EVOLUTION OF ROMANIAN TAXATION IN THE PERIOD 1918- 2018. THEORETICAL ASPECTS

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Abstract: In our paper we are trying to realize an incursion in time of the Romanian taxation. Specifically, the aim is to highlight the main tax changes produced over the last 100 years and their effects in the real economy. In this context, we will use the descriptive and analytical methods, and we will take into consideration a set of information from the national and international specialized literature.

Keywords: taxation, fiscal regulations, real economy, tax revenues, firms

Introduction

In our country there have been significant changes in tax legislation over time, due to the need to adapt to the requirements of the market economy. However, these changes have not only caused positive, but also negative aspects (for example, the frequency of legislative changes, the impact on investors, the dense nature of legal provisions, the large number of tax obligations, etc.). As a result, a tax system needs to be reformed, but the rationale behind it must be to ensure rational principles in order to ensure economic stability and a favorable environment for development.

The Romanian tax system has undergone important changes over time due, among other things, due to the preparation and conduct wars, the outbreak of economic crises and the remediation of their effects, the development of the infrastructure, the consolidation and modernization of the administrative system, the implementation of certain measures (social, ecological or of other nature).

1.Tax system during 1918- 1945

Until 1916, the following taxes were in force in Romania: direct taxes (taxes on agricultural land and buildings, patents, taxes for means of communications, complementary tax, consisting of a fixed fee of 6 lei and a proportional one of 1% of the taxpayer’s general income, income tax on securities, wage tax - set up in 1877, initially of a 5% quota, abolished in 1891 and reintroduced in 1900-, military taxes), indirect taxes (stamp dues and registration fees, tax on beverages, living tax, excise duties), taxes on consumption (sugar tax, petroleum products tax, show tax), state tax monopolies (salt, tobacco, matches, gambling cards, rifle dust, cigarette paper) and local taxes (governed by Rural Law in 1864).

In 1921 *Nicolae Titulescu's Reform* was implemented, introducing the progressive elements of taxation, namely the cedular tax, calculated according to the origin of the income.

In 1923, the *Brătianu Law* was adopted, which aimed to unify the taxation regimes of the Romanian provinces and to set up a system of direct contributions on new bases, which would ensure a more equitable distribution of tax burdens among taxpayers. It also instituted six elementary proportional income taxes and a progressive global income tax. The proportional tax rates were differentiated according to the origin of the income, of the person who made them or of the nature of the enterprises. The global tax was levied on quotas ranging from 1% to 30%.

Regarding the indirect taxes, they did not suffered any changes, at that time the Romanian tax system having as indirect taxes: excise duties, stamp tax, vehicle tax, depending on weight of the car and, starting with 1939, depending on the cylindrical capacity motor, show tax, luxury tax and turnover tax, consumption taxes on oil, flour, sugar, cement, etc.

Between 1924 and 1928, the state's financial policy was characterized by budgetary measures that followed the evolution of income according to the revenues of the previous year and the maintenance of the ordinary expenses within the strict limits of the realized revenues.

In 1934, the global tax was replaced by the over-quota tax, which was also progressive, but no longer applied to the overall net income, but to each remaining income after the payment of proportionate elementary tax.

The table below shows the evolution of direct and indirect taxes in Romania's total budget revenues, between 1923-1928.

Table 1 The evolution of direct and indirect taxes in Romania's total budget revenues, between 1922-1928 (%)

Year	**Direct taxes**	**Indirect taxes and consumption tax**	**Tax monopolies**	**total**
1922/1923	8,2	51,7	8,9	68,8
1923	12,6	50,4	7,4	70,4
1924	11,6	47,2	7,8	66,6
1925	12,4	37,6	18,6	58,6
1926	15,7	49,5	12,1	77,3
1927	20,8	50,5	11,1	82,5
1928	23,0	44,0	13,4	80,4

Source: Hoanță, N., 1996, "Evolutions of tax system in Romania", Taxes and dues Journal no 1-2

The period 1929-1933 represents an important stage in the evolution of fiscal systems (the global economic crisis), when the "focus" is shifted from income taxes to consumption taxes and excise duties.

In Romania, between 1929 and 1935, indirect taxes increased sensibly, as a share of total budget revenues, from 51,7% to 57%, while the share of direct taxes decreased from 29,2% to 17,8% .

The **year 1929** marks a series of changes and additions to the Romanian tax system, namely: implementation of the law to combat tax evasion, raising the limit of non-taxable income for the global income tax, reduction of taxes paid by professionals, elimination of the exoneration of real estate revenues, introduction of taxes on recreational properties and untapped forests, etc.

In **1934**, Victor Slăvescu initiated a law that eliminates the tax on global income. It is replaced by "over-quota", an additional tax added to each elementary tax. Quotas affecting trade, large industry, and securities incomes are reduced to stimulate capital accumulation and capital recovery after the economic crisis of the early 1930s.

After 1935, indirect taxes on consumption and movement of goods, turnover tax, stamp duties and registration taxes increased.

During the Second World War, direct taxes “suffered” a series of radical changes, the most important of which was the introduction in **1941** of taxation of industry and trade revenues based on annual turnover. The direct tax system was supplemented with a special tax on the individuals, but the basic tax source continued to remain indirect taxes.

During World War II, a specific policy for a faster and simplified levying taxes was introduced. Taxes from population did not exceed 10% of the total state budget revenues in any year, and in the last years of the socialist government these revenues were weighing 1-2% of the total.

2.Tax system in the period 1945- 1989

After the Second World War, there were important changes in the tax system, changes that were caused by the following events: the Rural Reform(1945), Monetary Reform and stabilization(1947), abolition of the monarchy and proclamation of the Romanian People's Republic (1947), adoption of the Constitution(1948), the nationalization of the main means of production (1948).

Thus, in 1948, the 12% exceptional tax was abolished, direct taxes were abolished (for example, the turnover tax due by the former private companies, as direct tax, was changed into an indirect tax because it was converted into tax on product circulation). Among the more important taxes should be mentioned: income tax, product tax and benefit payments.

The main taxes and fees charged were:

• the tax on the movement of goods, introduced in 1962, replaced the former tax on the movement of products, introduced by Law no. 2/1950.

• the tax on the total remuneration fund, replaced in 1977 the tax on individual wages.

• tax on income from craft cooperatives and cooperatives for the production, acquisition and sale of goods. The tax rates used were unique, proportionate, of 25%.

• agricultural tax was due by agricultural cooperatives and consisted of land tax and tax on remuneration fund of cooperators.

• tax on the income of writers, artists, scientists, established in graduated tranches on earnings achieved, in cash, from copyrights for certain literary, scientific or artistic works;

• income tax for self-employed, craftsmen and other persons, was set as tranches progressive rates.

• the tax on joint ventures with Romanian and foreign participation,

• the tax on income realized by non-residents in Romania, introduced by Decree no. 276/1973 and used till 1997, was set at rates between 10% and 25% applicable to interest income, patents, copyrights, artistic and sporting activities, etc.

• excise duties, regulated by Decree no. 395/1976 regarding the customs tariff of Romania,

• other local taxes paid by individuals and economic entities, namely: building tax, tax on land located in the cities, taxes on vehicles, stamp duty and inheritance tax, tax on population agricultural land, etc.

Should mention that firms, apart from implementing their plan, were interested in payment obligations to the state and not in efficiency or improving profitability. Tax evasion, at least at the level of state-owned economic agents, did not exist.

3.Romanian tax system in 1989 - 2005

The transition from the communist system to the market economy implied, among other things, the implementation of a broad reform in the field of public finances, in which the reform of the fiscal system occupied a special place. As started the negotiations for Romania's accession to the European Union, the Romanian tax system has undergone extensive changes aimed at achieving the harmonization of tax legislation with the Communitaire one in the field.

The redefinition of property rights, the emergence of private and mixed economic agents, the conversion of private property into private ownership required, after 1989, the replacement of the residual system of payments from benefits with a profit tax system set in percentage quotes depending on benefits realized, independent of the financing needs of enterprises, capable of operating under decentralization of decisions and ensuring the stability of budget revenues.

In 1990, the tax on the benefits of the State Economic Units was introduced, tax that was due by the economic units in all branches and was set in progressive rates, differentiated according to the profitability of the paying unit.

On January 1, 1991, a new regulation came into force establishing the *corporate tax*. It was set in progressive rates on profit tranches. Although the aim was to ensure fiscal equity, the large number of tax quotas (67) could not provide an adequate prediction of the monetary amount of tax payments and the incidence of these flows on the management of economic agents. Moreover, the high level of the marginal tax rate (77%) places the taxation of Romanian economic agents above the level encountered in many developed countries, with consequences on the degree of tax compliance and the attraction of potential investors. In the next period, the share of corporate tax in GDP decreased significantly, from 7,1% in 1990 to 5,3% in 1992.

Starting with January 1992, the number of profit tranches and tax quotas was reduced from 67 to 2, namely the tranche of up to 1 million lei was subject to a 30% share and the profit above that level was imposed by 45%. This measure was not correlated, however, with the real financial potential of economic agents, causing an increase in the fiscal effort of those who made small and medium profits and a relief for those with high and very high profits.

In January **1995**, a new tax regulation (OG 70/1994) entered into force, which provided the unification of the corporate tax rates, establishing a *single proportional share of 38%*, and the grouping of the taxpayers, from a tax point of view, into large and small taxpayers (the latter regulation is given up two years later).

The provisions of Government Ordinance no. 70/1994, as subsequently amended and supplemented, were re-examined in December 1999, and applicable starting with the fiscal year 2000. The main amendments concerned:

- reducing the overall tax rate from 38% to 25%;
- taxation with a 5% share of the profit related to foreign currency earnings, received through a bank account in Romania, from the export of goods made from own activity and from the provision of international services;
- deduction from the taxable profit of a 10% share from the purchase price of technological equipment and means of transport;
- the recognition as non-taxable of the dividends received by a Romanian legal entity from another legal entity, Romanian or foreign;
- the abolishment of any legal provisions granting tax exemptions or reductions or those stipulating the application of rates, other than those provided by the respective normative act.

On 1 August **2001**, a new tax system for micro-enterprises was introduced, namely the 1,5% tax on their income, from any source. Starting with July 1, 2002, the legislative support regarding the corporate tax was simplified and unified in a single normative act, abrogating O.G. no. 70/1994, with all its subsequent amendments and completions, as well as a series of other normative acts regarding the profit tax. This provided a gradual increase of the corporate tax rate applicable to profits from export earnings, to 12,5% starting with 2003, and 25% from January, 2004.

An important measure aimed at relieving taxation in Romania was the reduction, from 1 January **2005**, *of the profit tax rate from 25% to 16%*. By reducing the tax rate, it was envisaged to increase the taxable base, by expanding existing businesses, increasing foreign direct investment, and reducing the share of the underground economy in GDP (Gross Domestic Product).

In terms of income tax, there have been significant changes, namely:

- on 1 April 1991, the old tax on the total remuneration fund of the state units was replaced with the tax on salaries, set in progressive rates on income tranches, ranging between 6% and 45%. At the same time, the contribution of people without children has also been abolished.

- the number of taxable income tranches, their value limits and tax rates have been changed periodically. In the second semester of 1999, before the introduction of the tax on total income, four tranches were established, the minimum tax rate being set at 21% and the maximum rate at 45%.

Regarding the income obtained by individuals from sources, other than wages, they were imposed, till 1997, in progressive tranches, differentiated according to the nature of income, according to some regulations prior to 1989.

Starting with January 1, 2000, it has passed from the separate taxation of individuals to the global income, in gradual tranches, taxation that was applied in market-economy countries and especially in EU countries.

The Fiscal Code, in force since **2004**, brings minor improvements to the income tax system for individuals, keeping the system of personal deductions from the global annual income introduced since 1 January 2000, to which are added some additional deductions (for home dwelling rehabilitation, for private health insurance).

From January 1, **2005**, the gradual taxation of individuals' income is replaced with a single *proportional rate (16%),* with some exceptions (income from investments, gambling and transfer of real estate).

The table below presents the evolution of the gross domestic product and tax revenues of Romania, as well as the level of taxation in the period 1990-2005.

Table 2 Evolution of taxation degree in Romania, 1990-2005

Year	GDP (mil lei)	Tax revenues (mil lei)	General tax degree (%)	Partial taxation degree (%)
1990	85,7	30,5	35,5	27,6
1991	220,4	73,2	33,2	28,2
1992	602,3	201,9	33,5	22,1
1993	2.003,6	626,9	31,3	20,6
1994	4.977,3	1.404,1	28,2	19,0
1995	7.213,6	2.080,3	28,8	20,7
1996	10.891,9	2.925,6	26,9	19,4
1997	25.292,6	6.700,0	26,5	19,6
1998	37.379,8	10.541,1	28,2	20,0

1999	54.573,0	16.402,6	30,1	19,5
2000	80.377,3	23.504,8	29,3	18,6
2001	116.768,7	32.669,9	28,0	17,5
2002	151.475,1	41.816,6	27,6	17
2003	190.335,4	53.248,2	28,0	18,2
2004	238.791,4	66.678,3	27,9	18,5
2005	287.186,3	78.281,4	27,3	18

Source: Vacarel, I., 2001, Tax and Budgetary Policies: 1990-2000", Ministry of Public Finance

We observe that the general tax level recorded (with the exception of the years 1998 and 1999) a continuous decreasing trend, from 35,5% in 1990 to 27,3% in 2005. The degree of partial taxation (determined on the basis of income from taxes and dues) had a more sinuous evolution. Starting from a level of about 28% in 1990, it dropped to 19% in 1994, oscillated around 20% between 1995 and 1999, after which it stabilized at about 18% at the end of the interval analyzed.

The reduction of taxation degree in the period 1990-1997 can be seen as related to the decline in the real economy, with the ongoing diminution of GDP and, consequently, the reduction in the tax base. Also, the evolution of the taxation degree is also determined by the evolution of the collection of compulsory levies, in close connection with the voluntary compliance of taxpayers with their payments.

The low level of taxation in Romania, given that the tax rates for the main taxes, are similar to those applied by other Eastern European countries, indicates a poor collection of tax revenues due mainly to the phenomenon of tax evasion

The analysis, in structure, of mandatory levies, shows a drop, in time, in the share of direct taxes in total tax revenues, and an increase in indirect taxes, preferred due to their higher efficiency, including the periods less profitable (from an economic point of view), but profound unfair for the individual taxpayers.

The conclusion is that in Romania, between 1990 and 2005, the fiscal burden was mainly pressed on the shoulders of individuals, both through the high level of labor taxation and by indirect taxation, which led to a significant decrease in the degree of tax compliance of this category by taxpayers.

4.Tax system in 2007-2014

In Romania, a progressive system with differentiated tax rates for individuals' earnings, from 18% to 40%, was applied until 2004, and from 2005 a 16% flat rate has been applied. The same situation has applied for corporate tax, when, from a 25% tax rate till 2004, a 16% flat tax was adopted in 2005.

Since the accession of Romania to the European Union in 2007, the tax rate has registered a downward trend due to the harmonization of tax regulations with the European ones, but this trend was changed in 2011, when the fiscal pressure increased compared to 2010.

In 2009 the economic crisis emerges, when the measure on introducing the *minimum tax is adopted* (which will be abolished one year later), and in 2010 is implemented *the increase in VAT rate, from 19% to 24%.*

Regarding the *standard VAT rate*, after 1993 it has evolved as follows:

July 1993- January 1998-18%

February 1998- December 1999- 22%

January 2000- June 2010- 19%

July 2010- December 2015- 24%

January 2016- December 2016- 20%

January 2017- present - 19%

As far as *social contributions* are concerned, their shares have undergone transformations over time. In this respect, the social insurance contribution itself has been changed for four times, from 19,5% in 2008 to 20,8% in 2009. Also, in 2009 were introduced some legislative provisions that had aimed at broadening the tax base, to the Tax Code being added the social security contributions, but only for dependent activities. This provision was followed by the introduction of compulsory contributions due by persons who earned income from self-employment.

In 2013, the basis for calculating social contributions also included the contribution to health insurance of 5,5% for persons earning income from rents, regardless of the number of contracts or the existence of an employment contract, the basis could not be lower than the gross minimum wage, but no more than five gross average salaries (Government Emergency Ordinance No. 88/2013).

In 2014, through a legislative amendment (Law 123/2014 amending Law No 571/2003 on the Fiscal Code), the SSC (social security contribution) was reduced by 5% for employers, and in 2015 the social security rate decreased, reaching 23,45%.

5.Taxation in the period 2015-2018

In the year 2015, Law no. 227/2015 regarding the Fiscal Code, published in the Official Gazette no. 688/2015 was adopted, through which one of the priority objectives included in the Fiscal-Budgetary Strategy for the period 2013-2015 was achieved, namely the rewriting of the Fiscal Code.

Important tax measures:

► tax on dividends paid to Romanian legal entities - Reduction of the dividend tax rate from 16% to 5% for dividends paid to Romanian legal persons.

► for micro-enterprises:

● increasing the threshold for the taxation system from 65,000 euro to 100,000 euro

● introducing a differentiated system of tax rates, between 1% -3%, respectively:

▫ 1% for micro-enterprises with more than 2 employees, including;

▫ 2% for micro-enterprises with an employee;

▫ 3% for micro-enterprises without employees.

► with regard to the Social Security Contribution (SSC), the obligation to pay the individual SSC quota of 10,5% for all persons with income from independent activities, with the possibility of opting for a full 26,3% contribution in order to the full rating of the pension score.

► construction tax is implemented in 2015, but will be eliminated a year later

► in January 2016, the standard VAT rate is reduced, from 24% to 20%.

Year 2017 is the year of tax changes, respectively, there are some clarifications of some more unclear aspects of the Tax Code, news about salary or new projects - household tax or VAT split. We therefore have:

► reduction of the standard VAT rate, from 20% (as it was in 2016) to 19% (entered into force in January 2017)

► the limitation until 31 December 2016 on the application of the tax exemption on reinvested profit is lifted, and this facility will be applied unlimited.

► enters into force Law no. 1/2017 regarding the elimination of certain taxes and tariffs, as well as for amending and completing certain normative acts - this law eliminates 102 taxes and tariffs - as well as OUG 3/2017, which brings changes regarding the definition of microenterprises (maximum turnover becomes 500,000 euro instead of 100,000 euro) and the tax rate remains 1% regardless of the number of employees (still, there must be at least one);

► is eliminated the maximum monthly calculation threshold of the health insurance contribution and the SSC representing the equivalent of 5 gross average earnings, provided for salary and wage income, investment and other sources.

► Government Ordinance no. 23/2017 on the split VAT payment - VAT split - which stipulates that the VAT- paying entities may opt for the VAT split system starting with 1 October 2017, after which, starting with January 1, 2018, it becomes obligatory for all VAT payers.

Year 2018 begins with the dramatic changes in tax and social contribution legislation. Therefore, we have:

► Split VAT (OUG 23/2018) - The application of the system will be mandatory for VAT payers with outstanding VAT and / or in bankruptcy, respectively optional for the remaining categories of eligible taxpayers;

► Government Emergency Ordinance 79/2018, which amends the following:

● Tax on income of micro-enterprises. The rules on the tax regime applicable to micro-enterprises are significantly modified by increasing the income ceiling to 1.000.000 euro and repealing all the exceptions. Tax rates will be 3% for micro-enterprises without employees and 1% for micro-enterprises with at least one employee (full-time).

● Changes in personal income tax and social contributions, respectively:

- Transfer of contributions to the employee
- Reduced tax rate from 16% to 10% for most types of income
- Increases the level of personal deductions applicable to salary income;

► Employee’s social contributions increase to 35%, and those due by employers for normal work conditions drop to 2,25%. In addition, in the case of special and other working conditions, employers due a social insurance contribution of 4% and 8%, respectively.

Starting with January 1, 2018, there will be only three social contributions:

• the Pension Contribution (CAS) - applying the 25% share to the calculation base
• contribution to Health Insurance (CASS) - 10%
• the Work Insurance Contribution (CAM) - represents 2,25% and replaces the unemployment contribution (0.5% due by the employee and 0,5% due by the employer), the contribution for medical leaves (0,85% due by the employer), the contribution to the Guarantee Fund for employment debts (0,25%) and contribution to accidents and professional diseases (different percentages). CAM share will be of 2,25%.

6. Conclusions

Although the tax system mainly aims to provide resources for the state, now it can not be viewed simply as a mechanism for covering public expenses. Thus, through the leverage they provide, the state may exercise intervention in the economy to eliminate or reduce the negative impact of the action of disturbing factors. The lack of a coherent tax system before 1989 and the implementation of a gradual policy of building it has had an impact on the effectiveness of fiscal measures and especially on the economic system as a whole. The volume, the structure of the tax revenue as well as the pressures exerted were decisively influenced by fiscal policy measures promoted by the tax authorities of our country, among other factors, including the management of the state's tax claims and the degree of voluntary tax compliance.

In time, Romanian taxation has undergone consistent changes, and in the last 15 years, the most relevant, with both positive and negative impact, were:

Positive measures: flat tax of 16% (Government Emergency Ordinance 34/2004), Holdings (GEO 102/2013); the introduction of compulsory social contributions in the Tax Code (Government Emergency Ordinance 117/2013, OUG 125/2011); inactive taxpayers regulation (GEO 46/2009); reverse charge on cereals (GEO 49/2011).

Negative measures: increase in VAT (EGO 58 / 28.06.2010); construction tax (Government Emergency Ordinance 102/2013); introducing late payment penalties (GEO 39/2010); modifying the rate at which excise duty is calculated (GEO 102/2013); minimum tax (OUG 34/2009).

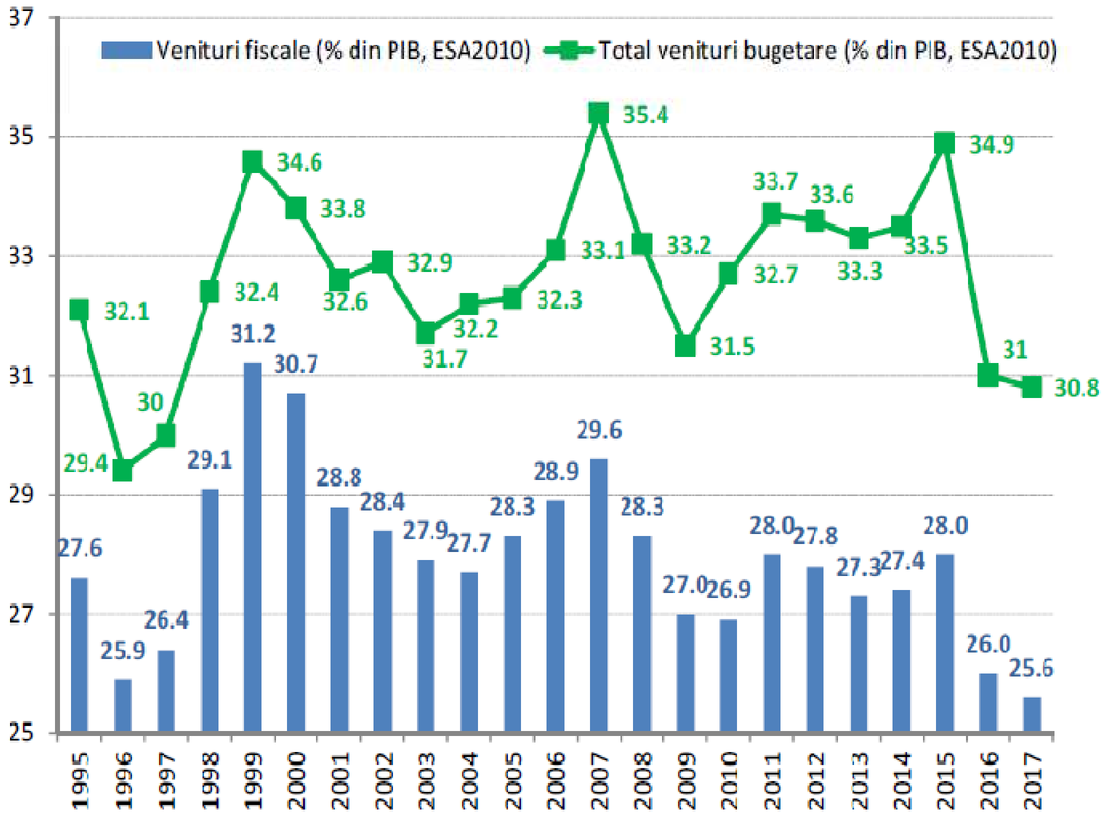

Fig 1. Evolution of tax and budgetary revenues in the period 1995-2017

Source: Dumitru, I., 2017, Aspects regarding the fiscal-budgetary policy- economic growth relationship

In the above figure we have the share of fiscal revenues in GDP, between 1995 and 2017. We notice that they have a downward trend, the highest level being in 1999 (31,2%), and the minimum is reached in 2017 (25,6%). Therefore, the fiscal measures adopted in recent years did not have the expected results, the levels being even lower than those of the critical years due to the economic crisis

All these tax regulations may foster the underground economy, precisellly: repeated changing of tax legislation; issuance of arbitrary regulations; with the possibility of random interpretation; implementation of tax discrimination; lack of credibility of the actions of the authorities; the existence of thick legislation.

In conclusion, we say that action is needed in the following areas:

• Improving tax administration and ensuring stability of tax legislation;

• Applying professional tax rules in order to stimulate economic development;
• Improvement of the collection of taxes and fees;
• The adoption of fiscal measures to stimulate employment;
• Encourage investments that generate added value.

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