

TAX PROCEDURES IN ROMANIA BETWEEN REALITIES AND PERSPECTIVES

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Abstract

Applying tax laws, ensuring the proper functioning of the tax mechanism and collecting tax receivables directly influences the state's ability to meet the collective optimum. The functionality of a fiscal administration mechanism can be ensured through: the contribution of the representative institutions in adapting existing systems to new technologies; developing new procedures for their application; revising of the current legislation; the compliance of taxpayers with voluntary payment stimulated by raising the standard of living and increasing revenue collection. All these factors contribute to improving social and economic life, impacting both on the individual and on the entities in a state. In this paper work are presented the main problems faced by the Romanian tax administration system, compared with existing mechanisms in other countries that have proven their effectiveness, which allow to formulate suggestions on the implementation of a new legislative framework. There has been made an analysis of the different tax procedures already in place, based on the indicators to identify the revenue collection ratio and not only, for comparison with the current situation of Romania, pointing out possible ways of improving the existing fiscal administration mechanism in the country.

Keywords: tax administration, arrears, tax procedures

Classification JEL: H20, H21; H26

1. Introduction

The economic and financial relations have evolved with the evolution of society to meet its needs. Thus, the concept of taxation also arises as a response to the need of the state to establish a set of rules regarding, first, the exchange of goods and, subsequently, the obtaining of material benefits. All of these activities required state supervision with the aim of balancing the exchange of goods (barter) and taking over the necessary resources by the state (through tributes and dues imposed on the population) for the development of the public and private sector.

Finally, taxation has materialized in the form of a "system of laws and regulations concerning the fixing and collection of taxes" [6], in the sense of the appearance of an institution of the state responsible for financial and economic activity. This institution, also known as tax authority was defined as "a basket (pantry) in which the revenues were collected at the disposal of the emperor, and the public treasury serves to collect revenues intended to meet public consumption needs, administrated by the Senate". [3]

In this context, it can be talked about the existence of a tax system responsible for carrying out the state functions. In Romania, the tax system is a tough one due to the complexity of the applicable legislation in this domain, as well as other deficiencies in the tax administration mechanism. The main problems facing our country are related to the low ratio of revenue recovery, reported to G.D.P., which is closely related to the identification of taxable material. All of this is due to a tax mechanism that is poorly adapted and streamlined to new requirements of taxpayers in relation to technology.

A reply to the question "How should the existing tax system in Romania be improved?" is the application of new tax administration mechanisms in European countries and not only. For example, the introduction of electronic cash registers connected to the database of tax authority, but also electronic invoicing is a tax precedent which demonstrates its effectiveness in countries like

Sweden, Hungary, Belgium and many more. Applying these procedures, a major increase in the V.A.T. collection ratio was observed, but also an improvement on the identification of taxable material, respectively an increase in revenues to the general consolidated budget. As a result, the research objectives are: making a comparison at European level regarding the revenue collection ratio to the budget; identifying the elements that improve tax discipline and diminishing the possibilities of tax evasion and making some proposals to ensure the functionality of the tax administration mechanism, in accordance with the economic realities in Romania.

Starting from these aspects, this paper work is further structured as follows: Section 2 Literature review; Section 3 The analysis of the revenue collection ratio to the general consolidated budget and the possibilities for increasing it; Section 4 Connecting the electronic cash registers to the database of tax authority - effects and difficulties; Section 5 The role of cashless payment instruments in diminishing tax evasion; Section 6 Electronic invoicing; Section 7 Conclusions followed by bibliographic references.

2. Literature review

In the specialty literature, there are different views on what a tax administration system is. This is defined as „the result of the reflection of the economic and social structures accumulated over time as a result of political choices and in which the psychological elements should not be ignored” (Brezeanu and others, 2005) [1]. Another opinion presents the tax mechanism as a system which comprises „the elements related to the establishment, settlement and organization in society, the perception of revenues with fiscal character – taxes, duties and contributions” (Vintilă, 2004) [5]. In accordance with another author „the tax system can be used as a tool for regulating economic life, state intervention in the economy to eliminate imbalances in different periods of economic life”; also, it is argues that „it is well known that Romania did not have a coherent tax system, corresponding to the requirements of the transition stage to the market economy, undertaking a gradual reform which, unfortunately, has not always generated benefic effects on the economic environment, mainly due to the unfavorable conditions for economic reforms and the inconsistency between the legislative provisions and the practical realities” (Dobrotă, 2010) [2]. Another author states that "to make the theory of optimal tax systems operational, empirical work must proceed on the technology of collecting taxes " (Slemrod, 1990) [4]. In the context of presented facts, an efficient tax administration system is influenced by both the political and economic aspects at macroeconomic level and aspects of individual life in a society, being necessary to adapt it to the existing needs.

3. The analysis of the revenue collection ratio to the general consolidated budget and the possibilities for increasing it

The most important indicator for characterizing the functionality of an efficient tax administration mechanism is the revenue collection ratio to the general consolidated budget. The tax to G.D.P. ratio varies significantly between Member States. The highest share of taxes and social contributions in percentage of G.D.P. in 2016 being recorded in France (47,6%), Denmark (47,3%) as well as Belgium (46,8%), followed by Sweden (44,6%), Austria and Italy (both 42,9%). At the opposite end of scale, Ireland (23,8%) and Romania (26,0%), ahead of Bulgaria (29,0%), Lithuania (30,2%) and Slovakia (32,4%) registered the lowest ratio (Figure 1).

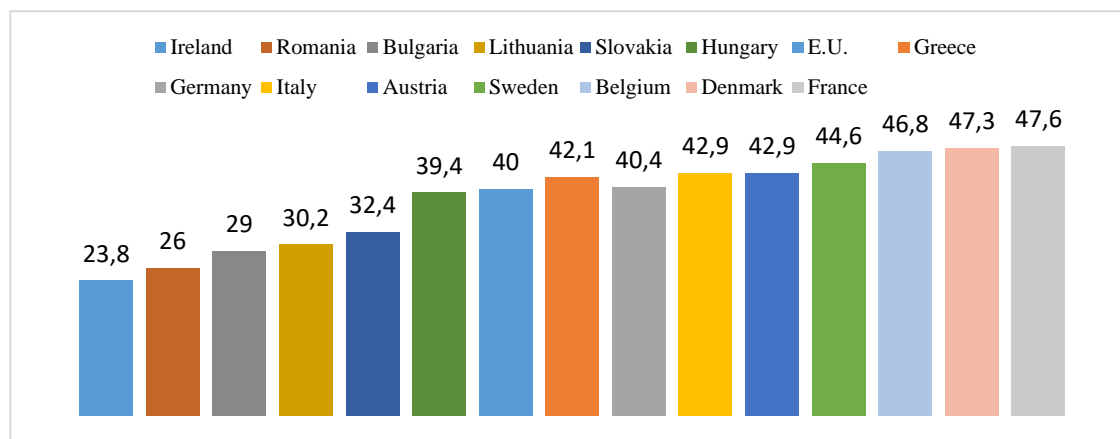


Figure 1 Total revenue from taxes and social contributions (as % of G.D.P.)

Source: data from www.europa.eu

Compared with 2015, the tax-to-GDP ratio increased in a majority of Member States in 2016, with the largest rise being observed in Greece (from 39.8% in 2015 to 42.1% in 2016), Lithuania (from 29.2% to 30.2%) and Sweden (from 43.6% to 44.6%). In contrast, the highest record of lower revenue collection is achieved by Romania (from 28.0% in 2015 to 26.0% in 2016), followed by Austria (from 43.8% in 2015 to 42.9% in 2016) and Belgium (from 47.6% in 2015 to 46.8% in 2016) (Figure 2).

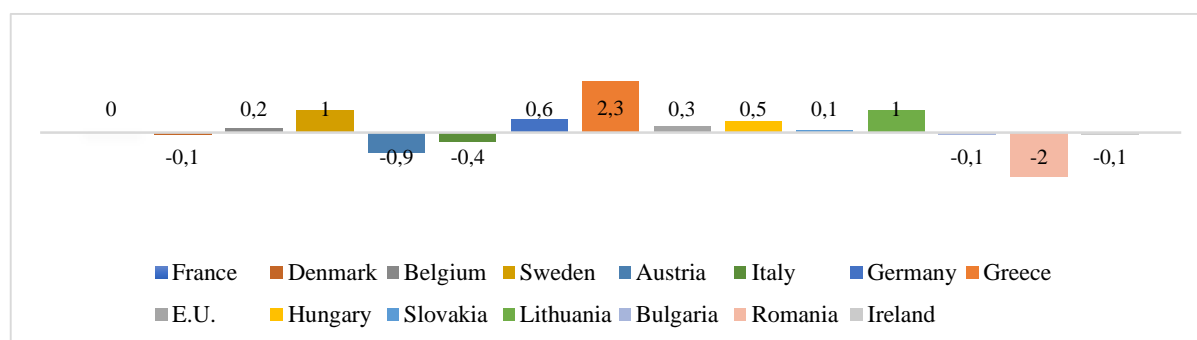


Figure no. 2 The comparative situation of the revenue collection ratio in G.D.P. 2016/2015 (%)

Source: own calculations based on data from www.europa.eu, Eurostat

Considering the fact that revenues collection ratio in our country is very low compared to the other stats from Europe, an important step in its growth is the assets identification for seizure and at the same time, increasing compliance of taxpayers with voluntary payment. This way, it is imperative to extend the ways of identifying assets that can be seized, as follows:

✓ Taking over in the management of the central tax authorities of the registers under which local taxes and duties are established, which is conducive to the quick identification of assets that can be seized and capitalized;

✓ The tabulation of all immovable assets that are quotas, because in Romania a significant percentage from these isn't tabulated yet, phenomenon that would lead to the identification of certain assets that can be seized for the purpose of recovering tax/budgetary arrears.

Due to the fact that in Romania a large part of the immovable assets owned do not meet the three property attributes belonging to the holder, respectively possession (*jus utendi*), use (*jus fruendi*) and disposal (*jus abutendi*), the goods cannot be traced, which leads to the impossibility of real-time recovery of outstanding tax liabilities from bad taxpayers.

At the moment, central tax authorities have access to the PatrimVen application that provides information regarding movable and immovable assets owned by a taxpayer, according to the local government database. The information provided by this application is minimal and difficult to use because it does not have all the identification data of the asset. Considering the fact that the

evidence of the assets is based on the declarations and not on the property acts, it results that the information taken from the PatrimVen application is not conformable to the reality. Thus, the passing of local taxes and duties into the administration of central tax authorities can be regarded as a direct control over the patrimony of natural and legal persons, being a tool for identifying goods, aiming to stimulate voluntary payment, followed by increasing revenue collection ratio.

Another important aspect would be the increase in data veracity contained in the patrimony registries of the taxpayers. Taking into account the collection of local taxes and duties to the consolidated general budget, all this would lead to a unification of all the liabilities of the taxpayers, as well as their income.

4. CONNECTING THE ELECTRONIC CASH REGISTERS TO THE DATABASE OF TAX AUTHORITY - EFFECTS AND DIFFICULTIES

Authority responsible for revenue and taxes administration, existing in a state, can focus on implementing tax administration mechanisms that have already demonstrated their efficiency in other countries. Regarding the benefits that can bring the implementation of such a system, would be to diminish the testing costs, but also ensuring its functionality. In states such as Hungary, Austria, Belgium, Sweden, Rwanda and the province of Quebec in Canada, electronic cash registers were introduced and connected to the control units. These have contributed to an impressive increase in both the V.A.T. receipt ratio and other revenues related to the state budget, presented in detail in *Table 1*.

Table 1 The efficiency of the electronic cash registers implementation connected to the control units in other states

Hungary	After the first year from the installation of electronic cash registers, V.A.T. revenue increased by 15%
Austria	A revenue increase of EUR 900 million is expected to the budget
Belgium	Sales in restaurants sector increased by 8%
Sweden	An increase in V.A.T. collection and income tax revenue of EUR 300 million per year has been estimated
Rwanda	The amount of V.A.T. receipt increased by 20%
Quebec (Canada)	After the introduction of the electronic cash registers in the restaurants sector, EUR 822 million were recovered from taxes

Source: www.oecd.org

In Romania, the implementation of electronic cash registers has run through a long way because of legislative changes. At present, this change in the tax administration system is expected to take place on 1 June 2018 for large and medium taxpayers, respectively on 1 August 2018 for small taxpayers, according to the legislation in force [7]. The obligation to introduce electronic cash registers will come to all economic operators, who receipt, in whole or in part, in cash or using credit/debit cards or cash substitutes, the equivalent value of the goods supplied as retail, as well as the supply of services rendered directly to the population. It will be followed by the change of the printed journal with the electronic one by implementing the electronic cash registers and connecting them to A.N.A.F. database, in order to transmit the information in real time. As in the other countries, it will expect a major increase in the V.A.T. revenue ratio by the implementation of electronic cash registers, as well as an easier identification of taxable material and greater compliance with the declared income by taxpayers. For example, Table no. 1 shows the sales in the Belgian restaurants sector, which increased by 8% in response to the efficiency of the new tax administration mechanism. The present ordinance also lists the elements that the receipt must include. The main elements will be the V.A.T. registration code of the beneficiary, as well as the tax base, including V.A.T., these being the defining aspects in determining the taxable material of each taxpayer.

An existing problem relating to the tax administration mechanism is presented in the context of the efficiency for conducting inspections at the societies by the tax auditors. In this context, a tax

audit can be defined as a way of identifying existing and undeclared taxable material. Due to the installation of electronic cash register connected to control units in the province of Quebec, Canada, the control time in a restaurant was reduced from 70 hours to 3 hours. This has allowed tax authorities to significantly increase the number of verification from 120 to 8000 per year. According to the tax audit guide from Quebec (*La Vérification Fiscale*) [18], the duration of the tax audit is different from one taxpayer to another, by the quickness to provide the required information, as well as the volume and complexity of the activity, without mentioning a deadline.

Unfortunately, this efficiency is not presented in Romania, being demonstrated in Chart no. 3 by the tax audits ratio carried out in 2016, related to the total number of actives companies. From total companies registered in Romania, only 3,10% are the subject of tax audit, while in Hungary this percentage stands at 9,6% and in Quebec at 25,49% (Figure 3).

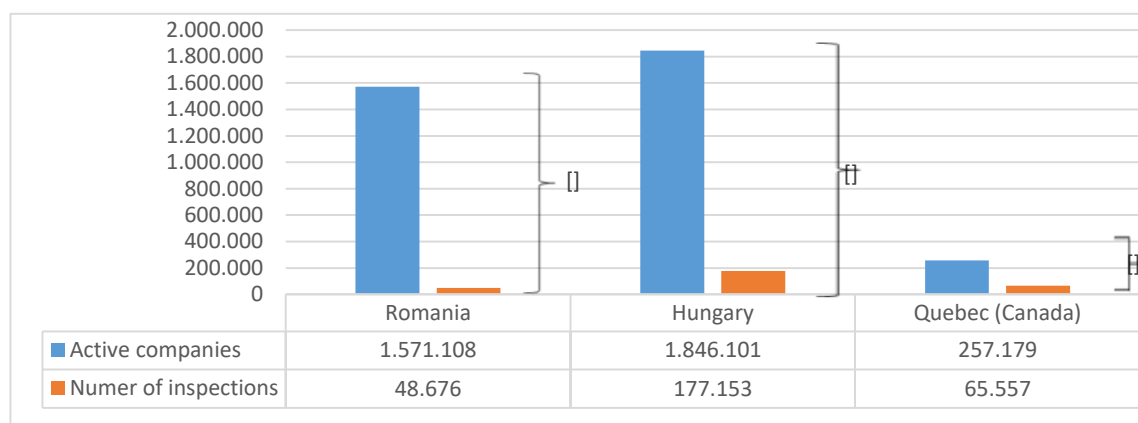


Figure 3 Tax audits ratio carried out in 2016 from the total number of active companies

Source: Own processing of data [11], [12], [14], [15], [19], [20]

At present, the Romanian tax auditors may have control over the V.A.T. receipts only on the basis of the taxpayer declaration, which does not suppose an accurate verification of the taxable material, being possible the existence of a difference between accounting reality and factual one. The implementation of the electronic cash registers connected to A.N.A.F. will make it possible to verify all companies due to automatic data transmission. This way, a V.A.T. cross-check will be carried out without the prior movement of the tax auditors at the taxpayer headquarter. All this will result in a travel costs reduction and a more efficient verification time.

5. THE ROLE OF CASHLESS PAYMENT INSTRUMENTS IN DIMINISHING TAX EVASION

To strengthen the financial discipline, the possibilities of eliminating cash payments as much as possible must be considered, following the European example, Sweden. In this country, 80% of the transactions are being made through non-cash payment instruments. An entrepreneur came to help small businesses with a card reader that is attached to smartphones or tablets, transforming them in bank card processors. Another example is Norway, which wants total elimination of cash by 2020. The percentage regarding non-cash payment utilization is “20%” [16] in Romania. The current legislation [8] specifies certain daily trading limits, represented by the maximum amounts of payments made in one day between legal entities.

Table no. 2 The maximum limits for cash payments between legal entities

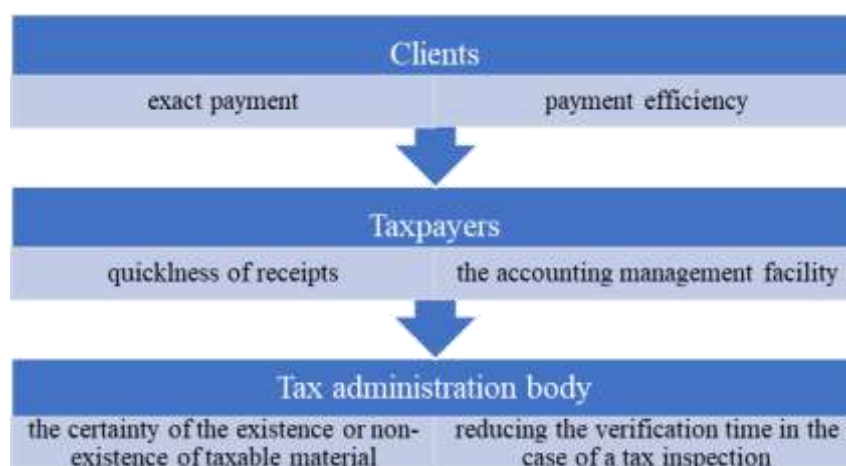
Cash payments to legal entities	10.000 lei/day
Cash payment to the same supplier	5.000 lei/day
Cash payment to cash & carry stores	10.000 lei/day

In addition to this, Law no. 70/2015 to strengthen financial discipline on receipts and cash payment operations and for modification and completion of Government Emergency Ordinance no. 193/2003 regarding the introduction of modern payment systems, also sets the maximum values for „receipts and payments operations made by legal entities, authorized natural persons, individual enterprises, family businesses, self-employed, natural persons which carry out activities independently, associations and other entities with or without legal personality from/to any of these categories of persons will be made only through cashless payment instruments.” [9]

Table no. 3 Receipts and payments between natural or legal persons under Law no. 70/2015

Receipts from a person	5.000 lei/day
Receipts of cash & carry stores from one person	10.000 lei/day
Payments of 5.000 lei/person	No more than 10.000 lei/day
Payments to cash & carry stores	10.000 lei/day

The problem that arises in the case of cashless payment instruments which impose such limits it is the practicing of the fragmented payments or receipts. In Table no. 2 and no. 3, there are visible opportunities for individuals or legal entities to practice these types of transactions. Here comes the legislative inefficiency on this topic. The solution would be to reduce daily trading limits or even impose cashless trading, in the first instance, to legal persons for avoiding such practices, considering also the positive effects that would arise on taxpayers, their clients and the tax administration bodies (scheme no.1).



Scheme no. 1 The benefits of cashless payment instruments

In the context of improving the tax administration mechanism, cashless payment instruments are a key step in streamlining accounting management for taxpayers, but also a certainty of the existence or non-existence of the taxable material for the tax administration bodies.

6. ELECTRONIC INVOICING

Similar to the electronic cash register mechanism connected to the revenue authority's database, electronic invoicing involves recording the transaction and sending it to the customer in electronic format. Electronic invoicing must have certain features to ensure the integrity of the information and the identity of the creator, one of them being the electronic signature to ensure the authenticity of the invoice. This system can be effective only if it is registered to the tax authorities. Detecting false invoicing or declaring non-existent deductible expenses can be countered by automating data match between seller and buyer. The invoices can be sent to tax authorities periodically or in real time. These will allow tax administration bodies to have a clear picture of the taxpayer transactions,

to noticeably reduce the timing of audits and analyze reimbursements in a record time. For example, in Argentina, after the transaction is approved, the taxpayer has to transmit the invoice to the tax authorities for authorization. If the invoice contains the required minimum information, it is approved and will have effects against third parties. The information is kept in a database of tax authorities which can be used later for cross-checks or other debt collection reports. In addition, third parties may have access to an online verification tool in which they can enter the data of the invoice they have received and verify that it matches the information already registered in the tax authorities' database.

In Romania, there was no question of the existence of such an invoicing system, in the context of the delay in the implementation of the electronic cash registers due to the numerous legislative changes. These tax administration mechanisms are found in countries such as Rwanda, Italy, Brazil, Bolivia and many more. In Mexico, between 2007 and 2009, there have been reported losses of about 3 billion euro from the budget receipts due to forgotten invoices, and in the case of V.A.T. in Slovakia, in the years 2014 and 2015, a state fraud of EUR 500 million was detected. Improving the tax administration mechanisms or implementing the new one should lead to the facilitation of the system for both taxpayers and tax administrations bodies in a state, in such a way that the problem of combating tax evasion can be put into the secondary plan, in the sense of complying and using the current instruments.

7. CONCLUSIONS

In Romania, as in any other state, there are many problems that cause dysfunctions in collecting budgetary revenues. There is a need for a reform of the entire fiscal system for balancing the budget, respectively the implementation of modern tax strategies to increase compliance with the voluntary payment of taxpayers and revenue collection rate to the general consolidated budget. These are the determining factors in creating an efficient tax administration mechanism. In this regard, Romania faces major problems, as demonstrated by the indicators of the revenue collection rate to the general consolidated budget. In parallel with the European countries, it recorded the largest decrease in the recovery of claims by 2%, reported as a difference between 2015 and 2016. This is the result of previous manifestations of some difficulties encountered in identifying the patrimony of natural and legal persons, as well as in the case of the identification of the taxable material based on the receipts and payments made. The inefficiency of the Romanian system is also demonstrated in the case of carrying out the tax inspections through their low ratio, taking as a reference point, countries such as Hungary or the province of Quebec, Canada, where, due to the introduction of electronic cash registers connected to control units, the effectiveness of tax auditors has increased significantly. At present, Romania is at a difference of about 6.5% compared to Hungary and 22.39% relative to Quebec in terms of the companies share that are the subject of tax audit. These percentages demonstrate the effect of new technologies on increasing the revenue collection rate to the budget by complying taxpayers to the voluntary payment. In a close relation with the problems related to the technological revolution of the tax administration mechanism, there are also cashless payment instruments that would complement the overall framework of its functionality, in order to identify transactions as being true to reality, which would diminish tax evasion. Both the legislative framework and the poor financial discipline in Romania did not facilitate such payment methods, which in some Scandinavian countries have a majority share.

A first step towards changing the current fiscal administration mechanism is the implementation of already existing projects, borrowing effective strategies implemented in other states and, of course, creating a new legislative framework that fits the new tax system. These strategies will be able to serve the bodies responsible for administrating the budget revenues, in order to make the work done more efficient, as well as increasing tax compliance for taxpayers through facilities made as a system reform.

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