

Tax Facilities for Romanian Companies in Combating the Crisis Generated by COVID-19

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Abstract

The year 2020 was a challenging one, both medically and economically. The pandemic that has swept the world has produced a series of changes in the economy, causing crisis and a major shock for the entire European and global economy. All states have been put in a position to take certain measures at both the political and budgetary levels to support the economy. The rapid spread of the virus, the large number of illnesses and the state of emergency we entered at the beginning of 2020, led to an economic deadlock followed by an increase in the unemployment rate, due to the fact that many companies have stopped or significantly reduced activity due to lack of demand. This paper highlights the main effects of the pandemic on the companies from Romania, leading to the support given by the state in order to support them to face the direct repercussions.

Key words: COVID-19, crisis, income tax, unemployment, compensations

J.E.L. classification: M21

1. Introduction

The COVID 19 pandemic affected the whole world, having major effects on the economic environment as well as on all industries, which within a month went through major transformations and we feel the effects of these transformations even today.

As a result of quarantine, school closures, telework and changes in consumer behaviour, many businesses have been affected by declining sales. Once revenue declined, companies were unable to pay their due debts on time. As long as the companies did not collect their receivables, many of them were put in the position of making certain decisions that led to the reduction of activity, whether or not to keep employees in the company, technical unemployment or dismissal. The statistics that are published, show that 5.2% of the active population of Romania is unemployed.

In the conditions of the pandemic, most companies felt changes, but there were also companies that increased their sales volume during the state of emergency until now. The most affected companies were those operating in the field of transport (road, sea, and air), the production of goods that were not strictly necessary during the pandemic (such as: car manufacturing, clothing, footwear, etc.). Changes also took place in the field of education, because those who owned private kindergartens or after schools had to obey the rules and suspend their activity for a while or transpose it online.

As mentioned above, there are also companies that during the pandemic recorded a large number of sales such as those whose object of activity is the production of goods necessary to prevent and treat the effects generated by COVID-19. Also in this category we can also include companies dealing with food marketing, companies operating in the IT field, with an increased demand during the pandemic, because it was necessary to provide solutions and at the same time technical support to employees who worked from home.

Legislative measures have been amended in favour of entrepreneurs, so that during the state of emergency, it has given them respite in terms of paying debts such as taxes, commissions, interest rates on banks, monthly utilities or housing rents.

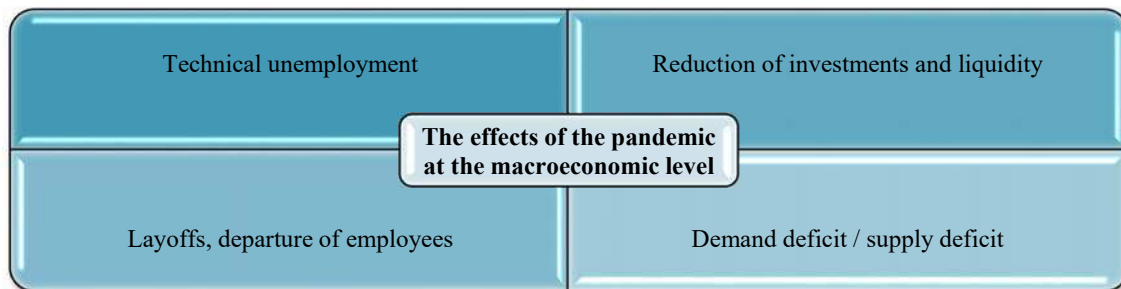
The impact is still felt because we all see a general economic slowdown as the unemployment rate has risen, the production of certain goods has declined due to falling demand for certain categories of goods, the financial market is eroding, loans have deteriorated and the world is increasingly concerned with the payment of liquidity.

2. Theoretical background

Given the situation created by the pandemic, all countries have been put in a position to reduce more or less some economic activities (McKibbin & Fernando, 2020; Grigoras-Ichim, et. al, 2020). The economic impact of COVID-19 and according to the estimates of analysts and those in the medical field, this situation could continue.

The impact of the pandemic from an economic point of view varies from one company to another, respectively from one sector of activity to another (Kaushik & Guleria, 2020; Hoke, et al., 2020; Sidhu, et. al, 2020). These situations are influenced by various factors such as market demand, supply, stock levels, supply arrangements, etc. (Maital & Barzani, 2020; Morosan-Danila & Bordeianu, 2020). The main effects of the macroeconomic pandemic in Romania and around the world are presented in the Figure no. 1.

Figure no. 1. The effects of the pandemic at the macroeconomic level



Source: Own projection of the authors

The pandemic that generated the economic crisis had an effect in a very short time both in terms of demand for products and services and in terms of supply (Stanciu, et. al., 2020; Luca, 2021; Brumă, et. al, 2021; Lucaci & Nastase, 2020). Comparing the two, the most noticeable effects are at the level of demand. At the beginning of last year, the state of panic that was created, the insecurity of tomorrow and then the state of emergency triggered a moment of sudden decrease in demand. During that period, the population focused on the purchase of products of strict necessity (food, medicine). This is the reason why some companies operating in other fields of activity have suffered. The most affected suppliers are those who owned restaurants, hotels, beauty salons (Morosan-Danila & Bordeianu, 2020, Bucaciuc, et. al., 2020).

Not only at the level of product demand there were changes, due to the situation the supply of goods was affected due to the fact that Romanian suppliers were supplied from outside with products and raw materials, and in the conditions in which the transport was interrupted and the chain distribution was disrupted.

The first state affected by the pandemic was China, which, as we all know, holds the top spot in the production of goods. Once production was reduced, China and other sourcing countries suffered and there was a shortage of supply of goods and raw materials.

The COVID 2019 pandemic generated a development blockade, due to uncertainty and lack of liquidity (Dan & Goia, 2020; Ichim, 2021). At the level of the country, but also globally, the investments are not enough to recover the economy and to bring it to the waterline. As long as the consumption of certain products has decreased, liquidity is completely lacking and investors are blocked. Globally, studies show that investments have fallen in 2020 by 30% compared to 2019.

There are exceptions including IT companies. KPMG conducted a market study for 2020 and it turned out that large companies have made considerable investments in technology (KPMG Romania, 2020a). The calculations show that they have invested in technology three times more than in 2019, in order to make possible the integration of work and home school in particular.

Due to the state of emergency in which Romania entered last year, companies have reduced activity, but at the same time sought solutions for employees, one of them being technical unemployment, in addition to reducing the program or salaries. Many of the companies suspended employment contracts during the pandemic and sent employees into technical unemployment. They received an amount of 75% of the value of the basic salary.

Table no. 1. Unemployment at European and national level

Indicators	Europa	Romania
Unemployment rate	7,3%	5,2%
Number of unemployed	15,7 (millions)	468.000

Source: Eurostat, 2021, p. 5

3. Research methodology

This article combines basic research with usable research, with the aim of discovering new problems or developing new theories and practical approaches to the problems faced by companies in times of crisis and identifying solutions to combat them, in our case with the support directly from state institutions. The usefulness of this research lies in the contribution to the future development of economic research, ensuring the necessary premises for future research, both theoretical and applied.

4. Findings on the adaptability of companies in times of crisis

The tax authorities came to the aid of the companies during this difficult period. It was necessary to take economic, budgetary and fiscal measures in a relatively short time, so that the activities carried out by companies are not so severely affected.

As a result of the various policies implemented by the Romanian state to support companies affected by COVID-19, we further exemplify the tax implications for enterprises paying profit tax, micro-enterprise income and other activity-specific tax.

According to the Emergency Ordinance no. 33/2020 for the first quarter of last year, taxpayers who paid their tax on the profit obtained within the term provided by law (25 of April, 2020) benefited from bonuses from the state. The amount of this bonus is calculated differently taking into account the category of taxpayers.

Table no. 2. Bonus granted according to the category of taxpayers

Taxpayer category	Bonus percentage
Big	5%
Medium sized	10%
NGOs, foundations, private schools	10%

Source: Emergency Ordinance no. 33/2020

There are also taxpayers who have chosen to opt for a financial year different from the calendar one. If in the period 25 of April – 25 of June, 2020, they paid their tax on the profit obtained, they also had the right to the bonus. The bonus granted to corporate tax payers had to be highlighted separately in the Declaration 100.

The purpose of this benefit was to support the economy, to encourage entrepreneurs to continue their business and to collect as many debts as possible. KPMG reported that last year in March, during the state of emergency, companies' revenues at national level decreased by 25% compared to the first two months of the year. The bonus is calculated by deducting directly from the amount of income tax due 10% or 5% depending on the category in which each taxpayer falls (KPMG Romania, 2020).

We will exemplify the specific calculations of an „X” company that operates in the field of retail trade and pays quarterly profit tax. The following table shows the expenses and revenues for each quarter of 2020. In 2019, the company was a profit tax payer.

Table no. 3. Statement of Revenue and Expenditure for each quarter of 2020

Trimester	I	II	III
Income	18.500	28.400	35.500
Dividends	5.000	-	-
Costs	7.300	9.500	10.350
Fines	0	2.000	-
Income tax expenses	0	860	(860+ 1.400) 2.260

Source: Own projection of the authors

Table no. 4. Statement of Revenue and Expenditure for each quarter of 2020

	Profit tax situation – 31 of March, 2020	Profit tax situation – 31 of June, 2020	Profit tax situation – 30 of September, 2020
Result for the year = Total revenue (N quarter) - Total expenditure (N quarter)	13,500 M.U.	18,900 M.U.	25,150 M.U.
Fiscal result = Result for the year - Non-taxable income + Non-deductible expenses	8,500 M.U.	21,760 M.U.	28,260 M.U.
Income tax (quarterly)	1,360 M.U.	2,621.6 M.U.	1,411.6 M.U.
Profit tax payable with 10% bonus	1,224 M.U.	2,359.44 M.U.	1,270.44 M.U.

Source: Own projection of the authors

In the analysed example we see that in the first quarter of 2020 the company registered a profit tax amounting to 1,360 M.U. After calculating the bonus granted by the state in the amount of 10%, the company had to pay a final profit tax of 1,224 M.U. In the second quarter of the year, the company registered a profit tax of 2,621.6 M.U., and after granting the 10% discount, the final payment amount is 2,359.44 M.U. In the second quarter you can see an increase in corporate income tax of 1,261.6 M.U. compared to the first quarter. This shows that the company recorded higher sales during the emergency period, which is due to the fact that the population stayed at home and food consumption increased. The state of emergency, the restriction of access in some localities and the insecurity stimulated the world to stock up on food and goods of strict necessity. In the third quarter of last year, the company registered a profit tax of 1,411.6 M.U., and after granting the 10% discount, the final payment amount is 1,270.44 M.U. A decrease of 1,210 M.U. can be observed from one quarter to another. A return to normal can be observed, after leaving the state of emergency, the amount of tax due being close to the first months of the year when there was no pandemic in Romania.

According to the Emergency Ordinance no. 33/2020, bonuses are granted to micro-enterprises that have paid until 25 of April, 2020, the income tax obtained from the activity carried out. The amount of the bonus granted, as in the case of medium-sized enterprises, is 10% and is deducted from the amount due.

During the state of emergency generated last year, the activity of some companies was suspended for a period or interrupted in the most unfortunate cases. According to the Emergency Ordinance no. 99/2020, the companies that were paying specific tax were exempted from payment. The period for which the taxpayers were exempted from paying the specific tax is 90 calendar days from the date when the Emergency Ordinance no. 99/2020, but subsequently the Government communicated that the term was extended until 25 of November, 2020.

When the country came out of the state of emergency, a recalculation of the tax due took place. The specific annual tax was divided into 1 year (365 days) and subsequently multiplied by the number of days in which the company operated.

$$\text{Specific tax} = (\text{Annual specific tax} / 365 \text{ days}) \times \text{no. days worked}$$

The 10% bonus is granted to specific taxpayers if they meet 3 cumulative conditions as follows:

- Possession of a document called certificate for emergency situations to be issued by the Ministry.
- Interruption of the activity undertaken in part / in full.
- The company should not be insolvent.

The certificate issued by the Ministry of Economy states on its own responsibility that the company's activity was partially / totally interrupted during the state of emergency and the company's revenues decreased by 25% compared to January and February 2020.

The companies benefit from the payment of a specific tax depending on the object of activity carried out. Thus, the following pay specific tax:

- Restaurants, hotels;
- Companies that provide catering services;
- Companies that own camping parks, caravans, etc.;
- Terraces, bars, other food services.

The pandemic period severely affected employers who in a relatively short period of time had to make major changes and adapt to the situation. Thus, in addition to the fact that the liquidity decreased due to the non-collection of receivables, solutions had to be found for the employees of the companies. The most common situations were:

- Technical unemployment;
- Reduction of working hours;
- Free days for childcare.

During the state of emergency and restrictions, some companies did not have enough funds to pay the debts and especially the salaries of the employees. Thus, with the restriction or suspension of activity for a period, there was also the sending of employees in technical unemployment, a situation that involves the termination of the employment contract for a while.

Law no. 53/2003 – Labour Code, Article 52, provides that in case of temporary interruption of the activity undertaken, the employer may take the initiative to suspend the employment of the employee, but may at any time resume work if the situation is remedied, the company starts operating under normal conditions and the employer needs staff.

More than half of the companies operating on the market have sent some of their employees into technical unemployment. The vast majority of employers sent only a part of their employees unemployed according to their activity. Employees have the right to receive a compensation during the period of temporary termination of the employment contract in the amount of at least 75% of the value of the basic salary. The 75% allowance is not granted to employees who are on medical leave.

The employer must pay tax on the allowance received and the social contributions of the employees without benefiting from the deduction. In order to recover the allowances the company paid to the employees, it was necessary for the employer to draw up and submit an application accompanied by the other legislative documents. The employer uploaded all the necessary documents plus the application on the platform ici.gov.ro. Within 15 working days from the submission of the documents, the employer received the amounts requested for the employees' allowances, and within 3 working days the employer had to transfer the money to his employees. News was published that during the state of emergency some employers received a part of their employees at work, they appearing as having a suspended employment contract. The employers who committed this contravention were fined with an amount starting from 20,000 lei.

In situations where the activity did not take place under normal conditions for a period longer than 30 days, another option that employers had in addition to sending people into technical unemployment was the reduction of the normal work schedule. Some employers chose to reduce the schedule from 5 to 4 working days per week, and others from 8 hours per day to 4 hours. Even though it was necessary to reduce the salary according to the schedule, the employees were satisfied that they kept their place and had the opportunity to continue their activity in pandemic conditions without being put in the situation of terminating the employment contract. The employer paid the salary contributions without this time having any facility from the state.

During the pandemic (especially at the end of the 2019-2020 school year), kindergartens, schools, high schools and universities no longer carried out their physical activity due to the restrictions imposed, so they moved their activity to online. In this situation, the state meets the parents with a solution. According to law no. 19/2020 parents who have children up to the age of 12 and follow a form of education had the legal right to be granted days off, as long as the state has prohibited the

opening of educational units. Only one parent is the beneficiary of this law. He benefits from paid days off, if he falls into the following situations:

- During the closing of schools, the parent cannot work from home;
- Children are up to 12 years old, or 18 in the case of children with disabilities and follow a form of education.

Parents who took days off during the pandemic last year received an allowance of 75% of the basic salary for a working day. The law clearly provides for some aspects related to the granting of the allowance. It is not allowed to grant it if the employee falls into the following situations:

- The other parent is on leave (rest or unpaid);
- The employee is technically unemployed.

We can say that for employers the most important resource to carry out their activity are the human resources. So in order not to lose their old employees, who brought results and recognition to the company, employers opted for more expensive financial solutions in a shorter term but certain for a period gives longer time, because everyone hopes for a recovery and a return to normal in the next period. A publication of the KPMG says that in Romania a percentage of 95% of companies have taken various measures to maintain the activity (KPMG Romania, 2020b). In March last year, 90% of companies took immediate measures to deal with the crisis situation, and most sent employees into technical unemployment, being the most convenient option at the moment.

We made a comparison of the costs that the employer incurred taking as an example the three situations described above (technical unemployment, reduced working hours, days off for parents) and we analysed a month that includes 20 working days, under the conditions in which the basic salary would be 2,230 M.U.

Table no. 5. Costs incurred by the employer

Compensation components	Technical unemployment (75%)	Reduced schedule (4 days a week)	Days off for parents
Compensation	1,673	1,784	1,673
Contribution to social insurance	418	446	418
Contribution to social health insurance	167	178	176
Personal deduction	0	510	516
Taxable income	1,087	650	577
Wage income tax	109	65	58
Net employee amount	978	1,095	1,029
Insurance contribution for work	0	40	38
Employer cost	1,673	1,824	1,711
Reimbursed by the state	1,673	0	1,029
Actual employer cost	0	1,824	681

Source: Own projection of the authors

In table no. 5 it can be seen that the most favourable and handy solution during the pandemic and especially the state of emergency was technical unemployment. Under the conditions of a basic salary of 2,320 U.M., the employer's cost is initially 1,673 M.U., but the state reimburses him this amount and remains at the end with an effective cost of 0 M.U. In the second analysed case, when the employee's work schedule was reduced from 5 to 4 days per week, the actual cost borne by the employer was 1,824 M.U., the state not reimbursing anything from this amount. In the situation where the employer granted 20 days off to the employee for the supervision of children attending a form of education, the initial cost of the employer was 1,711 M.U., of which the state paid 1,029 M.U., the employer finally having an effective cost of 681 M.U. As mentioned above, most companies have chosen the first option of technical unemployment, which is less expensive. Employers who wanted to keep their employees chose one of the other two options analysed, even if they had to cover costs, but most considered it a safer solution in the long run.

According to the data published by the Romanian Ministry of Finance (2020), the preliminary execution of the general consolidated budget at the end of 2020 registered a deficit of 101.92 billion lei (9.79% of GDP). Thus, amounts amounting to 46.31 billion lei (4.45% of GDP) were left in the economic environment through fiscal facilities, investments and exceptional expenditures allocated to combat the effects of the COVID-19 epidemic.

5. Conclusions

This paper aims to describe and analyse the changes that took place at the economic level in Romania at the beginning of the pandemic generated by COVID19. Among the main effects of the pandemic are technical unemployment, deficit of supply and demand, reduced investment, layoffs and departures of employees. Also, the solutions made available by the state to employers and employees were presented, including bonuses for paying profit / income taxes, postponing taxes, technical unemployment, reducing the working hours and days off for parents to supervise children, etc. In order to better clarify the situation of costs incurred by the employer, an analysis was made of the 3 types of situations presented and their interpretation.

The question that remains at the level of economists is whether fiscal incentives and facilities have really supported Romanian companies? The amounts declared by the Romanian Ministry of Finance present the following situation:

- About 0.9 billion lei bonuses granted based on Government Ordinance 33/2020.
- 7.0% decrease in value added tax revenues due to: (i) increase of VAT refunds by 14.5%, year / year (+2.72 billion lei) in order to ensure companies a level of additional liquidity during the crisis; (ii) the possibility of restructuring / rescheduling tax obligations; (iii) adverse developments in economic sectors since March (mainly industry, household services and trade in motor vehicles).
- Decrease by 2.4% compared to the level recorded in the previous year of excise revenues, mainly due to the reduction of fuel consumption in the current economic situation (limiting the consumption of certain services - tourism and increasing the incidence of work at home).
- In terms of expenses, by the end of December 2020, 4.25 billion lei were paid for benefits granted during the period of temporary suspension of the individual employment contract at the initiative of the employer, 922.13 million lei for benefits granted for other professionals, as well as for persons who have concluded individual labour agreements that interrupt the activity as a result of the effects of SARS-CoV-2, 2.69 billion lei representing amounts granted to employers for the settlement of a part of the gross salary of employees kept in work (41.5%), 96.15 million lei for allowances granted to parents for supervising children during the temporary closure of schools and 121.9 million for allowances granted during the temporary reduction of activity for professionals and for persons who have concluded individual labour agreements under Law no.1 / 2005.

Any effort would be made by the state institutions to support the national economy, their efforts are short-term, the companies being in a position to reorganize and even reorient themselves in order to face the market pressures. Even if the third wave of the pandemic ended with a series of relaxation measures, normality from the beginning of 2020 is far from being reached.

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