

THE IMPACT OF ROMANIA'S ACCESSION TO THE EUROPEAN UNION ON THE ACCOUNTING AND TAX INFORMATION

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Abstract:

In the context of expansion and multiplication of international economic relations, in general, and of intra-Community commercial transactions, in particular, where the goods and capital markets are developing at a rapid pace, ignoring national boundaries, accounting systems are necessary in order to provide through annual financial statements, as synthesis statements, with comparable information between the different states of the world, regardless of the region of origin. Taking into account this need and based on the definition and valences of the Romanian accounting management in the EU accession conditions, it seemed fit to me to analyze the impact that intra-Community commercial transactions had on the tax and accounting information; such analysis will give me the opportunity of making tax and accounting proposals designed to harmonize the intra-Community tax system in terms of value added tax.

Keywords: *accounting information, tax system, value added tax, European Union, intra-Community commercial transactions*

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

1. Introduction

In today's market economy development and its increasing complexity, the economic information must develop accordingly in scope, content and efficiency so that it should be able to provide the necessary data for decision making, and the financial situation of entities and the results of the economic and financial activity should be accurately reflected. Given this goal we believe that the best use of economic information may only be achieved in an economic information system in which accounting is a basic component.

Thus, through the content itself, which combines harmoniously the abstract theory with the reality of the phenomena studied, the accounting work has an important contribution to the economy, because it provides verified information related to the financial and economic processes and phenomena developed at the entities, leaving no room to subjectivity and continually promoting rigor and accuracy in the presentation of economic information. We can not help noting that, in its evolution, accounting is characterized by phenomena aimed at ensuring transparency and comparability of the information provided by entities through annual financial statements, and such phenomena concern: standardization, harmonization, convergence and internationalization.

Consequently, we may talk about an accounting globalization, which involves changing the accounting model into a financial and economic model in order to quickly provide accurate information to users and especially to those that have helped finance the said business, such as shareholders and/or partners, third parties (suppliers, banking units, other creditors), or other users interested in the accounting information provided by entities. And as the accounting information and models are affected by taxation, the complexity of which has left its mark on the Romanian accounting system with joining the European Union, we will make proposals regarding the simplification and harmonization of the European tax system in terms of value added tax, but not

forgetting the impact that the tax proposal has on the accounting of intra-Community commercial transactions.

2. Definition and valences of the Romanian accounting management under our country's accession to the European Union

The need for quality of the financial information appeared in the United States, after the economic, financial and stock market crisis in 1929, when investors had insufficient and therefore ineffective information. In order to overcome this shortcoming, the first step was to develop financial standards imposed on companies that issued securities, and subsequently, the Financial Accounting Standards Board (FASB) formulated the accounting standard SFAC 2, which refers to the “Qualitative characteristics of accounting information”.¹

We consider it appropriate to mention that the reforms carried out at international level at the beginning of this millennium have provided the accounting with new guidelines, which aim, among others: meeting the information needs of multinational companies, validation of the accounting information in the national accounting system and the worldwide creation of a uniform system of financial indicators to be calculated and followed by all states, so that the analyzes performed should be carried out in conditions of comparability.

The economic globalization makes traditional financial information, articulated around the accounting concepts, not to meet any longer the requirements of different categories of users; the accounting principles often cause distortions deforming the economic reality and the multiplicity and diversity of accounting practices make the financial analysis approach difficult, especially in the case of a multinational company. With the globalization phenomenon, which characterizes the world economy in the last decades, financial markets become increasingly integrated, which makes the capital funding and investment lead to their internationalization as quickly as possible.

Looking from this perspective, we may estimate that the annual financial statements are the main means of communication between the entity and its shareholders and the stock exchange listing of the economic units also has a remarkable influence on their financial reports.

The accelerated globalization of capital markets imposed worldwide a unique language of financial reporting so that the entire economic system should benefit from relevant and transparent accounting information. Commenting on this reality, we believe that the solution of international regulatory bodies is welcome, proposing the preparation and presentation of annual financial statements according to common rules, by companies operating worldwide in the capital markets.

In order to achieve this goal, the convergence between the generally accepted accounting principles in the United States of America (US GAAP)² and the international accounting standards (IAS/IFRS) was provided³. Thus, by applying the IFRS, entities will adopt throughout the world a common language regarding financial reporting, that will allow them to be properly analyzed and perceived, regardless of the information users' origin, thus facilitating financial communication, which refers to the possibility of providing users with financial accounting information by means of financial statements. Referring to our country, we may note that since 1990, the accounting reform has undergone several stages, leading, over time, to significant changes in the balance sheet structure and form, as component part of the annual financial statements. If in 1991 the accounting standardization was of French inspiration and ensured the passage from a

¹ Apostol, C., Doctoral thesis summary, *Analiza diagnostic a sănătății financiare a întreprinderii pe baza bilanțului [Diagnostic Analysis of the Company's Financial Health Based on its Balance Sheet]*, “Alexandru Ioan Cuza” University, Iasi, 2009, p. 14

² GAAP - Generally Accepted Accounting Principles

³ IAS - International Accounting Standards, IFRS – International Financial Reporting Standards

system that provided information for statistical and tax purposes, primarily for the Government and its institutions, to a system providing the information needed by investors and other categories of users, starting with 2001-2002, in an attempt to join the European Union, the accounting rules have been harmonized with the European Directives and the International Accounting Standards, and from January 1, 2007 such rules are compliant with the European Directives and the International Financial Reporting Standards.

Looking from this perspective, please note that the accounting harmonization aimed at continuously improving the national accounting rules, standards, methods and terminology so that they should become compatible and comparable to those existing at international level, in order to give the same interpretation of the events and transactions taking place, through total or partial application of some common rules. However, the accounting convergence process must also include, in addition to developing common standards, the issue of common interpretations by the collaboration of various regulatory bodies in order to give similar solutions for specific cases.

In general, in our country, accounting was regulated in order to meet the main objective always oriented toward predominant provision of information to a single user, namely the State, through its representatives, Tax Administration and Government. Thus, while the Europeans have accepted very hard the standardization imposed by adopting IAS and/or IFRS, only for the entities listed in the consolidated accounts, Romania took over these international rules, at least at the regulatory level.

In this context, the two categories of rules, tax and accounting, are permanently conflicting, so it was necessary to reconcile accounting, as represented of the entity's interest, subject to true image and taxation, which reflected the interests of the state, which is why we believe that a stronger involvement of accounting and tax professional bodies would be required in the global, European and national regulatory processes, so that the objectives of both components may be achieved, without mutual influences or pollution and the accounting model should be intended with priority to domestic and foreign investors. However, the Romanian accounting system is dedicated to meeting the requirements of tax authorities for taxes and to assessing the entities' business in the context of the macroeconomic policy of the state, without forgetting the banking system which encourages conservative and prudent accounting practices, considering the fact that banks provide the main funding source of economic units. If we focus attention on the accounting globalization, we can not help noting that both in the European Union and worldwide, the current trend is characterized by increasing trends of international accounting standardization and harmonization and national accounting deregulation, so that national accounting standardization goes from a predominantly or exclusively public approach to a private or mixed approach. Deregulation is represented by the fact that the European and international accounting rules formalize the principles underlying the assessment, the rules and conventions appropriate for the accounting recording, preparation and presentation of annual financial statements.⁴

Accordingly, we state that the main reasons for the Romanian accounting reform may be reduced to the attraction of foreign investors, who needed relevant and reliable information, comparable with that of other entities and to our country's integration into the European Union, which required changes in the accounting system, from harmonization to convergence and then standardization, especially since EU countries have resorted to implementing an accounting system based on international accounting standards for most entities and not for a limited number, listed on the stock exchange. However, we believe that in order to ensure full convergence, the accounting rules

⁴ Pop, R.V., Doctoral thesis summary, *Contabilitatea și fiscalitatea între dependență și deconectare [Accounting and Taxation between Dependency and Disconnection]*, "Babeș Bolyai" University, Cluj-Napoca, 2010, p. 19

should break away from the tax rules, both at the regulatory and practical level, and the European or international standards should take into account the economic and financial features of our country.

3. The overall impact of Romania's accession to the European Union on the accounting information

The expansion and multiplication of international economic relations require accounting systems that would ensure through annual financial statements, as synthesis statements, namely through their components: balance sheet, profit and loss account, cash flow statement, statement of changes in equity and explanatory notes, comparable information between different states of the world, regardless of the region of origin.

Thus, the economic globalization and implicitly the accounting globalization that characterizes the entire business environment, has led to understanding and comparing financial information from corporations in different countries. Especially if the entity wants to be listed on international financial markets, the reporting of financial and economic information is an extremely difficult task, requiring the need for a unique global accounting language. At national level, the accounting systems of various countries of the world do nothing but implement the legislative provisions of various national accounting models, which often give different interpretations of the same events or transactions. In terms of our country's accession to the European Union, we can say that Romania had to adopt the European legislation as faithfully as possible, even in accounting, by harmonizing and then aligning to the international accounting regulations within the Community. In this context, improving the quality of financial reporting was noted as a key component of sustainable economic development in Romania and not only, so that through the transition to IFRS, companies have adopted a global financial reporting language that allows them to be properly perceived, regardless of the users' origin. Therefore, communication in a unique language provides a higher level of trust and increases opportunities for access to capital markets, thus allowing multinational groups to apply accounting principles common to all branches, regardless of the state in which they operate, which may optimize the internal relations and the quality of the information submitted to the management.

To enable the application of IFRS within the European Union, the European directives have been constantly revised and improved so that they are compatible with the international reference frame. However, refinements and improvements are still necessary for better compatibility of the European Directives⁵ with IFRS, so that we believe that the European Union should rather adopt a set of international accounting standards only for the Community area, with the role of ensuring uniform and high quality information on the EU financial markets, that would enhance the overall efficiency of the market, reducing from this perspective the cost of access to capital for European companies.

Because the tax rules apply in accounting, leading to misinformation or insufficient information of users, except the state, we think it is necessary to disconnect the process of standardization and regulation of tax accounting, both institutionally and methodologically; such goal may be achieved through the application of IFRS by all entities and not by a narrow group, standards that ignore the accounts and correspondence between them, not because they are not considered important, but because what matters is the set of financial statements and the manner of structuring the corresponding information and less the technique which led to these elements.

⁵ The 4th Directive of the European Economic Communities 78/660/EEC of 25.07.1978 concerning the annual accounts of certain types of companies, published in the Official Journal of the European Union no. L 222/14.08.1978, as further amended and supplemented and the Seventh Directive of the European Economic Community 83/349/EEC of 13.6.1983 on consolidated accounts, published in the Official Journal of the European Union no. L 193/18.07.1983, as further amended and supplemented

Romania, as a Member State of the European Union was and is permanently connected to the dynamics and developments of the accounting European regulations and directives, which are experiencing a closeness to the International Financial Reporting Standards, which is reflected both in the state of implementation of the Fourth Directive of the European Economic Community and in the approval of IAS and IFRS. Even if, as of 01.01.2010, in our country are applied the provisions of the Ministry of Public Finance Order no. 3055/2009, approving accounting regulations harmonized with the European directives, this legislative act contains elements common to the international reference frame, but does not exceed the frame established by the Fourth Directive. We can not help noting that the accounting legislation in our country includes elements positioned both in the continental accounting system, represented by France and elements corresponding to the Anglo-Saxon system, whose exponent is the United Kingdom, the solution of the mix between the two accounting reference frames is preserved in the accounting regulations harmonized with the European directives, but in a form changed by the modernization of the Fourth Directive and by the approval of the International Accounting and the Financial Reporting Standards. At this stage, the accounting rules do not contain references to IFRS, motivation which does not enable the financial information provider to choose, when the national accounting regulations consistent with the European directives do not prescribe an accounting treatment.⁶

Thus, the main standardizer, the Ministry of Finance, which has the attribute of tax regulation passed from one extreme to another, that is from extensive application of IFRS to their limited application, only by the entities listed on capital markets. We believe that at present, accounting developments should be marked by alternative application of IFRS, optional at the accounting regulations consistent with the European directives for preparing a single set of financial information, providing users with access to data unaltered by the tax rules, with positive effects on the market of accounting on financial information.

4. Proposals with regard to the harmonization of the European tax system in terms of the value added tax

Given the complex nature of taxation of intra-Community transactions of goods, *we believe that the current tax system should be simplified*, so that the analysis of supplies and acquisitions made between entities belonging to different Member States should be accessible both to specialists in economics, that will determine the correct amount of tax liabilities and also be able to produce accounting models specific to these transactions, and to specialized bodies of the state, which should easily check the accuracy of operations performed by the company, without giving rise to interpretations. Starting from this consideration, *we propose a unified tax system across the European Union, in terms of value added tax, with the same level of the standard rate, low or very low, while the adjustment of budgetary revenues of countries belonging to the Community area should be achieved by the other categories of taxes, whose size is established according to the budgetary objectives of each government in the Member States.*

Similarly, *we propose the elimination of the threshold for distance selling and of that for the intra-Community transactions of goods carried out by non-taxable persons belonging, as appropriate, to the “Group of 3” in our country, or to the “Group of 4” in other Member States*, and then the people will be registered or not for value added tax in every country in the Community area, for the same turnover threshold, regardless of whether the supplies are made by entities in the country or in

⁶ Damian, S., Doctoral thesis summary, *Evoluția contabilității în perioada de tranziție a economiei românești, [Evolution of Accounting in the Transition Period of the Romanian Economy]* “Babes Bolyai” University, Cluj-Napoca, 2011, p. 18

the European Union. We believe that in order to fight tax evasion in such operations, ***the Register of Intra-Community Operators*** should be maintained and also should the conditions for tax exemption for the supplies made in the Community area, which refer to the registration of both entities for value added tax, upon communication of the valid tax code by the purchaser and against proof of transport, and we consider that such conditions should be also extended over the sales of new means of transport and excise goods.

We believe that the ***Recapitulative statement concerning the intra-Community deliveries/acquisitions/provisions of goods should be still filled in, but its format should be modified so as to be compatible with the content of the Intrastat Statistical Declaration***, to be filled in those entities that exceed a certain value threshold of the intra-Community purchases and deliveries of goods; such limit is established annually and is published in the Official Journal of Romania, so that there should be comprehensive data on the intra-Community commercial transactions of goods, both as value and quantitative volume; such information makes it possible to know the international trades of each Member State and is used to calculate the macroeconomic indicators that highlight the country's economic and social development, data to be used for substantiation of the Community policies in various fields (trade, monetary policies, etc.).⁷

Therefore, the application of these proposals would lead to simplification of the European Union's tax system on the value added tax, meaning that the intra-Community supplies of goods, which qualify for exemption, are invoiced without VAT, as in the case of exports and those that do not meet these requirements are invoiced as supplies in the national territorial space, with the value added tax. Referring to the intra-Community acquisitions of goods, please note that when they are invoiced by the Community partner without VAT because the conditions for exemption are met, they involve for the buyer in our country an obligation to pay the value added tax which is achieved by reverse charge mechanism, through the tax return, with no cash impact on the entity, and when the purchases are invoiced with VAT by the Community vendor, the entity from Romania will pay the fee invoiced by the partner and, where applicable, will pay the fee through the tax return, if registered for value added tax or has no more tax liabilities in terms of the value added tax, in the event it is a taxable person. And as a possible tax union, which would also imply strong control over the national budgets of the countries belonging to the European Union is more difficult to achieve, we believe viable the proposal for harmonization of the tax system in terms of value added tax in the Community states.

5. Impact of the tax proposal on the accounting of intra-Community transactions

Based on the proposal for harmonization of the European Union tax system in terms of value added tax and taking into account the influence that taxation, as we noted, has on the accounting models and techniques regarding the intra-Community transactions of goods, we will present below the accounting methodology specific for the Community trades, corresponding to the tax solutions previously described.

In this context, ***the intra-Community supplies of goods made by an entity from Romania to a company in the Community area***, both taxable persons registered for value added tax, for which there is evidence of transport of goods from one State to another Member State and the customer provided the supplier with its valid registration code for value added tax, shall generate the following accounting formula in the accounts:

⁷ The Intrastat thresholds set for 2012 amount to RON 300,000.00 for intra-Community inputs and to RON 900,000.00 for intra-Community dispatches

4111 "Customers"	*	707 "Income from sales of goods"
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Please note that the sales of goods to other entities belonging to the European Union Member States are reflected in the same way, supplies made by companies in our country that are not registered for value added tax.

If one of the three conditions is not met and the supplier is a taxable person paying the value added tax, then the supply will be invoiced with the tax rate in our country and the following accounting records shall be made:

4111 "Customers"	=	%
		707 "Income from sales of goods"
		4427 "Output value-added tax"

Referring to the *intra-Community acquisitions of goods made in the Community area by entities in our country*, in terms of the tax proposals, please note that if the three conditions for exemption are met, then the seller will invoice the delivered goods without value added tax and the purchaser in Romania will record the intra-Community acquisition as follows:

371 "Goods purchased for resale"	*	401 "Suppliers"
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Simultaneously, the reverse charge mechanism highlights the value-added tax for the intra-Community acquisition, which does not require financial resources for payment, as the payment is made through the tax return, and it is both input and output tax:

4426 "Input value-added tax"	*	4427 "Output value-added tax"
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Please note that these accounting records shall also apply if the goods are purchased by an entity in our country paying value added tax from a company in another Member State, not paying this tax liability.

If, this time, the supplier is registered for value added tax and the customer from Romania is non-taxable, then the seller invoices the goods delivered from another Community state with value added tax and the purchaser registers the acquisition using the first accounting formula, provided that the value of the goods (account 371 "Goods purchased for resale") should also include the amount representing the value added tax invoiced. The same applies when either of the last two conditions on the exemption of intra-Community supplies is not complied with, and the seller invoices the goods with VAT, which is why the customer from our country is required to reflect the debt to the general consolidated budget and pay the value added tax invoiced that becomes revenue in the state budget in the supplier's country.

6. Conclusions

Based on the complexity of taxation of intra-Community commercial transactions of goods, *we believe that the current tax system should be simplified*, so that the analysis of supplies and acquisitions made between entities belonging to different Member States should be accessible both to specialists in economics, that will determine the correct amount of tax liabilities and also be able to produce accounting models specific to these transactions, and to specialized bodies of the state, which

should easily check the accuracy of operations performed by the company, without giving rise to interpretations.

In this context, *we propose a unified tax system across the European Union, in terms of value added tax, with the same level of the standard rate, low or very low, while the adjustment of budgetary revenues of countries belonging to the Community area should be achieved by the other categories of taxes, whose size is established according to the budgetary objectives of each government in the Member States, proposal that we consider viable as opposed to a possible tax union, which would also imply strong control over the national budgets of the countries belonging to the European Union and which we believe is more difficult to achieve.* Consequently, if the tax system applicable to the European Union Member States is standardized in terms of the value added, then the *accounting methodology is also simplified*, meaning that the accounting models for intra-Community deliveries of goods are similar to the sales made on the national territory and to those regarding exports outside the Community area, and the acquisitions generate accounting formulas similar to the purchases from the Romanian space, but with some differences, as we have noticed, resulting from the special tax treatment.

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