

FISCAL PRESSURE IN ROMANIA, DEVELOPMENTS AND EFFECTS

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Abstract: In this article we present limits, ways of commensurate, the influence factors and effects of the fiscal pressure.

Also, the processed data from the Statistical Yearbook, we presented the evolution of this rate during the period 1990-2009.

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1. INTRODUCTION

The taxes are an "evil" for those who support and a "necessary" to supply the public budget, being the most important source in this respect. The honest taxpayer agrees to pay the tax and is subject to this burden willingly, but at a time when taxes exceed certain limits, occurring phenomena that lead to serious disservice of the state's capacity to collect this revenue.

The taxpayer behaviour becomes abnormal in any way he tried to evade from the tax, hoping to reduce the fiscal pressure, which is sometimes suffocating. Increase or decrease the fiscal pressure for a certain period is related to the economic and social role of the state, its intervention, to ensure the source of the coverage the public expenditure.

The debate generated by the excessive intervention of the state in the economy, have generated a new economic thinking, a liberal thinking that we observed at the American economist Arthur Laffer.

2. RATES OF TAX BURDEN AND ITS LIMITS

The fiscal pressure is an economic measure of coercion exercised by a tax or a combination of taxes. In the sense of the most audiences, the fiscal pressure is called the tax coefficient, being related by the taxation rate [1].

Whatever the terms used such as the fiscal pressure, tax burden, tax factor, the rate of compulsory levies etc. (some even trying to mitigate the negative connotations expression), the general idea is that the obligations beside the state and reducing the private income.

The fiscal pressure rate or the compulsory levies rate in the broad sense is the ratio of the total taxes and the social contributions actually charge by the general government and the gross domestic product.

The fiscal pressure, in the narrow sense, refers to the ratio between the amount of taxes collected and the gross domestic product.

The level of fiscal pressure is given by the fiscal policy, fostered by the financial and economic levers (taxes) but also the instability of the tax system. During the transition to a market economy, our country has not reached stable tax legislation. A permanent changing of the level of tax rates and the emergence of the new taxes lead to the different forms of the fiscal pressure and diversity of some limits [2].

Psychological and political limits that are imposed by the side of taxpayers which may oppose a strong resistance to increasing the compulsory levies when they consider being excessive, through: evasion, fraud, reduces the productive activity, stifling the private initiative, protests, strike.

Economic limits, which are compulsory levies that may result in curbing the propensity to work, low investment and desire to save people and reduce entrepreneurship.

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Compensation induced by the fiscal pressure, which is expressed by the fact that they constitute a benefit to taxpayers, through the public spending it finances.

Generally, tax must be loose, not rigid for the taxpayers. However, the taxation and the pressure had an upward trend, according to the state's involvement, the diversity of its powers and the development of socio-historical stage.

On the rising of fiscal pressure is considered to be increasing the economic role of the state, while it is considered that the increase in state spending, requiring an increased levy income from its funds, in order to discharge its obligations, or the levy additional is based on size of taxation.

So the fiscal pressure is related by the tax imposition, when a low taxation, an increase of it may stimulate efforts to achieve stability of disposable income, resulting in an economic growth and an increase in tax revenues. If it is applied a high taxation, a further increase of it can result the tax evasion, a reduction of gross domestic product and a drop in tax revenues.

In this respect, the question is: how much can increase the taxes (at a time), so this does not reflect a loss of tax revenues for the government?

According to the liberal economists, a very strong fiscal pressure, discourage the taxpayers (individuals and entities) to invest, save, produce and work.

Arthur Laffer, an outstanding representative of the so-called "policy proposals", implement graphics (Laffer curve) and expressed an idea of his predecessors, namely, that tax rates are too high, destroying the basis on which taxes are placed.

Laffer curve is a graph that shows the relationship between the compulsory levies rate and the total revenue collected by the state tax. Laffer believes that there is a threshold for the maximum rate of the fiscal pressure beyond which any increase thereof, generates a reduction in tax yield. This value corresponds to the maximum amount of the tax revenue (the point of maximum curve).

The compulsory levies value would go up to cancellation, if tax rate would reach 100% value (in this case the limit, any taxable activity would disappear). This is explained by the fact that compulsory levies too hard destroying the tax base.

Laffer believes that, from zero to 100%, an increase in the rate of taxation, may lead to higher tax revenues. But there is an optimal tax rate beyond which the total tax revenue will decrease if the tax rate will continue to increase. In terms of Figure I, from the M point, the discouraging effects of taxation, causing a decrease in production, so, increasing the fiscal pressure leads to the lower production, not unconditional and substantially increases of the tax revenues [3].

Apparent existence of two areas, bounded by points OMP as:

- The normal permissible OMPO, where the economic support increasing the fiscal pressure, as will a larger amount of public utilities. The tax revenues increase, although there is a gradual decline in economic activity and tax base, certain economic, opting to increase the expense of leisure time for work and other economic, carry around. Thus, the tax revenue growth is weakening, once increases the fiscal pressure;
- The inadmissible or prohibition PoMP area, shaded, is a growing segment of the income of production factors, is taken by the state. Therefore, economic agents reduced their taxable activities and tax base decreases. Traders repudiate the new public utilities, agreeing ones private. The fiscal pressure is increasing while reducing production occurs concurrently with increased underground activities, is diminishing tax revenues.

For Arthur Laffer, a harsh and unequal taxation creates serious difficulties in the development of production, so that the current economy required a reduction in the tax rates and a gradual reduction of the income tax in order to promote the re-launch the economic activity.

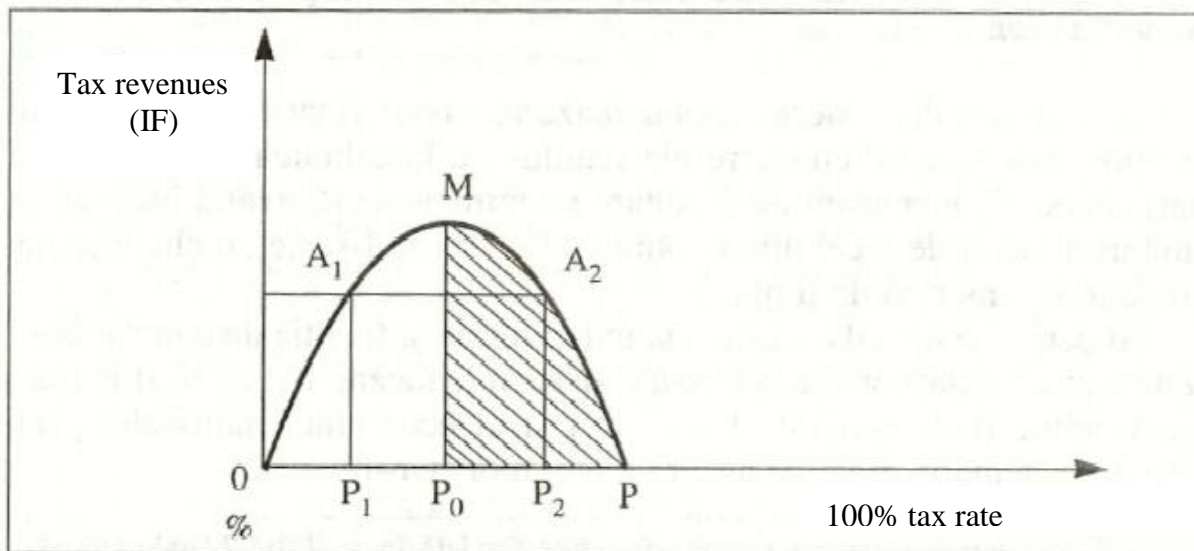


Figure no.1 Laffer curve

At the same amount of the fiscal pressure, the countries with different levels of economic and social development, it may place on the one side or the other of size M.

Although the theorists have often tried to establish certain maximum levels, the practice, sooner or later, it has exceeded every time. Tax ceiling is floating, because the fiscal pressure is more than a perception, which varies according to the economic circumstances, political and psychological.

3. WAYS OF EXPRESSING THE FISCAL PRESSURE

Since the tax is charged by the taxpayer, as an amputation of his income by the public authority we must recognize the need for quantify it, at different levels.

Rising domestic tax

➤ The national fiscal pressure

In general, the fiscal pressure is given by the tax rate, which is calculated as the ratio between the total tax revenues (at central, local, including social contributions) paid for a certain period and size of gross domestic product in the same period, the usually one year.

Considering the tax revenue as consisting of taxes and contributions, the fiscal pressure rate is calculated as follows:

$$R = \frac{I + T + C}{PIB} * 100, \text{ where} \quad (1)$$

R- the fiscal pressure rate at the national level;

I- amount of the taxes collected;

T- total amount of the taxes collected;

C- state social insurance contributions;

PIB- volume of gross domestic product.

Considering this expression as the ratio of the fiscal pressure rate broadly, by removing the numerator of the state social security contributions, can establish the fiscal pressure rate in the narrow sense as:

$$R_r = \frac{I + T}{PIB} * 100 \quad (2)$$

Also, by reporting only the social security contributions to GDP are calculated the fiscal pressure rate for social purposes.

The processing of information published in the Statistical Yearbooks collection or on the site of the Finance Ministry, on the implementation of the various budgets that make up the system unit budgets in Romania, we present in Table no. 1, changes in the fiscal pressure rate during 1990-2009.

Table no. 1 Evolution of the fiscal pressure in period 1990-2009

Year	Nominal tax Incomes * (mil lei)	NominalGDP (mil lei)	GDP deflator index	Real tax incomes (mil lei)	RealGDP (mil lei)	Real tax incomes (mil lei) 1990 =100%	RealGDP (mil lei) 1990 =100%
1990	29.73	85.7	1.051	28.29	81.54	29.73	85.70

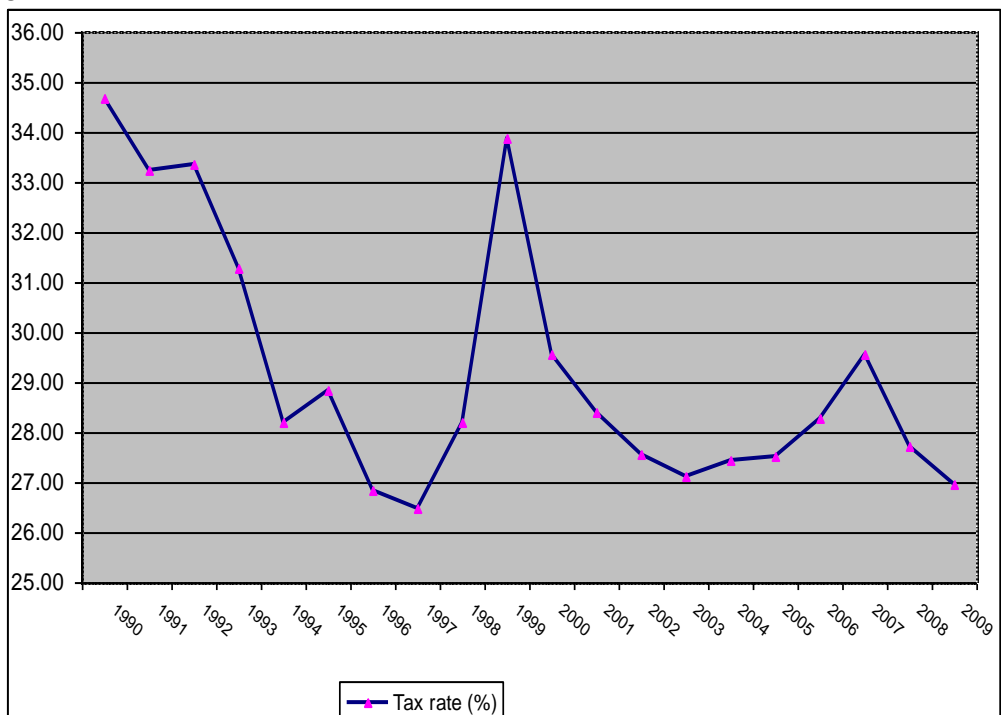
1991	73.3	220.39	2.951	24.84	74.68	24.84	74.68
1992	201.2	602.92	3	67.07	200.97	22.73	68.10
1993	626.6	2003.57	3.274	191.39	611.96	21.62	69.13
1994	1404.2	4977.32	2.391	587.29	2081.69	20.26	71.82
1995	2080.3	7213.55	1.353	1537.55	5331.52	22.19	76.93
1996	2924.8	10891.96	1.453	2012.94	7496.19	21.47	79.95
1997	6701.4	25293	2.473	2709.83	10227.66	19.89	75.07
1998	10541.6	37379.82	1.552	6792.27	24084.94	20.16	71.48
1999	18493.7	54573	1.478	12512.65	36923.55	23.93	70.61
2000	23748.7	80377	1.443	16457.87	55701.32	21.29	72.07
2001	33145.5	116768.7	1.374	24123.36	84984.50	21.63	76.20
2002	41739	151475	1.234	33824.15	122751.22	22.07	80.11
2003	53564.9	197600	1.194	44861.73	165494.14	23.72	87.52
2004	67624	246372	1.158	58397.24	212756.48	25.87	94.23
2005	79032.3	287186	1.114	70944.61	257797.13	27.14	98.60
2006	96773.8	342418	1.082	89439.74	316467.65	30.71	108.66
2007	115208.8	389800	1.048	109932.06	371946.56	34.88	118.03
2008	142464.2	513950	1.085	131303.41	473686.64	39.76	143.43
2009**	136196.3	505503	1.055	129096.02	479149.76	36.03	133.72

Source: own processing of the data from the Statistical Yearbook

* This category includes taxes and social security contributions

** Provisional values

Figure no. 2 Development of the national fiscal pressure in the period 1990-2009



Source: own processing of the data from the Statistical Yearbook

As it is seen from Table no. 1 and in the graphical representation of the Figure no. 1, immediately after the December, 1989, the fiscal pressure was 34.69%. During 1994-2009, the fiscal pressure decreased, being an average value within 26-29%. The rate fluctuations were caused by frequent changes in the level of taxation. In 1997, this indicator was the minimum value 26.50% and in 1999 this indicator reached the maximum level of 33.89%, over the years in 1991.

To calculate the amount of taxes and contributions collected we used the information presented in the general consolidated budget.

Basically, the reported period 1990-2009, the fiscal pressure has decreased by 6%.

➤ The fiscal pressure at the business level

For the businesses taxpayers, the taxes which they are paid to the state are perceived as elements of fiscal pressure, the more pronounced, with both made their share in the value added is higher. So,

$$R_f = \frac{I_f}{V_{af}} * 100 \quad \text{where} \quad (3)$$

R_f – the fiscal pressure rate to the company;

I_f – all other charges payable by the operator;

V_{af} – the value added by the company.

The higher quantified taxes in the numerator are calculated according to rates, the higher total amount of taxes will be, which will pass the size given tax rate, to the operator.

➤ The individual fiscal pressure

In addition to the fiscal pressure measured at the national and traders, to estimate and the individual fiscal pressure felt the psychological aspect, which measures the threshold of tolerance to the taxes. It is defined as the ratio between total tax levies incurred by the taxpayer (individual) and the amount of gross income derived by them (income before tax)

At this level, the fiscal pressure is very difficult to quantify, as long as it remains locked into some random elements, such as diversity of abstraction, often occult nature of the incorporation of taxes in prices, the volume of public services that benefit the taxpayer, tax progressives action, etc.

However, beyond these mathematical estimates, the individual fiscal pressure should be examined in terms of purchasing power of net income to see how, after taxes they can satisfy the subsistence needs, savings and leisure.

4. FACTORS OF INFLUENCE AND THE EFFECTS OF RISING THE FISCAL PRESSURE

The size of the fiscal pressure rate is influenced by many factors, of which we mention [4]:

- Level of economic development;
- Structure and forms of ownership;
- Public needs set by government policy, the level of public expenditure;

- Effectiveness of public expenditure is used, financed by taxes;
- The degree of adherence of the population in the government policy and the level of willingness to pay taxes;
- State of democracy.

In view of many experts, the main cause of increasing fiscal pressure is the continuous growth of public spending, whose evolution is subject to certain "legitimate" economic, social and political.

In connection with the option for government borrowing to finance public expenditure growth in the short term it may be seen as a factor in reducing or maintaining the level of the fiscal pressure. In the long term, however, government borrowing through debt service, representing a growth factor of public expenditure, with repercussions on the level of future fiscal pressure. In the literature, therefore, the public loans are called (and is) "tax deferred".

In cases of exceeding of the optimal rate of fiscal pressure in specific socio-economic, there are some negative phenomena, such as: weakening of productive effort, fraud and tax evasion and the underground economy, the risk of inflation through taxation, reducing competitiveness national, etc.

a) Decreased production effort. The liberal economists have noted the effects of discouraging, that high levels of taxes have on work, saving and investment. Thus, in terms of incitement to work, increasing the fiscal pressure leads to two types of adverse effects: the substitution effect (reduced working time of employee salary reduction resulting from tax) and income effect, (submission of additional work in order to offset the loss of net income due to higher taxes).

b) The risk of inflation through taxation comes from the fact that any increase in taxes and social contributions they tend to pass on the process of quantification of prices and wages, thus fuelling inflation. The explanation lays in the attempt, on the one hand, the firms included in their selling price plus tax and social contributions that support and, on the other hand, employees attempt to recover the form of higher salaries, decreased purchasing power due to taxes.

c) The shadow economy is a phenomenon by which various forms of activity have the characteristic avoiding paying taxes. Extent is closely linked to the high level of taxation, being a particular aspect, the fraud and tax evasion.

Thus, the "black", labour practiced allows the employee to obtain unreported income (main or supplementary) and the employer to evade payment of taxes and social charges (related to undeclared work).

d) Reduce international competitiveness. Any increase in mandatory levies borne by businesses, is reflected in the price level of their products, diminishing the ability of self-financing, investment and modernization, which reflected negatively on the competitiveness of that enterprise, the relations with the outside. Increasing the fiscal pressure beyond the threshold deemed acceptable, may on the one hand, to face resistance from increasingly powerful and secondly, to create a great handicap local traders in front of an international competition, in which increasingly active, more and more aggressive.

5.CONCLUSIONS

- The level of the fiscal pressure is given by the fiscal policy fostered by the financial and economic levers, but the taxes and uncertain-tax system. During the transition to a market economy, our country has reached stable tax legislation. Changing the level of tax rates and the emergence of the new taxes, leading to different forms of the fiscal pressure and it presents some limits.

- Limits of the fiscal pressure are psychological and political boundaries, economic boundaries and awareness of compensation induced by the fiscal pressure;

- The fiscal pressure is very difficult to quantify, as long as it remains locked into some random elements, such as diversity of abstraction, often occult nature of the incorporation of taxes in prices, the volume of public services that benefit the taxpayer, the action of the progressives' tax. Also, we cannot say that there is a maximum level; the tax ceiling is floating, because the fiscal pressure is more than a perception, which varies according to economic circumstances, political and psychological.

- Analyzing the fiscal pressure rate in the period 1990-2009, based on revenues collected, we found that it fell to the first months of 1989 by 6%, so in 1997 this indicator was the minimum value 26.50%, and in 1999, this indicator reaches the maximum level of 33.89%, over the years in 1991.

Romania joined the EU, with the lowest income tax individuals (16%, while the European average was 38.7%), but also with the lowest share of GDP budget revenue - 28.26 %, including the social contributions. The "neighbourhood" was still only Slovakia / Bulgaria 19% / 24%, and at considerable distance, the Nordic states: Denmark / 59%, Sweden / 56.55%, Netherlands / 52%, Finland / 50.46% - and Belgium, with 50%.

When the level of taxation is determined using the tax revenue actually collected, the low level of it could be explained by poor collection of taxes and a high level of avoiding the tax, which can be added, many tax facilities granted over the time.

The tax rate lying below 30% of overall GDP in Romania, can not speak of an excessive tax. Moreover, the trend that is evident today, at national level is to reduce the level of taxation. Should, however, noted that the level of taxation, was determined based on the tax revenue actually collected and not those due, respectively the tax revenues stolen to the consolidated budget tax are not considered, these are impossible to commensurate to the real their level.

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