COMPARATIVE ANALYSIS OF THE TAXATION SYSTEM IN ROMANIA AND THE EUROPEAN UNION

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Rezumat

Fiscalitatea este un rezultat istoric al mediului social, politic şi economic dintr-un stat. În acelaşi timp, starea de dezvoltare a unui stat este dependentă într-o proporție însemnată de istoria propriului sistem fiscal, de modul în care acesta este conceput şi funcționează.

Constituirea veniturilor bugetare trebuie să se realizeze în concordanță cu cerințele referitoare la randament, eficacitate, echitate. Pluralitatea acestor obiective şi constrângerile politice, economice, administrative s-au concretizat în aplicarea unei reforme graduale în România după trecerea la economia de piață. Aplicarea acesteia nu a avut întotdeauna efectele scontate, modificările legislative repetate ducând la descurajarea investitorilor şi aplicarea dificilă a legislației fiscale atât la nivelul agenților economici, cât şi la cel al aparatului fiscal.

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Abstract

Fiscality is a historic result of the social, politic and economic environment in a particular state. At the same time, the state of development of a country depends largely on the history of the fiscal system in that country, of the way in which it is conceived and it works.

The formation of the revenues to the budget must be done in agreement with the requirements of yield, efficacy and equity. The plurality of these objective and the political, economic and administrative constraints materialized in a gradual reform in Romania after the shift to market economy. Its enforcement didn't always have the expected results, the repeated legislative changes discouraging the investors and causing the difficult implementation of the fiscal legislation by the economic agents and by the fiscal authorities.

Keywords: fiscal revenues, taxation level in Romania, taxation level in EU countries, profit tax

JEL classification: E62, H22, H32

Fiscality is a notion which cannot be separated from the state, being an essential component of the general policy of the state which influences decisively the economic and social life.

The subject frequently generates polemic, particularly between the authorities and the taxpayers. Thus, the increasing necessity for financial resources determines the trend of the state to obtain an increasing amount of revenues from taxes and dues. On the other hand, those who bear the fiscal duties want a lower fiscal pressure; otherwise they use tax evasion or go to the informal economy. It is therefore necessary to determine a bearable level of fiscal taxation which stimulates the development of the economy and which is accepted by the taxpayers.

Unfortunately, this level cannot be quantified exactly, and the tendency of the taxpayers to reject the fiscal duties, to duck taxation, to speculate the imperfections of the legislation, and the tendency of the public authorities to collect as much revenues as possible without considering, at any moment, the economic reality, or to obtain political effects by manoeuvring the levers provided by the fiscal system generates many difficulties in ensuring the functionality of the fiscal system.

Each state promotes its own fiscal policy setting the number, type and size of taxes and dues. They are structured according to several criteria used to evaluate the effects of taxation on the dynamics of the economy.

The most used criterion regards the legal and administrative characteristics, according to which the taxes are divided in direct and indirect taxes.

The direct taxes are set on a taxable matter belonging to a taxpayer; they are thought to generate both advantages and disadvantages. In terms of advantages we mention: the stable fiscal yield, the elasticity of the direct taxes (they depend mainly on the objectives aimed by the law-maker), taxation in relation with the size of the income or wealth. The main inconveniencies are related to the gap between the moment when the fiscal obligation was generated and the moment of cashing; the tendency of tax evasion, particularly in the situations of increasing fiscal pressure; existence of branches or professions in which it is difficult to evaluate the income. However, the direct taxes are the main instruments of the fiscal policy and they have to be made compatible with the indirect taxes so as to produce the financial revenue necessary to the state to meet the public essentials.

Comparative analysis of the taxation level in Romania and the European Union

According to the last Eurostat report (see the Appendix), the proportion of the fiscal revenues within the GDP decreased in the European Union during the recent years of severe economic crisis although about half of the member states increased the VAT throughout 2008 to 2011. However, the European fiscal burden still is high compared to the USA and Japan.

Romania and Hungary had the strongest increases of the VAT in the European Union (increases of 5 percent points). However, Romania has the sixth lowest rate of company taxation and the fourth lowest rate of natural person's taxation in the European Union, in 2011.

In 2009, the proportion of the fiscal revenues within the GDP decreased in the European Union to 38.4% compared to 39.3% in 2008. Most of this evolution was caused by the economic recession.

The international comparisons reveal the preservation of a high fiscal burden in the European Union, more than one third higher than in the USA or Japan.

The fiscal burden varies in the EU member states from less than 30% to more than 45%. The lowest taxation rates are in Latvia (26.6%) and Romania (27%), while the highest rates are in Denmark (48.1%) and Sweden (46.9%).

• From the beginning of the economic crisis, the average value of the standard VAT rate increased by 1.3 percent points in EU-27 (from 19.4% in 2008 to 20.7% in 2011). In 2011, the standard VAT rates varied from 15%, in Cyprus and Luxemburg, and 25%, in Denmark, Sweden and Hungary. About half of the EU member states increased the VAT rate between 2008 and 2011. The strongest increases of the VAT rate were in Hungary and Romania (5 percent points), Greece (4 percent points) and Latvia (4 percent points.

• The taxation of the natural persons' income decreased at the European level from 37.6%, in 2010, to 37.1%, in 2011. In 2011, the highest taxation rates were in Sweden (56%), Belgium (53.7%), the

Netherlands (52%) and Denmark (51.5%), and the lowest rates were in Bulgaria (10%), Czechia (15%), Lithuania (15%) and Romania (16%). Rumania has the fourth lowest taxation rate for the natural persons in the EU-27 in 2011.

• The taxation of companies continued to decrease in 2011. In 2011, the highest taxation rates were in Malta (35%), France (34.4%) and Belgium (34%), and the lowest in Bulgaria (10%), Cyprus (10%) and Ireland (12.5%). Romania has the sixth lowest rate of company taxation in EU-27 in 2011.

The implicit rate of work taxation continued to decrease in the EU. In 2009, it decreased to 32.9% from 33.8% in 2008. The lowest rates of work taxation varied between 20.2% and 41%. Malta (20.2%), Portugal (23.1%), Romania (24.3%) and the Great Britain (25.1%) had the lowest work taxation rates. Italy (42.6%), Belgium (41.5%), France (41.1%) and Hungary (41%) had the highest work taxation rates.

Analysis of the profit taxation in Romania

They say Romania has a low taxation rate. However, this is one of the myths which persist despite the countless evidence of the contrary. The main argument is the low level of the collection to the budget within the GDP. This approach has two errors:

►In Romania, the GDP includes the rural economy which is not levied, while we have the highest proportion of rural population within the EU. If we would take into consideration only the part of the GDP comparable with the social structure of the EU, the collection percentage would be higher.

►The level of collection doesn't show a level of fiscality; rather, it is an average of the people who pay and of those who don't pay. According to the data, this level is now of 32% and it can be obtained if three taxpayers “pay” 32% of what they produce, but also if one pays 96% and the other two don’t pay anything. Thus, the average may probably show at most the (in)efficiency of the state to collect its own taxes. The people who insist to claim that the Romanian fiscality is low actually admit the positive role of tax evasion for this situation.

The 16% taxation of the profit seems, however, to be one of the lowest. This position is illusory, however. Over the recent years, several countries introduced nominal rates lower than Romania, the closest example being Bulgaria, with 10%. Furthermore, the nominal rate of the tax on profit is a trap, because it actually is not the difference between the incomes and expenditures, rather the difference between what the state considers to be income and what the state accepts as expenditure. For instance, if the state suddenly decides that the expenditure with fuels is no longer deducible (which is what the current Government did in 2009 when it included the “lumpsum tax”), the actual taxation increases, although nominally, it remains in place.

PricewaterhouseCoopers makes an adjustment annually, at World Bank request, so that the taxation rates for the profit can be compared (see Table 1). Therefore, the actual taxation rate, if all possible deductions are applied, is lower than the nominal rate in almost all countries. In Romania, for instance, it is of just 10.4%. Ten European countries have even lower rates (for instance, France, where the companies are actually taxed with just 8.2% and Lithuania, where although the nominal rate is 15%, a company may ultimately have nothing to pay.

Table no. 1

Actual taxation rate of the profit

Great Britain	23.2%	Slovenia	14.8%	Latvia	6.5%
Germany	22.9%	Greece	13.9%	Belgium	4.8%
Italy	22.8%	Romania	10.4%	Luxemburg	4.1%
Poland	17.7%	Switzerland	8.9%	Bulgaria	4.6%
Hungary	16.7%	France	8.2%	Lithuania	0.0%
Austria	15.7%	Czechia	7.4%	Moldova	0.0%

Source: PwC, World Bank

Lower rates of the actual taxation may be found in seven countries close to Romania, which are not EU member states. The lowest taxation rate is in Republic of Moldova, where the tax of 0% is both real and nominal.

Impact of taxation on the companies from Romania

According to the study *Doing Business 2012*, of the World Bank, the companies have to pay each year 113 taxes. We are in the second place worldwide after Ukraine, which has 135 taxes. On the next positions are Jamaica, Sri Lanka and Venezuela, with 72, 71 and 70 taxes, respectively, which must be paid annually.

For comparison, Bulgaria has just 17 taxes, but their payment takes more than in Romania: 500 hours, compared to 222 hours in Romania.

For 2011, the cited study places Romania on position 72 in the world classification of business competitiveness, decreasing seven positions compared to last years.

Beyond the large number of taxes, Romania also has problems with their payment. At this indicator, Romania is on position 154 of 183 countries.

World Bank experts noticed, however, an improvement at the taxation chapter, by the introduction of a system of online payments, and in the field of insolvencies.

On the other hand, the study shows that Romania lost interest in the chapters “starting a business” and “trans-boundary trade”.

According to the data from *Doing Business 2012: Doing Business in a More Transparent World*, the best improvement in business was in Georgia (position 16 in the general classification), followed by Moldova, which jumped 18 positions, from 99 to 81, and Macedonia, which jumped 12 positions, from 34 to 22.

Setting the fiscal burden for an investor is complex and involves much more than the taxation rate on company profit.

Regarding the cost of tax administration, Romania has a low rate of profit taxation (16%), but also has many other taxes. This means that the taxpayers have to allocate a lot of time for tax administration, using resources which might be used for the productive activity. Furthermore, the social contributions and large, and the benefits are limited, increasing the cost of the workforce.

Taxation is just part of the many costs of a business when deciding where to implement an investment. Romania has the disadvantage of a poorly developed infrastructure, which generates higher business costs. For instance, the poor road system and railroad system means that the transportation of goods from one side of the country to another is slow and difficult. Given the European funds available to support the infrastructure projects, the Government should give the highest priority to the modernization of the infrastructure, besides maintaining an advantageous fiscal climate for the business.

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Appendices Table no.2 A Income taxation (%)

Countries	Tax on the personal income				Tax on company income			
	2000	2010	2011	Difference 2000-2011	2000	2010	2011	Difference 2000-2011
EU-27*	44.7	37.6	37.1	-7.6	31.9	23.3	23.2	-8.7
Euro zone17*	47.1	41.4	41.8	-5.3	34.4	25.6	25.5	-8.9
Belgium	60.6	53.7	53.7	-6.9	40.2	34.0	34.0	-6.2
Bulgaria	40.0	10.0	10.0	-30.0	32.5	10.0	10.0	-22.5
Czechia	32.0	15.0	15.0	-17.0	31.0	19.0	19.0	-12.0
Denmark	59.7	51.5	51.5	-8.2	32.0	25.0	25.0	-7.0
Germany	53.8	47.5	47.5	-6.3	51.6	29.8	29.8	-21.8
Estonia	26.0	21.0	21.0	-5.0	26.0	21.0	21.0	-5.0
Ireland	44.0	41.0	41.0	-3.0	24.0	12.5	12.5	-11.5
Greece	45.0	45.0	45.0	0.0	40.0	24.0	23.0	-17.0
Spain	48.0	43.0	45.0	-3.0	35.0	30.0	30.0	-5.0
France	59.0	45.8	46.7	-12.3	37.8	34.4	34.4	-3.4
Italy	45.9	45.2	45.6	-0.3	41.3	31.4	31.4	-9.9
Cyprus	40.0	30.0	30.0	-10.0	29.0	10.0	10.0	-19.0
Latvia	25.0	26.0	25.0	0.0	25.0	15.0	15.0	-10.0
Lithuania	33.0	15.0	15.0	-18.0	24.0	15.0	15.0	-9.0
Luxemburg	47.2	39.0	42.1	-5.0	37.5	28.6	28.8	-8.7
Hungary	44.0	40.6	20.3	-23.7	19.6	20.6	20.6	1.0
Malta	35.0	35.0	35.0	0.0	35.0	35.0	35.0	0.0
Netherlands	60.0	52.0	52.0	-8.0	35.0	25.5	25.0	-10.0
Austria	50.0	50.0	50.0	0.0	34.0	25.0	25.0	-9.0
Poland	40.0	32.0	32.0	-8.0	30.0	19.0	19.0	-11.0
Portugal	40.0	45.9	46.5	6.5	35.2	29.0	29.0	-6.2
Rumania	40.0	16.0	16.0	-24.0	25.0	16.0	16.0	-9.0
Slovenia	50.0	41.0	41.0	-9.0	25.0	20.0	20.0	-5.0
Slovakia	42.0	19.0	19.0	-23.0	29.0	19.0	19.0	-10.0
Finland	54.0	49.0	49.2	-4.8	29.0	26.0	26.0	-3.0
Sweden	51.5	56.4	56.4	4.9	28.0	26.3	26.3	-1.7
Great Britain	40.0	50.0	50.0	10.0	30.0	28.0	27.0	-3.0
Norway	47.5	40.0	40.0	-7.5	28.0	28.0	28.0	0.0
Island	:	46.1	46.1	:	30.0	18.0	20.0	-10.0

Note: ***** - arithmetic mean; **:** - no data /Source: Eurostat

Table 2A
Income tax and fiscal burden function of the economic field

Countries	Income tax, % GDP			Implicit* tax on:								
				work			consumption			capital		
	2000	2008	2009	2000	2008	2009	2000	2008	2009	2000	2008	2009
EU-27*	40.5	39.3	38.4	35.7	33.8	32.9	20.8	21.4	20.9	25.0	25.3	24.6
Euro zone17*	41.1	39.7	39.1	34.5	34.0	33.5	20.4	20.7	20.4	25.1	25.2	24.7
Belgium	45.2	44.4	43.5	43.6	42.5	41.5	21.8	21.2	20.9	29.6	32.6	30.9
Bulgaria	31.5	32.3	28.9	38.1	27.4	25.5	18.5	24.9	21.4	:	:	:
Czechia	33.8	35.5	34.5	40.7	39.2	36.4	19.4	21.1	21.6	20.9	19.8	19.3
Denmark	49.4	48.1	48.1	41.0	36.2	35.0	33.4	32.6	31.5	36.0	43.4	43.8
Germany	41.9	39.4	39.7	40.7	39.2	38.8	18.9	19.7	19.8	28.4	23.0	22.1
Estonia	31.0	32.1	35.9	37.8	33.7	35.0	19.5	21.1	27.6	6.0	10.5	14.0
Ireland	31.5	29.7	28.2	28.5	25.3	25.5	25.5	23.3	21.6	:	16.3	14.9
Greece	34.6	31.7	30.3	34.5	32.2	29.7	16.5	14.8	14.0	19.9	:	:
Spain	33.9	33.2	30.4	30.5	33.1	31.8	15.7	14.1	12.3	29.9	31.7	27.2
France	44.1	42.9	41.6	42.0	41.5	41.1	20.9	19.1	18.5	38.4	38.1	35.6
Italy	41.8	42.9	43.1	42.2	43.0	42.6	17.9	16.5	16.3	29.5	35.6	39.1
Cyprus	30.0	39.1	35.1	21.5	24.7	26.1	12.7	20.8	17.9	:	:	:
Latvia	29.5	29.1	26.6	36.6	28.5	28.7	18.7	17.4	16.9	11.2	17.0	10.3
Lithuania	30.1	30.2	29.3	41.2	32.7	33.1	17.9	17.6	16.5	7.2	12.7	10.9
Luxemburg	39.1	35.3	37.1	29.9	31.7	31.7	23.0	27.3	27.3	:	:	:
Hungary	39.0	40.0	39.5	41.4	42.1	41.0	27.5	26.6	28.2	17.1	18.6	18.8
Malta	28.2	33.9	34.2	20.6	19.6	20.2	15.9	19.3	19.5	:	:	:
Netherlands	39.9	39.1	38.2	34.5	36.2	35.5	23.8	26.9	26.2	20.7	16.6	15.4
Austria	43.2	42.6	42.7	40.1	41.3	40.3	22.1	21.6	21.7	27.7	26.5	27.0
Poland	32.6	34.3	31.8	33.5	32.6	30.7	17.8	21.1	19.0	20.5	22.8	20.5
Portugal	31.1	32.8	31.0	22.3	23.3	23.1	18.2	18.0	16.2	31.3	37.5	33.8
Rumania	30.2	28.0	27.0	33.5	27.3	24.3	17.0	17.7	16.9	:	:	:
Slovenia	37.5	37.2	37.6	37.7	35.9	34.9	23.5	23.9	24.2	15.7	21.7	21.0
Slovakia	34.1	29.2	28.8	36.3	33.1	31.2	21.7	18.7	17.3	22.9	16.9	17.1
Finland	47.2	43.1	43.1	44.0	41.4	40.4	28.5	26.0	25.7	36.4	28.0	29.9
Sweden	51.5	46.5	46.9	46.8	41.2	39.4	26.3	27.8	27.6	42.8	26.2	33.5
Great Britain	36.7	37.5	34.9	25.6	26.4	25.1	18.9	17.5	16.8	44.0	44.7	38.9
Norway	42.6	43.0	41.4	38.3	37.1	37.6	31.2	29.4	28.9	41.1	43.6	37.8
Island	37.1	36.7	33.7	:	:	:	27.1	26.2	24.3	:	:	:

Note: ***** - arithmetic mean; **:** - no data /Source: Eurostat