

THE INFLUENCE OF SOCIAL CONTRIBUTIONS ON THE ECONOMIC GROWTH

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Abstract: *One of the most important law regarding taxes that influence the development of the private system is the social contributions law. The evolution of social contributions in Romania shows that its integration in the European Union has not positively influenced these taxes. In this context, the European funds have given a welcomed opportunity for companies to grow their businesses and therefor increase the number of employees but the social contributions along with other taxes are a factor in the slow economic progress. Our analysis shows that there is a growth in the number of employees thus there is an increase in the social contribution. We aim to prove that the state must encourage and support in a grater measure the use of structural funds.*

Keywords: social contributions, taxes, European funds, economic growth, gross minimum wage

JEL classification: H22, H30

Benjamin Franklin wrote in a letter to Jean-Baptiste Leroy that „...in this world nothing can be said to be certain, except death and taxes”. Taxes are an imperative in the sustainability of a state. But when do taxes become an obstacle in its well-being?

Romania is a European country since 2007, but its fiscal system is more complicated by the year. One of the most important law regarding taxes that influence the development of the private system is the social contributions law. This law binds both employers and employees to pay pre-established percentages over the gross wage, by the employers and from the gross wage by the employees to the National Budget for Social Securities. In addition the law implies a share of 16% to the State Budget for the income for wages or income taxes.

Table 1: Employer’s contributions to the National Budget for Social Securities

| Destination of the contribution | Employer (% over the gross wage) | Observations |
|---------------------------------|----------------------------------|------------------------------|
| <i>Social securities</i> | 20,80 | normal working conditions |
| | 25,80 | difficult working conditions |
| | 30,80 | special working conditions |
| <i>Health insurances</i> | 5,20 | |
| <i>FNUASS</i> | 0,85 | |
| <i>Unemployment relief</i> | 0,50 | |
| <i>Salary outstanding</i> | 0,25 | |

| | | |
|---|-----------|--|
| <i>debts</i> | | |
| <i>Insurances for risks and working accidents</i> | 0,15-0,85 | |
| <i>Labour Chamber</i> | 0,25-0,75 | |

Source: Law nr. 227/2015 regarding the Fiscal Code

The quota that must be paid by the employer ranges from 28% to 39,2% according to the work conditions provided to its employees. Even though, we are on the second place in the rank of cheapest workforce in Europe, these contributions make foreign investors think twice before choosing Romania for their businesses. Moreover, Romanian companies are forced to lower wages or even reduce positions in their companies in order to afford these taxes.

Table 2: Employee's contributions to the National Budget of Social Securities

| Destination of the contribution | Employee (% from the gross wage) |
|---|---|
| <i>Social securities</i> | 10,50 |
| <i>Health insurances</i> | 5,50 |
| <i>FNUASS</i> | 0,00 |
| <i>Unemployment relief</i> | 0,50 |
| <i>Salary outstanding debts</i> | 0,00 |
| <i>Insurances for risks and working accidents</i> | 0,00 |
| <i>Labour Chamber</i> | 0,00 |

Source: Law nr. 227/2015 regarding the Fiscal Code

After a rough calculation of the contribution an employee has to pay to the state, in Romania a person with minimum wage benefits from a net salary of 785 lei which represents about 173 euro. Even if the state increases the minimum gross wage to 1.250 lei the net salary will improve by 140 lei, meaning 31,21 euro. This is an insignificant difference. The real difference would make a reduction of the contribution quota.

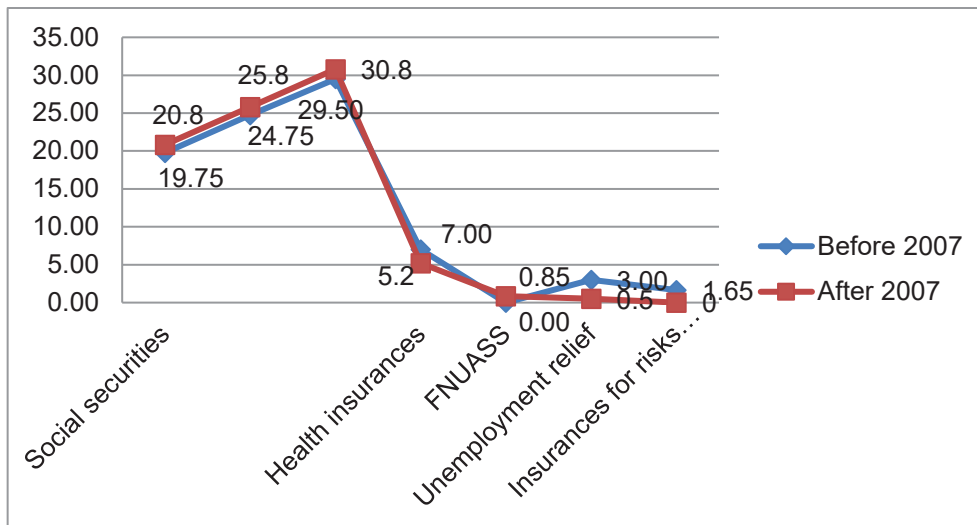


Figure 1: Evolution of social contributions

Source: Law nr. 227/2015 regarding the Fiscal Code

The evolution of social contributions in Romania shows that its integration in the European Union has not positively influenced these taxes. In this context, the European funds have given a welcomed opportunity for companies to grow their businesses and therefor increase the number of employees but the social contributions along with other taxes are a factor in the slow economic progress.

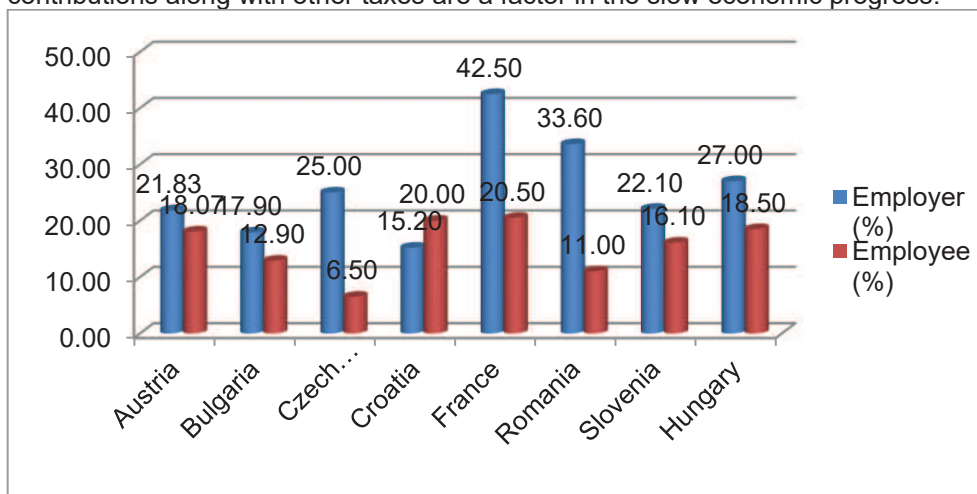


Figure 2: Social contributions through EU

Source: PWC Worldwide Tax Summaries Corporate Taxes 2015/16

With a minimum gross wage below 200 euro Romania is among the European countries with the highest social contributions. This is a major obstacle in creating a sustainable and growing economic environment for local and foreign companies. The Romania fiscal system suffocates small and medium enterprises which sustain

the entire public system.

We have conducted a study on eight SMEs that used structural funds in order to improve their business. Our analysis shows that there is a growth in the number of employees thus there is an increase in the social contribution. We aim to prove that the state must encourage and support in a grater measure the use of structural funds.

Table 3: Project value

| | Total eligible amount (lei) | Grant eligible value (lei) |
|------|------------------------------------|-----------------------------------|
| I | 974.650,89 | 591.491,77 |
| II | 1.533.273,00 | 1.064.091,46 |
| III | 1.862.555,28 | 1.063.168,92 |
| IV | 2.278.947,35 | 1.360.915,91 |
| V | 386.049,12 | 234.408,93 |
| VI | 330.832,00 | 206.610,60 |
| VII | 75.558,00 | 52.890,60 |
| VIII | 1.774.017,00 | 1.064.410,20 |

Source: Author's research

Looking at the table above we easily see that the grant eligible value reported to the total value of the project represents, in most cases, more than 50%. This value is in the total benefit of the users of grants because their co-financing is reduced.

Table 4: Turnover evolution

| | Turnover I | Turnover II |
|------|-------------------|--------------------|
| I | 9.707.304,00 | 10.345.784,00 |
| II | 17.634.919,00 | 18.103.467,00 |
| III | 36.298.106,00 | 42.736.084,00 |
| IV | 26.075.419,00 | 28.855.059,00 |
| V | 9.438.645,00 | 9.750.053,00 |
| VI | 22.500.000,00 | 31.500.000,00 |
| VII | 4.078.898,00 | 4.873.805,00 |
| VIII | 11.876.769,00 | 12.729.441,00 |

Source: Author's research

Using grants led the beneficiaries from this study to an increased turnover. The conclusion is that benefiting from grants is more efficient than using funding sources that involve costs.

Table 5: Evolution of wage contributions

| | Average number of employees I | Average number of employees II | Total expenditure on wages I | Total expenditure on wages II | Additional wage contributions | Additional jobs |
|---|--------------------------------------|---------------------------------------|-------------------------------------|--------------------------------------|--------------------------------------|------------------------|
| I | 72 | 73 | 1.557.052,00 | 1.783.929,00 | 100.393,07 | 1 |

| | | | | | | |
|------|-----|-----|--------------|--------------|------------|----|
| II | 44 | 64 | 512.347,00 | 736.055,00 | 98.990,79 | 20 |
| III | 160 | 179 | 4.685.914,00 | 5.218.744,00 | 235.777,28 | 19 |
| IV | 166 | 172 | 4.519.173,00 | 4.751.851,00 | 91.326,12 | 6 |
| V | 61 | 75 | 2.923.734,00 | 3.352.587,00 | 189.767,45 | 14 |
| VI | 50 | 100 | 751.500,00 | 1.575.000,00 | 364.398,75 | 50 |
| VII | 28 | 35 | 381.941,00 | 438.335,00 | 24.954,35 | 7 |
| VIII | 57 | 73 | 808.012,00 | 1.037.823,00 | 101.691,37 | 16 |

Source: Author's research

Provision of structural funds for our country, as for other Member States aims to reduce economic disparities and create conditions to ensure additional sources for the state budget and social insurance budget. We note that the beneficiaries of these funds achieved this target.

Conclusion

In conclusion, taxes are a sensible subject worldwide. This paper intends to highlight a real problem faced by SMEs in 2016. The tax burden severely hampers business development in that it compels managers to think twice before hiring new people. For a country in the European Union, Romania is far from what it means encouraging a skilled workforce, free movement of human capital and creation of a large number of new jobs. This affects the SMEs on the competitiveness plane. Without sufficient qualified staff the offers of products and services are not up to the level of other EU countries. The managers' reluctance to invest in human capital also decreases the desire of young people to pursue higher or specialized education, leading to a significant shortage of skilled labor. We believe that by encouraging the use of European funds we increase the chances to improve the current situation. This support encourages a long-term development for the SMEs, and therefore human resource development. Of course the use of structural funds is not enough. Firstly, we propose a reduction of the budgetary system; then simplify taxation, especially reducing contribution rates. Only through real support from the state, we can expect an improvement in the economic environment.

References

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