

THE ROLE OF THE CORPORATE TAX IN THE ECONOMIC AND SOCIAL DEVELOPMENT IN ROMANIA

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This paper is about how the corporate tax could interfere with the economical and social development. We put in it some graphics which present the situation of three major economical indicators by which we illustrated our meanings. Gross Domestic Product, investments and the budgetary deficit are those who may provide strong connections among the possibilities of using the corporate tax to influence the economical and social development.

Keywords: corporate tax, GDP, investments, budgetary deficit, economical and social development

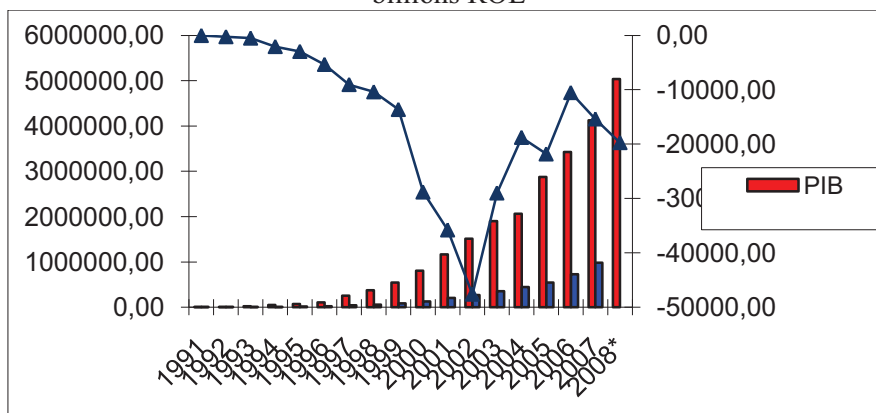
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The regulations with fiscal character have been numerous in Romania, after 1989. We have just mentioned a few of them, the ones which offer details about the way in which the corporate tax has been conceived and perceived, and as a result we are now in the position to identify the role of the corporate tax in the Romanian economy.

In order to do this, we will mention three major economical indicators, upon which the corporate tax and the drawing, in general, have an influence. They are: the Gross Domestic Product, the investments and the budgetary deficit.

First we will present a combined graphic of all the three indicators and after that one of the budgetary deficit as GDP percent.

Graphic no. 1
The values of the GDP, investments and budgetary deficit (sums)
1991 – 2008
billions ROL



Source: personal calculus based on data from *Statistical Yearbooks 1991 – 2008* and *Monthly Statistical Bulletin, Dec. 2008*

*for 2008 data are provisional

If we take a look upon the graphic we can observe an approximately equal growth between two of the indicators, the Gross Domestic Product and the sum of the investments, but in the case of the third indicator, its evolution can be interpreted as interesting, at least. From a minimum level of the budgetary deficit, in absolute sum, which can be observed at the beginning of the studied

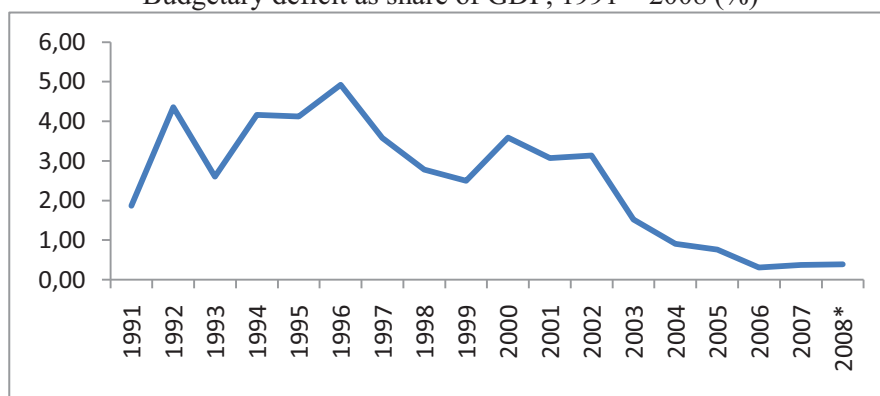
period, to a real abyss in 2002, and then, to a sudden change towards the present period. This last development has to be interpreted as a positive fact of the fiscal authorities, from 2002 on. Also, the same authorities are responsible for the continuous preoccupation in making the drawing system profitable.

At first, we have chosen the budgetary deficit as a reference indicator, because of the relative constancy in the dynamism of the expenses, that is to say, that we have been guided by the idea that these expenses have to be made, and the budgetary deficit is the one which best illustrates the budgetary effects of some fiscal regulations. The graphic above shows us that things are not like that; the absolute value of the budgetary deficit is the most proper to reflect the dimensions of the fiscal policy influence upon the economy. This is why we will take the budgetary deficit as share in the Gross Domestic Product and we will search if there is a link between this indicator and the effects of the fiscal policy upon the economic environment.

Before starting to analyze the budgetary deficit in the GDP, we have to realize that its seize depends upon the fiscal revenue on two dimensions: one which refers to the revenues dimensions and the second one which is determined by the quality of the revenue collecting, the fiscal system's profitableness. We will notice later that, the fiscal authorities' preoccupations are not only towards the improvement of the economic environment, but also towards the improvement of the drawing activity.

In order to analyze the above mentioned indicator, we will make a graphic that will help us understand it better. We have not inserted one table which is the base of the graphic, because we want the present paper to be a clear one, without having supplementary elements which overcomplicates it.

Graphic no. 2
Budgetary deficit as share of GDP, 1991 – 2008 (%)



Source: personal calculus based on data from Statistical Yearbooks 1991 – 2008 and Monthly Statistical Bulletin, Dec. 2008

*for 2008 data are provisional

From this graphic we can observe that there is a certain heterogeneity of the indicator from one period to another, without having a tendency to increase or to decrease, until the year 2002. We could even imagine an average of 3,5%, which could describe the period we are talking about. This is valid if we consider things in general. If we talk about two periods 1992-1996 and 1996-2000, we notice that in both of them there is a decreasing tendency of the budgetary deficit as share in the GDP, until the last year of the two periods. We may notice an increase of the analyzed indicator between the last year and the year before. The explanation which is at hand is that all these years (1991, 1995) were pre-election years, and probably if analyzed the social costs, we could identify the source of this growth of the budgetary deficit. A notable exception is

the year 2004, when the deficit shows a decreasing trend. A possible explanation could be that the increased level of the adherence negotiations did not permit a digression with a non-economic character. From this point of view, we can observe that the analyzed indicator begins to show another tendency than the neutral one previously manifested, inscribing itself on a descending slope, at least until the present period.

We will continue with a kind of corollary of our analyses, in order to see if there is a correlation between the GDP and the budgetary deficit, as a weight in the GDP, on one side, and the adopted fiscal methods, on the other side. The two directions are part of a more complex scheme, the pentagon of the macro-stabilization¹. We have mentioned only these two because the other three dimensions of the economy, components of the same scheme – the rate of inflation, the rate of the unemployment and the balance of the external payments – have a less direct relationship with fiscal system. We don't say that there is no connection between these, because the economic system contains relations of interdependence among its subsystems, but we say that the link between these is an indirect one. But in the case of the analyzed economical categories, the fiscal factors have a more direct action upon these. We have also to say that, the authorities do not use only one type of measures to a certain subsystem of the economy (the type of monetary or fiscal measures) but set of measures², of policies that help in the achieving of the macro-objectives.

To the above mentioned indicators, we have added also the investments in the economy, because it seemed a proper indicator for underlining the fiscal impact upon its two dimensions, upon the economy in general. It is true that the fiscal facilities given with discernment leave the tax payers supplementary amounts which will be oriented, according to the markets characteristics, towards investments which will generate a development of the economy, in general. Moreover, we can also notice that in the titles of the legal regulations the idea of "investment stimulation" appears.

Coming back to an above mentioned idea concerning a digression from the trend in 1997, we will make a connection with the first graphic where the leap of the illustrated dimensions is significant, and also in the second graphic where there is only one small change in the development slope, both of the GDP and of the investments. The most valid explanation is that 1997 was a year of great importance for the Romanian economy. It was the moment when the currency market was liberalized, and a series of prices which previously were administrated, have lost this characteristics. Thus, we can say that, that year was a difficult one for the economy of our country. We think that it is enough to mention the fact that the inflation was 151, 4% in 1997, and in the context of a decreasing budgetary deficit situated in the trend of that period, we can say that the financing necessities of the budget, which are relatively constant in comparison with the previous year, represent the origin of the inflection points of the analyzed graphic. In order to be more accurate regarding that period, we have to mention also the year 1999, as a year with some inflections, mostly because that was the highest point of Romania's external debt. In this context, a supplementary budgetary compulsion is absolutely evident, but this year was not at the same level of turbulence as 1997.

Relying on the information above, we can say that the profit tax is one of the efficient tools by which some subsequent economic objectives can be achieved. In the specialized literature, this type of tools is known as lever³, because operating in one point of the economic field, we obtain effects in another point. Generally speaking, the fiscal measures have to have a neutral character, without favouring or inhibiting some other subdomains of the economic life. But taking into consideration all the attributives of the economy, we come to the conclusion that it is much more than an alignment of theoretical notions, having some social dimensions too, with a profoundly subjective nature. Thus, a lot of countries adopt different types of measures in order to

1 Văcărel etal – Finanțe publice, 4th edition, Didactică și pedagogică Press, Buharest, 2003, pp 651.

2 Idem – pp 652.

3 Văcărel etal – op. cit. pp 110.

consolidate their economical position, to develop it and to create competition advantages of circumstance.

Leaving aside the financial policy, in general, we will mention its components which have as a specific tool the tax on profit. Looking back, we may classify the adopted measures, after the criteria of the objectives of the Romanian authorities in the analysed period. Thus, we have preoccupations oriented towards the stimulation of local companies' capitalization, towards gaining foreign capital, towards the stimulation of economical growth and investments. If we take only these three categories, we can observe that they intermingle and besides there are a lot of other objectives, such as: strict financial discipline, the fostering of small and medium size companies, etc. Some other measures are the ones mentioned in the Pre adherence Treaty, but these reflect more, indirect concern for the economic development.

The title of this paper refers to the role of the profit tax in the stimulation of the economic growth, and the fiscal policy uses a lot of sets of measures for achieving this objective. This is why we consider that it is necessary to mention the fact that the economic growth has at least two dimensions: a quantitative one (the economic growth) and a qualitative one (which refers more to the subtle parameters than to the strict percent in the GDP). Moreover, we have to take into consideration the inevitable process of improving the quality of the decision process.

If at the beginning of the 90s everything seemed to be linked to the development of the private initiative, along with some other premises of the economic growth, and from the perspective of influence, this was oriented towards exemption of taxation for some periods (a fact that permitted a superior capitalization of the companies), in time these exemptions have been eliminated, and to appear other measures oriented towards the improvement of the business environment.

We can say that, in the present period, the role of the profit tax is one of economic growth stimulation (the reduction of the drawing share to 16% leaves supplementary resources at the commercial companies' disposal, fact that determines increasing investments in the same field or in another one); of job creation stimulation (by maintaining the provisions concerning the disadvantaged areas); of developing the small and medium size companies' sector (by maintaining a reduced drawing quota situated above the incomes made by this type of commercial companies – 5%).

All these directions reflect preoccupations towards the combining of short term rationality with the long term rationality⁴. It is obvious that all the above mentioned notions can be interpreted in different ways; if the economic growth is understood as an objective for the moment, it can generate serious lack of balance, because of the so-called 'over heating' of the economy, the newly created jobs will bring their contribution to Romania's future development, and the small and medium size companies represent the 'middle class' of the economy.

The tax profit begins to appear in other sectors, too not only in the above mentioned ones. Not only the drawing quotas and the exemption of taxation represent action methods of this efficient economic lever, but also the way of determining the taxable base. For example, in the case of the income tax of the microenterprises⁵, from the totality of the income, a series of incomes are subtracted, or some deductions are given, which are partly found in the general profit tax. We have to mention the possibility of entire deduction of the acquisition value of the cash machines in the trimester when they have been put into function, on one side, and the withdrawal from the taxable incomes of the corporal and non corporal immobilization. These measures want to strengthen the financial discipline and to stimulate the production.

Besides the actions oriented towards the economic area, some behaviours can be induced to companies by certain fiscal measures, intensifying their propensity towards financing of some charity, cultural or sports actions. The possibility of affecting a part of the taxable income for such actions is stipulated in some normative acts which underline the authorities' concern

4 Văcărel I. – Politici fiscale și bugetare în România, 1990 – 2000, Expert Press, Bucharest, 2001, pp 346;

5 L 571/2003 (Fiscal Code), published in M.O. no. 112/06.02.2004.

regarding this kind of activities. This concern is oriented not only towards the organization of such activities, but especially towards the impact of them upon the physical and mental health of the persons involved in such activities. Also, there are preoccupations related to the educational system, by exempting the private schools from payment of the profit tax invested in their activity object and preoccupations concerning the qualitative and quantitative growth of education reflected in the authorities' concern towards the future workers. This line of action reflects a preoccupation for the future but also for the quality of that future.

Coming back to quality, but this time from the imposing point of view, we have to say that, at least in Romania, the profit tax is suited to actions of the authorities, for improving the drawing advantageousness. A good example in this sense could be the reduction of the drawing quota from 25% to 16%. Assumed in the election campaign, the respective reduction had to bring to light a certain percent of the subterranean economy, by influencing the tax payers to abandon tax dodging, thus important incomes being collected from the state budget.

Besides all these measures, the fiscal decision makers have to act continuously in the sense of the quality improvement of the staff, of the fiscal mechanism's infrastructure, in order to increase the attracted resources.

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