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IMPACT OF TAX POLICY IN ROMANIA ON BUDGET REVENUES

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ABSTRACT

Using the state fiscal levers in order to influence the economic system and the macroeconomic variables is known from the ancient times. Fiscal policy decisions reflect the related tax system and ensure its functionality in order to obtain the aimed economic effects. Analysis of fiscal policy measures and their effects should follow the level of taxation, the budget deficit, the level of the general consolidated budget revenues in line with GDP. The paper work presents practical aspects of fiscal policy and measures which should be adopted in the Romanian economy.

KEY WORDS:
Fiscal policy, budget revenues, global domestic product, taxation degree.

1. THE ROLE OF FISCAL POLICY IN A MARKET ECONOMY

Manifestation of phenomena and economic and financial processes is done differently from country to country, from a development stage to another but against a background of mutual inter-connection and sometimes with negative effects for the economy of that country that require state intervention. To prevent or limit the economic and financial crisis, public authorities have sought solutions to financial policy formulating and applying the two essential structural components, namely fiscal policy and budget policy. Fiscal policy translates practical option for state taxes, based on projected developments for economic variables, in compliance with the essential principles of taxation.

Although the main role of taxes is procuring state budget revenues needed to fulfill its functions in the market economy there is an orientation of fiscal policy objectives and to eliminate or mitigate the consequences of disturbing factors on economic development. Fiscal policy measures generate effects in both short and medium term and long term. In the first category fall changes made to aggregate demand and in the second those relating to investment, economy, growth. In other words, not only immaterial amount of proceeds from the collection of taxes but also categories of taxpayers included in the scope of taxation, the rate at which revenues are affected, the potential economic effects resulting from the use of amounts affected in this way. Even if there are opinions that the state should not interfere in any market mechanism but also contrary opinions, may easily find that in recent decades have often turned to state attributes in order to ensure the macro-economy stability.

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But it should be noted that sometimes tax measures adopted were contrary to the expected economic effects especially in the case when it adopted a fiscal policy that led to the lack of excessive growth target set by the governments concerned.

2. THE LEVEL OF TAXATION IN ROMANIA

Fiscal policy measures promoted by the tax authorities of our country in the period 1990-2008 have a decisive influence in volume, structure of tax revenues and the pressure of these along with other factors such as quality management of state tax claims and the degree to voluntary tax compliance. In this regard it is suggestive presentation of general and partial tax level, during 1990-2008 (Table no. 1.)

Tabel 1: Evolution of taxation level in Romania, during 1990-2008

Year	General tax level (tax revenues/GDPx100)	Partial tax level (dues and taxes/GDPx100)
1990	35,5	27,6
1991	33,2	28,2
1992	33,5	22,1
1993	31,3	20,6
1994	28,2	19
1995	28,8	20,7
1996	26,9	19,4
1997	26,5	19,6
1998	28,2	20,0
1999	30,1	19,5
2000	29,3	18,6
2001	28,0	17,5
2002	27,6	17
2003	28,0	18,2
2005	27,9	18,5
2005	27,3	18
2006	28,6	18,5
2007	28,9	19,5
2008	28,6	20,2

Source: Yearly reports of NBR for 1999-2008; www.mfinante.ro;

From the data presented, it is noted that the degree of general taxation, calculated by taking into account all taxes, fees and contributions received by central and local public authorities, recorded, with small oscillations, a continuous downward trend, from 35,5 %, in 1990, to 28,9% in 2007. Overall, the level of general taxation has decreased during the period considered by some 7 percentage points.

The degree of taxation determined solely on the basis of revenue received from taxes has fared somewhat sinuous. Starting from a level of around 28%, at beginning of period considered, it was reduced to 19%, in 1994, has fluctuated around 20% during 1995-1999, then stabilized around 18% to end-examined, in 2007 grew by 1 percentage point over the previous year. During 1990-2005, the fiscal pressure exerted by taxes declined by about 8 percentage points

Reducing tax level in the period 1990-1997, can be estimated to be caused by the decline in the real economy, easing further, the expression real gross domestic product and, therefore, to reduce the tax base. Also, changes in the level of taxation is determined by the evolution of mandatory levies collection level, in conjunction with voluntary compliance of taxpayers to pay them. Given that, after 1999, GDP began to grow from year to year in real terms, the trend of decreasing level of taxation can be assessed as a result of the general line of fiscal loosening over the past seven years manifested . By way of example can be mentioned in this connection, the reduction from January 1, 2000, the corporation tax rate from 38% to 25%, and then to 16% from January 1, 2005, reduce all the from January 1, 2000, the general VAT rate from 22% to 19% and reducing the tax burden carried by social security contributions from 55% in 2001 to 49%, in 2005, 47,5 % in 2006, 45,5% in 2007 and 2008.

Evolution of the degree of taxation is presented in Figure 1:

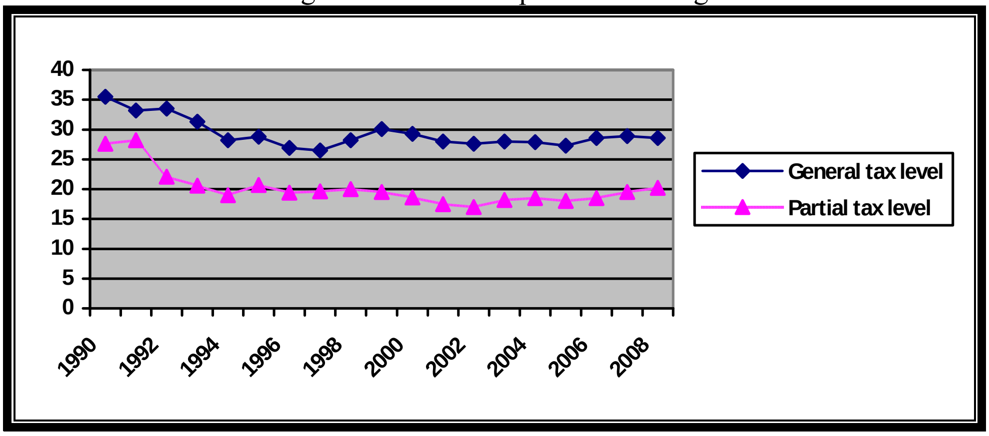

Figure 1. Evolution of the degree of taxation in Romania during 1990-2008

If we compare the level of taxation in Romania as in other countries, it is found that is less. And yet, economic agents, population, foreign investors, talking to an excessive level of taxation. The explanation can be given both by the large number of taxes and the fact that this indicator is calculated using tax revenue collected and not those involved. Yet, as we known in our country the degree of removal of the tax is high, accounting for undergroung economy lately growing higher share in GDP (one can say that in 2009, the fiscal measures taken have not had the expected effects since the underground economy was estimated at about 40% of GDP).

Another indicator that can be used to express the level of taxation is **relatively taxation index**, represented essentially by the sum amount of taxes levied to companies and individuals. If, during the period 1997-2000, the index of taxation in Romania increased by about 16 percentage points, between 2001-2004, following the orderly development of legislation (the Tax Code and the Procedure Tax Code), there were slight decreases of tax rates, in particular those related to employment. The trend continued in 2005-2008, particularly following the introduction of flat tax. As the level of taxation, relative index of the Romanian tax was not and is not among the highest, and the reduction in a single year (2005) to its more than 30 percentage points is actually a less common fact to an economy. Thus, for fiscal 2005 the relative index is 100% to 133%, in 2004. A slight decrease was registered in 2006, this reached about 98% (Table no. 2).

Tabel 2: Relative index of taxation in Romania during 2004-2007

Elements	2004	2005	2006	2007	2008	2009
Profit tax	25%	16%	16%	16%	16%	16%
Income tax	40%	16%	16%	16%	16%	16%
VAT	19%	19%	19%	19%	19%	19%
Employer contributions	32%	32%	29,25%	29%	28%	28,5%
Employees contributions	17%	17%	17%	17%	15,2%	16,5%
TOTAL	133%	100%	97,25%	97%	94,2%	96%

3. ANALYSIS OF TAX POLICY IN TERMS OF MAJOR TAX GENERATING BUDGET REVENUES

Any tax measure has implications in a lesser extent or more and the economy. Basically, state by budget revenues charging to the income remaining influence of economic and hence their behavior on staff, investments made, the expense, the savings. Viewed from this perspective, taxes can be regarded as instruments of intervention in the process of distribution and redistribution of GDP in line medium and long term objectives of economic and social policy. Also, on short term, a reduction in the weights required to stimulate private sector can have negative effects on budget balance (the growing budget deficit that requires procuring the necessary resources to cover other arrangements such as loans or money issue, but creating additional burdens for the future or inflation). In this context, it is clear that fiscal policy should establish always a correlation with the constraints generated by economic and social processes reflected in the consolidated budget. So, the formulation and implementation of fiscal policy should aim to use fiscal levers so as to achieve economic and social objectives continuing the macroeconomic balance. For a suggestive reflection of the above statements will make a presentation of the consolidated budget balance evolution but also on budget revenues as a percentage of GDP.

Thus, the budget surplus or deficit recorded in our country has resulted largely in tax measures adopted in the Romanian fiscal system (tabel no.3).

Tabel 3: Consolidated budget balance in the period 1998-2008

Years	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Budget balance	2	3,5	1,3	0,6	0,4	-0,2	-1,2	-0,8	-1,68	-2,42	-5,4

Source: Yearly report of NBR, 1998-2007, Monthly reports of NBR, 2008

For a better view, it may reflect graphicaly the evolution of budget balance for the reporting period (Figure no. 2):

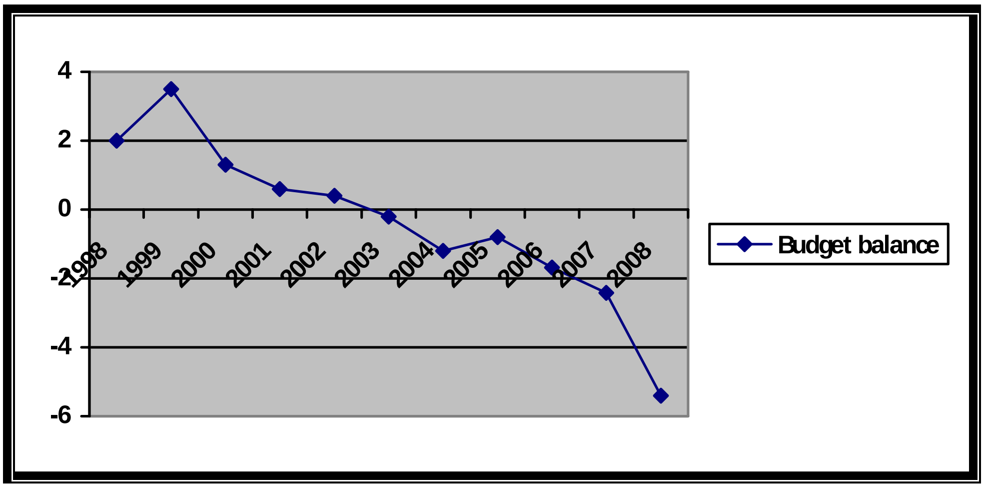

Figure 2 Consolidated budget balance between 1998-2008

From the data presented, there is a deterioration in the budget balance, which shows weaknesses in formulating an appropriate tax policy appropriate to realities of the Romanian economy. These issues result also of the data reflected in Table.no 4 on developments in GDP share of total revenues highlighting the downward trend in the period under review.

Tabel 4: The evolution of budgetary revenues as a percentage in GDP

-%-

Years	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
REVENUES-TOTAL	30,1	32,1	33,5	28,4	28,3	28,1
Direct taxes, consisting of:	16,8	16,0	15,5	15,2	15,2	14,8
Profit taxes	2,1	2,8	2,5	2,4	2,5	2,6
Incomes and wages taxes	3,2	3,0	2,6	2,7	2,8	2,9
Other incomes, profit and capital gains taxes		0,6	0,9	0,9	0,9	0,8
Indirect taxes, consisting of:	11,2	12,4	13,0	13,2	13,1	13,3
V.A.T.	6,7	6,9	7,8	8,0	7,9	8,1
Exices	2,5	3,4	3,2	3,3	3,6	3,8
Other imposits and taxes		1,4	1,3	1,3	1,1	1,0
Tax on foreign trade and international transactions (custom taxes)	0,4	0,7	0,7	0,6	0,5	0,5
Contribution to social security	10,5	9,5	9,5	9,3	8,9	8,4
No taxation incomes	2,0	3,0	3,3	3,1	2,8	2,6
Grants	-	0,6	1,6	1,4	1,1	1,2

Source: www.mfinante.ro, www.bnr.ro, www.insse.ro

The impact of fiscal measures on the budget revenues can be determined by simultaneous analysis of the share of revenues generated by a tax share of GDP and the tax that is charged (it can be thus determined as a percentage point of tax rate as a percentage of GDP). For example, the ratio between income from tax revenue in GDP and the tax rate increased from 0,15 in 2006 to 2,16 in 2008.

4. Conclusions

Ensuring the macroeconomic balance, at some moment and in dynamic impose a correlation of tax, budgetary and monetary policies in concordance with the economic realities in this area and the objectives aimed in employment area and inflation. Public authorities should be aware that any reduction in budget revenues is due to a decrease in the level of taxes collected. Increasing revenue from taxes and duties can only be achieved amid increase the tax base, but this can not be guaranteed in terms of real economic growth stimulated by a reduction in taxation and improving the process of collecting the tax liability (unfortunately in our country the economic and financial crisis was not countered by appropriate fiscal measures, a good example being the minimum tax borne by traders led to rising unemployment and bankruptcy of small firms). To be an effective fiscal policy it requires simultaneous monitoring of the process of collecting tax revenue and the need to issue laws with clear explanations, no loophole that allows for the shelter of the phenomena of evasion of the law in order to ensure increasing economic development. Also, financial policies should be formulated on the medium and long term, allow for a safe business environment (legislative changes repeated distorts economic activity, which is abundantly shown by the example of the Romanian economy in recent years). Adapting tax on real cases registered in the economic agents, eliminate bureaucracy, ensuring an optimum flow of tax information, ensure the neutrality of fiscal measures, eliminate inequities in the tax and generalized the right of option tax may lead to improved use of fiscal levers in order to achieve the objectives of economic stability.

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