ASPECTS REGARDING THE ACCOUNTING AND TAX FEATURES OF CORPORATE TAX – IAS 12

Veronica GROSU, veronicag@seap.usv.ro,
Ana UNGUREAN,
Camelia IAȚCU,
Stefan cel Mare University of Suceava, Romania

Abstract. *The purpose of this paper is to analyze the turnover of large companies in Romania as compared to autohtone companies, as well as the accounting and tax peculiarities regarding the profit tax in terms of the IAS 12 standard, but also by the national accounting and fiscal legislation. The International Accounting Standard IAS 12, in addition to the issue of corporate tax, also seeks to analyze the deferred tax assets and liabilities. We will also highlight key concepts and show why large companies have fiscal paradises..*

Keywords*: corporate income tax, IAS 12, taxe code, offshore, turnover, profit*
JEL*: M 41*

Introduction

The term "profit" comes from Latin, from the verb "proficere" which means "to progress", "to produce results" and then acquire the meaning of "bring profit". Profit is considered as income or a form of income, it is also identified with the notion of "benefit".

All profit-making economic units organize and operate for profit, being the only source of their development. With the help of profit, the performance of an enterprise is measured, obtaining it ensures continuity of activity. Therefore, the highest priority of an economic agent must be to obtain profit. "Profiting is also important because its level stimulates business development, awakens the interest of those who want to invest, directs capital to attractive branches, develops entrepreneurship to more and more people, is a basic source of funds to support social action - cultural and other, is a true barometer for the firm, indicating not only efficiency in general but every stage in the life of the company, thus allowing for profound comparisons and analysis of the company's profitability. "

Therefore, all companies, regardless of their size or form, can not develop or progress unless they make profit.

According to the law, the economic agents owe the state the tax on profit from the obtained profit.

Income tax is applied as follows:

a) In the case of Romanian legal persons, of foreign legal persons having the place of effective management in Romania, as well as of legal persons having their registered office in Romania, established according to the European legislation, on the taxable profit obtained from any source, both from abroad and abroad;

b) In the case of foreign legal persons carrying out activity through a permanent establishment / several permanent establishments in Romania, on the taxable profit attributable to the permanent establishment, respectively on the taxable profit at the level of the permanent office designated to fulfill the tax obligations;

In view of these aspects, I believe that it is necessary to know the provisions of the International Accounting Standards and that is why I have proposed in this article to present some of the most important differences between the national regulations and the international reference on the profit tax side:

1. Foreign capital vs. Local capital in Romanian companies?

Manaila (2003) thinks that in order to assess the impact of local capital in the Romanian economy, the best indicator is the share in the total turnover of companies in Romania, companies with Romanian private capital.

The 423,000 companies with Romanian private capital had a turnover of 509 billion in the Commerce Registry in 2014, or 47% of the total turnover of the companies registered in Romania. Foreign companies with higher turnover, which had a turnover of 536 billion in 2014, which means a 49% share. As a result, the turnover of a foreign enterprise of 14 million is more than 12 times the average turnover of an enterprise with local capital of 1.2 million. The difference is also due to the fact that foreign-owned enterprises operate in industry and those with Romanian private capital in services (commerce, hotels, restaurants). The difference is also due to the fact that foreign-owned enterprises operate in industry and those with Romanian private capital in services (commerce, hotels, restaurants). The largest modern trading networks managed to achieve in Romania last year cumulated profits of 321 million euros, up 15% over the previous year, with a cumulated turnover of more than 10 billion euros, up 10% compared to 2015, according to the financial balance sheets submitted to the Ministry of Finance, reported by News.ro. Kaufland Romania, which has reached a network of 115 hypermarkets, registered a turnover of 9.69 billion (2.13 billion euros) last year, up 5.6% from 2015, according to data submitted by company. According to data published on the website of the Ministry of Finance, the retailer registered a profit of 653 million (145 million euros), up 0.67% over the previous year. The German Kaufland Group has entered the Romanian market since 2005. Kaufland last year had an average of 14,070 employees in Romania, 6% above the average of 2015, being one of the largest employers in the country.

The second position of the podium is occupied by the French Carrefour, who increased their sales by 10% in Romania to almost 5.6 billion (1.26 billion euros). Net profit also increased by 28.5% to 164 million (36.4 million euros). The company has over 9,100 employees. The French retail group Carrefour reached a network of 298 stores in Romania at the end of 2016, of which 32 hypermarkets, 213 supermarkets and 53 proximity stores. In 2016, Carrefour integrated the Billa network in Romania, following the acquisition.

Carrefour announced at the end of December 2015 that it has signed an agreement with the Rewe Group for the acquisition of Billa Romania with a network of 86 supermarkets nationwide. The third top retailer is Lidl, which in 2016 reached a turnover of 5.57 billion (1.24 billion euros) in Romania, up 18% from 2015. The German retailer of the type discount, which reached a network of 200 stores in 2016, increased its profit by 26.6% to 217 million (48.3 million euros). The retailer had more than 4,200 employees in 2016. Lidl & Schwarz, who owns the largest discount network in Europe, Lidl rebranded all 107 stores picked up in 2010 from Plus and opened in a single day - October 6, 2011, 11 new stores in Romania. After 2015, Auchan made a profit after two years of losses, and in 2016 the retailer lost his losses. Thus, last year, the Auchan french lost about 24 million (5.3 million euros) in Romania. On the other hand, the turnover increased by 10% to ROL 4.89 billion (over 1 billion euros). The retailer completed in 2014 the largest retail deal, namely the acquisition of the 20 Real hypermarkets, the German Metro Group.

In present in Romania since 2006, Auchan has reached a network of 33 hypermarkets. Auchan Romania has in its portfolio 33 hypermarkets, with 280,000 square meters of net sales area. The retailer has about 10,000 employees in Romania.

And Metro Cash & Carry, which addresses resellers, posted profit last year. The first international retailer to enter Romania more than 20 years ago reported a triple profit versus 2015, reaching 103 million lei (22.9 million euros) in 2016, with a turnover of 4.35 billion (968 million euros). The Germans had over 4,100 employees in Romania in 2016.

But the biggest increase in turnover was Profi. The retailer ended 2016 with revenues of more than 3.5 billion (788 million euros), almost 40% higher than in 2015, and a net profit of 126 million (28.1 million euros), double the year previous. With stores in 308 locations and nearly 12,000 employees, Profi is the modern retail network with the largest geographic expansion in Romania.

As for the domestic companies, the first Romanian business is Dedeman, which owns the brothers Adrian and Dragos Paval. Coface's top score of financial data from 2014 and 2015, when

DIY's turnover rose to 973 million euros. In 2016, data on the website of the Ministry of Finance shows that Dedeman has exceeded its turnover of 1.17 billion euros, and the net profit reached 158 million euros. Thus the two brothers from Bacau became the richest Romanians in terms of the results obtained by the company.

Dedeman has expanded at a fast pace with 13 stores in 2008 and now has 42 stores with 400 million euros. With over 9,200 employees, Dedeman is the largest employer in Romania among the companies with capital 100% native. The second Romanian to enter this top is Augustin Oancea, who owns the energy empire Tinmar Ind. According to Coface, it registered a 23% increase in turnover in 2015 when it reached 663 million lei. In 2016, the balances of companies owned by Oancea show that the turnover has risen to 973 million, but it still fails to exceed the billions of euros as Augustin Oancea proposed. The energy and fuel companies owned by the businessman in Prague continue to see the trend of growth in recent years.

Surprisingly, Zoltan Teszari, the shareholder of the largest TV and data provider RCS & RDS, is ranked third among the top Romanians in this ranking with a turnover of 596 million euros in 2015 and 732.3 million euros in 2016, but rising constantly in recent years.

The biggest surprise of this top is certainly Altex Romania SRL, the biggest player on the local electro-IT market, owned by Dan Ostahie. Coface data shows two years of growth and a turnover peak in 2016 of 433 million. Year 2016 was the best year in the company's 25-year history after business grew by 40% to over 610 million euros in a 10% market. Between 2011 and 2016, the company's business tripled. In the case of discreet businessman Alin Niculae, who owns the Oscar Downstream oil distribution company, we are talking about the third year of a slight decline in business. Thus, from 420 million euros in 2014, Alin Niculae's affairs have fallen to 390 million euros since 2015 and 381.6 million euros in 2016.

The last big Romanian business present in the top 500 largest companies in CEE and one of the first businesses set up in post-December Romania is Farmexim's distributor of medicines, owned by Ovidiu Buluc. In over 26 years of existence, Farmexim has grown steadily. Little by little, it has reached 390 million euros in 2015 and 402.48 million euros in 2016. The drug distributor ranked third in the market square is in advanced sales negotiations with the German retail giant, distribution and Phoenix farm services.

2. Tax havens and offshore companies

The autor Vacarel said that particular state is a tax haven if, through its tax law, it favors the opening of offshore companies to operate commercially outside the country. There are approximately 70 tax pays in the world. Some, after disappearing, as in the case of Lebanon, are reborn from their ashes. Others, as it is with Switzerland, are on the verge of extinction or have recently disappeared, like Hong Kong. At the same time, new places are born in other places. Hot topic by excellence, tax havens are sometimes "a shotgun" and well-known by tourists: Andorra, seducing once more, Austria is famous for its banking secrecy, without forgetting Monaco or Gibraltar. Others are also true vacation paradises: The Caribbean Archipelago counts a large number of states with privileged taxation, the Caïms islands have a bank for every 60 inhabitants, and the Cook Islands make them dream about the bankers.

Tax havens can be classified into three categories, depending on their taxation system. Countries where income earned abroad is fully exempt from corporation tax, paying a fixed annual fee - the Virgin Islands, Belize, etc.

In other countries, the tax base is not the realized profit, but the value of the share capital. For example, the "Stiftung" offshore company registered in Lichtenstein owes a tax equal to 0.1% of the share capital, but not less than 1000 Swiss francs.

Linear taxation - regardless of the value of the realized profit, a fixed percentage is required. The most common tax haven that uses this system is Cyprus, where offshore firms pay a 4.25% tax on their profits.

In conclusion, tax havens can be used to make big profits for the protection of goods and to get rid of too many taxes.

The tendency to look for horses and ways to reduce taxes has probably manifested itself since they were invented. There are many ways to reduce the tax due, but by far the most effective method and the highest degree of legality of "fighting" with taxation is the Offshore Company.

The offshore company does not carry out commercial activity in the country in which it was registered, so it does not earn income from the country of residence but only from other countries. The concepts of offshore tax and offshore company are closely linked; thus, the tax paradise country offers very favorable tax conditions to offshore companies, meaning that they do not make income on their territory. In conclusion, such a company is exempt from tax because it is offshore, but because it is offshore in a tax haven.

Most of these times, these financial paradises have dealt with avoiding double taxation with most of the world's states, hence their primary advantage; in the absence of these treaties, the conditions of avoiding taxation in the home state of offshore company revenue are no longer optimal.

At first sight, the use of these companies may seem very complicated. In reality, however, an offshore company has a much simpler structure than many onshore companies.

The high tax rate in Romania pushes indigenous companies to different tricks to keep their tax profits out of the country. The most legible and legible solution is to set up an offshore company in one of the world's tax havens.

The idea is quite simple, the profits made by the Romanian companies are transferred to offshore companies' accounts, being taxed with a modest amount or not at all. In most cases, fund transfers are made on the basis of ghost contracts for service provision, making it almost impossible for control bodies to prove that those services were not actually delivered.

The profit earned by offshore companies is taxed in the state of residence where either no form of profit tax is applied or it is very small.

Some differences between offshore firms and local firms:

1 - the tax in Romania is 16% of the profit and in the case of offshore companies, depending on the jurisdiction where they operate, it is between 0-10% (for example: Marshall Islands 0% - annual taxes);

2 - the taxation of dividends is non-existent in these tax havens, compared to 16% in Romania, the tax taken by the state outside the tax on profit. Of these we list the most searched tax havens:

3 - tax consultancy, company management and maintenance is done by companies specialized in such services at much lower prices than in Romania;

4 - countries such as Switzerland, Luxembourg or Liechtenstein guarantee the secrecy of the company's bank accounts, as the banking secrecy law operates and applies in these areas;

5 - according to the needs of the shareholders, they can preserve their anonymity, which is impossible in Romania;

6 - the establishment fees and the annual operating fees are very low compared to those in Romania;

These are some of the reasons why more and more businessmen are turning to offshore companies, companies that provide complete customer service, starting with offshore creation, free advice on choosing the right jurisdiction for their clients' business, opening bank accounts, as well as accounting, secretarial services or even a director who can sign documents on behalf of the owners of offshore companies if they want to keep anonymity. It is estimated that over 50% of Romanian companies also own an offshore company.

3. National regulations and the international reference on the profit tax side

IAS 12 provides the following guidance on the assessment of deferred taxes: When the tax rate or tax base is influenced by how the entity recovers its assets or establishes its liabilities (eg if an asset is sold or used), the deferred tax assessment is consistent with the manner in which an asset is recovered or the liabilities Deferred taxes If deferred taxes arise from revalued non-revalued assets (eg revalued land), deferred taxes reflect the tax consequence of the sale of the asset

Deferred income taxes on property investments measured at fair value IAS 40 Investments in property reflect the relative presumption that real estate investment will be recovered by sale. If dividends are paid to shareholders and income taxes are payable at a higher rate or less, or if the entity pays additional taxes or receives a refund, the deferred taxes are measured using the tax rate applicable to undistributed profits (IAS 12.52A) Deferred tax assets and liabilities can not be updated.

According to the standard IAS 12 deferred income taxes on property investments measured at fair value and the standard IAS 40 Investments in property reflect the relative presumption that real estate investment will be recovered by sale If dividends are paid to shareholders and income taxes are payable at a higher rate or less, or if the entity pays additional taxes or receives a refund, the deferred taxes are measured using the tax rate applicable to undistributed profits

Deferred tax assets and liabilities can not be updated.

Accordin to the standard IAS 12 provides the following guidance on measuring deferred taxes:

Where the taxable or taxable amount is impaired by the manner in which the entity recovers its assets or settled its liabilities (ex. whether an asset is sold or used), the measurement of the deferred tax is consistent with the manner in which the asset is recovered or liability settled . Where deferred taxes arise from revalued non-depreciable assets (e.x. revalued land), deferred taxes reflect the tax consequences of selling the asset.

Table 1. Differences between the national regulations and the international reference on the profit tax side

OMFP 1802/2014 + Fiscal Code	IAS 12
According to national regulatory rules: 1802/2014Income tax / income tax must be recognized as a liability within the limit of the unpaid amount. Income tax, as well as other taxes for which tax legislation provides for prepayments, is separately reflected in the accounting, on the expense of the expense and on the liability accounts, with separate disclosure of payment of the consideration. Income tax expense and other taxes, calculated according to the law, are distinguished distinctly according to their nature. Account 441 "Income Tax / Income" With this account, you keep track of the state / local government budget / income tax cuts. Account 441 "Income Tax" is a liability account. The credit of account 441 "Income tax / income tax" is recorded: - the amounts owed by the entity to the state budget / local budgets, representing the income tax / income tax (691, 698); - the income tax for previous financial years, in the event of the correction of the accounting errors reflected on the result of the retained earnings (117). In the debit of account 441 "Profit / Income Tax" is recorded: - sums paid to the state budget / local budgets representing income tax (512); - Amounts of income tax, prescribed, exempt or canceled, according to the law (758). The balance of the account represents the amounts owed by the entity, and the debtor balance, the amounts paid in excess. The tax base for corporate income tax is represented by taxable profit through the tax adjustment of the accounting profit. In order to determine the taxable profit, the non-	According to the standard IAS 12 contains detailed recognition, measurement and disclosure criteria for deferred tax assets and liabilities. Current and deferred tax should be recognized as income or expense unless that tax arises from: (a) a transaction or an event that is recognized directly in equity over the same or a different period; or - where the amount of the related tax is also recognized outside profit or loss (b) business combinations - where tax amounts are recognized as identifiable assets or liabilities at the acquisition date and effectively taken into account in the determination of goodwill when IFRS 3 Business Combinations are applied. The main components of tax expense must be presented separately. Components of tax expense may include: - current tax expense; - adjustments recognized during the current tax period for prior periods; - the deferred tax expense related to the initial recording and resumption of temporary differences; - the amount of deferred tax expense related to changes in tax rates or the imposition of new taxes; - the amount of the benefit that results from an earlier tax loss from a tax credit or from a temporary difference of a prior period that is used to reduce deferred tax expense; - Deferred tax expense resulting from the write-down or resumption of a previous deduction of a deferred tax asset; - The amount of tax expense relating to changes in accounting policy and errors that are included in the profit or loss for that period under IAS 8 can not be accounted for retrospectively

deductible expenses are deducted from the accounting profit (income - expense) and tax deductions (non-taxable income) and tax losses from previous years are deducted. The annual loss determined by the income tax return is recovered from the taxable profits earned over the next seven consecutive years. Recovery of losses shall be made in the order in which they are recorded, at each payout tax period, according to the legal provisions in force from the year of their registration.	

Own elaboration after OMFP 1802/2014 and Fiscal Code

Conclusions

Tax havens have been and remain the most reliable way to bypass excessive taxation in some countries, and as long as there will be significant tax differences across states, they will thrive. Consultancy and brokerage firms to set up offshore companies in these "tax oases" know all the legal loopholes whereby their clients can get maximum benefits, and are always up to date with changes in international law that could limit the use of these means, adaptability being the key word in their work. The vast majority of offshore investors are looking for a more "gentle" tax regime, but there are also criminal organizations that find in tax havens the most effective tool for laundering illegal business money, thus achieving a fairly high level of legality, not stop in the eyes of the authorities in their home countries or enough to avoid permanent intrusion into their "business."

From this point of view, if a country's laws leave room for interpretation or can be circumvented, resorting to tax havens can be a real Pandora's box, which can lead to a "hemorrhage" of funds across the border, seriously affecting not just the tax revenues, but also the country's Gross Domestic Product. For this reason, the Romanian authorities have begun to take small steps but are determined to correct the legislation and to minimize ways to bypass it, without being able to claim that it could eradicate the phenomenon.

A first step should be taken to limit the explosion of "fictitious" service contracts in relation to the external transport of imported goods or management or consultancy contracts often used to mask taxable income and which consist of tax evasion at the edge of the legislation. This objective can be achieved either by a higher taxation of the Romanian partner requesting these services under conditions that can be suspected, or by a greater control.

But the disease that suffers from Romania and which indicates that it has reached its chronic phase, especially after the Revolution of 1989, is corruption - in all its forms of manifestation. Some opinion makers believe that this generalized phenomenon has led to a very differentiated structure of social beds, and what is even worse is that mentalities have formed in this sense and do not allow return to normal in the near future absolutely necessary.

Therefore, those who get older through these methods can preserve their wealth and affairs, which often escape the Fiscal, through the mechanisms of the offshore companies, without the Romanian law, and those who do not have enough ability to do so are content to bribe because the state control body to close its eyes to situations most often as illicit as possible.

The new tax code is by far a good initiative to clarify tax legislation, but it has to be well put into practice by territorial tax bodies, alongside better taxpayer education, and increased transparency to reduce the trend of taxpayers. tax evasion, quite widespread in Romania, starting with clandestine alcohol factories - not paying excise taxes and marketing not many products that can affect public health - and ending with billions of dollars in value added tax fraud.

The idea behind offshore business analysis is that in order to take advantage of their benefits, the interested person should have a level of income that is high enough to allow tax payments in the targeted tax haven, not at all modest.

Anghelache (2004, p. 59), supports her work the development of the domestic capital market , the market Romania's capital is a market that is still in training but attractive for investitors, highlighting the ability to absorb the needs of financing of issuers of securities.

It is also interesting to note that in most tax havens, as the income generated by these countries is higher, the more related taxes are reduced as a share of the total income, a situation that encourages the extra cash flow "punishing" the countries with excessive taxation, eventually depreciating gross domestic product.

Therefore, a businessman with some experience in international commerce, well-informed and without aversion to risk can set the foundation for a real financial empire starting with an offshore company.

References

1. Adrian Manaila – Companiile offshore sau evaziunea fiscală legală, ed. A-II-a, Ed. All Beck, Bucureşti, 2004 ;
2. Anghelache G., Piaţa de Capital. Caracteristici, evoluţii, tranzacţii, Ed. Economică, 2004, p. 59
3. Buzan- G., C. Paradisuri fiscale si centrele financiare offshore in contextul economiei mondiale, Editura C.H Beck, 2012
4. Gheorghe Scortescu, Daniela Neolina Mardiros- Contabilitatea Asociatiilor si fundatiilor, Editura Ion Ionescu de la Brad, 2006;
5. Gheorghiu M., Capitol 1-Aspecte generale privind sistemul fiscal, disponibil la adresa: https://documents.tips/documents/cap1-aspecte-generale-privind-sistemul-fiscal.html
6. http://www.articole.santamia.ro/firma-offshore-vs-firma-autohtona/
7. http://www.businessmagazin.ro/actualitate/top-500-cele-mai-mari-companii-din-romania-15809294
8. http://www.capital.ro/adevaratul-top-al-celor-mai-profitabile-companii-din-romania.html
9. http://www.economica.net/topul-celor-mai-mari-afaceri-controlate-de-romani-dintre-din-500-cele-mai-mari-companii-din-ece_143022.html
10. http://www.zf.ro/companii/top-20-cele-mai-mari-companii-din-romania-14432371
11. https://www.topfirme.com/
12. Juraj Nemec-Finante publice –Teorie si practica in tranzactia central-europeana, Editura Ars LONGA, 2000;
13. Legea nr. 227/2015 privind Codul Fiscal, articolul 19; art.14;
14. Ordin Nr. 1802 din 29 decembrie 2014 , aliniatul 342;
15. Standardul International de Contabilitate IAS 12 – Impozitul pe profit, pagina 844;
16. Văcărel I. – Finanțe Publice, Ed a IV, EDP, București, 2007;
17. Vintilă G., et al, Analiza si evaluarea riscurilor activitatii antreprenoriale in mediul economic romanesc, Economie teoretica si aplicata Volumul XVIII (2011), PP.119-131;