

Controversies regarding evolution of Tax Systems

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Abstract: *Originally designed purely to meet the state's financial targets, which were subsequently added as a result of the evolution of human society, a series of economic and social objectives, the tax system is the result of thought, decision and action of the human factor, "expression of the political will of a organized human community, set in a particular territory and having sufficient autonomy to be able, through the bodies they represent, to equip itself with a whole series of legal rules and, in particular tax".*

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1. Legal Nature of the Tax System

The scientific approach of defining the tax system envisages at least two approaches. In a first approach, the tax system is seen as a state all taxes. The tax system is defined as "all taxes from individuals and companies which supply public budgets"¹. By joining the line the same approach, other authors consider the tax system as "all taxes imposed a state's attorney that the overwhelming part of its budget revenues, each having a specific contribution tax and a certain regulatory role in the economy"². Starting from the general notion of system, the tax system must be defined in terms of at least three essential components, namely: parts or components, relationships and connections that occur between them and the purpose or objectives of the system. In this regard, following the line of the two approaches, the tax system is defined as "a set of concepts, principles, methods, processes on a lot of items (taxable matters, quotas, tax subjects) between which manifests relations arising from design, legislating, settlement and tax collection and managed under tax law in order to achieve the objectives of the scheme"³.

The composition of the tax system falls also specific structures organized to track, control and analyze how tax laws apply. It appears from the above definitions that tax is the main determinant of the tax system, but, along with it, the tax system includes other elements, such as tax law which aims to create conditions of taxation laws and regulations including both rights tax authorities and obligations and those of taxpayers and the tax system, with its specific structures called to realize application of tax laws in the interest of public power.

¹ Ioan Condor - "*Drept financiar*" (*Financial Law*), Regia Autonomă "Monitorul Oficial" Publishing, Bucharest, 1994, p.122

² *Dicționarul explicativ al limbii române (Explanatory Dictionary of the Romanian language)*, Univers Enciclopedic Publishing, Bucharest, 1998, p. 993. System: "member assembly (principles, rules, forces, etc.) dependent on each other and forming an organized whole that put order in a field of theoretical thinking, regulates the classification of material in a field of natural sciences or makes a practical activity to operate according to the aim pursued".

³ Carmen Corduneanu - "*Sistemul fiscal în știința finanțelor*" (*The tax system in science of finances*), CODECS Publishing, Bucharest, 1998, p.22

As regards the objectives of the tax system, financial-fiscal contemporary theory, they recognized three key objectives, which are often contradictory in the sense that achieving a certain objective usually involves some compromise on other objectives of the system. Three main functions are subordinated to the objectives of the system:

- function of financing public expenditure targeting is, in this respect, getting a budget as high yield;
- function of redistribution of income and wealth and protection of persons socially disadvantaged, to achieve a certain social equity and justice;
- stabilizing function of economic activity and the correction of imbalances, aiming to finally ensure economic efficiency.

The importance of the function has evolved over time, closely linked with the state's role in economic development and permanent transformation of economic and social environment. It will be appreciated, however, no doubt that the only function that was permanent, agreed, was to finance public spending, although there were many in this debate about tax and the return flow limit accepted the tax burden.

By the early twentieth century and then to the Great Depression of the '30s, the only purpose of the tax system was the accepted financial, its primary function is to fund work traditional state primary objective consisting search the most effective means of covering the expenses incurred, which must be minimized, both in volume and structure.

The doctrine of neutrality of the tax system, supported by liberalist class (A. Smith, D. Ricardo, J.B. Say, Fr. Bastiat) was based on at least two essential considerations:

- necessity of cancellation of tax privileges enjoyed by certain individuals, which involves the application in practice of the principle of universality of taxation;
- minimizing the possible tax levies which are considered negative effect on the economic environment, because, taking part in saving, discourage investment and reduce the level of private capital formation.

With this in mind liberal cyclical fiscal policy was considered harmful and redistribution through tax policy was considered arbitrary. After the crisis '30s of the last century and after the Second World War, under the influence of Keynesian ideas, increased state intervention in the economy and, in parallel, the state's role has expanded. The state no longer had remained outside the economic system, on the contrary, it should become an active subject in the economy.

Fiscal policy could be used, together with other macroeconomic policies to correct economic imbalances, adjustment of cyclical fluctuations of the economy but also to achieve social objectives, such as changing resource allocation and income distribution in society.

Since the 70s of last century's excessive interventionism and state becomes the target of attacks that put center stage in front on the principles of liberalism and interventionism, some economists and politicians arguing that the state should play an important role in the economy too. Thus, they showed that too high a level of public expenditure deprives productive activities in the private resources that enterprises face a tax burden far too heavy, saying that "abolition of the complex system of regulations, subsidies and state intervention would liberalize energy and private initiative"⁴.

Without adopting, however, extreme liberal positions, tax reforms of the 80s of XX century were no longer considered redistribution as a priority, a research

⁴ Tatiana Moșteanu - "*Structura fiscală și impunerea echilibrată*" (*The tax structure and imposition balanced*), in *Tribuna Economică Review* no. 49/4 december 2002

effectiveness suplinind- that of equity. Efficiency or effectiveness of the tax system is judged on the ability to generate the expected effects thereof, expected. Depending on the theoretical assumption that starts from a tax efficient either a neutral tax or a tax neutrality requirement that transcends and helps to achieve optimum state of the society.

If assumes neutrality, then the efficiency of the tax system will be appreciated solely on its ability to finance state spending without tax to be used as a tool to influence the economy operating conditions, the distribution of wealth or social structures. Reality has shown that tax is not neutral and that practice needs nearest tax phrase interventionist tax is applied with some moderation, in terms of the level and sources of taxation imposed. The tax appears as a means of correcting market mechanism limits as a tool of macroeconomic policy, contributing to the regularization of the state exercising, stimulate saving and investment phenomena in general, building a certain structure of the economy.

The specific economic and social conditions of former countries of Central and Eastern Europe, including Romania, where state intervention in social and economic life has been taken to the extreme, mandated the adoption, in the construction of a new tax system, amid democratization and liberalization economic and social, of those measures taking into account that the tax system should support and stimulate economic activity, private initiative, protection of the population, while ensuring sufficient resources to finance public spending. Objective nature of the tax system certifies that its role is to lead to the achievement of clearly-defined objectives, and for a good analysis is needed to highlight its main characteristics.

With the shift from centralized to market economy, the state can not achieve on the economic interventions by administrative methods, but using a series of economic instrument. These levers are used by the state to meet public needs, and for achieving certain social and economic policies.

We can say that the state has a role in regulating the economy, through the tax system intervenes to redress imbalances in economic activity that manifests during certain periods or temporary malfunctions due to unfavorable circumstances and outlining some directions for medium and long term regarding financial policy or the development of economic sectors.

From the structural point of view, from the above definitions we can distinguish three basic elements of the tax system⁵:

- system of taxes and other revenues that the state, through its specialized, charge them on the basis of legislative regulations to ensure public revenues to the state budget. Because these taxes are imposed by legal regulations enshrine a claim on the state tax payers they should all be clearly included as a component of the tax system;

- methods, techniques and tools that are part of the mechanism by which the tax becomes possible confusion, tracking and budget revenues;

- tax system, accounting for binding element between the two components mentioned above, aimed at ensuring the functionality tax mechanism and implementation of tax claims.

Through fiscal system components occurring relationships which generates tax flows both ways. On the one hand, we can speak of incoming flows in the tax system, which are due to real processes occurring in the economy, depending on many factors

⁵ Constantin Topciu - „*Fiscalitate*” (*Fiscality*), Secorex Publishing, Bucharest, 1998; Georgeta Vintilă - „*Fiscalitate, metode și tehnici fiscale*” (*Fiscality, tax methods and techniques*), Economica Publishing, Bucharest, 2004

such as the degree of development of the economy, the volume of investments, the degree of savings of the population, economic policy, the regulation of various sectors of economic life. These flows are actually input tax levy funds that the state mobilizes. The economic and fiscal policies, the state's ability to intervene on these flows; these interventions should concern the goals of the state as a separate entity but should be correlated with economic and tax regulations of other states. Having to deal with a system where a decision is based must consider tax implications and that always appears in a feedback system, which ensures system regulation. Adjustments can occur if deviations at a level output quantities normally expected under statutory levies. Adjustments can occur when input quantities deviates from a predetermined level. So the systemic approach of a tax system is mandatory for understanding how it works and to substantiate the correct decisions regarding measures to be taken within its desired aims to ensure economic, financial and social.

2. Optimal Tax System?

An important problem today lies in the attention of many lawyers, economists and policy makers is to optimize the tax system. Introduction or modification of a tax is an issue which must be given importance because all consequences on multiple levels: economic and financial, social and not least politically.

To meet certain requirements for quality and performance, modern tax systems must be organized and operate on the basis of commonly accepted principles. Among them stands out the principle of fairness and efficiency, which makes counterbalance, most often the subject of disputes related to taxation, each seeking to placate tax more or less, these two requirements.

Considered by Adam Smith⁶ as a defining principle of a good tax system, the principle of tax equity is required not only for philosophical reasons, namely to ensure social justice in taxes, but also from practical considerations, knowing that generates an inequitable tax system state resistance from taxpayers who materializes raising of evading tax obligations. Moreover, while the accumulation of discontent can contribute to the fall from power of political factors, which outlines its fiscal policy based on fairness.

In theory, the notion of tax fairness is easy to understand and explain it assuming cumulative fulfillment of conditions such as:

- establishment of minimum taxable income depending on the nature of which is covered by the tax, and the establishment of tax exemptions or reductions to allow decent life satisfaction;
- general application of taxes, so they affect all walks of earning income from the same source or possessing the same kind of fortune;
- setting the tax burden on the power input, and this requires differentiation tax burden from one subject to another taxable, so depending on the amount and nature of taxable and their personal situation;
- the same power input tax burden is the same for all individuals, regardless of social class they belong to, all legal persons, whatever legal form they are organized and operate.

Given the above, more and more economists, particularly followers Neokeynesianism believes that a modern tax system should aim both horizontal equity, ie identical tax treatment for those who are essentially equal in terms of ability to pay

⁶ Adam Smith - „*Avuția națiunilor*” (Wealth of Nations 1776), Romanian Academy Publishing, București, 1965

and vertical equity or tax treatment different for different people, aiming at a “redistribution of income between members of society in order to reduce or eliminate inequalities generated by the market mechanism”⁷.

If, in terms of ensuring horizontal equity, it is generally well accepted and appreciated on vertical equity related controversy arises possible ways of achieving income redistribution, considered by some arbitrary redistribution. In Romania fiscal equality is enshrined in the Constitution, such “legal taxation system must ensure a fair distribution of the tax burden”.

Modeling tax system in order to achieve maximum efficiency of tax collection involves a thorough analysis of the amount of revenue that can be obtained, along with the costs incurred for their collection. The principle of tax collection efficiency (or return) taxes is to be charged with minimum cost and by obtaining a large amount of revenue to the state budget.

Maximizing revenues collected from taxes must be viewed in two ways, on the one hand, in terms of the level of taxation to which there is a degree of affordability of the population and, on the other hand, from the point of view of where it is collected taxes to the state budget.

It should be borne in mind that, if a “easier” tax is applied to obtain a higher degree of collection (degree of voluntary compliance of taxpayers – full pay voluntarily and on time – is higher), which makes income obtained state to be much higher in some cases than those obtained when an “burdensome” income tax, the degree of collection is much smaller, and usually leads to increased tax collection costs (increase the number of people at risk in evading taxes imposing therefore both an increase and a fiscal system reinforcing action control).

In general, it is considered that a tax with a wide range of coverage and low levels have a higher yield than a tax with a small area and strong. The efficiency of tax collection is subject to a number of factors, including very important, especially in the conditions of our country, believed to be as follows:

- stability of legislation, the issue of legislation and clear rules for their application, which does not create confusion in interpretation. In this sense, Adam Smith believed that “a small uncertainty is a defect larger than a considerable degree of injustice”;
- training plus intellectual and moral capacity of staff and work within various organizational structures of tax institutions;
- equal tax treatment of all taxpayers;
- reducing to a minimum and unproductive government spending uneconomic;
- more thorough analysis on granting tax incentives so as to achieve the objectives of this and not only contribute to a drastic reduction of budget revenues, as has happened many times in the past 19 years;
- discouraging tax evasion and reducing the underground economy.

Given the various types of taxes may be appreciation that taxes levied by withholding method generates the lowest costs for collecting and detecting cases of tax evasion.

At the opposite extreme lie excise duty, these taxes are generating the largest collection expenses and, in particular the discovery of cases of tax evasion. If the temptation to evade these taxes, even under conditions of maximum risk of tax obligations through various forms, is very high, due to the huge revenue that can be

⁷ Tatiana Moșteanu - “Structura fiscală și impunerea echilibrată” (*The tax structure and imposition balanced*), Tribuna Economică Review no.49/4 december 2002.

obtained through circumvention of the law, revenues generated by high tax rates and method of calculating the cascade them.

Tax system is characteristic to the following objectives:

- budgetary financing institution - allocation of resources;
- Instead of regulating the economy - anticyclical;
- social - redistribution of wealth and protection of socially disadvantaged

people.

The different stages of social evolution differ in particular by the level of material civilization, determined by the degree of development of productive forces, but also by society members the opportunity to access goods and services, largely conditioned property. According to these criteria, it is considered that human society has come far more productive ways, called technical modes of production, which together with the corresponding superstructure, constituted various ordinances or socio-economic systems.

Two societies are never strictly similar, but the finding of this diversity is not possible to advance in the analysis of economic laws and mechanisms. The emergence and development of tax systems is not a product of chance, but are inextricably linked to the satisfaction of human needs and the existence of a social organization of humanity.

If the individual in contemporary societies needs is achieved through the market mechanism, social and collective needs is a more complex character. Some social needs can be satisfied either through the market or on account of public utilities, depending on the policy of the State. Instead social needs can not be met through the market, but by the public authority, on account of the individual activities that provide public utilities. They are used in common while several or all subjects in the economy.

The level needs and satisfaction level of their constantly evolving under the influence of factors such as socio-economic and political, while acting on the structure of tax systems in the sense of limiting or extending their economic action. Each country has its own stages of development and growth. These steps do not perfectly reproduce the same spatial and temporal. The needs of human societies in each country and how to meet them have a specific character, and hence the diversity of tax structures.

I believe that is not enough to determine the factors influencing the evolving nature of tax systems, such as the state of the economic structures, number and demographic structure of the population, individual psychology, political and social role, levels, structure and evolution of budgetary expenditure, inflation and unemployment. The analysis of these elements requires a comprehensive approach due to mutual inter-connections. The question is to find a common point of reference, true spatial and temporal, which is the level and composition of income derived and used.

The technical details are dependent on the existence of tax and taxable nature of matter and it depends on the level, structure and evolution of income realized by the manner of the income of psychological behavior and decisions of subjects from business, political decisions of the state. The level and structure of income are related to the extent and structure economic activity, the extent and evolution of the investment process, the emergence and evolution of inflation and unemployment phenomenon. Level individual needs evolve in response to developments in the degree of civilization and culture, but much of it can be taken for meeting social needs is limited by income level for ensuring current individual needs. Failure correlations between needs and utilities led the social movements in human history, caused by the harshness and unfairness of the tax levy. These moves have resulted in reforms in the

political, social, religious, fiscal, contributing directly or indirectly to the development of tax systems.

3. Conclusions

Contemporary tax systems are a product of the history of human civilization. Fiscal and structural evolution reflects the evolution of the dominant features of social and economic structures, the ideological and political trends and research in the last three hundred years. Summary analysis of overall developments in country-specific tax systems in a temporal approach is a difficult thing. The difficulty is to obtain information research, synthesize and systematize them optimally, under the restriction of subject area approach.

Delimitation of knowledge defining stages of evolution of tax systems is difficult, but not impossible. Their knowledge allows understanding the present, foreshadowing the future and bypass the past.

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