# ACCOUNTING TREATMENT OF BENEFITS IN KIND

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*From the salt portion of the Romanian soldier up to the concept of the Labour Code which consider that the salary is the remuneration of the persons working exclusively on a labour agreement relationship, its accounting have had to adapt even to the tax requirements which considers even as salary revenues even the ones obtained by individuals from services relationships, including the individuals employed based on special laws, such as: public clerks, professors, individuals working under the public army and police etc. Presented below is the standard structure of the salary computation, valid for the calendar year 2009, as well as the standard social security contributions. After an example of a net salary calculation, enclosed with this report is presented an Excel computation for the above, while this report will present in its final stage to the particularities of the accounting for benefits in kind.*

*Keywords: benefits in kind, social security contributions, monthly net salary income, taxable salary income, salary tax*

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## Considerations on the Accounting Treatment of the Benefits in kind

The Labour Code is mentioning that the salary is the remuneration of the individuals working exclusively on a labour agreement relationship: "the individual labour agreement is the agreement in which an individual, „the employee" is rendering its services under the supervision and being dependent to an employer, either another individual or a legal entity, for remuneration called „salary". Besides the above, salary revenues are obtained even by a large scale of other individuals which are not involved in an employment relationship but in a dependent rendering of services, as per the provisions defined by the Fiscal Code at art. 55: „salary income are defined as in-cash and in-kind income obtained by an individual under a labour agreement relationship, as well as the income realized according to a special status conferred by the law, indifferently to the period to which it refers or the name of the related income or the form in which they are granted, including also the remuneration for temporary labour incapacity"; a list of other income obtained from similar activities are mentioned in paragraph 2 of the same article.

As subject of the labour rights and obligations, individual is called „employee" and the Labour Code is establishing an exception for the general accepted exercise capacity age (i.e. 18 years): „An individual has working capacity at the age of 16 years. The individual can conclude a labour agreement as employee even at the age of 15 years with the approval of its parents or legal tutors for activities in accordance with his or her physical development, aptitudes and knowledge and if such labour activities are not damaging the individual personal health, development and professional qualification[540]. According to the Romanian laws, the salary granted can not be lower that the minimum gross salary establish at national level.[541] "An individual can conclude

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540 Law #53/2003 regarding the Labour Code, published in the Official Gazette, Part I #72 dated 05.02.2003, art.13.paragraphs (1) and (2), with its further amendments.
541 As of 1 January 2009, the minimum national gross salary is established at 600 lei per month, for a full working schedule of 170 hours in average per month, representing 3,529 lei/hour, in accordance with art. 2 from Government Decision #1051/2008 published in the Official Gazette Part I #649 dated 12.09.2008.

individual labour agreements in his/her capacity of employer from the moment of earning his/her exercise capacity "[542].

We present below in Figure #1 the salary structure while in Table #1, the percentages of the social security contributions valid and applicable for calendar year 2009 in Romania.
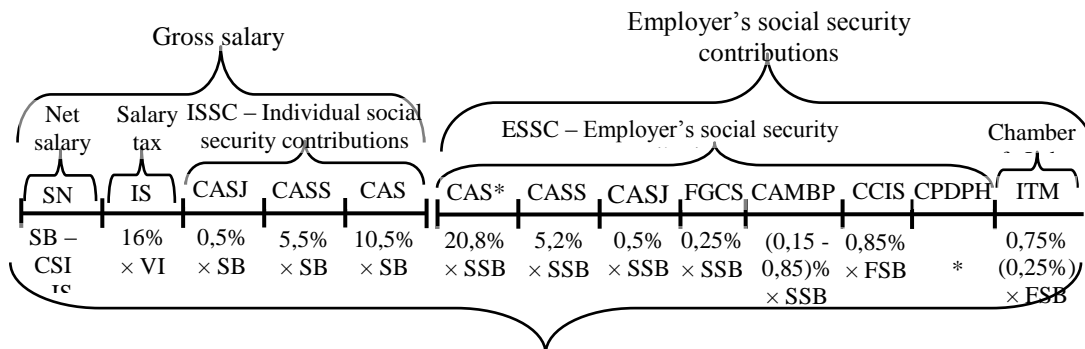


Salary structure and the social security contribitutionsfor calendar year 2009

Figure #1

Where:

**SB** – Monthly gross salary;

**VNL** – Monthly net income (SB - CSI);

**VI** or **VBC** – taxable income (SB – CSI - DP);

**ISSC** – Individual social security contributions (withholdings from gross salary);

**IS** – (Income) Salary tax;

**SN** – Monthly net salary;

**SSB** – Total of monthly gross salaries;

**ESSC** – Employer's social security contributions;

**CAS** – employer's pension fund contribution, for normal working conditions;

**CASJ** – employer's unemployment fund contribution;

**CASS** – employer's health fund contributions;

**CAMBP** – employer's for work accidents and professional diseases contribution;

**CCIS** – employer's medical leave contributions;

**FGCS** – employer's contribution to salary guarantee fund;

**CPDPH** – employer's solidarity fund contribution for disabled persons;

**ITM1** (0,75%) şi **ITM2** (0,25%) – commissions – professional fees due to the Chamber of Labour for the administrative management of labour books.

Table #1. **Percentages of the social security contributions applicable in the calendar year 2009**

| No. | Description of the related contribution | Percentage | Legal ground |
|---|---|---|---|
| 1 | Individual pension fund contribution for different working conditions, according to the Law #19/2000 [543] | 10,5 % computed at the individual gross salary, including all bonuses and other remuneration | **Art. 18** – Paragraph **(1)** lit. a) from the State Social Security Budget Law for calendar year 2009 published in the Official Gazette #122, Part I, 2009. |

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542 Idem Labour Code, art. 14.

543 In the individual pension fund contribution is including the 2,0 % quota related to private pension funds, as provided by the Law #411/2004 regarding the private pension funds, republished, with its further amendments.

| | | | |
|---|---|---|---|
| | (art.18 paragraphs (2) and (3)); | | |
| 2. | Employer's pension fund contribution for normal working conditions, according to the Law #19/2000 (art.18 paragraphs (2) and (3)); | 20,8 % computed at total realised gross salaries, including all bonuses and remuneration (25,8 % - special working conditions, 30,8 % - extreme working conditions | Art. 18 – Paragraph (1) lit. a), b), c) from the State Social Security Budget Law for calendar year 2009 published in the Official Gazette #122, Part I, 2009. |
| 3. | Employer's unemployment fund contribution, according to the Law #76/2002 (art.29); | 0,5 % computed at total realised gross salaries | Art. 19 – Paragraph (1) lit. a) from the State Social Security Budget Law for calendar year 2009 published in the Official Gazette #122, Part I, 2009. |
| 4. | Individual unemployment fund contribution, according to the Law #76/2002 (art.29); | 0,5 % computed at the gross salary | Art. 19 – Paragraph (1) lit. b) from the State Social Security Budget Law for calendar year 2009 published in the Official Gazette #122, Part I, 2009. |
| 5. | Employer's contribution to the salary guarantee fund, according to the Law #200/2006 (art.7 paragraph (1)); | 0,25 % computed at total gross realised salaries | Art. 19 – Paragraph (1) lit. d) from the State Social Security Budget Law for calendar year 2009 published in the Official Gazette #122, Part I, 2009. |
| 6. | Employer's contribution for working accidents and professional diseases, depending on the risk working conditions, according to the Law #346/2002; | 0,15 % - 0,85 % computed at total gross realised salaries[544] | Art. 20 – Paragraph (1) from the State Social Security Budget Law for calendar year 2009 published in the Official Gazette #122, Part I, 2009. |
| 7. | Individual health fund contribution due by the individuals insured according to art.257 from Law # 95/2006 (employees and individuals assimilated to employees, excepting individuals which benefit of the health | 5,5 % computed at gross income from salaries or income assimilated to salaries which are subject of income tax, as well as other taxable bases mentioned in art.257. | Art. 1. – paragraph (1) lit. a) from the Emergency Government Ordinance #226/2008 dated 30.12.2008, regarding certain finance-budgetary measures, published in the Official Gazette #899, Part I dated 30.12.2008. |

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544 Starting as of 1 January 2008, as per the Government Emergency Ordinance #91/2007, published in the Official Gazette Part I #671/2007, the taxable base for the calculation of the social security contributions have been amended and their annual percentages should be established by the Social Security Contributions State Budget Law.

| | | | |
|---|---|---|---|
| | insurance without any contribution); | | |
| 8. | Employer's health fund contribution, according to art. 258 from Law #95/2006; | 5,2 % computed at total gross realised salaries. | |
| 9. | Employer's medical leave contribution, according to Emergency Government Ordinance #158/2005; | 0,85 % computed at total gross realised salaries | Art. II from the Emergency Government Ordinance #91/2006, published in the Official Gazette #958/2006. |
| 10 | Commission to the Chamber of Labour for the administrative management (archiving and update) of the labour books, according to the Law #130/1999; | 0,75 % computed at total gross realised salaries | Art. 5 paragraph (1), lit. a) from the Law #130/1999 regarding the protection of individuals working based on labour agreements, republished in the Official Gazette #190/2007. |
| 11 | Commission to the Chamber of Labour for the administrative management (review and certification) of the labour books, according to the Law #130/1999; | 0,25 % computed at total gross realised salaries | Art. 5 paragraph (1), lit. b) from the Law #130/1999 regarding the protection of individuals working based on labour agreements, republished in the Official Gazette #190/2007.. |
| 12 | Employer's contribution to solidarity fund for disabled persons, according to the Law #448/2006; | 50% from the minimum national gross salary multiplied with the number of working positions for which the corresponding number of disabled persons were not hired or engaged under other types of relationships[545] | Art. 77 from the Law #448/2006 regarding the protection and promoting the rights of disabled persons published in the Official Gazette #1006/2006 with its further amendments. |

The net salary computation is assuming this calculation at the main working position and/or other positions. According to the Labour Code, an employee could have more positions (functions) based on different individual agreements concluded with different employers, benefiting of salaries corresponding for each of the position, with the exceptions provided by law for incompatibility of the functions. From a fiscal perspective, by main working position is

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[545] The obligation is alternative and is conditioned by the number of employees, please refer to art. 77 from Law #448/2006.

understood the working position where certain tax facilities are granted for the purpose of computing the salary tax. The choice of the main working position is made by the employee and generally represents the position where the employees has a labour agreement concluded for a normal daily working time.

In accordance to art. 57 from the Fiscal Code - "The determination of the income tax for salary income", the beneficiaries of salary income are liable for a monthly final salary tax, computed and withheld by the payer of the salary income as follows:

**a)** in case of the main working position, by applying 16% at the taxable income computed as the difference monthly net income (determined by deducting from the gross monthly salary of the monthly individual social security contributions) and the following:

- individual personal deduction granted for the respective month;
- contribution to the labour union (if the case) for the respective month;

- contributions to the private pension funds at the maximum threshold of EUR 200 per year (computed in the lei);

**b)** in other cases, by applying 16% at the taxable income computed as the difference between the monthly gross salary and the monthly individual social security contributions – calculation performed at each working position;

The beneficiaries of the salary income are entitled of a deduction from their monthly net income called personal deduction, personal deduction which is granted on a monthly basis but only for the salary income obtained at the main working position.

Considering the computation method mentioned in the article **3 from Order of Ministry of Public Finance** #19/2005 regarding the monthly personal degressive deductions in conjunction with the monthly gross salaries - SB and the number of dependants - NPI, the following calculation relations can be established for the personal deduction as presented in Table #2:

| | | | Table #2 |
|---|---|---|---|
| Gross salary - SB(RON) | Up to: 1.000 | between: 1.000,01 ÷ 3.000 | over: 3.000 |
| K | 1 | $1 - \dfrac{SB - 1000}{2.000}$ | 0 |
| Personal deduction: $DP = (250 + 100 \times NPI) \times K$ | $250 + 100 \times NPI$ | $(250 + 100 \times NPI) \times \dfrac{3.000 - SB}{2.000}$ | 0 |

**Example**

The net salary calculation for a gross salary of 1.500 RON (15.000.000 ROL) for an employee with only one dependant, at the main working position, in the month of February 2009, is presented below:

$VNL = SB – CSI = SB – CASJ – CASS – CAS = 1.500 – 0,5\% \times 1.500 –$
$– 5,5\% \times 1.500 – 10,5\% \times 1.500 = 1.500 – 8 – 83 – 158 = 1.251$ lei

$DP = (250 + 100 \times NPI) \times K$, in which NPI = 1 represents the number of dependents which from a tax perspective can not exceed the number of 4, while „K" is computed as:

$$K = 1 - \frac{SB - 1.000}{2.000} = 1 - \frac{1.500 - 1.000}{2.000} = 0,75$$

$DP = (250 + 100 \times 1) \times 0,75 = 262,5 = 270$ lei (rounding-up to *ten lei*).

VI or $VBC = VNL – DP = 1.251 – 270 = 981$ lei, while the salary tax:

$IS = 16\% \times VBC = 16\% \times 981 = 157$ lei

$$SN = SB - CSI - IS = 1.500 - 249 - 157 = 1.094 \text{ lei}$$

For a fast computation of the salaries, Excel worksheets can be used

## EXCEL WORKSHEET

| | A | B | Explanations for column ”B” (information of formulas) |
|---|---|---|---|
| 1 | February/2009 - Working days | 20 | 20 |
| 2 | Name, Surname | Spanu N | Spanu Nicolae |
| 3 | Main working position – normal working conditions | 1 | 1 |
| 4 | Days worked | 20 | 20 |
| 5 | Number of dependants | 1 | 1 |
| 6 | Contracted gross salary | 1.171,0 | 1171 |
| 7 | Realised gross salary | 1.171,0 | =B6*B4/B1 |
| 8 | Management indemnisation | 0,0 | 0 |
| 9 | Seniority bonus 15% | 176,0 | =ROUND(15%*(B7);0) |
| 10 | Other bonuses | 0,0 | 0 |
| 11 | Other income | 0,0 | 0 |
| 12 | VBLS (Monthly gross salary) | 1.347,0 | =B7+B8 +B9+B10+B11 |
| 13 | C.A.SJ. 0,5 % | 7,0 | =ROUND(0,5%*B12;0) |
| 14 | C.A.S.10,5 % | 141,0 | =ROUND(10,5%*B12;0) |
| 15 | C.A.S.S. 5,5 % | 74,0 | =ROUND(5,5%*B12;0) |
| 16 | Personal deduction | 290,0 | =(IF(B12<=1000;250+IF(B5<=4;B5;4)*IF( B5<0;0;1)*100);0)+IF(B12>1000;1;0)*IF(B 12<=3000;ROUNDUP((250+IF(B5<=4;B5 ;4)*IF(B5<0;0;1)*100)*(1-(B12- 1000)/2000);-1);0))*IF(B3>0;1;0) |
| 17 | Monthly net income (VNL) | 1.125,0 | =IF((B12-B13-B14-B15)<0;0;(B12-B13- B14-B15)) |
| 18 | Taxable income (VI or VBC) | 835,0 | =ROUNDDOWN(IF((B17-B16)<0;0;(B17- B16));1) |
| 19 | Salary tax (IP) | 134,0 | =ROUND(16%*B18;0) |
| 20 | Net salary (NP) | 991,0 | =B12-B13-B14-B15-B19 |
| 21 | Advance (AV - 40%) | 401,0 | 401 |
| 22 | Rest payable (RP) | 590,0 | =B20-B21 |

The benefits in kind (excepting the ones mentioned in art. 55 - paragraph (4) from the Fiscal Code), related to a dependent relationship include without being limited to:

a) utilisation of any employer's goods, including any vehicle, for private purposes, excluding the travel between home and working place and return

b) accommodation, subsistence, clothes, employees for household activities, as well as other goods and services free-of-charge or at prices lower then the market prices;

c) non-reimbursable loans;

d) cancellation of any receivables of the employer towards the employee;

e) subscriptions and cost of telephone conversations, including prepaid telephone cards, used for private purposes;

f) travel documents for any transportation means used for private purposes;

g) insurance policies paid by the employer for its own employees or other income beneficiaries, at payment date, besides the mandatory insurance policies.

For the accounting of the benefits in kind, the following options can be used by recording these transaction using the debit of the account 421 "Employees – accrued salaries" and the credit of one of the accounts:

Either an expenses account, in case of a benefit in kind related to the acquisitions of the employer (the expenses accounts are used depending on the related benefit in kind granted, for example account 607 "Cost of goods sold related to merchandises", 605 "Utilities expenses"):

| 421 | = | 607 |
|---|---|---|
| "Employees – accrued salaries" | | " Cost of goods sold related to merchandises" |

- either an operational revenues account, in case of a benefit in kind granted in general from the own production (example, account 708 "Revenues from sundry activities"):

| 421 | = | 708 |
|---|---|---|
| "Employees – accrued salaries" | | " Revenues from sundry activities" |

Another method for recording the benefits in kind granted to the employees is the one which is assuming a sale to the employee. For example if benefits in kind are granted from the own production, the following steps should be undertaken:

1. Including the products granted as benefits in kind in the salary expenses together with the salary rights:

| 641 | = | 421 |
|---|---|---|
| "Salary expenses" | | " Employees – accrued salaries" |

2. Calculation and recording of the salary withholdings will be made starting from the sum between the salary rights and the value of benefits in kind granted as products from own production. The recording of the salary withholdings and the salary payment is made in accordance with the previous sections.

3. Granting of the benefits in kind:

| **421** | = | % |
|---|---|---|
| " Employees – accrued salaries" | | 701 |
| | | "Sales of products" |
| | | 444 |

4. Cost of goods sold for the products granted as benefits in kind:

|  |  |  |
|---|---|---|
| **711** | = | 345 |

"Revenues from production in stock" | | "Finished products"

5. If the goods granted as benefits in kind are subject of VAT and excises, the related accounting entry will be:

|  |  |  |
|---|---|---|
| **635** | = | % |

"Expenses with other taxes" | | 4427

"Output VAT"

446

"Other taxes"

**References:**
1. Law #19/2000 regarding the System of Public Pensions and Other Social Security Allowances
2. Law #76/2002 regarding the unemployment security system and the stimulation of labour employment
3. Law #346/2002 regarding insurance for labour accidents and professional diseases
4. Law #411/2004 regarding the private pension funds, republished, with its further amendments
5. Law no. 571/2003 regarding the Fiscal Code, published in Part I of the Official Gazette of Romania No. 927 of December 23, 2003, with further amendments
6. Law #53/2003 regarding the Labour Code, published in the Official Gazette, Part I #72 dated 05.02.2003
7. Law #200/2006 regarding the guarantee fund for salary related obligations
8. Law # 95/2006 regarding the reform in the health
9. Government Decision #1051/2008 published in the Official Gazette Part I #649 dated 12.09.2008
10. Law #122 for State Social Security Budget for calendar year 2009 published in the Official Gazette Part I, 2009