

EVOLUTION OF REVENUES FROM THE VALUE ADDED TAX IN ROMANIA

SÎRBULESCU ELENA CLAUDIA¹, PÎRVULESCU LUMINIȚA¹, FEHER ANDREA¹,
IANCU TIBERIU*¹

¹*University of Life Sciences „King Mihai I” from Timisoara, Faculty of Management and Rural
Tourism, Romania*

*Corresponding author's e-mail: tiberuiiancu@usvt.ro

Abstract. *The paper addresses the evolution of VAT revenues in Romania. The value added tax (VAT) is considered the main indirect tax in terms of the volume of receipts to the state budget, but also by the scope of application. Through the conducted study, the authors identified how efficient the collection is, but also the gap of the value added tax. In order for the VAT system to become efficient, the factors that can determine this must be taken into account: the characteristics of VAT (VAT rates, exemptions granted, tax base, etc.), the compliance of taxpayers, to which is added the capacity of tax administrations to manage the charging system as efficiently as possible.*

Keywords: *value added tax, tax, revenues*

INTRODUCTION

The Value Added Tax is the indirect tax that represents the consumption tax, and is actually borne by the final consumer of goods or services. It is a general tax due to the state, levied from one country to another through different tax rates [3,9,10].

Wilhelm von Siemens formulated in 1918 the idea that is the basis of the value added tax, and Maurice Laure in 1954 made quite important contributions, being considered the creator of the value added tax and the one who implemented it and developed practical aspects [14,18,24].

It was introduced in France on April 10, 1954, intended for large companies. On the initiative of the Minister of Finance Valery Giscard d'Estaing, from January 6, 1966, it began to be applied in retail trade as well. Since 1970, the European Economic Community has introduced VAT, to replace production and consumption taxes. In Romania, Ordinance number 3/1992 regulated the VAT, being approved by law 130/1992. These regulations were implemented starting July 1, 1993, and replaced the tax on the circulation of goods. In 1992, the rate for VAT was 18% [5-7,17,19].

It is known that VAT is charged in EU countries, and each country sets its own VAT rates. At the level of Romanian legislation, three quotas have been established: one standard (19%) and two reduced (5% and 9%) for specified categories of goods and services and for certain sectors of activity. Exemptions from paying VAT for goods and services regulated by law are also added [1,2,15,17,20].

There are several categories of VAT, namely: deductible VAT (the amount of the tax for purchases made by a company); Collected VAT (tax applied to products delivered or services provided by a company); VAT payable (collected VAT-deductible VAT, when collected VAT > deductible VAT; recoverable VAT (deductible VAT - collected VAT, when deductible VAT > collected VAT) [4,8,11,12,15].

The year 2024 brought changes in the fiscal field, regarding VAT rates. Law no. 296/2023 introduces changes related to the VAT rate to ensure financial sustainability. According to this law, the VAT rates have increased, and will certainly have negative consequences, followed by other increases in the prices of some goods and services [15,16,22].

Some operations were removed from the category of low VAT rates and introduced at the standard rate, and for others the rate was changed from 5% to 9% or even 19%.

Starting with January 1, 2024, the VAT on many products and services has increased, from 5 percent to 9 percent, from 9 percent to 19 percent and even from 5 percent to 19 percent [13].

The objective of the work is to present the evolution of VAT receipts and the importance of value added tax, knowing that the population mostly pays this tax, which is the largest source of income from the state budget that comes from indirect taxes.

MATERIALS AND METHODS

In the present article, the authors presented the added value and analyzed the evolution of the value added tax collections in Romania. Regarding theoretical aspects, but also the specialized literature, the changes introduced in the legislation regarding the tax based on the work

The data analyzed in this work were obtained from the Annual Reports of the Romanian Fiscal Council, period 2013-2022. The collected information was analyzed by the authors of the work, they performed their own calculations and interpretations, resulting in tables and figures.

RESEARCH RESULTS

At the level of the European Union, Romania ranks last in terms of VAT collection. In 2021, the collection deficit was 36.7%, improving by 0.5 percentage points compared to 2020 when it was almost 37.3%. Even if it decreased in percentage, the collection deficit in nominal value increased to approximately 9 billion euros [23].

In second place was Malta, with a deficit of 25.7% of the estimated potential revenues, third place was occupied by Greece (-17.8%) and fourth place was Lithuania with a deficit of 14.5%. The VAT in nominal value, collected from the budget in Romania was 15.5 billion euros in 2021, compared to the forecasted collections of 24.5 billion euros, registering a deficit of 8.9 billion euros (Figure 1).



Figure 1. Value added tax deficit in the EU, year 2021 (millions of euros)

Source: <https://www.profit.ro/taxe-si-consultanta/foto-romania-ramane-ultima-in-ue-la-colectarea-tva-studiu-de-caz-romania-vs-polonia-ungaria-si-alte-tari-care-au-inregistrat-progrese-21358633>[23]

Following the calculations carried out, the VAT gaps should be reduced in Romania through the tax reforms that were assumed through the PNRR, by 5 percent until 2025 and, overall, and tax collection should improve by 2.5% from GDP.

Even if the single VAT rate decreased in the last ten years in Romania, the percentage of VAT revenues in GDP decreased considerably, so that the reduction of the

VAT rate did not positively influence the economy, due to its whitening and reductions in tax evasion (Figure 2).

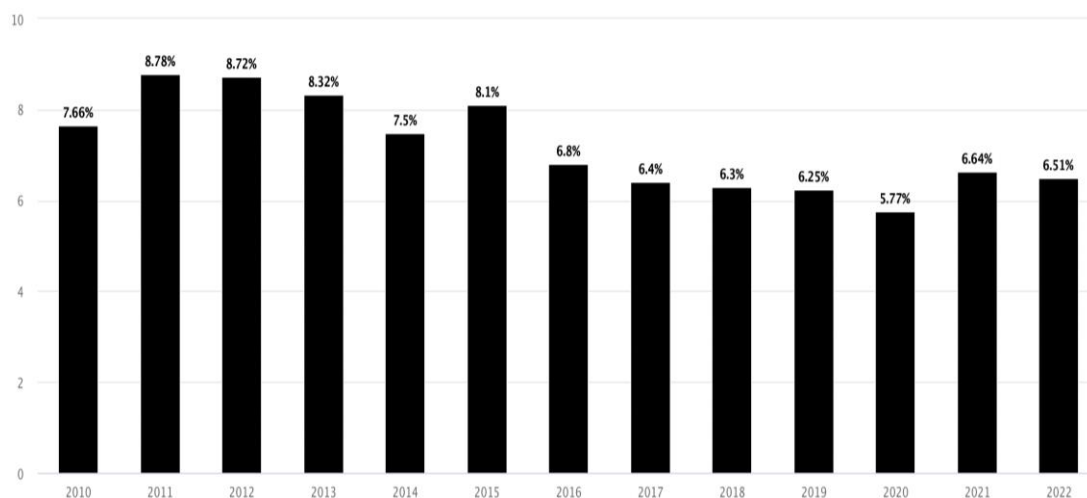


Figure 2. Public revenues from VAT, share in GDP

Source: Ministry of Finance [16]

The analysis of VAT collections in the period 2013-2022 with the particularities observed are presented below.

Revenues from VAT (Table 1) in 2013, net of the impact of the compensation scheme, were 50.97 billion lei, representing 8.11 percent of GDP, lower by 0.97 billion lei compared to the budget design value. Compared to 2012, VAT revenues, net of the impact of the compensation scheme, increased by 2.03 billion lei (4.14 percent).

Table 1.
The evolution of VAT collections and compensation schemes, in the period 2013-2022
-billions of lei-

Year	Initial program		Execution	
	Without compensation schemes	Swap	Without compensation schemes	Swap
2013	51.9	1.0	51.0	0.9
2014	53.77	0.85	50.41	0.47
2015	54.69	0.9	56.98	0.16
2016	51.27	1.07	51.39	0.29
2017	52.55	1.6	53.31	0.2
2018	61.1	0.2	59.4	0.2
2019	68.8	0.9	65.3	0.1
2020	71.9	0.9	60.7	0.1
2021	69.6	0.1	79.2	0.2
2022	91.6	0.1	93.9	0.2

Source: Ministry of Finance [16,21]

The dynamics of revenues from the Value Added Tax was negatively influenced by the decrease in the VAT rate on bread from September 2013, but the effect on the efficiency value of the index was insignificant.

At the level of 2014, VAT revenues, net of the impact of compensation schemes, recorded in 2014 a level of 50.41 billion lei, i.e. 7.56 percent of GDP, significantly lower than the amount since the foundation of the budget project, i.e. with almost 3.4 billion lei.

In addition, VAT revenues followed a downward trend compared to 2013, in the amount of 0.53 billion lei, respectively -1.11%.

It should be noted that through the initial program from 2014, the compensation scheme (table 2) "in chain" that was to influence VAT collections was projected at 0.85 billion lei. Through the three budget corrections, the amount increased to 1.35 billion lei, but the change was not found at the level of final execution, so that the VAT revenues related to the swap scheme totaled only 0.5 billion lei.

Revenues from VAT in cash standard, net of the impact of the compensation scheme, were 56.97 billion lei in 2015, i.e. 8% of GDP, higher than when the budget project was founded, more by approximately 2.3 billion lei. This increase occurred even in the case of the reduction of the standard rate of VAT on food and restaurant services from June 2015.

The initial program from 2015 provided that the "chain" compensation scheme that was to influence VAT revenues was projected at 0.9 billion lei. On the occasion of the budget corrections, the amount increased to 1.4 billion lei. This change was not found at the level of final execution, VAT revenues for the swap scheme totaled 0.16 billion lei.

In 2016, VAT revenues (Table 1) in cash standard, net of the impact of the swap compensation scheme, were 51.39 billion lei (6.75 percent of GDP), slightly higher than those at the foundation of the project, i.e. approximately 116 million lei. The receipts from VAT, respectively those net of the impact of the swap type scheme had values close to the initial program (+0.2%), but reduced to those from the elaboration of both rectifications (respectively -1.4% for budget rectification one, and -1.6% at the second rectification).

For the compensation scheme "in the chain" through which the VAT receipts would have been supplemented, the initial program designed in 2016 provided for receipts of 1,070 million lei, later reduced by 147 million lei during the second budget rectification, then to 923 million lei. At the final execution, the VAT receipts for the swap scheme totaled 287 million lei (only 26.8% compared to the schedule). Compared to 2015, net receipts compared to the impact of swap schemes decreased by 9.8 percent (-5.6 billion lei) due to the implementation of the fiscal relaxation measures of the 2016 Fiscal Code, i.e. the reduction of the VAT rate from 24 percent to 20 percent and the applicability of the reduced VAT rate of 9% to drinking water and irrigation water for agriculture, 5% (books, school textbooks, newspapers, some magazines and access to castles, museums).

At the level of 2017, VAT revenues, cash standards, net of the impact of swap compensation schemes, were 53.31 billion lei in 2017, approximately 758 million lei higher than the initial budget draft. The rectifications of 2017 (table 2) did not alter the projections of VAT receipts, net of the impact of the swap scheme, being 52.55 billion.

Changes were found in the compensation scheme. According to the initial projection, the revenues would have been supplemented from VAT by almost 1.6 billion lei. But at the first rectification, the swap scheme was revised to 0.3 billion lei, and the revenues were 0.24 billion lei, about 15% of the initial program. The evolution can be explained by the reduction of the standard rate from 20 percent to 19 percent, which determined the decrease in receipts and the increase in the macroeconomic base, which positively influenced this category of budget revenues.

The year 2018 is marked by cash standard VAT receipts, net of the impact of swap compensation schemes, totaling 59.4 billion lei, 1.7 billion lei less than the initial budget draft. Table 1 shows the receipts related to the compensation schemes and those related to the budget correction, compared with the values recorded during the budget execution.

During the corrections, the projections of the receipts from VAT, net of the impact of the swap scheme, decreased in the first by 0.6 billion lei, and in the second by about 2 billion lei, and the receipts recorded about 0.8 billion lei above the estimate of at the last correction. For the compensation scheme, the initial forecast was 0.2 billion lei, but it was increased during the first rectification (Table 2) to 0.8 billion lei, and then resized to 0.3 billion lei, the execution registering a value close to the original program.

Table 2.

Budget corrections regarding VAT in the period 2013-2022
- billions of lei –

Year	Rectification 1		Rectification 2		Rectification 3	
	Without compensation schemes	Swap	Without compensation schemes	Swap	Without compensation schemes	Swap
2013	51.10	2.10	50.70	2.10		
2014	52.02	1.50	52.57	1.35	52.56	1.35
2015	54.43	0.85	55.67	1.39		
2016	52.13	1.07	52.20	0.92		
2017	52.55	0.30	52.55	0.30		
2018	60.50	0.80	58.60	0.30		
2019	68.80	0.90	65.40	0.90		
2020	66.30	0.90	62.20	0.70	62.6	0.70
2021	74.10	0.50	79.10	0.50		
2022	96.70	0.50	95.10	0.20		

Source: Ministry of Finance [16,21]

Compared to 2017, net receipts compared to the impact of swap schemes, increased by 11.4% (6.1 billion lei), especially as a result of the increase in population consumption.

Revenues from standard cash VAT, net of the impact of swap compensation schemes, were 65.3 billion lei in 2019, 3.5 billion lei lower than the initial budget draft. In the first rectification, the projected VAT receipts were maintained at the level of the original budget, and in the second they decreased by approximately 3.5 billion lei.

For the compensation scheme, initially forecast at 0.85 billion lei, the level was maintained at both budget corrections, but the execution was at a low level, below 0.1 billion lei.

Compared to 2018, at the level of receipts, net of the impact of swap schemes, they increased by about 10% (5.9 billion lei), due to the increase in the final consumption of the population.

In 2020, the value of VAT receipts, cash standards, net of the impact of the swap compensation scheme, were at the level of 60.7 billion lei, 11.2 billion lei less than the amount originally provided for in the draft budget. In the two budget corrections, important negative revisions were made (-5.6 billion lei and -4.1 billion lei) due to the negative changes in the macroeconomic framework following the effects of the COVID-19 pandemic, but also the decrease in the excise duty on products from energy, followed by the acceleration of VAT refunds to ensure liquidity in the economy. At the third budget rectification that was carried out, a revision of 0.4 billion lei was made, by considering the estimated amounts to be recovered from the budget obligations that were postponed for payment (around 2.9 billion lei, ANAF assessment).

At the final execution related to 2020, the level of VAT collections were lower by 1.9 billion lei compared to the estimates from the third rectification. The initial forecast of the compensation scheme of 0.85 billion lei, fell to only 0.67 billion lei at the second

rectification, so that the actual execution registered a much reduced level of only 0.12 billion lei.

If we compare with the year 2019, the future level of the budgetary aggregate, net of the impact of the swap scheme, decreased by more than 7 percent, respectively -4.6 billion lei.

In 2021, the level of VAT receipts (table 1) stood at 79.2 billion lei at cash standards, net of the impact of the swap compensation scheme, increased by 9.6 billion lei above what was forecast by the initial budget draft

During the two rectifications, extensive revisions were made to this budgetary aggregate in a positive sense, 4.4 billion lei and 5 billion lei. These increases were due to the refunds made by economic agents of taxes and fees deferred for payment from 2020, good macroeconomic developments compared to expectations.

Compared to 2020, the level of receipts in the budgetary aggregate, net of the impact of the swap scheme, advanced by 18.5 billion lei, respectively 30.5 percent.

For the year 2022, the level of receipts from VAT, cash standards, net of the impact of swap compensation schemes, reached the level of 93.9 billion lei (Table 1), increasing by 2.3 billion lei over the one initially forecast in the projected budget. Tables 1 and 2 show the evolutions of receipts, compensation schemes from the programmed budget draft and budget corrections, compared to the actual values from the budget execution.

Through the first budget rectification (Table 2), an important positive revision of the analyzed budget aggregate in the amount of 5.1 billion lei was carried out, the justifying factors being an advance of the forecast of the final consumption of the population, compared to the initial estimates, and the target of the Ministry of Finance of 1 billion lei aimed at improving the collection of this tax. The second rectification confirmed the assessments of the Fiscal Council regarding the first rectification, when a decrease in receipts by 1.6 billion lei was assessed.

At the final execution in 2022, the level of VAT revenues was reduced by 1.2 billion lei compared to the estimates from the second rectification. The factor that boosted the advance of 2022 VAT receipts was the increase over the first estimates of the macroeconomic base, namely the final consumption of the population, without the component of self-consumption and peasant markets. As a result of high inflation, the important macroeconomic base increased in 2022 by 21.2 percent, well above the dynamics of 10.9 percent since the drafting of the project.

CONCLUSIONS

For the following years, the revision of the reductions of the value added tax rates and exemptions, to reduce the gap that has occurred, would determine the increase of VAT revenues and improve the overall efficiency of the tax systems.

The volume of value added tax collections was affected by the COVID-19 pandemic by reducing consumption, but tax collection did not decrease, but actually increased in 2020.

In order for VAT to represent a significant source of consumption income, in the long term, instruments related to VAT exemptions should not be used. As a result, the government must invest in the system to reform this tax.

At its best, Value Added Tax is functional when there is a broad base with few exemptions.

Losses from the state budget are measured both by the decrease in VAT revenues and by the effect they bring to certain sectors on the market. Smaller companies may be at risk of bankruptcy or fraud as a result of unfair practices in competitive markets. As such,

companies that operate legally, often, can no longer compete in the market with unfair prices. Until VAT fraud is discovered, the market will be out of balance.

VAT tax evasion must be prioritized by investing in fraud detection resources, digitization and workforce.

REFERENCES

- [1]. **ABRAMOVA A., SHAPOSHNYKOV K., ZHAVORONOK A., LIUTIKOV P., SKVIRSKYI I., LUKASHEV O.**, 2021, The ecosystem of vat administration in E-Commerce: Case of the Eastern Europe Countries” Working paper. Available at: https://www.researchgate.net/publication/352127887_The_Ecosystem_of_VAT_Administration_in_E-Commerce_Case_of_the_Eastern_Europe_Countries
- [2]. **ACOSTA ORMAECHEA S., MOROZUMI A.**, 2019, The Value Added Tax and Growth: Design Matters, IMF, Working Paper No. 19/96, International Monetary Fund, Washington DC.
- [3]. **ADHIKARI B.**, 2020, Does a value-added tax increase economic efficiency? *Econ Inq* 58(1), 496–517
- [4]. **ARDELEAN A.**, 2024, Cartea verde a contabilitatii, Editura Rentrop și Straton, București
- [5]. **BUSSY A.**, 2020, Cross-border Value Added tax fraud in the European Union, Working paper, Available at: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3569914
- [6]. **CNOSEN S.**, 2020, Modernizing the European VAT CESifo Working, Paper 8279, Available at: <https://ssrn.com/abstract=3598765> or <http://dx.doi.org/10.2139/ssrn.3598765>
- [7]. **FAMULSKA T., ROGOWSKA-RAJDA B.**, 2018, Principle of vat neutrality and the reverse charge mechanism, 16, 87-97
- [8]. **IVANOV A.**, 2023, Cartea Verde a TVA, Editura Rentrop și Straton, București
- [9]. **MGAMMAL M.H., AL-MATARI E.M., ALRUWAILI T.F.**, 2023, Value-added-tax rate increases: A comparative study using difference-in-difference with an ARIMA modeling approach, *Humanit Soc Sci Commun* 10, 12, available on <https://doi.org/10.1057/s41599-023-01608-y>
- [10]. **MGAMMAL M.H.**, 2021, Does a value-added tax rate increase influence company profitability? An empirical study in the Saudi Stock Market. *J Australas Tax Teach Assoc* 16(1), 92–128
- [11]. **MUNTEANU V.** (coord.), 2022, Contabilitatea financiara a intreprinderii. Abordare teoretica si practica (editia a VI-a, revizuita si adaugita), Editura Universitara, București
- [12]. **ȘÎRBULESCU C.**, 2010, Contabilitate, Editura Eurobit, Timișoara
- [13]. *** <https://adevarul.ro/economie/tva-ul-pentru-anumite-produse-si-servicii-s-a-2332475.html>, Accessed on 21.03.2024
- [14]. ***https://assets.cambridge.org/97811070/44128/excerpt/9781107044128_excerpt.pdf, Accessed on 21.03.2024
- [15]. *** <https://www.contzilla.ro/regularizarea-tva-teorie-si-aplicatii-practice>, Accessed on 20.03.2024
- [16]. *** Raport anual Consiliul Fiscal, 2013-2022, <http://www.consiliulfiscal.ro>, Accessed on 15.02.2024
- [17]. *** https://europa.eu/youreurope/business/taxation/vat/vat-rules-rates/index_en.htm, Accessed on 10.03.2024
- [18]. *** <https://www.effglobal.co.uk/who-was-maurice-laure/>, Accessed on 20.03.2024
- [19]. *** <https://facturis.ro/blog/legislatie-facturare-si-stocuri/totul-despre-tva-ce-este-si-cum-se-calculeaza-tva-ul/>, Accessed on 20.03.2024

- [20]. *** <https://www.oecd.org/tax/forum-on-tax-administration/tax-technology-tools-and-digital-solutions/value-added-tax.htm>, Accessed on 30.03.2024
- [21]. *** <https://mfinante.gov.ro/ro/web/site>, Accessed on 22.03.2024
- [22]. *** <https://www.noulcodfiscal.ro/articole/cotele-TVA.htm>, Accessed on 22.03.2024
- [23]. *** <https://www.profit.ro/taxe-si-consultanta/foto-romania-ramane-ultima-in-ue-la-colectarea-tva-studiu-de-caz-romania-vs-polonia-ungaria-si-alte-tari-care-au-inregistrat-progrese-21358633>, Accessed on 24.03.2024
- [24]. *** <https://tax.thomsonreuters.com/blog/what-is-the-difference-between-sales-tax-and-vat/>, Accessed on 20.03.2024