FINANCE, BANKING, ACCOUNTING AND AUDIT

THE COMPARATIVE ANALYSIS OF ROMANIAN AND FRENCH TAX SYSTEMS.

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Abstract: *The traditional and fundamental method for states to make revenues is collection of taxes and many countries still have challenges which make them struggle to implement the collection of taxes and fees. Political factors and administrative restrictions should be considered as examples for these challenges. The purpose of research is evaluation of selected European tax systems by statistical data such as tax revenues and unemployment rate due to find out which system is more effective and efficient in tax collection and define insufficiencies and the possible solutions that can increase tax burden and establish desired tax administrations. The performance of tax systems depends on several factors such as the reforms in taxation, structure and development of economy, social and political growth, extent of tax base. Tax revenue is one of important source for government revenue which directly affect the economy of state. The governments have to create the less complicated tax systems which can cause to make competitive location for launching new business and attraction of investments. Because more complicated systems increases the probability of tax evasions, tax avoidance and corruption which lead to lessen the interests for new investments. Modern states need an effective, efficient and optimal management for achieving maximum level in tax compliance because increase of tax revenues can affect and rise in a huge manner the strengthening and establishment of the legitimacy of country. Building the effective system takes time and problems in tax collections, tax avoidance and frauds cause the taxation as a topic to be actual in each decade. The research has both empirical and theoretical sections and the empirical part contains mostly the quantitative analysis.*

Key words: taxes, tax burden, tax revenue, business.

JEL classification: H2, H24, H25

1. Introduction

The global and national financial issues such as economic crisis, increase of state expenditures and pandemic influences generate modern challenges in order to seek new methods for increasing state revenue as well as the tax revenues which have the enormous correlation with it. The governments are obliged to support people with services such as education, medical services and police which means the creation of costs every year and for the payment of those services the imposition of taxes is required. To achieve the efficient and effective modern tax system which affects directly economy in a positive manner is an actual topic not only for the economic scientists, but only for government administrations and business.

In terms of comparison of tax systems, the evaluation of tax rates is traditional method, however the comparative analysis contains not only the tax rates, but also the other main indicators which define the performance of tax collection, efficiency of tax systems and effectiveness of tax administrations. The well-known global organizations such as World Bank, PwC and University of Paderborn composed some indexes for generation of ranking due to compare tax systems. The ranking of "Ease of doing business" which is authored by World Bank will also be used in the research for realization of comparative analysis comprehensively. Overall, the comparative analysis in research will be performed by some main indicators such as tax burden, revenues from VAT, corporate income tax, personal income tax(PIT) and property tax. Additionally, business ranking indicators will be explained due to find out effectiveness of tax collection from companies and incentives for business and investments in both countries.

2. Understanding of tax and taxation. Methodology for evaluation of tax systems.

Generally, taxes are defined as state origins. Taxes are observed together with states as they required money sources for maintenance of their institutions and performance of government functions (Stačiokas, Rimas, 2004). Taxation is a subject that can cause to controversial situations at any time and in any state or any society. When the governments imposes financial obligations on its people, companies, etc., the term of taxations appears.

The governments attempt to achieve optimal level of taxation. Maximum tax compliance occurs when every taxpayer is compliant and pays his fair share of tax liabilities. Franzoni (2000, p. 54) mentions 4 main rules a taxpayer should obey due to be fully compliant with the tax law: (1) First is reporting the real tax base to the tax authorities; (2) second is estimation of the tax liability correctly; (3) provision of the tax return on time; and (4) finally, payment of the tax amounts on time. The taxpayer has to be considered non-compliant in case one of the rules is broken. In terms of non-compliance, two types of behavior can emerge tax avoidance and tax evasion. There are some differences between tax evasions and avoidance. For

example, tax avoidance can be defined when showing some parts of profit as a charitable donation or medical expenses due to reduce taxable income while the tax evasion happens when concealing income or assets by giving incorrect information to tax authorities.(Tina Orem, 2022).

In terms of evaluation methods of tax systems, the important aspect is tax burden which can be defined as the ratio of the collected taxes in a particular period against the total product.(Ferdi Celikay, 2020). In this research, relations between employment rates and revenues from income tax, tax burden and tax revenues will be defined for comparison of Romanian and French tax systems. These evaluations will be an asset to find out the performance of both tax systems.

In the final stage, business rankings of countries are analyzed which defines ease of doing business and contain also the indicators for tax payments.

3.Tax burden in Romania and France.

Tax burden is all collected taxes in all level of governments but as a percentage of gross domestic product. It can also be called tax-to-GDP ratio.
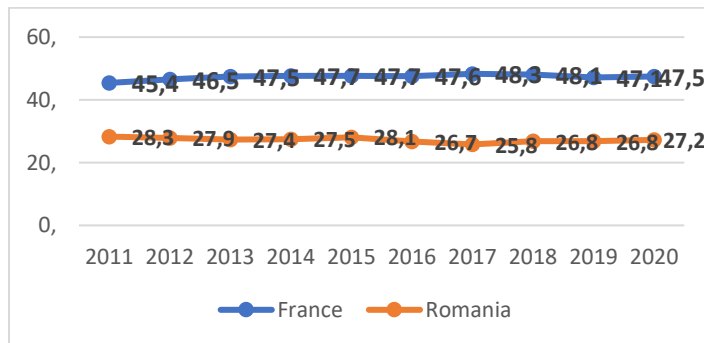

Figure 1. Tax burden as a percentage of gross domestic product in Romania and France between the years 2011 and 2020.
Source: Eurostat. **https://ec.europa.eu/eurostat**

The first line graph shows the tax burden or total tax revenue as a percentage of gross domestic product in Romania and France between the years 2011 and 2020. Tax revenues contain almost half of GDP in France each year and slow progress was observed in growth tendency of revenue in the given period. In contrast to France, Romanian tax burden slowly decreased. Clearly, it was 28.3% in 2011, however it fell down to 27.2% in 2020.

3.1. Employment rate and its influence on revenue from personal income tax.
The employed population generates the base for personal income tax and the following demographic tendencies show the tax bases for each country between the years 2009 and 2020. In this part of research, we will mainly define the correlation between revenues from personal income tax(PIT) and employment rate.
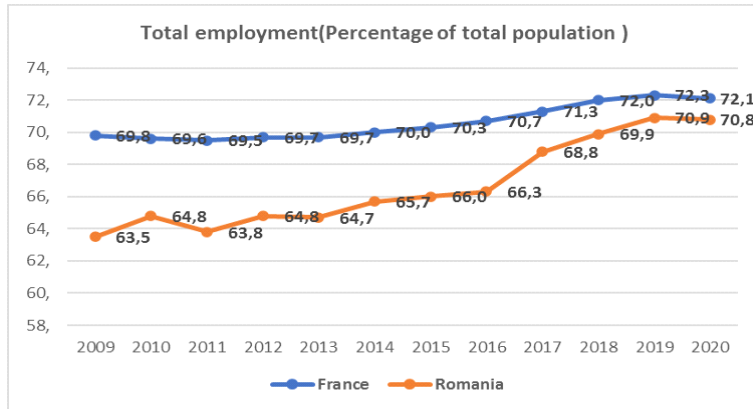
Figure 2. Total employment(percentage of total population)
Source: Eurostat. **https://ec.europa.eu/eurostat**

The growth rate of employment in Romania as a percentage of total population increases rapidly in the given period. The indicator was 63.5% in 2009 which growth to 64.8% in 2010, however the decline was observed in 2011. After the year 2011, the number of employed people had started to increase gradually till the year 2020 and the indicator was 70.8% which was close to the level of employment in France. In 2020, the rate was 72.1% in France. However, tendency of employment rate in France showed the more stable growth in that period.
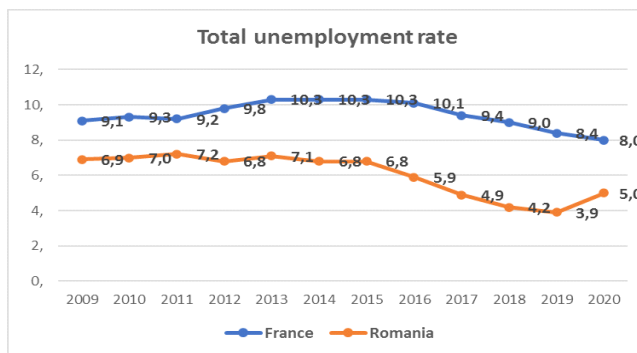

Figure 3. Total unemployment rate
Source: Eurostat. **https://ec.europa.eu/eurostat**

The figure above shows the unemployment rates of selected countries for comparative analysis. Surprisingly, the unemployment rate in Romania was smaller than France however in France the rate of employment was higher. The main reason can be administrative and management issues in the level of authorities such as the registration problems of unemployed people in Romania or in that case can also appear tax avoidance.
In the year 2009, Romania and France had 6.9% and 9.1% unemployment rates,

respectively. The tendencies are almost stable till the year 2016. Romania went down of 6% in 2016, clearly, the rate was 5.9% and it was 10.1% in France at the same year. Generally, the number of unemployed people in both countries started to decrease in last few years however the rate in Romania had growth to the number 5% in 2020 in comparison with the year 2019(3.9%).
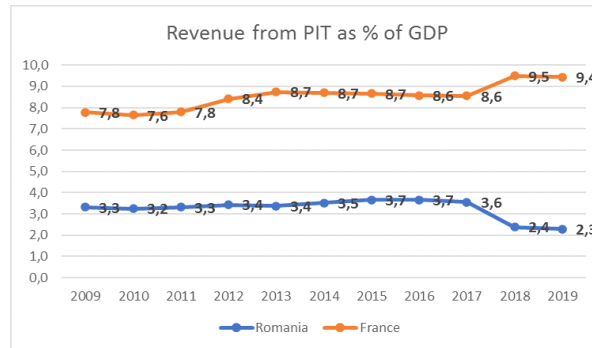

Fugure 4. Revenue from PIT as % of GDP
Source: Eurostat. **https://ec.europa.eu/eurostat**

The main idea is to find out the correlation between employment rates and tax revenues from personal income taxes. Obviously, this will facilitate to define if tax collection was implemented in an effective way. The third line graph explains the revenues from PIT as the percentage of gross domestic product in Romania and France between the years 2009 and 2019. France has better performance than Romania in the whole period. The average revenue is 8.53% according to the data from eurostat, however in Romania it is 3.25%. The growth rates in each country were about stable, there was not a sharp increase or fall in income tax revenue till the year 2017. After 2017, revenue from PIT started to decline in Romania, although it increases firmly in France. The indicators was 2.3% in Romania and 9.4% in France in 2019.

Table 1. Regression Statistics. Correlation between the employment rate and revenue from personal income taxes.

	Romania	*France*
Multiple R	0.69	0.83
R Square	0.48	0.69
Adjusted R Square	0.42	0.65
Standard Error	0.36	0.35
Observations	11	11

Source: Microsoft Excel.

Table 1 contains main indicators which measure correlation between the

employment rate and revenue from personal income taxes. If the multiple R which is the correlation rate is close to +1, it means there is strong positive relationship between indicators and the increase of employment rate positively affect the growth of revenues from income taxes. In Romania, multiple R which is the correlation rate is 0.69, however it is 0.83 in France.

3.2. Revenues from corporate income tax, property tax and VAT.
The corporate tax rate in France currently equals 26.5 which was 28% in 2020, but that rate is currently 16% in Romania. The following graph shows the countries' revenues collected from corporate income taxes.
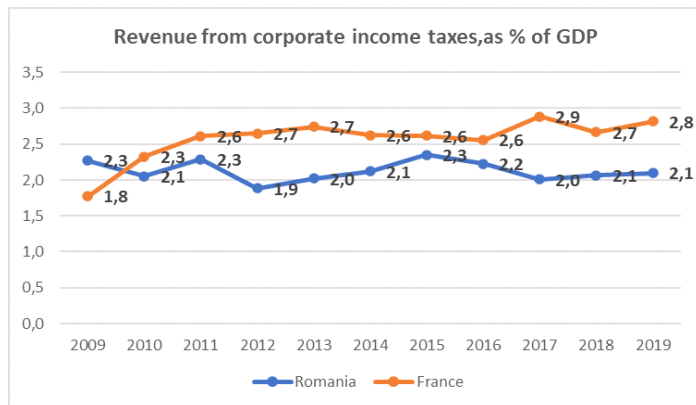

Figure 5. Revenue from corporate income taxes, as % of **GDP**
Source: Eurostat. **https://ec.europa.eu/eurostat**

According to line graph 4, Romania had more revenues as a percentage of GDP only in the year 2009 which was 1.8% in France and 2.3% in Romania. A sharp growth was observed in the tendency of France in the following years after 2009 and it reached to the highest point(2.9%) in 2012. The indicators were 2.8% and 2.1% in France and Romania, respectively.
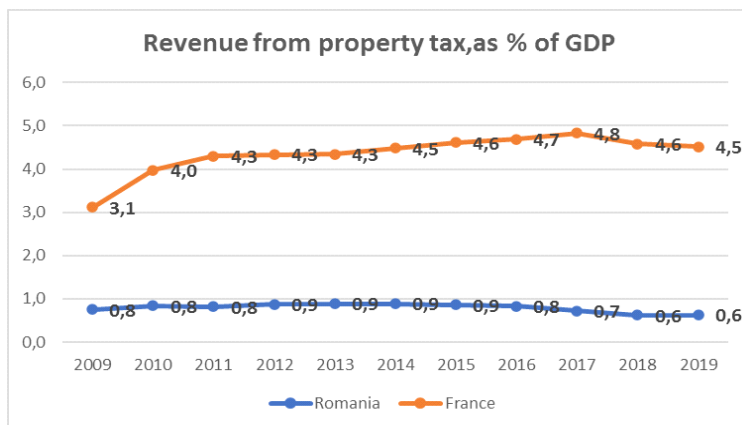

Figure 6. Revenue from property tax as % of GDP.
Source: Eurostat. **https://ec.europa.eu/eurostat**

The revenue from property tax in France is almost 5 times more than Romania according to graph 5. In 2010, it rose to 4,0% from 3.1% which registered in 2019 in France. Between the years 2010 and 2019, the revenue level increased slowly and showed more stable tendency. In Romania, the indicator changed between 0.6% and 0.9% at the same period.
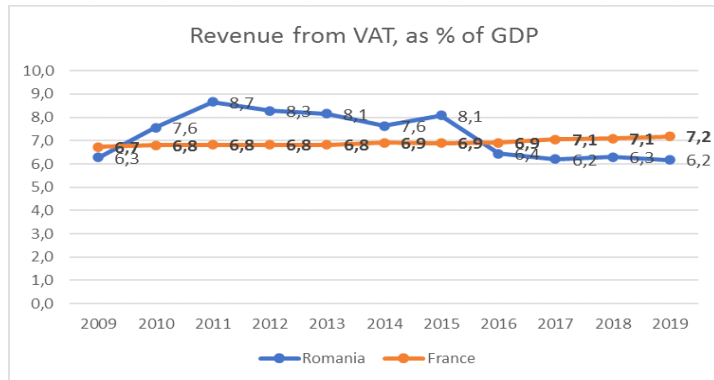

Figure 7. Revenue from VAT, as % of GDP
Source: Eurostat. **https://ec.europa.eu/eurostat**

The current VAT rate in France is 20% which is 19% in Romania. Till the year 2016, Romanian VAT rate was 24%, then it fell to 20% in 2016, however it stabilized as 19% from 2016 till the recent year which is 2021. The influence of rate can also be observed in the graph. Obviously, revenue from VAT as percentage of GDP was higher in between the years 2010 and 2015 than other years which mentioned in graph.
The VAT rate was 19.6% and 20% in that period therefore the tendency of revenue also shows stable and slow growth. The indicator was 6.7% in 2009 and 7.2% in 2019. The average revenue from VAT was 7.3% in France while it was 6.9% in Romania.

4. Business ranking and effectiveness of tax payments.

Generally, that section of research will define to what extent countries are easy to start business. The main data for comparison was collected from the website of doingbusiness.org. The following bar charts show the "ease of doing business rankings" in 2020. The indicator which is most related to the research is surely the "paying taxes" ranking.
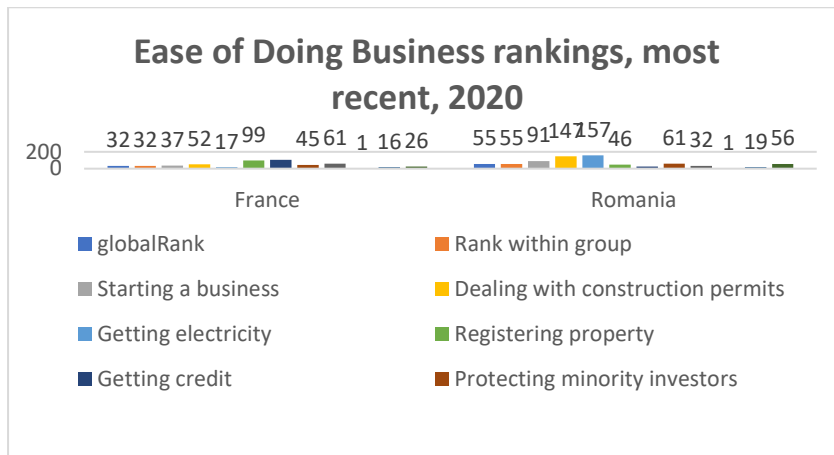
Figure 8. Ease of Doing Business rankings, most recent,2020.
Source: doingbusiness.org

Globally, France had an effective ranking in comparison with Romania. In 2020, the global rank of France was 32 while it was 55 for Romania. The performance of getting electricity was almost the lowest in Romania and business encountered difficulty while dealing with construction permits. However, those indicators in France had quite high rankings which were 17 and 52, respectively. Starting business rank of France was 37 while it was 91 for Romania. Another interesting fact is that getting credit was easier in Romania(25) than France(104) according to 2020 ranking.
In terms of tax payments, the ranking was realized by taking some main indicators into consideration. Examples for those indicators can be: method and frequency of filling and payment, time required to comply with major taxes, total tax and contribution rate as a percentage of commercial profit(Doing Business, 2020). The rank of paying taxes was 61 in France while it was 32 for Romania.

Table 2. Paying Taxes – France and Romania, 2020.

Indicator	France	Romania
Payments	9	14
Time(hours per year)	139	163
Total tax and contribution rate(% of profit)	60.7	20
Post-filing index(0-100)	92.4	76.8

Source: www.doingbusiness.org

The payments in table refer to the total number of taxes and contributions paid in a year. In Romania, companies paid more types of taxes than France, although the total tax and contribution rate was smaller than France. The time used for payment

is 163 hours per year in Romania while it was 139 hours in France in 2020. Generally, time was needed for collecting information, computing tax payable, preparing separate tax accounting books, completing tax return, filing with agencies, arranging payment or withholding(Doing Business, 2020). Post-filing index was defined by time factor which used for complying VAT refunds and corporate income tax corrections.(World Bank, PwC, 2018). 0 score means the least efficiency, but 100 score means maximum efficiency. France had better post-filing index with the score of 92.4 in 2020.

Conclusion

The taxation plays an important role for generation of government revenues and for implementation of relevant activities of states. The research defines the understanding of taxation and tax collection as well as the importance of time management and efficiency in administrative level in tax collection and finally, the influence of employment rate on tax revenues.

The quantitative analysis allows to mention France showed better performance in terms of tax burden, the indicator increased in the given period despite Romania had decrease. It means the amount and importance of tax revenues in GDP of France grew up while the situation is controversial for Romania.

For the identification of performance of tax collection from employed people, the employment rate and revenues from personal income tax were observed for the given period(2009-2020). The employment rate in Romania was less than in France, however in 2020, it almost reached to the performance of France with the indicator of 70.8%. Because of low level of employment rate the tax collection from income in Romania is about 3 times less than in France. Another interesting point was that despite the level of employment rose in Romania in final years, but the income tax revenue minimized. The correlation rate between employment rate and tax collection was higher in France than in Romania. Obviously, the increase of employed people had bigger influence on growth of income tax revenues in France. Business ranking indicators also shows that France is more relevant location for launching new business in comparison with Romania. Not only because of global and group ranks, but also tax payment indicators allow to point out that conclusion. Additionally, France was more efficient in time management for implementation of tax collection.

In conclusion, most of indicators which explained for implementation of comparative analysis defines the France has the more effective tax collection and according to "paying taxes" score of World Bank, Romania shows the weak efficiency in time management of tax collection as well as post-filing index determines Romania lost a lot of time in complying of VAT and in corrections of CIT.

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