

## FISCAL POLICY IN THE FIELD OF DIRECT TAXATION

PhD Delia IANCU

Craiova University, Faculty of Economics and Business Administration  
Doctoral School of Economic Sciences, Domain Finance, e-mail [delia\\_iancu27@yahoo.com](mailto:delia_iancu27@yahoo.com)

**Summary:** *The current actions to make fiscal policies more flexible are part of a broader reform process, in order to reach the level of income from economic activity, for the benefit and renewal of the Romanian economic system. Although tax harmonization with regard to indirect taxation has been achieved since the beginning of the European Union, with regard to direct taxation, Member States have much more freedom to decide, leading to the diversity of tax systems and differences in competitiveness with fiscal instruments.*

*This paper also makes a number of recommendations on the directions for the evolution of the European Union's fiscal policy in the coming period. Fiscal policy can also: reduce unemployment and poverty, prevent and combat tax evasion, reduce inflation and lead to a stabilization of the economy.*

**Keywords:** *Fiscal policy, Income tax, Income tax, Social contributions*

**JEL Classification Codes:** H20 – General

### 1. INTRODUCTION

Referring to the fiscal policy from the perspective, the specialized literature emphasized that “the greatest and most prudent science of taxation promoted by the government is to know how to insure the revenues of the state, of the society, without this constituting a burden or a prejudice. serious for the private interests and for the individual patrimony of natural and legal persons.” (Lacrita et al, 2015, p. 33). The current actions to make the fiscal policy more flexible are part of a broader reform process, in order to reach the level of income from economic activity, for the benefit and renewal of the Romanian economic system.

Increasing the degree of taxation indicates a higher fiscal pressure at the level of economic agents, with negative implications on the entire economy. However, its level remains debatable, with an expression of the quantities considered in real value.

Direct taxes, from the perspective of Saez and Zucman (2019, p. 86), are defined as a category of taxes that are classified by substance and form, representing a number of advantages. These advantages result from the favorable response to the requirements of the principles of taxation. The main feature that fully characterizes direct taxes is that they are nominative.

This aspect reflects the direct link with the economic power, but also with the personal part of the taxpayer, and the data regarding the payment amount, but also the due date are given in advance to the taxpayer.

An analysis of the main categories of taxes, duties and mandatory contributions highlights both their large number and the implications they have on the financial results of economic operators or their employees.



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Thus, companies must bear tax obligations (direct and indirect taxes), social contributions and contributions to special funds. Employees pay both payroll taxes and social security contributions, while shareholders have to pay profit taxes.

In Romania, the extremely large number of legislative changes (over 290 in 2017) led to a process of fiscal instability, with obvious repercussions on the business environment. Only by changing the contributions of employers to employees will be recorded negative situations for the last category, by decreasing net income or even by recording negative income (for part-time activities).

Obviously, companies will face a shortage of staff, while the state will see declines in tax revenues and increases in public spending.

In this context, the taxpayers' perception is that the level of taxation is high, justified both by the amount of tax debts and by the large number of taxes and fees.

Therefore, the issue of taxation in our country must be a central element of macroeconomic policies, the way in which fiscal measures are substantiated and applied being dependent on economic and social development.

## 2. METHODOLOGY RESEARCH

The present study analyzes the transposition in Romania of the European Union norms in the field both from the point of view of direct taxation (profit tax, income tax, as well as social contributions, and suggests ways to improve the efficiency of tax collection.

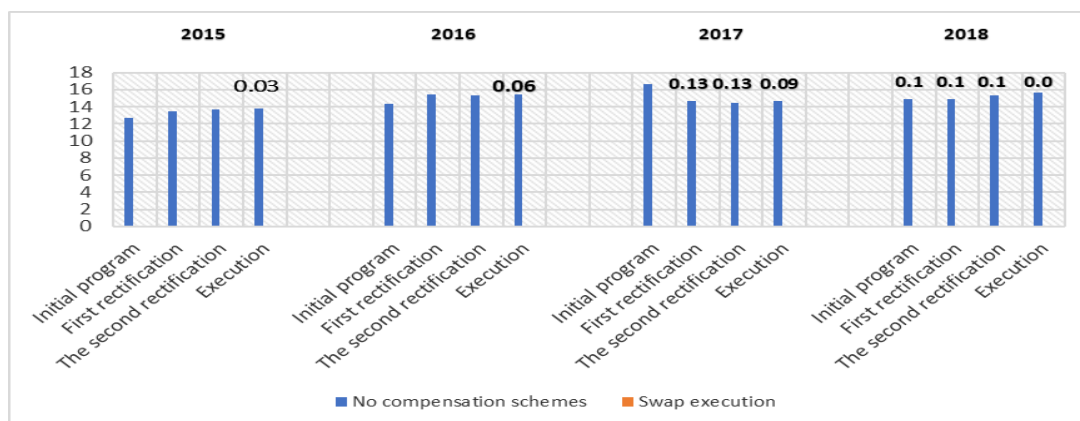
The main objectives of this study are:

- 1) analyzing the current role of direct taxes in the Romanian economy;
- 2) suggesting possible pragmatic ways of solving harmonization problems, without affecting the Romanian economy or economic and social objectives.

## 3. STUDY ON FISCAL POLICY IN THE FIELD OF DIRECT TAXATION

### 3.1 Income tax

In the present study, the profit tax was analyzed from the perspective of the way in which it is perceived and the degree of efficiency of its collection to the Romanian state budget for the period 2015-2018.



**Figure 1. Income tax revenues in the period 2015-2018 (billion lei)**

Source: Own processing after the Fiscal Council (Annual Report 2015-2018), [www.consiliulfiscal.ro](http://www.consiliulfiscal.ro), access date: 01.11.2020

Thus, Figure no. 1 shows that the evolution of income tax revenues followed an oscillating trend for the period 2015-2018, registering increasing values in 2016 compared to 2015 (significant increase of 11.5%), following a downward evolution at the level of 2017 compared to 2016 when a decrease of approximately 5% was observed.

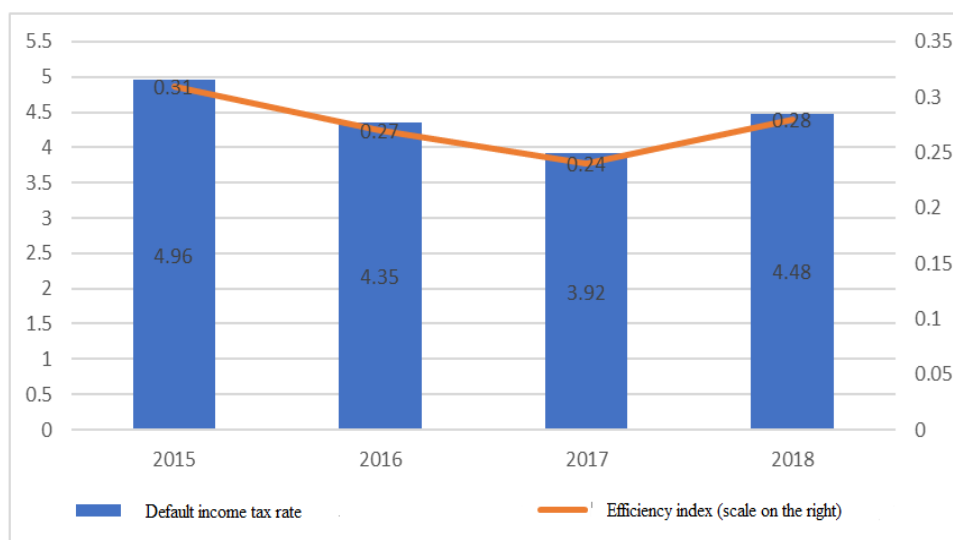
For the end of the analyzed period, in 2018 compared to 2017, an upward trend was registered, registering an increase of 6.7%.

Overall, the fiscal policy measures adopted in 2016 in terms of corporate tax have had a negative impact.

A negative evolution of the profit tax appears as a surprising one in the context of the high economic growth from 2017, as well as against the background of the analyzes performed regarding the income from the income tax.

From this point of view, it should be noted that in 2018, the process (which began in 2015) of gradually expanding the scope of income tax on micro-enterprises to the detriment of corporate tax continued, the effects of this process generating a series of losses income.

Therefore, an analysis of the evolution of the collection efficiency index (calculated according to the ESA 2010 methodology for the period 2015-2018) is presented.



**Figure 2. Evolution of the implicit tax rate and of the efficiency index of the collection related to the profit tax in Romania (pp)**

Source: Own processing after the Fiscal Council (Annual Report 2015-2018), [www.consiliulfiscal.ro](http://www.consiliulfiscal.ro), access date: 01.11.2020

As can be seen in Figure no. 2, in 2015 there was an improvement in collection efficiency, but the increase was temporary because, amid declining corporate income tax, the index was drastically reduced in 2015-2016, the same trend being followed also in 2017, when the lowest value was registered for the analyzed period.

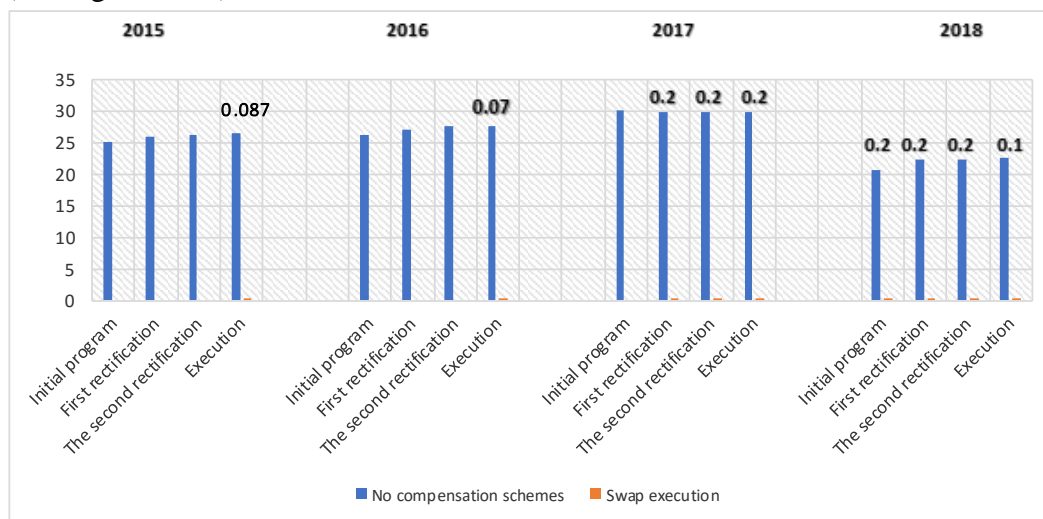
In this context, the year 2018 marked a slight recovery, the efficiency index of tax collection paid by companies registering an upward trend. This increase was caused by the advance with a percentage of 17.6% of the taxes paid by the companies, compared to the previous year.

Following the analysis, the improvement in revenue efficiency was most likely due to the evolution of other categories of revenue (for example, from the income tax of micro-enterprises),

as well as the evolution of tax payments made by companies to beneficiaries, apart from the Romanian state.

### 3.2 Income tax

A sharp negative dynamics of income tax leads to readjustment effects of the structure of taxation of income from wages, by transferring contributions from employer to employee for 2018 (see Figure no. 3).



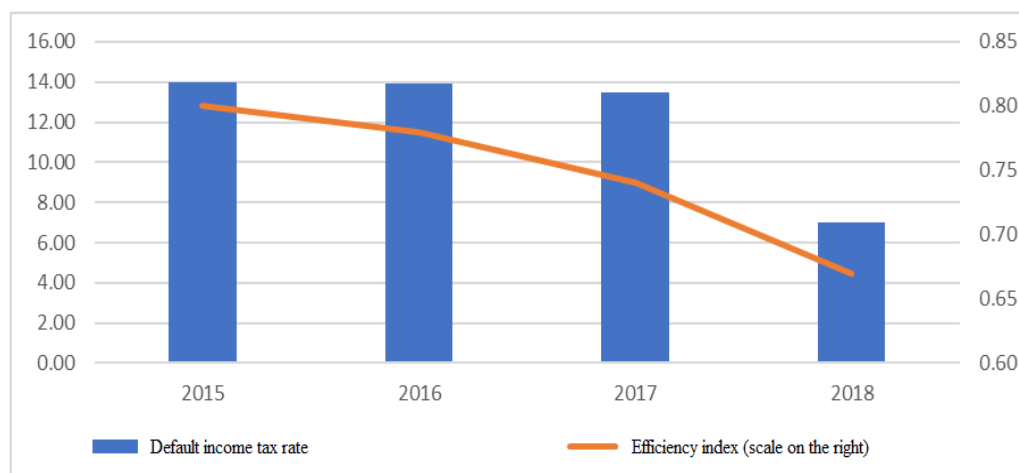
**Figure 3. Income tax revenues for the period 2015-2018 (billion lei)**

Source: Own processing after the Fiscal Council (Annual Report 2015-2018), [www.consiliulfiscal.ro](http://www.consiliulfiscal.ro), access date: 02.11.2020

Figure no. 3 shows that in the period 2015-2017 there was an improvement in collection efficiency, but the increase was temporary because, against the background of reduced income from income tax, the index being drastically decreased in 2018.

In this context, the year 2018 marked a slight recovery, the efficiency index of tax collection paid by companies registering an upward trend.

This increase was caused by the advance with a percentage of 17.6% of the taxes paid by the companies, compared to the previous year.



**Figure 4. Evolution of the implicit tax rate and of the efficiency index of the collection related to the income tax in Romania (pp)**

Source: Own processing after the Fiscal Council (Annual Report 2015-2018), [www.consiliulfiscal.ro](http://www.consiliulfiscal.ro), access date: 02.11.2020

In contrast to the fact that income tax revenues were negatively affected by the discretionary measures adopted in 2016, even after correcting their impact, the income tax growth rate was lower than the relevant macroeconomic basis, which is equivalent to a decrease in collection efficiency. Thus, the efficiency index of income tax collection registered a downward trend in 2016 compared to 2015.

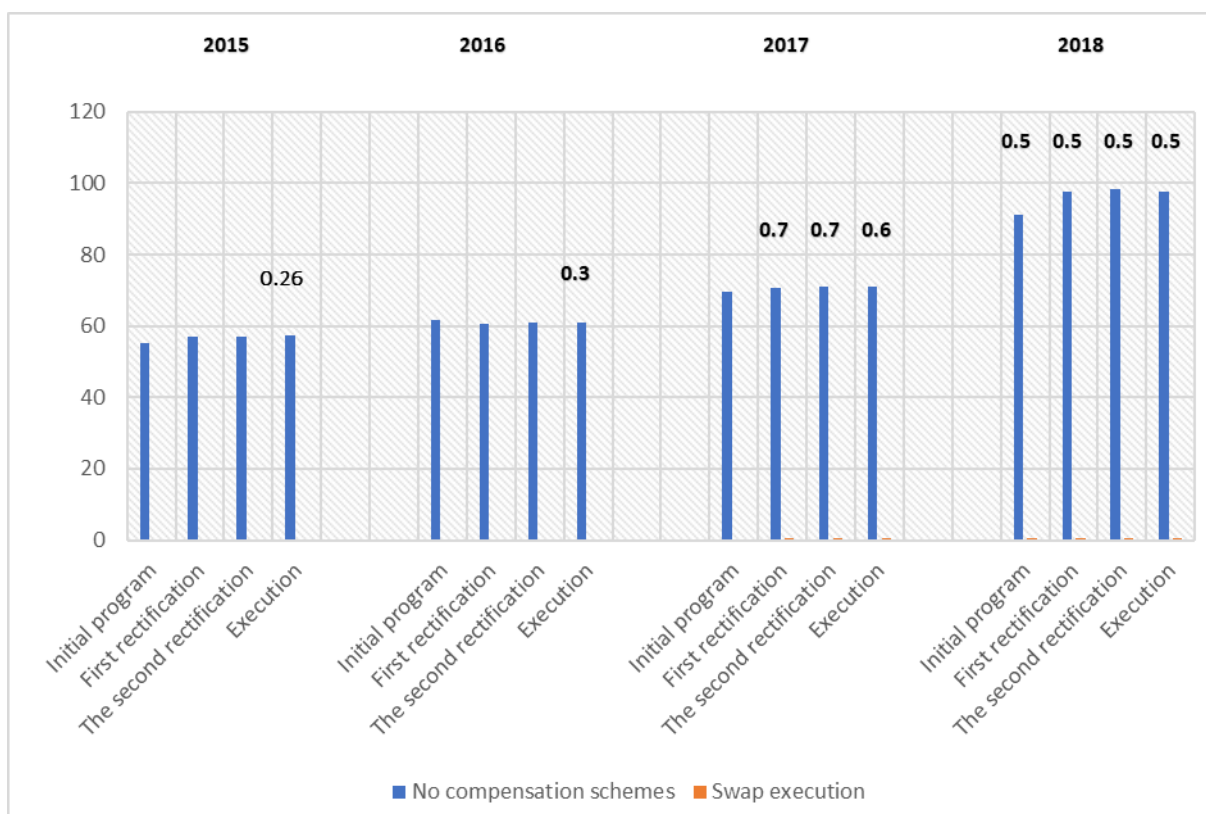
At the same time, for the end of the analyzed period, the collection efficiency index registered a significant decrease in 2017-2018, accentuating the reversal of the improvement trend manifested starting with 2013.

At the same time, the registered value represents the minimum threshold reached for the entire analyzed period.

### 3.3 Social contributions

The evolution of the receipts of the state social insurance contributions followed an upward trend for the period 2015-2018, registering increasing values, so that at the end of 2015 they stood at a level of approximately 57.50 billion lei, after that at end of 2016 to record the same upward trend reaching a level of about 61 billion lei.

In a continuous increase, the receipts of social insurance contributions for 2017 registered a value of approximately 71.10 billion lei, keeping the same evolution until the end of the analysis (2018), year in which the receipts registered a significant value of approximately 97.6 billion lei.



**Figure 5. Income from social security contributions for period 2015-2018 (billion lei)**

Source: Own processing by the Fiscal Council (Annual Report 2015-2018), [www.consiliulfiscal.ro](http://www.consiliulfiscal.ro), access date: 03.11.2020

Before analyzing the evolution of social contributions according to the ESA 2010 methodology, it should be noted that, starting with 2017, the statistical treatment of special pensions has been modified, being simultaneously incorporated in the social contributions on the part of income and staff costs.

Analyzing the situation of revenues from state social contributions for 2015, it can be seen that the above-mentioned evolution of the relevant macroeconomic base was largely incorporated during the first budget correction, when there was an upward revision of this category of revenues, over time. The second rectification increased the revenue estimate, with real achievements confirming this latest projection.

#### 4. CONCLUSIONS AND FUTURE PREDICTIONS

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 consolidated general 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 legislation, development and application of procedures in this area, the institutional framework, and resources. assigned to this activity.

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

Our opinion is that the temporal priority in the field of harmonization of the tax 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 system and taxes 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 fees;
- Adoption of fiscal measures to stimulate work;
- Reduction of social contributions.

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