PROFIT REINVESTMENT TROUGH TECHNOLOGICAL EQUIPMENT POLICIES FOR PROFIT TAX EXEMPTION

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Abstract: In the following pages of this article, I present a study whose main objective is reflecting the impact it has reinvested profits and income tax exemption of this profits reinvested. According to Government Emergency Ordinance no. 19/2014 published by the Ministry of Public Finance in the Official Gazette no. 308 on date 25.4.2014 amending Article 19[2] of the tax code aims to profit tax exemption invested in production and / or acquisition of new technological equipment for the period 1 July 2014-31 December 2016. Based on that emergency ordinance I will analyze a number of profit tax payers. To achieve this goal I had in mind the financial statements of 2013 of the companies sampled, and their trend in 2014.

Keywords: accounting treatments, accounting policies, profit reinvestment, profit tax, technological equipments, acquisition policy, depreciation method.

On 25 April 2014 was published in Official Gazette no. 308, Government Emergency Ordinance no. 19/2014 for the amendment and completion of Law 571/2003 regarding the Tax Code. The Government Emergency Ordinance amend and supplement Article 19, namely the introduction of Article 19^4 concerning the exemption of reinvested profits.

This new article provides that profits invested in new technological equipment - machinery and equipment work as stipulated in subgroup 2.1 of the classification catalog and useful life of fixed assets used for the purposes of economic activity is exempt from tax.

To apply the fiscal facility will consider the accounting profit margin recorded since July 1, 2014 and invested in new technological equipment, machinery and work equipment manufactured or purchased after this date, according to GEO 19/2014.

The tax exemption will apply to the combined gross accounting profit from early in the year of commissioning of process equipment, being given limited investments in tax profit payable for the period, according to the normative act, this exemption is calculated quarterly or annually. Also, the amount of profit tax exemption, less the related legal reserve will be distributed at the end of the financial year, with priority for the establishment, up to the accounting profit margin recorded, is also written in GEO. 19/2014.

The reserve so constituted follows to be taxed when using any form, and in the case reorganization operations, conducted according to law, if the beneficiary company doesn't take this reserve, stated in Ordinance which will come into force in early July.

Taxpayers who receive exemption for reinvested profit are required to keep the heritage of technological equipment that at least a period equal to half of the normal functioning of their, determined according to the applicable accounting regulations, but not more than 5 years. Another condition of this ordinance is that, technological equipment in question are not accepted accelerated depreciation, amortization method.

This is somewhat justified because if they would use an accelerated depreciation in the first year this would lead to higher depreciation expenses, and in other years lower depreciation expenses. Considering the fact that in the first year the company will benefit from exemption from tax profit for acquisitions is justified that the legislator do not accept the accelerated depreciation method because it's like would be given two benefits in the first year.

So by the Government Emergency Ordinance aims to lure more investment from companies, basically through the state loan (by postponing taxation of profits) for companies that wish to purchase technological equipment, meaning that these companies will be exempt from tax profit for technological equipment purchased after July 1, 2014, on the one hand, but on the other hand as provided in the ordinance "Profit amount for which benefited from tax relief, less the related legal reserve shall be distributed at the end of the financial year, primarily as reserves, up to the accounting profit recorded at year–end" until the use of the reserve constitued by application of the exemption. This measure is intended as a measure to help the existence of cash at company level.

This measure has been present in the past in the Tax Code (between October 1, 2009 and December 31, 2010), but because of the ambiguous formulation and restrictive conditions, had the desired effect, and the companies had no incentive to adopt such exemptions.

First oberve that this exemption from tax profit applies to equipment acquired after 1 July 2014, but the tax is calculated from 1 January this year to the end of each quarter for those that are paying tax quarterly. For example, a company that buy the technological equipment in April this year and in June 2014 record profit (profit is cumulative from January 1, 2014 until June 30, 2014) and in September and December 2014 will achieve cumulative profit greater than one in June 2014, it will not qualify for any exemption for tax profit. I believe that there should be uniformity in the sense that if the tax is calculated cumulatively from the beginning of time should be recognized and the investment in new equipment during the year and not just after 1 July 2014.

In this regard were were analyzed several companies that have made acquisitions of fixed assets in 2013 and the first quarter of 2014.

Society	**Tangible acquisitions in 2013**	**Acquisitions tangible QI 2014**	**Percentage increase in 2014/2013**
Adra-dent International SRL	34.940	45.109	29,10%
Art Com General SRL	7.892	9.857	24,90%
Auto Agusta Service Roti	180.696	50.987	-71,78%
Catalin Flores Com Impex SRL	6.350	41.567	554,60%
Center Akces Comserv SRL	5.664	10.795	90,59%
Dac Revolution SRL-D	132.152	24.587	-81,39%
Instal General SRL	90.323	356.800	295,03%
Miky Trans SRL	116.693	107.526	-7,86%
Otoprint SRL	41.129	99.712	142,44%
Venibo SRL	10.958	20.588	87,88%

These companies are demonstrating that they had a policy of acquisition of fixed assets in 2014 significantly from that practiced in 2013, much more as a comparison was made between all of 2013 compared to the first quarter of 2014 .

All these companies have profit in the first quarter of 2014. So unfortunately excludes investment in new equipment, because if they will record profit in coming quarters, cumulative tax calculated at the beginning, they never will be able to deduct from tax profit investment made in equipment.

Ordinance 19/2014 does not refer to the acquisition of such industrial construction, including land with the same destination used for business purposes, or even the intangible assets because the construction represent one of the important factor for developing the business, also a company could not work without software.

As said Ovidiu Nicolescu, President of the National Council of Private Small and Medium Enterprises in Romania (CNIPMMR), at a press conference that the measure is positive, but Council representatives have no reason to be glad for adoption, because her scope coverage is extremely limited, the equipment represents only a small part of a business.
Also, as this exemption unfortunately has a rather restricted area in time as the business enviroment say, this measure should be applied at least for a period of five years or more since the present condition in wich Romania has a technological gap from Western countries can not be recovered only through continuous upgrading.

I will present below an example of calculation, if the taxpayer applies the system of quarterly reporting and payment of tax profit:

Company X buys and put into operation in November 2014 technological equipment worth 80,000 lei. Accounting profit margin for the period 1 January to 31 December 2014 is 550,000 lei , of which accounting profit margin for the period 1 July to 31 December 2014 is 250,000 lei . At the end of fourth quarter 2014, the company recorded a taxable profit of 605,000 lei. Cumulative tax profit due at the end of the third quarter is 55,000 lei. To determine the profit tax exemption invested profit and tax profit due after application facility, the following steps:

First calculate tax for the fourth quarter of 2014:

605.000 X 16% = 96.800 lei

96.800 – 55.000 = 41.800 lei

After determined tax for the fourth quarter of 2014, calculate tax the profits invested.

According to Government Ordinance, given that accounting profit for the period 1 July to 31 December 2014 is in the amount of 250,000 lei this amount covers investment made, tax exempt is: 80,000 X 16% = 12,800 lei. The tax due in the fourth quarter of 2014 is calculated as the difference between the tax calculated and invested profit facility: 41800-12800 = 29,000 lei.

Also according to Government Ordinance profit for which benefited from tax relief, less the related legal reserve shall be allocated to reserves.
It is believed that the company distributes 5% of gross profit for the constitution of the legal reserve 80,000 X 5% = 4,000 lei . Exempt profits will be assigned to reserves: 80000-4000 = 76,000 lei.

Conclusions:

This measure is welcome for business as it is intended primarily reduce the tax burden in the economy by reducing or full exemption of tax profit payable by businesses.
Exemption from tax profit by investing in new equipment allows the company to develop business and generate future economic benefits.

Unfortunately for the acquisition of new equipment the company must dispose of cash, and this is not so easy in current conditions and basically this measure actually only help big companies to develop increasingly and small firms risk being bankrupted.

Exemption from tax is granted for profits invested by purchasing new technological equipment and machinery, equipment and working facilities as stipulated in subgroup 2.1 of the catalog on the classification and normal operation of the assets. For this measure would have to be complete it must include the other categories of tangible such as industrial buildings, land, etc..

Taking into account both aspects negative and positive, is still praised the measure wich hope to attract investments expected.

References:

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