

Analysis of the Role of Direct Taxes Administered by the National Agency for Fiscal Administration in the Formation of Public Financial Funds in Romania

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Abstract

Direct taxation is characterized by the differentiation of the tax burden according to the size of income and/or wealth and the personal situation of each payer, with direct influence in the degree of their collection. In the case of Romania, the share of the tax revenues administered by the National Agency for fiscal Administration, derived from the collection of direct taxes in the formation of public financial funds, has been decreasing in the last 10 years, because of reduction of the income tax rate from 16% to 10%, the transfer of the tax burden of compulsory social contributions obligations due from the employer to the employee. The last quarter of each year shows increases in the collection rate compared to the other annual quarters. The purpose of this paper defines the influence that economic developments, social decisions and fiscal policy, have on the collection of direct taxes.

Key words: direct taxes, public financial funds, budget implementation, tax collection

J.E.L. classification: G32, H11, H21

1. Introduction

Economic efficiency is the ultimate goal and aim of any market economy. The State, through its institutions using various financial means, aims at maximising the collection of budget revenues and making budgetary expenditure more efficient for economic development. The public financial funds of a country are generally represented by revenues from various financial channels. It is known that any country's resources are limited and demand is steadily increasing. Financial resources are the sum of the money necessary to achieve economic and social objectives over a certain period of time. The literature presents several criteria for classifying public resources, but the main ones are the regularity of the collection from the national public budget, the origin of the resources, but also according to economic criteria.

When making public resources, a major proportion is the collection of taxes and duties due by taxpayers as a result of their activities.

The present paper aims to analyze the impact of fiscal policy measures in the field of direct taxation on the formation of public financial funds supported by the national Agency for Fiscal Administration. Quarterly and annual data on 10-year revenue collection were used to capture the share of direct taxes in national public resources.

Thus at national level, looking at the budgetary execution over the period 2010-2019, in terms of direct tax collection, although in the last quarter there is an increase from the other annual quarters, the overall year-on-year trend is decreasing.

The explanation would be given by economic developments, as well as by fiscal policy decisions adopted, by: Increase of minimum wage, reduction of income tax rate from 16% to 10%, transfer of tax burden of compulsory social security contributions due from the employer to the employee, In the case of wages and similar salaries, implement framework law 153/2017 on the

remuneration of public paid staff, the increase in the value of the pension point (etc.).

2. Literature review

Tax governance is the organizational complex of revenue collection agencies of a country (Bonney R., 1999, p.282).

Tax authorities are sufficiently responsible for covering expenditure and at the same time ensuring that all taxpayers contribute to the establishment of funds, regardless of the nature of the income obtained, in accordance with the provisions of the Tax Code.

The tax is a form of collecting a part of the income or wealth of natural persons and legal persons at the disposal of the State, in order to cover public expenditure. This levy is compulsory, non-repayable and without immediate consideration from the State (Culcear G., 2018, p.91). Plastic Kinshuk J (2019, p.25) defines the notion of tax as: *"the blood of the life of any government, but it must be emphasized that blood is taken from the arteries of taxpayers and therefore transfusion must be carried out with the principles of justice and fair play."*

The role of taxes is manifested through the measures the State takes to intervene in economic activity. For this purpose, taxes can be used as an instrument to stimulate or to curb a particular activity, to increase or reduce the production or consumption of a given product, to stimulate or to restrict foreign trade.

The economic theory States that different taxes have different growth effects and that, for economic growth, fiscal progressivity is bad. (Widmalm F., 2001, p.212)

Taxation requires that all natural and legal persons, irrespective of their place of residence or their place of establishment, are not in existence, Differences in tax treatment between areas of the country must do the same for all economic activities, irrespective of the legal form in which they are organized: Individual producers or large enterprises or small aspects which give effect to tax neutrality. (Şaguna D, 2003,p.62).

Although this method of taxation was practiced in feudal and early capitalist schemes, it was nevertheless replaced by a percentage charge, since lower wealth taxpayers felt more strongly the mandatory levy than the one with higher wealth.

Proportionate percentage rate imposition maintains the same proportion between the size of income (wealth) and the amount of tax due.

Different criteria are used to analyze the effects of taxation on public financial resources, but the most widely used criterion is the legal and administrative characteristics, against which taxes are divided into direct and indirect taxes.

"Direct taxes are set on taxable matter, charged to a taxpayer and are deemed to generate both advantages and disadvantages".(Dobrotă G., 2010, p.202).

Direct taxation was considered to respond better to the principle of equality before the laws. (Văcarel I., 2007, p. 2)

Direct tax is a tax that is paid by a person or organization to the imposing entity, or more specifically, direct tax is the tax that is paid by the taxpayer to the Government. These taxpayers include both natural persons as legal persons, firms. It is also directly imposed by the government and cannot be transferred to pay to another entity.

The impact of direct taxes on growth has been shown to be significant because direct taxes are more cost-effective for EU countries. (Bâzgan R, 2018, p. 2)

Direct taxes have evolved with the evolution of goods production, of the company in general and of public finances in particular. From the system of taxation on material objects or activities (real taxes), from the early history of public finances, the most common forms of direct taxation known today are those on income and wealth taxes (personal taxes), etc.

The size, type and number of tax and tax borne by taxpayers differ in history, being determined by each individual State

"Instead of the actual taxes prevailing in the Middle Ages, as in the early stages of the modern era, personal taxes were imposed. Based on income and profits, assets and movements thereof, or assets, personal taxes made it possible to distinguish the tax burden, depending not only on the nature and size of the taxable matter, But also the civil status of the taxpayer – natural person – and

the legal form of company organization." (Vacarel I., 2007, p.1)

The differentiation of the tax system in relation to the form of ownership has since 1990 been the replacement of the payments from the benefit to the tax on the benefit of the economic units

As opposed to indirect taxes, direct taxes constitute secure revenues for the State, known in advance and which the state can rely on at certain intervals, is calculated and levied relatively easily, meeting tax justice objectives, because the minimum income is exempt

Direct tax benefits (Ban, 2019, p.31)

-gives inflation: The government will often raise the tax when there is inflation. It reduces demand for goods and services and, as a result of falling demand, inflation is forced to compress.

Social and economic balance: Based on individual earnings and the overall economic situation, the government has well-defined tax plates and exemptions at its disposal so that income inequalities can be balanced.

-certainty: There is a sense of certainty about direct taxes on the part of the taxpayer and the government, because everyone knows how much to pay and how much to expect to collect.

-productivity: Direct taxes are considered to be highly productive, as the working population and the Community grow, as are the returns on direct taxation.

-create an equal distribution of wealth: The money is distributed equally, as the Government collects more taxes from those who can afford it, and this money is used for the benefit of the lower and poorer sections of society.

The advantages of direct taxation include the stable tax return, their elasticity (depends mainly on the objectives pursued by the legislator), the assurance of a tax in relation to the size of the income obtained or the wealth held.(Dobrota G., 2010, p. 203)

Besides the advantages, direct taxation has a number of disadvantages synthesized by the fact that it is not pleasant for taxpayers, it is estimated that the governments of the states would not have an interest in becoming unpopular by increasing these taxes and could lead to abuses in the area of tax settlement and collection.

These taxes also have other shortcomings such as the existence of wide possibilities for tax evasion, the lack of uniformity in the determination of taxes, the way in which tax is levied cannot be taken into account, in taxation activity only a part of the taxable matter.

The main disadvantages are the time lag between the moment of the tax liability and the moment of collection, the tendency to evade taxation, particularly in situations where the tax burden is increased, Existence of branches or professions in which the assessment of the income obtained is difficult. (Dobrota G., 2010, p. 203)

However, the European Commission has stated under the priority category that: "*tax should be designed to be more growth-friendly, for example by shifting the tax burden from labor to tax bases related to consumption, property and pollution*". (European Commission, 2013, p.9)

In the case of actual direct taxes on taxation, no account is taken of the net product (income) obtained by the taxable subject, but only the estimated gross or average product, which puts small producers at a disadvantage and benefits those who earn more than average income.

As a result, direct taxes were often regressive.

Personal direct taxes, remove unjustified shortcomings in the case of actual taxes and take into account the personal situation of the taxpayer. At the same time, they allowed the taxable minimum, i.e. the tax exemption of the taxable matter produced up to a certain level considered sufficient to ensure a decent standard of living.

Income tax provides almost the same welfare/social weight for people with income above a certain level, Including both billionaires and employees with close income. (Murty S.,2019, p.30)

Among the real taxes, the most widespread, which international financial practice knows, are taxes having as object of taxation land, buildings, non-agricultural economic activities and the movement of money capital.

The characteristic of real taxes is that they are established on the basis of external criteria which give a certain picture of the taxable matter, but not of the economic power of the subject.

From 1 January 2012, Another/new tax code has been implemented in our country, after nearly sixty years the Regulation of taxes and duties has been established by various regulatory acts (Minea M, 2013, p. 71)

Starting with 2016, the first tax code to legislate direct taxes in our country was replaced by the tax Code in force (Law no. 227/2015). The tax code reflects the legal framework for the settlement, establishment and collection of taxes and duties, irrespective of the budget charged, and also includes tax legislation on direct taxes from which the financial funds are formed: The income tax, the income tax, the income tax on the incomes of micro enterprises, the tax on the income of non-residents in Romania. The tax and tax administration framework is provided by the Code of tax procedure. The drafting and adoption of the law on the tax Code avoids the multitude of tax regulations, contradictions between various provisions, the rules of taxation are simplified, the related and unified approach of taxes and duties is ensured. The commendable initiative to bring all tax regulations into a single piece of legislation to ensure stability and certainty on tax liabilities.

3. Research methodology

In this paper, both quantitative and qualitative methods were used based on statistical values reported by the competent institutions.

4. Results. The share of direct taxes in the formation of public financial funds in Romania in the period 2010-2019

In Romania, according to the tax Code (Law No 227/2015), direct taxes include:

-Profit tax

The activity carried out by an economic operator is directed toward making profits. The state, under its right to impose taxes to procure its resources, taxes this profit.

-Micro-enterprise income tax

In order to ensure higher revenues to the State budget and to provide a simple record of operations carried out by certain economic operators which have a reduced activity in value terms, The tax on income of micro-enterprises was introduced by the Finance Ministry.

-Dividend tax

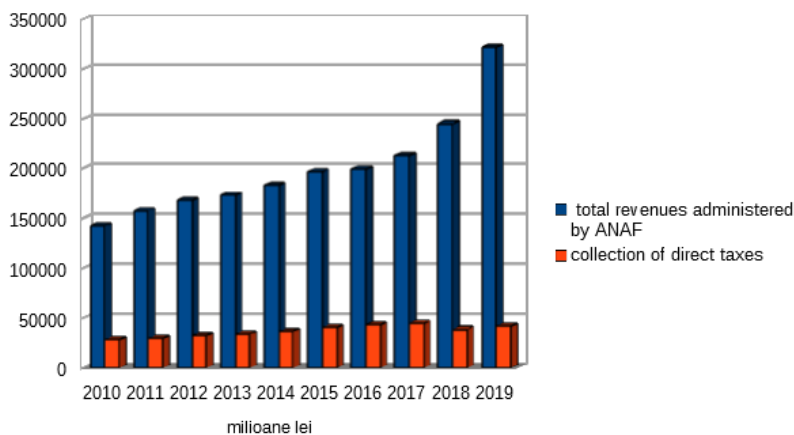
The dividend represents a share of the profits of the company in share capital, which is due to an associate in proportion to the number and value of the shares held.

-Individual income tax

Under the category of taxpayers' income tax on individuals, the legislator sought to include all resident natural persons (Romanian or foreign) who, under certain conditions, carry out, Income on the territory of Romania and/or abroad.

Analyzing over a period of 10 years (2010-2019) the evolution of the collection of direct taxes administered by the national Agency for Fiscal Administration, the trend is decreasing from 19.64% in total revenues administered by ANAF in 2010 (lei 142.323 Mil). It amounts to only 12,91% in 2019 when the total income administered by ANAF was lei 321.121 Mil.

Figure no. 1 Degree of direct tax collection administered by ANAF



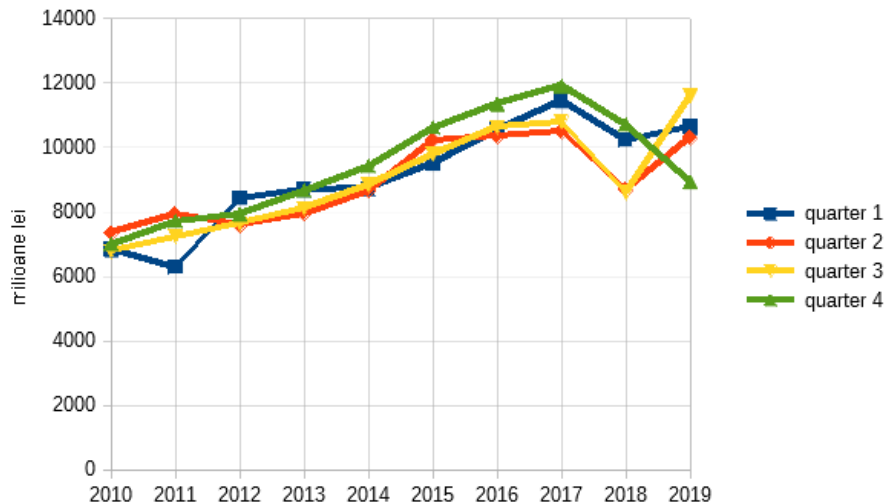
Source: Own statistical data collected from annual final budget implementation reports, fiscal statistical bulletins - Ministry of Public Finance

If by 2017 the trend of the collection rate was increasing, from 20178 the collection of direct taxes reached lei 38.197 Mil to total income of lei 244.832 Mil, this means that 15.60% of direct tax collection is accounted for as a percentage of revenue.

In 2019 the situation is even more severe, with the direct tax collection rate (lei 41.460 Mil) in total income administered by ANAF (lei 321.121 Mil) reaching only 12.91%.

The tax authorities have, however, been trying to increase the level of collection, The effects are visible in the last quarter of each fiscal year, according to the quarterly budget execution published by the Ministry of Finance, probably the result of tax inspectors payment incentives but also the seasonality of payment for tax payers in the last part of the fiscal year.

Figure no.2 Quarterly budget execution direct tax revenues



Source: Own statistical data collected from annual final budget implementation reports, fiscal statistical bulletins - Ministry of Public Finance

Overall, this is partly due to changes in taxation in recent years, when regressive measures have been dominated. In 2017, the level of budgetary collection of direct income tax was shown to be below-estimated of the budgetary impact of the change in the micro-enterprise regime (raising the threshold up to which a firm is considered a micro-enterprise from euro 100.000 in 2016 to euro 500.000 as from 1 January 2017), given the uncertainty surrounding the behavior of firms which, under certain conditions, could opt either for corporate tax, or for payment of income tax on micro-enterprises. This factor could be added to the major economy-wide wage increases with a potential negative effect on companies' profits, as well as the introduction from 1 January 2017 of specific tax for companies in the tourism and food sectors which have effectively replaced corporate tax, the budgetary impact of this measure is negative.

A number of tax measures have also been adopted with a negative impact on the revenue collected that is, the tax exemption of pensions lower than 2.000 lei and the introduction of a non-taxable ceiling in the amount of 450.000 lei for the income obtained as a result of the transfer of the ownership right.

Against the background of falling revenues in GDP and record economic growth, in 2018 the single tax rate was reduced from 16% to 10%. Various analyzes have shown that the introduction of the single tax during the period of economic growth has led to a rise in the current account deficit, which has fueled some of the engines of the economic crisis and austerity in Romania in the years 2009-2011 (Voinea L., 2009).

According to the tax Council (Tax Council Report 2019, p. 57), the reduction had a significant negative impact on income tax revenues, which decreased by 41,7 percent. It is essential to recall that "this development is more than the impact of the reduction in the rate (-37.5 percent) because the transfer of contributions from employer to employee led to a lower income tax base. The gross wage increase effect as a result of the change in the tax system means that the new rate is equivalent to a higher total contribution of 44,65 percent as compared to the gross wage in 2017.

Secondly, there have been a number of waves of reductions in employers' social security contributions, with their full transfer to the workforce finishing in 2018. The transfer of social contributions from employers to employees took place with the total amount of the contributions changed from 39,35 percent to 37,25 percent, simultaneously with the reduction of the tax rate for income from wages, pensions, self-employment and copyright from 16 percent to 10 percent. The share of taxes and duties in gross wages has increased from 27,5 percent in 2017 to over 40 percent since 2018 (Guga 2019, p. 61). The capital also benefited from tax relief: Exemption was given to capital gains made by non-residents, significant reductions applied to the dividend tax for all shareholders (from 16% to 5%). Deductions for investments in assets, tax exemption for reinvested profit and exemptions for compulsory health contribution payments for persons who derive investment income (dividends, interest) have also been provided. Starting with February 2018, the ceiling of annual income was raised again by which a company is considered a micro enterprise from the lei equivalent of 500.000 euros to 1.000.000 euros, and the companies that make income from consultancy and management, more than 20% of total income is no longer excluded from micro-enterprises.

All these tax measures have only led to a decline in direct tax collection, with the country's financial funds falling.

5. Conclusions

The analysis of direct tax collection proves to be an important source of the formation of the country's financial funds, with an average of 15% of the revenues administered by the national Agency for tax Administration,

For Romania fiscal measures to increase the minimum wage in economy, reducing the income tax rate from 16 % to 10 %, the transfer of the tax burden of compulsory social security contributions obligations owed by the employer to the employee, they had a negative effect in terms of the collection of direct tax revenues, which led to a reduction in the country's resources.

Legislative possibility since 2017 as regards the purposes of migration for either corporate tax, either the payment of tax on the income of micro-enterprises resulted in reductions in the level of budgetary collection of direct taxes.

The numerous legislative changes have contributed to the reduction of the fund of financial income from the direct tax collection, part of the taxpayers are pursuing legislative loopholes for fraud in the reporting and payment of direct taxes.

At the same time, differentiation of tax by activity (specific tax for firms in the tourism and food sectors) which has practically replaced corporate tax, they have created a negative budgetary impact.

The introduction of the single tax during the period of economic growth, and in particular its fall from 16% to 10% in 2018, has led to an increase in the current account deficit.

Following the transfer of labor contributions, the share of taxes on gross wages has increased to over 40 percent since 2018, this has led to a much lower collection rate of many firms giving up a number of employees to cope with tax debts.

All these shortcomings have been countered by measures to relax investment and tax exemptions for reinvested profit.

Taxation policy as regards the number, size and form of direct tax must be implemented on the basis of the economic situation of the country, as it is a powerful financial instrument, with the potential to serve the economic objectives to be achieved.

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