

# ROMANIAN FISCAL SYSTEM PROGRESSIVE QUOTATION VS. UNIQUE QUOTATION

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*Abstract : In simple terms, fixe tax means that every person is taxed with the same percentage. In such a system, in place of a complex set of taxing, the state declares a limit over which every person pays a fix tax for personal incomes. This limit is generally very low, in order to stimulate the people to pay their taxes, instead of trying to avoid them. This kind of system bases on the single taxing of incomes. In what concerns the corporatistic taxes, the idea is similar: only one rule for everybody. The analysts are disposed to take into evidence that, if the unique tax was a rule in every industrialized states in the first half of XIX<sup>th</sup> century, the first demandings that were pronounced plainly for a “strong progressive or tax gradual” system, appeared in the communist manifestation of Karl Marx in 1848. But, at least, the capitalist states adopted this system.*

*Key words: fiscal system, unique quotation, fiscal incomes, fiscal evasion.*

At the begging of the year 2005, the new government was introducing the unique quotation of taxing of 16%, over the incomes of the natural persons and over the firms profit, reforming completely the Romanian fiscal system.

- Which are landing differences of fiscal system until 2005 and after 2005?
- Which of the two systems is sustenabil on mid and long-term, being a reduced probability that be generated macroeconomics dezechilibriums?
- In what way can raise the weight of collected incomes from the budget in PIB from 29% (in 2006, Romania situating, at this indicator, on the last place in EU27) at 40-45% , which means the average of EU27 countries?

At all these questions we will try to answer. First of all, we will analyse comparatively the two fiscal systems: the one until 2004 and the actual system, initiated at January 1<sup>st</sup> 2005. Following, we will compare the actual fiscal system from Romania with other fiscal systems from EU27 countries.

## **The fiscal system until 2004: progressive, redistributive, social**

In 2004, the fiscal system was a progressive one, with differenciated quotations in what concerns the tax applied on the incomes of natural persons. Thus, the ones that had incomes of maximum 28 millions ROL, paid 18% as income tax, the persons that had incomes between 28 millions ROL and 69,6 millions ROL, paid 23% and the tax could reach 40% in conditions of an over 156 miillions ROL income. The tax applied over the taxing profit of companies was of 25%. The interests were taxed with 1%, and the dividendswith a percentage of 5%. The microcompanies were paying an income tax of 1,5%.

In 2004, the fiscal system from Romania was considered by the International Monetary Content<sup>1</sup> as being a sustenabil one, which does not create macroeconomics dezechilibriums on mid and long-term. The improved economies-investements balance, in a rapidly diminution, the salaries maintaining in the approved limit of budgets and high collecting rates of 95-98% at the main utilities were substanciating the positive analyse of FMI specialists: “The budgetary politic in 2004 will sustain the objectives of disinflation and the limitation of the extern current count deficit, creating in the same time conditions for the raising of private sectory.”

What was going to happen with the fiscal system in 2005, if that government continued? The government was already decided with FMI, from July 2004, a fiscal reform program, which would entranced in vigour at January 1<sup>st</sup> 2005. The main pillars of this program foresaw a reduce of profit tax from 25% to 19%; a

reduce of income tax for the smallest imposing portion , partially compensated through the stopping of personal decutions to the level of 2004, and a reduce of contribution rate through the social insurances with 1,25%. In order to compensate a part of incomes loss, the authorities wanted to introduce simultaneously a spot tax, to grow the dividend tax, begging to July 1<sup>st</sup> 2005. The net income loss associated to the reform would be raised at 0,25% from Intern Gross Product to the base reference, thanks to the effect on the entire year elimination of imposing reduced rate at profit tax for exports activities, the reported effect of the growth of the **ACCIZA** from July 2004 and of some reducing of fiscal evasion.

The objectives proposed by the government from 2004 were in coherension to the equitable distribution supporting of the gains from the raised economic growth, the improval of business climate and the strengthening of competitive position of Romania. Besides, the fiscal reform wanted to answer to the expectations of business men about the predictability growth in fiscal domain, the reducing of administrative costs about the taxes, and the reducing of the pressures about the work taxing.

### **Fiscal system from 2005-2007: stimulatively for big businesses and consume**

Although the analyses effectuated by the business men in the last 5 years shows that the level of fiscality is one of the secondary preoccupations of companies' management (much less important than, for example, the fiscal predictability), the fiscal reform from 2005 aimed at the encouraging of big businesses, of raised financial force companies, basing on the training effects of massive investitions realised by these investors.

From January 1<sup>st</sup> 2007, entranced into vigour the amendaments, very disputed, brought to the Fiscal Code. The amendaments did not have into account the modification of some essential elements of Romanian fiscal system, built, in special, based on the unique quotation of 16% applied to the incomes and added value tax of 19%.

The dividend tax, paid by the juristic person, is of 10% in some conditions: they not have participations of minimum 15% until January 1<sup>st</sup> 2009, respectively 10%, after this date for a period of minimum two years before the scandent date. The exception from taxing rule of the commercial societies is, gave by the taxing of micro-enterprises, with the condition that these realise minimum 50% from incomes from another activities than the consultancy for businesses and management. The foresee wants to be a solution in sense of elimination of using the micro-enterprises for the collecting of the salaries by some employed persons. The taxing quotation of incomes is, in micro-enterprises case, of 2% in 2007, 2,5% in 2008 and 3% in 2009.

For the obtained gains from the redemption of opened investements funds titles, is applied a taxing rate differenciated depending on the length of time of holding these titles, thus: if are holded for a period smallest than 356 days, is applied a general taxing rate of 16%; if are holded for a period of time bigger than 356 days, is applied a rate of taxing of 1% on net gain obtained.

For the value titles, personal values, bought and redempted, is applied a tax of 16% on net gain obtained from sales and purchases operations from the fiscal exercise. The dividends, inclusively the sums received because of the holding of closed funds titles of investements, obtained by natural persons, are taxing with a quotation of 16% from the value of gross adequate dividends.

The fiscal system entered into vigour in 2005, and adjusted in 2007, has established as objective the insurance of some bigger available incomes, the potential expansion of businesses, the growth of direct investements, the diminution of economic subterranean weight, an economic sustenable raise, more places of work, the raise of the saving and investements. From all these aims, the analysts consider that has been touched the raise of foreign investements, (a record in post-decembrist, 9,1 billions EUR in 2006), a high raised economy, (7,7% in 2006, even if in a big part is based on consume) and the expansion of businesses made by big enterprises, and financialy strong. What did nou succeed to obtain the reform of fiscal system promoted by the government after year 2005 were the raise of budgetary weight funds in PIB, the raise of saving, and what did the worst situation was the accentuation of current count deficit. The bigger available incomes meant a bigger consume (especially of import goods) and the accentuation of the commercial balance deficit.

### **The adoption of unique quotation in numerous countries**

All the countries that have introduced the unique quotation registered positive evolutions:

ESTONIA: which in 1994 introduced a taxing unique quotation of 26%, conducting to an economic growth of 5,2% annual average. Ulterior, the unique quotation has reduced at 20%.

LETONIA: in 1997 adopted an unique quotation of 25%.

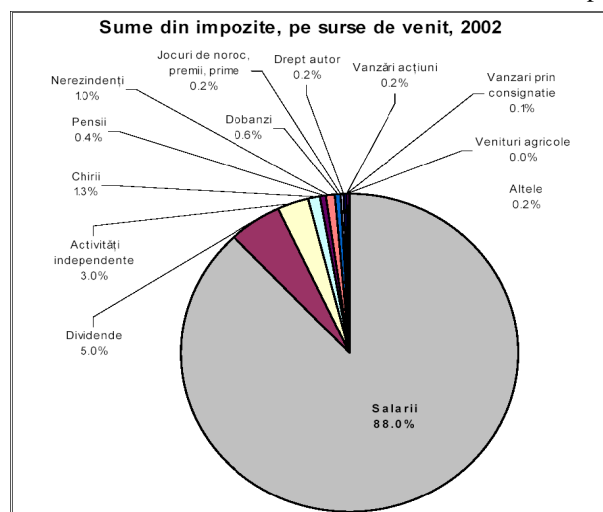
RUSSIA: in 2001, has adopted a 13% unique quotation. Has remarked through an economic spectacular evolution; thus, the entrances obtained at the budget through the taxing of natural persons incomes has registered a real raising in roubles of 28%, and in 2002, the incomes taxes has summed 357,1 billions roubles, which means a raise of of 20,7% in real terms. The adjustments had realised taking into consideration the taxing rate of 18% in 2001, and 15,8% in 2002).

SLOVACIA: in 2004, Slovakia has adopted a 19% unique quotation.

UCRAINA: has adopted a 13% unique quotation.

## The advantages brought by the unique quotation in Romania

1. The unique quotation answers to the equity criteriums in fiscal domain. The option for the taxing in unique quotation constitutes one of the modalities through which can be acted over the rising tide from economy, and assures the reglementation of the fiscal system. This has a bigger effience in the reglementation of inequalities between different categories of persons which obtain the same income from different sources.
2. The unique quotation eliminates the double imposing of savings and investements. Taking into consideration that the income forms are taxed equally and only one time, people are free to choose any investement that they consider profitable, that, through the intermedium of fiscal instruments, the economy can function at maximum potential.
3. The unique quotation will increase the incomes collected from the state budget. Through the application of taxing progressive system in Romania, in the period anterior the date 1.01.2005, it has taken place a pushing over a very small number of medium and big salaries, the system subexploiting itself from another sources. It appeared from another reason an evident target of fiscal discrepancy, defying the horizontal equity principle: to the same sum must be paid the same tax, no matter the income source. We exemplificate:



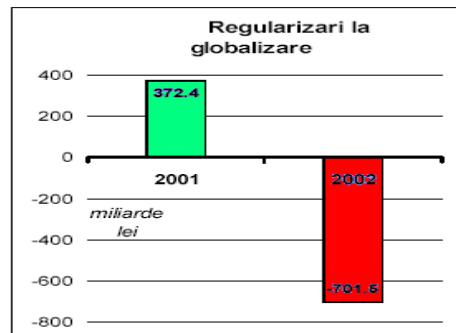
Source: Romanian Academic Society

Thus, it can be observed how big is this difference of pushing the taxes on the salarieds, on the enterprisings and free-professionists, even admitting that in their case, the tax should have been something smaller in order to produce a bonus that reflected the business risk.

4. The unique quotation comes to support the persons with reduced incomes through a system of deductions very efficient.
5. The unique quotation reduces the fiscal evasion, through the diminution of opportunity cost of the avoiding of the payment of taxes at the state budget. In conditions that the fiscal system is a simple and efficient one, the pshycological effect that has the diminution of taxing

quotation makes that people proceed to the payment of the debts to the state very rapidly and correctly. These are not tempted anymore of searching some complicated methods to facilitate the reducing of taxing base, because the cost of these activities can raise in some cases over the taxing quotation that must be paid. The progressive taxing system of the salaries created strong premises for the movement of the incomes on less taxed ways. In these conditions, the proportion of small salaries raised, and the mid and small salaries reduced, in a period of economic growth, fact that conduces to the conclusion that is very probable that a part of incomes to be transferred on some other ways with a more reduced imposing. People learn and adapt rapidly to the system, that, in the old system, state had less and less to collect from the liables to pay the duties as a following of globalisation procedure and more to give back.

6. The unique quotation reduces the fiscal administration expenditures. The public administration will spend less money with the monitoring and the auditing of the system, because the tax is unique and is calculated much clearer. In the system of progressive taxing, the state had less to collect from the liables to pay the duty as a following of globalisation procedure and more to return.



In the year 2002, the state had to return to the liables for pay the duties from Romania 700 billions ROL in net value, and after the application of progressive taxing, system the administrative costs of function were about 800 billions ROL.

7. The unique quotation offers to the liables to pay the duties more control over the money and reduces the involvement of the authorities in the administration of the surplus of every person. Through the application of the unique quotation, people is stimulated to work harder, because only a small part from the their gain enters in the possession of the state. Thus, the difference that remains can be administrated as anybody wants, this freedom accentuating the development of private property and private sector from economy, more than on the public sector, where the state initiates programs and politics that come in the help of citizens. The unique quotation reduces the time and number of the formulars that must be completed for the obligation discharging confronted by the state. Thus, the unique quotation brings two benefits:
  - on a side, it offers a more transparency to the fiscal system, because assures easily the possibility of every liable to pay the duties to calculate his own fiscal obligation, and to understand the whole imposing mechanism without having any types of vagueness concerning the calculation mode and the debted sums.
  - on the other side, the productivity of the taxes raises as a following of the reduce of expenditures with the establishing and the collecting of these because of the simplicity of the system. In the same time, the persons that pay taxes reduce their expenditures concerning the financialy consiliation and the guideness necessaries in the progressive quotations system, and the specialists in fiscality can orientate their activity area to some more productive zones.
8. The unique quotation developpe a very attractive environment for the investors. The competition concerning the level of taxes represents a benefit of globalisation. In a global economy in which the work force and capital move free besides the national limits of every state, the fiscal political sets adopted by every country represents an important instrument used in the attraction of limited international resources.

## Conclusions:

In simple terms, *fix tax* means that every person is taxed with the same percentage. In such a system, instead of a complex set of taxing rules, the state declares a limit over whose all people pay a fix tax for personal incomes. This limit is, in general, enough low, in order to stimulate the citizens to pay their taxes, instead of trying to avoid them. Such type of system bases on the fact that all the incomes are taxed only one time.

In what concerns the corporatistics taxes, the idea is similar: only one rule for everybody.

The analysts incline to take into evidence that, if unique tax was a rule for every industrialized states in the first half of the XX<sup>th</sup> century, than the firsts demandings that were made very clear especially for a “strong progressive or taxes gradual” system appeared in the communist manifest of **Karl Marx** in 1848. But, at last, the capitalist states were the ones that adopted such kind of system.

Since then, the idea of unique tax was brought into life a few times, an appreciable number of countries adopting one or another variant of unique tax regim. And however, till today, non of occidental “major” economy has not passed back to the unique tax regim.

It is believed that, in the entire world, the persons liables to pay the duties loose 8 billions annual for complete their income declarations.

The modern revival of unique tax on the income was initiated by Estonia in 1991, than Letonia in 1994, Lituania in 1994, Rusia in 2001, Serbia in 2003, Ucraina in 2003, Slovacia in 2003, Georgia in 2004 and *Romania* in 2005. Hungary seems to take into consideration the introducing of a unique tax version in the near time future.

Even if the “unique tax” is not consideredated a medicine for all the economic problems, more and more countries - the new member states also – had introduced or are in the elaboration process of some universal taxing regimes. The majority of these countries confront with appreciable budgetary deficits and some others confront with the necessity of ranging the economic statut to the Euro Zone demandings:

The unique tax should:

- help to the reducing of the birocraism;
- reduce the inequities;
- counterbalance the avoiding of taxes and evasion;
- generate bigger budgetary incomes;
- produce an economic “mini-boom”.

In the same time, a fix tax regim is understood as:

- eliminating the all forms of taxing sparings and facilities;
- being non-progressive (at least in what concerns the “marginal” rates);
- preferring the rich ones for the poor ones;
- preffering the posessors of shares and dividends, when the profits are taxed only one time, at the source (unique tax is a consum based tax).

If this measure, apparently popular of the passing to a taxing fix system is motivated by healthy fiscal strategies or only by the desire of determinating the citizens to contribute more to the state budget, it is a debating point.

An essential conclusion quotateed by few researchers is that the effiicence and success of unique tax regim are dependent by the level of this unique tax: the lowest it is the unique tax, the most efficient tend to be.

The experts point that, besides tax system or type of support gave to the new enterprisers, the competitiveness of a country is determinated of some other factors. If it is true that, in general, than the lower taxes leave more money to circulate and to be invested in an economy, and the fix taxes raise the desire of citizens to pay them, big budgetary deficits and the uncovernement of budgetary deficits.

More than that, a few leaders of the strongest economies of Europe, for example *Gerhard Schroder* and *Goran Persson* showed that the transition economies from East can permit reduce their taxes, not in the last time because every lost income is compensated by the subventions of the European Union. This argument was rejected in many times in the noticed transition states.

Meanwhile, Germany, as Italy, Austria, Finland, Denmark and Greece decided also to introduce taxes reduces under many forms in order to stimulate the investments and the expenditures (the consum) and to determinate the economic growth.

The unique quotation improved the competitiveness of the enterprises:

1. The introducing of unique quotation conduced to an improval of effective rates of taxing.
2. A second major effect has been constituted by the improval of profitability, seen through the profit side and also, on the other side, through the profitability rate.
3. The loosings of economic agents are still a problem of Romanian economy.
4. A positive aspect, because of the fiscal modifications that had placed at the beggining of the year 2005, besides the maintaining of profitability rate was registered a diminution of the backwards, that at the end of the year 2005 the backwards had approached at 18,8% as a weight in PIB, than 20% that was estimated by CNP, finding a high level of estimations predictability.
5. The improval of the Romanian enterprises longevity is illustrated also by the improval of the debting level of economic agents, even if this continue to situate still at a high level.

As a general conclusion, it can be affirmed that the introducing of unique quotation had improved the business medium and conduced to the raise of concurential capacity of the enterprises.

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