

## Analysis of VAT Revenues to Romania's State Budget

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### Abstract

*In order to carry out its activities, the state needs income that it earns from taxes levied both on individuals and on legal entities. Based on background and form, taxes are divided into direct taxes and indirect taxes.*

*Indirect taxes are levied on the sale of goods and services, import and export, etc. Among the most important indirect taxes is value-added tax. Value Added Tax is a tax that covers all phases of the economic circuit, ie production, services and distribution up to sales to end consumers, including.*

*From the point of view of the state budget, the value added tax is an indirect tax that is established on the transactions regarding the transfer of the property of the goods and on the supplies of services. It is a unique fee that is charged fractionally according to the value added at each stage of the economic circuit..*

**Key words:** VAT, indirect taxes, tax revenues, state budget

**J.E.L. classification:** H2

### 1. Introduction

In Romania, the VAT was regulated by Order No. 3/1992, being approved by Law No. 130/1992 and implemented as of 1 July 1993. This tax, with an 18% share, was introduced for to replace the tax on the movement of goods during the Vacaroiu government.

In accordance with the regulations in force, taxable transactions that cumulatively meet the following conditions: constituted or are assimilated to a supply of goods or a provision of services rendered with payment, fall within the scope of VAT; the place of delivery of goods or services is considered to be in Romania (Anghelache, 2007); are carried out by taxable persons; results from economic activities regulated by law.

The transactions covered by the tax are: the supply of goods; provision of services; the exchange of goods or services; intra-Community acquisitions of goods; import of goods (Calin and Chirata, 1999).

The value added tax base is composed of:

- the counterparty obtained or to be obtained by the supplier or supplier from the purchaser, the beneficiary or a third party, including subsidies directly related to the price of such transactions, excluding VAT, for the supply of goods and services;
- the purchase price or, as the case may be, the cost price determined for certain situations such as the use of goods purchased or manufactured for purposes unrelated to economic

activity or to be made available to other natural or legal persons for the purpose of free of charge, if the VAT on these goods has been deducted.

The tax base comprises the following (Teodorescu, 2015):

- taxes and fees, unless otherwise provided by law, except for value added tax
- such as: commissions, packing, transport and insurance costs required by the supplier / supplier to the buyer or payee.

**It is not included in the tax base:**

- rebates, draws, rebates, discounts and other price reductions granted by suppliers directly to customers at the date of tax chargeability;
- the amounts representing damages, established by a final judgment and final and irrevocable judgment, as the case may be, the penalties and any other sums claimed for the total or partial non-performance of the contractual obligations, if they are perceived over the negotiated prices and / or tariffs;
- interest, charged after the date of delivery or delivery, for late payments;
- the value of the packages flowing between the freight and customer suppliers, by exchange without invoicing;
- amounts paid by a taxable person in the name and on behalf of another person and then settled thereon.

The tax base is reduced in the following cases:

- the total or partial cancellation of the contract for the delivery of goods or the provision of services, before they are performed, but for which advance invoices have been issued;
- total or partial rejection of the quantity, quality or price of the delivered goods or services;
- when rebates, draws, rebates and other price cuts are granted after delivery of goods or services;
- when the value of the delivered goods or services can not be recovered as a result of the bankruptcy of the beneficiary or following the implementation of a reorganization plan admitted and confirmed by a court order whereby the claim of the creditor is amended or eliminated.

## 2. Theoretical background

Maurice Laurè, a French home and craft engineer, after a few inventions in the field he was specialized in, was attracted by the financial sector. As a finance inspector, he thought the world of finance needed something extra. In 1953 he devised a reform of the turnover tax he called the Value Added Tax or VAT. Its objective was to replace the multiple charges levied on the turnover by bringing about one thing to be perceived by the producers in the different stages of production (Cristian, 2013). Each producer being legally authorized to deduct previously taxed value added tax in his own production process.

This conception took place in France at only 35 years old by Maurice. At first, he was not successfully received by those in power, but in 1954, when Edgar Faure arrived at the Finance Minister, he considered it appropriate to propose this tax in the new Finance Act. Passing through the vote and approval of the parliament together with Mr Laniel, the President of the Council, this tax was introduced in the end on 10 April 1954 and was intended for large companies (Greceanu, 2014). After 12 years, the new Finance Minister, Valery Giscard d'Estaing, recommended that VAT also be applied in retail business, which was actually effective on January 6, 1966. In 1968, the generalization of this tax applied in all areas.

This indirect tax was introduced in turn and in the countries of the European Community which had begun to consolidate and to be economically removed from 1950 (Munoz Merchante, 2008). The founding countries are Belgium, France, Germany, Italy, Luxembourg and the Netherlands, but many more countries have joined them all the years to date by reaching 28 member countries (Munoz Merchante, 2008).

In 1986, the Single European Act was signed by the 10 countries that were part of the European Union at that time. This treaty aimed to solve the problems of free circulation of goods in the European Union, giving rise to the "single market".

The single market concept was also added to the "four freedoms" in 1993: the free movement of goods, services, persons and capital; signing that year and the Maastrich Treaty on the European Union.

All these years, until now, the European Union has established some harmonized VAT rules, but may vary from one country to another. In general, value added tax must be paid for all goods and services, even when sold to the final consumer. This fee is charged at each stage of the production process.

The methodological norms related to this tax can be found in the Fiscal Code, where the explanations are very clear both for the Member States of the European Union and for those outside it (Vintila, Calin and Vintilă, 2002).

### 3. Evolution of VAT rates in Romania and their use

PERIOD	RATES
1st of July 1993 to 31st of December 1994	18% si 0%
1st of January 1995 to 31st of January 1998	18%, 9% si 0%
1st of February 1998 to 31st of December 1999	22%, 11% si 0%
1st of January 2000 to 31st of May 2002	19% si 0%
1st of June 2002 to 31st of December 2003	19%
1st of January 2004 to 31st of December 2009	19% si 9%
1st of January 2010 to 31st of December 2015	24% si 9%
1st of January 2016 to to 31st of December 2016	20%, 9%, 5%
1st of January 2017 - Present	19%, 5%, 9% si 0%



Since the introduction of value added tax in Romania (July 1, 1993) and up to now, the following VAT rates have been recorded in increasing order of their size: 0%; 5%; 9%; 11%; 18%; 19%; 20%; 22% and 24%. In the table at the end of the article, "The synthesis of VAT rate evolution in Romania", the periods for each of these quotas were presented.

The 24% VAT rate applied in Romania between 1 July 2010 and 31 December 2015 was one of the highest standard rates of value added tax in the European Union (EU), after Hungary with 27%, Denmark and Sweden with 25% share. Standard VAT average rates in EU countries are between 18% and 21%.

As in the other countries that apply VAT, VAT rates in Romania were (and will be) changed from time to time. These changes are imposed by the fiscal policy of each country, and for the member countries of the European Union, and by the European Union's fiscal policy in the field of VAT, which seeks to harmonize tax policies in the field of this tax (standard rates, reduced rates, exemptions, facilities, taxable items, etc.) (Oprea and Cigu, 2013).

### 4. VAT revenues in 2017 as compared to 2016

Consolidated general government revenue amounted to 251.8 billion lei, representing 29.9% of GDP compared to 29.4% of GDP in 2016. Percentage of revenues was 12.5% higher in nominal terms compared to the year 2016.

VAT receipts to the general consolidated budget in the year 2017 registered a level of 53.54 billion lei, respectively 6.4% of GDP, by 1.9 billion lei higher than the receipts from 2016 (51.7 billion lei).

The revenues collected on the main four budgets of the general consolidated budget, namely: state budget, state social security budget, unemployment insurance budget, the budget of the single national health insurance fund, collected by the National Agency for Fiscal Administration represented 100, 3% of the revenue program administered by ANAF.

As regards VAT receipts, they declined by 9.1% compared to the first three months of 2016, amid a reduction in the standard VAT rate from 24% to 20% as of 1 January 2016, which has been reflected in receipts since February 2016. At the same time, starting in February 2017, revenues from the reduction of the standard VAT rate from 20% to 19% are reflected in the proceeds.

However, VAT receipts increased in February 2017 by 2.5% compared to February 2016, and by 8.9% in March 2017 compared to March 2016 and by 17.9% in April 2017 as compared to April 2016.

In October, there is a recovery in the last months of the first-half gap in the level of receipts, so that there is a slight increase compared to the first ten months of 2016, namely by 0.5% and in December by the end of 2017, there is an increase of 3.6%, mainly due to the revenues from the second half of the year, when the standard rate reduction measures have been applied as we have already specified.

We must also keep in mind the fact that in 2017 the number of active taxpayers, VAT payers, grew by 4.49% compared to 2016.

According to A.N.A.F. sources in 2017, the highest receipts in the history of the institution were made. The effort of collecting the budget revenues resulted in the collection of 215.0 billion lei, registering a nominal increase of 7.8% (15.5 billion lei) above the level of revenues in 2016 (199.5 billion lei).

Analyzing the VAT refund request from 2017 in the process of resolution and comparing it with 2016, we come to the following conclusions:

- In the first quarter the number of settlements increased by 2.4% compared to the same period in 2016 and their amount increased by 22.8%;
- During the second quarter the situation changed and the number of settlements decreased by 30.9% compared to the previous year and their amount decreased by 33.6%;
- In the third quarter we have another phenomenon, namely the number of settlements increases by 45.4% compared to the same period in 2016 but their amount decreases by 17.7%;
- In the fourth quarter there is an increase in both the number of settlements and their amount. The number of settlements increases by 84.8% compared to the fourth quarter of 2016 and their amount also increases by 38.5%;
- Lastly, by calculating the totals, we can see that the number of accounts increased in 2017 by 16.70% compared to 2016, but their amount decreased by 4.30% as compared to 2016.

During 2017, an improved split payment mechanism was introduced, which will reduce VAT evasion declared and unpaid at present. This mechanism was regulated by Government Ordinance no. 23/2017. At the same time, in the context of a legislative proposal initiated in the Parliament of Romania, it was requested to increase the VAT exemption ceiling, from the equivalent in national currency of 65,000 euros, calculated at the exchange rate on the date of accession to the European Union, namely 220,000 lei, to the equivalent in the national currency of EUR 88,500, calculated at the exchange rate on the day of accession to the European Union, respectively 300,000 lei, starting on January 1, 2018. The measure was approved by Council Decision no. 2017/1855 of 10 October 2017 authorizing Romania to apply a special measure derogating from Article 287 of the VAT Directive.

## 5. Conclusions

From the VAT payments made to the state budget in 2017 compared to 2016 we noticed an increase in its collection. According to A.N.A.F. in 2017, the highest receipts in the institution's history were made. The effort of collecting the budget revenues resulted in the collection of 215.0 billion lei, registering a nominal increase of 7.8% (15.5 billion lei) above the level of revenues in 2016 (199.5 billion lei).

With regard to VAT reimbursements, we can not draw a positive conclusion because in 2017 the number of accounts increased by 16.7% compared to 2016, but their amount decreased by 4.3% compared to 2016.

Lastly, after analyzing the VAT revenues collected in the main Councils of the County of Romania, we identified in which part of the country the highest VAT revenues came from the state budget, namely the first place occupied by the county council of Suceava by 184,000,000 lei, the county council Iasi ranked second with 178,000,000 lei and on the third place we find the Bihor county council with 137,000,000 lei.

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