# The Impact of Taxation and Crisis on Savings – An Interdisciplinary Approach

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**Abstract**

*The design, organization and functioning of the fiscal system produces a series of changes in the economic, social and political life of any country. The purpose of this paper is to highlight the fact that the tax system can thus be used as an instrument of political decisions, being at the same time the initiator and result of fiscal policy that allows the use of various techniques and mechanisms for tax collection, often for political, social and not least economic purposes.*

*The changes that have taken place in the international security environment over the last decade, especially in its last period, have shifted all the attention of the international community to clarifying a vision that will contribute to strengthening world peace and security, thus reducing conflict any nature, implicitly, to the reduction, until the elimination of the causes that generate them.*

**Key words:** fiscal system, fiscal policy, tax, fiscal burden, economic-financial crises
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## 1. Introduction

The changes that have taken place in the international security environment over the last decade, especially in its last period, have shifted all the attention of the international community to clarifying a vision that will contribute to strengthening world peace and security, thus reducing conflict conditions. any nature, implicitly, to reduce, to eliminate, where possible, the causes that generate them. This vision essentially involves the identification on a global scale of vulnerabilities, possible risks and threats that could lead to the emergence of sources of instability or aggravation of existing ones. An important element is to accompany the process of their identification by analyzes that allow the creation of tools necessary for the practical realization of this vision, so as to obtain a solid state of stability, at different levels (global, regional or national) and to it also prevents the emergence of new sources. It is assumed that this process will gain momentum, both in its spatial and temporal dimensions, involving resources, multiple strategies and diversified actions, in accordance with the nature of the major sources of instability.

The economic and financial crises of the last 15 years have extended to Romania, affecting the saving mechanism of the population, the impact of the fiscal pressure being the main cause that led to the decrease of the saving population. Taxation is a system of contributions imposed by the state on individuals and legal entities in order to ensure the financial resources necessary to meet the needs of society by incurring expenses. The rationality of the fiscal policy decisions implies the observance of the basic principles of taxation and these must be in accordance with the meaning and evolution of the economic variables but also of the behavior of the citizens (Dăianu, D., 2008).

The main objective pursued in carrying out this work is to identify on a global scale the vulnerabilities, the possible risks and threats that could lead to the appearance of some sources of instability or the aggravation of some already existing ones.

Also, the specific objectives of this research are:

1. highlighting the fact that taxation plays a key role in creating a fair society and building a strong economy. Through it, progress can be made towards eliminating inequalities, not only by supporting social mobility, but also by reducing inequalities in market income.
2. fiscal policy can have a major impact on employment decisions, investment levels and the willingness of entrepreneurs to expand their business, all of which lead to stronger economic growth.

   Thus, fiscal policies are assessed in relation to four priorities:
   • stimulating investments;
   • employment support;
   • reducing inequalities;
   • ensuring fiscal compliance.

Covid-19 has had and still has strong effects on the Romanian economy, especially in terms of the necessary response from the authorities, the change in the behavior of some citizens but also the global impact with strong implications both on the consumer side (consumer confidence). ) as well as on the supply side.

One of the characteristics of the global economy is the consumption of the population. It is the factor that pushes many economies forward (USA, Romania), and secondarily others, which provide goods for consumption (Germany, China).

## 2. Literature review

Regarding the application of the fiscal policy, A. Marshall states that almost all types of fiscal policy include both a good and a bad part. Whether evil or good dominates depends on how the policy adapts to the conditions of the economic and financial environment, the foresight, the horizon of ideas and the competence that influences its own development.

The fiscal policy thus represents one of the multiple instruments, through which the structural modeling of the fiscal system is realized and its functionality is ensured, in accordance with the objectives established by the public decision maker (Andrew W. Lo, 2008).

Friedrich A. Mayek in the Constitution of Freedom considered that budget revenues from high levels of taxation of high revenues, especially very high revenues, represent such a small share of total revenues that they hardly affect the burden borne by other taxpayers, but for years, the beneficiaries of progressivity were not the poor, but exclusively the wealthy categories of workers and the less affluent part of the middle class, who gave the largest number of voters.

Fiscal policy has a significant impact on saving and raising capital. An increase in taxation has the effect of reducing savings and capital for investments that will affect future consumption.

As Milton Friedman has argued in both fiscal and monetary policy, leaving aside all political considerations, we simply do not know enough to be able to use deliberate changes in taxation and spending as a sensitive mechanism for stabilization (Desmet C., 2009). Trying to do so would certainly make matters worse or improve things by introducing a random disruptive factor, which simply adds to the other imbalances.

In order to overcome the contradictions that manifest themselves at micro and macrosocial level, the state adopts a series of measures, elaborates policies and strategies, through which it tries to adapt to the new conditions (Blundell-Wignall, A., Atkinson, P. şi Se Hoon Lee, 2008). Measures that have proven viable in the past cannot always be successfully applied to current situations. The economic mechanism is thus called upon to adapt to the conditions of evolution of the national economy, but it cannot change from one day to the next, nevertheless implying a certain stability.

The French economist Gabriel Ardant considers that taxes play a very important role both in influencing economic processes and activities, but especially in terms of the behavior of individuals (Furceri D. and Mourougane A., 2009). He argued that the role of the tax was no longer to provide money to the government, but to limit consumption in times of scarcity, to allow it to grow when production capacity could be directed towards meeting the needs of peace, to curb it again. when the economy is experiencing inflationary spikes (Watt A., 2008). This function of "balancing" the tax does not fulfill itself. In both old and new forms, it is no less one of the most useful tools of full labor policy.

## 3. Research methodology

The working method is that of documentary research in archives, of qualitative and quantitative type. I used the documents archived within the European Commission, the International Monetary Fund and the World Bank. The archive information was supplemented by reading several books and specialized articles, which deal with the topic of research. We also used scientific research papers and interviews with dignitaries involved in Romania's relations with the IMF and the WB in the current period. The statistical information identified in the archive documents was synthesized, analyzed and processed and will be found during the research.

## 4. Findings. The impact of taxation and financial crises on saving and relocating economic activity

This paper proposes an analysis of the causes and consequences of the current financial crisis, with particularization on the case of the Romanian financial system, which has not been unaffected by the negative effects manifested globally. The current crisis is a recognition of the need to reconfigure the global financial system in the light of the following:

a) Financial crises are an inevitable part of modern capitalism, a consequence of the interactions between human behavior and the ability to innovate, compete and evolve. But even if crises cannot be avoided, their negative effects can be significantly reduced by ensuring adequate risks for the right parties, and this goal can be achieved by increasing transparency, especially in the so-called "shadow banking system". banking system "). The government can play a central role in providing this transparency.

b) Before hoping for an effective management of the risks of the financial crisis, we must master the significance of these risks but also the means of their effective measurement. Therefore, in order to issue new regulations, it is necessary to develop a formal definition of systemic risk and to create specific measures that are sufficiently practical and comprehensive to be used by both policy makers and the general public. These measures will require hedge funds and other parts of the shadow banking system to ensure greater transparency to regulators on a confidential basis (eg information on assets under management, indebtedness, liquidity, partners and property rights).

c) The most pressing change in the regulations of the financial system is to provide the public with information on those institutions that have failed in one way or another. This can be achieved by setting up an independent investigative agency to report regularly on the details of registered bankruptcies and to propose measures to avoid the problems presented in the future.

d) For the average citizen, the current financial crisis is a mystery and concepts such as subprime mortgages, CDOs, CDSs and the collapse of the credit market only create more confusion and fear. Therefore, a critical point of any crisis management protocol is the establishment of regular lines of communication with the public, through which to clarify the determinants and consequences of the crisis.

e) It is necessary to develop and implement a new branch of accounting - "risk accounting" - to measure and manage systemic risk on a global scale.

f) All technology-based industries are burdened with the risk of technological innovations that may temporarily outweigh people's ability to use them effectively. Under these conditions, government intervention is needed to support the development of as many educational programs in financial technology as possible in universities.

g) The complexity of financial markets restricts the ability of regulators to keep up with innovations. The new regulations need to be adaptive and focus on financial functions and less on institutions, ensuring greater flexibility and dynamism. An example of adaptive regulation is the requirement to standardize an OTC contract and to establish an organized exchange for the moment when its size exceeds a certain limit.

The democratic state ensures by its simple existence the necessary and general means and mechanisms for the functioning of the economy, guaranteeing through its coercive force with which it is invested by the society. In this sense, "there is a continuous gradation, both in the actions of the business world, between normal and abnormal, between current and market values. There are no differences between short or long periods. More generally, there is no significant difference between the goods.

Economic levers are used by the state to stimulate domestic production of goods and services, or to promote exports through export premiums or, as the case may be, to shape certain actions, whether investment or savings manifested among economic agencies or individuals. physical.

Regarding the impact of taxation on industrial changes, there are two complementary components: labor taxation and invested capital taxation, which directly affect the behavior of economic agents. According to EU statistics, tax revenues account for about 39% of European GDP.

At European level, indirect taxes consist mainly of general consumption taxes (VAT), but also of certain mandatory taxes applied on certain categories of goods and services (excise duties). Indirect taxes generally affect all categories of people, whether natural or legal. If we consider the structure of taxes, the tax levied on the income of employees and the totality of social security contributions constitute approximately half of the total fiscal and parafiscal taxes. The fact that these taxes directly affect and affect the labor force contributes to the increase in labor costs. Knowing that working with capital and nature is an indispensable factor of production for any economic activity, the increase in the costs of its use is directly reflected on the volume of profit but also on the total cost of production and ultimately in price.

The cost of labor is an essential and most important component in industry, and the taxation applied to this factor of production, sometimes too excessive, contributes to diminishing the competitiveness of companies operating in the European economic space. Labor taxation affects both the employer and the employee. Rising labor costs are prompting companies to increase labor productivity by increasing the intensity of capital investment. This trend is particularly evident in the Member States with the highest labor costs. Conversely, the relative cost of labor is one of the variables that encourages companies to locate their labor-intensive investments preferably in the territory of the Member States with the lowest cost. Given that tax and social security contributions tend to be higher in Member States with employee pay levels (including employer social security contributions and taxes) that exceed the European average, the share of taxation on labor increases the cost gap. and thus directs job creation to Member States with a more competitive cost structure.

At the same time, given that the products are valued throughout the community, the cost of labor therefore becomes an important and determining factor in setting the price. Different taxation of labor factors even within the EU causes some companies to relocate their production capacity to countries where the tax burden is lower. States having some freedom in setting tax rates, especially since certain categories of taxes are not harmonized throughout the Community, or in the case of other taxes or duties such as VAT, the law provides only minimum tax rates, leaving the state to set the tax level yourself.

The second important aspect in the investor's decision to relocate his activity is the taxation of the invested capital, which implies both the analysis at the level of the enterprise and at the level of the investor. In this case, it is the corporate income tax that is established using different nominal rates from one Member State to another.

In the specialized literature and fiscal practice, therefore, a series of quotas are distinguished, as follows: The legal tax quota is the legally imposed quota. The actual tax rate is the amount of tax paid by a person or enterprise after including all other reliefs or amounts intended for the State, divided by the total or taxable income of that person or enterprise. The default tax rates are defined for each economic function. These are calculated by relating the overall tax revenue corresponding to the respective category (consumption, labor and capital) to the estimated value of the potential tax base defined on the basis of the production accounts and the income accounts within the national accounts. The overall default capital tax rate is calculated by relating the income from all capital taxes to (in principle) the total capital and income of enterprises.

**5. The impact of taxation on the relocation of industrial economic activity**

Tax competition is currently an important issue for EU Member States. The tax therefore becomes a real competitive instrument, no longer seen only as a lever for intervention in the economy or the classic source of revenue for the public budget. The tax being the one that counterbalances the investment decision in one state or another. Therefore, as a result of some fiscal decisions, tax regimes were created that were far too permissive and permissive for the economic activity in order to divert and relocate some investments in the economy. These are now known as harmful tax regimes which are defined in the Code of Conduct for Business Taxation as "those regimes which affect, or could significantly affect, the location of business activities within the Community". The Code defines as "potentially harmful" those measures which make possible a much lower effective level of taxation, including zero, than the levels generally levied in those Member States.

Taxation can be seen as a factor that does not always determine investment decisions in SMEs, which are often constrained by the environment in which they operate. Taxation plays a much more important role in the case of multinational enterprises that also have a higher mobility and that are not culturally related to the area in which they operate. At the same time, fiscal competition does not only affect enterprises because once the mobility of financial assets, it also targets the capital income of individuals.

The fact that the states do not cooperate in the field of taxation as well as the legislative provisions, most of the time gaps that leave loopholes, water the so-called non-taxation situations. Relevant to this end is the double non-taxation. Such disparities may arise, for example, in the definition by Member States of the concepts of borrowed capital and equity. One Member State may consider a transaction as a contribution to equity rather than a loan, and may therefore consider capital income as non-taxable, while another Member State may consider the loan as borrowed capital, and Accordingly, it may allow the interest-bearing undertaking to deduct the interest paid. This could result in a deduction in one Member State without proper taxation in another Member State. Another sector is that of hybrid entities, ie entities that are considered capital companies (opaque) by some Member States and as partnerships (transparent) by other Member States; this difference in classification within the Member States may lead to double exemptions or double deductions.

Unrestricted intra-Community tax competition risks, on the one hand, increasing the basic tax factors for the least mobile taxable parties - such as small businesses or services that cannot be relocated - and, on the other hand, changing the distribution of the tax burden. between taxpayers and consumers to cover public spending and social transfers. This last aspect would have negative effects on social cohesion.

If there is a transfer of the tax burden on the less mobile production factors such as labor and raw material taxes, there may be a decrease in the competitiveness of enterprises as well as an alarming decrease in their jobs, compared to foreign competitors. , non-EU. All this will affect the percentage of national GDP growth that will suffer as a result of this transfer of tasks, which will translate into a decrease in public investment capacity but also the lack of budgetary resources available to the state to intervene.

A very important aspect is the reduced capitalization, ie the financing of foreign subsidiaries, instead of a capital contribution. From this point of view, there is a high degree of subjectivity on the part of different administrations, and judgments are, therefore, very difficult when it comes to financial institutions.

Fiscal competition and the mobility of economic factors are increasing within the EU for the following reasons:

- large companies consider the European internal market as a single market, their "national" market;
- e-commerce does not take into account national borders;
- the value chains of production and distribution are becoming more and more segmented, and their various components are increasingly mobile;
- Improving transport infrastructure and reducing costs following the restructuring of freight transport encourages the geographical spread of businesses and their subsidiaries;
- the number of multinational acquisitions and mergers of enterprises is increasing;
- EU enlargement contributes, inter alia, to the mobility of economic investment, people and capital;
- Increasing the level of knowledge and language training contributes to increasing the mobility of people.

## 6. Conclusions

Therefore, fiscal competition is directly affected by each country, causing states to implement specific public policies in order to reduce the level and structure of public spending, knowing that taxes and duties are the main sources of revenue to the budget. In an effort to attract as many investors as possible, states apply fiscal policies, which often do not have the effects expected by their application and which turn companies into advantages of fiscal facilities.

If, although this interstate fiscal competition is found, the ideal would be that this process does not occur to the detriment of the supply and quality of public services. These are of paramount importance for maintaining and attracting productive activities that create wealth, jobs and - ultimately - basic taxation, and tax competition must not affect the financing and coverage of the collective social protection system.

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