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Study on the Accounting and Tax Scheme of Second-Hand Goods Such as Cars

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From a tax point of view, taxable dealers have the right to choose applying the special VAT scheme, under certain conditions and limitations. The European Directive requires, as a general rule, to assess the margin for each good, as a difference between the selling price charged by the reselling person and the purchase price for such good. However, as an alternative method, the European directive allows that, under certain conditions, the Member States shall provide in their national legislation that the profit margin calculates globally, for all operations performed during the tax period (month, quarter, etc.).

This article aims to release, for the first time on national level, divergences between the application of EU and national legislation on the tax arrangement of second-hand goods such as cars, starting from the fact that national legislation has chosen only the application of the second method (method of establishing the overall profit margin at the level of a tax period), irrespective of the type of second-hand goods, dealers and accounting system used by the latter.

Keywords: *second-hand goods; accounting arrangement; profit margin; tax period; value based comprehensive inventory management; specific identifying of stocks; tax base; VAT tax arrangement; perpetual inventory.*

***JEL**: H32 – Firm; K34 - Tax Law; M41 – Accounting; M48 - Government Policy and Regulation*

Introduction

Chapter 4, Title XII of Directive 112/2006/EC: Special arrangements for second-hand goods, works of art, collectors' items and antiques have been transposed into the national law within Art. 152 point 2 of the Tax Code, "Special arrangements for second-hand goods, works of art, collectors' items and antiques" and section 64, fourth paragraph of the Government Decision 44/2004 for the implementation of Art. 152 point 2 of the Tax Code, as amended and supplemented.

In the normal taxation scheme, as a general rule, dealers are required to collect VAT on the selling price of each car sold, but are entitled to deduct VAT when purchasing such goods. Since in the retail trade with used cars, there are several occasions when they are purchased without VAT (for example, purchases from individuals), in this case, applying the general rules on VAT would have lead to supplementation of VAT payable to the budget. Instead, application of the special taxation scheme allows tax collection at the profit margin level, as a difference between the selling price without VAT and the purchase price of such good.

What are the conditions for the use of the special scheme?

The scheme for the taxation of the profit margin made by the taxable dealer on the supply of second hand goods such as those at issue in the main proceedings constitutes a special arrangement for VAT – derogating from the general scheme of Directive 2006/112.

The special taxation scheme is optional, but its implementation is only possible if certain conditions are met cumulatively, as follows:

1)	**Cars are second-hand goods in tax meaning** (Art. 311 first paragraph of Directive 2006/112/CE versus Art. 152 point (2) first paragraph letter d) of the Tax Code corroborated with section 64 first and second paragraphs of the Methodological Guidelines GD 44/2004). For example, national legislation defines the second-hand goods as "those tangible movable assets that can be reused as they are or after performing some repairs, others than works of art, collectors' items or antiques, precious stones and other goods specified in the rules". In other words, used cars are purchased to be sold as such or after being repaired. *Attention:* Second-hand scheme may not be used for new cars.
2)	**dealer is a taxable person** for VAT: purposes: - In the European legislation is mentioned the *taxpayer intermediary* (Art. 311 first paragraph of Directive 2006/112/EC; - we find it in the national legislation under the name of *taxable dealer* (Art. 152 point 2, first paragraph, letter e) of the Tax Code).
3)	Taxpayer dealer buys **cars in the European Community;** *Attention:* It is prohibited to apply second-hand scheme for cars imported from third countries.
4)	**the person supplying the goods** concerned to the taxable dealer **could not deduct** any of the input tax paid on the purchase of those goods and therefore bore that tax in its entirety. Article 314 of Directive 2006/112/EC versus Art. 152 point (2) second paragraph of the Tax Code specifies the persons from whom you can buy second-hand cars. Thus, **goods must be purchased from:** (i) a non-taxable person (i.e. an individual); (ii) a dealer in another EU member state who also applies special VAT scheme (this is necessary to be also included in the invoice); (iii) another taxable person, in so far as the supply by the latter is exempt in terms of the European Directive and national legislation;

	Attention: As shown in Case C-160/11 (Bawaria Motors sp. z o.o. in opposition to the Minister Finansów) "[...] a taxable dealer is not eligible for the application of the margin scheme where it supplies motor vehicles considered to be second-hand goods, within the meaning of Article 311(1)(1) of that directive, which it has previously acquired exempt from VAT from another taxable person which had only a right of partial deduction of input VAT paid on the purchase price of those vehicles".
5)	Taxable dealer **must calculate profit margin** according to the statutory VAT. Here are found special rules relating to (i) how to assess the purchase cost (for example, it should not be taken into account the cost of repairs carried out in order to sell the goods purchased), (ii) selling price and (iii) methods or proceedings for assessment the profit margin (on which we will refer to letter C) of this article, hence the major divergences between the two legislations);
6)	Taxable dealer **shall not register, separately**, in the sales invoice, the **tax related to the sold goods** (Article 332 of Directive 2006/112/EC versus Art. 152 point (2), twelfth paragraph of the Tax Code). The dealer shall issue an invoice, by *self-invoicing* to each supplier from whom it purchases goods under the special scheme and who is not obliged to issue an invoice, such as non-taxable individuals. Also, the dealer should keep **separate records** and comply with **mandatory reporting** imposed by the tax law.
7)	**taxpayers are not entitled to deduct the VAT** when purchasing **vehicles from the auto dealer** who has implemented the special scheme for such supply, the more because VAT is not included in the invoice issued by the dealer (Article 331 of Directive 2006 / 112/CE versus Art. 152 point (2), tenth paragraph of the Tax Code).

What are the methods or procedures for collecting the special scheme taxes provided in the European legislation?

The corresponding European Directive provides two methods for determining the profit margin: (i) the method of identifying the margin of each good sold, as a general rule and (ii) the global method (calculated only once at the end of the tax period on the total margin obtained by the dealer during such tax period), as an alternative rule.

- which is the basic method?

Article 315 of Directive 2006/112/EC mentions the basic method to be used by the dealers, in the meaning that the tax base related to good supplies referred to in Article 314 shall be the profit margin obtained by the taxable intermediary minus the sum of VAT related on the profit margin. The profit margin of the taxable intermediary shall be equal to the difference between the selling price imposed by the taxable intermediary for goods and their purchase price.

For example, for a good purchased by RON 20,000 and sold under the special scheme by RON 30,000 (24% VAT included):

•	profit margin earned by the dealer	RON 10.000
(-)	VAT related to the profit margin 24/124 * RON 10.000	RON 1.935,48
=	**Profit margin (tax base)**	**8.064,52 lei**

Checking: * 24% VAT = RON 8,064.52= RON 1,935.48. As the final profit margin is RON 8,064.52, this means that the recognized income is RON 28,064.52 (margin + merchandise expenses sold).

- which is the alternative method?

Art. 318 of Directive 2006/112/EC provide the alternative method:

1)	In order to simplify the procedure for collecting the tax and after consulting the VAT Committee, Member States may provide that, for certain transactions or certain categories of taxable intermediaries, the tax base relating to supplies of goods subject to the margin scheme be calculated **for each tax period** for which the taxable intermediary is obliged to submit the VAT return referred to in Article 250. If this provision is made in accordance with subparagraph 1, the **tax base related to supplies of goods** to which the same VAT rate applies, will be the **total profit margin** obtained by the taxable intermediary, minus the amount of VAT relating to that margin.
2)	The total profit margin shall be equal to the **difference** between the following two amounts: (a) total value of supplies of goods subject to the margin scheme and performed by

	the taxable intermediary during the tax period covered by the statement, in other words, **total amount of selling prices;** (b) total value of purchases of goods of the kind referred to in Article 314, made by the taxable intermediary during the tax period covered by the statement, in other words, **total amount of purchase prices.**

- which is the reason of option in using one of the two methods?

It is noted that the margin scheme regulated in Art. 314, corroborated with Art. 315 of Directive 112/2006/CEE involve the specific identification, piece by piece, of the purchase price for the goods bought and delivered under the special scheme. However, according to the compliance with Art. 318 of the same directive, an exception to this rule may apply; in order to simplify the procedure for collecting the tax, this can be achieved only for certain transactions or certain categories of taxable intermediaries and only after consulting the VAT Committee. The exception is applicable, in particular, in the case of low-value and fungible goods, for which, on delivery, the purchase price thereof cannot be assessed.

European legislation tax approach is flexible and rational, because it allows taxpayers to apply the rule that best suits the nature of second-hand goods sold, the accounting model adopted by the entity on the stocks possessed. For example:

- ✓ for second-hand clothing and footwear where specific identification is not possible, accounting policies may aim at using perpetual inventory method at selling price, the analytical accounting being overall value, in this case, for these operations;
- ✓ for the second-hand means of transport, it is used the perpetual inventory method at purchase cost; the analytical accounting being quantitative and value (because cars are goods identified by chassis / engine unique series).

Irrespective of the method used, the dealer must use (i) a distinct purchase journal where to be written down the purchase cost for each good and (ii) a separate sales journal for highlighting the selling price including VAT, related to the good sold. Based on the two journals, it can be determined the VAT collected on profit margin, either (i) for each good delivered under special scheme (in case of the basic method), or (ii) globally, at the end of the tax period, upon the total profit margin .

Which is the method of collecting the special tax under the national legislation?

The definition of the profit margin is given in Art. 152 point 2, first paragraph, letter g) of the Tax Code, as follows:

> ***profit margin*** *is the difference between the selling price applied by the taxable dealer and the purchase price, in which:*
>
> g)**1.** *selling price* means the amount received by the taxable dealer from the purchaser or from a third party, including subsidies directly linked to the transaction, taxes, duties, levies and charges and incidental expenses such as commission, packaging, transport and insurance costs charged by the taxable dealer to the purchaser, *except for* the reductions in the price;
>
> g)**2.** "*purchase price" means everything constituting the consideration, according to the definition of the selling price, by the supplier from the taxable dealer.*

Section 64, fourth paragraph, letter a) of the Methodological Guidelines clarifies unequivocally what is the only method used to determine the profit margin: "tax base for supplies o goods to which the same tax rate applies is the difference between the total profit margin made by the taxable dealer and the tax value related to such margin". Therefore, the national legislation adopted from the EU legislation only the exception to the rule, the one found in Art. 318 of the European legislation, which, as we recall, may be achieved only for certain transactions or for certain categories of taxable intermediaries, but only after consulting the VAT Committee.

Total profit margin can be positive or negative. Consequently, tax may be due to the state when the total margin is positive or it will be carried forward in the following tax period, if the total margin is negative, except for the last tax period. Therefore, the legislator has regulated two different calculation relationships for the total profit margin, as follows:

1)	Section. 64 fourth paragraph letter b) of the Methodological Guidelines: **total profit margin** for a certain tax period (month, quarter), other than the last tax period of the calendar year shall be equal to **the difference** between: b)1. aggregate amount, equal to the **total selling prices** determined in accordance with *Art. 152 point 2, first paragraph, letter g) section 1) of the Tax Code*, supplies of goods subject to special scheme made by the taxable dealer at the time; and b)2. aggregate amount, equal to the **total purchase prices** calculated according to *Art. 152 point 2, first paragraph letter g) section. 2) of the Tax Code*, purchase of goods provided at *Art. 152 point 2, second and third paragraphs of the Tax Code*, made by the taxable dealer at that time; Attention: Section 64.(5) of the Methodological Guidelines regulates that, if the t**otal of profit margin** for a certain tax period, other than the last tax period of the calendar year, **is negative**, **that margin shall be carried forward in the next tax period**, by entering this negative margin into the special register, provided *in the seventh paragraph.*
2)	Section. 64 fourth paragraph letter b) of the Methodological Guidelines: **total profit** margin for the last tax period of the calendar year shall be equal to **the difference** between: b)1. aggregate amount, equal to the **total selling prices** determined in accordance with *Art. 152 point 2, first paragraph, letter g), section 1) of the Tax Code*, of the supplies of goods subject to special scheme made by the taxable dealer **at that time**; and b)2. aggregate amount, equal to **the total purchase prices** determined in accordance with Art. 152 *point* 2, first paragraph, letter. g), section 2) of the Tax Code, of the supplies of gods provided under Art. 152 *point 2*, second and third paragraphs of the Tax Code, made by the taxable dealer under the special scheme during that year, **plus** the total value of goods in the stock at the beginning of the calendar year**, minus** the total value of goods in the stock at the end of the calendar year, **plus** the value of profit margins, either positive or negative, already declared for the previous tax periods of that year. Attention: If the *total profit margin for the last tax period of the calendar year is negative,* **the margin cannot be carried forward to the following calendar year**, under section 64. (6).

In order to comply with the provisions of the Tax Code, section 64, seventh paragraph of the Methodological Guidelines, it is established that the taxable dealer shall keep:

- ✓ special purchase journal where all goods purchased during the tax period and subject to the special regime shall be entered;
- ✓ special sales journal where all goods sold under the special scheme, during the same tax period, shall be entered;
- ✓ comparative registry that allows to determine, at the end of each tax period, other than the last tax period of the calendar year, the total tax base for the supplies made during that tax period and, if applicable, the tax collected.

Case Study in terms of the national legislation

Next, we shall illustrate, in terms of accounting and tax provisions, sale of second-hand goods, such as transportation means. Let's suppose that a car dealer is subject to VAT payment, with a quarterly base for declaring VAT. He sells second-hand cars purchased from individuals (non-taxable) under special scheme, holding on 01.01.N goods worth RON 148.000: (i) vehicle 01, at purchase price of RON 45.000 (ii) vehicle 02, at purchase price of RON 53.000; vehicle 03, at purchase price of RON 50.000. In the course of "N" tax period, the following operations are carried out:

Period	**Supplies at the selling price**		**Cost purchases**	
First quarter	Vehicle 2	56.000	Vehicle 4	66.000
			Vehicle 5	14.800
Second quarter	Vehicle 3	70.000	Vehicle 6	56.500
	Vehicle 5	17.500		
Third quarter	Vehicle 1	52.800	Vehicle 07	28.000
Fourth quarter	Vehicle 4	78.500	Vehicle 08	16.500
Total per year		**274.800**		**181.800**

It is further rendered the accounting records, journals and amounts representing VAT declared in each tax period.

1. **which is the accounting and tax scheme applied in the first quarter?**

- Sale of vehicle 02, at the selling price of RON 56.000:

4111 „Customers”	=	**707** „Income from sale of goods”	56.000

- release from administration for vehicle 02, at the amount of RON 53.000:

607 „Merchandise expenses”	=	**371** „Merchandise”	53.000

- purchase of vehicle 04, at the amount of RON 66.000:

371 „Merchandise”	=	**462** „Sundry creditors”	66.000

- purchase of vehicle 05, at the amount of RON 14.800:

371 „Merchandise”	=	**462** „Sundry creditors”	14.800

Special Purchase Journal for the First Quarter

Crt. No.	Name of good	Purchase document			Name/ Supply name	Self-invoicing		Total purchases
		Type	No.	Date		No.	Date	
1.	Vehicle 04	CVC	110	20.01.N	Tamas V.	1	20.01.N	66.000
2.	Vehicle 05	CVC	111	11.02.N	Lupea R.	2	11.02.N	14.800
Total purchases for the 1st quarter								**80.800**

Special Sales Journal for the First Quarter

Crt. No.	Name of good	Sales document			Name/ Customer name	Total sales
		Type	No.	Date		
1.	Vehicle 02	F	01	15.03.N	Iosef R.	56.000
Total sales for the 1st quarter						**56.000**

Comparative Registry for the First Quarter

Crt. No.	Name of good	Sales document	Selling price (inclusive of VAT)	Purchase price	Purchase document	Profit margin (inclusive of VAT)	Tax base	VAT 24%
1.	Vehicle 04	-	-	66.000	AF 1/20.01N	- 66.000	-	-
2.	Vehicle 05	-	-	14.800	AF2/11.02 N	- 14.800	-	--
3.	Vehicle 02	F1/15.03 N	56.000	-	AF 10.08N-1	56.000	-	-
Total for the 1st quarter			**56.000**	**80.800**	**x**	**- 24.800**	**- 20.000**	**- 4.800**

Negative margin – 24.800, negative tax base- RON 20.000 and negative VAT of RON 4.800 will be carried forward in the second quarter from the N tax period.

2. **which is the accounting and tax scheme applied in the second quarter?**

➢ Sale of vehicle 03 + vehicle 5, at the selling price of RON 87.500 (70.000 + 17.500):

4111 „Customers”	=	**707** „Income from sale of goods”	87.500

➢ release from administration for vehicle 02, at the amount of RON 64.800 (50.000+14.000):

607 „Merchandise expenses”	=	**371** „Merchandise”	64.800

- purchase of vehicle 06, at the amount of RON 56.500:

371 „Merchandise”	=	**462** „Sundry creditors”	56.500

Special Purchase Journal for the Second Quarter

Crt. No.	Name of good	Purchase document			Name/ Supply name	Self-invoicing		Total purchases
		Type	No.	Date		No.	Date	
1.	Vehicle 06	CVC	112	10.05.N	Mares I.	3	10.05.N	56.500
Total purchases for the 2nd quarter								**56.500**

Special Sales Journal for the Second Quarter

Crt. No.	Name of good	Sales document			Name/ Customer name	Total sales
		Type	No.	Date		
1.	Vehicle 03	F	02	19.04.N	Genoa M..	70.000
2.	Vehicle 05	F	03	15.06.N	Ratiu N.	17.500
Total sales for the 2nd quarter						**87.500**

Comparative Registry for the Second Quarter

Crt. No.	Name of good	Sales document	Selling price (inclusive of VAT)	Purchase price	Purchase document	Profit margin (inclusive of VAT)	Tax base	VAT 24%
Negative margin carried forward from the 1st quarter						-24.800	- 20.000	- 4.800
1.	Vehicle 06	-	-	56.500	AF 3/10.05N	- 56.500	-	-
2.	Vehicle 03	F2/19.04 N	70.000	-	AF 06.11N-1	70.000	-	-
3.	Vehicle 05	F3/15.06 N	17.500	-	AF 2/11.02N	17.500	-	-

Total for the 2nd quarter	**87.500**	**56.500**	**x**	**+31.000**	**+25.000**	**+6.000**
Cumulative grand total				**+6.200**	**+5.000**	**+1.200**

The entity states, in the Form 300 related to the second quarter of the “N” tax period, VAT payable in the amount of RON 1.200:

635 „Other taxes, duties and similar expenses”	=	**4427** „Output VAT”	1.200

3. **which is the accounting and tax scheme applied in the third quarter?**

- Sale of vehicle 01, at the selling price of RON 52.800:

4111 „Customers”	=	**707** „Income from sale of goods”	52.800

- release from administration for vehicle 01, at the amount of RON 45.000:

607 „Merchandise expenses”	=	**371** „Merchandise”	45.000

- purchase of vehicle 07, at the amount of RON 28.000:

371 „Merchandise”	=	**462** „Sundry creditors”	28.000

Special Purchase Journal for the Third Quarter

Crt. No.	Name of good	Purchase document			Name/ Supply name	Self-invoicing		Total purchases
		Type	No.	Date		No.	Date	
1.	Vehicle 07	CVC	113	16.08.N	Jianu I.	4	16.08.N	28.000
Total purchases for the 3rd quarter								**28.000**

Special Sales Journal for the Third Quarter

Crt. No.	Name of good	Sales document			Name/ Customer name	Total sales
		Type	No.	Date		
1.	Vehicle 01	F	04	09.09.N	Onu C.	52.800
Total sales for the 3rd quarter						**52.800**

Comparative Registry for the Third Quarter

Crt. No.	Name of good	Sales document	Selling price (inclusive of VAT)	Purchase price	Purchase document	Profit margin (inclusive of VAT)	Tax base	VAT 24%
Negative margin carried forward						-	-	-
1.	Vehicle 07	-	-	28.000	AF 4/16.08 N	- 28.000	-	-
2.	Vehicle 01	F4/09.09 N	52.800	-	AF 07.08N-1	52.800	-	-
Total for the 3^{rd} quarter			**52.800**	**28.000**	**x**	**+24.800**	**+20.000**	**+4.800**

The entity states, in the Form 300 related to the third quarter of the “N” tax period, VAT payable in the amount of RON 4.800:

635 „Other taxes, duties and similar expenses”	=	**4427** „Output VAT”	4.800

4. **which is the accounting and tax scheme applied in the fourth quarter?**

- Sale of vehicle 04, at the selling price of RON 78.500:

4111 „Customers”	=	**707** „Income from sale of goods”	78.500

- release from administration for vehicle 04, at the amount of RON 66.000:

607 „Merchandise expenses”	=	**371** „Merchandise”	66.000

- purchase of vehicle 08, at the amount of RON 16.500:

371 „Merchandise”	=	**462** „Sundry creditors”	16.500

Special Purchase Journal for the Fourth Quarter

Crt. No.	Name of good	Purchase document			Name/ Supply name	Self-invoicing		Total purchases
		Type	No.	Date		No.	Date	
1.	Vehicle 08	CVC	114	31.10.N	Gaceanu L.	5	31.10.N	16.500
Total purchases for the 4th quarter								**16.500**

Special Sales Journal for the Fourth Quarter

Crt. No.	Name of good	Sales document			Name/ Customer name	Total sales
		Type	No.	Date		
1.	Vehicle 04	F	05	05.12.N	Baciu P.	78.500
Total sales for the 4th quarter						**78.500**

The formula for the last tax period (Fourth quarter):

Crt. No.	Indicators	1st quarter	2nd quarter	3rd quarter	4th quarter	Total per year
1.	Sales at selling price	56.000	87.500	52.800	78.500	274.800
2.	Purchases at cost	80.800	56.500	28.000	16.500	181.800
3.	Margins declared for the 1st to 3rd quarters	-24.800	+31.000	+24.800	-	+31.000
4.	Initial stock value on 01.01.N					148.000
5.	Final stock value on 31.12.N					101.000
6.	**Profit margin for the 4th quarter [6 = 1 – (2 + 3 + 4 - 5)]**					**+15.000**

Since the profit margin for the last tax period is positive + RON 15.000, it follows that the tax base is RON 12.097 (RON 15.000 * 24/124) and VAT payment for the fourth quarter amounts to RON 2.903:

635 „Other taxes, duties and similar expenses”	=	**4427** „Output VAT”	2.903

If the total profit margin for the last tax period of the calendar year had been negative, the margin would have not been carried forward to the following calendar year.

According to national tax legislation, the entity declared in the course of the current year a total VAT payable in the amount of RON 8.903 (RON 1.200 from the second quarter + RON 4.800 from the third quarter + RON 2.903 from the fourth quarter).

Case Study in terms of the basic scheme provided by the European legislation

We will resume the same example in terms of applying the margin scheme covered in Art. 314 and corroborated with Art. 315 of Directive 112/2006/CEE, involving the specific identification, piece by piece, of the purchase price of goods bought and delivered under special scheme. As the transactions are the same, we'll present only the tax scheme (accounting treatment being identical to the one shown in point D) of this material.

Comparative Registry for the First Quarter

Crt. No.	Name of good	Sales document	Selling price (inclusive of VAT)	Purchase price	Purchase document	Profit margin (inclusive of VAT)	Tax base	VAT 24 %
1.	Vehi	F1/15.0	56.000	53.000	AF	3.000	2.4	581

	cle 02	3N			10.08N -1		19	
Total for the first quarter			**56.000**	**53.000**	**x**	**3.000**	**2.419**	**581**

First it should be noted that the special purchase and sales journals for the 1st -4th quarters are the same as those listed in point. D), for which reason we have not presented here, too.

The comparative registry differs from the Romanian version, since it includes only the information on second-hand cars sold during that tax period. In addition, we note that it is declared both the sale price, as well as the purchase price of goods sold, irrespective of their acquisition date (from the current year or from the previous years), for which reason the profit margin shall be established for each good sold.

As a consequence, VAT payable for the first quarter amounts to RON 581, unlike RON 0 due when applying the national law (the margin was negative and had been carried forward).

Comparative Registry for the First and Second Quarters

Crt. No.	Name of good	Sales document	Selling price (inclusive of VAT)	Purchase price	Purchase document	Profit margin (inclusive of VAT)	Tax base	VAT 24 %
1.	Vehicle 02	F1/15.03N	56.000	53.000	AF 10.08N -1	3.000	2.419	581
Total for the first quarter			*56.000*	*53.000*	*x*	*3.000*	*2.419*	*581*
2.	Vehicle 03	F2/19.04N	70.000	50.000	AF 06.11N-1	20.000	16.129	3.871

3.	Vehicle 05	F3/15.06N	17.500	14.800	AF 2/11.02 N	2.700	2.177	523
Total for the second quarter			**87.500**	**64.800**	**x**	**22.700**	**18.306**	**4.394**
Aggregate amount			*143.500*	*117.800*	*x*	*25.700*	*20.725*	*4.975*

VAT payable for the second quarter is in the amount of RON 4.394.

Comparative Registry for the First, Second and Third Quarters

Crt. No.	Name of good	Sales document	Selling price (inclusive of VAT)	Purchase price	Purchase document	Profit margin (inclusive of VAT)	Tax base	VAT 24%
1.	Vehicle 02	F1/15.03N	56.000	53.000	AF 10.08N-1	3.000	2.419	581
Total for the first quarter			*56.000*	*53.000*	*x*	*3.000*	*2.419*	*581*
2.	Vehicle 03	F2/19.04 N	70.000	50.000	AF 06.11N-1	20.000	16.129	3.871
3.	Vehicle 05	F3/15.06 N	17.500	14.800	AF 2/11.02N	2.700	2.177	523
Total for the second quarter			*87.500*	*64.800*	*x*	*22.700*	*18.306*	*4.394*
4.	Vehicle 01	F4/09.09 N	52.800	45.000	AF 07.08N-1	7.800	6.290	1.510
Total for the third quarter			**52.800**	**45.000**	**x**	**7.800**	**6.290**	**1.510**
Aggregate amount			*196.300*	*162.800*	*x*	*33.500*	*27.015*	*6.485*

Comparative Registry for the First, Second, Third and Fourth Quarters

Crt. No.	Name of good	Sales document	Selling price (inclusive of VAT)	Purchase price	Purchase document	Profit margin (inclusive of VAT)	Tax base	VAT 24%
1.	Vehicle 02	F1/15.03N	56.000	53.000	AF 10.08N-1	3.000	2.419	581
Total for the first quarter			*56.000*	*53.000*	*x*	*3.000*	*2.419*	*581*
2.	Vehicle 03	F2/19.04 N	70.000	50.000	AF 06.11N-1	20.000	16.129	3.871
3.	Vehicle 05	F3/15.06 N	17.500	14.800	AF 2/11.02N	2.700	2.177	523
Total for the second quarter			*87.500*	*64.800*	*x*	*22.700*	*18.306*	*4.394*
4.	Vehicle 01	F4/09.09 N	52.800	45.000	AF 07.08N-1	7.800	6.290	1.510
Total for the third quarter			*52.800*	*45.000*	*x*	*7.800*	*6.290*	*1.510*
5.	Vehicle 04	F5/05.12 N	78.500	66.000	AF 1/20.01N	12.500	10.081	2.419
Total for the fourth quarter			**78.500**	**66.000**	**x**	**12.500**	**10.082**	**2.418**
Aggregate amount			**274.800**	**228.800**	**x**	**46.000**	**37.097**	**8.903**

VAT payable for the fourth quarter is RON 2.419. Total of VAT declared during the year is still RON 8.903, just like in global method required by the national law.

Conclusions

Although Directive 112/2006/CEE, when applying the special scheme for second-hand goods, regulates two VAT collection procedures, implicitly two distinct computational methods, namely (i) the rule: The "piece by piece" and (ii) the exception: “simplified” procedure, the national legislation refers only to the exception, namely: the simplified procedure. In addition, the national legislation makes a general approach of the issue, unlike the European regulations that separately treat the tax scheme of taxable persons who apply special schemes for sales of second-hand vehicles.

Following the review conducted, we hereby present you the comparative table with the distribution of values in the two versions reviewed, mentioning that in the column named "the rule", we have entered the basic scheme stipulated by the European Directive and in column named "exception" we have entered the results obtained following the implementation of the alternative method stipulated under the European legislation (and taken exclusively by the national legislation).

Tax period	Profit margin (inclusive of VAT)		Tax base		VAT collected	
	Rule	Exception	Rule	Exception	Rule	Exception
First quarter	3.000	-24.800	2.419	-20.000	581	-
Second quarter	22.700	31.000	18.306	25.000	4.394	1.200
Third quarter	7.800	24.800	6.290	20.000	1.510	4.800
Fourth quarter	12.500	15.000	10.081	12.097	2.419	2.903
Total	**46.000**	**46.000**	**37.097**	**37.097**	**8.903**	**8.903**

Note that the size of VAT payable is the same, irrespective of the method used. However, the basic scheme stipulated in the European legislation on VAT is easy to apply and to follow, unlike the unique method chosen by the Romanian legislator (which, besides being particularly cumbersome, it is based on a correct formula, but apply differently for the first three quarters, as compared to the last quarter of this year).

In addition, the method required by the Romanian legislator has several major drawbacks, such as:

1)	**in terms of state**, tax collection occurs late and, therefore, the state will not dispose of cash in due time; In addition, the tax control work will hinder with no reason,

	without direct correlations existing between the accounting and the documentary systems;
2)	**in terms of taxpayers**: discomfort due to the obligation to use a method that is suitable only for the overall value management, although the "piece by piece" method would have been appropriate for the nature of such goods (in which specific identification and quantitative value records enables, at any time, the knowledge of the profit margin corresponding to each car sold separately); significant increase in the workload, with direct implications in the distortion of the assets, liabilities and shareholders' equity; lack of information control. If the rule "piece by piece" applies, checking is made based on the basis of accounting records of sale and release of administration, as well as on the basis of turnovers of accounts 707 "income from sale of goods" and 607 "merchandise expenses "during the reporting tax period. This is possible because accounting is quantitative and value and the way of identifying the goods sold, engine number and / or old vehicle registration number; inconsistency of using in the national tax legislation of the following terms: "purchase price", as well as "purchase cost". As we know, accounting requires evaluation of assets at their entering into management, at purchase cost, but the national tax legislation refers most often to the purchase price. In very rare cases, but only as an exception, the purchase cost is the same as the purchase price for car dealers. Note that taxation prohibits that the size of repairs should lead to an increase in the cost of goods purchased.

In our opinion, the article is an original approach that facilitates the improvement of the collection system of the budgetary income and, in this way; it leads to the optimization of the tax treatment in terms of the state and taxable dealers, who are selling second-hand cars from Romania.

In addition, we express our conviction that this article contributes to the development of fundamental and applied research of activities in the field of accounting and taxation, as it provides an integrated and novelty approach of the issues related to the effectiveness of the accounting and tax systems in Romania.

References

[1] Directive 2006/112/EC on the common system of value added tax;
[2] Order no. 3055/2009 for approving the Accounting Regulations compliant with European directives, Including Subsequent Amendments and additions;
[3] Law no. 571/2003 on the Tax Code, Including Subsequent Amendments and additions;
[4] Government Resolution no. 44 of January the 2nd, 2004 for approving the methodological guidelines of enforcing Law no. 571/2003 on the Tax Code, Including Subsequent Amendments and additions;
[5] Case C-160/11 (Bawaria Motors sp. z o.o. in opposition to Minister Finansów);
[6] Practice of dealers of second-hand transportation means.