COMPARATIVE ANALYSIS OF THE LEVEL OF TAXATION IN ROMANIA AND EUROPEAN UNION

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Abstract
This paper contains a statistical and economic analysis of the tax system of Romania in the last decade, as well as comparisons with the other states of the European Union.
The overall tax ratio of Romania, i.e. the sum of taxes and social security contributions in the Gross Domestic Product (GDP), is the lowest in the European Union. Considering the fact that the GDP value, that constitutes the denominator of the overall tax ratio, includes estimates of production by the informal sector (the "grey" and "black" economy), this reduction can be explained not only by tax reductions, but also by the high tax evasion.

Key words: *taxation, tax revenues, tax policy, tax system, implicit tax rates*

Introduction

Taxes bring revenues to the public budget and those who pay them are directly interested by the system and the way in which the government spends the money. Taxes are the basis of a stable and prosperous society. As a result of the global economic crisis, the collecting of taxes is more and more difficult. Although is quite obvious that governments have to increase taxes and reduce public expenses, they will have to take these measures carefully, given the fact that „too much tax kills the tax".

We shall present in this work in a concise and theoretical way the concept of tax burden (emphasizing the factors which determine its level and the consequences of the level of tax burden upon the economy of a country), then we will analyse the level of taxation in EU and Romania in the last decade, and finally we will try to identify the taken fiscal measures and the ones that should be taken by the government of Romania, and by the governments of other Member States, for answer to the present global financial crisis.

The greater part of data presented and analysed in this work are taken from the 2010 edition of the report „Taxation trends in the European Union"[1], published by Eurostat, the Statistical Office of European Union and European Commision - Taxation and Customs Union. This report presents a number of fiscal harmonized indicators, based upon The European System of Accounts (ESA95), a system which allows a fair comparison of taxation systems and fiscal policies between the Member States of EU.

The present work focuses also upon the report „Doing Business 2011"[2], realised by the World Bank (WB) in co-operation with International Financial Corporation (IFC) and upon the study „Paying taxes 2011"[3], realised by WB, IFC and PricewaterhouseCoopers (PwC). This last report looks at tax systems from the business perspective, because business plays an essential role in contributing to economic growth and prosperity by employing workers, improving the skills and

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[1] http://ec.europa.eu/eurostat
[2] www.doingbusiness.org
[3] www.pwc.com/payingtaxes

knowledge base, buying from local suppliers and providing affordable products that improve people's lives. Business also pays and generates many taxes. As well as corporate income tax on profits, these include employment taxes, social contributions, indirect taxes and property taxes. Therefore, the impact that tax systems have on business is important. The two reports of WB, IFC and PwC analyze the facility in paying taxes in 183 economies from world-wide. The indicators used measures the cost of taxes paid by a standard company, but also the administrative charges due to accomplishment of fiscal obligations. Both aspects are very important for a company. These are measured through the identification of three sub-indicators: total tax rate (cost of all paid taxes), necessary time to accomplish the fiscal obligations (income tax, social security contributions paid by the employer, property taxes, transfer of properties taxes, dividends tax, capital income tax, financial transactions tax, wastes collecting taxes, as well as motor vehicle taxes and road taxes), as well as the number of fiscal payments made by the company during a fiscal year.

1. Tax burden. Factors of influence and consequences

Tax burden shows the level of pressure of taxes or in other words, how much is the fiscal burden lying heavy on tax payers' shoulders. The most common way to measure the tax burden of a country is the overall tax ratio (OTR), i.e. the sum of taxes and social security contributions as a percentage of gross domestic product (GDP). This indicator reflects the part from revenues created at the level of real economy that is shifted to the State through the taxes and social contributions. OTR is influenced by two categories of factors: external and internal.

Through the external ones, we can mention:

- the level of development of the country, given by the GDP value per inhabitant. Usually, the tax burden is greater in the countries which have a high level of GDP per inhabitant since the capacity of fiscal contribution of inhabitants is higher in these States.

- the level of taxation from other countries. The fiscal policy of a state has to take into consideration the fiscal policies of other countries, since a high tax burden can determine a migration of money and manpower to countries with a lower taxation.

- the level and structure of public expenses. In countries where public expenses for education, culture, health, social security etc. are greater, the State can pretend higher taxes, since their degree of reversibility is substantial.

The internal factors which influence the level of taxation are:

- the type of used tax rates (generally progressive or proportional rates). In states where the progressive rates are most used, the tax burden is higher.

- the methods of valuation and determination of the used tax base. Different methods can determine an overvaluation or an undervaluation of the taxable product.

- the offered fiscal facilities (exemptions, deductions or reductions to tax payment). The higher their number, the lower the tax burden.

Knowing the level of taxation is important because its high level can have bad consequences upon the economy of a country. Among these effects, we can mention:

- effects upon the production. A high level of taxation of labour, savings and investments determines the diminution of production under two aspects: discourages the setting up of a business (diminishes the enterprising spirit) and also discourages work.

- effects upon the purchasing power. When taxes increase, companies seek to include in the sale prices of these rises, and the employees want higher salaries to compensate for the reduction of purchasing power resulted from the rise of prices. The wage rises are introduced also in the sale prices and therefore we are put face to face to a vicious circle.

- effects upon the degree of tax receipts. In the case of tax burden rise, it appears the phenomenon of tax resistance, expressed by the underground economy and international tax evasion.

2. Level of taxation in European Union

In 2008, the first year of economic and financial crisis, the overall tax ratio was of 39,3% in EU-27[4], in a slight decrease as compared to 2007, when it was situated at 39,7% **(table no. 1)**. This ratio, which was of 40,6% in 2000, decreased till 38,9% in 2004, before rising till 2007.

Table no. 1. Total tax revenue (including social security contributions) in % of GDP

	2000	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
Belgium	45,0	45,0	45,1	44,6	44,7	44,7	44,3	43,9	44,3
Bulgaria	32,5	30,9	29,6	32,2	33,1	34,0	33,2	34,2	33,3
Czech Republic	33,8	34,0	34,8	35,7	37,4	37,1	36,7	37,2	36,1
Denmark	49,4	48,5	47,9	48,0	49,0	50,8	49,6	49,0	48,2
Germany	41,9	40,0	39,5	39,6	38,7	38,8	39,2	39,4	39,3
Estonia	31,1	30,2	31,0	30,8	30,6	30,6	31,1	32,3	32,2
Ireland	31,6	29,8	28,5	29,0	30,3	30,8	32,3	31,4	29,3
Greece	34,6	33,2	33,7	32,1	31,2	31,8	31,7	32,4	32,6
Spain	33,9	33,5	33,9	33,9	34,5	35,6	36,4	37,1	33,1
France	44,1	43,8	43,1	42,9	43,2	43,6	43,9	43,2	42,8
Italy	41,8	41,5	40,9	41,3	40,6	40,4	42,0	43,1	42,8
Cyprus	30,0	30,9	31,2	33,0	33,4	35,5	36,5	40,9	39,2
Latvia	29,5	28,5	28,3	28,5	28,5	29,0	30,4	30,5	28,9
Lithuania	30,1	28,6	28,4	28,1	28,3	28,5	29,4	29,7	30,3
Luxembourg	39,1	39,8	39,3	38,1	37,3	37,6	35,6	35,7	35,6
Hungary	39,0	38,2	37,8	37,9	37,4	37,5	37,2	39,8	40,4
Malta	28,2	30,4	31,5	31,4	32,9	33,9	33,7	34,6	34,5
Netherlands	39,9	38,3	37,7	37,4	37,5	37,6	39,0	38,9	39,1
Austria	43,2	45,3	43,9	43,8	43,4	42,3	41,9	42,2	42,8
Poland	32,6	32,2	32,7	32,2	31,5	32,8	33,8	34,8	34,3
Portugal	34,3	33,9	34,7	34,8	34,1	35,1	35,9	36,8	36,7
Romania	30,2	28,6	28,1	27,7	27,2	27,8	28,5	29,0	28,0
Slovenia	37,5	37,7	38,0	38,2	38,3	38,6	38,3	37,8	37,3
Slovakia	34,1	33,1	33,1	32,9	31,5	31,3	29,2	29,3	29,1
Finland	47,2	44,6	44,6	44,0	43,5	44,0	43,5	43,0	43,1
Sweden	51,8	49,9	47,9	48,3	48,7	49,5	49,0	48,3	47,1
United Kingdom	36,7	36,4	34,9	34,7	35,1	36,0	36,8	36,5	37,3
EU-27 average									
- GDP-weighted	40,6	39,7	39,0	39,0	38,9	39,2	39,7	39,7	39,3
- arithmetic	37,2	36,6	36,3	36,3	36,4	36,9	37,0	37,4	37,0
EA-16 average									
- GDP-weighted	41,2	40,3	39,8	39,8	39,5	39,6	40,2	40,4	39,7
- arithmetic	37,9	37,6	37,4	37,3	37,2	37,6	37,7	38,1	37,6

Source: http://ec.europa.eu/eurostat

The total tax burden in euro area (EU-16[5]) was of 39,7% from GDP in 2008 as compared to 40,4% in 2007. From 2000, taxes in euro area had a similar tendency to EU-27, though at a slight higher level.

[4] Belgium, Bulgaria, Czech Republic, Denmark, Germany, Estonia, Ireland, Greece, Spain, France, Italy, Cyprus, Latvia, Lithuania, Luxembourg, Hungary, Malta, Netherlands, Austria, Poland, Portugal, Romania, Slovenia, Slovakia, Finland, Sweden, United Kingdom

In comparison with other countries, generally the tax burden remains high in EU-27. Thus, in 2008 OTR in EU-27 was with 13,2% higher than that registered in United States, with 11,2% higher than that from Japan and with 4,5 % higher than the average of OCDE Member States[6].

In spite of all these, the tax burden varies significantly from a Member State to another. In 2008 the most reduced levels of OTR were registered in Romania (28,0%), Latvia (28,9%), Slovakia (29,1%) and Ireland (29,3%), and the highest in Denmark (48,2%) and Sweden (47,1%).

Between 2000 and 2008, the highest reductions of OTR were registered in Slovakia (from 34,1% in 2000 to 29,1% in 2008), Sweden (from 51,8% to 47,1%) and Finland (from 47,2% to 43,1%), and the highest rises in Cyprus (from 30,0% to 39,2%) and Malta (from 28,2% to 34,5%).

In 2008, the effects of financial crisis were felt most at the level of public expenses than at the level of public revenues, because of the choosing of expenses programs meant to prevent the impact of crisis. OTR rose in nine Member States as compared to 2007.

Implicit tax rates (ITR) measure the effective average tax burden on different types of economic income or activities, i.e. on labour, consumption and capital, as the ratio between revenue from the tax type under consideration and its (maximum possible) base. The data from the **table no. 2** help us to understand how the level of taxation evolved under the aspect of these three economic incomes.

Table no. 2. The ITR by type of economic functions in EU Member States

	Implicit tax rates (%) on					
	Consumption		Labour		Capital	
	2000	2008	2000	2008	2000	2008
EU-27 average	**20,9**	**21,5**	**35,8**	**34,2**	**:**	**:**
EA-16 average	**20,5**	**20,8**	**34,5**	**34,4**	**26,5**	**27,2**
Belgium	21,8	21,2	43,9	42,6	29,3	32,7
Bulgaria	19,7	26,4	38,7	27,6	:	:
Czech Republic	19,4	21,1	40,7	39,5	20,9	21,5
Denmark	33,4	32,4	41,0	36,4	36,0	43,1
Germany	18,9	19,8	40,7	39,2	28,9	23,1
Estonia	19,8	20,9	37,8	33,7	6,0	10,7
Ireland	25,9	22,9	28,5	24,6	:	15,7
Greece	16,5	15,1	34,5	37,0	19,9	:
Spain	15,7	14,1	28,7	30,5	29,7	32,8
France	20,9	19,1	42,1	41,4	38,1	38,8
Italy	17,9	16,4	43,7	42,8	29,6	35,3
Cyprus	12,7	20,6	21,5	24,5	23,8	36,4
Latvia	18,7	17,5	36,7	28,2	11,2	16,3
Lithuania	18,0	17,5	41,2	33,0	7,2	12,4
Luxembourg	23,1	27,1	29,9	31,5	:	:
Hungary	27,5	26,9	41,4	42,5	15,9	19,2
Malta	15,9	20,0	20,6	20,2	:	:
Netherlands	23,7	26,7	34,5	35,4	20,8	17,2
Austria	22,1	22,1	40,1	41,3	27,3	27,3
Poland	17,8	21,0	33,6	32,8	20,5	22,5
Portugal	19,2	19,1	27,0	29,6	32,7	38,6
Romania	16,8	17,7	32,2	29,5	:	:
Slovenia	23,5	23,9	37,7	35,7	15,7	21,6

[5] Belgium, Germany, Ireland, Greece, Spain, France, Italy, Cyprus, Luxembourg, Malta, Netherlands, Austria, Portugal, Slovenia, Slovakia, Finland

[6] http://www.oecd.org

Slovakia	21,7	18,4	36,3	33,5	22,9	16,7
Finland	28,6	26,0	44,1	41,3	36,0	28,1
Sweden	26,3	28,4	47,2	42,1	43,4	27,9
United Kingdom	19,4	17,6	25,3	26,1	44,7	45,9

Source: http://ec.europa.eu/eurostat

The labour taxes remain the most important source of fiscal incomes, representing over 40% from total revenues in EU-27, followed by the consumption tax at about a quarter and capital tax, which represents little more than a fifth.

ITR on labour[7], which measures the degree of labour incomes taxation, remained as a matter of fact unchanged in EU-27, being situated at 34,2% in 2008 as compared to 34,3% in 2007, after has decreased from 2000, when it was of 35,8%. Among Member States, ITR on labour varied in 2008 from 20,2% in Malta, 24,5% in Cyprus and 24,6% in Ireland, to 42,8% in Italy, 42,6 % in Belgium and 42,4% in Hungary.

ITR on consumption[8], which increased in EU-27 between 2001 and 2007, it decreased from 22,2% in 2007 to 21,5% in 2008. In 2008, the lowest values of ITR on consumption were in Spain (14,1%), Greece (15,1%) and Italy (16,4%) and the highest in Denmark (32,4%), Sweden (28,4%) and Luxemburg (27,1%).

In EU-27 ITR on capital [9] was of 26,1% in 2008 as compared to 26,8% in 2007. The lowest values of the ration were registered in Estonia (10,7%), Latvia (12,4%) and Ireland (15,7%), and the highest in United Kingdom (45,9%), Denmark (43,1%) and France (38,8%).

In order to compare the maximum personal income tax rate and corporate income tax rate, we will use the data from **table no. 3**.

The maximum personal income tax rate (PIT)[10] rose in EU-27 in 2010, mostly because of an increase of 10 percentage points in United Kingdom. In 2010, the maximum personal income tax rates were highest in Sweden (56,4%), Belgium (53,7%) and Netherlands (52,0%), and the lowest in Bulgaria (10,0%) and Czech Republic (15,0%) and Lithuania (15,0%). Between 2000 and 2010, the highest diminutions were registered in Bulgaria (from 40,0% in 2000 to 10,0% in 2010), Romania (from 40,0% to 16,0%) and Slovakia (from 42,0% to 19,0%), these countries applying the single tax rate system. The highest rises of the rate in the same period were registered in United Kingdom (from 40,0% to 50,0%) and Sweden (from 51,5% to 56,4%).

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[7] The ITR on labour is calculated as the ratio of taxes and social security contributions on employed labour income to total compensation of employees.

[8] The ITR on consumption is the ratio between the revenue from all consumption taxes and the final consumption expenditure of households.

[9] The ITR on capital is the ratio between taxes on capital and aggregate capital and savings income. Specifically it includes taxes levied on the income earned from savings and investments by households and corporations and taxes, related to stocks of capital stemming from savings and investment in previous periods. The denominator of the capital ITR is an approximation of world-wide capital and business income of residents for domestic tax purposes.

[10] The top statutory personal income tax rate reflects the tax rate for the highest income bracket. The rates also include surcharges, state and local taxes.

Table no. 3. The maximum income tax rate, in %

	Personal income tax rate				Corporate income tax rate			
	2000	2009	2010	Difference 2000-2010	2000	2009	2010	Difference 2000-2010
EU-27 average	**44,7**	**37,1**	**37,5**	**-7,2**	**31,9**	**23,5**	**23,2**	**-8,7**
EA-16 average	**48,4**	**42,1**	**42,4**	**-6,0**	**34,9**	**25,9**	**25,7**	**-9,2**
Belgium	60,6	53,7	53,7	-7,0	40,2	34,0	34,0	-6,2
Bulgaria	40,0	10,0	10,0	-30,0	32,5	10,0	10,0	-22,5
Czech Republic	32,0	15,0	15,0	-17,0	31,0	20,0	19,0	-12,0
Denmark	59,7	59,0	51,5	-8,2	32,0	25,0	25,0	-7,0
Germany	53,8	47,5	47,5	-6,3	51,6	29,8	29,8	-21,8
Estonia	26,0	21,0	21,0	-5,0	26,0	21,0	21,0	-5,0
Ireland	44,0	41,0	41,0	-3,0	24,0	12,5	12,5	-11,5
Greece	45,0	40,0	45,0	0,0	40,0	25,0	24,0	-16,0
Spain	48,0	43,0	43,0	-5,0	35,0	30,0	30,0	-5,0
France	59,0	45,8	45,8	-13,2	37,8	34,4	34,4	-3,4
Italy	45,9	45,2	45,2	-0,7	41,3	31,4	31,4	-9,9
Cyprus	40,0	30,0	30,0	-10,0	29,0	10,0	10,0	-19,0
Latvia	25,0	23,0	26,0	1,0	25,0	15,0	15,0	-10,0
Lithuania	33,0	15,0	15,0	-18,0	24,0	20,0	15,0	-9,0
Luxembourg	47,2	39,0	39,0	-8,2	37,5	28,6	28,6	-8,9
Hungary	44,0	40,0	40,6	-3,4	19,6	21,3	20,6	1,0
Malta	35,0	35,0	35,0	0,0	35,0	35,0	35,0	0,0
Netherlands	60,0	52,0	52,0	-8,0	35,0	25,5	25,5	-9,5
Austria	50,0	50,0	50,0	0,0	34,0	25,0	25,0	-9,0
Poland	40,0	32,0	32,0	-8,0	30,0	19,0	19,0	-11,0
Portugal	40,0	42,0	42,0	2,0	35,2	26,5	26,5	-8,7
Romania	40,0	16,0	16,0	-24,0	25,0	16,0	16,0	-9,0
Slovenia	50,0	41,0	41,0	-9,0	25,0	21,0	20,0	-5,0
Slovakia	42,0	19,0	19,0	-23,0	29,0	19,0	19,0	-10,0
Finland	54,0	49,1	48,6	-5,4	29,0	26,0	26,0	-3,0
Sweden	51,5	56,4	56,4	4,9	28,0	26,3	26,3	-1,7
United Kingdom	40,0	40,0	50,0	10,0	30,0	28,0	28,0	-2,0

Source: http://europa.eu/

The corporate income tax (CIT)[11] rates continued to decrease in 2010 in EU-27. The highest levels of CIT in 2010 were registered in Malta (35,0%), France (34,4%) and Belgium (34,0%), and the lowest in Bulgaria (10,0%), Cyprus (10,0%) and Ireland (12,5%). Between 2000 and 2010, the highest diminutions of rate were registered in Bulgaria (from 32,5% to 10,0%), Germany (from 51,6% to 29,8%), Cyprus (from 29,0% to 10,0%) and Greece (from 40,0% to 24,0%).

According to the data from **table no. 4**, in EU-27 the VAT standard average rate rose from 19,8% in 2009 to 20,2% in 2010. As compared to 2000, in 2010 the rise of VAT average rate was of

[11] Taxation of corporate income is not only conducted through the CIT, but, in some Member States, also through surcharges or even additional taxes levied on tax bases that are similar but often not identical to the CIT. In order to take these features into account, the simple CIT rate has been adjusted for comparison purposes: notably, if several rates exist, only the 'basic' (non-targeted) top rate is presented; existing surcharges and averages of local taxes are added to the standard rate.

1%. In 2010, the VAT standard rate varies from 15,0% in Cyprus and Luxemburg, to 25,0% in Denmark, Hungary and Sweden.

Table no. 4. Standard rate of value added tax, in %

	2000	2009	2010	Difference 2000-2010
EU-27 average	19,2	19,8	20,2	1,0
Belgium	21,0	21,0	21,0	0,0
Bulgaria	20,0	20,0	20,0	0,0
Czech Republic	22,0	19,0	20,0	-2,0
Denmark	25,0	25,0	25,0	0,0
Germany	16,0	19,0	19,0	3,0
Estonia	18,0	20,0	20,0	2,0
Ireland	21,0	21,5	21,0	0,0
Greece	18,0	19,0	23,0	5,0
Spain	16,0	16,0	18,0	2,0
France	19,6	19,6	19,6	0,0
Italy	20,0	20,0	20,0	0,0
Cyprus	10,0	15,0	15,0	5,0
Latvia	18,0	21,0	21,0	3,0
Lithuania	18,0	19,0	21,0	3,0
Luxembourg	15,0	15,0	15,0	0,0
Hungary	25,0	25,0	25,0	0,0
Malta	15,0	18,0	18,0	3,0
Netherlands	17,5	19,0	19,0	1,5
Austria	20,0	20,0	20,0	0,0
Poland	22,0	22,0	22,0	0,0
Portugal	17,0	20,0	20,0	3,0
Romania	19,0	19,0	24,0	0,0
Slovenia	19,0	20,0	20,0	1,0
Slovakia	23,0	19,0	19,0	-4,0
Finland	22,0	22,0	23,0	1,0
Sweden	25,0	25,0	25,0	0,0
United Kingdom	17,5	15,0	17,5	0,0

Source: http://europa.eu/

Between 2000 and 2010, the VAT rate remained unchanged in 13 Member States, rose in 12 Member States and diminished only in Slovakia (from 23,0% in 2000 to 19,0% in 2010) and Czech Republic (from 22, 0% to 20,0%). The highest rises were registered in Greece (from 18,0% to 23,0%) and Cyprus (from 10,0% to 15,0%).

The EU Commission forecasts that in 2009-2011 the overall tax ratio will remain well below 2008 levels, as governments are keen to maintain favourable conditions for business development. However, in the longer term, the accumulation of debt by Member States leads to expect that governments will try to consolidate their budgets, so that the tax cuts will be limited. In addition, EU general government expenditure has increased considerably: from 2007 to 2010 it has risen by more than five points of GDP, surpassing the 50% mark. The expenditure ratio is expected to start declining only in 2011.

3. Level of taxation in Romania

According to the data from **table no. 5**, the overall tax ratio in Romania was of 28,0% in 2008, with 9 percentage points lower than the average EU-27 (37,0%). The taxation level in Romania is the lowest from EU and significantly lower than in neighbouring countries Bulgaria (33,3%) and Hungary (40,4%).

Table no. 5. Taxation in Romania (2000-2008)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	Ranking in 2008*
A. Structure of revenues (% of GDP)										
Indirect taxes	12,2	11,3	11, 6	12,3	11,7	12,9	12,8	12,6	12,0	**22**
VAT	6,5	6,2	7,1	7,2	6,7	8,1	7,9	8,1	7,9	**12**
Excise duties and consumption taxes	3,0	2,8	2,6	3,5	3,6	3,3	3,2	3,0	2,7	**17**
Other taxes on products (including import duties)	2,2	1,6	1,3	1,0	1,0	1,0	1,2	0,7	0,6	**21**
Other taxes on production	0,5	0,6	0,6	0,6	0,5	0,5	0,6	0,8	0,8	**17**
Direct taxes	7,0	6,4	5,8	6,0	6,4	5,3	6,0	6,7	6,7	**26**
Personal income	3,5	3,3	2,7	2,8	2,9	2,3	2,8	3,3	3,4	**25**
Corporate income	3,0	2,5	2,6	2,8	3,2	2,7	2,8	3,1	3,0	**15**
Other	0,6	0,5	0,4	0,3	0,3	0,3	0,3	0,4	0,3	**22**
Social contributions	11,1	10,9	10,7	9,4	9,1	9,6	9,7	9,7	9,3	**19**
Employers´	8,1	7,1	6,5,	6,2	5,9	6,4	6,3	6,2	6,0	**15**
Employees´	3,0	3,8	4,2	3,1	3,0	3,0	3,3	3,3	3,2	**13**
Self- and non-employed	0,0	0,0	0,1	0,2	0,2	0,2	0,1	0,2	0,1	**25**
TOTAL	**30,2**	**28,6**	**28,1**	**27,7*2***	**27,2**	**27,8**	**28,5**	**29,0**	**28,0**	***27***
Cyclically adjusted total tax to GDP ratio	32,6	30,1	29,2	28,4	26,8	27,3	27,0	26,7	24,8	
B. Structure by level of government (% of total taxation)										
Central government	59,5	59,7	60,1	62,8	63,4	63,0	63,0	62,2	62,9	***10***
State government	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	**n.a.**
Local government	3,9	3,8	3,1	3,5	3,4	3,1	3,4	4,0	3,2	***22***
Social security funds	36,6	36,5	36,8	33,7	33,2	33,9	33,6	33,0	32,9	***12***
EU institutions	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	**n.a.**
C. Structure by economic function (% of GDP)										
Consumption	11,5	10,6	10,9	11,5	11,1	12,3	12,1	11,8	11,2	***16***
Labour	13,2	12,9	12,4	11,1	10,7	11,0	11,6	11,8	11,6	***23***
Employed	13,2	12,8	12,3	11,1	10,7	11,0	11,5	11,8	11,5	***23***
Non-employed	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,1	0,1	***26***
Capital	5,5	5,1	4,8	5,0	5,4	4,5	4,9	5,4	5,2	***22***
Capital and business income	4,3	3,9	3,8	4,0	4,5	3,6	3,9	4,2	4,2	***22***
Income of corporations	3,0	2,7	2,6	2,8	3,2	2,7	2,8	3,1	3,0	***15***
Income of households	1,2	1,1	1,0	0,9	1,0	0,6	0,7*2*	0,8	0,9	***12***

Income of self-employed (including SSC)	0,1	0,2	0,2	0,3	0,4	0,3	0,3	0,4	0,3	***25***
Stocks of capital / wealth	1,2	1,2	1,1	1,0	0,9	0,9	1,0	1,1	1,0	***20***
D. Environmental taxes (% of GDP)										
Environmental taxes	3,4	2,4	2,1	2,4	2,4	2,0	1,9	2,1	1,8	***25***
Energy	3,2	1,9	1,7	2,0	2,1	1,8	1,7	1,7	1,4	***23***
Transport (excl. fuel)	0,1	0,1	0,1	0,1	0,1	0,1	0,1	0,3	0,4	***17***
Pollution/resources	0,1	0,4	0,3	0,3	0,2	0,1	0,1	0,0	0,0	***22***
E. Implicit tax rates (%)										
Consumption	17,0	15,6	16,2	17,7	16,4	17,9	17,8	18,0	17,7	***21***
Labour employed	33,5	31,0	31,2	29,6	29,0	28,1	30,1	30,2	29,5	***21***
Capital	:	:	:	:	:	:	:	:	:	

Note: **The ranking is calculated in descending order.*

Source: http://ec.europa.eu/eurostat

According to data published by the Ministry of Public Finance of Romania, in 2010 Romania registered the lowest value of the overall tax-to-GDP ratio from the last decade: 27,1%, in decrease as compared to 2009, when it was of 27,4% **(table no. 6)**.

Table no. 6. Taxation in Romania (2009-2010)

Structure of revenues (% of GDP)	**2009**	**2010**
Indirect taxes	**10,7**	**11,7**
VAT	7,0	7,7
Excise duties and consumption taxes	3,2	3,4
Other taxes on products (including import duties)	0,1	0,1
Other taxes on production	0,4	0,5
Direct taxes	**7,0**	**6,4**
Personal income	3,8	3,5
Corporate income	2,2	2,0
Other	1,0	1,0
Social contributions	**9,7**	**8,9**
TOTAL	**27,4**	**27,1**

Source: http://discutii.mfinante.ro/static/10/Mfp/buget/executii/anexa2_bgcdec2010.pdf

The fiscal structure from Romania points out in many respects. In Romania the indirect taxes have a very great weight, since in 2008 Romania occupied from this point of view the fourth place in EU-27 after Bulgaria, Cyprus and Malta. Indirect taxes ensure 42,7% from total fiscal revenues, as compared to 37,6% EU-27 average, while the weight of social security contributions is of 33,3% (as compared to the EU-27 average of 30,2%) and of direct taxes of only 24,0% (the average in EU-27 is of 32,4%). An important element which determined this structure is the VAT high weight in total tax (28,2% in 2008), the third biggest within EU-27. The low level of direct taxes is due mainly to low personal income taxes (only 3,4% from GDP), comprising about 42% from EU-27 average. If in 2009 the structure of revenues from the three types of taxes modified in the sense of reduction of the weight of indirect taxes to 39% and of rise of weight of social security contributions to 35,4% and of direct taxes to 25,6%, in 2010, the structure of taxes was very close to that from 2008. **(table no. 7)**

Table no. 7. Taxation in Romania (2008-2010)

Structure of revenues (% of total taxation)	**2008**	**2009**	**2010**
Indirect taxes	42,7	39,0	43,1
Direct taxes	24,0	25,6	24,0
Social contributions	33,0	35,4	32,9
TOTAL	**100,0**	**100,0**	**100,0**

Source:
http://discutii.mfinante.ro/static/10/Mfp/buget/executii/anexa2_bgcdec2010.pdf
http://discutii.mfinante.ro/static/10/Mfp/buget/executii/dec2008.pdf

In 2008, the weight of central government revenues is more than a half from total (62,9%), while the local government revenues are marginal, composed of only 3,2%. The weight of social contributions is of 32,9%, with almost four percentage points over EU-27 average. In spite of all these, in percentage from GDP, the revenues from social security contributions are with 1,5 percentage points under EU-27 average.

The overall tax ratio decreased continually within the period 2000-2004 with a total of three percentage points, mainly due to a reduction of revenues from social security contributions paid by employers, which diminished with more than one quarter. The rise of revenues from all three major fiscal categories, lead later on to a rise of OTR from 27,2% (in 2004) to 29,0% in 2007. In the following three years, the ratio registered again a descending trend, arriving to 28,0% in 2008, 27,4% in 2009 and 27,1% in 2010.

In order to compare the level of taxation from Romania with the one from EU-27 under the aspect of the three economic functions: consumption, labour and capital, we shall analyse the data from **table no. 5.**

The ITR on consumption is of 17,7% in 2008, with 3,8 percentage points lower than EU-27 average. As a result of the very big weight of final consumption of households in GDP, the consumption taxes as per cent of GDP are still in conformity with EU-27 average (11,2% as compared to EU-27 average of 12,0%).

The ITR on labour decreased constantly during the period 2000-2005, in total with more than five percentage points. The most significant reduction, of about a percentage point, can be noticed in 2005, the year of introduction of flat rate of personal incomes taxation (16%). Although, in 2006, ITRL increased with two percentage points and remained enough stable in 2007, but decreased in 2008 to 29,5%. ITRL was significantly below EU-27 average (34,2%), mainly as a result of low receipts from wage income tax. The cause is not only the reduced level of rate, but also the illicit work that is a common practice in Romania.

Capital taxation is one of the lowest in EU-27, obtaining only 5,2% from GDP, as compared to EU-27 average of 7,5%. This is due to reduced revenues from all categories of capital taxes. Because of the lack of data, ITR on capital is not available for Romania.

On the basis of available data, the environment taxes of 1,8% from GDP in 2008, are much below the EU-27 average (2,6%). In fact, this value is the third lowest in EU. Most of these taxes are applied to energy. Each of the other two categories of environment taxes, transport and pollution taxes, raise at least than half from EU average. The incomes from environment taxes decreased in the last years.

In **table no. 8** there are comprised the structural modifications of main taxes according to „Fiscal-Budgetary Strategy" of the Government during the period 2011-2013.

Table no. 8. The structural modifications of taxes in Romania in 2011-2013

Taxes	**% in GDP**
Personal income tax	3,3%-3,4%
Corporate income tax	2,1%
VAT	7,9-7,8%
Excise duties	3,2%-3,1%
Social security contributions	8,9-8,2%

Source: http://discutii.mfinante.ro/static/10/Mfp/strategbug/STRATEGIA_FB_27sept.pdf

For this period, there are planned the following measures in the fiscal domain:

a) Personal income tax. The rate of 16% will be maintained.

b) Corporate income tax. The rate of 16% will be maintained.

c) VAT. The standard VAT rate was increased from 19% to 24% beginning with 1st July 2010. Regarding the reduced rates, the Government's goal is to maintain the present values, respectively the 9% rate for some deliveries of goods and services stipulated by Fiscal Code and the 5% rate for delivery of dwellings as part of the social politics.

Also, the Government will follow the continuation of legislation improvement for the harmonization with the EU legislation, by transposition into national legislation of directives adopted at european level in VAT domain.

Regarding the legislative measures of reduction of fiscal fraud in VAT domain, these were concretized in:

- setting up of the Register of Intra-Community Operators, beginning with 1st July 2010, a measure introduced with the purpose of diminishing the fiscal evasion in the domain of intra-community operations.

- application of inverse taxation mechanism for deliveries of goods within the country from the following categories: cereals and technical plants, vegetables, fruits, meat, sugar, flour, bread, and bakery products, between taxable persons registered normally for VAT purposes. This measure will be applied after the obtaining by Romania of the authorization for application of derogation from provisions of art.193 from 112/2006/CE Directive regarding the common system of VAT with the ulterior modifications and completions, and it will come into force till 31st December 2011.

d) Excise duties. The Government aims at rising the excise duties in view of attaining the minimum level imposed by the community legislation in field, according to transition periods offered to Romania by European Commission, stipulated in the Adhesion Treaty and in 2010/12/CE Directive of modification of tobacco directives.

e) Social security contributions. The rates of social security contributions will be maintained on middle term.

The moderate evolution of gross average salary on middle term and gradual implementation of second pillar of pensions will lead to the diminution of weight of social security contributions in GDP till 2013 as compared to the level registered in 2008.

f) Local government taxes. We have in view the modification of fiscal legislation in the sense of granting the right to local authorities to modify the level of local rates and taxes depending on local necessities and the degree of supportability of population and through the implementation of a calculation system of the tax value of buildings and lands from built-up area by relating to their market value, where this is obviously greater than that determined through the calculus formula.

4. Fiscal reform as anti-crisis solution

According to the study „Paying taxes 2011”[12], almost 60% of the States from world-wide made legislative and procedural modifications meant to facilitate the taxes payment, despite the impact of recession and of heavy economic recovery.

The report shows the fact that in the last year, 40 States simplified the payment procedures of taxes. For countries in question, the necessary time to accomplish the tax liabilities decreased with a week on average, the cost of fiscal administration decreased with 5% on average, and the number of payments decreased with almost four. In total, 90 States reduced the corporative tax burden as compared to 2006.

According to the study, a typical company uses almost half of its profit for the payment of rates and taxes and spends seven weeks on average accomplishing the administrative charges due to tax liabilities payment, making a payment on average at each 12 days.

The report shows that the payment of taxes is easier for companies from developed economies which have the lowest costs to accomplish the tax liabilities and the most reduced bureaucracy. These economies tend to have mature fiscal systems, a much reduced administrative burden and use more the electronic means for tax payment and filling out the financial statements.

The conclusions of the study „Paying taxes 2011”regarding EU can be synthesized thus:

- Seven States from EU implemented during 2009-2010 fiscal reforms to facilitate the taxes’payment: Bulgaria, Czech Republic, Hungary, Lithuania, Netherlands, Portugal and Slovenia.
- UE situates below the global middle level as regards all the three sub-indicators. The total tax rate is of 44,2% (as compared to global average of 47,8%), the necessary time to observe the tax liabilities is of 222 hours (global average: 282), and the number of payments is 17,5 (global average: 29,9).
- The average number of taxes that the standard company must pay is of 9 at global level. The average in EU is of 10,9, varying from 5 in Sweden to 17 in Hungary, Romania and Italy.
- The taxes and contributions on wages and salaries represent the biggest part of the tax burden in EU – that is 64,3% from total tax rate in EU, as compared to global average of 33,8%.
- Many EU Member States have numerous taxes and contributions on wages, fact which increases the fiscal bureaucracy.
- The VAT rate is regulated at the community level, but the necessary time to observe the tax liabilities comprised in the VAT legislation varies depending on various administrative used practices. For example, the observance of tax liabilities regarding VAT needs 222 hours in Finland and 288 in Bulgaria.

In the analyse that gathers 183 of 191 States recognized in the world, Romania situates on the 151 place from the point of view of the facility with which taxes of a business can be paid, in a slight regress in comparison with the previous edition when it came on 147 place. This positioning is not due only to the Romanian tax system itself, but also to the tax reforms implemented in other countries.

The position of Romania in the second half of the classification is strongly influenced by the great number of payments of rates and taxes: no less than 133 payments during a year, of which 84 refer to payments of social security contributions. Romania occupies the second place at global level regarding the number of payment of taxes, being surpassed only by Ukraine (135). The biggest problem is the fact that there is no functional electronic system for payments.

The number of necessary hours for the compliance with fiscal legislation increased during last year from 202 hours to 222 hours in this year report. This is due mainly to the introduction of more difficult regulations regarding the employment contracts, as well as to the regulations regarding the profit tax payment (the minimum tax was removed since 1st October 2010).

[12] http://www.pwc.com/gx/en/paying-taxes/pdf/paying-taxes-2011.pdf

More, specialists expect that the fiscal measures taken by the Government during 2010 affect in the future the indicator regarding the tax payment. It's about the VAT increase from 19% to 24%, together with the introduction of new regulations regarding the VAT payment, an increase of local taxes (for example the motor vehicle tax, certificate issue tax, notifications and authorizations for publicity), as well as the introduction of a new system of penalty for delays in paying taxes.

The Romanian Government has also postponed the introduction of a simplified advance corporate income tax payments system (already implemented for banks), until 2012. When the system is introduced, it is expected that it will make the compliance procedure easier for the taxpayer and reduce the number of hours required.

The reduction of bureaucracy and of taxation level could have a good effect now when investors run from neighbouring countries because of the tax increases and seek new alternatives. Romania can profit by the unattractive economic policies of its neighbours to bring more foreign capital in the country.

In the last years, Hungary was a destination loved by foreign companies. The Hungarians surpass us in the classification of most propitious countries to start a business, as it results from the report „Doing Business 2011". They situate on 52 place and Romania on 54. But last year, the Government from Budapest decided the imposing of new „crisis" taxes and increase of some taxes to bring money to budget. Thus, the profit tax for earnings of over 2,5 millions dollars was increased from 16 to 19%. The energy, telecommunication and retail domains (dominated by foreign investors) must now pay additional taxes, called by economists the „Robin Hood taxes", comprised between 1,05% and 6,5%. Moreover, although approved at the end of last year, they will be applied retroactively also for 2010. Many foreign companies warned Hungarian Government that if the situation didn't change, they would relocate their operations. Romania could become a target for them, with minimum of effort.

Global crisis is only one of the causes which led to the decrease of foreign capital in Romania. Our country didn't attain its maximum potential not even in the boom period of direct foreign investments (2008). If we look at the total tax rate (**table no. 9**), Romania is more competitive than its Austrian, Slovakian, Czech, Ukrainian, Hungarian neighbours. But, we still have a lot of work. For example, we should eliminate the great number of taxes that an entrepreneur must pay in Romania.

Table no. 9. Total tax rate in states of Central and Eastern Europe

	States of Central and Eastern Europe	**Total tax rate (%)**
1.	Belarus	80,4
2.	Austria	55,5
3.	Ukraine	55,0
4.	Hungary	53,3
5.	Czech Republic	48,8
6.	Slovakia	48,7
7.	**Romania**	**44,9**
8.	Poland	42,3
9.	Albania	40,6
10.	Slovenia	35,4
11.	Serbia	34,0
12.	Croatia	32,5
13.	Moldova	30,9
14.	Bulgaria	29,0
15.	Bosnia and Herzegovina	23,0
16.	Macedonia	10,6

Source: http://www.pwc.com/gx/en/paying-taxes/pdf/paying-taxes-2011.pdf

Conclusions

As a result of the current economic crises, the focus on the role that tax can play in international development has increased. Tax revenues are a more sustainable source of financing for developing countries than debt or aid. But there are many challenges to tackle in increasing tax revenues in developing countries, including combating capital flight from these countries, reducing the size of their informal economies and helping their tax authorities to monitor compliance and collect the taxes due. The "Paying Taxes-2011" study results show that tax rates tend to be higher and the compliance burden heavier in the developing world. Reducing tax rates, broadening the tax base and making it easy to pay, can be important in encouraging local business to register and pay tax.

In the last three years, in European Union the trend was of reduction of taxation level, especially in the domain of corporate income tax. The reason is the competition between States to attract foreign investments which imply new jobs and prosperity. All the States try to create a competitive business environment, a fact proved by the reduction of total taxes ratio in the commercial profits, whose average decreased from 50,6% in 2004 to 49,8% in 2008 and 47,8% in 2010[13].

Romania can boast with the most reduced level of taxation from EU. Though, because of the bad assigned tax burden (high weight of social security contributions and of indirect taxes) and because of the bureaucracy, corruption and legislative instability, Romania is far to be a „tax haven".

The fiscal policies promoted by Romanian Governments influenced not only the structural evolution of fiscal system but also the size of taxes. The level of taxation was determined by the proportions of granted fiscal facilities (exemptions, reductions, deductions), of the level and type of rates, but also by the sensibility of taxable product. The social-economic policies promoted in economy influenced the tax burden through some factors as: degree of economic development, structure of property, structural distribution of revenues, structural evolution of global consumption etc. More, the quality of fiscal debts administration and the level of fiscal education of the population influence, through the fiscal fraud, the tax receipts and the tax burden.

Having a the reduced level of taxation, Romania can profit by the fact that the investors run from neighbouring countries because of the tax increases and seek new alternatives. We consider that the following measures in the fiscal domain could prove efficient to attract more foreign capital in the country:

- Reduction of bureaucracy. The time lost by Romanian companies to pay their taxes to the State represents a too great obstacle for potential investors. The introduction of unique printed form for payment of taxes and social security contributions is the first step to the reduction of bureaucracy.
- Tax reduction. Although if we look only at the total tax rate, Romania is doing better than other neighbours, the indirect taxes and the social security contributions remain between the highest in Europe. Their diminution will stimulate investors, stir up the labour market and finally it will be reflected in the consumption increase.
- Fiscal predictability. In the last six years, the Fiscal Code was modified of 60 times. The situation is more critical as, in many cases, the changes came into force immediately, as it happened with the increase with five percentage points of the VAT (from 19 to 24%).
- Simplification of juridical system. If the period to solve litigation is long, the investors prefer to avoid the respective State. An inefficient juridical system is one of the first things that damages to the attraction of foreign capital.

If Romania will take these measures and know to use its advantages (cheap labour, geographical position, available agricultural land, easy access to natural resources with advantageous

[13] http://www.pwc.com/gx/en/paying-taxes/pdf/paying-taxes-2011.pdf

price, potential of market growth in financial-banking, energy, telecommunications, transports, retail domains etc.) it could attract foreign investors, situation that generates many taxes.

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