THE ACTUAL COST OF THE TAXPAYER'S TAXATION AND
THE NEED FOR REFORM OF THE ROMANIAN TAX
ADMINISTRATION

Banu Ilie\textsuperscript{1}, Banu (Butiuc) Ioana-Mădălina\textsuperscript{2}, Popescu Marin\textsuperscript{3}

Banu Ilie (Romania, “Lucian Blaga” University of Sibiu, Research Department), ilie.banu@ulbsibiu.ro
Banu (Butiuc) Ioana-Mădălina (Romania, Country Council Sibiu, Public Procurement), madalina.butiuc@cjsibiu.ro
Popescu Marin (Romania, “Lucian Blaga” University of Sibiu), mariusmp@yahoo.com

ABSTRACT: The present research paper starts from the question whether there is a need for reform of the tax administration in Romania. Comparing some indicators that reveal the efficiency of the fiscal institutions regarding tax administration, Romania is underperforming. Taking into consideration only the time required for a company to pay all its taxes in EU and EFTA, Romania ranks the 22\textsuperscript{nd} place. The study case presents a few objectives that regionalization in Romania should set, like: increasing tax revenue, enhancing the effectiveness of public expenditure, increasing the productivity of state employees, etc. The discussion is remaining open whether the policy-makers are able to complete the objectives efficient.

KEY WORDS: reform, tax administration management, taxes

1. THE NEED FOR REFORM OF THE TAX ADMINISTRATION

In order for a tax system to be effective 3 conditions must be completed simultaneously: fiscal measures to stimulate economic growth, an operational fiscal mechanism and a reformed tax administration. [1]

In order to determine the effectiveness of institutions entrusted with the tax attributions, we will consider as an indicator of the result, the time needed to voluntarily conform to be able to determine in the end the actual rate of tax pressure.

\[
\text{The tax base (Taxes calculated - deductions) * rate of tax – Tax credits = Tax liability}
\]

We propose a new concept, namely “the actual cost of the taxpayer's taxation” as the cost generated by the actual payment of duties, taxes and levies to which we add the cost of voluntary compliance to the payment and other costs incidental to the compliance.

Tax liability + Excess burden + costs associated with compliance = the real cost of the taxpayer's taxation.

According to Paying Taxes studies conducted by the World Bank in collaboration with PwC, we present in the table below the three elements composing the analysis performed in the year 2012 related to the time it takes a company in the EU and EFTA countries over the course of a year.

Methodological aspects

- For the analysis of this indicator, the following methodology has been used:
- Time is calculated in hours per year
- The indicator takes into account the time needed for the preparation, completion and payment of 3 types of taxes and contributions (taxes on the company’s revenue, VAT, and work taxes)
- Preparation time includes the time required for gathering the necessary information to calculate tax obligations, independent of the time used in order to comply with tax regulations
- Completion of documents includes the time it takes to complete all the forms required to be filed in that country.
- The time required for payment shall take into account the hours spent to make payments online or at the offices of the fiscal institutions.
Table 1. The time required for the voluntary compliance of a company per year in the EU and EFTA.

<table>
<thead>
<tr>
<th>R anking</th>
<th>Country</th>
<th>Income taxes</th>
<th>Labor taxes</th>
<th>Consumption taxes</th>
<th>Total time (h)/year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Luxemburg</td>
<td>21</td>
<td>14</td>
<td>24</td>
<td>59</td>
</tr>
<tr>
<td>2</td>
<td>Switzerland</td>
<td>15</td>
<td>40</td>
<td>8</td>
<td>63</td>
</tr>
<tr>
<td>3</td>
<td>Ireland</td>
<td>10</td>
<td>40</td>
<td>30</td>
<td>80</td>
</tr>
<tr>
<td>4</td>
<td>Estonia</td>
<td>20</td>
<td>34</td>
<td>31</td>
<td>85</td>
</tr>
<tr>
<td>5</td>
<td>Norway</td>
<td>24</td>
<td>15</td>
<td>48</td>
<td>87</td>
</tr>
<tr>
<td>6</td>
<td>Finland</td>
<td>21</td>
<td>48</td>
<td>24</td>
<td>93</td>
</tr>
<tr>
<td>7</td>
<td>Great Britain</td>
<td>40</td>
<td>45</td>
<td>25</td>
<td>110</td>
</tr>
<tr>
<td>8</td>
<td>Sweden</td>
<td>50</td>
<td>36</td>
<td>36</td>
<td>122</td>
</tr>
<tr>
<td>9</td>
<td>Netherlands</td>
<td>25</td>
<td>64</td>
<td>38</td>
<td>127</td>
</tr>
<tr>
<td>10</td>
<td>Denmark</td>
<td>25</td>
<td>65</td>
<td>40</td>
<td>130</td>
</tr>
<tr>
<td>11</td>
<td>France</td>
<td>26</td>
<td>80</td>
<td>26</td>
<td>132</td>
</tr>
<tr>
<td>12</td>
<td>Malta</td>
<td>23</td>
<td>92</td>
<td>24</td>
<td>139</td>
</tr>
<tr>
<td>13</td>
<td>Island</td>
<td>40</td>
<td>60</td>
<td>40</td>
<td>140</td>
</tr>
<tr>
<td>14</td>
<td>Cyprus</td>
<td>29</td>
<td>78</td>
<td>40</td>
<td>147</td>
</tr>
<tr>
<td>15</td>
<td>Belgium</td>
<td>20</td>
<td>40</td>
<td>96</td>
<td>156</td>
</tr>
<tr>
<td>16</td>
<td>Spain</td>
<td>33</td>
<td>90</td>
<td>44</td>
<td>167</td>
</tr>
<tr>
<td>17</td>
<td>Austria</td>
<td>49</td>
<td>54</td>
<td>67</td>
<td>170</td>
</tr>
<tr>
<td>18</td>
<td>Lithuania</td>
<td>32</td>
<td>85</td>
<td>58</td>
<td>175</td>
</tr>
<tr>
<td>Average</td>
<td></td>
<td>38</td>
<td>88</td>
<td>58</td>
<td>184</td>
</tr>
</tbody>
</table>

Source: the copyright processing of Figure 2.38 Paying Taxes 2013

The arithmetic average of the time needed to conform a company in one year in the European Union, according to the table above, is 184 hours per year, 83 hours less than the global average (which includes 185 countries). In the Czech Republic and Bulgaria, the great total number of hours spent by a legal person taxpayer is mainly due to the work taxes, including social contributions and VAT. In 23 of the 30 countries presented the highest percentage of the time spent for voluntary compliance belongs to the second category (the payment of work taxes and of social contributions). 11 economies have at least 4 such charges, which explains the large number of hours consumed. Romania and Hungary have six such charges. [5]

Although the VAT system is applied in each country, with an average of 32% of the total time needed for voluntary compliance, the time consumed for this type of tax administration differs (in Switzerland 8 hours are necessary, 58 in Romania and 165 hours in Bulgaria). Romania ranks 20 according to the number of hours spent by an average firm to comply with consumption taxes. If we talk about work taxes, Romania comes 24th in the ranking and # 23 according to the revenue taxes.

1.1. Proposal to reform the tax administration

Taking into consideration the analysis, we think that the effectiveness of the tax maker in our country should be improved, as the indicators analysed are below the average of the European Union.

In this subchapter we aim to analyse some aspects and directions in which we consider fiscal administration reform should be directed:

- reducing in the number of institutions and their efficient organization
- improving the IT infrastructure and the allocation of a budget to considerably improve its integration for all tax administrations and for real-time operation, as it is easy to use by the Revenue Commissioners and transparent for taxpayers
- at the level of human resources: assigning competent authorities duties which meet the real needs of the taxpayer instead of bureaucratic duties. Motivating salaries and professional training are necessary to meet these challenges.

As a starting point, we can compare the situation of Romania with that of Bulgaria in terms of [7]:

- the collection degree of revenue per 1000 civil servants in the fiscal device
- the number of administrations per 1 million inhabitants
- the average number of payments that must be made by a taxpayer (an individual or legal person) within one year

Another way in which Bulgaria tries to attract foreign investors is promotions in international business journals, such as Financial Times, in which it promotes its advantages over other neighbouring states, including fiscal discipline and the lowest share of income taxation of individuals and legal persons in the EU.

Another positive aspect is that Bulgaria does not pay for the advertising which seems successful in
attracting investors, because it resorted to European funds to finance these promotions. [4]

1.2. Case study - Implications of the Romanian tax maker's regionalization

As already stated in this chapter, tax Administration Reform is necessary, and decentralization can be a solution if applied correctly. However, experience shows us that there is the risk of an uncontrolled growth of expenditure, something the Romanian economy does not need in these times. Spain, where the provinces have their own budgets to manage is a relevant case in this situation. During the boom period Spain got in to have been unsustainable and ineffective debt, and now the time has come for the repayment of that debt in a highly unfavourable moment.

We agree with Prof. Daniel Dăianu's statement: "the implementation of the budget in Romania needs discipline and an increased efficiency of public expenditure. Waste, endemic corruption, and incompetence are notorious traits of the public sector. Regionalization does not have to "decentralize" a system by keeping its burdens". [3]

Regionalization should set a few main objectives:
- increasing tax revenue
- enhancing the effectiveness of public expenditure
- increasing the productivity of state employees
- fulfilling the conditions required for joining the Euro area
- on a local level, the citizens are better represented through their involvement in the decision-making process
- the principles of equity and efficiency can be better achieved on a local level [2]

Thus, the regions will enter a tax competition to attract investors with a view to develop the region. This can lead to the improvement of the conditions offered to investors and to the development of the regions, as well as to the access to European funds (which were supposed to be the engine of Romania's development, but they haven't been that). According to the Convergence Programme 2012-2015 and to the Letter of Intention addressed to the IMF on 12 September 2012 it is stated that "as part of the process of restructuring and modernization of NAFA, we propose to strengthen the current number of 221 tax units in eight regional directorates (until mid-2013) and 47 local tax units (up to 2015)".[5]

Thus, the number of tax administrations will be drastically reduced in the ratio of one to five, and the directions of public finance, customs and finance guards will merge into a single structure.

The declared aim of these measures is raising the level of voluntary compliance reporting up to 92% in 2016, and a significant reduction in the cost of collection.

2. CONCLUSIONS AND INTENTIONS

We conclude that Romania has to face a fiscal policy reform in order to reduce the number of institutions, improve efficiency, improving the IT infrastructure.

In order to maintain the fiscal pressure, adjacent costs needed for compliance should be smaller. Romania has much higher additional costs for compliance than the EU average (e.g. the time spent in Romania of a company in order to pay all its taxes, the number of taxes). The burdens of the public sectors are: inefficiency of the public expenditure, corruption and incompetence. Regionalization should solve these problems, not “decentralize” them. Our contribution to this paper, outlines that adjacent costs of compliance should be much smaller in Romania. The present paper can be continued studying the progress the regionalization will be having and the results. This is a very important aspect regarding Romania’s future economic recovery.

3. ACKNOWLEDGEMENTS

Research conducted within the POSDRU/CPP107/DMI1.5/S/76851 project, co-financed from the European Social Fund through the Human Resources Development Sectorial Operational Program 2007-2013.

4. REFERENCES


