

## Evolution of tax revenue in Romania

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**Abstract:** *The study aims to analyze the dynamics of tax revenues in Romania in the period 2008 - 2013, following the installation of austerity caused by the global economic crisis. There are highlighted the earned revenues at the general consolidated budget by revenue category, according to the annual budget execution. The article deals mainly with the evolution of profit tax, income and salaries tax, value added tax and excise.*

**Keywords:** *budgetary policy, public revenues, tax revenue, budgetary execution*

**JEL Classification:** E32, G14

### 1. Introduction

**Budgetary policy** represents the concrete expression of the vision of government authorities on the sources and means of establishing specific public revenue, to the allocation of existing public funds to destinations and, if necessary, to supplement the resources collected through taxation by resorting to public borrowing, with the main objective to contribute with other public policies to fulfill the general role of the state in economic and social life (Enache, EC, 2009: 5-6).

One of the main instruments of fiscal policy is the public revenues. These, according to their economic content is classified into:

- current income, which in turn can be broken down into:
  - tax revenues from direct taxes (personal income tax, corporate tax, dividend tax, etc.) and indirect taxes (VAT, excise duties, stamp duties, etc.);
  - non-tax revenues such as fines, late penalties, income from rental or leasing of assets belonging to public institutions and others;
- income from capital, among which we find: revenue from goods of public institutions, income capitalization of part of the stock of national material reserves and mobilization, receipts from repayment of loans, income from goods of State (Housing State public establishments selling assets in liquidation).

### 2. The economic structure of public revenues

Evolution of government revenue during the global economic crisis is outlined in Table 1 in both the nominal value and as a share of GDP.

From the table it can be seen an upward trend in the evolution of revenues earned, except in 2009, which were made felt most negative effects of the economic crisis.

Income earned from consolidated budget in 2010 amounted to USD 168.6 billion, based on revenue growth mainly to taxes on goods and services (+ 0.6%) and value added tax (0, 5%) and excise (+ 0.1%). The effect of better absorption of EU funds was felt by an increase of 5.6% compared to annual estimates of the amounts received from the European Union.

Economic developments as well as tax adjustments taken from the second part of 2010 caused changes in the structure of budget revenues by increasing revenues from taxes on goods and services.

Compared to 2009 there has been increase in revenue mainly from taxes on goods and services or value added tax (+ 14.3%) and excise (+ 11.1%) and non-tax revenues (19.3 %), and reductions in income tax receipts (- 3.2%), income tax (- 4.9%) and social security contributions (- 4.5%).

In 2011, consolidated revenues totaled USD 181.9 billion, representing 32.7% share of GDP. As shown in the table, nominal income growth compared to 2010 was primarily driven by proceeds from income tax, payroll and income tax, VAT, excise duties and insurance contributions.

Budget revenues were influenced both economic developments and fiscal policy decisions taken in the second half of 2010, respectively increase in the standard VAT rate from 19% to 24%, changing the amount of excise tax base broadening tax income and social insurance contributions.

In terms of the share of the main categories of taxes in total revenues were increases in the case of taxes on goods and services by 3 percentage points due to the increase in the revenue from VAT by 3 percentage points and revenues from excises 0,2 pp.

**Table 1**  
**The evolution of public revenues in Romania in the period 2008 - 2013**

	2008			2009			2010			2011			2012			2013		
	mil.lei	% din PIB	% din total	mil.lei	% din PIB	% din total	mil.lei	% din PIB	% din total	mil.lei	% din PIB	% din total	mil.lei	% din PIB	% din total	mil.lei	% din PIB	% din total
<b>PIB</b>	<b>514.700,0</b>			<b>498.007,5</b>			<b>522.561,0</b>			<b>556.708,4</b>			<b>586.749,9</b>			<b>628.581,3</b>		
<b>Total revenues</b>	<b>164.466,8</b>	<b>32,0</b>	<b>100,0</b>	<b>157.243,8</b>	<b>31,6</b>	<b>100,0</b>	<b>168.690,4</b>	<b>32,3</b>	<b>100,0</b>	<b>181.919,9</b>	<b>32,7</b>	<b>100,0</b>	<b>193.148,2</b>	<b>32,9</b>	<b>100,0</b>	<b>200.374,3</b>	<b>31,9</b>	<b>100,0</b>
<b>Current revenue</b>	<b>158.975,9</b>	<b>30,9</b>	<b>96,7</b>	<b>151.576,2</b>	<b>30,4</b>	<b>96,4</b>	<b>158.518,0</b>	<b>30,3</b>	<b>94,0</b>	<b>173.887,3</b>	<b>31,2</b>	<b>95,6</b>	<b>184.030,7</b>	<b>31,4</b>	<b>95,3</b>	<b>190.915,9</b>	<b>30,4</b>	<b>95,3</b>
<b>Tax revenues</b>	<b>94.044,3</b>	<b>18,3</b>	<b>57,2</b>	<b>87.082,2</b>	<b>17,5</b>	<b>55,4</b>	<b>92.994,0</b>	<b>17,8</b>	<b>55,1</b>	<b>104.686,9</b>	<b>18,8</b>	<b>57,5</b>	<b>114.044,6</b>	<b>19,4</b>	<b>59,0</b>	<b>119.109,9</b>	<b>18,9</b>	<b>59,4</b>
<b>Income on profit, wages, income tax and capital gains</b>	<b>32.920,6</b>	<b>6,4</b>	<b>20,0</b>	<b>30.577,8</b>	<b>6,1</b>	<b>19,4</b>	<b>28.926,0</b>	<b>5,5</b>	<b>17,1</b>	<b>30.106,5</b>	<b>5,4</b>	<b>16,5</b>	<b>32.782,9</b>	<b>5,6</b>	<b>17,0</b>	<b>34.926,7</b>	<b>5,6</b>	<b>17,4</b>
<b>Income on profit</b>	<b>13.045,8</b>	<b>2,5</b>	<b>7,9</b>	<b>10.640,9</b>	<b>2,1</b>	<b>6,8</b>	<b>10.115,0</b>	<b>1,9</b>	<b>6,0</b>	<b>10.309,1</b>	<b>1,9</b>	<b>5,7</b>	<b>10.854,5</b>	<b>1,8</b>	<b>5,6</b>	<b>10.925,7</b>	<b>1,7</b>	<b>5,5</b>
<b>Tax income</b>	<b>18.365,6</b>	<b>3,6</b>	<b>11,2</b>	<b>18.551,4</b>	<b>3,7</b>	<b>11,8</b>	<b>17.957,0</b>	<b>3,4</b>	<b>10,6</b>	<b>19.076,4</b>	<b>3,4</b>	<b>10,5</b>	<b>20.956,7</b>	<b>3,6</b>	<b>10,9</b>	<b>22.735,9</b>	<b>3,6</b>	<b>11,3</b>
<b>Other tax income</b>	<b>1.509,2</b>	<b>0,3</b>	<b>0,9</b>	<b>1.385,5</b>	<b>0,3</b>	<b>0,9</b>	<b>854,0</b>	<b>0,2</b>	<b>0,5</b>	<b>721,0</b>	<b>0,1</b>	<b>0,4</b>	<b>971,7</b>	<b>0,2</b>	<b>0,5</b>	<b>1.265,1</b>	<b>0,2</b>	<b>0,6</b>
<b>Taxes on property</b>	<b>3.362,2</b>	<b>0,7</b>	<b>2,0</b>	<b>3.377,7</b>	<b>0,7</b>	<b>2,1</b>	<b>3.802,0</b>	<b>0,7</b>	<b>2,3</b>	<b>3.976,4</b>	<b>0,7</b>	<b>2,2</b>	<b>4.060,4</b>	<b>0,7</b>	<b>2,1</b>	<b>4.403,2</b>	<b>0,7</b>	<b>2,2</b>
<b>Taxes on goods and services</b>	<b>56.362,8</b>	<b>11,0</b>	<b>34,3</b>	<b>52.082,1</b>	<b>10,5</b>	<b>33,1</b>	<b>59.292,0</b>	<b>11,3</b>	<b>35,1</b>	<b>69.558,4</b>	<b>12,5</b>	<b>38,2</b>	<b>76.127,4</b>	<b>13,0</b>	<b>39,4</b>	<b>78.775,0</b>	<b>12,5</b>	<b>39,3</b>
<b>VAT</b>	<b>40.875,1</b>	<b>7,9</b>	<b>24,9</b>	<b>34.322,4</b>	<b>6,9</b>	<b>21,8</b>	<b>39.246,0</b>	<b>7,5</b>	<b>23,3</b>	<b>47.917,4</b>	<b>8,6</b>	<b>26,3</b>	<b>50.516,0</b>	<b>8,6</b>	<b>26,2</b>	<b>51.827,0</b>	<b>8,2</b>	<b>25,9</b>
<b>Excise</b>	<b>13.599,4</b>	<b>2,6</b>	<b>8,3</b>	<b>15.581,2</b>	<b>3,1</b>	<b>9,9</b>	<b>17.312,0</b>	<b>3,3</b>	<b>10,3</b>	<b>19.104,9</b>	<b>3,4</b>	<b>10,5</b>	<b>20.260,4</b>	<b>3,5</b>	<b>10,5</b>	<b>21.106,0</b>	<b>3,4</b>	<b>10,5</b>
<b>Other taxes on goods and services</b>	<b>86,4</b>	<b>0,0</b>	<b>0,1</b>	<b>56,2</b>	<b>0,0</b>	<b>0,0</b>	<b>107,0</b>	<b>0,0</b>	<b>0,1</b>	<b>302,4</b>	<b>0,1</b>	<b>0,2</b>	<b>2.081,6</b>	<b>0,4</b>	<b>1,1</b>	<b>1.521,4</b>	<b>0,2</b>	<b>0,8</b>
<b>Tax on use of goods, authorizing the use of property or conduct of activities</b>	<b>1.801,9</b>	<b>0,4</b>	<b>1,1</b>	<b>2.122,3</b>	<b>0,4</b>	<b>1,3</b>	<b>2.626,0</b>	<b>0,5</b>	<b>1,6</b>	<b>2.233,7</b>	<b>0,4</b>	<b>1,2</b>	<b>3.269,4</b>	<b>0,6</b>	<b>1,7</b>	<b>4.320,6</b>	<b>0,7</b>	<b>2,2</b>
<b>Tax on foreign trade and international transactions (duties)</b>	<b>962,0</b>	<b>0,2</b>	<b>0,6</b>	<b>655,5</b>	<b>0,1</b>	<b>0,4</b>	<b>574,0</b>	<b>0,1</b>	<b>0,3</b>	<b>673,7</b>	<b>0,1</b>	<b>0,4</b>	<b>707,3</b>	<b>0,1</b>	<b>0,4</b>	<b>620,0</b>	<b>0,1</b>	<b>0,3</b>
<b>Other tax</b>	<b>436,7</b>	<b>0,1</b>	<b>0,3</b>	<b>389,1</b>	<b>0,1</b>	<b>0,2</b>	<b>400,0</b>	<b>0,1</b>	<b>0,2</b>	<b>371,9</b>	<b>0,1</b>	<b>0,2</b>	<b>366,7</b>	<b>0,1</b>	<b>0,2</b>	<b>385,0</b>	<b>0,1</b>	<b>0,2</b>
<b>Insurance contributions</b>	<b>48.419,8</b>	<b>9,4</b>	<b>29,4</b>	<b>47.860,2</b>	<b>9,6</b>	<b>30,4</b>	<b>45.704,0</b>	<b>8,7</b>	<b>27,1</b>	<b>50.637,5</b>	<b>9,1</b>	<b>27,8</b>	<b>51.658,3</b>	<b>8,8</b>	<b>26,7</b>	<b>54.594,3</b>	<b>8,7</b>	<b>27,2</b>
<b>Non-tax revenue</b>	<b>16.511,8</b>	<b>3,2</b>	<b>10,0</b>	<b>16.633,8</b>	<b>3,3</b>	<b>10,6</b>	<b>19.820,0</b>	<b>3,8</b>	<b>11,7</b>	<b>18.562,9</b>	<b>3,3</b>	<b>10,2</b>	<b>18.327,8</b>	<b>3,1</b>	<b>9,5</b>	<b>17.211,7</b>	<b>2,7</b>	<b>8,6</b>
<b>Revenue on capital</b>	<b>915,3</b>	<b>0,2</b>	<b>0,6</b>	<b>548,2</b>	<b>0,1</b>	<b>0,3</b>	<b>685,0</b>	<b>0,1</b>	<b>0,4</b>	<b>769,1</b>	<b>0,1</b>	<b>0,4</b>	<b>652,7</b>	<b>0,1</b>	<b>0,3</b>	<b>654,7</b>	<b>0,1</b>	<b>0,3</b>

Donations	2.817,1	0,5	1,7	3.269,8	0,7	2,1	4.054,0	0,8	2,4	766,3	0,1	0,4	442,8	0,1	0,2	207,0	0,0	0,1
Amounts received from the EU made payments and prefinancing	1.758,5	0,3	1,1	1.916,3	0,4	1,2	5.440,0	1,0	3,2	6.111,7	1,1	3,4	7.979,1	1,4	4,1	9.173,0	1,5	4,6
Financial operations				15,3	0,0	0,0	15,4	0,0	0,0									
Amounts collected in s single account (state budget)				-82,0	0,0	-0,1	-22,0	0,0	0,0	385,5	0,1	0,2	42,9	0,0	0,0	-576,3	-0,1	-0,3

Source: processing by MFP

Also in the case of insurance contributions increase was 0.7 percentage points in total revenues. Parallel decreases were registered for income taxes, payroll, income and capital gains of 0.6 percentage points.

Also in 2012 consolidated revenues followed the upward trend started in 2010, they totaled USD 193.1 billion, accounting for 32.9% share of GDP. Budget revenues were influenced both economic developments and fiscal policy decisions taken such as increasing the minimum wage, increase in salaries in the public sector, change the calculation base for health insurance contribution payable by pensioners, changing the amount of excise duty and the extent of reimbursement of temporary blockage of EU funds due to deficiencies in previous years.

Compared to previous year the general consolidated budget revenues in 2012 had a positive development recorded nominal growth was 6.2% and as a percentage of GDP increased by 0.2 percentage points from 32.7% in 2011 to 32.9 % in 2012. Nominal income growth compared to 2011 was mainly due to the proceeds from the tax on profit (+ 5.3%), payroll and income tax (+ 9.9%), VAT (+ 5.4%), excise (+ 6%), insurance contributions (+ 2%), other taxes on goods and services and foreign donations and the amounts received from the European Union payments (+ 22.4%). Evolutions under the 2011 collections were made primarily for capital income (-15.1%) and non-tax revenues (-1.3%).

General consolidated budget revenues in 2013 totaled 200.3 billion ron, representing 31.9% of GDP. Budget revenues were influenced both economic developments and fiscal policy decisions taken, such as increasing the minimum wage increase in public sector wages, increased pension point, increasing the share of contributions for private pension funds and the amount of change arrangements.

In terms of the share of the main categories of taxes in total revenues, increases were recorded for income taxes, payroll, income and capital gains by 0.4 pp to 0.5 pp insurance contributions, the income taxes and property taxes by 0.1 pp, taxes on use of goods by 0.5 pp and for amounts received from the EU pre-account payments and by 0.5 percentage points.

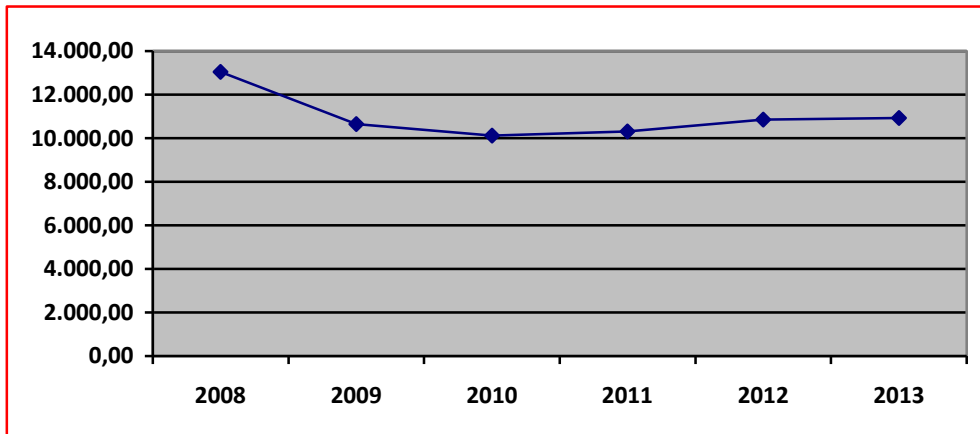
In parallel decreases were registered for the 0,3pp VAT, other taxes and duties on goods and services by 0.3 pp and 0.9 pp non-tax revenues.

Compared to previous year the general consolidated budget revenues in 2013, recorded a nominal increase of 3.7% and as a percentage of GDP decreased by 1 percentage point from 32.9% in 2012 to 31.9% in 2013.

Tax revenues grew in nominal terms by 4.4% against the previous year but declined as a percentage of GDP from 0.5 for 19.4% of GDP in 2012 to 18.9% of GDP in 2013.

### 3. Revenues from profit tax

Profit tax receipts declined continuously from 2008 to 2010. In structure there was a decrease in revenues from commercial banks by 77.4% in 2010 compared to 2009, due to slowing lending amid the economic downturn and increased by 4.5% in tax revenue transferred to businesses amid increasing industry turnover by 12% (against the previous year).



**Chart 1.** Evolution of profit tax in 2008-2013 (mil. RON)

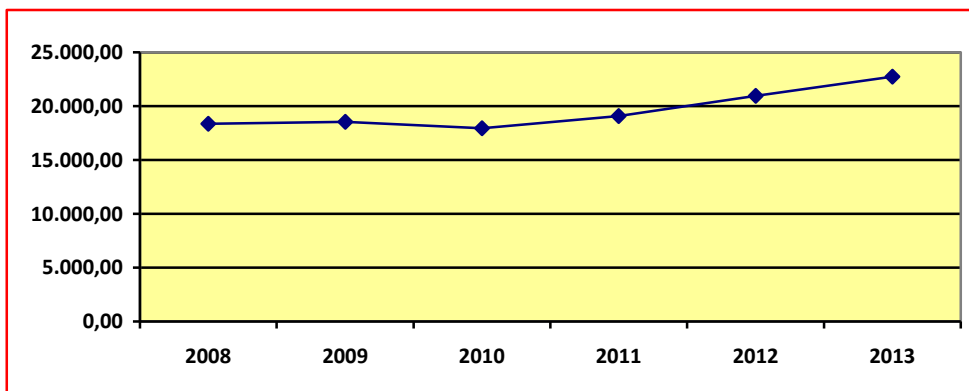
Source: MFP

Since 2011, profit tax receipts have followed an upward trend due primarily to revenues from businesses increased by 3.7% in 2013 compared to 2012, while revenues from commercial banks were reduced by 85.1%.

Reduction in tax revenues from commercial banks was influenced by negative financial result of 31 December 2012 Romanian banking system as a result of the substantial increase in the volume of credit risk provisions, the depreciation of financial assets quality (especially in exposures to non-financial companies) and the revaluation of collateral (NBR - Financial Stability Report).

#### 4. Revenues from wages and income tax

The evolution of this category of revenue is shown in Chart 2, which is observed trend of these revenues, with a slight reduction in this year 2010 income tax and wages totaled 17,956.8 million, down 3.2% against the previous year, due to the decrease in the number of employees by 6.7% and gross wages due to the application of the law to reduce 25% of the wages due to public sector employees in the second half.



**Chart 2.** Revenues from wages and income tax in period 2008-2013 (mil. RON)

Source: MFP

Income tax receipts began to rise again in 2011 but due to the increased number of employees and average gross earnings and the tax from July 1, 2010 the

interest income and the unification since July 1, 2010 share of tax revenue from the transfer of securities other than shares and securities of closed companies, 16%, regardless of the holding period of the securities.

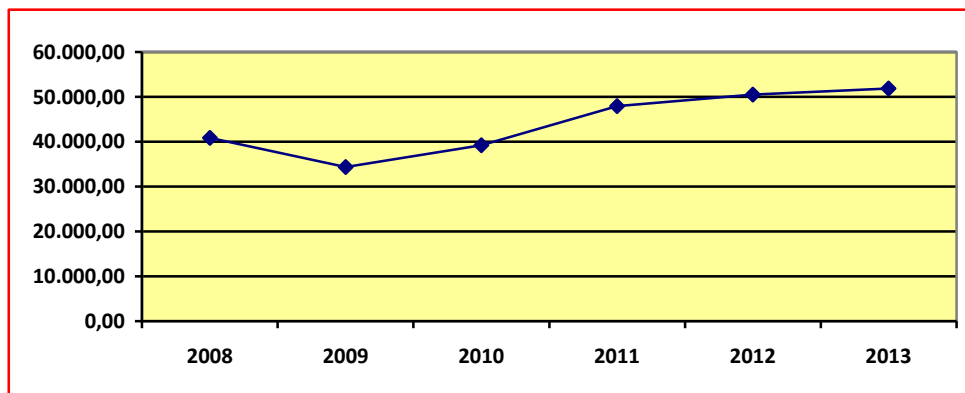
In 2012 this type of revenue has continued to grow due to the increase in the number of employees and the gross average wage, the minimum wage increase and change the basis for calculating the health insurance contributions payable by pensioners.

In 2013, income tax receipts rose by 8.5% compared to 2012, due to the increasing number of employees by 1.9% and gross wages by 5.2%. Also positive influence on income tax receipts have had and change the pension point from 732.8 to 762.1 RON lei (Article II, EO No. 1/2013), the gross minimum wage increase and reunification budget salaries.

### 5. Revenue from value added tax

Chart 3 presents the evolution of tax revenue in 2008-2013. It is noted that the lowest value of these receipts was recorded in 2009. Since 2010, proceeds from value added tax rose 14.3% compared to 2009 mainly due to increase in VAT rate from 19 % to 24% since the second semester of 2010. Structurally they were influenced by increased revenue from domestic operations by 9.9% and imports of goods by 27.1% in 2010 to 2009. It helped to improve collection also the effect of applying the Government Emergency Ordinance No. 54/2010 on measures to combat tax evasion.

In 2011, the increase in VAT from 19% to 24% continued to influence the proceeds of such income that was added and increased revenues from operations extinguishing outstanding debt of some state companies. Structurally, the proceeds from domestic operations increased by 23.9%, the imports of goods by 20.9%, while VAT refunds rose by 28.9% and the total VAT report S increased by 1 percent from the previous year.



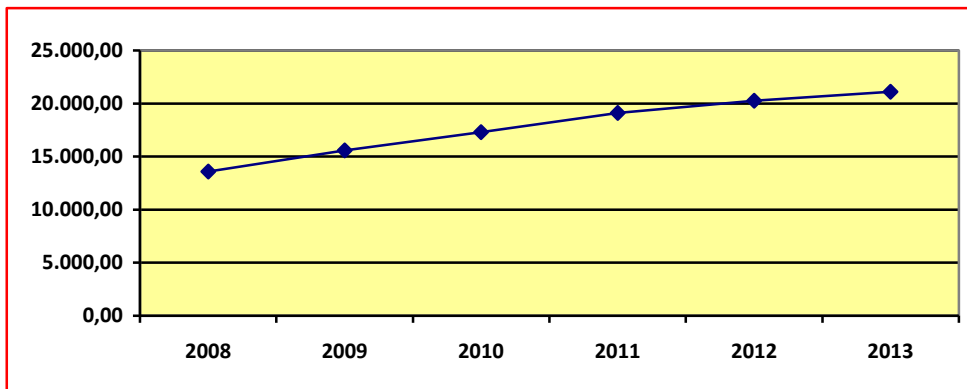
**Chart 3.** Revenues from VAT in period 2008-2013 (mil. RON)

Source: MFP

In 2013, VAT receipts recorded a slight increase of 2.6%, while the negative influence of the proceeds of imports of goods decreased by 8.6% while revenues from domestic operations increased by 5.5%. VAT receipts evolution was influenced by increased volume turnover in retail trade except of motor vehicles and motorcycles 0.5% (Monthly Statistical Bulletin No. 12/2013), reducing imports from outside the Community area by 7.7% (Bulletin international trade Statistics no.12 / 2013) but also some fiscal policy measures such as reduced VAT rate from 24% to 9% for some bakery products.

## 6. Revenues from excise

Excise revenues registered an upward trend throughout the period under review, as shown in Chart 4, the annual contribution that a number of factors. For example in 2010 earnings are 11.1% higher than the previous year due to increase the tax from 1 January 2010 revenue growth was due to the 14.2% average rate RON - euro considered excise duty for 2010, as well as increasing the amount of excise duty in the first half of 2010 compared to the same period of 2009 unleaded petrol, diesel, natural gas consumption commercial, intermediate products, cigarettes, electricity.



**Chart 4.** Revenues from excise in period 2008-2013 (mil. RON)

Source: MFP

In 2011, revenue from excises increased by 10.4% due to increase in excise duties on the following products: diesel (3.2%), unleaded petrol (3.3%), intermediate (54.6%) and cigarettes (3.5%), while in 2012 an increase of 6% was due to increase in excise duties on diesel, cigarettes, and increase exchange rate.

Receipts from excise rose by 4.2% in 2013 amid the duty on diesel, cigarettes, alcohol, the introduction of excise duty on some luxury products and increase exchange rate considered for payment excise duty in terms of negative influences caused by decreased volume turnover in retail trade of automotive fuel by 3.6% (monthly Statistical Bulletin No. 12/2013).

## 7. Conclusions

The period 2008-2013 was a difficult one in terms of collecting tax revenue from the general consolidated budget in Romania due to global economic circumstances. However, fiscal and budgetary reforms have streamlined the collection of public revenues from taxes and managed to maintain a relatively constant value of the total. Along with public expenditure, revenue budget is an important tool to measure the efficiency of budgetary policy and budgetary strategies developed in our country. Budget execution closest to their predicted values ensure proper management of the budget deficit and keeping it within the limits imposed by the Treaty of Maastricht.

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