EVOLUTION OF FISCAL PRESSURE IN ROMANIA AND EU MEMBER STATES

Mitu Narcis Eduard
Universitatea din Craiova Facultatea de Economie şi Administrarea Afacerilor 0745962107
Drăcea Nicoleta Mihalea
Universitatea din Craiova Facultatea de Economie şi Administrarea Afacerilor nikomrs2006@yahoo.com 0743002585
Ploscaru Claudia Cristina
Universitatea din Craiova Facultatea de Economie şi Administrarea Afacerilor cristinafpk@yahoo.com 0722612831

The article refers to the concept of taxation and fiscal pressure, on its forms of manifestation in relation with the level of organization to which we stand, the sphere of tax levies, their provided or effective character. A comparative study of the fiscal pressure between the EU Member States and Romania has also been prepared, highlighting the features taken into account in an analysis of the level of taxation in our country. At the end of the article, there are drawn some conclusions and suggestions that could lead to improving our system of taxation.

Keywords:. fiscal pressure, taxes, fiscality.

Cod JEL: G00, H20, H21, H30

1. Considerations on the concepts of taxation and fiscal pressure

The notions of “taxation”, “tax system” and “taxes” appeared on a certain stage of development of the society, to meet the needs of economic, financial and social objectives of the state.

Was for the economic, taxation is not only all the regulations on the establishment and levying of taxes, but also a feature of state policy in terms of taxes and an expression of the tax burden of various categories of taxpayers. In fact, in the usual language, but also in specialist publishing, especially when talking about fiscal tightening, it is identified with the fiscal pressure which means the level of taxation.

In more recent works the concept of taxation is even superimposed of that of taxes. Taxation is represented, by definition, said M. Lauré, by the levies imposed to the inhabitants of a country by a public authority which provides protection and services. Obviously there is a definition of taxes. Other authors do the same, by comparing taxation with parafiscality or with other mandatory or optional levies, they compare, in fact, the taxes and the parafiscal fees with social contributions or loans.

Some authors, starting from defining the taxes as a form of tax bite from the income or wealth of individuals and legal entities at state, to cover public spending, they see taxation as a “link between the state and individuals or legal entities”.

Trying a systemic-relational approach to taxation, some authors define the tax system as being “all the taxes established by the state which give it an overwhelming part of budgetary revenue, each tax having a specific contribution and a regulator in economy”, or as a “set of concepts, principles, methods, processes on a variety of elements (quotations, tax subscription, tax matters) which manifest relations arising from the design, law-making, settlement and collection of taxes and which are managed under tax legislation, in order to achieve the system’s objectives”.

Society can not exist without taxes, which must be established by the Constitution and, on the other hand, demonstrated by the historical reality. The normal following of tax establishment is the fiscal pressure experienced by all taxpayers.

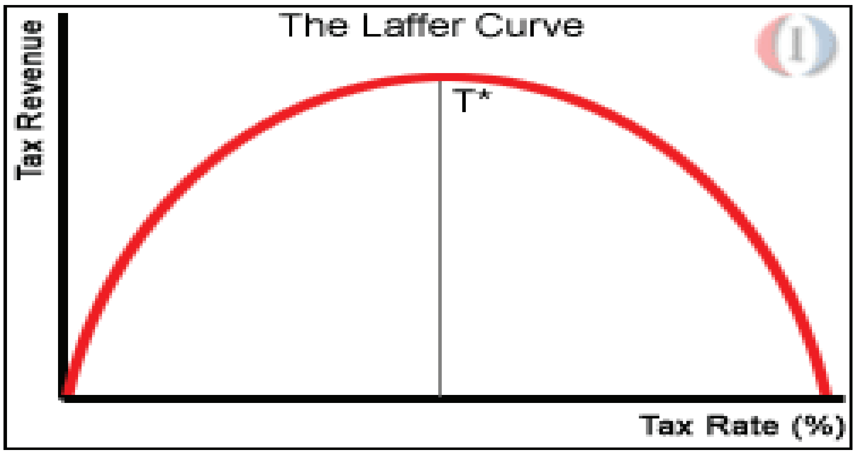
Fiscal pressure is generally given by the levies which are calculated by reporting the total amount of mandatory levies (taxes, duties, fees, social insurance contributions) in a given period, usually one year, to the size of gross domestic product achieved during the same period by a national economy. Distinguishing between receivable mandatory levies, reflected by the right amount of state taxpayers and compulsory levies actually collected, we can distinguish two types of fiscal pressure, namely:

an “imposed” fiscal pressure given by the receivable taxes, fees, contributions and GDP;

an “accepted” fiscal pressure given the received taxes, fees, contributions and GDP.

Besides this objective fiscal pressure technically determined, at a macroeconomic level, there is also a psychological fiscal pressure that measures the tax threshold of tolerance of each taxpayer and that, most often, takes the form of individual fiscal pressure determined as a ratio between the total extent of mandatory levies paid by a taxpayer and his total income before tax.

Chart 1.



The threshold tax borne by taxpayers has been permanently raised by academics and the practice seems to overcome every time. The idea that “a very high tax kills the tax” has been pregnant for many economists. Thus, in 1952, Laferriere and Waline said that “high taxes cause, where it is not possible, a reduction of tax matter, either by restricting consumptions that are not essential, either by concealment or evasion”.

The specific issue of fiscal pressure generated a series of tests of American academics, and not only to rethink the problem of optimum tax. Thus, in 1974, Arthur Laffer transposed graphically an idea expressed in 1776 by Adam Smith, according to which too high tax rates destroy the basis on which taxation acts. Laffer believes that there is a threshold of maximum fiscal pressure to which any increase generates a reduction in the tax capacity, because a too high fiscal pressure will discourage the taxpayer to invest, save, produce and work. Arthur Laffer presented a relationship between tax rate and income level of taxes in the form of a chart bearing the name of “Laffer Curve” and it is illustrated in Chart 1. According to Laffer’s curve, the amount of compulsory levies is an increasing function of fiscal pressure rate, but only up to a certain maximum threshold, noted with T*, which corresponds to the maximum level of the curve then it becomes a decreasing function of this rate, going until cancellation if the rate would reach theoretically the level of 100%.

The relationship was the theoretical argument to demonstrate the opportunity of diminishing the marginal rates of taxation which had achieved very high levels during the implementation of Keynesist economic policies and the development of state’s welfare. A significant reduction of direct taxes and an attenuation of their progressiveness are desirable and because the people with high-income are those who invest and save more. The reduction of taxation must be accompanied by reducing public spending in order to generate the needed resources to relaunch production.

2. Fiscal pressures in the EU Member States and Romania

In order to make a rigorous analysis of fiscal pressure in the EU Member States we must move from a series of observations on inflation disparities between European countries, on the consistency of their budgetary policies, being able to make considerations on the connection between reducing taxes, economic development and pact stability, with all its constraints.

A fiscal policy plays an important role in economic cycles and therefore the countries with a modest growth rate of the GDP in a given period should seek to reduce the fiscal pressure. A classification of the countries that most need a reduction of taxation may be deducted from OECD’s estimates for the European countries for the period 2004-2008, only comparing the discrepancies of the individual income with the average of the considered countries.

In the last two years the trend in the European Union was to reduce taxes, especially on companies’ revenues. The reason is the competition between states to attract foreign investments which bring with them new jobs and prosperity. All the states attempt to create a competitive business environment, as demonstrates the reduction of total taxes on companies’ revenue, whose average dropped from 50.6% in 2004 to 49.3% in 2008.

In EU countries the average fiscal pressure restarted its upward trend in 2005, reaching record level in 2000, after it registered a short-term decrease between 2001 and 2004. Fiscal pressure, calculated by reporting the amounts of taxes collected from GDP taxes reached 36.2% in 2005 versus 35.5% in 2004. Between 2005 and 2006, the fiscal pressure increased in 14 of 26 countries and decreased in 11 of them. In France, tax pressure increased from 43.5% in 2004 to 44.5% in 2006, while Switzerland has made in 2006 the highest rate of taxation, namely over 50.1%. In 2007, Romania had the lowest share of taxation in GDP, only 27.6%, followed by Lithuania – 28.9%, Latvia – 29.4%, Ireland – 30.8% and Estonia – 30.9%. The highest rate of tax pressure has been recorded in Sweden – 51.3%, Denmark – 50.3%, Belgium – 45% and France – 44%.

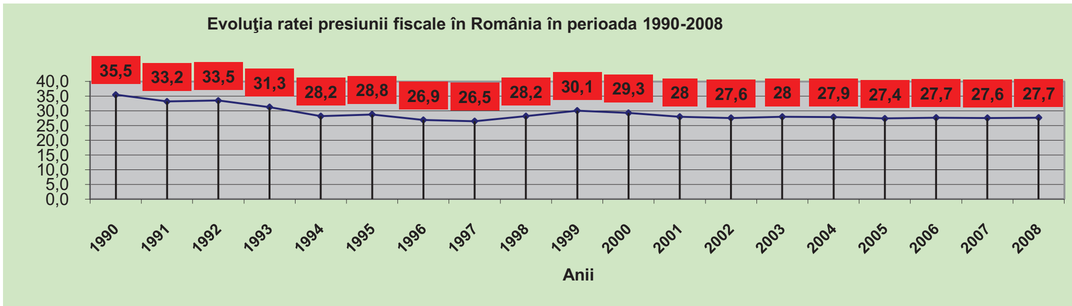
Very few members of the European Union meet the two essential requirements, namely: reducing fiscal pressure and holding the appropriate funds. Essentially in the Stability Pact, which requires a reduction of structural budget deficits, only the Netherlands, Belgium and Finland are in a position to guarantee their economic stimulus needed. It should also be noted that only four states afford significant tax reductions. The limits imposed by the Stability Pact are extremely punitive for the economies of two countries, namely Italy and Germany.

In Romania the fiscal pressure is neither statistical nor fiscally watched by the Ministry of Finance. Some specialists in the calculation of tax pressure take into account tax levies on the consolidated budget of the state. In Romania the tax pressure issue became topical after 1989 with the first signs that the Romanian economy will become a market economy, as the modernization of the tax system was thoroughly required, modernization that continues after 18 years of transition. An analysis of the fiscal pressure in our country short after joining the EU should take into account certain features, such as:

- Insufficient development of the economy so it can hardly cope with European competition.
- The gap between individual incomes in Romania and in the Community.
- Promotion of a fiscal policy whose sole objective is the collection of budget revenues.
- The existence of numerous revenues derived from the underground economy and whose tax would fill existing gaps in the budget and that are covered only by increasing tax pressure.

According to many experts, the main cause of increasing the tax pressure is the continuous growth of public spending, whose evolution is subject to certain economic, social, political ”regularities”.

Chart 2
Evolution of fiscal pressure in Romania between 199-2008



Source: Data provided by the Ministry of Finance and the Statistical Yearbook of Romania

Using the formula for the reporting of budget revenue generally consolidated to GDP we find that the fiscal pressure rate is in a slight decrease from over 30% in the early 90's to about 27.6% in 2007, a level quite low compared with the rest of the Union's states, evolution reflected in Chart 2.

At macroeconomic level, fiscal consolidated revenues present during 1990-2007 an average share in GDP of about 30%, and non fiscal consolidated revenues shows an average of 3%.

Overall tax pressure is sustained by direct taxes, which together with the three major groups of mandatory contributions and local taxes have a share in total revenues of budget of 57.7% in 2007 and also by indirect taxes which are 42.3%. Within the direct taxes, social insurance contributions represented approximately 37.18% of direct levies, followed by revenue from income and wage taxes with 17.66%, and from indirect taxes the VAT provided 54.18% of total indirect levies, the rest being from customs duties and other indirect taxes. If one would not take into account the contributions required to calculate direct levies, but only the tax on income and wages, these, in the year 2007 would represent only 19% from the total revenue, well below the EU's average.

And at microeconomic level the tax pressure influences fiscal policy, strategy and decision. At a business level, taxation represents an important segment that influences managerial and strategic decisions of development.

A correct approach to fiscal pressure at microeconomic level involves its reporting to the accomplishment of development, financing and production functions of companies. The large number of taxes and the high level of tax rates discourage investors' interest in the performance of activities that generate profit and investments.

Given the economic situation of Romania, a low degree of taxation is beneficial because this way could result in capital from countries with high taxation. Through a reduced tax we try to stimulate the economic growth, the demand of goods and services and most important, investment activity. A high taxation in a poor economy as that of Romania, can have on medium and long term, only negative consequences, affecting the demand of goods, decreasing the interest in saving and investments which makes impossible the economic dynamism.

Even if the percentage level of fiscal pressure in Romania is close and even lower than in other European countries, in reality real tax pressure that push on each taxpayer is much higher due to low income and in such a situation, it is obvious that the temptation of detouring the legal framework with regard to declare all income determined correctly from the tax point of view is increasing.

In 2008, according to the Council's estimates for small and medium enterprises, the actual number of parafiscal taxes and fees amounted to 540, one third of them may be removed whereas they are not justified, while the number presented by the Ministry of Finance in August 2008 is 115. A coherent system of taxes and duties, with a positive finality both for the state and for the taxpayers, should be developed both qualitatively and quantitatively.
Besides the large number of taxes and duties owed by the individual and legal entities in Romania, they are forced to spend also a large amount of time to pay them, with a relatively high frequency (usually monthly) and in quite inadequate conditions (queues formed due to the small number of counters, rudimentary technique for the time being).
However, the same World Bank's study revealed how much time a Romanian taxpayer allocates, on average, to pay its obligations to the state, a level considered moderate compared with the European average and very small if we relate it to counterparts such as Bulgaria or Czech Republic.
In Romania we can identify numerous instances in which there is an obligation to pay twice for the same thing, which means double taxation. An example of this can be the road tax that drivers pay annually, which is nothing but a doubling of the road tax included in the price of fuel. Furthermore, the pump price is included and the excise duty on gasoline and diesel fuel.
Apart from double taxation, companies are required to subscribe to services from which they do not enjoy, such as the radio-TV fee which is mandatory for every company either it holds or not these TV or Radio receivers. In the same record of tax falls the tax for rain water, called the "fee for transporting and purifying meteoric water", which is supported both by legal and individual entities. Local authorities say that this is a paid service to collect and transport rainwater through the sewerage system of settlements and that in its absence the flooding of settlements would increase. Going by the logic of this fee we may ask why it is necessary to pay this fee during sunny days and drought.
The most important duties and taxes paid by individuals are value added tax (VAT), excise duties (tobacco, alcohol, fuels, coffee), the income tax, contributions to social budgets, on properties (real estate, auto), and various other payments for services. Although seemingly insignificant, being in the category of "other taxes", they are consuming the most time and money. For example, simply by purchasing a car we have to pay: the registration tax at the city hall, the first registration tax, the provisional registration number from the dealer, check tax, and if the vehicle is in intern production, one should pay a tax for the secrecy of the car's identity card at RAR.

Conclusions:

In Romania, during 1990-2008, the fiscal burden pressed in particular on individuals, both by the high level of taxation on labor, as by the increasing revenue from indirect taxes, this way leading to a significant reduction of the degree of tax compliance of this category of taxpayers.
The analysis of international practices and trends manifested in fiscal policy, allows us to formulate some conclusions and points of view on complex issues of fiscal pressure:

- From the analysis of the evolution of level and structure of taxation we found that its level varies in relation with the functions assumed by the state especially on the social protection plan.
- After the tax reforms developed in the European states in the 90's of the last century, began a process of reduction of marginal tax rates in most countries, learning that their high values distorts economic activity and encourages tax evasion, even gaining ground the conception of using taxes as economic and social levers to their neutrality.
- Following the adhesion of new countries to the European Union, there will be an alignment of the level of taxation and redistribution to the values registered in the countries with lower taxation.

- The Romanian tax system has reached that level of maturity as the other tax systems in the European Union, but there are to be made a number of necessary changes to harmonize with the EU legislation as to remove some of its shortcomings.
- Fiscal pressure and the degree of taxation in Romania is only apparently a low one, actually, due to reduced gross domestic product, to an unequal distribution of taxation and to the large number of taxes and duties, for a large part of taxpayers, the taxation is very oppressive.
- We need a more equitable redistribution of taxation through a better tax collection and lowering their level, as to support the stimulation of investments and economic development in order to increase the income per capita and the general welfare.
- We should reassess the level and the forms of social protection in Romania, as well as the taxation of labor, since conducting a comprehensive social protection has a negative impact on the economic development.

The fiscal reform carried out in Romania must not stop at the achievement made so far, following a resettlement of the national tax system regarding a new qualitative and quantitative structure of it.

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