

# Increasing the Quality of the Taxes and Fees Impact Assessment on the Romanian Economy

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## Abstract

The current market economy is characterized by a faster increase in resource requirements than the possibilities of obtaining them. Thus, it is crucial that any state address the problem in the most effective way, so that there is a balance between demand and supply (resources). The impact of taxes and fees on the development of the economy can be seen from the perspective of state incentives for investment and available financial resources. The two are in a relationship of dependence, saying that the lack of increase in the number of investments is a consequence of the additional tax, even with the aim of increasing the financial resources, but which still has daunting effects. In this context, this paper has as goal to set the basis for the development of a rigorous scientific research methodology aiming to bring more knowledge from the experience of developed countries in the researched field in order to identify proposals for streamlining the system of national taxes and fees, as well as adopting new methods and techniques for managing this complex system.

*Keywords:* quality; tax; fee; impact assessment; research methodology, finances, economy.

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## 1. Introduction

Most of the state's financial resources are subject to mandatory levies, namely taxes and duties, which are income-generating sources and have a major impact on the functioning of the economy as a whole, in particular on the redistribution of economic resources. The tax and fees system is the main source of state budgeting, a budget without which the existence of a state is unthinkable. And depending on these additions to the state budget, it depends on the standard of living of all citizens, which materializes in the current state economy.

The actuality of the studied topic is conditioned by the need to estimate the impact and role of taxes on the formation of budgetary revenues, but also on the economy. Taxes have a decisive impact on the development of the national economy as they can be used as levers of economic and financial policy. In relation to the way the tax system is conducted within a state, it stimulates or inhibits the interest of citizens in carrying out economic activity, in consuming certain goods and / or services, but also in the commercial relations with the foreign partners.

It is also very important to ensure fiscal equity, which is only achieved when the tax burden is set and conditioned in proportion to the contributor's ability to pay. For example, if taxes are not too high and are optimal to be paid by all economic agents, an economy with fair competition unfolds, without appealing to tax evasion, and thus there is an interest in doing economic activity, resulting in the increase in payments to the state budget. An important effect of taxation is that it can affect a country's economic growth rate by deterring investors from investing in a country with strict tax rules.

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## 2. Literature review

Concerns about the efficiency and optimization of the tax and fees system, both at national and international level, have generated numerous economic and financial studies, which have tried to provide solutions and models of action on the fiscal policy of states, having in view of the economic transformations over time (Cristea, 2017). The interests of economists in the field of obtaining and use of public resources derived from the collection of taxes and duties have resulted in a significant number of papers that have addressed this issue.

The state of knowledge in this field highlights a significant number of papers addressing the efficiency, effectiveness and performance of the formation and use of public financial resources from taxes and fees, and for a more detailed analysis of this system are relevant the studies of Afonso (2008), Belean and Anghelache (2005), Brezeanu (2009), Dascălu (2006), Dobrotă et al. (2003), Drigă et al (2016), Moraru et al. (2011), Moşteanu (2008), Ungureanu (2010, 2013) .

Engen and Skinner (1992) pay increased attention to the relationship between the level of taxation and the rate of growth of gross domestic product, by increasing tax revenues and consolidating them at national level. Braşoveanu-Obreja (2007) outlines the relationship between taxes and the economy and observes that in practice, tax cuts have a positive but weak impact on a growing economy, thus leading to a change in long-term living standards. Arnold et al.(2011) concluded that a change that shows the biggest promise among taxes, both in terms of economic growth and economic recovery, is to reduce income taxes (including social security contributions) on those with low incomes. Kayaga (2007) concluded that the introduction of tax exemptions and deductions for essential goods and services benefiting the low-income population would not only bring tax benefits and other benefits to those with low incomes but would allow the government to offer some potential taxpayers who have hidden in the underground economy join the official economy.

Macek (2011) assessed the impact of different types of taxes on economic growth by conducting a regression analysis in OECD countries for the period 2000-2011, concluding that OECD countries should seek to reduce the corporate tax rate, taxes on personal income and social security contributions in order to be able to influence the economy in a positive way. Costi et al. (2004) argues that taxation can play an important role in improving the current situation and in ensuring a favorable environment for economic activities. Two different methods can be used, both with reference to how fiscal pressure is managed. Thus, it can appeal to a high fiscal pressure where the state builds a significant part of the gross domestic product at its disposal, thus limiting the financial resources that people can have. The second possibility is expressed by a reduced fiscal pressure. This has the effect of obtaining more financial resources from the population, and the state will collect a small part of the gross domestic product.

Mahdavi (2008), Castro et al. (2014); Bujang et al. (2013) and Stoilova (2017) are among the authors who studied the fiscal pressure of the tax and fees system and made comparisons in several developed and developing countries. They also attempted to show the connection between the fiscal pressure and the change in the economic indicators of the studied field.

Regarding tax evasion which is closely linked to the tax and fees system, Sabaini and Jimenez (2012) concluded that the benefits of improving tax administration can only be achieved under a number of conditions such as: a political commitment to the implemented reforms, the desire to abandon the old administrative practices and the desire to establish a formal plan with defined goals and costs for realistic time periods. They argued that only by establishing a high level of tax compliance will it be possible to implement reforms that involve the balance between direct and indirect taxes and thus, with regard to tax systems, to focus not only on the revenue target, but also on the objectives of efficiency and distributive equity so that tax evasion is at minimum levels.

## 3. Prerequisites for methodology development

The specialized foreign literature offers us limited scientific data, becoming restrictive due to the advanced degree of change in the field of research, without deepening and building up the economic dynamism through the system of taxes and fees. Given that this scientific research focuses on the close relationship between two disciplines with a strong influence on a state, *public finances*, namely the tax and fees system, and the *economy*, it is necessary to have a good knowledge of the specialists' concerns related to the improvement of these areas for the rational use of financial resources from mandatory levies, which have a positive impact on the economy.

The existing gaps between Romania and the developed countries in the world in general, and the EU states in particular, are mainly due to the lack of ongoing state reforms as well as medium and long-term strategies and programs in all fields, which make it necessary to study some possibilities increasing the efficiency of the system of taxes and fees, but also understanding its influence on the Romanian economy. The research theme involves tackling a very complex issue with many interdependencies, between mandatory tax deductions and the national economy.

In Romania's financial and economic research practice, scientific studies have been carried out on some aspects related to this research topic. However, these are not integral studies to address the issue of the tax and fees system and its impact on the national economy, in the light of several interdependent elements such as fiscal pressure, tax evasion, but also economic indicators which could highlight the close link with the main financial levers under market economy conditions. Taking into account this context, the hypotheses behind this research methodology are including:

- identifying proposals for streamlining the tax and fees system in Romania, possible by consulting and following the experiences of developed countries in Europe

- tax evasion, which is a barrier to a growing economy, can be diminished by adapting new techniques or methods of managing this complex system;
- the existence of a significant correlation between the tax and tax system and the economic impact indicators.

The **main purpose of the methodology** will be to identify ways to increase the efficiency of tax and fees system management by assessing the impact it can have on the economy, capitalizing on the experience of developed countries in Europe. In order to achieve the initial aim proposed in this research, the methodology will have to address the following **main objectives**:

### 3.1. Theoretical foundation of the tax and fees system

In order to have a basis for starting the research, the theoretical approach to the concept of fiscal system will be discussed, emphasizing the functions and role of its components, namely: *fiscal legislation*, which directly refers to the topic of this research theme, namely taxes and fees; *fiscal mechanism*, which means the techniques and procedures for organizing and managing the activity of tracking and collecting taxes and fees; and the *tax apparatus* respectively the institutions and the staff who act for the purpose of calculating, tracking and collecting taxes and fees. In order to highlight the opportunities for capitalizing the influence of the tax and fees system on the economy, a first step is to study the concept of a system of taxes and fees, how to organize it, but also to present it by emphasizing the features and functions detained.

Given that *taxes and fees* are components of tax revenues and are means and levers for budget revenue generation, a theoretical and conceptual approach is needed to understand how they are formed, the main features, and how effective management of these should occur, so as to reach a level of growth and socio-economic development. To conduct research on *budget revenues*, we need to know their content, structure and characteristics in order to be able to outline their complex effects on the economy. Of course, it is also necessary to conceptualize the taxes and fees by emphasizing their fiscal principles and their importance as financial levers and a means of stimulating the economy.

On the basis of the reports of the Ministry of Finance, as well as other data available from official sources, a study on the evolution of budgetary revenues will be carried out, focusing on Romania's tax revenues compared to EU Member States during the 2007 - 2018. Determining the place held by Romania within the European Union will be the starting point for the next comparative studies.

### 3.2. Influence on the economy framework of the tax and fees system, in European context

The conceptual delimitation of the *market economy* and the desiderata of *economic development* are necessary to outline the impact of taxes and fees on the economy, given that the market economy is the place where entrepreneurs operate freely, autonomously and rationally, in line with market requirements, to meet ever-increasing needs with limited economic resources. In order to give an overview of the fiscal pressure in the European tax system, a comparative study of Romania with the economically-financially developed countries and with the emerging countries will be carried out.

From the point of view of the impact of taxes and taxes on the economy, a correlation will be made between the level of income tax, profit, VAT level, excise level and customs duties and their influence on prices, demand for goods and services. A negative result of the high fiscal pressure is tax evasion, which can be considered a barrier to long-term economic growth. Tax evasion arises as a result of deficiencies in legislation and, on the other hand, due to the misapplication of tax evasion laws. An effect of tax evasion is the decrease in tax revenue collected, which leads to an increase in the budget deficit, having an effect on the overall balance of the economy.

### 3.3. Rational tax revenue management to improve and ensure a balanced economy

The fiscal policy promoted by the Government influences the formation of tax revenues, and the state can thus intervene through taxes in the way it desires by granting tax incentives to encourage and stimulate investments, by which to achieve export and import systematization, but also a tool to reduce inflation. In order to analyze and highlight the state intervention on the economy through the tax and fees system, a comparative study between Romania and Bulgaria will be carried out, assuming that both countries have joined the European Union in 2007. The analysis period will include both pre - accession and post - accession, up to date, according to the data available in the Ministries of Finance reports in both countries, as well as other official sources.

In analyzing the comparative situation between Romania and Bulgaria, it will be necessary to *characterize the tax and fees systems*, to highlight their structure in the two countries, by shaping the fiscal policy regarding the direct and indirect taxes. As tax revenues contribute significantly to the formation of the state budget, their modification would determine both positive and negative influences on the socio-economic situation in the country. Therefore, it will be necessary to highlight and outline an effective way of managing tax revenues, in order to ensure a growing economy.

### 3.4. Influence of the tax and fees system on the Romanian economy. Capitalization opportunities

Assessing a correlation between the main indicators with an effect on the economy (gross domestic product, inflation, unemployment rate, employment rate, public debt, income distribution, gross average earnings, etc.) and taxes in Romania over the proposed period to be analyzed, respectively the last 20 years, will allow to highlight the influence of the fiscal revenues on the Romanian economy. Tax evasion, corruption, accession to the European Union and the economic and financial crisis that our country get over, have left deep fingerprints in the Romanian economy. Correlations should be made between all these aspects, using the SPSS statistical program, using mathematical modeling, but also by analyzing the resulting data and graphics.

To deepen the study, by means of the questionnaire addressed to the Romanian taxpayer, both to natural persons and legal persons will emphasize the perception of the need to pay the taxes and fees in order to determine the main causes of avoidance from their payment. The results obtained will highlight the importance of fiscal rules in *developing an effective tax and fees management methodology* to reduce tax evasion and economic growth.

It will be analyzed the situation of Romania by focusing the research direction on the main objectives of the Government regarding: the effective collection and use of mandatory levies - taxes and fees; how to implement the tax and fees system and how to manage them efficiently.

Examples of good practices in European countries can be milestones and starting points in developing ways to capitalize on the impact of the tax and fees system on the Romanian economy. In the context of these clarifications, the *main fiscal measures adopted by Romanian authorities* to support economic development will be identified to *develop tax policy recommendations* so that tax and fees collection can be efficiently achieved, to sustain economic growth and make tax evasion more difficult.

## 4. Developing the research methodology

The research methodology expresses a combination of methods to facilitate the understanding of the purpose of research and the interpretation of the results. There will be combined *theoretical research*, which will delineate the conceptual aspects of the tax and fees system, fiscal policies, budget revenue structure, with *empirical research* to analyze financial and non-financial elements directly related to the subject under investigation.

The methodology will have an interdisciplinary character, covering aspects that are found in the economy, public finances, economic-financial analysis, statistics and legislation. In order to achieve the objectives, the aspects will be treated in a deductive approach, from general to particular, combining quantitative and qualitative elements. Research methodology requires the use of various tools, techniques and methods, given the complexity and interdisciplinary character of processes. Combined and complementary use of qualitative and quantitative methods will be applied.

*Quantitative approaches* are based on the numerical measurement of some aspects specific to the phenomenon studied, with the aim of testing the hypotheses, and the *qualitative research* follows the comprehensive description of the phenomenon. Quantitative approaches allow the formulation of assumptions about a large number of variables with a higher validity.

The methodology will have to include:

- *Studying the general bibliography* (economics, public administration, legislation) and specialty literature (finance), respectively on national and international level, as well as EU reports, domestic and international governmental sources, as well as from the non-governmental sector and international financial institutions, for the scientific substantiation of further research;
- *Method of scientific observation* of the activity of formation and use of taxes and fees, by performing comparative analyzes on the situation existing in the E.U. and Romania, from the perspective of the influence on the economy and from the perspective of the system of taxes and fees as *a target group*;
- *Explanatory research method*, which seeks to find out the underlying causes of a particular thing by establishing a causal relationship;
- *Method of analysis and synthesis, induction and deduction* by which theories are verified, generating results that can be generalized, the *analogy*;
- *Interdisciplinary methods* for correlating economic, financial and legislative concepts;
- *Statistical methods* used to interpret the results obtained in empirical research, data analysis that can be performed using the SPSS (Statistical Package for Social Sciences) program, allowing the statistical analyzes required for the research work;
- *Case study* for a thorough and in-depth investigation of the implications of the tax and tax system.

The data collection techniques to be used are:

- Documentation will be an important step in the process of knowing the studied topic (legislation, guides, strategies, plans);
- Reports, studies, and syntheses on the subject of the study;
- Structured questionnaires;
- Official statistics.

With the help of the questionnaire, information will also be collected on the Romanian taxpayer's perception of the necessity to make mandatory payments and the determination of the main causes of payment forgery. Then, it will be correlated these perceptions with the results of the main indicators of influence on the economy and the study of the existing impact. Data analysis will use the SPSS statistical program.

The results of the research will be interpreted and presented in the form of conclusions that will come to bring added insight into the investigated field and may be the starting point for further research. As an expected scientific result of the future methodology, we aim at obtaining the Romanian taxpayer's perception of the necessity to make these mandatory payments and the determination of the main causes of payment forgiveness. It is also targeted the correlation of these perceptions with the main indicators of influence on the economy and the study of the existing impact.

Determining the impact of the tax and fees system on the economy, entails a number of advantages that are highlighted below:

- identifying the main financial elements that influence the Romanian economy;
- the possibility of developing a new way of implementing and designing the tax and fees system, taking into account good international practices where the impact on the economy is positive;
- relieving the importance of tax rules in maintaining / growing economic development through taxes and fees;
- finding ways to improve the tax and fees system by making comprehensive comparative analyzes of tax policies in developed EU countries as well as in neighboring countries to Romania and similar in terms of development;
- highlighting solutions to optimize the tax and fees system in Romania by making a comparison of the fiscal pressure at the level of the countries of the European Union, taking into account the structure of the tax revenues;
- developing effective tax management methodologies to reduce tax evasion;
- drawing conclusions on the correlation between the tax and tax system and the main indicators influencing the economy;
- Streamlining the fiscal revenues management with a view to improving and ensuring a balanced economy, also taking into account the perceptions of the Romanian taxpayer;
- Making proposals on simplifying the mode of charging taxes in order to relax the taxpayer.

All these advantages, derived from the proposed research, can lead to a set of recommendations and procedures that will help to increase the performance of tax collection so as to obtain a positive impact on the Romanian economy.

## 5. Discussion and conclusion

Given that tax revenue holds an important place in forming a state's public revenue, its importance is understandable. In order to have a well-established starting point for research, a unitary analysis of the components of the tax system, the way it is formed, and the functioning of the financial mechanism is needed. *Taxes and fees* have a complex role within any state, being a pillar that influences the economy, and therefore, through this research, we are aiming to study this in depth, since the system of taxes and fees is not limited to procurement and distribution of public financial resources.

Decision-makers can and should direct this system towards economic and social development of the country, and an important concern of the future methodology will be to find *opportunities to capitalize on the influence of the tax and tax system on the economy*. Tax revenues, namely taxes and fees, are influenced by the *fiscal policy* adopted and promoted by the government, but there are also economic factors that act on them. These factors of economic nature that determine the evolution of tax revenues can be represented by indicators such as: gross domestic product, inflation rate, public debt, population, income distribution, gross average earning, employment rate, but also the form of taxation of entities and facilities granted to them.

Account should also be taken of the *influence of taxes on the economic activity* of enterprises in general, as indirect changes may take place within the national economic structure. Thus, microeconomic taxes can play a role of development, contributing to job creation, balancing import and export operations, leading to inflation and unemployment cuts, but can also play a negative role, which discourages economic behavior. However, this depends on the tax rate and the economic agent's elasticity to tax. Through this research, we would like to emphasize these possible influences, to discover the correlations between the economy and the fiscal system, but also beneficial possibilities of its management, towards the creation of a positive economy.

Another concern of this research is the study of *tax pressure*. That is why, in order to deepen this element, we will use the study of the fiscal pressure at the level of Romania, but also at the level of the European states. This analysis, which should be drawn up in comparison with the fiscal pressure at the level of the developed EU countries, aims at deducting optimal solutions or ways of rationalizing fiscal revenues, which can be adopted through fiscal policies, so that fiscal pressure is at an affordable level for citizens.

Referring to previous research focusing mainly on the structure and weight of the tax and fees system within consolidated general budgets, and to the adequacy of these studies with the socio-economic environment, the relevance of the scientific outcomes of this research appears as a natural consequence of the fact that it is necessary to know and operate in order to make the impact of the system of taxes and duties on the economy more efficient, in the context of Romania, as an EU member state.

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