



TAX ON PROFIT – OBJECTIVE OR NECESSITY?!

Roxana IONESCU

UCDC Faculty of Tourism and Commercial Management Bucharest, Romania, E-mail: roxy.ionescu@yahoo.ro

Abstract: *Profit is today one of the most pursued objectives of a business activity. A company is established in order to obtain profit from the activity that it develops. Profit is indirectly the state policy goal because it should encourage traders to make profits through tax measures or grants.*

Key words:

Profit, profitability, efficiency, gross result

JEL Codes:

K4, M21

1. Introduction

Any economic agent that develops an activity gets at the end a result. This result can be positive or negative. Profit is the positive outcome of an economic agent, and its loss is the negative result. Through the activities they carry out, the economic operator has the mainly purpose to obtain profit. It is then taxed by the state, the main tax that economic agents must pay and being called the profit tax. In Romania the profit tax occupies an important role in the tax reform, both in terms of its contribution to the formation of the budget revenues and profits by influencing activities that have profit. The state needs the budget revenues because only thus can meet the social needs of the society and ensure a high degree of economic development. Domestic public resources can come in varying degrees, from the public, private or population sector. Profit is the main source of attracting the budget revenues. In this regard, the decision makers can promote either a financial policy that treats identically all economic agents, regardless of the ownership, that equal the pays, where the financial contribution is identical or preferential financial policies that favor some form of property on the basis of differentiation of the contribution by ownership, size entity, branch to which it belongs, the geographical area where it is located, etc.

An economic profit is composed of normal or ordinary income and in some cases over profit or monopoly profits. Normal or ordinary profit is what is done in terms of competition. In the absence of competing businesses over profit or additional profit

obtained, which does not reflect the real economic and financial situation of the company.

2. Fiscal rules regarding profit tax

In Romania, the method of collecting, calculating, paying income tax and destination of the tax are determined by Law no. 571/2003 regarding the Fiscal Code, as amended and supplemented. It provides taxpayers who are liable to pay the income tax.

a) Taxpayers – The taxpayers of profit tax are:

- Romanian legal entities;
- Foreign legal entities - carrying out activities through a permanent establishment in Romania;
- Foreign legal entities and non-resident individuals operating in Romania in association with or without legal personality;
- Foreign legal entities deriving income from immovable property located in Romania or from the sale of shares held by a Romanian legal person;
- Resident individuals associated with Romanian legal entities for income both in Romania and abroad from associations without legal personality.

b) Determine the tax base

The tax base is determined by the direct participation of the taxpayer, who is obliged to keep records of income and expenses incurred for the work they perform, prepare a fiscal balance and submit to the fiscal authorities a specific statement, showing revenue and profit covered by taxation. Based on the evidence received, the tax authorities determine the size of

taxable material, making use of the presumption of sincerity of the taxpayers. Although it has the widest applicability, this method of assessment of taxable matter the disadvantage that makes it possible to avoid a part of the taxable matter by making insincere statements.

c) The determination of the amount of tax involves the:

- person making the calculation (as taxpayer or tax authority);
- tax rate;
- reductions and increases granted;
- a process of calculating.

With few exceptions, the tax rates on income are determine as a percentage and is a manifestation of personalization tax. The tax practice can use either a general tax rate or a standard rate and a number of its upper or lower rates or an additional share to the standard rate, depending on the specific objectives of the fiscal policy. Specify the calculation process involves choosing between the processes of imposing proportionate of simple or compound progressiveness.

Profit is the positive outcome of an economic agent and can be of several types:

- accounting profit – the gross result of the financial statements is the remaining part of the total income that the entrepreneur returns after all expenses have been decreased from the income. It is represented by the difference between the operating income, financial expenses and the extraordinary amount of operational, financial and extraordinary expenses.

The *turnover* represents the main part of the operating revenue and the results for the turnover are the most important components of the result of exploitation. So, to increase profits, it is not enough only an increase in turnover, but it must be considered the costs associated with this increase in turnover. It should be noted that this kind of analysis is particularly useful for managers and companies and less to external users.

- taxable profit - represents the difference between the revenues and the expenses on the income, excluding non-deductible expenses. It also represents the basis for the calculation, recalculation and adjustment of corporation tax to the state budget

Taxable profit = total revenue - total expenses - non-taxable income + non-deductible expenses

For the *fiscal year 2014*, the tax rate is set at 16%. The method of calculation is determined by the implementing rules regarding the Fiscal Code and involves, first, the determining of taxable profit.

The income tax is calculated by applying the taxpayer the legally established tax on taxable income determined on the base of the rates submitted monthly in the accounting. When determining the taxable profit, which differs from the accounting one, the applicable tax rate is of 16%.

Profit tax = 16% *taxable profit

There are certain exceptions for operators with activities such as: nature night bars, discotheques, casinos or sports betting, including the legal persons carrying out such income under a contract of association, and when the tax due is less than 5% from the revenues they are required to pay a tax to 5% of these revenues recorded.

According to the calculation method chosen, after applying the base tax rate we obtain the amount of tax levy. For some activities can operate either reductions or increases. After applying these cuts or legal penalties, it is determined the final amount of income tax payable.

- *net profit* – is the profit of the economic agent, after having paid the profit tax. It remains to the company to be distributed as intended, calculated as the difference between gross profit (and potential) and the profit tax can be used to create reserves, provisions to make new investments and provide dividends to shareholders. In the reinvestment of profits, on April 23, 2014 it was issued the Ordinance amending art. 192 of Law no. 571/2003 regarding the Fiscal Code, which exempts entirely the reinvested earnings (in technological equipments) from tax. The exemption is calculated quarterly or annually and takes into account the accounting profit recorded on July 1, 2014.

d) Levying taxes is the last operation of the tax collection.

After the determination of the tax, the tax authorities should notify the taxpayers and the tax payable to the state and its payment terms and then go to his collection.

The tax due according to the tax return (filed quarterly Statement 100 and Statement 101 deposited at the end of) the annual financial statements prepared under shall be governed by detailed rules approved by

order of the National Agency for Fiscal Administration (according to Table 1).

Table 1. Income tax on the categories of taxpayers

Profit tax	Legal base	Tax level	Taxpayers
Income tax payable by Romanian legal entities and permanent establishments	Law no. 571/2003 regarding the Fiscal Code, as amended and supplemented, Title II, Article 13 - 18	16% cf. art.17; exemption under Article 15	Romanian legal persons and foreign legal entity which carries on through a permanent establishment / more permanent
Income tax payable by Romanian legal entities and permanent establishments for activities such as night bars, night clubs, discos, casinos or sports betting, including the activities of this nature carried out under a contract of association	Law no. 571/2003 regarding the Fiscal Code, as amended and supplemented, Title II, Article 13 - 18	a) 16% cf. art.17; b) 5% of Revenues from these activities if the tax due is less than 5% on such income, cf. art.18, para. (1)	Romanian legal persons and foreign legal entity which carries on through a permanent establishment / more permanent
Income tax payable by individuals from association	Law no. 571/2003 regarding the Fiscal Code, as amended and supplemented, Title II, Article 13 - 18	16% cf. art. 17	Resident individuals associated with Romanian legal persons

Source: National Authority of Fiscal Administration

The payment method of the income tax is by bank transfer, money order, postal order, cash deposit sheet with receipt or online or directly from the Treasury of the tax authority where the permanent establishment is registered.

Payment term: quarterly by the 25th of the first month following the first three quarters, for the fourth quarter - March 25.

3. The impact of profit on the activity of an enterprise and the economy

Profit is intended to determine the need for pay equity, constitute self-financing funds and ones offered to employees. The companies established profit by product, by group product, by company subsidiaries or other items.

Profit maximization is the premise of achieving the strategic objective, the perspective of any company.

Profit permits the identification of resources and business development opportunities. Therefore, static analysis is not enough to be compared with indicators calculated in the previous period based on the results of

the analyzed company or companies of similar size and similar activities.

In contemporary economic theory there is a division of opinion regarding the definition of profit, representing the pecuniary advantage as a result of an action, operation or economic activity.

There are many indicators of measuring the profit.

- The ability of a trader to profit is called return. Return can be assessed in terms of absolute and relative aspects. Profitability is measured by the ratio of the results and the means used to obtain them. The results can be reflected as accounting, economic and financial rates.
- Profit rate is the ratio between the mass of profit and turnover (or capital costs) by comparison basis we want. The necessary condition to obtain a maximum profit is the marginal return of each factor to match its price. In addition, a sufficient condition is that the profit maximization, the optimal marginal returns are decreasing factors.

Table no.2. Economic and financial indicators of enterprises
 In the period 2010-2012 (million lei)

Indicator	2010	2011	2012
Turnover	900.240	1.001.627	1.056.162
Gross Investments	91.520	142.796	119.940
Gross result of financial exercise	5.582	15.524	19.446
Profit rate	0,62	1,54	1,84

Source: National Institute of Statistic

The indicators in table no. 1 refer to the total number of enterprises operating in this industry, trade and market services. One can notice an increase in turnover, investment and including the gross income of the year. Profit rate also recorded a substantial increase in 2012 compared with 2010.

The operations for quantify the action components of the net profit will be made using the balance method. It is necessary to mention that in the case of net profit and gross profit for the total activity of the company, the utility of factorial analysis (as opposed to the structural analysis model) is that it allows to highlight on a mathematical basis, the direct contribution which it exercises over the net or gross profit of the total activity of enterprises, the economic efficiency of the expenses made. Focusing on the line of this quality factor it is an essential condition for growth in a more intense increase of the rate of return of the total activity of the company - the rate of return being as stressed, the most cogent summary indicator of economic efficiency final evolution of the business enterprise.

Profits from the basic business and other activities can be influenced by:

- the achieved investments or the ones in progress
- dividends and interest earned from the purchase of shares and obligations of other companies;
- sale of packaging and other intangible assets;
- fines and penalties;
- cancellation of orders;
- surplus of inventory;
- financial incomes;
- losses from natural disasters;
- reduce debt etc.

4. Conclusions

Full exemption from tax of profits reinvested (in the technological equipment) is a method of tax cuts according to which the Ministry of Finance aims to stimulate business investment and domestic demand.

This will have a significant budgetary impact because it will increase the revenue raised from the state budget.

Profit has the following functions:

- is a synthetic indicator for assessing the efficiency of the economic activity;
- is a mean of attracting the economic agents
- is an instrument of control over the output, distribution and taxation
- stimulate the initiative and acceptance of risk from those who aim to make a profit.
- Profit should stimulate the economic agents in achieving the production schedule, quality improvement and diversification. The ways to increase profits are:
 - reducing the cost of production without affecting the production
 - coordinate the stock price level, i.e. in case the stock price increases that can increase profits and production volume
 - increasing the volume of marketed production and services
 - improve the product quality and service

As the profit earned is greater the higher is the level of profitability. The level of profitability depends on the domestic economic activity, on the relations with the external environment and the attitude to adapt to market requirements.

The net profit remained in the company is used under statute and under the law. It can be used for the use of new production techniques, equipment modernization, and technical re-equipment, the creation of new enterprises (branches) in order to increase the quality of products and services, the number of customers, revenues and in the future profits of the enterprise.

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