expenditures related to the value of raw materials and auxiliaries purchased that were used in the production process, according to technological norms;
- expenses related to value of goods purchased for sale;
- energy costs necessary to carry out the activity;
- Salary expenses and social contributions.

In the category of non-deductible expenses it can be mentioned (Law no. 227 from 2015 regarding the Fiscal Code, art.25):

- taxpayer's own expenses with income tax due, including those representing differences from previous years or the current year, as well as income or corporation taxes paid abroad. There are also non-deductible the expenses on taxes that are not retained at source on behalf of non-resident individuals and legal entities, for revenues gained in Romania, as well as deferred income tax expenses recorded in accordance with applicable accounting policies;
- interest / delay penalties, fines, forfeitures and penalties owed by the Romanian / foreign authorities, according to legal provisions in use, except those arising from contracts with these authorities;
- expenditures made in favor of the shareholders or associates, other than those generated by payments for goods delivered or services rendered to the taxpayer, at the market price for those goods or services;
- expenses related to taxable revenue;
- expenses recorded in the accounting records, which are based on a document issued by a taxpayer declared inactive according to the Fiscal Procedure Code, except those representing purchases of goods made in enforcement proceedings and / or purchases of goods / services from taxable person while under bankruptcy proceedings under Law no. 85/2014;
- expenses from revaluation of intangible assets / fixed assets, where as a result of carrying out a revaluation according to the applicable accounting regulations, there is a decrease of their value.

In the category of expenses with limited deductibility it can be mentioned:

- Public relations expenses are deductible up to 2% of the accounting profit plus income tax and public relations expenses. The public relations expenses include the costs and expenses incurred by value added tax collected under the provisions of Title VII, for the gifts offered by the taxpayer with a value greater than 100 lei;
- Social expenditure limited to a share of up to 5% applied on the value of personnel costs
- Deductions for technological losses, which are contained in its own consumption norm required to manufacture a product or perform a service;
- Deductions, perishable, losses incurred by handling / storage under the provisions of law.

3. Conclusions

Given the above data, we conclude that there is a close interdependence between the accounting and tax result, meaning the fiscal result is calculated based on the accounting result to which are made fiscal corrections required by the tax system. At the same time the effects of fiscal result, or the profit tax, determined by applying the tax rate, represents an expense for the entity that lowers the accounting profit before taxation, resulting the net accounting profit, or an increase in when it was registered an accounting loss.

Depending on the accounting result, the fiscal result and the level of non-taxable revenue and non-deductible expenses, we may have the following situations:

- Gross accounting profit, taxable profit → net accounting profit (Contabilul.manager.ro/a/2808/venituri-și –cheltuieli-rezultat- contabil-și –fiscal.html);
- Gross accounting profit, taxable profit → net accounting loss and, if the value of gross accounting profit is low the value of non-deductible expenses is high, thus the value of profit tax calculated exceeds the value of accounting profit before taxation;
- Gross accounting loss, taxable income → net accounting loss greater than the gross accounting loss with the profit tax calculated (Contabilul.manager.ro/a/2808/venituri-și –cheltuieli-rezultat- contabil-și –fiscal.html); this situation occurs when the value of expenses either non-deductible or with limited deductibility is high;
- Gross accounting loss, tax loss → net accounting loss at the level of gross accounting loss (Contabilul.manager.ro/a/2808/venituri-și –cheltuieli-rezultat- contabil-și –fiscal.html), because having tax loss makes the calculated profit tax 0 and thus the accounting result is unaffected;
- Gross accounting profit, tax loss → results net accounting profit, at the level of gross accounting profit (Contabilul.manager.ro/a/2808/venituri-și –cheltuieli-rezultat- contabil-și –fiscal.html), because having tax loss makes the calculated profit tax 0 and thus the accounting result is not affected; this situation occurs when there is high value non-taxable income.

Even though between these two economic categories - the accounting and the fiscal result, there is a close interdependence at the same time a number of differences can be found, namely:

- net accounting result is reflected in the profit and loss account, while the fiscal result is not found, since is determined outside the field of accounting;
- intended purpose: accounting result shows the effectiveness with which material and human resources were spent, while the fiscal result represents in fact the basis for calculating corporate tax;
- the notion of accounting result can be found in all entities submitting annual financial statements, while the fiscal result is found only in those entities paying corporation tax;
- the categories of users are different: shareholders, investors, creditors, society etc. are interested in the accounting result, while the fiscal result is of interest mainly for the Government, through its institutions.

4. References

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4. Ordinul ministrului finanțelor publice nr. 1.802/2014 pentru aprobarea Reglementărilor contabile privind situaţiile financiare anuale individuale şi situaţiile financiare anuale consolidate

5. Legea nr.227/2015 privind Codul fiscal

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