

## CASES OF SINGLE RETURN FOR SELF-EMPLOYED PERSONS

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### **Abstract**

*The self-employed person has features uncommon to a company or a legal entity. From a legal point of view, the self-employed person does not have a legal personality, and from an accounting point of view, its patrimony is confused with the patrimony of the holder. The self-employed person can obtain income from various sources besides salary, with a margin of income from dividends, income from the transfer of the use of goods, earnings from cryptocurrencies, etc. In these cases, the self-employed person will submit a single return on the personal numerical code, even if income is obtained from various sources and in various forms. Therefore, the globalization of income achieved by a self-employed person is achieved. Each income category has a peculiarity on how to declare and how to impose. We approach various cases to prepare the single return by a self-employed person imposed in a real or part-time income system.*

**Keywords:** *Self-employed person, the real system, income norm system, single return.*

**Classification JEL:** *M40, M41*

### **1. Introduction**

A self-employed person owes income tax and social contributions and represents the primary forms of taxation with an overwhelming weight in the amount of income realized and estimated in a specific accounting period.

The method of taxation of self-employed persons is entirely different from the method of taxation of legal entities. The authorized self-employed person may be in the following situations: to owe income tax; to owe income tax, social security contribution and/or social health insurance contribution. There are various combinations of taxes due depending on the category of income and the ceiling of the cumulative income achieved in an accounting period.

The single return declares the income obtained on the territory of Romania and the income obtained outside Romania. For example, the income from dividends obtained from the United States of America is declared through a single return, even if there will be no income tax to be paid since the dividend tax in Romania is currently 8%, and the dividend tax in the US is 10%. In this way, it is of interest that the income be declared by a self-employed person regardless of whether it is obtained in Romania or on the territory of another state.

An essential aspect of completing the single return is represented by the Register of receipts and payments drawn up by the self-employed person. This document contains both cash and bank receipts, but also cash and bank payments.

### **2. Research methodology**

Any study involves documentation on a subject or a theme. Documentation can be done in various ways, and documents, normative acts, technical articles, books, etc., must be studied. The professional reasoning carried out is always practical, as well as the interpretations of economic phenomena and facts.

Concretely, in our research activity, we appealed to the following:

- the study of normative acts: the Romanian tax code [6], normative acts that have modified that code that have a significant influence on the authorized self-employed person [7], as well as rules that regulate its accounting [8].

- review of specialized literature regarding the concept of person [4] and the authorized self-employed person [2].
- analysis of the impact of COVID-19 and the fiscal measures applied during this period [1].
- the international study of the declarations drawn up and the continuity of their drawing up to ensure comparability [3].

We will further refer to some cases collected from the practical activity regarding completing a single return and the taxes an authorized self-employed person must pay. We will only exhaust some cases because there are many exceptional cases in practical work.

### 3. Categories of taxable income in the case of the self-employed person

Anyone can earn a salary if they meet certain company age conditions and specific job requirements. However, the self-employed person can also obtain other categories of income besides salary ones, such as income from independent activities, income from the transfer of the use of goods, income from dividends, earnings from cryptocurrencies, income as a result of owning milk cows or the cultivation of some lands with alfalfa, with cereals, etc.

To justify the present research, we present below the number of authorized self-employed persons:

#### The number of self-employed persons authorized in May 2023 in ROMANIA

Table No. 1

COUNTY	Nr. PFA/II/IF active	Distribution of holders/members by age									
		Up to 29 years		30-39 years		40-49 years		50-59 years		Over 60 years	
		No	%	No	%	No	%	No	%	No	%
Alba	13,291	1,575	10.78	3,452	23.64	3,927	26.89	3,259	22.32	2,391	16.37
Arad	12,266	1,406	10.57	3,091	23.24	3,614	27.17	2,866	21.55	2,325	17.48
Argeş	10,712	1,026	8.70	2,450	20.78	3,390	28.75	2,770	23.49	2,155	18.28
Bacău	10,330	1,051	9.25	2,470	21.74	3,163	27.84	2,555	22.49	2,122	18.68
Bihor	21,408	3,312	14.12	6,215	26.50	6,418	27.37	4,420	18.85	3,088	13.17
Bistriţa-Năsăud	9,329	1,371	12.89	2,450	23.03	2,655	24.96	2,100	19.74	2,063	19.39
Botoşani	8,132	894	10.44	1,769	20.66	2,485	29.02	2,050	23.94	1,364	15.93
Braşov	11,953	1,352	11.08	3,197	26.20	3,509	28.76	2,269	18.60	1,874	15.36
Brăila	6,354	549	8.28	1,319	19.90	1,971	29.73	1,547	23.34	1,243	18.75
Bucureşti	36,520	4,777	12.78	9,753	26.10	10,286	27.53	6,715	17.97	5,835	15.62
Buzău	7,802	772	9.44	1,803	22.04	2,287	27.96	1,815	22.19	1,502	18.36
Caraş-Severin	5,747	588	9.30	1,415	22.39	1,665	26.34	1,338	21.17	1,314	20.79
Călăraşi	5,099	493	9.17	1,300	24.19	1,400	26.05	1,251	23.28	930	17.31
Cluj	21,595	3,125	13.99	5,949	26.64	5,904	26.43	4,060	18.18	3,297	14.76
Constanţa	11,957	1,055	8.40	2,717	21.63	3,462	27.56	2,740	21.82	2,586	20.59
Covasna	5,532	667	11.46	1,358	23.33	1,839	31.59	1,197	20.56	761	13.07
Dâmboviţa	14,920	2,468	13.83	4,069	22.81	4,404	24.68	3,508	19.66	3,393	19.02
Dolj	14,496	1,891	11.67	3,775	23.30	4,299	26.54	3,430	21.17	2,805	17.31
Galaţi	8,180	890	9.52	1,986	21.25	2,556	27.35	2,193	23.47	1,719	18.40
Giurgiu	3,494	490	13.26	972	26.30	883	23.89	737	19.94	614	16.61
Gorj	5,583	498	8.58	1,374	23.67	1,747	30.09	1,249	21.52	937	16.14
Harghita	9,625	1,132	10.12	2,437	21.79	3,407	30.46	2,487	22.24	1,721	15.39
Hunedoara	9,215	877	8.87	2,072	20.97	2,435	24.64	2,367	23.95	2,131	21.56
Ialomîţa	4,643	453	9.06	1,064	21.27	1,418	28.35	1,207	24.13	860	17.19
Iaşi	16,789	2,109	11.55	4,635	25.39	5,082	27.84	3,674	20.13	2,752	15.08

COUNTY	Nr. PFA/II/IF active	Distribution of holders/members by age									
		Up to 29 years		30-39 years		40-49 years		50-59 years		Over 60 years	
		No	%	No	%	No	%	No	%	No	%
<b>Ilfov</b>	7,363	748	9.88	2,120	28.01	2,467	32.59	1,369	18.08	866	11.44
<b>Maramureș</b>	13,728	1,562	10.01	3,635	23.30	4,085	26.18	3,432	22.00	2,887	18.51
<b>Mehedinți</b>	6,074	533	8.41	1,510	23.83	1,862	29.38	1,360	21.46	1,072	16.92
<b>Mureș</b>	13,381	1,870	13.18	3,219	22.69	3,874	27.31	3,025	21.32	2,198	15.49
<b>Neamț</b>	8,981	919	9.41	1,965	20.12	2,625	26.88	2,388	24.45	1,868	19.13
<b>Olt</b>	8,495	950	10.41	2,163	23.71	2,533	27.76	2,069	22.68	1,408	15.43
<b>Prahova</b>	12,935	1,428	10.27	3,202	23.02	3,771	27.12	3,056	21.97	2,450	17.62
<b>Satu Mare</b>	7,626	851	10.19	1,890	22.64	2,395	28.69	1,831	21.93	1,382	16.55
<b>Sălaj</b>	8,117	1,273	13.72	2,465	26.57	2,352	25.36	1,906	20.55	1,280	13.80
<b>Sibiu</b>	9,983	1,145	10.87	2,658	25.23	2,972	28.22	2,153	20.44	1,605	15.24
<b>Suceava</b>	10,642	1,225	10.03	2,551	20.89	3,211	26.30	2,999	24.56	2,223	18.21
<b>Teleorman</b>	6,216	486	6.83	1,363	19.16	1,880	26.43	1,742	24.49	1,641	23.07
<b>Timiș</b>	15,868	2,213	13.25	4,627	27.70	4,424	26.48	3,063	18.34	2,377	14.23
<b>Tulcea</b>	6,535	811	11.92	1,756	25.81	1,987	29.20	1,273	18.71	977	14.36
<b>Vaslui</b>	6,219	547	7.73	1,428	20.19	1,882	26.61	1,816	25.68	1,400	19.79
<b>Vâlcea</b>	7,638	699	8.16	1,702	19.86	2,416	28.19	2,140	24.97	1,613	18.82
<b>Vrancea</b>	6,698	697	9.69	1,752	24.35	1,973	27.42	1,554	21.60	1,219	16.94
<b>TOTAL</b>	<b>441,471</b>	<b>52,778</b>	<b>11.04</b>	<b>113,098</b>	<b>23.66</b>	<b>130,915</b>	<b>27.39</b>	<b>100,980</b>	<b>21.12</b>	<b>80,248</b>	<b>16.79</b>

Source: National Trade Register Office

<https://www.onrc.ro/index.php/ro/statistici?id=244>, June 2023 [9].

We can see from the above table that there are 441,471 authorized self-employed persons, family businesses and individual businesses in Romania. This significant number are also self-employed persons who obtain income without having a form of registration with the Ministry of Finance or the Trade Register, such as a taxpayer who obtains income from dividends. All these individuals must submit a single return to the Ministry of Finance. As this obligation exists, knowing part of the income categories and the types resulting from the practical activity is necessary.

The self-employed person can earn income as an independent person, but he can also authorize himself to provide certain services or sell certain products. This way, the authorized self-employed person can also have employees with individual employment contracts. Due to this, many need clarification on the authorized self-employed person with the limited liability company.

Below we compare the contributions owed by an authorized self-employed person (PFA) and a limited liability company (SRL) to highlight the advantages and disadvantages of PFA from a tax point of view.

#### Contributions owed by a self-employed person compared to contributions owed by an SRL in 2013

Table No. 2

Contributions	PFA	S.R.L.
Social security contributions	25%	25%
Contributions to social health insurance	10%	10%
Income/income tax	10%	16%/ 1%
Tax on dividends	-	8%

*Comment:* The above contributions are for the real system. The contributions are currently reasonable as quotas. However, from the point of view of the taxable base, the authorized self-employed person is at a disadvantage compared to a limited liability company. The taxable base is extended against the self-employed person and in favour of the tax authorities.

In the Official Gazette, Part I no. 716 of July 15, 2022, OG 16/2022 was published, the provisions of which presuppose the amendment of the Fiscal Code. Several significant changes came into force on January 1 2023.

#### *The ceiling for the income norm*

One of the main changes that come into force from January 1, 2023, is the reduction of the ceiling on income from independent activities (PFA, individual enterprises (II), family enterprises (IF)) for those who apply taxation at the income rate, from 100,000 euro to 25,000 euro.

This measure only affects you if you get much income from your freelance activity and apply income tax. Precisely, you have a PFA or individual enterprise. During 2023, you register an annual gross income more significant than the equivalent in lei of 25,000 euros, starting from the next fiscal year (2024). In that case, you must determine the annual net income in the real system.

#### *To remember:*

- The reduction of the ceiling and, implicitly, the application of the calculation method in the real system will apply from 2024.

- The single return for the previous financial year is submitted by May 25 of the following year. There are exceptions to this rule.

The new provisions also foresee changes in social contributions (CAS and CASS) due to PFA. Here is what the new CAS and CASS caps mean.

#### ***Social security contribution (CAS)***

Two ceilings will apply to CAS payment. Thus, depending on the revenues achieved, starting from 2023, the basis of calculation to which the CAS will be applied will be:

- 0 (you do not owe CAS) for incomes below 12 gross minimum wages per country;
- the level of 12 gross minimum wages per country, in the case of incomes between 12 and 24 gross minimum wages per country (currently, the minimum wage is 3,000 lei);
- or the level of 24 gross minimum wages per country, in the case of incomes of more than 24 gross minimum wages per country.

#### ***Social Health Insurance Contribution (CASS)***

Starting in 2023, three CASS payment ceilings will apply. Thus, the annual basis for calculating the social health insurance contribution (CASS) will be:

- 0 (you will not be obliged to pay CASS) if the income is below 6 minimum wages;
- the level of 6 gross minimum wages per country if the income achieved is between 6 and 12 gross minimum wages per country;
- the level of 12 gross minimum wages per country if the income achieved is between 12 and 24 gross minimum wages per country;
- the level of 24 gross minimum wages per country if the income you achieve in 2023 exceeds 24 gross minimum wages per country;
- there is also the option to contribute to social health insurance if no income is recorded or not estimated by the taxpayer.

Emergency Ordinance No. 16 of July 15, 2022, modified the basis for calculating social contributions, introducing several ceilings to which we report the income to determine the contributions due. Thus, we have:

the ceiling of 6 salaries = 18,000 lei – new ceiling for CASS valid from 2023

the ceiling of 12 salaries = 36,000 lei

the ceiling of 24 salaries = 72,000 lei - new ceiling for CAS and CASS valid from 2023

From a fiscal point of view, the issues are evident at first sight. Of course, the self-employed person is disadvantaged because the ceilings are extended. However, many fall into the trap of "the advantage of using the available funds without their destination being tracked by the tax authorities". This is a trap for several reasons:

- The self-employed person needs to manage the cash available coherently. The PFA does not prepare the Cash Register as in the case of a commercial company.
- The self-employed person no longer has control over the future debts to be paid, as he currently uses the cash available. When it is time to submit the single return and pay the debts, the self-employed person can often find himself having only sufficient funds to pay the debts.
- Because the self-employed person has unrestricted access to spending money, the premise is created that in this way, the state is "tricked". Nevertheless, it is not like that! The "tricked" one will be the individual because he does not learn self-discipline and does not periodically manage the relationship debit-cash availability.

From our point of view, both single-entry accounting and double-entry accounting have advantages and disadvantages.

Advantages of double-entry bookkeeping:

- reflects operations in several elements, providing detailed information.
- provides quick access to the requested information (for example, the balance of the suppliers' or customers' accounts).
- allows the calculation of some indicators at the microeconomic level, which leads to the determination of some macroeconomic indicators through aggregation.

The disadvantages of double-entry bookkeeping are:

- more significant workload to be submitted by economists.
- extensive documentation, which must also be listed (also attracts high consumption of office materials).
- quite ample space for archiving documents.

Advantages of single batch accounting:

- small volume of work compared to that submitted for the organization of double-entry bookkeeping.
- fewer documents to prepare than in the case of double-entry accounting.
- fiscal and social declarations to be drawn up for informing the lesser authorities.

Disadvantages of single-entry accounting:

- does not allow the quick identification of the debt towards a supplier if only the receipts and payments journal-register is drawn up.
- does not allow the quick identification of a claim against a customer.
- indicators cannot be determined at the microeconomic or macroeconomic levels.

Next, we present an example of completing the registered journal of receipts and payments, which is the primary document to be drawn up by a PFA.

**Practical application 1.** A PFA, not paying VAT, whose activity is "Accounting activities", CAEN code 6920, has the following information for June, year N:

- receipts through the bank of 10,000 lei (as a result of the provision of services);
  - expenses of 2,200 lei (paid in cash), of which: 200 lei is the telephone bill, payment of the price of a printer of 2,000 lei
  - payment of a bank commission of 30 lei
- To complete the Journal of receipts and payments for June, year N.

**Solution:**

**Register-journal of receipts and payments**

*Table No. 3*

Nr. crt.	Date	The document (fel, nr.)	Type of operation	Receipts		Pay	
				Cash	Bank	Cash	Bank
1.	10.06.N	Statement of account	Provide services		10.000		
2.	12.06.N	Fiscal receipt	Phone			200	
3.	13.06.N	Fiscal receipt	Printer acquisition			2000	
4.	15.06.N	Statement of account	Bank Commission				30
Total June				10.000			
Total payments in June				2.230			
June balance				7.770			

The register of receipts and payments must reflect only actual receipts and payments (cash or by bank). Sales invoices or purchase invoices should not be presented in this document (these are highlighted separately).

All the information from the Receipts and Payments Register helps draw up the Single return.

**Practical application 2.** An individual owns 3 dairy cows. It is known that the income norm developed by the Ministry of Finance for that year is 234 lei, and 2 heads of animals are non-taxable. To calculate the tax owed by the individual.

**Solution:**

Income norm: 234 lei

Number of dairy cows: 3

Number of non-taxable cows: 2

Rate of return =  $(3 - 2) \times 234 = 1 \times 234 = 234$

Income tax = Income rate x 10%

Income tax =  $234 \times 10\% = 23$  lei

The self-employed person will declare through the single return the amount of 23 lei representing the income tax to be paid for the ownership of the 3 milk cows.

**Practical application 3.** A Romanian self-employed person estimates that he obtains income from dividends from Romania in year N of 54,000 lei. What contributions does the individual owe?

**Solution:**

The self-employed person must complete the single return for year N and will owe the contribution to social health insurance.

Total estimated income: 54,000 lei

The estimated income is in the range of 12 salaries – 24 minimum gross salaries, respectively:

36,000 lei - 72,000 lei

Income tax = 36,000 x 10% = 3,600 lei

The ceiling of 36,000 lei was obtained as follows: 3,000 x 12 = 36,000 lei.

The ceiling of 72,000 lei was obtained as follows: 3,000 x 24 = 72,000 lei.

The self-employed person must pay the social health insurance contribution of 3,600 lei to the budget.

*Comment:* This contribution is estimated for the current year, and a Single return is submitted with the estimated income. The question arises: What happens if the dividend income is not collected by the individual who has submitted the single return and paid the social health insurance contribution? In this case, the answer is the following: the self-employed person cannot submit a rectification statement for the estimated income and, as such, will remain with the amount of 3,600 lei paid to the budget. In this case, an anomaly is that the individual still needs to collect the income but will still pay a sum of money and can no longer recover it. We suggest the Romanian legislator "regulate" this anomaly by making it possible to submit a rectification statement for the erroneous estimated income.

There is also the possibility for the self-employed person to submit a declaration with the income made from the dividend and investment income. In this case, there is no question of submitting a declaration for the estimated income.

**Practical application 4.** A self-employed person estimates income from renting a building of 8,000 lei in year N. The self-employed person will register the rental contract with the tax authority. What tax will the individual be obliged to pay for the income from renting the property?

**Solution:**

The self-employed person will owe tax on the income from the transfer of the use of goods at a rate of 10%.

$$\text{Tax} = 8,000 \times 10\% = 800 \text{ lei}$$

Starting in 2023, deductions will no longer be granted, and the income from renting the property will be fully taxed.

Comment: Only an income tax of 800 lei will be due if the individual no longer earns any other income. Suppose the self-employed person also achieves other income categories. In that case, globalization will be achieved, and they will also be subject to the contribution to social health insurance if the ceiling of 18,000 lei is exceeded.

**Practical application 5.** An authorized self-employed person records the following information in a financial year:

- carries out commercial activities in non-specialized stores, with the predominant sale of food products, beverages and tobacco

- gross income: 384,000 lei (achieved)

- deductible expenses: 328,000 lei (realized)

To determine the taxes to be paid by the taxpayer, knowing that the holder of the authorized self-employed person is a pensioner.

**Solution:**

The self-employed person will complete the single return in the Made section and owe income tax and social health insurance contribution (CASS). Since the owner of the authorized self-employed person is a pensioner, no social insurance contribution is due.

$$\text{Annual taxable income} = 384,000 - 328,000 = 56,000 \text{ lei}$$

$$\text{Annual tax due} = 56,000 \times 10\% = 5,600 \text{ lei}$$

$$\text{Calculation base of CASS} = 12 \times 3,000 = 36,000 \text{ lei}$$

$$\text{CASS due} = 36,000 \times 10\% = 3,600 \text{ lei}$$

The taxpayer will have to pay to the budget:

- income tax: 5,600 lei

- CASS: 3,600 lei

#### 4. Conclusions

The authorized self-employed person is an economic concept that researchers and fiscal bodies must consider.

If they register a certain income, any authorized self-employed person or self-employed person must submit a single return. The single return is a document completed with realized incomes and expenses and estimated incomes and expenses.

An authorized self-employed person mainly owes:

- Income tax 10%

- Contribution to social security 25%

- Contribution to social health insurance 10%



These presented fiscal obligations are capped and periodically modified by the Romanian legislator. There needs to be stability regarding the amount of the taxable base. From this point of view, there are significant variations regarding the amount of tax liabilities from one financial year to another. The value of the gross minimum wage also influences tax liabilities. If, for example, in 2022, the minimum gross salary was 2,550 lei, in 2023, the minimum salary is 3,000 lei. By increasing the minimum wage, the taxes owed by a self-employed person are also increased. So, the state is interested in a salary increase because of the receipts of the budget increase. However, if not matched with the actual production of goods and services, these minimum wage increases will lead to inflationary effects.

## 5. The limitations and the perspectives of the research

In the future, we want to expand our research on other cases regarding the taxes owed by the authorized self-employed person. We intend to develop a study on the volume of taxes owed in an accounting period by authorized self-employed persons, family businesses and sole proprietorships. We currently have 441,471 active self-employed persons reported for May 2023 by the National Trade Register Office [8].

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