TAX SYSTEMS AND THEIR ROLE IN THE CONTEMPORARY WORLD

-ABSTRACT-

The purpose of the undertaken research was to identify the occurred mutations in the systems of taxes in the last two decades and the implications of this act, through the induced effects on multiple levels.

In correspondence with the structure of the thesis, the pursued objectives were: delimitating and outlining, from the conceptual aspect, of the content and the defining elements of the tax and the tax system; arguing, both in theory and empirically, the systemic character given to all taxes and fees, including the character of open system, with the identification of the interrelations between the tax system and the external environment; identifying the mutations in the structure of tax systems in different countries, in terms of the forms used, the size of the value, the technical procedures applied, including the implications in the light of the effects produced at economic and social level; identifying and highlighting the current role of the tax system, including assessing the extent to which the tax system fulfils the role for which it was established; identifying the mutations and analyzing the implications of mutations occurred in the context of modernizing the tax system in Romania (after 1989).

The theoretical analysis allows the conclusion that the tax is a distinct financial category; all taxes are forming a system which by its functioning is intended to achieve specific goals but also general goals, the degree of their achievement indicating the degree of functionality of the system.

With our approach we have shown that, because of its valences, the tax system is an open system, being both the decisive factor and the determined factor in relation to economic and social environment. Also, based on the results of the studies realized in recent decades, we have highlighted the potential impact (both positive and negative) of the tax system on the environment, indicating, where appropriate, the strong points and the weak ones of various fiscal techniques, used deliberately by state authorities in order to achieve economic and social policy objectives. Thus, the theoretical approach highlights the fact that the tax is a financial leverage, with the ability to stimulate positive phenomenon or to inhibit the negative ones, but the effects obtained depend on a variety of subjective and objective factors, the political factor being an important one.

The general analysis of the structure of tax systems, at international level, revealed that in the developed countries were not significant changes, the tax system in these countries is focused on direct taxes. In contrast, in most developing countries analyzed, there have been extensive changes in structure (as is the case of Romania), and the contribution of indirect taxes became majority (except Malta and Cyprus). Through the encountered tax forms, we found that tax systems are similar, but there are differences in terms of technical procedures, especially in the case of direct taxes, as an expression of the fiscal policy decisions adopted.

In the case of personal income tax, we have noticed a tendency to simplify the taxation system (by broadening the tax base, reducing the number of tranches, reducing marginal tax
rates) but in the case of some developing countries, the introduction of proportional rate instead of the progressive one, represented the main change in the system of taxation of personal income, seen as a solution to reduce the "black labour", but also as a way to a more flexible labour market.

With a lesser degree of specificity, the current taxation systems of the companies profits are the result of a fiscal policy coordination process, both at the international level and especially in the EU, started in the '90s, on the basis of the manifestation of the globalization process, but also on increasing capital mobility, where an important role was played by both institutional factors and the factors of objective nature. This is also based on the eliminating of the harmful tax advantages in 2003, with the adoption of the Code of Conduct for business taxation at EU level and on the eliminating tax havens at international level, in 2012.

The main mutation in the corporate income tax field has been a continuing decline of the legal rates of taxation, process started from the end of the last millennium, but ample especially after 2000, based on the change of economic strategy in the developing states, located on the European continent and beyond. The measures taken by this states "pulled" down the legal rates applied in developed countries, although the differences between the two groups of countries are still certain. The justifications of the steps to eliminate, from fiscal law, of tax benefits, have varied, depending on the probability of some adverse effects (the substitution of lower taxation of capital with a harder taxation of labour income, a significant decrease in tax revenues from this source), on the Member States "accused" by harmful tax competition, but rather on the other Member States. According to the results of the performed analysis, we can say with few exceptions, that these effects have not materialized.

We appreciate that the essential question that arises is whether, based on the increased mobility of capital, multinational companies will manifest as "stowaways", benefiting from public services provided by a more developed Member State, but by manipulating the tax base, will pay a lower tax. From this point of view, we consider that are necessary to be taken some coordination measures regarding fiscal policy in the field of corporate income tax, whereas, as are more divergent tax systems, as more numerous possibilities for legal tax avoidance, with a negative impact on the collected tax revenues. Even if, at political level, it was obtained an agreement on implementing in the legislation of the EU Member States, the provisions of common consolidates corporate tax base, by signing the Euro Plus Pact, we appreciate that the differences between rates would have a significant impact on the localization of the profit and loss account, being in fact the manifestation of the phenomenon of "voting with their feet".

Regarding wealth taxes, we found that they do not bring significant fiscal revenues, compared to income taxes or expenditure taxes. However, they are kept in the structure of tax systems in all states, the reasons being that they are an important source of financing local public expenditures (for actual property taxes) and the fact that not taxing wealth would be considered unfair by a democratic society.

The superior character as well as the high efficiency of value added tax compared to other forms of general consumption taxes, considered inferior, have lead to its introduction into the
structure of almost all tax systems in the world. Although in the last decade, the tendency of increasing standard rates was evident, we found that the analyzed states vary significantly in respect of the dimension of the taxation field of VAT. Thus, in the EU, about a third of the tax base is not taxed, and if it is, the related tax revenues are not effectively collected.

With an important financial role, especially in the case of developing countries, where in the analyzed period there was manifested an upward trend, excise duties have suffered, similar to value added tax, a process of setting uniform rules of establishing and payment of tax obligations, especially manifested in the European Union.

Taking over some existing taxes and including them in the category of environmental taxes represents a constant of the current tax systems, although in the last decade, we found that the tax system was enriched with new forms of taxes (the taxes on pollution). This occurs especially in the case of excises on energy products (regarded as taxes on polluters), where the taxation system are specific to this type of indirect tax, the novelty being an upward dynamic of the rates over the past decade. For other environmental taxes, assigning a new role that of environmental protection, has led to modifications and adaptations of taxation procedures.

Referring to the tax role in financing public expenditures, from the empirical analysis conducted, we observed that public financial resources from taxes continue to be, by the area of expression, the largest public financial resource, covering on average 50% of public expenditures in EU Member States, in the period before the crisis. After its debut, in the new Member States, their share in overall public expenditures has decreased considerably, and in some of them, the situation has worsened dramatically, only 40% of public expenditures being covered by the resources from taxes. In parallel, we found an increase of the proportion of the extraordinary resources used to finance the budget deficit, in order to revive economic growth.

Regarding the dynamics, we found that in the EU, the behaviour of EU15 Member States has some similarities in terms of fiscal and budgetary policy decisions, on the temporal segment 1995-2001, where the fiscal resources have had an upward trend, in terms of degree of coverage of public expenditures, which in its turn had a strong downward trend, fact that shows the start of the fiscal consolidation process in order to meet the conditions to adopt euro. In contrast, in 2001-2007, although the economies of the Member States have achieved significant growth, existing objectives conditions in raising tax revenues and in the level of financing public expenditures, only three states were within the limits of a prudent fiscal policy.

We appreciate that the appeal of some Member States to extraordinary financial resources, in periods of positive economic growth, led to undermining the effects of automatic stabilizers, with a negative impact on the recent real evolution of the GDP, which, in the context of the financial crisis, has experienced a significant decrease in all Member States (except Poland), and very severe in some states (Baltic States).

With reference to the role of tax in combating the economic crisis and its effects, including in the resumption of economic growth, from the conducted analysis resulted that most Member States have turned to tax cuts, the fiscal measures being directed either towards narrowing the tax
base (by increasing temporary the value of fiscal benefits) or targeted the reductions of legal rates.

The positive effects of the anti-crisis measures adopted have resulted in a slight revival of the economic growth, in most EU countries, in 2010 and 2011, but it cannot be neglected the worsening of public finances, which limits the use of taxes to stimulate economic growth, imposing measures to increase fiscal revenues.

Globally, the effects of the use of tax as a financial leverage through various technical modalities, including significant reduction of the rates, have materialized in almost all the states (from EU), in a significant annual increase in GDP (real), the degree of economic development registering also a significant improvement. However, we found that while in 1995-2008, the rhythm of economic growth was more robust in the new Member States, still existing the differences regarding the economic development degree between the two categories of states (except the Czech Republic and Estonia).

Socially, we found that the upward trend of the GDP growth, characteristic to almost all Member States, since 2000, has reflected positively on employment, the unemployment rate decreasing significantly, especially in the new Member States.

However, in most states, personal income tax and wealth tax continues to affect the final income distribution, since the existing tax systems in almost all states include a lower level of taxation for individuals with low incomes, compared with those whose incomes are above the average. From the empirical analysis carried out at EU level, for 2007, I noticed that direct taxes are not neutral; they have impact on the final distribution of income, in 22 Member States from the 23 included in the study; their contribution, in relation to instruments of social transfers, representing a one to three ratio. Nevertheless, the redistributive effect of direct taxes is now more powerful only in the Nordic countries, on the one hand, and in Ireland, Germany, Netherlands, Australia and Czech Republic, on the other hand.

From the analysis on the effects obtainable due to the development and use of environmental taxes, but also other financial instruments, the results appear to have evolved in the direction desired by the public authorities, especially after the entry into force of the Kyoto Protocol, since 2004. Thus, at global level, the performances achieved in reducing pollutant emissions are significant especially since this year, while in the field of transport the effects of promoting common policies to reduce carbon dioxide emissions have not ceased to be felt, by putting a really high price on carbon dioxide emitted, mainly through excise taxes on motor fuels, determining the economic actors to react towards reducing the paid "price".

From the analysis of optimal tax system issues I have concluded that, although there are real possibilities of obtaining a more efficient tax system, the theoretical optimum cannot be achieved in practice, we can only achieve a compromise between the principles formulated in the fiscal theory and the effective modalities of application. However, I found that in the case of certain types of taxes, were taken into account the recommendations formulated by various theories, at least in part, in configuring the technical methods of taxation. Furthermore, visible especially in developed countries, at least at institutionally level, were contoured some attempts to optimize
the tax system, with positive impact in reducing administration and compliance costs, favoured also by the changes at technological level.

In Romania, the mutations in terms of tax system have made their mark, primarily on the level, structure and dynamics of tax revenues. Thus, the overall tax burden, it is around 30% of GDP, a lower value than the one registered in the EU; the factors having a direct impact on this indicator are: a lower development level, a level still high of the underground economy, measures to significantly reduce the rates of the main direct taxes.

The analysis of the structure of tax system reveals the fact that, since 1998, the ratio between direct and indirect taxes has become below one, in terms of the released tax revenues, indirect taxes become majority, and after 2004, their share in total taxes revenues has approached two thirds.

The main mutation has been the replace of the progressive taxation system, with the proportional tax rates, in the case of personal income tax, simultaneous with the significantly decrease of the rate, doubled by its reduction also in the case of the corporate tax, the purpose of this measure being obviously to stimulate investments and growth of employment. In this context, it was of interest to examine whether corporate tax rate levels during 1995-2010, ranged in the admissible zone, in terms of tax revenues from this source and of induced mutations in the structure and size of the tax bases, from the A. Laffer’s theory.

The results obtained indicate that a level of 32% of the legal rate maximizes tax revenues from corporate tax, beyond this level being possible the manifestation of some adverse effects on the dynamics of tax bases, in general, and investments, in particular. From this perspective, there are distinguished two sub-periods: first, that between 1995 and the middle of 2002, when the statutory tax rate exceeded estimated level; a second sub-period, from the third quarter of 2002, until now, when the legal tax rate stood and it still is below the level achieved by us. From the perspective of Laffer's theory, if in the first period, the statutory tax rate exceeded the maximum level, being in the inadmissible zone, and in the second period, the statutory tax rate was in the allowable zone, a possible increase in rate leading, in principle, to an increase in the share of fiscal revenues from corporate tax in GDP.

The positive effects, in real plan, due also to the use of tax as a financial leverage, have resulted in high economic growth (since 2000), a significant reduction in the unemployment rate and, regarding the dynamic of investments, this was ascending (in 2003-2008, but more evident in 2005-2008). However, the economic performances achieved determined a significant economic and social development, but compared to the other countries from Central and Eastern Europe, they were lower. Cannot be neglected the negative implications of the acceptance and financing of the budgetary deficit, during strong economic growth; the changes at the level of direct taxes in 2005, helping to increase its level and to reduce the stabilizing effect of the tax system.

Socially, from the realized analysis we found that the taxation system has changed the distribution of disposable income, but to a lesser extent than social transfers. Thus, the shift to proportional taxation of personal incomes was an important factor in increasing the distance
between the incomes of the rich people and the incomes of the middle or bottom class of income distribution, as shown by statistics.

On this background and taking into account the existence of an average level of GNP/capita, significantly lower than in the other EU Member States, but also a significantly higher level of poverty, the impact of growth, in the period under review, of the share of consumption tax, is negative, especially on low-income individuals, affecting the utility level obtained from the consumption of disposable income. From this angle, the introduction of reduced VAT rates FOR basic foods currently would be justified, having a higher degree of finality than in a period of strong economic growth.

On the other hand, we think that in terms of growth of the degree of income inequality, but also of the distance between the incomes of the richest and the poorest individuals, the return to a progressive taxation would be justified in terms of ensuring vertical tax equity, by the level of tax rates and its progressivity depend the results towards a more just distribution of incomes and the increase level of tax revenues, since setting high marginal tax rates presents some disadvantages.

From the econometric study conducted (which set in regression the variation of gross profit with the variation of the effective tax rate, allowing the estimation of elasticity of the tax base in relation to the tax rate, in the case of the corporate tax) on a sample of over a thousand large companies size, from the industry sector, we found that although, in 2005, the statutory tax rate decreased to 36%, the tax base was broadened, resulting (in the aggregate level) a decrease of tax revenues, of a lower amplitude than the reduction of the tax rate. This means that the measure of reduction of the statutory tax rate was partly self-financed by increasing the value of the tax bases.

Continuing the analysis, by investigating the dynamic of investments in the analyzed sample, we found that broadening the tax bases was made partly due to the realization of new investments, whose magnitude was more modest in 2005 (13% of net fixed assets, existing at the end of 2004) than in 2006 (41%). In this context, expanding the tax base (profit) has as a main source a higher degree of utilization of the existing production capacities in 2004, while in 2006, was also due to the creation of new production capacities, creating prerequisites for the further increase of the tax bases.

Even if, in the adoption of the decision to invest, fiscal advantages are not the only used criterion, the results show that the businesses environment reacted to the reduction of the statutory tax rate, the absence of such a reactions leading, on the one hand, to a bigger reduction of the tax revenues from this source and not only, on the other hand, to lower performances in terms of GDP and the employment rate (given the size of the analyzed sample).

Another conclusion drawn from this study is that at the level of the profit firms, two-thirds of taxpayers were "punished" as a result of realizing non-deductible expenses from a fiscal standpoint, only one third benefiting from various tax advantages. This confirms that the use of statutory tax rate, in a relative assessing of the fiscal obligations, is poor, while there exist differences between the two categories of tax rates and more, there are significant.