INFLUENCE OF THE SOCIAL CONTRIBUTIONS ON THE ENTERPRISE BEHAVIOUR

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Rezumat

Sistemul fiscal actual cuprinde în structura sa o mulțime de taxe, impozite şi contribuții pe care întreprinderea trebuie să le achite. Însă numărul mare de impozite şi taxe ce trebuie plătite creează o presiune fiscală ridicată asupra întreprinderii, un factor important în manifestarea comportamentului fiscal al întreprinderilor fiind contribuțiile sociale.

Angajatorul trebuie să plătească statului din venitul brut acordat angajatului un procent semnificativ, de aproape 30%, care include: contribuția la asigurările sociale, contribuția la fondul de şomaj, contribuția la Fondul Național Unic de Asigurări Sociale de Sănătate**,** fondul de garantare a salariilor**,** contribuția la asigurările de sănătate, fondul de accidente şi comisionul la Camera de Muncă **.**

Angajatul trebuie să plătească statului din venitul brut un procent total de 32,5% format din: contribuția la asigurările sociale**,** contribuția la fondul de şomaj**,** contribuția la asigurările de sănătate şi impozitul pe venit.

La un calcul simplu, se observă că suma pe care o câştigă un angajat din salariul său brut este mult mai mică decât ceea ce câştigă statul din acest salariu. Statul pentru fiecare loc de muncă încasează un procent împovărător de circa 45%, iar angajatul rămâne cu aproape 55%**.** Acest procent este o frână în calea dezvoltării afacerilor private în România, în care forța de muncă este suprataxată într-o manieră sufocantă**.**

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În acest context, presiunea pe care o pune orice mărire de salariu minim pe economie pe antreprenori e una foarte mare, generatoare de şomaj, muncă la negru şi evaziune fiscală.

Abstract

The current fiscal system comprises a multitude of taxes, dues and contributions which the enterprise has to pay. The large number of taxes and dues to be paid put a high fiscal pressure on the enterprise and the social contributions are a determining factor in the manifestation of the fiscal behaviour of the enterprises.

The employer has to pay to the state a significant proportion of the gross wage of the employee, almost 30%, which includes: the contribution to the social insurances, the contribution to the unemployment fund, the contribution to the Single National Fund for Health Social Insurance, the contribution to the guarantee fund for wages, the contribution to the health insurances, the contribution to the fund for accidents and the fee for the Chamber of Labour.

The employee must also pay the state a total of 32.5% which consists of the contribution to the social insurances, the contribution to the unemployment fund, the contribution to the health insurances and the income tax.

A simple calculation shows that the net income of the employee from his/her gross income is much lower than the revenue to the state from this wage. The state charges a burdening 45% on each job, while the employee earns almost 55%. This percentage is an obstacle for business development in Romania, where the labour force is overtaxed.

Within this context, the pressure presumed by any increase of the minimal national wage is very strong for the employers and it generates unemployment, informal work and tax evasion.

Keywords: fiscal pressure, social contributions, fiscal behaviour

JEL classification: D03, H25, H32, H34

1. Social contributions in Romania and in other EU member states

According to the study "Level of the social contributions due to the state in Central and Eastern Europe", conducted by Accace (outsourcing and consultancy company) in six countries of the area

(Romania, Czech Republic, Hungary, Bulgaria, Poland and Slovakia), Romania is second only to Hungary in the classification of the countries according to the size of the labour contributions to the state.

The comparison of the taxes and dues to the state was done using a standard 1,000 Euros net wage. Related to this value, Hungary is the country with the highest contributions. The total costs for the employer (going to the state and to the employee) for 1,000 Euros net wage, exceed 2,000 Euros (207%) in Hungary, followed by Romania (182% of the net wage), Czech Republic (181%) and Slovakia (180%). Poland (168%) and Bulgaria (142%) have lower contributions.

The top three countries in terms of the contributions of the employee are Hungary (70.82%), Romania (42.57%) and Poland (41.40%), and the top three countries in terms of the contributions of the employer are Czech Republic(46.58%), Hungary (45.83%) and Slovakia (45.78%).

The main element that may bring variations in these percentages is the contribution to the fund for accidents in countries such as Romania, Czech Republic and Poland, which set the percentage according to the CAEN code of the companies. Other specific conditions are met in Bulgaria, where the social contributions can increase by up to 2.5% for the people born before 1960 and in Hungary, where the income tax may reach 27%.

The ranking of countries in terms of total number of contributions (employee and employer) shows Romania on the top position (contributions) followed by Hungary and Bulgaria (8 contributions each).

The highest contributions to the state are the social insurances paid by the employer, the income tax paid by the employee and the social insurances paid by the employee.

In all countries, the social contributions paid by the enterprises are the highest, except for Bulgaria, where the income tax is higher. In Romania, the highest taxes paid by the employer are the social insurances and the health contributions, while the highest contributions paid by the employee are the income tax and the social contributions.

In terms of the investor, the setting of the fiscal burden is complex and involves much more than the tax on company profit. A relevant aspect for Romania is the cost of tax administration. Romania has a low tax on profit (16%), but it also has many taxes. This means that the taxpayers have to spend a lot of time with tax administration, thus using resources that might otherwise have been used for the productive activity. Furthermore, the social contributions are high and the benefits are limited, increasing the cost of the labour force.

The taxes are just part of the many costs of a business, when the investor makes a decision as where to invest. Romania has the disadvantage of a poorly developed infrastructure, which generates highest costs for business. Given the European funds available for infrastructure projects, the Government should give absolute priority to modernising the country infrastructure, besides ensuring a fiscal environment favourable for business.

In terms of the employer, the level of the social contributions is extremely high. This is an obstacle for any employer willing to start a business.

Table no.1

Level of contributions in Romania

<table>
<tr><th>Type of contribution</th><th>Employ</th><th>Employer</th></tr>
<tr><td rowspan="3">Contribution to social insurances (CAS)</td><td rowspan="3">10.5%</td><td>20.8%</td></tr>
<tr><td>25.8%</td></tr>
<tr><td>30.8%</td></tr>
<tr><td>Contribution to social insurances for health (CASS)</td><td>5.5%</td><td>5.2%</td></tr>
<tr><td>Vacation and indemnities</td><td>-</td><td>0.85%</td></tr>
<tr><td>Unemployment</td><td>0.5%</td><td>0.5%</td></tr>
<tr><td>Fund guaranteeing the payment of wages</td><td>-</td><td>0.25%</td></tr>
<tr><td>Risks and accidents</td><td>-</td><td>0.15-0.85%</td></tr>
<tr><td>Fee for the territorial labour inspectorate</td><td>-</td><td>0.25-0.75%</td></tr>
</table>

Source: G. Lăcrița, „Fiscality of the work income”

We will take as example a trading company with a gross turnover of 10 million Euros, with 100 employees, paid with the average national wage and with a gross profit of 1.6 million Euros.

Taxes and social contributions paid to the budget

1. The annual expenditure with employee wages, 3,072,000 lei (over 730,000 Euros)

Of which:

- Unemployment (0.5%) 12,000 lei/year
- CAS (20.8%) 499,200 lei/ year
- CASS (5.2%) 124,800 lei/ year
- FNUASS (0.85%) 20,400 lei/ year
- Fund for risks and accidents 9,600 lei/ year
- Fund guaranteeing the payment of wages (0.15% - 0.85%) 12,000 lei/ year

Total annual expenditure for the wages of 100 employees: 678,000 lei/ year (161,000 euro)

2. Tax on profit (16%): 256,000 euros
3. Tax on dividends: 215,040 euros
4. VAT (24%) for 30% trading margin: 792,000 euros

Total taxes and dues paid to the state over one year, 1,424,040 euros

An employee receiving the average national wage

Net monthly average wage[1]: 1,424 lei

Total monthly expenditure of the employer: 2,560 lei

Ratio of the employer expenditure to the net wage: 1.8

Annual expenditure of the employer with the social contributions and with the income tax: 6,912 lei.

If the employee doesn't save the wage money, the state receives a further 24% of the annual net income of the employee from VAT, 4,101 euro

Total taxes paid to the state for an employee receiving the average national wage: 4,222 euro.

Therefore, an employee receiving the average national wage of 1,400 lei per month pays to the state, each year, contributions and taxes amounting to 15,000 lei. More precisely, in order to pay 1,400 lei each month to the employee, the employer spends a further 1,000 lei monthly consisting in social contributions and taxes. Therefore, its total costs for 1,400 monthly wage amounts to 2,400 lei. For this wage the employer pays each year 12,000 lei to the state.

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[1] *Value of the average national wage at the end of August 2011.*

The conclusion is that the **fiscal burden has to be reduced**, and we refer here mainly to the social contributions.

2. Study of the impact of a 2-5% reduction of the social contributions

We start from the calculation which any private entrepreneur knows regarding the cost of wages i.e. that of the total amount allocated to the payment of employees, more than half goes to the state; together with this money, employee motivation to work decreases accordingly.

It is also known that employee payment is one of the most important ways for enterprise development. The human resources are the most important component of the production cost in some sectors of activity, while for the small and medium enterprises it is the key to survive the crisis.

The reduction of the insurances paid indirectly by the employees (money deducted by the enterprise from their wage) may have, besides the psychological effect of fiscal loosening, a beneficial effect upon the final consumption of the society, bringing benefits to the national economy, on the short term, by increasing the available national income.

Starting from the study of the Romania National Council of the Private Small and Medium Enterprises regarding the "*Evaluation of the general situation of the SMEs from Romania*", one can notice that the drastic reduction of the number of SMEs in Romania over the recent period, as well as the increase of the outstanding debts of the enterprises which are still active (which caused the reduction of the revenues to the budget) is due to the excessive fiscality regarding the labour force.

Table no. 2

Index of the enterprise's economic situation self-appreciation

Entrepreneurial index	Qualification
-77 – 0 points	Very unsatisfactorily
0 – 25 points	Unsatisfactorily
25 – 50 points	Satisfactory
50 – 70 points	Good
over 70 points	Very good

Source: CNIPMMR, Report for semestral evaluation of the SMEs, 2011

Calculating the **entrepreneurial index**, we obtained a value of -8.5 points.

Just like the high fiscality deterred the private entrepreneurs to employ labour force, we are expecting the reduction of wage taxation to develop the business environment, the small and medium enterprises particularly.

The structure of the pension system differs considerably among the countries because of the different development in terms of economic history. For instance, the countries with an unfavourable history of inflation, such as France and Germany, are more "suspicious" regarding the private funds of pensions. The countries in which the population doesn't agree the solutions proposed by the state, such as the United Kingdom and the United States of America, tend towards the development of the second and third pillars of pensions. The importance of these pillars is revealed by the size of the assets managed by the institutional investors. Where the fiscal burden of the public pensions system is lower, the population is favouring the establishment of private provisions.

In most industrial countries, the main pillar for the establishment of the pension provision is a mandatory public plan of pensions, which is often complemented by a private system of pensions. Usually, the public system of pensions relies on the *pay-as-you-go* principle, meaning that the current payment of the pensions is financed by the current revenues of the working population. In Canada and the USA, assets are accumulated in order to cope with the fluctuation of the contributions.

In principle, the main source of financing for the public system of pensions is represented by the direct contributions of the employees and of the employers. In 1998, the rate of contributions varied between 6.4% in Canada and 32.7% in Italia. In many countries, the contributions of the employers are equal with those of the employees. In France, these rates are higher for the employers, and the state contributes with a further 1.6% (in 1998).

In most countries, the eligibility of payments for pensions requires a specific age and a minimal period of contributions. The retirement age is generally between 60 and 65.

Some countries allow the early retirement with a lower pension, provided a specific minimal age and a specific minimal period of contribution are met. The amount of the pension depends on the length of the period of contribution and on the level of incomes. France increased this period from 25 to 40 years.

The relative welfare of the pensioners, compared to the working population depends on the mechanism of pension indexation. Almost all countries use price indexation, which allow maintaining a constant real pension. Germany goes even further and includes the pension in the net wages, which advantages the pensioners over the working population. Until recently, France and Japan indexed the pensions with the increase of wages. In France, the pensioners have the highest level of the public pensions, 60% of the average wage, while the British pensioners have just 18% of the average wage.

In very many countries, the public system of pensions is supplemented by the private system. The provision for pensions may be established either by occupational system of pensions, or by the individual people. These are the second and third pillars of pensions.

Table no.3

Contributions for social insurances (CAS) in other countries

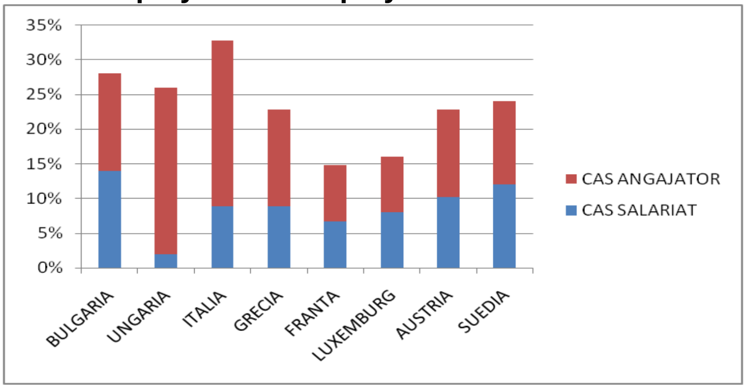
No.	Country	CAS employee	CAS employer	Total
1.	BULGARIA	14%	14%	28%
2.	HUNGARY	2%	24%	26%
3.	ITALY	8.89%	23.81%	33%
4.	GREECE	8.87%	14%	23%
5.	FRANCE	6.65%	8.20%	15%
6.	LUXEMBOURG	8%	8%	16%
7.	AUSTRIA	10.25%	12.55%	23%
8.	SWEDEN	12%	12%	24%

Source: G. Lăcrița, „Fiscality worldwide", 2011

The companies many times offer provisions for retirement in order to draw in employees. However, the regulatory and taxation framework has a crucial influence on the form and expansion of the way in which the employers get involved in this occupational system of pensions. The companies may set reserves, may conclude life insurances on behalf of their employees, or may save the money in an external fund of pensions, or they may conclude a group contract for life insurances.

Chart no.1

CAS of the employee and employer in some EU member states



Source: G. Lăcrița, „Fiscality worldwide", 2011

The reduction of the contributions to social insurances is a measure with obvious positive effects on the medium and long-term. However, on the short term it will decrease suddenly the revenues to the budget. Thus, a 3% reduction will cost the budget some 80-100 million Euros each month, but this amount is to decrease as the economy will create new jobs. The problem however, is that the positive effects will become visible only after 12-18 months, while the lower revenues will be noticed immediately.

Solutions to balance the budget

- **Increasing the retirement age**

Setting a higher retirement age will lessen the financial burden on the public system of pensions. The European Commission proposed the EU member states to increase the retirement age in order to take into account population ageing and to assist the public finances of the states which are already affected by the crisis.

"In Europe, the number of pensioners is forecast to become double by 2060 compared to the number of active people financing their pensions: the current situation is simply not viable", highlighted Laszlo Andor, in a press conference, according to Mediafax.

Currently, the ratio is four active persons to a pensioner aged 65+ in Europe, and in 2060 the ratio will be two active people for a people aged 65, shows the Commission in a study of the future of the pension system in Europe.

Given the higher public deficits and the higher debts, some countries increased the retirement age and the number of working years necessary in order to receive full pension. Spain intends to increase the retirement age from 65 to 67, same as Germany which wants to increase the retirement age from 65 to 67 for full pension, by 2029. Greece and the United Kingdom consider similar measures, which will be part of the austerity measures. The European executive even considers introducing mechanism for the automatic adjustment of the pension systems function of the demographic evolution, with the purpose to balance the active time with the time spent at pension.

- **Increasing the taxation basis** by encouraging the employment and absorption of the labour force. The increase of the net wage will encourage the employees to use the private system of insurances and pensions, where they will find new solutions and services for saving their own resources.

3. Ways to reduce the contributions to social insurances

The reduction of CAS can be done in several stages:

► **Consolidation of the small taxes within the CAS** – this doesn't mean automatically a lower total taxation, but it simplifies bureaucracy and identifies the money collected improperly. For an average wage, the percent directed to the state reaches 45%. The single taxation rate of 16% means just a little more than 10 percent points (pp) in relation with the total expenditure. The CAS paid by the employee and by the employer amounts to almost 25 pp, while the contribution for health insurances amounts to other 8 pp. The difference to 45 consists of the taxes for unemployment, medical leave, fund for accidents, fund for wage payment and fee for the Labour Inspectorate.

► **Giving up the compulsory character of the contributions directed towards the private pensions**. The compulsory pensions reached largely their purpose, to educate financially the population that can be educated, but they are starting to show particularly their negative effects now. The contribution is large enough to increase the already high level of taxation, but not large enough to replace the state pension, as the initial idea was. Hence, it produces effects contrary to the expected effects. The employees prefer to cash their wages "informally" or quasi informally and fail to save for pension, saving less than before.

► **Full removal of the contribution for health insurances from the structure of the tax on work**. This tax is justified in countries where less than half of the population has work contract and where the services are differentiated according to the contribution. In Romania, the contribution to health insurances is paid only by four million people. Under these circumstances, it would be much more credible to finance health care by general taxation, so that there would be no discrimination. This will require, however, the identification of additional sources of financing.

► **Calibration**. There is a theory that the taxes are paying by themselves, which means that a reduction of the tax would increase the collection rate to such extent that the total level would be equal or even higher than before. However, an additional reduction of the taxes, properly grounded, may bring just the difference needed in order to make the taxed work attractive again.

Effects of the 2% reduction of the social contributions on the SMEs

A 2 pp reduction of the social contributions may seem small, but for the small and medium enterprises it may ease the fiscal burden, while for the large companies the saving is even higher. For instance, the 2% decrease of the social contributions is an economy of 2600 lei for a company with 15 employees and a monthly wage fund of

130,000 lei. The cost savings may be even larger for the companies with a larger number of employees.

The representatives of the American Chamber of Commerce in Romania support the reduction of the contributions to social insurances as a means to increase the number of jobs, warning that it is not enough to improve the labour legislation to this end.

Presently, the calculation basis for the contribution to pension (the 20.8% rate for the employer) is ceiled at 5 times the average gross wage (2,020 lei per month), multiplied by the number of employees for which the contribution is calculated in that particular month.

“If the rates of the social contribution will decrease for the employee too, this would affect the net income received by the employee, but the extra money received depends on the gross income of the employee, not on the cost at the company level”.[2]

Table no.4

2% reduction of the CAS

Fund for wages (gross income)	**130,000 lei**
Total social contributions of the employer - about 28.10%	36,450 lei
Total social contributions of the employer - about 26.10% (2% reduction)	33,850 lei

Source: Ernst&Young study

Conclusion

In this paper, we tried to highlight the main difficulty of the entrepreneurs, the fiscal burden, determined particularly by the social contributions.

It is well-known that if these contributions decrease the business environment, so smothered by taxes and dues, might take a breath, thus encouraging work, investments, job creation, increasing the revenues to the budget, thus economic growth. For instance, the large European economies didn’t increase fiscality during the recession, just making some adjustments by increasing the taxation basis for the profit tax (category of incomes which has anyhow decreased substantially during the crisis and which is strongly correlated with the economic cycle), or by increasing the highest rates

[2] *Corina Carpov, tax manager Ernst&Young.*

for the income tax levied on the taxpayer with large incomes (France, Spain, Italy, Finland, Luxembourg, Greece and Portugal). In exchange, these countries tried to stimulate the economy fiscally by decreasing the labour taxes and the social contributions. The European social model relies on a high productivity and on a considerable taxation of the labour, more than in other large OECD economies. The reduction of labour fiscality by decreasing the social contributions was meant to protect the existing jobs. Countries such as Austria, Sweden, Belgium, Germany, Poland or Spain used such measures. Even Hungary and Bulgaria decreased labour taxation in an attempt to give a "breath of oxygen" to the private business environment. However, a sustainable revival of the European economies will require not just the protection of the existing jobs, but the creation of new jobs, in sectors with high added value, which to reignite the cycle of employment income – expenditure.

At the European level there is a trend to redirect towards the revenues from indirect taxes and from environmental taxes, while decreasing the social contributions. According to an analysis of the European Commission, the indirect taxes have the advantage of being less distorting for the competitiveness of a country and more friendly for the accumulation of capital, human capital included. Furthermore, both the VAT system and the excises are more harmonized at the community level than the direct taxes in income and profit.

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