

THE FISCAL AND ACCOUNTING IMPACT OF THE GOVERNMENT EMERGENCY ORDINANCE NO. 79/2017 REGARDING THE TRANSFER OF SOCIAL SECURITY CONTRIBUTIONS FROM THE EMPLOYER TO THE EMPLOYEE

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Abstract

The multitude of legal changes in the fiscal and accounting field determines the professional accountant to find himself under a permanent turmoil due to the need to adapt on the go both of the accounting system and of the accounting policies in order to provide an accurate image of the entity assets, debts, financial position, profit or loss. The present article aims at clarifying some aspects and changes related to the social security contributions calculated for the incomes obtained by the taxpayers contributing both to the state budget and to the state social security budget in Romania.

Key words: *social contributions, fiscal, accounting, employer, employee.*

I. INTRODUCTION

In 2017, following the vesting of the new Government, the governing programme containing a series of measures regarding the fiscal and accounting domain has been endorsed. A major objective in the Governing programme is that, beginning with January the 1st 2018, the number of taxes, tariffs and fees in Romania shall not exceed 50, and for the economic agents the number of fiscal and non-fiscal taxes shall not exceed 40 (Government Decision no. 53/2017).

Following a simple comparison of the fiscal code in force before 01.01.2018 and the one in force starting with 30.03.2018, we may notice that the number of mandatory social security contributions decreased from 6 mandatory contributions to a number of 3 mandatory contributions.

Table 1. Comparison of mandatory social contributions

No.	Mandatory contributions before 01.01.2018	Mandatory contributions after 01.01.2018
1	Pension contributions payable to the social security state budget	Pension contributions payable to the social security state budget
2	Health insurance contributions payable to the National Sole Health Insurance Fund	Health insurance contributions payable to the National Sole Health Insurance Fund
3	Contributions for holidays and indemnities for medical leaves payable by the employer to the National Sole Health Insurance Fund	The work insurance contribution payable to the consolidated state budget
4	Unemployment insurance contributions payable to the unemployment insurance budget	
5	Contributions for work accidents and professional diseases payable by the employer to the state social security budget	
6	Contributions to the Guarantee Fund for employment debts payable by the natural persons	

	and legal bodies acting as an employer according to article 4 of Law no. 200/2006 regarding the setting up and the use of the Guarantee Fund for the payment of employment debts, as amended.	
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II. RATES OF MANDATORY SOCIAL SECURITY CONTRIBUTIONS BEFORE AND AFTER

01.01.2018

In order to better understand the changes occurred, we must analyse the changes in each category of social securities. Therefore, if by the end of year 2017 a total social security contribution of 26.3% was paid to the state social security budget for normal work conditions, as follows: 10.5% payable by the employee and 15.8% payable by the employer, at present a percentage of 25% is calculated and is payable by the employee. The health insurance contributions payable to the National Sole Health Insurance Fund underwent the following change: from 10.7% (5.5% employee + 5.2% employer) to 10% and is entirely payable by the employee. Here too, we can notice that the contribution percentage withheld diminished, but a major change occurred from the accounting point of view, namely that these debts are no longer shared by the employer and the employee, but are the responsibility of the employee.

The remaining contributions stated in the Fiscal Code (the Contribution for holidays and indemnities for medical leaves payable by the employer to the National Sole Health Insurance Fund; the Unemployment insurance contributions payable to the unemployment insurance budget; the Contributions for work accidents and professional diseases payable by the employer to the state social security budget; the Contributions to the Guarantee Fund for employment debts) in a percentage of 2.25% under normal work conditions have been replaced by the Work insurance contributions payable to the consolidated state budget and remained the same, 2.25%.

Another issue that must be taken into consideration when calculating the salaries is the income tax payable for incomes obtained from salaries and assimilated to salaries. The tax rate has been decreased from 16% to 10%.

III. THE BASIS FOR THE CALCULATION OF MANDATORY SOCIAL SECURITY CONTRIBUTIONS

An important component of taxation is the taxable amount that is the amount to which all the rates of social security contributions described hereabove apply. At present, the Romanian laws state the following income categories to be taxed per category of social security obligations as follows (Law 227/2015, Fiscal Code):

1. Pension contributions payable to the social security state budget:
 - incomes from salaries or assimilated to salaries;
 - incomes from independent activities;
 - incomes from intellectual property rights;
 - unemployment indemnities;
 - health insurance indemnities.
2. Health insurance contributions payable to the National Sole Health Insurance Fund:
 - incomes from salaries or assimilated to salaries;
 - incomes from independent activities;
 - incomes from intellectual property rights;
 - incomes from the association with a legal body;
 - incomes from rental and leasing activities;
 - incomes from agricultural activities, forestry and fish farming;
 - incomes from investments;
 - incomes from other sources.
3. Work insurance contribution payable to the consolidated state budget:
 - the amount of gross earnings obtained from salaries and incomes assimilated to salaries, home and abroad.

When analysing the fiscal impact of the changes stated in the Government Emergency Ordinance 79/2017 we must also consider the Government Decision no. 1 846/2017 which increases the national minimum wage from 1450 RON to 1900 RON.

IV. THE ACCOUNTING IMPACT REGARDING THE CHANGES ON THE MANDATORY SOCIAL SECURITY CONTRIBUTIONS

The changes brought to the fiscal code have led to the necessity to revise Order no. 1802/2014 of the Minister of Public Finances. The changes were stated in Order no.1243/2018 regarding the completion of some accounting regulations; therefore, 4 new accounts have been added to the General Chart of Accounts and those are:

- 4315 “Pension contribution (P)”
- 4316 “Health insurance contribution (P)”
- 436 “Work insurance contribution” (P)
- 646 “Expenses related to the work insurance contribution”.

As highlighted above, *the recording* of the debts to the social security budget is done using different accounts, but in the *payments statement* issued by the National Administration of Public Finances (ANAF) these debts can be found with the same budgetary codes, so that in the case of entities recording debts to the state budget (entities in insolvency, reorganisation or entities which are rescheduling the payments of their debts to the state budget), the former accounts recording the debts to the state budget must also be considered for an accurate analysis and check.

EXAMPLE 1

An entity had in December 2017 only one employee, with a full time employment contract and the national minimum wage of 1450 RON, without dependents. We shall establish the amount of social security contributions and of the net wage both for December 2017 and for January 2018. In January 2018 we shall make a simulation both for the minimum wage from December and for the new minimum wage starting with 01.01.2018.

Table 2. Comparison of salary debts with respect to the national minimum wage

	2017	2018	2018
Gross wage	1450	1450	1900
Pension contribution payable by the employee	152	363	475
Health insurance contribution payable by the employee	80	145	190
Unemployment contribution payable by the employee	7		
Tax	146	43	73
Pension contribution payable by the employer	229		
Health insurance contribution payable by the employer	75		
Unemployment contribution payable by the employer	7		
Medical leaves	12		
Work accidents fund	2		
Guarantee fund	4		
Work insurance contribution		33	43
Total amount of contributions	714	584	781
Net wage	1065	899	1162

If we compare the total amount of contributions calculated to the amount of the gross national minimum wage valid in 2017, before and after the changes to the laws concerning social security contributions, we can notice the the total amount of contributions payable has decreased by an amount of 130 RON, namely a percentage of 18.21%.; but if we relate to the new national minimum wage of 1900 RON, the contributions payable have increased by 67 RON, namely a percentage of 9.38%. From this point of view, given the fact that a significant percentage of all employment contracts are concluded based on the national minimum wage, the state is collecting higher amounts of money from social security contributions even if the rates of social contributions

have decreased.

EXAMPLE 2

An entity had in December 2017 only one employee, with a full time employment contract and the gross wage of 2000 RON, without dependents. We shall establish the amount of social security contributions and of the net wage both for December 2017 and for January 2018. In January 2018 we shall compare the net wage obtained before and after the legal changes and shall simulate a scenario so that the gross wage remains the same.

Table 3. Comparison of the gross wage debts for the same gross wage

	2017	2018	2018
Gross wage	2000	2000	2389
Pension contribution payable by the employee	210	500	597
Health insurance contribution payable by the employee	110	200	239
Unemployment contribution payable by the employee	10		
Tax	235	81	118
Pension contribution payable by the employer	316		
Health insurance contribution payable by the employer	104		
Medical leaves	17		
Unemployment contribution payable by the employee	10		
Work accidents fund	3		
Guarantee fund	5		
Work insurance contribution		45	54
Total amount of contributions	1020	826	1008
Net wage	1435	1219	1435

The comparative analysis of the two payrolls, December 2017, respectively January 2018, indicates a decrease of the net wage from 1435 RON to 1219 RON. AT the same time, the simulation made shows that in order to maintain the same net wage, the entity must increase the gross wage from 2000 RON to 2389 RON.

V. THE IMPACT OF THE LEGAL CHANGES ON THE ACCOUNTING RECORDS

Next, we shall present the notes on the accounts that must be recorded according to the payrolls drawn up in compliance with the law in force at that moment.

Accounting records related to the payroll on December 2017:

- recording of gross wage:			
641	=	421	2000
” Salaries”		“Employees - salaries payable”	
- recording of the contributions payable by the employee:			
421	=	%	<u>565</u>
” Employees - salaries payable”		4312	210
		“Employee’s contribution to pension fund”	
		4314	110
		“Employee’s contribution to health insurance”	
		4372	10

			“Employee’s contribution to unemployment fund”	
	444			235
			“Tax on salaries”	
- recording of the pension contribution payable by the employer:				
	6451	=	4311	316
“Expenses with company’s contribution to social security			“Company’s contribution to social security”	
- recording of the health insurance contribution payable by the employer:				
	6453	=	4313	104
“Expenses with company’s contribution to health insurance”			“Company’s contribution to health insurance”	
- recording of the unemployment contribution payable by the employer				
	6452	=	4371	10
“Expenses with company’s contribution to unemployment fund			“Company’s contribution to unemployment fund”	
- recording of the medical leaves fund:				
	6453	=	4313	17
“Expenses with company’s contribution to health insurance”			“Company’s contribution to health insurance”	
- recording of the work accidents fund:				
	6451	=	4311	3
“Expenses with company’s contribution to social security”			“Company’s contribution to social security”	
- recording of the Guarantee fund:				
	6452	=	4371	5
“Expenses with company’s contribution to unemployment fund			“Company’s contribution to unemployment fund”	
<i>Accounting records related to the payroll on January 2018</i>				
- recording of gross wage:				
	641	=	421	2000
” Salaries”			” Employees - salaries payable”	
- recording of the contributions payable by the employee:				
	421	=	%	781
” Employees – salaries payable”			4315	500
			“Pension contribution”	
			4316	200
			“Health insurance contribution”	
			444	81
			“Tax on salaries”	
- recording of the work insurance contribution:				
	646	=	436	45

“Expenses with
work insurance
contribution”

“Work insurance contribution”

From a fiscal point of view, the entity had a total expense with the salary for December 2017 of 2455 RON, and in January an expense with the salary of 2045 RON. From the simulation above, the entity must increase the employee’s gross wage at the amount of 2389 RON, having a total expense with the salary in amount of 2443 RON.

VI. CONCLUSION

The political decision to transfer the employer’s contributions to the employee has been made having in mind the main idea of reducing the number of taxes, but we do not believe that an impact study was made or that all the occurring changes were anticipated. From a simple matter, as it looked in the beginning, we have ended up with a diversity of particular situations to be solved both by the professional accountant, on one side and by the management team, on the other.

VII. REFERENCES

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3. Decision no. 53/2017 to pass the vote of confidence in the Government, published in the Official Gazette no. 496/29.06.2018.
4. Government Emergency Ordinance no. 79/2017 for the modification and completion of Law no. 227/2015 on the Fiscal Code, published in the Official Gazette no. 885/10.11.2017.
5. Law no. 227/2015 regarding the Fiscal Code, published in the Official Gazette no. 688/10.09.2015.
6. Government Decision no. 846/2017 establishing the national minimum gross wage guaranteed, published in the Official Gazette no. 950/29.11.2017.