

THE SHARE AND EVOLUTION OF INDIRECT TAXES IN THE STATE'S REVENUES-CASE OF ROMANIA

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ABSTRACT: *In this article, it is desirable to point out the indirect taxes share in Romania's fiscal income by emphasizing their evolution and value. The methodology used in the article was the comparative analysis of the data obtained from the state budget classification. The tax rate is also analysed to see how much of the gross domestic product is constituted by taxes, taxes and contributions. Indirect taxes are an important source for Romania's budget revenues, the lender of these taxes being value added tax. This indicator recorded a significant increase in the analysed period, but the sudden drop in 2016 was due the diminishing of the standard rate of VTA from 24% to 20%.*

KEYWORDS: *indirect taxes, public revenues, VAT, excise duties, customs duties.*

JEL CLASSIFICATION: *H2, H71.*

1. INTRODUCTION

Taxes are a form of collection a part of the income and / or of the wealth of individuals and legal entities to cover the public expenditure. This levy is mandatory and non-repayable (Văcărel, et al., 2004).

With the establishment and collection of taxes by the state there is created a significant redistribution of the gross domestic product. In this process, the leies of taxes are manifested as: financial, economic and social.

Indirect taxes are levied on the sale of goods and the provision of services (transport, shows, hotel activities, etc.), import or export, which means that they are spent on spending and revenue (Telembeci, 2014).

The leie of indirect taxes is manifested financially and consists in the accumulation of resources necessary for the performance of the functions and tasks of the state. This function is achieved through the country's budget system and involves revenue accrual in the form of VAT, excise duties and customs duties (Bușmachi & Ignat, 2012).

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2. THE EVOLUTION OF THE FISCAL REVENUES FOR THE PERIOD 2013-2016

Public revenues are receipts of territorial administrative units that are used to cover public expenditures and which participate directly or indirectly in the implementation of various economic policies, influencing the behaviour of individuals and legal entities (Zai, 2008).

Taking into account that indirect taxes are part of the tax revenues, which are mandatory levies, established by law and which have a high importance in the formation of state revenues, figure 1 shows the evolution of total public revenues, current incomes and fiscal revenues in the reference period 2013-2016.

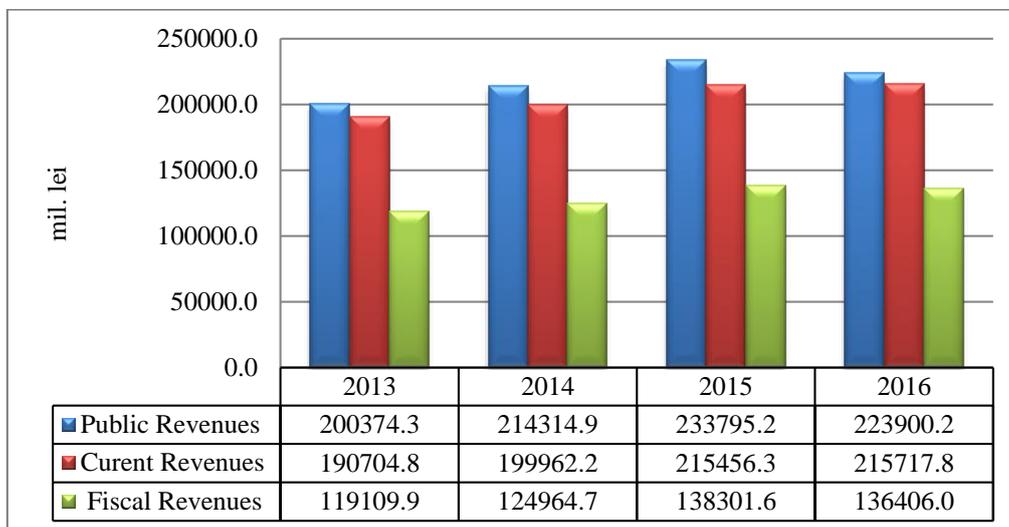


Figure 1. Evolution of total revenues, current revenues and tax revenues (million lei)

Analysing the statistical data in figure 1, Romania's total public revenues followed an upward trend in the period 2013-2015, rising in 2015 by 16.6 percentage points compared to 2013, rhythm which in 2016 followed a declining trajectory, respectively a decrease of 9.895 million lei as compared to 2015. Current and tax revenues recorded lower increases but followed the same oscillating rate as total revenues.

In figure 2 it can be noticed that the share of the tax revenues in the total income is oscillating, but still exceeds 50 percent in all four reference years, which highlights their importance in creating total revenues. The share of tax revenue differs from year to year by ± 1 percentage point, the highest level being in the reference year 2016.

According to the budget classification, the tax revenues taken to the state budget include two broad categories: indirect taxes (VAT, excise duties, customs duties and other indirect taxes), direct taxes (income tax, profit tax, tax on property) and social contributions (unemployment fund, health insurance, social insurance), as can be seen in figure 3 below.



Figure 2. The share of tax revenues in budget revenues (%)

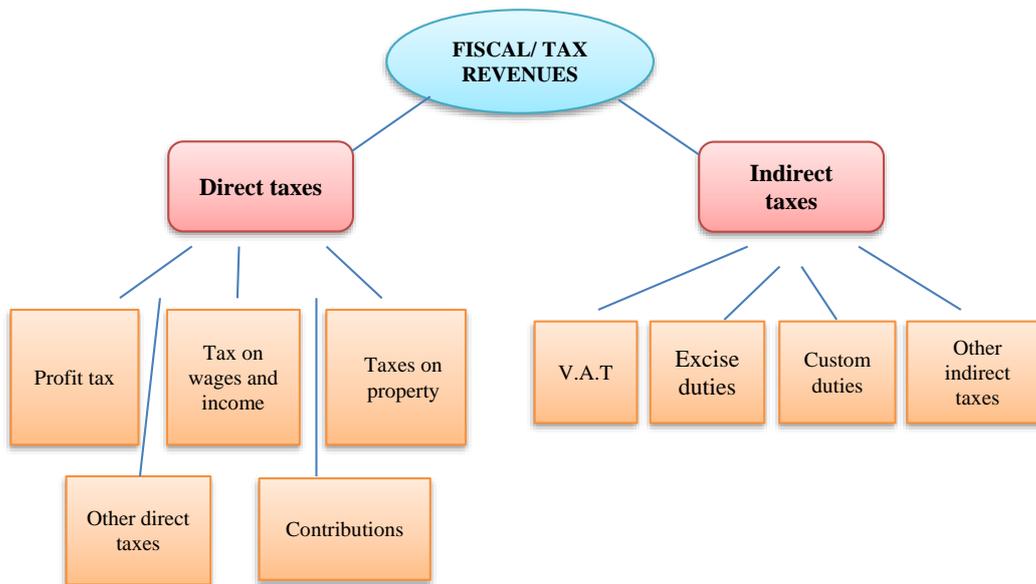


Figure 3. The structure of tax revenues

Tax revenues, and especially taxes, fulfil in society a complex, financial, economic and social **leie**.

According to Jianu (2009), the most important leie of the taxes it is *financially*, in the sense that taxes are the main instrument of obtaining the funds of financial resources necessary for the state to cover the public expenditures.

Economically, the leie of taxes is manifested through measures taken by the state to intervene in economic activities through taxes, which can be used as a tool to change or hinder economic activity, increase or reduce production, or consumption of a particular product, stimulating or restricting foreign trade, etc.

On the *social level*, the leie of taxes is manifested in several directions, among which we can mention the leie of redistribution a part of GDP between classes and social beds, between individuals and legal entities, etc.

In figure no. 4 is highlighted the tax rate, calculated with the following formula,

$$Rf = \frac{Vf}{GDP} \times 100 \quad (1)$$

where:

Rf - tax or fiscal pressure shows how much of the gross domestic product is concentrated at the state's disposal with taxes, fees and contributions;

Vf - the total of the tax revenues, respectively the total of the receipts made in one year from taxes, fees and contributions;

GDP-Gross domestic product.

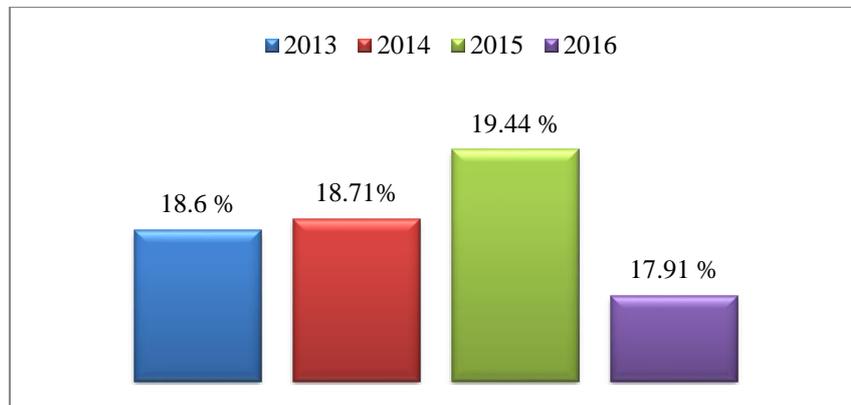


Figure 4. Tax rate

As can be seen in the figure above, the tax rate for the analysis period is rising in the first three years of the analysis, with a difference of +0.84 pp in 2015 compared to 2013, followed by a sharp drop in 2016. The share of 17.91% of fiscal revenues in GDP in 2016 is less by 1.53 percentage points, meaning 1.895 million lei than in 2015 and is mainly due to the decrease of the standard VAT rate from 24% to 20% since 1 January 2016.

2. TAX ANALYSIS DURING THE REFERENCE PERIOD

Indirect taxes are imposed by the state on sales of goods and services. The rates used to calculate these taxes are not differentiated according to the income, wealth or personal situation of those who buy goods or services, which are subjects to indirect taxes. As a result, indirect taxes leave the impression that it also affects the income of all social categories. In reality, they particularly affect low-income people, because indirect taxes are usually perceived to large consumer goods, as Jianu (2009, p. 267).

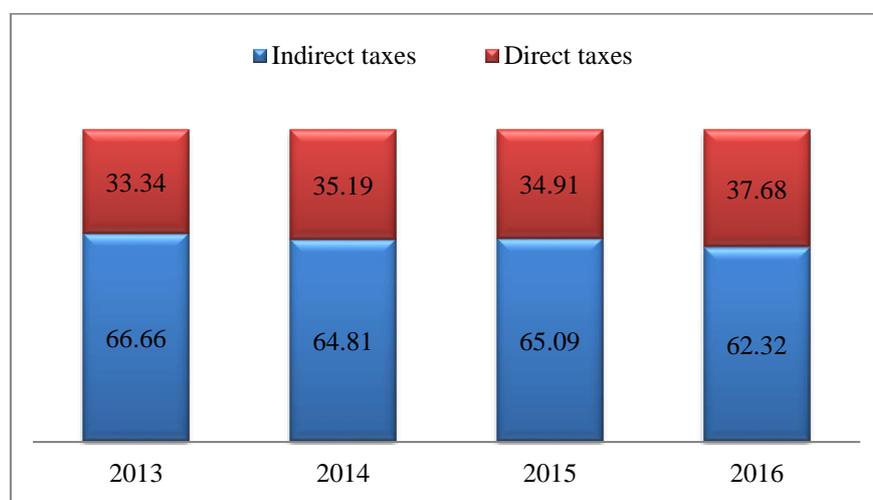


Figure 5. The share of taxes in tax revenues (%)

As can be seen in figure 5 above, tax revenues are predominantly made up of indirect taxes. The trend of indirect taxes is oscillating in the analysis period, but still they have a share of over 60% in all the years under review, making a nearly double contribution in comparison with direct taxes. Indirect taxes thus have the largest contribution to the formation of state budget revenues.

Considering that the central theme of the paper refers to indirect taxes, table no. 1 below, shows their structure and nominal value during the analysed period.

Table 1. Structure of indirect taxes (mil. lei)

Indicator / Mil. lei	2013	2014	2015	2016
Indirect taxes	79395	80986	90023	85010
VAT	51827	50878	57132	51675
Excise duties	21106	24095	26018	26957
Custom Duties	620	643	816	883
Other indirect taxes	5842	5370	6058	5495

Source: Budget classification (www.mfinante.ro)

As shown in the table below, indirect taxes have followed an upward trend in 2013-2015, they had an increase of 11% in 2015 compared to 2013, respectively, in nominal terms, this percentage translates into 10,628 million lei. In 2016 indirect taxes followed a decrease of approximately 5,000 million compared to 2015, however this value it is above the 2013 and 2014 levels.

Next, we will analyse the evolution of the VAT contribution to the formation of state budget revenues, which can be seen in figure 6. The state budget revenues formed from value added tax (VAT) exceeded 50.87 billion lei and accounted more than half of

the indirect taxes (62.8%) in 2014. This value recorded a decrease of 1.83% compared to the previous year. VAT revenues in 2014 accounted for 7.6% of GDP.

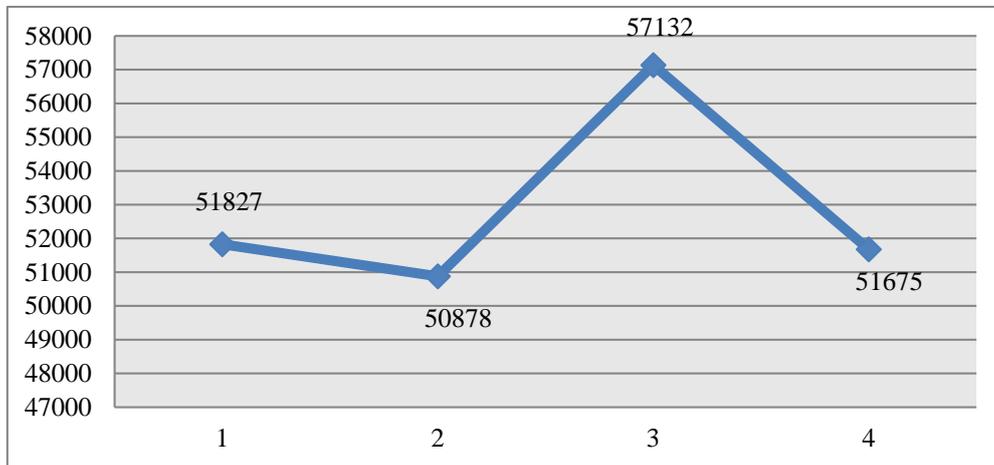


Figure 6. The evolution of V.A.T

In 2015, VAT receipts amounted to 57.13 billion lei, up with 6.2 billion (+ 12%) compared to 2014, a surprising result in the context of lowering the VAT share from 24% to 9% for food categories, starting since June 2015.

The sharp drop of 9.56% in 2016 compared to 2015 may be mainly due to tax policies, because of the decrease of the standard VAT rate from 24% to 20%, while for certain supplies of goods and services the VAT rate was decreased to 9% or even 5% in some cases.

Tax measures to lower the VAT rate can be justified by lowering fiscal uncertainty, which can create discomfort to payers and does not encourage economic development (Moldovan, 2014, p. 226).

Following this analysis, we can say that VAT is a constant source of income for the state budget; we can even say that this indicator is the leader of indirect taxes because it represents, on average, about 63% of the total indirect taxes in the analysed period.

Another source of income for the state budget is excise duties. Excise duty is a general state tax that is set on consumer goods; therefore, they are consumption taxes per product. Excise duties are special charges levied on products such as cigarettes and other consumables based on tobacco, fuel, coffee, alcohol, perfume, energy or jewellery, with certain exceptions expressly provided by the relevant legislation. Figure 7 below shows the evolution of this tax during the 2013-2016 analysis period.

According to the dates from the above figure, the evolution of excise duties has an upward trend during the 4 years, starting with receipts from 21.106 million lei and reaching 26.957 million lei in 2016, which means an increase of 2.551 million lei. The annual average increase of this tax is 8.5%, the most significant increase being 14% in 2014 compared to 2013. The share of excise duties in this period in the total indirect taxes is about 29%.

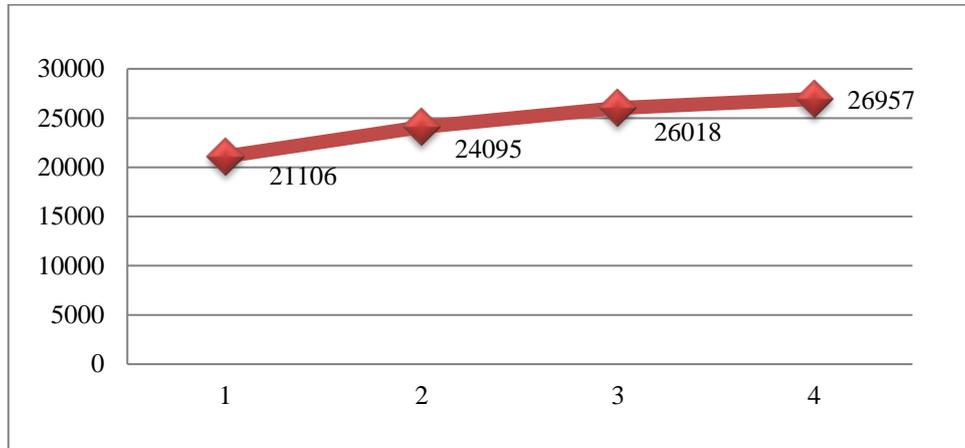


Figure 7. The evolution of excise duties (mil. lei)

Customs duties are the amounts to be collected by the customs authorities for the import, export and transit of goods. By customs duties, the state may favour the national economy. Customs duties are revenues of the state budget, being an instrument for the protection of domestic production and producers, as well as an instrument of stimulating exports and expanding economic cooperation with other countries (Goleanu, 2016).

Customs duties also fall within the indirect taxes with an average annual share of 0.88% in their total. According to figure no. 8, the customs duties recorded significant increases from year to year in the period of analysis, reaching in the year 2016 the value of 883 million lei, 42% more than in 2013. This leap can be justified by the significant increase of imports, but they still have the lowest share on indirect taxes.

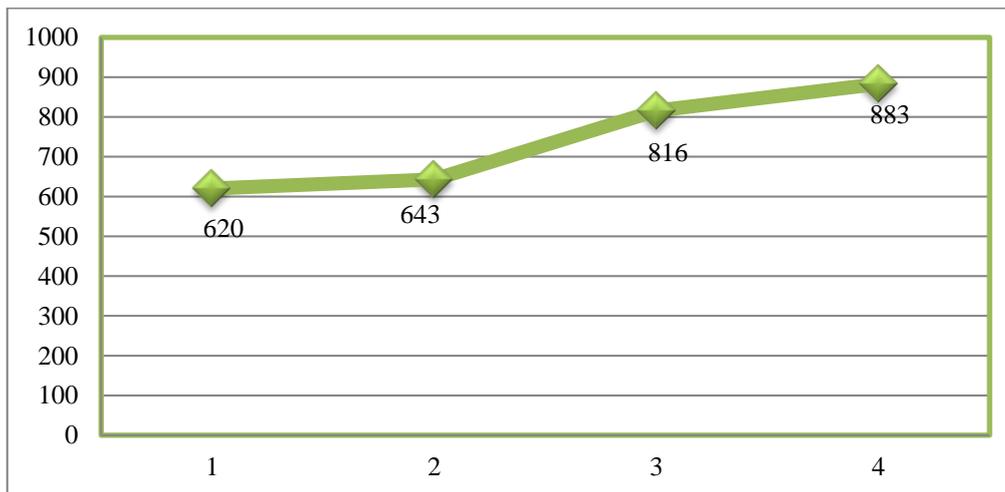


Figure 8. The evolution of custom duties

3. CONCLUSIONS

Tax revenues account the largest share of the state budget revenues, exceeding 50% of each year from the analysis period. In turn, indirect taxes follow the upward trend of fiscal revenues, with the highest weight within them, fact that highlights their increased importance for the state budget. At the same time, the most important part of the indirect taxes is held by the value added tax, followed by excise duties and then by customs duties.

As a result of the analysis, we conclude that VAT receipts, excise and customs duties, components of indirect taxes, are the main sources of income for the state budget of our country.

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