# 9. TAX POLICY UNDER THE CURSE OF LOW REVENUES: THE CASE OF ROMANIA (PART II)[1]

**Daniel DAIANU**[2]
**Ella KÁLLAI**[3]
**Laurian LUNGU**[4]

## Abstract:

*It is an acknowledged fact that the tax revenue to GDP ratio in Romania is extremely low. This article suggests several ways through which budgetary revenues can be increased and, in the process, strengthen fiscal consolidation. Increasing tax collection rates, combating fiscal evasion and bringing parts of the shadow economy into the open would repair a fractured sentiment of fairness in the Romanian society. In particular, the results in this paper show that public sector revenues could rise by the equivalent of 4% of GDP if only half of the informal economy were to be brought to light.*

**Keywords**: Budgetary Revenues, Taxation, Implicit Tax Rates, Arrears, Shadow Economy

**JEL Classification**: H24, H25, H26, H30

## 1. The Shadow Economy in Romania and its Impact on Tax Revenues

Estimates of the Romanian shadow economy vary by quite a margin. There are studies which attempt to measure it using various methodologies. For instance, AT Kearney estimates the size of the Romanian shadow economy in 2009 at 29% of GDP, Andrei et al. (2010) at 36%, the Romanian Fiscal Council at 20%, Alexandru et

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[2] *SNSPA, Bucharest, E-mail:ddaianu@hotmail.com*
[3] *Alpha Bank Romania, E-mail:evkallai@yahoo.com*
[4] *Cardiff Business School and Macroanalitica, Bucharest, E-mail:lungul@cf.ac.uk*

al. (2009) at 27% (in 2008), OECD at 34% (in 2000). Overall, the estimates of the Romanian shadow economy vary across time roughly between 19% and 38% of GDP.

Table 1.1 below considers three possible values for the shadow economy, a minimum of 19% of GDP, a close to a presumed maximum estimate of 35% of GDP and an in-between value of 27% of GDP. It then presents estimates of total fiscal evasion for each of these three values. The scope of this exercise is to form an idea about a possible range for total fiscal evasion attributed to the shadow economy as well as identifying the corresponding shares of revenue lost in SSC, VAT and PIT.

**Table 1.1**

**Fiscal Evasion and the Size of Informal Economy (estimates for the year 2010)**

| | | | |
|---|---|---|---|
| GDP shadow economy (bn RON) | 180 | 139 | 98 |
| GDP shadow economy as % of 2010 GDP | 35 | 27 | 19 |
| Total fiscal evasion (as % of GDP), of which: | *16.0* | *12.3* | *8.7* |
| SSC | 5.9 | 4.5 | 3.2 |
| VAT | 8.4 | 6.5 | 4.6 |
| PIT | 1.8 | 1.4 | 1.0 |

*Source: Authors calculations*

Several points can be noted:

- First, if the shadow economy amounted to 35% of 2010 GDP, its size would be RON 180 Bn. In this case, full compliance of paying taxes would bring to the budget revenues equivalent to 16% of GDP (assuming a VAT rate of 24%). VAT budgetary revenue alone would rise by 8.4% of GDP.
- If the size of the shadow economy were 27% of GDP, or RON 139 Bn, fiscal evasion would amount to some 12.3% of GDP. This estimate of the shadow economy is close to the figure of 29.4%, reported by A.T. Kearney (2010). Again, VAT revenues would bring to the budget more than half of the foregone revenues.
- If the informal economy were 19% of GDP, or RON 98 Bn. the corresponding value for total fiscal evasion would be 8.7% of GDP. This is slightly lower than the shadow economy figure estimated by the Romanian Fiscal Council (2011) of 19.8[5]. However, given the estimates of informal economy in other developed countries of the EU[6], this figure looks suspiciously low.

From the data in Table 1.1 it can be inferred that reducing the size of the informal economy could be an important mechanism through which budgetary revenues would be increased. Obviously, assuming that the shadow economy would be brought to light 100% would be unrealistic. Table1.2 below estimates the impact on budgetary revenues if 30%, 50% and 70% respectively of the shadow economy were to be

[5] *This figure applies to the year 2009 but between 2006 and 2009 the Romanian Fiscal Council estimates of the share of the shadow economy stayed within 19-20% of GDP.*

[6] *See, for instance, AT Kearney (2010) where the size of the informal economy is estimated at 22% in Italy, 17.8% in Belgium, 14.6% in Germany, 25.9% in Poland, 23.5% in Hungary, etc. Or OECD (2009) which estimates the size of the Romanian informal sector at 34.4% in 2000.*

brought to light under various assumptions for the size of the shadow economy. What is important to note however, is that the figures for SSC (social security contributions), VAT (value added tax) and PIT (personal income tax) in Table 1.1 above were multiplied by their corresponding index efficiency indicators for 2010[7]. So, no improvements in revenues collection have been assumed, although they are likely to be made in the years to come.

**Table 1.2**

**Sensitivity Analysis of Improving Tax Evasion, % of GDP**

| Share of informal economy brought to light | | The size of the informal economy, % of total output | | |
|---|---|---|---|---|
| | | 35 | 27 | 19 |
| 0.3 | SSC | 1.0 | 0.8 | 0.6 |
| | VAT | 1.5 | 1.1 | 0.8 |
| | PIT | 0.4 | 0.3 | 0.2 |
| | *Increase in budgetary revenues* | *2.9* | *2.2* | *1.6* |
| 0.5 | SSC | 1.7 | 1.3 | 0.9 |
| | VAT | 2.4 | 1.9 | 1.3 |
| | PIT | 0.7 | 0.5 | 0.4 |
| | *Increase in budgetary revenues* | *4.8* | *3.7* | *2.6* |
| 0.7 | SSC | 2.4 | 1.8 | 1.3 |
| | VAT | 3.4 | 2.6 | 1.9 |
| | PIT | 1.0 | 0.8 | 0.5 |
| | *Increase in budgetary revenues* | *6.8* | *5.2* | *3.7* |

*Source: Authors' Calculations.*

The results show that gains to public sector revenues would be enormous even if only half of the informal economy were to be brought to light. In this case the equivalent of 4% of GDP in extra revenues could be raised if the size of the shadow economy is assumed to lie somewhere around 30% of GDP - a value which seems to be close to reality.

## 2. Withstanding the Current Economic Crisis and Fiscal Consolidation

In autumn of 2008 the Romanian authorities implemented several tax changes in order to mitigate the impact of the global financial crisis. These changes included temporary tax exemptions on capital gains from trading securities on the Romanian

[7] *These are 0.81 for PIT, 0.58 for both VAT and SSC (see for instance Romanian Fiscal Council 2011).*

stock market (in force from 1 January 2009 and applicable for a period of one year). In December 2008, the government introduced a 5% VAT rate for the construction of social dwellings and subject to some conditions, private dwellings not exceeding 120sqm and a value of RON 380,000 (about €90,000)[8].

But fiscal consolidation has got the upper hand following the sharp fall in budget revenues while the economy plunged in 2009. Without corrective measures the budget deficit would have entered a double digit territory easily. A legitimate question is why Romania adopted corrective measures (fiscal consolidation) in spite of having a small debt ratio - about 18% at the end of 2008. The stark reality is that the large external deficits and massive short-term external borrowing by the non-government sector created prerequisites for a boom bust cycle prior to the eruption of the financial crisis. Once the latter hit a sudden stop in external finance put large portions of the economy to a standstill, hitting investment and consumption and lowering budged revenues dramatically. The outcome was a huge surge in the budget deficit. Its funding became a policy conundrum and fiscal consolidation was a must under the circumstances. Likewise, financial stability was at stake. Urgent fiscal measures were adopted and an international loan package was convened upon.

After a series of yearly reductions (the latest with effect as of 1 January 2009) the budget law of 2009 led to an increase in social security contribution rates by 3.3 pp with effect on 1 February 2009. An increase of 2.3pp falls on the employers. Employees with normal working conditions must contribute for social security at 10.5%, while employers contribute at a rate of 20.8%. Furthermore, the government increased the excise duties on alcohol, beverages, cigarettes and fuel as from April 2009.

Under the spectre of the inability to stop the rise in the budget deficit in 2010, as against 2009, and in the context of a worsening international crisis (the sovereign debt crisis also came up in that year) a drastic measure was introduced: in mid 2010 the VAT was increased to 24% from 19%. The measures adopted in 2009 and 2010 stopped the declining trend of tax revenues relative to GDP, which started in 2006.

The changes in taxation of recent years have enhanced the role of indirect taxes, as some argue it should be the case since they are, purportedly, more growth friendly (Johansson et al, 2008) and least pro-cyclical. But in order to strengthen further their role and maximise the revenue collected other measures to bring the hidden economy into the open are badly needed. Otherwise, the current tax structure will hardly be able to bring additional revenues to the public budget. This inability seems to be acknowledged, since projections regarding tax revenues in 2012 do not expect fiscal revenues to rise significantly (Table 2.1). The expansion of budget revenues is projected to come from the growth of other revenue sources (EU funds absorption). Fiscal revenues (including social security contributions) are foreseen to increase by only 0.6% of GDP in 2011 and by only 0.4% in 2012 as compared to 2009. As a

[8] *The government launched in 2009 a social program for new homebuyers, fully guaranteeing their mortgage loans. Up to end 2010 there were issued state guarantees amounting to €1.5bn. Most houses bought through the program were old houses not subject to VAT. The tax reduction had rather limited the budgetary impact.*

matter of fact, the recently announced fiscal strategy for 2012-2014 does not envisage budget revenues piercing a ceiling of 34% of GDP. This fact begs a critical question again: Why tax revenues cannot be increased in Romania? It is true that the poor development level of agriculture does play a role in it, but it cannot explain this situation convincingly.

**Table 2.1**

**Structure of Tax Revenues in 2008-2012, % GDP**

| | Direct taxes (1) | Indirect taxes (2) | Social contribu-tion (3) | Total Fiscal revenue (4)=(1)+(2)+(3) | Non-fiscal revenue (5) | Other revenues (6) | Total revenue (7)=(4)+(5)+(6) |
|---|---|---|---|---|---|---|---|
| 2008 | 7 | 11.2 | 9.4 | 27.7 | 3.2 | 1.1 | 32 |
| 2009 | 7.1 | 10.7 | 9.6 | 27.3 | 3 | 1.1 | 31.5 |
| 2010 | 6.4 | 11.7 | 8.9 | 27 | 3.8 | 2 | 32.8 |
| 2011[e] | 5.5 | 13.4 | 9.1 | 27.9 | 3.5 | 1.7 | 33.1 |
| 2012[e] | 5.5 | 13.4 | 8.8 | 27.7 | 3.6 | 2.5 | 33.7 |

*Source: Ministry of Public Finance.*

The challenge of fiscal consolidation stays enormous. For 2011 the pace of budget deficit reduction is about 2.5% of GDP (from 6.9 to 4.4%) and this endeavour is supposed to internalise a part of the inefficiency of public sector companies - about 0.5% of GDP. Things are even more complicated in 2012 when the targeted budget deficit is supposed to come down to cca 3% of GDP, as in most EU countries. The EU economic governance reform will make fiscal/budget consolidation a must for Romania too and the *European semester* will operate fully as a disciplining fiscal policy tool.[9] The challenge of fiscal consolidation is to be judged in view of mounting contingent liabilities on the public budget; these liabilities include debt repayments, arrears and the entitlements to public sector employees. It is true that the inflation tax may alleviate this challenge (bearing in mind that Romania continues to score a pretty high inflation rate in the EU). The bottom line is that raising tax revenues, via combating fiscal evasion (principally) has acquired a strategic policy dimension in Romania. It should, arguably, be the main avenue for undertaking fiscal/budget consolidation.

The importance of raising tax/budget revenues is to be judged in conjunction with the need to figure out a more optimal tax structure. Although the EU imposes rules of the game (including the competition law and the prohibition of aid schemes) the competitiveness challenge, at both a national and EU level (the Asian competition) demand a more flexible fiscal policy. By the latter is meant as a policy that should be supportive of activities that can enhance the implementation of Europe 2020 strategy and specific national aims. This strategy is a de facto industrial policy at national and EU levels.

Combating fiscal evasion and bringing parts of the back economy into the open would repair a fractured sentiment of *fairness* in the Romanian society. The pains of fiscal correction have amplified perceptions, entertained by not a few, that the flat tax

[9] *Romania signed the Europact plus in 2011.*

introduction has favoured the better-off people, in the main, and has increased income inequality, with implications for social cohesion and *trust* as a public good in society. How much of this sentiment is justified is not the topic of this investigation. But, it is indisputable that higher fiscal/budget revenues would enable an enhanced provision of public goods. If the reduction of tax evasion (the black economy) would be complemented by a big jump in the EU funds absorption the overall effect in the public budget and in the economy as a whole would be pretty sizeable. Fiscal revenues could also be raised by increasing royalties and making land/property taxes more appropriate. One should not forget that public goods have the virtue of crowding in private economy output.

Last, but not least, raising tax revenues has to be combined with a much higher efficiency of public expenditure. There is a big waste of public resources in Romania owing to resource misallocation, rent-seeking, incompetence, etc. This challenge implies a firm action against corruption, politicization of public administration and political cronyism.

## 3. Remarks and Policy Recommendations

It is an acknowledged fact that the tax revenue to GDP ratio in Romania is extremely low, in fact it is the lowest among the EU-27. Given that the overall level of taxation is relatively high, especially when compared to other NMSs, there is much leeway for raising this ratio significantly. Even if agriculture- related tax revenues would rise sharply (these could amount to 3% of GDP) the room for increasing overall tax revenues is more than significant. This can be achieved by increasing tax compliance rates and by bringing parts of the shadow economy into the open. Fiscal revenues could also be raised by increasing royalties and property taxes. While direct taxes are not high, taxes on labour handicap job creation. Addressing this imbalance, by reducing, for instance, SSCs may look attractive, but it could affect negatively the budget balance in the short term. And Romania can hardly allow itself slippages in this regard in view of menacing conditions prevailing in the international environment. It would be easier to reduce SSCs if tax revenues would increase beforehand, possibly following a strong and effective fight against fiscal evasion and broadening of the tax base.

Likewise, tax allowances as a means of stimulating domestic savings and supporting a reorientation of resource allocation toward tradable sectors could also be taken into account. This said, however, efforts should not be made in isolation; they should be pursued bearing in mind the overall objective of fiscal consolidation. Raising tax revenues and improving the efficiency of public expenditure should be pursued simultaneously so that fiscal sustainability is achieved.

The public debt sovereign crisis in Europe underscores the importance of achieving fiscal/budget consolidation. Although Romania's public debt is still relatively low compared to most EU countries, its growth rate over the last two years is clearly unsustainable[10]. Public debt grew from 18% of GDP at the end of 2008 to above 36%

[10] *See Lungu (2011) and Dumitru and Stanca (2011).*

in 2011. It is therefore important to keep control over the size of public debt even though its current level is perceived to be low.

The efforts to raise tax revenues should be viewed as a medium-term objective. In this respect several aspects should be borne in mind.

### *3.1. There is a paramount need to continue fiscal consolidation*

In March 2011 Romania signed the Euro Pact Plus, which places ceilings on EU members' budget deficits and public debt of 3% of GDP and 60% of GDP, respectively. These constraints would be legally binding at the national level. However, the effort to achieve the 3% budget deficit target in 2012, and lower in subsequent years, would be quite sizable. It would entail raising the tax revenues to GDP ratio and further reducing government spending as a share in GDP. In the first step the budget deficit would need to be reduced from 6.5% of GDP in 2010 to 4.4% in 2011. To this, however, the cost of arrears (as contingent liabilities) would need to be added, amounting to 0.5% in 2011 and some 4.8% of GDP over several years. Notably, a success in raising tax revenues by combating fiscal evasion would help immensely the objective of fiscal consolidation. A large increase in EU funds absorption would diminish the pressure to cut overall expenditure. Fiscal revenues could be increased also by raising royalties. Enhancing the efficiency of budget expenditure would be a tremendous plus. A better targeted provision of social benefits toward the most in need would diminish the funding needs and would help combat income inequality and, therefore, protect social cohesion.

### *3.2. Define a clear tax policy concept*

Usually, national tax policies favour either labour income taxation or consumption taxation. In Romania both these tax levels are high relative to taxes in other EU countries. Labour income taxation, which includes income tax, social security contributions, health and unemployment contributions are among the highest (see Table A 4.3) At 24%, the current consumption tax is only one point below the EU ceiling of 25%. This underscores the importance of reducing the labour tax, and, in time, VAT. The reasons for doing this are twofold. First, this is likely to improve work incentives. Second, such actions would leave room for tax policy to react in case a tightening of fiscal policy would be needed in the future.

Such an approach involves a forward-looking attitude to tax policy. Optimal taxation is an aspect that has received little attention in Romania. The results in this study tend to suggest that taxation is far from optimal. There is a large shadow economy and the potential for increasing tax revenues is pretty high. There is also scope for using tax policy as a means for improving resource allocation, be it under the constraints of EU rules; fiscal policy could stimulate domestic savings via tax allowances and could be supportive of activities that can improve Romania's economic competitiveness. One should mention here the issue of fairness, which has not been addressed properly following the introduction of the flat tax and which has been given a higher profile by burden-sharing considerations. These arguments suggest that tax policy is far from being optimal in Romania. An analysis of tax optimality should be a separate study, which should be assessing effects of possible changes in tax policy on tax revenues and macro- and microeconomic performance.

### *3.3 Reducing the size of the shadow economy*

Estimates of the shadow economy show that Romania ranks together with Bulgaria at the "top" of the EU. Tax evasion is pretty high as it is reflected by data, in the level of tax revenues. Simplified compliance procedures, increased efficiency in detecting non-compliance, severe penalties for those who practice and perpetrate tax evasion and, not least, drastic punishment (including lay-offs) of public sector employees should be considered by the authorities. A similar approach improved incentives for business and labor formalization in Bulgaria, for instance. Penalties for tax evasion should be very high such as to act as a deterrent.

### *3.4. Increase administrative effectiveness and efficiency*

- Consolidating local tax offices[11]. This should lead to a significant economy of scale, which would raise revenues collected per staff member. In parallel, efforts should be focused on further developing the e-tax system, as more taxpayers would need to be convinced to file their tax returns electronically.
- Improving information systems and information technology management as well as the operational capacity.
  - Improve human resource management function and strategy.

### *3.5. Adopt a 'Transparency and Credibility' package*

Historically and after the big fall in the early '90s, the tax revenues to GDP ratio has been relatively stable in Romania, irrespective of the changes in the levels of taxation. Several things could explain this outcome. The first is the weaknesses of institutions responsible for collecting tax revenues. Here the political will play an important role. The second is the population's perception that the value of public services offered in exchange for the taxes it pays is extremely low. Limited progress in building the country's physical infrastructure, the quality of the services in public sector health and education are just a few examples. Such a perception could be very damaging, especially when it becomes entrenched, because it could lead to increased efforts from both employers and employees to avoid paying taxes. The third explanation relates to an issue already touched upon in this paper: *fairness*. Government spending on various projects is often perceived to be directed to firms belonging to a political clientele. The lack of transparency related to the use of funds and their selective allocation erodes population's trust in public institutions. Moreover, efforts of tax inspectors often concentrate excessively on companies, which regularly pay taxes. In addition, the big waste of resources compounds a huge problem. The fourth explanation is that individual ethical conduct, an important disciplining device based on the principle of self-regulation, is permanently dissuaded. The contagion effect is large when a sizable part of market participants evade taxes without any consequences.

Given these aspects, one possible way for the authorities to increase tax revenues would be to address the above causes simultaneously, by adopting a comprehensive

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[11] In Bulgaria during the 2002-2008 revenue administration reform the number of field offices were reduced from 340 to 29, the staff by 25% and the cost of revenue collection declined from 1.4% of revenues in 2002 to 0.8% in 2008.

package of fiscal and budget expenditure reforms. Details would need to be sorted out, but the general ideas would be the following:

- Announce full transparency of government spending programs. Spending on goods and services should be assigned following an open bidding process. Benchmarks for public spending on these goods and services should be clearly defined and any extra spending incurred over the benchmark value should entail consequences. The names of those who decided on major public projects be made public via the Internet.
- Announce clear strategies for investments in infrastructure, health care and education by nominating specific projects together with their costs and completion time.
- Local public utilities: have tariffs and costs be published on the internet so as to foster benchmarking and competition.
- Cost-benefit analysis should be done effectively (no public investment above a certain threshold be done without such a thorough analysis).
- Budgeting and human resource management in the public sector should shift from inputs to objectives and performance. The culture of follow up has to change dramatically in Romania, for the better.
- Set up an independent Audit Office to monitor public sector spending. Currently, there is an institution which audits public sector accounts, Curtea de Conturi, but there is more to be done in this regard.
- Make it easier for companies and individuals to pay their taxes. Simplify tax forms and improve mechanisms for online payment.
- Announce a firm plan for tax reductions. VAT should be kept unchanged in the first phase. Labour taxes should be reduced by cutting SSC substantially provided tax revenues permit it (fiscal consolidation proceeds accordingly). The plan should have a 2-3 years horizon and its continuation should be conditional on the increased compliance in paying taxes. Phase 2 would involve reductions in VAT, if the budgetary surplus is achieved and could be sustained[12].
- Raise penalties for tax evasion so that they act as a deterrent.

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[12] *Between 2002 and 2008 the public sector administration reform in Bulgaria saw CIT reduced from 23.5% to 10%, PIT (max rate) from 29% to 10%, SSC from 35.7% to 26.5%, dividend income tax from 15% to 7%, while compliance rates for all these taxes rose strongly.*

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# Appendix 1

## Tax revenues Romania vs. EU-27 and NMSs

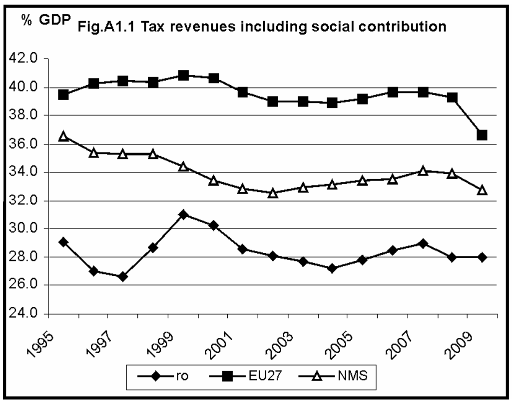


Fig.A1.1 Tax revenues including social contribution

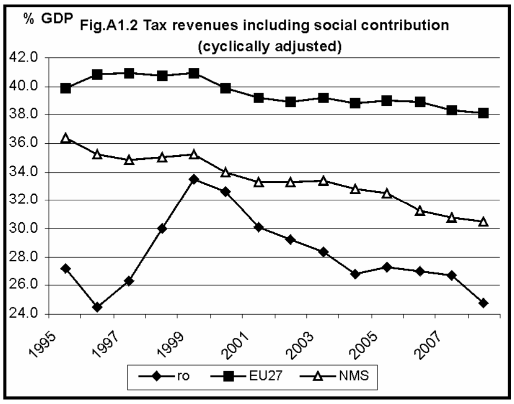


Fig.A1.2 Tax revenues including social contribution (cyclically adjusted)

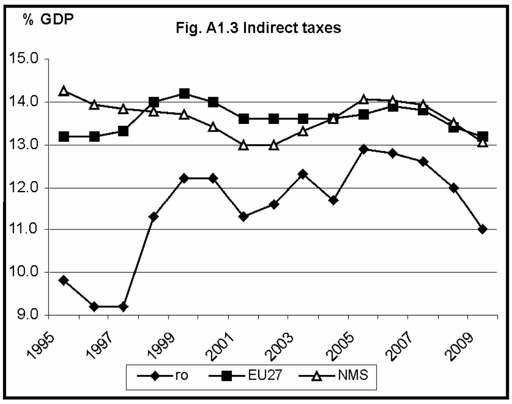


Fig. A1.3 Indirect taxes

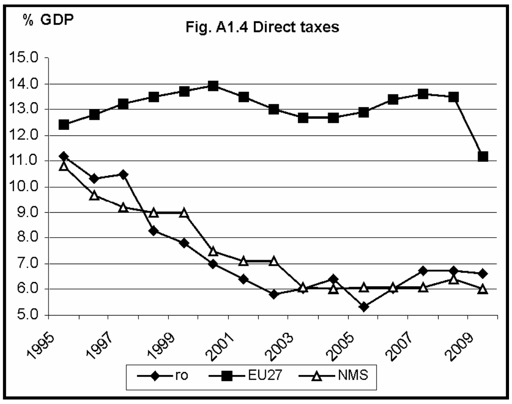


Fig. A1.4 Direct taxes

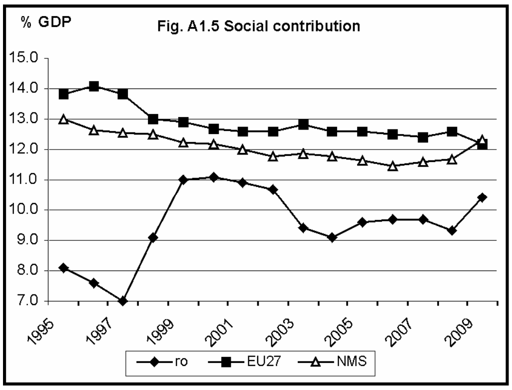


Fig. A1.5 Social contribution

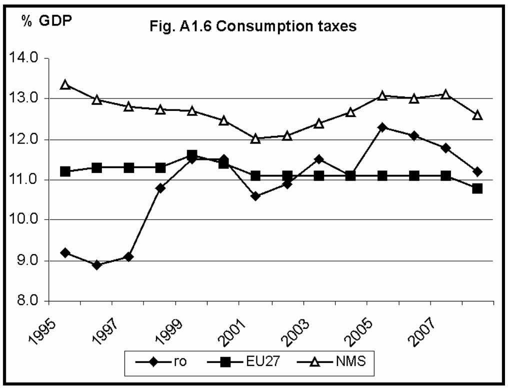


Fig. A1.6 Consumption taxes

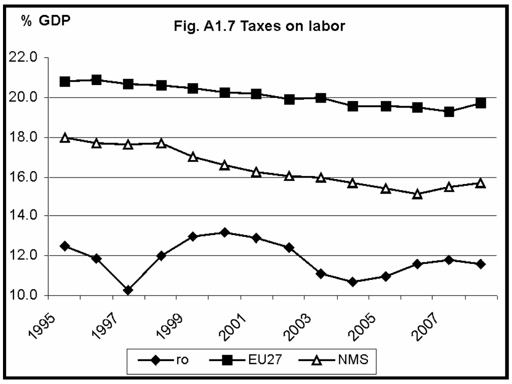


Fig. A1.7 Taxes on labor

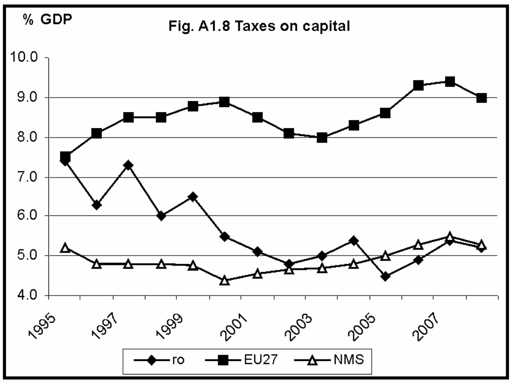


Fig. A1.8 Taxes on capital

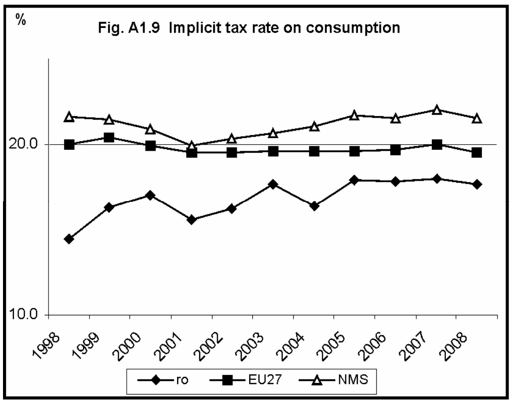


Fig. A1.9 Implicit tax rate on consumption

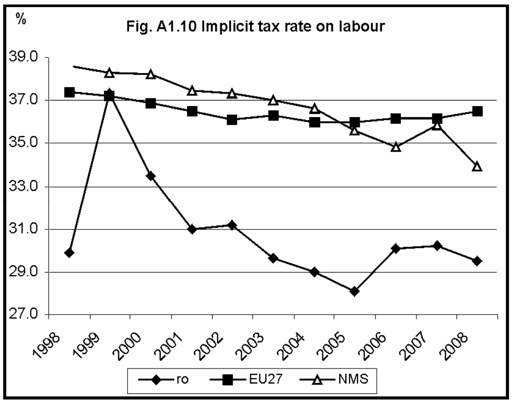


Fig. A1.10 Implicit tax rate on labour

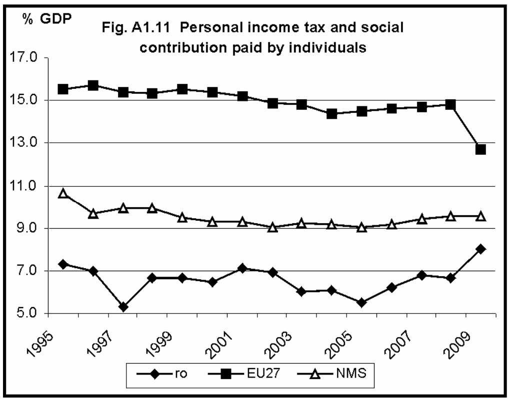


Fig. A1.11 Personal income tax and social contribution paid by individuals

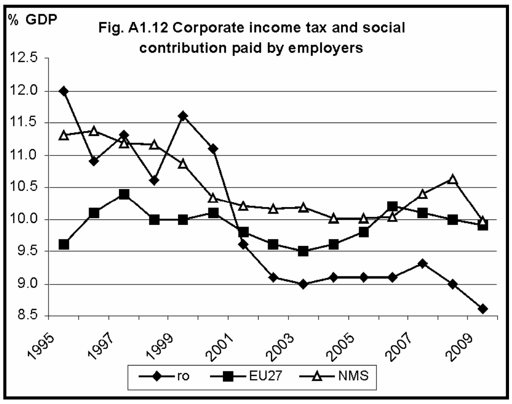


Fig. A1.12 Corporate income tax and social contribution paid by employers

*Source: European Commission (2010)*

# Appendix 2

## Households as taxpayers

**Fig. A2.1 Income tax & social security contribution share vs. social benefits share of poorest household decile,% total**

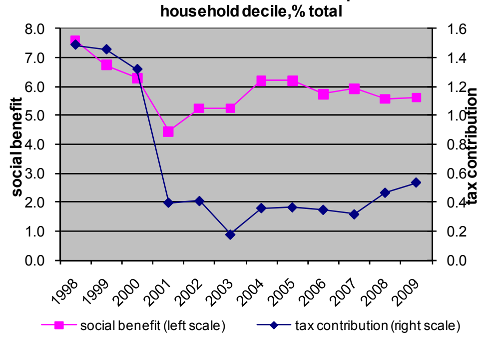



**Fig. A2.2 Income tax & social security contribution share vs. social benefit share of richest household decile, % total**

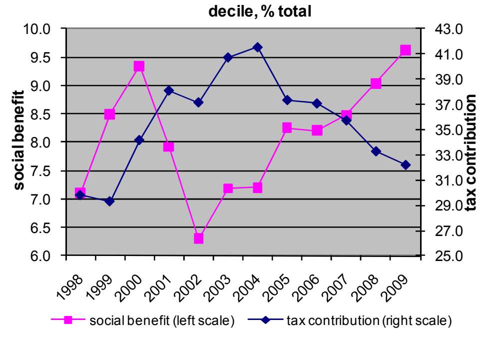



**Fig. A2.3 Income tax and social security contribution share vs. social benefit share of middle income household deciles, % total**

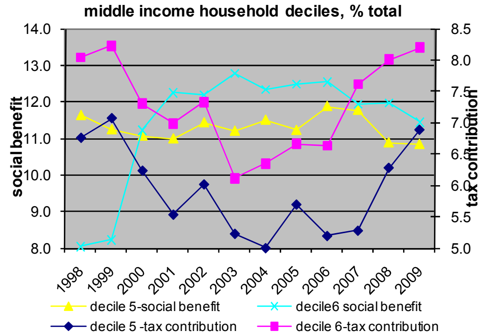



**Fig. A2.4 Income tax and social security contribution-to--income ratio for low, high and middle income household deciles**

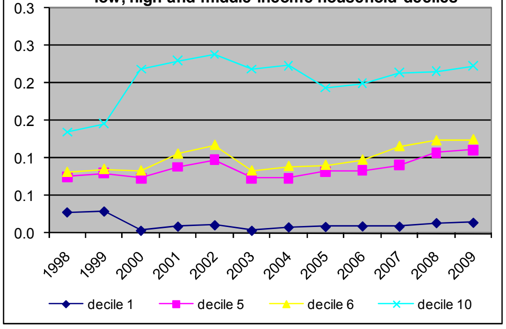



**Fig. A2.5 Income tax & social security contribution share vs. social benefits share of employees households, % total**

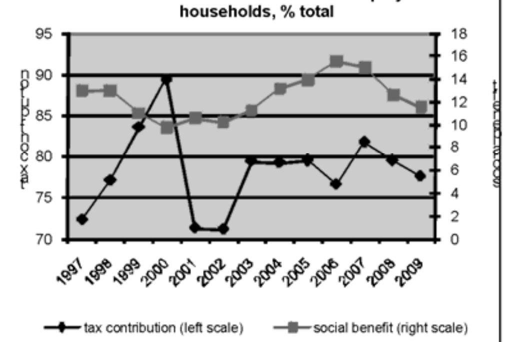



**Fig. A2.6 Income tax &social security contribution share vs. social benefits share of agricultural households, % total**

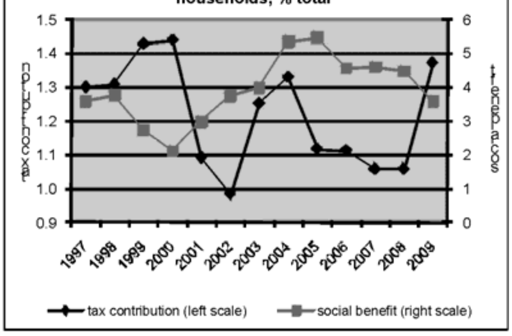


**Fig. A2.7 Distribution of tax burden among households deciles**

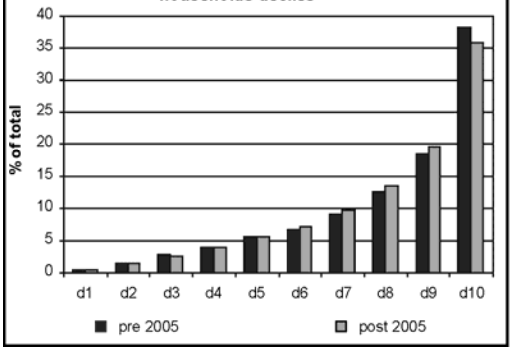



**Fig. A2.8 Distribution of social benefits among households deciles**

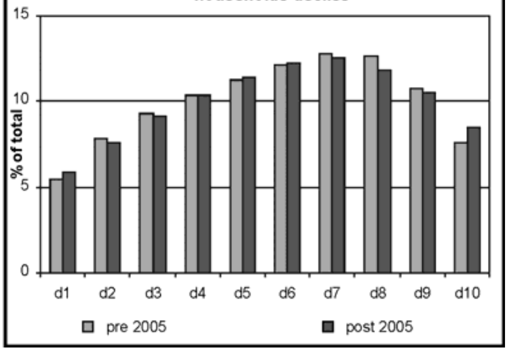



**Fig. A2.9 Income tax & social security contribution share vs. social benefits share of retiree households, % total**

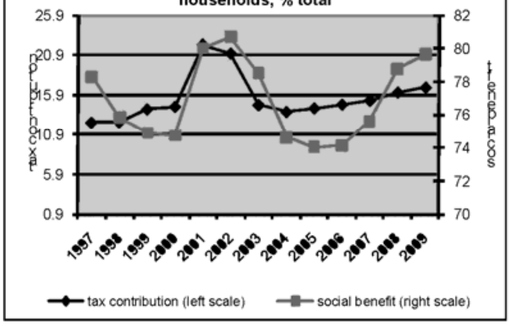
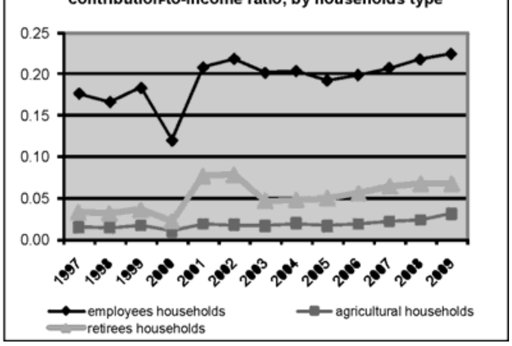


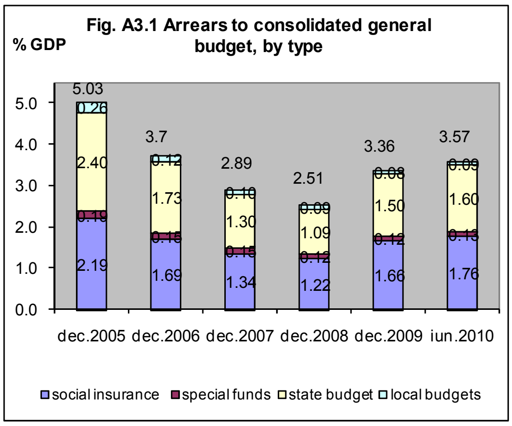

**Fig. A2.10 Income tax and social security contribution-to-income ratio, by households type**

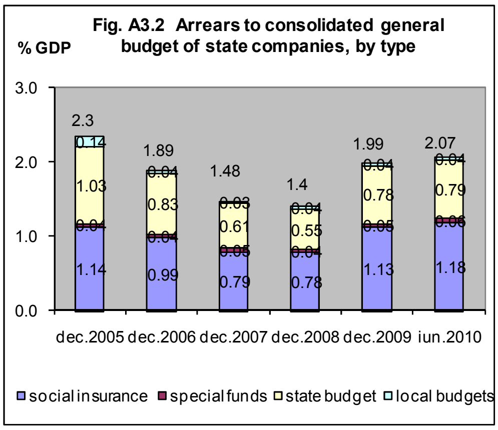


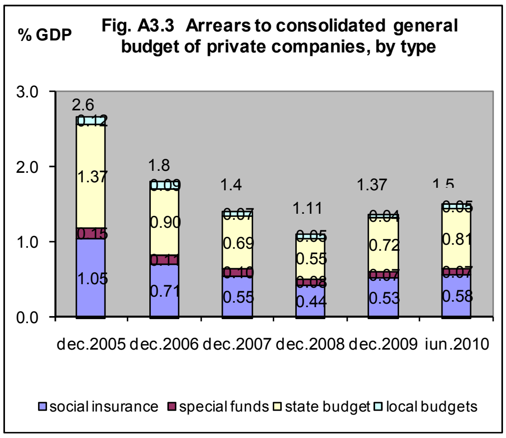

*Source: INSSE, Households'Budget Survey*

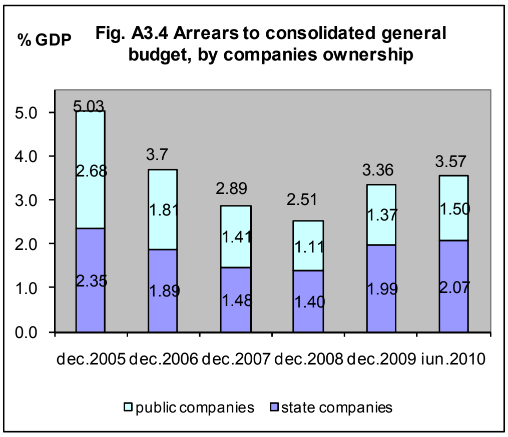
## Appendix 3

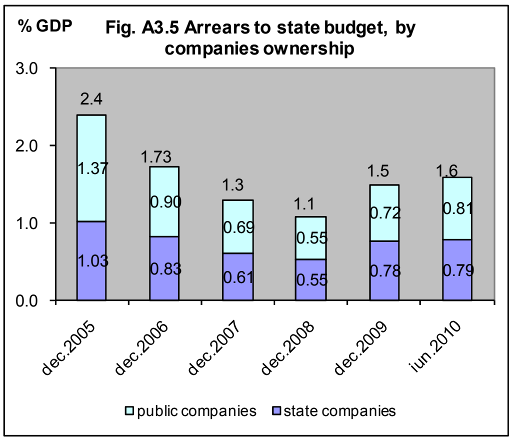
## Companies' arrears to consolidated general budget

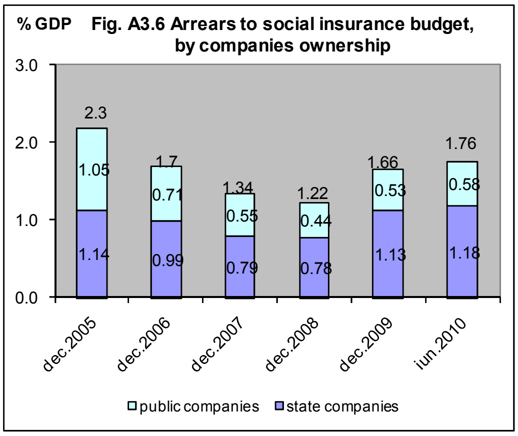



% GDP
Fig. A3.5 Arrears to state budget, by companies ownership
3.0
2.0
1.0
0.0
2.4
1.37
1.03
1.73
0.90
0.83
1.3
0.69
0.61
1.1
0.55
0.55
1.5
0.72
0.78
1.6
0.81
0.79
dec.2005
dec.2006
dec.2007
dec.2008
dec.2009
iun.2010
public companies
state companies


% GDP
Fig. A3.6 Arrears to social insurance budget, by companies ownership
3.0
2.0
1.0
0.0
2.3
1.05
1.14
1.7
0.71
0.99
1.34
0.55
0.79
1.22
0.44
0.78
1.66
0.53
1.13
1.76
0.58
1.18
dec.2005
dec.2006
dec.2007
dec.2008
dec.2009
iun.2010
public companies
state companies

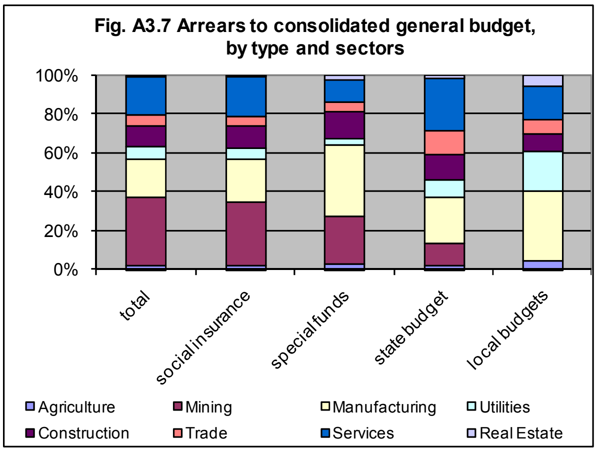


Fig. A3.7 Arrears to consolidated general budget, by type and sectors
100%
80%
60%
40%
20%
0%
total
social insurance
special funds
state budget
local budgets
Agriculture
Mining
Manufacturing
Utilities
Construction
Trade
Services
Real Estate

*Source:NBR*

## Appendix 4

### Memento Items

**Table A4.1**

**Public Debt in EU**

| | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|
| EU-27 | 59 | 62 | 74 | 80 |
| BE | 84 | 90 | 96 | 97 |
| BG | 17 | 14 | 15 | 16 |
| CZ | 29 | 30 | 35 | 39 |
| DK | 28 | 34 | 42 | 44 |
| DE | 65 | 66 | 73 | 83 |
| EE | 4 | 5 | 7 | 7 |
| IE | 25 | 44 | 66 | 96 |
| EL | 105 | 111 | 127 | 143 |
| ES | 36 | 40 | 53 | 60 |
| FR | 64 | 68 | 78 | 82 |
| IT | 104 | 106 | 116 | 119 |
| CY | 58 | 48 | 58 | 61 |
| LV | 9 | 20 | 37 | 45 |
| LT | 17 | 16 | 29 | 38 |
| LU | 7 | 14 | 15 | 18 |
| HU | 66 | 72 | 78 | 80 |
| MT | 62 | 62 | 68 | 68 |
| NL | 45 | 58 | 61 | 63 |
| AT | 61 | 64 | 70 | 72 |
| PL | 45 | 47 | 51 | 55 |
| PT | 68 | 72 | 83 | 93 |
| RO | 13 | 13 | 24 | 31 |
| SI | 23 | 22 | 35 | 38 |
| SK | 30 | 28 | 35 | 41 |
| FI | 35 | 34 | 44 | 48 |
| SE | 40 | 39 | 43 | 40 |
| UK | 44 | 54 | 70 | 80 |

*Source: European Commission (2010d)*

**Table A4.2**

**Changes of the main taxes in Romania 1990-2010**

| Period | Tax rates | Deduction/exemptions |
|---|---|---|
| | Profit tax | |
| 1990 | Progressive tax rates differentiated upon enterprises' profitability | Energy suppliers and mining exempted |
| Beginning 1991 | Progressive taxes ranging between 5% (annual profit of ROL25000 – 50000) and 77% (annual profit >ROL 955m) with 67 brackets | Enterprises with foreign ownership exempted for 2 years after taxable incomes obtained, and for the following three years it was possible a reduction by 50% of the tax. For reinvested profits in<br>Law 71 awarded long term tax holidays selectively to foreign investors |
| End 1991 | Two brackets 30% min rate and 45% max rate | |
| 1995 | 38% | |
| 1997 | 38% | Emergency Ordinance 92 introduces new tax holidays and tax cuts (including on customs duties and VAT) |
| 1998 | 38% | Law 241 extended the tax holidays and tax cuts to a larger class of beneficiaries |
| 2000 | 25% | 5% preferential rate for profits arising from export activities<br>10% investment tax allowance<br>All expenses are deductible except certain categories such as penalties, fines, protocol expenditures exceeding a certain level, provisions, etc. |
| 2005 | 16% | |
| | Wage tax | |
| April 1991 | Progressive rates according to income brackets ranging from 5% and 60% | |
| 1998 | Progressive rates according to income brackets, ranging from 21% to 45% | |
| 2000 | Yearly taxation standard comprising progressive rates according to brackets of taxable | |

| Period | Tax rates | Deduction/exemptions |
|---|---|---|
| | yearly income ranging from 18% to 40% | |
| 2005 | 16% | |
| VAT | | |
| 1993 | 18% | Reduced rate 9% meat, fish, milk, edible fats, medications for human and veterinary use, live animals, agricultural and land-improvement works, chemical and mineral fertilizers, fresh vegetables and fruits (until April 1997) |
| 1997 | 18% | Reduced rate 9% for the above items plus advertising and publicity activities, eggs of domestic species of fowl, flour and flour pastes, sugar, rice, uniforms for preschool and elementary school pupils, articles of clothing and footwear for babies, urban transport for travellers, prostheses and orthopaedic products |
| 1998 | 22% | Reduced rate 11% for the above items |
| 2000 | 19% | - |
| 2004 | 19% | Reduced rate: 9% medicine, books, magazines, admission to cultural events, hotel accommodation |
| 2009 | 19% | Reduced rate; 9% for the above items and 5% for construction of social and, subject to conditions, private dwellings not exceeding 120sqm and a value of RON 380000 (€90000) |
| 2010 | 24% | Reduced rate; 9% for the above items and 5% for construction of social and, subject to conditions, private dwellings not exceeding 120sqm and a value of RON 380000 (€90000) |
| Social security contributions | | |
| 1991 | 35% | 3% employees' contribution |
| 1998 | 43% | 5% employees' contribution |
| 1999 | 60% | 5% employees' contribution |
| 2001 | 55% | Decrease in employers' and employees' contribution |
| 2003 | 52.5% | Increase in employers' contribution, reduction in employees' contribution |
| 2004 | 49% | Reduction in employers' contribution |
| 2006 | 46.3% | Reduction in employers' contribution |
| 2007 | 44.5% | Reduction in employers' contribution |
| 2008 | 41.8% | Reduction in employers' and employees' contributions |
| 2009 | 43% | Increase in employers' and employees' contribution |

**Table A4.3**

### Main legal tax rates in NMSs

| | | Pre 2000 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| RO | VAT | 22 | 19 | 19 | 19 | 19 | 19 | 19 | 19 | 19 | 19 | 19 | 24 |
| | PIT | 21-45 | 18-40 | 18-40 | 18-40 | 18-40 | 18-40 | 16 | 16 | 16 | 16 | 16 | 16 |
| | CIT | 38 | 25 | 25 | 25 | 25 | 25 | 16 | 16 | 16 | 16 | 16 | 16 |
| | SSC | 60 | 60 | 55 | 55 | 52.5 | 49 | 49 | 46.3 | 44.5 | 41.8 | 43 | 43 |
| Bg | VAT | 22 | 22 | 22 | 22 | 22 | 22 | 22 | 22 | 20 | 20 | 20 | 20 |
| | PIT | 20-22-40 | 20-22-24 | 20-22-24 | 20-22-24 | 20-22-24 | 20-22-24 | 20-22-24 | 20-22-24 | 20-22-24 | 10 | 10 | 10 |
| | CIT | 40 | 31 | 34 | 28 | 25 | 22 | 19 | 13 | 10 | 10 | 10 | 10 |
| | SSC | | 35.7 | | | | | | 29.5 | 29.5 | 28.5 | 30.5 | |
| CZ | VAT | 22 | 22 | 22 | 22 | 22 | 19 | 19 | 19 | 19 | 19 | 19 | 20 |
| | PIT | 15-47 | 15-32 | 15-32 | 15-32 | 15-32 | 15-32 | 15-32 | 12-32 | 12-32 | 15 | 15 | |
| | CIT | 35 | 31 | 31 | 31 | 31 | 28 | 28 | 24 | 24 | 24 | 19 | 19 |
| | SSC | 47.5 | 47.5 | 47.5 | 47.5 | 47.5 | 47.5 | 47.5 | 47.5 | 47.5 | 47.5 | 45 | |
| EE | VAT | 18 | 18 | 18 | 18 | 18 | 18 | 18 | 18 | 18 | 18 | 18 | 20 |
| | PIT | 26 | 26 | 26 | 26 | 26 | 24 | 24 | 23 | 22 | 21 | 21 | 21 |
| | CIT | 26 | 26 | 26 | 26 | 26 | 26 | 24 | 24 | 22 | 21 | 21 | |
| | SSC | | 33 | 33 | 33 | 33 | 33 | 33 | 33 | 33 | 33 | 33 | |
| LV | VAT | 18 | 18 | 18 | 18 | 18 | 18 | 18 | 18 | 18 | 18 | 21 | 21 |
| | PIT | 25 | 33 | 33 | 33 | 33 | 33 | 33 | 27 | 27 | 24 | 21 | 26 |
| | CIT | 25 | 22 | 22 | 22 | 19 | 15 | 15 | 15 | 15 | 15 | 15 | 15 |
| | SSC | 35 | 35 | 33 | 33 | 33 | 33 | 33 | 33 | 33 | 33 | 33 | 33 |
| Lt | VAT | 18 | 18 | 18 | 18 | 18 | 18 | 18 | 18 | 18 | 18 | 21 | |
| | PIT | | | | | 33 | 33 | 33 | 27 | 27 | 24 | 21 | |
| | CIT | 29 | 24 | 24 | 15 | 15 | 15 | 15 | 15 | 15 | 15 | 20 | |
| | SSC | | | | | 33 | 34 | 34 | 34 | 34 | 34 | 34 | |
| Hu | VAT | 25 | 25 | 25 | 25 | 25 | 25 | 20 | 20 | 20 | 20 | 22.5 | 25 |
| | PIT | 20-44 | 20-40 | 20-40 | 20-40 | 20-40 | 20-40 | 18-38 | 18-36 | 18-36 | 18-36 | 18-36 | 17-38 |
| | CIT | 18 | 18 | 18 | 18 | 18 | 16 | 16 | 16 | 16 | 16 | 16 | |
| | SSC | 41 | 41 | | | | | | 47 | 47 | 44.5 | 42.5 | |
| PL | VAT | 22 | 22 | 22 | 22 | 22 | 22 | 22 | 22 | 22 | 22 | 22 | |
| | PIT | 19-30-40 | 19-30-40 | 19-30-40 | 19-30-40 | 19-30-40 | 19-30-40 | 19-30-40 | 19-30-40 | 19-30-40 | 19-30-40 | 18-32 | |
| | CIT | 34 | 30 | 28 | 28 | 27 | 19 | 19 | 19 | 19 | 19 | 19 | |
| | SSC | 43 | 43 | | | | | | 46 | 46 | 39.4 | 39.4 | |
| SI | VAT | 19 | 19 | 19 | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 | |
| | PIT | 17-50 | 17-50 | 17-50 | 17-50 | 17-50 | 17-50 | 17-50 | 17-50 | 16-41 | 16-41 | 16-41 | |
| | CIT | 25 | 25 | 25 | 25 | 25 | 25 | 25 | 25 | 25 | 25 | 25 | |
| | SSC | | | | | | | | 38 | 38.2 | 38.2 | 38.2 | |
| SK | VAT | 20 | 20 | 20 | 20 | 20 | 19 | 19 | 19 | 19 | 19 | 19 | |
| | PIT | 15-42 | 15-42 | 15-42 | 15-42 | 10-38 | 19 | 19 | 19 | 19 | 19 | 19 | |
| | CIT | 40 | 29 | 29 | 25 | 25 | 19 | 19 | 19 | 19 | 19 | 19 | |
| | SSC | 50 | 50 | | | | | | | 48.6 | 48.6 | 48.6 | |

*Source : European Commission,*