

## HIGHLIGHTS ON THE CALCULATION METHOD OF THE SALARIES' INCOME TAX ACCOUNTING

Camelia Madalina BELDIMAN\*

### Abstract

*This paper goal is to call attention to the method of calculating the salaries' income tax and its share in total budget revenues. Salary income is considered all income in money obtained by a person who carries out an activity based on an individual employment contract, and the tax is calculated and withheld by cumulating with the income from salaries for that month, and its payment to the state budget is performed monthly. The salary tax, which represents 78.4% of the revenues related to this budget aggregate, had a very slow dynamics, recording an increase of only 1.3% in 2020 compared to 2019, which represents a failure of 0.6 billion lei. Consequently, there is a revenue deficit of about 2 billion lei, which raises questions about the efficiency of collecting this income category. The evolution of income tax revenues reflects a decrease of 8% as a share of GDP in January 2021.*

**Keywords:** budget deficit, budget revenues, direct tax, share in GDP, accounting monograph.

### 1. Introduction to the salaries' income tax

The tax is a mandatory and non-reimbursable monetary contribution, due, according to the law of the state budget, to both individuals and legal entities for the income they obtain or the goods they own.

The tax is the most important form of taxation, along with taxes and contributions with fiscal cactus, being one of the main instruments that the state has for the distribution of income and wealth (Cioponea, 2014, p. 96). In the case of direct taxes, the person who pays the tax is also the one who actually bears it.

The study of taxes, levies, contributions, and other obligatory levies, as well as of the fiscal regulations and of the fiscal appendage related to the management and collection of obligatory levies, can be deepened within the Taxation course. In most countries of the world, the role of taxes has a special significance, they manifest themselves financially, economically, and socially, with differentiations from one country to another and from one stage of economic development to another.

The role of taxes is mainly manifested financially, as most of the financial resources mobilized by the state to cover public needs come from tax revenues, they are the main way of accumulating the resources needed to perform the tasks and functions of the state.

At the social level, the role of taxes materializes in the fact that through them the state ensures the redistribution of an important part of the GDP between the various categories of natural or legal personnel. This redistribution appears in the process of mobilizing the main categories of taxes to the budget.

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\* Dunărea de Jos University of Galați, Faculty of Juridical, Social and Political Sciences, Domnească St., No 111, Galați, [madi.beldiman@gmail.com](mailto:madi.beldiman@gmail.com).

## 2. Income from salaries and assimilated to salaries

Wage income<sup>1</sup> is income in cash and / or in kind obtained by an individual who carries out an activity on the basis of an individual employment contract, regardless of the period to which it refers, the name of the income or the form in which they are granted exclusively for temporary incapacity for work, maternity and for childcare leave up to 2 years old; the payers of salaries and incomes assimilated to salaries have the obligation to calculate and withhold the afferent tax in order to transfer it to the state budget at the established term.

### 2.1. Personal deduction and basic function

The personal deduction is granted to persons employed in Romania with an individual employment contract, regardless of its nature (full-time / part-time, fixed term / indefinite, and so on) exclusively to that employer where the employee declares his basic position. It is granted by employers with headquarters or domicile in Romania, for income from salaries, made by persons employed with an individual employment contract under the above conditions.

The amount of the personal deduction is not divided during the month, it is granted only once a month by a single employer. In practice, it is granted to the employer where the employee still has the individual employment contract in force on the 1st of the month for which the payroll is calculated.

Personal deduction formula:

- if the gross < 3600 then  $v\_dedsupl = [\text{the lowest value between 4 and the number of dependent children}] \times 160 + [\text{if it has at least 4 dependent children then 160, otherwise 0}]$
- if the gross < 1950 then the deduction = 510 +  $v\_dedsupl$  otherwise the deduction: =  $[510 + v\_dedsupl] - [\text{bringing to the integer } ((\text{gross}-1950) / 50) \times 15]$
- for gross > 3600 then deduction = 0.

Upon employment, to benefit from this deduction, the employee must submit to the human resources department a statement expressing his choice to have the basic position at that employer or not. Also, through the same document, he can inform the company about the people he has in maintenance.

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<sup>1</sup> Law no. 227/2015 Fiscal Code 2021 updated with emergency ordinance no. 13 of February 24<sup>th</sup>, 2021 / art. 76 Defining income from salaries and assimilated to salaries.

The declaration must be accompanied by documents justifying that the persons may have the status of “dependent person” and comply with the provisions of the Fiscal Code (e.g., copy of marriage certificate, birth certificates of children, certificate of income of the dependent or declaration on their own responsibility that they do not achieve incomes higher than those accepted by law, etc.). Dependents may or may not have a common domicile with the dependent employee.

According to the Fiscal Code, art.56<sup>2</sup>, a dependent person may be the spouse, children or other family members, relatives of the employee or of his / her spouse up to and including the second degree, whose income, taxable and non-taxable, does not exceed 510 lei monthly. The minor children of the employee, up to the age of 18, are considered dependent. In the case of children to be cared for, the employee must also bring a certificate from the partner of the life partner or a statement on his own responsibility, stating that the latter does not receive a personal deduction for that child. Please note, however, that the minor child aged between 16 and 18, employed under the Labor Code, becomes a taxpayer, and therefore also benefits from the personal deduction. In this situation, the parents no longer have the right to take care of him, because the personal deduction is granted only once.

If the dependent person is an adult, he must agree in writing to grant that deduction to the dependent employee.

Each employee can have a maximum of 4 such dependents for whom he will receive the personal deduction, being mandatory that they meet the above conditions to have that title. The employee may have more than 4 persons declared to the employer as being in his maintenance, but only for 4 of them he will receive the related deduction.

Individuals who have agricultural and forestry land with an area of over 10,000 sq m in hilly and lowland areas and over 20,000 sq m in mountain areas are not considered dependents; natural persons who earn income from the cultivation and use of flowers, vegetables and greens in greenhouses, in solariums specially designed for these purposes and / or in irrigated land, from the cultivation and use of shrubs, ornamental plants and fungi, and from the operation of vine or fruit trees nurseries, regardless of surface.

The personal deduction is granted for individuals who have a gross monthly income of up to 1,950 lei inclusive, as follows<sup>3</sup>:

- for taxpayers who do not have dependents – 510 lei;
- for taxpayers who have a dependent – 670 lei;

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<sup>2</sup> Law no. 227/2015 Fiscal Code 2021 updated with emergency ordinance no. 13 of February 24<sup>th</sup>, 2021 / art. 56 - Payment of tax and submission of tax returns

<sup>3</sup> Law no. 227/2015 Fiscal Code 2021 updated with emergency ordinance no. 13 of February 24<sup>th</sup>, 2021 / art. 77

- for taxpayers who have two dependents – 830 lei;
- for taxpayers who have three dependents – 990 lei;
- for taxpayers who have four or more dependents - 1,310 lei.

For taxpayers who make monthly gross income from salaries between 1,951 lei and 3,600 lei, inclusive, personal deductions are degressive compared to the above.

## 2.2. The calculation of the income tax from salaries and the related accounting monograph

Let us analyze the example of an employee of the company TC.INF SA, who has an individual full-time employment contract, with the following particularities:

- Basic salary 4,000 lei
- Receives meal vouchers for a month of 20 working days (20 lei x 20 tickets = 400 lei)
- The employee does not have other salary rights
  
- The employee has a dependent (but for whom he does not receive a personal deduction)
- Contribution to the voluntary pension fund borne by the employee 300 lei.

In this case we want to determine the employee's deductions, the rest of the payment and the unit's contributions.

Based on what we know:

- Gross income = 4,000 lei
- Optional pension = 300 lei
- Meal vouchers = 400 lei

We can determine the following:

- CAS =  $4000 \times 25\% = 1,000$  lei
- CASS =  $4000 \times 10\% = 400$  lei
- Net income = gross salary - deductions =  $(4,000 + 400) - (1,000 + 400) = 3,000$  lei
- Personal deduction = 0 lei (gross income exceeds 3,600 lei)

Now we can go further and compute what is asked from us:

- Computation basis for payroll tax (taxable salary) = net income - deductions - voluntary pension =  $3,000 - 300 = 2,700$  lei
- Salary tax =  $2700 \times 10\% = 270$  lei
- Remaining payment = Gross income - CAS - CASS - Tax - Optional pension =  $4,000 - 1,000 - 400 - 270 - 300 = 2,030$  lei
- CAM (Labor insurance contribution 2.25%) =  $4,000 \times 2.25\% = 90$  lei

Now we may continue and highlight the accounting records.

a) Registration of gross salary rights due

$$\begin{array}{rcl} 641 & = & 421 \quad 4,000 \text{ lei} \\ +A & & +P \end{array}$$

b) Registration of salary deductions according to the payroll

$$\begin{array}{rcl} 1,670 & 421 & = \quad \% \quad \underline{1,670} \\ & -P & 4315 (+P) \quad 1,000 \\ & & 43163 (+P) \quad 400 \\ & & 444 (+P) \quad 270 \end{array}$$

c) Registration of the unit's contributions to the voluntary pension fund

$$\begin{array}{rcl} 6456 & = & 438 \quad 300 \text{ lei} \\ +A & & +P \end{array}$$

d) Registration of the labor insurance contribution

$$\begin{array}{rcl} 646 & = & 436 \quad 90 \text{ lei} \\ +A & & +P \end{array}$$

e) Making transfers to the state budget according to the account statement

$$\begin{array}{rcl} \underline{2,060} & \% & = \quad 5121 \quad 2,060 \\ 1,000 & 43151 (-P) & -A \\ 400 & 43163 (-P) & \\ 270 & 444 (-P) & \\ 300 & 438 (-P) & \\ 90 & 436 (-P) & \end{array}$$

### 3. Conclusion

Beneficiaries of income from salaries owe a monthly tax representing advance payments, which is calculated and withheld at source by the payers of income. In the post-revolutionary years, it is observed that the salary tax occupies the first or second place as a share in the total budget revenues. Until 1993 (i.e., before the introduction of VAT) the payroll tax ranked first in the hierarchy of all taxes.

After 1993, the salary tax occupies a solid position after VAT (the difference between the two taxes is not more than 2-3%), but, if to these amounts that concern only the State Budget, are added the amounts deducted from the payroll tax for local budgets, then the payroll tax occupies the first place. At the scale of the national economy, an ideal wage system that is characteristic of modern market economies would be to promote the criterion of distribution by results, closely related to the motivation for performance.

Although it is obvious that the restructuring of the labor relations based on the distribution according to the results of the activity would have multiple favorable effects for all the participants in the economic activity, in our country, this fundamental criterion is not sufficiently widely shared. The promotion of this principle would only be achieved through an appropriate economic policy, based on the improvement of pay legislation.

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