

STUDY OF THE IMPACT OF VAT CASH IN COLLECTION SYSTEM IN THE CASE OF A SMALL BUSINESS

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The measure regarding the introduction of VAT cash-in collection system, has generated heated debates in the economic environment, pros and cons opinions appeared. Today, after one year since the first application of this legislative measure it is important to analyze the impact of VAT-cash-in system on a small company. The study was conducted for a period of almost two years, from January 1, 2012 till November 30, 2013, for the SIMM'S COMPUTER CENTER SRL, a small IT business, applying the VAT-cash-in system. The study consisted in converting the transactions in VAT cash-in system and comparing with the same transactions, but in VAT normal tax system. The analysis was carried out for fiscal years 2012 and 2013. We considered it is important to follow if there are any differences between the maximum amount paid in the each fiscal year and in what the time of year the VAT paid amount increase.

Keyword: VAT, VAT collection system, VAT cash in system

1. Introduction

Value added tax (VAT) is an indirect tax endured by the final consumer of the goods or service. VAT is a cascade charged tax for each company that is a part of the economic cycle of a product or a service, within the scope of taxation. After a company who participated in the economic cycle, exercised the right of deduction, it returns VAT balance to the state budget.

In Romania, the VAT appeared in the same time with the transition to the market economy and replaced the old turnover tax. The introduction of VAT in the Romanian tax system was made in 1992. VAT tax system was first applicable in Romania, starting from 1 January 1993.

Starting from January 1, VAT is stipulated in the new Fiscal Code. On January 1, 2013 was introduced VAT cash in system by the Government Ordinance, No. 15/2012 that amended and supplemented the Law no. 571/2003 regarding the Fiscal Code. Application of this system was mandatory for taxable persons registered for VAT purposes in Romania, who established there business in Romania and reported an annual turnover not exceeding 2,250,000 lei (\approx 500,000 euros). The taxable persons (companies) have to pay VAT to the tax authorities when they collect the money from the customers, for the delivered goods or rendered services, but no later than the 90th calendar day after the date of invoice. The same rule is applied in relation to the right of deduction of VAT. The taxpayers are entitled to deduct VAT only when they pay the supplier. Therefore, taxpayers who collect VAT benefit from a delay of the obligation to pay VAT up to 90 days, while defer their right to deduct up to pay the bill.

2. VAT cash in collection system in other eu countries

European Union Member States were able to apply the simplified VAT cash in accounting system starting with the 6th Directive, namely the European Communities Council Directive 77/388/EEC of 17 May 1977 on the turnover tax - common system of value added tax: uniform basis of assessment (Directive 77/388/ Article 27).

It should be noted that before December 31, 2012 the right to deduct may be deferred at the request of a Member State only on the basis of a derogation from the European Council and after the approval of the European Commission, and only in the context of application of the simplified system in which the *chargeability of VAT* is deferred until actual receipt of the delivered goods and services (Decision 97/375/CE ; Decision 2007/133/EC). EU countries that have requested exemptions from the

European Council on the right of deduction of VAT and the system of VAT cash in system only to certain categories of taxable persons or certain economic activities are: Great Britain, Ireland, Slovenia and Sweden.

Great Britain and Northern Ireland introduced in their legislation the possibility of opting for the simplified VAT cash in system from 1 October 1987, following approval by the Council of the European Communities (Decision 97/375/CE). Afterward, authorization was extended and the limit turnover was increased for eligible taxpayers (to 30/01/2007, 1.350.000 pounds, almost 2.000.000 euros). This special measure aimed to simplify VAT chargeability procedure to prevent certain forms of tax evasion. It is estimated that in the Great Britain and Northern Ireland were eligible for a VAT cash system application, about 1 million of taxable persons, of which 159.000 used this system. By increasing the top limit of turnover to 2 million euros would be classified another 57.000 companies.

Slovenia has been authorized to apply the simplified VAT cash in system from 1 January 2007 (Decision 2007/133/EC), requesting that the scheme be applied by taxpayers with a turnover of up to 208.646 EUR. From January 1st 2010 the turnover upper limit was increased to 400.000 EUR.

Estonia has been authorized to apply the simplified VAT on a cash basis from 1 January 2007 (Decision 2007/133/EC), requesting that the scheme is applied to taxable persons classified under Estonian law, the category individual businesses. Estonia has been authorized as from 01.01.2011 to apply the cash in accounting system to any taxable who reported a turnover up to 200.000 euros.

From January 1, 2013 individual authorization system for Member States was replaced by the Member States established right to allow the application of such a simplified mechanism, favorable for small and medium enterprises (Directive 2010/45/EU).

3. Summary of literature in theme value added tax

In this section, we provide a brief description of the most important studies conducted in the European Union, regarding VAT subject.

1. Reckon Report - Study to quantify the difference in VAT system in 25 EU countries

The report presents an estimate of revenue from VAT due to the application of exceptions for small businesses.

Table 1 . Estimated revenue foregone VAT exemption due to small business

	2000	2001	2002	2003	2004	2005	2006
UK (GBP million)	100	400	400	450	300	900	950
Ireland (EUR million)	42.61	25.27	40.3	37.3	59.83	41.96	37.56
Estonia (EEK million)	154.9	175.5	196.9	220.8	243.3	453.4	358.7
Hungary (HUF million)	n.a.	2,047	n.a.	2,659	10,607	14,752	8,667
Malta (EUR million)	5.87	6.68	7.14	7.40	9.53	9.58	10.03

Source: UK HM Treasury "Chapter A: Budget Measures, of the "Financial Statement and Budget Report", several years; and data received from Irish Revenue and the Ministries of Finance of Estonia, Hungary and Malta.

The report shows that Member States have made an underestimation of VAT receipts due to exemptions granted to SME. Since those values are relatively small, it was considered that there is no significant impact on the overall estimated difference between the VAT receivable and collected VAT in EU.

2. Study to quantify and analyze the VAT gap in the EU- 27 - CASE - Center for Social and Economic Research (Project leader), CPB Netherlands Bureau for Economic Policy Analysis (Consortium leader).

The report stated that Romania ranks last in the EU -26 in terms of differences in VAT receivable and the amount of collected VAT, on average 42 % in the sample. The progress made before 2008, when this difference felt below 40 % was reversed after 2009, when the revenues from VAT collapsed (about 30% in 2009). Despite an increase in revenues in 2010-2011, due to the sudden increase in the standard VAT rate (from 19 % to 24 %), the differences between the VAT receivable and collected VAT amount in 2011 was the highest of the 26 EU countries (48%).

VAT revenue structure is illustrated in the table below. What is notable is that the VAT revenue assigned household sectors are close to the EU- 26. However, it is very difficult to judge who really bears the burden of VAT only analyzing the differences

Table 2. Romania: VAT receipts, rates, Theoretical liability and gap , 2000-2011 (EUR million) – Study to quantify and Analyze the VAT Gap in the EU-27 Member States Final Report

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Total VTTL	4 510	5 545	5 696	6 232	7 388	9 826	12 338	15 769	17 601	15 482	18 381	21 760
Household consumption	3 046	3 874	3 967	4 229	5 139	6 739	8 371	10 217	11 092	8 936	10 675	12 206
Government & NPISH consumption	235	268	233	311	358	507	614	726	871	875	916	989
Intermediate consumption by industries	609	640	679	772	845	1 096	1 284	1 671	2 031	1 681	1 996	2 466
Gross fixed capital formation	561	616	642	723	805	1 201	1 678	2 582	2 974	3 603	4 367	5 553
Net adjustments	59	148	176	197	242	284	391	573	633	388	427	545
VAT receipts	2 633	2 830	3 449	3 781	4 075	6 439	7 741	10 079	11 036	7 852	9 494	11 412
VAT Gap	1 877	2 714	2 247	2 451	3 314	3 387	4 597	5 691	6 564	7 630	8 887	10 348
VAT Gap as a share of VTTL	42%	49%	39%	39%	45%	34%	37%	36%	37%	49%	48%	48%
VAT Gap as a share of GDP	4.6%	6.0%	4.6%	4.7%	5.4%	4.2%	4.7%	4.6%	4.7%	6.5%	7.1%	7.9%
Full rate	19%											24%
Reduced rates	9%											5%

Note: VAT rates stated at the end of calendar year.

In Romania the introduction of the VAT cash in collection system generated heated debates, pros and cons opinions appeared. The high pressure of *business environment led to the decision of the Minister Delegate for SME Business Environment and Tourism, Maria Grapini, to request an impact study regarding the application of VAT cash in system.*

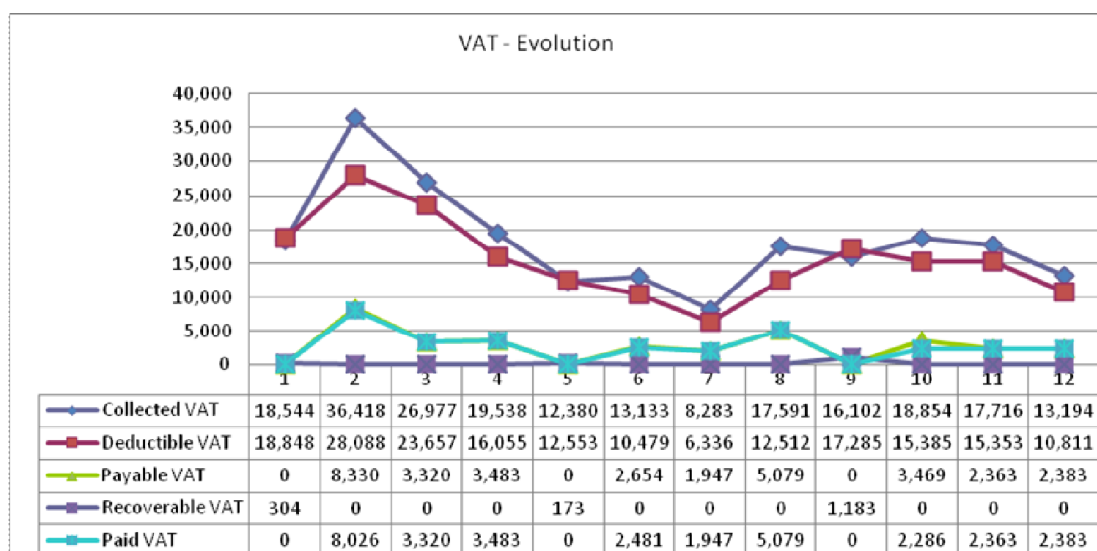
4. Case study

The case study was conducted at the company SIMM 'S COMPUTER CENTER LLC, a small IT business, applying the VAT cash in system. The activity of the company consist in retail sale and wholesale of computers, peripheral units and software in specialized stores, such as IT equipment peripherals, software, digital cameras & camcorders, printers, copiers, etc. .

The analysis was based on the following data:

- Purchases paid in cash or in the course of the month represents 15 % of turnover
- Sales or cash receipts during the month represent 19 % of turnover
- Payments to the suppliers are made within 30 days
- Receipts from the customers are made within 30 days.

Analyzing VAT in the case of SIMM'S COMPUTER CENTER LLC for 2012, the results show us the evolution of VAT, illustrated in the figure no. 1.

**Fig. 1 - VAT evolution in 2012**

In order to analyze the impact of VAT cash in collection system for the analyzed company, we converted data from 2012 in VAT cash in ion system, resulting in the following evolution:

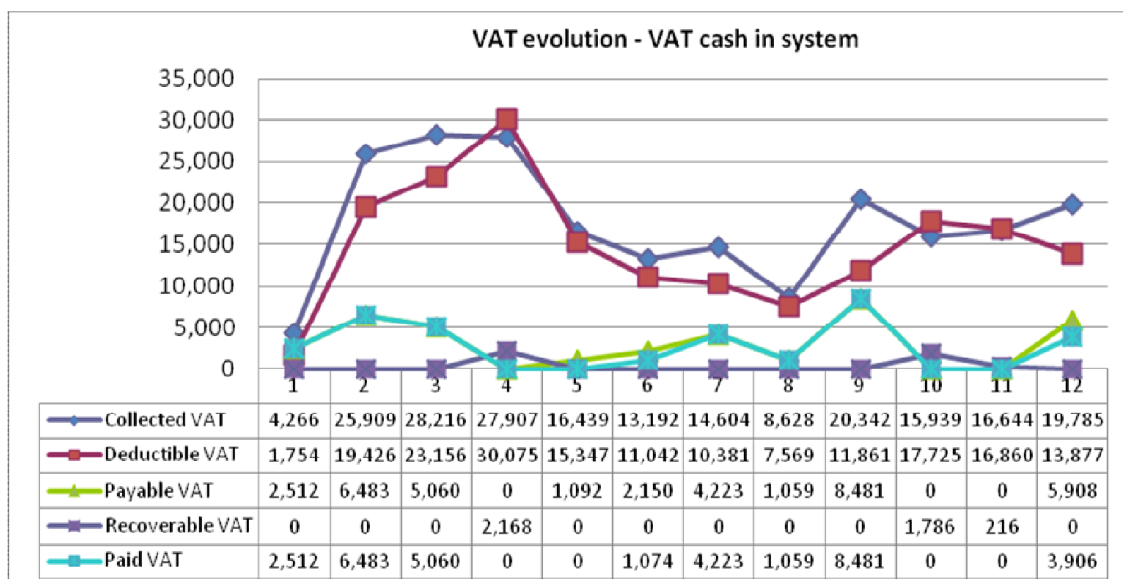


Fig. 2. VAT evolution in 2012 in the case of VAT cash in system

If we calculate the average annual payable VAT we notice a minor increase in the payable VAT from 2,614 lei/month to 2,733 lei/month in the case of VAT cash in system, as we can see from the following table:

Table 3 Average annual VAT

The average monthly sales	Cash	12.275,55	The average monthly sales	Cash + during the same month	12.771,05
		16,16%			28,67%
	during the same month	9.495,49		during the same month	54.168,29
		12,5%			71,33%
	within 1 month after the sale	54.168,29		Collected VAT	17.605
The average monthly acquisitions	Collected VAT	18.228	The average monthly acquisitions	during the same month	10.088,49
	during the same month	10.088,49			15,51%
	within 1 month after the sale	54.954,35		within 1 month after the sale	54.954,35
		84,49%		Deductible VAT	14.873
	Deductible VAT	15.615			
Average monthly payable VAT		2.752	Average monthly payable VAT		3.327
Average monthly receivable VAT		138	Average monthly receivable VAT		595
Average monthly paid VAT		2.614	Average monthly paid VAT		

We concluded that application of the VAT cash in system in 2012 for SIMM 'S COMPUTER CENTER SRL would have had a negative effect on the company's treasury. If we make the same analysis in 2013, when the company effectively applied VAT cash in system, we obtained the following results:

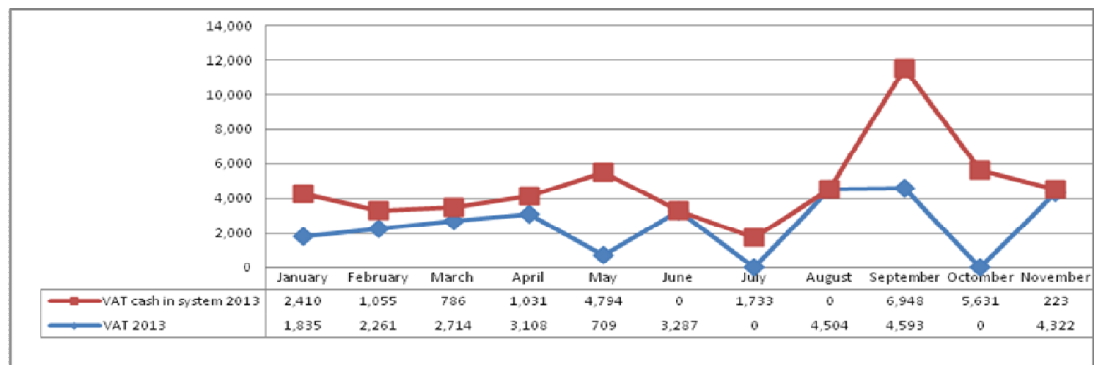


Fig. 3. - VAT evolution in 2013 VAT normal collection system and VAT cash in collection system

We should notice that in 2013, as far as possible, the company paid the suppliers invoices right after the collection of money from customers in order to counterbalance the effects of VAT cash in system.

We find that the effective implementation of the VAT cash in system for SIMM'S COMPUTER CENTER SRL did not have the expected negative effect on the company's treasury. This effect was influenced by the company policy mentioned above.

If we compare the data obtained from the two-years analysis, we notice:

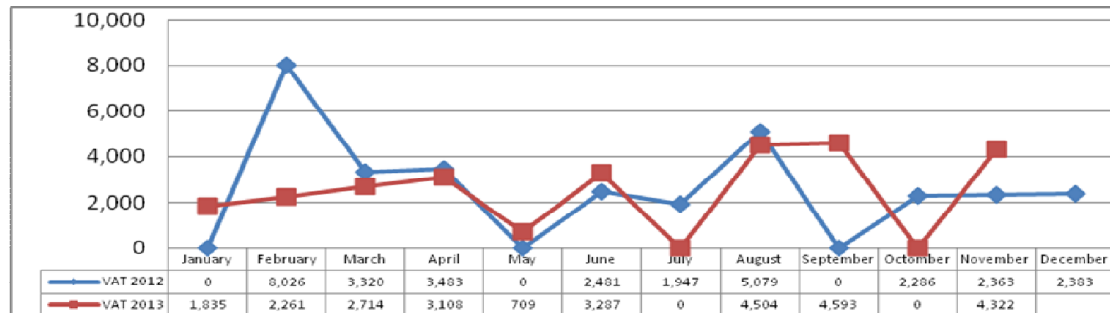


Fig. 4 - VAT evolution in 2012 and 2013 - VAT normal collection system

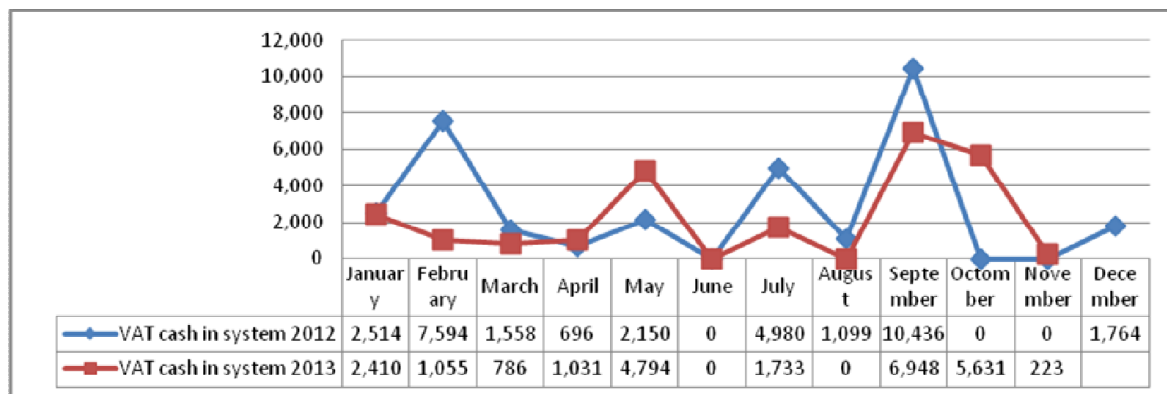


Fig. 5 - VAT evolution in 2012 and 2013 - VAT cash in system

Table 4 Average VAT in 2012 and 2013

	average
VAT 2012	2,614
VAT cash in system 2012	2,733
VAT 2013	2,485
VAT cash in system 2013	2,237

Following the survey we find:

- Regarding the impact of the application of VAT cash in system in the case of SIMM'S COMPUTER CENTER SRL, we can conclude that the overall effect was not a negative one. VAT paid by the firm in 2013 decreased (when we converted data from 2013) from 2,485 lei per month to 2,237 lei per month.
- We can also notice that in May and September 2013, when there is a high pressure on the treasury firms which have engaged in trade, the VAT amount payable increased - which is a negative effect of the application of VAT collection system.
- There is no uniformity of amounts paid. The difference between the smallest and the largest amount of VAT paid in 2013 increased from 0 to 6.948 lei minimum maximum, leading to the disproportion of treasury.
- Another important issue regards the software adaptation. This adaption was achieved with high costs for the company. The changes required were substantial, from the records of invoices, checking the suppliers in the Register of taxable persons applying VAT cash in system, introducing the new rules of deduction/collection, setting the date of deduction or collection, modifying records, statements, etc.
- You set the rules complicated and unfair if the reductions granted. The first requires reduction of VAT deducted and then the VAT deducted.

Conclusions

After performing this study on the company SIMM'S COMPUTER CENTER SRL, a series of conclusions can be drawn.

Regarding the impact of the application of VAT cash in collection system in the case of SIMM'S COMPUTER CENTER SRL, we can state that overall effect of this system was not a negative one. The reduction of VAT sum amount paid is not sufficient to justify the costs incurred by adapting software and additional work of the staff.

The results were influenced in the particular case of the analyzed company, by the following facts:

- Purchases paid in cash or in the course of the month represents 15 % of turnover
- Sales or cash receipts during the month represents 19 % of turnover
- Payments are made within 30 days
- receivables are collected within 30 days

Yet business environment has consistently requested in 2013 the cancellation or the change of this VAT cash in collection system. Finally, the response of the authorities came. The Ordinance 111/2013 regarding the regulation of a series of fiscal measures was adopted in December, 2013. This ordinance brings some changes required by the business environment:

- The application of the VAT cash in collection system becomes optional.
- As a general rule, the person who chooses the VAT cash in collection system must submit a notification with the turnover of the previous year, until January, 25.
- The limitation 90 days to collect VAT disappears.

We have to note that this ordinance was adopted to avoid the opening of the infringement procedure against Romania. The European Commission stated that implementation of VAT cash in collection system should be optional for economic operators and also the fiscal authority should not impose the collection of VAT at a certain time limit after the date of the invoice (OUG111/2013, 2013).

In conclusion, each company now has the right and ability to analyze if the VAT cash in collection system is a system that brings benefits or if the company reduces pressure on the treasury.

References

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6. *OUG111/2013, (2013), Official Gazette No. 809/19.12.2013 .*