

STUDY REGARDING THE FISCAL BURDEN IN CASE OF SALARY INCOME IN ROMANIA

MONENCI DENISA¹, BLAGA TEODORA¹, OCNEAN MONICA*¹

¹*Banat's University of Agricultural Sciences and Veterinary Medicine "King Michael I of Romania" from Timisoara, Faculty of Management and Rural Tourism, Romania*

*Corresponding author's e-mail: monicaocnean@gmail.com

Abstract: *The main purpose of the fiscal system is represented by the stable sources of public revenues, the fiscal system being based on several economic and social objectives constantly modified according to the fiscal needs for efficiency. The efficiency consists in a detailed analysis of both the revenues and the expenses made in the collection process. Public financial resources are limited and sometimes insufficient due to the fact that they consist mainly of tax revenues. Therefore, an increase in resources could be achieved by changing the tax system or by changing the level of taxes.*

Keywords: *fiscal system, collection process, tax system*

INTRODUCTION

The main goal of the fiscal system is represented by the stable sources coming from public revenues, the fiscal system having at its base multiple economic and social objectives, which are constantly changed, based on its fiscal needs for better efficiency. The efficiency consists in a detailed analysis of both the revenues and the expenses made in the collection process [11].

The collection of taxes from the incomes of the natural persons represents an important source for the production of the fiscal incomes. The importance of taxation is not based only on the contribution of collection when we talk about the formation of the public budget.[11]. Public financial resources are limited and sometimes insufficient due to the fact that they consist mainly of tax revenues. Therefore, an increase in resources could be achieved by changing the tax system or by changing the level of taxes [11].

MATERIALS AND METHODS

Taxation plays a fundamental role in creating fair societies and building strong economies. It can help curtail inequalities, not just by supporting social mobility, but also by reducing market revenue inequalities. Fiscal policy can also impact employment decisions, the level of investments and the entrepreneurs' willingness to expand their activities, which all lead to economic growth. Romania's revenues from labour taxes is much lower than the European Union average [12]. At the same time, the impact of direct foreign investments on the host economies, determined by the positive and negative effects generated by the presence of foreign investment, is brokered by the same attitude towards direct foreign investments, concretized in the type of FDI promotion strategy adopted by host "countries" [2]. Nevertheless, the fiscal burden related to income from salaries is relatively high, at 39.8%, while the EU average is 38.2%. These numbers attest to the high fiscal burden in our country in relation to labour taxes.

The paper is based on the reports published by CECCAR in relation to the studied period. This article focuses on the assessment of the taxation of income from salaries and those considered as salaries

RESEARCH RESULTS

In Romania, the revenues that fall under the impact of this tax are, according to art. 76 of the Fiscal Code, all incomes in cash and in kind made by a resident or non-resident person who also realizes a preoccupation in supporting a personal employment contract, a

service reference. The problem of taxation shows both the resident and non-resident person who attract income from salaries and assimilated to salaries and who are not part of those exempted from this tax payment, the latter being found in art. 60 of the Fiscal Code in the case of our country [2]. Also, the system of applied rates, the fiscal practice knows two categories of taxation. These are represented by the imposition in fixed values and the one in percentage quotas. In the case of payroll tax, the latter is used, which in turn can be classified into single percentage rates, also known as fixed or proportional rates, and progressive percentage rates [2].

Table 1 shows the tax rates and the years in which they were introduced. Romania and Bulgaria have the lowest share of income tax and those assimilated to salaries, being 10% tax base.

Table 1.

The tax rates of income from salaries and year of adoption

	Tax rate of income from salaries	Year of adoption of the single share
Romania	10%	2005
Bulgaria	10%	2008
Hungary	15%	2011
Slovakia	19%	2004
Czech Republic	15%	2008
Latvia	25%	1995
Lithuania	15%	1994
Estonia	21%	1994

Source: <https://www.ceccarbusinessreview.ro/public/store/documente/articole/2020/1/5.pdf> [12]

In developed countries there are tax systems with progressive rates, wanting to optimally distribute income and GDP per capita to be higher compared to countries that apply single rates. The system involves the imposition of platforms taxed with a certain percentage. The number of tranches differs from one country to another, as does the level of tax rates separately. Most economically developed countries in the EU belong to this category [13].

A tax burden arises, due to the taxation of the salary incomes of the employees who are borne by both the employee and the employers. The paper proposes to analyze the tax burden that occurs after hiring an individual. The concept is found in foreign literature, the term used being tax burden on labor income, measured by a tax wedge calculation [4].

The fiscal burden is represented by the totality of the social contributions that fall on the employee and the employer, adding the income tax from salaries, these being represented as a percentage of the “cost of a salary” [4].

Payroll tax is the term used for the tax due by the employer for the gross salary, in the case of countries such as Poland, Slovenia, Hungary, this being added to the calculation of the tax burden.

The fiscal burden is the percentage due to the state budget from the cost incurred with the gross salary, the social contributions and respectively with the tax on the salary paid by the employer afferent to each employee. All member states have the same components of the tax burden, but are differentiated by the tax calculation methodology (established by each country) and by the gross salary for which all elements are calculated. In calculating the tax burden, the important elements are the mandatory social contributions due by the employer and the employee, the income tax borne by the employee, the salary tax due by the employer and the gross income of earnings based on which all these components are calculated.

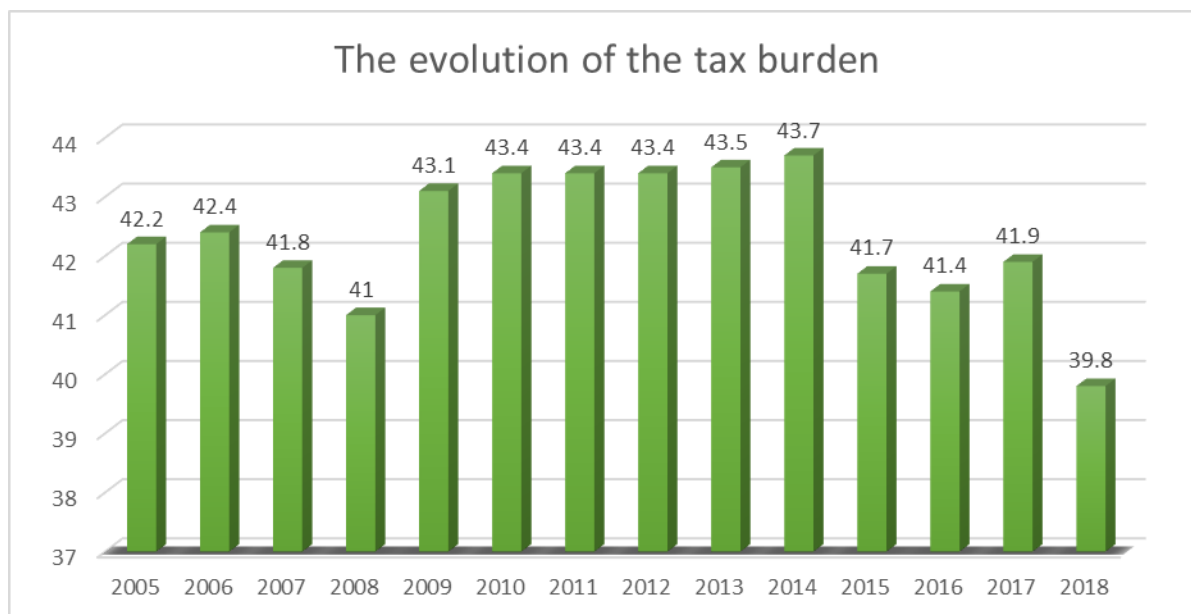


Figure 1. Evolution of the tax burden related to income from salaries in Romania (%)

Source: <https://ec.europa.eu/eurostat> [14]

Romania has renounced the progressive imposition of income tax rates in the form of salaries and other salary rights, adopting the single quota of 16%, which united the minimum quota of 6% with the maximum of 45%. This will be maintained from 2005 until the end of 2017, changing by 10%. The data provided by Eurostat are available until 2018 for Romania. In 2010, 2011 and 2012, an employer paid 43.4% of the total cost of employment, ie the gross salaries paid to employees and the contributions due to it. Romania has started to recover economically, which was also felt in the total fiscal burden, in 2015 being three percent lower than in previous years. Our country reached a fiscal burden of 39.8% in 2018, the lowest recorded in the analyzed period [14].

CONCLUSIONS

The high tax burden in Romania is likely to lead to significant distortions in the labor market, which could affect employment.

A heavy tax burden increases the cost of labor for employers, thus reducing labor demand. The influence on employment is more pronounced when the demand for labor is very wide compared to wage costs, as is the case for unskilled and young employees [4]. A large tax burden also reduces the net pay received by employees, thus reducing the incentives to participate in the legal labor market or to work more hours.

A highlighted tax burden will most likely be passed on by employees, in the form of lower net pay (lower net wages), when labor demand is very permissive with wage costs. There is also a higher potential for unskilled and young employees, who face a large demand for work, to be more affected by the demotivation of attending the labor market as a continuation of the high tax rate [4].

A tax burden with an unexpected development for low-income employees can lead to unemployment and poverty traps. This process can occur when developing the tax burden faced by low-income employees when they start working legally or when working hours lead to the withdrawal of unemployment benefits and also to the loss of social assistance benefits [5].

Regarding this, the increased tax burden on income from wages may hold these people to enter the labor market, at least legally, or encourage the assertion of lower incomes and fewer hours worked.

The high rates of marginal tax burden in Romania can drastically reduce the incentives to attend the labor market with legal forms of secondary employees in the family, especially of the spouse who often works part-time or who receives a lower salary [13].

An increased tax burden for low-wage workers discourages legal employment. There are much greater incentives for employers to hire low-income workers without legal forms or to declare them part-time, even though they currently work full-time, to avoid paying social security and social security contributions. of high personal income taxes. [13]

Although, as a result of the transfer of social security contributions to the employee and increases of the minimum gross salary, Romania has surpassed the average of the minimum gross salary in the region, of 421 euros, surpassing five states, it is still at the bottom of the ranking on the welfare of citizens, because the effective tax rate remains among the highest in Europe [13].

We believe that the sequencing of the fiscal cost leads to an increase in the cost of labor for employers, thus reducing the demand for labor, it is a problem that can be solved by widening the demand for labor to wage costs. As with the employment of teenagers, students and even unskilled people.

In conclusion, following the analyzes performed, we noticed that the Romanian employee receives a lower percentage of the work result than in other states in the region, the tax and the contributions to the public budgets being higher.

In these situations, it would be expected that the high taxation will be reflected in a higher quality of life, since the employee invests more in public services of education, health, infrastructure, etc. But world rankings in this regard show the opposite, with public spending being inefficient.

According to a study that assesses the quality of life and well-being of citizens, Romania ranks 44th out of 146 countries, behind all other member states of the European Union. Such data make it easier for us to grasp the process of labor migration, as well as the need for interrelated measures that can reverse this trend.

REFERENCES

- [1]. **BISTRICEANU D.G.**, 2008, Sistemul fiscal al României, Editura Universitara, București
- [2]. **BISTRICEANU D.G., BADEA L.**, 2010, Bugetul de stat al României, Editura Bibliotheca, București
- [3]. **BREZEANU P.**, 1999, Fiscalitate. Concepte. Metode. Practici, Editura Economică, București
- [4]. **CIOPONEA M.C.**, 2007, Finanțe publice și teorie fiscală, Editura Fundației România de Mâine
- [5]. **EUROPEAN COMMISSION**, 2014, Tax burden on labour
- [6]. **LEGEA nr. 227/2015** privind Codul fiscal, publicată în Monitorul Oficial nr. 688/10.09.2015, cu modificările și completările ulterioare.
- [7]. **NICKELL S., LAYARD R.**, 1999, Labor market institutions and economic performance, In: Ashenfelter, O., Card, D. (Eds.), ediția 1 Handbook of Labor Economics, vol. 3. Elsevier, cap. 46, 3029–3084
- [8]. **POPA A.F., PĂUNESCU M., CIOBANU R.**, 2019, Fiscalitate, ediția a II-a, Editura CECCAR, București

- [9]. **RADU C.F., DUMITER F., OPRET A.L.**, 2015, Labour taxation – a comparative study, Studia Universitatis “Vasile Goldis” Arad, Economic Series, vol. 25, 1-15
- [10]. **VĂCAREL I.**, 2002, Finanțe publice , Ediția a -III-a, Editura Didactică și Pedagogică R.A, București, p.478
- [11]. *** <https://www.ceccarbusinessmagazine.ro/povara-fiscală-in-cazul-veniturilor-din-salarii-studiu-de-caz-in-uniunea-europeană-a6027>
- [12]. *** <https://www.ceccarbusinessreview.ro/public/store/documente/articole/2020/1/5.pdf>
- [13]. *** <https://home.kpmg.com/xx/en/home/services/tax/tax-tools-and-resources/tax-rates-online/individual-incometax-rates-table.html>
- [14]. *** <https://ec.europa.eu/eurostat>
- [15]. *** www.mfinante.ro