

IMPACT OF FISCAL PRESSURE ON POPULATION'S BEHAVIOUR

**Nicoleta Mihăilă, Scientific Researcher, Centre for Financial and Monetary Research
„Victor Slăvescu”, Bucharest**

Abstract: Defining the behaviour seems to be a relatively easy approach, in reality, however, defining this concept involves the consideration of a variety of items. Coercive taxation and opposition of taxpayers to paying taxes generate their fiscal behaviour as a form of expression designed to hinder the fulfillment or application of tax laws or impose "conditions" in achieving its objective. The main form of taxpayers resistance to increased taxes is represented by tax evasion, whose magnitude is directly proportional to the size of the tax burden. It is well known that adjusting the fiscal pressure may cause changes in behaviour of individuals to work, savings, investment and compliance with taxes. Contrary to the widespread ideas in economic literature, the efficiency of the tax system should not be understood as the amount of funds collected to the public budget, but the measure it influences the behaviour of individuals in the direction of supporting the development of society. Therefore a tax system will be more effective if it is able to determine the highest possible level of the social created product, level that might be achieved only under conditions of optimal stimulation of individuals / groups' behaviour.

Keywords: population, taxes, fiscal behaviour, fiscal pressure, underground economy.

Introduction

The development of any economic or human activity is based on obtaining an income, that allows people to pay the necessities of life. Any person wishes to satisfy as well as possible his system needs, starting from physiological ones to the social, superior ones.

Taxpayers' behaviour that depends on both the human being and the economic environment, has always a purpose. It corresponds to finding an "optimal" situation that would meet the person's needs; the behaviour designates what is objectively, observable in the global reaction of the individual, regardless of what he declares, of his thoughts and attitudes.

Regarding the taxes, they have a negative impact on taxpayers' behaviour, often causing the tax noncompliance. Excessive taxation causes economic downturn, attracting the reduction of tax base and therefore of government revenues. At the same time they stimulate the undeclared work and the development of underground economy.

The main form of taxpayer resistance to increased taxes is the tax evasion, whose magnitude is directly proportional to the size of the tax burden. The higher the fiscal obligations, the escapist phenomenon increases more. Trying to escape the constraints of a high tax burden, some taxpayers will practice the underground economy, or will enter the fiscal strike or will decrease their volume of activity.

1. Factors that influence taxpayers' behaviour

The key factor that by size, shape, dynamics, distribution in time, destination represents the material premise of the consumer's behaviour is the consumer's income. Also in the same category we might include economic factors such as personal wealth expressed mainly by the degree of endowment of various goods, as usability of consumer credit by the individual. It is noted that not all goods and services have the same sensitivity to income levels.

The problem that arises in connection with the way the fiscal policy is perceived at the individual level is that of the tax burden. It should be taken into account that taxation can not exceed a certain critical threshold, otherwise, on short term, it would produce, in a certain extent, giving up of miscellaneous income, investments and consumption of goods and

services, but also encouraging the underground economy; on medium or long term, such a measure would inevitably reflect on the social and economic development of the country and on the general welfare of society, with an obvious negative effect on the tax revenues and tax efficiency.

Individual tax burden measures the best the tolerance threshold to taxes because it incorporates subjective elements related to social life. This indicator usually highlights the “monetary effort” that the taxpayer is obliged to pay of his wage income to the state within one year. It expresses the corresponding share of all deductions (individual and social contributions and taxes) applied to the gross earnings composed of earnings and amounts transferred under the form of allowances granted to the family.

Supporting the taxes has declined in recent years for variety of reasons, such as the worsening economic situation that led to a decrease of altruism and the desire to relinquish a part of their income, new types of taxes and their increased visibility.

In order to analyze the effect of taxation on the household behaviour is necessary to know the factors that lead to his acceptance or rejection. There are two types of theories involved in explaining the support for taxes, the self-interest and the influence of ideology.

Regarding the theory of self-interest, resistance to taxes is a rational process by which individuals report the magnitude of taxes and government spending according to the benefits they receive and conclude that the state collects more revenues than it would be in their own interest. Basically, the favorable or unfavorable attitude to taxes is mediated by self-interest, charges being supported if they satisfy this aim.

Self-interest is an indicator of an explanation of "rational" type, by indices and indicators of social class: level of income per household member and the educational stock of the person, satisfaction with his situation and his family, by assertion that tax system in Romania favors those who belong to the category in which the subject is self-included (poor, with average incomes, rich), by age and gender of the person.

The influence of ideological and value orientation on attitudes towards taxes was operationalized by the support for maximal state, support for increased public spending, collectivist orientation in the provision of welfare. The relationship between education and attitudes towards taxes is directly proportional. In this situation the person's education level does not only reflect the influence of social status, there are other explanatory factors that are involved, an example being the person's degree of information.

All the psychological effects caused by taxes change the economic behaviour of taxpayers in a negative way. If taxation would be "neutral" then it is considered that it would be without any deforming effects for economic life. These consequences have long been observed and contemporary financial doctrines, for their characterization, introduced the term "economic distortion effects of fiscal origin"(Corduneanu Carmen).

2. The impact of taxation on taxpayer's behaviour. The underground economy

As regards the impact of the informal economy at household level, one of the most important determinants of participation in the informal economy is the income from formal economy. The share of informal income in total revenues decreases as income in the formal economy increases, but in absolute terms informal revenues also increase with the increasing of formal income. The poorest persons rely more on informal income.

In the specialized literature there are many methods for estimating the informal economy, one frequently used relying on the inverse correlation between income earned by the household or person from the activities performed in the formal sector and his readiness to participate in informal activities. Thus, one of the determinants of participation in informal activities is the average income per person in the household obtained from the activities performed and formally recorded.

On the basis of empirical analyses it could have been characterized certain regimes for households' behaviour in terms of potential for involvement in informal activities. Thus, for very poor households (obtaining very low revenues from formal activity) there is a wide availability for informal activities. At the other extreme, for rich households (obtaining very high revenues from formal activities) there is less availability for informal income-producing activities; it still remains the temptation for rich households to earn informal income in order to supplement their formal income or probably to avoid paying taxes.

Despite the general trend of decline in the share of informal income expected (desired) in the total household income, as the household income obtained from formal activities increases, in absolute terms, the informal expected income tends to increase.

In the transition period, it can be said that in general the informal economy represented a valve for use of household labour, a significant additional source of revenue, although the reasons vary from one group to another. Thus, while the very poor households are "forced" for reasons related to subsistence, to be involved heavily in informal activities, the very rich are merely "invited", for reasons related to the inefficiency of the legal, controlling and punishment systems.

We present below the evolution of income per family during the period IV 2008 - IV 2013. To notice, however, if reporting in euro at the end of the analyzed periods (the last quarter of each year), it can be seen an increase in revenues from 200 euros per person to about 205 euros per person per month.

Table1 Evolution of income per family during the period IV 2008 - IV 2013

Trimester	IV 2008	IV 2009	IV 2010	IV 2011	IV 2012	IV 2013
Family income(lei)	2319	2390	2308	2542	2566	2624
Persons/family	2,91	2,90	2,89	2,88	2,87	2,85
income/persons(lei)	796	823	797	884	894	920
income/persons (euro)	199,7	194,6	186	204,6	201,9	205,1

Source: NIS, Family budgets survey

We observe that income per family member was slightly increased due to the favorable impact of a parameter worryingly otherwise from social point of view. It is about systematic and relatively rapid decrease in the average number of persons in a family. From 2.91 persons in 2008 we have now reached only 2.85 people, evolution in which the declining of birth rate has played an important role.

In terms of taxes, contributions and fees, they increased by 22.6% in nominal terms, that is 16.4% more than those recorded on the money incomes. The reporting at the course at the end of the period shows that at the end of last year we crossed the fiscal threshold of 1 euro per day for each person in the family to the national average. Anyway, the first half was "swallowed" by the VAT increase by five percents, even recently mitigated by the application of reduced rate for bread.

Table2 Evolution of expenses and taxes per family during the period IV 2008 - IV 2013

Trimester	IV 2008	IV 2009	IV 2010	IV 2011	IV 2012	IV 2013
Family expenses(lei)	2081	2143	2114	2311	2364	2394
Persons/family	2,91	2,90	2,89	2,88	2,87	2,85
expenses/persons(lei)	715	738	730	804	823	839
Monetary income(euro)	165,1	158,9	153,6	163	164,6	170,8
taxes, contributions and fees (euro)	28,0	26,4	25,6	29,4	29,4	30,5

taxes, contributions and fees (%)	17,0	16,6	16,6	18,0	17,8	17,9
--	------	------	------	------	------	------

Source: NIS , Family budgets survey

3. Aspects regarding the tax evasion from the undeclared work

Non-payment of social security contributions represents nearly a quarter of total tax evasion. Mainly, it's about illegal paying for the work done, meaning not paying the amounts due to the state for pensions, health and unemployment. Last year, Romania had 1.45 million people working in this form, which meant 23% of all employees.

Technically, the number of those working without paying taxes is given by the difference between the number of employees resulted on the basis of labour force survey in the the household and that contained in the Survey on labor cost in economic and social units, where there are included only jobs for which are accounted taxes due to the state.

Table3 Evolution of the number of employees that practice illegal work

Year	2005	2006	2007	2008	2009	2010	2011	2012
Number of illegal employees(thousands persons)	946	1093	1008	996	1177	1395	1449	1445
% of total employees	16,0	17,7	16,3	15,8	18,9	23,0	23,5	23,2

Source: Fiscal Council, Annual Report, 2012

Full manifestation of the economic crisis has led the number of those working illegally to the rate of 1.5 million. Basically, since 2008 (the onset of the economic crisis in Romania), number of those that work illegal has been in constantly growing, due to worsening economic situation and austerity measures taken by the authorities, which severely affected the population.

Another important category of the shadow economy is the work performed of unregistered units in the informal sector. This includes: tailors, car mechanics, hairdressers, painters, plumbers, teachers who teach private lessons, people who rent the house during holidays etc.. For such activities are carried out separate assessments, using specific assumptions.

Overall, last year there was a tax evasion amounting to about 19 billion in social security contributions, to which are added other 6 billion unpaid in income tax account. That in the context where total tax evasion was estimated somewhere around 81 billion or 14% of GDP.

Table4 Evolution of tax evasion from undeclared work and shadow economy in the period 2005-2012(bil lei)

Year	2005	2006	2007	2008	2009	2010	2011	2012
Tax evasion from undeclared work	4,55	5,89	7,67	8,97	14,65	16,67	17,53	18,30
Tax evasion from shadow economy	1,86	2,17	2,74	3,39	3,77	4,82	5,45	6,63

Source: Fiscal Council, Annual Report, 2012

Again, we observe the speed of tax evasion from illegal work during the period of economic and financial crisis.

According to the report prepared by the Directorate for Employment, Social Affairs and Inclusion within the European Commission, nearly 20% of employees in Romania do not earn a salary enough to make a living, the highest percentage in the European Union, mainly due to the structural deficiencies that persist before the crisis. Romania (19%), Greece (15%), Italy and Spain (12%) have the highest percentages of adults who have a job, but live in poverty, compared to 9% in the European Union.

While in Italy and Spain the situation has worsened particularly after the global financial crisis in 2008 and sovereign debt crisis, in Romania and Greece the phenomenon is structural, the number of employees who earn insufficient being relatively high and before economic turbulence that swept Europe.

Thus, in Romania, the share of persons with insufficient income of total number of employees increased by two percentage points in the period 2008-2012, while Italy registered a growth by three percentage points.

Among the factors that generate this situation we might include low supply of jobs, which determines many individuals to accept part-time contracts, low wages or the family structure. The share of part-time employees (part-time) is higher among those with insufficient income than the rest of the employees base. People who earn less also work, on average, fewer hours.

Productivity and labour costs for the employer also influence employment and wage levels. However, fiscal consolidation - austerity measures - has adversely affected employment, especially in less developed economies in southern Europe. Insufficient wage employees represent more than half of Romania's poor population. Romania has also, at EU level, the lowest number of people living in households below the poverty, where no member has a job.

Labour income covers about 80% of the needs of employees with insufficient salary, the difference being completed from social security and pensions transfers and parents' pensions. Low wages and high tax burden encourage illegal work, which represents the biggest part in the informal economy. Romania has the largest underground economy in the EU, compared to size of the economy, representing 28.4% of GDP, according to the European Commission data.

Conclusions

Countries with the highest percentage of illegal employees (11%) are Latvia, the Netherlands and Estonia, the initiators of the survey stating that there are important national differences about the attitudes and perceptions regarding the significance of undeclared work, the nature and volume of services involved.

The EU Commissioner for Employment, Social Affairs and Inclusion, László Andor emphasized that the effects of undeclared work involve not just that workers are exposed to hazardous working conditions and earning less, but the fact that it deprives governments revenues and undermines the social protection systems. It is necessary that Member States to implement policies in order to discourage illegal work or to encourage its transformation into a legal one and to cooperate more closely to combat this scourge.

In developing policies and appropriate measures to transfer informal employment into formal sector, it is necessary to take into account the specificities of each vulnerable, high-risk level of absorption in the informal sector, the specificities of certain sectors and geographical areas.

To ensure a real chance of success for these policies, they should aim primarily the stimulator and motivational factors of categories that are found also in informal employment and not only sanctions and punishments. An important part is played by sustained and intelligent campaigns that are geared to raising public awareness regarding the risks they expose themselves through the involvement in informal work and upon the mentality of employees, employers, the common persons in order to do not perceive the absence of labour contract or "envelope" payment as "normal". Another key role consists of promoting the social dialogue, through active involvement of all partners engaged in the labour market, employers and trade unions.

References

1. Albu, L., Voinea, L., 2011, “The informal economy and its impact on labour market”, Bucharest, 2011;
2. Fiscal Concil, Annual Report, Bucharest, 2011
3. National Institute of Statistics, Press Releases, 2008- 2012;
4. National Institute of Statistics - Romanian Statistical Yearbook, 2008;
5. Voicu, M., 2000, “Attitudes towards taxes in Romania during the transition period”, article produced within the theme PERCEPTIONS OF SOCIAL PROBLEMS AND INTERVENTION PROGRAMS IN ROMANIA, Romanian Academy, Research Institute for Quality of Life;
6. Voinea, L., Mihăescu, F.,2009, “The impact of the flat tax reform on inequality- the case of Romania”, Romanian Journal of Economic Forecasting, no.12;
7. Voinea, L, 2010, “Fiscal treatment of labour income”.