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# INTRODUCING TAXATION POLICY OF PROFIT FOR COMPANIES IN ROMANIA AND OTHER EUROPEAN UNION MEMBER STATES

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**ABSTRACT: TAKING INTO ACCOUNT THE EU ENLARGEMENT PROCESS THE PROBLEM OF ESTABLISHING THE VARIOUS LEVELS OF TAX RATES OF INTEREST IN THE CONTEXT OF THE POLICY RUNS THE NATIONAL TAX POLICY STATES WITH INFLUENCE OVER CAPITAL FLOWS. QUANTIFYING CORPORATE TAX RATES OF COMPANIES ARE THE MOST VISIBLE ATTRIBUTE OF THE STRUCTURE OF COMPANY TAXATION IN AN ECONOMY, WHILE BEING ONLY ONE FACTOR AMONG MANY DETERMINING THE TAX, RESULTING IN A SIGNIFICANT ECONOMIC IMPACT IN A STATE.**

**KEY WORDS: PROFIT TAX, TAXATION LEVELS, TAX HARMONIZATION**

The corporate profit tax policy plays an important role in determining the financial incentives behind redistributing the incomes and wealth in society and make their mark on the decision on the location for placement the multinational companies.

The incomes involved determining its sphere to apply, the scope, the subject of tax and the rates charged.

Tax competition existing today results in a decrease in corporate tax rates and widening of tax bases. The need to analysis rate systems development company profits / companies result from the relationship obvious existing between and size of revenue collected from these taxes.

## 1. THE SPHERE TO APPLY THE PROFIT TAX TO SOCIETIES/COMPANIES

In Romania, under the Tax Code, the scope of income tax concern: foreign legal persons (irrespective of their organization), foreign legal persons having registered office in Romania, foreign legal persons and natural persons carrying out activity in Romania, an unincorporated association, foreign legal persons having

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income from immovable property or the sale / transfer of fund units, individuals associated with Romanian legal persons resident for income from Romania and abroad.

Compared with Romania, in France subject to the income tax are: simplified joint stock companies, partnership companies limited by shares, limited liability companies if no opting for tax revenue, limited partnership, partnership companies, the business activities of cooperatives, civil societies that carry on commercial activities, non-profit organizations that carry out activities taxable<sup>1</sup>.

Unlike Romania and France where taxable subjects may have both limited liability and unlimited, in Germany it is found a limiting them to those who have limited liability.

In Spain the scope of corporation tax not included civil society (otherwise taxed in France).

Austria has a classical system of taxation of corporate profits. In this country the subjects of tax subjects are: stock companies, limited companies, private foundations, public entities engaged in commercial activities, associations, institutions and foundations without independent legal existence and accumulation of property for a specific purpose.

In Belgium, under the Tax Code, the imposing subjects, subjects of imposition revenue companies are: companies, associations, cooperatives, establishments and organizations engaged in business or other activity generating profit. Most Belgian partnerships have legal personality and thus are subject to the imposition of associations.

Even if the analysis performed. it is seen that the first affected by the taxation of companies/businesses are tax subjects, they are not alone, followed by consumantori and even employees<sup>2</sup>.

## **2. SUBJECT TAX ON PROFITS OF CORPORATIONS / COMPANIES**

In Romania subject to income tax is given by taxable profit (basic calculation) obtained in Romania and abroad (in the case of subjects Romanian legal persons), attributed to the permanent establishment (for foreign legal persons) or for income from immovable property or equity (foreign legal persons) or result from the association of individuals resident.

Accordingly to the Romanian Fiscal Code, the taxable profit is determined as the difference between the revenues derived from any source and expenses incurred in

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<sup>1</sup> *Waste companies in France due to tax only on profits made in France, subject to intentional conventions.*

<sup>2</sup> *Influence on employees is explained by partial reduction of the profit distribution. Influence on consumers due to a number of implications: a high rate on company income discourages capital investment companies, as their production decreases, lowering wages and / or increase the price of capital goods companies compared to the price of goods partnerships being ultimately affected consumers of those goods whose real income is reduced compared with that of other consumers.*

pursuit of revenues, minus non-taxable income and to whom are added deductible expenses. The same principles applies in France.

In Austria and Luxembourg the taxable income is the difference between net assets at beginning of financial year and its net assets at the end, with some adjustments.

A detailed analysis in determining taxable profit, must be made on deductible expenses. For example, in France are foreseen certain conditions of form and substance that must be accomplished by the deductible expenses, namely:

- substantive conditions are: costs should be reflected in the normal management of the enterprise, is engaged in its interest to cause a decrease in assets, has not been excluded from the calculation of profit by express provision of law;
- form conditions are reflected by: expenditure must be accounted for in the financial year for which reporting is made and must to have legal documents for them.

In Belgium the object of taxation is the company achieved worldwide revenues, less the deductions that are legally permissible. Accordingly to the tax code the taxable profit is determined by covering several stages, namely:

- determining profit (increases in reserves, deductible expenses and dividends);
- classification of profits wherever arising, that the Belgian sources and non-profits in countries of the European Union;
- deductions for profit of EU countries and other exempt profits;
- deduction of dividends in the holding companies (holding exemptions);
- recover losses and deferred;
- deductions related to investments

### **3. TAXATION LEVELS OF SOCIETIES/COMPANIES PROFIT**

Level of the rate of corporate tax have particular interest because companies must meet, on the one hand, the state needs to collect a volume as high of income, but on the other hand, the interest of taxpayers, so that they-and preserve purchasing power, not to diminish the propensity for consumption, saving and investing. Since tax payments depend on a number of factors (eg size of the tax base, whether proportional, progressive or regressive the tax, tax deductibilității, etc.), a high tax rate does not involve concomitant also tax revenue at a level high.

In the speciality literature for summarizing the relationship between income tax rate and the income obtained is presented the Laffer curve which is used to understand how a flat tax is not diminishing, but on the contrary, may even increase tax revenue. Laffer's curve suggests that income is growing faster at lower levels of taxation (but maintaining a broad tax base.). As the rate increases, income increases at a decreasing rate to reach the highest level of income collected by the state, the point of equilibrium (or maximum efficiency). Beyond this limit, any increase in tax rates drive people to work less or to find effective methods by which to evade the payment of state obligations, thereby reducing overall revenue collected. In a hypothetical tax rate of 100% no one would be motivated to work, invest, since the government would be

collecting all income earned through work. Laffer curve analysis explains also the way the government can get the same income in two different ways, namely:

a) by the collection of taxes raised from a small number of people (a high fee for a reduced tax base);

b) by imposing a small tax to a broader population segment (a reduced fee for a large tax base)

As mentioned above also the size of the tax base is extremely important. In most countries, determining the tax base is complex, involving a wide range of laws and variables as comprehensive coverage as their only impossible in a single provision: allowances for capital expenditure deduction for contributions to pension reserves, valuation of assets, expenditure can be deducted, etc.

The level of tax rates in the old and new EU Member States for the period 2000 - 2008 are presented *in extenso* in Table 1, are presented also synthetic, in the EU-27, EU-15 and NSM<sup>3</sup> - 12 in Figure No. 1.

Tabel no. 1

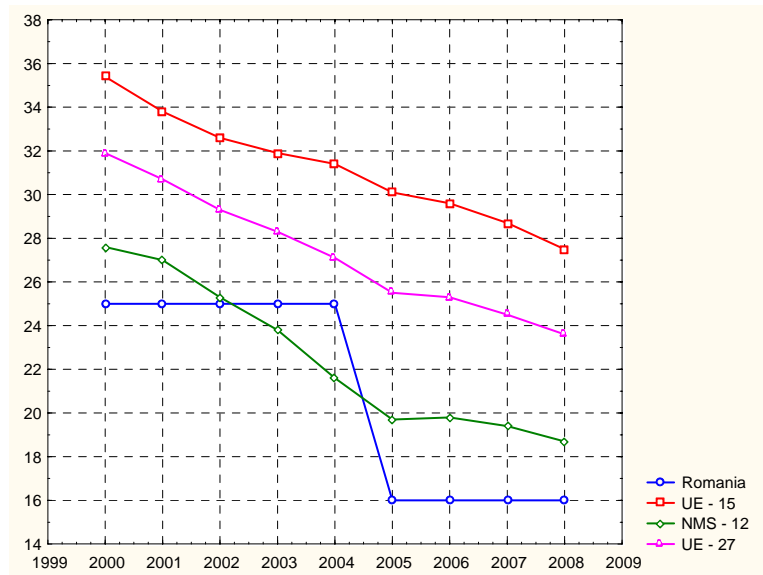
**The evolution of corporate tax rates / companies in EU member states – 27  
in the period 2000-2008**

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Austria (AT)	34,0	34,0	34,0	34,0	34,0	25,0	25,0	25,0	25,0
Belgium (BE)	40,2	40,2	40,2	34,0	34,0	34,0	34,0	34,0	34,0
Bulgaria (BG)	32,5	28,0	23,5	23,5	20,0	15,0	15,0	10,0	10,0
Cyprus (CY)	29,0	28,0	28,0	15,0	15,0	10,0	10,0	10,0	10,0
Danemark (DK)	32,0	30,0	30,0	30,0	30,0	28,0	28,0	25,0	25,0
Estonia (EE)	26,0	26,0	26,0	26,0	26,0	24,0	23,0	22,0	21,0
Finland (FI)	29,0	29,0	29,0	29,0	29,0	26,0	26,0	26,0	26,0
France (FR)	37,8	36,4	35,4	35,4	35,4	35,0	34,4	34,4	34,4
Germany (DE)	51,6	38,3	38,3	39,6	38,3	38,7	38,7	38,7	29,8
Greece (GR)	40,0	37,5	35,0	35,0	35,0	32,0	29,0	25,0	25,0
Ireland (IE)	24,0	20,0	16,0	12,5	12,5	12,5	12,5	12,5	12,5
Italy (IT)	41,3	40,3	40,3	38,3	37,3	37,3	37,3	37,3	31,4
Letvia (LV)	25,0	25,0	22,0	19,0	15,0	15,0	15,0	15,0	15,0
Lithuania (LT)	24,0	24,0	15,0	15,0	15,0	15,0	19,0	18,0	15,0
Luxembourg (LU)	37,5	37,5	30,4	30,4	30,4	30,4	29,6	29,6	29,6
Malta (MT)	35,0	35,0	35,0	35,0	35,0	35,0	35,0	35,0	35,0
Netherlands (NL)	35,0	35,0	34,5	34,5	34,5	31,5	29,6	25,5	25,5

<sup>3</sup> New member states of European Union which adhere in 2004 și 2007.

Poland (PL)	30,0	28,0	28,0	27,0	19,0	19,0	19,0	19,0	19,0
Portugal (PT)	35,2	35,2	33,0	33,0	27,5	27,5	27,5	26,5	26,5
United Kingdom (GB)	30,0	30,0	30,0	30,0	30,0	30,0	30,0	30,0	30,0
Czech Republic (CZ)	31,0	31,0	31,0	31,0	28,0	26,0	24,0	24,0	21,0
Romania (RO)	25,0	25,0	25,0	25,0	25,0	16,0	16,0	16,0	16,0
Slovakia (SK)	29,0	29,0	25,0	25,0	19,0	19,0	19,0	19,0	19,0
Slovenia (SI)	25,0	25,0	25,0	25,0	25,0	25,0	25,0	23,0	22,0
Spain (ES)	35,0	35,0	35,0	35,0	35,0	35,0	35,0	32,5	30,0
Sweden (SE)	28,0	28,0	28,0	28,0	28,0	28,0	28,0	28,0	28,0
Hungary (HU)	19,6	19,6	19,6	19,6	17,6	17,5	17,5	21,3	21,3
UE-15	35,4	33,8	32,6	31,9	31,4	30,1	29,6	28,7	27,5
NSM-12	27,6	27,0	25,3	23,8	21,6	19,7	19,8	19,4	18,7
UE-27	31,9	30,7	29,3	28,3	27,1	25,5	25,3	24,5	23,6

Source: Eurostat data basis



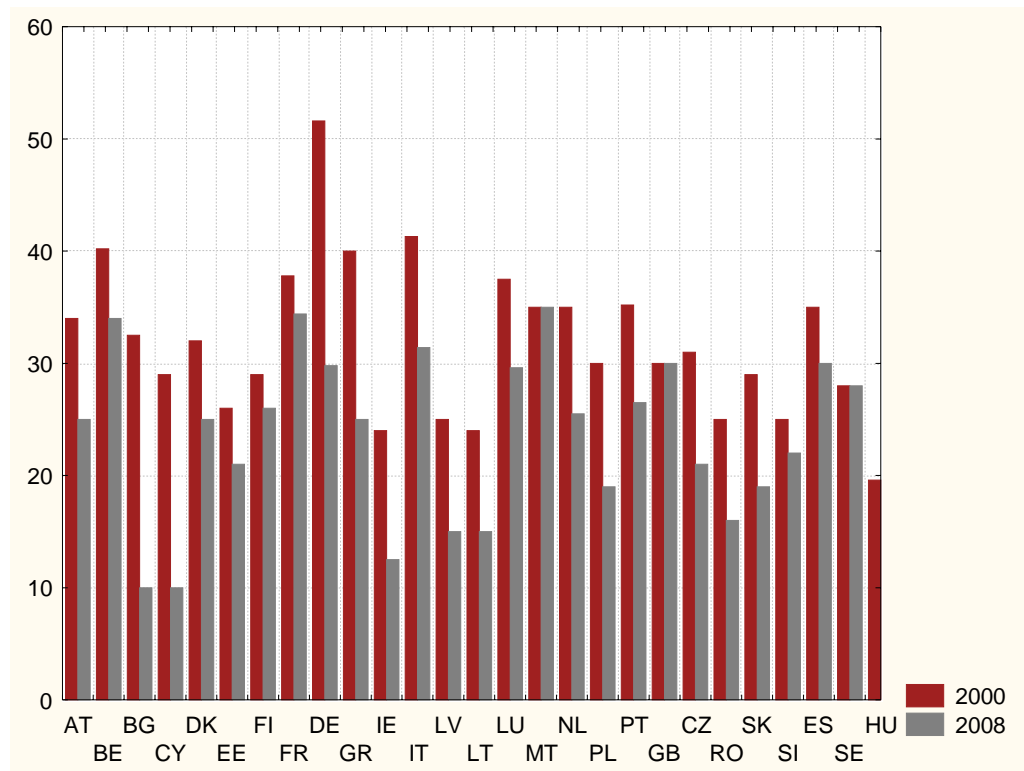
**Figure 1. Evolution of corporate tax rates of companies in the EU - 27 and Romania in the period 2000 - 2008**

From consultations of figures there is a tendency to reduce corporate tax rates by the company / companies in both countries which founded the European Union<sup>4</sup>, and the countries that joined in later years<sup>5</sup>.

To EU – 27 level it shows a reduction in tax rates from 31,9% in 2000 to 23,6% in 2008, which means by 8,3%, while the EU states - 15 decrease was only 7,9 percentage points, ie from 35,4% in 2000 to 27,5% in 2008. Evolution of decreasing rates of profit tax was certainly one reason for attractiveness to investors.

If you analyze the evolution of tax rates in the new EU Member States shows that the largest drops were in Bulgaria and Poland, ie from 32,5% in 2000 to 10% in 2008, and those from 30% in 2000 to 19% in 2008.

In Romania, the 2000-2008 analysis period, the rate of profit fell by 9 percentage points, ie from 25% to 16%.

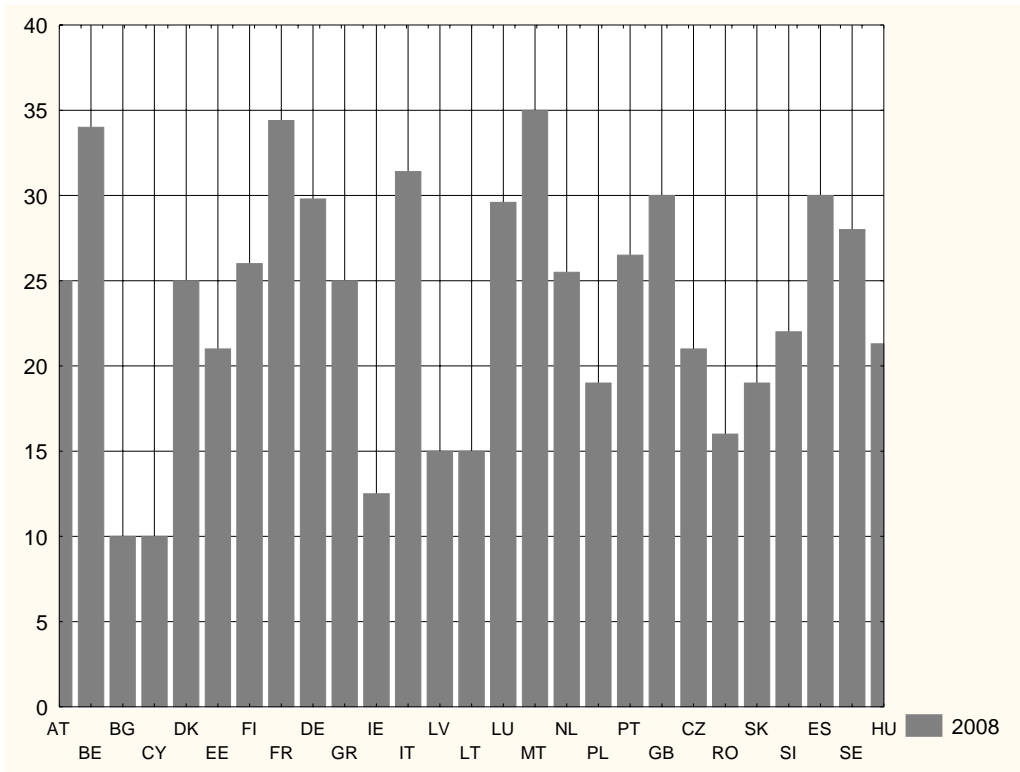


**Figure. 2 Change in corporate tax rates of companies in EU member states - 27, 2000 compared to 2008**

<sup>4</sup> Belgium, France, Germany, Italy, Luxemburg, Holand – in 1958.

<sup>5</sup> Denmark, Irish, UK – 1973; Greece – 1981; Portugal, Spain – 1986; Austria, Finland, Swedish – 1995; Cipru, Estony, Letony, Lituaniis, Malta, Poland, Czech Republic, Slovacia, Hungary – 2004; Bulgaria, Romania – 2007.

As is the evolution, in 2008, of corporate tax rates may indicate that the highest level was reached in Malta, namely 35%, followed by France and Belgium with a rate of 34,4%, and 34%. On the other was west Bulgaria, Cyprus, the United Kingdom with a corporate tax rate of 10%.



**Figure. 3 The size of the profit tax rates in EU countries - 27 in 2008**

The tendency to implement proportionate percentage share of tax, waiving such progressive rates occurred in recent years, in the context of globalization, when it began to be implemented neo-liberal doctrine.

Implication of taxation<sup>6</sup> system are that all taxpayers in the same class participate by the same percentage to aggregate public revenues needed to cover public expenditure.

<sup>6</sup> *The argument made for the proportional income taxation of individuals and profits of companies / businesses (applying either equal or differential rates for the two types of taxpayers) is to avoid the distortion induced differential fiscalizarea two inputs, labor and capital.*



#### 4. HARMONIZATION OF PROFIT TAX

The importance of the concept of "tax harmonization" into the European Community was due to the achievement of economic developments and monetary<sup>7</sup>, wishing is that at some point in the future to achieve the approximation of tax systems

Paying particular attention to the harmonization of indirect taxes, and less direct ones, was based on the argument that direct taxation is the free choice of each country. European Union Member States supported the principle of national sovereignty in the field of direct taxation, although tax diversity is likely to distort the competitive relations between the enterprise.

The tax harmonization to the level of taxation<sup>8</sup> not mean uniformity. Thus, tax harmonization is intended to highlight the preferences of national revenue, consistent with minimizing costs for government intervention. As such, the emphasis is mainly on the unification of the tax base and eliminate benefits and exemptions from taxation, so that, finally, to ensure close and effective tax rates than the uniform statutory tax rates.

In conclusion, regardless of which level is aimed the tax harmonization must be pursued and meet certain criteria, namely:

- interjurisdictional equity;
- neutrality jurisdiction;
- fairness to taxpayers

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<sup>7</sup> *In the history of fiscal policy has been marginalized subject of tax harmonization, the interest coming back while strengthening currency areas and the introduction of the single currency, or reference, in particular the euro.*

<sup>8</sup> *Tax harmonization is a comprehensive mechanism that can be done at many levels, as follows: tax base adjustments, adjustments to tax rates, tax adjustment procedures.*