

DYNAMICS OF BUDGETARY REVENUE IN THE CONDITIONS OF ROMANIAN INTEGRATION IN THE EUROPEAN UNION - A CONSEQUENTLY OF THE TAX AND HARMONIZATION POLICY

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1. General considerations on fiscal policy after Romania's EU accession

Budgetary policy in Romania after joining the European Union was an important component in a stable macroeconomic context, being in close connection with economic internal and external, are subject to the needs of linking monetary policy with fiscal and budget. The main coordinates on which it focused were:

- a moderate fiscal loosening in order to stimulate investment, growth of the tax fund application flat, increasing the degree of budgetary revenue collection;

- strengthen the medium-term expenditure, which is a programming budget, which will anticipate future budget pressures, through a process of restructuring of public expenditure and prioritization scale national programs for a better correlation of the three fundamental elements of the budget process, and sectoral policies, programs / actions with measurable objectives and budgetary resources;

- improve conditions for the absorption of structural funds and the creation of tools for this process, they represent an important resource which will benefit Romania in order to achieve the objective of sustainable growth;

- support some important areas of the economy such as agriculture, transport, human capital, environment, regional development, the amounts of funds for post-development of the economy;

- ensuring priority for the amounts of co financing projects funded European and Romania's contribution to the Community budget.

2. Developments in the gross domestic product compared the Romanian system with the others EU Member States

Romanian Fiscal Policy for 2007-2009 aimed at creating conditions to support the business environment and ongoing targeted measures on the extension of the tax base to achieve an increase in budgetary revenues despite placing flat, further harmonization with community, reducing social security contributions by 2 percentage points from employers. Maintain general consolidated budget deficit at the same nominal value initially in early 2007, ie 2.7% of gross domestic product, could be achieved only after two corrections budget.

In all countries, increasingly often, is an increased demand for financial resources, driven by increasing social needs, at a pace faster than the evolution of gross domestic product. Most of the public financial resources is the income of tax whose level is however limited, and often insufficient. In countries with market economy, most of public resources is the result of redistribution of gross domestic product (GDP). This indicator is calculated by all the states and is the form synthesized, quantitative and qualitative evolution recorded by a country in a given time. Changing it has direct implications on the possibilities of

taking tax revenue to the budget. Participation of local tax revenues to fill budget may be highlighted first by analyzing the evolution of the GDP. If we compare this indicator made by Romania in recent years with those made by the European countries, the situation would be clearly negative, our country is one of the last places, but would find an explanation through the gap existing in the social development economic. The situation is not any different when the compare the gross domestic product made by Romania with the same indicator obtained by countries of Central and Eastern Europe, who have walked the road of transition with our country. In this context, comparisons are more edifying, as specific developments show that occurred in roughly similar and, in the sharp fall in this indicator in Romania, obliges us to seek real causes of such developments.

From this point of view, I consider that the most objective indicator GDP comparison is made by Romania with the same indicator in Cyprus, Estonia, Latvia, Lithuania, Czech Republic, Poland, Hungary, Slovenia, Slovakia and Bulgaria. Find that since 1990 until 1995, these developments have been differentiated in these countries, in most is a tendency to decrease before macro stabilization. Since 1995 until the end of 1999, this substantial reduction in GDP has continued, especially in Romania, which remained the only country of the above in a position to have a low GDP indicator. In 1996 this indicator show an increase of 3.9% compared to 1995, during the period following 1997 has been a decrease of 6.6% in 1998 - a decrease of 7.3% and in 1999 -- a decrease of 3.2%.

In 2000, increased by 3% in 2001 - with 5.3% and in 2002 - by 4.8% over the previous year and 4.9% - in 2003. Strong real growth if we relate to less than the inflation rate were recorded during 2005-2008.

It is significant that the authorities have provided increases in gross domestic product, from 4.2% in 2005 to

6% in 2007. In developing countries, public revenues are generally the same as for developed countries, but the proportion of tax revenues and revenues of the participating state to cover expenses, vary depending on the size of the public sector, private sector and efficiency of economic activity carried out. In the developed economically, the share of tax revenues in GDP varies, on average, during the years 1995-2007 from 51.4% in Sweden and 29.3% in Malta, or arithmetic average, during the same period, between 40 , 7% in the old EU (EU-15) and 33.7% in new Member States.

3. The structure of the tax system in the Romanian post-accession period

I believe that an important aspect regarding Romanian taxation system as a whole is related to the size relationship between taxes and direct taxes and indirect.

Regarding the size of taxes, there is some consistency between the construction of the Romanian tax system and in this moment in Eastern Europe, with the exception of taxation on labor, where the level is much higher due to high social security contributions. Aware of this situation the Romanian authorities have taken steps since reducing the level of social contributions in 2002 from 60% to 57% reduction that continued in the years ahead, so that in 2003 the level of social contributions has decreased by 5 percentage points, reaching to 52% in 2007 arrived at 45.5% and in 2008 took place in November gradual reductions.

This reduction in the taxation of labor required to align the EU was the first increase in real income of wages, and on the other hand a reduction of labor costs in relation to employers. However, the effect of these reductions affected differently in different categories of employees, those with low incomes are more favorable to them, while those with higher incomes to the fact that there was a negligible increase in revenues was the effect and a significant increase

in labor costs for employers. An example of this can be increased on account of the social contributions that accompanied reducing social security contributions, so that fiscal loosening can say the real target in only the categories of taxpayers with low incomes.

If in 2007, Romania is situated at the middle ranking among states of the European Union the most burdensome cost of social security, since 2008 has climbed to third place after France and Belgium, due to the increase of the calculation of social contributions. Romanian tax on labor is among the highest in the European Union by a high level of social contributions and by broadening the base of their calculation, applied from 1 January 2008. If we take into account and draft budget for 2009 which provides that, for normal working conditions, social contributions rate

became 31.3%, of which 10.5% for employees and 20.8% for employer's situation becomes more worrying. Contributions paid by employees and employers sums, currently 40.05% of gross salary, although it had to be reduced from 1 January 2009 to 2 percentage points, from 39.5% to 37.5% of gross salary.

I believe that the Government decision to increase the contribution to social insurance with 3.3 percentage points from February 2009 will act as a pressure factor in two directions: on the one hand, employees will have to lower net wages, and on the other hand, such a measure would hit the budgets of companies, already affected by devaluing the national currency against the euro and limited access to financing. Evolution of these rates in 2008 and 2009 I represented it in the following table:

Tabel no.1

QUOTA	TYPE	1.01.08	1.07.08	1.12.08	1.01.09	1.02.09
Social Contributions	Normal work	29,0%	29,0%	▼27,5%	27,5%	▲28,0%
	Distinct work	34,0%	34,0%	▼32,5%	32,5%	▲33,0%
	Special work	39,0%	39,0%	▼37,5%	37,5%	▲38,0%
State Insurance	Employee	9,5%	9,5%	9,5%	9,5%	▲10,5%
	Employer	19,5%	19,5%	▼18,0%	▲18,5%	▲20,8%
Health Insurance	Employee	6,5%	▼5,5%	5,5%	5,5%	5,5%
	Employer	5,5%	5,5%	▼5,2%	5,2%	5,2%
Unemployment Insurance	Employee	0,5%	0,5%	0,5%	0,5%	0,5%
	Employer	1,0%	1,0%	▼0,5%	0,5%	0,5%

Source: processing the data supplied by the Ministry of Finance

In the first year of integration into the EU, without taking into account the non-reimbursable funds, the share of tax revenue in gross domestic product of Romania was only 28%, being 9.4% below the average in the European Union, made in this is one of the last places along with Lithuania and Latvia, where the charge is also the lowest in the Union.

In the course of 2008 Romania has managed to mobilize revenue budget of 29.5% of GDP, closer to the 15.1% average of the 27 Member States of the European Union, which is estimated to be approximately 44.6 % of gross domestic product. According to the draft budget for 2008, estimates the Ministry of

Finance, including grants and funding, represents a 39.3% of gross domestic product, exceeding that moment both Slovakia and Lithuania.

However, we could find that budget revenues in 2008 were over a quarter higher than the amounts collected in 2007, they have amounted to 120.78 billion lei (36 billion euros), although in 2008 the Ministry of Finance estimate total revenue budget of 166.73 billion (45 billion euros). The decrease in total revenue was caused by the 19.51% lower than had been programmed in the local budgets, with 11.18% lower for the state budget, with 10.82% to fund unique Health Insurance, of 3.34% less in state

social insurance budget and 1.23% lower unemployment insurance budget.

Compared with 2007, were collected less money from the unemployment insurance budget, the decrease was 21.8%, and the local budgets of 1%. Instead, the rest of the budgets have been increases in revenue in 2008 to 33.22% from the state social insurance, 25.98% of the state budget by 20.57% to fund the single health insurance to 2007. In 2008, state budget revenues have totaled nearly 94.03 billion (25.5 billion euros), of which 43.4% were receipts from value added tax, the rest being from tax, income tax and wages, excise duties and other revenue the state budget. Revenue budget fund single national health insurance were about 15.25 billion (4 billion euros) in 2008, up by 2.61% compared to the year 2007. Returns the state social insurance budget was 32.79 billion (8.9 billion euros) in 2008, compared with 24.62 billion (7.3 billion euros) in 2007, but the security budget unemployment were 1.93 billion (525 million), compared to 2.47 billion (740 million). In 2008 the amounts paid to local budgets were approximately 6.34 billion (1.7 billion euros) from 6.4 billion in 2007 (1.9 billion euros).

Regarding the ratio of direct taxes and indirect, if not include social contributions in the analysis, we find that after joining the EU direct taxes contribute to a lower formation of the budgetary revenues and 19.1%, compared to 42 and 3% were indirect taxes. Therefore believe that this situation tax fairness ensured by our system of taxation is quite low. Approaching the structure of direct taxes - indirect existing in the European Union, which is the exact opposite than in our country, could be achieved only when the degree of economic development would reach a much higher level so as to allow accumulation of fixed capital through an increase in direct taxes formation by increasing tax revenue tax base by stimulating growth through the use of reduced VAT rates for certain categories

of goods and services and reducing tax evasion.

Romania budget is based now primarily on the revenue collected from indirect taxes or taxes on consumption and to a lesser extent on the direct, using the lowest rates in the European Union, this trend can be seen only in the new entrants the union, West European countries by adopting a report taxes - indirect taxes more equitable.

States that adopt the strategy of considering indirect taxes as the main source of revenue to the state budget are based purely electoral reasons, whereas there is a psychological factor that they are perceived as more easily borne by taxpayers, not so obvious and clear as direct taxes. Tend to focus on indirect taxation can meet in the ten countries that joined the EU in 2004 on the two countries that joined in 2007: Bulgaria and Romania.

Besides differences in the ability to collect revenue reported in the gross domestic product achieved, new Member States differ from older ones and in terms of revenue structure. Thus, Romania is based largely on indirect taxes as being the third place in the Union, as a share of gross domestic product of the amounts raised from these taxes, as Bulgaria and Cyprus.

Share of indirect taxes in total revenue budget of Romania is 42.3%, which is far superior to the average of 39.1%, which meets in the 27 European Union Member States. While the direct taxes are collected only 19.1% of social contributions and a percentage of 34.6%. Among indirect taxes, value added tax has been among the highest values, Romania ranks second among EU countries with a share of 29%. A positive aspect regarding the tax system, in this view, is that the collection rate in Romania has remained stable over the past five years, with only small oscillations.

Indirect taxes is the main source of income for training from the state budget in most Member States in November, compared with the 15 old Member States

in EU prevailing income taxes. In these countries the old Union there is a relative balance between the three income sources: indirect taxes, direct taxes and social contributions, one of the causes of these differences as a reduced taxation of labor and capital in the newly integrated.

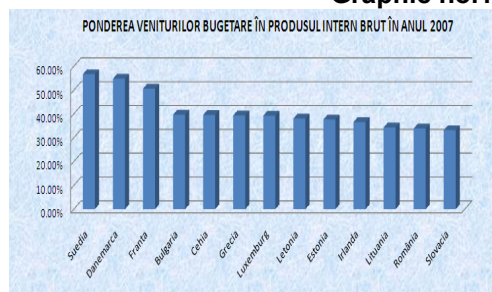
The consequence of this low level of budgetary revenues obtained from taxes collected in Romania in a reduced gross domestic product revenue from these taxes. Income tax in Romania recorded the lowest level of the Union, together with those from Slovakia (19%) and Estonia (23%). On the other hand we can find seven Member States of the Union in which income tax is for a share of over 50% on top to Denmark and Sweden. Besides listing and the tax is one of the lowest in the European Union, Romania is in the fourth position among the Member States in Bulgaria (10%), Cyprus (10%) and Ireland (12.5%) while Germany, Italy and Malta share tax profit of over 35%.

Increased consumption was the first increase in budget revenues from VAT, excise and customs duties, so an increased collection of indirect taxes. We can talk about such a small "transfer" of tax revenue from the consumption sphere. I believe that through this change we have removed more than a structure of taxes fair and consistent as to meet the western European countries, which are prevalent earnings taxes.

Besides differences in the structure of income, countries that recently joined the European Union differ from older ones and in terms of ability to collect revenue reported in the gross domestic product achieved. We find that the share of tax revenue in the Gross Domestic Product is usually lower in new Member States than in the 15 states that were previously part of the accession of new EU Member States.

If you take into account forecasted Directorate General of Foreign Economic Commission, which shall be based on the methodology of calculation ESA 95, the Community used for the comparison and

harmonization of data supplied by member countries, Romania has managed to mobilize budget state in 2008 revenue share of 29.53% of gross domestic product, occupying our country such as Slovakia penultimate place with a share of revenue in the gross domestic product of 33.2%. In the following table I could show the share in budgetary revenues in GDP at the end results of 2007:

Graphic no.1

Source: processing the data supplied by the Ministry of Finance and PriceWaterhouseCoopers in „Paying Taxes 2009 - The Global Picture”

In the north as Sweden and Denmark, can meet the highest share of tax revenue in GDP in the European Union, which is over 50%, while in countries that joined later this share tends to average 27 Member States, being 36.9% of gross domestic product, number eight of them having even less than 35%, well below the EU-27 average. Taking into account the non-reimbursable funds, Sweden is the country has managed to collect most revenue as a share of gross domestic product of 56.7% of GDP, followed by Denmark with 54.8% and France 50.6%. On the opposite side we find the states that have income of less than 40% of gross domestic product: Slovakia (33.2%), Romania (33.9%), Lithuania (34.3%), Ireland (36.6%), Estonia (37.7%), Latvia (38.1%), Luxembourg (39.3%), Greece (39.4%), Czech Republic (39.6%) and Bulgaria (39.7%).

4. Conclusion

In conclusion, we could find throughout Europe a tendency to

decrease, in general, the share of taxes in gross domestic product, reflecting a slight weakening of the European social model, a model based on wealth taxes. Extensive tax reforms were a feature of the tax system in Romania. The problem of the fiscal policy in Romania's budget revenues has been an identification of that to ensure optimal balance between the need to increase the funds collected as a source of expenditure and the need to stimulate investment, which is the main factor of economic growth and standards of adequacy nominal convergence and real, as required by European Union Member State. Thus, in my opinion should be an increase in budgetary revenues at a pace above the inflation rate, and at the same time, adjustment to the fiscal pressure that would help improve the business environment and investment.

Fiscal reform consisted of a fiscal loosening in an incentive for business in Romania through the introduction of flat tax of 16%. In the process of fiscal loosening, and there was a trend for a reduction in the rate of social security contributions, but reductions imposed by the European Union, which could have

real effects on labor market flexibility and increase the absorption power of the Romanian economy in terms domestic investment and foreign direct investment, and saving and consumption. This reduction in the contribution rates will not mean a decline in budgetary revenues from these sources. Stimulating work and stop the flow of labor out highly-qualified would be an incentive for the development of whole economy and increase social welfare.

Fiscal reform carried out in Romania must not stop at the achievements so far, following a redimension of the national tax system with a view to a new qualitative and quantitative structure of it.

I appreciate that the Romanian tax system has reached a level of maturity close to the other tax systems of member countries of the European Union, but there are a number of necessary changes to remove some of the deficiencies and requirements for proximity to the European Union, so that become a certainty that the process of integration has been broadly achieved.

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