



WAGE COST AND THEIR IMPACT ON THE COMPANY PROFIT

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Abstract

The salary is a very important element both at the level of the individual who performs an activity, as well as at the level of the legal entity for which is rendered this activity. The employer must take into consideration that supplementary to the basis salary, there will be expenses with other additional wage salary and expenses related to the monthly contributions for the special funds. This paper aims to present the total cost an employer has with an employee and the way this cost affects the activity.

Key words:

*income costs,
income,
supplementary,
contributions*

JEL Codes:

**E24
G11
M21**

1. THE SALARY DEFINITION

The income is a very important element both at the level of the person who performs an activity, as well as at the level of the legal entity for which is rendered this activity. According to the Labour Code, art. 159, the salary represents the counter-performance of employee work basis on the contract of employment.

The salary is received under an employment contract concluded for each employee. Its expression is made in cash, in national currency, most often. In some cases, the currency is in Euro or US Dollar. Also, the salary is established and is awarded basis on equality criteria, being prohibited the discrimination on sex, sexual orientation, genetic characteristics, age, political affiliation, race, colour, ethnicity, religion, social origin, policy option, disability, family situation or responsibility, trade union membership or activity grounds.

Complementary to the definition given by the Labour Code, there is the definition given by the

Fiscal Code. According to Article 75 from the Fiscal Code, we consider **incomes from salary** all the money incomes and/or in kind obtained by an resident or not resident individual who performs an activity on the basis of an individual employment contract, a service report, a posting act or a special statute provided by the law, regardless of the period to which it refers, the name of the income or the form under which it is granted, including allowances for temporary incapacity for work for persons earning salary income and assimilated to salaries.

The name of the salary is not imposed because the public or private environment may use different names such as: indemnity, salary, salary, remuneration. However, we most often find the name of basic salary.

2. WAGE COST STRUCTURE

The wage costs taken into account by an employer must include the basic salary, additional earnings and state contributions for that employee.

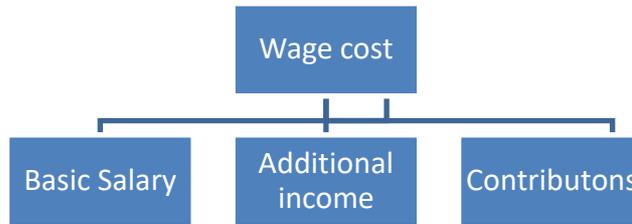


Figure no.1. Wage cost structure

The basic salary is established further to a negotiation between the two parties – employee and employer. It can be established for a fixed or indefinite period, by hour, day or month. The state regulates the salary by imposing a minimum wage per year on the economy. In 2017, it was established by the Government Decision no. 1/2017 for the establishment of the minimum basic gross salary in the country guaranteed in payment, at the level of 1450 lei, starting February 1 for a full working hours of 166 hours, on average, per month, representing 8,735 lei / hour.

Regarding Eurostat statistics, in the last years there has been a relatively low wage growth trend in most European countries, and many employee representation groups have argued that purchasing power and living standards have generally declined. Some politicians, employee representatives, political pressure groups and commentators promote the idea of a "minimum European wage" or minimum wage setting at national level in all EU Member States (Eurostat Statistics, 2016). In Romania, the minimum wage has been steadily rising over the past 10 years. This increase can be seen in the following figure:



Figure no.1.
 The evolution of minimum salary and average salary in 2008-2017

In 2008, the minimum salary for the economy was 540 lei, reaching 1450 lei on 1 February 2014. A significant change in its level occurred on May 1, 2016, when it grew by 16%, from 1050 lei to 1250 lei . It has been estimated that this increase will have an effect on the economy and the diminution of the "black" activities. In order to raise living standards and reduce the social gap, the

government has significantly modified its salary on 1 February 2017.

Also, there are additional salary incomes established under the individual employment contract, which can be received by employees and are considered salary income. These include: bonuses, bonuses, commissions, overtime.

The **additional earnings** that a monthly or periodic employee may receive are:

- **bonuses** (seniority, fidelity, risk, merit, management) are additional earnings for the employee that are determined in relation to the basic salary, without a mandatory or a granting order provided by law. Percentage is set, and the percentage range varies between 5-25%;

- **awards** are the rewards granted to employees who have or have been directly involved in obtaining outstanding results in the work of the employing entity. The first may also be granted on holiday or legal holidays;

- **commissions** are additional salary incomes calculated as a percentage of an employee's monthly sales volume;

- **overtime working** supposes earnings for the work done by an employee outside the normal weekly working time. If overtime does not compensate for free time, they are paid in the next month with a minimum of 75% of the basic salary.

Contributions due by the employer on a monthly basis are related to the employee's total earnings, i.e. gross salary. The contributions for normal working conditions paid by the employer are:

- Social Security Contribution (CAS) - 10.5% ;
- Health Contribution (CASS) - 5.2% ;
- Contribution to Unemployment - 0.5% ;
- Contribution to holidays and Social Insurance Benefits (FNUASS) - 0,85%;
- Insurance Contribution for Occupational Injuries and Occupational Diseases - 0,15% ;

- Contribution to the Guarantee Fund for the Payment of Salary Claims - 0,25%.

3. CASE STUDY ON THE WAGE COSTS OF AN EMPLOYER

For an employer is essential to estimate correctly the wage costs, especially when he is at the beginning. The employer must take into consideration that additional to the base salary, there will be expenses with other additional wage salary and expenses related to the monthly contributions for the special funds.

Wages are debts that are recognized in the financial statements and when assessing the outcome of a company, they generate a decrease in future economic benefits. Salary expenses are fixed and are recorded monthly. Regardless of the size of the income, which may fluctuate from one month to the next, wage costs are fixed.

In the following table, we presented a calculation of wage costs for both the minimum wage and the average wage economy.

Thus, if an employer has an employee who gives the minimum salary of 1450 lei, he must also take into account the amount of the contributions due to the special budgets of 333 lei. The total wage bill that the employer has to bear is 1783 lei, 23% more than the salary due, not paying additional salary income.

If an employer has an employee who gives the minimum salary of 3131 lei, he must also take into account the amount of the contributions due to the special budgets of 714 lei. The total wage bill that the employer has to bear is 3845 lei, 23% more than the salary due, not paying additional salary income.

Table no. 1. Determination of wage costs

Minim salary 1450 lei				Medium/average salary 3131 lei		
Employee	Contributions	Share (%)	Lei	Contributions	Share (%)	Lei
		Social Security Contribution (CAS)	10,5	7	Contribution to social security (CAS)	10,5

Minim salary 1450 lei			Medium/average salary 3131 lei			
	Health contribution (CASS)	5,5	152	Health contribution (CASS)	5,5	172
	Unemployment contribution	0,5	80	Unemployment contribution	0,5	16
	Tax on salary	16	146	Tax on salary	16	418
	Net salary		1065	Net salary		2196
Employer	Contribution to social security (CAS)	15,8	229	Contribution to social security (CAS)	15,8	495
	Health contribution (CASS)	5,2	7	Health contribution (CASS)	5,2	163
	Unemployment contribution	0,5	12	Unemployment contribution	0,5	16
	Contribution to holidays and sickness insurance benefits (FNUASS)	0,85	4	Contribution to holidays and sickness insurance benefits (FNUASS)	0,85	27
	Contribution of insurance for accidents at work and occupational diseases	0,15-0,85	75	Contribution of insurance for accidents at work and occupational diseases	0,15-0,85	5
	Contribution to the Guarantee Fund for the payment of wages	0,25	6	Contribution to the Guarantee Fund for the payment of wages	0,25	8
	Total employer contributions		333	Total employer contributions		714
Total wage cost		1783	Total wage cost		3845	

According to Article 40 of the Labor Code, the employer has the obligation to pay all the contributions and taxes in his charge, but also to withhold and pay the contributions and taxes due by the employees.

CONCLUSIONS

It can be seen that the net salary paid for an employee determines total payments to the state budget of about 70% of the amount, with small variations depending on the income. In 2017, wage costs increased due to the increase in the minimum wage in the economy. The effects of large wage costs and their increase are multiple. One of these is related to the fact that the private sector needs to find the means to be able to bear these increases without having to bear the result (profit). To maintain their profit, companies have two options: to reduce costs or increase revenue. Reducing costs even means reducing the number of employees. Rising revenue often involves an increase in the prices of

products and services, ie a decrease in the purchasing power of the population.

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