

# FISCAL POLICY REFORM IN ROMANIA

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*Abstract: The scientific development of this article will follow the general characterization of the fiscal policy reform, determined by the transition to the market economy, by presenting the positive aspects as well as the negative ones in the period before and after Romania's adhesion to the European Union.*

*Key-words: fiscal policy, reform, fiscal facilities*

Fiscal policy offer to the state the power to influence the activity and the contributions of the tax-payers. This way, on a macro-economical level, it leads the micro-economical, individual objectives towards the purpose of reaching the global economic and social objectives of the state. Basically, it is about the "un-declared orientation" in a certain direction, according to the object followed at central level, the "free initiative" proposed by capitalism.

Any decision of fiscal policy that produces the modification of the fiscal system one way or another has a quick influence upon the behavior of the *rational* tax-payers, individuals or corporate bodies, upon the economic decisions of them, that, if linked, will lead to the modification of the general economic life. This modification can be the *sought* one or it can be a different one, if we do not take into consideration all the un-fiscal factors that influence the behavior of the economic agents.<sup>8</sup>

As stated by Rodica Bălănescu and her collaborators in their paper "The Tax system" "the objectives of the fiscal reform are numerous and of course, not all the existent shortcomings can be put aside. This is also due to the fact that we cannot evaluate exactly the internal and external connections of our future economic evolution, as well as the effects of the introduction the market mechanism, especially if the elements and the institutions of the old leading administrative mechanism will persist and slowly disappear.

Referring to the main objectives in basing the fiscal policy, the same author mentioned a great truth: "while the advanced market economies can afford a *fine harmonization* of the tax mechanism with their adjustment with the economic policy, we are in the opposite situation, the main motivation of the tax reform being: ensuring the compatibility of the tax system with the market mechanism (which produces the cancellation of direct payments specific to the centralized economy); ensuring, through the tax system the free circulation of capital, products and services; ensuring a balanced relationship between the GDP and fiscal task, to favor the accumulation and the aggregate demand".<sup>9</sup>

Analyzing the fiscal policies elaborated and applied in Romania, in the transition period that started in 1990 (and we consider it is still unfinished) we can observe that they have been characterized by a series of realizations (such as the modernization of the fiscal system) often *shadowed* by certain measures with negative effects (the instability of the legislative framework), resulted from the copying of some policies applied in other countries without adapting them to the local realities, in our wish to fiscal alignment to the European standards, without fulfilling the same objectives in the other plans of the economic life.

The fiscal reform was characterized by a lot of incoherence, instability, modifications and continuous coming-backs; this caused a tough, *rich* legislation, through politics and *infantile* experiences in the field of fiscal facilities, inexplicable from the economic point of view and the public interest, probably judged according to the strictly personal interests of the governants. Trying to put down an evidence of the main realizations in the fiscal field between 1990-2007, they would be the following:

- The introduction of VAT, in 1992 that aimed at improving the fiscal system and its alignment to the international standards, even if the *Romanian variant* of this tax was characterized by certain derogations from the practice of the other countries;

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<sup>8</sup> Bălănescu Rodica, Bălăşescu F., Moldovan Elena – Tax System (in orig. Sistemul de impozite), Economic Publishing House, Bucharest 1994, pag. 25-26

<sup>9</sup> Idem

- The reform of the social insurances system, that was realized together with the of Law 19 from 2000, as an objective necessity imposed by the socio-economical conditions of the period;
- The introduction of the new tax system for the small companies in the year 2001, whose effect was the development of this category of economic agents;
- The legiferation in 2001 of the introduction “de facto” of the fiscal record in order to fight embezzlement and increase the fiscal efficiency.

Also, the implementation of the Fiscal Code, starting January 1st 2004, represents a real realization of the contemporary fiscal policy due to the realization under a unitary form of the fiscal legislation of Romania and the improvements brought to fiscality, such as the introduction of the reduced VAT amount, regrouping of the excises and the introduction of a *more transparent* way of administrating them and a more equitable taxation.

In the same time, the implementation of the Fiscal Procedure Code and “the ethic code of the fiscal inspector” represents the main advantage of the grouping of legal regulations regarding the rights and obligation of the parts in the fiscal juridical relationships regarding the administration of taxes established by the Fiscal Code, an important field of fiscality in the present conditions, that, missing a *proper fiscal consciousness of the tax payers*’, call for an operational and effective system for collection and fiscal control. **This aspect is very important because the fiscal discipline of the tax payers is, to a certain extent, a consequence of the public clerks that are part of the fiscal control and fiscal administration body.**

After Romania’s adhesion to the European Union, it continued the implementation of some measures that aim at the harmonization of the internal Romanian legislation with the one of the European Union. For example, in the field on the income tax, the EU Directives have been adopted in the Fiscal Code, Title II, regarding: the imposing of the fusions, divisions and transfers of actives and exchanges of mobiliary values between companies of different member states; the common fiscal regime that applies to mother-companies and their branches from various member states; the imposing of the savings’ incomes; the common tax system applicable to the payment of interests and debts between associated companies from different member states; the reciprocal assistance between the competent authorities of member states in the field of direct taxation and imposing of insurance premiums.

For the purpose of a more efficient administration of the income tax, a law was adopted for a 1% tax, as an anticipated payment, calculated on the income from transactions with title deeds and operations from buying & selling of foreign currency based on a contract and the establishment of a tax on the net annual income. Also, for the boost of the savings in a collective system for the locative system, there is a deduction from the taxable incomes from salaries of the basic expenses pertaining to this saving, limited to an amount of 300 Lei / year / person.

Applied from January 2008, the taxable basis of the income tax was extended by including the incomes from agricultural activities, from the valorization of agricultural products after harvesting, in natural state, from the fields, in the category of taxable incomes.

In the field of local taxes and other taxes, the legislative modifications aimed mainly at: the inclusion in the taxes for buildings owed by corporate bodies of the modernization works; the actualization of the land tax owed by individuals and corporate bodies, that is to adapt them to the real public expense performed by the local authorities; the offering of facilities regarding the tax on buildings and the land tax is over 500.000 Euro, for stimulating the investments and creating new jobs; creating two terms of payment instead of four, for a more efficient administration of local taxes and other taxes; the delimitation of the field of application of special taxes, meaning that they cannot be put in the responsibility of concessionaries of public utilities (natural gas, water, electricity) for the existence in the public/private field of the administrative – territorial units of networks of water, transportation and electricity and gas distribution.

Another important measure negotiated with the European Comission is the establishment of a new dispensation in the case of the Value Added Tax to the level of 35.000 Euro business figure (the limit used in 2006 was of approximately 57.000 Euro).

Fiscal policy was characterized by some contradictory measures, linked with the evolution of the national economy, such as:

- Setting the excises to a level similar to the one in the developed countries, without the real tax source (the income) registering the same tendencies;

- The progressive reduction of customs taxes as a consequence of some international agreements in view of the stimulation of the external trade, that facilitated only the increase of the imports and undermined the internal production;
- The early introduction, unjustified by the state of the economy of the tax on global income in the year 2001, which determined the increase of fiscal task supported by individuals.

Starting with the pre-adhesion period, we can observe a certain improvement of the fiscal policy, transposed in a greater stability and more perseverance in following some objectives on longer terms than in the previous period, having as effect the increase of the fiscal incomes cashed by the state (see table 1).

Nr.	Explanation	Currency	Years				
			2002	2003	2004	2005	2006
1	Direct incomes, of which	Mil. Lei	17.82	23.47	31.07	94.55	39717.40
2	Profit tax	Mil. Lei	3.02	4.42	6.48	6.07	7446
3	Income tax (central-local)	Mil. Lei	4.13	5.32	7.10	5.02	4954.40
4	Taxes	Mil. Lei	0.96	1.18	1.39	1.46	27046.00
5	Health Insurances Company (HIC)	Mil. Lei	9.71	12.55	16.09	82.0	271.00
6	Indirect incomes, of which:	Mil. Lei	14.63	20.96	26.13	36.78	28.87
7	VAT and excises:	Mil. Lei	13.69	19.67	24.51	35.11	27.04
8	Customs taxes	Mil. Lei	0.94	1.29	1.62	1.67	1.83
9	Total fiscal incomes	Mil. Lei	32.45	44.43	57.21	131.33	39746.27
10	The weight of the profit tax / total fiscal incomes	%	9.30	9.94	11.33	4.62	18.74
11	The weight of the income tax / total fiscal incomes	%	12.73	11.99	12.42	3.82	12.46
12	The weight of taxes / total fiscal incomes	%	2.95	2.65	2.44	1.11	68.04
13	The weight of HIC / total fiscal incomes	%	29.93	28.24	28.12	62.44	0.68
14	VAT weight and excises / total incomes	%	42.20	44.28	42.85	26.73	0.07
15	The weight of customs taxes / total fiscal incomes	%	2.88	2.90	2.84	1.28	0.01
16	The weight of direct incomes / total fiscal incomes	%	54.92	52.82	54.31	71.99	99.92
17	The weight of the indirect incomes / total fiscal incomes	%	45.08	47.18	45.69	28.01	0.08

**Table nr. 1 – The structure of fiscal incomes of the general consolidated budget in Romania**

Source: data taken from the Statistic Yearbook of Romania, year 2006 and the Annual Report of the Nation Bank of Romania, year 2006.

In the year 2002, the total fiscal incomes were formed of 9.30% profit tax, 12.73% income tax, 2.95% taxes and taxes for the population, 29.93% the contribution to the social insurances (as direct taxes that represent 54.92% of fiscal incomes) and 42.20% VAT and excises and 2.90% customs taxes (as indirect taxes that represent 45.08% of fiscal incomes).

In the year 2003 the total fiscal incomes were structured as follows: 9.94% profit tax, 11.99% income tax, 2.65% taxes and taxes for the population, 28.24% the contribution to the social insurances (as direct taxes that represent 52.82% of fiscal incomes) and 44.28% VAT and excises and 2.90% customs taxes (as indirect taxes that represent 45.08% of fiscal incomes).

In the year 2004 the total fiscal incomes were formed of 11.33% profit tax, 12.42% income tax, 2.44% taxes and taxes for the population, 28.12% the contribution to the social insurances (as direct taxes that represent 54.31% of fiscal incomes) and 42.85% VAT and excises and 2.84% customs taxes (as indirect taxes that represent 45.69% of fiscal incomes).

In the year 2005, the fiscal incomes were formed of 4.62% profit tax, 3.82% income tax, 1.11% taxes and taxes for the population, 62.44% the contribution to the social insurances (as direct taxes that represent 71.99% of fiscal incomes) and 26.73% VAT and excises and 1.28% customs taxes (as indirect taxes that represent 28.01% of fiscal incomes).

In the year 2006, the total fiscal incomes were formed of 18.74% profit tax, 12.46% income tax, 68.04% taxes and taxes for the population, 0.98% the contribution to the social insurances (as direct taxes that represent 99.92% of fiscal incomes) and 0.07% VAT and excises and 0.01% customs taxes (as indirect taxes that represent 0.08% of fiscal incomes).

We consider that this increase of public incomes (due booth to the economic growth and the increase of the fiscal pressure) *can be put good use* in the following years for the increase of the budget allowances for certain fields such as medicine, education, environment, infrastructure and others.

In conclusion, we can say that the evolution of the fiscal policy in the past few years has not always been *correlated* with the conditions and the evolution of the national economy that to a misinterpretation of some purposes or benefic fiscal policies. Or in other case, they didn't even materialize, being cancelled by some contrary measures of economic policies. In other words, fiscality tends to align faster and easier to international standards than the national economy.

In the end, we consider that the following aspects are relevant and useful for the fiscal contemporary policy of Romania:

- The necessity of a strong repression of underground economy, especially in what regards corruption, criminality or the fight against fiscal fraud;
- Paying a special attention to the new economic tendencies, such as the expansion of the electronic commerce with the three parts: the trade between companies, the trade of services and intangible goods (has the most spectacular evolution due to the Internet), the electronic trade of physical goods; this one takes place in conditions that facilitate the avoidance of fiscal laws, it products overpass the boundaries without passing through the customs, thus representing a real risk of dodging. Another potential element that might facilitate embezzlement is represented by the development of the *inter-temporary trade*, respectively the present trading of future goods.
- Without real chances of being applicable in practical life, from a theoretical point of view the introduction of *the tax on wealth growth* might be of interest, whose taxable substance should be given by the significant growth of he wealth of some people or social categories in a certain period of time; such a measure could be beneficent from a financial point of view, for the increase of public funds and the reduction of budget deficit, but also moral, considering the growth of the wealth (*a little bit bothered* by the taxation) of some individuals in the above-mentioned *transitional* period.

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