EUROPEAN JOURNAL OF ACCOUNTING, FINANCE & BUSINESS
Volume **XVI**/2021 ISSN 2344-102X
Issue (XXVI) / **June** 2021 ISSN-L 2344-102X

# ASPECTS REGARDING FISCAL POLICY IN ROMANIA

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**Abstract**

*Fiscal policy, taxation are always in the center of attention when analyzing the economic life of a state. The paper focuses on the analysis of the evolution of tax revenues in Romania during 2015-2019. Politicians say that taxes have not increased, but from a brief look at the data considered, it is observed that the volume of tax revenues increases year by year. We will also analyze the structure of taxes to show which are the most important and how this influences the economic environment. The paper is divided into the following chapters: Introduction, in which we will define taxation, fiscal policy and the main aspects of taxes in Romania, Literature Review, in which we will present some papers and studies on the Romanian tax system and beyond, Characteristics of the Romanian taxation system, which will analyze taxation in Romania in terms of legislation, Database - analysis, results and discussions, will present in figures the evolution of taxes and fees in the period 2015-2019 and Conclusions. The research is based on the analysis of the data on the budget execution provided by the Ministry of Public Finance and on the synthesis of the main ideas deriving from the study of the relevant fiscal legislation in Romania. The analysis shows that the Romanian tax system is a centralist one, based on contributions and consumption taxes, leads to increased fiscal inequities and can lead to serious non-coverage of resources to meet public needs, if no urgent measures are taken.*

**Key words:** *consumption taxes; fiscal policy; social contributions; taxes; taxation; tax compliance*

**JEL Classification:** *H2, H21, H3*

## I. INTRODUCTION

The issue of state revenues is old and much discussed. The more aspects the state assumed, the more resources it needed to cope with the new responsibilities. Within the state revenues, the largest share is taken up by taxes and duties. In this field, over time, a set of tools, institutions and regulations have been implemented and refined, in order to keep up with the evolution of the economy.

These instruments, institutions and regulations necessary for the collection of taxes and fees from the state budget largely define the notion of taxation, explained either as the totality of taxes and duties in a state, or as „*System for collecting taxes and duties through a tax institution. The totality of one's tax obligations*." (see DexDefinitie.com)

The definition of taxation given by DEX 2012 is: „*the set of laws, regulations and taxation methods used by the tax authorities."*

On the other hand, the fiscal system means *„the totality of the legislation that regulates taxes, fees, contributions, the ways of collecting, placing and collecting them in order to systematically supply the state budget, local budgets and special extra-budgetary funds"* (Bistriceanu, 2008: p.11).

So, fiscal policy is defined as „*a government plan that decides how much money to borrow and how much to collect through taxes and how best to spend it to influence the level of economic activity."* (Cambridge Business English Dictionary - dictionary.cambridge.org)

Thus, „*fiscal policy, as an integral part of state economic policy, comprises the set of methods, techniques, principles regarding operations, reports, institutions and specific regulations, for setting and collecting taxes, materializing the options of the state, at some point, in this domain"* (paper Babeș Bolyai University, 2012: p.22).

Taxation is carried out, practically, through the fiscal system and fiscal policy, and represents the conception, measures and actions of the governing parties regarding taxes and their role economy but also in the formation of budget revenues, types of taxes and ways of collecting them, necessary for financing public spending.

Fiscal policy is guided by several criteria, including efficiency, which implies the need for a higher yield, aiming to ensure the mobilization of public revenues as low as possible costs and while encouraging the business environment. At the same time, taxation must promote equity in the participation of everyone in state revenues and in ensuring social protection.

Speaking of equity, we consider the tax rate indicator which „*expresses the degree of redistribution of GDP through fiscal instruments (taxes, fees and social contributions) and which is calculated as a percentage ratio between total tax revenues and GDP achieved in a year. The level of taxation differs from one country to another and from one period to another*" (Moroșan, 2017).

Volume **XVI**/2021 ISSN 2344-102X
Issue (XXVI) / **June** 2021 ISSN-L 2344-102X

The tax rate is influenced by tax evasion, so its actual level may be higher than that reflected by statistical data. Only correctly calculated, the tax rate, can be related to other macroeconomic indicators (for example to the pace of economic growth measured by GDP growth), highlighting the extent to which its level is a factor in boosting the economy or a disruptive element for it.

Regarding the effects of taxes on the economy, there are opinions according to which: „*under equal conditions, the best tax source is the one that mixes the least in the private production of wealth"* (Groves, 1964: p.14).

In this context, we must consider the interdependence between taxation and public management. Aspects such as forecasting, organization, coordination, training, evaluation and control from a fiscal perspective, are of great interest when we talk about the perception of taxation by taxpayers.

The size of compulsory withdrawals from the public budget depends on several factors:

- the possibility of the state to procure revenues from other sources, (the share of the public sector in the country's economy);
- the degree of economic development of the country (GDP and the nature of public and political institutions);
- the method of taxation (number of taxes, structure of taxation, size of taxes, method of calculation of taxes or progressiveness of taxation);
- social needs expressed through budgetary expenditures;
- incidence of tax evasion.

Setting limits on the tax burden is a problem that has preoccupied specialists since the end of the 18th century, when it was stated that taxation should be as light as possible. However, due to the increase of public expenditures from one year to another, as a result of the state's involvement in economic and social life, taxes and social contributions have had an upward trend, in each stage of development, their size being considered at the maximum limit, that is, that limit which, once exceeded, would jeopardize the smooth running of the economy.

However, setting a maximum ceiling on the level of fiscal pressure is quite difficult to achieve, because the indicator is different depending on: economic, political and social context, period of development and country.

Determining a reasonable level of taxation is provided by Artur Laffer's model, which aims to establish an optimal level of taxation, aiming to obtain a maximum of tax revenues in the conditions of a general balance of supply/demand. The model is not new, existing in the works of Adam Smith, John Maynard Keynes and even in some works of the fourteenth century.

The Laffer curve was extended to the taxation of goods and services, finding that: „*The strategic response of noncompetitive firms to changes in taxation therefore flattens the Laffer curve significantly",* the authors showing that firms increase their prices in response to a decrease VAT, this leading to a smaller increase in quantity than would have been expected otherwise (Miravete, Seim & Thurk, 2018).

## II. LITERATURE REVIEW

The issue of income redistribution in society is not new or solved so far. A lot of researchers, from various fields, expressed opinions and gave solutions regarding the state revenues and the ways of distributing them.

Regarding taxation and income redistribution, we can conclude that there are two major currents of thought. A current that emphasizes the observance of liberal principles, according to which taxes must be as low as possible because they influence the mechanism of the market economy, they must be distributed for the proper functioning of the economy.

On the other hand, there is the interventionist current, according to which the state must obtain income in order to distribute it in order to create well-being and to reduce social inequalities and poverty. Representatives of this current show that selfishness in business and economic life are considered the natural state of man and then any deviation from economic and social life can be seen as normal behavior and can be morally justified, including crises such as 2008-2009. This way of looking at the world is unacceptable to them.

That is why some ideologues believe that we must imagine for the 21st century a participatory socialism, a universal egalitarian horizon, a new ideology and a new model of equality of social property, education and exchange of knowledge (Piketty, 2019).

Modern fiscal policy is based on the theory of Keynes who shows that the government's change in government tax and spending levels will influence demand and the level of economic activity.

The purpose and consequences of state activity materialize by relocating resources from private to governmental use. To achieve this, citizens must give up part of the revenue, in favor of the state, so that the authorities have the opportunity to provide public goods and services. The financing methods used can affect a number of important economic and political variables.

Therefore, the current tax theory and practice refers at this time to addressing the following issues:

-political balance - the mix of goods and services provided by the government depends on taxation and the

Volume **XVI**/2021 ISSN 2344-102X
Issue (XXVI) / **June** 2021 ISSN-L 2344-102X

level of taxation influences the choices of citizens when they vote;

- the general balance of the market and the efficiency with which the resources are used - the financing method used (mostly public) can distort the prices of goods and services in a way that prevents competitive markets from being efficient;

- income distribution - the financing methods of the state affect the distribution of revenues by reducing the amounts that economic agents spend on private goods and services and by influencing the prices and quantities of private goods exchanged on the markets.

However, it should be noted that many citizens advocate the use of certain methods of public funding precisely for the purpose of redistributing income in one way or another (Hyman, 2010).

Obviously, we have synthesized a lot the currents of thought and the opinions that have evolved over time and that are extremely diverse. That is why we set out to discuss the latest ideas in the literature.

Countries with a low level of taxation and redistribution apply liberal currents of thought. The low level of redistribution promoted by the US is based on the following argument of Andrew Schotter (follower of the theory of fair allocation): „*Americans tend to feel that income can not be fundamentally redistributed without destroying the freedoms and incentives provided by the system free market"* (Schotter, 1996).

Also, other theories point out that it must be borne in mind that the redistribution of income to reduce poverty and the gap between poor and rich has only theoretical connotations, due to the impossibility of achieving equality in terms of welfare, and the effect will be just the opposite, respectively the more and more pronounced social polarization, on the background of the decrease of the labor productivity and of the reduction of the efficiency in the economic activity.

This theory, called the „*redistribution paradox*", formulated by Walter Korpi and Joakim Palme, is based on changing economic behavior, by inhibiting the inclination to work, in the absence of justifiable and fair monetary incentives, leading, in the end, to situations of inefficiency on economic plan (Korpi, Palme, 1998).

On the other hand, the interventionists consider that „*the tax is an instrument of economic policy that can play a role of incentive, deterrence or stabilization"* (Brezeanu, 2010: p.19).

We can only note that the state intervention through the fiscal function is due to market failures, which is manifested by the imperfect competition between economic agents on the market. So, the intervention of the state, through the instrument called tax, has as its beginning the very failure of the theory that the capitalist laws of the market solve everything.

Thus arose the stabilization function through which it focuses on reducing the amplitude of fluctuations in the phases of the business cycle, the market economy, in the absence of any intervention of public authorities, registering large fluctuations in prices and employment, the role of the state being to ensure from the equilibrium level are kept within low limits.

Subsequently, the function of allocating the state appeared, which aims to maximize the efficiency of the distribution of public expenditures, so as to ensure maximum benefits for citizens, given a certain level of budget revenues and public wealth.

Nowadays, the redistribution function aims to reduce inequality in the distribution of income and wealth in society, by shifting part of the available resources from certain categories of citizens in favor of another part of the population.

„*Hyman (2010) shows that changes in income distribution that reduce the incidence of poverty can lead to collective benefits. Thus, the redistribution of income in favor of households that do not cover their basic living needs can be considered a public good"* (Georgescu, Cazacu & Cojocaru, 2020).

Regardless of which theoretical and practical ideas are more convincing, we cannot fail to note that a tax system can only be considered good when it maximizes social welfare, aids economic growth and allows a way out of crises.

Next, we will review some papers that analyzed taxation and the tax system in Romania.

To analyze the link between fiscal policy and economic growth in the case of Romania, Cosmin Enache builds a neoclassical econometric model of growth, to identify the main determinants of economic growth that takes into account the constraints imposed by government budget constraint and identifies some specific fiscal policy measures that could boost economic growth (Enache, 2009).

Other authors, analyzing the main monetary and fiscal policy decisions of the country and their influence on macroeconomic variables, show that fiscal and monetary policies promoted in Romania have not been constantly harmonized, sometimes lacking the necessary mutual support or even generating fiscal and financial instability. The study shows that in the period 1990-2011, the fiscal and monetary policies promoted in Romania were not properly correlated.

Regarding fiscal policy, the main conclusion is that its pro-cyclical manifestation, even in the situation of economic overheating, favored the increase of fiscal instability, visible especially after 2008. „*This led to the need to make greater sacrifices to mitigate the effects of the crisis, often through tougher austerity programs*" (Oprea, Mehdian & Stoica, 2013: pp.159-182).

Volume **XVI**/2021 ISSN 2344-102X
Issue (XXVI) / **June** 2021 ISSN-L 2344-102X

Bobasu, studies the impact of fiscal policy on aggregate demand in the Romanian economy using Bayesian techniques in the period 2000Q1-2014Q2 to simulate the behavior of the economy to the shocks of fiscal policy.

The main findings suggest that the impact of public expenditure and revenue shocks on economic growth is insignificant. In other words, „*the capacity of the government sector to contribute to the stabilization of macroeconomic fluctuations is relatively low in Romania*" (Bobasu, 2016).

Other researchers have built the Laffer curve for the Romanian economy by analyzing tax revenues in the period 2000-2010. The results of the analysis show that the slope of the Laffer curve for the whole period places the Romanian economy in the inadmissible or forbidden area, an area where taxation is high. Therefore, economic agents restrict their taxable activities and consequently reduce their tax base. So fiscal policy is not optimal (Trandafir & Brezeanu, 2011).

Research has also been carried out on identifying how the Romanian tax rules restrict the application of fiscal policy, as well as whether there is an explicit agreement between them. The ARDL (autoregressive distributed lag) model was used to apply the Granger causality test, with quarterly data for a set of four indicators: „*government revenue, government expenditure, public debt and structural deficit"*. It was identified that the Romanian fiscal norms restrict the fiscal policy, being identified a long-term relationship between the analyzed variables and implicitly, the state of instability of the Romanian fiscal system.

The late transition to the market economy, the implications of a legislative framework that is not adapted to the dynamics of the Romanian economy, as well as the fiscal rules incompatible with the applied fiscal policy are the main factors that attenuated the much-desired economic advance. Romania, like most emerging countries, applies a pro-cyclical fiscal policy (Voda, Dobrotă, Cristea & Ciocanea, 2019).

Dumitru &Dumitru (2018) evaluates the impact of the Fiscal Pact in Romania, emphasizing the major consequences it has on the development of fiscal policy and on the ability to stabilize the business cycle. The study concludes that the room for maneuver of fiscal policy in Romania will be much smaller than in the past. Possible solutions to this constraint include accelerating the absorption of EU funds and increasing the efficiency of public spending. „*The disadvantage of the new European fiscal rule for Romania is that the existing room for maneuver to stimulate the economy in times of recession will be very low*" (see also Iancu & Olteanu, 2015).

Another paper studies the asymmetry of wage income distribution to determine the existence of horizontal equity between individuals in the same income group. The study shows the redistributive effects of PIT (personal income tax) in Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania and Romania, countries that use the single tax rate.

In this sense, it is found, for Romania, that in 10 situations, redistribution is associated with unfair PIT regulations that generate horizontal inequity between employees in the same group. *„Given that 10 is the maximum number of situations in which the distribution is made, we can say that Romania has the most unfair redistribution in the analyzed countries"* (Stoian, Vintilă, Tatu & Miricescu, 2018).

Other authors study the effect of fiscal facilities on research and development in Romania. The conclusion is that fiscal incentives in this area can be a fine component of the strategy to stimulate investment in research and development, this is only valid if long-term stability of facilities is ensured, there is a coherent fiscal policy throughout the field. of the taxation of the companies by consolidating the fiscal discipline and diminishing the fiscal evasion, the fiscal stimulation having to extend also on the actions undertaken for the commercial exploitation of these activities (Militaru, 2018).

Jakova (2007), analyzes the way in which the dividend payment policy undertaken by the companies listed on the Bucharest Stock Exchange is influenced by the change in the dividend tax rate. A number of 59 companies were also analyzed in the period 2008-2015. The analysis showed that a considerable decrease in the dividend tax rate and an increase in net income are able to strongly influence the decisions of Romanian companies regarding the dividend payment policy.

## III. CHARACTERISTICS OF THE ROMANIAN TAXATION SYSTEM

When analyzing Romania's tax system, we must not forget that we are part of the EU in which, although national systems differ by diversifying the taxable object, tax base or tax rates, it was intended that Member States' tax systems do not compete disloyally and to harmonize as much as possible.

That is why the Romanian tax system is designed in close correlation with EU tax legislation, in the sense that a large part of European directives is implemented in Romania's tax policy, thus being comparable to that of EU member states.

„*EU tax policy has two components: direct taxation, which is the exclusive competence of the Member States, and indirect taxation, an area in which harmonized standards for corporate and personal taxation have been established, and Member States have taken common measures to prevent tax evasion and double taxation.*

*In the field of indirect taxation, the EU coordinates and harmonises VAT and excise legislation. This avoids distortions of competition in the internal market as a result of variations in indirect tax rates and systems that would give firms in one country an unfair advantage over others"* (see eur-lex.europa.eu).

Volume **XVI**/2021 ISSN 2344-102X
Issue (XXVI) / **June** 2021 ISSN-L 2344-102X

If we were to characterize in a few words the Romanian tax system from 2015 to the present, we agree with the fact that: „the tax legislation is based on Law 227/2015 which replaced the old Fiscal Code, Law 571/2003, and personal income tax: since 2005, the single tax rate has been 16%. This quota applies to income from self-employment, royalties, income from movable and immovable property, capital gains and also interest income. Starting with 2018, (GEO 79/2017) the tax rate is 10% and applies to the taxable income corresponding to each source of income" (Moroșan, 2017).

There are also categories of exempt employees, for example, employees in the IT sector benefit from the 10% tax exemption, and in the construction and construction materials sector, employees benefit, from 2019 to 2028, from income tax exemption, but also the contribution to health as well as a reduction in the contribution for social insurance.

- corporate income tax: from 2005 until now, a single 16% tax rate has been applied;

- companies in the category of micro-enterprises pay income tax which is 1% or 3% of the realized income, depending on the existence or non-existence of employees. Over time, changes have taken place, especially in terms of defining the micro-enterprise, at this moment being part of this category all companies with a turnover of up to 1 million euros, so most companies in Romania;

- dividend tax: „the Romanian legal entity that distributes / pays dividends to another Romanian legal entity, will pay the dividend tax by applying a tax rate of 5% on the gross dividend paid" (Law 227/2015). The same tax rate is used in the case of income in the form of dividends due to shareholders or associates, individuals.

One of the most important sources of income for the Romanian state is the payroll tax. Wage taxation has changed a lot during this period, starting with the system of personal deductions for dependents, tax credits or tax exemptions.

Tax-exempt incomes are allowances, social benefits and most allowances, compensation, pensions for invalids and war widows, scholarships for pupils and students, amounts received as sponsorships / patronage as well as incomes of people with severe disabilities for salary income, self-employment, pensions and agricultural activities.

-VAT: from July 1, 2010 to December 31, 2015, the quotas were 24% standard, 9% and 5% reduced quotas;

- from January 1, 2016 to December 31, 2016, the quotas were 20% standard, 9% and 5% reduced quotas;

- from January 1, 2017 the quotas are 19% standard, 9% and 5% reduced quotas and exemptions.

As can be seen, VAT rates have changed quite often, with important changes taking place on a taxable basis. The most important change being the 9% quota applied on the delivery of foodstuffs.

VAT exemptions without the right to deduct apply to medical treatment, cultural, educational and public postal services, certain banking and financial transactions, insurance and reinsurance.

Taxes on wealth and real estate transactions: there are no taxes on wealth, donations or inheritances. Real estate is subject to a local building tax. The tax is levied in rates between 0.08% - 0.2% on the taxable value of residential buildings owned by individuals and a rate between 0.2% and 1.3% on the taxable value of non-residential buildings. For non-residential buildings owned by individuals, used for agricultural activities, the building tax is calculated by applying a rate of 0.4% on the taxable value of the building.

The same tax rates apply to buildings owned by companies, stating that if the building has not been revalued in the last five years prior to the reference year, the rate is 5%.

Land both inside and outside the city limits is generally subject to local land tax. The tax is established taking into account the land area, the rank of the locality where the land is located, the area and the category of land use, according to the classification made by the Local Council, by multiplying the land area, expressed in hectares, with the amount established by law in each category. part.

Any person who owns a means of transport that must be registered in Romania owes an annual tax for that means of transport. The tax on means of transport is calculated according to the type of means of transport and its cylindrical capacity, by multiplying each group of 200 $cm^3$ or fraction thereof with the corresponding amount provided by law.

In the case of certain categories of motor vehicle, the tax shall be calculated on the basis of the number of axles and the maximum permissible laden gross weight or the maximum permissible total mass. In the case of means of transport on water, the tax on the means of transport is established by law according to the type of means of transport.

Mandatory social contributions are expressed as a percentage of the gross salary earned by the employee. Currently, the rates of social security contributions for pensions are:

- 25% of the gross salary of natural persons who have the quality of employees or for whom there is an obligation to pay the social insurance contribution, to which is added, if necessary, 4% in case of special working conditions or 8% in case of special working conditions the work.

Employees also contribute to the health insurance fund at a rate of 10% of gross salary.

The employer pays from its own sources the insurance contribution for work in the percentage of 2.25% of the gross salary fund.

Volume **XVI**/2021 ISSN 2344-102X
Issue (XXVI) / **June** 2021 ISSN-L 2344-102X

### IV. DATABASE - ANALYSIS, RESULTS AND DISCUSSIONS

The data used in this chapter were extracted from the website of the Ministry of Finance and represent revenues actually collected according to the annual budget execution account. The data were analyzed for 5 years, respectively from the period 2015-2019. We will use this information to analyze the evolution of the Romanian tax system in these five years.

**Table 1. Evolution of public revenues by categories in Romania**

mil.Ron

| Explanations/Year | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|
| Total income, of which: | 233.795,2 | 223.900,2 | 251.866,5 | 295.264,7 | 321.074,9 |
| Tax revenue | 138.301,6 | 136.406,0 | 140.241,8 | 142.510,0 | 156.361,7 |
| Insurance contributions | 57.616,5 | 61.270,2 | 71.705,7 | 98.101,1 | 111.473,5 |
| Non-tax revenue | 19.538,2 | 18.041,7 | 21.873,7 | 27.189,0 | 27.036,1 |
| Capital income | 918,3 | 768,3 | 830,4 | 849,4 | 867,3 |
| Donations | 2,3 | 1,7 | 8,9 | 13,8 | 19,8 |
| Amounts received from the EU on account of payments made | 17.586,4 | 6.939,6 | 17.313,6 | 23.310,0 | 25.013,5 |
| Amounts being distributed | -28,8 | 472,7 | 29,1 | -578,7 | -3,8 |
| Other amounts | -139,3 | - | -136,7 | 3.870,1 | 306,8 |

Source: processing by mfinante.gov.ro, Budget execution information

For starters, the table above shows the evolution of state revenues by income categories. From 2015 to 2019, total revenues increased by over 37% due to the increase in tax revenues by about 13% and especially as a result of the increase in insurance contributions by over 93%. Social contributions are also considered tax revenue. Slight increases were recorded by all types of state revenues, perhaps more the amounts received from the EU, an increase of about 42%.

If we analyze the structure, we find an important participation in state revenues of taxes and fees, about 49% of the total in 2019 but also of contributions, 34.7% of the total, also in 2019. Together, the two sources are the main components of Romanian state revenues, over 83%, in 2019. In fact, in all years of this interval, the share was similar to that of 2019. In 2018 and 2019 the share of state revenues of the amounts received from the EU increased slightly, 8% in 2018 and about the same in 2019.

In 2016, the lowest revenues were recorded, mainly due to the amounts received from the EU but also as a result of lower revenues from tax and non-tax revenues. Insurance contributions are the only income that increases year by year.

**Table 2. Evolution of public revenues by budget categories**

mil. Ron

| Explanations/Year | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|
| The state budget | 105.705,6 | 101.480,2 | 113.023,1 | 144.094,5 | 152.479,8 |
| Budget of territorial administrative units | 71.713,8 | 68.391,6 | 74.661,9 | 73.493,4 | 83.178,8 |
| State social insurance budget | 54.945,0 | 52.428,3 | 58.018,1 | 63.800,5 | 70.715,7 |
| Unemployment insurance budget | 1.816,4 | 1.901,0 | 2.216,2 | 2.609,3 | 3.118,6 |
| Single National Health Insurance Fund | 23.316,6 | 24.950,2 | 28.760,9 | 35.651,3 | 41.801,4 |
| CNAIR budget | | 4.015,3 | 3.457,4 | 3,590,1 | 5.204,5 |
| State Treasury budget | 810,5 | 361,6 | 115,3 | 126,9 | 195,8 |
| The budget of state-funded public institutions | 23.429,4 | 22.725,1 | 24.654,7 | 28.805,8 | 32.269,3 |
| Non-reimbursable external funds budget | 489,8 | 240,0 | 169,4 | 126,3 | 145,2 |
| Transfers | -52.830,7 | -52.553,6 | -52.991,7 | -54.670,1 | -64.179,4 |
| Financial operations | -28,0 | -39,5 | -218,8 | -2.363,3 | -3.854,8 |
| Consolidated budget revenues | 233.795,2 | 223.900,2 | 251.866,5 | 295.264,7 | 321.074,9 |
| GDP | 711.929,9 | 763.652,5 | 857.895,7 | 951.728,5 | 1.059.803,2 |
| % in GDP | 32,8 | 29,3 | 29,4 | 31,0 | 30,3 |

Source: processing by mfinante.gov.ro, Budget execution information

The second table shows the evolution of state revenues by budget categories. Most revenues are centralized in the state budget, as long as our fiscal system is a centralized one, the revenues reaching the state budget, then

Volume **XVI**/2021 ISSN 2344-102X
Issue (XXVI) / **June** 2021 ISSN-L 2344-102X

being distributed through transfers and subsidies to other categories of budgets. About 20% of total revenue is transfers.

The high volume of existing revenues at the level of local budgets, at the level of the state social insurance budget and at the Single National Health Insurance Fund is noticeable.

The third table shows the structure and evolution of tax revenues. We notice their continuous increase, with about 80 billion lei in five years, respectively 36.7%.

Of the total tax revenues, the most important share is held by Insurance contributions, 41.6%, VAT, 24.4% and Excise duties, 11.7%, analyzing the year 2019. Excise duties and VAT, together have a share of 36.7% of total tax revenues.

It is noteworthy that the continuous increase in VAT revenues, even if the tax rates have decreased from 24% to 19%, and the tax base undergoing substantial changes. Excise revenues are also increasing. Even if minus adjustments have taken place, excise duties continue to rise due to their harmonization with the EU, based on its obligations as a member. There is also an increase in property taxes, a timid but continuous increase. Most of this revenue remains in the budget of local public authorities.

Wage and income taxes are the only ones that register a decrease in the analyzed period. Even if wages tended to increase sharply (especially in the public sector), this was not able to compensate for the reduction in the tax rate from 16% to 10% and personal and maintenance deductions, which they grew up.

**Table 3. Evolution of fiscal revenues in Romania**

mil. Ron

| Explanations/Year | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|
| Income tax, of which: | 13.824,3 | 15.442,0 | 14.732,1 | 15.652,5 | 17.720,2 |
| -in local budgets | 51,6 | 47,3 | 40,8 | 34,6 | 32,3 |
| Wage and income tax, of which: | 26.640,1 | 27.756,4 | 30.143,1 | 22.679,0 | 23.201,4 |
| -in local budgets | 17.413,2 | 18.251,0 | 20.415,3 | 17.623,8 | 21.691,2 |
| Other income and profit taxes, of which: | 1.626,6 | 1.583,3 | 2.025,4 | 3.174,7 | 3.729,5 |
| -in local budgets | 11,2 | 10,0 | 13,2 | 13,5 | 10,5 |
| Property taxes and fees, of which: | 5.738,0 | 5.898,1 | 5.361,8 | 5.469,4 | 6.191,9 |
| -in local budgets | 4.567,5 | 4.846,8 | 5.267,3 | 5.465,5 | 5.844,3 |
| VAT, of which: | 57.132,2 | 51.675,1 | 53.543,7 | 59.609,0 | 65.420,6 |
| -in local budgets | 21.212,8 | 20.508,5 | 23.521,5 | 15.359,5 | 18.316,2 |
| Excise | 26.018,0 | 26.957,0 | 26.604,1 | 28.518,1 | 31.463,3 |
| Tax revenues, of which: | 7.322,4 | 7.094,1 | 7.831,6 | 7.407,3 | 8.634,8 |
| -in local budgets | 1.564,3 | 1.563,4 | 1.703,6 | 1.888,7 | 2.139,3 |
| Other indirect taxes, of which: | 138.301,6 | 136.406,0 | 140.241,8 | 142.510,0 | 156.361,7 |
| -in local budgets | 44.820,6 | 45.227,0 | 50.961,7 | 40.385,6 | 48.033,8 |
| Insurance contributions | 57.616,5 | 61.270,2 | 71.705,7 | 98.101,1 | 111.473,5 |
| TOTAL TAX REVENUE | 195.918,1 | 197.676,2 | 211.947,5 | 240.611,1 | 267.835,2 |
| % in GDP | 27,5 | 25,9 | 24,7 | 25,3 | 25,3 |

Source: processing by mfinante.gov.ro, Budget execution information

Regarding the impact of taxes in Romania on the economic environment, job creation and employment, the correction of inequalities, the promotion of social mobility and the increase of the living standard, we note the following:

- the impact of the profit tax and of the income tax on the economic growth and of the investments is known - the tax on the profit of the companies can determine the choice of the place of residence and the level of the direct investments. „Average *effective corporate income tax rates range from 38.4% in France to 9% in Bulgaria*" (European Commission, 2017). So, from this point of view, Romania is approaching the minimum levels of taxation in the EU, especially since the dividend tax is one of the lowest in the EU.

Another aspect of the economic environment concerns tax incentives for research and development that can encourage investment and innovation. Romania tries timidly, inconsistently and without continuity to apply fiscal facilities in this field. There is no patent-friendly tax regime at all.

Also in this field, we discuss the pros and cons of tax systems that offer companies facilities by deducting interest expenses when calculating profit and therefore profit tax. The tax regime in Romania is favorable to this system, the interest expenses on loans contracted by companies being tax deductible. These incentives can lead to more debt and are also discriminatory because they do not give a similar treatment to equity. Indebtedness is favored and the profitability and cost of companies' investments are weakened:

- income taxes are a good tool for higher levels of employment. Reducing the tax rate from 16 to 10% was a positive factor. Romania has for certain categories (IT and construction) level 0 of the tax.

Volume **XVI**/2021 ISSN 2344-102X
Issue (XXVI) / **June** 2021 ISSN-L 2344-102X

- tax rates, the way in which the tax base is defined and the issues related to tax compliance have a strong influence on the economy. As we have seen, Romania practices single tax rates.

In terms of tax compliance, Romania has had major problems since 1990. Here we refer to the difference between what the state collects from VAT and what it could collect compared to the size of the economy, which „*decreased marginally in 2019, to 33.4 %, compared to 33.8% a year earlier, according to the latest data from the European Commission*" (Fiscal Council, 2019), given that VAT is an important source of state income.

On the other hand, undeclared work is high in Romania, according to the estimates of the Fiscal Council, „*the underground or informal economy being 21.5% of GDP"* (Fiscal Council, 2019).

Also, agriculture is one of the branches of the Romanian economy strongly untaxed and which allows the registration of a strong tax evasion.

If we summarize, we find that the underground economy refers either to illegal economic activities, with products or services, or to legal products and services but for which the persons involved do not pay their legal obligations to the state.

Taxation plays a role in building a just society, correcting inequalities and getting out of poverty faster. Unfortunately, several reports and studies show that: „*The impact of the tax system on poverty reduction and income inequality is limited. Income inequality and poverty rates remain among the highest in the EU. The relatively low level of tax revenues limits Romania's ability to solve these problems, either through redistribution or through the provision of public goods and services. The configuration of income taxation has one of the lowest degrees of progressivity in the EU, as it is measured as the difference between the relative tax burdens borne by low-income and high-income people. This configuration contributes to the limited impact of the tax and social security system in terms of reducing income inequality*" (European Commission, 2020).

Other authors show that in Romania „*The impact of taxes and transfers on poverty is much more serious. When we compare the poverty rate before and after taxes and transfers, we find that poverty is higher after all taxes and cash transfers. The main reason for this is that taxes increase poverty, so much so that the poverty-reducing power of direct transfers is completely eliminated with indirect taxes*" (Inchauste, Militaru, 2018).

## V. CONCLUSIONS

In Romania, at least at the level of public opinion, we find that we want the existence of a minimum state (in the sense that we advocate that its intervention in economic and personal life be as low as possible), but we want the best possible social protection (pensions as higher health care, better education, high-level social protection for disadvantaged people), and all this in conditions of reduced taxation to a minimum.

Obviously, we cannot oppose this desire or submit it to public disgrace. But we cannot stop ourselves from asking ourselves how realistic these expectations are in the conditions in which, at the individual level, of our own resources, we know for sure that we cannot satisfy these expectations.

From the analysis of the database provided by the three tables, we can conclude:

- from 2015 to 2019, total revenues increased by over 37% amid an increase in tax revenues by about 13% and especially as a result of the increase in insurance contributions by over 93%;

- most revenues are centralized to the state budget, as long as our fiscal system is a centralist one, the revenues reaching the state budget, then being distributed through transfers and subsidies to other categories of budgets. About 20% of total revenue is transfers. The Romanian fiscal system is a centralist one;

- analyzing the year 2019, out of the total fiscal revenues, the most important share is held by Insurance contributions, 41.6%, VAT, 24.4% and Excises 11.7%. Excises and VAT together have a share of 36.7% of total tax revenues. We have a tax system based on contributions and consumption taxes.

It is obvious that „*Romania is characterized by a low redistribution function of public finances both in size and efficiency compared to other countries*". Tax revenues in Romania, among the lowest in the EU. A report of the Fiscal Council shows that „*Romania registered in 2019 a level of the share in the GDP of the budget revenues of 31.7%, with 13.4% below the European average, among the lowest in the EU*" (Fiscal Council, 2019).

In addition, „*Romania has one of the lowest degrees of collection of taxes in the EU - 26.7% of GDP given that the European average is 41% of GDP*" (Fiscal Council, 2019).

The Romanian tax system is characterized by many exceptions. For example, micro-enterprises represent approximately 90% of Romanian companies. Given that, in their case, income is taxed, the 16% profit tax becomes an exception of the tax system.

Also, „*the system of taxes and duties in Romania is characterized by a poor collection of them, with inefficient administration and excessive bureaucracy, a relatively low tax base, with many exceptions and legal deductions and high tax evasion*" (Moroșan, 2017).

*Proposals:*

- emergency digitization of the fiscal system in order to more efficiently collect taxes and duties, to reduce

Volume **XVI**/2021 ISSN 2344-102X
Issue (XXVI) / **June** 2021 ISSN-L 2344-102X

the degree of fiscal non-compliance (an immediate measure would be to oblige companies to report on a computer platform VAT invoices higher than 10.000 lei);

- reducing the number of tax exemptions, exceptions create the perception of tax inequity and urge tax non-compliance, the tax system should not be based on facilities and exceptions;
- widening the tax base by taxing asset transactions (inheritances, donations, sale-purchase), which are currently extremely small;
- rethinking the taxation of real estate, the tax rates in this area are currently extremely low;
- the introduction of progressive income taxation for individuals will reduce tax inequity and reduce the negative effects of taxation on poverty and social exclusion;
- closer communication with taxpayers, encouraging them to behave ethically regarding the payment of tax obligations, increasing the level of knowledge, are effective methods of streamlining the tax system;
- the creation of a predictable, transparent and fair tax system is an important condition for it to contribute more effectively to increasing state revenues.

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