



THE MATERIAL SUPPORT – SOCIAL, MEDICAL AND FISCAL ASPECTS

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Abstract

In condition which requires a 'modernization' of the field accounting in Moldova, the authors will try to analyze the material support in terms of new accounting rules, which will come into force without fail since 01.01.2015. We will also make a parallel, at the theoretical level, between Moldova and Romania, regarding the material support provided by managers to their employees. The purpose of this work is to determine what the material support is, how it is reflected in the accounts and how the health insurance and social assurance contributions are calculated. Also, another goal is to make difference between it and the salary, donations and facilities provided by the employer.

Keyword: material support, contributions for health insurance, social assurance, income tax, donations, facilities provided by the employer, salary.

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I. Introduction

During the activity of an accountant, besides many existing operations, he/she also deals with the process of granting material support to employees or former employees of the entity. One of the dilemmas the accountant meets is to differentiate material support

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from the salary, donations, facilities provided by the employer etc. Therefore we will illustrate the accounting, fiscal, medical and social aspects and, of course, the process of providing material support to an employee at his/her basic job.

II. The general aspects of the material support

Moldovan legislation does not stipulate a clear and exact definition of material support. However, a reference about the manner and conditions of providing material support we can find in art. 165¹ of Labour Code which says that: "The employer has the right to provide annually the material support to his/her employees in the manner and conditions required by the collective labor agreement and / or legislation in force. Material support may be granted to the employee on the basis of written request at any time of the year or added to holiday allowance (Article 117). "It results that the employee will receive a material support upon a request addressed to the employer, who in his/ her turn will decide to accept or reject this request. In case when it will be accepted, the manager will prepare an order which will be both legal basis for providing material support and the basis for accounting records.

All expenses incurred by the entity related to material support are not recognized for tax purposes because the Tax Code, art. 24 stipulates that: "It's allowed the deduction of ordinary and necessary expenses, paid or incurred by the taxpayer during the taxable year, exclusively in entrepreneurial activity ...". A confirmation of the above words is offered by the Declaration on income tax (VEN12) rd. 3029 "Expenses related to payments for employees which are not qualified as salary payments", under the first column, for tax purposes, we can find recorded '0', which demonstrates that the material support is not allowed to deduction.

According to the new accounting rules that will come into force without fail since 01.01.2015, namely the National Standard of Accounting "Equity capital and debts", material support is classified as a debt to the employees related to other operations.

Referring further to fiscal aspects we should note that the material support is taxable. This aspect is found in the Income tax withholding from salary and other payments made by the employer in benefit of the employee regulations (No. 10 of 19 January 2010) which says: "Income tax will be withhold from income of employees, and will be calculated and directed to payment in any form like material support and other



payments in benefit of the employee, excluding non-taxable income sources stipulated in art. 20 of the Tax Code. "The reasons that is no reference about any type of material support in Article 20 'nontaxable income sources" of the Tax Code, there is a need to be applied art. 15 of the Tax Code which stipulates the application of two tax rates:

- 7% (up to 2321 lei per month) and
- 18% (on the amount that exceeds 2321 lei per month).

The fact that the material support is taxable allow us to place it on a level with the salary and the facilities provided by the employer, but at the same time on different levels with donations which are nontaxable according to art.20 of the Tax Code.

Material support is also different from the salary, donations and benefits provided by the employers because from the material support will not be retained:

1) contributions for health insurance (Annex 3 pt. 2 of the Law on the amount, manner and terms of payment of contributions for compulsory health insurance (no. 1593 of 26.12.2002)).

2) social assurance contributions, from the amount of material aid which do not exceed an average monthly salary in the economy (Annex 5 of Law no. 329 of 12.23.2013 on public social insurance budget for 2014). According to Government Decision on the approval of the average monthly salary in the economy, the average salary for 2014 is forecasted 4225 lei.

To illustrate the above words we will examine the accounting for material support in a security company of Moldova.

Example: Mrs. Sirghi V. V, chief accountant of the company X Ltd submitted an application for material support, which was accepted by the head of the company and confirmed by an order of material support in the amount of 3600 lei. Based on sheet of account 531.1, the following account records presented in the following table will be reflected:

Table 1 – Accounting of the material support

Nr	Content of operations	Correspondent accounts		Amount (lei)
		Debit	Credit	
1	Calculation of material support	713.1 Expenditure on administrative staff	531.1 Salary debts	3600
2	Calculation of income tax	531.1 Salary debts	534.2 Debts on with	392.6 ¹



			holding income tax	
3	Release of cash for material support	531.1 Salary debts	241.1 Cash in local currency	3207.31 ²

Note 1. Calculation of income tax:

Taxable income 3,600 lei

Income tax (3600.00 lei - 2321 lei) * 18% + (2321 * 7%) = 392.6 lei.

Note 2. Amount of cash for material support:

3600 lei - 392.6 lei = 3207.31.

Similarities and differences between the material support in Moldova and Romania:

1) In both countries the legislation does not provide a clear definition of material support;

2) In both countries, material aid is taxed, but there is one exception in the Romanian Tax Code that provides that the following are not taxable:

- Aid for funerals
- Aid for losses in households as a result of natural disasters,
- Aid for serious and incurable diseases,
- Aid for birth etc.

3) If in Moldova material supports are considered not deductible, the Romanian law says that only those material supports are not deductible which have not been taxed by the employee;

4) In Moldova material supports are recorded in account 532 "Debts to employees on other operations" account that in addition to material aid, reflects other types of debts to employees that cannot be related to remuneration, but in Romania is intended for it a special passive account: 423 "Personal - related material support".

III. Conclusions

The manner of providing the material support and of reflecting it in accounts, according to new accounting rules, did not suffer any changes compared to those that were in force since 01.01.1998. This fact is considered negative by us, because we believe it would be better to introduce a subaccount named "material support" in account 531 "Debts staff on wages", which will allow the improvement of its use in accounting process and in the 1C program. This proposal occurred when this account does not allow its use in



accounting programs and interdicting the calculation of income taxes and social security contributions. This fact "impose" the accountants to use the same account as for salary calculation, thus violating the law.

Finally we wish to say that the material support is a payment to employees that is offered by the employer in difficult moments of life. In this context we would like to propose that the material support will not be subjected to tax, to avoid reduction of the amount granted by the employer. The fact that the material support is taxable denotes an irresponsibility of public authorities against the citizens who need aid.

Of course if they will not be taxed it will be appropriate to make a review of the conditions for providing it to avoid the situation where material support would benefit the people who do not deserve it, or different speculation situations which may appear due to non-taxation.

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