

„LUCIAN BLAGA” UNIVERSITY OF SIBIU
Faculty of Economic Sciences

THESIS SUMMARY:

ROMANIAN FISCAL SYSTEM’S
SUSTAINABILITY

Scientific coordinator

Prof. univ. dr. Mihai Aristotel Ungureanu

Ph.D. student:

Ec. Ilie Banu

Sibiu
2013

ROMANIAN FISCAL SYSTEM'S SUSTAINABILITY

Introduction.....	6
Chapter I: Theoretical background regarding the fiscal system and its sustainability	11
1.1 General remarks regarding the fiscal system.....	11
1.1.1 Theories on the genesis of the terms taxation and fiscal system	11
1.1.2 The functions, principles and characteristics of the fiscal system.....	15
1.1.3 Classification and evolution of fiscal systems.....	17
1.2 Fiscal policy.....	18
1.2.1 The fiscal system, an expression of fiscal policy decisions and an instrument of its achievement	20
1.2.2 Fiscal systems adjustment through fiscal policy decisions.....	24
1.3 Opinions on the sustainability of the fiscal system.....	25
1.3.1 Defining sustainability	25
1.3.2 Theories regarding the sustainability of the fiscal systems	26
1.3.3 Fiscal sustainability analysis, based on the QUEST III model.....	34
1.3.4 Models of measuring the sustainability of the fiscal system	37
1.4 Romanian fiscal system structure	42
1.4.1 The concept of taxes and contributions	43
1.4.2 The fiscal mechanism, as a part of the fiscal system (concept, content, role and functions)	45
1.4.3 The fiscal apparatus – role and implications for the fiscal system	46
1.4.4 Romania's fiscal policy objectives	47
1.5 Conclusions, opinions and personal considerations	49
Chapter II- The establishment of the fiscal resources within a sustainable fiscal system...	52
2.1 Criteria to be fulfilled to ensure the necessary fiscal income	54
2.2. Repercussions and incidence of taxation on the fiscal resources sustainability.....	58
2.3 Fiscal and budgetary evolutions – comparative analyses in the OECD countries	75
2.4 Fiscal and budgetary evolution – comparative analysis in EU	78

2.4.1 Provisions of the acquis on taxation	78
2.4.2 The empirical analysis of the fiscal pressure's influence on the budgetary deficit and on the public debt in SAS	82
2.4.3 The comparative dynamics on income structure of the fiscal intensity in Europe	87
2.4.3.1 The comparative dynamics of the fiscal pressure rate, exerted by direct taxation ..	89
2.4.3.2 The comparative dynamics of the pressure exerted by direct taxation.....	95
2.4.3.3 The comparative dynamics of the pressure exerted by the compulsory social contributions	99
2.4.4 The fiscal income classification, considering the economic functions and their dynamics	103
2.4.5 Empirical analysis on the influence of indirect and direct taxation and of social contributions on fiscal system's sustainability	104
2.6 Conclusions, opinions, and personal considerations.....	115
Chapter III – The role of the fiscal mechanism in ensuring the fiscal system's sustainability	120
3.1 Methods, techniques and assessment tools to achieve the optimal tax	120
3.2 The empirical analysis of the underground economy's influence on the budgetary deficit and on the public debt.....	131
3.3 Fiscal efficiency.....	133
3.4 The effect of the fiscal multipliers and of the fiscal stabilizers	136
3.5 Possibilities to improve tax collection	144
3.5.1 Diagnosis and forecast regarding tax collection in international context.....	145
3.5.2 Collection costs.....	147
3.5.3 Possibilities to improve the collection of fiscal revenues.....	154
3.5.3.1 Possibilities to improve taxpayer's perception about taxes and contributions	154
3.6 Case study – Questionnaire on the perception of legal entities from Sibiu on tax collection	159
3.7 Conclusions, opinions and personal contribution	169

Chapter IV – The role of the fiscal apparatus and its implications on the fiscal system ...	173
4.1. Criteria regarding the fiscal apparatus efficiency	173
4.2. Case study – determining the opinion regarding the fiscal apparatus through research methods	178
4.3. The implications of the fiscal apparatus regionalization	182
4.3.1 Methods of restructuring/regionalization of the fiscal apparatus, within the 28 UE states	183
4.3.2 The need of a correlation between regionalization and fiscal reform.....	187
4.4. Measures to ensure the growth of taxpayers’ level of trust	188
4.5. The risks of a delayed strengthening of the Romanian fiscal system.....	194
4.6. Conclusions, opinions and personal considerations.....	196
Chapter V – Final conclusions, research results and further proposals	201
BIBLIOGRAPHY	212
LIST OF TABLES, CHARTS, FIGURES AND BOXES.....	226
ANNEXES	229
Annex 1 – Questionnaire for legal entities regarding the compliance for payment	229
Annex 2 – NAFA request for information supply	233
Annex 3 – The rate of the public debt in GDP (SAS modeling)	234
Annex 4 – The budgetary deficit rate in GDP (SAS modeling)	234
Annex 5 – The share of indirect taxation in GDP (SAS modeling).....	234
Annex 6 – The share of direct taxation in GDP (SAS modeling)	234
Annex 7 – The share of social contributions is GDP (SAS modeling).....	235
Annex 8 – Correlations between the level of trust and the level of growth of fiscal obligations collection.....	235
Annex 9 – Correlations between the level of trust and the voluntary compliance to payment	237
Annex 10 - Questionnaire on businesses in Sibiu Municipality to improve Campaign awareness of taxpayers.....	240

Keywords: fiscal system, sustainability, fiscal policy, fiscal rules, fiscal performance, public incomes, public expenditure, budgetary deficit, public debt, taxes, fees, contributions, fiscal pressure, fiscal mechanism, collection rate, taxpayers' level of trust.

The aim of the research is to determine the sustainability of the Romanian fiscal system on medium term, or the need of its consolidation, in order to meet the new demands imposed internationally. We wish to research this field in the conditions of analyzing and validating the hypothesis that the level of trust of taxpayers in which concerns the Romanian fiscal system is low, and also to offer proposals and documented solutions to the question regarding the long term risks, in the case in which this does not adapt to the new worldwide and European macroeconomic conditions.

The personal arguments in choosing this topic refers to the realities of the Romanian fiscal system, to its deficiencies, to the inconsistent, large, ineffective legislation, to the consequences of deficiencies in the taxation, to the VAT step regulation, to the increase of the base on excisable goods, to the need of improving the tax collection and to the diminishing the high costs related to voluntary compliance.

Fiscal sustainability appeared as an essential political issue all over Europe, during last few years, partially because the fiscal policies of many European countries were strongly affected by the global financial and economical crisis, and, at the same time, because of the high impact of demographic changes, especially aging of the population, on the long term fiscal costs. Many of the new Member States of the European Union, including Romania, face high challenges to ensure fiscal sustainability. The public finances' sustainability in Romania had deteriorated sharply in the years of crisis.¹

The doctoral thesis elaboration was made by following a thesis plan, which include the chapters, subchapters and the bibliography, having into consideration the known research methods, as well as numerous international and national studies already made, this work being their continuation, through a unified approach.

The hypotheses that led the research are the following:

- the Romanian economic development and structural and trust crisis prevention depend on the sustainability of the fiscal system

¹ Canagarajah S., Brownbridge M., Paliu A., Dumitru I. - The Challenges to Long Run fiscal Sustainability in Romania, 2012, Policy Research Working Paper, p. 2-3

- it exist an ineffective use of public funds
- the structural imbalances pressure is growing (in which regards the pension system, the health system – where, according to the new European Directives, the Europeans will be treated in any hospital from the EU, and the authorities are obliged to cover their costs, at the level of the cost from their origin country)
- the economic dependency will achieve an unsustainable level, if there will not be any changes in the population structure or in the way in which budgetary resources are allocated (the first variable is heavier to be changed, so, to generate sustainability on medium term it has to be adopted the second one, and to obtain equilibrium and sustainability on long term, the first variable has to be a sustainable one too);
- we consider that taxpayers' perception on the fiscal system is a low one, from where it results a low percentage in the collection of fiscal debts
- the risks of not achieving the Romanian fiscal system consolidation are important
- the need to reduce the cost associated with the voluntary compliance.

The personal contributions will be presented as proposals and analyzes throughout the work, and will be also synthesized at the end of the work. At the same time, the work presents case studies, based on the methods of questionnaire and interview, realized on the legal entities from Sibiu, and also a series of modeling, in order to establish different connections between variables.

The main objectives aimed in the thesis refer to:

- 1: presenting the theoretical aspects and the concepts that are used in the field of sustainability, and, at the same time, in Romanian fiscal system, in the context of the requirements of the European area
- 2: comparing the fiscal pressure at EU level, on the income structure (especially with the countries that joined the EU in 2004) and offering solutions regarding the optimization of Romanian fiscal system
- 3: the repercussion and incidence of taxation and over-taxation on the fiscal resources creation, and ways to decrease the fiscal evasion (a raised occurrence in Romania)
- 4: identifying the factors that influence the conditions of the Fiscal Compact and realizing modeling in SAS, in order to formulate conclusions with positive impact
- 5: aspects regarding the fiscal mechanism and formulating proposals in order to find improvement solutions for tax collection
- 6: proposal to simplify the mechanism of some tax collection

7: determining taxpayers' perception about the need of mandatory payments, avoiding the non-payments (there will be applied the methods of the questionnaire and of the interview)

8: determining the opinion regarding the sustainability of the Romanian fiscal system, through research methods (there will be applied the methods of the questionnaire and the interview)

9: the risks of non-realizing or delaying the fiscal consolidation and ways of its avoidance.

The research methods used in the thesis consist in a systemic and comparative analysis and in a complex approach of the researched topic, according to the aims and tasks proposed.

Through the methods and techniques used in developing the thesis, we include: *Documenting, Mathematical and statistical methods, Interdisciplinary research method, Modeling and Investigation.*

The thesis was structured and elaborated on four chapters, starting from a consistent and unitary approach:

I. Theoretical background regarding the fiscal system and its sustainability

The first chapter aims explaining, systematizing and clarifying some theoretical concepts regarding the studied issues.

In the first subchapter there were presented the definition and the basic concepts used in the field. In the second subchapter there were approached different aspects regarding the fiscal policy, while, in the third subchapter there were presented various definitions, concepts and opinions with reference to the sustainability of fiscal resources and fiscal system.

An optimal fiscal system must meet the following requirements: *it has to generate sufficient and stable budgetary resources, in conditions of efficiency and vertical and horizontal efficacy; it has to minimize the administration costs of the budgetary apparatus and the costs of taxpayers' compliance and it has to be flexible, easy, transparent and adaptable to international contexts.* In order to compare the fiscal systems, it has to be analyzed a longer period of time, and it has to be selected a comparable group of countries, from different points of view.

Another aspect developed in this subchapter refers to the influence that is generated by the increase of the economic dependency rate, in the context of population aging and the fiscal effects that derive because of this change.

The last subchapter of the first chapter refers to the structure of the Romanian fiscal system, to the presentation of the principles of the fiscal system and the schematic

presentations of the taxes, fees and contributions, composing the Romanian fiscal system. In order to achieve the main objective of the work, which involve an analysis of the fiscal systems' sustainability, systems' components have to be independently sustainable, to be able to talk about a fiscal systems' sustainability.

We also present the objectives of Romania's fiscal policy, and the significant impairments that can affect the public finances sustainability, and this to have the possibility to analyze, separately, each component of the fiscal system, in terms of sustainability, during next chapters.

II. The establishment of the fiscal resources within a sustainable fiscal system

In the second chapter, it was realized a series of comparisons, using numerous actual statistical data, to compare the fiscal systems.

Starting from a brief presentation of the characteristics and criteria of an optimal fiscal system, and also from presenting the advantages and disadvantages of the indirect and direct taxation, from the viewpoint of their performance, we presented various studies and points of view, trying to offer possible solutions. Forwards, we presented a series of factors that negatively affect the fiscal revenues level, and on which it must be intervened, in order to limit the impact on the optimal needed incomes (the high level of the black economy, the level of corruption of the fiscal apparatus, the high level of the arrears and the attractiveness of tax havens).

Analyzes on the OECD countries in the last 40 years revealed the following growths: at the level of income taxes for individuals and doubling the contributions to compulsory social insurance.

Detailed analyzes were realized for 27 EU countries, for each tax, fee and contribution. Although there are differences compared to the registered average at Union level, we consider that the main problem is the weak collection, as a result of the high fiscal evasion and of an ineffective administration, in the context of an excessive bureaucracy. We proposed, in order to improve the structure of the fiscal system, to increase the property taxes, and to overtax the activities that generate negative externalities.

In the last part of this chapter, we presented some alternative ways through which the state budget can be financed. We mention three, the most important of them: the substantial growth of European funds absorption, an active role in the public-private partnership in the same context of attracting the European funds, but not only, and also the attraction of foreign investors in Romania.

III. The role of the fiscal mechanism in ensuring the fiscal system's sustainability

In the third chapter we treated issues related to the optimization of the fiscal mechanism, in accordance with taxation and contributions performance, in conditions of elasticity. The purpose that the fiscal system architecture must achieve is diminishing the fiscal evasion, having into consideration the country's specific, and realizing in optimal equilibrium between efficiency, equity and system administration cost. We consider that this objective can be realized only by extending the online payment systems, by implementing the automatic fiscal stabilizers and the fiscal stimulus, and by improving the level of subjective fiscal pressure.

In order to identify the fact situation, we realized different questionnaires, with the purpose of determining various aspects regarding the collection rate of fiscal revenues and of finding ways for its improvement. As proposed solutions, we affirm the following: increasing the penalties for the activities under the incidence of fiscal evasion and realizing some publicized awareness campaigns; organizing efficiently the control and inspection actions, simultaneous with developing some actions of forced execution based on results; improving the fiscal legislation and reducing, through consolidation, the number of taxes and fees.

In this same chapter, we also realized a series of econometric modeling, regarding the determinants of the fiscal systems' sustainability.

IV. The role of the fiscal apparatus and its implications on the fiscal system

In the fourth chapter, we started from the necessity of changing the pro-cyclical fiscal policy in an anti-cyclical policy, and we highlighted the importance of its achievement, in accordance with the economic necessities, without any political influences. The conclusions of the first part of the fourth chapter highlighted the fact that, although some politicians give up rapidly to the ideological dimension, applying opportunistic policies, this strategy didn't lead to winning the elections.

Besides the presentation of fiscal apparatus and of its streamline proposals, we realized a case study based on the interview and questionnaire methods, through which we identified a low level of taxpayers legal entities' trust in which concerns the fiscal apparatus and the sustainability of the Romanian fiscal system, on medium and long term. Before executing those studies, we presented the studies realized by The Romanian Association for Reforming the Tax System, at national level. The main conclusion resulted from the studies is that we need to increase the taxpayers' level of trust in the Romanian fiscal system, fact that

can be realized in time, by adopting some healthy policies in the fiscal and budgetary fields. Regionalizing the fiscal apparatus represents an opportunity through which the trust can be restored, but some effective campaigns regarding the fiscal apparatus must be realized.

After analyzing the research data, collected from a number of approximately 200 legal entities in Sibiu, the following campaigns registered a high level of acceptance, being accepted as opportune: **“We encourage the development of the firms that invest in Romania and are social involved!”**, **“Ask for tax receipt and encourage real economy for higher budgets on Education, Health, Research at local/national level”**.

In ending the chapter, we presented the risks of delaying the Romanian fiscal system consolidation and the cost of a delayed appliance of the anti-cyclical policies.

The results of the research were disseminated and validated within more than 15 international conferences, 5 national conferences, 10 articles indexed in international recognized databases, or indexed and ISI rated articles, and also within 13 articles published in specialized journals in Romania.

The results are confirmed by the actuality and relevance of more than 200 consulted publications, found within the Bibliography section, researches continuing the materials published in the field.

I will present the conclusions having into consideration the 9 main objectives assumed and followed in the thesis, that are synthesized above:

O1: Presenting the theoretical aspects and concepts used in the field of sustainability, and, at the same time, of Romanian fiscal system’s, in the context of the exigencies of the European area

We start the arguing with the main objectives of the fiscal system (allocating resources, stabilizing economy and the social function), the classification of fiscal systems, and with the role of the fiscal policy in the sense of fiscal system regulation.

An optimal, medium and long term sustainable fiscal system, **must ensure the necessary budgetary incomes, in conditions of efficiency, vertical and horizontal equity at minimal administration costs, and compliance, being also flexible, stable, transparent and internationally adaptable, no matter how the macroeconomic conditions are.**

Generally, the stability of public finances is analyzed having into consideration 4 rates, namely: *the public expenditure reported to GDP, the public revenues reported to GDP, the loans of the public sector reported to GDP, and the public debt reported to GDP.* Moreover, it exists the QUEST model, developed by the European Commission, based on the

analysis of numerous variables, and the simulation realized are relevant, under the condition that the primary input data to be correct.

We start from the hypothesis of the existence of a medium to high risk of fiscal systems' sustainability, because, within the Sustainability Report conceived by the European Commission, between 2009 and 2010, our country is situated among the countries with a high risk, by the side of Czech Republic, Ireland, Spain, Greece, Cyprus, Latvia, Lithuania, Malta, Netherlands, Slovenia and Great Britain.

Another important aspect in analyzing the sustainability is the one related to reducing the structural imbalances that can generate serious problems, mainly due to:

- emphasis on inequality propagated on next generations
- the public debt spiral, which will affect the private sector by imposing some higher taxation rates

Within this first objective, we also analyzed if the conditions of The Stability and Growth Pact are enough in the context of maintaining the fiscal systems on a sustainable direction. The conclusion drawn is that the two conditions imposed by the pact are either sufficient, either absolutely necessary, them having to be analyzed in their context. We propose that the fundamental causes that determined the unsustainable debts must be taken into account (imbalances of the social insurances budget, companies "too big to fail", ineffective public expenditures and problems in funding an effective budget).

O2: Comparing the fiscal pressure in the European Union, on the income structure (mainly in the countries that joined the EU in 2004) and offering solutions in terms of optimization of the Romanian fiscal system

Considering the fact that the fiscal pressure is rising in many European countries, we have to analyze which are the options less harmful for Romania, in such a situation.

We realized comparisons at European level, with an accent on the countries that joined EU in 2004 and 2007 (**Poland, Slovenia, Hungary, Czech Republic, Estonia, Latvia, Lithuania, Romania and Bulgaria**).

The comparisons were realized on the main tax and contributions categories, formulating conclusions and recommendations. The conclusions had into consideration also the fact that the fluctuations generated by the economic activity of each country are not synchronized.

We accept the results of the simulations realized by the European Commission through the QUEST III model, but also the results of some studies in the field, that reveal the

fact that **reducing the profit and income taxes, simultaneous with growing the taxes on property and environment, are favorable for the economic growth.**

Policymakers have to implement, according to those results, efficient media campaigns, for a well understanding of the purpose of rising the property taxes, and so for a reduction of fiscal evasion. If for the property taxes studies shown that, generally, taxpayers act less rationally, the environment taxes are easier to implement. **We consider that these changes have to be realized simultaneous with a decrease in fiscal pressure related to the income, profit and consumption taxes.**

If we refer to the classification of taxes in two categories (direct taxes and indirect taxes), through the advantages of direct taxes we mention fiscal equity and the fact that them (the direct taxes) provide stable incomes to the state budget.

But, direct taxation has, at the same time, the big disadvantage of its slow collection, at large intervals, of the taxes. Moreover, direct taxation is visible, and, more than that, irritable for taxpayers, having a lower efficiency. On the other side, in which concerns indirect taxation, the yield is superior, another advantage consisting in the rapidity of the tax collection, simultaneous with lower costs for required conformation for this type of taxes. An important inconvenient of indirect imposing is represented by the fiscal inequity (as a result of the proportionality of the imposing rate) and by the fact that the personal condition of the taxpayer is not taken into consideration. So, an optimal equilibrium between direct and indirect taxation is difficult to achieve, but consistent efforts are required.

We can highlight that some taxes are less “harmful” than others, from the perspective of the 4^E (Efficiency, Equity, Economy and Effectiveness). **In this respect, we consider that there is a major emphasis on the consumption taxes (which, in fact, generate jobs) and to less importance on “negative” taxes (eg.: activities related to negative externalities for the environment, both in goods and services, or activities harmful for environment – see de case of the exploitation from Roşia Montana).**

Using the classification of taxes and fees, having into account their economic functions allowed us to simplify the analysis and to eliminate those categories of taxes with a low rate, and, after that, to compare, at European level, the countries above mentioned.

The analyzes realized by the author drive the ideas to the conclusions of the Fiscal’s Council report, according to which the taxation system in Romania is characterized by **a low collection, with an inefficient administration and an excessive bureaucracy, a low taxation base, with lots of exceptions and budgetary legal deductions, and a high level of fiscal evasion.**

O3: Repercussions and incidence of taxation and over-taxation on creating fiscal resources and ways to decrease fiscal evasion

Fiscal system's architecture must focus on diminishing fiscal evasion, in such way that the level of fiscal pressure be a favorable one for a sustainable economic development for all businesses.

In the subchapter entitled "Repercussions and incidence of taxation on the fiscal resources sustainability" we present a number of factors that are affected, on one side, by the level of fiscal burden, and on the other side that negatively affect the level of fiscal revenues. **Through the factors that negatively affect the fiscal revenues we mention:** the high level of arrears, the economic recession, the increase of corruption, especially at the level of fiscal apparatus, the development of the underground economy, the price and inflation fluctuations in creating fiscal incomes, the increase of the attractiveness of the tax havens and the increase of unemployment

Another conclusion refers to **the ways in which can be decreased the level of fiscal evasion**, one of the higher levels in EU. At the same time empirical studies shown that the level of the underground economy is negatively correlated with the GDP per capita. It is to will a decrease of the level of fiscal evasion, compared with the increase of fiscal pressure, given that budgetary income must be supplemented. We specify that, although we didn't approached the problem of the efficiency of public expenditures within the thesis, we considered that it is a normal, necessary factor in a functional market economy, and this condition is strictly needed and only partially achieved in Romania.

At the G20 summit from Moscow, held in mid-2013, the finance ministers have published a calendar regarding the reduction of the aggressive fiscal optimization at the level of international companies (the grey zone of fiscal evasion). The plan proposed by OECD will be applied in the next two years. Since Romania respects the OECD provisions regarding the transfer prices, we consider that those changes will affect also our country. This plan comes to confirm once again the fact that the international reform outweighs the national interests, this aspect constituting a real challenge for the governments worldwide. Within the same G20 meeting, it is approved, starting from 2015, the exchange of information between states in the field of taxation.

We have illustrated, with SAS program, in a modeling, the influence of weighting the underground economy in GDP on the budgetary deficit in GDP and on the public debt in GDP, for the first three countries with the most important fiscal resources collected and Romania.

O4: Identifying the factors that influence the conditions of the Fiscal Compact and realizing models in SAS program, to formulate certain conclusions

To achieve this objective, there were realized simulations, with SAS program, regarding the links between tax burden rate and public debt rate in GDP, and the budgetary deficit as part of GDP. Due to high differences at European level between countries, the result of the modeling concluded, after analyzing the data, that the fiscal pressure rate in GDP has no important influence on the public debt rate. But, in Romania, there is an influence between the fiscal pressure rate and the public debt in GDP rate, respectively the budgetary deficit in GDP rate and the public debt in GDP rate.

Another modeling had as a purpose to identify, if there are ones, of the links between direct taxation, indirect taxation, social contributions and the public debt in GDP rate, respectively the budgetary deficit in GDP rate. After analyzing the data referring to the influence of indirect taxation, direct taxation, social contributions and budgetary deficit in GDP over the public debt in GDP rate in Romania, we observe a significant influence, but a negative one, of the indirect and direct taxation in GDP over the public debt in GDP rate. The rate of compulsory social contributions in GDP has a direct and significant influence on the public debt in GDP rate.

O5: Aspects regarding the fiscal mechanism and formulating proposals in order to find improvement solutions of fiscal debts collection

In order to achieve this objective, we have approached an important and a sensitive issue for Romanian economy, namely the possibilities of improvement for fiscal collection in Romania. We analyzed also the Fiscal Administration Strategy 2012-2016, developed by NAFA, and we formulated some proposals of improvement in this sense. To classify Romania in an international context, we realized some international comparisons from the collected revenues perspective and from the collection costs perspective. Besides the improvement proposals assumed by NAFA, we added some other measures in terms of improvement of the fiscal revenues collection.

In this subchapter, we proposed a new concept, namely **the real cost of taxpayer taxation**, as a cost generated by the effective payment of taxes, fees and contributions, to which we add the cost of voluntary compliance to payment, and other adjacent compliance costs.

*Taxable base (calculated taxation – deduction) * imposing rate = Tax liabilities*

The formula for the real cost of taxpayers' taxation indicator is:

Tax liabilities + Adjacent costs for voluntary compliance (time needed for voluntary compliance, other compliance costs, etc.) = Real cost for taxpayers' taxation

In order to realize comparative analyzes on this new indicator, we have to give weights to the components considered as adjacent costs.

According to the analyzed literature, taxpayers' perception about taxes and fees is directly related with the collection grade. In this respect, to achieve this objective, after we mentioned some recent international studies in the field, we realized a research, using questionnaire and interview methods, on a sample of 350 legal entities from Sibiu, regarding their trust in public institutions and other aspects related to tax collection.

The increase of collection is the measure accepted by 74% of the respondents, less than 10% agreeing with an increase of the tax rates and only 4% agreed a higher level of the inflation rate. Most of them consider as a need a reduction in the number of declarations, a simplification of the declarations, the extension of electronic submission, a decrease in the costs of voluntary compliance and a support offered to taxpayers in difficulty, as measures with positive impact in increasing the collection rate.

To increase the collection rate of the fiscal revenues at a level in accordance with the European Union average (40%), we realized a research, using questionnaire and interview methods, and the conclusions are the following:

- At a local level, respondents consider that there would be useful to realize more awareness campaigns for taxpayers, on the importance of payment of tax liabilities
- The following campaigns obtained the best results among taxpayers and are appreciated as being opportune: "We encourage the development of the firms that invest in Romania and are social involved!", "Ask for tax receipt and encourage real economy for higher budgets on Education, Health, Research at local/national level")
- The most effective ways to promote those campaigns are: the online, the radio and the TV.

O6: Proposal to simplify the mechanism of some tax perception

A first proposal that we formulate within this objective is to give complete and concrete information from the responsible institutions. There are situations when, for the same indicator, different and incorrect information are provided. This is the first step to

realize simulations in order to test the impact of different improvement proposals for any fiscal system.

The conclusions of the applied questionnaire, to formulate some proposals for this objective refers, especially, at the ways of simplification of the mechanism of some tax perception, and we identified which are the most problematic taxes from the point of view of the taxpayer as a legal entity, questioned in terms of stimulating the economic activity.

In terms of profit tax, 55% of the respondents consider that the level of the profit tax is discouraging some activities. 31% answered “either agree or disagree”, and 14% (29 respondents) are against this affirmation.

In which concerns the VAT and the contributions for social insurance, approximately 60% of the respondents consider as a need an improvement in the mechanism of collection, and as proposed solutions we mention: *time reduction and compliance cost reduction*.

In the international ranking regarding the easiness of compulsory payments in 2013 (the indicator is calculated as an average between the number of payments/year, the time allocated to voluntary compliance, the total fiscal rate), Romania occupy the last position, in the analysis of the states which joined EU in 2004, plus Romania and Bulgaria.

O7: Determining taxpayers’ perception on the necessity of paying the compulsory taxes avoiding non-payments

A first hypothesis is that the fiscal system must generate a functional economic environment, long term sustainable, which means that firms must obtain profit and must stimulate a continue activity. We consider that the average rate of profit in Romania’s economy in 2011, of 0.53%, decreasing from 1.6%, is one that doesn’t stimulate either investment, either risk assuming, imminent in any entrepreneurial activity. Even if the actual context was, is, and it will be a difficult one, we consider that **the average rate of Romanian companies’ profitability is artificially diminished through various methods of avoidance** from the real economy and by transferring some activities to the “grey” or “black” economy, or, it exists an accumulation of problems.

To achieve the proposed objective, we will use the next research methods – the questionnaire method and the interview method. The questionnaire from the Annex I was conceived, tested and applied to a number of more than 350 companies from Sibiu, 208 questionnaires being filled.

From a total of 208 questionnaires, 100 questionnaires were filled by firms with a turnover less than 100.000 euro, 57 questionnaires were filled by firms with a turnover

between 100.000 and 999.999 euro, and 51 firms registered a turnover over 1 million euro in 2012.

From those questionnaires, 65 questionnaires were filled by the top management of companies², 120 questionnaires were filled by the middle management³, and the rest of 23 questionnaires haven't filled the box about their position in company.

At the question “***Would the following measures increase the collection rate of the fiscal debts?***”, the first option, reducing the number of declarations, generated a level of trust of 73%, while 21% are not decided about the utility of the option, and 6% don't believe that such a measure would generate an increase in the level of trust. The second option, “*Simplifying the declarations*”, was agreed by 80% of the respondents, 17% being undecided and 3% disagreeing the idea.

The third option, “*Extension of electronic filling of the forms*” was enthusiastic accepted by 79% of the respondents, 18% of the total choosing to answer with “either agree or disagree”, and 2% disagreeing with this affirmation.

The fourth option, referring to a decrease in the time allocated to voluntary compliance, which, in our opinion, is generating important extra costs, was agreed by 54% of the respondents, 41% being undecided. We consider that the question was not enough clear, because the number of the undecided respondents is very high.

The last option, regarding the offering of a support to taxpayers in difficulty, was accepted by 86% respondents, who were convinced about the utility of this method. 11% of the total respondents were undecided, and 3% of them are not agreeing with this method.

Another question of the questionnaire aimed to find the motivation of voluntary compliance to payment. The question highlighted the fact that, in this situation, the negative motivation is more efficient than the positive one. 87% respondents answered “agree” and “highly agree” if we refer to the avoidance of the fines and penalties, as opposed to the 70% that answered with the same options in the case of civic consciousness, 22% avoiding an answer.

² The positions considered of top management were: Administrator, Manager, Economic/Financial Manager, CEO, CFO.

³ We considered middle management positions next positions: Service Manager, Chef Accountant, Certified Accountant, Economist, Engineer, Programmer, Economic Adviser, HR Manager.

We can conclude that both forms of motivation are important, but the negative one has a higher influence, compared to the positive motivation.

Referring to the affirmation that “*Fiscal facilities significantly contribute to the collection of fiscal debts*”, respondents’ opinions were divided, 39% disagreeing the affirmation, 31% agreeing and highly agreeing with it, and among 30% being undecided.

O8: Determining the opinion regarding Romanian fiscal systems’ sustainability, through research methods (the methods applied are the questionnaire method and the interview method)

The opinions of the legal entities questioned regarding Romanian fiscal systems’ sustainability on medium and long term are concerning. So, from 208 valid filled questionnaires, only 24% of respondents consider that the fiscal system is sustainable on medium term, and only 8% consider it long term sustainable. An important percent, of 36%, respectively 34%, don’t have, yet, a stable opinion, which, in authors perspective, represent an opportunity for the decision maker factors, meaning that it still can be increased the level of trust in fiscal policies and in fiscal system for an important number of taxpayers (almost for a third of them).

Because the level of taxpayers’ trust ensures system’s stability, fiscal consolidation is absolutely needed, to increase the level of trust.

In order to improve the level of trust of taxpayers in the fiscal apparatus, fact that will generate an improvement in the sustainability of fiscal system, because of the growth in the collection rate and reducing the fiscal evasion. In this sense, we **propose**:

- the need that regionalization held between 2013 and 2015 not to take the mistakes realized through now, and the reform to generate a real improvement of the fiscal system
- the regionalization not to be a biased and politicized one, and the fiscal policy not to be based on opportunistic policies, but fiscal sustainable

O9: The risk of fiscal consolidation delay or failure

The risks of Romanian fiscal system’s consolidation delay will lead to a high deepening of the registered imbalances, a low economic growth or even an economic stagnation, situation when our country will not could reduce its differences compared with the EU developed countries. On long term, a fiscal harmonization at euro-zone level will be required. This aspect will reduce the competitiveness of some countries that are now

developing their economy, countries as Romania, for example. **So, for our country, it would be an advantage to keep a certain independence rate in terms of fiscal policy, although we consider that this independence can only exist on short term.** In this sense, we consider as urgent and important the following measures: an increase in the report of fiscal incomes in GDP and the improvement in the absorption rate of European funds.

This compels us to adopt some strategies and strong directions that should include:

- A reform of the fiscal apparatus, in accordance with the requests of European economy change and Romanian economy change. This reform, of fiscal institutions, must be realized in accordance with the other fiscal system components.
- The influence of politics over fiscal stability must be realized in the consent of its strengthening, and in the consent of the trust of foreign investors and markets (vital aspect, due to the level of Romania's own financing of its public debt).

If markets trust in government proposals is limited, than our country's financing is more expensive, and the development is hampered.

Unfortunately, from the developed and exposed study in of the present chapter, the trust of legal entities in medium and long term fiscal systems' sustainability is low. So, we propose urgent action, with the target of an improvement in the level of trust of Romanian legal entities.

Another conclusion formulated within the chapter is diminishing the cost of voluntary compliance, in the context of Romania's regionalization and of the engagements agreed with the international organism of restriction, and the efficiency of the number of fiscal administrations. Those aspects can be realized only if *IT infrastructure is improved*.

Analyzing the media campaigns realized in other countries, which aim to increase the taxpayers' trust in the fiscal system, we recommend the use of those campaigns in Romania, with a powerful publicity.

Another proposal refers to a function of measuring fiscal systems' sustainability, by analyzing some existent functions from the scientific literature, functions used in econometric studies of the researchers. We propose this function as a result of the limits that the Fiscal Compact (The Stability, Coordination and Convergence Treaty) has.

In the end, we present the risks that can occur if authorities do not act promptly and efficiently in the direction of maintaining a sustainable direction for the fiscal system.

We briefly presented the cause of the fiscal crisis in Japan and the lessons that the decision makers can develop, and also the economic addiction of the euro-zone in the

situation of a decrease in economic growth in China (due to an increase in the connection between the Chinese economy and European Unions' economy).

Due to a strong decrease in the space of fiscal maneuver that Romania has, fiscal stimulus have to be optimized to achieve the goal: "maximum effects with minimum effort".

Further development

To could implement a part of the proposals from the thesis, impact studies must be realized, having as basis relevant, periodic, comparative data (reported under the same methodology) on long term, provided by specialized authorities.

We consider that it is important, as a next direction to follow of the research, developing some informing campaigns for taxpayers, regarding the use of public money and consulting actions inside society, to increase taxpayers' level of trust, actions that would generate a growth of collection. Starting from the questionnaires from Sibiu, we plan to realize some more developed questionnaires, at nationwide, that will reveal more correctly the aspects that must be improved and the ways agreed by the taxpayers. In order to realize this objective, we will have in view common work with the Agency for Fiscal System Reform.

In order to increase the collection, must be acted on multiple fields. The elasticity of each fee category must be known by the fiscal decision makers, in order to realize an efficient fiscal reform.

At the same time, we propose to create an analysis function, to study the fiscal systems' sustainability in Europe, determining the correct weights of fiscal systems' determinants, using a quarterly and monthly series of time, using the methodology based on OLS regressions, on the Auto-Regressive Vector (VAR) and on the mechanism of the error correlation vector (VEC).

In the same function, we want to also integrate the new concept proposed in Chapter 3, the **real cost of taxpayers taxation**, as being the cost generated by the real payment of taxes, fees and contributions, on which we add the cost of voluntary compliance to payment, and other adjacent costs incurred by taxpayers.

From the studies realized with SAS statistic soft, at European level, it result no strong correlations between the analyzed variables. So, we can conclude that in EU the countries are not homogeneous, fact that slows the realization of a common fiscal policy at European level, in a short period of time. A future research wishes to propose solutions, in order to diminish the differences between the indicators registered in EU countries.

Another direction that will lead my future researches involves an analysis of the measures adopted to limit the international fiscal evasion and of the conditions in which the common fiscal policy from euro-zone could be a viable solution on medium and long term.

List of publications

A. Published scientific papers

A1. Scientific papers published in magazines / ISI scientific papers

1. **Banu I.**, Banu (Butiuc) Ioana-Madalina, Lazăr I. – Improving tax collection by maintaining fiscal stability, Journal of economic computation and economic cybernetics studies and research (acceptat, în curs de publicare), FI 2012 – 0.280
2. Ungureanu Mihai Aristotel, **Banu Ilie**, Banu (Butiuc) Ioana- Madalina – The connection between the degree of collectiong claims and the contributor’s level of trust. Possible solutions for Romania, http://apps.webofknowledge.com/UA_GeneralSearch_input, 2013, FI 2012 – 0.134
3. **Banu I.**, Banu (Butiuc) Ioana-Madalina - The influence of the main tax categories in the East European Countries, Romanian Journal of Economic Forecasting, (în curs de publicare) FI 2012 – 0.390

A2. Scientific papers published indexed in international databases recognised by CNCSIS

I. International Journal of Economics and Finance (BDI), indexată (EBSCOhost, EconLit, ERA,Gale's Academic Databases, JEL, Lockss, Open J-Gate, PKP Open Archives Harvester, ProQuest, Ulrich's)

1. Mihail Tițu, **Banu Ilie**, Banu (Butiuc) Ioana-Madalina - Demographic and Economic Dependency Ratios – Present and Perspectives International Journal of Economics and Finance; Vol. 4, No. 12; 2012, ISSN 1916-971X, E-ISSN 1916-9728, Published by Canadian Center of Science and Education

II. “Revista Economică” Journal of economic-financial theory and practice- acreditată CNCSIS B+

1. **Banu Ilie**, Butiuc Ioana- Madalina – Optimal fiscal system and public finance sustainability indicators in east european countries within the EU27, Revista Economică, Journal of economic-financial theory and practice, No. 4-5(63)/ 2012, p. 121

III. Revista Management of Sustainable Development (BDI), acreditată CNCSIS B+, indexată (EBSCO, EBSCO Discovery Service, ProQuest, Index Copernicus, J-Gate, Naviga –Softweco, WorldCat)

1. **Banu Ilie**, (Butiuc) Banu Ioana Madalina, Lazar Izabela – *The relationship between population and economic growth, sustainability aspects in Romania*, 2013 (în curs de publicare)
2. **Banu Ilie**, Banu (Butiuc) Ioana-Madalina, , Lazar Izabela – *The sustainability of foreign direct investments in central and eastern european countries*, 2012
3. Oprean Camelia, **Banu Ilie** - *Crisis' implications on sustainable development through financial co-movement and correlation*, 2010

A3. Scientific papers published at conferences/indexed abroad

1. **IECS 2013 Banu Ilie**, Butiuc Ioana, Popescu Marin - *Trust in Romanian Fiscal Institutions from the Point of View of Sustainability: a Case Study*, paper indexed in Scopus
2. Popescu Marin, **Banu Ilie** -- *Dezechilibrul financiar public în România*, Symposium Chişinău, 2013
3. **Banu Ilie**, Bătuşaru Cristina. – *Possible ways of increasing local government revenue, International Conference “Creşterea economică în condițiile globalizării”*, Chişinău, 2013

A4. Scientific papers published at international conferences/national conferences in Romania

1. **Banu Ilie**, Bătuşaru Cristina, Oţelea Alexandra, Popescu Marin, Fiscal and budgetary developments- comparative analysis in the OECD countries, International PhD Student Conference, Sibiu, 2013
2. **Banu Ilie, Butiuc Ioana- Mădălina-** “*Political Influences on Fiscal Stability*”, The Knowledge-Based Organization, 13-15 Iunie 2013, The 19th International Conference
3. **Banu I.**, Popescu M. – *Quantification of public financial imbalance, IECS 2013*
4. **Banu Ilie, Butiuc Ioana, Popescu Marin**, – “*The actual cost of the taxpayer's taxation and the need for reform of the Romanian tax administration*”, **MSE 2013**
5. **Banu I., Terchila S., Butiuc I.** – “*Increasing compliance through efficient public campaigns*”, Suceava , **SEA 2013**
6. Bătuşaru Cristina, Vasile Alexandra, **Banu Ilie**, Popescu Marin – “*Foreign direct investments - challenges and perspectives for Romania*”, *International Conference on European Integration - Realities and Perspectives (EIRP)*, 2013, Galaţi
7. Sorin Borza, Mihail Aurel Țîțu, **Ilie Banu** „*Assisted design of the experimental research at dimensional processing by electrical erosion with magnetic activation using virtual devices. – implicat și in activitatea de organizare*”, **ICNT 2013**
8. **Banu Ilie**, Butiuc Madalina – „*Optimal Fiscal System and public finance sustainability*”, **2012 – IECS**

9. **Banu Ilie**, Butiuc Ioana-Mădălina – „*Optimizing teaching and research towards Entrepreneurial University*”, 2012 –**QMHE**
10. **Banu Ilie**, Banu Ioana-Mădălina– “*Sustainable development through innovation in Service Sector*”, 2012 – **ICEBEIE**
11. **Banu Ilie**, Titu Mihail- “*The burden of deficits maintains Romania in recession. Analysis and Perspectives*” -18th International Economic Conference – **IECS 2011**
12. **Banu Ilie**, Bogaciu Daniel, Butiuc Ioana- Madalina- „*Implications on reducing the budget deficit to 4.4% of GDP for 2011*” - 18th International Economic Conference – **IECS 2011**
13. **Banu Ilie**, Butiuc Ioana-Madalina Conferință națională “*Noi abordări ale calității în învățământul superior*”, 2011 – Rolul cheltuielilor publice din învățământul superior- abordări din perspectiva sustenabilității

A5. Articles/studies published in other national journals

Revista EUROECONOMIA XXI - Săptămânal economic și financiar

2013

1. **Banu Ilie**- Necesitatea campaniilor de conștientizare asupra plății obligațiilor fiscale – No. 389 from 5 July 2013
2. **Banu Ilie** - Limitele Compactului fiscal European, April 2013
3. **Banu Ilie**- Gradul de încredere în Direcția Finanțelor Publice Sibiu, No. 372, 25.01.2013

2012

1. **Banu Ilie**- Concluzii studiu PwC la nivel internațional privind plata obligațiilor fiscale No. 370, 14 Dec. 2012
2. **Banu Ilie**- Evoluția economiei subterane și impactul negativ asupra resurselor fiscale, 14 Sept. 2012
3. **Banu Ilie**- Condiția de sustenabilitate a sistemului fiscal, No. 338, 24 feb. 2012
4. **Banu Ilie**- Sustenabilitatea sistemului fiscal

2011

1. **Banu Ilie**- Resurse financiare sustenabile, No. 329, 2 December 2011
2. **Banu Ilie**- Evoluția sistemelor fiscale I, No. 319, 23 Sept. 2011
3. **Banu Ilie**- Evoluția sistemelor fiscale II, No. 320, 30 Sept. 2011
4. **Banu Ilie**- Importanța stabilizatorilor fiscali, No. 314, 8 July 2011
5. **Banu Ilie**- Implicații privind tinta deficitului bugetar de 4,4% din PIB, No. 299 from 11 March 2011

2010

1. **Banu Ilie**- Perspective asupra crizei, November 2010

2. **Banu Ilie**- Corporațiile transnaționale și declansarea crizei, July 2010