THE TAX SYSTEM IN ROMANIA

DRAGAN CRISTIAN

Constanta Maritime University, Romania

ABSTRACT

Tax system as a set of principles, rules and method of organization is materialized in laws or regulations having the force of law. In Romania, the task of creating a tax system and fiscal strategy lays upon the legislature (Parliament) and the executive (the Government).

Keywords: *tax system, fiscal procedure code, profit tax, income tax.*

1. INTRODUCTION

The tax system is designed to meet the requirements of social and economic reform in full swing. Also, the tax system in Romania must have specific criteria and be a manifestation of the will from both parties, including the political will.

The tax reform that occurs in Romania tends to improve the tax structure by increasing the role (share) of indirect taxes, mainly by increasing the role of excise, value added tax and customs duties.

At the same time, the share of direct taxes will decrease (the profit tax, income tax, tax on dividends etc.) compared to indirect taxes. Tax reform aims to achieve an optimal tax structure, an application of the declarative principles in the detriment of taxation principles.

For this purpose, within the tax reform, the new tax system tends to allow efficient administration and should be understandable for taxpayers.

In developing tax policy the following should be pursued:

- efficiency criteria;
- opportunity cost of taxation;
- income of taxpayers and their protection;
- development taxes or other forms of levies and their stimulation;
- initial distribution of income, which should influence economic activity, investment and consumption.

A better tax administration is necessary towards tax system and its strategy which must be done by the Ministry of Finance (for state budget sources) and territorial administrative bodies (for local budgets sources).

In order to increase the efficiency of tax administration, the Ministry of Finance has developed the Fiscal Code and the Fiscal Procedure Code.

Legislation on taxes and duties include:

- Tax Code;
- Fiscal Procedure Code;
- Methodological rules and orders of the Minister of Public Finance were developed and approved in accordance with the provisions of the Tax Code, regulations of local public administration due to the provisions of the Tax Code and treaties to which Romania is a party.

By its terms, the Tax Code provides a long-term stability of the taxes and duties system and tax payers will be able to follow and understand tax burden they have to bear and its importance to social development.

The transparency of the Fiscal Code allows tax management system to widespread in the system used by EU standards. Tax liabilities of individual taxpayers and legal entities should be made at unique terms and specialized accounts for better management of taxes.

In developing the Fiscal Code have been considered the following principles of taxation:

• tax neutrality is measured in relation to various categories of investors and shareholders ensuring equal conditions to Romanian investors and also to the foreign capital;

• certainty of taxation, by including clear legal rules that do not lead to arbitrary interpretation and timing, that can not lead to random interpretation, so that the timing, manner and amount of payment must be clear for each payer, so they can follow and understand the tax burden they bear, and can easily analyze their influence on financial management decisions over their tax burden;

• the individual tax fairness by imposing different income, depending on their size, so that the tax burden is equal;

• imposition of efficiency by providing long-term establishment of the Fiscal Code, so that such provisions can not cause adverse retroactive effect for companies reported to taxation law in force concerning their major investment decisions.

2. TAX CODE

Therefore, the Tax Code provides the legal framework and taxes that will apply in Romania, stating:

- people paying taxes;
- method of calculation and payment of taxes (Tax Code includes methodology for establishing and amending taxes applicable in Romania and will authorize the Ministry of Finance to develop methodological standards, guidelines and order in their application).

According to the Tax Code, applicable taxes in Romania are:

- profit tax;
- income tax;
- tax on dividends;
- microenterprises income tax;
- taxes on incomes obtained by Romania from non-residents;
- representations income tax;
- value added tax;
- excise duties;
- tax on oil and natural gas from domestic production;
- local taxes.

The Tax Code may be amended only by adopting a law that would amend the Code. Ministry of Finance is the central public authority which develops methodological standards, orders and instructions for the uniform application of the Tax Code.

Orders and instructions given by Ministry of Public Finance are published, mandatory in the Official Gazette of Romania, Part I.

3. FISCAL PROCEDURE CODE

Fiscal Procedure Code regulates all fiscal and legal relations in connection with taxes owed to the state and local budgets, regulated by the Tax Code. Managing taxes is governed by the Fiscal Procedure Code, Tax Code and normative acts adopted in application thereof.

According to the general principle of conduct in the administration of taxes, tax authorities apply uniform legislation, following the correct assessment of taxes owed, without being reduced, increased or established by law violations.

Fiscal Procedure Code regulates:

- The legal tax (fiscal substantive law report and procedural law report tax) and subjects of the legal tax (state administrative-territorial units, taxpayer and other persons who acquire rights and obligations in this report);

- legal obligations representatives that were appointed, representatives of individuals and legal entities and unincorporated associations shall fulfil their tax obligations;

- Defining the tax receivable (tax claims are entitled the charging tax or fee, entitled to a refund of tax liability on the right, the right to collect tax duties, entitled to the refund of tax or duty paid without legal basis), the birth and extinction of tax receivables;

- Rights and obligations of debtors and creditors;

- Fiscal domicile;

- The territorial and documents issued by tax authorities;

- Estimate the tax bases;

- Tax registration, tax and accounting records;

- Declaring taxes, tax returns form and content, deadlines, sanctions and penalties;

- determining the tax, decision imposing;

- Prescription right to assess taxes;

- Tax audit;

- Control procedures (competence, principles for selecting taxpayers taxpayer rights and obligations);

- Collecting tax debts (the debt, pay and compensation, debt extinguishment order);

- Interest and penalties owed by taxpayers for late deadlines tax obligations;

- Facilitate the payment of tax debt (rescheduling, deferred taxes and taxes, interest and / or penalties, exemptions and / or reductions of interest and / or delay penalties);

- Enforcement, enforcement arrangements;

- Ways of solving complaints.

4. STRUCTURE OF REVENUES

In Romania, revenue, according to the state budget structure, consist of:

I. Current income of which:

A. Income Tax

- direct taxes, including:
  - profit tax;
  - income tax;
  - other direct taxes, including:
  - tax on income derived by non-resident individuals and legal entities;
  - tax on profits from illicit commercial activities or of the Law on Consumer Protection;
  - tax on dividends from companies.
- indirect taxes, including:
  - value added tax;
  - excise and other indirect taxes;
  - customs duties to individuals and legal entities;
  - other indirect taxes of which:
  - delay penalties / interest, default interest and penalties on unpaid tax revenue in time;
  - fees and charges for the issuance of operating licenses and permits;
  - charge for the prospecting, exploration and exploitation of resources minerals;
  - judicial stamp duties, stamp duty for notaries activity, extra stamp duty (from 01.01.2003 in accordance with Ordinance no. 36/2002 on local taxes, these taxes are sources of local budgets);
  - judicial fines etc.

B. Non-tax revenues:

- payments from net income of public utilities;
- payments from public institutions (metrology taxes, charges for services rendered and to issue the international traffic, consular fees, taxes and other revenues from environmental protection, availability payments from public institutions and the self-financing activities);
- miscellaneous income (from the application of extinguishing limitation, revenues from fines and other sanctions, concession revenues, revenues from the sale of goods seized, abandoned and other amounts established along with confiscation).

II. Income from capital:

- income from asset public institutions;
- income capitalization stocks from national material reserves and mobilization.

III. Proceeds from repayment of loans

Budget revenues are financial resources that are due to public budgets, based on legal provisions, consisting of taxes, Contribute, other payments and other revenues.

Budget revenues are characterized individually by certain features of the way of establishment of origin, payment terms, etc.

Common elements of revenues are as follows:
- budgetary income;
- debtor or the subjects of taxation;
- taxable object or material;
- evaluation unit;
- assessment unit;
- how to place trim or income;
- collection (budget revenue collection);
- payment terms;
- duties, rights and obligations of debtors;
- responsible borrowers;
- budgetary income qualifications (local or central determining whether income).

5. THE CLASSIFICATION OF TAXES

After the substance and form features beyond the perception, distinguish the most important grouping of taxes:

a) direct taxes, which are set and levied directly on individuals or legal income or assets required by law, for example:
- profit tax;
- tax on dividends;
- income tax;
- tax income of non-resident individuals and legal entities;
- income tax or foreign economic organizations that have representations in Romania etc.

Coincide with the tax payer that supports tax.

b) indirect taxes, which are based on the sale of goods or services (entertainment, banking, transport, etc..) or execution of works. Generally, these taxes and fees are included in the price of goods, services or works, so be borne by consumers or beneficiaries, so the natural or legal persons other than the subject of taxation. In the category of indirect taxation, characterized in that the payer is different from one that supports tax or fee, enter:

- VAT;

Since specific direct tax (income tax, dividend tax, etc.) is the coincidence between the tax payer and the tax supports, that the main economic effect of direct taxation is to reduce nominal income. This is equivalent with reducing the money available to the individual by subtracting net income from wages effect in reducing personal consumption.

Also, the tax applied to profits made by companies leads to a lower net income, which has the effect of reducing investment opportunities through cash flow and dividends distributed.

Tax return direct taxation (ratio of expected revenues by introducing / increasing direct tax revenues actually collected by the introduction / increase that tax) is a decreasing linear function of the coefficient of direct taxation. The above relationship allows Laffer curve demonstrating efficacy (efficiency) of direct taxation.

Indirect tax acts, not directly on the incomes of economic agents, but through prices. Higher prices reduce the purchasing power of economic agents, but not by reducing revenues, but the more expensive goods and services.

The impact of indirect taxes on prices (prices upward) phenomenon there is an increase in inflation in the economy. This type of inflation is cost-push inflation because prices are rising not because of demand action, but because of supply action.

Indirect taxes are perceived by consumers through an increase of goods or service prices.

Decrease in revenues is due to lower volume of taxes collected. Increased revenue from taxes can only increase under the tax base (which can only increase based on a real and solid growth, while reducing taxation and revenues through improved collection).

6. REFERENCES:

[1]Manual on methodology for implementing internal control standards, “Risk Management” - Ministry of Finance, January 2007

[2] Minister of Public Finance Order no. 946/04.07.2005.

[3] http://www.riscuri.ro

[4] http://ebooks.unibuc.ro/StiinteADM/cornescu/cap5.htm

[5] Orange book – Risk Management – Principles and concepts, October 2004, Chapter 4, point. 4.3.

[6] Codul Fiscal.