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## ANTI-CRISIS TAX MEASURES IMPLEMENTED IN ROMANIA DURING 2009-2011

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**Abstract:**

*This paper is a centralization of fiscal measures decided by the Romanian Government. These measures were taken during 2009 - 2011 in order to counteract the negative effects of financial crisis. At the end of paper it can be found some possible future fiscal measures to be taken in our country, which were not included in Government vision.*

**Keywords:** economic crisis, tax measures, fiscal policy

### 1. Introduction

All world countries have been forced to adopt between 2009 and 2011 a series of measures to fight against negative effects of financial crisis that swept across the planet. Government measures, whatever their nature, had as main goal to reduce some unwanted effects of economic contraction across business environment. Even if the government's anti-crisis programs in the world were ambitious, studies show that their effect on real economy directly depends on governments' efficiency and their ability to quickly inject resources in productive means. In the present economic climate, the challenge of fiscal policy is represented by the application of cyclical measures in the context of reduced tax revenues while some certain expenditure are needed in education, social protection and infrastructure that are vital to avoid increasing poverty and for strengthen future economic growth. [Osvaldo Kacef, Juan Pablo Jiménez, 2009, p 23] Although governments have the ability to act positively in their economies by fiscal interventions, in practice, their ability to use fiscal measures vary by country to

country and it depends on the savings created in favorable economic conditions, on rigidity in spending during the crisis and on caution in lending.

The crisis involves adoption of a set of measures to restore confidence in the financial system and stimulate aggregate demand. In this context, fiscal policy assumes a key role, despite the fact that it is differently used from one country to another. Debate on using fiscal policy during the crisis raised questions on the effectiveness of any fiscal measure. A public authority is even more effective as less it waste public money and it reduce the cost of tax collection. Fiscal measures are characterized by failure to counteract the negative effects of financial crisis without addressing them in a package of other economic measures. Fiscal policy mix is emerging in a political choice with an impact on economy. Fiscal policy should be combined with other macroeconomic policies. This type of measures were adopted by different countries, they are numerous and diverse, often gradually and continuously applied, they are not parts of a single measures' package.

An optimum package of fiscal measures should be characterized by applying it in time (because the need of action is immediate), comprehensive (because reduced private demand is high), duration (because the crisis will persist a long time), diversified (because one measure is accompanied by a high degree of uncertainty), contingent (because the need to prevent another great depression requires a commitment to do more), collectively (because each state has a tax system that requires taking measures) and sustainable (not to lead to a debt explosion and adverse reactions on financial markets). [Antonio Spilimbergo, Steve Symansky, Olivier Blanchard, Carlo Cottarelli, 2008] To create an optimal set of fiscal measures are necessary to take into account several factors such as adoption and rapid implementation. In terms of impact duration, most arguments are in favor of adopting transitional measures because they are more efficient in terms of liquidity's constraints. They have an impact on current prices and future consumption. Fiscal policy decisions are always based on information available at that time, in real time. Most times the results are partial and are periodically reviewed so that fiscal policy can have different results than those finally obtained in real time. The current global crisis highlights the effects of fiscal policy uncertainty and the importance of differences between the effects in real time and its final effects.

## **2. Fiscal responses to economic and financial crisis in Romania**

In Romania, the economic realities show that the Government is far from the application of the best economic policies. Basic features of the Romanian economy are instability and unpredictability in terms of reactions to budget changes. Fiscal interventions change over time as magnitude and as instruments used in accordance with government policy objectives. The main measures are to mitigate against the impact of global crisis and to bring Romanian economy to the point that will be sustainable by itself. Romanian fiscal system is characterized by unpredictability and chaos. It is dominated by interests and by socio-electoral measures aimed to stop

economic development. Fiscal instability leads not only to discourage investment, but to their removal to other areas with lower rates too. Any increase in the flat tax, especially for company tax, is considered a negative signal to investors and lead to increased liquidity crisis in the business. Examples are numerous: Nestlé in 2008, Kraft 2009, Nokia 2011, Tnuva 2012, etc. How intense is the fiscal instability in Romania? Let's take the example of changes in the Law no. 571/2003 on Fiscal Code of Romania. In 2009 there were seven changes in the Tax Code (January 1, April 1, May 1, May 25, November 12, November 16, November 28), in 2010 their number increased to 12 legislative changes (January 1, March 7, March 30, April 1, May 14, June 23, July 1, July 24, September 10, October 1, October 23, December 23), while in 2011 only three main changes in tax laws (May 31, August 31, December 27). Between 2004 and 2011 there were six changes of the law/year, as average. To these, there are added changes in the methodological rules, the Tax Procedure Code (16 changes in the period 2008-2011) and in other ministerial.

**Table no. 1 Anti-crisis tax measures implemented in Romania**

Year	Fiscal policy decisions
2009	<ul style="list-style-type: none"> <li>⊗ tax exemption for profits reinvested in production and / or acquisition of technological equipment (GEO no. 329/2009);</li> <li>⊗ additional deduction to taxable profits of 20% of expenditures for research and development (GEO no. 329/2009);</li> <li>⊗ introduction of the minimum annual tax from May 1, 2009 (Ordinance no. 34/2009);</li> <li>⊗ merging or elimination of 237 fees and charges of 491 existing ones in early 2009;</li> <li>⊗ May 1, 2009 elimination of the deductibility of expenses on fuel and VAT for company income tax and personal income tax for free-lancers and VAT on the purchase of road vehicles used exclusively passengers transport;</li> <li>⊗ increase in excises duties rates for sparkling fermented beverages from € 34.05 / hl of product to 45 € / hl of product and intermediates from € 51.08 / hl of product from 65 € / hl of product, increase in two stages of excise duty on cigarettes in 2009 to 64 € / 1,000 cigarettes, the excise duties on cigarettes and cigars up to 64 € / 1,000 pieces and smoking tobacco to 81 € / kg (GEO no. 29/2009);</li> <li>⊗ no calculation of delay penalties for companies in liquidation (GEO no. 46/2009);</li> <li>⊗ tax exemption of interest income derived by individuals during the period 01.01.2009 - 31.12.2010;</li> <li>⊗ annual tax loss made since 2009 can be recovered from the taxable profits obtained during the next seven consecutive years as compared</li> </ul>

	<p>to the previous 5 years period;</p> <ul style="list-style-type: none"> <li>☼ reduction in excise duties for coffee, articles of crystal, gold and silver;</li> <li>☼ increase in excise duties on sparkling wine, intermediate spirits, cigarettes, cigars, fine tobacco, unleaded petrol, diesel, fuel oil, electricity, natural gas used for commercial purposes;</li> <li>☼ increase state social security contributions payable by employers 20.8% and by employees to 10.5%, reducing employers' contributions to work accidents and occupational diseases to 0.15% - 0.85%;</li> </ul>
<b>2010</b>	<ul style="list-style-type: none"> <li>☼ fewer tax returns to be completed each month by companies for budgetary contributions;</li> <li>☼ elimination of the minimum annual tax from October 1, 2010 (Ordinance no. 87/2010);</li> <li>☼ elimination of micro-companies income tax of 3% and their release into the category of tax payers by 16% tax rate;</li> <li>☼ introduction on July 1, 2010, for tax debts to the state budget and social security budgets, interest rate of 0.05% per day late, the penalty for delay depending on the number of days to maturity payment (0%, 5% or 15%) and delay penalties to local budgets by 2% per month (GEO no. 39/2010);</li> <li>☼ reduction in delay interest at 0.04% per day late (14.6% per year) as compared to the previous 0.05% (i.e. 18.25% per year);</li> <li>☼ increase in the standard VAT rate from 19% to 24% from July 1, 2010 (Ordinance no. 58/2010); { quarterly tax net investment gains of 16% regardless of the financial investment holding period (GEO no. 58/2010);</li> <li>☼ reduction of deductible expenses for intellectual property income tax from 40% to 20% and from 50% to 25% for the monumental art income tax (GEO no. 58/2010);</li> <li>☼ increase in gambling income tax from 20% to 25% (GEO no. 58/2010);</li> <li>☼ increase in tax rate from 10% to 16% on dividends income tax owed by Romanian companies (GEO no. 58/2010);</li> <li>☼ increase in tax payable by individuals who own multiple buildings (65%, 150%, 300%) (GEO no. 59/2010);</li> <li>☼ increase in local taxes (Decision no. 956/2009);</li> <li>☼ increase in excise duties on cigarettes, unleaded petrol, diesel, fuel oil, electricity, natural gas used for commercial purposes;</li> <li>☼ reduction and elimination of excise duties on coffee, jewelry, perfumes, weapons, crystal items, etc.;</li> </ul>
<b>2011</b>	<ul style="list-style-type: none"> <li>☼ increase in taxes for cars (GD. 1347/2010)</li> <li>☼ reintroduction of micro-companies income tax of 3% from 01.01.2011 (GEO no. 49/2011);</li> <li>☼ the unique declaration no. 112 for social contributions was</li> </ul>

implemented from January 1, 2011, and it is filled quarterly by small taxpayers since October 2011 (Ordinance no. 30/2011);

- ⊗ staggered payment over a period of up to five years for tax debt to general public budget (GEO no. 29/2011);
- ⊗ 1% reduction in accommodation tax regardless of class hotel, before it was 1-5% depending on Local Councils decisions (GEO no. 30/2011)
- ⊗ measures to encourage voluntary payment of outstanding tax obligations by: cancellation penalties related delay provided voluntary payment of principal and interest up to 31.12.2011, 50% reduction of penalties in case of payment of principal and interest on up to 30.06.2012 ;
- ⊗ changes in the order of tax liabilities payments;
- ⊗ deductibility of 50% of the cost of fuel and VAT for company income and VAT on the purchase of road vehicles for passengers transport and for fuel necessary for their functioning since 1 January 2012 (GEO no. 125/2011);
- ⊗ increase in local tax rates by 10-20% for the buildings owned by legal entities and unevaluated pendant a period of three years, by 30-40% for buildings unevaluated pendant a period exceeding five years;
- ⊗ increase in excise duties on diesel in 2011 and 2012, unleaded gasoline in 2011;
- ⊗ opportunity since October 1, 2011 to grant an exemption or reduction of tax on buildings for minimum seven years due to restoration projects of apartment or other property;
- ⊗ application of reverse VAT charge in the delivery of certain types of cereals and technical plants, the measure is valid until May 31, 2013 (GEO 49/2011);

*Source: Centralized data from legal acts amending Law no. 571/2003 regarding Fiscal Code of Romania during 1.01.2009-31.12.2011*

As regarding the minimum annual tax due by companies, it worked in Romania between May 1, 2009 and 1 October, 2010. The Government introduced it as a measure against tax evasion, but also as an alternative to increase other taxes. [O.U.G no. 34/2009] The introduction of this tax has stirred controversy among the population in terms of negative effects that it has generated on short term. For this reason it had a short existence, one 1 year and 6 months. Effects of this fiscal policy decision were subject of research for the National Council of Private Small and Medium Enterprises in Romania (CNIPMMR). Thus, portal CNIPMMR [www.immromania.ro](http://www.immromania.ro), was carried out from 3 to 8 June 2010 a referendum on the effects of the minimum tax and its support to SMEs. Referendum was attended by 2384 of SMEs. A number of 2306 of the respondents (96.73%) responded that the minimum tax has adversely affected their business, only 78 respondents (3.27%) claiming otherwise. A total of 2341 (98.2%) responded that they believe that economic austerity period (until the end of 2010) does

not justify maintaining the minimum annual tax, only 43 respondents (1.80%) claiming otherwise.

The effects of the minimum tax can include:

- ⊗ the main purpose of introducing minimum annual was to reduce tax evasion; however, it is not verified in practice, but maintaining minimum annual tax leads to an increase in tax evasion rather than a decrease of it, the most companies that closed their business because of this tax they did it not because they were escapist, but because they recorded increased tax costs;
- ⊗ SMEs' difficulties generated by the crisis and by a limited access to credit have been increased considerably by the introduction of the minimum annual tax, companies encountering difficulties in finding resources to continue their activities;
- ⊗ another negative effect was the fact that for determining minimum annual tax the companies can not get a chance to recover tax losses from previous years;
- ⊗ it led to absurd situations in which the minimum annual tax exceeds the total income of the company;
- ⊗ it generated psychological effects, any businessman who have as landmark a tax he will naturally tend to pay it and not another;
- ⊗ suspension of many companies had a significant negative effect on public revenues, by reducing revenue from taxes paid by them and correlative increase of the cost of insurance;
- ⊗ it generated cascading effects: decrease of state budget revenue from VAT, corporation tax and income tax, lower receipts to social insurance budget and special funds budget from taxes and contributions, it increased unemployment;
- ⊗ minimum annual tax violates the principle of tax equity if the firm has a small profit and the tax paid of 16% does not equals minimum annual tax imposed by the authorities, this means that the company pays a tax of more than 16%.

Initially seen as a measure of combating tax evasion and improving the collection of money to public budget, introducing minimum annual tax has caused serious problems to Romanian companies, which were already in difficulty because of the economic crisis. The companies were in a situation of increasing tax burden, so taxpayers have sought a number of ways for tax optimization such as: dissolution or suspension of companies' activities, dissolution of current business and establishing new one, changes in companies' organization as self-employed (minimum annual tax is not due by self-employed persons) even they were disadvantaged by the cost of this actions.

The package of measures applied in our country in 2009-2011 contains some non-fiscal measures, such as measures to support companies that hire young people, unemployed or vulnerable persons by reductions in social contributions unemployment and monthly subsidies for each employed person, state aid to businesses carrying out investment projects, subsidies for a part of interest rate and state guarantees related credits contracted by Romanian companies, facilitating youth access to financing by providing grants, measures to finance Romanian export promotion, institutional measures to absorb EU funds, public expenditures made for infrastructure

development of roads, upgrading settlements, water supply and sanitation, measures to support agriculture, industry and sustainable development, to enhance competitiveness of industrial products, “Rabla” program, “Casa Verde” program, “Prima Casa” program, measures to boost female entrepreneurship, measures to restructure public enterprises and their privatization (Petrom, Transelectrica, Transgaz, Romgaz Medias, Hidroelectrica, Nuclearelectrica, Tarom, the Romanian Post, Oltchim, etc.). [Andreea Paul Vass, 2012]

### **3. Conclusions**

Anti-crisis fiscal measures taken by Romania did not provide specific support to Romanian companies. The measures taken by our country are accompanied by low efficiency and a lack of coherence, which led to increased social costs. [Talpoş John Abraham Alexander, 2011, p 5-24] The increase in standard VAT rate to 24% had short-term negative effects. This has discouraged consumption by decreasing purchasing power of consumers and it discouraged domestic production, as evidenced by statistical figures provided by National Institute of Statistics from Romania. This tax decision can turn into a viable solution supplemented with implementation of reduced VAT rates for some goods and services. We must not overlook the option that taxpayers do not reduce their consumption of goods and services, but they reduce the cost by buying cheaper products and services, subject to retail trade without taxes. If we consider the decision to increase the amount of excise duty, the effect of this decision is evident in increasing prices for fuel and cigarettes.

More suitable for crisis time would be a mix of measures between reducing public expenditure and surfacing underground economy. We appreciate that increasing the tax burden is not the best solution in terms of fiscal policy, but taking measures to unearth black economy. The fastest solution is an efficient collection mechanism to discover the black parts of Romanian economy. Government priorities should include rigorous control of taxation in oil industry, alcohol, tobacco, coffee, construction, services or any other activity prevailing tax evasion.

Another possible fiscal measure of anti-crisis plan aim at providing a bonus of 5% of taxes paid at maturity or at a certain number of days before that. In the first instance this would lead to a reduction in revenues because of economic entities will pay only 95% of taxes. The measure can be successful if the costs of collecting the tax revenues funding is greater than given bonus. Since the issuance of bonds and treasury certificates were made by the Government at interest rates exceeding 5% (e.g. an issuance of bonds with maturing in 15 years was made on 27/02/2012 at a rate of 5.80%) and reached up to 11% in 2009, so the rebate system can work in practice. Discounts for taxes early payment or on time favor stimulation and not coercion, they lead to faster and more consistent collection of tax payments. Other proposed anti-crisis fiscal measures may include: 10% deduction of VAT for renovation and modernization of housing buildings, companies' income tax exemption for a period of five years for new companies that invest more than one million euros and create

new jobs, introduction of a luxury tax, additional taxation for uncultivated agricultural land, providing a bonus for social security contributions and tax payments before maturity.

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