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Challenges of the Accounting Profession in Accounting Systems Connected to Taxation: Business Taxation in Romania Compared to Hungary

Violeta STATE,
Cristina - Maria VOINEA,
Loredana - Cristina TĂNASE,
Valahia University of Targoviste, Romania
Andor PAJROK
Eötvös József Főiskola of Baja, Hungary
viostate@yahoo.com

Abstract

It is known that two accounting models/systems have emerged worldwide, each based on one of the two accounting currents: the continental accounting model resulting from the conceptual or deductive current and the Anglo-Saxon accounting model resulting from the pragmatic or inductive current. Each country has its own accounting system that reflects the legal, social and cultural influences specific to that country. Still, the different national accounting systems with their particularities can be grouped more or less faithfully and integrated into one of two models. Romania and Hungary adopted the continental accounting system, whose characteristic is the connection of accounting to taxation. Through a comparative study between Romania and Hungary in terms of business taxation, we aim to highlight the challenging journey of accounting professionals from the accounting rules common to all activities and constant over time to the different tax processing and adjustments from one period to another and even from one field of activity to another.

Keywords: *accounting, taxation, regulation, tax, professional accountant.*

JEL Classification: M41

Introduction

Accounting is the science that has the aims of measurement, evaluation, knowledge, management, and control of the entity's patrimony and the results obtained by them as a result of the activities corresponding to the object of activity and/or the missions for which they were established.

The finished product of accounting is financial accounting information intended for a wide range of users, from the management of entities and business partners to the state and its bodies. In the process of creating financial and accounting information, accounting has its own tools for collecting, processing, reporting and publishing data and information, all included in a ***complex system of principles and rules*** aimed at ensuring the relevance of financial and accounting information for decision-making by their users. For relevant, neutral and complete information to be useful, it is also necessary to be comparable, verifiable, timely and understandable.

Professional accountants must respond to some major challenges in the case of continental accounting systems, because they are obliged to continuously "enrich" professional accounting reasoning with time- and resource-consuming fiscal rules and regulations, as a result of the frequency and consistency with which they change.

1. Literature review

In the context of the intensification of economic exchanges between entities from different countries and the manifestation, in this way, of the phenomenon of economic globalization, accounting was and is the object of an extensive process of normalization and harmonization, ***the internationalization of accounting*** becoming a determining characteristic of the evolution of this science.

The internationalization of accounting has its origin in the concerns of international harmonization of accounting rules and practices, so that financial information is useful in the decision-making process of its users who rely on their informational power. In this context, two currents of thought took shape, which led to the creation of two accounting systems whose characteristics are presented in the table below:

Table 1.

Characteristics of currents and accounting systems

No. crt.	Concept	Characteristics
1.	**The conceptual or deductive current,** which led to the emergence of:	Accounting concepts and principles are determined by professional judgment. Later, they will be found in the methods and procedures applied in practice.
	Continental accounting system	Accounting is strongly connected to taxation. The state has a major role both in the process of developing the rules and in their implementation. The preferential recipient of financial accounting information and financial statements is all the state. It is accrual accounting: the result is determined by the difference between income and expenses, regardless of the degree of collection or payment. There is an obligation to use centralizing and reporting documents and situations strictly regulated both in form and content.

No. crt.	Concept	Characteristics
2.	**The pragmatic or inductive current, which led to the emergence of:**	For the development of concepts and principles, experiences and traditions are used.
	The Anglo-Saxon accounting system	Accounting is disconnected from taxation The state does not intervene in the elaboration of the rules, but only in their implementation. The preferred recipients of financial accounting information and financial statements investors. It is treasury accounting: the result is determined by the difference between receipts and payments. There is an obligation to comply with some requirements regarding the content of centralizing and reporting documents and situations, the order and form of presentation being at the discretion of the entities.

(Source: authors' processing)

From our point of view, one of the significant differences between the two systems is related to whether or not accounting is connected to taxation, which generates the second significant difference, namely accrual accounting versus treasury accounting, as the principle underlying the use financial accounting information for the determination of taxes and fees.

To achieve the proposed objective, we believe a brief presentation of the main characteristics of accounting in the two countries is necessary, focusing mainly on the degree of connection between accounting and taxation.

Table 2.

Characteristics of accounting and connection to taxation

Romania	Hungary
The adopted accounting system	
Continental accounting system	Continental accounting system
Accounting organization	
Accounting is organized and conducted, as a rule, in distinct compartments, led by the economic director, the chief accountant or another person authorized to perform this function. These people must have higher economic education (Law no 82/1991). Accounting can be organized and conducted based on service contracts in the field of accounting, concluded with natural or legal persons, authorized according to the law, members of the Body of Expert and Licensed Accountants of Romania.	Accounting is the activity in which the entrepreneur continuously keeps a record of the economic events occurring during his activity that affect his patrimonial, financial and income situation according to the rules provided by the accounting law and closes it at the end of the business year (Act C of 2000). Auditing of annual accounts is mandatory for entrepreneurs who keep double-entry bookkeeping (Law no. LXXV of 2007).
Professional organisms	
Body of Expert and Licensed Accountants of Romania Chamber of Tax Advisors Chamber of Financial Auditors of Romania	Association Fiscal Consultants and Accountants from Hungary Association of Experts Certified Taxpayers from Hungary Hungarian Chamber of Auditors

Taxes determined according to fiscal rules based on accounting data	
Business taxation: Profit tax and as an exception Tax on the income of micro-enterprises *Labor taxation:* Income tax from wages: *Taxation of investment:* Dividend tax *Taxation of the movement of goods:* Value Added Tax (VAT)	*Business taxation:* Profit tax *Local Tax:* Business Tax (Iparűzési adóból) *Labor taxation:* Personal income tax *Simplified taxation:* Small business tax *Taxation of investment:* Dividend tax *Taxation of the movement of goods:* Value Added Tax (ÁFA)

(Source: authors' processing)

2. Research methodology

The research question is directly derived from the title of this paper, which seeks to explore the extent to which accounting systems that are integrated with taxation present challenges for professionals in the field. Specifically, it aims to investigate the complexities and difficulties these professionals face when working with such interconnected systems. By examining the nuances of this relationship, the study intends to shed light on the implications for practitioners, potentially highlighting issues related to compliance, accuracy, and efficiency in managing financial records that are subject to tax regulations.

From an accounting point of view, the activity of an economic entity implies the reflection of all the revenues generated from the realization of the object of activity and all the resources consumed (expenses) for the creation of these revenues, respecting the specific principles and procedures of accounting integrated in the national accounting legislation.

From a fiscal point of view, the accounting result must be adjusted, both plus and minus, with a series of elements provided for in the tax legislation.

Precisely, these additional adjustments and processing of accounting reasoning are the subject of the first point of our scientific approach, i.e., verification of the hypothesis according to which the pace and consistency of fiscal changes with an impact on accounting data is manifested intensively in both countries. Through a comparative analysis of the tax legislation currently in force, we aim to highlight the common elements and differences in the taxation of business in Romania and Hungary.

The second hypothesis can be formulated as follows: although the elements of non-deductibility and tax deductions that impact the accounting result differ in their nature, the professional challenges for accounting professionals are equally great.

Our scientific approach consists in a comparative examination of the tax legislation of the two countries, following the evolution of regulations regarding the profit tax and two other forms of business taxation: the tax on the income of micro-enterprises in Romania and the business tax in Hungary.

3. The evolution of the tax legislation regarding the profit tax in Romania and Hungary

The accounting normalization process assumed the adoption in national legislation of some regulations regarding the accounting policies for the evaluation and reflection of the heritage and the performances resulting from its use in the financial statements starting from a series of references accepted at the European and international level (conceptual framework, European directives, international accounting and financial reporting standards). This is why the accounting financial information from the two countries is comparable, resulting from compatible regulations in terms of their informational quality for users, including the state.

On the other hand, the fiscal reform in each country is dependent on the fiscal policy of the governments of the respective countries, which is adopted according to a series of factors mainly of an internal nature, to ensure the public revenues necessary to finance public expenditures.

Financial needs from the state budget can change over time due to factors like economic conditions and social demands. Consequently, governments often adjust tax legislation to meet these shifting requirements. The extent and frequency of these changes vary significantly between countries, reflecting their unique economic situations and fiscal policies. Some nations may experience frequent and major tax law revisions, while others may have more stable and infrequent adjustments.

For our study, we retained only business taxation for the comparative analysis, the other types of taxes and fees being the subject of future research, their complexity requiring a distinct, in-depth approach in order to draw well-founded conclusions.

The study period of the evolution of fiscal regulations regarding business tax in Romania and Hungary starts from 1990 to the present.

Currently, in Romania, business taxation divides economic entities into two categories:

- economic entities paying profit tax - any economic entity becomes a profit tax payer when it is established;
- economic entities paying microenterprise income tax - refers to economic entities that opt for this form of taxation, either when they are established or during their existence, depending on the fulfillment of certain conditions. This category represents the exception to the general rule at this time.

Regardless of the category of entities, the provider of information is accounting. Accounting information is subject to fiscal treatment, treatment regulated by Law no. 227/2015 on the Fiscal Code periodically updated by emergency ordinances and/or government decisions.

The taxation base, the fiscal result, is represented by the accounting result to which the non-deductible expenses are added and from which the tax deductions are subtracted.

In Hungary, corporate tax is one of the taxes that economic organizations have to pay to the state treasury after their profits. The taxable object is the business activity, which in this case means the economic activity aimed at or resulting in the acquisition of income and wealth. The tax base is the taxable profit of the company, which must be calculated from the pre-tax profit from which the tax-free elements must be deducted and the taxable elements must be added following legal requirements.

One notable similarity between the two countries is how the taxable profit, which is essential for calculating the profit tax rate, is derived from accounting data. This data undergoes adjustments based on specific tax regulations. In the following table, we will illustrate the progression of fiscal provisions concerning profit tax over the years. This table will detail the year in question, the applicable tax rate, and any additional elements that are part of the foundational regulations governing these taxes.

Table 3.

The evolution of the regulations regarding the profit tax in Romania

<table>
<tr><th>Elements
Year</th><th>Basic rate</th><th>Additional rate</th><th>Minimum tax</th></tr>
<tr><td>1991
(Law no. 12/1991)</td><td>68 progressive rates depending on the size of the profit*</td><td>-</td><td>-</td></tr>
<tr><td>1992
(H.G. no. 804/1991)</td><td>30% for taxable profit up to 1.000.000 lei**
and
45% for the part of the taxable profit that exceeds 1.000.000 lei</td><td>-</td><td>-</td></tr>
<tr><td>1994
(O.G. no. 70/1994)</td><td>38%
and
25% for taxpayers who make at least 80% of their income from agriculture annually</td><td>22% for the field of gambling, including bars and night clubs if the weight of income from these in total income is > 50%</td><td>-</td></tr>
<tr><td>1999
(O.U.G. no. 217/1999)</td><td>25%</td><td>25% on the part of the taxable profit that corresponds to the wight of the income registered from the activity of night bars, night clubs and casinos in the total volume of income</td><td>-</td></tr>
<tr><td>2003
(Law no. 571/2003)</td><td>25 %</td><td>-</td><td rowspan="3">For night bars, nightclubs, discotheques, casinos and sports betting: if the profit tax due for the above activities is less than 5% of the respective incomes, they are obliged to pay a tax of 5% applied to these incomes</td></tr>
<tr><td>2008
(O.U:G. no. 127/2008)</td><td>16%</td><td>-</td></tr>
<tr><td>2015
(Law no. 227/2015)</td><td>16%</td><td>-</td></tr>
</table>

(Source: authors' processing)

Notes: * Progressive quotas applied to taxable profit were of the form:

- until 25.000 lei profit, exempted
- 25.000 – 50.000 lei: 0 lei + 5%
- 50.001 lei - 75000 lei: 1.250 lei + 12%

- 75.001 lei – 100.000 lei: 4.250 lei + 13%
…………………..
- 930.000.001 lei - 955.000.000 lei: 528,873.500 lei +76%
- up to 955000000 lei: 547.873.500 + 77%

**Exchange rate (H.G. no. 238/1991):
- until April 1, 1991: 35 lei for 1 US dollar, 1.000.000 lei equivalent to $28,751
- after April 1, 1991: 60 lei for 1 US dollar. 1.000.000 lei equivalent to $16,666

In Hungary, the history of profit tax began in 1988 with the adoption of the corporate tax law and continued, in the years after the system change, with several changes to profit tax rates and rules, reflecting the country's transition to a market economy and reaction to international tax competition. Thus, the key moments in the regulation of the profit tax are the following:

- 1995, the year of the introduction of a single profit tax system;
- 2010 the year of the reduction of the profit tax rate to increase competitiveness;
- 2021 the year of the further reduction of tax rates and the simplification of the tax base.

Table 4.

The evolution of the regulations regarding the profit tax in Hungary

Elements / Year	Basic rate	Reduced rate
1988*	50%	-
1990	40%	35% on the first 3 million HUF of taxable profit
1991	40%	Tax liability reduced by 20% for enterprises with a foreign participation of at least 20% Reduced quota for agriculture, food processing and various cultural services and activities
1997	18%	-
2004	16%	-
2006	16%	10% for the tax base below HUF 5 million tax base (if certain conditions are met)
2008	16%	10% for the tax base below HUF 50 million base of (if certain conditions are met)
2010	19%	10% for the tax base below HUF 500 million
2017	9%	-

(Source: authors' processing)

**Note: Corporate profits tax introduced to replace state enterprise tax*

A simplified form of tax is the small business tax (KIVA), which replaces three types of tax paid by businesses: social contribution tax, vocational training contribution (until 2021) and profit tax.

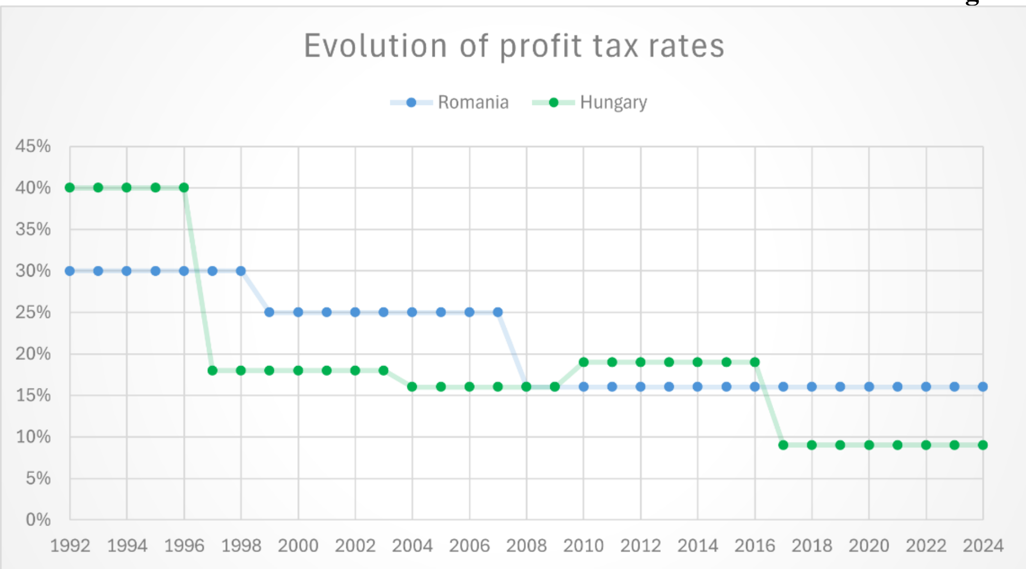
From January 1, 2022, the tax rate is 10% of the tax base. The tax base is the sum of personal payments increased by the capital balance and dividend operations, modified with some additional elements.

The advantage of this type of tax is that the profit generated in the company and the wage bill are levied at the same rate, thus providing a better incentive for employment and wage growth.

Commercial companies that are not classified as SMEs and are subject to the Accounting Law are required to pay the innovation contribution in the amount of 0.3% of a tax base that is the same as the local business tax base calculated without tax incentives.

The graphic representation of the evolution of tax rates in the two countries highlights the downward trend of the adopted profit tax rates, the conclusion that can be drawn is that both countries aimed to stimulate the development of companies by increasing the amount of net profit left at their disposal.

Figure 1.



(Source: authors' processing)

To promote economic growth and attract investments, both countries have implemented a range of tax incentives and additional deductions for research and development activities, as well as for reinvested profits. Quantifying these extra tax benefits and obligations is essential, as they directly affect the total tax liability. While Hungary boasts the lowest corporate tax rate of 9% among EU member states, it also imposes a business tax (HIPA) and an innovation contribution, both of which are unique to Hungary within the EU. This results in a tax burden that is effectively double that of the corporate tax alone for companies operating there.

4. Microenterprise income tax in Romania versus business tax in Hungary

As stated above, the tax on the income of micro-enterprises in Romania is the exception to the general rule of business taxation through the profit tax. It is calculated as a percentage of tax applied to a tax base represented by the revenues made by the micro-enterprise and represents a source of income for the general state budget.

The method of calculating this tax does not raise difficulties, the negative impact on accounting professionals is given by the frequent changes both to the criteria for inclusion in the micro-enterprise category and to the tax rates.

The first regulation of this tax was in 2003 by Law no. 571/2003 on the Fiscal Code. Entities that had income that did not exceed the equivalent in lei of 100,000 euros and from 1 to 9 employees inclusive could opt for this tax, the tax rate evolving from 1.5% in 2003 to 2% in 2007, 2 .5% in 2008, 3% from 2009 to 2014.

With the adoption of the new Fiscal Code in Romania by Law 227/2015, the conditions for entering the micro-enterprise category and the tax rates have changed almost year by year, as can be seen from the table below.

Table 5.

Amendment of the Fiscal Code regarding the income tax of micro-enterprises

No. crt.	Microenterprise conditions	Tax rate
1.	***2015***	
	Ceiling turnover: 65.000 Euro* Companies with a social capital equivalent to the value of 25.000 euros (over 100.000 lei) could opt for the income tax	Single rate of 3% applied to the taxable income of companies
2.	***2016***	
	Ceiling turnover: 100.000 Euro Companies with social capital equivalent to the value of 25,000 euros (over 100.000 lei) could opt for the profit tax	3% rate for companies without employees, 2% rate for companies with 1 employee 1% rate for companies with at least 2 employees
3.	***2017***	
	Ceiling turnover: 500.000 Euro Companies with social capital equivalent to the value of 45.000 lei could opt for the profit tax	3% rate for companies without employees. 1% rate for companies with employees
4.	***2018-2022***	
	Ceiling turnover: 100.000 euro Companies with social capital equivalent to the value of 45.000 lei could opt for the profit tax	3% rate for companies without employees. 1% rate for companies with employees (one or more)
5.	***2023*** (O.G. no. 16/2022)	
	1) Ceiling turnover: 500.000 euro 2) Achieve incomes other than those from consulting and/or management, in a proportion of over 80% of total incomes; 3) Has at least one employee; 4) It has associates/shareholders who hold more than 25% of the value/number of participation titles or voting rights in no more than three Romanian legal entities that qualify to apply the tax system on the income of micro-enterprises.	1% rate If during a fiscal year a micro-enterprise achieves revenues greater than 500.000 euros or the share of revenues from consulting and/or management in total revenues is over 20% inclusive, it owes profit tax starting from the quarter in which any of these was exceeded limits, without the possibility of opting for the next period to apply income tax

No. crt.	Microenterprise conditions	Tax rate
6.	***2024*** (O.U.G. no. 115/2023)	
	1) ; 2); 3) the same as in the year 2023 4) has associates/shareholders who hold, directly or indirectly, more than 25% of the value/number of participation titles or voting rights and is the only legal entity established by the associates/shareholders to apply income tax.	The same as in the year 2023 1) 1% rate for companies with employees (one or more), whose turnover does not exceed 60.000 euros and do not operate in certain fields of activity; 2) 3% rate for companies with employees and exceeding the 60.000 euro turnover threshold

(Source: authors' processing)

*Note: * The exchange rate for determining the euro equivalent is the BNR rate valid at the end of the financial year in which the revenues were recorded*

It should be noted that the transition from microenterprise income tax to profit tax becomes mandatory during the fiscal year if the conditions in the table above are met. This means that accounting professionals have an additional task, that of tracking the amount of the figure of business, to draw up the documents required by law for the change of the fiscal vector and to apply correctly for the corresponding period the fiscal rules for establishing the profit tax.

For accounting professionals in Hungary, the task seems simpler, because the business tax is a local tax by which business activities carried out on a permanent or temporary basis within the jurisdiction of the given municipality or carrying out business activities on the territory of the municipality with the title temporarily more than 180 days.

The tax base is the net income from sales from which to deduct: the purchase value of the goods sold; value of mediated services; the value of the subcontractor's performance; direct cost of experimental research and development; material cost.

The business tax rate is a maximum of 2% of the tax base, but this may vary from settlement to settlement, as the determination of the tax rate is the responsibility of each municipality. Until 2021, a fee of HUF 5.000 per day payable in case of temporary business activity was in force.

Conclusions

The regulation of profit tax and other taxes changes as a consequence of the fact that fiscal policy is part of the government's economic policy, which responds to changes in the economic environment. Therefore, economic entities are advised to constantly inform themselves about the current tax laws and possible changes, as well as without fail to seek the help of experts.

The primary objective of tax reform should be to enhance the efficiency of corporate taxation, as well as other forms of taxation, while simultaneously simplifying the overall tax system. This approach aims not only to bolster the competitiveness of businesses but also to alleviate the administrative burdens often associated with tax compliance. Additionally, an effective tax system can contribute to improving the rates of tax collection, increasing voluntary compliance among taxpayers, and fostering a more positive relationship between tax authorities and businesses.

As we have discussed, the intricacies of business taxation are intricately linked to accounting practices. The methodologies applied in accounting are crucial as they dictate how pre-tax profits are computed. In both countries under consideration, adherence to accurate and transparent accounting and reporting practices is essential for properly determining the tax base in accordance with existing regulations. This adherence ensures that businesses are taxed fairly and that revenue is generated consistently with the legal framework.

Profit before taxation serves as a vital financial metric, calculated based on a profit and loss statement prepared according to established accounting principles. This key indicator not only reflects the financial health of a business but also serves as the foundation for calculating corporate profit tax obligations. Therefore, businesses must maintain precise accounting records, as even minor discrepancies can significantly impact the overall tax liability and compliance standing. By ensuring rigorous adherence to accounting standards, companies can more accurately determine their taxable income and fulfill their tax obligations in a manner that is both compliant and efficient.

The Profit Tax Law, in Hungary, and the Fiscal Code, in Romania, contain precise regulations regarding the elements that can be deducted from the tax base and that must be added. These fiscal regulations do not allow accounting professionals to interpret a given situation through professional reasoning but oblige them to reasoning related to their ability to accurately identify the applicable regulation in the case they are analyzing.

From our point of view, professional accountants must have this ability, beyond the undisputed professional competencies, to navigate through the tax regulations applicable at a given time. Moreover, in the accounting profession, there is a paradigm shift in its role from "service provider, accounting and tax to a business partner, consultant, analyst, and business strategist" (Coman et al., 2022).

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