ELEMENTS OF TAXATION AND THEIR ECONOMIC EFFECTS

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Abstract: *This paper analyzes taxation and its elements and aspects of Romania's evolution. Direct and indirect taxes are fundamental elements of the Romanian tax system and own resources that the state can obtain. The article also delves into the future perspectives of taxation and their potential impact on Romania, providing a comprehensive understanding of this evolving landscape.Taxation represents a central aspect of economic policy, having a crucial role in financing public expenditures and influencing economic agents economic behavior. The main elements of taxation include taxes, duties, and social contributions. Taxation is an essential tool of economic policy, financing public expenditure and influencing economic behavior. Through its various elements and effects, taxation contributes to the achievement of the economic and social objectives of a state.*

Keywords: taxation, the components of taxation, the future of taxation

JEL classification:H00, H25, H30

Introduction

Taxation, a key tool for all governments, holds the potential to not just stimulate the economy but also achieve public policy objectives. It serves as the backbone of the social contract, enabling citizens to fulfill their obligations and the state to protect their interests. Central taxes cater to national interests, funding social, educational, health services, and investments, while local taxes focus on local objectives, ensuring a high quality of life for residents.

The implementation of the social contract often showed slippages that generated fiscal riots. States have always been in a position to establish and respect principles to prevent such riots, one of the most important being that of "imposition justice," which he formulated as follows: "The subjects of each state must contribute, as much as possible, at the support of the state, concerning their respective possibilities, that is, about the income that, under the protection of this state, they can enjoy." (Smith, 1965, pp. 242-256). Contrary to Smith's opinion, Milton Friedman combats progressive tax quotas considering them means of "coercion to take from some and give to others, a fact that comes into direct conflict with individual freedom." (Friedman, 1995, p.195)

Fiscal policies that support progressive taxation, specific to countries with social democratic regimes, favor people experiencing poverty and increase the tax burden on private companies and those with high incomes. In contrast, proportional taxation, promoted by liberal regimes, favors economic development by not additionally taxing the rich and companies. An exciting position is supported by Richard A. Musgrave, for which the equity of taxes is reflected in the benefit that each payer receives through the social services they benefit from (Musgrave & Musgrave, 1973, p. 194), and this can be considered a motivating idea for contributors.

Determining the level of taxation is challenging given its dual role: stimulating the economy and preventing excessive and long-lasting deficits. A high level of taxation allows the achievement of some economic and social policy objectives. However, it is difficult for the population to determine how to reduce consumption. On the other hand, low taxation can be

economically friendly but risky from the point of view of the budget deficit. Therefore, all possible influences of fiscal policies must be taken into account.
Another contradictory aspect of the level of taxation resides in the "income effect," in which low taxes on work, which generate higher nominal wages, determine the reduction of working time parallel to the increase of free time, and in the "substitution effect," in which high labor taxes cause employees to increase their working hours to counterbalance the reduction in the net salary.
In conditions of high taxation, the degree of tax evasion is high, while in conditions of low taxation, the degree of voluntary compliance increases. At the same time, when the increase in taxation occurs against the background of the increase in the population's income, it is less felt and generates fewer adverse reactions (Văcărel, 2003, pp.3-4).
There are then significant differences in time and space regarding the way states use tax revenues in the interest of citizens, respectively, regarding the quality of social, health, or educational services. Nowadays, citizens are increasingly interested in decision-making transparency and the efficiency of spending money from fees and taxes, the EU being, at present, increasingly interested in the construction of a "fair, efficient and favorable tax system for economic growth" (https://european- union.europa.eu/priorities-and-actions/actions-topic/taxation_ro). The most significant shortcomings appear in conditions where corruption is not controlled, substantial sums collected by the state being wasted or directed to those close to the political system, a fact that brings essential damages. Added to this is the reduced capacity to collect taxes and fees, which generates frustration among good taxpayers.
The complex challenges faced by fiscal policies compel us to consider whether it's time for a paradigm shift in the fiscal field. Could a 'creative/constructive destruction' of the current system be the answer, enabling it to better adapt to the ever-evolving economic realities of our time.

Aspects regarding the evolution of taxation in Romania

Elements of taxation can be found since antiquity in the form of external taxes, for example, customs duties, or internal taxes such as income tax, inheritance tax, etc., collected both by local agents and state officials, the amounts obtained being used, mainly, for the support of wars, respectively of vulnerable people. In the periods that followed, the issue of taxation became more complex and better regulated.
Taxation is structured around critical elements such as direct and indirect taxes, local taxes, and social contributions.
Direct taxes are levied directly from taxpayers and are based on the level of income or profits made. In contrast, indirect taxes, such as value-added tax (VAT) or excise duties, are levied indirectly on consumers by being included in the price of goods and services.
Direct taxes, such as income tax, profit tax and social contributions (CAS and CASS), are key elements of Romania's fiscal system. They not only generate revenue for the state, but also influence the fiscal behavior of citizens and businesses.Income tax is one of the most important sources of income for the state budget of Romania. It is levied on both individuals and legal entities, having a significant impact on their fiscal behavior.
According to the study conducted by Popescu, A. (2018), income tax can negatively affect employee motivation and productivity. High-income tax levels can lead people to work less or look for ways to reduce their taxable income, thus affecting economic growth and competitiveness.
At the same time, income tax can also have effects on investments and entrepreneurship in Romania. Individuals and legal entities may be discouraged from investing their savings or starting their own business due to the high tax burden, thereby reducing innovation and economic development.

The profit tax is levied on legal entities and represents another important source of income for the state budget of Romania. This tax can also have a series of economic effects on the business environment. The profit tax can influence the investment decisions of companies. High corporate tax rates can discourage companies from investing in new technologies or expanding their operations, thus affecting economic growth and innovation. Also, corporate tax can affect the competitiveness of businesses in the international market. Companies in Romania may be at a disadvantage compared to those in other countries with lower profit tax rates, which may affect exports and attract foreign direct investment.
Social contributions, such as social security and health contributions, are levied on both employers and employees to finance various social programs and services. These contributions can also have a significant impact on the Romanian economy. Social contributions can affect labor costs and, implicitly, the competitiveness of businesses.
Employers may be discouraged from hiring new workers or offering higher wages due to the high tax burden associated with social contributions. Social contributions can also have effects on the financial health of businesses. As social contributions represent a significant part of labor costs, they can affect the profit margins and investment capacity of businesses.
Indirect taxes, such as value-added tax (VAT) and excise duties, are fundamental elements of Romania's fiscal system. VAT is one of the most important sources of income for the state budget of Romania. VAT has a significant impact on consumption and consumer purchasing behavior. Since VAT is included in the prices of goods and services, it can affect the purchasing power of the population and consumption behavior, sometimes causing it to be reduced.
VAT can also affect the competitiveness of businesses, especially in the SME sector. Higher prices caused by VAT can cause a decrease in demand for goods and services produced by Romanian enterprises, thus affecting their income and profitability.
Excise duties, applied to goods such as alcohol, tobacco, and fuels, also have a significant impact on the Romanian economy; high excise duties can cause a decrease in consumption of these goods, having a positive impact on public health and on the costs associated with medical care.
However, high excise duties can also have adverse effects on the competitiveness of businesses, especially for the transport and logistics sector. Higher excise duties can increase operational costs for businesses using fuels, thus affecting their profitability and competitiveness in the market.
Each of these fiscal elements has its own effects on the economy. For example, direct taxes can influence income distribution and poverty by progressively taxing those with higher incomes and providing tax breaks for those with lower incomes. In addition, direct taxes can affect the work and investment behavior of individuals and businesses.
On the other hand, indirect taxes can have an impact on inflation and consumer purchasing power. Although these taxes are levied indirectly, they can be regressive, disproportionately affecting those with lower incomes. Excise duties, for example, can increase the prices of certain goods, which can reduce access to them for disadvantaged groups.
Social contributions, such as those for pensions and health insurance, are another critical component of the tax system. These contributions are collected from both employers and employees and are used to finance social programs and insurance for the population. However, high levels of social contributions can affect the competitiveness of businesses and increase labor costs.
In conclusion, a country's fiscal elements play an essential role in shaping economic behavior and in providing the resources necessary for the functioning of the government and the financing of public services. Understanding the impact of these elements and their appropriate management are crucial to achieving the goals of economic and social development in a society.
Two significant changes took place in Romanian taxation after 2000:

-the transition from progressive taxation in installments between 18 and 40% to proportional taxation with a single tax rate of 16% and, subsequently, 10%, which also meant an increase in the level of collection of taxes and duties
- the transfer of pension and health insurance contributions only to employees, simultaneously with their percentage reduction

Table 1: The transition of taxes in the years 2004-2016

Destination of contributions	Employers 2004	Employers 2016	Employees 2004	Employees 2016	*Total 2004*	*Total 2016*
State social insurance budget	19.75%	-	9,5%	25%	29,25%	25%
Social health insurance fund	7%	-	6,5%	10%	13,50%	10%
Unemployment benefit fund	2.50%	2,25%	1%	-	3,5%	2,25%
Unemployment benefit fund	0,75%	-	-	-	0,75%	-
Total	30%	2,25%	17%	35%	47%	37,25%

Source: Ministry of Finance

Taxes and duties are the primary source of revenue for governments around the world and play a crucial role in financing public expenditure and economic development.
According to the study by Popescu (2017), the source of taxes can influence a country's fiscal balance and income distribution. Direct taxes, such as income tax and corporate tax, can help redistribute income by progressively taxing those with higher incomes, while indirect taxes, such as VAT and excise duties, can disproportionately affect income earners. Regarding the destination of taxes, transparency and responsibility in the use of fiscal resources is essential. Governments must ensure that taxes collected are directed to priority areas and are used effectively to maximize social and economic benefits. For example, a significant proportion of tax revenues can be directed to the health system to ensure access to quality health care for all citizens. Investments in infrastructure, such as roads, railways, and communication networks, also contribute to boosting economic growth and improving the quality of life.

Taxation in the Modern World and the Future of Taxation

In the modern world, taxation is not only a revenue collection tool for the state, but also an important mechanism for promoting social equity, supporting sustainable economic development and combating inequalities. In the modern world, taxation is increasingly influenced by globalization and technological changes. Multinational companies and digital technologies pose new challenges to tax collection and combating tax evasion, requiring greater international coordination and adaptation of tax regulations to new economic realities.
The digital economy and globalization have created significant challenges for traditional tax systems. Professor Adrian Câciu, from the Academy of Economic Studies in Bucharest, in

his paper "Digital Economy and Taxation: Challenges and Solutions," argues that a revision of the fiscal framework is necessary to adapt taxes to the new economic realities.
The future of taxation is marked by a series of trends and challenges that will shape tax policy in the coming decades. One of these issues is the rise of sustainability and environmental concerns. According to the study carried out by Ionescu (2020), green fees and taxes are becoming increasingly important in the context of climate change and sustainable development agendas, being used to discourage polluting activities and promote clean technologies.
Also, the digitization of the economy will continue to influence taxation in the future, and digital technologies and the digital economy will raise new questions related to income taxation and VAT collection in a globalized and interconnected economy. Governments will have to adapt quickly to these changes and develop appropriate tax regulations for the digital environment.
Professor Ionuț Dumitru, former president of the Fiscal Council of Romania, in his work "Structural Reforms and Efficient Fiscal Systems", emphasizes the importance of structural reforms to promote a more efficient and fair taxation in Romania and at the same time argues that a holistic approach is needed, which aim at both simplifying the tax system and improving tax administration.
In addition, economic and social inequality will continue to be a significant concern for future fiscal policies; progressive taxes and income redistribution measures will play an increasingly important role in fighting inequalities and promoting a fairer and more inclusive society.
Professor Mihai Copăceanu, from the University of Bucharest, in his work "Digitalization and Adaptation of Fiscal Systems: Challenges and Strategies," highlights that digitalization requires a review of fiscal systems to collect and manage revenues from the digital economy efficiently. The implementation of innovative fiscal instruments, such as taxes on digital transactions or personal data, may be necessary to ensure adequate and fair taxation in this area.
In the context of the increase in tax evasion in the digital environment, Romanian researchers, such as Ana Popa and George Marinescu, in their work "Fiscal Evasion in the Digital Era: New Trends and Solutions," propose innovative strategies to combat this phenomenon. The use of emerging technologies such as data analytics and artificial intelligence could significantly improve the ability of tax authorities to detect and prevent online tax evasion.

Table 2: Taxes on income & profits, social security contributions and total tax revenue for the OECD countries in 2022 (% of GDP) and the VAT rates for 2022.

Country	Taxes on income & profits, GDP, %	Social security contributions, GDP, %	Total tax revenue, GDP, %	VAT rates
Australia	18,1	0	29,5	10,0
Austria	13,3	14,7	43,1	20,0
Belgium	15,9	12,9	42,4	21,0
Canada	16,9	4,7	33,2	5,0
Chile	10,5	1	23,9	19,0
Colombia	6,6	1,6	19,7	19,0
Costa Rica	5,5	8,9	25,5	13,0
Czechia	7,1	15,8	33,9	21,0
Denmark	27	0	41,9	25,0

Estonia	7,9	11,4	32,8	20,0
Finland	15,9	11,9	43	24,0
France	12,9	15	46,1	20,0
Germany	13,1	14,6	39,3	19,0
Greece	8,3	12,1	41	24,0
Hungary	5,6	9,4	33,2	27,0
Iceland	17,8	3	34,9	24,0
Ireland	11	3,2	20,9	23,0
Israel	12,3	5	32,9	17,0
Italy	14,1	13,2	42,9	22,0
Japan	11	13,3	34,1	10,0
Korea	11,9	8,2	32	10,0
Latvia	6,8	9,2	30,2	21,0
Lithuania	10	9,9	31,9	21,0
Luxembourg	14,8	10,7	38,6	17,0
Mexico	8	2,4	16,9	16,0
Netherlands	12,5	12,6	38	21,0
New Zealand	20	0	33,8	15,0
Norway	26,8	7,7	44,3	25,0
Poland	7,3	13,7	35,2	23,0
Portugal	10,5	10,3	36,4	23,0
Slovak Republic	7,9	14,6	34,8	20,0
Slovenia	7,5	16	37,4	22,0
Spain	11,8	12,8	37,5	21,0
Sweden	14,7	8,7	41,3	25,0
Switzerland	12,7	6,8	27,2	7,7
Türkiye	5,8	5	20,8	18,0
United Kingdom	13,3	7,1	35,3	20,0

Source: Revenue Statistics 2023- Tax Revenue Buoyancy in OECD Countries, https://www.oecd.org//tax/revenue-statistics

In 2022, France had the highest tax-to-GDP ratio at 46.1%, a position it last held in 2018. Norway followed with the second-highest ratio at 44.3%, while Mexico had the lowest ratio at 16.9%.

Denmark observed the largest decrease in its tax-to-GDP ratio between 2021 and 2022, with revenues falling by 5.5 percentage points. This decline was attributed to decreases in revenues from income taxes (4.5 percentage points) and from taxes on goods and services (0.9 percentage points).

Türkiye experienced the next-largest decline of 2.0 percentage points, with social security contributions falling by 1.6 percentage points and revenues from personal income tax (PIT) dropping by 0.7 percentage points.

As of 1 January 2022, 23 OECD countries had a standard VAT rate of 20% or higher. Among these, 10 countries had a standard VAT rate of 23% or higher. All of these countries are EU

Member States, with the exceptions of Iceland and Norway, which have standard VAT rates of 24% and 25% respectively.
The average standard VAT rate of the 22 OECD countries that are EU members is 21.8%, which is notably higher than the OECD average of 19.2%. EU Member States are required to follow common rules for determining their national VAT rates (VAT Directive 2006/112/EC), which sets the minimum standard VAT rate at 15%. The average VAT standard rate in the OECD in 2022 was 19,2%.
According to the Execution Report of the Consolidated General Budget of Romania as of 31.12.2022 available on the website of the Ministry of Finance, tax revenues in 2022 accounted for 16.1% of the GDP. This included a VAT rate of 6.6% of the GDP and a profit tax, wages, income, and capital gains totaling 4.6% of the GDP.
Currently, three VAT rates apply in Romania: the standard rate, applied to most products and services of 19% and the reduced rates of 9% and 5%. The standard rate of 19% is valid from January 1, 2017 and applies to all products and services, except for those for which a reduced rate applies or for those operations for which there are VAT exemptions.

Conclusion

Taxation is a necessary evil. That is precisely why it is necessary for taxpayers, individuals, or commercial companies to be aware of the importance and usefulness of their financial efforts and for the state, through specialized institutions, to efficiently and transparently use the revenues collected in the interest of citizens.
Fiscal policies must be adjusted periodically according to the economic situation of each country, respecting the principles of equity, solidarity, and effectiveness, and correlated with budgetary and monetary policies (Văcărel, 2007, p.43).
Taxation has both short-term and long-term effects on the economy. Among the short-term effects, we mention the increase in government spending that stimulates aggregate demand and facilitates the exit from recession in conditions of high taxation, but this can lead to an increase in the budget deficit and public debt in a situation of reduced taxation, in the short term a reduction in economic growth can be registered, but also a reduction in inflation and the deficit, as well as a depreciation of the national currency. In the long run, tax cuts stimulate economic growth by increasing investment and labor supply but may cause the budget deficit to increase. In contrast, tax increases may translate into increased public spending on education, health, and infrastructure, including increased productivity, but they can also increase public debt.
The implementation of common fiscal policies in the EU would have, on the one hand, positive effects, given that the response to the developments of the world economy would be unitary, but also adverse effects, especially regarding direct taxes, deriving from the differences between the member countries under the aspect of the level of development and the standard of living.
Over long periods (half of the last century - the first decade of this century), there is an increase in taxation both in the OECD countries and, in particular, in the EU countries, of course, with differences between different regions, depending on several factors endogenous and exogenous.
Digitization represents an opportunity for the tax system in Romania, while at the same time, it is also a challenge for the Romanian economic environment. Adapting to technological changes and implementing intelligent and innovative tax policies are essential to ensure a fair, efficient, and growth-friendly tax environment in the digital age.

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