

SOME DIRECTIONS OF ADAPTING THE TAXATION TO FAVOR THE STABILITY AND COMPETITIVENESS OF THE ROMANIAN COMPANIES

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Abstract: This paper proposes several directions for adapting taxation to promote the stability and competitiveness of Romanian companies, directions that have as a starting point the current situation in Romania, from a fiscal perspective. These directions include: increasing tax revenues to the state budget (in this context we present comparative aspects on the situation of tax revenues in Romania and the EU), increasing the level of collection, stimulating investment in research and development through fiscal facilities, increasing tax compliance, fiscal predictability. In this regard, we used data provided by World Bank reports, the Fiscal Council as well as the report prepared by the World Bank and PwC, *Doing Business*.

Keywords: taxes, tax revenues, tax compliance, shadow economy.

JEL Classification: H 25, H32.

1. Introduction

Competitiveness, at country / sector / firm level, means productivity, labor force, investment, friendly environment in which the respective entity operates. Taxation influences all these factors. Trust in the tax system is an essential condition for investors, predictability being one of the most important factors influencing investment decisions.

We consider that the fiscal policy in Romania needs more stability, transparency and predictability, and the administrative burden for taxpayers must be reduced by streamlining and computerizing the tax administration system in order to reach a fast and flexible fiscal system that will lead to improving the taxation contribution to Romania's propulsion in the international tops of competitiveness. A less excessive bureaucracy, encouraging investments, as well as facilitating an efficient and coherent dialogue between tax authorities and taxpayers could be other pluses in increasing Romania's competitiveness.

Therefore, in order to ensure the stability and stimulate the competitiveness of the Romanian companies, it is necessary, first of all, that the tax revenues to the state budget to increase. This can be achieved by: increasing the level of collection, encouraging fiscal compliance, through measures leading to a reduction in the labor cost, reducing the underground economy, encouraging investments.

2. Increasing tax revenues in order to reduce the disparities compared to EU Member States

Romania records the lowest budgetary revenues among EU countries (% of GDP), being ranked in the penultimate place, only Ireland recording a smaller proportion. Among the causes are the reduced taxation (through the fiscal relaxation measures adopted lately, in order to attract foreign capital), the problems related to tax compliance, or granting a multitude of deductions and exemptions from the payment of taxes.

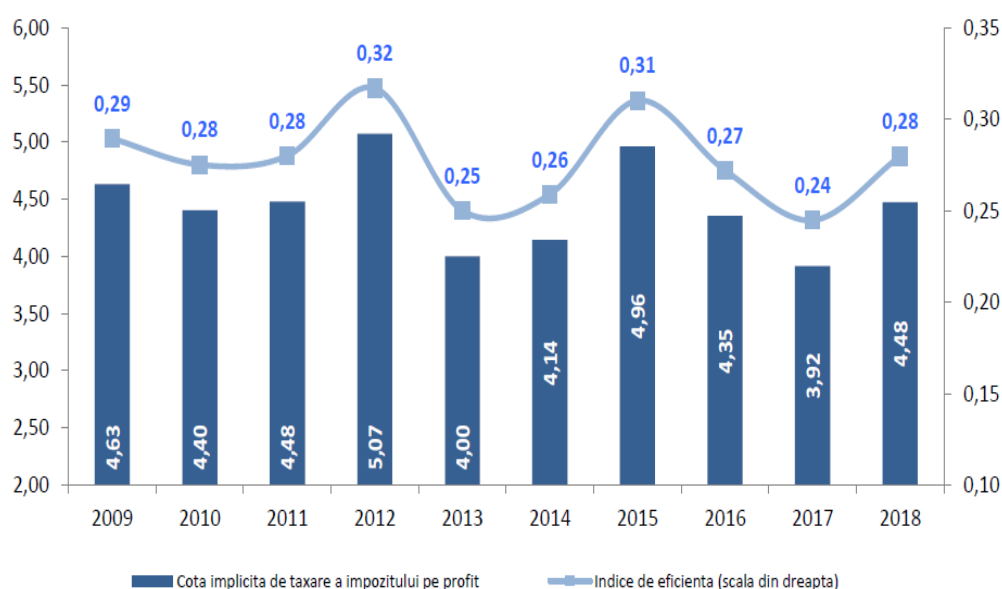
In 2018, our country recorded a level of budget revenues of 32% (share in GDP), below the European average of 45% of GDP. The level of tax revenues (taxes and social contributions) reported to GDP in Romania reached 26,7% of GDP in 2018, still being in the penultimate place (EU average – 39,9% of GDP). The main problem we consider it is that of collection. The improvement of the collection implies the structural development of

the economy, the efficiency of the use of fiscal policy instruments (deductions, exemptions, etc.), but especially the increase of the degree of fiscal compliance.

Compared to other countries with economies similar to Romania's, the share of tax revenues in GDP is significantly lower than Hungary (37,4%), Slovenia (36,7%), Czech Republic, Poland (36,0%) or Bulgaria (29,5%).

Low share of tax revenues in GDP compared with the EU average has multiple causes, among which is the decreased level of tax compliance, imposing lower tax rates than those in other Member States, in some areas, or offering deductions and exemptions, all of which affect the level of tax revenues and collection efficiency.

Figure no.1. The evolution of the implicit tax rate and of the efficiency index of the collection related to the profit tax in Romania



Source: Fiscal Council, 2019, Annual Report 2018

The efficiency index of tax collection paid by enterprises recorded the highest value since the post-crisis period in 2012 (due to the resumption of economic growth in 2011), followed by a significant decrease in the next two years. In 2015 there was an improvement in the efficiency of collection, the index approaching the level recorded in 2012, but temporary, because, due to the reduction of income tax revenues, the index decreased in the next two years, in 2017 being recorded the lowest value from the whole analyzed period.

In 2018, the efficiency index of tax collection paid by enterprises increased from 0,24 in 2017 to 0,28, due to taxes paid by enterprises, compared to the previous year. Given that the income tax revenues increased slightly compared to 2017, the improvement in collection efficiency is most likely due to the evolution of other categories of revenues (for example, from the income tax of micro-enterprises), as well as the evolution of tax payments made by enterprises to other beneficiaries than the Romanian state.

The efficiency of profit tax collection has improved in 2018 compared to previous years. In the table below we present the situation compared to other states.

Table no. 1. Efficiency of collecting profit tax

State	Legal profit tax rate			Implicit tax rate			Tax efficiency index			Position		
	2016	2017	2018	2016	2017	2018	2016	2017	2018	2016	2017	2018
Bulgaria	10	10	10	4,6	5,1	5,1	0,46	0,51	0,51	1	2	1
Czechia	19	19	19	7,0	7,1	7,0	0,37	0,38	0,37	2	3	3
Estonia	20	20	20	4,4	4,0	5,3	0,22	0,20	0,26	10	10	8
Letvia	15	15	20	4,5	3,7	3,4	0,30	0,24	0,17	5	8	10
Lithuania	15	15	15	3,5	3,3	3,4	0,24	0,22	0,23	8	9	9
Hungary	19	9	9	6,0	5,2	3,8	0,31	0,58	0,42	4	1	2
Poland	19	19	19	4,4	4,7	5,2	0,23	0,25	0,27	9	6	7
Romania	16	16	16	4,4	3,9	4,5	0,27	0,24	0,28	6	7	5
Slovenia	17	19	19	4,3	4,8	5,2	0,26	0,25	0,27	7	5	6
Slovakia	22	21	21	7,0	7,2	6,5	0,32	0,34	0,31	3	4	4

Source: Fiscal Council, 2019, Annual Report 2018

Therefore, Romania is ranked on fifth position in 2018, at a short distance from Slovenia (0,27), Poland (0,27) and Estonia (0,26), which occupy the following places. On the other hand, Bulgaria (0,51) and Hungary (0,42) remain in the first two places, at a significant distance from the other states.

At the level of 2018, there is a slight general tendency to improve the efficiency of collecting the income from the taxes paid by companies, five of the ten analyzed states recording increases of the efficiency index, while Bulgaria remained at the level registered in the previous year.

Regarding the considerable decrease of the efficiency index in the case of Hungary, this is due to the reduction of the profit tax rate from 19% to 9% (starting with 2017), which caused a significant increase of the index in 2017 due to the achievement of some income from the profit tax calculated on the old rate of 19% (result of a fiscal facility granted to the companies that allowed them to postpone the payment of the profit tax).

3. Efficiency of tax system

The process of simplifying the tax system and reducing bureaucracy has gradually taken place, the recognition of these advantages being highlighted by the World Bank's Doing Business report - the Paying taxes indicator made by PricewaterhouseCoopers.

Thus, the latest available report, Paying taxes 2020 (with 2018 as reference year), ranks Romania, from the perspective of ease of paying taxes, on 32 position within 190 countries analyzed, a much better position, compared to the previous year (position 49). Compared to last year, in 2017, the number of hours required to pay taxes remained the same (163 hours), as did the number of annual payments a company must make to pay taxes (14 payments), and the share of taxes in total profit decreased to 20% compared to 40% (due to the change in the tax regime of social contributions).

The positioning of Romania in 2018 in the first part of the global ranking of Paying Taxes 2019 is a positive result, but maintaining a leading position implies efforts to continue investments in fiscal infrastructure and technology, because the digitization of financial reporting processes has the potential to streamline the internal processes. of tax authorities, including the control and verification mechanisms, also for the benefit of taxpayers.

Table no. 2. . Efficiency of tax system

year	EE	LV	SI	LT	BG	SK	PL	CZ	HU	RO
Ease of paying taxes (position)										
2016	14	13	58	18	90	48	51	53	93	42
2017	14	13	41	18	92	48	69	45	86	49
2018	12	16	45	18	97	55	72	53	56	32

Number of annual payments to pay taxes										
2016	8	7	10	11	14	8	7	8	11	14
2017	8	7	10	10	14	8	7	8	11	14
2018	8	7	10	10	14	8	7	8	11	14
Number of annual hours required to pay taxes										
2016	50	169	245	109	453	192	290	248	277	163
2017	50	169	233	99	453	192	334	230	277	163
2018	50	169	266	95	441	192	334	230	277	163
Total rate of taxation (% of profit)										
2016	48,7	35,9	31,0	42,7	27,1	51,6	40,5	50,0	46,5	38,4
2017	48,7	32,6	31,0	42,6	27,7	49,7	40,7	46,1	40,3	40,0
2018	47,8	38,1	31,0	42,6	28,3	49,7	40,8	46,1	37,9	20,0

Source: World Bank, Doing Business Reports, 2018-2020

4. Tax compliance and fiscal predictability

There are still significant differences between EU countries in terms of tax compliance costs. The complexity of the tax systems, the high level of compliance costs and the lack of fiscal security consume productive resources and act as a barrier to business and investment. The high level of tax compliance costs mainly affect SMEs.

Compliance costs come mainly from the time spent on this task, and they are not direct costs, such as accounting costs.

In order to improve the business environment, the reform of the tax systems can target the following:

- simplification and reduction of tax obligations, in particular for emerging entrepreneurs and smaller enterprises,
- extending the range of electronic services and making them available in one-stop shops,
- conducting awareness-raising, information and advisory actions for taxpayers (the companies), in order to help them comply with tax regulations, including through social communication channels.

Harnessing the opportunities offered by innovative new economic models is important to prepare tax systems to meet the challenges of the future. EU countries are increasingly relying on digital integration to facilitate tax compliance and are encouraged to further simplify and clarify the application of tax regulations in the case of the collaborative economy. They are also encouraged to facilitate and improve the collection of taxes by exploiting the potential of collaborative platforms, which are encouraged to cooperate with national authorities.

The clarity, stability and predictability of tax law, as well as its implementation and interpretation are essential conditions in investment decisions. Any changes to the legislation, including its interpretation, should be adopted after consultation with the business environment and properly applied by the tax authorities, only for the future, and not retroactively.

Referring to the obstacles that they face in the development of business (according to the study conducted by E&Y, 2019, The Entrepreneurs speak. The barometer of the business environment), the first ranked is the fiscal and legislative uncertainty, followed by the lack of political stability and the vision of the public policies and bureaucracy. Thus, the most important obstacles in the development of business for the boards of directors and executives in Romania relate to the public policies and factors controlled by the state institutions. Other obstacles are the lack of entrepreneurial education and difficult access to finance.

Regarding the effects of the frequent legislative changes, beyond the feeling of uncertainty induced in the market, they consisted of the fluctuation of the exchange rate, the restriction of the extension of personnel, the negative impact on the profitability of the company by increasing the expenses with the employees and by the lack of investments, the reluctance of the clients to incur expenses, additional costs of complying with the new tax measures, or impairing corporate governance and redirecting profit to dividends, rather than investments. In conclusion, all these effects lead to a decrease in the competitiveness of the Romanian companies.

When we talk about fiscal unpredictability, we exemplify the fact that in the first 6 months of 2019, the legislative framework was majorly modified, being adopted 614 normative acts: 120 Laws, 4 Government Ordinances, 46 Government Emergency Ordinances, 444 Government Decisions, to which are added the orders of ministers.

We believe that in Romania there is a need for stability, transparency and predictability, and the administrative burden on the shoulders of taxpayers must be reduced by streamlining and computerizing the tax administration system in order to reach a fast and flexible tax system that will lead to improving the taxation contribution to Romania's propulsion in the international tops of competitiveness. A less excessive bureaucracy, encouraging investments and even lowering tax rates, as well as facilitating an efficient and coherent dialogue between tax authorities and taxpayers could be other pluses in increasing Romania's competitiveness.

Thus, the changes necessary for Romania to advance in the top of the world competitiveness may be the reduction of the number of taxes and the related payments or the encouragement of investments (through fiscal incentives, as well as by avoiding discouraging investors due to fiscal policy decisions, such as increasing tax rates or the introduction of new taxes).

5. The unitary labor cost

The workforce plays a major role in the functioning of an economy. From a business perspective, this represents a cost (labor cost) that includes, in addition to the salaries and wages paid to the employees, the non-wage costs, in particular the social contributions payable by the employer.

In 2018, average hourly labor costs across the economy (excluding agriculture and public administration) were estimated at 27,4 euro in the EU and 30,6 euro in the euro area. However, the average shows significant differences between EU Member States, with the lowest hourly labor costs recorded in Bulgaria (5,4 euro), Romania (6,9 euro), Lithuania (9,0 euro), Hungary (9,2 euro) and Latvia (9,3 euro) and the highest in Denmark (43,5 euro), Luxembourg (40,6 euro), Belgium (39,7 euro), Sweden (36,6 euro), The Netherlands (35,9 euro) and France (35,8 euro).

In Romania, firms have the highest percentage increases in labor costs, including wages, compared to the situation across the EU, according to Eurostat (we refer to the percentage increase in wages; in absolute figures, Romanian employees remain among the last EU countries regarding the money they actually receive from employers).

These increases in labor costs were due to the increase in the minimum wage. The gross minimum wage in Romania exceeds the average of the Central and Eastern Europe region. At the same time, it has the highest effective tax rate among the states in the region, of 41,5% (according to the Deloitte analysis, Nov. 2018). The effective tax rate remains the highest, 41,5%, also in the case of a gross salary of 1.000 euro, for which the region average is 27%.

Due to the transfer of social security contributions to the employee and the increases in the gross minimum wage, Romania exceeds the average gross minimum wage

in the region, by 421 euro, surpassing five states. In contrast, the other 10 countries have lower effective tax rates, the average being 21%, compared to 41,5% in Romania.

The Deloitte analysis, based on the calculations provided by the Deloitte network member companies, includes Romania, Bulgaria, Serbia, Croatia, Hungary, Slovakia, Czech Republic, Poland, Estonia, Lithuania and Latvia. In the case of Romania, the value of the minimum gross salary in the amount of 2.080 lei was taken into account. The gross minimum wage varies between 500 euro (Estonia) and 261 euro (Bulgaria), the average being 421 euro.

Table no.3. Comparative situation regarding the effective tax rate of the minimum wage in Romania and Central and Eastern European states

State	Gross minimum wage(euro)	Social contributions of employee	Income tax	Net wage	Social contributions of employer	Total labor cost	Net wage % of gross wage	Effective tax rate(%)
Estonia	500	18	-	482	169	669	96	4
Lithuania	400	63	3	361	125	525	90	10
Czechia	472	52	15	405	160	632	86	14
Slovakia	480	64	18	397	169	649	83	17
Letvia	430	47	37	346	104	534	81	19
Croatia	499	92	-	367	79	537	80	20
Bulgaria	261	36	22	202	51	312	78	22
Poland	485	104	28	354	99	585	73	27
Hungary	426	79	64	283	89	515	66	34
Romania	446	156	29	261	10	456	58	41,5
Average	422	67	21	334	100	522	79	21
Difference RO/ average	24	89	8	-73	-90	-66	-21%	21%

Source: Deloitte, 2018, <https://www2.deloitte.com/ro/ro/pages/about-deloitte/articles/analiza-deloitte-salariul-minim-in-romania-prin-comparatie-cu-al-statelor-din-regiunea-europei-centrale-si-de-est.html>

The main findings of the analysis were:

- Estonia has the lowest effective minimum wage tax rate of 4%, followed by Lithuania (10%) and the Czech Republic (14%), and Romania, the highest rate, 42%, the average being 21%.
- The effective rate of taxation of a gross salary of 1.000 euro is the highest in Romania (42%), Hungary (34%), Latvia (29%) and the lowest in Estonia (13%) Bulgaria (22%), Lithuania (23%).
- Romania has the lowest level of contributions due by the employer (2,25%), the average being about 23% in both cases.

Romania presents an increase of the average gross salary of about 41% in the last two years. However, if we take into account the effective tax rates, the net minimum wage in Romania drops towards the end of the same ranking. This means that, at the end of the month, the Romanian employee takes the least money "in hand", compared to other countries in the region.

However, it should be mentioned that at the level of the employer, the costs are the lowest in Romania, but they have no impact on the employee. However, in both situations - reported to gross salary and total wage cost - taxes and contributions to public systems in Romania significantly exceed the region's average.

6. Aspects about the shadow economy

A recent analysis by the IMF (Medina, L., Schneider, F., 2018) estimated the level of the underground economy as a percentage of Romania's GDP at 26,3%, for 2016, ranking the fourth place in the EU. The largest share of the underground economy is in Bulgaria, with 29,6% of GDP, but it has made considerable efforts lately to combat these activities.

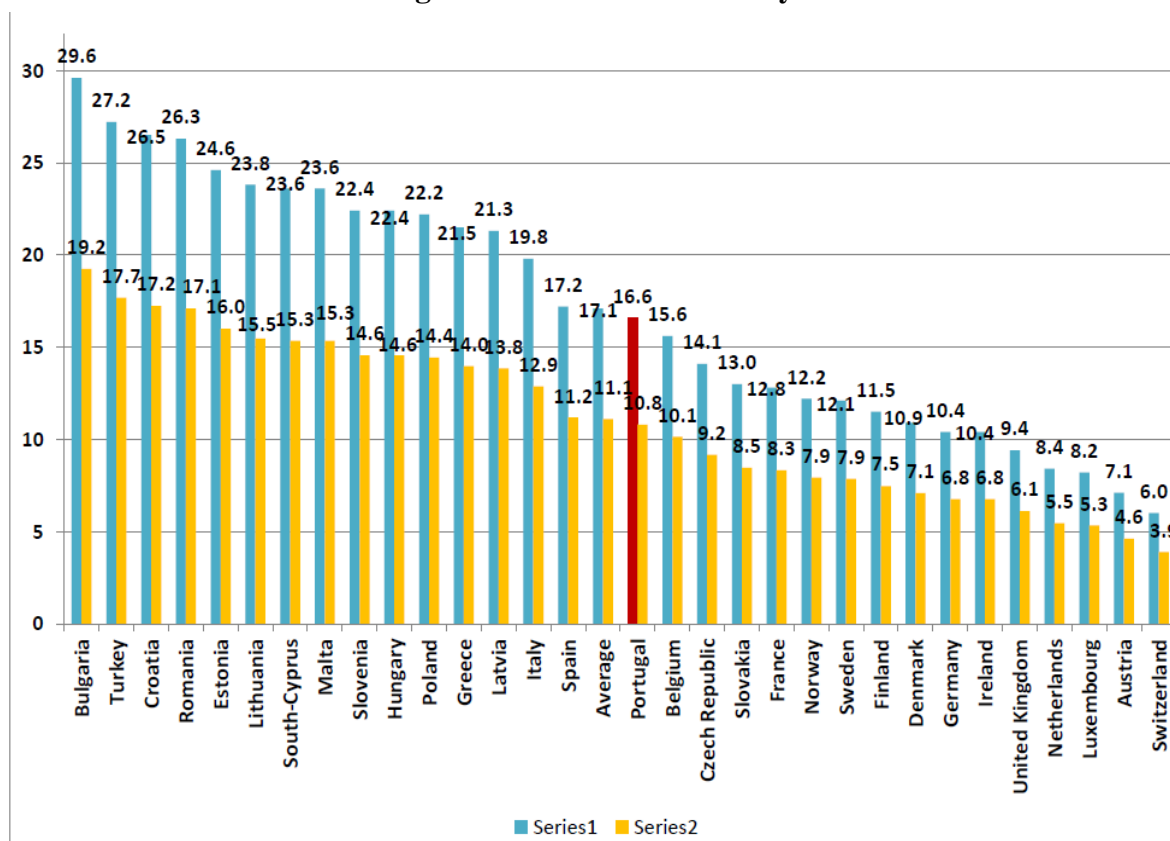
The average size of Romania's underground economy in the period 1991-2015 was at 30,14% of GDP, with a maximum in 1991 of 36,03% and a minimum of 22,73% in 2014. The contribution of the hidden economy in the Romanian economy has decreased significantly since 1991 overall, with slight variations over the years. Since 1991 there has been a downward trend and in 1997 it reached a share of 31,65%. In 1999, it rose by more than three percentage points, to 34,4% of GDP, then returning to a downward trend.

The economic crisis has led to an increase in the size of the informal economy in almost all European states. The contribution of the Romanian hidden economy increased in 2009 to 28,23% of GDP, from 25,44% in 2007, an increase of almost 3 percentage points. After 2009, the share of these types of activities decreased steadily, reaching in 2014 to 22,73% of GDP.

The causes of the size and development of the underground economy are multiple, among them the burden of taxes in general and the tax burden on labor in particular (especially that of social security contributions) being determinant factors for the size of the hidden economy. In Romania, the fiscal burden, the difference between the total costs of the employer and the net salary of the employee, is 36,7%, ranking 7th in the EU and the largest in Central and Eastern Europe. The European average is 32,5% (Ionut Dumitru, 2018, *The unobserved economy in Romania - causes and consequences*).

Other factors that influence the level of the unofficial economy are: state control over corruption, government effectiveness (quality of public services, quality of social services), rule of law, but also the ability of the government to effectively regulate the economy, so as to enable and benefit the development of the private environment, labor market regulations.

Figure no.2. Shadow economy at EU level



Source: Medina, L., Schneider, F., 2018, *Shadow Economies Around the World: What Did We Learn Over the Last 20 Years?* IMF Working Paper 18/17

The reduction of the level of the underground economy depends on the same factors that are determinants for its size, but also on the digitization of the Romanian institutions, in particular of the fiscal authority. Also, the level of the taxes on labor, the quality of the public services, the efficiency of the spending of the public money are other factors that would lead to its decrease.

Comparatively, the average size of the hidden world economy is 31,9% of GDP. Of the 158 countries analyzed, the largest share of the underground economy exists in Zimbabwe – 60,6% - and Bolivia – 62,3% of GDP. The lowest rates of this economy are in Austria – 8,9% of GDP - and Switzerland – 7,2% of GDP.

7. Conclusions

We consider that the fiscal policy in Romania needs more stability, transparency and predictability, and the administrative burden for taxpayers must be reduced by streamlining and computerizing the tax administration system in order to reach a fast and flexible tax system that will lead to improving the taxation contribution to Romania's propulsion in the international tops of competitiveness. A less excessive bureaucracy, encouraging investments, as well as facilitating an efficient and coherent dialogue between tax authorities and taxpayers could be other pluses in increasing Romania's competitiveness.

The investments made in the field of research and development represent an important factor that determines the increase of the competitiveness, boosting the employment and compensating for the dysfunctions of the market, contributing, finally, to the development and the economic growth. Therefore, the governments of the different

states have adopted various measures with the purpose of supporting and promoting the activities of the RDI within their own jurisdictions, both by granting subsidies and by providing fiscal incentives.

Therefore, in order to ensure the stability and stimulate the competitiveness of the Romanian companies, it is necessary, first of all, that the tax revenues to the state budget to increase. This can be achieved by: increasing the level of collection, encouraging fiscal compliance, through measures that will reduce the labor cost, reduce the underground economy, encourage investments.

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