INTRA-COMMUNITY ACQUISITIONS VERSUS IMPORTS

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Abstract:
It is known that, after 1 January 2007, in the same time with Romania's accession in the European Union, the acquisitions made from entities in the Community area fall within the intra-Community acquisitions and not imports.
Based on this issue, in this paper I intend to approach by comparison the entry in the accounts of intra-Community acquisitions and imports of goods and how these transactions affect the outcome of entities in our country.
In this regard we shall consider specific cases of intra-Community transactions that fall within the acquisitions and imports of goods, and for their record in the accounts we will have to perform a tax treatment analysis in terms of the value added tax.

Key words: *intra-community acquisitions, imports, accounting models, tax treatment, value added tax.*

JEL classification: *H32, H87, M40, M41, M49, Q56*

1. Introduction

Since Romania's accession in the European Union, the acquisitions carried out in the Community area are addressed differently from those performed outside such area. Thus, intra-Community acquisitions have been enacted as from 1 January 2007 by the Law no. 571/2003 on the Fiscal Code, as further amended and supplemented and we may say that the legislation in the tax field has had an impact on the rules for recording these transactions in the accounts, reflection which is made after performing a prior analysis on the tax treatment in terms of the value added tax.

We may say that intra-Community acquisitions can be distinguished from imports of goods both in terms of the space where the acquisition is made but also in terms of the acquisition cost formation.

We must not neglect in our methodological and practical approach the tax or customs duties that the entities are expected to pay for such acquisitions.

Based on these considerations we intend to approach by comparison the entry in the accounts of intra-Community acquisitions of goods and imports, considering the same specific situations, but without neglecting the tax treatment specific to such operations or the best option for an entity.

2. Accounting models specific to intra-Community acquisition of goods

Given the complexity of intra-Community commercial transactions and hence of their taxation, in order to build accounting models specific to intra-Community commercial transactions, we considered it appropriate to proceed from specific situations that arise in trade relations between EU Member States, clarifying first, the tax issues affecting the proper registration in the accounts of such operations.

In this context, we must take into account the place of the intra-Community acquisition of goods, the quality of the taxable person in terms of value added tax, the provision or not of the valid registration code for value added tax from the purchaser to the supplier, the existence of documents showing the transportation of goods from supplier to customer and not least, as from August 2010, the Romanian trader's registration in the Register of Intra-Community Operators and thus the quality of intra-Community market operator.

In the attempt to create accounting models specific to intra-Community acquisitions of goods we shall start with a practical example.

Thus, consider that the company "A", taxable person registered for VAT purposes in Romania, purchases goods worth EUR 5,000 (at the rate of 4.25 RON/EUR) from a taxable person from Italy, providing the latter his/her code valid for VAT purposes. The goods were invoiced by the Italian partner upon delivery and there are documents showing that they were transported from Italy to Romania. It is known that entity "A" performs the reception of goods, whose assessment is done at the price of retail; the trade mark-up rate is 40%.

Analysing this situation, we can say that in terms of taxation, the Italian supplier charges the goods without VAT because by meeting the conditions regarding the communication of the registration code for VAT purposes and the evidence of transportation, the delivery is exempted from VAT and the Romanian company "A" pays the tax by return; it is at the same time input and output tax.

This case generates in the buyer's accounts the following *entries*:

- purchase of goods from Italy (RON 5.000 x 4,25 RON/EUR = RON 21.250):

371 "Goods purchased for resale"	=	**401** "Suppliers"	RON 21.250

- the input value-added tax is reflected in the same time, which is also an output tax (RON 21.250 x 24% = RON 5.100):

4426 "Input value-added tax"	=	**4427** "Output value-added tax"	RON 5.100

- retail price formation by adding the trade mark-up and the VAT under settlement to the acquisition cost previously reflected (trade mark-up = RON 21.250 x 40% = RON 8.500; VAT under settlement = (RON 21.250 + RON 8.500) x 24% = RON 29.750 x 24% = RON 7.140):

371 "Goods purchased for resale"	=	**%**	RON 15.640
		378 "Price differences on goods purchased for resale"	RON 8.500
		4428 "VAT under settlement"	RON 7.140

The entries previously made show that the retail price is RON 36.890 (RON 21.250 + RON 15.640).

In order to determine the profitability of the intra-Community acquisition, consider that the entire amount of goods purchased is sold on the domestic market, case in which the following accounting formula is generated:

4111 "Customers"	=	%	RON 36.890
		707 "Sale of goods purchased for resale"	RON 29.750
		4427 "Output value-added tax"	RON 7.140

- discharge from administration of the goods sold:

%	=	**371** "Goods purchased for resale"	RON 36.890
607 **"**Packaging costs**"**			RON 21.250
378 "Price differences on goods purchased for resale"			RON 8.500
4428 "VAT under settlement"			RON 7.140

At the end of the month the revenue and expense accounts are closed, together with the VAT accounts, as follows:

- revenue account closing :

707 **"**Income from sales of goods"	=	**121** "Profit (loss) for the period"	RON 29.750

- expense account closing:

121 "Profit (loss) for the period"	=	**607** **"**Packaging costs**"**	RON 21.250

- closing of VAT accounts:

4427 "Output value-added tax"	=	%	RON 12.240
		4426 "Input value-added tax"	RON 7.140
		4423 "Payable VAT"	RON 5.100

Analyzing this situation we can see that, after the completion of the intra-Community acquisition and capitalization of domestic goods, the company "A" made a *profit* amounting to RON 8.500 (final balance in hand of the account 121 "Profit and loss") to which corresponds a tax profit of RON 1.360 (RON 8.500 x 16% = RON 1.360), tax liability to be recorded quarterly, and a value added tax payable amounting to RON 7.140 (final balance in hand of the account 4423 "VAT payable").

The illustration of intra-Community acquisitions of goods can be extended, with situations where one of the conditions regarding exemption from the Community supply of goods by the company in Romania is not met, in which case the Italian company shall invoice the goods with VAT.

Considering that the purpose of this paper is to determine which acquisitions are more profitable, that is, those coming from the Community space or outside the European Union. Next we shall address the import of goods on one's own account.

3. Accounting models specific to import of goods

Based on our intended purpose, we shall consider the same example from paragraph 2, knowing that customs duties are 10% and the customs fee of 0,5% of the external price of goods, and such liabilities and the customs VAT are paid from the bank account available in RON.

This case generates the following *entries* in accounting:

- reception of imported goods (customs duty = RON 21.250 x 10% = RON 2.125 and customs fee = RON 21.250 x 0,5% = RON 106)

371 "Goods purchased for resale"	=	**%**	RON 23.481
		401 "Suppliers"	RON 21.250
		446 "Other taxes and similar liabilities" - *analytical: customs duty*	RON 2.125
		447 "Special funds - taxes and similar liabilities" - *analytical: customs fee*"	RON 106

- payment of customs duties, of customs fee and of the related VAT (value added tax = RON 23.481 x 24% = RON 5.635,44)

%	=	**5121** "Cash at bank in lei"	RON 7.866,44
446 "Other taxes and similar liabilities" - *analytical: customs duty*			RON 2.125,00
447 "Special funds - taxes and similar liabilities" - *analytical: customs fee*			RON 106,00
4426 "Input value-added tax"			RON 5.635,44

- retail price formation (consider the same price as in paragraph 2, respectively RON 36.890). The value added tax under settlement is in the amount of RON 7.140 (RON 36.890 x 24/124 = RON 7.140) and the trade mark-up amounts to RON 6.269 (RON 36.890 - RON 23.481 - RON 7.140 = RON 6.269):

371 "Goods purchased for resale"	=	**%**	RON 13.409
		378 "Price differences on goods purchased for resale"	RON 6.269
		4428 "VAT under settlement"	RON 7.140

- sale of goods on the domestic market, to customers:

4111 "Customers"	=	**%**	RON 36.890
		707 "Sale of goods purchased for resale"	RON 29.750
		4427 "Output value-added tax"	RON 7.140

- discharge from administration of the goods sold:

%	=	**371** "Goods purchased for resale"	RON 36.890
607 „ Packaging costs**"**			RON 23.480
378 „ Price differences on goods purchased for resale"			RON 6.269
4428 "VAT under settlement"			RON 7.140

- revenue account closing:

707 "Income from sales of goods"	=	**121** "Profit (loss) for the period"	RON 29.750

- expense account closing:

121 "Profit (loss) for the period"	=	**607** "Packaging costs"	RON 23.481

- closing of VAT accounts:

4427 "Output value-added tax"	=	**%**	RON 7.140
		4426 "Input value-added tax"	RON 5.100
		4423 "VAT payable"	RON 2.040

It appears that, following completion of the import of goods and their capitalization on the domestic market, company "A" makes a *profit* amounting to RON 6.269, RON 2.231 less than in the intra-Community acquisition described earlier in paragraph 2; an income tax of RON 1.003 (RON 6.269 x 16% = RON 1.003) corresponds to such profit and the value added tax payable is RON 2.040; the difference of RON 5.100 is paid when the company "A" has completed the import of goods, thus performing an immobilization of funds by paying in the customs the value added tax related to the import, tax to be recovered by the VAT return, monthly or quarterly, depending on the fiscal year related to the value added tax.

There was also paid an extra amount of RON 2.231 corresponding to the customs duty and customs fee, which reduces the amount of profit from the domestic sale of goods purchased from import.

4. Conclusions

Following the analysis performed, we may conclude that intra-Community acquisitions of goods are more profitable than imports, for the following *reasons*: the profit made from the intra-Community transactions is higher than that made from the import carried out with the equivalent value of the customs duty and customs fee; the value added tax is paid after the sale of goods, while in imports there is an immobilization of funds by paying such liability in the customs, in advance and then, on the sale of goods only the value added tax related to trade mark-up is to be paid, together with the customs duty and customs fee, mandatory for imports, leads to a decrease of cash for the importing entities, in the same time with their decrease of profit.

We believe that these advantages are enough to tilt the balance in favour of the intra-Community acquisitions of goods at the expense of imports.

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