

AN ATTEMPT TO DESIGN A FISCAL PROFILE OF THE ROMANIAN TAX SYSTEM

Ionel LEONIDA, PhD*

Abstract

In this paper we analyse the Romanian tax system in terms of tax structure and tax rates, in relation to countries in the geographical area of Romania, trying to configure a tax profile of the Romanian tax system. The methodology used combines the empirical analysis of statistical data and their interpretation, with the identification of causalities, in convergence with the objective. The debate and concern are justified by the fact that there are no concrete pragmatic "recipes" for adjustments to guarantee the success of fiscal policy measures, but there are theories that are valid under certain conditions, many of them in conditions of relative economic stability, aiming at adjustments and fine adjustments, with discreet effects on the economy, and less optimal solutions to shocks of the magnitude of recent ones. The results obtained, we appreciate, reflect the current general situation of the Romanian tax system, revealing adjustable and improved aspects, which may prove useful in future more complex analysis of tax authorities in the design of a medium- and long-term fiscal strategy.

Keywords: tax structure; tax revenue, tax rates, tax regime, tax competition

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1. Introduction

The adjustment of national tax systems is a constant concern of the authorities, economic and financial organizations but, at the same time, a frequent topic in the attention of academia, in scientific

* *Scientific Researcher III, "Victor Slăvescu" Centre for Financial and Monetary Research, Romanian Academy, Bucharest.*

and technical debates, even philosophical, receiving confirmations or criticisms of adjustment measures. tax. As mentioned above, the debate and concern are justified by the fact that there are no concrete pragmatic "recipes" for adjustments to ensure the success of fiscal policy measures, but there are theories that are valid under certain conditions, many of them in terms of relative stability. aiming for fine adjustments and adjustments, with discrete impacts on the economy, and fewer solutions to shocks of the magnitude of those of 2008-2010 and 2020-2021. Moreover, even if certain theoretical tax "recipes" are outlined, their practical implementation in different countries, with different economic structures and levels of development, with cultural and educational differences, positioned in different geographical regions, leads to different results.

On the other hand, in a global, Community and regional context, in the context of the free movement of capital and labour, there are competitive effects between tax systems in neighbouring countries or in a particular region, which in most cases, leads to a reduction in tax rates, the granting of certain tax incentives, issues affecting the size of tax revenues and, consequently, a chain of negative effects on the size of budget expenditures, the budget deficit and indebtedness.

The topic is not new, there are approaches in this area of the fiscal structure, especially in the form of regular reports of some institutions European Union (EU), Organisation for Economic Co-operation and Development (OECD) and International Monetary Fund (IMF), but we appreciate the fact that the fiscal-budgetary and economic systems are dynamic and require permanently certain more discreet or wider adjustments, depending on the global, regional or national economic and social situation.

2. Literature review

The existing literature on taxation is extensive, but in the approach of the paper we aim at studies closer to the topic, this being less present and included, in particular, in analytical and evolutionary reports prepared by financial and economic institutions, such as those mentioned.

The dominant tax literature is the impact of taxation on economic performance, in the sense of the study by Lee and Gordon (2005), which assesses tax structures and their impact on economic growth in the last three decades of the twentieth century, reaching

concluded that income tax negatively affects economic growth, while personal income taxes do not have a significant impact on it, a result also confirmed by Arnold (2008), following the assessment of tax structures in OECD countries over a period of time. over 30 years. The author also concludes that property and consumption taxation support economic growth.

Other authors, such as Myles (2009) and Johansson et al. (2008) argue that income taxes are more detrimental to growth (as they affect disposable income for consumption, savings, and / or investment) than property, consumption, or environmental taxes.

Kiser and Steven (2017) update their concerns about political economy theories to provide an analytical history of tax systems, focusing on the determinants of total tax revenue, tax structure, and tax administration. The authors identify the favourable and unfavourable circumstances that have accompanied the tax systems from distant periods to the present day.

Grdinić, Drezgić, and Blažić (2017) conducted an assessment of the correlation between economic development and fiscal composition in Central and Eastern European countries, finding different tax effects from existing literature that studied the effects of taxation in OECD countries. More specifically, the authors argue that there is a negative impact of all taxes on economic growth, stressing that income taxes are the most harmful to it.

Dziemianowicz (2019), in a study that captures tax trends and changes in OECD countries, concludes that the models of tax systems are influenced by the specifics of each country, from a structural point of view, and the evolution of fiscal policies is influenced by historical conditions. changes in macroeconomic conditions. The author seeks to identify by analysing the fiscal policies implemented in the OECD, similarities and differences in response to global conditions and identifies that the general trend in the reform of tax systems is relatively similar.

Theoretical studies on the structure of taxation, on its optimality, were elaborated by Atkinson and Stiglitz (1976). Later, various international institutions looked at optimizing the structure of taxation in terms of the efficiency of public finances and the stability of the business cycle. However, there are still concerns and debates about a more efficient fiscal structure, many approaches being theoretical and their results not directly functional / applicable to fiscal reforms.

The literature has not provided quick or accurate recipes to follow regarding the optimal tax, its practical design requires the use of direct and indirect taxes, thus leaving open the proportions of the optimal tax mix (Martinez-Vazquez, Vulovic and Liu, 2010). There are no theoretical and empirical studies available that provide exact proportions for an optimal fiscal structure. We therefore agree with the literature that the practical design of tax system reforms requires a balanced approach between the objectives of efficiency, equity, simplicity and revenue levels, while the tax structure is rather country-specific and depends on particular circumstances and company preferences.

3. Presentation of the analysis

In order to outline the general profile of the Romanian fiscal system, we perform a regional fiscal analysis through which we expose fiscal situations from relatively similar countries, the general criteria considered in the selection being the geographical position close to Romania, the year of accession to the EU, 2004 and 2007, the Eurozone.

The proposed indicators are predominantly from the sphere of revenues, these mainly reflecting quantitative and structural aspects, but also certain indicators that reflect the quality of the fiscal policy, respectively aspects of typology of the fiscal regimes adopted in the analysed countries.

Specifically, applying the selection criteria mentioned above, the countries included in the analysis are: Czech Republic, Hungary, Poland, Bulgaria, and Romania. We will call this group of countries G5. The analysed period is 2010 - 2020 but restricted in the sense that we will make its average for each indicator / country, this including the history of economic events.

The indicators selected for the analysis of income evolution, presented in Table 1, are related to Gross Domestic Product (GDP), to reflect the connection with the economic dynamics of each country. For representation, the following notations will be used:

- Romania registers a value lower than the G5 average, the notation 1 will be used;
- Romania has a value similar to the G5 average, notation 2 will be used;

- Romania has a value higher than the G5 average, the notation 3 will be used.

The share of total revenues in GDP - in general there are significant disproportions, being a gap of approx. 11 pp, between the highest and lowest weight. Regarding Romania, it is positioned in a lower situation compared to the G5 average, and inside the G5, it is in the last position, registering approx. -11 pp compared to Hungary, the best positioned at approx. -2 pp, compared to Bulgaria, the penultimate ranked, and compared to the G5 average, is approx. -5,5 pp.

The share of revenues from direct taxation in GDP - in general, the share of this category of tax revenues is more balanced, the gap being approx. 2,2 pp. Romania is in a lower position compared to the G5 average, and inside the G5, Romania is in the penultimate position, registering approx. 0,4 pp over Bulgaria, the weakest position at approx. -2 pp compared to the Czech Republic, the best positioned, and at approx. -0,8 pp compared to the G5 average.

In the structure of direct incomes, at the level of the G5 average, the taxation of the incomes of the natural persons holds the most important share in their constitution, respectively 60%, and the remaining 40% represents the contribution of the taxation of the incomes of the legal persons. This situation is found, with some fluctuations, in all G5 countries.

It should be noted that Romania has a higher share of revenues from the taxation of legal entities than the G5 average, ahead of member states such as Bulgaria, Hungary and Poland, ranking second, after the Czech Republic, and a share of revenues from income taxation. individuals below the G5 average, in the penultimate position, ahead of Bulgaria.

The share of revenues from indirect taxation in GDP - in general, the share of this category of revenues is relatively unbalanced, at G5 the gap is approx. 6 pp. This category of tax revenue has a significant contribution to the formation of income (44%), followed by income from social contributions (35%) and income from direct taxation (21%). Romania is in a lower position compared to the G5 average, and inside the G5, Romania is in the last position, at approx. -6 pp, compared to Hungary, the best positioned, and at approx. -2 pp, compared to the G5 average.

In the structure of indirect revenues, at the level of the G5 average, there is a certain balance between the contributions of the two main components (revenues from VAT and revenues from excise

duties and other taxes). It should be mentioned that Romania ranks fourth in the share of VAT revenues and in fifth place in the share of excise and other taxes revenues.

Table 1
Share of total revenues and their structure in GDP, in the Czech Republic, Hungary, Bulgaria, Poland and Romania (individual and group average values), from 2010 to 2020

Indicator / country	BG	CZ	HU	PL	RO	Mediate G5	RO positioning
Share of total revenues in GDP (%)	28,6	34,8	37,8	33,3	26,8	32,3	1
The share of direct tax revenues in GDP (%)	5,4	7,8	6,8	7,2	5,8	6,6	1
of which:							
- from personal taxation	3,0	4,2	5,0	4,7	3,1	4,0	1
- from corporate income taxation	2,4	3,6	1,8	2,5	2,7	2,6	3
Share of income from taxes and property taxes in GDP (%)	0,8	0,5	1,1	1,6	0,8	1,0	1
The share of indirect tax revenues in GDP (%)	15,0	12,0	18,1	13,5	11,8	14,1	1
of which:							
- from VAT	9,0	7,1	8,9	7,4	7,3	7,9	1
- from excise duties and other taxes	6,0	4,9	9,2	6,1	4,5	6,2	1
The share of income from social contributions in GDP (%)	7,8	14,9	12,7	13,5	9,6	11,7	1

Source: European Commission, Taxation Trends Report 2021, author calculations.

Share of social contributions in GDP - in general, the share of this category of income is relatively disproportionate, at G5 the gap is approx. 7 pp. Romania is positioned in a lower situation compared to the G5 average, and inside the G5, Romania is in the penultimate position, registering approx. 1,8 pp over Bulgaria, the weakest position at approx. -5,3 pp, compared to Hungary, the best positioned, and at approx. -2 pp, compared to the G5 average.

A general finding based on the comparative evaluations performed is that Romania is inferior to most of the analysed indicators in relation to the average and in the G5 structure, frequently alternating with Bulgaria the ranking on one of the last positions.

With regard to the tax regime, it cannot be easily traced properly and inadequately from the perspective of fiscal performance. However, against the background of the more frequent economic and non-economic crises, the growing need for budget revenues, the increased need for social equity, etc., we consider that a progressive fiscal regime is more encouraging for citizens and the economy, compared to a fiscal regime with proportional shares. Therefore, we denote by 3 the existence of the progressive quota and by 1 its absence or the unique quota. Calculating an average of the period, the alternation of the regimes can lead to a relatively ambiguous result, of transition from one regime to another, which we denote by 2.

Table 2
Average tax rates of some tax bases and the tax regime of personal income tax in the Czech Republic, Hungary, Bulgaria, Poland and Romania between 2010 and 2020

Indicator / country	BG	CZ	HU	PL	RO	Mediate G5	RO positioning
Personal income tax rate (%)	10,0	15,0	18,6	32,0	14,4	18,0	1
Fiscal regime of personal income tax	1	2	2	3	1	2	1
Corporate income tax rate (%)	10,0	19,0	17,0	19,0	16,0	16,2	1
Standard VAT rate (%)	20,0	20,7	26,6	22,9	21,8	22,4	1

Source: European Commission, Taxation Trends Report 2021, government information on tax regimes, author calculations.

The data from Table 2 are largely justifying factors for the dynamics of revenue shares in GDP, analysed above, namely the fact that Romania and Bulgaria have the lowest rates of income taxation of individuals and legal entities among G5 countries, being substantially below the G5 average, in terms of the average income tax rate of individuals, and in a more balanced but still lower situation, in terms of the average income tax rate of legal entities.

Another resulting aspect that can be linked to the evolution of the share of total revenues in GDP (or the share of revenues from direct taxation) is the typology of the tax regime, where Romania and Bulgaria are distinguished by single-rate tax regimes, compared to the other G5 member states, where there are progressive tax regimes and tax regimes in transition (from single quota to progressive quota or vice versa, the cases of the Czech Republic and Hungary).

4. Characteristics of the general profile of the Romanian tax system

The general finding regarding the situation of the Romanian tax system, resulting from the analysis of the evolution and structure of tax revenues and social security contributions in relation to GDP, reveals a general trend of decreasing tax rates and, consequently, a reduction the share of certain categories of income, a situation that affects the quality and stability of public finances.

These characteristics, which generate unsatisfactory revenues, affect the provision of a sufficient level of public goods and services, but also a certain rate of growth, diversification and modernization, while the quality of public finances is affected by increasing pressures on the budget deficit, This situation translates in the short and medium term into increasing public debt (a less obvious or perceived alternative among citizens) than the alternative of a revision of tax rates that can lead to unfavourable electoral consequences.

Fiscal homogeneity between Romania and this group seems to increase in terms of income structure, evolution and tax rates, aspects largely shaped by the aggressive fiscal competition in the region, most countries having a relatively similar history, being former countries communists, in the process of development, with insufficient infrastructure and the desire to attract foreign investment through fiscal mechanisms. However, within the Romanian fiscal system, certain

measures are needed to revitalize the revenues generated by it, in the sense that we make certain proposals.

5. Some possible measures to revitalize the Romanian tax system

In this regard, following the analysis, we have identified some tax issues that can be improved, which could contribute in the short and medium term to the reorientation of taxation, which we present below as potential alternatives for reflection and deepening for decision makers.

Boosting the income resulting from the taxation of personal income, this aspect representing, in our opinion, a weak point of the current tax system, with the lowest yield. One way to increase this income category may be to return a higher level of the single tax rate of at least 16%, as it was until 2017, the effect of this measure could contribute to increasing revenues from this tax base. with approx. 1,5% of GDP, a situation anticipated by analysing the impact on revenues by reducing the share from 16% to 10%. Another possibility is to plan for a further gradual increase in this rate at annual or biennial intervals, by 1 pp, to a predetermined level of tax rate, closer to the levels of average rates in the G5 region (18%).

Boosting the revenues resulting from the taxation of corporate income, this aspect also representing a weak and vulnerable point of the Romanian fiscal system, with a single tax rate of 16%, being close to the G5 average (16,2%). A general problem with tax systems is the taxation of multinational companies, which often manage to avoid taxes by overestimating imports and undervaluing exports, thus managing to distribute revenues to various regions of the globe that give them tax advantages. Measures have been taken at international and European level to limit this mechanism, namely in terms of taxation of income crossing international borders by the country of origin (source country) or by the country of residence of the beneficiaries of income (destination country). These steps have evolved, with new steps being taken recently, and this important reform of international taxation, according to the latest data, is to be implemented from 2023 and will mean that multinational companies will be subject to a tax rate of at least 15%, in any country would carry out its activity and generate profits. The implementation of these steps, to which Romania has also adhered, would bring benefits to our country by the fact that these tax

bases will no longer be eroded by various mechanisms, but will be effectively taxed in Romania.

Boosting the revenues resulting from VAT, they entered at the end of the period in a regression generated by the gradual reduction of the VAT rate from 24% in the period 2010-2015, to 20% in 2016 and to 19% in 2017, until present. A possibility to boost the income from this tax base can be represented by the progressive increase of the tax rate (similar to the proposal from the taxation of personal income), up to a predetermined level of the rate over a period of time, so that the changes can be "absorbed" by the economy without producing shocks to it. Another possibility for boosting revenues can be the significant improvement of compliance and collection, Romania being in first place in the European Union in losses from non-collection of VAT, respectively 35% of planned revenues. Administrative efforts at national level to increase VAT revenue collection are also supported by the European Union's significant efforts to improve the way VAT is collected through the creation of the Eurofisc network, which provides for the possibility of cooperation between Member States through national staff, the 27 Member States, and Norway.

The general finding is that the Romanian tax system tends to degrade the performance of its functions, especially in terms of ensuring a satisfactory level of budget revenues, lack of resources for public investment and a deepening effect of inequalities in society, accentuated of the proportional quota tax regime. Against this background, we consider that certain internal measures are needed to revitalize the tax system and its functions, at national level, and in this sense the international initiatives on fiscal reform are also oriented in this direction of restricting competition taxation, profit taxation and increasing administrative capacity, all of which have the effect of increasing tax revenue.

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