Scientific Papers (www.scientificpapers.org)
Journal of Knowledge Management, Economics and Information Technology

Vol. VI, Issue 1
February 2016

Resumptions and Enhancement Concerning the Trading Discounts within the Context of the New Accounting and Fiscal Regulations in Romania

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Within a competitive economy, the trading discounts constitute a frequent practice, whereby the asset and service providers instill loyalty to the current customers or propose themselves to draw new clients.

While the economic and legal practice of entities use a diversity of trading discounts, both from the point of view of their name and the complexity of clauses of the trading agreements, the relevant national regulations try to take into account the trading news and innovations.

Our study proposes to specify the impact of the last changes in the accounting and fiscal legislation of trading discounts within the context whereby they may generate fiscal vulnerabilities to all the contracting entities, whether they are profit tax payers or micro-enterprise income tax payers.

Keywords: *trading discount, accounting, economic practice, fiscal legislation, Micro-enterprise.*

JEL Classification*: G32 – Financing Policy; Financial Risk and Risk Management; Capital and Ownership Structure; H32 - Firm M41 – Accounting*

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Introduction

Trading discounts constitute a frequent practice in the business environment, whereby the maintenance of the existence customers, as well as drawing of new clients are followed. Independently of the rigorous analysis achieved on the negotiation of contractual clauses, based upon the observance of applicable trading legislation, the trades developed by the entity must observe the provisions of Fiscal code and Order 1802/2014.

Even though the trading legislation is not sufficiently adapted to the specifics of trades developed on the entities' practice, and the accounting legislation avoids the regulation of many situations in the economic reality, we still have to notice that the latter one suffered a lot of changes over time, the last one being at the end of 2015 year, when, by the Order 4160/2015, issues regarding the trading discounts received after the invoicing of inventories/tangible and intangible assets were introduced. The New Fiscal Code was not subject to changes of substance, the trading discounts being identically treated with respect to the limits and conditions whereby the micro-enterprise taxation of VAT, profit tax or income tax basis must be lowered.

Our study shows an analysis of accounting and fiscal regulations that allows a setup of treatments specific to granted-received trading discounts, the chosen examples having the role of explaining including the fiscal impact over the entities, whether they apply the VAT system to invoicing or VAT to encashment.

Analysis of the main legal provisions

The most trading practices and general trading rules are regulated by the Government Ordinance 99/2000 regarding the trading of market products and services. We shall further show the main issues that must be taken into account for the implementation of accounting and fiscal treatments. The accounting legislation, valid since 01.06.2016, delivers the thematic of trading discounts at points 76 and 77 of the Annex to the Order 1802/2014.

Regarding the accounting treatment

The accounting treatment of trading discounts granted for the invoiced assets/services is registered as a decrease of turnover (the assessment of incomes being made on the net trading value), while the trading discounts granted after the invoicing lead to the distinct recognition of a corrective income (accounting account 709 „Trade discounts offered" whereof debtor sold is taken into account with minus on the establishment of turnover).

The accounting treatment of trading discounts received for services that account at the level of net purchased services (for the discounts received even on invoicing), on behalf of the corrective account 609 „Received trading discounts", respectively, whereof creditor sold is taken into account with minus on the establishment of exploitation expenses.

The accounting treatment of trading discounts received for the assets is stressed depending on the reception time, depending on the kind of procured assets, respectively. For any further details, we recommend you the analysis shown by table 1, as such:

Table 1: Minimal accounting treatment for the trading discounts received by the buyer of assets

Reception time of trading discount	Inventories	Tangible and intangible assets
Discounts received **on the procurement date** for the procured assets/services	Inventory procurement cost discount, according to point 76 par. (1) of the Annex to Order 1802/2014.	Procurement cost discount.
	The received discount is not separately shown.	
	Starting with the financial statements of fiscal year	In the extent that these discounts entirely cover

	2015, the trading discounts registered on the procurement invoice that entirely covers the equivalent value of purchased inventories - they are recognized as a current income *(account 7588 „Other operating revenues”)* because these assets must be assessed on their fair value, according to point 76 par. (1^1) of the Annex to Order 1802/2014.	the equivalent value of tangible and intangible procured assets, the entity will recognize an advance income *(account 4758 „Other amounts received in the form of investment subsidies”)* that will be staggered on the entire life term of the relevant assets (it will be both recognized an expense for the amortization registered through the account 6811 and a current income in the account 7584 related to the resumption of subsidy).
	Remark: Point 76 par. (1^1) of the Annex to Order 1802/2014 only aims, on our opinion, the full discounts granted for the purchased assets. Provided that these discounts are actually granted for other assets/services traded in the past between the parties, we consider that a correction of expenses should be recognized by the accounting account 609, nowise the use of a current income account or deferred incomes.	
Discounts received **after** the initial invoicing.	***Basic treatment:*** **a**) decrease of the inventory cost if (i) the procurement of assets and reception of trading discounts are jointly considered or (ii) if these are still under administration.	***Basic treatment:*** The discounts are recognized in the category of advance incomes *(account 4758 „Other amounts received in the form of investment subsidies”),* if the entity may prove the asset

	b) decrease of expenses *(account 609 „Received trading discounts")* in respect of an expense saving if the inventories are not anymore under administration. ***Alternative treatment:*** Recognition of expense decrease *(account 609 „Received trading discounts")* even if the assets are still on inventory, unless the owned information allows the improvement of inventories (see point 76 par. (2^1) of the Annex to Order 1802/2014.	wherefore the discount was received. ***Alternative treatment:*** The further discounts are directly recognized in the category of current incomes *(account 7588 „Other operating revenues")* from their reception, unless the entity may identify the assets wherefore the trading discount was received.

Regarding the fiscal treatment

The fiscal treatment aims the limits and conditions required by the Fiscal code and attached legislation with respect to the trading discounts negotiated by the parties. Because their granting leads to the decrease of VAT taxation basis, of the corporate tax or of the micro-enterprise income tax, we considered relevant to present the minimal items that must be taken into account on the configuration of fiscal treatments. For any further details, we recommend you the analysis shown by table 2, as such:

Table 2: Minimal fiscal treatment for the trading discounts

Category of interest	Seller/Provider	Buyer/Beneficiary
	An essential condition is that such discounts don't actually	

Value-added tax	represent the remuneration of a service or a delivery. The trading discounts granted on sale lead to the decrease of taxation basis according to Art. 286 par. (4) letter a) of Fiscal code, while the further granted discounts must adjust the VAT basis, according to Art. 287 letter c) of the Fiscal code. The VAT rate applicable to the invoiced discounts is that in force on the date of VAT generating fact. In case of further granted trading discounts, the supplier will apply the rate in force on the basic operation date (the date of initial invoicing of assets and services wherefore the trading discounts are granted). However, provided that the basic operation cannot be identified, the valid rate is the VAT rate on the trading discount granting date. Unless the discounts are registered at the unit price, the supplier is liable to individually mention these discounts by the invoice, according to Art. 319 par. (319) par. (20) letter i) of the Fiscal code.	
	For the seller, the granted discounts either lower the collected VAT, or the non-exigible TVA *(only if this applies the VAT system on the encashment).*	For the buyer, the trading discounts result in the decrease of deductible VAT or non-exigible VAT *(if at least one of the partners applies the VAT system on the encashment).*
Corporate tax	If the granted trading discounts are related to the economic activity and observe the provisions of trading legislation in force, as well as the contracting clauses, the discount of incomes is fiscally recognized.	The received trading discounts will be taxed depending on the time when these must be recognized as current incomes or as expense discounts.
Micro-business	The taxation basis takes	The taxation basis lowers by the

income taxes	into account all the duly recognized incomes in the accountancy. The further granted trading discounts lower the taxation basis according to Art. 53 par. (1) letter j) of Fiscal code.	incomes resulted by subsidies for investments of the account 7584 (according to Art. 53 par. (1) letter d) of the Fiscal code or adjust by the traded discounts received and registered under the law conditions in the accounting account 609 (according to Art. 53 par. (2) letter a) of the Fiscal code) or by the current incomes, periodically recognized (account 7588).

Case studies

We will explain the accounting treatment related to the trading discounts negotiated for the sold assets, both for the circumstance when these are registered by the sale invoice and if they are invoiced after the sale of assets.

Granted trading discounts on the initial invoicing

A trader sells equipment by 20,000 lei, VAT 20% and spare parts, amounting 5,000 lei, VAT 20%. On the invoicing date, a trading discount of 10% and VAT 20% is individually granted to each asset.

The seller applies the VAT system on invoicing, while the buyer is registered on the Register of taxable persons who apply the VAT system on encashment.

In the seller's accountancy

Issued invoice registration:

4111 „Customers”	=	%	27,000 lei
		707 „Sale of goods purchased for resale”	22,500 lei

		4427 „Input VAT”	4,500 lei

Encashment registration:

5121 „Cash at bank in lei”	=	**4111** „Customers”	27,000 lei

In the buyer's accountancy

The registration of equipment is made on the procurement cost:

%	=	**404** „Suppliers of non-current assets”	21,600 lei
2131 „Plant and machinery”			18,000 lei
4428 „VAT under settlement”			3,600 lei

Spare parts registration:

%	=	**401** „Suppliers”	5,400 lei
3024 „Spare parts”			4,500 lei
4428 „VAT under settlement”			lei

Payment registration c/value of equipment:

404 „Suppliers of non-current assets”	=	**5121** „Cash at bank in lei”	21,600 lei

Payment registration c/value of spare parts:

401 „Suppliers”	=	5121 „Cash at bank in lei”	5,400 lei

*VAT deduction registration on payment (27,000 lei * 20/120):*

4426 „Output VAT”	=	4428 „VAT under settlement”	4,500 lei

Further granted trading discounts

Using the input data of the previous example, we consider that the 10% discount was granted after the issuance of the initial invoice, and the discount takes place after the trading discount.

In the seller's accountancy

Issued invoice registration:

4111 „Customers”	=	%	30,000 lei
		707 „Sale of goods purchased for resale”	25,000 lei
		4427 „Input VAT”	5,000 lei

Discount invoice registration:

4111 „Customers”	=	%	(3,000) lei
		709 „Trade discounts offered”	(2,500) lei
		4427 „Input VAT”	(500) lei

Remark: The net turnover is 27,000 lei, being included in the taxation basis for the calculation of corporate tax/micro-enterprise income tax, as the case may be.

Encashment registration:

5121 „Cash at bank in lei”	=	4111 „Customers”	27,000 lei

In the buyer's accountancy

Equipment reception registration:

%	=	404 „Suppliers of non-current assets”	24,000 lei
2131 „Plant and machinery”			20,000 lei
4428 „VAT under settlement”			4,000 lei

Spare parts reception registration:

%	=	401 „Suppliers”	6,000 lei
3024 „Spare parts”			5,000 lei
4428 „VAT under settlement”			1,000 lei

Registration of trading discount reception for the spare parts:

%	=	401 „Suppliers"	(600) lei
609 „Trade discounts received”			(500) lei
4428 „VAT under settlement”			(100) lei

Registration of trading discount reception for the equipment:

404 „Suppliers of non-current assets”	=	%	2,400 lei
		4758 „Other amounts received in the form of investment subsidies”	2,000 lei
		4428 „VAT under settlement”	400 lei

Remark: During the entire life of equipment, the entity will register the amortization (6811 = 2813), concomitantly with the income recall, corresponding to trading discount (4758 = 7584).

Payment registration c/value of equipment:

404 „Suppliers of non-current assets”	=	5121 „Cash at bank in lei”	21,600 lei

Payment registration c/value of spare parts:

401 „Suppliers"	=	5121 „Cash at bank in lei”	5,400 lei

*VAT deduction registration on payment (27,000 lei * 20/120):*

4426 „Output VAT”	=	**4428** „VAT under settlement”	4,500 lei

Conclusions

Any economic entity must design its accounting and fiscal policies starting from its own trading policies and from the specific trading legislation. It must also be taken into account its fiscal vector (if it is a VAT payer on encashment or invoicing, micro-enterprise corporate tax or income tax payer).

On our opinion, the current solution proposed by the accounting regulations for the further trading discounts is easier to apply in practice, both regarding the adjustment of expenses if the inventories are still under administration, respectively the registration of procurement cost of assets based upon the initial data, with recognition of further trading discount, either on account of the advance incomes or on account of the current incomes, depending on the identification/assignment of discount for the assets.

According to the new accounting regulations, in the case of trading discounts received by the buyers on the date of procurement of tangible/intangible assets, they must be treated as advance incomes, in the extent that these discounts entirely cover c/value of the relevant assets. However, we consider that the solution proposed by the legislator must be very carefully analyzed, because we consider that it cannot be applied if, although the discount entirely covers c/value of procured assets, we ascertain by the analysis of contractual clauses and of the situation de facto that the trading discount was received for the whole of operations developed in the past between the two partners. This case, the fiscal risk both occurs for the corporate tax payers (who should charge the full income on the reception of discount) and for the payers of micro-enterprise income tax (who cannot benefit anymore of the discount of taxable basis gradually, with the recalling of subsidy to incomes because it should add to the taxation basis the expense saving, even from the reception of discount).

A special situation is related to the recognition of trading discounts during the period they refer to, independently of the way and time of granting/reception, more specifically the date when the conditions negotiated by the trading agreements for their granting/reception are accomplished. From the accounting point of view, it is required the use of accounts 418 "Clients - invoices to conclude" and 408 "Suppliers - not arrived invoices", respectively. From the fiscal point of view, the instrumentation of this situation is very complex, taking into account the different impact that the discount of taxation basis for both partners, especially in the case of value-added tax treatment, has. As for example, the seller must check at the end of each tax period whether the decrease conditions of taxation basis of incomes and VAT are accomplished and whether he issued or not the invoices during the period referred to for the trading discounts.

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