DOI 10.2478/vjes-2022-0005

Considerations regarding the Accounting of Value Added Tax – National Particularities within the European Context

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Abstract

The value added tax (VAT) is an indirect tax on consumption, of a general nature, applied to value of economic goods, regardless their final destination, i.e., consumer goods or production means, as well as to the execution of works and providing of services. According to its name, the calculation basis of VAT, paid by the consumer and due by the seller, is the added value related to the last link in the supply chain; this feature ensures the transparency of the tax. VAT is a consumption tax applied to almost all goods and services purchased and sold for use or consumption in the European Union (EU). At Community level, there are standard VAT rules, but their application may differ among countries. In most cases, VAT must be paid for all goods and services at all stages of the supply chain, including sale to the final consumer. Until 1989, Romania applied a single sales tax, followed by the tax on the movement of goods between 1989 and 1992. The latter was replaced by VAT, starting with July 1, 1992, as part of the initial efforts of transition towards the convergence with the applicable tax system within the European context. The introduction of value added tax has determined, in the early stage following the implementation of this measure, the increase of the consumer price index, but later it had a stimulating effect on investments and exports.

Keywords: *value added tax, deductible VAT, collected VAT, standard rate, reduced rates.*

JEL Classification: M41

Introduction

The value added tax (hereinafter, referred to as *VAT*) is part of the category of indirect taxes calculated in percentage quotas by entities registered as VAT payers. Different VAT rates apply in the EU countries. The rates depend on the product or service involved in the transaction.

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There are also special rates, set according to the VAT rates applied in EU countries before the EU accession. From the fiscal equity point of view, the value added tax, being an indirect tax, does not respect the principle of fiscal burden equality, as it is irrespective to the income or wealth of the taxpayer. The applied tax rate is equal for all taxpayers, but considering the taxpayers' income, the individual tax burden is different, representing a higher proportion for taxpayers with lower incomes. Thus, in relation to the size of the income, the action of the VAT is regressive on the taxpayers.

In case of the entities registered as VAT payers, by using of this tax, is offered the possibility to deduct the value added tax previously paid (deductible) from the value added tax collected as a result of the sale of goods and the provision of services. Thereby, the value added tax due results from the difference between the tax collected and the tax paid as a result of purchases of products and services. There are also some exceptions to the application of this principle, which refer to the non-granting of the right to deduct VAT paid on supply, expressly regulated, but, as a general rule, value added tax is deductible. The transparency of this tax results from the fact that the VAT due to by a payer entity of this tax is related to the value added by the entity to the delivered product or provided service.

1. Registration of Value Added Tax in the accounting

In the accounting, the registrations of settlements with the Treasury on VAT is subject to usage the account of the first degree, 442 "*Value added tax*", which is a bi-functional account. (*Romanian Accounting Act*, 1991) In order to distinguish between various categories of VAT, the following synthetic accounts of second degree are used: "*Payable VAT*" (4423); "*Receivable VAT*" (4424); "*Deductible VAT*" (4426); "*Collected VAT*" (4427) and "*Non-exigible VAT*" (4428) (Possler et. *al*., 2011 p. 271).

The payments of VAT are registered in the account 4423 "*Payable VAT*". From the accounting point of view, the account 4423 "*Payable VAT*" is an account of liabilities, in whose credit, at the end of each month, is registered the difference between the credit balance of account "*Collected VAT*" (4427) and the debit balance of account "*Deductible VAT*" (4426), respectively:

Collected VAT > Deductible VAT

The corresponding accounting registration is the following:

4427 "*Collected VAT*"	=	%
		4426 "*Deductible VAT*"
		4423 "*Payable VAT*"

In the debit balance of the account 4423 "*Payable VAT*" is registered the settlement of VAT (Matiş & Pop, 2010):

a) either, the amounts paid as VAT:

4423 "*Payable VAT*"	=	5121 "*Current bank accounts*"

b) either, the value of VAT to be compensate:

4423 "*Payable VAT*"	=	4424 "*Receivable VAT*"

The balance of the account represents the due (payable) VAT.

The receivable VAT (from the Treasury) is registered in the account 4424 "*Receivable VAT*", in whose debit is registered the difference (at the end of the month) between the debit balance of account "*Deductible VAT*" (4426) and the credit balance of the account "*Collected VAT*" (4427).

Collected VAT < Deductible VAT

The above situation is registered in the accounting under the formula:

% = 4426
„*Deductible VAT*"
4427
„*Collected VAT*"
4424
„*Receivable VAT*"

The credit balance of the account represents the receivable VAT, settled as (Ristea, 2005):

a) either, to be cleared in the following periods with the amount of payable VAT:

4423 = 4424
"*Payable VAT*" „*Receivable VAT*"

b) either, by reimbursements from the Treasury:

5121 = 4424
"*Current bank accounts*" „*Receivable VAT*"

The amount of the deductible VAT during the month is registered in the account 4426 „*Deductible VAT*", consisting in the VAT corresponding to purchases of goods, services, works, or related to the fixed assets made under the own management of the organization, and therefore, fiscally deductible (*Romanian Fiscal Code*, 2003). From the accounting function point of view, the account 4426 „*Deductible VAT*" it is an account of assets, in whose debit balance are registered, upon the case (Paliu-Popa & Ecobici, 2010):

a) the amount of deductible VAT, according to the invoices issued by the suppliers:

% = 401
„*Suppliers*"
4426
"*Deductible VAT*"
30
"*Stocks of raw materials and materials*"
371
"*Commodities*"
61
"*Expenditures on works and services performed by third parties*"
62
"*Expenditures on other services performed by third parties*"

b) the amount of deductible VAT, according to invoices issued by the suppliers of fixed assets:

%	=	404 „*Suppliers of fixed assets*”
4426 „*Deductible VAT*”		
20 “*Intangible assets*”		
21 „*Tangible fixed assets*”		
23 „*Assets in construction progress*”		

c) the amount of non-exigible VAT, related to the goods, works, or services in cases when the invoice was not issued at the time of purchase; in these situations, the VAT amount is due (exigible) at the time of subsequent receipt of the invoice:

4426 „*Deductible VAT*”	=	4428 “*Non-exigible VAT*”

At the end of the month, the account has no balance.

The amount of the collected VAT during the month is registered in the account 4427 „*Collected VAT*”, consisting in the VAT corresponding to sales of goods, and services or works provided (Feleagă & Ionaşcu, 1998). From the accounting function point of view, the account 4427 „*Collected VAT*” is an account of liabilities, in whose credit balance are registered, upon the case:

a) collected VAT, as registered in the invoices issued at the sales of goods, and works or services, provided by the payer entity:

411 *“Clients/Customers*”	=	%
		70 “*Revenue accounts from sales of products, goods, and services*”
		4427 „*Collected VAT*”

b) collected VAT, as registered in the invoices issued at the sale or cession of fixed assets:

461 “*Various debtors*”	=	%
		7583 “*Revenues from sales of assets and other capital operations*”
		4427 „*Collected VAT’’*

c) The amount of non-exigible VAT, related to the goods sold, of whose invoice has not been issued at the time of sale; the corresponding value becomes due at the time of subsequent issue of the invoice:

4428 = 4427
"*Non-exigible VAT*" "*Collected VAT*"

d) VAT collected related to the deficiencies imputed to the various debtors:

461 = %
"*Various debtors*"
7588
"*Other operating revenues*"
4427
"*Collected VAT*"

e) VAT collected related to the deficiencies imputed to the employees:

4282 = %
"*Other claims on staff*"
7588
"*Other operating revenues*"
4427
"*Collected VAT*"

The amount of the non-exigible VAT is registered in the account 4428 "*Non-exigible VAT*", resulting from the sales and purchases of goods, services, which are not accompanied by the suppliers' invoices, works with payments in installments, as well as the VAT included in the retail price, in case of commercial units which use the retail price for accounting purposes. (Pântea et. *al*., 2007 p. 294). From the accounting function point of view, the account 4428 "*Non-exigible VAT*" is a bi-functional account, in whose credit balance are registered, upon the case:

a) The value added tax related to the supply of goods, services and execution of works, with payments in installments:

411 = %
"*Clients*"
70
"*Revenue accounts from sales of products, goods, and services*"
4428
"*Non-exigible VAT*"

b) VAT related to the supply of goods, services, execution of works of whose invoices have been issued:

411 = %
"*Clients – invoices to be issued*"
70
"*Revenue accounts from sales of products, goods, and services*"
4428
"*Non-exigible VAT*"

c) VAT related to the merchandises existent in the merchant's stock:

371 = %
"*Merchandises*"

70
"*Price differences on merchandises*""
4428
"*Non-exigible VAT*"

In the debit balance of account 4428 "*Non-exigible VAT*" are registered, upon the case:

a) VAT related to purchases of whose invoices have not been received yet:

% = 408
"*Suppliers – invoices to arrive*"
371
"*Merchandises*"
4428
"*Non-exigible VAT*"

b) VAT related to acquisitions with payment in installments:

% = 401
„*Suppliers*"
371
"*Merchandises*"
4428
"*Non-exigible VAT*"

% =
20 404
"*Intangible assets*" „*Suppliers of assets*"
21
"*Tangible fixed assets*"
4428
"*Non-exigible VAT*"

2. General characteristics of VAT

Value added tax has the following features (Popa & Pitulice, 2007):

- *generality*, i.e., is a general indirect tax;
- *neutrality*, i.e., is a price-neutral tax;
- *uniqueness*, i.e., is a unique tax, although it is paid fractionally;
- *universality* and *transparency*, i.e., is a tax it applies to all goods and services in the economy;
- is a *tax on final consumption*, i.e., the tax burden is upon is applied in the country where the economic goods (products and services) are consumed.

Value added tax covers operations which cumulatively meet the following conditions:

a) constitutes a goods delivery or services provision for payment;

b) the place of goods delivery or services provision is considered to be the destination country;

c) the delivery of goods or the provision of services is carried out by a taxable person, any person who carries out, in an independent manner and regardless of the place, the following economic activities, whatever the result of these activities;

- the activities of production, commerce or service provision;

- extractive activities;
- agricultural activities;
- the activities of the free professions or assimilated to them;
- exploitation of tangible or intangible assets, in order to obtain an income, which has a character of continuity.

The sphere of transactions under the applicability of VAT comprises:

a) Deliveries of goods, i.e., any transfer of ownership of the goods from the owner to another person, directly or through persons acting on his behalf;

b) Provision of services i.e., any operation that does not constitute the delivery of goods.

VAT does not apply to operations relating to the supply of goods, the execution of works and the provision of services resulting from the specific authorized activity carried out by the following categories of entities:

- non-profit associations for social and philanthropic activities;
- organizations which deploy activities of a religious, political or civic nature;
- unions, for activities related to the collective defense of the material and moral interests of their members;
- public institutions, for their social, administrative, educational, defense, public order, state security, cultural and sports activities.

3. Applying the value added tax

At the EU level, there are standard rules regarding the VAT, but their application may differ among countries. In most cases, VAT is levied on all goods and services, at all stages of the supply chain, including sale to the final consumer. In other terms, VAT is charged alongside the entire production and supply chain, i.e., for the purchase of components, transport, assembly, packaging, insurance, and shipment to the final consumer. For the EU-based entities, VAT is levied on most sales and purchases of goods in the EU. In these cases, VAT is levied and due in the Member State where the goods are consumed by the final consumer. Similarly, in the case of services, VAT is levied when the respective services are provided in each EU country.

As a tax on final consumption, VAT is not levied on exports of goods to countries outside the EU. In such cases, VAT is levied and due in the import country; thereby, the exporter is not required to issue a VAT statement. However, in the case of exports of goods, it is necessary to provide the tax authorities with certain documents, proving that the goods have been shipped outside the EU (e.g., invoice, shipping document, import customs declaration, etc.).

VAT rules may apply differently in every EU country. Although VAT is a general tax on consumption throughout the EU, the applicable quotas are subject to decision of every Member State. The quotas can be reviewed at any time by the competent authorities in every country, depending on the specific requirements of economic policy, which are regularly updated, as shown in Table 1. (Your Europe, 2021).

Table 1

VAT rates applied in EU Member States (last updated as of 01/01/ 2021)

MEMBER STATE	COUNTRY CODE	STANDARD RATE	REDUCED RATE	SUPER REDUCED RATE	PARKING RATE
Austria	AT	20	10 / 13	-	13
Belgium	BE	21	6 / 12	-	12
Bulgaria	BG	20	9	-	-
Cyprus	CY	19	5 / 9	-	-
Czech Rep.	CZ	21	10 / 15	-	-
Germany	DE	19	7	-	-
Denmark	DK	25	-	-	-
Estonia	EE	20	9	-	-
Greece	EL	24	6 / 13	-	-
Spain	ES	21	10	4	-
Finland	FI	24	10 / 14	-	-
France	FR	20	5.5 / 10	2.1	-
Croatia	HR	25	5 / 13	-	-
Hungary	HU	27	5 / 18	-	-
Ireland	IE	23	9 / 13.5	4.8	13.5
Italy	IT	22	5 / 10	4	-
Lithuania	LT	21	5 / 9	-	-
Luxembourg	LU	17	8	3	14
Latvia	LV	21	12 / 5	-	-
Malta	MT	18	5 / 7	-	-
Netherlands	NL	21	9	-	-
Poland	PL	23	5 / 8	-	-
Portugal	PT	23	6 / 13	-	13
Romania	RO	19	5 / 9	-	-
Sweden	SE	25	6 / 12	-	-
Slovenia	SI	22	9.5	-	-
Slovakia	SK	20	10	-	-

(*Source: Your Europe, 2021*)

In this context, is defined the *standard rate*, i.e., the rate that applies to the supply of most goods and services and which, according to the relevant European Directive, cannot be less than 15% (EC, 112/2006). The same Directive also provides for one or two reduced rates, which may apply to the supply of certain goods and services (based on the list in Annex III to the VAT Directive) provided, in most cases, the reduced rates are not applicable in case of services electronically provided; in addition, the reduced quotas cannot be less than 5%. Some EU countries are allowed to apply special VAT rates for supply of certain goods and services. These special quotas apply to EU countries that applied them on 1 January 1991. These quotas were originally intended as transitional measures to facilitate the transition to EU VAT rules for the moment of entering into force of the single European market (on 1 January 1993), and, subsequently, to be phased out. There are three types of special quotas:

- *the very low quota*, designates the quotas below 5%, applied in case of a limited number of products and services in some EU countries;

- *zero quota*, applies to certain commercial operations deployed in some European countries. In this case, the consumer does not have to pay VAT, but the merchant has the right to deduct the VAT paid on purchases directly related to that sale;
- *parking* (or *intermediate*) *quotas* are applied by certain EU countries for some supplies of goods and services that are not listed in Annex III of the VAT Directive. as long as the reduced rates are not less than 12%.

4. The correspondence between accounts 4423, 4424, 4426, 4427, 4428

In order to present the correspondence between the accounts used in the accounting of VAT, is considered the example of an entity (registered as payer VAT), which deploys the following inland economic-financial operations, subject to VAT, during of a month:

1. Purchase from a supplier of merchandises in amount of 25,000 RON; VAT rate: 19%; the fiscal invoice is received.
2. The invoice is paid through the bank current account.
3. Purchase of a construction from the fixed assets supplier: value 50,000 RON; VAT rate: 19%; the fiscal invoice is received.
4. The invoice is paid through the bank current account
5. Merchandises sold to customers: amount 100,000 RON; VAT rate: 19%; the fiscal invoice issued.
6. The invoice is collected through the current account.
7. Selling of a car for an amount of 5,000 RON; VAT rate: 19%; the fiscal invoice issued.
8. The invoice is cashed.
9. Purchase from a supplier of raw materials: value 20,000 RON; VAT rate: 19%; based on the notice accompanying the goods. The invoice is received subsequently, and paid through the current bank account.
10. Merchandises sold to customers in amount of 80,000 RON; VAT rate: 19%; the fiscal invoice is sent subsequently, and cashed through the current account.
11. Purchase from a supplier of merchandises: amount 10,000 RON; VAT rate: 19%; the fiscal invoice is received. The trade allowance charged by the stores is 30%. Subsequently, the goods are sold in cash.

In the example presented (Table 2), the registrations used for the subsequent VAT regularization (from the end of the month) are highlighted.

Table 2

Example of correspondence between accounts 4423, 4424, 4426, 4427, 4428

NO.	EXPLANATIONS	CORRESPONDING ACCOUNTS			VALUE
1	Merchandises purchased from the supplier (according to the fiscal invoice)	%	=	401	29750
		371			25000
		4426			**4750**
2	Payment of the invoice via the bank account	401	=	5121	29750
3	Acquisition of constructions from the supplier of fixed assets	%	=	404	59500
		212			50000
		4426			**9500**
4	Payment of the invoice via the bank account	404	=	5121	59500

NO.	EXPLANATIONS	CORRESPONDING ACCOUNTS			VALUE
5	Merchandises sold to customers	4111	=	%	119000
				707	100000
				4427	**19000**
6	The invoice (5) cashed in bank account	5121	=	4111	119000
7	Car sale according to the fiscal invoice	461	=	%	5950
				7583	5000
				4427	**950**
8	The invoice (7) cashed	5311	=	461	5950
9	• Purchase of raw materials from the supplier according to the notice accompanying the goods	%	=	408	23800
		301			20000
		4428			3800
	• Arrival of the invoice	**4426**	=	4428	**3800**
		408	=	401	23800
	• Payment of the invoice via the bank account	401	=	5121	23800
10	• Merchandises sold to customers according to the notice accompanying the goods	418	=	%	95200
				707	80000
				4428	**15200**
	• Sending the invoice	4111	=	418	95200
	• Registration of collected VAT	4428	=	**4427**	**15200**
	• Receipt of the invoice via the bank account	5121	=	4111	95200
11	• Merchandises purchased from the supplier according to the fiscal invoice	%	=	401	11900
		371			10000
		4426			**1900**
	• Payment of the invoice via the bank account	401	=	5121	11900
	• Calculation and registration of the trade allowance	371	=	%	5470
				378	3000
				4428	2470
	• Registration of selling the merchandises to customers	4111	=	%	15470
				707	13000
				4427	**2470**
12	**VAT regularization** **Account 4426:** 4750 + 9500 + 3800 + 1900 = 19950 **Account 4427:** 19000 + 950 + 15200 + 2470 = 27620	**4427**	=	%	27620
				4426	19550
				4423	7670
13	Payment of the difference (to the Treasury)	4423	=	5121	7670

Source: authors' processing.

5. Application of differentiated VAT quotas and the VAT inclusion in costs

In order to present the application of differentiated quotas and the inclusion of VAT in costs, is considered the example of an entity (registered as VAT payer), which deploys the following operations during the month:

1. Inland delivery of goods subject to VAT, in amount of 150,000 RON; VAT rate: 19%.

2. Cash the value of goods subject to VAT, sold with payment in installments in the previous month, in amount of 100,000 RON; VAT rate: 19%.

3. Inland delivery of goods to the sanitary units in amount of 80,000 RON.

4. Issue an invoice for products for inland delivery, subject to VAT payment, without sending the products; amount: 140,000 RON.

5. Delivery of orthopedic products in amount of 160,000 RON.

6. Cash the rent for a equipped plot, in amount of 63,000 RON.

7. Payment of some services subject to VAT application, in amount of 26,000 RON.

The presented example highlights, upon the case, the amounts either due, or to be reimbursed from the Treasury, as well as the value of the VAT related to the considered operations; it will also highlight the amount that the company is entitled to include in the costs (table 3).

Table 3

Application of differentiated VAT quotas and the inclusion in costs of VAT

NO.	COLLECTED VAT	AMOUNTS
1	19% x 150.000	28.500
	19% x 100.000	19.000
	19% x 140.000	26.600
	9% x 160.000	14.400
	9% x 63.000	5.670
	Total	**94170**
2	Deductible VAT	
	19% x 26.000	4.940
3	Exempted operations	**80.000**
4	Pro-rata = quota in sales / total sales x 100 (94170/**174.170**) x 100	54,06%
5	VAT to deduct = Pro-rata x Deductible VAT 54,06% x 4.940	2671
6	VAT due / receivable 94170 – 2671	91499
7	VAT to be included in costs = = VAT deductible – VAT to be deducted 4.940 – 2671	2269

Source: authors' processing.

6. Conclusions

Value added tax represents an internal revenue, belonging to the category of indirect taxes. The tax base is the value of the goods delivered or services provided. In table no. 1 is presented the list of VAT rates applied in EU Member States, which usually, as the case of Romania, apply three VAT rates (standard rate plus two reduced rates). The highest standard VAT rates are applied in countries such as Denmark, Greece, Sweden with a standard rate of 25%; in this ranking, Romania occupies the 6th place, with a standard rate, at present, of 19%.

The first case study presents the correspondence between the categories of VAT, and their corresponding accounts, i.e., "*Payable VAT*" (4423); "*Receivable VAT*" (4424); "*Deductible VAT*" (4426); "*Collected VAT*" (4427) and "*Non-exigible VAT*" (4428). The

debit balance of account "*Non-exigible VAT*" (4428) represents the acquisition of goods without documents, based on the notice accompanying the goods or with payment in installments, and the credit balance represents deliveries of goods of whose invoices have not been issued. In fact, the non-exigible VAT represents a pending VAT, which is due at the moment of selling of the goods from the store, as presented in table no. 2, registration no. 11.

At the end of the registrations, the VAT regularization results from the difference between the collected and the deductible VAT, which represents the due or payable VAT, registered accordingly.

The second case study, deployed in the table no. 3, presents the calculation and registration of the standard and the reduced VAT rates. In this framework is highlighted the pro-rata deductible VAT, determined as a ratio between, on the one side, the amount of deductible operations, that is, the numerator, and, on the other side, the numerator plus the amount of non-deductible operations. It is noticeable that the applying of VAT has a clear expression in the costs burden of payer entities, through the entire production and supply chain.

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