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THE IMPACT OF VAT IN ROMANIA AND THE COMMUNITY AREA

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Abstract
The article brings to the readers the importance of the value added tax revenues in the realization of the total revenues of the state budget of Romania, carrying out an analysis for the period 2017-2020, resulting a significant percentage of 40% of VAT income from the total tax revenues. We started with the analysis of the impact of the legislative changes regarding the value added tax at national level on the workers in this field and on the economy in general, an impact which is not favorable, because this legislative instability, generates uncertainty and mistrust in the capacity of the legislative bodies to act effectively, organize and operate, in accordance with the expectations of those covered by the respective normative acts. Another aspect addressed in this article is a small, but significant comparison between the VAT rates practiced in the community space and the rates practiced in Romania, after which we can see that in our country there are no abusive VAT rates, but they are among the lowest rates in the European Union. The presentation of a series of advantages and disadvantages of this tax, observed through a personal perspective or determined by its operating system, concludes this article.

Keywords: *community area, fiscal code, value added tax*

JEL Classification: *G36, H71, O16*

I. INTRODUCTION

In most European states, as well as in many other countries around the world, VAT is a tax of major importance, due to its high level of participation in the volume of state budget revenues, and because of its wide scope, respectively in all "stages of the economic circuit", until the final consumer of the purchased good or service. What was the basis for the appearance, establishment, and practice of taxes, was the need of the state to have the necessary financial resources in the exercise of all its functions, as well as in the efficient fulfilment of its economic-social role?

The German businessman Wilhelm Von Siemens was given the idea of setting up the value added tax (1920), but what represented only one idea, was put into practice, and built as a system well developed by the CEO of the French Tax Authority, Maurice Lauré, in 1954. In the 1960s, value added tax was implemented in less than 10 countries. Since 1989, however, 48 countries, mainly located in Western Europe and Latin America, but also a handful of developing countries, have adopted VAT.

The spread of VAT in Europe was determined by the fact that its adoption at national level was an important prerequisite for becoming a member of the European Union (EU). Since then, the spread of this tax has accelerated, enjoying a strong support from the International Monetary Fund (IMF), currently being implemented in more than 140 countries around the world, where it has a very important share in total revenues from taxes to the state budget. After issuing preparatory normative acts, the value added tax was introduced in Romania by Government Ordinance no. 3/1992, approved by Law no. 130 of December 19, 1992, with application date January 1, 1993. Subsequently, the introduction of value added tax was postponed to July 1, 1993, during the course, the Ministry of Finance elaborating the methodological norms regarding its scope, the taxation rules, taxable transactions, the basis of calculation, the payers, their obligations, and their rights.

This form of taxation replaced the tax on the movement of goods and was introduced in Romania, in order to integrate the country in the financial field of the European Community, as well as in order to harmonize the internal regulations with those existing at international level. The fact that in 2007 Romania joined the European Union, led to the need to amend several legislative provisions in the field of value added tax, changes imposed by the removal of customs barriers between the member countries, which created a completely different perspective on the regime of international movement of goods and also, due to the importance of the existence of unitary legal regulations in the field at the level of each acceding state, in order to ensure a homogenous organization of the fiscal regime, which will allow to reach the general objectives of the European Union in the financial field, each country using the same tools in this regard, which is favorable also for the manifestation of fair competition between them. Therefore, value added tax has been legislated according to the model of the VI

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Directive of the EEC, which establishes the legal regime of this tax in the Member States of the European Union.

II. The Importance of Value Added Tax In the Constitution of the State Budget of Romania

The value added tax is a well-known tax among the population, even by non-specialized persons with no extensive knowledge in the field, since it is encountered in any purchase of products or services subject to this taxation, made by an individual or by a legal entity. We think that this notion, even if it is not clearly and concretely defined in the minds of the individuals of a population, is nevertheless understood in a general way by them, because, as we have mentioned, this tax is part of daily life.

This indirect tax has a majority contribution in constituting the total revenues of the state budget, being the main means of collecting the revenues within the national economy. To highlight the importance of the contribution of the value added tax revenues to the consolidation of the state budget, we conducted a small study for the period 2017-2020, using the data written in Table 1 (data published by the Ministry of Finance from Romania).

Table 1. Data used for the analysis

Explanation	2017	2018	2019	2020
VAT	53,543.7	59,609.0	65,420.6	60,816.9
Income tax	49,900.6	41,506.1	44,651.1	43,476.1
Total tax income	140,241.8	142,510.0	156,361.7	151,279.2

Source: Ministry of Finance from Romania, numbers in -mil-

Why did we choose to analyze the evolution of the receipts to the state budget also from the income tax for the reference period? Because, at the end of this analysis, we want to highlight the importance of the financial value of VAT revenues for the national budget, which, we think can easily be achieved by comparing them with the incomes resulting from the imposition of another tax that is close to it. Therefore, in this sense, we calculated the structure indicator in relative size of the VAT revenues and those of the income tax, also in relative size, in total tax revenues to the state budget, for the specified period. The evolution of the share of receipts from VAT can be easily observed in figure 1.

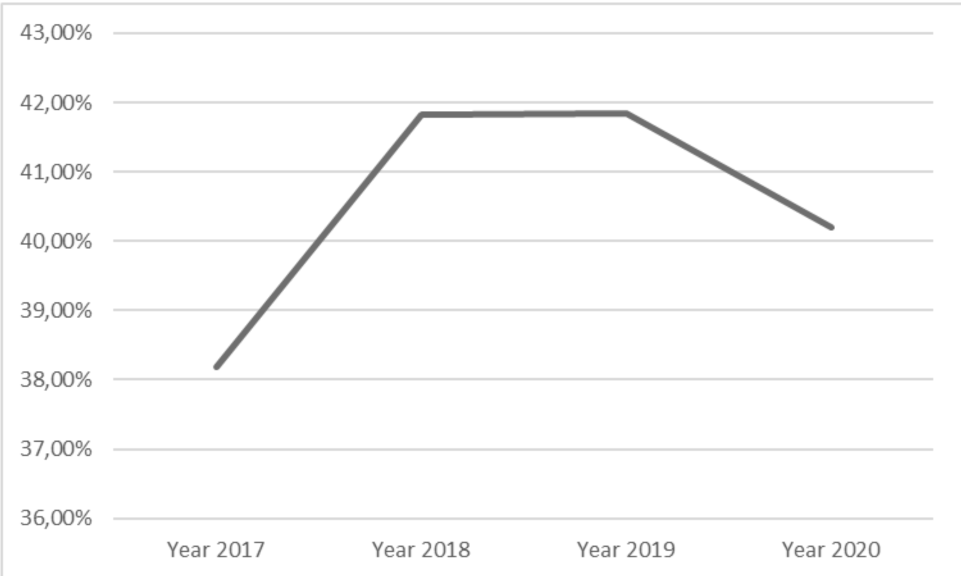

Figure 1 - Evolution of the share of VAT in total tax revenues to the state budget for the period 2017-2020
Source: Ministry of Finance from Romania

As can be seen from the value of the percentages obtained from the calculations, the revenues from VAT have a fairly large share in the total tax revenues to the state budget, which underlines their importance. The highest percentage is registered in 2019, when the standard VAT rate was 19%. In 2020 is a decrease of the share of VAT in total state tax revenues, as can be seen in the graph above, a fact due to the decrease of the economic activities of the companies because of the COVID-19 pandemic (Ichim et al, 2020; Morosan & Bordeianu, 2020; Bordeianu et. al, 2021;). This has also happened in the economic crisis of 2007 (Boghean et al., 2010).

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However, from the point of view of the absolute value, the revenues from the VAT to the state budget show a continuous increase from 2017 to 2019, the highest value being registered for 2019, respectively a collection amounting to 65,420.6 million lei. This positive evolution can be due to the increase of the consumption of goods and services of the population at national level, as well as the economic development of Romania, which is quite accentuated in the last years, which places us in the leading places at EU level in terms of economic advance, being named "tiger" by Agence France-Presse (AFP). In 2020, however, there is a decrease compared to 2019, which is understandable, as the standard VAT rate was constant, a significant percentage, considering the scope of activities subject to this type of taxation at the level of the national economy. The evolution of the share of the receipts from the income tax can be seen in figure 2.

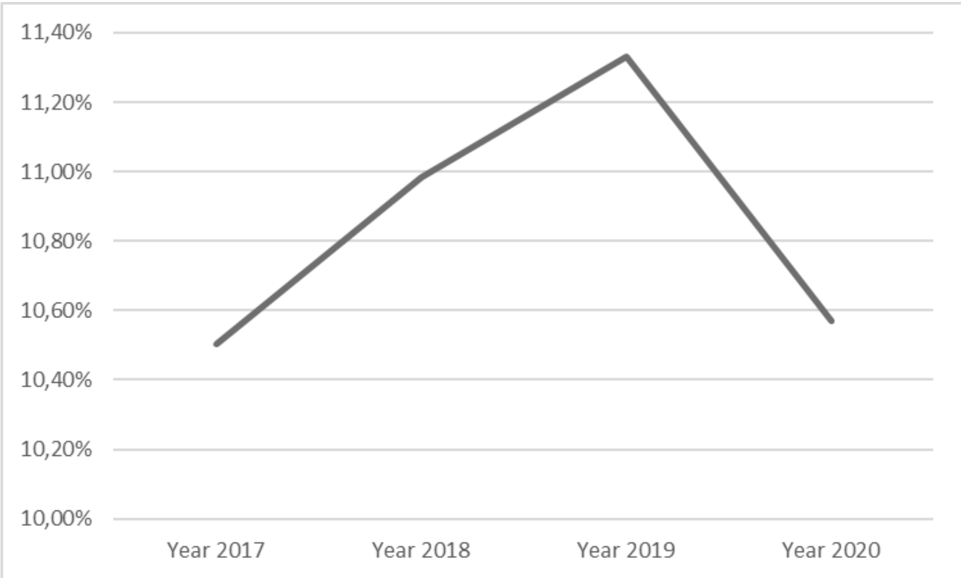

Figure 2 - The evolution of the share of the income from the income tax in total tax revenues to the state budget for the period 2017-2020
Source: Ministry of Finance from Romania

The income tax is characterized as being direct, as opposed to the value added tax which is an indirect tax. It is also an important source of income for the state budget, as evidenced in the figures above. A percentage of more than 10% of the total state budget revenues, as recorded from 2017 to 2020, can be considered quite significant. In 2018, however, a decrease in the share of income from the total income tax is registered, due on the one hand to an estimated increase in the nominal value of the total revenues by over 20 million lei compared to 2017 and, on the other hand, an estimated decrease of the nominal value of the income from the income tax by over 9 million lei. This number is based on reducing the income tax rate from 16% as it was until the end of 2017, to 10%, which represents a substantial and significant loss of revenue to the state budget. In 2020 was registered a decrease compared to 2019 because of the COVID-19 pandemic and the reduction of the economic activities at national level.

By comparing the two taxes that can be considered significant sources of income to the state budget, it can be seen that the value added tax has a much greater importance than the income tax, an aspect highlighted by its weighting in total revenues, which it presents triple percentages compared to the percentages that highlight the share of income from the income tax on the state budget, during the same period studied.

Among the causes that can cause a reduced or non-systematic collection of VAT revenues to the state budget, the following can be mentioned: financial difficulties of some economic entities during a financial year, which can determine the non-payment of VAT or its payment at unequal intervals, offset, as well as their refusal to pay to the state budget the amount related to this tax, amidst the dissatisfaction with the way in which the state fulfils its obligations towards them and towards the society in general, wishing first, the respect the principle of equity: if the economic entities fulfil their obligations towards the state and he, in his turn, has the duty to pay for all the obligations he has assumed towards them and towards society.

To avoid as much as possible such situations, starting with January 1, 2018, the VAT split system was introduced, which will be applied only by public and private companies that are insolvent or that have debts to pay VAT, the other companies following be able to apply the voluntary system. Therefore, the obligation to use the mechanism lies with companies that:

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- At the end of 2017 they had VAT liabilities of more than 15,000 lei (big companies), 10,000 lei (medium companies), 5,000 lei (small companies and individuals), if they are not paid in January 2018;
- From January 1, 2018, they have debts to pay VAT older than 60 days from maturity of more than 15,000, 10,000 and 5,000 lei respectively;
- Is subject to insolvency law.

Therefore, following this small but significant analysis, we can conclude that value added tax is a main and essential source of revenue to the state budget, a source that, if it were removed, the economic situation would face a large budget deficit, which would unbalance the entire economic circuit and beyond.

III. IMPACT OF LEGISLATIVE CHANGES ON VAT

The value added tax has undergone a series of changes in the internal regulations of Romania, changes that have accelerated in the last years and which have determined different reactions among the specialists in the accounting and fiscal field, but not only.

The most recent and current legislative amendment regarding the value added tax is the introduction of the VAT breakdown. The Board of Local Investors held a series of authentic and transparency-based discussions with the persons invested with decision-making authority to demonstrate the negative effects of the implementation of GO 23/2017, but the efforts made to reject it were not successful. Employers' representatives consider that "the only guaranteed impact of the Government Ordinance (GO) 23/2017 will be that of inducing additional costs that are difficult to bear especially for Small and Medium Enterprises (domestic capital). Even worse, the additional activity imposed on the companies will lead to a decrease in the productivity of the companies in an unjustified way" (Revista Tribuna Economică, 2017). However, Government representatives regard it as an effective solution to reduce VAT evasion and further argue that "the measure is to the benefit of the correct taxpayers, (...) as it will contribute to the significant reduction of unfair competition from those taxpayers who do not pay their debts to the state and use the financial resources from VAT for other purposes (Press release of the Government of Romania, 2017). Therefore, we can conclude that for the Romanian state, the implementation of the controversial GO 23/2017 brings benefits in the sense of creating a favorable framework for the correct and optimal execution of the fiscal obligations registered in the accounting of the economic entities, but for them, this ordinance represents a disadvantage, because even if they have or not financial resources, they must fulfil these obligations within a certain period, otherwise they will be sanctioned.

According to the results obtained from a study carried out on 14 respondents with competence in the fiscal and accounting field, the amendments of the Fiscal Code did not greatly optimize the daily accounting activity, and moreover, these changes required an additional time of preparation and information, while, in other conditions, it was allocated to other activities (Stan, 2017).

The fact that three consecutive years, respectively 2016 and 2017, there have been modifications of the Fiscal Code regarding the applied VAT rates, generates feelings of instability and insecurity among the accountants, because they, in order to carry out their activity with maximum efficiency, they need clear normative acts, easy to understand and with a timely applicability, conditions which, unfortunately, in the last period are not very assured to them (Ichim & Morosan, 2020).

We can therefore conclude that too often legislative changes are a factor that generates inconveniences among persons directly involved in the implementation of their provisions and demonstrates a lack of competence on the part of the legislative bodies to create a stable and efficient regulatory framework. Unfortunately, is still a lack of clarity and interpretable nature of regulations being factors that facilitate the phenomenon of bureaucracy and corruption (Nastase & Morosan, 2016).

IV. COMPARATIVE ANALYSIS BETWEEN THE VAT APPLIED IN ROMANIA AND THE ONE PRACTICED IN OTHER STATES IN THE COMMUNITY AREA

In Romania, the value added tax and the mechanism for its operation and taxation are regulated by Law 227/2015 on the Fiscal Code with subsequent additions and modifications, as well as by Law 345/2002 on the value added tax, updated, and for preventing the emergence and development of evasion phenomena, GO 23/2017 regarding the VAT breakdown became applicable at national level from 1 January 2018. In Romania, both sources of law arise from the rules and regulations of normalizing bodies, also the regulations of professional nature issued by professional organizations in the field of accounting and auditing (Morosan & Ichim, 2015).

Directive 2006/112/European Commission (EC) of 28 November 2006 on the common system of value added tax, establishes the legislative framework for value added tax rates applied at European Union level, but assures national governments the freedom to determine their number and the level of rates as they wish,

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respecting two basic rules:

a. There should be a standard rate for all goods and services not exempted from this taxation, rate which should not be less than 15%, for which a maximum level is not set;

b. A European state may choose to apply for one or two reduced rates which cannot be less than 5%, only for the goods and services provided for in the European directive mentioned above.

Also, exceptions to the rule are regulated, these being represented by the special rates of the VAT that have been adopted by some European states because of historical reasons and certain conditions, for a transitional period, in order to harmonize gradually the national regulations with the provisions of the European Union. This rate can be less than 5%, even 0%, only for goods and services other than those regulated in the European directive on the common system of value added tax.

Therefore, different rates of VAT are applied in the states of the Community area as shown in Table 2, according to European Commission (2020).

Table 2. VAT charged in the states of the community area

State	Special rate	Reduced rate	Standard rate	Parking rate
Belgium	-	6/12	21	12
Bulgaria	-	9	20	-
Czech Republic	-	10/15	21	-
Denmark	-	-	25	-
Germany	-	7	19	-
Estonia	-	9	20	-
Ireland	4,8	9/13,5	23	13,5
Greece	-	6/13	24	-
Spain	4	10	21	-
France	2,1	5,5/10	20	-
Croatia	-	5/13	25	-
Italy	4	5/10	22	-
Cyprus	-	5/9	19	-
Latvia	-	12	21	-
Lithuania	-	5/9	21	-
Luxemburg	3	8	17	14
Hungary	-	5/18	27	-
Malta	-	5/7	18	-
Netherlands	-	6	21	-
Austria	-	10/13	20	13
Poland	-	5/8	23	-
Portugal	-	6/13	23	13
Romania	**-**	**5/9**	**19**	**-**
Slovenia	-	9,5	22	-
Slovakia	-	10	20	-
Finland	-	10/14	24	-
Sweden	-	6/12	25	-
United Kingdom	-	5	20	-

Source: European Commission

As can be seen from the table above, the lowest standard value added tax rate of 18% is practiced in Malta and the highest standard rate of 27% is practiced in Hungary. Romania is among the member states of the European Union (EU) which practices among the lowest standard rate, i.e., 19%, a rate that is only practiced by Cyprus and Germany. Denmark is the only European state to practice only a standard 25% rate, without practicing any other reduced or special rate.

If we turn our attention to the low VAT rates of EU Member States, they have a great variety: starting from 5% (the minimum level set for this type of rate at European level), up to 18%, the rate that is practiced in Hungary.

Regarding the special rates, we can see that only 5 EU Member States practice such a rate, namely: Ireland, Spain, France, Italy and Luxembourg, with this list not including the 0% special rate.

From the table it can also be observed that some states (Belgium, Ireland, Luxembourg, Austria, and Portugal) also practice a VAT rate on parking, at a rather significant level, between 12-14%. We believe that these states have also opted to use this rate, because the area of their territory is quite small, and each meter should be used with maximum efficiency. In Romania there is no VAT on parking, but there is a special 0% rate for goods and services exempt from VAT.

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In conclusion, we can say that in the European Union there are no abusive and exaggerated rates of value added tax, the average standard rate being 21.51%. We believe that the national governments of the European states have made use of their right and have established the level of value added tax rates in accordance with their financial needs, their fiscal vision and policy, in order to reach the objectives of their national economy. However, this freedom also has some disadvantage, in the sense of making international trade relations more difficult due to the lack of uniformity of the tax legislation of the participating states in such relations.

V. Advantages and Disadvantages of the VAT System

Any tax or duty is viewed from an early stage with a certain reluctance and arouses some aversion, since it involves giving “out of your pocket” a certain amount of money to the state, for some goods that, in most cases, are already in your property. This raises dissatisfaction among the payers who, for the most part, forget that the amounts paid are also returned to them in the form of the various benefits offered by the state to its citizens. Therefore, we believe that following the implementation and the practice of a certain tax or a certain duty also benefits for the citizens, not only disadvantages for them.

The main advantage of value added tax derives from the very purpose for which it was established, namely, to generate revenues to the state budget. As we have shown in this paper, the value added tax represents a considerable source of income to the national budget, which allows to cover a significant part of the expenses that the state has to make for the smooth running of the company.

Also, another advantage of the system of taxation of value added tax is that, at EU level, each Member State has the freedom to determine the number and types of rates related to this tax to be practiced, according to the objectives pursued in their economic development, at the level of the whole community space, with no imposed rate (although there are certain minimum thresholds), which, we believe, would have violated the principle of fairness and transparency that must govern the international relations of any kind. From a different perspective, this positive aspect can be considered a disadvantage, since the existence of different VAT rates applied by the states, determines the increasing of the procedural difficulty of the commercial transactions in the intra-Community area.

By introducing the common VAT system, regulated by Directive 2006/112 /EC of 28 November 2006 on the common system of value added tax, intra-Community trade of goods and services has been simplified, but on the other hand, the reporting system required is rather rigid and bureaucratic, which creates dissatisfaction among users.

Another advantage of the value added tax system is the fact that a visitor to the European Union has the right and the possibility to recover the value added tax paid for certain products whose total value is at least USD 175, purchased from the same store, at the last customs control point through which the visitor passes for leaving the EU territory, after completing certain formalities.

Also, intra-Community deliveries can be made without VAT, when both the supplier / provider and the client / beneficiary have either a normal VAT code or a special VAT code, which is obtained when the value of intra-Community purchases exceeds USD 10,000 per year. In this case, the invoice will be issued without VAT and the purchaser will carry out the reverse taxation.

We think the most obvious disadvantage of value added tax is that it is a tax and exerts a certain financial pressure on the payers. Every citizen wants to pay as little as possible taxes and fees, but to have as many benefits as possible from the state, which, in our opinion, is inequitable and secondly impossible.

A major disadvantage of this tax system is that EU Member States lose billions of euros in VAT revenues due to tax evasion and inadequate collection systems. This phenomenon is called VAT Gap and is given by the difference between the forecasted VAT revenues and the concrete collected ones, the difference determined by tax evasion, bankruptcy, financial insolvency or incorrect calculation. According to the existing figures, the total amount of VAT lost in 2015 at EU level amounts to approximately 151.5 billion euros, representing 12% of the total estimated VAT revenues. Only in Romania the percentage value of this loss was 37.18% in this reference year.

VI. Conclusion

Like any tax or tax placed on certain goods or services, value added tax is a tax burden for all members of the company, be they individual or legal persons, from which, unfortunately, they try to evade by different methods that are or not illicit, which generates tax evasion and a certain imbalance of the economy. However, to avoid such situations, preventive, current and subsequent control by the state authorities that have powers in this direction is necessary.

In conclusion, we can say that value added tax is an important tax leverage used with significant results (in the sense of the income it determines) by most states around the world. Like any tax, it is not easily accepted both by the economic entities, because it represents for them a “chore” (due to the documents that have to be

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drawn up and not only), as well as by the final consumer through the prism of which it is regarded as a financial burden, because they are the ones who support the payment of the tax when purchasing goods and services subject to this type of taxation.

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