

ROMANIAN FISCAL DECISIONS – BETWEEN RIGHT AND WRONG

Carmen COMANICIU
Prof. PhD,
“Lucian Blaga” University of Sibiu, Romania,
carmen.comanicu@yahoo.com

ABSTRACT:

THE RADIOGRAPHY OF FISCAL AND BUDGETARY POLICY IN ROMANIA, AFTER ALMOST 25 YEARS OF MARKET ECONOMY, LEADS US TO AFFIRM THAT IT IS IN A VICIOUS CIRCLE, BECAUSE THE STATE FREQUENTLY INVOKES THE LOW LEVEL OF PUBLIC FINANCIAL RESOURCES AND TAXPAYERS INVOKES A HIGH LEVEL OF FISCAL OBLIGATIONS AND INEFFICIENCY IN USING THE PUBLIC FUNDS. THE PRINCIPLES THAT MAY CONFER APPROPRIATE ACTION FOR FISCAL AND BUDGETARY POLICY ARE TRANSPARENCY, PREDICTABILITY, PRUDENTIAL, EFFICIENCY AND EFFECTIVENESS, AND YIELD, FLEXIBILITY AND STABILITY ARE ELEMENTS TAKEN INTO ACCOUNT IN ADDRESSING THE OPTIMALITY OF A TAX SYSTEM. ARE THESE PRINCIPLES AND THESE ELEMENTS FOUND IN THE FISCAL AND BUDGETARY DECISIONS FROM ROMANIA? CAN FISCAL AND BUDGETARY POLICY FROM ROMANIA TO COME OUT OF THE VICIOUS CIRCLE? THROUGH THIS ARTICLE, WE ANALYZE SOME OF MICRO AND MACRO ROMANIAN FISCAL DECISIONS FOUND IN THE PERIOD 1990 - 2014, WHICH HAVE BEEN DESIGNED TO HAVE BENEFICIAL EFFECTS, BUT THEY DID NOT PROVIDE THE STABILITY AND SUSTAINABILITY OF PUBLIC FINANCES, BEING GENERATED NEGATIVE ACTIONS. THROUGH ANALYZES UNDERTAKEN, WE WILL TRY TO PROPOSE POSSIBLE MEASURES TO REDUCE THE NEGATIVE IMPACT OF FISCAL DECISIONS, SO TAXATION CAN BECOME STIMULATING FACTOR IN SOCIO-ECONOMIC LIFE IN ROMANIA.

KEY WORDS: FISCAL DECISIONS, FISCAL POLICY, STIMULATING FACTOR, POSITIVE EFFECTS, NEGATIVE EFFECTS

INTRODUCTION

Direct link between the fiscal policy, economic growth and the level of development, as demonstrated by numerous specialists, determines us to emphasize the incentive role of taxation in the life of any nation. Thus, it is noted: the link between tax structure and the level of development (Easterly & Rebelo, 1993); the role of fiscal policy in ensuring the general equilibrium (Baxter & King, 1993); the influence of the structure of fiscal revenues and public spending on the economic growth (Kneller, Bleaney & Gemmell, 1999); the impact of fiscal policy on the budget deficit (Blanchard, 1990); the role of fiscal policy in mitigating the effects of financial crisis (Eggertsson, 2014); the connection between the fiscal rules and budget balance (Auerbach, 2014); the use of fiscal instruments to promote economic growth under conditions of sociopolitical instability (Alcantara-Toledo & Venieris, 2014); the factors that determine the volatility of fiscal

policy (Agnello & Sousa, 2014); interdependence between fiscal policy and monetary policy (Arora & Reicher, 2014).

The items listed above are prerequisites for the development of this article to highlight some fiscal policy measures undertaken in Romania in the period 1990 - 2014, which, despite expected benefits have generated negative effects.

Often micro and macro Romanian fiscal decisions were criticized by taxpayers and professionals, being considered measures that are not in accordance with the principles of efficiency, effectiveness and equity. These elements introduced Romanian taxation in a vicious circle in which State complains about the lack of public funds and taxpayers complain about the excessiveness of tax burden. Through negative examples found in this article we want to emphasize the necessity of adopting fiscal policy decisions based on the significant and relevant analysis in order to minimize their negative effect on the long term.

CHANGES IN THE TAX LAWS

Romania's transition from centralized economy to market economy has brought significant changes in the structure of the tax system in fiscal and budgetary policy. Although some changes in fiscal legislation were made in the context of economic developments and the requirements of European directives, their number and frequency changed negatively taxpayer behavior, Romanian taxation being often ranked as unstimulated factor in social and economic life of the nation. In this framework, was imposed a major change in the presentation of tax legislation, so, the year 2004 was marked by the introduction of the Tax Code, a legislative novelty consists in merging all laws relating to taxes and compulsory social contributions, relating to fiscal legislation in general. The major benefit of this fiscal measure was to include into a unitary whole both general and specific provisions for the Romanian fiscal incomes. Also, the specifications contained in Title I of the Fiscal Code relating to the purpose and scope, the principles of taxation, changes and additions, Central Tax Commission's role and defining some terms were appreciated by all individuals and corporate taxpayers. But ... after 10 years of existence of Fiscal Code, without reference to the specific elements of taxes and compulsory social contributions which constitutes public budget revenues, it appears that many provisions of the first part of the Fiscal Code have not been complied, thus not being strengthened the partnership between the state and taxpayers.

The analysis of amendments to the Fiscal Code for the period 2009-2013 reveal a large number of normative acts issued for changing the Fiscal Code provisions, changes that have had a negative impact on the environment business, a negative impact on the image of taxation in Romania (see in this regard Fig. no. 1).

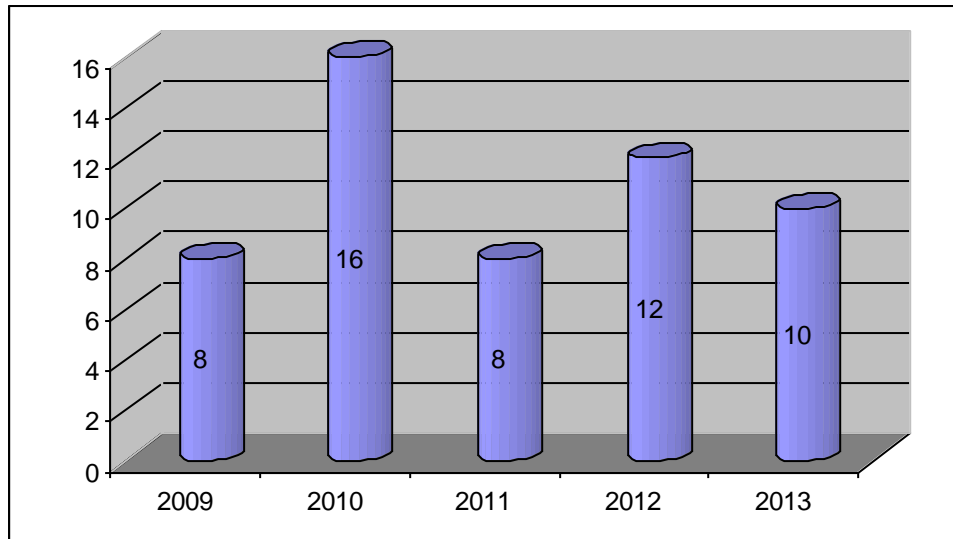


Fig. no. 1 Number of laws for amending the Fiscal Code

(Source: processing author based on data published on the website

<http://codfiscal.net/in/legislatie/reglementari-fiscale/acte-modify-code-fiscal>)

Ignoring by the tax authorities of the beneficial provisions of the Fiscal Code with reference to the fourth principle of taxation namely taxation efficiency by ensuring long-term stability of Fiscal Code provisions (Fiscal Code, 2014, art. 3) and with reference to the amendment of the Fiscal Code namely the existence of a law, promoted, usually with six months before the effective date (Fiscal Code, 2014, art. 4) shows how easy it goes from good to bad in tax field.

CHANGES IN THE STRUCTURE AND CONTENT OF TAX SYSTEM

National and international conditions from the economic, social and political field require the permanently adaptation in fiscal and budgetary items. In Romania, in the period 1990-2014 were taken multiple measures on tax structure in terms of substance and form traits (direct taxes and indirect taxes) and in terms of economic function (consumption taxes, taxes on labor and capital taxes). Public authorities have justified the necessity of these fiscal measures to ensure public funds, to strengthen fiscal and financial discipline, to a positive trend of the macroeconomic indicators. But ... most of these changes have destabilized the business environment, have generated discriminations among taxpayers, were regarded desperate measures taken by the government to attract public financial resources in the short term, have changed negatively the taxpayer behavior and have dropped the taxpayer confidence in fiscal institutions.

Even though there has been progress, Romania continues to occupy an un-honored place among world states in terms of ease of paying taxes (see in this regard Tab. No. 1), because of multiple changes made to the structure of the tax system in general, and the number of payments on taxes in particular (PwC, 2014).

Tab. no. 1 Romania's position in the ranking concerning the ease of paying taxes

Report	The number of jurisdictions included in the report	Ranking for Romania
Paying taxes 2007	175	134
Paying taxes 2008	181	134
Paying taxes 2009	181	146
Paying taxes 2010	183	149
Paying taxes 2011	183	151
Paying taxes 2012	183	154
Paying taxes 2013	183	136
Paying taxes 2014	183	134

(Source: PwC official website: <http://www.pwc.com/gx/en/paying-taxes>)

Filing tax returns using the online system, simplifying the system declarative, ensuring the stability for the declarative system, reducing the number of taxes and reducing the time required for the declaration and payment of taxes are some tax measures that can simplify the whole tax system, thus obtaining greater ease of paying taxes.

Significant changes in the way of taxation without a rigorous impact analysis of these long-term changes in public resources often have led to the appearance of an inadequately report between effort and effect. In this regard, reference may be made to the introduction of minimum tax, which implied a tax based on revenues recorded in 2008, with values between 2,200 RON and 43,000 RON, for a situation where the profit tax is less than the minimum tax for the tranche corresponding to total revenues (GEO no. 34, 2009). Under of such provisions, private entrepreneurs have reacted, so they protested, businesses have been closed, the staff was made redundant, the companies have moved to other states. The reactions of taxpayers and the comments of experts were not taken into account in the year 2009, the government emergency ordinance being valid for the period May 2009 - September 2010. Throughout this period were visible the negative effects of this fiscal decisions. Thus, one year after occurrence of the ordinance, closure of more than 317000 of companies has led to lower revenues from VAT, corporation tax and income tax, social contributions, the state budget was prejudiced with 1.2 billion RON (Rosoga, 2010). The minimum tax has been removed on 30 September 2010 (GEO no. 87, 2010), but until now its negative effects are being felt.

THE FISCAL BURDEN

With a tax rate of 16% for the profit tax and the income tax, Romania is among the countries with relatively low taxation, but indirect tax rate is well above the world average (KPMG, 2014). Thus, the competitive advantage of the flat tax is shady by indirect taxes which affect the entire population, so, the part of many people appreciate taxation in Romania as excessive.

Table no. 2. Evolution of tax rates

Location	2006	2007	2008	2009	2010	2011	2012	2013	2014
Individual income tax rates									
Romania	16	16	16	16	16	16	16	16	16
Europe average	35.62	35.04	33.49	33.15	33.62	33.4	33.66	32.74	32.43
EU average	39.9	39.32	37.56	37.03	37.3	37.09	37.46	38.37	37.68
OECD average	41.88	41.44	40.39	40.26	40.76	40.4	40.88	41.78	41.58
Global average	32.68	31.96	31.44	30.96	31.25	30.85	31.34	30.99	31.35
Corporate tax rates									
Romania	16	16	16	16	16	16	16	16	16
Europe average	23.7	22.99	21.95	21.64	21.46	20.81	20.42	20.6	19.68
EU average	24.83	23.97	23.17	23.11	22.93	22.7	22.51	22.75	21.34
OECD average	27.67	27	25.99	25.64	25.7	25.4	25.15	25.32	24.11
Global average	27.5	26.95	26.1	25.38	24.69	24.5	24.4	23.71	23.57
Indirect tax rates									
Romania	19	19	19	19	24	24	24	24	24
Europe average	19.29	19.37	19.37	18.88	19.67	19.71	20	20.15	20.18
EU average	19.47	19.58	19.58	19.61	20.54	20.84	21.27	21.45	21.54
OECD average	17.73	17.76	17.73	17.64	18.26	18.58	18.88	19.03	19.17
Global average	15.69	15.6	15.55	15.39	15.7	15.33	15.5	15.79	15.83

(Source: <http://www.kpmg.com/Global/en/services/Tax/tax-tools-and-resources/Pages/tax-rates-online.aspx>)

Based on the data presented in the table above, we believe that fiscal institutions must achieve a better promotion of the positive aspects, by easy access to the information related to the tax system, by involving the entrepreneurs in the tax legislation, by preventing and combating undeclared work, by preventing and fighting tax evasion, by efficiently using the public funds.

FISCAL INCENTIVES

Being the economic and social policy measures on exemptions, deferrals or rescheduling total or partial payment of taxes and contributions, tax incentives aim is to provide an environment conducive to improving and developing the partnership between the state and taxpayers, so as to ensure positive effects at both the micro and macro level.

Also, tax incentives may be considered useful tools for tax competition (Klemm, 2009). Fiscal policy decisions regarding tax incentives should provide relevant answers to questions like: Tax incentives are needed? Who is eligible for tax incentives? What is the period for granting tax incentives? Which is the relationship between cost and benefit? But ... improper action for the control function of public finance can generate distortions in the fiscal system through tax incentives, aspect often found in Romania in analyzed period.

In this context, we submit a few issues, without a detailed analysis, leaving the reader to reflect on those specified items.

Economic transformations, social and political conditions in Romania have generated the development of nongovernmental sector, among the keywords has assigned to them being mentioned: social causes, social projects, solidarity, common interests, associative structures, freedom of association, freedom of expression. The existence of a relatively large number of nongovernmental organizations in Romania (see in this regard Tab. no. 3) should lead to solving many social problems, however, the structure of these organizations, the dynamics of their registration, the relationship between the associativity and the economic development and the activity rate have demonstrated otherwise. We believe that most of these organizations were founded only in order to benefit from fiscal facilities.

Tab. no. 3 Evolution of the number of non-profit legal person

Type of organization	The number of non-profit legal persons, on:	
	20.01.2010	06.08.2014
Associations	44271	105053
Foundations	16785	18060
Federations	758	1028
Unions	633	705
Foreign legal entities	27	29
Unspecified	213	332
Total	62687	125207

(Source: National Register of NGOs, Index of non-profit legal entities)

Another negative aspect of the area of NGOs is related to their recognition as being of public utility, the criteria used for awarding the public utility status has been often criticized (Lambriu & Vamesu, 2010). It may be noted that in the period 2000 - 2009 the largest share of non-governmental organizations receiving public benefit status can be found in the electoral years (see in this regard Tab. no. 4), reason for determines us to affirm that, once again were mainly targeted the fiscal incentives through political involvement.

Tab. no. 4 Dynamics of non-profit legal person with public utility status

Year of granting public utility status	Number of non-profit legal person with public utility status	Percent
2000	6	5,7%
2001	3	2,9%
2002	3	2,9%
2003	6	5,7%
2004	31	29,5%
2005	8	7,6%
2006	2	1,9%
2007	6	5,7%
2008	38	36,2%
2009	2	1,9%
Total	105	100%

(Source: National Register NGOs, <http://www.just.ro>)

The fiscal facilities are technical elements of the taxes which applied improperly can cause distortions in the structure and the behavior of taxpayers. From the desire to pay as few taxes without resorting to violations of tax laws, taxpayers seek creative solutions to take advantage of fiscal incentives. For this reason it is particularly important that the control function to operate effectively.

Consistent with the title of this article and those mentioned above, we offer the following examples: providing fiscal facilities to the heroes of the 1989 revolution and to the revolution heroes descendants (Law 42/1990) was made as a sign of honor, appreciation and gratitude, but even now it is not properly managed this fiscal measure because there are many people illegally benefiting from tax incentives, so this aspect leads to discrimination and even tax evasion; reducing public budget arrears was often achieved by cancellation or reduction of penalties related to tax obligations overdue, a tax measure that changed the behavior of taxpayers and generated again discriminate among them, as meaning that the dishonest taxpayers were favored (e.g. GEO 163/2000 and GO 30/2011); providing fiscal facilities for people with severe and profound disabilities is done based on social considerations, but the spectacular increase in the number of disabled persons - 74000 people registered in 1992, 437024 people registered in 2002, 669523 people registered on 30 September 2009, 699780 people registered at 31 March 2013 - throws doubt about the actual number of people with disabilities and the criteria considered for aid and facilities; for economic recovery and job creation, tax incentives are attractive to investors in disadvantaged areas, but the lack of control function and its delayed action often led to a much higher amount of tax incentives as compared to invested capital (Capital, 2000).

CONCLUSION

Without claiming an exhaustive approach, we tried to emphasize by aspects presented in this article that there are many fiscal policy decisions in Romania, which without a systemic approach to the public finance functions have generated negative effects. To eliminate these negative effects, we believe that may be undertaken measures such as: ensuring a stable and predictable tax system by reducing legislative changes; improving

fiscal mechanism by simplifying the declarative system and reducing payments related to taxes; reducing the tax burden on labor for diminishing undeclared work and ensuring adequate social protection; stimulating the taxpayers from the category of good payers for increasing the confidence in tax system and tax mechanism; simplifying the methodology for determining the tax base, so that the mechanism to be easy to understand; issuance of fiscal policy decisions only after a substantial and meaningful analysis of the negative effects that may arise in the medium and long term; transparency in issuing tax policy decision; transparency, efficiency and effectiveness in using the public funds.

REFERENCES

- [1]. Agnello, L., & Sousa, R. M. (2014). The determinants of the volatility of fiscal policy discretion. *Fiscal Studies*, 35(1), 91-115, DOI: 10.1111/j.1475-5890.2014.12024.x
- [2]. Alcántar-Toledo, J., & Venieris, Y. P. (2014). Fiscal policy, growth, income distribution and sociopolitical instability. *European Journal of Political Economy*, 34, 315-331, DOI: 10.1016/j.ejpolco.2014.03.002
- [3]. Arora, S., & Reicher, C. (2014). Changes in the Response of Fiscal Policy to Monetary Policy in the EMU, Working Paper No. 465, *Advanced Studies in International Economic Policy Research*, Kiel Institute for the World Economy.
- [4]. Auerbach, A. J. (2014). Budget Rules and Fiscal Policy: Ten Lessons from Theory and Evidence. *German Economic Review*, 15(1), 84-99, DOI: 10.1111/geer.12023
- [5]. Baxter, M., & King, R. G. (1993). Fiscal policy in general equilibrium. *The American Economic Review*, 315-334.
- [6]. Blanchard, O. J. (1990). Suggestions for a new set of fiscal indicators (No. 79). *OECD Publishing*. Retrieved from <http://www.oecd.org/dataoecd/16/41/2002735.pdf>
- [7]. Capital, (2000). Zonele defavorizate raman fara facilitati. Retrieved from <http://www.capital.ro/zonele-defavorizate-raman-fara-facilitati-2041.html>
- [8]. Easterly, W., Rebelo, S. (1993). Fiscal policy and economic growth. *Journal of Monetary Economics*, 32(3), 417-458, DOI: 10.1016/0304-3932(93)90025-B.
- [9]. Eggertsson, G. B. (2014). Fiscal Policy, Public Debt and the World Crisis. *German Economic Review*, 15(2), 225-242, DOI: 10.1111/geer.12037
- [10]. Fiscal Code (2014). Retrieved from <http://static.anaf.ro/static/10/Anaf>
- [11]. GEO 163 (2000) Government Emergency Ordinance no. 163 of October 13, 2000 to reduce the arrears to the state budget. Retrieved from <http://www.lex.ro/OUG-163-2000-21528.aspx>
- [12]. GEO 34 (2009). Government Emergency Ordinance no. 34 regarding the 2009 budget rectification and regulation of fiscal measures. Retrieved from <http://codfiscal.net/1078/oug-342009-rectificarea-bugetara-pe-2009-si-masuri-financiar-fiscale>
- [13]. GEO 87 (2010). Government Emergency Ordinance no. 34 for the amendment and supplementing Law no. 571/2003 the Fiscal code. Retrieved from http://www.dreptonline.ro/legislatie/oug_87_2010_modificare_legea_571_2003_codul_fiscal_ordonanta_de_urgenta_87_2010.php
- [14]. GO 30 (2011). Government Ordinance no. 30 of 31 August 2011 amending and supplementing Law no. 571/2003 regarding the fiscal code, and for the regulation of certain fiscal measures. Retrieved from <http://codfiscal.net/17591/og-302011-modificarea-si-completarea-legii-5712003-codul-fiscal-precum-si-pentru-reglementarea-unor-masuri-financiar-fiscale>
- [15]. Klemm, A. (2009). Causes, Benefits, and Risks of Business Tax Incentives. *International Monetary Fund, Working Paper*. Retrieved from <https://www.imf.org/external/.../ft/.../wp0921.p>
- [16]. Kneller, R., Bleaney, M. F., & Gemmill, N. (1999). Fiscal policy and growth: evidence from OECD countries. *Journal of Public Economics*, 74(2), 171-190.

- [17]. KPMG (2014). Tax tools & resources. Retrieved from <http://www.kpmg.com/GLOBAL/EN/SERVICES/TAX/TAX-TOOLS-AND-RESOURCES/Pages/default.aspx>
- [18]. Law 42 (1990). Law to honor the heroes-martyrs and granting rights to their survivors, the wounded and the fighters for the victory of Revolution of December 1989. Retrieved from <http://www.legex.ro/Legea-42-1990-1086.aspx>
- [19]. Rosoga, A. (2010). Statul a pierdut 1,2 mld. lei prin impozitul minim. *Ziarul Financiar*, 30 june 2010. Retrieved from <http://www.zf.ro/eveniment/statul-a-pierdut-1-2-mld-lei-prin-impozitul-minim-6466300>