

Tax Pressure on People's Incomes

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Abstract

The tax system is an essential part of any country's economic structure as it provides the government with a significant source of revenue and plays a crucial role in economic policy-making. In Romania, a nation with a complex tax system and evolving economic conditions, understanding the effects of the tax burden on the population is essential for assessing the fairness, efficiency and sustainability of public finance policies.

The overall objective of the paper is to highlight that in recent years the issue of fiscal pressure on the population has received significant attention worldwide. As governments strive to maintain sustainable economic growth, there is a growing need to assess the impact of tax policies on individuals.

The purpose of this work is to delve into the multifaceted nature of the tax burden, examine its implications for the population and propose policy perspectives to address the challenges it raises.

Key words: tax pressure, tax system, taxes, tax behaviour

J.E.L. Classification: H2, H24, H3

1. Introduction

The analysis of the tax burden on household income involves assessing the proportion of income that taxpayers pay in the form of taxes in relation to their total income. This analysis can be carried out by various methods, such as calculating the average tax rate or comparing the level of taxes with disposable income.

One indicator used in the analysis of the tax burden on household income is the average tax rate, which is the ratio of taxes paid to total income. A high average tax rate means a higher tax burden on household income, while a low average tax rate means a lower tax burden.

Other relevant issues in the analysis of the tax burden include:

Structure of the tax system: the analysis should take into account the structure of taxes, including direct taxes (such as income tax and property tax) and indirect taxes (such as value added tax and excise duties). Different levels and types of taxes can affect people's incomes differently.

Progressivity of taxes: If the tax system is progressive, higher income earners will pay a higher proportion of their income in taxes and the tax burden may be higher for this category of taxpayers. Conversely, proportional or regressive taxation may impose a higher tax burden on lower income earners (Bența and Bența, 2015).

Tax deductions and exemptions: The existence of tax deductions and exemptions may reduce the tax burden on certain categories of taxpayers or specific incomes.

Assessing the impact on disposable income: It is important to analyse the impact of the tax burden on the disposable income of the population, which is the total income after taxes. A high tax burden can reduce disposable income and affect the standard of living of the population.

The analysis of the tax burden on household income can be complex and needs to be considered in the broader context of fiscal, economic and social policy (Popa, Andrei, Barascu, and Ciobanu, 2019). Understanding the tax burden and its impact on the population can help to assess tax justice and formulate appropriate tax policies to ensure a fair distribution of the tax burden and promote economic development and social welfare.

2. Literature review

The ratio of revenue to taxes payable is known as the tax burden. Society cannot function without taxes. The Constitution expressly mentions taxes, and historical facts demonstrate their importance. Regardless of the terminology used - taxation, tax burden, tax coefficient, tax pressure, compulsory levy rate, etc., the basic concept is always that of debt to the state and the resulting decrease in personal income (Brezeanu, 2009).

The ratio of all taxes and social contributions actually collected by the government to gross domestic product is known as the tax burden ratio or the compulsory levy ratio (Talpoş and Enache, 2001). Despite the fact that compulsory levies are reinvested in the economy in the form of public expenditure, the tax burden ratio emphasises their confiscatory element.

The tax burden rate serves as an indicator of the percentage of production revenue that is subject to government distribution requirements, rather than being left to private initiative and free choice.

Tax pressure suggests that taxpayers' ability to pay is limited. These constraints are imposed by the reactions of taxpayers, who may reject forced tax increases through evasion, fraud, reduced productive activity or even revolt. If the honest taxpayer pays tax up to a certain point, when taxes exceed certain tolerable limits, events occur that substantially undermine the state's incentive to collect these revenues (Dobrotă and Chirculescu, 2010). The taxpayer's behaviour becomes abnormal, with the taxpayer constantly trying to avoid paying tax by every conceivable means in order to minimise the tax burden.

Most public resources are compulsory levies, so it is essential to define the tax and explain its components from a technical, legal and economic point of view (Dobrotă, 2010).

There are several definitions of tax burden limits in the literature, most of which are based on the ratio of tax receipts (including social contributions) in a given period to gross domestic product in the same period. This is obviously the tax burden at national level, but it can also be measured at the level of economic agents or individuals. Ostensibly, the level of taxation is easy to determine and there should be no obstacle to a comparative analysis between countries. It is impossible, however, to obtain relevant results without taking into account a number of factors, such as the standards of living, the compulsory contribution structure, the social protection system, the budget deficit policy, the stability of tax revenues, the demographic structure, country-specific factors regarding the composition of tax revenues and the level at which they are taken into account, the structure of ownership, the level of democracy, the extent to which taxpayers view tax obligations as a means of meeting public needs rather than as a heavy burden, and the extent to which tax revenues are collected (Văcărel, Bistriceanu and all, 2008).

3. Research methodology

The research method used for analysing the tax burden on the population may vary depending on the research objectives, available data and available resources. In general, there are several common approaches that can be adopted in this analysis, but the paper has been based on a literature review and analysis of tax data. Through this paper we have been able to carry out a review of existing literature on tax pressure and its impact on the population, as well as analysing available tax data, such as tax revenues collected from the population, tax levels, tax evasion and other relevant data. The analysis of the tax burden is a complex and sensitive subject and the results of the research have important implications for tax policies and the welfare of the population.

4. Findings

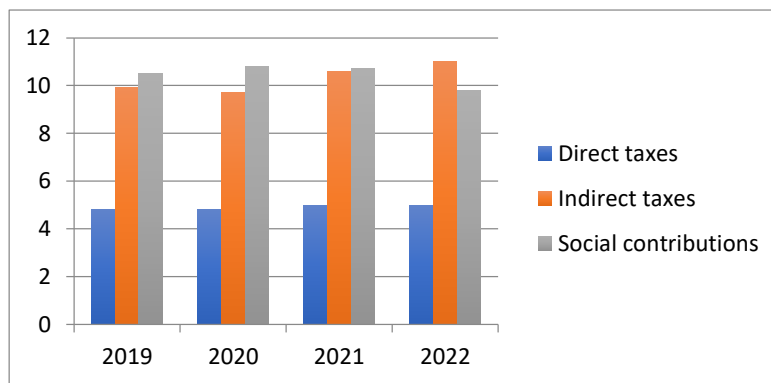
Further information on the share of the main types of taxes in GDP can be obtained by analysing the tax burden of the main components in Romania. First, we looked at the evolution of the tax burden on direct taxes, indirectly taxes and contributions. The shares of the direct taxes, of indirect taxes and of contributions in GDP reflect the values that these taxes have recorded in the years considered.

Table no. 1 Comparative analysis of direct and indirect taxes and social contributions as a share of GDP

ANUL	2019	2020	2021	2022
Direct taxes	4,8	4,8	5	5,1
Indirect taxes	9,9	9,7	10,6	11
Social contributions	10,5	10,8	10,7	9,8

Source: Ministry of Finance, Budget 2019-2022, available at <https://mfinante.gov.ro/ro/web/site>

Figure no. 1 Evolution of the tax burden by main components



Source: Own calculations based on data provided by the Ministry of Public Finance

In the case of direct taxes, an upward slope can be observed over the period considered, starting from 2020 to 2022. Direct taxes remain constant from 2019 to 2020, then increase by 0.2 percentage points from 4.8% in 2020 to 5% in 2021. The year 2022 brings a further increase on the previous year, from 5% to 5.1%.

Indirect taxes also undergo various fluctuations over the period 2019-2022. First a slight decrease can be observed from 2019 to 2020 when their share of GDP was 9.9% and 9.7% respectively. In 2021 there is a slightly more considerable increase of 0.9 percentage points, i.e. from 9.7% in 2020 to 10.6% in 2021. The year 2022 sees a further increase in the share of indirect taxes in GDP to 11%.

Social contributions are not unchanged either. They show increasing percentages between 2019-2020 followed by a slight decrease in 2021 and another downward trend until the following year, 2022. Their share of GDP over the above-mentioned period rises from 10.5% to 10.8%, then rises to 10.7% and falls to 9.8% at the end of the period.

Table no. 2 Analysis of wage and income tax and corporate tax (%GDP)

Anul	2019	2020	2021	2022
Income tax	2,2	2,3	2,4	2,6
Tax on profit	1,6	1,5	1,7	1,9

Source: Ministry of Finance, Budget 2019-2022, available at <https://mfinante.gov.ro/ro/web/site>

Table no. 3 Absolute amounts of taxes on wages and income and corporate income tax (million Lei)

Anul	2019	2020	2021	2022
Income tax	23,201.4	24,333.8	28,017.1	33,707.6
Tax on profit	17,702.2	15,988.1	20,044.6	26,664.8

Source: Ministry of Finance, Budget 2019-2022, available at <https://mfinante.gov.ro/ro/web/site>

In 2019, Romania reduced the flat personal income tax rate from 16% to 10%. This measure aimed to stimulate consumption, improve disposable income and attract foreign professionals.

The corporate tax rate has remained at 16% throughout this period, maintaining Romania's competitive position in attracting foreign direct investment.

According to data provided by the Ministry of Finance, a steady increase in payroll and income taxes can be observed. From the beginning to the end of the period considered, the difference between the absolute values of this type of tax levy is 10,506.2 million lei.

The income tax initially records a decrease between 2019-2020 followed by a somewhat more accelerated increase in the next 2 years considered. As a percentage of GDP it goes from 1.6% in 2019 to 1.5% in 2020, when the minimum of the period considered is recorded, then it rises to 1.7% in 2021, and then we can observe the maximum of the chosen range of 1.9% in 2022.

Table no. 4 Analysis of VAT, excise duties and other taxes (%GDP)

Anul	2019	2020	2021	2022
VAT	6,3	5,8	6,7	6,6
Excise duty	3,0	3,0	2,9	2,5
Other taxes	0,5	0,4	0,4	1,3

Source: Ministry of Finance, Budget 2019-2022, available at <https://mfinante.gov.ro/ro/web/site>

Table no. 5 Absolute amounts of VAT, excise duties and other taxes

Anul	2019	2020	2021	2022
VAT	65.420,6	60.816,9	79,350.9	94,090.6
Excise duty	31.463,3	30.715,3	34,484.8	35,312.8
Other taxes	5.233,7	4.523,2	5,479.7	19,163.8

Source: Ministry of Finance, Budget 2019-2022, available at <https://mfinante.gov.ro/ro/web/site>

Romania has maintained a standard VAT rate of 19% for 2019-2022. This rate applies to most goods and services.

A lower VAT rates of 9% has been maintained during this period for certain goods and services such as food, books and hotels. In addition, a special low VAT rate of 5% was made applicable for certain products, including pharmaceuticals and medical equipment.

Excise duties apply to various goods, including alcohol, tobacco and fuel. There were no significant changes in these rates during the period specified.

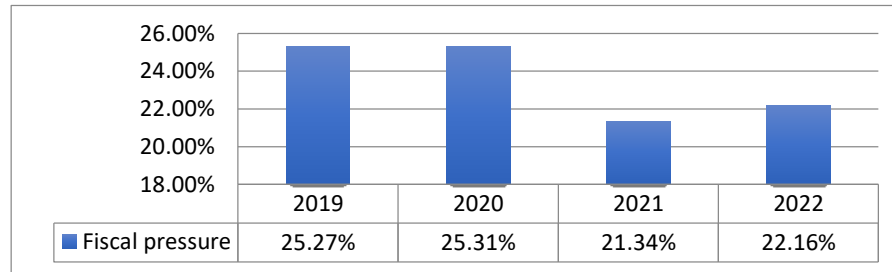
The data presented in the table above shows that all three categories of indirect taxes suffer a decrease in 2020 compared to 2019, and then increase successively in 2021 and 2022.

As for percentage differences, according to the Ministry of Finance, in 2020 compared to 2019 the amounts collected with VAT decreased by 7.0% and the difference in excise duties was also negative (-2.4%), as well as for other taxes (-13.6%).

Between 2020 and 2021 there were increases. For VAT this was 30.5%, for excise duties 12.3% and for other taxes 21.3%.

The differences between the amounts collected in 2022 and 2020 are also positive. VAT has a difference of 18.4%, excise duties have increased by a slightly smaller percentage of only 2.4%, but a considerable difference is represented by the amounts collected with other taxes which have had a percentage increase of 249.7%.

Figure no. 2 Evolution of the overall tax burden



Source: Own calculations based on data provided by the Ministry of Public Finance

From the above figure it can be seen that from 2019 to 2020 the tax burden in Romania did not change significantly, and its maximum level was recorded in 2020 with a percentage of 25.31%. In 2021 it decreases reaching the minimum level of the period analyzed of 21.34%. 2022 comes with a new increase to 22.16%. Thus, according to the values obtained, Romania is close to the European average in this chapter.

5. Conclusions

This paper explored the concept of fiscal pressure in Romania, focusing on the analysis of income levels and the burden of tax policies in the country. Through a comprehensive examination of available data and academic research, significant insights were gained into the complex dynamics and challenges associated with tax policies and their impact on the welfare of the Romanian population.

First, the 2005 tax reform in Romania played a crucial role in reshaping the country's tax system. By reducing the number of tax brackets and adjusting tax rates, the reform aimed to stimulate economic growth, attract investment and simplify the tax code. While the intentions behind the reform were laudable, its implementation faced various obstacles and its impact on income distribution and poverty reduction was limited.

The findings of this study indicate that Romania has experienced a multi-faceted relationship between the level of revenue and the tax burden. Income inequality has persisted in the country, with part of the population facing stagnating or declining incomes. This income disparity has limited the ability of many individuals and families to improve their living standards and escape poverty, thus exacerbating the challenges associated with fiscal pressure.

In addition, the tax burden on Romania's population has remained substantial. The analysis reveals that the tax system in Romania has continued to exert considerable pressure on individuals, especially on those with lower incomes. Despite efforts to streamline the tax code and reduce tax rates, overall tax revenues as a percentage of GDP remain relatively high. As a result, the tax burden on vulnerable segments of society, such as low-income earners and small businesses, hinders their economic progress.

In the light of these findings, it is clear that a comprehensive approach to the tax burden in Romania is needed. Policy makers must prioritise income redistribution measures that promote greater equity and social justice.

In conclusion, the analysis of the tax burden in Romania, with a particular focus on income levels and the tax burden, highlights the need for comprehensive and targeted policy interventions. By addressing income inequality, reducing the tax burden on vulnerable populations and implementing effective social assistance programmes, Romania can create a fairer society that offers opportunities for prosperity to all its citizens. Through these concerted efforts, Romania can build a brighter future where fiscal policies contribute to sustainable development.

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