

# **EVALUATION OF THE FISCAL CONFORMANCE IN ROMANIA IN THE PRE AND POST EU ACCESSION<sup>1</sup>**

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## **Abstract**

By developing the paper assessment of tax compliance in Romania after accession, we aim to create a theoretical – methodological framework for the knowledge and understanding of tax compliance by describing the two forms of compliance, voluntary and forced, their dynamics and the measures implemented and applied by tax authorities to increase voluntary compliance. We will also try to identify the existence and consistency of certain "accumulation" in the matter of tax compliance obtained under the influence of the processes of democratization and European Integration of the Romanian society.

The goals will be achieved through researching relevant studies, statistical reports, strategies to prevent and combat tax noncompliance, tax administration studies in management by combining empirical analysis with comparative and logical analysis based on previous accumulations and those acquired in researching and drafting this paper.

**Keywords:** assessment, tax compliance, dynamic post-accession

**JEL Classification:** H2, H22, H3

## **1. Introduction**

The fiscal system, in a simplified meaning, is the normative framework which regulates the taxation and interaction between the fiscal authorities and the taxpayers, with the purpose to achieve pre-

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set targets of the fiscal system (financing, redistribution and economic adjustment). The fiscal authorities regulate, implement and monitor the way in which the fiscal regulations are applied and observed within the real economy. Besides this, the authorities also monitor the efficient collection of the fiscal duties, as efficiently as possible in term of the administrative costs.

The taxpayer, in its quality of payer, or taxable subject, has the duty of financial contributions towards the state for his/her income or intellectual rights. From this stance, the taxpayer feels the financial constraint of his/her incomes and properties and tries to understand and accept the contributions to the state. Within this space of fiscality, of the interaction between the fiscal authorities and the taxpayers, there is a specific attitude of the taxpayer that emerges, materialized in its fiscal behaviour, as manner of reaction to the fiscal duties, towards the fiscal policy and towards the manner of interaction with the fiscal authorities.

## **2. Methodology**

In accomplishing the purpose of the paper, we will make a typology of the taxpayers according to their ethic behaviour, to the behaviour of the institutions and to the aspects of equity. The fiscal behaviour will be classified depending on the voluntary or compelled compliance of the taxpayers. Based on these classifications we will make an empirical, evolutive analysis of each type of behaviour, the positioning of the taxpayers in relation with the fiscal authorities and the preventive and control measures implemented by the authorities; we will also make a comparative analysis of the fiscal behaviour in the pre-and post-accession period of accession to the European Union.

## **3. Typology of the fiscal behaviour**

The fiscal behaviour relies on the human behaviour of the individuals (taxpayers) and on the financial effects imposed by the sovereign state on the financial revenues and on the possession of ownership rights by the individuals, which thus become taxpayers. The literature distinguishes several taxpayer typologies, i.e., honest, social and antagonistic.

The *honest taxpayers* are those taxpayers who cooperate constantly; they don't seek ways to decrease the value of the due

taxes, they behave honestly on the basis of absolute ethic norms. The motivation of this typology of taxpayers includes the feeling of duty, which motivates a person without compelling it. They are sensitive to the behaviour of the institutions, of the government and of the fiscal authorities; their willingness to cooperate depends on the institutional conditions, not on the behaviour of the other taxpayers.

The *behaviour of the social taxpayers* is determined by the anticipation of the social effects of unveiling the non-compliance fiscal behaviour. If in their occupational and/or social environment there are people that are relevant to them, they will adopt the behaviour of the latter towards paying the taxes, either compliance or non-compliance. The reason behind this taxpayer typology is given by the social norms of the group to which they belong. These taxpayers are sensitive to the behaviour of taxpayers that are relevant to them, but also to the behaviour of the fiscal institutions or authorities. This trend can be associated to “flock” behaviour. The relations of the social taxpayers with the government and fiscal authorities are associated with an implicit psychological contract between sides, which can amplify the cooperation and loyalty, or the distrust and non-compliance. The manifestation and perception of equity and of the fair behaviour build trust and lead to the development and observance of the psychological contract and, subsequently, to the fulfilment of the fiscal duties due to the compulsory social norms which regulate their interaction.

The *behaviour of the antagonistic taxpayers* reflects several hypostases of the negative relationship with the fiscal authorities. One hypostasis is the defiance of the fiscal authorities whose actions of fiscal control are perceived as being dominating, not in support of the taxpayers. A second hypostasis is the resistance of the taxpayers in their relation with the fiscal authorities, manifested by the social non-involvement and failure to identify consistent and sufficient reasons to interact with the fiscal authorities. The third hypostasis reflects as perspective of the taxpayers on the fiscal law, which is seen rather as adaptable to their purposes, than as a set of rules which have to be obeyed in their activities with fiscal incidence.

As noticed, the compelling character of the fiscal system and a particular opposition of part of the taxpayers towards paying the taxes or towards other aspects of taxpaying (problems of equity, of using public resources, of the amount and quality of the public goods)

generate the fiscal behaviour as form of manifestation which hinders the accomplishment or application of a fiscal norm or which imposes “conditions” in accomplishing its objective.

Two types of fiscal behaviour were outlined in the theory and practice of the fiscal behaviour, compliance and non-compliance. The behaviour of voluntary compliance, in turn, has two forms of manifestation: natural and compelled voluntary compliance. The voluntary compliance presumes paying the fiscal duties on the grounds of moral obligations, of supporting the state, of fulfilling civic duties. The compelled compliance appears when the payment of the fiscal duties is done due to the fear of not bearing the adverse effects of not paying the taxes.

The behaviour of fiscal non-compliance also has two forms: licit and illicit non-compliance by tax evasion or by breaking the fiscal legislation. The strategy of the fiscal authorities in their relation with the taxpayers must aim, simultaneously, both to strengthen and expand the behaviour of voluntary fiscal compliance by the conservation and consolidation of civic behaviour and of the fiscal morality of the taxpayers, and to fight and alleviate the behaviour of fiscal non-compliance, by adequate measures.

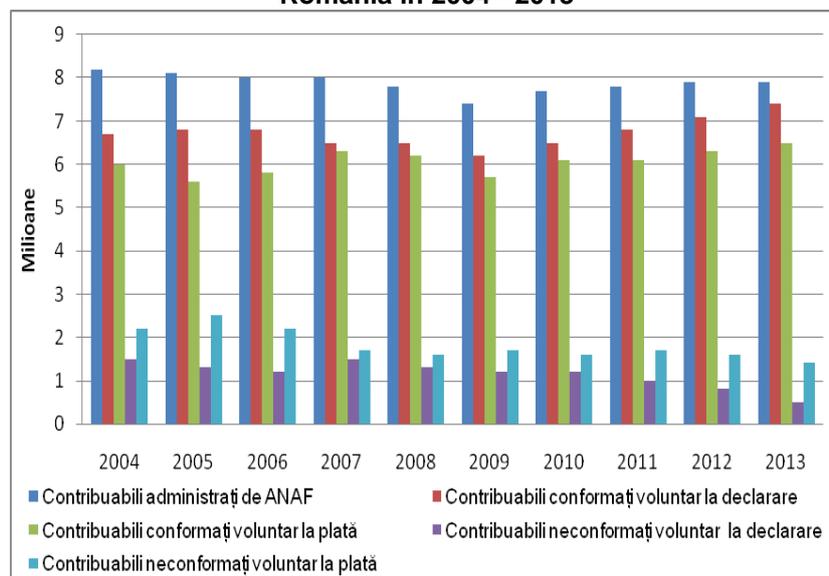
#### **4. Dynamics of the fiscal compliance and non-compliance**

We will make here an analysis of the fiscal behaviour of the Romanian taxpayers in 2004-2013, in order to capture the evolution of the fiscal compliance and non-compliance behaviour and to evaluate the efficiency of the measures implemented by the fiscal authorities in order to prevent and control the behaviour of fiscal non-compliance.

The analysis used data from the National Agency for Fiscal Administration (ANAF), which show the quantitative evolution of some aspects characteristic to the interaction between the taxpayers and the fiscal authorities.

The dynamics of the number of taxpayers administered by ANAF ranged from a maximum of 8.2 million in 2004, to a minimum of 7.4 million in 2009.

**Figure 1- Evolution of the number of taxpayers administered by ANAF, complying and non-complying in declaring and paying the taxes in Romania in 2004 - 2013**



Source: Done by the author using data from Appendix 1

This evolution, shown in Figure 1, reveals the existence of a direct correlation between the national fluctuations of the economic activity and the number of taxpayers administered by ANAF. We anticipate that this correlation is stronger for the legal persons taxpayers (running economic activities) and weaker for the natural persons taxpayers<sup>2</sup>. This situation can be observed through the variation of the number of administered taxpayers which, at the beginning of the analysed period, due to the implementation of stimulating fiscal measures (single taxation level for the incomes of the natural and legal persons) led to the increase of the number of legal persons taxpayers, while due to the economic depression which started in 2008, the number of legal persons taxpayers decreased by 0.8 million in 2009, compared to 2004.

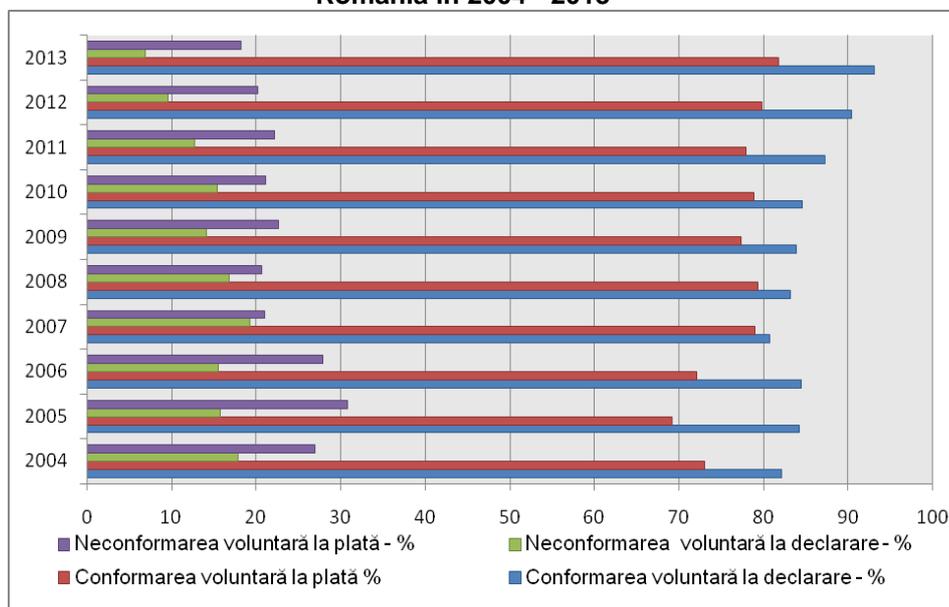
<sup>2</sup> ANAF supplied data on the structure of the administered taxpayers only from 2009 on.

The voluntary compliance for declaration and payment of the taxpayers increased significantly throughout the surveyed period, which, obviously, led to the decrease of the non-compliance proportion. Thus, the level of voluntary compliance for declaration increased from 82.1% in 2004, to 93.1% in 2013, while the level of voluntary compliance for payment increased from 73% in 2004, to 81.8% in 2013

This evolution shows that most taxpayers are honest, disciplined people, with positive orientation towards to observation of the law and fiscal authorities. This mass of taxpayers, increasing continuously, as shown in Figure 2, perceives the fiscal system as being correct and equitable, understands the necessity of taxes and due and their role within the society, feeling thus the moral obligation to pay the due taxes and to act in support of the collective interest.

Second, the gap between the level of compliance at declaration and the level of compliance at payment reveals the existence of a temporal lag between the declaration of incomes and the payment of taxes for them. It also shows the existence of a rather small mass of taxpayers (decreasing continuously) who display a conditioned behaviour, who evaluate the behaviour of the authorities by accepting the fiscal authorities and paying the taxes in agreement with the local and governmental objectives, as long as the authorities act in agreement with the fiscal legislation and abide by it, while the services provided in agreement with the fiscal legislation are perceived as correct (fair) and in support of the taxpayers. The negative evaluation of these above aspects generates delays or even non-compliance in the declaration and payment of the taxes.

**Figure 2 - Dynamics of fiscal compliance and non-compliance in Romania in 2004 - 2013**



Source: Done by the author using data from Appendix 1

Third, there is a minority mass of taxpayers (decreasing continuously), with a negative orientation towards the fiscal authorities manifested by the non-acceptance of them and by the non-compliance with the law. The control actions of the authorities are perceived as being dominating, rather than being in support of the taxpayers. They no longer identify reasons to interact with the fiscal authorities and don't perceive the support and counselling which they consider to be entitled to.

At the level of the fiscal administration, the positive dynamics of the behaviour of voluntary fiscal compliance reveals a permanent concern for the conservation and expansion of the class of taxpayers with high fiscal civil behaviour, as well as the prevention and control of the fiscal non-compliance behaviour by fitting the instruments used in order to enhance their efficacy.

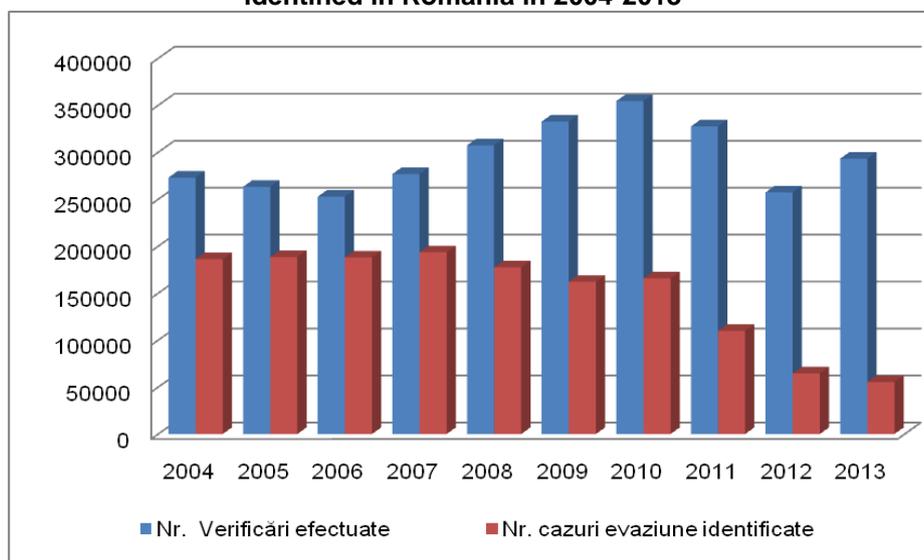
The main instruments used by the fiscal authorities are the control and the penalty/sanction. The intensity of controls is an important measure for the control and amendment of the fiscal non-compliance behaviour. In correlation with the number of identified

cases of tax evasion it gives an image of the efficacy of the used instruments.

During the analysed period, ANAF maintained a rather constant number of controls in the early part, with an average 260,000 verifications per year. Thereafter, on the background of the relaxation of the compliance at declaration, the fiscal authorities had intensified gradually the number of controls, reaching an annual average of 338,000 in 2009, 2010 and 2011.

The strategic dynamics of the number of actions/controls conducted by ANAF proved to be efficient, since the number of identified cases of tax evasion decreased.

**Figure 3 - Dynamics of the controls and of the tax evasion cases identified in Romania in 2004-2013**



*Source: done by the author using data from Performance Reports and from the Quarterly fiscal bulletins of ANAF from the period of reference*

Taking for instance the moment of accession to the European Union, in January 2007, we may see that the intensity of controls increased, while the frequency and number of identified cases of tax evasion decreased. This situation was possible both due to the strategy of preventing and controlling the fiscal non-compliance behaviour implemented by ANAF, and due to the intensified

processes of convergence of the macroeconomic policy of adjustment (fiscal and monetary), which required and still require a stronger fiscal-budgetary discipline, national and regional strategies to curb the informal economy and tax evasion within the European context.

Besides the measurable arguments mentioned in support of the positive dynamics of the fiscal compliance behaviour, there also are less measurable arguments which explain this dynamics. Such are the betterment and experience acquired by ANAF since its establishment in 2003, the accumulations regarding the typology of taxpayers according to various criteria (dimension, behaviour, etc.) and the adjustment of the measures of prevention and control of the fiscal non-compliance behaviour. We also speak of the experience accumulated by the taxpayers, who became aware of the need of income and intellectual rights taxation and/or had negative experiences with the fiscal authorities, thus adopting a behaviour of voluntary fiscal compliance.

## **5. Conclusions**

The evolution of the level of voluntary fiscal compliance, observed between 2004 and 2013, shows that the interactional environment between the fiscal authorities and the taxpayers is on a positive path, with mutual accumulation of trust, which materialized in a permanent increase of the mass of honest taxpayers who declare and pay their fiscal duties on grounds of morality and equitable contribution to the development and education of their society.

The progressive evolution towards consolidation of the fiscal compliance behaviour was also supported by the accession to the European Union, by the signing of international agreements and treaties which relate to the conduct of the fiscal policy. Thus, Romania committed to abide by the criteria of nominal convergence set by the Maastricht Treaty (which also include a component regarding the improvement of fiscal revenues collection); the provisions of Lisbon Strategy 2000 and 2020, which monitor the progress in the consolidation of the macroeconomic and sectoral policies (including in the fiscal-budgetary field), identify the constraints and direct the policies; other international agreements which aim to consolidate the good fiscal governance (fiscal discipline) by improving the level of collecting the fiscal revenues through measures of

prevention, control and stimulation of the behaviour of voluntary fiscal compliance.

The “gains” obtained from the democratization of the Romanian society and from the accession to the EU, at the level of the fiscal community, start to be noticeable; they became a necessary stage of modernization of the Romanian fiscal system, with a rather short history, but which created experiences and outlined the evolution of the fiscal culture of the taxpayers, which facilitate the proper functioning of the fiscal-budgetary mechanisms and the progress in the consolidation of a good fiscal governance.

Besides the mentioned positive aspects, there also are other aspects which hinder the efficiency and efficacy of the interaction between the fiscal authorities and the taxpayers.

At the institutional level, they reside in the complexity of the fiscal legislation. The linguistic evaluation of the fiscal regulation reveals concrete problems of difficult understanding for the common taxpayers. Such forms are generally represented by the following types of situations: highly abstract language; long and complex phrasing; use of abbreviations; the wording addresses rather the experts than the ordinary taxpayers.

Another uncertain situation comes from the different perception of the fiscal authorities and of the taxpayers about the way of understanding and observing the fiscal regulations. There are uncertain or ambiguous areas of fiscal regulation, case in which the taxpayers and the authorities have different, although rational interpretations. The evaluation of the fiscal regulation in terms of incertitude and ambiguity generate three levels of difficulty: at the level of understanding the exact meaning of the legal wording; at the level of applying the law to concrete situations; at the level of the arguments considered sufficient in order to support the facts.

Another aspect is the frequency of legislative changes and the implementation of the new regulations in the fiscal code, as aspects which lead to the incomplete knowledge or adaptation to the new regulations; overlapping appears sometimes because the previous regulations regarding the same area of fiscal regulations were not amended.

At the level of the taxpayers, the aspects which hinder the efficiency and efficacy of the interaction between them and the fiscal authorities regard the behaviour of the antagonistic taxpayers,

characterized by the reluctance and opposition towards the fiscal legislation and fiscal authorities.

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## APPENDIX 1

### Evolution of the number of taxpayers administered by ANAF, of their voluntary compliance and non-compliance in the declaration and payment of taxes in Romania, in 2004 – 2013

Indicator	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Taxpayers administered by ANAF (millions)	8.2	8.1	8.0	8.0	7.8	7.4	7.7	7.8	7.9	7.9
Taxpayers with voluntary compliance in declaration (millions)	6.7	6.8	6.8	6.5	6.5	6.2	6.5	6.8	7.1	7.4
Taxpayers with voluntary compliance in paying taxes (millions)	6.0	5.6	5.8	6.3	6.2	5.7	6.1	6.1	6.3	6.5
Taxpayers with voluntary non-compliance in declaration (millions)	1.5	1.3	1.2	1.5	1.3	1.2	1.2	1.0	0.8	0.5
Taxpayers with voluntary non-compliance in paying taxes (millions)	2.2	2.5	2.2	1.7	1.6	1.7	1.6	1.7	1.6	1.4
Voluntary compliance in declaration (%)	82.1	84.2	84.5	80.7	83.2	83.9	84.6	87.3	90.4	93.1
Voluntary compliance in paying taxes (%)	73.0	69.2	72.1	79	79.4	77.4	78.9	77.8	79.8	81.8
Voluntary non-compliance in declaration (%)	17.9	15.8	15.5	19.3	16.8	14.1	15.4	12.7	9.6	6.9
Voluntary non-compliance in paying taxes (%)	27.0	30.8	27.9	21.0	20.6	22.6	21.1	22.2	20.2	18.2

*Source: done by the author using data from Performance Reports and from the Quarterly fiscal bulletins of ANAF from the period of reference*