

THE EFFICIENCY OF VAT COLLECTION IN ROMANIA

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Abstract: *The issue of the efficiency of the fiscal systems has been analyzed in the specialized literature, the specialists formulating various points of view regarding the importance of ensuring the efficient functioning of the fiscal systems and the characteristics that should be found in an efficient fiscal system. Fiscal policy in Romania is defining for the functionality of the economic system as a whole. The tax system in Romania is characterized by poor collection, inefficient administration, excessive bureaucracy and high tax evasion. VAT is one of the basic budget revenues in the formation of a state's GDP. However amid tax evasion and collection system problems, European countries are losing billions of euros in VAT revenue every year. This is also the case of Romania, which is among the countries with the largest deficit in VAT collection in the EU. In this sense, in this article we intend to make an analysis of the evolution of VAT collection in Romania in the last 10 years, to identify the causes and of some measures to increase the collection level.*

Key words: *performance, efficiency, fiscal revenue, economic growth*

INTRODUCTION

In order to carry out its activities, each state needs income that it is provided from taxes levied on both individuals and legal entities [5]. According to the substantive and formal features, taxes are divided into direct taxes and indirect taxes [1]. Indirect taxes are levied on the sale of goods and services, import and export, etc. Among the most important indirect taxes is the value added tax, the basis of the appearance of the value added tax is the tax on the movement of goods.

The transition to value added tax has made it possible to avoid the cascading taxation of the movement of goods [4]. By cascading taxation, which was characteristic of the tax on the movement of goods, there was a taxation of a taxable matter containing the tax on the movement of goods previously due, thus coming to calculate the tax on a taxable income which included the tax previously due [2].

According to the community concepts, the value added tax was introduced in our state as the most evolved main modern procedure of indirect taxation. In this sense, the normative act that includes the general provisions of calculation and payment, specifies that this tax applies to each stage of the economic circuit and that added value is equivalent to the difference between sales and purchases within the same stage of the economic circuit.

By the normative act establishing, the value added tax was characterized as indirect tax, which is generally levied on sales of goods, called operations on the transfer of ownership of goods, which are joined by the provision of services and the import of goods and services.

MATERIALS AND METHODS

In realising this paper we used the information available at the Ministry of Public Finance of Romania and European Commission in order to emphasize the importance of fiscal revenue collection in general and VAT especially. We made an analysis of the VAT collection in Romania, we identified the level of performance of VAT collection and some measures to increase it.

RESEARCH RESULTS

Analysis of the efficiency of VAT collection in Romania

The information available on the website of the Ministry of Public Finance regarding the estimated and realized revenues from VAT in Romania highlights the non-realization of VAT revenues in the years 2010-2019.

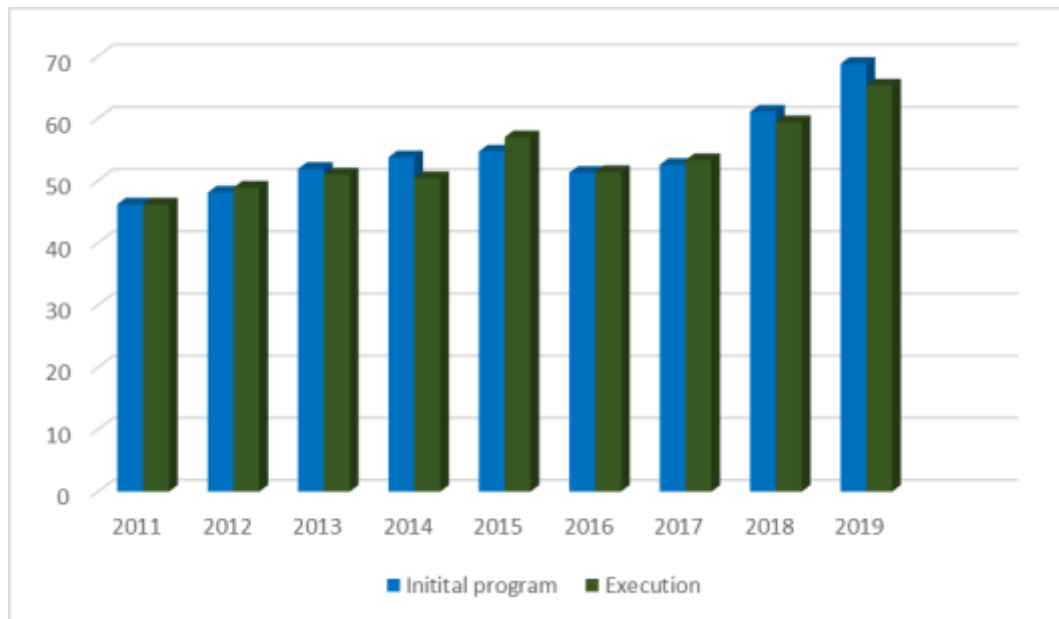


Figure 1. Evolution of VAT revenues in the period 2011-2019 (billion lei)

Source: made by the author based on information available on the website of the Ministry of Public Finance (budget execution)

From the point of view of VAT revenues, we can see from graph 1 that they evolved each year differently from the initial program to the execution. Only the year 2011 is an exception, this being the only one in which the VAT revenues from the initial program coincide with those from the budget execution. The largest decline in the negative sense was recorded in 2014 when 6.25% less VAT revenue was collected than expected. The degree of their achievement being 93.75%. In a positive sense, the biggest gap was registered in 2015 when 54.69 billion lei were provided in the initial Program and 56.98 billion lei were collected at execution, ie by 4.19% more, the degree of achievement being 104.19%. This gap was the result of the above-expected advance of the relevant macroeconomic base of 7.3% compared to the 5.3% increase taken into account in drafting the budget for 2015.

In addition to improving collection efficiency, overperformance revenues at these revenues was also determined by lower VAT refunds in 2015 (-1.6 billion lei, respectively 7.98% less than in 2014), but also by the increase in investments from European funds, 2015 being the last year in which funds related to the financial year 2007-2013 could be attracted [9].

In 2019, the initial program provided VAT revenues of 68.80 billion lei and revenues of 65.30 billion lei were collected during the execution, which means that 5.1% less VAT revenues were collected than expected. The degree of their achievement being 94.9% [16].

In nominal terms, the revenues collected from VAT registered a slight increase in the period 2010-2015, followed by the decrease by about 5.45 billion lei in 2016 compared to 2015 [15]. Subsequently, amid the decrease in fiscal revenues of the general

consolidated budget by about 10.19 billion lei in 2018, compared to 2017, the share of VAT revenues in the fiscal revenues of the general consolidated budget increased from about 38% (in 2016) to about 41% (in 2018). In 2019, the VAT revenues increased again, the state collecting from VAT at the level of 2019 65 billion lei, increasing compared to 2018 by 9.7%.

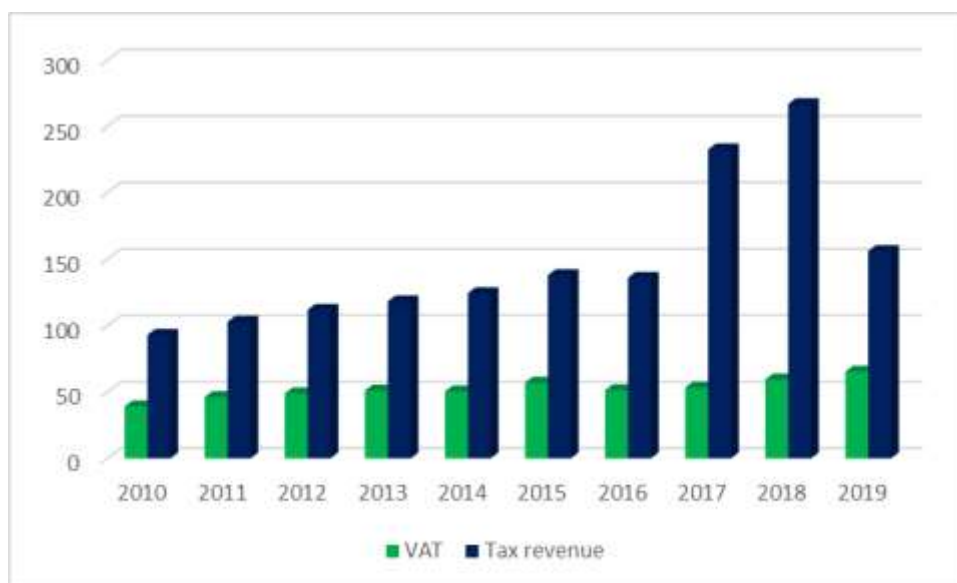


Figure 2. Evolution of VAT revenues and fiscal revenues of the general consolidated budget in the period 2010-2019

Source: made by the author based on information available on the website of the Ministry of Public Finance (budget execution)

The share of VAT revenues in GDP registered moderate oscillations in the period 2010-2015, followed by a continuous decreasing trend after 2015 (8.1% in 2015 and 6.3% in 2019), but the line being less inclined compared to the trend of the share of fiscal revenues of the general GDP consolidated in GDP, which registered the same evolution with the mention that the decrease starting with 2015 was much more accentuated.



Figure 3. Share of VAT revenues and fiscal revenues in GDP, in the period 2010-2019

Source: made by the author based on information available on the website of the Ministry of Public Finance (budget execution)

Regarding the efficiency of VAT revenue collection, it is assessed by relating the default tax rate to the average weighted tax rate. It should be noted that the calculation methodology was changed in 2015, and as a result the results are not comparable.

The following figure shows the evolution of the implicit tax rate and the efficiency index of VAT collection in Romania.

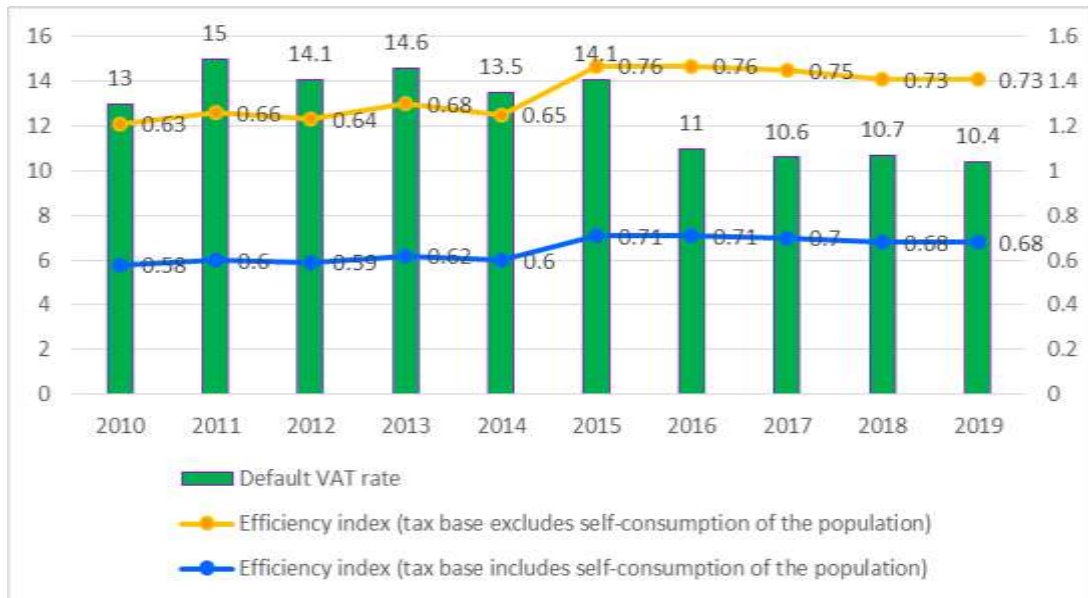


Figure 4. Evolution of the default VAT rate and efficiency index in the period 2010-2019

Source: made by the author based on information available on the website of the Ministry of Public Finance (budget execution)

Regarding the collection efficiency index related to VAT, it had a relatively stable evolution in the period 2010-2014, following that in 2015 to register a significant improvement, reaching the maximum level in the post-crisis period. In the following period, the efficiency index decreased but this was minor and was due to the decrease of the standard VAT rate from 24% in 2015 to 19% in 2017 and the extension of the applicability of the reduced VAT rates of 9% and 5%. These measures led to a reduction of the weighted average VAT rate from 18.4% in 2015, to 14.5% in 2018 and to 14.2% in 2019.

We can thus conclude that the decrease in the VAT rate from 2016-2017 did not lead to an increase in the efficiency of collection or compliance with payment. Also, we can observe that the degree of efficiency of VAT collection in Romania in 2019 is approximately equal to that of 2018, not registering significant increases in revenues to show an improvement in collection.

Romania's budget loses one third of VAT annually, according to the European Commission in the report on the collection deficit of this tax, the consequence being that the state has difficulties in fulfilling its main functions, respectively the provision of public services. The indicator published by the European Commission, which measures the difference between the VAT potentially receivable from the budget, estimated on the basis of all transactions in the economy and the one actually collected in the state treasury accounts, is illustrative for the collection capacity of the tax administration.

Although Romania has experienced many legislative changes and procedures over time, hoping to improve the level of revenues, the results are long overdue. These

shortcomings are all the more visible lately, as the budget revenues have suffered in the context of the Covid-19 crisis and the increase in expenditures [13].

The deficit of the national budget shows that, after the first seven months of 2020, the state spent 50 billion lei more than it received. In the same period last year, the deficit was at 18 billion lei. While public sector wage and pension expenditures have risen steadily in recent years, accounting for 96.3% of tax revenues and social contributions to the budget, tax collection has remained at the same low, at around 26% of GDP, which places Romania on the penultimate place in the EU. In return for the increase in expenditures, the fiscal administration has not been strengthened in recent years by implementing IT systems, training staff or starting coordinated reform processes.

Given that the government forecasts a budget deficit of 8.6% of GDP at the end of 2020, there was talk in the public space about a possible increase in taxation next year to compensate for gaps and finance expenditures [11]. But this is not a medium and long term solution for Romania, especially in the context of the crisis when economic operators need incentives, not an additional fiscal burden. A better collection of existing taxes would help the budget to balance, and reducing the VAT gap is not only possible, but necessary and mandatory.

In fact, the quantification of the VAT collection deficit is done by the European Commission precisely to help Member States develop well-targeted measures and monitor their effectiveness [7].

Post-pandemic fiscal-budgetary consolidation

One of the challenges of the post-pandemic cycle (identified also by the IMF's autumn macroeconomic report) is fiscal consolidation, following the severe deterioration of public finances in the context of the health crisis and its consequences [3]. It must be borne in mind that this consolidation cannot be achieved by economic growth alone, because no matter how large it is, fiscal consolidation cannot take place if budget expenditures grow faster than GDP or if budget revenues grow more slowly than GDP (usual situation in Romania) [10]. It is becoming more and more likely that the price we will pay for the pro-cyclical policies from 2015 to 2019 will be other pro-cyclical policies in 2021 - 2024 (tax corrections in periods of potential growth). In order to get out of the trap of pro-cyclicality in which we find ourselves, the fiscal rules established by the Law on Fiscal-Budgetary Responsibility should be rethought and strengthened and mechanisms identified by which they can no longer be avoided.

We emphasize that the level of the share of public debt in GDP in Romania (approximately 41% in the second quarter, according to Eurostat) is lower than in Western European countries (in the Eurozone, 95.1% in the second quarter) [6].

Romania also has important potential for reducing the informal economy. In the medium term, these aspects corroborated with the projects launched at EU level (after the onset of the pandemic) and with the prospects that the annual dynamics of nominal GDP remain higher than in the Eurozone, facilitate the fiscal-budgetary adjustment process in Romania in the post-cycle pandemic [8]. However, we stress the importance of avoiding the implementation of measures that would contribute to the intensification of the structural component of the budget deficit, such as the increase of the pension point by 40%, which would lead to the immediate loss of investment rating, with unfavorable implications in the medium term. We also believe that changes in the taxation system must be avoided in order to ensure a rapid transition of the economy to the post-pandemic cycle. Overall, the new administration can benefit from the prospects of post-pandemic economic recovery (the IMF forecasts real growth of over 4.5% year / year in 2021) and the implementation of the Next Generation EU programs and the 2021-2027 multiannual

financial framework to adopt measures to adjust the structural component of the budget deficit. In this context, we mention the following possible measures: improving the collection process, including by intensifying digitization; reform of the budgetary apparatus; streamlining spending on goods and services; reform of state-owned companies, including by capitalizing them on the stock market.

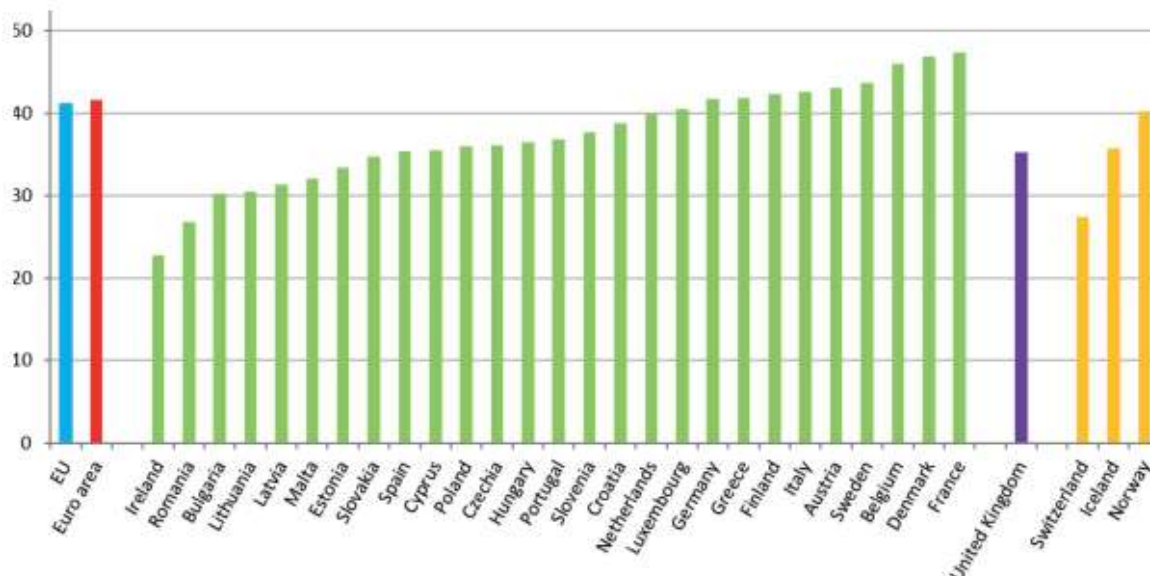


Figure 6. The % of budget revenues in GDP

Source: Eurostat

As we pointed out earlier, the pro-cyclical fiscal policy made Romania face a pandemic with a practically non-existent fiscal room for maneuver [12].

From the perspective of revenues to the state budget, in the short and medium term it is necessary to digitize ANAF at the same time as increasing the collection of taxes and reducing the informal economy. Also, for the sustainability and fairness of the single tax system it is necessary to return to the “level playing field” principle on which the single tax rate is based.

CONCLUSIONS

As the chart above shows, Romania is one of the EU member states that collects the lowest budget taxes relative to GDP, being "surpassed" in recent years in this regard only by Ireland. Also, the VAT collection deficit registered in Romania is for many years the largest in relation to the other EU member states.

These things can put a lot of pressure on much-needed public spending in certain key areas and can lead to the temptation to consider tax increases or the introduction of new taxes in order to cover budget spending. We believe that a number of exemptions, deductions and tax incentives, generously granted in recent years for reasons other than economic ones, will have to be reconsidered and eliminated. The level of taxes and duties must be stimulating, but the tax base must be wider and equity must be ensured. The granting of fiscal incentives should be the result of an economic impact analysis, which demonstrates the beneficial effect for Romania, aligned with the strategic and competitiveness objectives pursued and with the sectors we want to stimulate.

Measures to increase the collection of taxes and duties are absolutely necessary, with their most efficient administration by public authorities, given that this is the main reason for the low level of taxes collected

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