COMPARATIVE ANALYSIS OF FISCAL SYSTEMS AND POLICIES

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Abstract: *Although fiscal harmonization with regard to indirect taxation has been achieved right from the beginning of the European Union, as regards direct taxation, Member States have much more freedom of decision, which leads to the diversity of tax systems and to differences in competitiveness through the use of fiscal instruments. Therefore, we describe Romania's position in the European context regarding fiscal competitiveness. Taking into account the recent reforms implemented by the European countries, we have focused on the general tax burden and direct taxation, taking into account the indirect taxes and social contributions paid by both employers and employees.*

The present paper also makes a series of recommendations regarding the directions of evolution of the fiscal policy of the European Union in the next period. On the one hand, fiscal policy must be designed to support nominal and especially real convergence in the European Union. At the same time, fiscal policy must be flexible enough to alleviate any internal and external shocks generated by accession.

Keywords: Fiscal system, Fiscal policy, Public revenue.

JEL Classification Codes: H20, H30, G28.

1. INTRODUCTION

This article entitled "Comparative analysis of fiscal systems and policies" addresses a wide range of issues regarding taxation and the implications of fiscal policy on economic development in relation to European Union (EU) integration, but also a wide range of current issues related to fiscal policy in the EU. The choice of theme is motivated by the increasing importance of the subject of fiscal compliance, especially when governments facing massive budget cuts have to manage the limited public funds collected through the tax system.

The importance of the theme comes from the significance that fiscal policy and reforms in this area have for the economic development of any state, especially since the present study focuses on the member states of the EU, which have different levels of taxation and where there are still many approaches of taxation, despite the efforts supported by the convergence.

In general, the EU tends towards the convergence of national tax systems, even if their perfect overlap is not yet clear. In the fiscal system, an important role is played by the tax administration and its mechanisms, starting from the fact that these components ensure the collection of financial resources from the civil society, the techniques and the attitude in the collection process being crucial in this process.

At the same time, with the prospect of joining the EU, a major importance is given to the functioning of the national systems, in accordance with the best European practices and the existence of a basis for comparing the performance indicators of the relatively homogeneous administration, in order to contribute to a better one. understanding of national problems and performance, but also to provide foreign investors and international institutions a realistic picture of the situation in the field, which represents one of the investment decisions in one country or another - the ease with which the taxes are paid.

Through the synthesis of the statistical information provided by the general budgets of the Romanian state (public data on the websites www.mfinante.ro, www.insse.ro www.bnr.ro) it was followed the comparative evolution of some significant indicators within the budget that reflects the production gear. economic development, balance, imbalance or crisis.

Considering the complexity of the subject, among the research methods used are the general and specific scientific ones of the investigation: research and comparison, scientific abstraction, synthesis, observation, logical and systemic analysis, induction and deduction, interdisciplinarity, as well as the systemic, monographic treatment method, respectively statistical, the use of graphical methods, figures and tables in the complete and complex exposition and rendering of the phenomena and the economic processes studied.

As the theoretical and methodological basis of the paper, the researches of the local and foreign scientists, the resources of the global information system, the periodic scientific and specialized literature, as well as the personal observations of the author have served.

2. CHARACTERISTICS OF FISCAL SYSTEMS AND POLICIES IN ROMANIA AND THE MEMBER COUNTRIES OF THE EUROPEAN UNION

2.1. General aspects regarding the tax system in Romania and the member countries of the European Union

As a component of the tax system, taxation is "an essential part of every nation's existence, because in most countries, tax revenues are the basis of public financial resources through which public needs can be covered" (Surugiu, 2008, p. 65). Over time, the specialized literature (Bistriceanu, 2010, p. 35) has tried to develop hypotheses based on which they can formulate opinions regarding the identification of the purpose and role of taxation, analyzing the relationship between development and taxation, the impact of taxation on the environment. business, etc., given the special importance that finances have within a state, regardless of the level of development that would have, with the emergence of the state, the most interesting, or better said, financial elements such as taxes, taxes, expenses, offices, taxes, public debts, duties, etc.

Tax systems, in their form, represent "the framework through which the financial resources necessary to fulfill the role of the state in the economy are ensured, playing an important role in mitigating imbalances" (Biriș, 2012, p. 25). There is a close connection between taxation and the degree of development of an economy, because it greatly influences the activity of individuals (in the form of employees, etc.) and that of legal entities (with significant impact) on corporate profits, on the decision of investments and not only). The emergence and evolution of the fiscal system in the territory of our country is characterized by a complex and lasting process.

At EU level, each country is responsible for its level of taxation. Member States have different priorities in terms of public spending. They have the power to decide how they will be realized, but also on establishing the taxes used to finance them. Depending on the degree of development of a country, the level of taxes and contributions may differ from state to state, so we can make a comparison between the most developed and least developed countries.

In more developed countries, much of the gross domestic product is redistributed through the state budget and taxes. However, this is not the case in countries with less economic development.

Direct taxes, from the perspective of Stroe and Armeanu (2014, p. 121), are defined as a category of taxes that are classified by fund and form, representing a number of advantages. These advantages result from the favorable response offered to the requirements of taxation principles. The main feature that fully characterizes direct taxes is that they are registered. This aspect reflects the direct connection with the economic power, but also with the personal part of the taxpayer, and the data regarding the payment amount, as well as its due date are given in advance to the taxpayer.

In order to obtain financial resources useful for covering public expenses, in addition to direct taxes, indirect taxes are established. Of these we can mention that they are favored in the countries of reduced development or in the countries in transition. Although they have many elements in common, social contributions cannot be taxed because of the substance that makes them different.

According to Bătrâncea and others (2011, p. 19), social contributions are defined as an obligation that is available to the state, expressed in money and whose main purpose is to cover some social risks related to the incapacity or unavailability of the labor supply. For our analysis, we will refer to comparisons between Romania and the EU average for 28 states, the EU average for 27 states, as well as the euro area comprising 19 Member States. Therefore, we will detail the analysis regarding direct, indirect taxes and social contributions, ignoring other taxes and capital taxes.

2.2. The national fiscal system versus the fiscal system at the level of the member countries of the European Union

This study analyzes the Member States of the EU from the point of view of the elements that make up the tax system: direct taxes, indirect taxes and social contributions. By querying the Eurostat database, graphical representations were drawn up for each feature of the tax system, based on which each weight was discussed in detail, a trend that they recorded between 2015 - 2019.

The starting point in the analysis of the structure of the fiscal system is represented by the models proposed by Eurostat, which involves comparing their elements at the level of the Member States of the EU, as well as at the level of Romania.

Regarding our analysis, we will refer strictly to comparisons between Romania and the average of the member states of the EU. Thus, we will analyze in detail the direct, indirect taxes and social contributions, neglecting the other taxes.

In the following, we aim to analyze the impact of indirect taxes (based in particular on taxes on production and imports), direct taxes (where we will focus on income and wealth tax) and social contributions (where we will focus more chosen on the contributions due by the employer) in the gross domestic product at EU-28, EU-27 and euro area levels (EA-19).

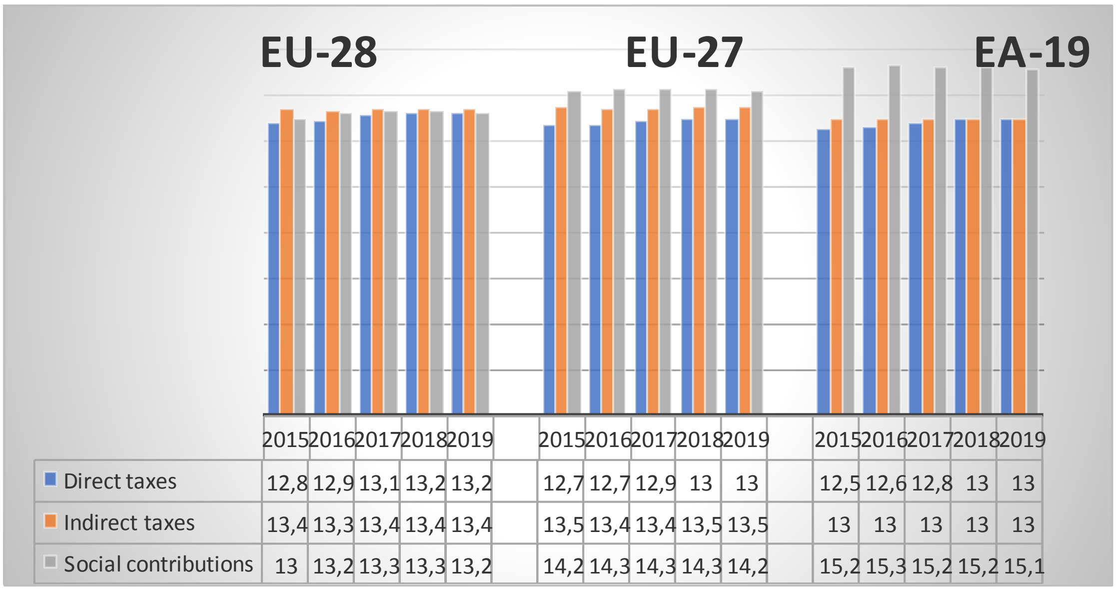

Figure 1. ***The share of GDP of indirect, direct taxes and social contributions in the years 2015 – 2019, EU-28, EU-27 and EA-19 levels***

Source: Own projection based on statistical data after the European Commission (2019), https://ec.europa.eu/info/sites/info/files/economyfinance/ecfin_forecast_autumn_2019_statist_annex_en.pdf

From the graphical representation above, we can see that during the analyzed period (2015-2019), the emphasis was placed on social contributions and indirect taxes and less on direct taxes. Also, the analysis shows the fluctuation of the weights in the GDP of the analyzed elements and, however, it can be observed that the indirect taxes have registered a slightly upward trend, the contributions have registered a downward trend and the direct taxes have remained relatively constant, their level being largely influenced by developed countries, characterized by the predominant use of direct taxes, compared to emerging countries, where indirect taxes are characteristic.

We can see that the share of indirect taxes exceeds the weight of direct taxes over the whole period. We can say that consumption taxation is preferred, a situation that characterizes, in particular, developing countries, to the detriment of direct taxation, of wages (in particular), of income (in general) or of profits, for example.

At the EU-28 level, for 2019, indirect taxes represented 13.4% of GDP, direct taxes 13.2% of GDP, and social contributions a percentage of 13.2% of GDP. In terms of social contributions, they were characterized by a variable ratio for the analyzed period, starting from a percentage of 13.0% of GDP in 2015 and maintaining a value of 13.2% of GDP for the end of the analyzed period .

According to the figure shown above (see Figure 1.1), we can see a slight increase of them until 2017, reaching 13.3% of GDP and then recovery until 2019, reaching again the level of 13.2% of GDP. Speaking from the perspective of trends, we can see that the trend of direct taxes is more pronounced compared to that of social contributions (both have a downward trend). Although both have an oscillating tendency, both maintaining the same weight in the gross domestic product.

Compared to the EU-28 Member States, the share of direct taxes increases at the level of the EU-27 member states, the direct contributions and taxes being those which do not show fluctuations as great as the other indicator used in the analysis.

For the euro area (EA-19) it can be seen that the trend of direct taxes is more pronounced than that of indirect taxes and contributions. However, although social contributions have an oscillating and decreasing tendency, they remain the ones with the highest share in gross domestic product.

In the following, we intend to analyze at the national level the same elements of the tax system, previously analyzed at the level of the three groups of EU Member States.

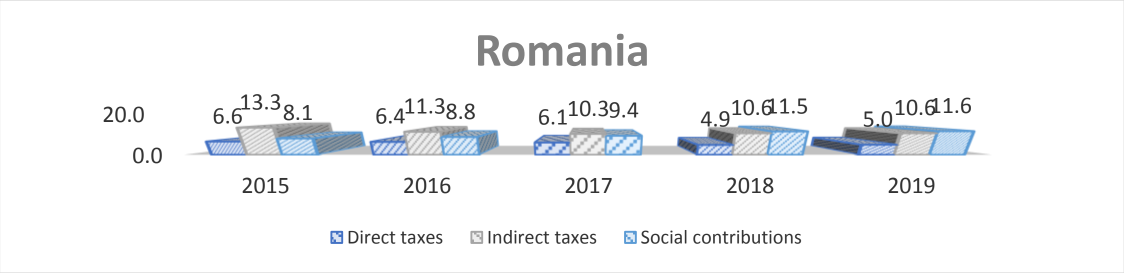

Figure 2. ***The share in GDP of indirect, direct taxes and social contributions in the years 2015 - 2019, at the level of Romania***

Source: Own projection based on statistical data after European Commission (2019), https://ec.europa.eu/info/sites/info/files/economy-finance/ecfin_forecast_autumn_2019_statist_annex_en.pdf, accessed 27.12.2019

Based on this, we could create a clearer picture of the real situation of the Romanian tax system. As in the study of the 3 groups of EU member states (EU-28, EU-27 and the euro area), we can see that, in the 5 years, Romania has focused more on social contributions compared to indirect taxes, these from followed, exceeding them most often, during the analysis period. Analyzing the evolution of the indicators along the way, we can say that Romania did not have a coherent fiscal system, corresponding to the transition condition to the market economy. The gradual reform promoted and carried out in our country has not always had beneficial effects on the economic environment, often creating the necessary premises for the mismatch between the legislative provisions and the practical realities.

Since 2015, there is a downward trend in indirect taxes. As a share of GDP, in 2019 they reach 5.0% of GDP, registering a decrease of 1.6 percentage points compared to the reference year and up to 6.1% in 2017, down from 2016 with 0, 3 percentage points. Starting with the same period, there is a significant but consecutive increase in social contributions until 2019, with a share of 11.6% of GDP (Fiscal Council, Annual Report 2017, p. 49).

About direct taxes we can mention the same thing as before and that it undergoes small fluctuations from year to year, reaching in 2019 a level of 5.0% of GDP.

Also, it can be argued that Romania is a developing country, the emphasis placed on indirect taxes to the detriment of the direct ones being a feature of this type of state, compared to the developed states, where the emphasis is mainly on direct taxes.

3. CONCLUSIONS

In this study we have pursued three objectives, thus, firstly, it was proposed to present a complex and comparative assessment of the fiscal system in Romania compared to the fiscal system encountered in the EU Member States.

Secondly, it was tried to reach the least explored causes of the "curse" of the low incomes, by analyzing the legislative parameters of the fiscal policy in Romania, in relation to the suggestions of the specialized literature and by using a comparative analysis.

Thirdly, on the basis of the above, this report aims to make recommendations on how the weaknesses have been overcome.

The only sign of hope transmitted by the fiscal governance in Romania is that, from year to year, the rates of increase of the total collections of taxes and social contributions have increased in Romania above the EU average and can be found first in the group of similar countries from the region, with positive signs in this regard in 2019. However, this good news is obscured by the negative relationship between growth rates and the share of tax revenues in GDP, manifested since the beginning of the recovery period.

Instead, the purpose of this approach is to provide a new perspective on the bottlenecks and opportunities that arise in the process of raising the level of revenue collection and to explore the implications for public policies resulting from the research.

Therefore, this paper presents a comparative analysis of the fiscal systems and policies in the EU Member States, based on an original data set. Who is pushing the fiscal system in Romania the most? The question has an elegant answer: the Romanian state is overwhelmingly based on the consumption tax and the labor force, thus favoring the payment of taxes on capital and property. Against the background of the reduction of the receipts in the GDP and of the record economic growth, in the year 2018, the unique weight was reduced from 16 to 10 percent.

The reduction had a significant negative impact on income tax revenue, which decreased by 41.7 percent. It is essential to mention here that “this evolution is wider than the impact of the reduction of the quota (-37.5%), since the transfer of the contributions from the employer to the employee has led to the decrease of the base of calculation of the income tax. Thus, the total effect is equivalent to a reduction of the income tax from 16% to 9.33%. Given these measures, we should not be surprised that the decrease in income against the background of wage increases, dividends and wage rates in a budget so anchored in VAT and income tax.

In this context, it is obvious that a very important issue for the economic environment is taxation. Improving the level of revenue collection from the general consolidated budget of Romania, which aims to increase the share of revenues from gross domestic product, can be achieved through a set of measures aimed at tax law, the development and application of procedures in this field, the institutional framework, as well as resources allocated to this activity.

The financial and economic crisis that has manifested itself on a global scale has deeply affected Romania, also paying attention to the role of the state in the economy. A measure within the reach of the state is the efficiency of collection, without resorting to increased taxation.

Our opinion is that the temporal priority in the matter of the harmonization of the fiscal system is represented by the components of the fiscal mechanism and the fiscal apparatus, with medium-term effects compared to the harmonization of the tax and tax system that can bring long-term results.

In conclusion, we can say that action is needed in the following directions:

- Improving the degree of collection of taxes and duties;
- Adoption of fiscal measures to stimulate work;
- Reduction of social contributions.

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