

# A FEW CONSIDERATIONS ON SIMPLIFYING THE FISCAL AND ACCOUNTING SYSTEMS OF SMALL AND MEDIUM ENTERPRISES

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**Abstract:** *The application of the complex accounting and fiscal systems represents an administrative burden for small and medium enterprises. This situation generates huge costs, too hard to bear by legal entities. The introduction of simplified accounting and fiscal systems has to represent a priority for every state, because it triggers the reduction of the administrative burden. The fiscal systems based on low taxation should not be confused with simplified fiscal systems. Many a time, enterprises prefer simplified systems, even if they do not totally comply with the fiscal equity principle.*

**Key words:** *fiscal systems, accounting systems, equity principle, the principle of minimum cost, administrative burden.*

## 1. The Role of SMEs in Europe

Small and medium enterprises have represented the backbone of the EU economy for a certain period of time. They provide jobs for approximately 70% of the workforce, generating approximately 58% of the added value of enterprises.

However, the SMEs in Europe are characterized by consistently low performance compared to similar U.S. companies, in terms of productivity, efficiency and innovation levels.

First, this is a problem of a lack of entrepreneurial culture. For example, 60% of Europeans have never considered the idea of building up a business. Instead, people who have built up businesses declare that the regulatory and financial constraints have prevented them from developing their businesses.

The concerns at European level regarding the creation and development of SMEs started to appear in 2005, as a result of the settlement in Lisbon of the "Partnership for growth and employment".

In 2008, the law of UE SMEs was elaborated in order to create the possibility of an unrestricted growth of SMEs. The "Think Small First" principle lies at the base of this legislative act and also at the base of policy making at all levels.

There were principles proposed for the guidance, creation and implementation of policies both at EU and Member State level.

Among these principles, we can mention:

1. create an environment in which entrepreneurs and family businesses can thrive;
2. sensitize the public administration regarding the needs of SMEs;

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3. support SMEs so they can benefit more from labour market opportunities;
4. reduce the administrative burdens for SMEs, especially for micro-enterprises, by developing accounting and taxation systems from which these companies can choose.

Although these measures have had small effects at European level, the number of small and medium enterprises rose in the EU. There currently are 23 million small and medium enterprises which represent approximately 99% of all enterprises and offer more than 100 million jobs.

In order to register significant progress of small and medium enterprises, it is essential to establish an EU-wide monitoring of the implementation of the measures taken at this level.

## **2. Opportunities for the Simplification of Accounting Systems for SMEs**

SMEs are unable to bear the administrative burden like large enterprises.

For an enterprise, the administrative burden which has to be covered from the financial resources meant for the economic activity incurs high costs.

Among the costs included in the sphere of administrative burden borne by enterprises we can be mentioned:

- the costs for accounting organization;
- the costs for drawing up the annual financial statements.

In the EU, there are recommendations to reduce the administrative burden through the introduction of simplified tax and accounting systems.

The simplification of accounting and taxation systems has to be based on some principles such as:

- the cost – benefit principle implies the existence of a link between the costs of obtaining accounting information and

the benefits obtained from the use of such information;

- the minimum cost principle implies the performance of low costs for preparing the annual financial statements;
- the principle of financial information quality implies that the information provided must be credible.

It is possible that these principles could not be observed after the application of simplified accounting systems.

For example, the simplified accounting system can provide less information in comparison with the developed accounting system.

In order for legal provisions that regulate the simplified accounting systems not to be considered unconstitutional, it is required that the application of these systems be based on the enterprise's option.

Among the accounting systems that are applied in different countries of the EU we can mention:

- the normal accounting system that ensures the provision of information depending on the users' needs with the help of the annual financial statements presented in a developed form;
- the simplified accounting system that is characterized by the presentation of financial information with the help of the financial statements drawn up in a simplified form;
- the super simplified accounting system that involves the organization of the accounting of receipts and payments flows, also known as cash accounting.

In Romania, it can be said that the simplification in the accounting field occurs only in the case of independent natural persons who apply single – entry bookkeeping.

In the case of legal persons, we cannot say that we have a simplified accounting system, except for the annual financial statements that will be drawn up in a

simplified system in the case of economic entities with low volume of activity.

To reduce the administrative burden for small and medium enterprises, the following accounting systems should be applied in the accounting field:

- the simplified accounting system that involves the use of a set of accounting rules starting from the accounting organization, the accounting records and the content of annual financial statements based on the principle of minimum cost;
- the super simplified accounting system based on accounting rules specific to treasury accounting;

For example, the use of first degree accounts and the periodicity of recording some economic – financial operations represent the components of a simplified system.

The application of these accounting systems can be applied optionally, in accordance with the volume of activity of the enterprises, as it follows:

- the simplified accounting system can be applied to medium enterprises;
- the super simplified accounting system should be applied to small enterprises.

The application of the simplified accounting systems should be based on the enterprises option. These enterprises can also choose the normal accounting system according to the information need of the company management or other users of financial information in order to make a decision.

### **3. Possibilities for Simplifying Taxation Systems**

The determination and the declaration of taxes can represent an administrative burden for enterprises, if the accomplishment of these fiscal obligations implies huge costs and time for these entities.

An ideal fiscal system should ensure the observance of both the principle of fiscal equity, and the principle of minimum cost, at the same time.

In practice, the two fiscal principles are difficult to meet simultaneously.

The compliance with the principle of equity requires a taxpayer to pay a tax based on his capacity of paying.

The taxpayer should pay no more and no less.

Establishing the principle of tax equity often requires high costs, too hard to be bear by small enterprises and even by medium ones.

For these reasons, the introduction of some simplified taxation systems based on the principle of minimum cost is required.

In Romania, starting with 1<sup>st</sup> of January 2010, a taxation system that observes the principle of fiscal equity is applied for the income tax calculation. Instead, this taxation system generates huge costs hard to bear by small enterprises and even by medium ones.

For instance, the determination of the expenses deductibility needs special knowledge in the field of taxation.

In order to reduce the too hard administrative burden for small and even medium enterprises, the introduction of simplified fiscal systems is required.

Among the simplified fiscal systems that can be implemented, we can mention:

- the micro-enterprises taxation system that implies the determination of the fiscal result as a difference between current income and the expenses determined in lump system;
- the lump system that implies the determination of the fiscal result by the tax authority on the base of the data declared by the enterprises.

The simplification of the fiscal system can be achieved by limiting some expenses through a legal norm. Among the expenses that can be limited, we can mention:

- expenses with the amortization of fixed assets;
- expenses with vehicle functioning;
- expenses with fuel;
- other expenses.

These simplified systems have to be optional for enterprises.

A limitation of the enterprises that can choose simplified fiscal systems is also mandatory.

For instance, the lump system can be chosen by those enterprises which obtained an annual turnover up to 35,000 Euro.

In return, the taxation system can be applied by enterprises which obtain an annual turnover of 100,000 Euro.

The enterprises that can be included within these limits can choose one of these simplified systems.

The selection of a simplified fiscal system is based on the principle of minimum cost. After applying the simplified fiscal system, an enterprise could pay more or less in comparison with the tax determined according to the current fiscal system.

#### 4. Conclusions and Proposals

The reduction of the administrative burden should be a permanent preoccupation of each state, but also of the European Union. It is known that the administrative burden generates costs hard to bear by enterprises.

Many a time, the enterprises use financial resources for administrative purposes, reducing their resources meant for financing economic activity.

The introduction of the simplified accounting and fiscal systems represents a necessity in Romania.

Although in Romania there is a reduced taxation, the fiscal system is expensive to manage, both by financial authorities and by enterprises.

The introduction of these systems could trigger the reduction of costs both for enterprises and for financial authorities.

The experience of many European states can be also used by Romania. None of the states can impose complex fiscal systems for small and medium enterprises, even if they ensure the compliance with the fiscal equity principle.

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