

## COMPARATIVE TAXATION BETWEEN POLAND AND ROMANIA

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*Abstract: The fundamental features of the tax system in both countries, through the main taxes: direct and indirect taxes shows the first difference which reflects a classic system in Romania and a progressive one in Poland. From this point, is interesting to note and analyze the level of taxes and it's evolution in both countries, which reflects some interesting results in terms of tax revenues. The last part of the paper presents an analysis of the tax pressure, a comparison between them and also the internal and external factors that influence this evolution. Also, the political choice and legislation measures are analyzed in order to see the influence on the tax pressure.*

*Keywords: tax burden, duties, social contributions, fiscality, direct taxes, indirect taxes*

**JEL Classification:** H24, H25, H27

### **1. Main features of the tax system in Poland and Romania and the analyze of the taxation level evolution in these countries**

Kath Nightingale (2002) says that: “a system of taxation is a socioeconomic model, representing society’s social, political and economic needs at any one time; changes in this needs often being reflected by changes to the system of taxation”.<sup>1</sup> This explains why two countries doesn’t have the same tax system and as it can be seen in table no. 1, Romania follows a classic system, while Poland follows a classic and progressive taxation.

Poland corporate tax rate is levied on a 19% rate for all corporate income, excepting the so-called “small taxpayers” (the one with sales revenues for the previews year that didn’t exceed the equivalent in PLN of EUR 1.2 million) and for taxpayers in their first tax year for which is applied a 15% rate. Romania faces a tax rate levied on 16%, excepting the micro enterprises with a different tax regime based on 1% for micro-enterprises with one or more employees and 3% for micro-enterprises with no employees. Also, Romania, faces different tax rate for gambling operations and nightclubs with either 5% of the revenue obtained from such activities or 16% of the taxable profit, whichever is higher.

Poland personal income is based on a progressive taxation, with two brackets: up to 85.528 PLN and over 85.528 PLN, while in Romania we have a flat rate on 16% for all the activities, with some exceptions like tax rate from dividends or tax rate for income from gambling activities.

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<sup>1</sup> Kath Nightingale, “Taxation. Theory and practice”, 2002-2003 edition, Prentice Hall

**Table no. 1 Main features of the tax system in Romania and Poland**

	<b>Poland</b>		<b>Romania</b>	
<b>Fiscal system</b>	Classic and progressive taxation		Classic	
<b>Corporate tax rate</b>	19%		16%	
<b>Personal income rate</b>	Taxable earned income, PLN	Rate within brackets, %	16%	
	up	85.528		18% minus the amount decreasing the tax
	85.528	over		15 395,04 PLN + 32% of surplus over 85.528 PLN minus the amount decreasing the tax
<b>Employer contribution</b>	19,21%-22,41%		21.5% - 31,5%	
<b>Employee contribution</b>	22,71%		16.5%	
<b>VAT</b>	General tax rate: 23% Reduced tax rate: 8% and 5%		General tax rate: 19% Reduced tax rate: 9% and 5%	

Source: [www.mf.gov.pl](http://www.mf.gov.pl), [www.mfinante.ro](http://www.mfinante.ro)

Note: \*- 22,75% it's calculated for the minimum risk of 0.15% on "Work accidents, risk insurance, and professional disease fund". The contribution for this fund it's between 0.15% and 0.85% depending on the category risk. With the maximum category risk the social contribution rate paid by the employer it's released at 23.45%

Both the employer and employee are obligated to contribute to both Polish and Romanian social security system, monthly. The Polish employers contributions are 16,26% for pensions and disability insurance, 0,40% to 3,60% for accident insurance, 2,45% for Labour Fund and 0,10% for Employee Guaranteed Benefits Fund, while employee contributions are 11,26% for pensions and disability insurance, 2,45% for sickness insurance and 9% for health insurance.

In Romania, the employers pay contributions: 15,8%, 20,8% or 25,8% depending on working conditions for Social Security fund, 5,2% for Health fund, 0,85% for Medical leave, 0,25% of the salary fund for Guarantee fund, 0,5% for Unemployment fund, 0.15% to 0.85% - depending on the risk for Work accidents, risk insurance and occupational disease fund. The employee pays contributions for pension (10,5%), health (5.5%) and for unemployment (0.5%). All social contributions are deductible for income tax purposes.

The VAT, in both countries presents a general tax rate: 23% in Poland and 19% in Romania and a reduced one: 8% and 5% in Poland and 9% and 5% in Romania.

Due to the measures taken by the authorities, the level of taxes, in both countries suffered modifications. Regarding the structures of revenues, indirect taxes in case of Poland shows a higher rate than in case of Romania. Also, there is a decrease from 14.5% to 13.0% in the analyzed period, while in Romania there is a constant trend. VAT, in Poland, has decreased from 8.2% to 7.0%, while in Romania has a constant trend, excepting 2009 when we have a drop of 1.5 p.p.

Direct taxes present in Poland a share higher than in Romania with about 2 p.p. The trend in Poland it's a decreasing one, from 8.3% to 6.9%, while in Romania we have a

constant trend around 6.7%. Another difference is that, in case of Poland, the share of personal income is double than the share of corporate income, while in Romania the share is almost equal.

Another difference is when we speak about the social contributions. In case of Poland the share is higher and the trend is increasing from 11.9% to 12.6%. Also, the share of employee is double than the share of employers. Romania faces a decreasing trend from 9.8% to 8.1%, with a double share of employers contributions.

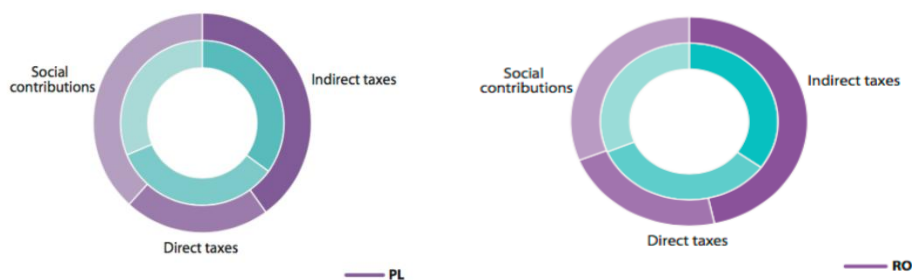
**Table no. 2 Structure of revenues in Poland**

	Poland								
	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>A. Structure of revenues</b>	% of GDP								
<b>Indirect taxes</b>	14.5	14.5	12.9	13.9	14.0	13.1	13.0	13.0	13.0
<b>VAT</b>	8.2	7.9	7.3	7.6	7.8	7.1	7.0	7.1	7.0
<b>Taxes and duties on imports excluding VAT</b>	0.5	0.4	0.3	0.3	0.3	0.4	0.5	0.5	0.6
<b>Taxes on products, except VAT and import duties</b>	4.4	4.7	3.9	4.5	4.3	4.1	4.0	3.8	3.8
<b>Other taxes on production</b>	1.4	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.6
<b>Direct taxes</b>	8.3	8.4	7.2	6.7	6.7	7.0	6.7	6.8	6.9
<b>Personal income</b>	5.2	5.3	4.5	4.3	4.3	4.5	4.5	4.6	4.7
<b>Corporate income</b>	2.7	2.7	2.2	1.9	2.0	2.1	1.8	1.7	1.8
<b>Social contributions</b>	11.9	11.3	11.2	10.9	11.2	12.1	12.4	12.3	12.6
<b>Employers</b>	4.8	4.6	4.6	5.0	4.9	5.3	5.2	5.3	5.2
<b>Employees</b>	7.1	6.7	6.5	5.9	6.3	6.8	7.1	7.0	7.4
<b>Total</b>	34.6	34.1	31.2	31.4	31.8	32.1	31.9	32.0	32.5
<b>B. Structure by level of government</b>	% of total taxation								
<b>Central government</b>	52.4	53.2	51.1	52.7	52.4	49.8	48.7	48.5	48.1
<b>Local government</b>	13.3	13.5	13.1	12.6	12.3	12.6	12.6	12.9	12.9
<b>Social security funds</b>	34.1	32.9	35.5	34.4	34.9	37.3	38.3	38.3	38.5
<b>EU Institutions</b>	0.3	0.4	0.3	0.4	0.4	0.4	0.4	0.4	0.5

*Source: Taxation Trends in the European Union, 2017 edition; ec.europa.eu*

So, when we speak about the tax revenues by main taxes compared to EU-28, as Figure no. 1 shows, the share of social contributions and direct taxes is higher in Poland than in Romania, while the share of indirect taxes is a little bit higher in Romania than in Poland.

**Figure no. 1 - Tax revenues by main taxes compared to EU-28 (in % of GDP) in Poland and Romania**



Source: *Taxation Trends in the European Union, 2017 edition; ec.europa.eu*

**Table no. 3 Structure of revenues in Romania**

	Romania								
	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>A. Structure of revenues</b>	% of GDP								
<b>Indirect taxes</b>	12.5	11.8	10.8	11.9	10.0	13.2	12.8	12.8	13.4
<b>VAT</b>	8.0	7.8	6.5	7.5	8.6	8.2	8.1	7.6	8.1
<b>Taxes and duties on imports excluding VAT</b>	0.3	0.2	0.2	0.4	0.5	0.5	0.4	0.4	0.4
<b>Taxes on products, except VAT and import duties</b>	3.7	3.2	3.5	3.4	3.4	3.8	3.6	3.9	4.0
<b>Other taxes on production</b>	0.6	0.5	0.6	0.6	0.6	0.7	0.7	0.9	0.9
<b>Direct taxes</b>	6.7	6.6	6.2	5.7	6.0	5.8	5.9	6.2	6.6
<b>Personal income</b>	3.2	3.3	3.4	3.2	3.3	3.4	3.4	3.5	3.7
<b>Corporate income</b>	3.0	2.9	2.4	2.0	2.3	1.9	2.0	2.1	2.3
<b>Social contributions</b>	9.8	9.3	9.3	8.6	9.0	8.7	8.6	8.5	8.1
<b>Employers</b>	6.2	5.9	5.8	5.4	5.6	5.5	5.6	5.5	5.0
<b>Employees</b>	3.6	3.3	3.5	3.1	3.4	3.2	3.0	3.0	3.1
<b>Total</b>	29.0	27.6	26.3	26.2	28.1	27.7	27.3	27.5	28.0
<b>B. Structure by level of government</b>	% of total taxation								
<b>Central government</b>	62.4	63.1	60.9	63.2	64.0	63.5	64.0	64.4	66.7
<b>Local government</b>	4.0	3.2	3.5	4.0	3.8	3.6	3.7	3.6	3.4
<b>Social security funds</b>	33.2	33.2	35.2	32.5	31.9	32.5	32.0	31.7	29.5
<b>EU Institutions</b>	0.4	0.5	0.4	0.3	0.3	0.4	0.3	0.3	0.3

Source: *Taxation Trends in the European Union, 2017 edition; ec.europa.eu*

Regarding the structure by level of government, the share of central government is lower than in Romania and presents a decrease from 52.4% to 48.1%. Another difference is that the share of local government is triple than in Romania. While Romania faces a decrease in local government and social security funds, Poland presents an increase.

## 2. Tax pressure in Poland and Romania

Poland reveals a higher tax pressure than Romania, with 5.3 p.p. at the end of analyzed period. One explanation for such of higher tax pressure is that presents a

progressivity tax system. Also, the higher GDP per capita influence the level of tax pressure. The fact that, Poland has a cost of education and health higher than Romania leads to an increase in level of tax pressure. Another external factors that can influence this level are: the effect of globalization (capital tend to migrate) and the level of economy. Poland's economy is more developed and stable than the Romanian one.

In Romania, in 2015, the pressure has been compulsory levies a 28% level, by 5.3 percentage points less than Poland and 12 percentage points less than the EU. Despite this, Romanian taxpayers feel a huge pressure through the huge number of taxes, special taxes, mandatory contributions and the multiple legislative modifications. Also, the lower level of GDP per capita and the lower level of living standard, emphasizes the perception of a higher pressure.

Table no. 4, shows a drop pressure in both countries. The Romanian drop is 1.4 percentage points, while Poland reveals a drop of 1.5 percentage points. Comparative with EU which reveals an increase of 0.02 percentage points.

**Table no. 4 GDP compulsory levies pressure in EU, during 2007-2015 (%)**

	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>Romania</b>	29.4	28.0	27.7	26.9	28.3	28.3	27.7	27.5	28.0
<b>Poland</b>	34.8	34.3	31.8	32.3	32.4	32.5	32.8	32.9	33.3
<b>EU</b>	39.8	39.3	39.7	38.4	40.0	39.4	39.9	40.0	40.0

Source: Eurostat

The tax pressure in these countries presents some huge differences. Poland even if reveals a higher fiscal pressure, presents a favorable business climate. Even if Romanian presents a lower tax pressure than Poland, the Romanians feel an aggressive taxation and a huge pressure. An explanation for this is that Romania presents an excessive bureaucracy, multiple legislative changes, multiple politics changes and political instability, errors in law, etc.

## CONCLUSIONS

With the integration in European Union, there is a growing importance of the interaction between the tax systems. Member States policies can have effects on other Member State. The demand for social services rose so in order to finance this demand chances were made in the methods and also form of tax collection.

As the paper revealed, Poland and Romania presents different tax systems. Poland features a classic and progressive taxation, while Romania features a classic taxation. Even if, in Poland the tax rates are higher, the tax pressure is also higher the business climate is more favorable.

With the classic taxation, flat rates and the multiple legislative changes, the political instability and excessive bureaucracy Romanians taxpayers feel a huge pressure and demand for fewer numbers of taxes, a stabile business climate and a better standard of living.

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