

Quantitative and structural incidences of the main fiscal-budgetary discretionary measures implemented since 2018

Ionel LEONIDA, PhD, Scientific researcher III,
Centre for Financial and Monetary Research "Victor Slăvescu", Romanian Academy
Email: leonidaionel@yahoo.com

Abstract: The objective of the paper is to evaluate the possible incidences of the main discretionary fiscal-budgetary measures implemented since 2018 at national level in terms of the size of some categories of tax and parafiscal revenues and of categories of expenditure subject to changes, including the conventional budget deficit compared to the previous situation, but also similar situations in the Member States of the European Union. We consider the main fiscal-budgetary discretionary measures implemented since January 1, 2018: the passage of social contributions from employers to employees; reducing the tax rate on personal revenue from 16% to 10% and implementing Law 153/2017 of 28 June 2017 on the remuneration of staff paid from public funds.

Keywords: discretionary measures, tax revenues, structure of tax revenues

JEL Classification: H2, H20, H22

Introduction

According to the proposed objective, the potential impacts of the main fiscal-budgetary discretionary measures implemented since 2018 at national level in terms of the size and structure of the two components of the general consolidated budget will be assessed.

In convergence with this objective, we briefly present the three discretionary measures implemented since 1 January 2018, namely:

1) Changing the employability of social contributions from the employer to the employee focused on the following aspects: a reduction in the number of contributions from 6 to 3; transferring the full payment of contributions (2 out of 3) from the employer to the employee and reducing the cumulative social contribution rate.

The three social contributions are: social security (pension) contribution; the contribution to health insurance and the occupational insurance contribution remaining to the employer which includes the four types of contributions existing by the end of 2017 (unemployment contribution, sick leave allowance, occupational risk contribution and salary contribution).

Until 2017, social contributions were borne by both the employer and the employee. As of 1 January 2018, the social security contribution for the pension has been fully paid by the employee to a minimum of 25% (for normal labor conditions) of the amount of monthly gross revenue earned and the contribution to health insurance, a 10% share of the gross monthly revenue earned. The amounts of the two social charter contributions changed in 2018 by unification compared to 2017 (from 42% in 2017 to 35% in 2018).

A tax administration measure designed to compel compliance with social contributions by empowering the recipient of revenues and social contributions.

2) **Reducing the tax rate on personal revenue from 16% to 10%** was aimed at tax relief in terms of labor taxation.

The implementation of this fiscal relaxation measure, in the alternative, also pursued social and strategic aspects. The social aspect of this measure is given by raising the minimum revenue (by reducing the nominal value of the tax) and by increasing the amount of personal deductions granted in a fixed amount, depending on the number of dependents and the gross salary level. The perspective strategic aspect of this measure is the potential increase / attraction of foreign direct investment and the creation of new tax bases (jobs, profit tax / micro-entreprise, consumption, etc.) as a result of the relaxation of taxation work.

3) **Implementation of Law 153/2017 of 28 June 2017 on the remuneration of staff paid from public funds** is intended to gradually establish / implement a unitary and equitable pay system for public sector public sector staff. This law also has the role of creating the legislative framework for developing a system for substantiating wage policies in the budgetary sector, including supervising their application, and developing a system for distributing the allocated budgetary resources for staff, by setting basic salaries in the budgetary sector in order to promote individual performance.

2. Quantitative incidences on the size of some categories of revenues and expenditures

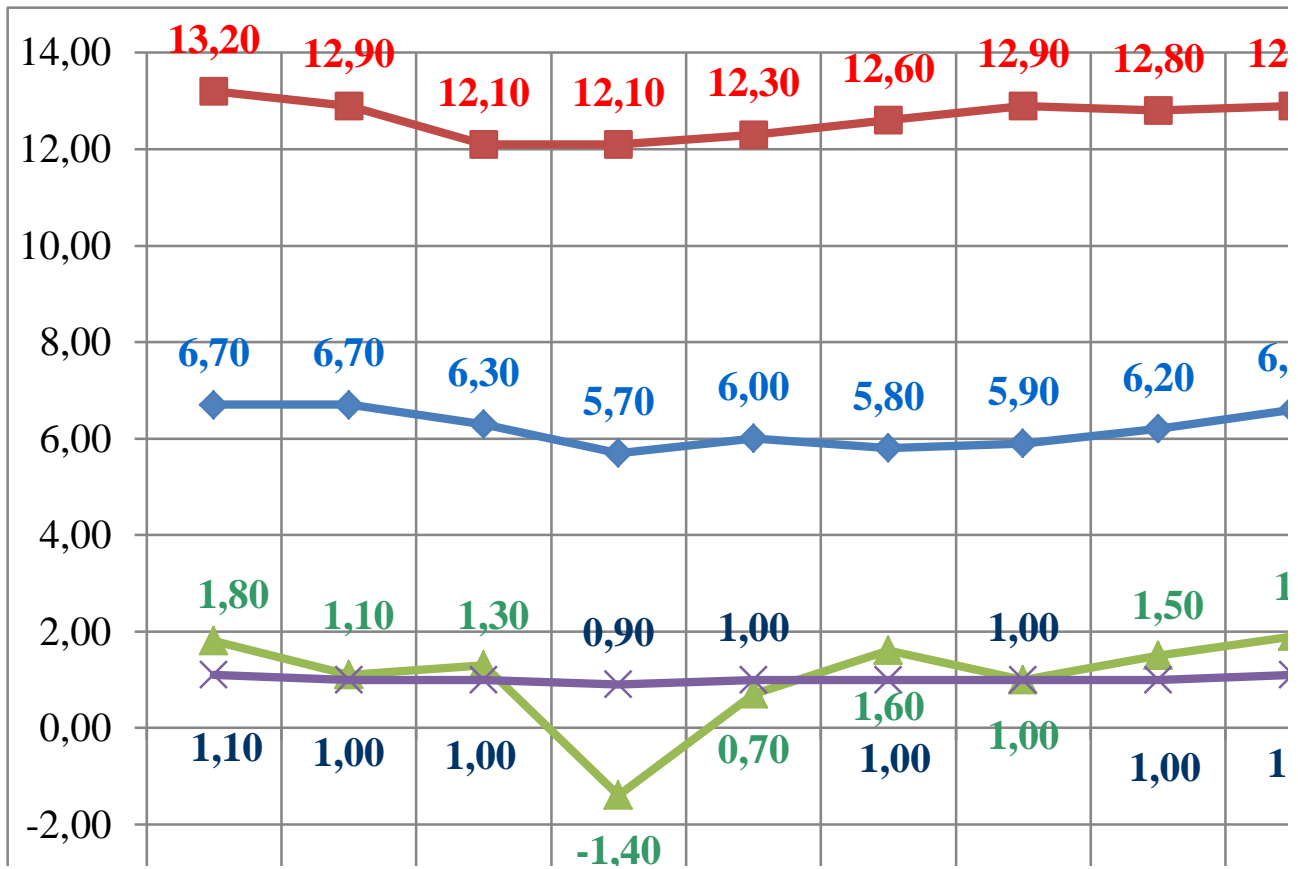
The quantitative analysis aims to capture the impact of these measures on the size and structure of earnings, staff expenditure and budget balance over the period 2007-2018.

On fiscal revenues from direct and indirect taxation

Direct taxation, presented in Figure 1, is one of the main sources of revenue for the general consolidated budget. Relative to Gross Domestic Product (GDP), this revenue category is between 6.7% in 2007-2008 and 4.6% in 2018.

Compared to the European Union (EU 28) average of direct tax revenues, expressed as a share of GDP, direct taxation at national level is in a lower position over the entire analyzed period, at 6-8 pp.

The average trend in the EU is to gradually increase the share of direct taxation in GDP, this type of taxation ensuring high compliance with the payment of tax obligations, as well as a cyclical cyclical cyclical economy.



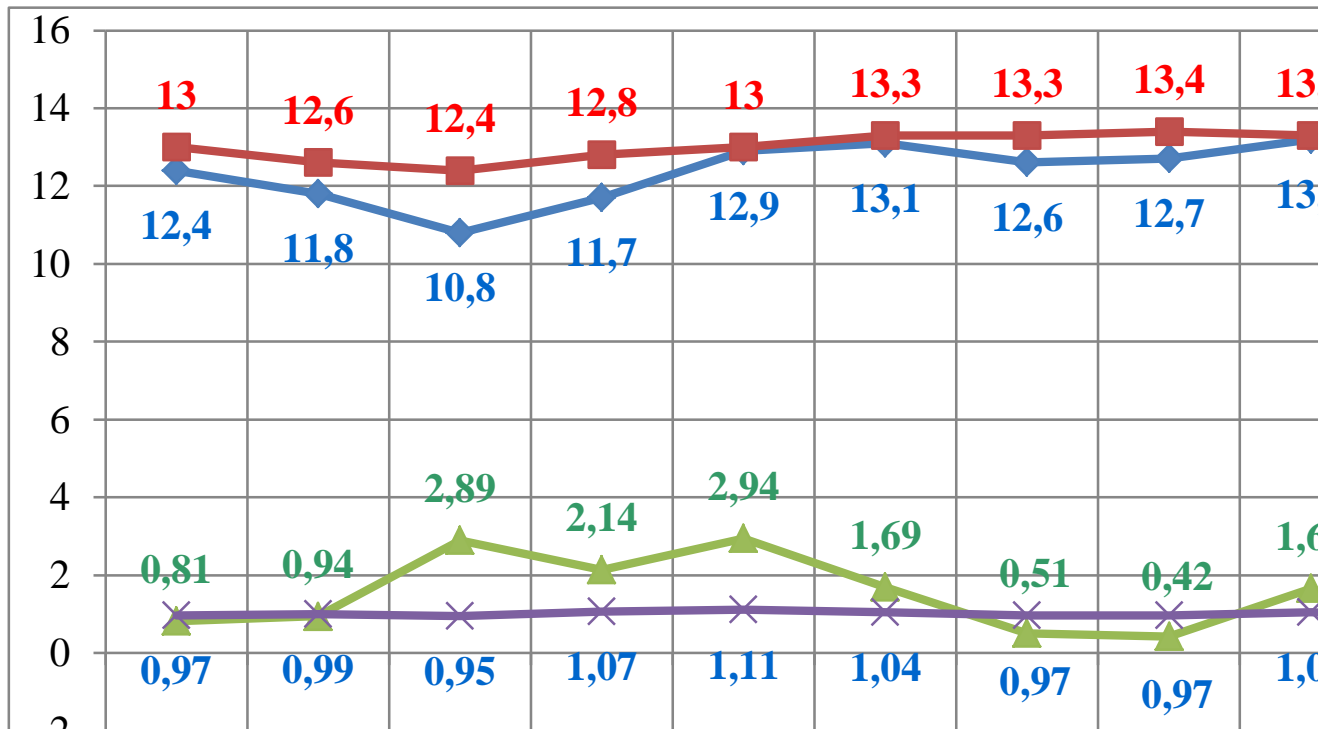
Source: Ministry of Public Finance, own processing.

Figure no. 1. Evolution of direct tax revenues from Romania, in relation to GDP and compared to the trend in the EU 28, between 2007 - 2018

At national level, there is a reverse situation, relaxing direct taxation, affecting the size of the revenues from this source, which can amplify the conventional budget deficit and increase the future tax burden (increasing tax rates in other spheres or increasing public debt to finance the deficit), but also a pro-cyclical tax policy, in that fiscal consolidation is affected.

The relationship between direct taxation and GDP, captured by means of elasticity and over-coefficient, indicates, for most of the period, their synchronization. The elasticity of direct taxes in relation to GDP is manifest for almost the whole period, except for the years 2011, 2013, 2016 and 2017, while their GDP-over-GDP ratio was over-unitary between 2007-2008 and 2012-2015, which reveals the fact that direct taxes have evolved at a faster pace than GDP.

Indirect taxation, as shown in Figure 2, is the main source of revenue for the general consolidated budget. Compared to GDP, this category of tax revenue is between approx. 13% between 2011 and 2015, and approx. 10% in the years 2017 and 2018.



Source: Ministry of Public Finance, own processing.

Figure no. 2. Evolution of indirect taxation revenues in Romania, in relation to GDP and compared to the trend in EU 28, between 2007 - 2018

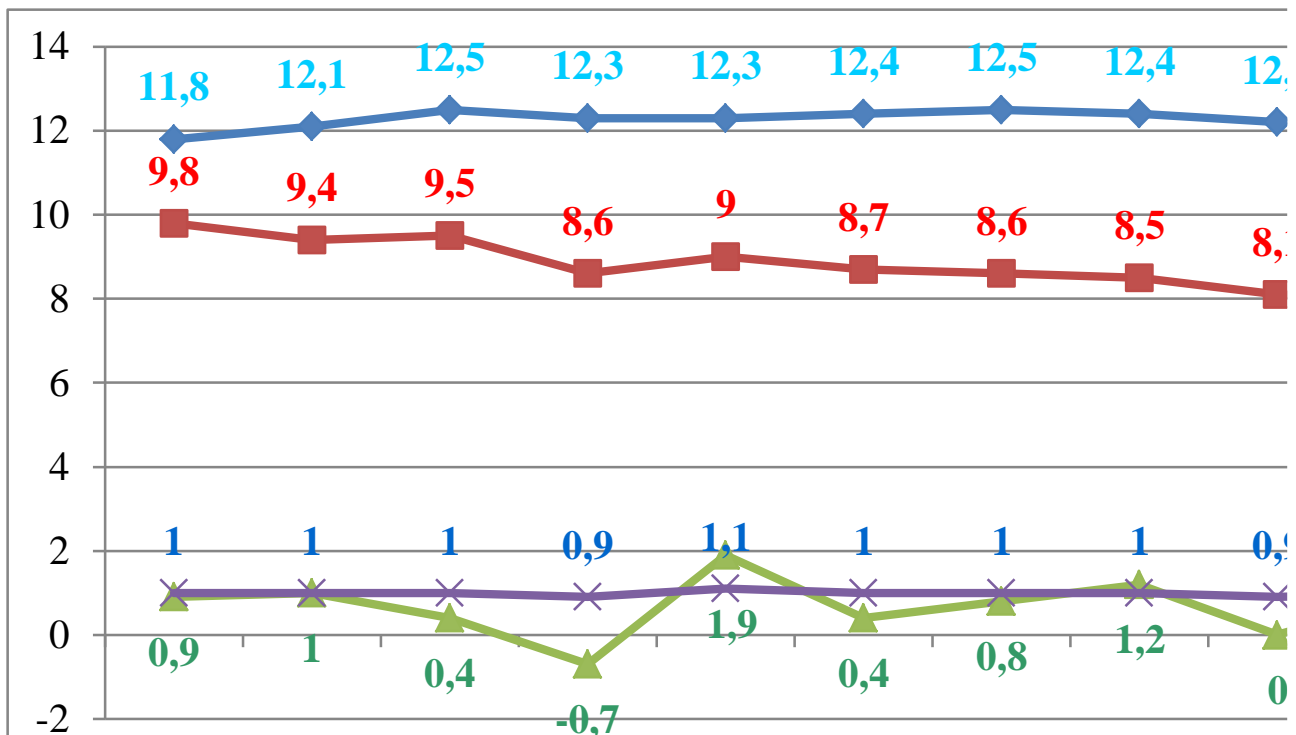
Compared to the European average (EU 28) of indirect tax revenues, expressed as a share of GDP, it is at a national level in a similar position with declining trends since 2016.

The relationship between indirect taxation and GDP, captured by means of elasticity and over-coefficient, indicates, for the most part of the period, their synchronization. The elasticity of indirect taxes in relation to GDP is positive between 2009 and 2012 and in 2015, while their GDP outpacing rate was over-the-counter between 2010-2012 and 2015, evolving more slowly than GDP.

On parafiscal revenues resulting from social security contributions

The social contributions, represented in Figure 3, is also an important source of revenue for the consolidated general budget. Relative to GDP, this revenue category is between approx. 8% in 2016 and 10.5% in 2018.

Compared to the European average (EU 28) of the parafiscal revenues from social security contributions, expressed as a share of GDP, it is at a national level in the lower position for the entire analyzed period, at 2-4 pp.



Source: Ministry of Public Finance, own processing.

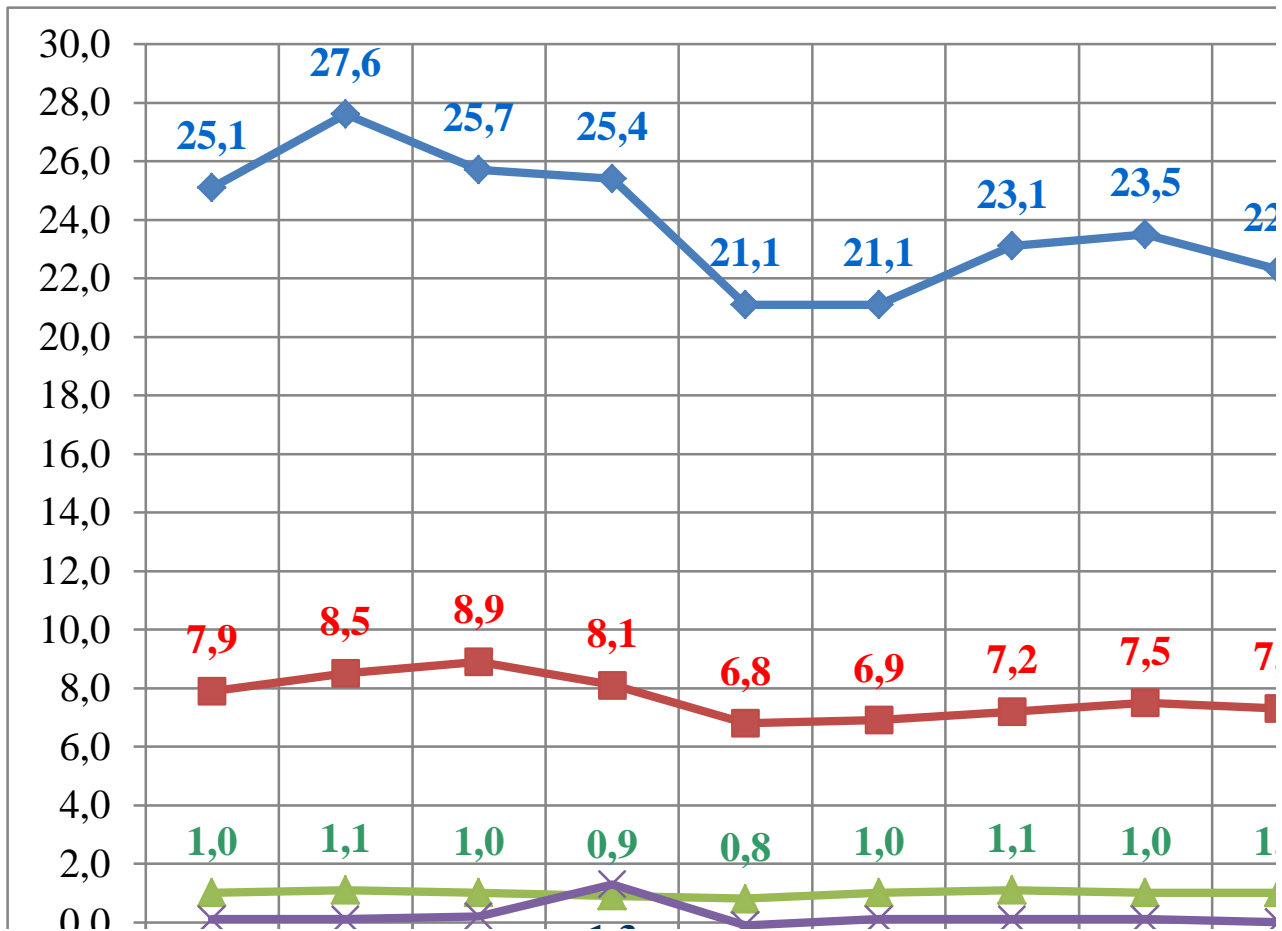
Figure no. 3. Evolution of revenues from social security contributions in Romania, in relation to GDP and in comparison with the trend in EU 28, between 2007 - 2018

The relationship between social security contributions and GDP, elasticized and offset, indicates that social contributions were elastic in relation to GDP in 2008, 2011, 2014, 2017 and 2018, and the GDP outpacing rate reflected that in the years 2008, 2009, 2011, 2014, 2017 and 2018, social security contribution earnings have evolved more rapidly than GDP.

Evolution of expenditure for public sector employees

The of expenditure for public sector employees shown in Figure 4 represent an important category of expenditures of the general consolidated budget, using, on average, about 1/4 of the total total expenditure of the budget. Their evolution is oscillating, with significant increases in the years 2007 - 2009 and 2016 - 2018, in which they increased annually by over 2 percentage points, reported total expenditures. Compared to GDP, this expenditure category maintains the trajectory of its share of total expenditure, 8.9% in 2009, and 9.1% in the year 2018.

The relationship between expenditure for public sector employees and GDP through elasticity indicates that staffing expenditure is not elastic in relation to GDP, and the GDP growth rate by personnel costs indicates that over the entire period, with the exception of 2010 and 2011, they have developed more slowly than GDP.



Source: Ministry of Public Finance, own processing.

Figure no. 4. Evolution of expenditures for public sector employees in relation to GDP and total consolidated budget expenditures in Romania, between 2007 - 2018

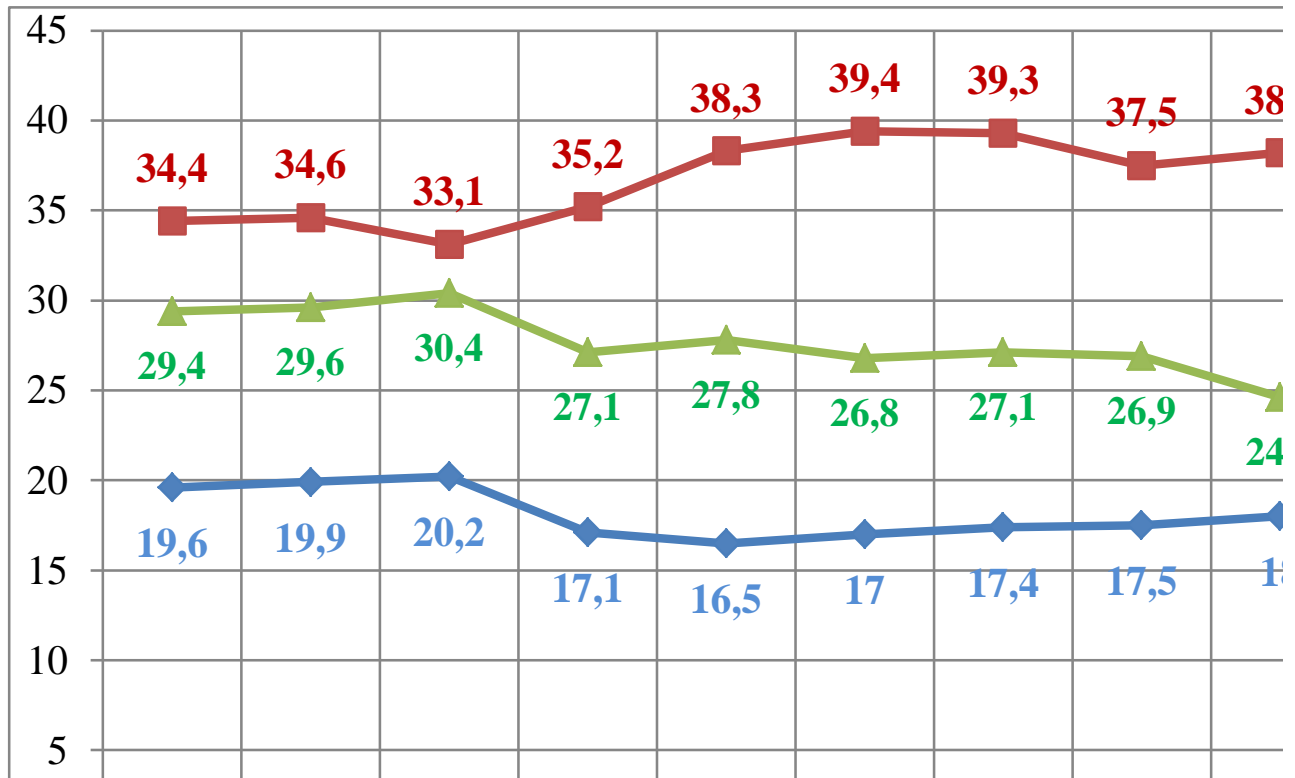
From the analysis of the quantitative incidences of the implementation of Law 153/2017 of June 28, 2017, regarding the salaries of the staff paid from public funds, the size of the staff costs of the budget, it is noted that they are cyclical, with accelerated growth tendencies, over the past years, GDP growth. On this basis, the weight of this category of expenditure in the total budget expenditures registered a spectacular increase, also affected by the share in GDP.

3. Incidences on the structure of the main categories of fiscal and parafiscal revenues

The structure of the main categories of fiscal and parafiscal revenue of the general consolidated budget, as shown in Figure 5, maintains its hierarchy for the entire period under review, except in 2018 (in descending order: indirect tax revenues, social security revenues earnings and revenues from direct taxation). The evolution of these revenue categories is oscillating, taking in their evolution the economic fluctuation (as observed in the first three graphical representations), but also the changes in the tax legislation.

The contribution of each category of revenue analyzed to the overall revenues of the consolidated general budget reveals the following:

- revenues from indirect taxation has a contribution of approx. 39% in the years 2012 and 2013 and approx. 32% in 2018;
- revenues from social security contributions has a contribution of 33.2% in 2018 and 24.6% in 2015;
- revenues from direct taxation has a contribution of approx. 20% in 2009 and 2016 and 14.1% in 2018.



Source: Ministry of Public Finance, own processing.

Figure no. 5. Evolution of the percentage of direct, indirect and contribution tax revenues of social security in the total revenues of the general consolidated budget, in Romania between 2007 - 2018

It is noted that the changes in the structure of the revenues of the general consolidated budget in 2018, respectively the increase of the share of the parafiscal revenues in the total revenues of the general consolidated budget (exceeded the share of the direct tax revenues) and the significant reduction (the lowest share of the analyzed period) revenues from direct taxation.

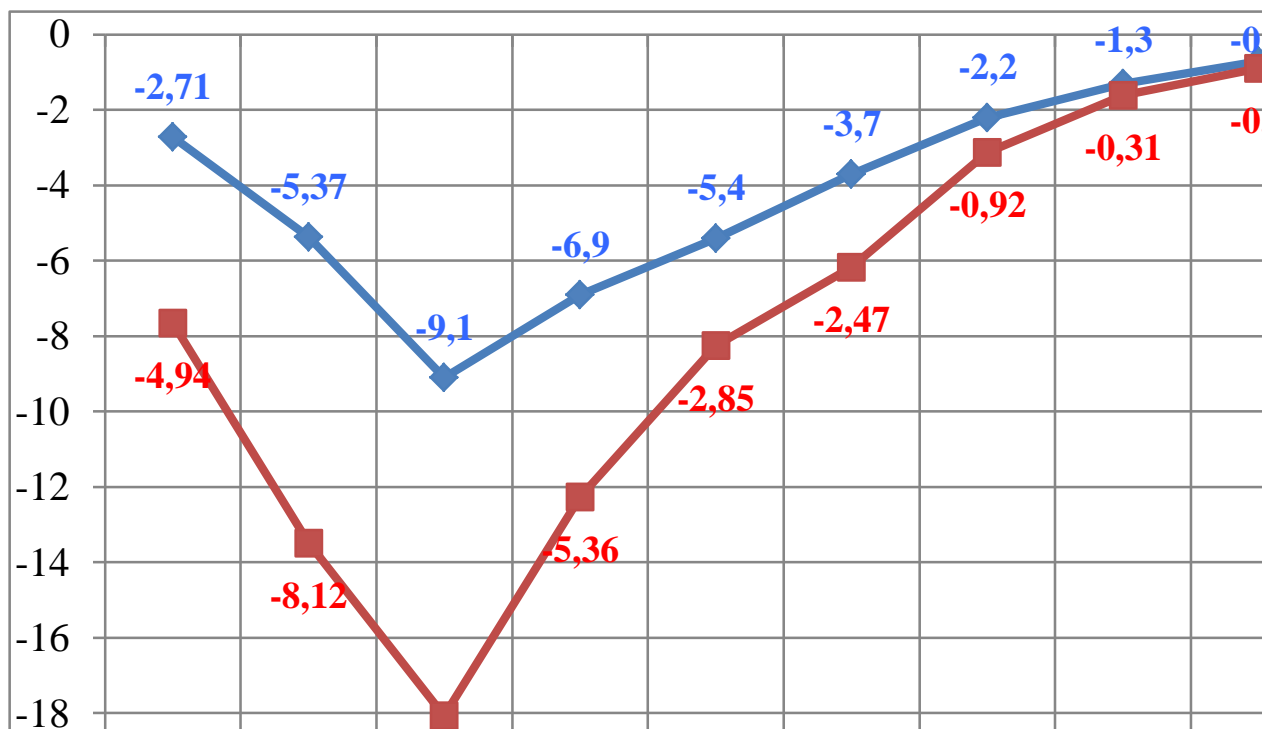
4. Incidence over the general government balance

The indicator of the conventional budget balance of the consolidated general budget, an important criterion for assessing the fiscal consolidation process, shows an oscillating evolution following the trajectory of the economic cycle of this period. Its limit set in the Maastricht Treaty (-3% of GDP) is exceeded in the period 2008-2012, a period corresponding to the manifestation of the effects of the global economic and financial crisis. Against this background, the warning and sanctioning levers of the Excessive

Deficit Procedure have not been applied, but they have been revised with a view to reconciling the fiscal positions of the member countries.

The effects of legislative changes taken over at national level and the prudence of tax authorities (post-crisis) have produced relatively rapid adjustments to the conventional balance, which is within the limits of the treaty from 2013 until the end of 2018.

In 2018, amid the implementation of the presented legislative changes, with fiscal and budgetary incidence, both in the fiscal revenues and the expenditure for public sector employees, the conventional book balance reached the limit value of -3.00% of GDP.



Source: Ministry of Public Finance, own processing.

Figure no. 6. The evolution of the conventional budget balance and the structural balance of the consolidated general budget in Romania in the period 2007 - 2018

The structural balance has reached the medium-term budgetary objective (MTO) target of -1% since 2013, faster than the target target for 2014 and 2015. The compliance with the limit the conventional accounting balance of - 3% of GDP (the effect of the structural balance of "safety" on the limit of the conventional book balance). Starting in 2016, the structural balance came out of the MTO target, with expectations of growth, the expansion of tax bases, and potential tax multiplier effects, the government authorities implemented discretionary fiscal relaxation measures and rising spending budget, measures that negatively affected the two budgetary balances (structural and conventional accounting).

In view of the constraints on meeting the nominal, fiscal and budgetary deficit criteria, Romania has received a warning from the European Commission regarding the existence of a significant deviation from the MTO since 2016, translated into a recommendation adopting measures in particular as regards the maximum nominal advance of 3,3% of government expenditure in 2017 compared to 2016 and 4,3% in

2018 as compared to 2017. The implementation of these measures provides for adjustments annual successive structural 0.5% of GDP and, implicitly, proximity to the MTO.

The Commission's recommendations have not been implemented, and in 2018 it sent another warning to Romania about the existence of a significant deviation from the trajectory towards the MTO, a warning transposed into an EU Council decision on the lack of effective measures for correct the significant deviation from the MTO. It has also been reported that medium-term fiscal plans are not correlated with budgetary and national economic outlook and Fiscal Council recommendations are not sufficiently taken into account.

5. Some conclusions

The analysis of the incidence of discretionary fiscal-budgetary measures on the size and structure of some categories of budget revenues and expenditures reveals some important aspects, namely:

- reducing the personal revenue tax rate from 16% to 10%, even on the background of raising the minimum wage and the average wage (the positive reshaping of its main tax base), has had a negative impact on the size of the generated tax revenue by this source of tax, expressed by reference to the total revenues of the general consolidated budget (-4.5 percentage points in 2018 compared to 2017) and to GDP (-1.5 percentage points in 2018 compared to 2017);
- the transfer of the social security contributions from the employer to the employee, as well as the reduction of the overall social security contribution, have generated a positive effect on the size of the revenues from this source, as a result of increasing voluntary compliance with these contributions, the nature of direct taxation. There is an increase in the share of these revenues, both in the total consolidated budget revenues (about + 5 percentage points in 2018 compared to 2017), but also in GDP (+ 2 percentage points in 2018 compared to 2017);
- the structure (contribution) of the tax categories to the constitution of the total revenue of the general consolidated budget maintains its hierarchy over the entire period (indirect taxation, social security contributions and direct taxation), but with trends of change starting in 2018 when the share of revenues from contributions social security has outpaced the share of indirect tax revenues. At the same time, the share of direct tax revenues decreased significantly, reaching a historical minimum of approx. 14%;
- in relation to EU 28 taxation, where there is a relative balance between the three sources, which gives stability to the budget, taxing in Romania has relatively opposite trends, with the exception of indirect taxation (probably also as a result of the harmonization in this field), namely the reduction of revenues from direct taxation and the increase of revenues from social security contributions;
- fiscal consolidation is affected by the implementation of the discretionary measures under review, and the prospects (particularly those of gradual implementation of Law 153/2017 of June 28, 2017) tend to amplify this state, which may become punishable under the Stability and Growth Pact procedures.

References

1. Legea nr.153/2017 din 28 iunie 2017 privind salarizarea personalului plătit din fonduri publice;
2. Legea nr. 227/2015 privind Codul Fiscal, actualizată în ianuarie 2017;
3. Proiect de cercetare *Starea Financiară a României* – ediția 2018 – Capitolul I – Evoluții fiscal-bugetare - elaborat în cadrul Centrului de Cercetări Financiare și Monetare “Victor Slăvescu”;
4. <http://www.mfinante.gov.ro/pagina.html?pagina=buletin&categoriebunuri=executie-bugetara,rapoarte-trimestriale,rapoarte-semestriale,rapoarte-anuale,arieratele-bugetului-general-consolidat>