EVOLUTION OF TAX REVENUES FROM DIRECT TAXATION IN THE PERIOD 2008- 2020. AN ANALYSIS ROMANIA VS EU MEMBER STATES

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Abstract: *The aim of the paper is to present the evolution of tax revenues from direct taxation in the European Union (EU 27) in the period 2008-2020, and to highlight the situation of Romania compared to Member States, especially those in the region (similar states in terms of economic development). We consider, in this sense, the evolution of both tax revenues from the taxation of personal income and corporate profits (we also refer to the taxation of large corporations in order to reduce the transfer of profits and increase revenues worldwide) and the evolution of statutory tax rates, as well as the strengths and weaknesses regarding the Romanian tax system in the regional context. In our approach we use a descriptive methodology, by using relevant bibliographic sources and statistical data from international database.*
Keywords: *direct tax revenues, corporate income taxation, personal income taxation, tax rates.*
Jel Classification: *H24, H25.*

1. Introduction

The main objectives considered are:

- the evolution of tax revenues from the taxation of personal income and corporate profits (including the taxation of large corporations in order to reduce the transfer of profits and increase revenues worldwide) in the period 2008-2020
- the evolution of the statutory tax rates related to direct taxation in the period 2008-2021
- strengths and weaknesses regarding the Romanian tax system in the regional context.

Therefore, the period we are referring to is 2008-2020 / 2021, when we try to analyze how tax revenues (including tax rates) have evolved in the European Union, and implicitly in Romania, the statistical data used being provided by the Taxation Trends report (2021), prepared by the European Commission. For the regional analysis, the countries considered are the Czech Republic, Hungary, Poland, Bulgaria and Romania (regional average).

2. Evolution of tax revenues from direct taxation in the period 2008-2020 in the EU 27

In the EU-27, in the period under review, tax revenues from direct taxation, as a share of GDP, had an oscillating trajectory, in 2020 their level being 0.5 pp higher compared to 2008 (the year in which the financial crisis began). During the analyzed period, they decreased from 12.8% in 2008 to 11.9% of GDP in 2010, but registered an increase of 1.0 pp in GDP in the period 2013-2015, from 2016 registering an upward trend. The evolution of these revenues is explained primarily by the increase in corporate income taxes as well as personal income taxes. From 2008 to 2010, the share of direct taxes decreased more than GDP, and the decrease in direct taxes was more pronounced than the decrease in indirect taxes.

If we look at the region, we notice that four of the five countries analyzed (Poland, Romania, Bulgaria, Hungary) had a decrease in the share of these revenues in GDP in the period 2008-2020, in Hungary the level reached in 2020 being 3.5 pp. lower than in 2008 (6.8% of GDP in 2020, compared to 10.3% in 2008), followed by Romania, which in 2020 reached a value of 4.7% of GDP, compared to 6.4% of GDP in 2008 (in 2020 we have the lowest level in the EU 27).

It should be noted that no country in the region has reached the level of tax revenues before 2008, the year in which the financial crisis began.

Table 1. Direct tax revenue (% of GDP) in the EU-27 in 2008-2020

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
EU-27	12,8	12,1	11,9	12,1	12,6	12,9	12,9	12,9	13,0	13,2	13,2	13,2	13,3
EA-19	12,6	11,9	11,7	12,0	12,5	12,8	12,8	12,8	12,9	13,0	13,2	13,2	13,2
BE	17,0	15,8	16,1	16,7	17,1	17,8	17,7	17,3	16,9	17,5	17,7	16,4	16,5
DK	28,1	28,5	28,6	28,6	29,3	29,9	32,8	30,3	29,6	29,8	28,3	31,1	30,9
DE	12,5	11,7	11,1	11,5	12,1	12,3	12,3	12,5	12,9	13,1	13,4	13,4	13,0
EE	7,7	7,4	6,6	6,3	6,6	7,2	7,4	7,8	7,5	7,2	7,5	7,4	7,8
IE	12,5	12,0	11,8	12,3	12,9	12,9	13,0	10,8	10,9	10,5	10,7	10,4	10,2
EL	8,4	8,8	8,4	9,5	11,1	10,6	9,9	9,6	10,3	10,1	10,4	9,9	9,3
ES	10,7	9,5	9,5	9,6	10,4	10,5	10,7	10,5	10,5	10,6	11,0	10,8	11,6
FR	12,2	11,0	11,5	12,1	12,8	13,2	13,1	13,1	12,9	13,3	13,7	13,6	13,7
HR	7,2	7,3	6,6	6,3	6,2	6,6	6,2	6,1	6,4	6,2	6,3	6,5	6,5
IT	14,7	14,9	14,3	14,2	14,9	15,2	14,7	14,7	14,9	14,5	14,1	14,5	15,2
CY	11,1	9,6	9,4	10,1	9,9	10,4	10,4	9,9	9,3	9,5	9,5	9,4	9,7
LV	9,0	7,0	7,4	7,5	7,7	7,8	7,8	7,8	8,3	8,6	7,4	7,0	7,2
LT	9,2	5,9	4,6	4,3	4,8	5,0	5,0	5,4	5,6	5,4	5,7	8,9	8,8
LU	13,3	13,6	13,6	13,6	13,6	13,6	13,3	13,9	14,4	14,9	16,9	16,9	16,0
MT	12,2	12,9	12,1	12,5	12,9	13,3	13,3	12,5	13,2	13,3	12,9	13,2	13,1
NL	11,0	11,1	11,2	10,7	10,2	10,2	10,8	11,5	11,8	12,9	12,7	13,4	13,4
AT	13,9	12,6	12,7	12,8	13,1	13,7	13,8	14,2	12,9	13,0	13,6	13,7	12,7
PT	9,3	8,6	8,5	9,4	9,1	11,3	10,9	10,7	10,1	9,9	10,1	9,7	10,1
SL	8,8	8,1	8,0	7,8	7,5	7,0	7,2	7,2	7,5	7,5	7,9	7,8	7,9
SK	6,6	5,7	5,5	5,6	5,7	6,2	6,7	7,1	7,2	7,2	7,3	7,2	7,2
FI	17,1	15,7	15,6	16,0	15,8	16,4	16,6	16,8	16,6	16,8	16,3	16,3	16,4
SE	18,8	18,4	18,1	17,5	17,4	17,7	17,8	18,3	18,9	19,0	18,6	18,1	18,2
BG	6,2	5,2	4,9	4,8	4,8	5,2	5,5	5,7	5,8	6,1	6,1	6,1	6,1
CZ	8,2	7,5	7,2	7,4	7,4	7,6	7,7	7,7	8,0	8,1	8,5	8,5	8,5
HU	10,3	9,6	7,8	6,2	6,7	6,5	6,7	6,8	7,3	7,2	6,6	6,6	6,8
PL	8,4	7,2	6,7	6,7	7,0	6,8	6,8	6,9	7,1	7,3	7,8	7,9	8,0
RO	6,4	5,9	5,8	6,1	5,8	5,9	6,2	6,6	6,4	6,1	4,9	4,8	4,7
medie regionala	7,89	7,08	6,46	6,26	6,36	6,41	6,59	6,74	6,94	6,97	6,78	6,78	6,83

Source: European Commission, DG Taxation and Customs Union, based on Eurostat data

In 2020, despite the COVID-19 pandemic, the share of direct tax revenues in GDP remained stable, probably due to extensive measures in Member States to protect jobs / population / firms. By far, the largest share of direct taxes is in Denmark, which accounted for 30.9% of GDP from these taxes in 2020 (most social benefits are financed by income taxes). The following values are recorded by Sweden, Finland, Luxembourg and Belgium, respectively 18.2%, 16.0%, 15.9% and 15.8% of GDP. At the end of the ranking, in 2020, are Romania (4.7% of GDP), Bulgaria (5.9% of GDP) and Croatia (6.5% of GDP), which had low revenues from these taxes (caused by rates reduced taxes, as well as a low degree of collection).

2.1. Evolution of tax revenues from personal income taxation in the period 2008-2020 in Romania and EU 27

Table 2. Personal income statutory tax rates, 2008-2021

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
BE	53,7	53,7	53,7	53,7	53,7	53,8	53,8	53,7	53,2	53,2	53,2	53,1	53,1	53,1
DK	62,3	62,1	55,4	55,4	55,4	55,6	55,6	55,8	55,8	55,8	55,9	55,9	55,9	55,9
DE	47,5	47,5	47,5	47,5	47,5	47,5	47,5	47,5	47,5	47,5	47,5	47,5	47,5	47,5
EE	*21,0*	*21,0*	*21,0*	*21,0*	*21,0*	*21,0*	*21,0*	*20,0*	*20,0*	*20,0*	*20,0*	*20,0*	*20,0*	*20,0*
IE	41,0	46,0	47,0	48,0	48,0	48,0	48,0	48,0	48,0	48,0	48,0	48,0	40,0	40,0
EL	40,0	40,0	49,0	49,0	49,0	46,0	46,0	48,0	48,0	55,0	55,0	55,0	54,0	54,0
ES	43,0	43,0	43,0	45,0	52,0	52,0	52,0	45,0	45,0	43,5	43,5	43,5	43,5	45,5
FR	45,4	45,4	45,4	46,6	50,3	50,3	50,3	50,2	50,2	50,2	51,5	51,5	51,5	51,5
HR	53,1	56,1	50,2	47,2	47,2	47,2	47,2	47,2	47,2	42,5	42,5	42,5	42,5	35,4
IT	44,9	44,9	45,2	47,3	47,3	47,3	47,8	48,8	48,8	47,2	47,2	47,2	47,2	47,2
CY	30,0	30,0	30,0	35,0	35,0	35,0	35,0	35,0	35,0	35,0	35,0	35,0	35,0	35,0
LV	*25,0*	*23,0*	*26,0*	*25,0*	*25,0*	*24,0*	*24,0*	*23,0*	*23,0*	*23,0*	31,4	31,4	31,4	31,0
LT	*24,0*	*15,0*	*15,0*	*15,0*	*15,0*	*15,0*	*15,0*	*15,0*	*15,0*	*15,0*	*15,0*	*27,0*	32,0	32,0
LU	39,0	39,0	39,0	42,1	41,3	43,6	43,6	43,6	43,6	45,8	45,8	45,8	45,8	45,8
MT	35,0	35,0	35,0	35,0	35,0	35,0	35,0	35,0	35,0	35,0	35,0	35,0	35,0	35,0
NL	52,0	52,0	52,0	52,0	52,0	52,0	52,0	52,0	52,0	52,0	52,0	51,8	49,5	49,5
AT	50,0	50,0	50,0	50,0	50,0	50,0	50,0	50,0	50,0	50,0	50,0	50,0	50,0	50,0
PT	42,0	42,0	45,9	50,0	49,0	56,5	56,5	56,5	56,5	56,2	53,0	53,0	53,0	53,0
SL	41,0	41,0	41,0	41,0	41,0	50,0	50,0	50,0	50,0	50,0	50,0	50,0	50,0	50,0
SK	*19,0*	*19,0*	*19,0*	*19,0*	*19,0*	25,0	25,0	25,0	25,0	25,0	25,0	25,0	25,0	25,0
FI	50,1	49,1	49,0	49,2	49,0	51,1	51,5	51,6	51,6	51,4	51,1	51,1	51,1	51,3
SE	56,4	56,5	56,6	56,6	56,6	56,7	56,9	57,0	57,1	57,1	57,1	57,2	*52,3*	*52,3*
BG	*10,0*	*10,0*	*10,0*	*10,0*	*10,0*	*10,0*	*10,0*	*10,0*	*10,0*	*10,0*	*10,0*	*10,0*	*10,0*	*10,0*
CZ	*15,0*	*15,0*	*15,0*	*15,0*	*15,0*	*15,0*	*15,0*	*15,0*	*15,0*	*15,0*	*15,0*	*15,0*	*15,0*	23,0
HU	40,0	40,0	40,6	20,3	20,3	*16,0*	*16,0*	*16,0*	*15,0*	*15,0*	*15,0*	*15,0*	*15,0*	*15,0*
PL	40,0	32,0	32,0	32,0	32,0	32,0	32,0	32,0	32,0	32,0	32,0	32,0	32,0	32,0
RO	*16,0*	*16,0*	*16,0*	*16,0*	*16,0*	*16,0*	*16,0*	*16,0*	*16,0*	*16,0*	*10,0*	*10,0*	*10,0*	*10,0*
EU 5	24,2	22,6	22,7	18,6	18,6	17,8	17,8	17,8	17,6	17,6	16,4	16,4	16,4	18,0
EU-27	39,2	39,1	39,3	39,0	39,4	40,1	40,2	40,0	39,9	39,9	40,2	40,7	40,2	40,3
EA-19	39,1	38,8	39,7	40,6	41,1	42,3	42,3	42,0	42,0	42,3	42,6	43,2	42,9	43,0

Source: European Commission, DG Taxation and Customs Union, based on Eurostat data

In 2021, statutory personal income tax rates varied by region. While Romania, Bulgaria, Hungary continue to apply flat-rate income taxes (single rate, italics), other countries, such as the Czech Republic, Austria, Germany, Slovenia, Croatia and Slovakia, use progressive income tax rates.

We notice that in economically developed countries high tax rates predominate (45-54%), their average (EU 19) increasing from 39.1% in 2008 to 43% in 2021. However, there are countries where rates have decreased compared to 2008, namely Denmark, Sweden, Belgium; however, the countries where these rates have increased considerably (Greece, Spain, Italy, Portugal, Luxembourg) predominate during the analyzed period; There are also countries that have maintained their tax rate over the period: Belgium, Germany, Austria.

If we look at Romania and the countries in the region (Poland, Czech Republic, Bulgaria, Hungary), we notice that Bulgaria, and the Czech Republic, similar to our country, have a flat reduced tax rate (10%, 15%, and for Romania, 16% till 2017, becoming 10% starting with 2018). As for Poland, in present it taxes personal income at a rate of 32% (up from 40% in 2008); Hungary has reduced its tax rate from 40% in 2008 to 15% since 2017.

Table 3. Income from personal income tax / wealth, in the period 2008-2020,% of GDP

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
EU-27	9,0	8,9	8,7	8,8	9,2	9,4	9,5	9,4	9,3	9,4	9,5	9,6	9,9
EA-19	8,7	8,7	8,5	8,5	9,0	9,2	9,2	9,2	9,1	9,2	9,4	9,5	9,8
BE	12,3	12,0	12,1	12,4	12,5	13,0	12,9	12,4	12,0	12,0	11,8	11,3	11,8
DK	24,0	25,0	24,8	24,8	25,1	25,6	28,5	25,9	25,3	25,2	24,2	26,5	26,9
DE	9,0	8,9	8,2	8,2	8,7	9,0	8,9	9,1	9,2	9,5	9,7	9,8	9,7
EE	6,1	5,6	5,3	5,1	5,2	5,4	5,7	5,7	5,8	5,6	5,5	5,5	6,2
IE	9,0	8,9	8,7	9,1	9,6	9,5	9,4	7,5	7,6	7,2	7,0	6,9	6,6
EL	4,5	4,4	4,0	4,8	7,0	5,9	5,9	5,7	5,9	6,3	6,4	5,9	6,3
ES	7,1	6,7	7,0	7,2	7,5	7,6	7,7	7,4	7,3	7,5	7,7	8,0	8,8
FR	7,9	7,8	7,6	7,8	8,4	8,7	8,7	8,7	8,6	8,6	9,5	9,4	9,6
HR	3,8	3,8	3,4	3,4	3,6	3,9	3,8	3,5	3,6	3,2	3,5	3,6	3,6
IT	11,3	11,2	11,3	11,1	11,8	11,9	11,9	12,1	11,8	11,7	11,6	11,8	12,6
CY	4,3	3,3	3,4	3,5	3,5	2,8	2,7	2,7	2,8	3,1	3,2	3,2	3,4
LV	5,9	5,3	6,2	5,8	5,7	5,8	5,9	5,9	6,3	6,6	6,0	6,5	6,1
LT	6,5	4,1	3,6	3,5	3,5	3,6	3,6	3,9	4,0	3,9	4,1	7,2	7,1
LU	7,6	7,5	7,4	8,0	7,9	8,3	8,4	8,7	8,9	8,7	9,3	9,4	9,8
MT	5,7	6,3	5,7	6,4	6,4	6,6	6,4	6,0	6,4	6,5	7,0	7,1	7,8
NL	6,5	7,7	7,6	7,3	6,8	6,7	6,9	7,4	7,1	8,3	7,9	8,5	9,0
AT	10,3	9,7	9,6	9,6	9,9	10,1	10,4	10,8	9,3	9,3	9,7	9,8	9,4
PT	5,4	5,5	5,4	6,0	5,8	7,7	7,7	7,3	6,8	6,4	6,5	6,3	7,0
SL	5,7	5,7	5,5	5,5	5,6	5,1	5,0	5,1	5,2	5,1	5,4	5,3	5,4
SK	3,1	2,8	2,6	2,8	2,9	2,9	3,0	3,1	3,3	3,4	3,6	3,8	3,8
FI	12,7	12,7	12,0	12,2	12,4	12,7	13,3	13,2	12,9	12,5	12,2	12,2	12,6
SE	15,8	15,3	14,6	14,1	14,5	14,7	14,7	14,9	15,6	15,6	15,2	14,5	14,8
BG	2,7	2,7	2,8	2,7	2,7	2,9	3,1	3,1	3,1	3,4	3,3	3,3	3,5
CZ	3,9	3,9	3,7	4,0	4,0	4,1	4,2	4,0	4,3	4,5	4,8	5,0	5,2
HU	7,5	7,2	6,3	4,8	5,2	4,9	4,9	4,9	4,8	5,0	5,1	5,1	5,3
PL	5,3	4,5	4,3	4,3	4,5	4,5	4,6	4,7	4,8	5,0	5,3	5,3	5,3

RO	3,2	3,3	3,2	3,3	3,4	3,4	3,5	3,7	3,7	3,6	2,4	2,3	2,4
medie reg	4,52	4,32	4,08	3,82	3,98	3,97	4,04	4,06	4,14	4,27	4,18	4,21	4,35

Source: European Commission, DG Taxation and Customs Union, based on Eurostat data

We note that in countries where the tax rate is high, the related tax revenues are also high, exceeding the EU 19 average in the analyzed period. (Denmark, Austria, Finland). In most EU-19 countries, the share of revenue in GDP is higher than in 2008, with an upward trend starting with the period 2015-2016.

As for Romania and the countries in the region (Bulgaria, Czech Republic, Poland, Hungary), Hungary and Poland have values above the average. In Romania, the level of collection is the lowest in the European Union, two of the causes being the categories of taxpayers exempt from this tax, as well as the reduced tax rate.

If we refer to the year 2010 (the year of the "exit" from the financial crisis), in present, the EU 19 countries had higher revenues from the taxation of individuals (+ 1.3 pp in 2010); the same cannot be said about Romania or Hungary (due to the reduction of the tax rate in both states).

However, as the income tax is calculated at a 10% rate, the Romanian tax system is competitive for foreign citizens who become Romanian tax residents, but remain enrolled in the social security system of other EU Member States which apply a tax base ceiling or a specific progressive system.

Over time, EU countries have sought to increase their fiscal attractiveness in order to generate additional revenue and attract investment, while avoiding the erosion of their internal tax base so as not to jeopardize their resources.

One solution was to choose high-income foreign taxpayers by implementing specific preferential schemes, which target only newcomer residents. These schemes allow the tax rate applied to the local population to be kept intact, while at the same time obtaining additional income by applying a reduced rate for foreigners. Over time, these schemes have become increasingly aggressive, facilitating real tax optimization strategies based on simple changes of address. Although they initially focused on the revenue generated in the new country of tax residence, these schemes have since been extended to income from foreign sources or worldwide (the principle of the specific tax regime applicable to the income of new tax residents as well as the large fortunes of newly settled taxpayers - for example, foreign inventors are significantly affected by maximum tax rates when making decisions regarding the tax domicile).

Preferential schemes are all the more problematic as they target the highest-income taxpayers, either by defining the minimum amounts of income to be obtained or by reducing the tax rates that will benefit only individuals with a higher previous tax rate (those who earn the most income). The exemptions thus directly undermine the progressiveness of tax systems and create favorable regimes for people with already high incomes.

2.2. Evolution of tax revenues from profit taxation in the period 2008-2020 in Romania and EU 27

In the last decade (more precisely, the last five years), Member States have implemented numerous changes in both the corporate tax rate and the corporate tax base. Nine Member States have reduced their statutory corporate tax rates, the most important reductions in the tax rate being adopted in Hungary (-9.4 pp), Belgium (-9 pp) and France (-6 pp). Legal tax rates have also been reduced by Croatia, Greece, Italy, Luxembourg, Slovakia and Sweden.

The only countries that increased their statutory corporate tax rates were Latvia (+5 pp), Portugal (+2 pp) and Slovenia (+2 pp).

Tax reforms adopted by Member States over the last five years include a combination of measures to extend and narrow the tax base. Many countries have increased their tax bases by adopting anti-avoidance / anti-evasion measures and reducing tax exemptions and deductions, such as limiting the deductibility of losses (Latvia, the Netherlands, Sweden) or the use of company cars (Poland), reduction of the exemption for dividend income (Spain and Belgium) or capital gains (Spain).

However, many new exemptions and deductions have been introduced, such as the tax exemption for reinvested profits (Latvia, Portugal), the increased deductibility of municipal taxes (Italy), more generous tax brackets in progressive schemes (Netherlands), extending a previously limited tax exemption to special economic zones for the whole country (Poland).

Investment incentives such as higher capital allowances, accelerated depreciation and incentives for research and development are encouraged. In addition, some Member States have introduced preferential tax regimes for intellectual property income and the deduction of national interest.

Table 4. Corporate profit tax rates in UE 27, 2008-2021

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
BE	34,0	34,0	34,0	34,0	34,0	34,0	34,0	34,0	34,0	34,0	29,6	29,6	25,0	25,0
DK	25,0	25,0	25,0	25,0	25,0	25,0	24,5	23,5	22,0	22,0	22,0	22,0	22,0	22,0
DE	29,4	29,4	29,5	29,6	29,6	29,6	29,7	29,8	29,8	29,9	29,9	29,9	29,9	29,9
EE	21,0	21,0	21,0	21,0	21,0	21,0	21,0	20,0	20,0	20,0	20,0	20,0	20,0	20,0
IE	12,5	12,5	12,5	12,5	12,5	12,5	12,5	12,5	12,5	12,5	12,5	12,5	12,5	12,5
EL	35,0	35,0	24,0	20,0	20,0	26,0	26,0	29,0	29,0	29,0	29,0	28,0	24,0	24,0
ES	30,0	30,0	30,0	30,0	30,0	30,0	30,0	28,0	25,0	25,0	25,0	25,0	25,0	25,0
FR	34,4	34,4	34,4	36,1	36,1	38,0	38,0	38,0	34,4	44,4	34,4	34,4	32,0	28,4
HR	20,0	20,0	20,0	20,0	20,0	20,0	20,0	20,0	20,0	18,0	18,0	18,0	18,0	18,0
IT	31,4	31,4	31,4	31,4	31,3	31,3	31,3	31,3	31,3	27,8	27,8	27,8	27,8	27,8
CY	10,0	10,0	10,0	10,0	10,0	12,5	12,5	12,5	12,5	12,5	12,5	12,5	12,5	12,5
LV	15,0	15,0	15,0	15,0	15,0	15,0	15,0	15,0	15,0	15,0	20,0	20,0	20,0	20,0
LT	15,0	20,0	15,0	15,0	15,0	15,0	15,0	15,0	15,0	15,0	15,0	15,0	15,0	15,0
LU	29,6	28,6	28,6	28,8	28,8	29,2	29,2	29,2	29,2	27,1	26,0	24,9	24,9	24,9
MT	35,0	35,0	35,0	35,0	35,0	35,0	35,0	35,0	35,0	35,0	35,0	35,0	35,0	35,0
NL	25,5	25,5	25,5	25,0	25,0	25,0	25,0	25,0	25,0	25,0	25,0	25,0	25,0	25,0
AT	25,0	25,0	25,0	25,0	25,0	25,0	25,0	25,0	25,0	25,0	25,0	25,0	25,0	25,0
PT	26,5	26,5	29,0	29,0	31,5	31,5	31,5	29,5	29,5	29,5	31,5	31,5	31,5	31,5
SL	22,0	21,0	20,0	20,0	18,0	17,0	17,0	17,0	17,0	19,0	19,0	19,0	19,0	19,0
SK	19,0	19,0	19,0	19,0	19,0	23,0	22,0	22,0	22,0	21,0	21,0	21,0	21,0	21,0
FI	26,0	26,0	26,0	26,0	24,5	24,5	20,0	20,0	20,0	20,0	20,0	20,0	20,0	20,0
SE	28,0	26,3	26,3	26,3	26,3	22,0	22,0	22,0	22,0	22,0	22,0	21,4	21,4	20,6
BG	10,0	10,0	10,0	10,0	10,0	10,0	10,0	10,0	10,0	10,0	10,0	10,0	10,0	10,0
CZ	21,0	20,0	19,0	19,0	19,0	19,0	19,0	19,0	19,0	19,0	19,0	19,0	19,0	19,0
HU	21,3	21,3	20,6	20,6	20,6	20,6	20,6	20,6	20,6	10,8	10,8	10,8	10,8	10,8
PL	19,0	19,0	19,0	19,0	19,0	19,0	19,0	19,0	19,0	19,0	19,0	19,0	19,0	19,0
RO	16,0	16,0	16,0	16,0	16,0	16,0	16,0	16,0	16,0	16,0	16,0	16,0	16,0	16,0

EU 5	17,46	17,26	16,92	16,92	16,92	16,92	16,92	16,92	16,92	14,96	14,96	14,96	14,96	14,96
EU-27	22,8	22,9	22,2	22,1	22,0	22,4	22,2	22,1	21,8	21,6	21,4	21,3	21,0	20,8
EA-19	22,3	22,2	21,9	22,0	21,8	21,9	21,6	21,5	21,4	20,8	20,7	20,7	20,6	20,3

Source: European Commission, DG Taxation and Customs Union, based on Eurostat data

At EU-27 level, we notice the downward trend in these rates in the analyzed period; in addition, corporate tax rates differ significantly across Member States, with the highest (Germany, 33%) and lowest (Hungary, 9%) differing by more than 20 percentage points. However, the limits of fiscal competitiveness are gradually coming to the fore: only Greece has reduced its corporate tax rate (by 1%) since 2019. Poland has introduced a reduced preferential rate of 9% for small taxpayers. The average corporate tax rate in the region is around 17%, while the legal rate of corporate tax in the countries in the region is usually between 15-20%. In Romania, this is 16%.

The European Union has made efforts to limit tax competition and combat tax evasion techniques. The EU's goal is to establish a common framework for corporate taxation, or at least to prevent the application of tax evasion techniques in the Member States. An important tool in this effort is the Tax Avoidance Practices Directive (ATAD, Directive 2016/1164 EC), which is binding on Member States from 1 January 2019. Adopting this set of EU rules, including those on interest deduction restrictions, has been the biggest challenge in recent years. Offshore standardization (controlled foreign company - CFC) is also one of ATAD's major concerns, and the introduction of the global minimum tax will fundamentally change the future of corporate taxation and the state of tax competition between countries.

EU countries (and at regional level) that apply traditional corporate taxation allow the carry-over of losses incurred in previous years and the possibility of offsetting them with a positive tax base in subsequent years. This option can usually only be used for a certain period of time, usually between 5 and 7 years, and in some places only between 3 and 4 years.

It should be added that the states in the region still tend to impose withholding taxes on interest, dividend and royalty payments (at the rate of 15% or 19-20%). Lithuania, Estonia and Hungary continue not to impose withholding tax on capital gains. Starting with 2019, the group taxation started to be applied in Hungary as well, previously existing only in Austria and Poland. Also, in most states the tax system encourages research and development (R&D); Slovakia, Poland have recently taken measures in this regard, while in Romania various fiscal facilities specific to these activities have been previously implemented.

With regard to international taxation, efforts to protect the profit tax bases against corporate tax evasion have continued with the adoption of significant reforms in line with the OECD / G20 project on tax erosion and profit shifting (BEPS). The fiscal challenges of the growing digitalization of the economy are another major concern for many countries that have announced or implemented interim measures to tax certain revenues from digital services.

The OECD's BEPS ("tax base erosion and profit shifting") initiative has drawn attention to cross-border intra-group transactions; Transfer pricing rules have already been introduced in the tax systems of almost all countries involved (in Bulgaria, transfer pricing documentation can be prepared at the specific request of the tax authority). Documentation obligations have recently changed.

The key objective of country-by-country reporting required by the OECD is to promote transparency by providing local tax authorities with the information they need to assess tax risks. In the last year, taxpayers in the CEE region have had to actively participate in the launch of the country reporting system (CbCR).

Table 5. Revenues from corporate taxation in the EU-27 during the period 2008- 2020, % GDP

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
EU-27	2,8	2,1	2,2	2,3	2,4	2,4	2,4	2,4	2,6	2,7	2,7	2,6	2,4
EA-19	2,8	2,1	2,2	2,3	2,4	2,5	2,4	2,4	2,6	2,7	2,7	2,7	2,4
BE	3,3	2,3	2,5	2,8	3,0	3,1	3,1	3,3	3,4	4,1	4,3	3,7	3,3
DK	2,5	1,9	2,3	2,2	2,6	2,8	2,8	2,8	2,8	3,2	2,7	3,1	2,6
DE	2,5	1,9	2,0	2,4	2,5	2,4	2,4	2,4	2,7	2,7	2,8	2,6	2,2
EE	1,6	1,8	1,3	1,2	1,4	1,7	1,7	2,1	1,7	1,5	2,0	1,8	1,7
IE	2,8	2,3	2,4	2,2	2,3	2,4	2,4	2,6	2,8	2,8	3,2	3,1	3,2
EL	2,1	2,5	2,6	2,1	1,1	1,2	1,9	2,2	2,5	2,0	2,2	2,2	1,2
ES	2,8	2,2	1,8	1,8	2,1	2,0	2,0	2,2	2,2	2,2	2,5	2,1	2,0
FR	3,0	1,8	2,3	2,6	2,7	2,7	2,6	2,6	2,6	2,9	2,7	2,8	2,7
HR	2,9	2,5	1,9	2,3	2,0	2,0	1,7	1,8	2,2	2,3	2,2	2,3	2,3
IT	2,9	2,4	2,3	2,2	2,3	2,5	2,2	2,0	2,1	2,1	1,9	2,0	2,1
CY	6,4	5,9	5,5	6,2	5,7	6,5	6,4	5,8	5,5	5,8	5,8	5,7	5,9
LV	3,0	1,5	1,0	1,4	1,6	1,6	1,5	1,6	1,7	1,6	1,1	0,2	0,7
LT	2,7	1,8	1,0	0,8	1,3	1,4	1,4	1,5	1,6	1,5	1,5	1,6	1,6
LU	5,0	5,3	5,4	4,8	4,9	4,5	4,1	4,2	4,4	5,0	6,3	6,0	4,8
MT	5,8	5,8	5,6	5,3	5,7	6,0	5,9	5,9	6,1	6,1	5,3	5,4	4,6
NL	3,3	2,1	2,3	2,2	2,1	2,1	2,5	2,7	3,3	3,3	3,5	3,7	3,1
AT	2,5	1,8	2,0	2,1	2,1	2,2	2,2	2,3	2,4	2,5	2,8	2,8	2,1
PT	3,5	2,8	2,7	3,1	2,8	3,3	2,8	3,1	3,0	3,2	3,3	3,1	2,8
SL	2,5	1,8	1,8	1,6	1,2	1,2	1,4	1,5	1,6	1,8	1,9	2,0	1,9
SK	3,0	2,5	2,4	2,4	2,3	2,9	3,3	3,7	3,5	3,5	3,3	3,0	3,0
FI	3,3	1,9	2,4	2,6	2,1	2,3	1,9	2,2	2,2	2,7	2,5	2,5	2,1
SE	2,6	2,6	3,1	2,9	2,4	2,6	2,6	2,9	2,9	2,9	3,0	3,1	3,0
BG	2,9	2,1	1,8	1,8	1,7	1,9	2,0	2,2	2,2	2,3	2,3	2,3	2,2
CZ	4,0	3,3	3,2	3,2	3,1	3,2	3,3	3,4	3,5	3,4	3,5	3,3	3,1
HU	2,5	2,1	1,1	1,1	1,2	1,2	1,5	1,6	2,1	1,8	1,2	1,1	1,2
PL	2,7	2,2	1,9	2,0	2,1	1,8	1,8	1,8	1,8	1,9	2,1	2,2	2,3
RO	2,9	2,3	2,1	2,3	1,9	2,0	2,1	2,3	2,2	2,0	2,1	2,1	1,9
medie reg	3,00	2,41	2,02	2,08	2,01	2,01	2,14	2,27	2,38	2,30	2,21	2,21	2,12

Source: European Commission, DG Taxation and Customs Union, based on Eurostat data

During the analysed period, these revenues remained relatively constant in 2020, at 2.4% of GDP (EU-27 average). After the sharp decline in 2009, corporate revenues gradually rose but did not return to pre-crisis levels. It should be noted, however, that at the level of 2020, compared to 2019, there has been a slight decrease in revenue in most EU countries 27.

Romania has a lower level than the regional average for the whole period analyzed, and in 2020 it has the second lowest level in the EU-27, of 1.9% of GDP (at the same level as Latvia), ahead only of Greece and Hungary (with 1 , 2% GDP)

If we refer to Bulgaria, which has a tax rate of 10%, it has a higher collection since 2017; therefore, the level of collection in Romania must be adjusted, the main causes being the tax legislation, respectively the diminished tax base due to the exceptions and preferential treatments granted, as well as the tax evasion.

3. SWOT analysis of the Romanian fiscal system in the regional context

In order to carry out this analysis, we took into account the advantages and disadvantages of the Romanian tax system (strengths and weaknesses), respectively the threats and opportunities from a fiscal perspective.

Romania, from the perspective of the fiscal system, is attractive for investors, in terms of the 16% profit tax rate, the level of social contributions related to salaries, which are lower than in other European countries, but also the ceiling on the income tax of micro-enterprises (micro-enterprises with income of up to 1 million euros can opt for the payment of the profit tax, instead of the turnover tax). Also, the 19% VAT is an advantage, the other European countries having a VAT of at least 20%.

Strengths

- Stable tax rates. The stability and predictability of taxation are key benefits for attracting investment to any country. Countries with long-term stable legislation manage to remain attractive because any investor can make long-term business plans and rely on stable tax rates and predictability related to possible changes.

In Romania, the direct tax rates (income tax, profit tax) are stable, which is a strong point of the current Romanian taxation. There are also no intentions to change the taxation in the next period, the flat income tax rate (10%) and the social security rates (10% CASS, 25% CAS), the profit tax rate (16%) and the tax on dividends (5%) being stable, as well as the standard VAT rate (19%).

- Competitive taxation for the CEE area (Central and Eastern Europe)

In the current global economic context, when each country wants to maintain / increase its level of competitiveness in order to attract as many foreign investments as possible, from a tax perspective, Romania remains an attractive destination, but the digitization and reform of ANAF, reducing bureaucracy and litigation remain the key to complementing the advantage of favorable tax rates.

From the perspective of the profit tax, with a share of 16%, Romania ranks well in relation to the countries in the EEC region, with a higher share than Hungary (9%) and Bulgaria (10%), but lower than the Czech Republic and Poland (both with 19%) or Slovakia (21%). For comparison, the average corporate tax rate in EU member states was around 21% in 2020.

Regarding the value added tax, Romania, with a standard VAT rate of 19%, is below the regional average (22%). By comparison, the standard VAT rates in the area are Hungary (27%), Croatia (25%), Poland 23%, Czech Republic (21%), Bulgaria 20%, Slovakia (20%).

Weaknesses

- Unreformed and non-digitized ANAF. A weak point regarding the Romanian taxation is represented by the fact that the National Agency for Fiscal Administration (ANAF) is still an unreformed and poorly digitized institution. Romanian entrepreneurs and foreign investors support the maintenance of the current taxation, together with the digitalization and modernization of ANAF, which should lead to transparency and a better collection of taxes from all taxpayers, without exception. Basically, an increase in taxation would not necessarily have the effect of increasing budget revenues, but by improving the current collection of taxes and encouraging voluntary compliance (bonuses for good payers) could increase budget revenues.

- Excessive "taxation" of labor. From a tax perspective, a weak point for Romania is the excessive "taxation" of labor through unsecured social insurance and tax arbitration, which leads to implicit unfair competition, resulting from various forms of labor remuneration that bear a differentiated tax cost. The high cost of labor is thus generated by the discrepancy in the application of social security for various alternative forms of remuneration.

One solution would be to cap the social security contributions applicable to employment contracts at a reasonable level to ensure the contribution to the pension and social health insurance system (even with an element of solidarity, but not without a maximum ceiling). The effect of capping contributions at a reasonable maximum level will "bring to light" high wages and discourage the use of alternative methods of payment for work (PFA and micro-enterprise), which currently generate significantly lower revenues to the social security budget. However, the capping measure should be introduced and maintained in the long term, so that employers and employees rely on legislative stability.

Opportunities - The need to digitize ANAF has become apparent in the context of the situation generated by Covid. Measures are needed to implement solutions for digitizing and modernizing ANAF (IT systems, cash registers connected to ANAF servers, starting discussions on electronic invoicing, remote tax control, filing online statements, improving Virtual Private Space, improving " payroll card ”etc.) and continuous improvement of online communication with taxpayers - individuals or legal entities.

Threats - we refer to the budget deficit, which could lead to the imposition of new taxes and duties or the economic crisis generated by Covid-19 and the impact on the payment capacity of companies.

4. Conclusions

Currently, Romania is a fiscally attractive country in terms of personal income tax rates, profit, VAT and social contributions for the employer. However, if we take into account the evolution of tax revenues in the period 2008-2020 from direct taxation, they have had a relatively oscillating trajectory, but in recent years, especially 2020, they have recorded the lowest level in the EU 27 (4.7% of GDP).

In our opinion, there are two main problems, the large budget deficit and the low level of collection, the main causes being the Romanian tax legislation, respectively the diminished tax base due to exceptions and preferential treatments granted, tax evasion (eg VAT evasion, for the year 2018, in Romania a share of 33.8% of the theoretical revenues to be collected, the highest value in the EU).

In order to increase the collection rate, the fight against fraud and an efficient tax system, we consider that there are two directions that should be followed (also assumed by PNRR), respectively:

• Fiscal regulation / legislation (implemented in stages), the starting point being the analysis of the fiscal system, with emphasis on the exceptions of the profit tax, the income tax, the social contributions and the property tax; application of ecological taxes; gradual reduction of the scope of the micro-enterprise scheme; gradual reduction of tax incentives for staff employed in the construction sector.

• Continuation of ANAF computerization and administrative reform (implementation of SAFT in 2022, connection of electronic cash registers to ANAF server, development of SVP - aimed at increasing voluntary compliance).

It should be noted that in 2020, ANAF implemented some measures aimed at facilitating the digital interaction with economic agents, such as: payment of tax obligations directly by bank card for persons registered in the Virtual Private Space (SPV), extension of enrollment in SPV by individuals who do not have a digital certificate. At the beginning of 2021, ANAF presented the Digital Strategy 2021-2024, respectively the reform package consisting of a set of coherent actions on the digitization strategy, the communication strategy and the steps for the rapid realization of the projects being implemented (SAF-T, Traffic Control, NOES, One Stop Shop, etc.), as well as those to be implemented (SPHERE, APIC).

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