

With regard to arrears, including tax and low tax collection, all these have become ways by firms to weaken their budgetary constraints. This means that governments, on the one hand, showed a lack of firmness in the application of existing legislation and, on the other hand, they were the main factor contributing to the decline in financial discipline.

The reform initiated in our country, in addition to the efficiency and simplification of tax collection activities, posted positive results below the initial expectations, as the World Bank assessment in February 2016 characterized as "moderately unsatisfactory" both the progress of the project, as well as its overall implementation, the initial commitments being respected at a much slower pace and with delays.

Recognizing the existence of disturbing phenomena in the course of fiscal-budgetary flows, their mode of action and the effects produced can transform them from generating factors of imbalances and malfunctions into factors of response to defective macroeconomic management, offering indirect suggestions for improvement economic legislation, the orientation of the behavior of economic agents, the implementation of appropriate institutional changes etc.

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## **INCIDENTS OF THE FISCAL RELAXATION ON FISCAL PRESSURE**

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### *Abstract*

*As a component of economic policy, fiscal policy has to mediate two totally opposite interests: the state's intention to collect higher levels of public revenue, which corresponds to a large fiscal pressure versus the willingness of taxpayers to pay taxes as small as possible, to withstand lower tax pressure. The tax measures adopted in our country in recent years reveal a fiscal policy aimed at promoting the financial function of tax deductions, to the detriment of the economic and social function. This reflects the lack of a coherent vision with objectives proposed on medium and long terms.*

*Thus, the phenomenon of fiscal pressure remains a topical issue alongside other fiscal policy coordinates, such as: the type and size of taxes that support budget revenues; the adoption or not of tax incentives; respecting tax equity with regard to taxpayers; tracking and quantifying tax administration costs etc. The paper also presents a pertinent point of view, including possibilities of fiscal relaxation applicable in the Romanian economy.*

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*Research into the phenomenon of fiscal pressure must be an equidistant approach to the taxpayer and to the state, as the state must not become stronger on the basis of increasing public revenues, but must ensure the sustainability of these revenues, which implies that on the one hand, to represent the interests of individuals and economic agents and, on the other hand, to be the guarantor of their prosperity.*

*Key words: fiscal policy, tax deductions, fiscal pressure, fiscal relaxation, taxpayer*

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## **Introduction**

On the background of the modernization of the Romanian tax system during the transition period, the problem of fiscal pressure faces two major aspects: on the one hand, the lack of available capital to be (re)invested, and on the other hand, the low level of income obtained by the majority categories of taxpayers, inadequate to bear too much tax.

In Romania, in the 1990s, fiscal pressure was at a "supportive level" - from the point of view of the authorities of the time - while taxpayers (decapitalized and low-yielding enterprises and the majority of whose income was at the limit or even below subsistence) perceived it as burdensome. The requirements of a high taxation have manifested itself in the context of a large bureaucracy and a state that retains wider powers in the field of regulation and economic decision-making.

Taking into account the large inclination of the population for saving on the basis of simplified calculations carried out at the level of 1996 (in the absence of official figures and excluding from calculation of the local taxes and fees), it resulted that an average contributor - category which included 60-70% of the total taxpayers - spent all net income on livelihoods, the rest of the taxpayers had a saving rate of no more than 24%. It was then estimated that the low level of savings could compromise future consumption, and the motivation to work more and better. Unfortunately, this alarm signal was not received, and this confirms the author's opinion. (Hoanță Nicolae, 1997)

## **1. Tax pressure - theoretical aspects**

Fiscal pressure is the phenomenon whereby the nominal incomes of individuals and businesses are adjusted through taxation and, at the same time, shows the extent to which the public budget generates revenues through tax evasion, which gives it great economic relevance. Fiscal pressure expresses the intensity with which revenues from natural and legal persons or from the whole of society through taxation are taken. Tax pressure is a way to measure the incidence of taxes.

The fiscal pressure quantification indicator is the tax rate, which can be calculated at the level of the national economy, the economic operator or the individual.

Given the complexity of the fiscal pressure phenomenon, attempts by numerous theorists to quantify the maximum level of fiscal pressure were overtaken by economic developments<sup>1</sup>. It is difficult to make a pertinent opinion on the existence of a maximum threshold, especially since fiscal pressure is more a perception that differs according to economic, political and psychological circumstances than an objective concept.

The calculation of the fiscal pressure rate as a percentage between mandatory levies and gross national product (GDP) has a fairly rational support, using the overall

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<sup>1</sup> Over time, many theorists have advanced value as the maximum admitted for the tax pressure rate, so that there are no adverse effects, but the practice has exceeded those figures from one period to the next. More prudent, the economists of the past decades are summed up to some correlations that should be taken into account. Thus, before World War II, E. Sax and A. de Viti de Marco considered that the optimal level of public spending is achieved when their marginal utility is equal to the marginal utility of private revenue left to taxpayers, and AC Pigou considers that the optimal fiscal pressure is the one that corresponds to the equality between the social utility of marginal public expenditures and the social disutility of marginal tax deductions.

characterization of the phenomenon. Many authors note, however, some shortcomings in the level of taxation thus calculated, because: on the one hand, they ignore the second phase of redistribution - through budgetary flows, which are likely to mitigate the fiscal pressure generated by taxes; and, on the other hand, does not reflect the efficiency of public money spending (in the past, present and future) etc.

Considering these aspects, it can be appreciated that the indicator mainly captures the quantitative side of the phenomenon, not the qualitative side.

The level of the fiscal pressure is influenced by various factors, including: the degree of economic development, demand and supply for public services, the efficiency of public money spending, the level of education and taxpayers' consent, the state of democracy, the level of bureaucracy etc. Because of this diversity of causes, it is not possible to establish a rigorous correlation between the level of taxation and GDP; in other words, at a certain degree of economic (and social) development, an "ideal value" of the tax pressure rate can not be advanced.

In the 1980s, Arthur Laffer, representative of the supply theory, graphically highlighted, with the so-called "Laffer Curve", the ratio between the tax pressure rate and the tax revenue collected by the administration, also mentioning the negative effects of the increasing the rate of taxation, beyond certain limits<sup>1</sup>.

A. Laffer estimates that there is a threshold for the maximum rate of fiscal pressure, beyond which, any increase in the tax rate generates a reduction in tax return, so that, in the purely hypothetical case of a 100% tax rate, tax revenue would be zero. The level of the fiscal pressure is considered optimal when it corresponds to the maximum amount of tax revenue that can be taken to the budget. The value of mandatory withdrawals is therefore an ascending function in relation to the tax pressure rate, up to a maximum point, after which it becomes a decreasing function.

The notion of fiscal optimum, both from the point of view of the taxpayer and the public administration, is difficult to quantify and achieved in practice. Theoreticians, however, are advancing many pertinent views on the fiscal pressure limits that are economic, psychological and political. At the same level of taxation, the fiscal pressure is felt at a lower or higher intensity, depending on how influence factors are manifested, which entitles some authors to talk about the "variability of fiscal pressure limits" (Hoanta Nicholas, 1997).

Thus, psychological limits arise from the level of education and the responses of taxpayers to measures to increase fiscal pressure when it becomes too stiff. Policymakers generally act in the direction of increased taxation, for the implementation of the proposed programs, although often the promises of the pre-election periods include even the reduction of taxes.

The economic limits take into account the fact that too high taxes can have the effect of hindering the propensity to work and taking risks, reducing entrepreneurship, lowering saving and investing capacity, declining international competitiveness, tax evasion and tax evasion - all repercussions negative on the performance of an economy.

We consider that, given that the optimal value of the tax pressure rate can not be accurately calculated, the fact that in the society are manifest the effects of a pressing fiscal pressure may be an alarm signal to the tax authorities that the fiscal pressure exceeded the admissible level.

Considering that in the conditions of the competitive economy, the level of competitiveness of economic agents is of great importance, we consider that the public authorities' interest in this point of view is to allocate their tax duties equitably and as easily

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<sup>1</sup> Among the effects of increasing fiscal pressure above the optimal value, the following are the occurrence of tax evasion and evasion, including the underground economy; increasing the risk of inflation through taxation; decrease in savings and investment capacity; reducing the competitiveness of domestic firms internationally.

as possible. This, as the increase of the tax on economic agents beyond the threshold considered admissible, has a number of negative consequences, such as: the reduction of the resources left at their disposal for reinvestment; decreasing international competitiveness (through prices and technologies); the deterrence of value-adding activities; the emergence of the generic phenomenon of "fleeing capital" to other low taxation countries (tax havens); the rise in prices as a result of tax increases, which leads to a reduction in demand for goods and services, resulting in a slowdown in economic development; producing and exacerbating tax evasion, a process that is both an effect and a cause of rising fiscal pressure beyond the optimum level in the economy and once triggered by this harmful spiral, phenomena are increasingly difficult to master.

Tax evasion is a threat to the budget revenue collection process, and the magnitude of these phenomena is widespread, because in the absence of measures to prevent and combat tax evasion, it negatively affects economic stability. Reducing tax evasion can be achieved by educating payers on the importance of paying tax liabilities, but also by developing systems and procedures that can detect in time and eliminate tax fraud. (Pătrașc, Șerban, 2012)

## **2. The fiscal pressure in Romania**

During the transition period, in our country the tax pressure rate followed a sinuous evolution, the maximum being 33.5% in 1992, and the lowest being 26.5%, in 1997, with a decreasing trend. Compared to the average level of the European level (38-40%), it can be estimated that the fiscal pressure in our country was at an average level but felt to be high in the context of a developing economy. (Cioponea MC, 2004)

The fiscal pressure was at these hard to bear by taxpayers values, for various reasons: the need for increased public administration's financial resources and for sustaining bureaucracy; reduced number of taxpayers compared to pensioners to be supported - 1/3); weaknesses in fiscal policy that constantly pursued the short-term objective of procuring budget revenues, ignoring the medium and long-term objectives that contribute to the creation and consolidation of the tax base; the expansion of the underground economy that has outweighed some important revenue; the increase in tax evasion, which has prompted tax decision makers to increase taxes to counter the failure to achieve tax revenue at the expected level; the low degree of tax collection, which tends to increase the tendency of decision-makers to increase tax hikes.

Since the comparative analyzes of the fiscal pressure, tax revenues and gross domestic product, it was found that in some years of the transition period, the three indicators had opposite developments - in the conditions of falling gross domestic product, increasing the amount of collected tax revenues, or in periods economic growth rates declined - it was considered that fiscal policy, despite having been burdened by a burdensome tax policy, did not reach its main goal of bringing enough financial funds to the budget, and attempts to use taxes as tax leverage failed. (Cioponea MC, 2004)

In the fiscal policy of our country, important changes to income taxation was brought in 2004-2005. Thus, with regard to personal income tax, the graduated system with differentiated rates of between 18% and 40%, was abandoned in favor of a single rate of 16%,. In the corporate tax, the progressive system had been abandoned a long time ago, opting for a fixed rate that gradually diminished from 38 to 25%, so that in 2005 the same 16% .

During 2003-2008, Romania's economy experienced a boom that led to unsustainable overheating and imbalances. According to sources of the Ministry of Public Finance, the average GDP growth was above 6.5% per annum, with foreign direct investment and capital inflows contributing to a significant increase in consumption and investment. Also, the growth of exports to the European Union countries reflected a process of increasing

integration with the Western European economies, causing fiscal and budgetary revenues to increase, which allowed to increase tax pressure on taxpayers during this period.

After Romania's accession to the European Union in 2007, the level of the tax rate followed a downward trend, as Romania aimed at harmonizing the fiscal regulations more closely with the European ones.

With the economic crisis manifesting in our country in 2009, consumption decreased, which resulted in a decrease in tax revenues, especially the deterioration of VAT collection. The sharp fall in tax revenues from this source (which since the introduction of VAT was the first of the three "pillars" of Romanian taxation) caused growth from 19% to 24% VAT rate (increase starting in the middle of next year).

From the VAT rate survey, it was found that increasing the VAT rate in 2010 to 24% has increased tax evasion from 8% to 9.6%. The rising trend that tax evasion has started to hold has also remained for the coming years, reaching 16.2% of GDP in 2013 (Voica, Vintila, 2016).

From the evolution of the budgetary revenues and of the gross domestic product in 2006-2016 (Table no.1), the values of the fiscal pressure rate also fall. Thus, during the global economic crisis, the fiscal pressure in Romania was lower than in the previous years, because taxpayers' tax relaxation was attempted and economic stimulation was economically difficult.

**Table no.1. Evolution of consolidated budget revenues and GDP over the period 2006-2016 (budget execution data - billions)**

<b>No crt</b>	<b>Ann</b>	<b>GDP</b>	<b>Total income</b>	<b>% from GDP</b>	<b>Tax revenue (Tr)</b>	<b>Tr % from total income</b>	<b>Tax pressure rate %</b>
1	2016*	758.500	223.721,9	29,5	136.406,1	61,0	18,0
2	2015	704.542	233.554,3	33,1	138.302,1	59,2	19,6
3	2014	674.300	213.833,6	31,7	124.973,9	58,4	18,5
4	2013	625.617	200.045,7	32,0	119.109,7	59,5	19,0
5	2012	585.200	193.148,2	33,0	114.044,6	59,1	19,5
6	2011	547.829	181.566,9	33,1	104.687,0	57,7	19,1
7	2010	511.581	168.598,5	33,0	93.060,1	55,2	18,2
8	2009	505.503	156.624,9	31,0	88.324,3	56,4	17,5
9	2008	505.000	164.466,8	32,0	94.044,4	57,2	18,3
10	2007	390.800	127.108,2	32,5	76.365,8	60,1	19,5
11	2006	335.900	106.975,3	31,8	63.792,4	59,6	19,0

Data source: Ministry of Public Finance

\* Operational data

This indicator ranged between 17.5% and 19.6%, with relatively slow year-to-year fluctuations in most of the range taking values between 19 - 19.6%, which denotes a relative stability of the phenomenon analyzed.

From the analysis of these data, it can be seen that the governments of our country managed, on the one hand, to increase the budget revenues (a doubling of the tax revenues in nominal absolute values), by enlarging the taxable base or by modifying the tax rates - in order to could pay off the debts and obligations assumed during the difficult times caused by the economic crisis, and on the other hand, to meet the expectations of the taxpayers, that the fiscal pressure be reduced. According to the experts, the values of the tax pressure rate in recent years place our country in the group of low-income countries, corresponding mainly to underdeveloped economies than developing countries.

It is difficult to compare international fiscal pressure, even at the highest level of aggregation - the tax burden at national level - as in the short term, countries can choose to have lower tax burdens without reducing their spending if they are willing to have budget deficits and accumulate public debt. Also, comparing the rate of fiscal pressure in our country with those recorded in other countries - as has often been the case for representatives of public authorities to justify its high level - is not entirely conclusive as it is based on tax systems with different structures, levels of different economic development, with high productivity and living standards.

From the amount of the indicators of the general consolidated budget (Table no.1), there is a special structure of the budgetary revenues, meaning that the share of the tax revenues in the total revenues of the general consolidated budget - which in the market economies amounts to over 85 - 90%, in the analyzed period ranged between 55.2 and 61.0%.

### **3. Possibilities for achieving fiscal relaxation in Romania**

Given that increasing the tax pressure rate from one period to the next is an objective process, we believe that reducing it - even on the basis of very solid arguments - is a goal with fewer chances to achieve in practice. That is why we consider it more appropriate and timely to focus the decision makers' attention on measures that will lead to the relaxation of taxation in the coming period. In the literature, fiscal relaxation<sup>1</sup> is a concept that is not necessarily based on the reduction of the average tax rate but, in particular, on the restructuring of the tax system, correlated with issues related to budget expenditures and the implementation of a market economy functional.

Specialists consider that tax relaxation can be achieved through measures such as:

- rethinking the distribution of tax burden between direct and indirect taxation, by shifting the emphasis on indirect ones. Some of the arguments that favor this idea are related to the psychological limits of the increase in the rate of tax pressure, as the taxpayer sees in the taxes a confiscation of his income and a restriction of the right to spend. By lowering income taxes characterized by high transparency, on the one hand, the share of income left to the taxpayer will increase and, on the other hand, the degree of acceptance and supportability of taxes will increase. Also, with a higher income remaining after tax, the taxpayer's sense of spending limitation will decrease (or even disappear), because he will indeed be able to spend more. However, this will be reflected in additional tax revenues through indirect taxes, at least at a level that can offset the decrease in direct tax receipts. In this way, by reorienting tax burdens between direct and indirect taxes, the taxpayer may experience a fiscal relaxation at the same calculated level of the tax pressure rate;

- the redistribution of tax burdens between natural and legal persons in the sense of reduction in the economic agent and towards the direction of households. The attenuation of the tax burden on economic agents is based on arguments such as: passing or dividing the fiscal burden of profit tax on the final consumer through the repercussion phenomenon; affecting the investment capacity (business development function) with unfavorable implications on competitiveness, especially externally, assuming that all economic agents bear the same fiscal burden within the country. The main beneficiaries of the benefits of public spending are the households, as employees, customers, even in the case of subsidies that have maintained the social function at many companies. The reduction of the taxation at the level of the economic agents leads to the increase of the interest and the possibilities of investing, refurbishing, with beneficial effects in the field of labor productivity; as a result, the competitiveness of enterprises will be increased and will result in higher profits. As a consequence, revenues will be collected at least in the same amount as

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<sup>1</sup> Tax relief is the set of normative measures designed to bring as much as possible (to the limit, to the coincidence) the set of fiscal constraints operating in the economy, the ability of the economic system to respond with a sufficiently high degree of voluntary compliance to these constraints. (Emil Dinga)

in the earlier situation of a higher rate of corporation tax; investing in expanding the business would generate job creation and / or increase employee wages; higher amounts of household income lead to an increase in their contributory capacity - which will be an additional revenue for the budget;

- limiting the appeal to fiscal facilities because of their adverse effects: (1) lead to a fall in tax revenue, often not entirely justified by arguments of an economic or social nature; (2) against the backdrop of an economy in the process of transformation and of tough and flawed legislation, can generate the widespread use of tax evasion at the shelter of the law; (3) distorts the competitive climate and fueling certain clientele behaviors that can overcome (or even overcome) the positive effects expected for the economy or various socio-professional groups;

- reducing labor costs by lowering social contributions paid by the employer - so far high in our country - could lead to a shift of the workforce from the underground economy to the official economy, which would increase the tax base;

- rationalizing public spending, first by giving up those that "do not serve a particular purpose, present or future" (Galbraith J.K., 1997). Such expenses may be: the result of an excess of staff (the number of employees being often mistakenly related to the position and persistence of the institution); expenditures that meet limited political or economic interests and not the broad needs of the population; expenditures that survive the original purpose to which they were intended and to which they have already served in an earlier period. In such situations, the problem is to locate them in order to then focus on other areas of public interest;

- the judicious dimensioning of public spending, depending on the objectives of the reform and the requirements of social policy. In this sense, we consider it necessary to generalize the substantiation of budgetary expenditures on the basis of projects or programs and to abandon the practice of budgetary rectifications, which, after the adoption of the initial budget law, introduces categories or amounts of expenditure which, when debating the draft budget, were considered unjustified;

- limiting tax evasion, on the one hand, by reducing gaps allowed by inappropriate legislation and, on the other hand, by laying down and enforcing deterrent measures for those who breach the law (lifting the right to work, deprivation of liberty associated with recovery full damage to the product, etc.) since the current sanctions and their discretionary application do not constitute barriers to the evasion phenomenon;

- effectively managing the budget deficit so that there is a correlation between spending supporting public debt and increasing the state's financial means to pay it. To this end, the interest rate on government debt should have a relatively constant weight in the increase in the global income from which it is paid. "Always taking into account a certain overall efficiency of public administration and intelligent determination of the state's attributions, the deficit and interest rate should increase over time in proportion to the general economic development. If the deficit and the interest rate rise faster, we need to ask whether they include some non-contributing expenditures, as expected for economic growth" (Galbraith J.K., 1997);

- eliminating / diminishing subsidization of losses in the economy, by detecting inefficient and unreasonable branches and businesses (in economic and social terms). We take into account the fact that, under the current conditions, on the one hand, the subsidy lost its role as an instrument of intervention in the economy, becoming a simple palliative for the entire population, and on the other hand, the coverage of the losses in the economy introduces asymmetries and preferences, being anticompetitive.

We appreciate that tax restructuring can achieve fiscal relaxation even in the context of an increase in the average rate of fiscal pressure, as the change in the tax structure respects the voluntary compliance with the payment of budgetary obligations. In this way, certain segments of the tax base (which can undergo such a change) will see an increase in the individual tax burden, and in others there will be a decrease. Also, by stimulating economic

growth and conducting an efficient activity, there will be an increase in gross domestic product and, on this basis, an increase in budget revenues. We believe that through these measures, fiscal relaxation is achievable and dynamic, focusing on enhancing tax bases, resulting in the sustainable preservation of tax revenues and the self-sustaining increase in tax revenues - aspects of medium and long term strategies of tax policy.

### **Conclusions**

Taking into account the intentions of increasing the fiscal pressure - justified by the public authorities in our country, which is facing a low tax collection - a more rational and objective approach to this phenomenon is needed by the financial management at macroeconomic level. Thus, it is advisable to know and take into account the conclusions of the bidding economists on the correlation between the magnitude of the tax pressure rate and the volume of tax revenue.

In this respect, it is necessary to continuously monitor the evolution and correlation of these indicators, in order to avoid a situation in which too high fiscal pressure will lead to a decrease in tax revenues.

Any change in the tax system or in the level of taxes should take into account the impact on the overall flow of tax revenue, as in many cases a reduction in the tax burden is compatible with maintaining or even increasing the budget revenues if there is a simultaneous increase of production - similar to the extension of the tax base. Thus, the tax pressure rate can become a very important and highly effective macroeconomic variable in fiscal policy, whose signals are used to support economic growth.

However, the fiscal pressure in the period under review, although below the European average, has been felt to be severe in the economy, on the one hand, due to the narrowing of the correct taxpayer segment and the increase in the number of tax evaders "encouraged" by the slight sanctions provided by the legislation, and, on the other hand, the level and the decreasing quality of public services offered by the state.

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