

A STUDY CONCERNING THE OPPORTUNITY OF INTRODUCING THE FLAT TAX IN THE CASE OF THE INCOME TAX FOR INDIVIDUALS IN ROMANIA

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In this paper we will try to find out if the flat tax as an income tax has answered the objectives of the governors in the field of the public economy. We will study if the budgetary receipts from this particular tax met the expectations of those who thought that this could be a solution in order to energise the economic and social activity.

Keywords: flat tax, income, budgetary receipts,

JEL: H21, H24, H31

In this paper we will try to determine the way in which the flat tax has influenced or not the social and economic activity in Romania. This topic belongs to the domain of public finances as an element of the public policies applied in our country during the last period. The importance of this theme lies exactly in the meaning of this concept – flat tax - meaning that nowadays is widely used both by the taxpayers, directly supported by them, as well as by the fiscal decision makers who have considered as being adequate for Romania's situation in 2004. At the end of the research we hope to obtain an accurate image of the impact that this sampling method has had on the social and economical dimensions. Unfortunately, the imposed dimensions of the paper will not permit us to approach the flat tax's both directions of action: the income tax and the personal income tax. This is the reason why we will discuss only the part referring to the personal income tax, because we consider that the number of the persons involved is large enough to justify this research. Moreover, we consider that every one of us is interested directly if the election promise made in 2004 had coverage.

Maybe, from a theoretical point of view, the approaches have been multiple during the last 6 years. However, we consider that our research can be of a real help in determining the usefulness of implementing a flat tax in the field of the individuals' taxation.

In order to achieve the proposed objectives, based on statistical data, we will study how government revenues have been realized from the above mentioned source, as well as if the rate at which the individual's tax receipts has answered the expectations of the fiscal policy makers.

First of all, the sphere of the public finances requires the mobilization of the financial resources needed for the state to function properly, and then the allocation of these resources according to opportunity and necessity. (Văcărel et al. 2003: 35). In addition to these two dimensions of the public finances science, this contributes also to the shaping of the social and economic phenomena. Therefore, it is important to look at finances as a cybernetic system which has its own dynamics that is being refined and is being adjusted in a more difficult manner in the real time, requiring feed-before or feed-back adjustment mechanisms. (Corduneanu 1998: 29 - 31). These are used whenever a decision is taken, but it seems to be easier to notice things happening than to predict what will happen. In the present paper, the approach will be *post factum* and we will analyze what happened between 2005-2009, comparing of course, dates and facts with those in the years before the changing of the flat tax on individuals' incomes. Thus, we turn to

statistical yearbooks from the years that we want to study from this point of view and according to these data we will develop tables and graphs to help us to build an accurate image of what happened in our fiscal system, studying the budgetary income and, in the field of the economic and social activities, trying to grasp the impact of switching to the flat tax of 16%.

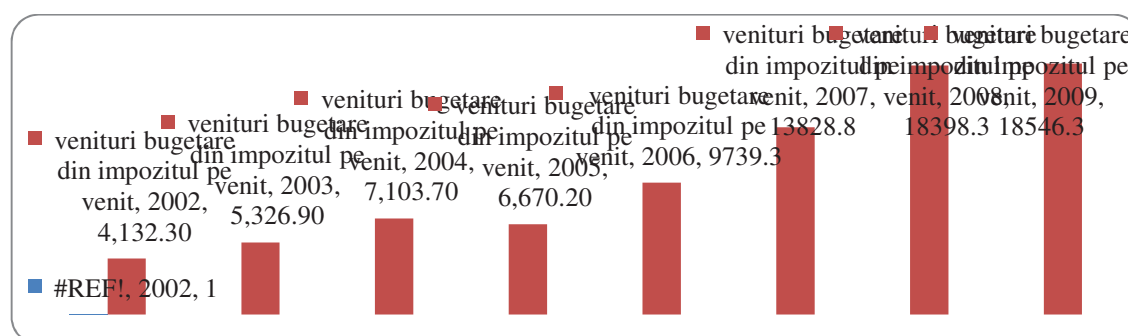
We consider that this way of treating the proposed subject is able to provide the accurate image that we are looking for, and in this respect we will collect the data between 2002-2009, data that will be positioned in a table, in order to facilitate their observation in parallel.

Table no.1. The evolution of budgetary revenues personal income tax in Romania. Years 2002 - 2009 (million)

	2002	2003	2004	2005	2006	2007	2008	2009
Budgetary incomes from the income tax	4132,30	5326,90	7103,70	6670,20	9739,3	13828,8	18398,3	18546,3

Source: Statistical Yearbook of Romania. Time series, 2010 edition. Coordinator: Vergil Voineagu. Edited by the National Institute of Statistics, Bucharest, 2011

As we can easily notice, at the moment of the 16% flat tax's implementation, in 2005, there was a fall in the volume of the receipts from the personal income tax, and during the following years, increases were recorded again. In order to create a more accurate image about the evolution of the receipts, we will make two graphs to help us in this respect. One of these will be in the form of a line, while the other one will be in the form of bars. At the beginning we will insert the bar chart.



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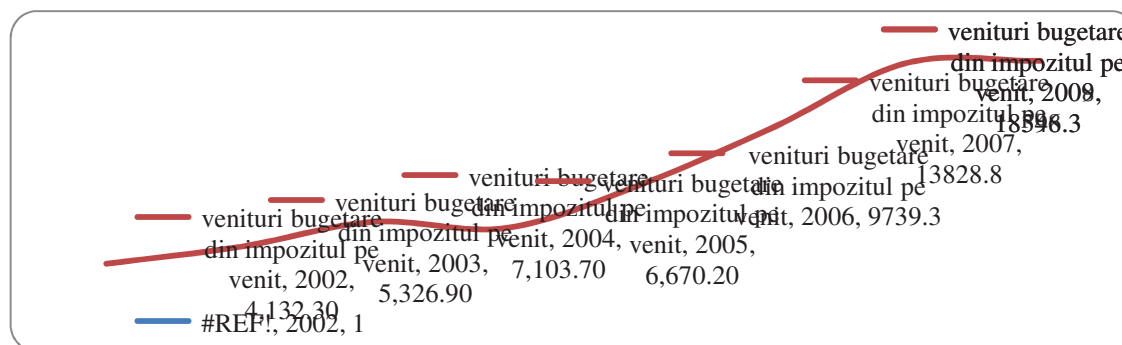
Graph no. 1. The evolution of budgetary revenues from personal income tax in Romania. Years 2002 - 2009 (million lei). Bar graph

From the graph we can observe more easily than from the table, the behaviour of the income tax's receipts on individual's incomes during the period in discussion. The syncope recorded in the studied indicator in 2005, moment in which the 16% flat tax was introduced, can be easily noticed. The desideratum of the persons who promoted this fiscal measure was to make this tax more attractive, because it seems somehow strange and frustrating to yield some of the fruits of your labour, in other words, "the result of income, wealth and welfare may not be in accordance with what the society considers to be just." (Hoanță 2000:71). The attractiveness can be seen from the perspective of another indicator (unfortunately not taken into consideration in

Romania), the one of fairness perceived according to the Economic Report presented by the President of the United States in 1996.

The way the tax payers perceive a certain tax has an extreme importance for a fiscal system, due to the fact that there is a resistance against the tax itself. Finding ourselves in the position of determining the influence of the tax on personal incomes, we can say that the fiscal decision makers should be more concerned about what the taxpayers consider about a sampling or another.

Reducing the sampling rate for this tax, the state considers that the subjects of this, the taxpayers, will show an intention to declare their incomes in a more fair manner, and thus a part of the underground economy comes to the surface. In order to see if this thing has been done, we will make a second graph, the one with lines that will give us an image of the growth slope of the studied tax revenue.



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Graph no. 2. The evolution of budgetary revenues from personal income tax in Romania. Years 2002 - 2009 (million lei). Lines graph

In this graph we distinguish the falling of the budget revenues from the tax on personal income for the year 2005 but we also notice that between 2006 and 2008 the growth slope of the studied indicator was relatively significant.

From both graphs it is absolutely clear the fact that in imposing personal income tax, the crisis was felt, this being the most convenient explanation for the deterioration of the slope for value collection in 2009 in comparison with 2008.

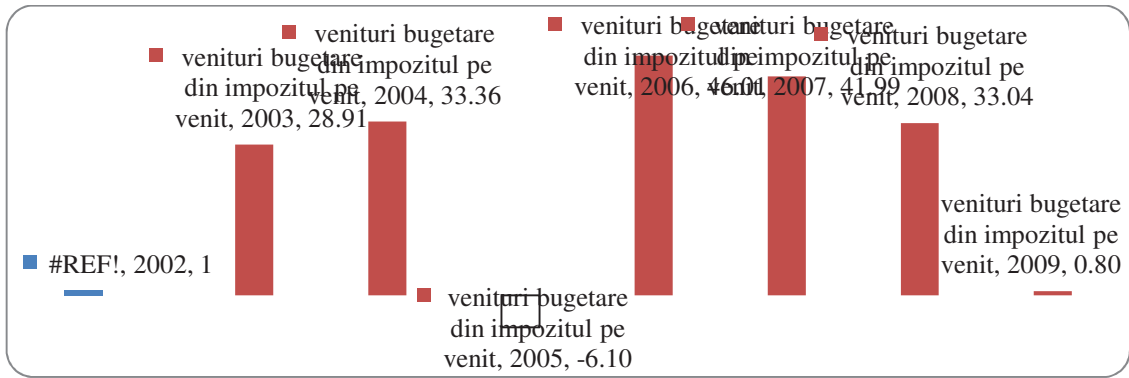
In order to make us a better picture of the evolution of this indicator, we will build another set of table and graph in which we will put data resulting from personal calculations, made using data from Table no.1. In the calculations done, we have searched to catch the growth rhythm of the budgetary incomes from the tax on personal income.

Table no. 2. The growth rhythm of the budgetary revenues from the tax on personal income in Romania. Years 2002-2009 (%)

	2002	2003	2004	2005	2006	2007	2008	2009
The growth rhythm of the revenues	x	28,91	33,36	-6,10	46,01	41,99	33,04	0,80

Source: calculations done by the author based on data from Table no. 1

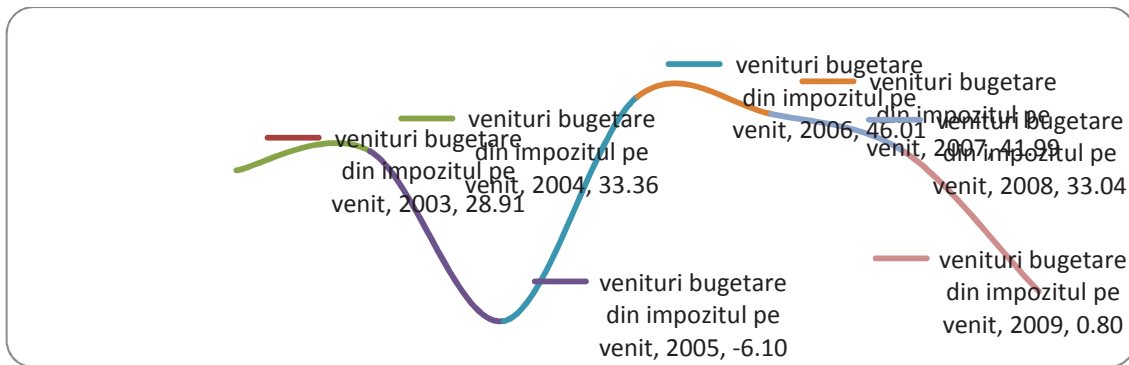
We will attach to table no. 2, the adherent graph:



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Graph no. 3. The growth rhythm of the budgetary revenues from the tax on personal income in Romania. Years 2002-2009 (%) Graph with bars

From the graph it is absolutely clear that the evolution of the growth pace has not been a constant one, but rather heterogeneity of the behaviour, a growth from one year to another being observed in the years preceding the introduction of the 16% flat tax. And during the following years, after the implementation of the fiscal measure, we can notice a sudden fall of the indicator, then a return to the upward slope, and again a constant decrease in 2009. The statistics for 2010 have not been finalised, so we cannot make a picture of the development between 2010 and 2009. We will make another graph, based on the same data, this time with lines, for the ones who want to expand the research in this field to be able to choose whichever seems more appropriate.



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Graph no. 4. The growth rhythm of the budgetary revenues from the tax on personal income in Romania. Years 2002-2009 (%) Graph with lines

Indeed, we could say from this one that the spectacular fall of the growth rhythm of the budgetary revenues on personal income is more evident, both for 2005 and during the period after 2006. In conclusion, we could advance the hypothesis that the introduction of the 16% flat tax on personal income did not answer the expectations of those who have promoted it, to a significant extent, judging from the development pace of the budgetary revenues from this source, even if the amounts provided as budget revenues have increased from one year to another (except for 2005). If the evolution of the earnings growth has been maintained on an upward slope, things would have been different, especially if we take into account the characteristics of the Romanian economy between 2006-2008. Referring to the statistical data (provided by NIS) concerning the gross domestic product for the studied period, and at a deeper analysis the growth rhythm of the

last mentioned indicator, we can make a comparison between the evolutions of the two development rhythms.

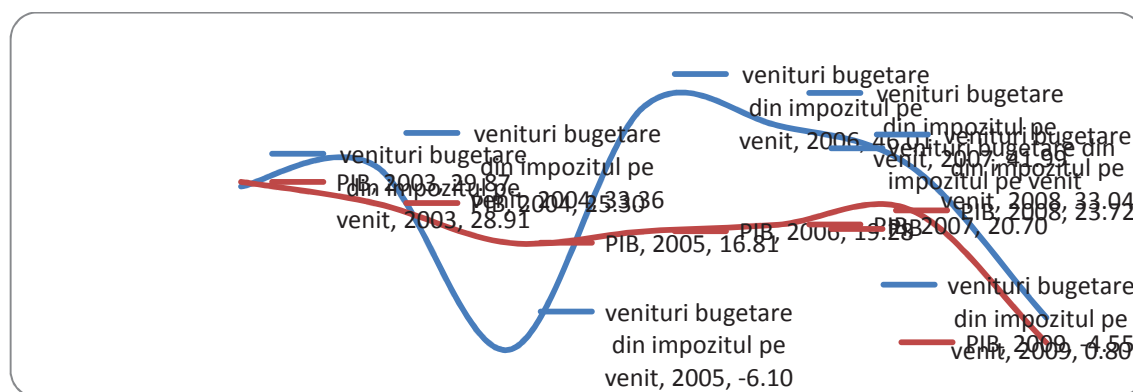
We will make this task all through a set-table in which we will position the values obtained from personal calculations.

Table no. 3. The growth rhythm of the budgetary revenues from the tax on personal income and of GDP in Romania. Years 2002-2009 (%)

	2002	2003	2004	2005	2006	2007	2008	2009
The growth rhythm of revenues	x	28,91	33,36	-6,10	46,01	41,99	33,04	0,80
GDP	x	29,87	25,30	16,81	19,28	20,70	23,72	-4,55

Source: personal calculations of the author

From the table above we cannot make an accurate picture of the parallel evolutions of the two studied indicators, thus we will insert the chart constructed on the basis of the data included in Table no. 3.



Made by the authors

Graph no. 5. The growth rhythm of the budgetary revenues from the tax on personal income and of GDP in Romania. Years 2002-2009 (%) Graph with lines

From the graph we can better notice the development trend of the two studied indicators, between 2002-2009. The correlation between these two is at most incidentals and occurs mainly in the declining areas, but we can once again convince us that the implementation of the flat tax did not bring the fresh budgetary air needed by the Romanian public finances. If we consider the opposite angles of the two indicators' evolution slopes between 2005-2008, we can notice that in the mentioned period there could have been a direct correlation between the two developments for this 16% flat tax to be as expected.

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