The taxation installment in Romania . Between mass - media's "impressionism" and Eurostat's reality

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Abstract: *The essay brings out into relief the situation of Romanian taxation in contrast with taxation level from European Union. To this end there are used a series of statistical data in relation to major category of tax, in the way how Eurostat presences. At the same time the research brings into relief a certain option as regards of pressure taxation assignment on some categories of tax payer.*

Key words: fiscality, public expenses, social security, tax payer.

Should you ask a foreign investor in the Romanian economy how he would appreciate the taxation level in this country, the answer, of course presumed, shall be without doubt, that we have an economy with a high taxation system.

The opinion is stressed loudly by the mass-media, but also by the political and cultural people. And obviously, by the common citizen.

When looking at the fiscal situation of Europe, the things seem to develop very striking edges in confirming such assertion. We are located in a space with a taxation level of 39.6% of the GDP (calculated as weighted average)[1], regardless of taking into consideration the Monetary Union Europe, of the 25 or of the 27.

In the same time, according to the same report, the USA and Japan had taxation levels of 26.27% of the GDP. Moreover, in 17 of the member countries, the taxation rate of 2005

[1]Eurostat – *Taxation trends in European Union*, European Commission Taxation and Customs Union Luxemburg, 2007, p.7

was higher than the one of 1995, although until 1999 public actions leading to the reduction of taxation in most of the EU 15 countries have been taken.

Consequently, in average, the taxation rate in the E.U. is high whether we compare, for a temporal comparison, with the situation of the middle 90s, or to the eternal economic rivals , USA and Japan, or to the OECD member countries, non European where near us is just the New Zealand, with a rate of approximately 35%. Of course, an unitary situation in all the European countries does not exist, being determined both by social political choices characteristic of the respective countries and by technical factors, such as excepting the social transfers from taxation or not. Besides that, the traditional case of Sweden where the taxation level is the highest in the entire world, reaching probably 51% of the GDP, is certainly added.

Should we continue the analysis with the EU 27 – EU 15 comparison, the situation acquires new lines, but also new waiting horizons. The newly joined countries, in 2004 and 2007 contribute in reducing the taxation in the EU and not in increasing it. The percentage is of approximately 7 units.

The taxation of the newly joined 12 is reduced with such percentage than the old 15. Such matter of fact may also be a prediction exercise: what may the newly joined 12 expect or conversely what may the seniors expect in the future. I believe that what we may expect.

Other facts are also relevant for the fiscal future: between 1995 and 2005 only nine countries have succeeded in reducing their taxation, while sixteen countries increased their taxation level, including the countries having a high taxation level (e.g. France, Belgium, Denmark). And of the countries with medium-low taxation, 9 have increased the taxation level and only 5 have reduced it.

Generally, we may assert that the taxation level in the EU states has increased since the 1970s, from approximately 34% of the GDP in 1970 to 39% of the GDP in 2005, with a peak of 42% in 1997 – 1998. The analysts deem such growth to be the result of increasing the public sector's share in the economy all these years and mostly the result of increasing the labor contributions, for financing the objectives of the state's wellbeing, with regard to pensions, health, and education.

In the same time, with the growth and then with the maintenance of the unemployment level relatively constant, the expenses afferent to the active or passive programs with regard to the unemployed and thus the contributions paid to the respective unemployment funds, have also increased. Adema (2000) considers that 75% of the tax growth is due to the increase of the public expenses.

Under such general background, is the assertion that Romania is a country with a burdening fiscal system true?

28 % of the GDP is the first figure that fiscally characterizes Romania. This is the taxation rate in 2005, as it is measured unitary by the Eurostat, for all member countries. Such figure represents the lowest level of taxation of all the European Union countries.

46.3% is the second figure that might characterize the Romanian fiscal system. It represents the share of the indirect taxes of the total incomes obtained from taxes, which places us on the third place after Bulgaria and Cyprus. The average of the Union was of 39.1% in 2005. As share of the GDP the indirect taxes represented, in 2005, 13.0% opposite to 11.4% in 2001, VAT representing 8.1%

of the GDP, and excises only 3.3%, increasing opposite to 2001, when they represented 2.3%. The share of the VAT of the total incomes (29%), places Romania on the second place in the EU.

19.1% is the share of the direct taxes of the total incomes. Under the terms of the share in the GDP, they represented 5.3 % in 2005, decreasing from 2001 (6.3%), with shares approximately equal for taxes on personal incomes (2.4%) and on corporations' incomes (2.7%). The European average (EU 27) is of 32%. As size of the tax 16 %, of the personal incomes it represents the lowest value of the EU, where the average is of 36.68% with a maximum reached by Denmark of 59% or Sweden, on the next position with 56%. Also with regard to the share of the corporations' incomes (16%) we are on a leading position, fifth place after Bulgaria (10%), Cyprus (10%), Ireland or Lithuania, however far from the European average 24%, or the maximum reached by Denmark 38.7%.

34 %, the share of the social contributions of the total incomes places us near the average of the union's states. As percentage of the GDP they represented 9.7%, with an accent on the employers' contributions 6.4%, opposite to 2.9% employees' contributions.

Analyzing the taxes level with regard to their distribution depending on governing level criteria, which in the European statistics is represented by 5 levels (central, state and local government, social security funds and European Institutions level), we may observe that the first and second level represent a share of 59%, the local level approximately 11%, security 29% and just 1% for the European institutions. With regard to us, whereas the incomes from taxes of the central government totalize 12.3% of the GDP, decreasing from 2001 (16.3%), those of the local authorities represent just 6.1%, anyway increasing from the same year of 2001, when they represented just 0.7% of the GDP, which pictures the general trend, although shy, of the decentralization in the fiscal field inclusively, however far from the level reached by Denmark (16.7%) or Finland (11%), countries making an exception in such matter. In such field, Europe is making more of a rhetoric exercise than taking actual decentralization measures. In the European countries, the variation of the share of the fiscal incomes at sub-central level (which comprises the state level, the municipality level and the regions level is between 1% in Greece and 33% in Denmark. Near Greece come Cyprus, and also Malta and Ireland, while in the upper side we find Sweden, Belgium, Spain, Germany. Romania is placed above the European average with approximately 24%.

Next to supervising the general categories of taxes and their contribution as sources of incomes for the state, the international statistics also performs an analysis of tax categories using the *tax incidence* criteria. This means analyzing the duties and taxes level by different categories of tax payers. Thus, we can distinguish the taxes on consume, labor and capital.

In accordance with the same statistic source mentioned above, between Romania and the other states of the European Union, convergence is a word which senses remain to be discovered in the future.

On the EU 27 ensemble, the distribution of such incomes from taxes, grouped by the economical criteria establishes the high incidence of the taxes on labor and of those on non-occupied labor (taxes on social benefits and pensions of the pensioners), like the cases of Denmark, Germany, Finland, Netherlands or Sweden. The taxes on work represent almost half of the total attracted incomes in the EU 27 countries. The analysis of the distribution of such taxes on countries reveals the fact that, generally, a high level of taxation is identified in the Union countries with the highest incomes. The capital taxes follow, with a share of approximately 20%, the rest being represented by the consume taxes. If, as stated, the work taxes represent a higher share in the senior-states of Europe, the consume taxes represent the main source of income in the new and poorer countries.

Bulgaria is leading with more than 50% of the total. Romania follows with a percentage of **44.3 %**, respectively with 10 percentage points above the European average. Examining the average on 10 years 1995 – 2005, we notice an increase, the average being of 42.5%, while the European average (of 28.2% decreasing), as is the one of the 13 Monetary Union (from an average of 30.5%, to 29.7% in 2005).

With regard to the work taxes Romania occupies the 21st position, with a level of 39.1%, opposite to the leading place Sweden with 60.8%, whereas the European average is of 49.8%.

The stated shares reveal a fiscal strategy having as main pile the taxation of consume.

With regard to the *implicit tax rate*, Romania has such a tax on labor of 26.7%, under the European average of 35.2%, and the one representing consume is of 18.5%, under the EU-27 average of 22.1%.

As far as the taxes on capital stock are concerned, with an average of 0.6%, we are placed far below the EU-27 average of 2%. Finally, the environment taxes represent a percentage of 2.1% of the GDP, under the EU-27 average of 2.9%. As percentage of the total incomes out of taxation with 7.4% we are placed on the 13th place, whereas the EU-27 average is of 6.6%, decreasing compared to the last 1 year average.

General elements Of the fiscal system

Taxes applicable to corporations

In 2005, the unique tax system has been introduced, which meant the taxation to a rate of 16%, instead of 25% until then. The corporations' profits are taxed to their level, and the distributed profits are taxed again both at corporations and in the hands of shareholders. Capital incomes are taxed at the same rate.

Gambling games, casinos, night clubs are taxed with 5% of the turnover, while the micro companies with maximum 100000 Euro turnover, may choose to be taxed at 2% of the turnover, instead of 16% of the incomes.

Taxes of the individual incomes

The progressive taxation system on income levels has been abandoned in 2005, the 16% quota being applicable in this case also.

VAT

The standard quota is of 19% and the reduced quota is of 9%.

In accordance with the engagements undertaken under Chapter 10 Taxation of the Romania position Document, the following VAT exemptions non-compliant with the 77/388-CEE Directive, have been canceled: exemption for activities subject to shows taxation, exemption for goods produced and marketed by units in the prison system, exemption for cable broadcasting of audio-visual programs, exemption for selling of movies or programs licenses, broadcasting rights, subscriptions to news international agencies and other similar broadcasting rights, designated for the radio and television activity.

Taxes on houses and lands

They represent local taxes that vary between 0.5% and 1% .

Social security

The contributions are paid both by the employees and by the employers. The employees pay a contribution of 9.5% of the gross wage and one of 6.5% for health insurance and 1% for the unemployment fund.

Following the adhesion to the European Union, a number of fiscal political measures take into consideration a higher compatibility of the own system with the European one. Thus: The European Directive 6 on VAT shall have to be transposed from 1 January 2007, The European Community Directive (90/435/CEE) Parent – Subsidiary, which refers to the abortion of the double taxation of the profit distributed between the mother-company located in a member state and its subsidiaries located in other member states has been applied, the Interest and Royalties Directive has been accepted followed by a period of transition, the „Merger" (90/434/CEE) Directive which refers to the reduction of the fiscal burden that might prevent the reorganization of companies, the 90/436/CEE Convention, based on article 239 of the Treaty, introduces an arbitrary procedure for avoiding the double taxation regarding the adjustment of the profit between the associated companies located in different member states, have been also accepted by the Romanian authorities.

Conclusions: The Romanian fiscal system has known significant transformations not only under the waiting period to adhere to the European Union, but also in the short post-adhesion period.

The most spectacular of these transformations is the introduction of the unique taxation quota, since 1 January 2005.

The arguments for introducing such fiscal political measure are very different, out of which we might mention the following:

"-The unique quota reduces fiscal evasion, by reducing the opportunity cost for avoiding payment of the taxes to the state budget.

When the fiscal system is simple and efficient, the psychological effect of reducing the taxation quota makes people pay their debts towards the state in a rapid and correct way.

-The unique quota reduces the fiscal administration expenses, increasing the taxes efficiency.

The public administrations shall spend less money for handling the system because most of the expenses related to calculation of the taxation base, payment notices etc. shall disappear.

- The unique quota offers tax payers more control of money and it reduces the involvement of the authorities in handling the excess of every person.

By applying the unique quota people are stimulated to work more because only a small part of their earnings goes to the state.

Thus, the remaining difference can be administrated as they please, such liberty emphasizing the development of property and of the private sector of the economy, more than of the public sector, in which the state initiates programs and politics supporting the citizens

- The unique quota develops a very attractive environment for the investors.

The competition regarding the taxes level represents a benefit of the globalization.

In a global economy in which the labor force and capital move freely beyond the national borders of any state, the fiscal politics set adopted by every country represents an important instrument used in attracting the limited international resources."[2]

These are just a few of the arguments sustaining the unique quota cause.

Next to these not less important are the counter-arguments:

- The unique quota places the fiscal duty mainly on the ones with small and medium incomes. Reducing the unique quota resulted in increasing the high incomes of the economy and almost not at all, the low and medium incomes. Some studies state an increase of just 1 Euro for almost half of the registered employees.

- The unique quota has increased the taxation base of the economy by introducing taxation for several sectors that until then have not been taxed and which represent a dynamic sector of the economy. Thus, stock market transactions with shares owned for a period of less than 365 days have also been taxed, and the economies are likewise taxed, with a tax of 16% of the incomes earned from term deposits. Taxation of the gross profit for stock investors represents another modality of increasing the taxation base

The unique quota has increased the taxation base not only by drawing many businesses out of the grey area (although the results of the unique quota in such direction are debatable) but also by the necessity to find other taxation sources for covering the remaining empty spaces. Thus, the vice tax appeared, the first vehicle registration tax.

-the unique quota is not the "main reason" for the increase of direct investments in Romania during 2001 – 2007 with more than 35 billion dollars (from a little over 1 billion in 2001 to approximately 37 billion this year). Rather the high degree of stability and predictability of the economic environment as well as the low levels of the salaries have been the origin of such increase, which resulted in obtaining profit rates quadruple opposite to their west level.

-the unique quota has impeded the reduction of the social contributions and of the VAT, as well as of the labor taxes. Although we praise with the lowest taxation rate in Europe, first place of indirect taxes of the public incomes share, makes us state that the present taxation system is rather very non-equitable and not more equitable as asserted. It is known by all students that VAT is the tax, that obviously, has the highest fiscal efficiency, but in the same time affects the most the individuals with fixed and low incomes, because the share of the VAT in the basket of their own expenditure is higher, a lot higher than the same share in the very high incomes of the lesser. Practically, we afford an external image exercise, the unique quota, in the detriment of the autochthonous consumer.

Such image exercise, hardly fools somebody, if we also take into consideration that a report of the World Bank in 2006, "Doing business in 2006" classified us with a number of 62 taxes to be paid by the Romanian entrepreneur, while the same Swedish colleague pays only 5.

- moreover the National Bank Governor, Mugur Isărescu, stated that we can no longer afford another decrease of the taxation rate, because the National Bank is no longer capable to cover through restrictive monetary politics, the increase of the buying pow-

[2] CNIPMMR – Press conference, 8 July 2007.

er, which will result in stressing the current account deficit, that has already become uncontrollable. This happened immediately after introduction of the unique quota.

And, instead of a final conclusion, a remark. The increase of the share of the incomes attracted to the budget to 34 – 35% is not the result of the unique quota but rather the result of increasing the other tax categories as well as the increase of the tax base. **The main effect of the unique quota is the increase of the VAT returns.**

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