

The Profit Tax Versus Income Tax for Microenterprise

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Abstract: This paper analyzes two fiscal regimes available for businesses in Romania: the microenterprise income tax and the corporate profit tax. These two systems have specific conditions and offer different advantages depending on the company's size, structure, and activity. The microenterprise income tax benefits businesses starting up or those with low expenses. On the other hand, the corporate profit tax, with a fixed rate of 16%, is applied to the actual profit remaining after deducting expenses, which can be more advantageous for companies with higher or growing costs. In 2025, Romanian authorities introduced stricter conditions for microenterprises. The income threshold was reduced to €250,000; in 2026, it will be further reduced to €100,000. These changes aim to prevent large companies from misusing the simplified tax regime. This paper compares the two taxation methods and shows the long-term financial impact on various types of businesses. The analysis shows that although the microenterprise income tax is easier to manage and predict, it is not always the most efficient choice, especially for companies with high expenses. In contrast, the profit tax involves more complex accounting, which can sometimes bring tax savings. Ultimately, choosing the appropriate method depends on how the company operates and its future outlook.

Keywords: Microenterprises, Threshold, Profit Tax, Income Tax

JEL classification: H30

1. Introduction

In an economic context increasingly defined by competitiveness and sustainability, the fiscal system plays a key role as a policy tool through which the state can influence business development. Taxes and duties not only provide the necessary public revenue to support state institutions but also stimulate entrepreneurship, investment, and innovation. Thus, fiscal policies often reflect the interventionist nature of the state, directly impacting the economy's structure. Small and medium-sized enterprises (SMEs) form the backbone of the European Union economy, playing a vital role in job creation and innovation. Due to their size, SMEs are particularly vulnerable to legislative and administrative changes. Therefore, simplifying taxation for these entities is a constant concern at the European and national levels. In Romania, one of the main fiscal measures aimed at supporting microenterprises has been the introduction of a microenterprise income tax, as an alternative to the corporate income tax. This simplified tax regime applies to companies meeting specific criteria, such as an annual revenue ceiling (currently €250,000), and eligible business activities. The system is designed to reduce administrative burden and encourage voluntary tax compliance. On the other hand, companies that exceed this revenue threshold or operate in excluded sectors fall under the standard corporate income tax regime, with a flat rate of 16%. This applies mainly to large enterprises, which generally have greater financial and operational resources and increased capacity for fiscal planning and optimization.

2. Literature Review

A tax is a mandatory, non-refundable monetary contribution from a portion of a natural or legal person's income and/or wealth. A duty is a sum of money paid by a natural or legal person for services provided by a public institution or for a public service. Taxes and duties do not have a specific destination at the time of collection. After collection, they are used to cover public expenditures and fulfill the functions and responsibilities of the state and its institutions.

Each tax has specific elements regulated by Law no. 227/2015, which details relevant aspects for the taxpayer. These elements include: Name of the tax – it is essential for its identification and reflects the economic nature of the tax, Taxpayer – the natural or legal person required to pay the amount due, Bearer of the tax – the person from whom the amount paid as tax comes, Taxable object – represents the matter subject to taxation: income, wealth, consumption, or actions of the authorities, Source of the tax – indicates the origin of the amount, Method of taxation and collection (establishing the tax) – the measures taken by authorities to determine the tax base, set the amount and collect it, Taxation unit – the expression of the taxable object, Tax base – considers the taxable object and its characteristics, Tax rate – the unit amount applicable to the tax base: fixed, proportional, progressive, or regressive, Due date – the date by which the tax must be paid, Payment date – the moment when the tax was paid.

The profit tax is a fee owed to the Romanian state budget by Romanian legal entities and foreign ones that carry out activities on the country's territory through a permanent establishment and use sales and management tax systems. Taxable profit = (Total income from any source – Total expenses incurred for generating income) – Non-taxable income – Tax deductions/Incentives + Non-deductible expenses – Tax loss
Profit tax = Taxable profit * 16%

According to art.20 of the Fiscal Code, the following incomes are non-taxable in the calculation of the taxable profit:

- a. dividends received from a Romanian legal entity or a foreign legal entity paying profit tax or a tax similar to profit tax, located in a third country
- b. favorable value differences of equity instruments, recorded as a result of the incorporation of reserves, benefits, or share premiums at the legal entities where the participations are held
- c. income from the cancellation of expenses for which no deduction was granted, income from the reduction or cancellation of provisions for which no deduction was granted, income from the recovery of non-deductible expenses, income from the refund or cancellation of some interest and/or delay penalties for which no deduction was granted, as well as income representing the cancellation of the reserve recorded as a result of the contribution in kind to the capital of other legal entities
- d. non-taxable incomes, expressly provided in agreements and memoranda approved by normative acts
- e. income from the sale/assignment of participations held in a Romanian legal entity or in a foreign legal entity
- f. income from deferred profit tax determined and recorded by taxpayers applying accounting regulations in line with International Financial Reporting Standards
- g. income representing the change in fair value of investment properties/biological assets. These amounts are taxable simultaneously with the deduction of fiscal depreciation, respectively, at the time of disposal of these investment properties/biological assets, as the case may be
- h. income from the liquidation of another Romanian legal entity or a foreign legal entity
- i. According to art. 25 para. 4 of the Fiscal Code, the following are non-deductible expenses:
- j. the taxpayer's expenses with the profit tax due, including those representing differences from previous years or from the current year, as well as profit or income taxes paid abroad
- k. interest/penalties for late payment, fines, confiscations and penalties, owed to Romanian/foreign authorities, according to legal provisions, except for those related to contracts concluded with these authorities
- l. expenses regarding goods like stocks or depreciable fixed assets found missing from inventory or degraded, non-attributable, as well as the related value-added tax, if this is due according to Title VII
- m. expenses made in favor of shareholders or associates, other than those generated by payments for goods delivered or services provided to the taxpayer, at market price for those goods or services
- n. expenses related to non-taxable income
- o. expenses with management, consulting, assistance services, or other services, provided by a person located in a state with which Romania has not concluded a legal instrument based on which the exchange of information is carried out
- p. expenses with insurance premiums that do not concern the assets and risks associated with the taxpayer's activity, except for those related to goods representing a bank guarantee for loans used in carrying out the activity for which the taxpayer is authorized or used within leasing or rental contracts, according to contractual clauses
- q. losses recorded when writing off receivables, for the part not covered by provision, according to art. 26, as well as those recorded in cases other than the following

In addition to non-deductible expenses, the Fiscal Code also regulates a series of expenses with limited deductibility, which can be deducted only under certain conditions and within limits established by law. Examples include protocol, social, meal, and vacation expenses. The profit tax is applied quarterly on the profit obtained by companies or authorized individuals. The rate is 16% and is applied to the net profit. There is an exception for companies in fields such as bars, clubs, and casinos, if the profit tax is less than 5% of income, they pay income tax instead.

The Microenterprise is a Romanian legal entity that, on December 31, 2024, of the previous fiscal year, cumulatively meets the following conditions:

- Has generated revenues that do not exceed the equivalent in lei of 250,000 euros (respectively 100,000 euros starting January 1, 2026), calculated at the exchange rate valid at the closing of the financial year in which the revenues were recorded
- Has share capital held exclusively by individuals, other than the state or territorial-administrative units
- is not in a procedure of dissolution followed by liquidation, according to records in the trade register or court records
- has at least one employee, with the exceptions provided by law
- has shareholders or associates holding, directly or indirectly, more than 25% of participations or voting rights, and designates the only legal entity to apply the microenterprise tax regime
- has submitted the annual financial statements on time, if this obligation exists according to law
 - Rules for applying the microenterprise income tax system:
- The tax is optional.
- Romanian legal entities can apply the income tax regime for microenterprises starting from the following fiscal year after meeting the microenterprise conditions and if they have not paid income tax for microenterprises after January 1, 2023.
- Microenterprises cannot opt to pay profit tax during the fiscal year; the option can be exercised starting with the following fiscal year.

The tax base of the microenterprise income tax consists of revenues from any source, from which the following are deducted: Revenues related to the cost of product inventories; revenues associated with the cost of services in progress;

revenues from the production of tangible and intangible assets; revenues from subsidies; revenues from provisions; revenues resulting from the refund or cancellation of interest and/or penalties for delay, which were non-deductible expenses when calculating taxable profit; revenues from compensation received from insurance/reinsurance companies for damages to inventories or fixed assets; revenues from exchange rate differences; financial revenues related to receivables and payables with settlement based on a foreign currency exchange rate, resulting from their valuation or settlement; value of commercial discounts granted after invoicing, recorded in account "709", according to applicable accounting regulations; revenues related to payment titles obtained by entitled persons, according to the law, original holders registered with the Central Commission for the Establishment of Compensations or their legal heirs; compensation received based on decisions of the European Court of Human Rights; income obtained from a foreign country with which Romania has a double taxation avoidance agreement, if these were taxed in the foreign state;

Dividends are received from a Romanian legal entity; dividends are received from a subsidiary of the microenterprise, a legal entity located in another EU member state, as the conditions for dividends are met.

Microenterprise Income Tax Rates – 2025:

- 1%, for microenterprises that generate revenues not exceeding 60,000 euros and do not carry out activities under the excepted CAEN codes.
- 3%, for microenterprises that: generate revenues exceeding 60,000 euros OR carry out primary or secondary activities corresponding to CAEN codes: 5821, 5829, 6201, 6209, 5510, 5520, 5530, 5590, 5610, 5621, 5629, 5630, 6910, 8621, 8622, 8623, 8690.

Table 1. The Evolution of the Microenterprise, Threshold and Tax

Year	Threshold (Euro)	Tax Rate (%)	Notes
2015	65.000	3%	Flat rate aplicable to all microenterprises
2016	100.000	1%-3%	Introduction of the differentiated rates based on employee count
2017	500.000	1%-3%	Threshold increased to 500.000 euro; rates based on number of employees
2018	1.000.000	1%-3%	Threshold increased to 1.000.000 euro; same rates maintained
2019	1.000.000	1%-3%	No changes compared to the previous year
2020	1.000.000	1%-3%	No changes compared to the previous year
2021	1.000.000	1%-3%	No changes compared to the previous year
2022	1.000.000	1%-3%	No changes compared to the previous year
2023	500.000	1%	Threshold reduced to 500.000 euro; The 3% regime for micro-enterprises without employees is no longer applicable starting in 2023. Micro-enterprises must have at least one employee to apply the income tax regime.
2024	500.000	1%-3%	1% for micro-enterprises that generate revenues not exceeding 60,000 euros inclusive and that do not carry out the activities in fields such as IT or HORECA 3% for micro-enterprises that generate revenues over 60,000 euros and up to 500,000 euro or carry out activities in fields such as IT or HORECA Micro-enterprises must have at least one employee to apply the Micro-enterprises income tax regime.
2025	250.000	1%-3%	Threshold reduced to 250.000 euro; same rates maintained, considering the field of activity

			Micro-enterprises must have at least one employee to apply the Micro-enterprises income tax regime.
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Source: https://www.anaf.ro/anaf/internet/ANAF/asistenta_contribuabili/legislatie/codul_fiscal/

3. Research methodology

For confidentiality reasons, we have prepared a case study using fictitious, approximate data based on a company's tax register to better understand the method of calculating the microenterprise income tax and the corporate profit tax. The selected example highlights the differences between the tax regimes applicable to microenterprises, depending on the presence or absence of employees and the impact of different types of income on the tax base. The analysis is carried out following the current provisions of the Fiscal Code in force at the time of writing this paper.

Table 2. Fictional Local Business Data

Category	Sum (Lei)
Revenue from the sale of goods	3.200.000
Revenue from the sale of finished products	850.000
Revenue from foreign exchange differences	50.000
Total Revenues	4.100.000 (820.000 euro)
Cost of goods sold	2.200.000
Expenses with personnel salaries and activity	900.000
Expenses with energy and water	180.000
Protocol expenses	25.000
Expenses with profit tax from previous periods	35.000
Fines received from ANAF	10.000
Sponsorship expenses	20.000
Total expenses	3.370.000
Gross Profit (Revenues - Expenses)	730.000

Source: Fictional Local Business

We start by calculating the deductible and non-deductible protocol, and then the non-deductible expenses: Deductible protocol = $2\% \times (\text{Total Revenue} - \text{Total Expenses} + \text{Expenses with profit tax from previous periods} + \text{Protocol Expenses}) = 2\% \times (4.100.000 - 3.370.000 + 35.000 + 25.000) = 2\% \times 790.000 = 15.800 \text{ lei}$

Non-deductible Protocol = Protocol Expenses - Deductible Protocol = $25.000 - 15.800 = 9.200$

Non-deductible expenses = Fines received from ANAF + Expenses with profit tax from previous periods + Sponsorship expenses + Non-deductible Protocol = $10.000 + 35.000 + 20.000 + 9.200 = 74.200 \text{ lei}$

After calculating non-deductible expenses, we noticed that we do not have any non-taxable income, so we move on to the calculated profit tax. For this, we need the taxable base to which we will apply a tax rate of 16%. Taxable base = Total revenue - Total Expenses - Deductions + Non-deductible Expenses - Non-taxable Income = $4.100.000 - 3.370.000 - 0 + 74.200 - 0 = 804.200 \text{ lei}$

Calculated Profit Tax = Taxable base * 16% = $804.200 \times 16\% = 128.672 \text{ lei}$

To determine the corporate profit tax owed, we must calculate the sponsorship deduction, which is then subtracted from the calculated profit tax. Taxpayers who carry out sponsorships and/or patronage activities, by the provisions of Law no. 32/1994 on sponsorship, as subsequently amended and supplemented, and Law no. 334/2002 on libraries, republished and subsequently amended, may deduct the related amounts from the minimum tax due, up to the lowest value of the following:

- the amount calculated by applying 0.75% to the turnover; in cases where the applicable accounting regulations do not define the turnover indicator, this limit shall be determined according to specific norms;
- the amount representing 20% of the corporate profit tax.

We start by calculating the turnover:

Turnover = Revenue from the sale of goods + Revenue from the sale of finished products = $3.200.000 + 850.000 = 4.050.000 \text{ lei}$

We multiply the turnover by 0.75%: $4.050.000 \times 0.75\% = 30.375 \text{ lei}$

We apply the 20% rate to the expenses: $35.000 \times 20\% = 7.000 \text{ lei}$

The minimum value is picked and subtracted from the calculated profit tax. The result is the amount owed.

Corporate profit tax owed = $128.672 - 7.000 = 121.672 \text{ lei}$.

Following the calculation of deductible and non-deductible expenses and the application of fiscal deductions related to sponsorships, we determined the corporate profit tax owed by the company. Although the calculated profit tax amounted to 128.672 lei, the company benefited from a sponsorship deduction, limited to the minimum between 0.75% of turnover and 20% of the corporate profit tax. The minimum value is 7.000 lei, which was deducted from the calculated tax. As a result, the final corporate profit tax owed is 121.672 lei. This example illustrates how sponsorships can reduce the tax burden, but only within the strict legal limits defined by the Fiscal Code. Additionally, the impact of non-deductible expenses, such as fines and protocol exceeding legal thresholds, can significantly increase the taxable base and, implicitly, the tax due.

In the following case, we present a case of two companies that are classified as a microenterprise under the Romanian Fiscal Code because their total annual revenues do not exceed 250,000 euros. One it is not involved in excluded activities such IT, HoReCa or medical services and, and the other has the main activity in dental services

Table 3. Fictional Microenterprise Data

Description	Amount (lei)
Revenue from service provision	4.882
Revenue from goods sold	80.355,45
Total Revenue	85.237,45

Source: Fictional Microenterprise

Income Tax = Total Revenue * Tax Rate = 85.237,45 * 3% = 2.557,12 lei

The analyzed microenterprise generates income exclusively from dental services. It falls under the 3% tax rate per the Romanian Fiscal Code. Therefore, for the reporting period, the company owes 2.557,12 lei in microenterprise income tax, which must be declared and paid by the 25th of the month following the end of the quarter.

Now, let's consider the same case, but with a 1% tax rate, assuming the microenterprise generates income exclusively from trade activities. In this scenario, the company would be subject to a 1% tax rate, as per the Romanian Fiscal Code.

Income Tax = 85.237,45 * 1% = 852,37 lei

4. Results and discussions

Table 4. Comparison Table

Criteria	Excluded CAEN codes	Allowed NACE codes
Tax Rate	3%	1%
Income Tax Due (lei)	2.557,12	852,37
Tax Savings	-	1.704,75

Source: Author's calculations

Based on the analysis presented in the first comparative table, we can observe that applying a 1% income tax rate results in a significant financial saving for the company, namely, 1.704,75 lei, this depending on the field of activity.

In a situation where the micro-enterprise, although it has revenues of up to 60,000 euros and operates in the accepted fields, but has no employees, it would switch to a 16% tax on profit.

Moreover, considering the company's obligations regarding social contributions for an employee earning the minimum wage, the total taxes owed to the state (social security, health insurance, and income tax) amount to approximately 1.560 lei. This can serve as a strong argument in favor of maintaining or even increasing the number of employees, considering that the financial impact on the company's budget is relatively minor. In contrast, the potential benefits (such as increased productivity and business growth opportunities) could be substantial.

In conclusion, choosing an optimal tax structure (a 1% income tax rate), combined with hiring employees at the minimum wage level, proves to be an effective cost-optimization strategy for small businesses. It helps balance expenses and supports long-term development and sustainability.

5. Conclusions

This paper has analyzed the fiscal implications of Romania's two primary tax regimes for small businesses: the corporate profit tax and the microenterprise income tax. Through legal provisions, practical calculations, and fictional case studies, it becomes evident that each tax system has distinct advantages and is suited to different business models.

The profit tax regime is more beneficial for companies with high operational expenses, as it allows for deducting those costs before tax is calculated. However, it involves more complex accounting, and the tax burden can be significantly increased by non-deductible expenses such as fines or excessive protocol costs.

On the other hand, the microenterprise income tax offers a simplified and predictable structure, taxing gross income at flat rates of 1% or 3%, depending on whether the business domain. This regime is particularly advantageous for low-expense or low-margin companies that wish to reduce compliance efforts. However, this benefit must be weighed against the additional employment costs, such as salaries and social contributions.

The recent and upcoming reductions in the revenue threshold for microenterprises from €500,000 to €250,000 in 2025, and further to €100,000 in 2026 indicate a shift toward limiting the applicability of this simplified regime, aiming to prevent misuse by larger businesses.

In conclusion, the choice between the two tax systems should not be based solely on simplicity or short-term savings. Instead, it must align with the business's operational structure, cost profile, and growth strategy. Entrepreneurs must carefully evaluate these factors when deciding which fiscal path to follow, especially in light of changing legislation and economic conditions.

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