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2009

Online at <https://mpra.ub.uni-muenchen.de/17528/>

MPRA Paper No. 17528, posted 26 Sep 2009 09:20 UTC

# PRESENTATION OF FISCAL MEASURES TAKEN IN PRESENT IN ROMANIA FOR ECONOMIC AND NUMBER OF JOBS GROWTH

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## ABSTRACT

*Measures which came into force with effect from 1 January 2009 aim to helping firms to cope with the financial crisis, while the social concerns and unstable period for which we pass. The need for such measures, as specified the current government, lies in reducing the negative influences arising from difficulties in the market for capital investment environment in Romania, in boosting investment, creating jobs and retaining existing ones.*

**KEY WORDS:** *fiscal, economic, jobs growth.*

## Measures taken in taxes policy area

### *Subsidies granted to prepay the tax liability*

Taxpayers who made the payment of all tax obligations due to budgets managed by the National Agency for Tax Administration at least 10 days before the time fixed by the Tax Code or other laws governing<sup>1</sup> them will get a bonus of 5% of the obligations due. Bonus is calculated monthly by the taxpayer and thus the amount payable will be reduced by the amount of subsidy. Subsidy does not apply to:

- tax obligations represented by taxes and contributions to tax;
- tax obligations represented by excise tax;
- taxpayers who have outstanding tax liability for which has not been suspended the execution of which have established tax obligations;
- taxpayers who do not lodge tax returns within the deadlines established by law

If the taxpayer shall declare some smaller amounts, when this item is finding by the control, they will proceed to order the taxpayer to pay differences, the price increase of 5%

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<sup>1</sup> Time of payment for the differences in tax obligations for principal and accessory tax obligations are determined according to the date of such communication, as: if the communication falls within the 1-15 month period of the payment until 5 month Next, if communication is contained in the 16-31 month time limit for payment until 20 of next month. If tax debts in installments or deferred payment and accessories related payment period shall be based on the document that is given increasing question. Claims for tax administered by the Ministry of Public Finance has not set time limits for payment, they shall be established by order of the minister of public finance.

and increase the delay. Same is happening also where the taxpayer corrects his own initiative obligation to pay, then declaring it, in the meaning of increase it.

#### *No taxes for capital gains*

In order to reduce problems arising from international financial markets, since they have negative effects on domestic capital market, it was decided to adopt fiscal measures to protect the stock exchange market in Romania. Thus, between 1 January-31 December 2009, profits made by individuals and non-resident legal and trading of securities to participate in the authorized and supervised by the National Securities Commission (NSC) will not be taxed. If the trading of securities resulting losses (other than the social and securities companies when closed) they shall be compensated at the end of the same kind of gains from trading securities during the year. Where in this compensation resulting annual loss it reported in the following year. As provided in the the Government Emergency Ordinance no. 127/2008 annual loss recorded in fiscal year 2009 shall not be carried over.

#### *Tax Deductions for expenditure on research and development*

Another change in the tax code that applies is the deduction of 20% of eligible expenditure for research and development in calculating taxable profits for companies that invest in this area and the possibility of applying accelerated depreciation for equipment and equipment for research activities and development. Period of time during which benefit from additional deduction is the quarter / year. The deduction is granted on the basis of state aid schemes to be developed by the Ministry of Education and Research with the Ministry of Finance. Such a measure has been adopted by other European Union Member States; for example, Hungary has introduced some time ago, the possibility of additional deduction of 100% of expenses for research – development.

#### *Tax exemption on reinvested dividends*

Both firms for business development and creating new jobs but also retaining the existing ones, since 1 January 2009 reinvested dividends are not subject to the tax.

#### *Minimum tax for income tranches in the case of profit taxation*

If the tax determined by applying the rate of 16% to the compute base, called the taxable profit is less than the minimum amount of tax revenue for the portion of the total incomes, then taxpayers are forced to turn to the state tax for the particular<sup>2</sup> tranche.

Changing the way to taxation of profits shows that against crisis proposed plan can not provide clear answers to current financial problems. Although the practice shows that in periods of crisis in addition to measures to improve the collection resources through drastic

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<sup>2</sup> The portion of total income taken into account when setting minimum tax are: total annual income between 0-52.000 Lei, minimum annual tax 2200 lei; total annual income between 52.001-215.000 Lei, minimum annual tax 4300 lei; total annual income between 215.001 – 430.000 lei, the minimum annual tax 6500 lei; total annual income between 430.001-4.300.000n lei, the minimum annual tax 8600 lei; total annual income between 430.000.001-21.500.000 lei, 11,000 annual minimum tax lei total annual income between 21.500.001-129.000.000 Lei, minimum annual tax 22.000 lei, total revenue over 129.000.001, the minimum annual tax 43.000 lei.

measures to combat tax evasion, tax must enter a process of relaxation to stimulate firms to engage, to fiscalize revenue, to invest more, there are an increasing fiscal boost by taxation.

Certainly the new form of taxation will determine which companies record monthly low profits, or to continue work on black, avoiding completely submitting payments to the state, including those related to social contributions and income tax on employees, or to interrupt the activity.

Statistics show that a number of about 79.000 companies registered losses in 3 consecutive years the level of 2007 and they have 44% turnover of up to 10.000 ron / year. Aggregate net loss for them is 1.38 billion ron.

As indicated scale of taxation in the Government Emergency Ordinance no. 34/2009, the firms with very high incomes but low rates of profit, will try to stay with the turnover at the top of the bands before their class, in order not to pay a higher tax, which means that a number of contracts will process/run in black.

Although the budgetary impact of the introduction of minimum tax by Government Emergency Ordinance no. 34/2009 is estimated by the Ministry of Finance at 1.3 billion ron, economic analysts, making a comparison with European countries that apply this system and the financial crisis in trying to eliminate this method of taxation, considered a late measure.

Analyzing the reacting of other countries to the financial crisis is found that most of them have tried to reduce taxation; for example, we assist in the Czech Republic to a reduction in the rate of corporate tax from 21% to 20% and a diminution of social contributions, United Kingdom decided to reduce the rate of VAT for a period of one year from 17,5% to 15%, and allowing deferred payment of taxes for companies that have not been affected by the crisis, but who can demonstrate the need for these measures. Remaining in the sphere of all value added tax, Belgium, for example, reduced the quota for construction of new dwellings from 21% to 6%. Other countries such as Holland and Spain have introduced incentive measures relating to the methods of accelerated depreciation for investments made in 2009. Poland has adopted other measures, focusing on budgetary and not the resources, thus reducing the fiscal pressure on the private sector.

If Romania would manifest a period of economic boom, then the minimum taxation would be a welcome measure, but the financial crisis is a measure which depress various fields.

To small enterprises, since 1 January 2009, income is taxed at a rate of 3%, registering an increase of 0,5% over the previous period. Minimum annual tax applies to microenterprises. Where the tax due from small enterprises is less than the annual minimum tax, it shall apply the provisions of Government Emergency Ordinance no. 34/2009.

#### *Assignment tax claims*

Other fiscal measures adopted include the possibility of the National Agency for Tax Administration to assign claims which has to recover from the taxpayers to the third parts.

#### *Tax Deductions for employee and employer*

Both employees and employers benefit of greater tax deductions if the amounts allocated to private health and pension funds. Thus, since 1 January 2009 deadline for deductibility of contributions to the pension system of voluntary wage income increased from

200 euros to 400 euros. This growth has been also registered by the ceiling of deductible expenses incurred on behalf of an employee to voluntary pension schemes. In the case of voluntary health insurance ceiling deductible expenses increased by 50 euro, reaching 250 euros, for both employee and employer.

### **Measures adopted in the social field**

Regulations in force in the field of social policy have direct impact on employment degree of labor. If there is a growing cost of labor then demand on that market will decrease as these costs are included in the trader expenses. Instead, if these costs determining net earnings decrease, the offer of employment will be on a downward trend. Transmission of such expenses in the production cycle of the property taken are often related by the competition in that market

#### *The financial assistance granted in the case of firms employing graduates*

If the employers work with graduates of the educational institutions, they are receiving aid equal to the amount of social contributions due, represented by the social security contribution, the contribution of insurance against accidents at work and occupational diseases, the contribution for social security health insurance contribution for unemployment

In order to qualify for this financial contributors the taxpayers are required after the expiry of 3 years period to ensure the graduates to maintain the employment or service relationships with them for a period of 1 or 2 years. Amounts of money due from the employer turns to the unemployment insurance budget within 90 days from the date of approval. When the employer terminates the employment or service before the expiry of the period of 3 years they are obliged to repay all the agencies for employment amounts collected for each person employed, plus the interest of reference of the National Bank of Romania in force to the date of termination of employment or service relationships.

If employers work with graduates of educational institutions for a fixed term, they will be exempted for a period of 12 months, the payment of the insurance due to unemployment (the amount afferent of graduates employed) and will receive monthly, on the period, for each graduate, depending on the level of education, some money, as follows:

- graduates in lower cycle of high school or schools of arts and trades shall be allocated an amount equal to the social indicator main<sup>3</sup> indicator in force to the date of employment in work ;
- for graduates of higher secondary education or middle school shall be granted an amount equal to 1,2 times the value of social indicator reference into force on the date the employment;
- for graduates of higher education school shall be paid an amount equal to 1,5 times the value of social indicator reference into force on the date the employment.

#### *Guaranteed minimum wage*

Since 1 January 2009 the minimum wage guaranteed in the Romanian economy has increased the amount of 600 lei, 60 more than the existing one. The effect of this measure will increase certain contributions, in determining who is considered as a benchmark the gross

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<sup>3</sup> According to Government Emergency Ordinance no. 126/2008 social value of the reference indicator is 500 lei.

guaranteed minimum wage, such as contributions and allowances for holidays and traffic fines.

Tax changes adopted in early were designed to protect the Romanian economy from the adverse effects of international financial crisis. It also sought to diminish the effects of economic recession, even countering the economic crisis. Given the current situation these measures have gone in the legislative process more effectively than would happen normally.

### **References:**

1. Government Emergency Ordinance no.34/2009 regarding the budgetary rectification of 2009 and regulation of financial and fiscal measures, published in the Official Gazette no. 249 of 14 April 2009;

2. Government Emergency Ordinance no.127/2008 amending and completing Law no. 571/2003 on the Tax Code

3. Government Emergency Ordinance no.200/2008 amending and completing Law no. 571/2003 on the Tax Code

4. Government Emergency Ordinance no.126/2008 amending and completing certain normative acts in order to eliminate ties between the rights granted in the budget for unemployment insurance and the minimum gross wage of the country and establish measures for the implementation of community regulations

5. Law on Fiscal Code nr.571/2003 with modifies and subsequent amendments

6. Government Decision no. 22/2004 on the Rules for the application of the Fiscal Code as subsequently amended and supplemented

7. [www.deloitte.com](http://www.deloitte.com)