FEEDBACK REGARDING THE CONTRIBUTION OF DIRECT TAXATION IN THE FORMATION OF PUBLIC FINANCIAL RESOURCES IN ROMANIA

DORINA NIȚĂ *

ABSTRACT: *The present paper studies the place and role of direct taxes in the formation of public financial resources in Romania, and also in relation to other EU member countries. Monitoring the development of the business environment, fostering entrepreneurial initiative and investment through relaxing fiscal measures concerning mainly direct income for individual and corporate taxpayers, the declared goal is the increase of budgetary revenues at a pace that is far ahead expenditures. Developments from the past years reveal our country's last position when analyzing the share of direct taxes in the GDP or the contribution of income taxes of individuals in the GDP, but also a relatively high position considering the share of income of legal entities in the total of taxes. The macroeconomic analysis is completed by a microeconomic presentation of the share of direct taxes in the total expenditure at the level of one individual household.*

KEY WORDS: *public budget revenue, direct taxes, fiscal system, fiscal burden, tax reform.*

JEL CLASSIFICATION: *E62, H20.*

1. INTRODUCTION

In order to meet the expectations of citizens and of the business environment, central and local public authorities are meant not only to collect sufficient financial resources but also to direct them and use them as efficiently as possible. The paradox of our time is that, on the one hand, public services are expected to be numerous and diversified and on the other hand, the public authority is criticized for spending too much. People feel discontented with every extra penny they must pay in the form of various fees, taxes or contributions since they do not get anything in return in any particular form (health and social services, education, national security, etc.).

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* *Assoc.Prof., Ph.D., University of Petroşani, Romania, dorinamagda@yahoo.com*

The analysis of the degree of social welfare takes into consideration a combination of the consumption of goods and public and private services. If the production of public goods and services is carried out based on public financial resources, private services require private financial resources.

As the agent in charge of the management of public financial resources, the State is subject to complex pressures that have an impact on the well-being of the society. The collection and the use of public resources needed to satisfy the consumption and the supply of public goods and services is regulated by the fiscal policy of each State. In the long run, each country has tried to design an efficient fiscal system, predictable, stable and able to foster and sustain a balanced social economic development at national and local level, taking into account the social economic situation and the internal and external policy, geographical and historical factors etc. Including taxation in a legislative package aims to contribute to the creation of an effective tax system, responsible, credible, transparent and open in the relation with the beneficiaries of its services - citizens and the business environment.

The formation of the European Union which comprises today twenty-eight national states, including Romania, does not mean, from fiscal point of view, that countries will no longer have the liberty to elaborate their own tax system and that the institutions of the European Union will manage taxes. The EU does not have a direct role in the collection of taxes or in setting tax rates. While national governments are generally free to establish tax laws according to national priorities, obeying however the fundamental principles such as non-discrimination and respect of free movement within the internal market [European Commission, 3], the role of the EU is to monitor the relevant national rules of taxation, to ensure that they are consistent with the objectives of European policies [European Commission, 5]:

- promoting economic growth and job creation;
- ensuring the free movement of goods, services and capital across the EU territory (single market);
- ensuring that enterprises from a country do not have unfair advantages compared to competitors in other states;
- fighting discrimination among consumers, workers or enterprises from other EU countries.

In addition, the EU decisions in the field of taxation must be approved unanimously by the governments of the Member States. This guarantees that the interests of each EU country are taken into account.

The economic and financial crisis that began in 2008 has brought the EU Member States in a precarious situation at fiscal level. In the peak year of the economic crisis 2009, the EU-27 deficit was 6.8% of the GDP, remaining at a high level in 2010 as well (6.4%); after that, it would register permanent decreases dropping to 3% in 2014 [European Commission, 6]. The increase in the deficit was mainly caused by the increase of the share of expenditure, as percentage of the GDP, at a rate that exceeded the income growth in the GDP (this was due to the adjustment of the tax policy from temporary stimulus measures during the economic crisis to more neutral or even consolidation-oriented fiscal policies [Dascălu & Cojocaru, 2015]).

The adaptation, at tax level, to the challenges generated by the global financial crisis, imposed certain trends in the level of taxes, fees and social contributions, more or less generalized among the Member States of the European Union. From the analysis of the taxation systems in the EU Member States, it follows that if the weights of direct, indirect taxes and contributions are relatively equal at the level of EU-15, in the new Member States, direct taxation has a smaller share in the total revenue. In 2014, direct taxes remained at the same level reported in the previous year, while indirect taxes and social contributions decreased [European Commission, 7].

2. EVOLUTION OF DIRECT TAXATION IN ROMANIA

An analysis of the role of direct taxes in shaping the Romanian budget during 2012 and 2013 reveals an increase in value from one year to another (in absolute values).

Table 1. The situation of direct taxes within the total budgetary income

- mil. lei -

	2012	2013
TOTAL REVENUE	79688	86018.8
out of which:		
- FISCAL REVENUE	69527.7	75615.8
- income tax, profit tax and corporate tax	15601.3	18684.8
• corporate taxpayers	10995.8	11784.3
• individual taxpayers	4604.6	6900.5
- salary tax	2.9	1.0
- SOCIAL SECURITIES	215.4	155.2

Source: Romanian Statistical Yearbook 2014, www.insse.ro

Studying the development of the share of taxes as percentage of the total revenue (% of GDP) it is observed that indirect taxes have the greatest share (among which the VAT), followed by social contributions, in relation to direct taxes.

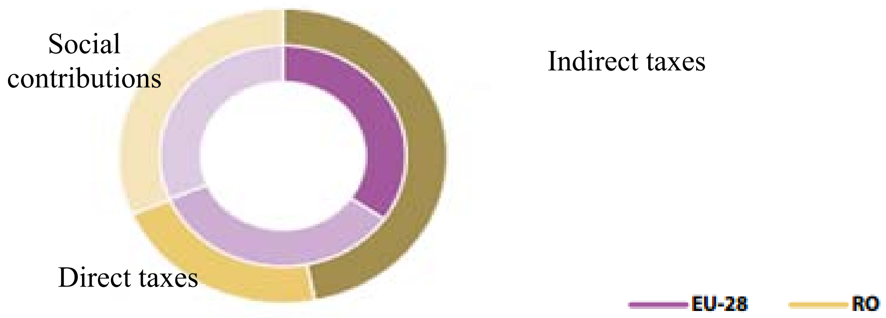
Table 2. The share of taxes and social contributions in budgetary revenue

- % of GDP -

	2006	2007	2008	2009	2010	2011	2012	2013
Indirect taxes	12.7	12.5	11.8	10.8	11.9	13.0	13.2	12.8
- VAT	7.9	8.0	7.8	6.5	7.5	8.6	8.4	8.3
Direct taxes	6.0	6.7	6.6	6.4	6.0	6.1	6.0	5.9
- personal income	2.8	3.2	3.3	3.4	3.2	3.3	3.4	3.4
- corporate income	2.8	3.0	2.9	2.6	2.3	2.3	2.1	2.0
Social contributions	9.7	9.8	9.2	9.3	8.5	9.0	8.8	8.6
- employers	6.3	6.2	5.9	5.8	5.4	5.6	5.6	5.6
- employees	3.4	3.6	3.3	3.5	3.1	3.4	3.2	3.0
TOTAL	27.7	28.4	27.6	26.5	26.4	28.1	28.0	27.4

Source: Taxation trends in the European Union, http://ec.europa.eu

The share of indirect taxes in relation to the GDP exceeds the one registered at European level (EU-28), the situation being reversed with respect to direct taxes; the share of social contributions in Romania has the same values as the one recorded in the case of EU-28.



Source:http://ec.europa.eu/taxation_customs/resources/documents/taxation/gen_info/economic_analysis/tax_structures/country_tables/ro.pdf

Figure 1. Tax revenues by main taxes in 2013 (Romania – UE-28 comparison)

In 2012, Romania recorded a share of 21.6% of direct taxes from the total taxes (ranking 20th among the EU countries) and registered a decrease of 1.5% compared to the year 2000; the first positions were occupied by Denmark (63.6%) and Ireland (45,6%). Croatia has the smallest share of direct taxes at the level of the year 2012 (only 17.1%), followed by Lithuania (18.0%), Bulgaria (18.8%) and Hungary (19.2%) [European Commission, 8]. All of these countries have adopted taxation systems with fixed rates that lead to a strong reduction of direct taxes in relation to indirect ones.

Table 3. The share of direct taxes in countries of the EU

	2006	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Denmark	61.8	61.6	62.2	62.7	62.9	62.8	63.6
Ireland	410	40.9	39.5	38.8	38.0	43.7	45.6
…							
Romania	**21.1**	**23.1**	**24.0**	**24.4**	**22.7**	**21.7**	**21.6**
…							
Hungary	25.3	25.7	26.3	24.9	22.6	18.7	19.2
Bulgaria	16.9	24.5	20.6	20.3	19.5	19.0	18.8
Lithuania	31.8	30.3	30.3	19.8	16.4	16.0	18.0
Croatia	18.5	19.8	19.4	19.7	17.7	17.6	17.1

Source:http://ec.europa.eu/taxation_customs/taxation/gen_info/economic_analysis/data_on_taxation/index_en.htm

Analysing the contribution of direct taxes as share of GDP, one can notice that Romania occupies one of the last places with 6.1%, followed by other three countries: Slovakia (5,6%), Bulgaria 5,3% and Lithuania cu 4,9%. In the same ranking, Denmark

(30.6%) comes first, followed by Sweden (18,3%), Belgium (17,4%) and Finland (16,3%).

Table 4. The share of direct taxes, % of GDP, in EU countries

	2006	2007	2008	2009	2010	2011	2012
Denmark	30.7	30.1	29.7	300	29.9	29.9	30.6
Sweden	22.2	21.2	19.8	19.6	19.2	18.5	18.3
Belgium	17.3	17.0	17.2	15.9	16.4	16.8	17.4
Finland	17.6	17.8	17.8	16.4	16.2	16.6	16.3
…							
Romania	**6.0**	**6.7**	**6.7**	**6.5**	**6.1**	**6.2**	**6.1**
Slovakia	6.1	6.2	6.5	5.5	5.4	5.5	5.6
Bulgaria	5.2	8.2	6.7	5.9	5.4	5.2	5.3
Lithuania	9.5	9.2	9.3	6.0	4.7	4.4	4.9

Source:http://ec.europa.eu/taxation_customs/taxation/gen_info/economic_analysis/data_on_taxation/index_en.htm

As regarding the share of taxes on personal income within the total taxes, Denmark (50.9%), Sweden (34.4%), Ireland (33.8%) and Finland (29.4%) hold the top positions. At the opposite side, with the smallest contribution to the total of taxes lies Slovakia with 9.2%, followed by Croatia (10.3%), Bulgaria 10.6% and Czech Republic (10.8%). *Romania holds 23rd rank with 6.1%.*

An overview of the contribution of personal income taxes in GDP places Romania among the last 4 alongside Lithuania with 3.5%, Bulgaria with 3% and Slovakia with 2.7%. The same ranking shows that Denmark maintained its first place with 25.4%, Sweden with 15.2% comes second, followed by Finland with 13% and Belgium with 12.7%.

Table 5. The share of personal income taxes, % of GDP, in EU countries

	2006	2007	2008	2009	2010	2011	2012
Denmark	24.9	25.4	25.1	26.4	24.3	24.3	24.5
Sweden	18.1	17.2	16.6	16.4	15.5	15.0	15.2
Finland	13.3	13.0	13.2	13.4	12.6	12.8	13.0
Belgium	12.4	12.2	12.6	12.2	12.4	12.6	12.7
…							
Lithuania	6.8	6.6	6.5	4.1	3.6	3.5	3.5
Romania	**2.8**	**3.3**	**3.4**	**3.5**	**3.3**	**3.3**	**3.5**
Bulgaria	2.6	3.2	2.9	3.0	3.0	2.9	3.0
Slovakia	2.5	2.6	2.7	2.4	2.3	2.5	2.6

Source:http://ec.europa.eu/taxation_customs/taxation/gen_info/economic_analysis/data_on_taxation/index_en.htm

Analysing the share of corporate income taxes as percentage of the total taxes, one can notice that Malta ranks first with 18.7%, followed by Cyprus with 17.8% and Luxembourg with 13.4%. Romania holds 9th rank with 7.6%, registering decreases from one year to the next since 2008. The last places are occupied by Hungary with 3.3%, Greece with 3.3%, Slovenia with 3.4% and Estonia with 3.8%.

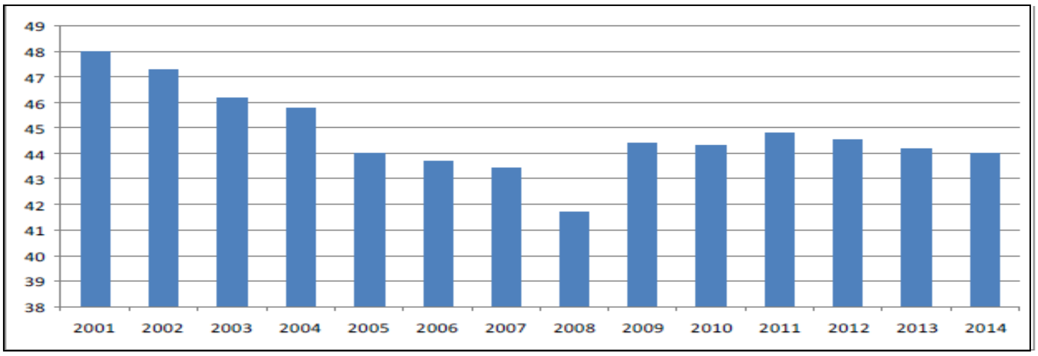
Table 6. The share of corporate income taxes, % of GDP, in EU countries

	2006	2007	2008	2009	2010	2011	2012
Malta	12.9	18.3	18.4	183	18.4	17.7	18.7
Cyprus	15.3	16.9	18.4	18.4	17.4	19.5	17.8
Luxemburg	13.8	14.8	14.3	14.7	15.4	13.5	13.4
…							
Romania	**10.0**	**10.5**	**10.7**	**9.9**	**8.6**	**8.3**	**7.6**
…	#	#	#	#	#	#	#
Hungary	6.3	6.9	6.5	5.4	3.1	3.1	3.3
Greece	8.6	7.9	7.8	8.1	7.7	6.5	3.3
Slovakia	9.9	10.2	10.7	8.8	9.0	8.6	8.5
Estonia	4.9	5.2	5.1	5.2	4.0	3.8	4.5

Source:http://ec.europa.eu/taxation_customs/taxation/gen_info/economic_analysis/data_on_taxation/index_en.htm

Although there has been a permanent downward trend in the tax burden on labour force, it remains among the highest in the EU. In 2014, the total tax burden (as percentage of income tax and social contributions) was of 43.7%; Romania is ranked 6th in the EU after Belgium (49.9%), Hungary (49.0%), France (45.2%), Germany (45.1%) and Austria (44.8%) [10]. The measure adopted in October 2014 to reduce by 5% the social security contributions paid by employers will impose a decreasing trend of the tax burden on the costs of labour force, estimated to reach 41.2% in 2015, according to the Report on the Implementation of the Specific Country Recommendations.

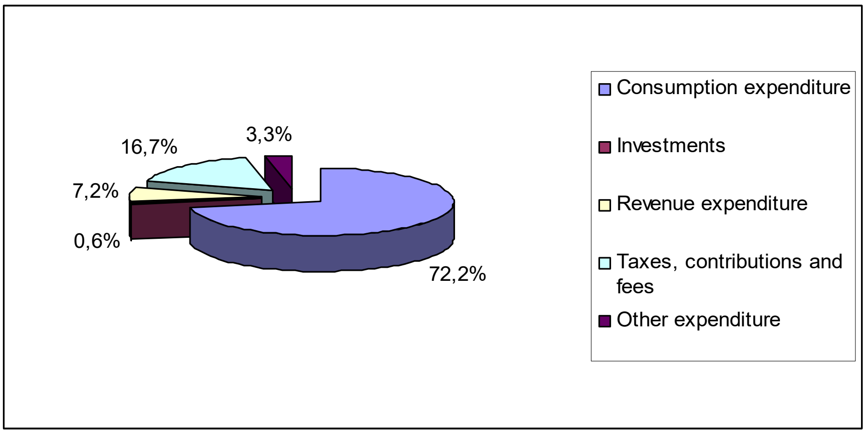
With regards to the tax burden on the salary of employees, this is among the lowest in the European Union, namely 30.4% in the 2012 (latest data available for comparison).



Source: Ministry of Public Finances, http://discutii.mfinante.ro/

Figure 1. Tax burden in Romania in 2001- 2014

In case the perspective of the analysis changes from macroeconomic to microeconomic level (individual household), the situation looks as follows: the total expenditure of the population in 2014 reached a monthly average per household of 2269.3 lei (850.9 lei per person) and represented 90.7% of total income. The main destinations of the expenditure incurred by households are the consumption of food, non-food goods, services and payments to the private and public administration and to social security budgets in the form of taxes, contributions, fees, as well as means of covering the needs related to household production (animal and bird food, payments for household products, veterinary services, for sowing, etc.). Investments intended for the purchase or construction of houses, for buying land and the necessary household equipment, for the purchase of shares, etc. have a very small share in the total expenditure of households (only 0.6%) [Press Release No. 135 from June 5th, 2015].



Source: Ministry of Public Finances, http://discutii.mfinante.ro/

Figure 2. Structure of total household expenditure

It is worth mentioning that the share of taxes, fees, contributions as percentage of the total expenditure of a household registers significant differences, based on the occupational status of households:

Table 7. The share of taxes, contributions, fees as percentage of total household expenditure in 2014

TOTAL	16.7 %
- employees	26.3%
- farmers	2.2%
- unemployed	11.4%
- retired	8.0%

Source: Press Release No. 135 from June 5th, 2015 Income and expenditure of households in 2014 Statistical research of family budgets (ABF), www.insse.ro

as well as on the location of households:

Table 8. The share of taxes, contributions, fees as percentage of total household expenditure in 2014

TOTAL	16.7 %
- Urban	21.2%
- Rural	9.5%

Source: Press Release No. 135 from June 5th, 2015 Income and expenditure of households in 2014 Statistical research of family budgets (ABF), www.insse.ro

3. FISCAL REFORMS REGARDING DIRECT TAXES FOR THE UPCOMING TWO YEARS

The measures that strengthen the fiscal-budgetary policy continue the fiscal relaxation policy mentioning the following proposals regarding direct taxes as reforms for the coming years [European Commission, 8], [Ministry of Public Finances]:

- *personal income taxes:*
  - an increase, as of January 1st, 2016 of the monthly non-taxable amount to be taken into account when calculating the monthly taxable income from pensions from 1000 lei to 1050 lei in 2016 and by 50 lei in each fiscal year that follows until the taxable income limit reaches the value of 1200 lei/monthly;
  - an increase of the limit used to calculate health insurance contributions (CASS) in the case of pensions from 740 lei to an estimated ceiling of 830.2 lei (established for the fiscal year 2016)
  - as of January 1st, 2016 an increase of personal deductions granted according to the number of dependents so that they range between 300 and 800 lei per month for those with a monthly gross income of less than 1500 lei;
  - offering retired persons, the possibility to decide on the destination of an amount representing 2% of the due tax;
  - changing the Tax Code as of January 1st, 2017 with respect to dividends by establishing a tax of 5% on income from dividends.
- *corporate income tax:*
  - as of July 1st, 2014 profits reinvested in new technological equipment will be exempt from taxation;
  - changing the method of calculating taxes for new start-ups of small businesses – as of July 1st, 2016. Thus, the tax rates for the income of microenterprises are:
    - a) 1% for micro-enterprises that have more than 2 employees;
    - b) 2% for micro-enterprises that have one employee;
    - c) 3% for micro-enterprises that have no employees.
  - the new income tax rates for small businesses that have at least one employee should be 1% for the first 24 months since the date of creation;

- reducing the share of the tax on dividends distributed to Romanian legal entities from 16% to 5%, as of January 1st, 2016;
- classification of private post-secondary education units as legal entities which are exempt from profit tax in the case of incomes used according to legal regulations in the field of national education;

✗ *tax on buildings* – ruling it out starting January 1st, 2017

The impact of these relaxation measures on the budgetary incomes is negative, but in nominal terms, both corporate tax and income tax are estimated to be rising by more than 14% in the year 2008 compared to 2015 [Ministry of Public Finances] (decreases are offset by other increases, as is the case of the salary tax and which is likely to increase for employees in the budgetary sector).

4. CONCLUSIONS

The role of taxes and fees in a state is both to finance the production of goods and quality public services, and to create proper conditions for the development of a stimulating and non-discriminatory business environment.

The permanent reorganization of the tax system starts from the premise of achieving gains by simplifying taxation, creating a predictable fiscal-budgetary framework, establishing optimal levels of taxes and fees, improving collecting methods or reducing tax evasion.

In Romania, fiscal-budgetary strategies have as objectives the subordination of taxation to the economic development, the stimulation of the economic environment, of investments and entrepreneurial initiative likely to induce economic growth and job availability, the effectiveness of spending public funds, all these due to the elaboration of a package of reforms that would determine the reduction of the fiscal burden and the increase of net income at a higher rate than that of expenditure.

This also includes measures adopted in the field of direct taxes, with regard to the income of individuals and legal entities, fiscal relaxation measures with impact on the budgetary revenue which is likely to generate increases in the next period.

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