1. General provisions

Nowadays, due to an increase of the degree of civilization at global level, we witness a diversification and broadening of the human needs and, consequently, an increase in the demand for public and quasi-public goods. Therefore, the financial effort necessary for fulfillment of the human needs increases every year, leading to an overestimation of the demand for public financial resources which have a limited character, often insufficient.

A major problem for the state authority is represented by the identification of some viable solutions for the procurement of these increasing financial resources.

One of the solutions may be the uncovered monetary issue, but its effects on the stability of the medium and long term macro-economic indicators could prove to be harmful by broadening the inflationary tendencies.

Contracting the state loans or the increase of the general degree of taxes may be considered viable solutions for attracting additional funds to the state budget, but it is obvious that both measures have the same result, the increase of the fiscal charge of the taxpayers, meaning an increase of the tax burden. Certainly, the effect of these measures is not popular but they are preferable to an uncovered monetary issue, when the disproportion between the offer and demand of the public financial resources is obvious and the public expenses can no longer be reduced.

The general characteristic feature dominating the financial system of Romania after the revolution was the procurement of the public financial resources by broadening the taxation without taking into consideration its adverse effect, in the sense that it leads to an increase of the tax burden and if it becomes suffocating, it leads to the tax evasion phenomenon.

2. Taxation rate: indicator of the tax burden

In the specialty literature, the term of „tax burden” can be encountered under the form of other terms such as „tax coefficient”, „tax stress”, „tax pressure”, for the purpose of avoiding the negative connotations of the word burden, but they express the same idea, the taxpayer’s obligation to the state by means of the taxes.

The tax burden represents the ratio of the incomes which the taxpayers must give up, in the favour of the state, under the form of taxes and charges, paying these amounts within their current liabilities to the state budget, the budget of the state social insurances, the local budgets and public funds.

The tax burden is given by the taxation rate, which is computed as a ratio between the financial incomes from a certain period, usually a year, and the value of the gross domestic product, from the same period of a national economy.

\[ R_f = \frac{V_f}{PIB} \times 100 \]

where:
$R_f = \text{taxation rate}$;  
$V_f = \text{total financial incomes}$;  
P.I.B. = gross domestic product.

This rate shows us the percentage of the gross domestic product developed in a year which is collected by the state by means of taxes, charges and contributions. The level of these indicators offers a picture over the tax burden exercised by the taxes, charges and contribution system over the taxpayer but also the picture of the public view regarding the development of the financing sources of the public expenses.

We emphasize the fact that the taxation rate must not be mistaken by the rate of total levy rate (computed as a percentage ratio between the total level of the taxes and social contributions and the GDP), although in practice, this often occurs.

According to some specialists the total levy rate better expresses the productivity of the levy system, than the burden incurred by the taxpayer, as this indicator is commonly mis-interpreted.

The tax burden indicator is commonly used in the performance of temporal and international comparisons.

By analyzing Figure no.1.1, we can state that the countries with a high economic development have a powerful tax burden, while the reduced tax burden is a characteristic of the less developed or even under-developed economies. Still, related to the last statement, we must notice that it is not entirely true, because there are over-developed countries which have a moderate tax burden, or we can say even modest, in comparison to other countries, with a strong tax burden (Japan - 27.4%, United States of America - 28.2%).

The taxation rate in the member states of the European Union varies by more than twenty percentage points from the GDP, from 49.1% in Denmark to only 28.6% in Romania.

The taxation peaks are found in countries with almost complete social protection financing (Denmark – 49.1% of GDP, Sweden – 48.9% of GDP, Belgium – 44.6%, Norway - 44%, Finland – 43.5%), but the taxation reaches high
levels in other countries also such as France – 43.5%, Italy – 42.3%, Austria – 41.8%. Nevertheless, some countries with mainly universal financing, such as Great Britain, have a moderate taxation (37.4%).

We observe that in comparison to the average of the European Union countries (37.1%), the taxation degree in Romania (28.6%) is apparently low, and this is due to both the unbalanced distribution of the charges, and, especially, to the low level of the gross domestic product, the economic agents frequently complaining about the excessive and burdening character of the taxation in our country which does not comply with the requirements of capitalization and economic recovery.

While the taxation degree of our country follows the specific trend of the developed European countries, this has a confiscation tendency, because the amounts left after taxation, only ensure the necessary means for subsistence and do not cover satisfactorily all the human needs.

We think that the taxation sustainability degree does not rely only on the absolute level of the tax duties, but also on the value of its affordability basis, the value of the gross domestic product respectively.

In this context, the approach in relative terms of the taxation, through its rate, is not sufficiently relevant if it is not correlated with its real basis.

Thus, the taxation rate in Romania (28.6%) is almost equal to the one in the USA (28.2%) but the real basis to which this rate is reported, the gross domestic product per capita respectively, is over 10 times higher in the USA.

The practical experience shows that at an approximately equal level of the taxation rate, this is much more affordable in a country with a higher gross domestic product per capita than in the countries where this is lower. The explanation comes from the fact that the gross domestic product per capita represents the „amortization cushion” of the tax burden. The increase of the gross domestic product per capita represents a way of improving and increasing the sustainability of the level of the taxation rate.

3. Cause – effect relationship between tax evasion and tax burden

The excessive tax burden, the reduced degree of sustainability of the obligations together with a hostile business environment and a difficult economic climate generates a rejection attitude and a tendency of avoidance and disregarding of the tax law from the part of the taxpayer and, subsequently, the practice of tax evasion by different means and methods.

Many economists approve the thesis “the tax which kills the tax”, according to which the introduction of a new tax or the increase of the tax quota of an already existing tax decreases the sustainability degree of the charges. The taxpayers often try and succeed in avoiding the payment of the charges using evasion methods.

The theory of the Canadian economist Arthur Laffer demonstrates this thesis.

Regarding the relationship existing between the level of the tax evasion and the taxation rate, the Canadian economist formulated the theory bearing his name, according to which, the more a tax levy is based on increased tax rates, the more the financial revenues of the state increase, but after a certain tax limit, the revenues start to decrease, because this increase of the tax levy would lead to less work or it might cause the dissimulation of a part of the activity performed and its transfer to the unofficial side.

His theory is illustrated by a curve (Laffer curve) which graphically emphasizes the moment of the ideal taxation rate, on the basis of the principle “too much tax, no tax”, according to which, when the tax level is null, the budget revenues are null and, also, when the tax level is 100%, the budget
revenues are null; the optimum tax level must be identified between these two extremes in order to ensure a maximum of satisfaction both for the state budget and for the taxpayer.

The specialists in the financial field have reached the conclusion that tax evasion is “more fearful, as the tax is higher”.

The theory promoted by the Laffer curve has known a considerable practical impact in France and the U.S.A. but it is also very true that there have been critics regarding the practical applicability of the theory, starting with the premises that the taxable income flexibility in relation to the higher tax rates is very low.

The excessive taxation and its effects on the tax evasion may be approached from the point of view of the costs it generates.

In a study performed by the audit and consultancy company Pricewaterhouse Coopers (PWC) and the World Bank, dedicated to the analysis of the costs determined by setting up a business in 178 countries, a company from Romania pays a number of 96 charges, our country being “the leader” in the European Union and ranking fourth in the world.

As it may be seen in Figure no. 1.2., in Romania, the majority of the 96 charges are in the field of work force, amounting to 60. In a year, a company must make 12 payments for each of the fields such as contribution to social insurances, contribution to health insurances, unemployment, the fund for the risk of accidents and for work inspection.

Other charges for the companies in Romania are levied for urban planning, the environment, stamp duty and fuel – each one every year – and four charges for the land, vehicles and buildings and for the incomes of the company. The number of charges paid is twice the number in other European countries, such as Poland (40 charges) or Slovakia (30 charges).

In our opinion, this excessive taxation of the paid activity, aside from the fact that it produces serious economic distortions by reducing the number of jobs and increasing the cost of the Romanian products, also contributes to the increase of the black market labour and the avoidance of taxes for numerous incomes obtained from the activities performed.

At a global level, Romania is only exceeded by Belarus with 124 charges, Uzbekistan with 118 and Ukraine with 99. In the other EU countries, the number of charges is less than 30 per year.
Thus, the high number of taxes a taxpayer must pay and their quantum creates a high tax burden over the enterprise.

Taking into consideration the other factors which act over the activity of the economic agent: the level of the demand and offer, the living standard of the population, the competition, the level of the sales, it is more and more difficult for the taxpayers to face the tax burden, being forced to transfer the taxable stock to a more accessible financial regime or to turn to evasion practices in order to survive.

In this context, the cause – effect relationship between the tax burden and the tax evasion is manifested in the sense that the tax avoidance of some taxpayers narrows the taxation basis and the level of the public financial resources which generates a higher taxation burden, which, in its turn, shall motivate the tendency of other taxpayers to turn to the informal side of the economy.

In the opinion of the specialists, when the legal and transparent system of the market economy is blocked, a spontaneous and favourable distribution of the financial resources occurs, although on hidden paths.

When this “avalanche effect” occurs, the continuous and constant reduction of the taxation basis can no longer be compensated by a new increase of the taxation level and the causes which generated this evasion type behaviour of the economic agent must be removed.

4. Conclusions

In our opinion, the success of a national financial system is not related to sufficient money obtained from the taxation, but from the capacity of the system to develop the taxation basis, to stimulate the economy, to succeed in charging international businesses at national level and to stimulate the agreement of the taxpayers to pay the taxes and charges, this being the warranty that the taxpayer shall not breach the financial legislation.

Although the financial policy promoted by the state authorities wants to meet a series of objectives, we think that first of all it should take into consideration the reduction of the taxation degree both by eliminating the contributions to some special funds and by re-settling the charge and the ratio between the direct and indirect taxes in order to give a positive influence to the taxpayer.

We think that it is possible and achievable to increase the volume of the revenues by reducing the tax rates but applying them to a larger value of the taxable income.

Thus, the tax reduction shall first of all determine the increase of the economic efficiency because there will be more investors and larger investments, it shall increase the number of the taxpayers and the volume of the taxes collected, thus recording an increase of the public revenues.

Secondly, the taxation reduction may lead to a reduction of the underground economy, especially of the financial fraud, the black market labour and tax evasion or, on the contrary, the lack of compliance with the regulations, as an effect of the financial relief policy, may lead to encouraging some underground practices.

Starting from the most visible effect of the tax evasion, i.e. not supplying the state budget with important financial resources, we think that, in order to limit the tax evasion phenomenon, the state authorities should consider, at the moment of making a financial policy decision, the reduction and limitation of the tax burden, this measure being an efficient method in preventing and fighting this phenomenon, because it takes into consideration its cause and not its effects, that is the premises which motivate the tax evasion behaviour of the taxpayer.
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