

FISCAL COMPLIANCE IN ROMANIA

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Abstract: *Fiscal compliance, the basic principle of fiscal policy, but also an instrument in tax collection includes the taxpayer's tax duties for registration for tax purposes, correct declaration, timely tax return and legal payment of taxes and fees due. A number of economic and social factors influence the degree of tax compliance of taxpayers. In the last three years, the National Agency for Fiscal Administration has reported a gradual increase in the degree of tax compliance in terms of voluntary filing of tax returns and voluntary payment of reported tax obligations. The efficiency of tax compliance is the result of the adopted fiscal policy regarding the granting of bonuses for the declaration and payment within the legal term of tax obligations, the simplification of tax returns, the introduction of new tax notification forms, and improving the communication of tax authorities with taxpayers.*

Key words: *tax compliance, tax return, government performance, fiscal damage, fiscal debt.*

Classification codes JEL: G32, H11, H21

1. INTRODUCTION

In order for the state to be able to provide quality services to citizens, it is extremely important for the taxpayer to understand the tax burdens he has, to be aware of the importance of correctly declaring and paying taxes and fees in full due to the national public budget.

Tax compliance of taxpayers involves three steps by the tax authorities: identifying taxpayers, collecting taxes due and providing information from tax administrations regarding taxation. Once these stages are completed, the tax compliance of taxpayers becomes a process with results as expected.

The purpose of this research is to highlight the impact that fiscal policy measures have on the tax compliance of the taxpayer. In this sense, the degree of fiscal compliance in terms of filing tax returns and voluntary payment of tax obligations was analyzed and compared quantitatively, in the last 3 years following the fiscal measures adopted.

The first part of the paper presents the main obligations that the taxpayer must fulfill in order to fall into the category of tax compliance, namely: registration for tax purposes, submission of tax returns on time (ii until the date required by law), correct reporting of debts timely payment of tax obligations (ii until the date provided by law).

But their fulfillment is conditioned by a series of influencing factors, addressed in the second part of the study.



The third part of the paper presents an analysis over a period of 3 years, of the fiscal compliance of taxpayers in the 9 regional structures of the National Agency for Fiscal Administration considering the degree a voluntary filing of tax returns and the degree of voluntary compliance with payment of tax obligations.

The result of the research highlights an increasing trend of tax compliance, following the simplification of tax returns, the adoption of new tax notification forms, the granting of bonuses for the declaration and payment of tax obligations within the legal term, and the intensification of communication with taxpayers to improve information tax.

2. FISCAL COMPLIANCE - BASIC PRINCIPLE OF FISCAL POLICY

Every taxpayer must be aware of their rights, obligations and consequences that will result from actions in breach of applicable law. As the formation of funds and, implicitly, of public revenues depends on the degree of correct declaration and collection of taxes and fees, the basic principle in fiscal policy becomes the fiscal conformity of natural and legal persons.

Fiscal compliance is the willingness of persons to act in accordance with both the spirit and the letter of the law and the tax administration, without interfering with the enforcement action. While the scope and nature of these responsibilities vary from country to country, the tax administration requires individuals and / or legal entities to report as fully and comprehensively as possible the results obtained by them in relation to government programs. In this regard, issues related to compliance by taxpayers and the impact of the effort of tax administrations must be taken into account in order to improve their voluntary compliance. This is a complex area, both for taxpayers and for state institutions, especially given the difficulties inherent in making accurate and reliable estimates of taxpayers' reporting on tax compliance. Bird R. (2008, p: 78) states that: "The main task of any tax administration is to facilitate compliance."

According to the Organization for Economic Co-operation and Development (OECD), in an ideal world, all citizens and businesses would fulfill their obligations under tax law, namely: to register where necessary, to declare and to pay on time the tax obligations calculated in full and exactly in accordance with the tax law. This statement encapsulates four basic obligations regarding the tax compliance of citizens, namely:

- Registration for fiscal purposes;
- Filling tax returns on time (ie by the date provided by law);
- Correct reporting of tax debts;
- Timely payment of tax obligations (ie until the date provided by law).

Whereas "the collection of taxes and fees represents on average 20% of the Gross Domestic Product" (Tax Administration 2019: Comparative Information on OECD and Other Economic and Emerging Changes, 2019, p: 69) to comply with the tax law, each the country carries out activities to support and trust its tax system and administration.

However, due to the attitude of taxpayers, ignorance, negligence or even deliberate evasion, as well as weaknesses in a tax administration, cases of non-compliance with the law are inevitable. Therefore, tax administrations should consider the application of strategies and structures to ensure that non-compliance with tax laws is minimal.

In the empirical studies on fiscal behavior, the "slippery slope framework" model (Fig. 1) proposed by Kirchler E., Hoelzl E. and Wahl I. (2008, p: 218), approaches fiscal compliance by through two dimensions: trust in the authorities and the power of the authorities.

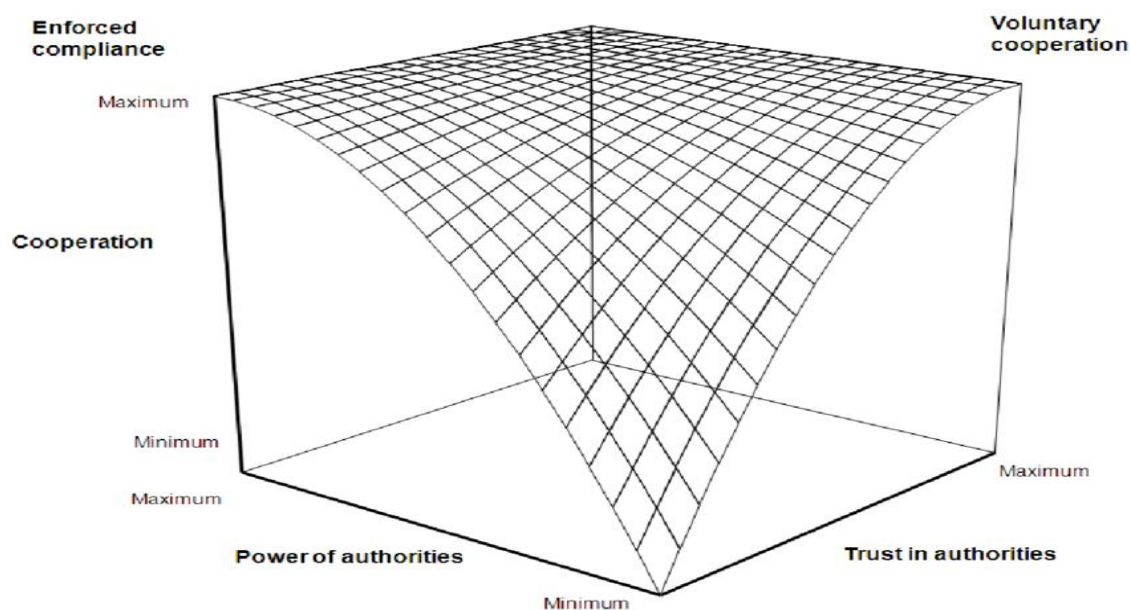


Figure 1. The slippery slope model

Source: Kirchler E., Hoelzl E. and Wahl I, 2008, p: 212

The model highlights the fact that, in the process of tax compliance, along with the classic instruments of coercion (such as tax inspections and fines imposed on taxpayers for tax non-compliance), perceived as representing the power of the authorities, an important role is played by trust in authorities. The slippery slope (Kirchler, 2008, p: 220) introduces the dynamics of the interaction between the power of the authorities and the trust in these state institutions as a factor in understanding the behavior of taxpayers. Thus, the following idea emerges: tax compliance increases as taxpayers trust the authorities and when that authority has the power to enforce compliance.

Tax authorities depend on power and confidence to ensure higher levels of tax compliance through these two measures. Thus, a "slippery slope" occurs, when the taxpayers' motivation to comply with the tax can lead to a good result, such as reparation, if the tax problems are to be solved or the opposite, such as prosecution, in which case the taxpayer refuses to cooperate. These behavioral attitudes of taxpayers will influence the relationship with tax institutions, creating different dynamics, confidence and power in the slippery slope. If these dynamics are well managed, all the prerequisites for high tax compliance are created.

Trust in the authorities is defined as "the general opinion of individuals and social groups, according to which the tax authorities are benevolent and act for the common good", and the power of the authorities is: "taxpayers' perception of the potential of tax authorities to detect tax fraud and sanction" (Kirchler, 2008, p: 219). By increasing the level of trust in the authorities, we obtain voluntary compliance, and by increasing the level of power of the authorities, the imposed or forced compliance is obtained.

The high level of tax compliance can only be maintained through high levels of confidence or power. Once confidence and power reach an intermediate level, the model suggests the possibility of a downward spiral: as the level of trust in the authorities is already affected, monitoring and controls are perceived as signals of the <offending police> attitude of the tax authorities, thus generating more mistrust. Experimental work on the slippery slope, taking into account different scenarios of manipulation of power in public institutions and confidence in

their actions, have shown that high power and high confidence are associated with greater fiscal compliance and have a positive impact on collectors. Tax obligations (Marques et al., 2019, p: 598).

From my point of view, the “slippery slope framework” model developed by Kirchler E. et al. (2008, pp: 218-224) summarizes very well the fiscal approach of the oscillation between compliance and non-compliance tax.

The two dimensions: trust in the authorities and the power of the authorities are determinants of fiscal compliance, but personally, I believe that, in the equation, a third dimension must be introduced, namely: the human factor. Even if we refer to a natural or legal taxpayer, the human factor decisively influences any decision, including the tax one (tax compliance). In this regard, I believe that the power of tax authorities should be understood as having two facets: coercive power (deterrence, tax controls, punishment and reward) and legitimate power (acceptance, identification with the authorities, legal position). Trust comprises two independent qualities: reason-based trust (context-based rational decision) and implicit trust (automatic and unconscious).

3. INFLUENCE FACTORS FOR FISCAL COMPLIANCE

Even though most people pay their tax obligations, the tax compliance puzzle differs from person to person (Alm et al., 2011, p: 637). Thus, a number of social and emotional factors act with the degree of fiscal compliance. One of these influencing factors is the social norm. Therefore, when individuals are faced with a new, ambiguous situation, they can observe the actions of other taxpayers in the same situation to help make a decision. Over time, these social actions can become socially sanctioned behaviors.

The decision of tax compliance of individuals and / or legal entities is not taken independently of the tax regime, it may include factors such as confidence in governance, social norms and the ability of tax institutions to respond to the needs of taxpayers. When a taxpayer, as a result of information provided by state institutions or other taxpayers, finds an optimal option for tax compliance, he will resort to this option, as: “there is a behavioral tendency to stop searching when the information already obtained is favorable, even when, this information may be incorrect” (McKee et al., 2018, p: 732).

Bobek D. (2013, p: 453) notes that individual standards related to behavior / ethics, beliefs (personal norms), as well as expectations from loved ones (subjective norms), directly influence tax compliance decisions, while expectations general characteristics of society and the behavior of others (descriptive rules) have an indirect influence.

The age of taxpayers is another barometer of tax compliance, in the view of Era Dabla-Norris (2019, p: 523), who noted that the correct payment and declaration of taxes and fees tends to be disproportionately higher for young people and startups.

In 2013, the National Institute of Statistics of Romania presented to the National Agency for Fiscal Administration (A.N.A.F), a final report containing a series of factors that influence fiscal compliance, summarized in table no. 1:

Table 1. Synthetic presentation of the factors influencing fiscal compliance

Factors	Impact on compliance	Correlations
Possibility of audit	Rather lower impact	The subjective perception of the probability of an audit depends on the individual's aversion to risk, which is relevant only in conditions of low trust in the authorities.
Fines	Rather lower impact	Interpreted by taxpayers according to the confidence and perceived power of the authorities.
Tax rate	The impact depends on the level of trust in the authorities	In conditions of low confidence, a high tax rate is perceived as unfair treatment.
Knowledge of taxation and participation	Rather high and positive impact	The partial or total lack of knowledge is correlated with distrust and implicitly, with non-compliance. Similarly, lack of participation in the tax decision-making process.
Attitudes towards taxes	Strong impact, negative or positive depending on attitudes	Positive or tolerant attitudes towards evasion support non-compliance. Attitudes towards taxation generally depend on the perception of how public money is used.
Personal, social and national rules	Strong impact on tax values	If non-compliance is a widespread behavior and considered socially acceptable, then the likelihood of non-compliance increases. If tax evasion is socially defined as a minor crime, then the likelihood of non-compliance increases.
Perceived correctness	Strong impact	If the treatment of taxpayers is perceived as incorrect, trust in the authorities decreases and the likelihood of non-compliance increases.

Source: ANAF- Final Report-statistical indicators, 2013

Analyzing these factors influencing the tax compliance, the following conclusions can be drawn:

- in terms of audit probability, it has a low impact on the fairness of tax obligations. However, it is specified that in the conditions of a low trust in the authorities, the audit probability becomes more influential on the subjective perception faced by the taxpayer, with the risk of complying for tax purposes or not.
- fines, even if they do not have a major impact on compliance with tax obligations, have a major impact on increasing the power of the authorities and boosting confidence in them. Thus, too low a level of fines may lead to the conclusion that the state is unable to control evasionists, leading to a decrease in confidence in state institutions for taxpayers who comply with the tax. On the other hand, too high a level of fines could lead evaders to recover their infringements in a short time, immediately after being sanctioned by the tax authorities.

- tax rate. It is stated that this level of influence depends on the level of trust in the authorities. If the level of trust is low, too much tax can be perceived as a violation of taxpayers' rights, but if the level of trust in state institutions is high, the same level of taxation can induce citizens to contribute to the development of society.
- knowledge of taxation, as well as direct participation in their establishment, directly influences the tax compliance of taxpayers. These factors, the higher the level, the greater the trust in the authorities and conversely the lack of knowledge lead to distrust. Therefore, a correct and complete information of taxpayers on taxation, will increase the degree of tax compliance.
- personal, social and national norms are related to the behavior of groups, to the national values of the state, to the fiscal methods practiced from generation to generation. If there is a belief among the population that tax evasion is a minor aspect of the legislation, then citizens will choose tax non-compliance.
- the perceived correctness refers to the trust in the authorities to be treated fiscally correctly. Tax non-compliance will occur when the taxpayer feels marginalized and treated differently from a tax point of view by another citizen, who has the same premises as his own but who receives tax benefits or is not sanctioned in the same way.

This suggests one thing: the quality of tax administration should be measured comparatively and comprehensively, in relation to fiscal policy considerations (Era Dabla-Norris, 2019, p: 523).

4. FISCAL COMPLIANCE IN ROMANIA

Fiscal compliance costs refer to determining, documenting and making payments to meet tax obligations, as well as to complying with the filing procedure, but all of these can significantly complicate the tax burden facing companies.

The existing measures, regarding the costs of fiscal compliance, are reflected, both by the quality of the fiscal administration and by the complexity of the fiscal policy. For example, the amount of time required to file a tax return is also determined by the number and types of deductions allowed under the tax code. In addition, compliance costs are likely to reflect both the quality and availability of tax information and how payments are made.

In the period 2017-2019, at the level of the 9 regional directorates of the tax administration, improvements were registered in terms of the degree of voluntary compliance with payment, progress shown in Figure 2.

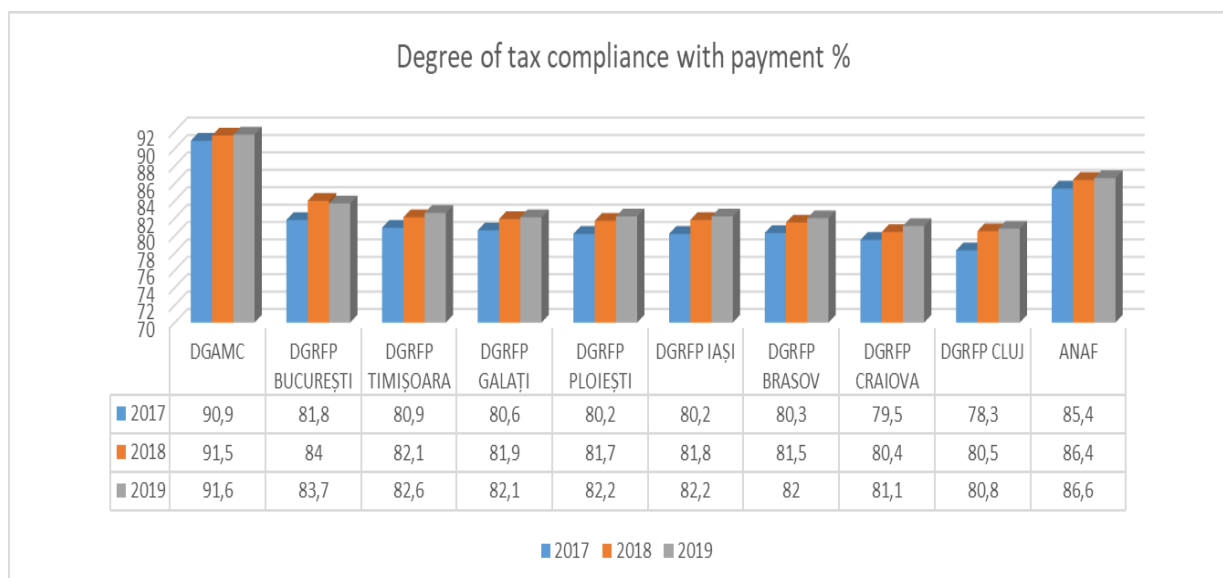


Figure 2. Degree of voluntary compliance with the payment of tax obligations (%)

Source: ANAF-annual performance report 2017, 2018, 2019

For 2019, receipts of fiscal obligations were reported following the declarations in the amount of RON 240,512.7 million, compared to RON 213,407.7 million, reported in 2018, and RON 184,311.1 million -2017, which indicates an increase in the degree of collection by 1.2% (2017 compared to 2019).

For these results of improving the increase in the volume of budget revenues, the National Agency for Fiscal Administration has directed its efforts towards diversifying the tax services offered to taxpayers, in order to simplify the fiscal actions they must fulfill. Thus, a series of procedural changes were adopted regarding the tax obligations of taxpayers.

In addition to the telephone communication channel "Call-Center" existing since 2015, in 2017 through the computerized application "Assistance Form" tax authorities have created a channel by e-mail direct communication with taxpayers for guidance and methodological assistance through e Also in 2017, the action of sending notifications to taxable persons earning income from abroad was intensified, so that 55 declarations were submitted regarding the income obtained abroad, in the amount of 336.4 million lei. declared as being obtained abroad decreased to 334, 1 million lei in 2018 - to reach 88.7 million lei in 2019 on a number of 45 declarations submitted. The explanation is that the amounts declared in 2017 also accumulate undeclared income abroad from previous years.

In 2018, regarding the income tax and compulsory social contributions due by individuals, through the legislative amendments to the Fiscal Code, the form "Single declaration of income tax and social contributions due by individuals" was introduced. This new form replaces no less than 7 mandatory tax returns for individuals with taxable income.

For taxpayers who choose or wish to waive the application of the broken down VAT payment mechanism, a Notification document (form 086) has been adopted in this regard. For the taxable persons registered for VAT purposes, it was facilitated the visualization of their own transactions and inconsistencies regarding the declared deliveries / services and purchases by the commercial partners. This aspect is achieved through the electronic service "Virtual Private Space".

The increase in the degree of voluntary fiscal compliance with the payment of fiscal obligations achieved in 2019 is primarily the result of the implementation of measures to restructure the outstanding budgetary obligations. Thus, the Government Ordinance no. 6/2019 on the granting of fiscal facilities, establishing the possibility of canceling part of the outstanding budgetary obligations on 31.12.2018, provided that the current fiscal obligations are paid within the legal term and the presentation of a restructuring plan eligible for payment of outstanding debts.

In order to increase compliance with the payment of obligations declared by individuals with large fortunes, since 2019 the tax authorities have notified taxpayers by addressing the tax decision on how to avoid calculating additional ancillary tax obligations, and on the enforcement procedure forced. According to ANAF, the degree of voluntary compliance with payment for individuals with large fortunes in 2019 compared to 2018 increased by 5.9 percent from 70.48% to 76.41%.

The year 2019 also brought the use of taxpayers of electronic means of remote transmission of the form "Single Declaration", "Declaration on VAT collected, due by taxable persons whose registration code for VAT purposes has been canceled" etc. However, the use of these electronic means of communication did not lead to an increase in the degree of voluntary compliance with the declaration, the situation being presented by Fig. no. 3

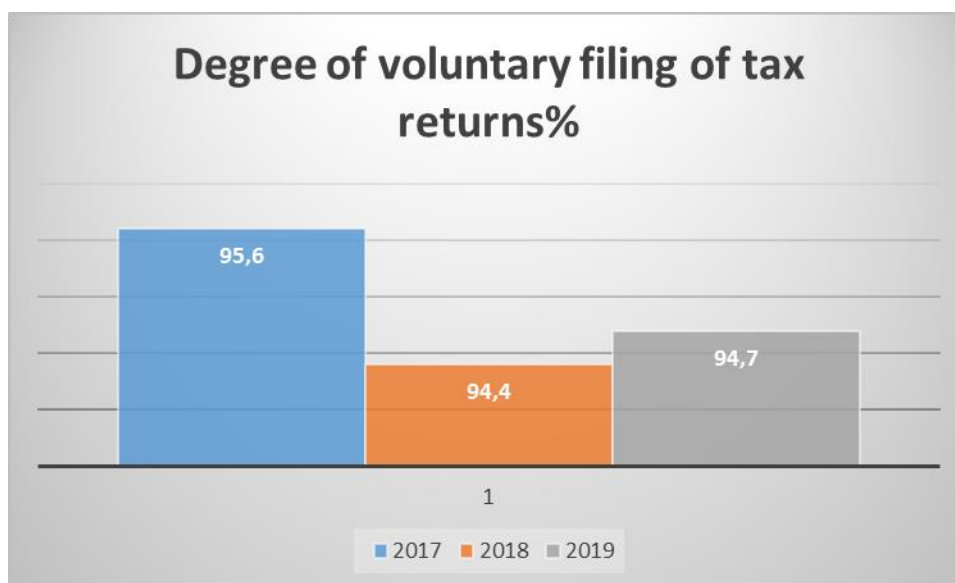


Figure 3. Degree of filing tax returns (%)

Source: ANAF-annual performance report 2017,2018, 2019

From the presented data it results that in order to submit tax returns, the era of computerization is not enough to be implemented at the level of the taxpayers, be they individuals or legal entities.

The lack of possession of computer tools (computer, email address) or even computer programs for taxpayers has led to a decrease in the number of tax returns submitted by them. Although the submission of these documents to the specialized counters within the headquarters of the tax administrations requires travel and the allocation of a period of time from the taxpayers, it seems that the adaptation to the computer system that eliminates these shortcomings

is gradual. In this sense, the study presented shows that 2019 brings better results than those of the previous year in terms of the degree a voluntary filing of tax returns, not at the level of 2017 about 95.6% but improved by 0.3%.

5. CONCLUSIONS

The notion of fiscal compliance is synonymous with the concordance of correct declaration and related payment of taxes and duties within the legal deadlines, established by the fiscal legislation.

Basic obligations regarding the tax compliance of citizens, are limited to registration for tax purposes for income, timely tax returns (ie until the date provided by law), correct reporting of tax debts, timely payment of tax obligations (ie until on the date provided by law).

In my opinion, these basic obligations are very rarely fulfilled cumulatively, and the taxpayers who achieve this performance are not stimulated or rewarded enough to continue this process.

Compliance can take place, both in terms of high state power and in terms of trust in the authorities. Compliance by taxpayers with basic obligations leads to the analysis of fiscal compliance in two ways: compliance that is done voluntarily (ie voluntary compliance) or corrected by verification / actions taken by specialized state bodies (ie compliance with concluded administrative acts). When compliance is imposed by power, and taxpayers realize that fraud has no advantages, the likelihood of forced compliance increases. When the interaction is based on trust, the likelihood of voluntary compliance increases, as taxpayers believe that there is fairness in terms of tax pressure and that tax procedures are fair.

The research showed that over a period between 2017-2019, taxpayers had a higher degree of compliance with the payment in terms of declared tax obligations. This was mainly due to the tax facilities that the administrative bodies have adopted, but also as a result of procedural changes regarding the cooperation of taxpayer tax authorities. Regarding the degree of submission of declarations, voluntary compliance has decreased due to the introduction of the obligation to submit forms only in the online system. Although this procedure reduces the shortcomings of the physical submission of forms (time, travel), the system is in progressive development being limited by the computer availability of taxpayers (computer, email addresses, software) but also by their computer knowledge.

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