

MEASURING THE IMPACT OF COVID-19 PANDEMY OVER THE HUMAN RESOURCES ACCOUNTING AND FISCAL POLICY

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Abstract:

During this period, determined by the adverse effects of the pandemic, with very gloomy expectations regarding the performance and profitability of economic entities, managers tend to "beautify" financial reports, respectively to apply accounting practices with which to "clean" their financial statements. Those balance sheet items that are generating losses in the future (in our case, accounting for day-to-day expenses). These practices are known in the literature as representing big bath accounting and are intensely discussed in the literature, being treated either as procedures for recording earnings or as creative accounting procedures. It is important to note, however, that these accounting procedures have been found very rarely in financial statements fraud techniques, applying rather "expenditure capitalization techniques or reporting of accounting provisions". The boundary between these creative accounting procedures used by economic entities and fraud is a very sensitive one, based on their differentiation being the conformity of accounting practices with accounting standards, professional ethics standards and internal policies. This article wants to highlight the need to adapt, to complete the accounting and tax policies, in generally, but especially in the field of labor mobility. Starting from a comparison of the way in which the labor force is reflected in the Belgian and Romanian financial statements, an analysis was made of the main factors that motivate a permanent revision of the accounting and fiscal policies in the matter.

Key words: accounting and tax policies, Covid-19, financial statement, labor force, posting workers

JEL classification: O15, J62

1. INTRODUCTION

The COVID-19 pandemic affected the economic environment and its effects were felt on all industries, but not to the same extent. For example, economic entities operating in the tourism, hospitality or retail industries have suffered greatly from quarantine measures, the effects of which are: declining turnover and staffing and even bankruptcy. However, other economic entities have seen major increases in revenues, mainly due to changes in consumer behavior or the effect of social distancing (economic entities that have operated online, the pharmaceutical sector, etc.).

Given the current economic context, economic entities need to take into account the impact of the pandemic on their business, on the one hand, in terms of financial reporting, and, on the other hand, they need to update, at least partially complement, their accounting and tax policies, in particular as regards: the adjustment of fixed assets, stocks, the time of recognition of income or exposure to possible penalties for non-compliance with contracts.

If we refer to economic entities that are posting workers, the main effects that have been felt are:

- Significant reduction in revenue as a result of the restrictions imposed (in the case of carriers the conditions for crossing borders had the effect of generating dead waiting times at customs, closing all activities for the period in which the state of emergency was declared, which was different in time, from one state to another, severe restrictions on employment abroad, etc.);
- Temporary suspension or restriction of the activity;
- Availability;
- Difficulties in collecting debts and implicitly in paying debts..

Therefore, the current crisis generated by the Covid-19 pandemic has forced and still forces the business environment that deploys cross-border labor to test its limits, especially in terms of adapting and making business lines flexible to all this economic uncertainty. A comparison of this

pandemic crisis with that of 2008 is possible only up to a point, namely: the crisis of 2008 was generated by consumption, without production capacity encountering difficulties, while the pandemic of Covid - 19 affected both consumption and production.

In this paper are highlighting the effects of Covid-19 pandemic over the accounting and tax policies, in generally, and especially, in labor force field.

2. THE ROLE OF ACCOUNTING AND TAX POLICIES IN REFLECTING THE LABOR FORCE IN THE FINANCIAL STATEMENTS ÎN PANDEMIC CONTEX

The disclosure of information relating to the accounting and tax policies applied by economic entities during the pandemic must be found in the notes to the financial statements, as, for example, during the crisis many activities were either interrupted or suspended so, it was taken decisions about preserving or not to keep the assets. This decision requires either the continued recording of depreciation expense or a specific adjustment expense for the impairment loss. The implications of such a decision are both accounting and fiscal: from a fiscal point of view, the unamortized value of depreciable fixed assets that are put into storage is recovered for the remaining normal period of use, but from the month following their exit from storage, by recalculation of the remaining tax depreciation rate. Practically, by preserving the fixed assets, the economic entity has the right to stop their fiscal depreciation, thus avoiding, at a control, the consideration of the depreciation expenses as non-deductible, for the period in which they are not used.

The Covid-19 pandemic has also left its mark on the cash flows of many economic entities, which has led accounting professionals to make provisions for uncertain customers, provisions that can take the form of losses, most of the time. From an accounting point of view, "provisions cover liabilities whose nature is clearly defined and which, at the balance sheet date, are likely to exist or are certain to exist, but which are uncertain in terms of value or date appear. According to OUG 3781/2020 "on the main aspects related to the preparation and submission of annual financial statements and annual accounting reports of economic operators to the territorial units of the Ministry of Public Finance and for the regulation of certain accounting aspects" the registration of adjustments for impairment and on a regular basis, not only at the balance sheet date.

Regarding the reflection of labor costs in the financial statements, the accounting policies are different, especially if we are talking about economic entities from different states.

According to the Belgian legal regulations, for example, economic entities publish, in the income statement, information on remuneration, social taxes and pensions, these expenses being detailed in the full balance sheet. These expenses (figure no. 1) refer to including travel expenses (which, in the case of Romanian economic entities are presented, in the financial statements separately, respectively in the category "other expenses").

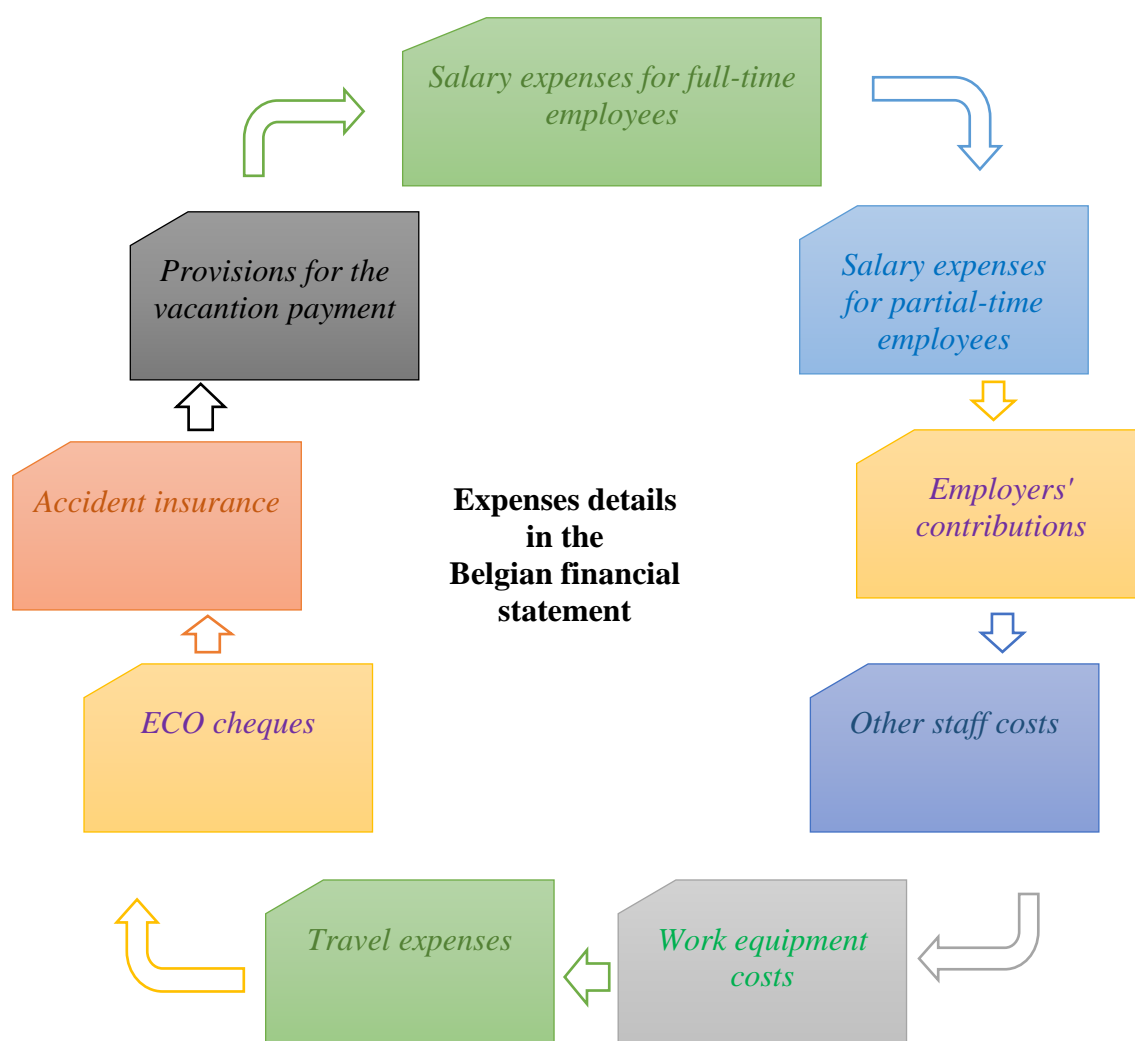


Figure no. 7. Presentation of labor costs in the Belgian financial statements

Source: Author's own projection on the annual accounts of the Belgian economic entities

The detailing of the costs with human resources is supported, by the Belgian accounting regulatory framework, by the preparation of social statement. The social statement is prepared by the following entities:

(1) Belgian economic entities required publishing annual accounts and social statement (and which have employees); the financial statements together with the social statement shall be submitted to the National Bank of Belgium (NBB) within 30 days of their approval but not later than seven months after the end of the financial year;

(2) Among the economic entities that have to submit the social statement to the Belgian National Bank are:

- Hospital units that are not organized as limited liability businesses or large non-profit organizations;
- Economic entities that are governed by private law, such as foundations, for example, and which have an average of at least 20 employees;
- Foreign economic entities for branches or agencies located on Belgian territory and only for these units.

According to the legislative framework, the non-submission of the social balance sheet is severely sanctioned, with a criminal or administrative fine.

The introduction of this document as an annex to the annual accounts was made in Belgium in 1995 with the elaboration of measures to implement the multiannual plan for employment, an idea later regulated by the Royal Decree of 1996 (on the balance sheet) and the 2019 (implementing the Code of Companies and Associations).

Depending on the size of the economic entities, either the abbreviated social balance sheet (for small entities with a number of employees between 20 and 50) or the “complete” social balance sheet (drawn up by the other economic entities, but with more than 50 employees).

The financial information provided by the financial statements belonging to the Belgian entity provided a wide range of data based on measurements and evaluations of the main indicators reflecting human resources, labor costs or financial performance, calculated using the indicators of profitability and profitability. Unfortunately, the same cannot be said about the financial statements of the Romanian economic entity, which provides a very limited series of data, namely the costs of salaries and allowances and insurance and social protection. Precisely for this reason, the management of the Romanian economic entities must have elaborated very clear accounting and fiscal policies that will be the basis for identifying the indicators that are not captured in the financial statements.

3. THE NECESSITY OF TAX AND ACCOUNTING POLICIES UPDATING OR FULL AMENDET

Economic entities must analyze the continuity of activity, all those areas that are subject to uncertainty that hover over the judgment of the professional accountant or the accounting estimates, with emphasis on the reasoning captured in Figure no. 2, and to decide to what measure accounting and tax policies need to be updated, supplemented or amended in full.

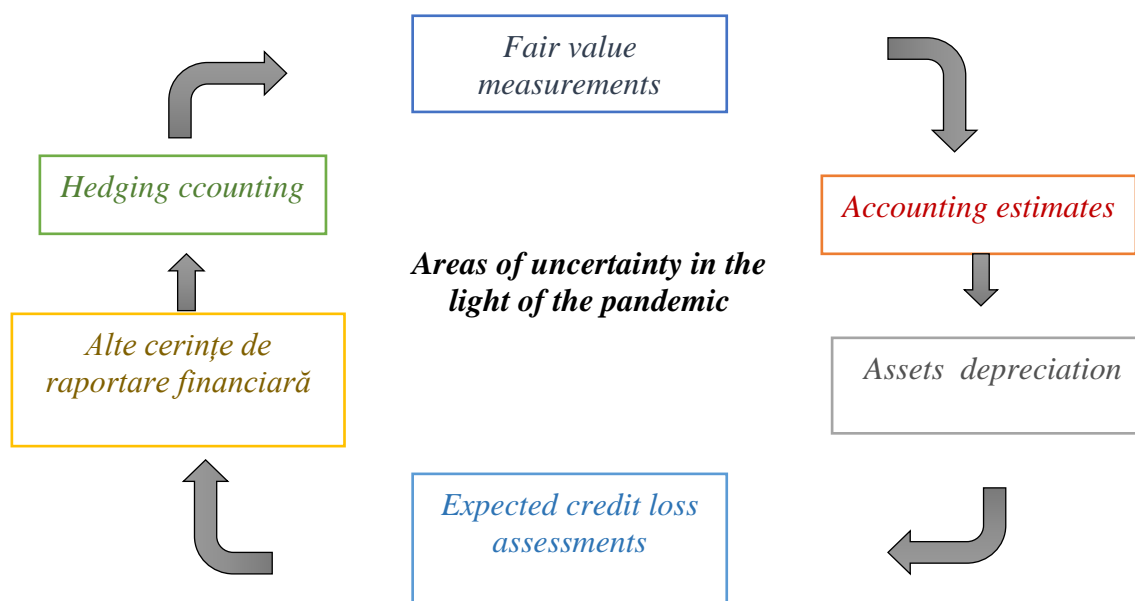


Figure no. 8. Areas characterized by uncertainty

Source: author's own projection on the literature

In today's conditions (economic globalization, the expansion of capital markets, the Covid pandemic 19, Ukraine war etc.) it is necessary to develop a language as common as possible, a language that will be the basis for the activity continuity. Regardless of its nature (financial, management), information plays a significant role in modern, contemporary society and the way its users disseminate and process it may or may not be a source of information based on which the decision-making process is (or is not) an efficient process.

So, creating an eloquent accounting and tax policies is the guarantee of drawing a picture that refers to the past, present and future of the economic entity - the analysis of its financial position can be done through a high information input from the accounting field.

The necessity of updating this policies is justified not just by pandemic conditions. When the economic entity will make changes in its policies, the management must take into account the

fact that the tax and accounting controversy concerning the posting of workers has two points of view (Hlaciuc and Rață, 2019):

- First of all, we discuss about an unfair practices regarding social conditions;
- Secondly, the European regulations that are ambiguous and have given birth to abusive forms of cost-cutting measures, for example: the existence of economic entities with a mailbox, undeclared work.

These issues, presented by Halciuc and Rață (Hlaciuc and Rață, 2019), are rather a consequence of the weakly fragmented single market regulations, fragmented from an institutional point of view.

The continuous updating of accounting and fiscal policies ensures the efficient management of economic entities, regardless of their sphere of activity, the choice of financing strategies, the tools for managing the activity and the establishment of a specific internal decision-making policy. In addition, the current trend in accounting and tax policies is to make the work of the professional accountant easier by automating tax calculations, standardizing records of economic and financial transactions in financial accounting, reducing data processing time, interpreting key economic and financial indicators, and thus making efficient economic and financial decisions.

The pandemic financial implications and, in their context, the fiscal implications of posting workers are of particular interest, especially for the management of the entity. It is known that the financial information reflected in the accounting accounts may be modified in order to influence the taxation, this is the purposes and requirements of the accounting and tax policies are different. Accounting involves the preparation of information for tax control and decision making purposes and requires the processing and recording of financial transactions that have taken place at any given time. The main purpose of income taxation is generally to increase state revenues, but taxation can be seen as an instrument of government economic and social policy. For a tax system to work successfully under the law, a degree of certainty is needed that may not always be appropriate for financial accounting. In addition, there may be alternative methods of preparing accounts that are equally acceptable in terms of accounting and tax policies, but the choice of which could be adversely affected by tax implications (James, 2009).

Another fact which must be in management attention when the accounting and tax policies are updating is the accounting engineering used. The fact that professional accountants use their knowledge to manipulate the figures included in the annual accounts gave rise to the concept of creative accounting, found in the literature and under the name of "accounting engineering" or "beautification of accounts" (Feleagă and Malciu, 2002).

The behavior of professional accountants has been the subject of numerous economic and even philosophical studies, which has given rise to many controversies. One question that was sought to be answered was whether the true image, which is practically constructed by the professional accountant, a subjective observer, is an achievable goal of accounting. Does accounting really create its own reality through accounting and tax policies? What are the limits to which creativity should start and where should it be restricted?

Many experts in the field have tried to answer these questions, such as: Bertolus (1998), Naser (1993), Trotman (1993), Raffournier (2003), Tabără & Rusu (2011), Feleagă & Malciu (2012), Groșanu (2013), but now, more than ever, special attention is required because there will be a tendency for the effects of the pandemic to be as beautifully cosmetic as possible, so that the economic entity publishes financial information that reflects a better financial situation.

Păunescu (2020) considers that "identifying the optimal solutions" and their transposition into accounting and tax policies "will allow company to survive in this period and their fast recovery, relying on a partnership with employees, in the same situation as their employers, and applying in good faith the legislative provisions designed to help them those affected by the coronavirus crisis must be the response of entrepreneurs to the current situation, waiting for a period in which life, including economic life, will return to normal", an opinion which, we believe, is more than relevant as decisions of elaborating and updating the accounting and tax policies regarding the employees must take into account all relevant factors (both the tax advantages and the

costs or risks associated with the decisions taken) in conjunction with the medium and long-term interest of the economic entity.

CONCLUSIONS

An important aspect to keep in mind is that, since the outbreak of the pandemic, regulations have been developed that have tightened the conditions under which employees of economic entities posting labor can work in other Member States, regardless of whether we are talking about a one-day or one-month posting or perhaps posting for a longer period of time. Combining these changes with the changes made by the new 2018 directive revising the CE Directive on cross-border posting issued in 1996 and which had a deadline of implementation in the national legislation of the Member States on 30 July 2020, we can appreciate that this pandemic context represents a respite for economic entities to fine-tune their accounting and fiscal practices, procedures and policies so that they can adapt to the new requirements.

Despite all these implications, the pandemic could be an opportunity for business owners, who, together with professional accountants, can reconsider and adapt cross-border mobility policies. All these changes, some produced overnight (pandemic), others that occur gradually (Brexit, for example) but which are characterized by significant uncertainty have highlighted the ability of employees to adapt quickly and economic entities must keep up with the new reality of labor relations generated by the pandemic.

In addition to the current pandemic context, posting workers, especially those in the field of transport, also have a factor with a negative influence in the development of the activity, namely: the European Union strategy which aims to increase by 2030 freight transport by 50% in order to reduce greenhouse gas emissions from transport by up to 90%. This strategy will result in the updating or even complete change of accounting and fiscal policies on labor mobility, as more as the European Union considers that "road transport will remain a multimodal, digital, interoperable system. and integrated and of course a central part of the freight passenger mix".

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