

FISCAL REFORM IN ROMANIA COMPARED TO BULGARIA

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Abstract: *The Bulgarian tax authorities, which have successfully implemented a modernization program with the support of the World Bank, a program that Romania abandoned after six years of postponements and extensions, have clearly superior results to the domestic tax authorities in terms of increasing collection. Even if the crisis caused by the covid-19 pandemic forced the Ministry of Finance to speed up the digitalization of the fiscal system, the statistical data show that we are still far from the EU average in terms of the degree of tax revenue collection. In this paper we aim to analyze Bulgaria's tax reform and to identify how the neighboring country has managed to increase its tax revenues collected from the state budget so as to provide a model of good practice that can be implemented in the case of Romania's fiscal system, given the fact that our country is among the last in the EU in terms of revenue collection efficiency.*

Key words: *reform, good practices, performance, efficiency, fiscal revenue;*

INTRODUCTION

In the context of the EU's general policy, fiscal policy is considered to be essential for all EU countries. However, their fiscal independence is constrained both by the obligation not to distort competition within the Single Market and by the need to comply with the convergence criteria set out in Maastricht (1993), also incorporated in the Stability and Growth Pact (2008) and more. recently in the "Fiscal Compact" (2013), aiming at coordinating national fiscal policies to ensure a climate of stability and budgetary prudence [2].

Fiscal policies are assessed in relation to four priorities:

- ✓ stimulating investments;
- ✓ employment support;
- ✓ reducing inequalities;
- ✓ ensuring fiscal compliance [7].

At present, at the level of the European Union, there is no integrated European tax system, but a junction of different national tax systems [4]. Such diversity has made national tax systems sometimes generators of tax competition. In the context of the differences between tax regimes and the level of tax rates, the main objective of fiscal policy within the EU has been to avoid distortions of competition in the European single market [2].

To date, there is no solid evidence of the impact of the overall level of taxation on economic growth. However, it is better understood how each of the components of the tax regime influences economic growth through the following channels: total factor productivity and increased capital stock or labor supply [6].

The role of fiscal policy in stimulating long-term economic growth:

- ✓ Macroeconomic stability (including fiscal stability) is a prerequisite for long-term sustainable economic growth.
- ✓ Fiscal policy can also influence potential long-term economic growth and not just cyclical. "Growth friendly fiscal policy"
- ✓ Direct impact on economic growth - through the impact on productivity and investment.
- ✓ Indirect impact on economic growth - temporary fiscal stimulus to amplify the positive impact of structural reforms and reduce their short-term cost. However, the

fiscal stimulus is conditioned by the credibility of the commitment for structural reforms and fiscal prudence [3].

MATERIALS AND METHODS

In order to realize this paper we used the data from the National Agency of Fiscal Administration, Ministry of Public Finance and European Commission. Our purpose was to emphasize the importance of fiscal reform in increasing the collection of revenues at the public budget and we realized an analysis of the fiscal reform in Bulgaria which was a success and emphasized the good practices of our neighbor which can be used as a model for the reform of our fiscal system. For doing that we used the regression econometric model.

RESEARCH RESULTS

Analysis of the fiscal reform in Bulgaria

The first reform of the Bulgarian tax administration was legislative and administrative in nature and took place between 2003 and 2009 with \$ 63 million in World Bank funding [1].

Through this reform it was wanted to:

- ✓ Let the fiscal compliance be maximized;
- ✓ increase the efficiency of the revenue collection process;
- ✓ the continuous training of the employees of the administrative apparatus is performed;
- ✓ corruption decreases;
- ✓ tax burden decreases;
- ✓ either sustain economic growth.

The most important results were:

- ✓ increasing the analytical capacity of the administration;
- ✓ increasing voluntary compliance;
- ✓ increasing the efficiency of the revenue collection process;
- ✓ the increase of the share of fiscal revenues as a percentage in GDP at the same time as a reduction of the fiscal burden;
- ✓ increasing the operational capacity by introducing an integrated revenue management system and developing the IT infrastructure.

This reform process has contributed to the integration of tax revenue collection and insurance contributions (pensions, health and others) in order to improve the efficiency and effectiveness of revenue collection and support the development of the private sector [1].

A second comprehensive reform program took place in 2015-2017 and aimed to increase budget revenues following the decline of the gray economy and the costs of tax compliance [5].

The most important results of this reform were:

- ✓ decreasing the VAT gap, from 20% in 2015 to 12% of the VAT mass that should be collected in 2016 and 2017 [9];
- ✓ the degree of efficiency of VAT collection was 0.89 in 2018 compared to 0.7 in Romania in the same period [10];
- ✓ in 2018 the budget revenues were 3.6% higher than the scheduled target. By comparison, Romania collected 1.7 billion lei less than the amount presented in the budget law [8].

The efficiency of tax revenue collection in Bulgaria compared to Romania

One Regarding VAT, regarding the tax efficiency index in figure 1. we observe its upward trend in Bulgaria as a result of the reforms carried out, instead in the case of Romania the trend is a downward one starting with 2016.

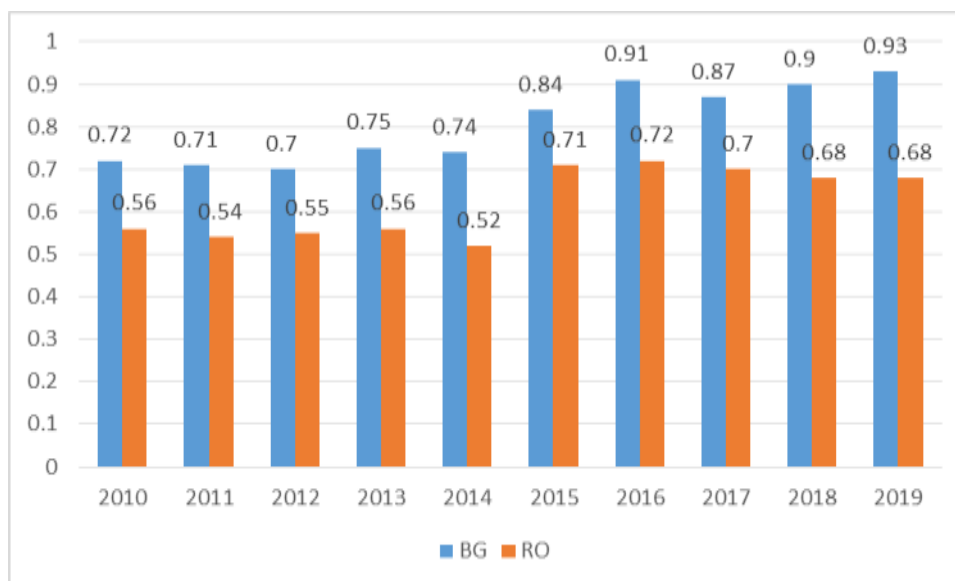


Figure 1. Evolution of the VAT efficiency index in the case of VAT in Bulgaria and Romania in the period 2010-2019

Source: based on information available on the website of the Ministry of Public Finance

In 2013, Romania also initiated in collaboration with the World Bank Group a fiscal administration reform program with a financing of 70 million euros [11].

As in the case of Bulgaria, the most important objectives were to: increase efficiency in the revenue collection process, increase the degree of fiscal compliance, reduce the tax burden, etc. [15].

The first problems related to this project appeared in 2015 and were reported by the World Bank, and in 2016 the Bank extended by 2 years the completion deadline of the project which was initially 2019 [12].

During the implementation, Romania received quite low ratings, which deteriorated over time, the first stage, that of the acquisition of a budget revenue management system being concluded with long delays in October 2017 [14].

In November 2018, Romania abandoned the project, and reimbursed the amount of 18 million euros spent from the initial amount, simultaneously assuming the deficient digital infrastructure [13].

The positive effects of the reforms of the Bulgarian tax administration are also observed in Figures 2 and 3. These figures show the evolution of the efficiency index of profit and income taxation in Bulgaria compared to Romania.

We mention that the CSA was not analyzed because its evolution is not comparable as a result of the transfer of contributions from employer to employee in the case of Romania.

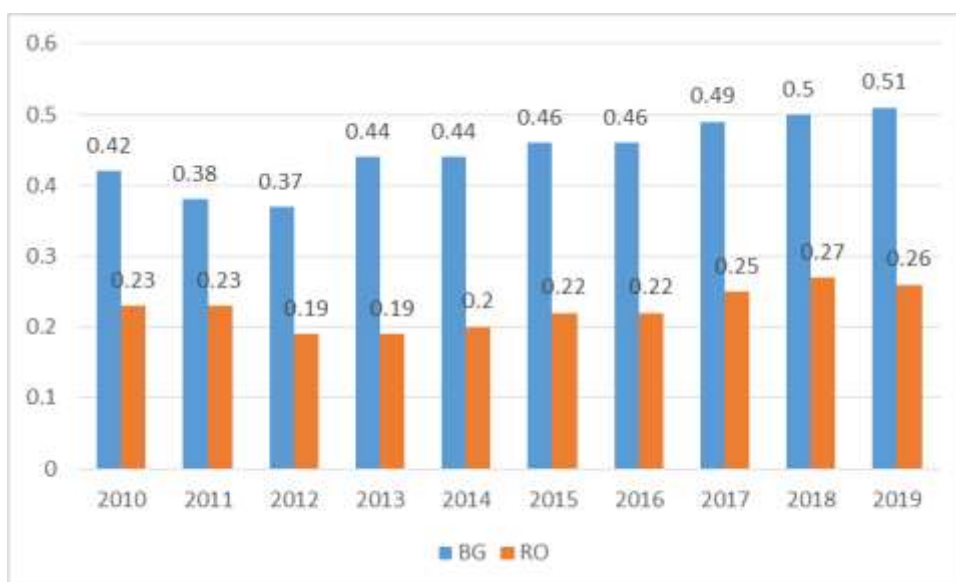


Figure 2. Evolution of the profit tax efficiency index in Bulgaria and Romania in the period 2010-2019

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

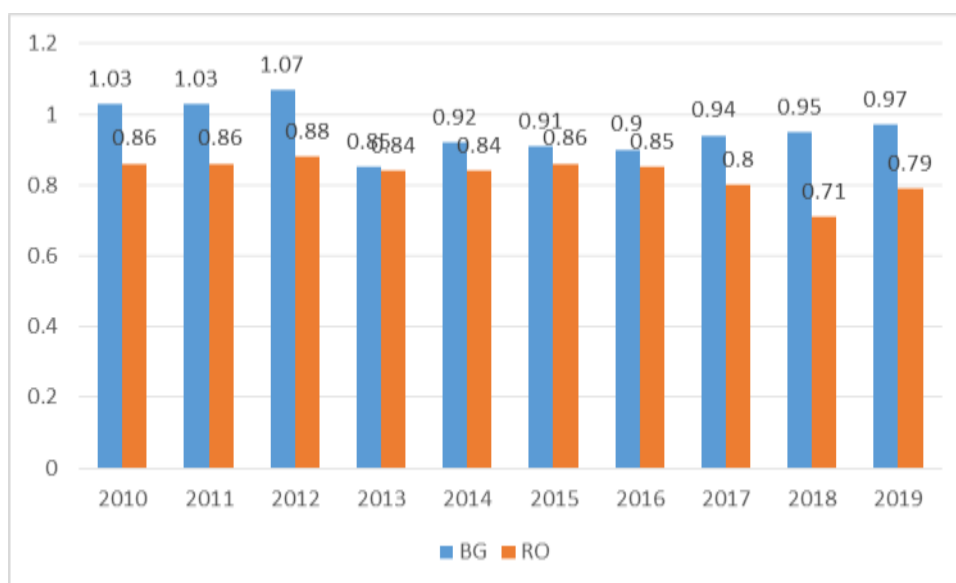


Figure 3. Evolution of the income tax efficiency index in Bulgaria and Romania in the period 2010-2019

Source: based on information available on the website of the Ministry of Public Finance

Next, we tried to identify the extent to which the efficiency of collecting the main tax revenues influences the cyclical position of the economy in Romania and Bulgaria for the period 2010-2019.

In this sense, we tested using regression whether the connection between the variables is significant or not. We considered as independent variables % VAT in GDP, % of Profit tax in GDP, % of Income Tax in GDP and % of CSA in GDP and as dependent variable Budget revenues as a share in GDP.

The result of the regression for Romania F-statistic is less than 0.05 which indicates a direct relationship between the evolution of GDP and the evolution of collected tax

revenues, therefore the collection of fiscal revenues is significantly influenced by the evolution of GDP.

P-value is higher than 0.05 which indicates that the regression coefficients are not statistically significant taken separately. But together their influence is statistically significant, Prob (F-statistic) 0.007768 < 0.05 indicating that the statistical link between the independent and the dependent variable is significant.

R-squared has a value of 0.910891 which means that the dependent variable explains 97.08% of the dependent variable. Thus, we can appreciate that there is a close link between the endogenous variable and the exogenous variable.

Correlating this information, we appreciate that there is a statistically significant relationship between % VAT in GDP, % of Profit tax in GDP, % of Income Tax in GDP % of CSA in GDP and Budget revenues as a share in GDP.

Dependent Variable: __BUDGET_REVENUES_IN_GDP

Method: Least Squares

Date: 05/11/21 Time: 20:00

Sample: 1 10

Included observations: 10

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-19.09817	15.91239	-1.200207	0.2838
__VAT_IN_GDP	-0.240844	0.620128	-0.388378	0.7137
__PROFIT_TAX_IN_GDP	-0.651743	2.130016	-0.305980	0.7719
__INCOME_TAX_IN_GDP	0.742958	0.477000	1.557564	0.1801
__CSA_IN_GDP	1.880035	0.789001	2.382805	0.0629

R-squared	0.910891	Mean dependent var	33.04000
Adjusted R-squared	0.839604	S.D. dependent var	1.409649
S.E. of regression	0.564557	Akaike info criterion	2.001301
Sum squared resid	1.593621	Schwarz criterion	2.152593
Log likelihood	-5.006504	Hannan-Quinn criter.	1.835333
F-statistic	12.77780	Durbin-Watson stat	2.080751
Prob(F-statistic)	0.007768		

In the case of Bulgaria, the result of the F regression is less than 0.05, which indicates a direct relationship between the evolution of GDP and the evolution of collected tax revenues, therefore the collection of tax revenues is significantly influenced by the evolution of GDP.

P-value is higher than 0.05 which indicates that the regression coefficients are not statistically significant taken separately. But together their influence is also in the case of Bulgaria a statistically significant one, Prob (F-statistic) 0.037512 < 0.05 indicating that the statistical link between the independent and the dependent variable is a significant one.

R-squared has a value of 0.828300 which means that the dependent variable explains 82.83% of the dependent variable. Thus, we can appreciate that there is a close link between the endogenous variable and the exogenous variable.

Correlating this information, we appreciate that there is a statistically significant relationship between % VAT in GDP, % of Profit tax in GDP, % of Income Tax in GDP % of CSA in GDP and Budget revenues as a share in GDP.

Dependent Variable: __BUDGET_REVENUES_IN_GDP
 Method: Least Squares
 Date: 05/11/21 Time: 20:05
 Sample: 1 10
 Included observations: 10

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	7.313331	15.01489	0.487072	0.6468
__VAT_IN_GDP	-0.773179	2.381204	-0.324701	0.7586
__PROFIT_TAX_IN_GDP	8.063299	7.168776	1.124780	0.3118
__INCOME_TAX_IN_GDP	-7.143144	5.251404	-1.360235	0.2319
__CSA_IN_GDP	2.000421	0.923288	2.166628	0.0825
R-squared	0.828300	Mean dependent var		36.10000
Adjusted R-squared	0.690939	S.D. dependent var		2.424871
S.E. of regression	1.348064	Akaike info criterion		3.742068
Sum squared resid	9.086379	Schwarz criterion		3.893361
Log likelihood	-13.71034	Hannan-Quinn criter.		3.576101
F-statistic	6.030128	Durbin-Watson stat		1.838026
Prob(F-statistic)	0.037512			

CONCLUSIONS

Bulgaria collects, as revenues, 36.1% of GDP, Romania 30.5% of GDP, of which we have tax revenues of 25.7%, and 29.8%. Bulgaria has 4% more GDP and taxes collected, given that they have a lower level of taxation compared to Romania.

Regarding social security contributions there is not much difference, but with the mention that the level of taxation is significantly lower in Bulgaria.

32.4% are CAS shares in Bulgaria and 25.8 at PFA, being a ceiling at 2.5 average gross salaries, while in Romania last year we had 39.35% and 16% at PFA. We notice the discrepancy between salaries and other forms of income in Romania, without a ceiling. So Romania has a much higher tax rate and no cap, Bulgaria has a much lower tax rate and capped at 2.5 average salaries and yet they have incomes almost as much as Romania.

If Romania were to collect VAT at the level of Bulgaria, as a collection rate we would have revenues with 3.8 billion euros more, 2.25% of GDP.

Therefore, it is obvious that the fiscal system in Romania still needs reform. Bulgaria proves that it is possible. Even if ANAF started the digitization process as a result of the need imposed by the COVID-19 pandemic, it must be continued with other measures that are provided in many strategic documents but that are delayed in being put into practice.

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