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USING TAXES AS ECONOMIC – FINANCIAL INSTRUMENTS

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Abstract

The paper aimed to analyze the use of taxes as an economic-financial instrument in Romania, comparatively with other EU states. The main aspects approached have been: total taxes, direct and indirect taxes, contributions to social insurance, profit tax, wage expense efficiency due to fiscal taxes. Romania has a more relaxed tax system compared to the EU average and other member states. Taxes are used as a financial tool to enrich the state and local budgets. State intervenes through legal regulations in the tax area that have the effect of positively influencing certain sides of the economic activity and gaining economic leverage character.

Key words: *financial instruments, profitability, profit tax, results, taxes*

INTRODUCTION

By establishing taxes, the state seeks to collect financial resources to the budget. When referring to the economic players, taxes, representing a sampling of financial resources available to them at the disposal of the state, have the effect of reducing economic and financial performance achieved.

Levying taxes is therefore a reality of contemporary economies. Starting from this idea how is it still possible that taxes act as a factor of dynamics [2] growth of the companies' performances?

An answer to this question can be given in the light of economic and financial levers.

These are measures taken by the state aimed to the fulfillment of economic functions, helping to solve certain problems on economic bases other than appealing to administrative methods.

By establishing legislative regulations in the tax area, that have the effect of positively influencing certain sides of the economic activity, gains economic leverage character.

In this context, the paper analyzed the use of taxes as an economic-financial instrument in Romania, comparatively with other EU states.

MATERIALS AND METHODS

The paper makes a critical overview on the main aspects regarding tax system in Romania and in other EU countries.

The data were collected from Ministry of Finance and also from EU sites and other various information sources.

The comparisons and affirmations belong exclusively to the author of this paper.

The main aspects approached have been: total taxes, direct and indirect taxes, contributions to social insurance, profit tax, wage expense efficiency due to fiscal taxes.

The results were tabled and commented.

RESULTS AND DISCUSSIONS

For the desired incomes growth of the State budget, companies must be stimulated also through fiscal measures: it is a well known fact that the economy can destroy its own systems of support by consuming the fix means of the natural capital. [2]

In the following a series of fiscal measures will be presented that had in Romania a leverage role economically and financially speaking.

Profit tax is part of the profit of an enterprise that is transferred to the disposal of the State.

Through a series of regulations that have been adopted over time, profit tax played a leverage role economically and financially speaking.

Discounts or exemptions from tax on profits followed a double benefit for both the state and for economic agents, as follows:

- Granting an exemption from tax on profit for a certain period of time from the foundation (starting with the year 1991 until 2006) followed, from the state, the development of a private economic sector which can develop its own activity, following that the tax was recovered indirectly as a result of higher taxation of future profits. The benefit to the companies was that all of the profit remained at their disposal, thus ensuring additional funding without costs.
- 50% reduction of the amounts spent from profit in order to finance investments, which aim to realize investments in development and modernization of production technologies or to protect the surrounding environment (in the period 1995-2001), had as a purpose from the state to influence in a positive way the investment behavior of economic agents and the realization of investments in the protection of the surrounding environment. The aim was to increase competitiveness of the economic agents, increase investments nationwide, and protect the surrounding environment. Any state tax losses could be compensated on account of indirect taxes due to increasing consumption (through acquisitions), due to the taxation of future profits (increased due to the profitability growth of the economic agents), reducing environmental surrounding costs. Economic agents benefited by reducing the tax payment from an additional financing source, without involving any new training costs. Also, encouraging investments, rehabilitation had as a purpose the increase of economic and financial performances of the economic agents.
- Exemption from tax profits invested in technological equipment, computers and peripheral equipment, machines and cash, control and billing registers, as well as software programs, produced and/or purchased, including under financial leasing contracts, and put into service until the 31st of December 2016 inclusive, used for business purposes. [6]
- The reduction of corporation tax for economic agents that have created jobs for people with disabilities represent for the state an economic and financial leverage that aimed to integrate in the professional environment people with disabilities (with benefits in terms of reducing state costs with social protection for them). Following these jobs, the companies benefited from an additional source of funding and by reducing the profit tax payment the company reached an increase in profitability. [1]
- practicing a reduced rate of taxation for profits obtained as a result of the receipt of revenue in foreign currency from exports represented an economic and financial leverage, through which the state increased exports, following the introduction of foreign currency in the country. Economic agents that made exports could benefit from this facility, either as additional funding resources (the difference between the normal taxation rate and the reduced taxation rate) or as a possibility of setting lower delivery prices.
- granting exemptions from tax on profits for economic agents that made significant investments in the economy and aimed from the State an increase in the capital invested in Romania, especially from foreign resources, following that tax should be recovered indirectly from taxes on wages for new created job places, from future taxation of developed business etc.
- Another form of incentives manifested in low taxation rates (reduced rates that have acted until 2004 for exports, reduced rate used for free zones, the reduced rate of taxation for securities transactions and real estates) and by allowing the deduction of additional expenses in establishing taxable profit.

The historical story of Europe is not only about the many kingdoms and wars, [3] but also of its economy and the financial instruments used.

Direct and indirect taxes and contributions to social insurance

In the EU-27, the share of direct taxes in the total taxes was 30.4, ranging between 17.4 %, the lowest level registered in Lithuania and 62.7 %, the highest level, registered in

Denmark. In Romania, the direct taxes represent about 22.6 % of the total taxes.

In the EU, the share of indirect taxes accounts for 38.6 % in the total taxes.

The lowest level is in Germany, 29.8 %, while the highest one is in Bulgaria, 55.4 %. In Romania, the indirect taxes represent 45.2 % of the total taxes.

The share of the contribution of social insurance in the total taxes is in average 31.1 % in the EU-27.

In Romania is a little higher compared to the EU average, that is 32.2%.

The lowest share was recorded in Denmark, 2.1 %, while the highest one was registered in Czech Rep., 45.2 %. (Table 1).

Table 1. The share of direct and indirect taxes and of the contributions to the social insurance in the total taxes in the EU, Romania and the minimum and maximum level in 2010(%)

	Share of Direct taxes	**Share of Indirect taxes**	**Share of contributions to social insurance**
EU-27	30.4	38.6	31.1
Romania	22.6	45.2	32.2
The lowest share	Lithuania 17.4	Germany 29.8	Denmark 2.1
The highest share	Denmark 62.7	Bulgaria 55.4	Czech Rep. 45.2
Hungary	22.6	45.5	31.9
Denmark	62.7	35.3	2.1
United Kingdom	44.4	36.9	18.7
France	25.6	35.3	39.1
Germany	29.4	29.8	40.8

Source: Tax systems in the EU, [5]

Profit tax. Compared to the existing level in the European Union, profit tax in Romania is less oppressive than in the EU.

But we must keep in mind that the EU countries have a system of reduced rates for the development of certain activities and the fact that their economies are more developed.(Table 2)

Granting a reduced rate of taxation to agriculture aimed to develop the agricultural sector in Romania, increasing investments in this field, economic agents benefiting from a tax reduction.

The reform of the agricultural policy is a key element of the sustainable socio-economical development in our country and in the whole world. [1]

Table 2. Profit tax quotas in some UE countries

Country	Period	Profit tax quotas
Romania	Before 2005	25%
	From 2005	16%
Hungary	Starting with 2011	16%
Great Britain	Starting with 2013	45%
Denmark	2005	30%
	2007	25%

Source: Tax systems in the EU, [5]

Romania is below the regional average regarding the profit tax (16%), while VAT had the highest level in the Central and Eastern EU countries (24%).

However, in the period 2013-2014, in the CEECs it was noticed a change of a slight reduction of the direct taxation and also a relaxation of VAT.

A reduction of the profit tax was decided in Slovakia and Ukraine, and in United Kingdom as well.

Romania has still a low profit tax in the EU, compared to 23.1 % in the EU and 17.2 in the CEECs in 2014. [11]

The decision of the Government to reduce VAT from 24 % to 9 % for food products and to 20 % for the other goods is benefic for a relaxation of the indirect tax system and also for the economic agents and for the economy as a whole resulting in the reduction of prices, increased consumption and a growth of budget incomes.

The situation of the tax level for VAT, profit, income and contributions in the CEECs in 2014 is presented in Table 3.

In the EU, the lowest income tax is in Bulgaria (10%), while over 55 % is applied in Sweden and Denmark

With 16 % profit tax, Romania is considered among the EU countries with the lowest income tax, besides Bulgaria, Lithuania and Hungary.

The taxation level in the CEECs in 2014 is presented in Table 3.

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Table 3.Taxation level in the CEECs in 2014 (%)

	VAT	Profit tax	Income tax	Contributions
Austria	10	25	0-50	21.83
Bosnia & Herzegovina	17	10	10	10.50
Bulgaria	20	10	10	17.90
Croatia	5	20	12;25;40	15.20
Czech Rep.	15	19	15	34.00
Greece	6.5	26	22;32;42;	27.46
Hungary	5	10;19	16	27.00
Macedonia	5	10	10	No
Montenegro	7	9	9	9.80
Poland	5	19	18;32	21.00
Romania	9;20	16	16	28.00
Russia	10	20	13;30	30.00
Serbia	10	15	10;15;20	17.90
Slovakia	10	22	19;25	35.20
Slovenia	9.5	15	16;27; 41;50	16
Ukraine	7	18	15;17	36.76

Source: [11]

Other economic levers which have acted on profit tax referred to the choice for either one of the depreciation methods, especially in the case of investments for profit or the possibility of opting between profit taxation, income taxation (income taxation of micro-agents), establishing of free zones or disadvantaged zones.

By resorting to profit tax as an economical and financial lever, the state has sought to ensure a viable economic environment, increasing investments, [3] creating new jobs, developing exports, developing certain activity sectors, developing certain geographical areas, which remained behind in terms of economic development.

Wage tax is another important economic and financial instrument that increases the performance of economic agents by influencing the efficiency of wage costs.

Separately from the wage expenses, the company registers expenses related to the wage taxes.

In Romania, over time, companies owed as a result of hiring staff a number of contributions, the most important are:

- Social insurance contribution; [7]
- Unemployment insurance contribution; [8]
- Social health insurance contribution; [9]
- Insurance contribution for work accidents and occupational diseases. [10]

In the following we will analyze the influence of change of the tax degree related to the gross wages on the salary expenditure efficiency, while constantly maintaining the production value and gross wages.

The efficiency of wage costs under the mentioned conditions will be calculated using the formula:

$$\Delta E_{CS} = - G_i / 1 + C_{CS+} C_{CS} \times 100$$

- E_{CS} – the efficiency of wage expenses,
- C_{CS} – the share of social contributions,
- G_i – the change of the imposing degree of the wages (percentage points).

Table 4. Wage expense efficiency due to fiscal taxes, Romania

Year	Employer contributions % (CAS + CASS + Unemployment fund + Risk fund)	Contributions difference in the current year (%) ECS1-ECS2	The efficiency of wage expenses due to fiscal changes (%)
1991	19	1	-0.83
1992	20	10	-7.69
1993	30	0	0.00
1994	30	0	0.00
1995	30	0	0.00
1996	30	0	0.00
1997	30	0	0.00
1998	30	7	-5.11
1999	37	5	-3.52
2000	42	0	0.00
2001	42	-6.67	4.93
2002	35.33	0.5	-0.37
2003	35.83	-0.33	0.24
2004	35.5	-3	2.26
2005	32.5	-1.6	1.22
2006	30.9	-2.41	1.88
2007	28.49	-1.8	1.42
2008	26.69	-2.21	1.78
2009	24.48	2.3	-1.81
2010	26.78	0.22	-0.17
2011	27	0	0.00
2012	27	0	0.00
2013	27	-5	4.10
2014	22	0	0.00
2015	22	0	0.00
2016	22	0	0.00

The formulas presented above allow to conclude the following:

- Increasing the tax degree related to the gross wages leads to diminishing the efficiency of wage costs;
- Decreasing the tax degree related to the gross wages leads to the increase of the efficiency of wage costs;
- The size change of the wage costs efficiency is directly proportional to the size change of the tax degree and inversely proportional to the size degree of taxation.

The percentage influence over the efficiency of wage costs given by the changes occurred on the level of tax rates (in Romania) of contributions related to the gross wages, given that the production (by value) and gross wages have remained constant (Table 4).

The data from Table 4 allowed to conclude that:
- The influence of taxation related to the gross wages on the efficiency of wage expenses appears when changes occur in the level of tax rates;
- An increase in the tax burden on wages leads to diminishing the efficiency of wage costs;
- Fiscal loosening leads to an increase in the efficiency of wage costs.

The advantages of economic agents were manifested especially in the opportunity to benefit from additional self-financing resources, profitability increase, both due to the reduction of the tax on paid profit, as well as creating prerequisites for development following the acquisition of new technologies and means of production etc.

Also other categories of taxes were used as financial and economic levers. Thus, establishing taxes on certain categories of products aims, besides the collection of budget revenues also the influence of consumer behavior. Engaging in raised import duties aims to protect some branches of the national economy as a result of an increase of the price at which the products subject to those duties can be sold internally (after the 1990's pressures at government level were made, especially from food manufacturers in order to increase customs for the imports of some products, because they were sold on the domestic market at lower prices than domestic products, which could have lead to the bankruptcy of domestic agents).

CONCLUSIONS

Profit is one of the most synthetic indexes of the economic activity of enterprises. It summarizes almost all of its economic activity: supply, production, marketing and results from other activities.

Reflecting the company's efforts to increase economic efficiency, profit is a useful indicator in assessing the economic activity and establishing the budgetary indicators. [6]

Fiscal instruments through which it is being acted in order to increase economic and financial performances of the companies, do not have a mandatory character for all businesses, but neither make it difficult for economic agents to benefit from them. In order to benefit from them, companies must meet certain conditions or carry out certain activities.

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