TAX MEASURES TO SUPPORT THE BUSINESS ENVIRONMENT - THE PREMISE OF SUSTAINABLE GROWTH

Nicoleta MIHĂILĂ[134]

Abstract

Sustainable economic growth is influenced, among other things, by the good functioning of the business environment, namely the creation of a predictable fiscal policy to support it and the stimulation of investments in high added value sectors, the simplification of taxation and the streamlining of internal processes. The objective of the paper is therefore to assess the current state of the Romanian economy, from the fiscal perspective, the efficiency of the tax system, to identify the risks determined by the application of fiscal policy, as well as the proposal of fiscal measures in order to support the business environment.

Keywords*:* sustainable growth, business environment, tax regulations, risks

JEL Classification*:* E62, H25, H32

Introduction

Economic performance depends directly on the quality of institutions, meaning the rules according to which entrepreneurs operate. That is why constant priority must be given to improving the institutional quality of the business environment. Not only the size of taxes matters, but also the burden of bureaucracy, the rule of law, the time and costs of obtaining opinions and authorizations. Business policies require structural solutions that bring transparency, predictability and competitiveness. A friendly, investment-friendly business environment is essential for Romania's progress and sustainable development.

1. Current economic situation of Romania

In recent years, the legislative measures adopted by the authorities aimed at reducing macroeconomic imbalances, and, as a result, budgetary imbalances gradually diminished (after the economic crisis). Since 2009, Romania has adopted significant fiscal and budgetary consolidation measures that have led to the achievement of the medium-term objective in 2013, 2014 and 2015, which is in line with the provisions of the Treaty on Stability, Coordination and Governance within the Economic and Monetary Union.

The tax measures started in the period 2015-2016 (the new Tax code and wage increases and social security entitlements) and continued through the measures adopted in 2017 (raising the minimum wage, eliminating contributions for pensioners, non-taxing pensions below 2000 lei, the adoption of the law on the elimination of 102 taxes, the increase in the value of the pension point) determined in 2016 a 2,2% evolution of the structural deficit. Tax- budgetary policy measures have also been taken to ensure social protection for low-income population categories and to stimulate the business environment.

In this respect, the Tax Code, substantially amended and adopted by Law no.227 / 2015 on the Tax Code applicable from 1 January 2016, contains incentives for both the population and the investment environment and the undertaken salary increases have had an impact on consumption and investment. The year 2017 brought additional measures that overall emphasize the tax relief started in previous years in order to boost economic growth. These measures result in:

- as regards the taxation, an important change is the reduction of the standard VAT rate to 19% as of January 1, 2017, and this allowed domestic consumption to recover.

- in the course of 2017, the split payment mechanism was introduced, with the aim of reducing the evasion of VAT declared and unpaid at present.

[134] *"Victor Slăvescu" Centre for Financial and Monetary Research, Romanian Academy, 13 September no 13, sector 5, Bucharest, Romania, scientific researcher III, Ph.D., e-mail: nikmihaila@yahoo.com*

- reducing the income tax rate from 16% to 10%. The aim is to reduce the fiscal pressure on the income of population and, implicitly, to contribute to raising the standard of living, as well as to encourage the business environment, especially in terms of increased investment.

- reduction of the total share of mandatory social contributions, by a total of 2 percentage points, so that out of 39,25% contributions paid to a gross salary, 37,25% will be paid. Out of the total of 22,75% contributions due by the employer, 20 percentage points are transferred to the employee.

- reduction in the number of social contributions from 9 to 3, namely social security contribution , social health insurance contribution and employment insurance contribution.

- transfer of the tax burden on the compulsory social contributions payable by the employer to the employee in the case of salary and wage income.

- supporting the SME sector, by financing (by the state) programs that cumulate a series of state aid schemes: the State Aid Program for the financing of investment projects, the Start-up Nation Program, the Program for Supporting the Internationalization of Romanian Economic Operators etc.

Other business support measures concern:

- improving communication with the business environment;

- supporting all investment firms and creating new jobs, thus actively participating in reducing the economic disparities between regions and reducing unemployment;

- increase of turnover, due to the development and modernization of large enterprises and SMEs, respectively the development of suppliers of assets, raw materials, materials.

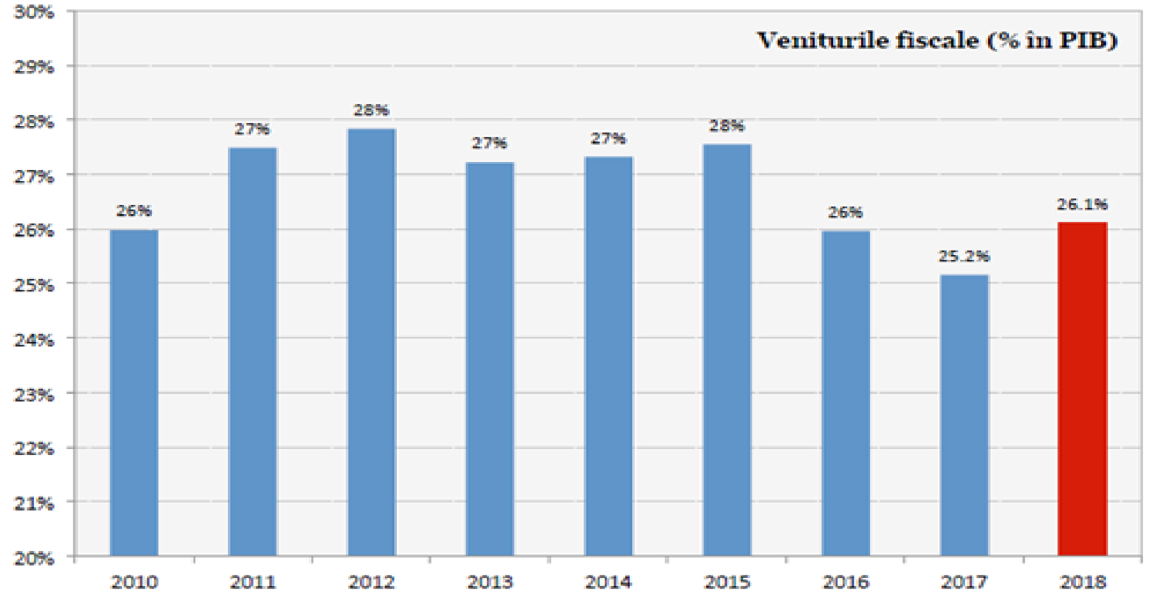
Creating a predictable tax policy to support the business environment and boost investment in high added-value sectors, simplifying taxation represent the premise of sustainable economic growth.

However, the effects of these measures do not have the desired impact, and the reality is observed in the charts below, where we present the evolution of tax revenues (% of GDP), respectively, their decrease, due to the pro-cyclical fiscal relief policies started in 2015 and continued till present (figure 1).

Also, the structure of budget revenues has become in the last years more "unfriendly" for long-term economic growth, "unfriendly" taxes of long-term economic growth being tax on profit and social security contributions, and "friendly" taxes are considered to be indirect taxes (VAT, excises), property taxes, environmental taxes (figure 2).

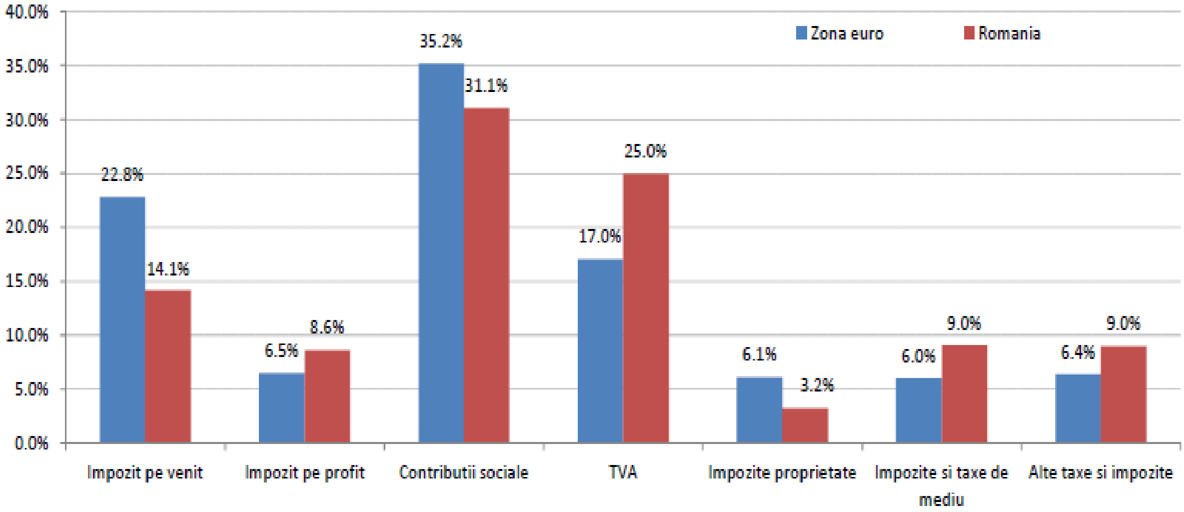
Romania relies more heavily on VAT, corporate income tax and environmental taxes than the EU average, and the share of income tax, social contributions and property taxes is lower than European averages.

Figure 1. Evolution of tax revenues (% of GDP)



Source: AMECO

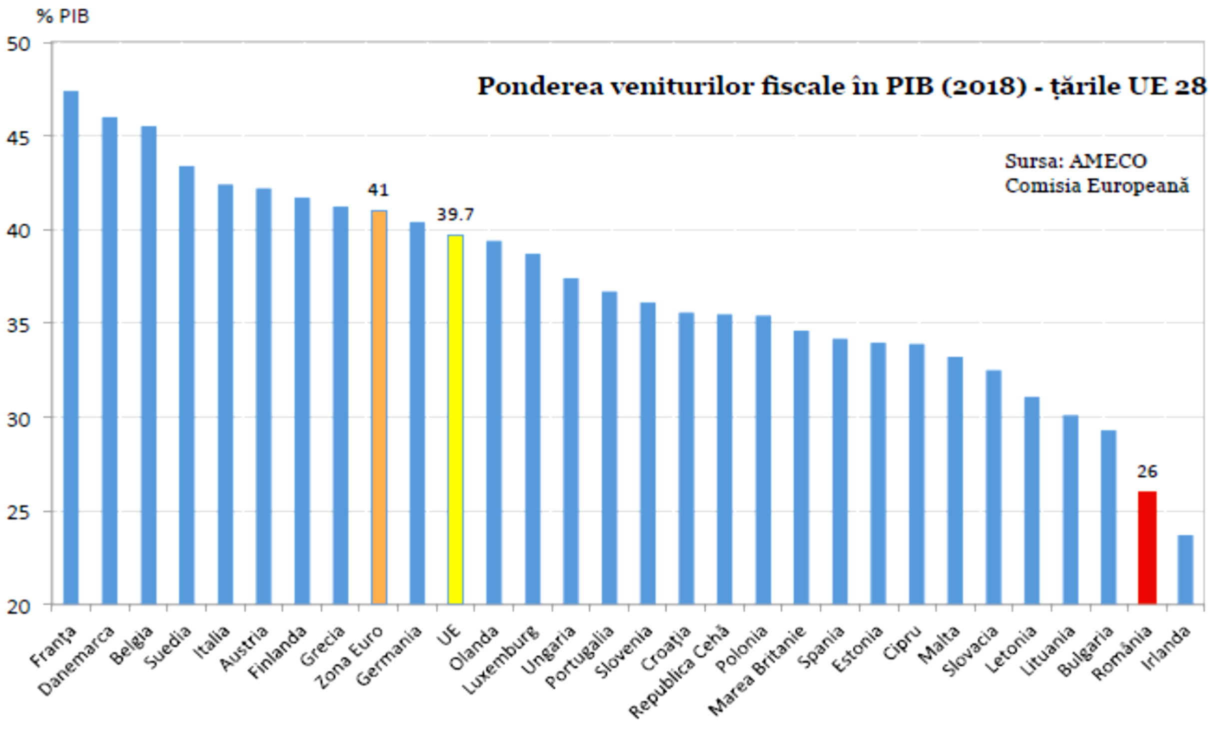
Figure 2. Structure of budgetary revenues (% of total revenues, 2016), compared to European Area



Source: EUROSTAT

Also, with regard to the collection of taxes, compared to the EU Member States, with one exception, Romania is characterized by the lowest tax revenue (Figure 3).

Figure 3. Tax revenues in EU member states(as % of GDP), 2018



Source: European Commission

The tax relaxation measures of the last two years that led to the reduction of the standard VAT rate from 24% in 2015 to 19% in 2017, simultaneously with the expansion of the reduced VAT rates contributed to the significant reduction of the gap between Romania and the EU average compared to 2010-2015. Thus, fiscal consolidation initiated in 2010 aimed at increasing indirect taxes has helped to increase their share in total tax revenues (from 43,7% in 2010 to 47,5% in 2012 and 47,3% in 2015), while at EU level this indicator ranged from 33,6% to 34,0% in the same period. It can be argued that the direction towards indirect taxation is favorable to long-term economic growth, direct taxation having a more deterrent effect in entrainment of the factors of production.

Over the last two years, in Romania is noticed the trend of reversing the increase in indirect taxes at a rapid pace (reducing the VAT rate by 5 percentage points in the period 2016-2017), but they are still predominant in the share of total revenues. At European level, there is a tendency to balance the share of direct and indirect taxes and social contributions, and many Member States that have recorded high percentages of budget revenues in GDP also benefit from relatively high rates of direct taxes in total revenues.

2. Efficiency of tax system

The comprehensive and complex process aimed at simplifying the tax system and reducing bureaucracy has taken place gradually, the recognition of this progress being highlighted by the annual Paying Tax / Doing Business reports, realized by PricewaterhouseCoopers (PwC) and the World Bank. Thus, the 2018 Paying taxes Report (where the reference year is 2016), classifies Romania, in terms of ease of paying taxes, at 42, a better position than the previous year (position 50), the two years being comparable from the point of view of the new methodology.

Thus, the ranking shown in Table 1, in terms of ease of paying taxes in 2016, compared with 2012, presents a significant boost, since there are necessary only 14 payments (compared to 39 in 2012) for the performance of tax duties, but also the the improvement of other indicators (such as the number of hours per year to meet tax obligations), largely due to the tax authorities' efforts to facilitate electronic payments and online filling, as well as the expansion of services of payment online (payment by bank card to POSs installed at the territorial units of the State Treasury or through the ghişeul.ro platform).

Compared to the previous year, the Paying Taxes 2018 Report, for Romania, shows that the number of hours required to pay the taxes increased to 163 hours (from 161 hours), the number of annual payments of a company to pay its taxes remained constantly, respectively 14 payments, and the share of taxes in total profit remained at the same level, namely 38,4% (despite the VAT rate reduction by 4 percentage points). Thus, a medium-sized company in Romania performed 14 tax payments over a year (higher than the European average of 12 annual payments, well below the average of 24 annual payments) and consumes for the calculation, completing and filing tax returns 163 hours of work (over 161 hours of European average, well below the global average of 240 hours). From the perspective of the total tax rate (the share of taxes and social contributions in the profit of a medium-sized company), Romania had 38,4% in 2016, below the European average of 39,6%, respectively below the level of global average of 40,5%.

Overall, in 2016 compared to the previous year, Romania has made progress in improving tax payments, being positioned in the first half of the Central and Eastern European countries, ahead of Slovakia (ranked 48th in the global ranking) Poland (51), Czech Republic (53), Slovenia (58), Bulgaria (90), Hungary (93), but behind Latvia (13th place), Estonia (14) and Lithuania (18).

Table 1. Evolution of Paying Taxes Report indicators

Year	Estonia	Latvia	Slovenia	Lithuania	Bulgaria	Slovakia	Poland	Czech Republic	Hungary	ROM
Paying taxes(rank)										
2012	32	49	54	56	81	102	113	122	124	**134**
2013	28	40	42	20	89	100	87	119	88	**52**
2014	30	27	35	49	88	73	58	122	95	**55**
2015	21	15	39	27	83	56	47	53	77	**50**
2016	14	13	58	18	90	48	51	53	93	**42**
Number pf annual payments to pay taxes										
2012	7	7	11	11	13	20	18	8	12	**39**
2013	7	7	11	11	13	20	18	8	11	**14**
2014	8	7	10	11	14	10	7	8	11	**14**
2015	8	7	10	11	14	8	7	8	11	**14**
2016	8	7	10	11	14	8	7	8	11	**14**
Number of hours per year to pay taxes										
2012	81	264	286	175	454	207	286	413	277	**200**
2013	81	193	260	175	454	207	286	413	277	**159**
2014	81	193	245	171	423	188	271	405	277	**159**
2015	84	161	245	171	453	192	271	234	277	**161**
2016	50	169	245	109	453	192	290	248	277	**163**
Total tax rate(% of profit)										
2012	49.4	35.9	32.5	43.1	27.7	47.2	41.6	48.1	49.7	**42.9**
2013	49.3	35.0	32.0	42.6	27.0	48.6	38.7	48.5	48.0	**43.2**
2014	49.4	35.9	31.0	42.6	27.0	51.2	40.3	50.4	48.4	**42.0**
2015	48.7	35.9	31.0	42.7	27.0	51.6	40.4	50.0	46.5	**38.4**
2016	48.7	35.9	31.0	42.7	27.1	51.6	40.5	50.0	46.5	**38.4**

Source: PwC, 2017, Paying taxes 2018

3. Fiscal-budgetary risks determined by the effects of tax measures for 2018 and the 2019-2021 horizon

The budget estimates and economic forecasts underlying the budget construction for 2018 and the 2019-2021 horizon may deviate from baseline scenarios as a result of the possible materialization of risks that may arise from both external and internal sources, with different implications for the evolution of public finances.

Internally, risks are generally balanced from the point of view of supply or domestic demand, and positive risks are predominant. The main positive risk is represented by a higher effect of economic governance measures in the government program, both those addressed to companies (reduction of tax burden) and those aimed at the income of population (increase of the minimum wage, of the pension point, etc.).).

The negative risk is given by the possibility of increasing the NBR's monetary policy interest in case in which the European Central Bank would tighten the current monetary policy that ensures a high level of liquidity in the euro area or additional inflationary pressures would arise. The negative effects would be on the one hand in the evolution of lending and, on the other hand, in the purchasing power of the population and in the profitability of the companies.

The internal risks associated with the evolution of inflation are due to the occurrence of unfavorable weather conditions with an effect on the prices of agri-food products, in the context in which the forecast refers to normal agricultural years. At the same time, international events, which amplify recent geopolitical tensions, could lead to a depreciation of the exchange rate. These risks can lead to inflation rates above the forecasted level.

Fiscal-budgetary risks relate to the following:

-the budgetary risk resulting from payments that could be made by the Ministry of Public Finance as a guarantor for the guarantees issued by the state

- risks associated with the state-owned companies;

-risks arising from emergencies (natural disasters, accidents). Money funds for carrying out emergency management activities at central and local level are provided by the state budget and / or local budgets, as appropriate, as well as by other domestic and international sources, according to the law.

4. Measures to support the business environment

Romania needs an economic and fiscal policy strategy (although there are currently two such documents: the two-year Strategic Plan of the Ministry of Public Finance and the National Agency for Tax Administration - four years) better outlined, respectively, it should be identified and defined directions of development that will allow social welfare and economic growth.

Fiscal policy can contribute to social welfare and economic growth by increasing Romania's external competitiveness and stimulating exports by developing an attractive framework for potential investors through technological development and innovation.

Table 2. Tax policy and economic growth

Increasing external competitiveness and stimulating exports	Facilities for infrastructure investment	Tax measures to stimulate capital attraction (holding legislation)	Setting lower tax rates and taxes than the main countries competing with Romania	A wider network of bilateral tax treaties
Attractive framework for potential investors	"Tax holidays" - exemption for the first few years of starting a business	Reducing the tax rate for dividends	Reducing the time required for tax compliance, declaring and paying taxes, developing electronic tools	Stimulating research and development
Technological development and innovation	Tax incentives to stimulate investment in state-of-the-art technology and equipment	Tax incentives for individuals operating in top-level areas (IT)	Partnerships between ANAF and taxpayers.	

Source: *Badin, D, Deloitte, 2015, Modelling the economy through taxation*

Here are some examples of tax policy measures adopted by countries to boost economic growth:

● to encourage entrepreneurship and reduce unemployment:
- Poland - tax incentives for start-ups and innovations
- Germany, Hungary - tax incentives for those employing graduates, unemployed, retrained persons. ● Increased investment, dispersing resources to areas with high potential for development
- Poland - Tax credits granted according to the area where the investments are made
- Hungary - "fiscal holiday", tax credits granted by industry / types of investment / region / amount.
● Attracting foreign capital
- Reducing tax rates on corporate income tax
- Discounts / tax exemptions for repatriation of profits.
● Increased domestic production and export - USA - Additional deductions for profits from domestic production.

5. Conclusions

Sustainable development is synonymous with the development of a strong private sector, independent of political authorities, which will generate prosperity in Romanian society and will also stimulate reforms in the sphere of the public sector. The model of Romania's healthy economic development must be centered on investments and the capitalization, especially through exports, of the competitive advantages that Romania can obtain in industry, energy and agriculture. In the tax level, the sustainability of public finances is imperative, by widening the tax base, in the context of a fiscal reform package and the system of administration, control and collection of budget revenues.

In short term, increasing collection and reducing tax evasion are the imperatives of the fiscal-budgetary strategy. In the context of the fiscal-budgetary strategy, the changes must begin with a new approach to the relationship between the state and the taxpayer, namely the rethinking and redesigning of the entire tax system. The major principles of this tax reform are transparency, simplification and reduction of compliance costs - at the level of economic agents and tax administration costs - at the level of public authorities.

A stable tax system is fundamental to attracting investment in Romania. In this regard, a transparent legislative and decision-making framework is needed, whereby all new legislative measures are first analyzed in terms of economic impact, through consulting and engaging the business environment, in order to reach balanced solutions. A good consultative process from its preliminary stages would lead to strengthening fiscal strategy and legislation in order to meet both the needs of authorities and investors in Romania.

Therefore, in order to be in line with the sustainable development strategy (from a fiscal point of view), it is necessary:

- the general reduction of taxation, together with the widening of the tax base;

- simplification of the tax system and reduction of bureaucracy in relation to the declaration and payment of taxes and duties;

- the gradual increase of the voluntary compliance to the payment of the tax obligations – namely, the total tax burden “honoured” by taxpayers on time and, according to the law, over 90%;

- equal tax treatment between state and taxpayer;

- the reduction of tax evasion - according to a recent study (Schneider, 2017), the "hidden" economy in our country represents 26,3% of GDP (45 billion euro in 2016), much higher than the average of the EU, which is at 17,1% of GDP. The most damaging segment of the "hidden economy" is located in the area of tax evasion, including unregistered work, which in Romania accounts for 18% of GDP (31 billion euro). The third component of the informal economy, according to the European System of Accounts, is the self-consumption (about 8% of GDP and 14 billion euro), the high share of which is caused mainly by the large number of the rural population, compared to developed countries.

- the gradual increase of the fiscal budget revenues so that their share in GDP will reach the EU average, namely 38-40%.

It should be noted that risk is generally determined by legislative factors, with an impact on activity at both strategic and operational levels. In this respect, the following aspects are outlined:

• the instability of legal regulations, associated with inconsistency in the application of existing laws and procedures;

• the repeal of some regulations, without replacing them with other ones, created legal vacuum in some segments of the social-economic life, which led to difficulties in the application of legality, generating a decrease in the authority of the law enforcement bodies, together with affecting the purpose of the act of justice;

• the alignment of national legislation to European and international legislation facilitates significantly the increase of the efficiency of government and community interventions for the management of the various specific activities at national level;

• legislative- normative and institutional high dynamics;

• gaps and incoherence of legal provisions, materialized in the lack or ambiguity of the regulation of certain aspects, the treatment through the same or different laws of offenses, without a clear delimitation between them, the frequent modification of some normative acts, all of these creating confusion and different interpretations in law enforcement.

• lack of a code of administrative procedures (administrative code)

References

- Bădin, D, Deloitte, 2015, Modelling the economy through taxation

- Dumitru, I., 2017, Aspects of Sustainable Economic Growth Relations - Business Environment

- Marinescu, C, 2018, Macroeconomic Evolution and Tax-Budget Framework. Performance, risks, challenges

- *** The World Bank, in collaboration with PricewaterhouseCoopers, "Paying taxes 2018"

- *** European Commission - AMECO database

- *** Fiscal Council, 2018, Annual Report 2017

- *** The Ministry of Public Finance, 2017, the Fiscal-budgetary strategy for the period 2018-2020

- *** Ministry of Public Finance, Report on the macroeconomic situation for 2018 and its projection for the years 2019-2021