

## Contribution of Taxes to the Making-Up of Budget Revenues in the Economic Growth

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*A significant coordinate of tax policy aims at the source of tax revenues and share of tax revenues collected from the public, private sector, or from individuals in the GDP.*

*Collecting fees and taxes in Romania is marked, on one side by a business environment in difficulty (insolvency and bankruptcy cases increased), and on the other hand, by a declining tax base due to the limitation of business of economic operators in recent years. Thus, although by the tax administration policy, measures are provided for enhancing transparency, stability and predictability of the tax framework, it encounters major restrictions, a dynamic and more efficient collection being required.*

*Occurrence and evolution of tax evasion and low level of payment voluntary compliance of taxpayers should lead to the growth of performance of tax office in achieving the role of recovery of budget revenues.*

*As a rule, the economically advanced countries have a more developed level of direct taxes than the one of the indirect taxes, which is not also the case of developing countries. In their case, it is natural that indirect taxes should prevail because, on the one hand, it is pretty difficult to keep a record of the taxable revenues (there are many and of little value), and, on the other hand, an indirect tax collection is more convenient and requires a relatively low cost.*

**Keywords:** taxes, budget revenues, tax revenues, economic growth, tax strategy.

**Jel classification:** B22; E62; F62; G01; H26.

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## Introduction

In the specialized literature, there are different viewpoints on the role of taxes on economic activity. A first viewpoint is that the role of taxes should be neutral, in the meaning that it does not aim to influence economic activity, that is to be designed so as to not influence economic phenomena and processes. According to other professionals, taxes must play a proactive role in the restructuring process, or more than that, others propose a more nuanced approach, according to which tax role should be adjusted according to the conditions of each development stage. Thus, increase of taxes may generate higher budget revenues or, on the contrary, may lead to tax evasion and an impoverishment of people and business operators, so implicitly lower budget revenues and higher expenditures for social protection.

Since the tax role is manifested both financially, economically and socially, we may emphasize that the concrete manifestation knows differences from one stage of economic and social development to another. Due to the fact that indirect taxes show an increased sensitivity to the economic situation, the approach made by the authorities on setting optimal relation between direct and indirect taxes is difficult, but it also represents an objective aimed at by all achieved strategies. It is known that indirect taxes are easier to administer, requesting less work for settlement and collection, but, at the same time, they cause increases in prices and rates and, therefore, the reduction of solvent demand of the population. Settlement and collection of taxes and fees may only be achieved through the use and operation of a tax system, methods, techniques and tools, by which application, tax principles should be complied with.

Tax policy promoted by authorities may treat all business operators equally, establishing equal contributions or may make differences in tax treatment, depending on the type of ownership or legal status of the business operator.

The main repercussion of such an approach can lead to disproportions between taxpayers in different social groups in terms of indirect taxes paid. Consequently, the more a person has lower revenues, the more unbearable is tax burden. Indirect tax acquires a regressive nature, affecting consumer purchasing power and lowering population standard of living on a general scale (nominal revenues are not affected, but only the real ones).

Indirect tax should not be interpreted only as a generator of negative

effects, but it must be also perceived through its economic and social role.

In economic terms, though the collection of some excise duties, the State may reduce the demand for certain luxury goods, or may reduce imports of certain products, thereby stimulating demand for domestic ones. On social context, excises are designed to reduce the consumption of unhealthy products (alcohol, cigarettes).

Consequently, indirect tax is a tool in the hands of the State, by means of which it can direct consumption according to the crisis or boom times crossed by economy depending on the interest that it has at some point. "Payers of such taxes are usually the business operators and the bearers are the ultimate consumers of goods and services which are subject to these taxes." [Ungureanu, MA, 2007].

Regarding budget revenues, it is necessary to further improve the tax system by establishing optimal ratio, between direct and indirect taxes, between revenues taxes and consumption taxes in order to stimulate business and savings, between taxes of individuals and legal entities, between taxes of the state and local budgets, etc.

We may appreciate that, when the economy is growing, indirect taxes have a higher tax efficiency and when it crosses crisis periods in terms of a low production and consumption, collection of indirect taxes decrease. Moreover, in the economic growth process, it is important the volume of budget funds, but managed efficiently, so as to contribute to the economic development [Campeanu, Gherghina, Padurean, 2011].

## **Determinants of change in level of budget revenues between 2001-2010**

In the context of this analysis, we may emphasize that total tax revenues fluctuations are both the result of frequent legislative amendments and the financial and economic crisis consequences, especially in 2009. We believe that, in the developed and less developed countries, tax revenues show small variations from year to year, up to approximately 3%. In Romania, ongoing legislative amendments in the taxation field have influenced the amount of tax revenues in terms of their progressive increase during the analyzed period, registering a decline after 2008, which marked the beginning of the financial crisis and economic recession.

**Level of revenues in the analyzed period** was influenced by:

- registration of higher payment liabilities by increasing the number of corporate income tax payers, income tax, VAT (due to the obligation for the registration of persons making intra-community acquisitions);
- increasing revenues as a result of taxation imposed to income from investments and real estate transactions from personal property.
- change of taxation system as of the next fiscal year for business operators who did no longer fulfill the conditions for operating as microenterprises (from income tax to corporate income tax in case of exceeding turnover of EUR 100 000 or the number of employees);
- economic growth with direct influence in increasing income and purchasing power of the population;
- decrease of payable VAT due to change in legislation in relation to EU Member States and elimination of partial or total exemption from VAT payment;
- increasing collection of current and arrear debts thus contributing to the reduction of budgetary arrears;
- registration of higher payment liabilities due to higher taxable income of employees;
- legislative changes through which: customs duties on intra-community transactions were removed, new charges were introduced - first registration tax;
- restricting the number of excise payers from import businesses performed in UE countries.

We appreciate ***the financial and economic crisis influences on the level of budget*** revenues were:

- change of macroeconomic indicators as a result of feeling also in the Romanian economy of the global financial crisis consequences which led to lowering of economic growth;
- delayed settlement of payments in the banking circuit under current conditions, when commercial banks were faced with a shortage of liquidity, operating settlements with delay;
- increase of more prudence in contracting credits for paying outstanding taxes for taxpayers with insufficient liquidity, as well as tightening conditions for granting such loans by banks;
- late payments made by business operators mainly in fields such as construction, real estate or services;



GROSS DOMESTIC PRODUCT	117,9	152,0	197,4	247,3	288,9	344,6	416,01	514,7	498,01	513,6
TOTAL REVENUES*	35,1	44,8	58,4	74,0	87,6	106,9	127,1	164,4	156,6	168,7
Tax revenues**	32,6	41,9	55,0	68,9	78,2	96,6	115,4	142,4	136,1	138,7
Direct taxes	7,2	9,5	13,4	14,3	16,4	21,6	29,2	36,2	35,2	32,7
Indirect taxes	12,9	17,3	26,6	26,2	33,8	40,9	44,6	57,7	53,1	60,3

Source: own processing based on data provided by the Ministry of Public Finance

\* General Consolidated Budget

\*\* including social insurance contributions (State social insurance budget, Unemployment insurance budget and Ssingle national health insurance fund)

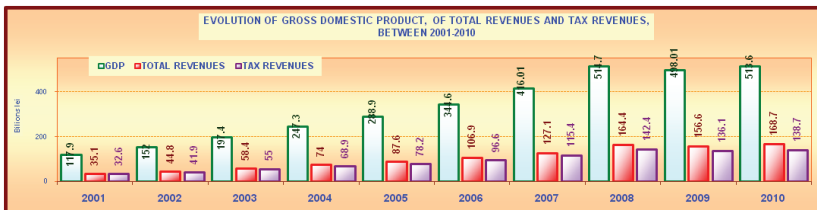
**Table 2:** Dynamics of gross domestic product, of total revenues, of tax revenues, Direct and indirect taxes between 2001 – 2010

	2002/ 2001	2003/ 2002	2004/ 2003	2005/ 2004	2006/ 2005	2007/ 2006	2008/ 2007	2009/ 2008	2010/ 2009
GROSS DOMESTIC PRODUCT	129,09	129,86	125,27	116,82	119,28	120,72	123,72	96,75	103,13
TOTAL REVENUES*	127,63	130,35	126,71	118,37	122,03	118,89	129,34	95,25	107,72
Tax revenues**	128,52	131,26	125,27	113,49	123,52	119,46	123,39	95,25	107,72
Direct taxes	131,94	141,05	106,71	114,68	131,70	135,18	123,97	97,23	92,89
Indirect taxes	134,10	153,75	98,49	129,00	121,00	109,04	129,37	92,02	113,55

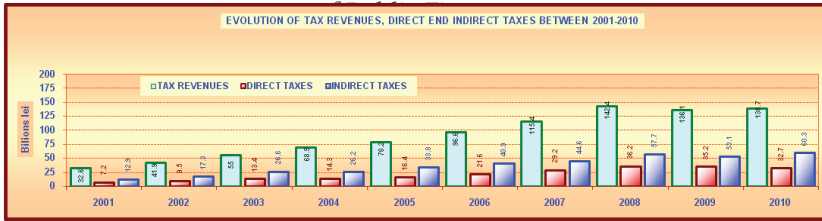
Source: own processing based on data provided by the Ministry of Public Finance

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**Figure 1:** Source: own processing based on data provided by the Ministry



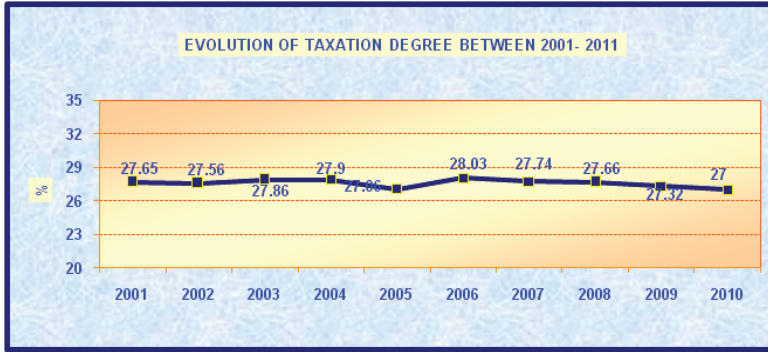
**Figure 2** Source: own processing based on data provided by the Ministry of Public Finance

In terms of tax revenue dynamics, their evolution shows no major changes. Moreover, the share of tax revenues in GDP (the taxation level) shows no significant changes in the period comprised in the analysis, as evidenced in the table and figure 3. But it should be noted that the amount of tax revenue between 2001-2010, at the country level, has increased more than 4 times also due to the fact that, in their volume, it was also included the value of social security contributions collected at the general consolidated budget.

**Table 3:** Share of tax revenues in the gdp 2001 - 2010

Year	GDP - billion lei -	Tax revenues - billion lei -	Taxation degree (%)
2001	117,9	32,6	27,65
2002	152,0	41,9	27,56
2003	197,4	55,0	27,86
2004	247,3	68,9	27,90
2005	288,9	78,2	27,06
2006	344,6	96,6	28,03
2007	416,01	115,4	27,74
2008	514,7	142,4	27,66
2009	498,01	136,1	27,32
2010	513,6	138,7	27,00

Source: own processing based on data provided by the Ministry of Public Finance



**Figure 3** Source: own processing based on data provided by the Ministry of Public Finance

## Medium-term objectives of tax policy

According to the 2011-2013 Tax and Budget Strategy developed by the Ministry of Public Finance, trends and structural changes of the main taxes and fees aim at (Table 4):

**Table 4:** Trends and structural changes of main taxes and fees

Legislation	Forecast
Income tax Keeping tax rate to 16%	On medium term, evolution is determined by a moderate increase in the gross average salary in line with productivity; income tax collections will remain at 3.3% - 3.4% of GDP during 2011- 2013.
Corporate income tax Keeping tax rate to 16%	Evolution is influenced by the progress of economic activity in certain business areas, as well as by financing costs of operators. It will reach 2.1% of GDP in 2013.
VAT Promoting a tax policy to provide sustainability of economic growth by maintaining current reduced VAT rate, namely 9% rate for certain supplies of goods and services provided by the Tax Code and the 5% rate for delivery of housing as part of social policy. Ensuring adaptation of tax legislation according to the tax evasion phenomena with a view to counteracting them.	On medium term, VAT collections will reach a level of 7.9 to 7.8% of GDP, in line with the evolution of consumption.



<p>Excises</p> <p>Ensuring stability of excises, as a source of budget revenues necessary to achieve the objectives set out in the Government Programme. Increasing excises to achieve the minimum level required by the community legislation in the field, under the transitional periods granted to Romania by the European Commission under the Accession Treaty and Directive 2010/12/CE amending the Directives regarding tobacco.</p> <p>Compliance with commitments assumed by Romania by the agreements concluded with the IMF (International Monetary Fund) and the World Bank.</p> <p>Further improvement of legislation for the harmonization with community legislation, by transposing into the national legislation of the directives adopted at European level in the field of excise duties.</p>	<p>On the reference horizon, share of excises in the GDP will be 3.2% - 3.1%.</p>
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Source: 2011-2013 Tax and Budget Strategy- Ministry of Public Finance

According to 2013-2015 Tax and Budget Strategy, NAFA (National Agency for Fiscal Administration) aims, through achievement of strategic objectives, to increase voluntary compliance with declaration and payment. In this respect, total revenues collected will increase gradually, reaching in 2014 to 30.5% of GDP (3.3 percentage points more than in 2011). Collection costs will decrease slightly, from 1.11% in 2011 to 1.05% in 2014.

The primary *aimed objectives* refer to:

a). ***Development of measures to prevent and combat tax evasion.***

It will be targeted priority monitoring of areas with high tax risk, by the following action lines: monitoring the newly-established taxpayers; implementation of regulations that would ensure uniform treatment of taxpayers according to their degree of voluntary compliance; improvement of control act quality; prompt reaction to the likelihood of evasion during the collection of tax receivables, as well as permanent analysis of taxpayers' solvency indicators; implementation of electronic commerce control; improving risk analysis (procedures, tools, personnel, training, access to information from third parties etc..) and selection for tax audit, based on automated tax risk records; cooperation with tax offices and European bodies to prevent and combat cross-border fraud, improving and development of audit techniques, methods and skills, continuing the expansion of computerization of tax audit activity

by automating and integrating risk analysis process for selecting, planning and analyzing the results; creating a platform for shared data, by exchange of information in dematerialized form; facilitating legitimate trade will be achieved by reducing administrative formalities and reducing organizational barriers to the movement of goods.

b). ***Development of measures for improving collection and stimulating declaration and payment compliance.*** Action lines refers to: modernizing and simplifying tax procedures; quality standards will be introduced for services provided to taxpayers; creating a mechanism for consultation with representatives of business environment and taxpayers, by which transparency, mutual trust and quality of decision should increase; maintaining a stable system of payment facilities for taxpayers who find themselves into temporary difficulty, caused by temporary lack of available funds; promoting measures to broaden the tax base and improve collection - developing measures to encourage payment compliance; regionalization of tax offices to increase efficiency and reduction of collection costs.

## Conclusions

Global financial and economic crisis was the factor that triggered the adjustment of macroeconomic imbalances accumulated in Romania by the end of 2008. Tax and budgetary policy in Romania in the pre-crisis period was a pro-cyclical one, characterized by a dominance of short-term political considerations, without paying too much attention to the consequences on the sustainability of public finances on medium and long term.

The main condition for ensuring tax resources necessary for the society is represented by the establishment of new levies, development of real economy and increase in the GDP.

In this context, it is necessary to continue the elaboration of strategies for socio-economic development, to be accompanied by financial programs on providing resources and their acquisition. On this occasion, the main references of tax policy should be established, i.e. the position of tax revenue in total government revenue, which types of direct and indirect taxes will be used, establishing the optimal ratio between them and role they have to play, namely just of collecting financial resources or influencing national economic development.

In order to restore sustainability of public finances, it is required a

considerable effort of tax consolidation, doubled by deep structural reforms to create favourable conditions for a sustainable economic growth. In particular, the restructuring of public expenditure and issue of tax space for investment should be a major goal of government policies. Although between 2009-2010 important steps have been made to correct tax unsustainable tax and budget policy during pre-crisis period, further efforts are needed to strengthen structural reforms necessary to restore sustainability of public finances and resumption of economic growth.

Budget and tax responsibility law, approved in March 2010, aims to strengthen tax discipline and must contribute to improving medium-term budget programming. It introduced a series of tax rules that should lead to prioritizing of budget expenditures and a prudent tax and budget policy in times of economic ascension, which preserves the tax space necessary for stimulating economy during periods of recession.

Thus, the achievement of Tax Administration as a modern and European institution involves providing support through modern and reliable services for a better payment compliance and assistance for taxpayers, for a more dynamic collection. At the same time, it is necessary to increase the level of voluntary compliance with tax laws, which means increasing specialization, professionalism and moral integrity of civil servants working in the field of tax collection.

Achievement of tax reform is particularly important as part of structural adjustment for the reduction of serious imbalances, thereby contributing to a more efficient and balanced allocation of financial and human resources.

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