

Tax reform 2018 – What lies ahead?

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The Romanian government's current tax plans have been heavily discussed for several months, as they could add significantly to the cost of doing business. There are two tax topics that are exciting particular interest:

- the scope of Split VAT
- the shift of almost all social security contributions to the employee

Directive for Split VAT: changed before coming into force

The Split-VAT rule (using separate accounts for all VAT transactions) was introduced¹ by September and was planned to be in force from 2018 on. The associated problems prompted intense discussions; eventually, at the end of October, the senate made a change to the scope of the new directive.

As a result, the current proposal provides a mandatory application only for companies that

- list VAT arrears by the end of 2017,
- have VAT arrears older than 30 days by 1st January 2018, or
- are subjected to regulations of the insolvency law

VAT arrears that lead to a mandatory application of the Split-VAT are 1,500 RON for large taxpayers, 1,000 RON for medium sized taxpayers, 500 RON for small taxpayers, and 100 RON for natural persons. Existing instalment payments are exempt.

Companies that choose to use the Split-VAT can tell the tax authorities that they opt for that. But please note that despite the reduced scope of the VAT Split, all companies (whether or not they are registered for VAT) must, nevertheless, make separate payments of VAT to suppliers which apply the Split-VAT. Making a payment to an account other than the VAT account will be considered an administrative offence, and if not corrected within 30 days, will incur a fine.

Planned changes subject to payroll tax and social security contributions

The Government has also announced to shift the obligation to pay social security contributions almost entirely to the employee, together with a change in payroll deductions. At the moment the contributions for pension and health insurance are paid jointly by the employer (ER) and the employee (EE).

According to the draft law, as of 1st January 2018, all contributions should be paid by the EE; the ER should just pay a small work insurance contribution.

¹ Ordinance 23/2017

The following contributions will be determined and withheld from the gross salary:

- Pension insurance (paid only by the EE): 25% (normal work conditions); increased by 4%, or by 8% for special or difficult working conditions;
- Health insurance (paid only by the EE): 10% of gross salary;
- Work insurance contribution (paid by the ER): 2.25% of gross salary;
- In parallel, income tax will be lowered to 10%;

As of 2018, the exemption limit for personal deductions for employees will be increased from 3,000 to 3,600 RON.

Examples and implications:

The transfer of social security contributions from the ER to the EE requires an increase of gross salary to adjust for the cost of the social security contributions. Companies are very worried about an increase of total cost for the respective employment relationship.

However, the following illustrative calculation (for a gross salary of 11,000 RON in 2017) shows that maintaining the net salary through raising the gross salary does **not** affect the total costs of the ER.

	2017	2018
Net salary	7,714	7,714
Contributions EE	1,816	4,615
Payroll tax	1,470	857
Gross salary	11,000	13,186
Contributions ER	2,544	297
Total cost	13,544	13,483

EE get no advantages if the net salary is unchanged, which raises the question of the sense of this plan.

Conclusion

The business sector is demanding that the Split VAT rule will only be enforced in the new suggested form; the first draft, aimed at all VAT-registered companies, seemed very difficult to manage. But legislators have not yet finished their discussions.

These all-too frequent changes of plan are to the detriment of legal certainty and predictability. Despite the protests (from companies as well as from trade unions) over this change in payroll deductions (for instance, the reduction of income tax to 10% could lead to a displacement effect between national and municipal levels) – the amendment has been adopted on 8th of November 2017.

All problems with the practical implementation are not yet predictable.

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