

Analysis of the Efficiency of Fiscal Revenue Collection in Romania in the Period 2016-2018

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Abstract

Collect the programmed government revenues decisively influences the quality and quantity of public goods and services available to a population. Romania and many countries failed to collect targeted revenue, therefore we consider that an evaluation of the factors which affect revenue collection efficiency is required in order to establish the most appropriate reform measures. Factors such as the personnel's capacity to collect revenue, technology, the tax audit and the laws enforcement effect influence the dimension of the government revenues. The paper aims to highlight the efficiency of fiscal revenue collection in Romania in the period 2016-2018, in the context of the numerous challenges that tax administration goes through, which were generated by the low share of the fiscal revenues in GDP and by the difference between the incomes resulted from the realized taxes and the potential ones.

Key words: governmental revenue, tax collection, tax reform measures.

J.E.L. classification: H11, H21, H61

1. Introduction

Taxation and collection of fiscal revenues are indispensable activities for the existence and functioning of any government. The options regarding the accomplishment of these activities influence the consumption, the savings, but also the volume of the resources allocated to the activity sectors financed from the public budget. According to the European Commission, it is important that taxation is fair, easy and efficient both for state authorities as well as for companies and the population (European Commission, 2015). As noted by Daianu Daniel (2015), the efficiency of tax revenue collection, in Romania, is lower than in most member states of European Union . The problems of the Romanian fiscal administration related to the low index of the efficiency of collecting the most important fiscal revenues are revealed annually by the Fiscal Council. In recent years, steps have been taken to increase the efficiency of collection in order to reduce financial and time costs both for taxpayers, as well as for the administration by simplifying the procedures of using the online reporting service. The Government of Romania (2020) in order to increase the efficiency of collection, aims to improve the legal framework to streamline the activity of the administration and to improve the forecast and reporting of tax revenues.

The analysis of the evolution of the achieved level and the proposed one of fiscal revenues resulted from various categories of taxes, in the period 2016-2018, in Romania, demonstrated that the efficiency of certain tax revenue collection (especially indirect taxes) is low. At the same time, following the important fiscal relaxation operated over the last years, the share of revenues out of the most relevant taxes in GDP decreased.

2. Literature review

Any government wants to be able to collect all the tax revenue it deserves, the issue of improving revenue efficiency is current. Taxation policy is demonstrated by the level of taxation that impacts the collection level of the budget revenues and the tax evasion directly (Moldovan, 2014). Assessing the efficiency of tax revenue collection is quantifiable and extremely useful for policy makers (Das-Gupta et al., 2016). According to Allan Ian (2008), an important tool in improving the efficiency of tax revenue collection is to reduce operational costs by introducing information and communication technology in tax administrations. Improving the administrative acts and procedures used to collect tax revenue increase the efficiency of tax revenue collection (Kaul and Conceição-coord., 2006).

3. Research methodology

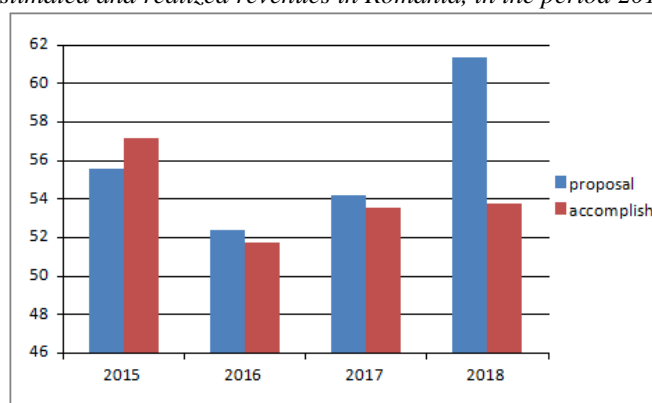
The research was conducted through quantitative and qualitative methods and techniques. Therefore, statistical indicators of dynamics and structure were used in order to process statistical data and the comparative analysis was used in order to generate relevant conclusions for the topic dealt with.

4. Analysis of the efficiency of VAT collection in Romania, in the period 2016-2018

Romania ranked first among the member states of the European Union, in terms of the level of the fiscal gap, as a share of GDP, both in 2016 and in 2017, with a value of 35.5% in 2017 after a decrease of 0.6 percent, according to the report published by the Center for Social and Economic Research in 2019.

The information available on the website of the Ministry of Public Finance regarding the VAT estimated and realized revenues in Romania highlights that the VAT revenues were not realized in the years 2016-2018 (figure no. 1).

Figure no. 1. VAT estimated and realized revenues in Romania, in the period 2015-2018 (billion lei)



Source: based on information available on the website of the Ministry of Public Finance (budget projects and budget executions)

In 2016, the VAT revenues were lower than the initial program by about 660 million lei. The year 2016 marked the implementation of important fiscal relaxation measures, the standard VAT rate decreasing from 24% to 20%, and for certain deliveries of goods and services a reduced VAT rate of 9% or even 5% was applied in some cases. In implementing these measures, the Romanian rulers hoped to reduce tax evasion, following the reduction of the tax burden and to stimulate consumption. The reduction in VAT collection in the budget, generated by the reduction of tax rates, should have been offset by the corresponding increase in tax bases. The VAT revenues collected in December 2016 were approximately 20% lower than those collected in December 2015. The situation was attributed to the postponement of fuel purchases by individuals and legal

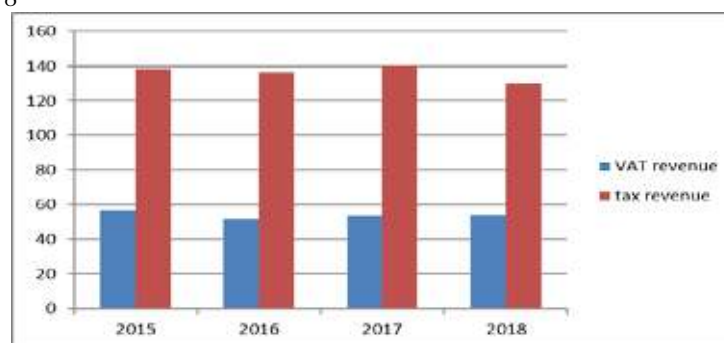
entities who are believed to have expected a reduction in VAT from 20% to 19% and the elimination of the petrol excise tax, measures announced by the new government in early 2017.

In 2017, the Fiscal Council, pointed out that reducing consumption taxation does not improve the internal and external competitiveness of products in the national economy, the VAT rate decreased from 20% to 19%. The unrealized VAT level was about 600 million lei, but according to the opinions expressed by experts, the situation was not going to improve. Analysing the implications of the long-term economic effects of the fiscal relaxation measures in the field of VAT, the Fiscal Council believes that, "the most likely scenario being a temporary increase in aggregate demand, not accompanied by a similar significant impact on the potential for long-term economic growth "(Fiscal Council, 2017, p. 54).

The estimates regarding the VAT receipts, in 2018, were much higher than the level achieved as the VAT receipts were 7.58 billion lei below the level provided in the initial draft budget, given that, as stated in the Fiscal Council report for 2018, "the context in which the relevant macroeconomic basis for this budget aggregate (final consumption of households, excluding the self-consumption component and IFSLSG) registered an increase of 8.7%". Consequently, in 2018 the forecasted level of VAT receipts was slightly overtaken (by 0.2 percentage points).

In nominal terms, the revenues collected from VAT registered a slight increase in the period 2016-2018, after decreasing by about 5.45 billion lei in 2016 compared to 2015 (figure no. 2). The fiscal revenues of the budget decreased in 2018 by approximately 10.19 billion lei in 2018, compared to 2017. Thus, the share of revenues collected from VAT increased in 2016 from approximately 38% to approximately 41% in 2018.

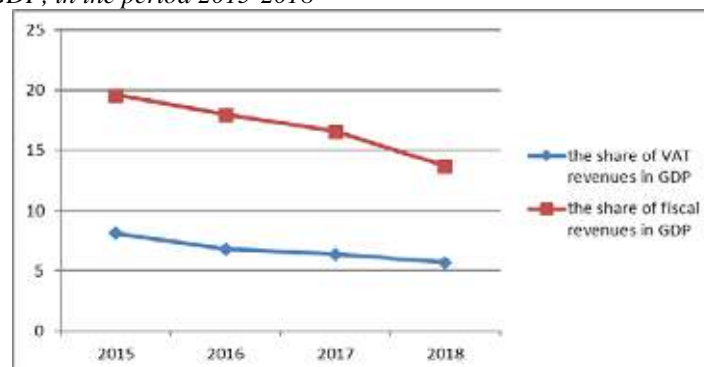
Figure no. 2. The evolution of VAT revenues and fiscal revenues of the general consolidated budget in the period 2015-2018



Source: based on information available on the website of the Ministry of Public Finance (budget execution)

During the entire analyzed period, the share of VAT revenues in GDP registered a decreasing trend (from 8.1% in 2015 to 5.7% in 2018), however, the line is less inclined compared to the decreasing trend of the share of fiscal revenues of the general consolidated budget in GDP.

Figure no. 3. The share of VAT revenues in GDP and the share of fiscal revenues of the general budget consolidated in GDP, in the period 2015-2018



Source: based on information available on the website of the Ministry of Public Finance (budget execution)

Assessing the efficiency of VAT revenue collection through the ratio between the default tax rate and the weighted average tax rate, shows that during the period 2016-2018 there were no significant increases in revenue to indicate an improvement in collection. In 2018, Romania occupied the penultimate position in the group of the new EU member states from Central and Eastern Europe in a ranking made by the Fiscal Council (table no. 1).

Table no. 1 Efficiency of taxation - VAT

The country	Weighted average VAT rate%			Default tax rate%			Tax efficiency index			Position		
	2016	2017	2018	2016	2017	2018	2016	2017	2018	2016	2017	2018
BG	17,0	17,0	16,9	15,1	14,9	15,0	0,89	0,88	0,89	3	4	4
CZ	18,8	18,8	18,8	15,8	16,2	16,1	0,84	0,86	0,86	5	5	5
EE	18,6	18,6	18,60	17,7	18,1	18,2	0,95	0,97	0,98	1	1	3
LV	19,5	19,5	19,3	13,5	13,4	14,1	0,69	0,69	0,73	9	9	8
LT	19,2	19,3	19,2	12,2	12,5	12,5	0,63	0,65	0,65	10	10	10
HU	21,8	20,7	19,9	18,7	19,1	20,0	0,86	0,92	1	4	3	2
PL	17,1	17,3	17,1	12,4	13,3	14,0	0,72	0,77	0,82	6	6	6
RO	14,6	14,1	14,5	10,3	9,9	10,2	0,71	0,70	0,70	8	8	9
SL	16,4	16,3	15,9	15,4	15,6	16,1	0,94	0,96	1,02	2	2	1
SK	17,1	17,1	17,3	12,2	12,7	12,9	0,71	0,74	0,75	7	7	7

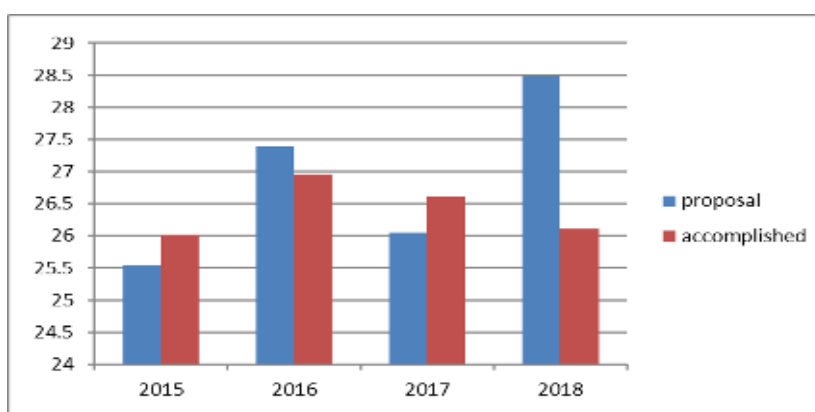
Source: Fiscal Council Annual Report, 2019

In connection with this position, it should be noted that Romania recorded the lowest weighted average VAT rate (14.5% in 2018). On the other hand, the report of the Fiscal Council for 2017 mentioned that this ranking is not fully relevant, because the high share of self-consumption in the rural population expenditures (which represents about 40% of the total population) and non-taxation of products capitalized by agricultural producers influences the value of the fiscal efficiency index. Taking into account the above-mentioned aspects, the Fiscal Council states that the results obtained regarding the efficiency of the collection could be 7% - 10% higher than those presented in table no. 4. Even in these conditions, our country would be in the second half of the aforementioned ranking.

5. Analysis of the efficiency of excise collection in Romania, in the period 2016-2018

For Romania's general consolidated budget, excise duties represent the second tax with a significant impact on tax revenues (after value added tax), with a weight of about 20%. The collection of excise duties registered a negative performance, materialized in achievements lower than the estimates, in 2016 and 2018 (figure no. 4).

Figure no. 4. Estimated and realized revenues from excise duties in Romania, in the period 2015-2018 (billion lei)



Source: based on information available on the website of the Ministry of Public Finance (budget projects and budget executions)

In 2016, the revenues collected from excise duties amounted to 26.96 billion lei (3.54% of GDP), representing about 98% of the estimates taken into account in substantiating the draft budget. The non-collection of all estimated excise revenues was due to the fiscal policy adopted by the companies, in the context of the announcement by the new government on the reduction of excise duties on energy products starting with January 1, 2017. Thus, both the reduction of the excise duty for alcoholic beverages by 30%, from about 1000 euro / hl pure alcohol to approximately 700 euro / hl pure alcohol, and the elimination from the taxation sphere of the category "other excisable products (coffee and luxury products)" would be offset by an increase in the level of excise duty on tobacco products by 4.5% and the introduction of non-harmonized excise duties on electronic cigarettes and heated tobacco products in the field of taxation. The efficiency of excise collection in 2016 can be considered low.

In 2017, against the background of the increase of excise duties for gasoline and diesel and the significant advance of the relevant macroeconomic basis the excise revenues exceeded by about 553 million lei the estimated level taken into account when substantiating the draft budget.

The performance of excise revenues deteriorated significantly during 2018, but the Fiscal Council appreciated that the much lower level of excise revenues compared to the revenue plan is also explained by the exaggerated optimism of the Ministry of Public Finance which aimed at a considerable increase in revenues due to the reintroduction of excise duty on fuels in September and October 2017.

During the analyzed period, the share of excise duties in tax revenues increased, the trend being reversed compared to the share of excise revenues in GDP (figure no. 5).

Figure no. 5. The share of excise revenues in the fiscal revenues of the general consolidated budget and the share of excise revenues in GDP, in the period 2015-2018



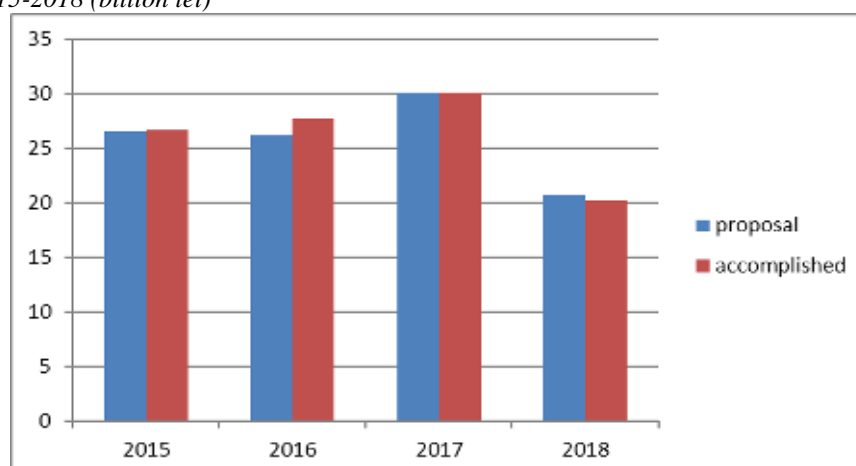
Source: based on information available on the website of the Ministry of Public Finance (budget execution)

In the context of the significant GDP growth in the period 2016-2018, mainly due to the increase in consumption, this evolution is an additional proof of the existing problems in the field of excise revenue collection.

6. Analysis of the efficiency of collecting the salary and income tax in Romania, in the period 2016-2018

The objectives of the Romanian fiscal policy, in the period 2016-2018, aimed at reducing the tax burden of taxpayers and increasing the net income, the tax rates of salaries and incomes being used as fiscal levers to achieve these objectives. During the analyzed period, the efficiency of collecting income from payroll and income taxes was higher than that observed in the case of the main indirect taxes (figure no. 6).

Figure no. 6. Estimated and realized revenues from taxes on salaries and incomes in Romania, in the period 2015-2018 (billion lei)



Source: based on information available on the website of the Ministry of Public Finance (budget projects and budget executions)

In 2016, the level of income from taxes on salaries and income exceeded the initially scheduled level, due to the increase of 12.8% of the average gross salary in the economy, being much higher than the initial estimate of + 7.2% (Fiscal Council, 2017). However, despite the favorable economic context (characterized by increasing the number of jobs and increasing the average gross salary in the economy), revenues from taxes on salaries and revenues in 2016 compared to 2015 increased very little, amid the implementation of fiscal policy measures that affected this category of budget revenues: decrease of the dividend tax rate to 5%, from 10%, the increase of the personal deductions benefited by the employees who realize gross incomes below the threshold of 3,000 lei, increasing the quotas of flat-rate expenses from 25% to 40% for disposable income and the increase of the monthly non-taxable amount taken into account when establishing the monthly taxable income from pensions.

In 2017, receipts from payroll and income taxes increased, but the dynamics of these receipts was lower than the dynamics of the relevant tax base: gross salaries from national accounts, from which the social contributions paid by employees were deducted.

In 2018, the receipts from payroll and income taxes registered a significant decrease (about 10 percentage points), amid the reduction of the tax calculation base and the decrease of the tax rate from 16% to 10%.

Compared to other countries in the group of new EU Member States in Central and Eastern Europe, the efficiency of taxation in the field of income is higher, but during the periods 2016-2018, the efficiency index of taxation has worsened (table no. 2).

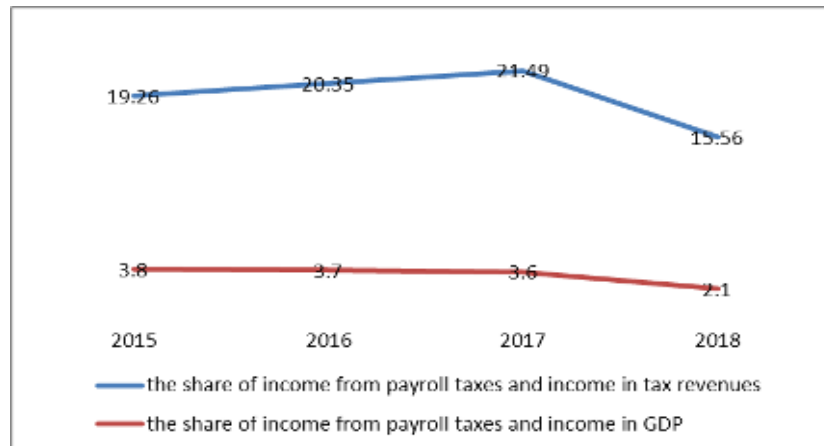
Table no. 2 Tax efficiency - income tax

The country	Legal income tax rate%			Default tax rate %			Taxation efficiency index			Position		
	2016	2017	2018	2016	2017	2018	2016	2017	2018	2016	2017	2018
BG	10,0	10,0	10,0	9,0	9,4	9,3	0,90	0,94	0,93	2	2	2
CZ	15,0	15,0	15,0	9,5	9,7	10,1	0,63	0,65	0,67	7	7	6
EE	20,0	20,0	20,0	16,8	16,4	15,3	0,84	0,82	0,76	4	3	4
LV	23,0	23,0	23,0	16,8	17,9	14,3	0,73	0,78	0,62	6	5	8
LT	15,0	15,0	15,0	11,7	11,3	11,9	0,78	0,75	0,79	5	6	3
HU	15,0	15,0	15,0	15,7	15,6	15,2	1,05	1,04	1,01	1	1	1
PL	25,0	25,0	25,0	15,5	15,7	16,1	0,62	0,63	0,64	8	8	7
RO	16,0	16,0	10,0	13,7	13,0	7,0	0,85	0,81	0,70	3	4	5
SL	27,0	27,0	27,0	14,2	13,9	14,2	0,52	0,51	0,52	10	10	10
SK	22,0	22,0	22,0	12,4	12,3	12,7	0,56	0,56	0,58	9	9	9

Source: Fiscal Council Annual Report, 2019

The share of revenues from salaries and taxes on revenues from the revenues of the general consolidated budget, as well as the share of revenues from taxes on salaries and revenues from GDP, in the period 2015-2018, decreased (figure no. 7).

Figure no. 7. The share of income from payroll and income taxes in the fiscal revenues of the general consolidated budget and the share of income from taxes on salaries and incomes in GDP, in the period 2015-2018



Source: based on information available on the website of the Ministry of Public Finance (budget execution)

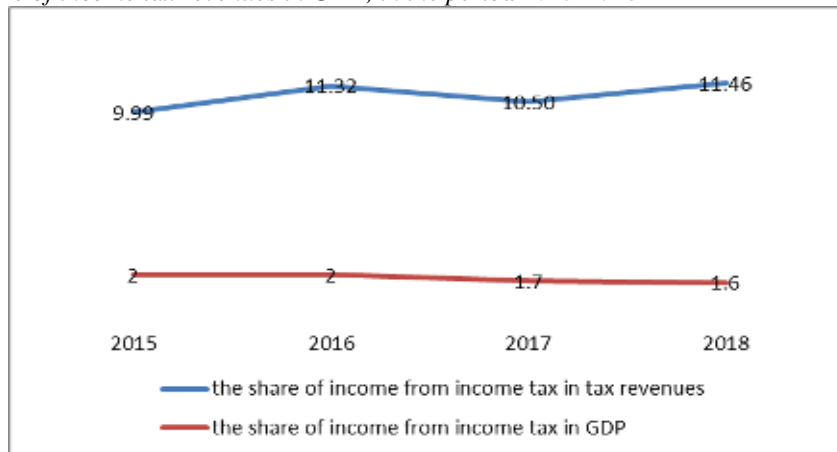
Decreasing the share of income from taxes on wages and incomes in GDP, in the context of the significant advance of economic activities, accompanied by the accelerated growth of individuals' incomes, correlated with the accentuation of the budget deficit demonstrates the deficiencies of the Romanian state in the efficient administration of the fiscal policy measures.

7. Analysis of the efficiency of profit tax collection in Romania, in the period 2016-2018

In the period 2015-2018, extensive legislative changes were made regarding the income tax regime of Romanian companies. Income tax rate obtained by small and medium enterprises (3% in 2015) was differentiated according to the number of employees. In 2016, the tax rate was applied as follows: 3% for companies without employees, 2% for companies with 1 employee and 1% for companies with at least 2 employees. In 2017, the number of tax rates was reduced to two: 1% for companies with employees and 3% for those without employees. Conditions related to the necessary capital small and medium enterprises in order to exercise the option regarding the payment of the income tax or the profit tax, they changed from the equivalent of 25,000 euros in 2015 and 2016 to 45,000 lei starting with 2017. At the same time, starting with January 1, 2017, the companies that carried out activities in the tourism sector, restaurants and public catering and were taxpayers of income tax became payers of a specific tax, having the characteristics of a flat tax. The income ceiling that a small and medium-sized enterprise should not exceed, in order to maintain the income tax rate, has been increased from 65,000 euros in 2015 to 100,000 euros in 2016, in 2017 it was 500,000 euros, and in 2018 it became 1,000,000 euros.

The major changes in the income tax regime of Romanian companies have also had important consequences on the receipts of the consolidated general budget. The share of income tax revenues in GDP decreased steadily in the period 2015-2018 (figure no. 8), due to the extension of the scope of income tax to micro-enterprises to the detriment of corporate income tax.

Figure no. 8. The share of income tax revenues in the fiscal revenues of the general consolidated budget and the share of income tax revenues in GDP, in the period 2015-2018

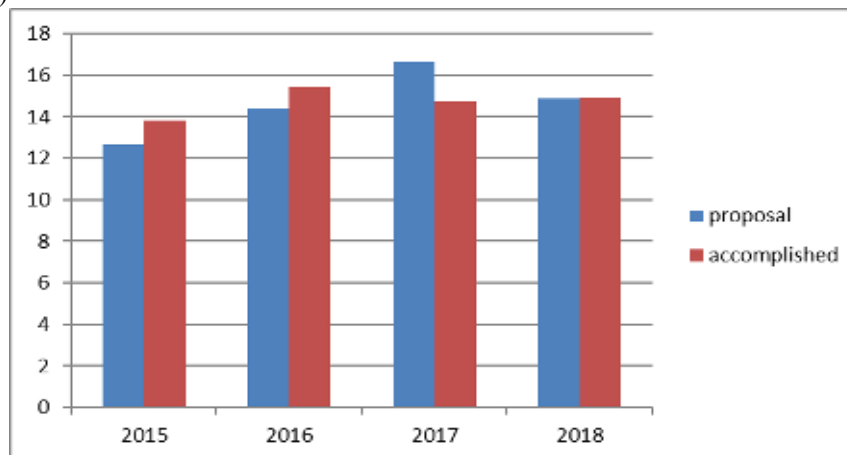


Source: based on information available on the website of the Ministry of Public Finance (budget execution)

The share of income tax revenues in the fiscal revenues of the general consolidated budget has increased, amid the increase in corporate tax revenues. According to the report of the Fiscal Council for 2016 "this development can be explained by the high elasticity of this budget aggregate according to the macroeconomic basis, respectively the gross operating surplus."

With the exception of 2017, corporate tax revenues were higher than the initial estimates (figure no. 9).

Figure no. 9. Estimated and realized revenues from the profit tax in Romania, in the period 2015-2018 (billion lei)



Source: based on information available on the website of the Ministry of Public Finance (budget projects and budget executions)

According to the opinions expressed by the representatives of the Fiscal Council, favourable evolution of income tax revenues compared to estimates was determined by the increase of the profit tax paid by the commercial banks. Dynamics of income tax revenues paid by non-financial corporations was below nominal GDP dynamics (relevant macroeconomic basis), which indicates poor collection efficiency.

In the period 2016-2018, in terms of income tax revenues, Romania is in the second half of the ranking in the group of new EU member states in Central and Eastern Europe (table no. 3).

Table no. 3 Tax efficiency - profit tax

The country	Standard income tax rate			Default tax rate %			Taxation efficiency index			Position		
	2016	2017	2018	2016	2017	2018	2016	2017	2018	2016	2017	2018
BG	10,0	10,0	10,0	4,6	5,1	5,1	0,46	0,51	0,51	1	2	1
CZ	19,0	19,0	19,0	7,0	7,1	7,0	0,37	0,38	0,37	2	3	3
EE	20,0	20,0	20,0	4,4	4,0	5,3	0,22	0,20	0,26	10	10	8
LV	15,0	15,0	15,0	4,5	3,7	3,4	0,30	0,27	0,17	5	8	10
LT	15,0	15,0	15,0	3,4	3,5	3,3	0,24	0,22	0,23	8	9	9
HU	19,0	19,0	19,0	6,0	5,2	3,8	0,31	0,58	0,42	4	1	2
PL	19,0	19,0	19,0	4,4	4,7	5,2	0,23	0,25	0,27	9	6	7
RO	16,0	16,0	16,0	4,4	3,9	4,5	0,27	0,24	0,28	6	7	5
SL	17,0	19,0	19,0	4,3	4,8	5,2	0,26	0,25	0,27	7	5	6
SK	22,0	21,0	21,0	7,0	7,2	6,5	0,32	0,34	0,31	3	4	4

Source: Fiscal Council Annual Report, 2019

According to estimates made by the Fiscal Council 'the advance of the tax efficiency index in 2018 was conjectural, it is expected to see a large reduction ".

8. Conclusions

Indirect taxes have a significant share in the formation of tax revenues in Romania. Over 60% of the budget's tax revenue is accounted for by VAT and excise duties. In these circumstances, the authorities should pay particular attention to ensuring a high level of fiscal efficiency for these two budget aggregates. The analysis reveals important deficiencies in the collection of value added tax and excise duties. Reduction of VAT rates from 2016-2017 (materialized by significant decreases in both legal rates and weighted average rates) did not lead to an improvement in collection efficiency and, implicitly, neither to an improvement of the payment compliance, so that Romania registers a very low VAT efficiency index in the field of VAT. In the period 2016-2018, VAT revenues were lower than estimated and the gap increased significantly in 2018. With regard to excise duties, there were no significant increases in revenue indicating an increase in collection efficiency, given the fact that the relevant macroeconomic base had a significant positive momentum.

Low collection efficiency is also a problem in the case of payroll, income and profit taxes. The decrease in tax revenue received from the budget, generated by the fiscal easing measures adopted in the field of personal income taxation, should have been offset by the excess revenue collected by increasing the relevant tax base. Also, the dynamics of income tax revenues paid by non-financial corporations was below the nominal dynamics of GDP (relevant macroeconomic basis). The trend of extending the ceiling applied to income tax paying companies has accentuated the process of shifting taxation from profits to income, and the profit tax significantly lost its importance as a source of income for the Romanian consolidated general budget.

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