

Structural Trends in Romanian Tax System in the Context of the Tax Good Governance in the European Union

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Abstract: In this paper we intend, based on an empirical analysis, to observe and evaluate the structural trend of taxation in Romania, subject to performing fiscal convergence imposed by the accession to the European Union and the macroeconomic adjustment implemented by the national tax authorities to ensure economic stability.

In this regard, we analyze the trend of the income, labor, consumption and property taxation, in order to identify the degree of preference, within the fiscal policy, for taxing some type of tax. The evaluation results may indicate the orientation towards tax bases sensitive to economic cyclicalities or towards conservative tax bases, less volatile to economic cyclicalities

Keywords: convergence, tax, structure, guidance, tax base, tax preferences

JEL Classification: H2, H5, H6

Introduction

The concern of our research is to identify the structural orientation of the main fiscal instruments - budget through which the fiscal policy is acting to fulfill the objectives of macroeconomic policy, in order to stimulate and / or stabilize the economic activity. The fiscal-budgetary instrument is an anchor that is based on a legislative framework governing how to operationalize them, through which a financial income and a financial obligation for the taxpayer are simultaneously generated. The application process must aim at effectiveness, namely to ensure the necessary tax revenue to the state, encouraging or inhibiting certain branches of the economic activity, maintaining the budget deficit within the planned limits and / or engaged under international agreements of good fiscal governance, insuring the tax equity and the social protection.

The main tax instruments available to the government authorities are represented by the two components of the budget, namely: the taxes, which, depending on the nature and structure of the taxation bases, can be a substructure of tax instruments (taxation of income, consumption, properties etc) and expenditures, substructure, also on a range of tax instruments, through which the provision of public goods and services is insured.

On the side of the establishment of tax revenue, the taxes are the main instrument of their formation. A classification structures them into two categories: direct taxes, whose taxation base is the income, the property and the capital gains and indirect taxes, whose base is the taxation of consumption, goods and services transactions. A special category is represented by the social security contributions, which are regarded as current revenues of the public budget, independent, no longer considered fiscal revenue. Also, another category of income is the one of non-fiscal nature, consisting of donations, amounts received from the European Union and other non-tax revenues.

On the side of the use of budgetary resources, the costs are instruments through which the redistribution of part of the gross domestic product is achieved, in order to attain certain targets of political, economic and social nature of the state. They can be classified according to two criteria, namely the economic criterion according to which the economic classification is achieved and the functional criterion according to which the functional classification of the budget expenditures is made. The economic classification structures the costs in current expenditures, which is a final consumption and expenditures of capital assimilated to those of

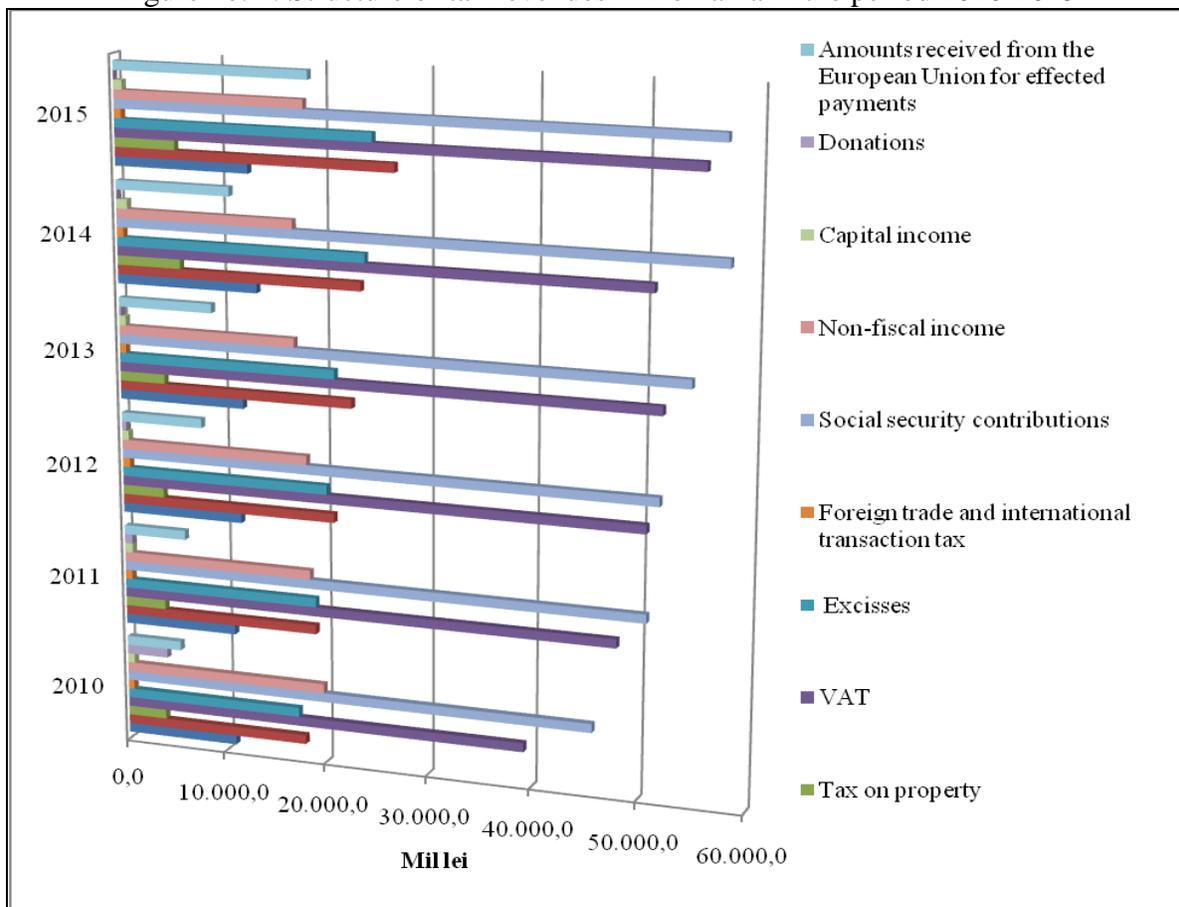
investment nature, contributing to the value added in the economy. The functional classification structures the expenditures according to their destination in convergence with the government objectives, ensuring conditions for sustainable economic growth and future tax multiplication.

Analysis of tax revenue

Overall, the budget revenues in the period analyzed are on an upward trend in nominal value and their structural typology is characterized by stability.

The dynamics of taxation recorded an upward trend, both in the taxation of individuals and of the legal entities, while maintaining the statutory tax rate of 16% throughout the entire period analyzed. In the light of this statutory income tax rates, Romania ranks fourth among the lowest tax rates in the EU and by 17-18 % below the EU average.

Figure no. 1. Structure of tax revenues in Romania in the period 2010-2015



Source: Done by the author using data from Appendix 1

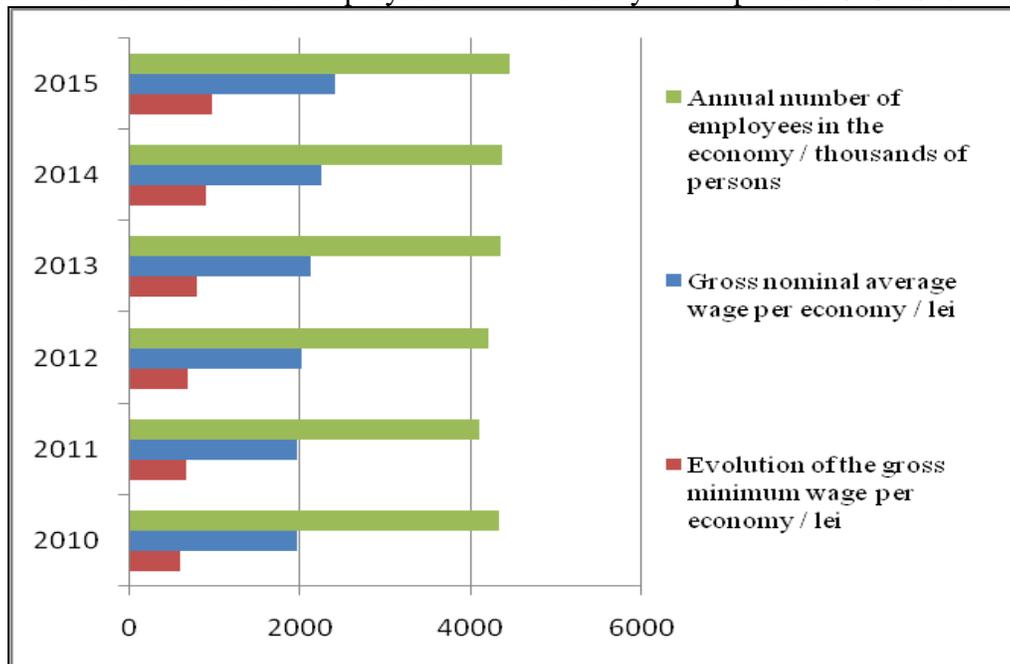
*2015 - Forecast

The upward trend of tax revenues generated by the taxation of income was generated by the dynamics of tax bases, namely:

- Minimum gross nominal wage growth in the economy from 2010 to 2015, of 375.00 lei, from 600.00 to 975.00 lei;

- The gross nominal average wage growth in the economy from 2010 until 2015, of 441.00 lei from 1967.00 lei to 2408.00 lei;
- Annual growth in number of employees in the economy from 2010 until 2015 with 130.100 persons, from 4.333.800 people to 4.463.900 people.

Figure no. 2. Evolution of gross minimum wage per economy, the nominal average wage in the economy and annual number of employees in the economy in the period 2010-2015



Source: based on the information from the National Statistics Institute

*2015 - Forecast

The dynamics of property tax also recorded an upward trend generally expressed stronger in 2014. The properties are stable tax bases, less fluctuating by economic cycles, easy to implement and manage, which gives them certain advantages compared with other types of taxes, namely: they do not affect the economic behavior of taxpayers (saving, consumption, investment); tax base is visible, making it difficult to circumvent the tax; the value of the tax base is relatively constant, which does not affect the variability of the tax due. We note that the property tax has a number of advantages for both the administration and for the taxpayer, and yet, this tax is underutilized in practice, with a very small share in making up of revenues.

Against this background of a low budget of the revenues, at the end of 2013 a special tax on buildings (GEO no. 102/2013) was introduced, which explains the upward dynamics of this indicator in 2014. Statistics on revenues drawn from the budget of state property taxation in the European Union Member States show that most countries have low tax rates for properties .

In the context of tax rules on fiscal governance, several European countries have revised their property tax policy in 2013, as a measure of efficiency and increase of budget revenues from this source.

The dynamics of consumption taxation is part of the same general trend, the main instruments of taxation being represented by the VAT and the excise duties.

As regards VAT, the legal tax in the period under review was structured as follows:

- a standard 24% for tax bases for taxable transactions which are tax exempted or are not subject to reduced rates of 9 and 5% (until 30 June 2010 the standard rate was 19%);

- a reduced rate of 9% applied to the taxable amount for the service and / or goods, namely:
 - services and cultural events carried out by public or other non-profit cultural organizations;
 - supply of textbooks, books, newspapers and magazines, except for advertising;
 - supply of prostheses and accessories thereof, except dentures, orthopedic products, human and veterinary drugs;
 - accommodation in the hotel sector or sectors with a similar function, including renting land for camping.
- a reduced rate of 5% applied to the taxable amount for the supply of housing as part of the social policy, including the land they are built on, under certain conditions.

The revenue from indirect taxation in the period analyzed, were the primary resource for total budgetary revenues, with a year on year important share, in total between 38 and 40 %, over 25 % of tax revenues from VAT and over 10.5 % tax income from excises.

Between 2010-2012, the revenues from VAT and the excise recorded exceedances of budget planning, as a propagated result of the changes in the statutory tax rates, the gradual recovery in household consumption and the price dynamics.

Between 2013 - 2014, the revenues from VAT and excise duties, recorded values below the annual budget planning, except for the amount of proceeds from excises in 2014, which exceeded the programmed level. The overall situation of loss of tax revenue from the two categories of fees was the result of the negative growth in consumption and a decrease in collection efficiency.

In the first semester of 2015, the collections from indirect tax recorded increases as to the same period of the previous year, 18.3% in the VAT and 8.6% in the excise tax.

In the European context, Romania has a high share of VAT, ranking third after Hungary (27%), Sweden and Denmark (25%) and even in these conditions, in Romania the share of tax revenues from VAT into the GDP is lower than in countries with a lower VAT rate (Croatia, Estonia, Bulgaria). This indicates some structural differences between economies in the sense that in Romania the greater share of the population is rural, which facilitates the self-consumption. According to a study conducted on a total of 44 countries, it is shown that the VAT collection efficiency is inversely proportional to the share of agriculture in the GDP and directly proportional to the degree of urbanization and the openness of the economy.

The dynamics of the social insurance contributions recorded positive developments throughout the entire analyzed period, the budget revenues are over the initial programming, except for the year 2013, when earnings were equal to the budgetary planning. This was largely the result of minimum and average earnings growth in the economy, the slight increase in the annual number of employees and the extension of the contributory to the social security and other categories of individuals and legal entities.

On the other hand, the amount of revenues generated by state social insurance contributions have been affected by the increase of the percentage share of contribution to the pension fund of the Pillar II, which share increased by 0.5 percentage points per year starting on 1 January of each year, so that in 2015 the share reached 5 %, compared with 3 % in 2011, 3.5% in 2012, 4% in 2013 and 4.5% in 2014.

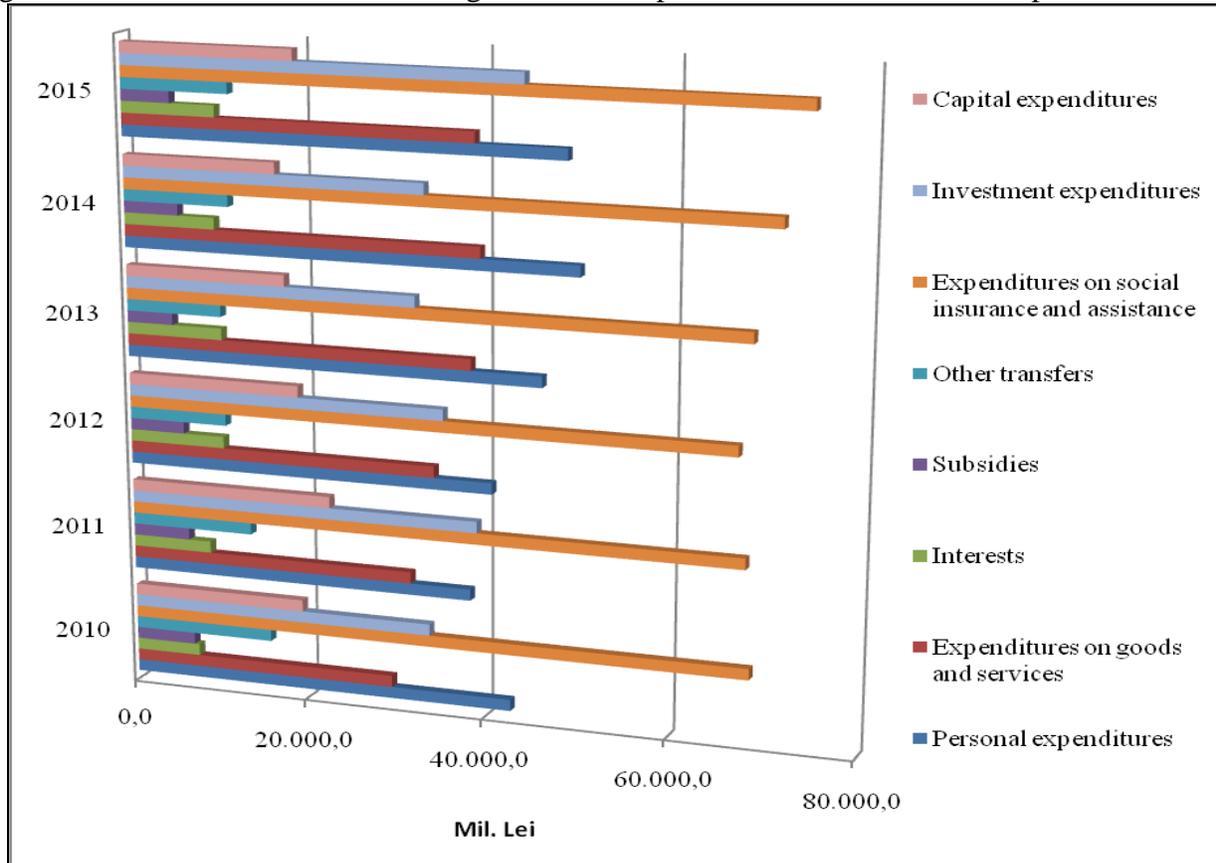
In the regional context, Romania has a relatively high share of aggregate statutory social contributions ranking third at the beginning of the period and fourth starting 2013. Although it has a relatively high share aggregate statutory social contributions, Romania ranks last in the region in terms of collection efficiency.

The non-tax revenues consisting of economic activities of the state, fees charged by public institutions and other sources (fines, penalties, confiscated assets etc) record a relative decrease in the period, which could mean a restriction of the economic activities of the state.

Analysis of budget expenditures

Overall, the expenses in the period under review are part of an upward trend in nominal terms, and their structure is characterized by stability. The dynamics of budget expenditures categories is different from their general evolution showing cyclical fluctuations in most of them.

Figure no. 3. The structure and size of government expenditures in Romania in the period 2010-2015



Source: Done by the author using data from Annex 2
*2015 - Forecast

The staff costs were subject to a significant reform in 2010. Amid significant increase in the wage bill and average earnings in the public sector, a wage reduction of 25% was applied in this area, starting with semester II / 2010, which led to lower personnel expenses in 2010 compared to previous years. In 2011, the policy of reducing staff costs in the public sector continued both through effects propagated from the previous year, and by reducing the number of employees and the strict application of the rule of 1 post filled to 7 released for the public sector. In 2012, the personnel costs were increased compared to previous years due to the decision of increasing the public sector wages in two successive stages, by 8% in June and 7.5% in December. The dynamics of budgetary staff reduction manifested itself in 2012 too, though at a slower rate than in the previous years. In 2013, the staff costs registered a relative balance between programming and execution, but, compared to the previous years, there were significant increases (7.8 bn. lei compared to 2011 and 5.4 bn. lei compared to 2012). This development was the result of the positive dynamics of wage and the relaxation of the personnel policy in the public sector, eliminating the rule of 1 post filled to 7 released with the 1 to 1 rule. In 2014, the personnel costs in the public sector increased compared with 2013 by about 4 bn. lei, due to the increase in the

gross minimum wage to 850 lei from 1 January 2014 and to 900 lei from 1 July 2014, as well as to the payment of entitlements established by court decisions.

In the European context, in terms of staff costs in the public sector, Romania's position improved at the beginning of the review period amid fiscal consolidation measures implemented in 2010, but gradually, over time, there has been an upward trend, confirmed by the development of personnel expenses in semester I / 2015, higher by 1.2 bn. lei versus the same period of the previous year.

The share of expenditures on social insurance and assistance during the period 2010 - 2014 in Romania is significant, and the problem of the structural deficit of the public pension system is not resolved, and the budget expenditures with pensions are unsustainable in relation to the contributions received, even if it took some measures to improve these deficiencies.

The social security budget deficit has widened in the recent years, reaching a peak of 12.8 bn. lei in 2011, the trend being maintained throughout the period analyzed.

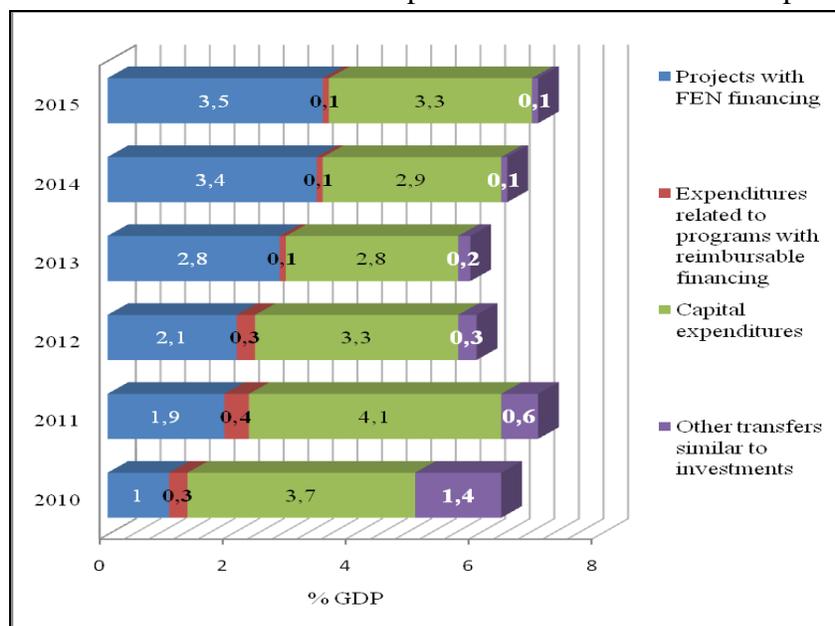
In the European context, the share of social insurance payments in the total expenditures, Romania ranks in the hierarchy of progressive weights on the tenth position.

The investment expenditures, which comprise the capital expenditures, the projects financed by post-accession non-reimbursable external funds, the expenditures for programs with reimbursable financing and other transfers similar to investment, the capital expenditures rose sharply and had a high share in the total budget expenditures, in comparison with the European countries, recording frequent corrections or executions inferior to programming, which reveals significant weaknesses in the budgetary programming.

Although throughout the period analyzed the investment expenditures had a high percentage within the total budget expenditures compared with the EU countries, the results in terms of improving the quality of infrastructure have been modest.

The failure of carrying out investment expenditures in the amount of budgetary planning, in the analyzed period, represented, for the tax authorities, cyclical opportunities to achieve short-term fiscal targets through budget amendments, but with possible negative repercussions for the national infrastructure.

Figure no. 4. The structure of investment expenditures in Romania in the period 2010-2015



Source: Fiscal-budgetary strategy for the period 2013-2015 revised
*2015 - Forecast

The analysis of investment expenditures shows, in general, a poor management of allocation and utilization of funds dedicated to public investment, the lack of a multi-annual investment programs that provide investment prioritization according to the community and national strategic needs.

The interest expenditures reveal the dynamics of the public debt and of its stock at the baseline (of the analysis) and the budgetary effort for interest payments relating thereto. Between 2010- 2013, the interest expenses related to the public debt recorded successive annual increases in both nominal value and as a share of total expenditures. This was due to the increase in the stock of public debt, its share in the GDP being increased from 37.9% in 2010 to 40.1% in 2011 to 41% in 2012 and 42.47% at the end of 2013, according to the national methodology.

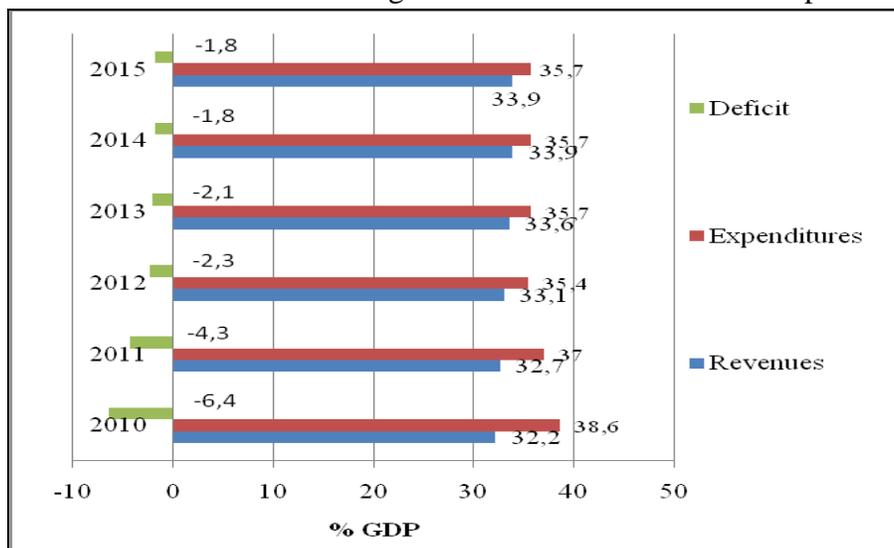
Between 2014-2015, the interest expense related to the public debt recorded significant reductions compared to those recorded in 2013. This was due to the cyclical aspects of the dynamics of interests on the financial markets and to the capital.

Conclusions regarding certain fiscal structural trends in the context of Community tax rules

In the structure of tax revenues, there are no consistent trend of change, the same structure being maintained in the analyzed period, and the dynamics of the structural elements maintains its orientation towards indirect taxation, in particular of consumption, manifesting a timid trend, in the direct taxation towards the increase of the income and the property tax rates, these representing tax bases less affected by the economy cyclicity.

At the level of expenditures, their general structure was maintained, their dynamics recording changes, particularly in respect of staff costs, whose decrease represented the manner of reducing the budget deficit during the financial and economic crisis. Gradually, with the economic recovery, their value was recovered, but the number of budget employees was decreased. The capital expenditures is not a support for the real economy, they are not executed at the planning level, reflecting a poor management and a lack of multi-annual national infrastructure projects. Another category of expenditures which affects the efficiency of the budgetary targets, is represented by the national social security, for the insurance of which transfers are made annually from the state budget, affecting other expense categories.

Figure no. 5. Evolution of the main budget indicators in Romania in the period 2010-2015

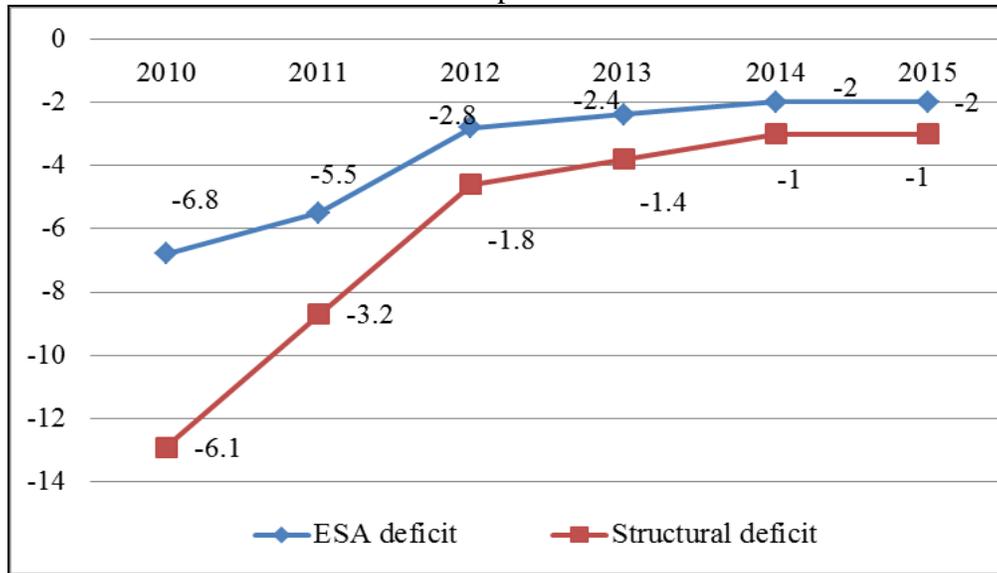


Source: Fiscal-budgetary strategy for the period 2013-2015 revised
*2015 - Forecast

Overall, the fiscal-budgetary indicators of the analyzed period do not present significant elements of orientation towards a particular type of tax (one particular exception is recorded in the taxation of properties) or expense structure (with multiplication effect of investment, for example) but there is an increase of the fiscal – budgetary discipline, which means an increase of concerns for a better collection, with a view of broadening the tax base, introducing new taxes which do not prove adequate for the economic and accounting practice in Romania (see the pole fee or the taxation of tips) and prudence in spending, in particular regarding the expenditures of an economic nature.

It can be noted that the tax authorities strive to achieve fiscal consolidation and the budgetary targets engaged by the tax rules adopted at community level to which Romania joined, in particular, the budget deficit, cf. figure 6 through sustained efforts to increase tax collection, to curb corruption in the public finance system and to reduce costs.

Figure no. 6. The budget deficit evolution, according to the ESA methodology and the structural deficit in Romania in the period 2010-2015



Source: Fiscal-budgetary strategy for the period 2013-2015 reviewed

*2015 - Forecast

In perspective, a stable structure of tax revenues and budget expenditures appears to be more and more necessary, stemming from considerations of achieving structural deficits lower than the actual ones, due to meeting the medium term budgetary objective (MTO) assumed, namely a structural deficit of maximum 1 % of the GDP in the coming years, resulting from the adherence to the fiscal compact, which will impose discipline and budgetary constraints, namely a relatively low fiscal space to use the fiscal policy as an active tool of macroeconomic adjustment.

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Annex 1

Structure of Romania's consolidated budget revenues in the period 2010 - 2015

Nominal Values – mill. lei

Indicator	2010	2011	2012	2013	2014	2015*
Income tax, profit tax and capital gains from legal entities	10.951,5	11.014,6	11.813,2	12.178,8	13.674,6	12.953,5
Income tax, profit tax and capital gains from individuals	17.974,8	19.091,8	20.969,7	22.748,0	23.701,6	26.950,9
Tax on property	3.801,6	3.976,4	4.060,4	4.403,2	6.185,1	5.877,5
VAT	39.246,0	47.917,4	50.516,0	51.827,0	50.878,5	55.363,6
Excises	17.312,0	19.104,9	20.260,4	21.106,0	24.094,8	24.857,1
Foreign trade and international transaction taxes	574,0	673,7	707,3	620,0	643,0	700,0
Social security contributions	45.703,8	50.637,6	51.658,3	54.383,2	57.612,1	57.160,6
Non-fiscal income	19.820,7	18.562,9	18.327,8	17.211,7	17.188,4	18.318,1
Capital income	684,6	769,2	652,8	654,7	1.072,6	846,8
Donations	4.054,2	766,3	442,8	207,0	89,2	2,3
Amounts received from EU for effected payments	5.439,7	6.111,7	7.979,2	9.173,0	11.099,7	18.772,1

Source: the Ministry of Public Finance

*2015 - Forecast

Annex 2

Structure of Romania's consolidated budget expenditures in the period 2010 – 2015

Nominal Values – mill. lei

INDICATOR	2010	2011	2012	2013	2014	2015*
Staff expenditures	42.836,8	38.422,7	40.798,8	46.241,0	50.246,9	48.873,3
Goods and services	29.568,0	31.767,4	34.443,7	38.538,6	39.582,2	39.037,3
Interests	7.274,4	8.882,3	10.710,9	10.755,5	10.199,2	10.529,3
Subsidies	6.734,4	6.406,5	6.121,8	5.154,3	6.094,2	5.488,8
Other transfer	15.696,8	13.632,1	10.993,3	10.692,9	11.810,7	12.040,3
Insurance and social security	68.612,7	68.007,5	67.048,3	68.388,5	71.201,9	74.095,0
Investments	33.849,0	39.137,7	35.455,3	32.426,8	33.505,5	44.297,5
Capital expenditures	19.439,7	22.678,7	19.304,7	17.975,2	17.140,1	19.320,4

Source: the Ministry of Public Finance

*2015 - Forecast