

The Fiscal Policy in the EU States from Central and Eastern Europe

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Abstract. *The fiscal reforms in most of the Member States are different, oscillating between the implementation of their own fiscal policies, by increasing or reducing fiscal tasks and the process of implementing the fiscal European policy according to the EU taxations or recommendations both on the level of the tax payers but also on the level of the public decisive actors. In this article we identified a wide variety of fiscal strategies in countries which generated the crisis: some of them increased the consumption taxes while others introduced an increase in the tax on profit but also new solutions. In this article we carried out a comparative analysis of the evolution of the types of taxes in the ECC countries but also their efficiency.*

Keywords: VAT, tax on profit, tax on income, social contributions

JEL classification: E62, P35

1. Introduction

On the level of the European Union there is not any integrated fiscal system but a mix of different national fiscal systems. In the context of the regionalisation, harmonisation of the economic and political systems, but also of the financial crisis in the last years on the level of the Member States there were a series of financial disparities affecting directly the taxation basis especially for the direct taxes with negative effects in collecting the public fiscal incomes.

2. The evolution of fiscal incomes in Central and Eastern Europe (CEE) countries

Romania has the second lowest GDP share in the budget earnings in the European Union (EU) – fiscal and non fiscal earnings, these representing in 2015 only 34,8% from GDP with 10,2 pp under the European average, while the level of the fiscal earnings reported to GDP (taxes and social contributions) was of 28%, value significantly lower than in similar economies as in Hungary (39,2%), Slovenia (36,9%), the Czech Republic (34,7%) and Poland (33,4%).

The fiscal earnings collected in 2015 were higher than those from the draft budget, under the circumstances of an advance of the nominal GDP which is superior to the anticipated one. The efficiency degree of taxation increased significantly in the case of VAT and the social insurance contributions (CAS), the tax on profit and the tax on income also increased, while the budget execution for the receipts from excise indicates a contrary evolution. Even if the improvement of the efficiency of collections from 2015 represents a positive element, we have to underline the fact that in this moment we can notice only a maintenance on the level of 2013, and the sources of this increased volatility are not identifiable in this moment, the process of reorganising ANAF is one of the factors.

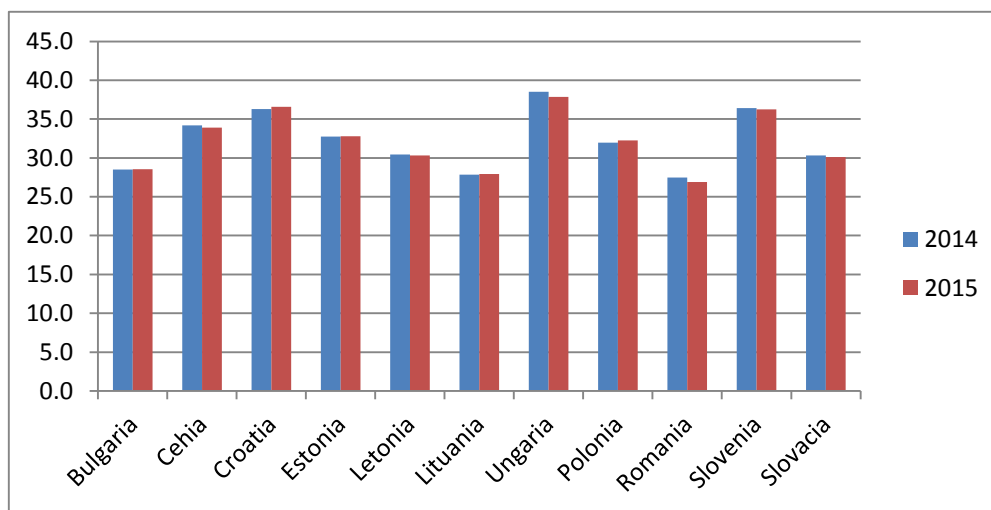


Chart 1. The evolution of the fiscal earnings in CEE

Source: Own calculations based on the data taken from the report *Taxation trends in the European Union, edition 2015*

According to the World Bank Report, Romania was in 2014 on the 136th position from 183 countries on a worldwide level for the ease of paying taxes (a growth as opposed to place 154 occupied in the previous year).

3. Tax on profit

In the period 2013-2014, a state from the region reduced with one percentage the level of the tax on profit: Slovakia, other two Member States decided to relax the direct taxation in the same period. According to the last Eurostat report, the highest reduction of 2 percents was applied by Great Britain (from 23% to 21%), being followed by Slovakia (from 23% to 22%) and Denmark (from 25% to 24.5%). Romania remains the country with the lowest taxes on profit (16%), both on the level of the European Union, and on the level of Central and Eastern Europe. The average share on a regional level of 17,45%, is currently with 6 percentage points under the average of the European Union (23,1% in 2014). From the countries in Central and Eastern Europe, Romania is closest to Poland, both on the level of the applied quota (Poland - 19%), but also as a variation the two countries having an unmodified taxation rate in the last 5 years. We have to calculate the possibility that on an average term Romania will change the details of this comparison, if the progressive taxation will become a reality.

As opposed to the European Union where the tax on profit varies between 10% (Bulgaria) and 38% (France), the Central and Eastern Europe is characterised by lower variations from one state to the other and of the applied quotas. The lowest level is 10% in Bulgaria and the highest of 22% in Slovakia.

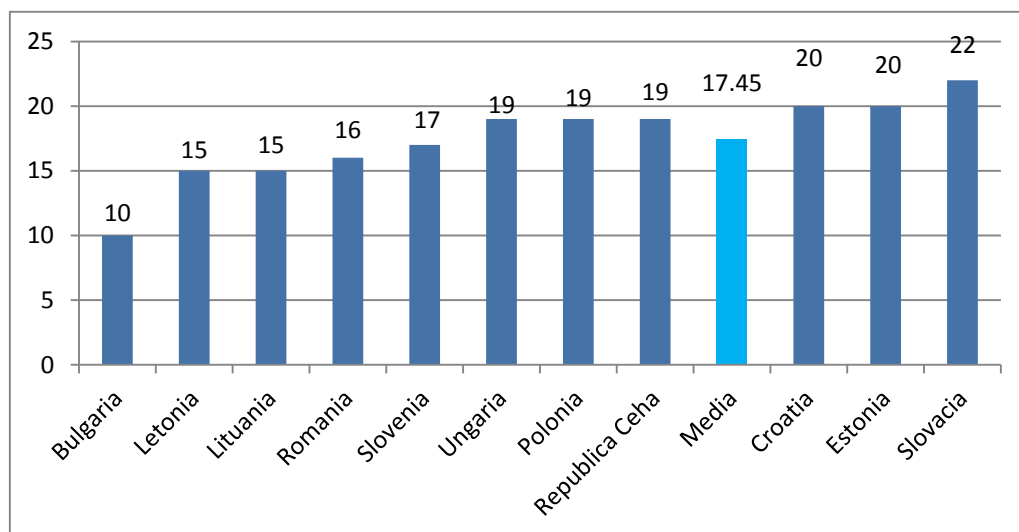


Chart 2. Quotas of the tax on profit in Central and Eastern Europe - UE

Source: Calculations of the author based on the data from the study *Central Eastern European Tax Brochure 2015*

As for the efficiency of the tax on profit we can notice that from the sample of the analysed country the best placed on is Bulgaria which is on the first place in all three analysed years followed by the Czech Republic and Slovakia. We can notice the fact that all countries registered a slight increase of the efficiency of collecting in 2015 as compared to the previous year, including Romania.

Table no. 1.

Efficiency of taxation – tax on profit

Country	Standard taxation quote			Implicit taxation rate			Efficiency taxation index			Position		
	2013	2014	2015	2013	2014	2015	2013	2014	2015	2013	2014	2015
Bulgaria	10,0	10,0	10,0	4,3	4,2	4,7	0,43	0,42	0,47	1	1	1
Czech Republic	19,0	19,0	19,0	6,6	6,6	NA	0,35	0,35	0,36	2	2	2
Estonia	21,0	21,0	20,0	4,0	4,2	5,3	0,19	0,20	0,27	6	7	4
Lithuania	15,0	15,0	15,0	3,3	3,3	3,4	0,22	0,22	0,23	4	5	6
Latvia	15,0	15,0	15,0	2,7	2,7	3,2	0,18	0,18	0,21	9	9	7
Hungary	20,6	20,6	20,6	3,3	3,8	3,9	0,16	0,19	0,19	10	8	9
Poland	19,0	19,0	19,0	3,4	3,4	NA	0,18	0,18	NA	8	10	NA
Romania	16,0	16,0	16,0	3,0	3,3	3,5	0,19	0,21	0,22	7	6	7
Slovenia	17,0	17,0	17,0	3,3	3,8	3,9	0,20	0,22	0,23	5	4	5
Slovakia	23,0	22,0	22,0	5,7	6,4	6,6	0,25	0,29	0,30	3	3	3

Source: Fiscal Council, Annual report 2015

As compared to the other countries in Central and Eastern Europe on the level of the year 2014, Romania was situated on the sixth position in the sample of analysed countries, improving its position from 2013 under the circumstance when Poland was not taken into account for the year 2014, the data are not available yes with a degree of efficiency of taxation of 0,21 and an implicit taxation rate of 3,3% (calculated as a report between the direct taxes paid by enterprises and the gross surplus from

exploitation from the national accounts, as an approximate amount for the taxation basis). On the level of the year 2015, Romania was situated in the sample of analysed countries on the seventh position, down with one position in the classification although the index of the efficiency of taxation is higher in 2015 as opposed to 2014 (0,22 as opposed to 0,21).

4. VAT

The tendency of growth of the VAT, manifested from 2009 as an effect of the attempts to reduce the deficiencies of national budgets was alleviated in the period 2013-2014. In this interval, one country from the region increased the VAT by two percents that is (with 22%), without the change to influence significantly the average quote calculated for the 10 countries, of 22,5%. The level is close to the one in the European Union (21,5%).

VAT remains an important fiscal burden in Central and Eastern Europe, Romania being on the 3rd place from the point of view of the level of this quota, after Hungary (27%) and Croatia (25%). The quote of 24% maintains Romania on one of the first places on the level of the European Union, only 4 states having a high VAT: Hungary, Croatia, Denmark (25%) and Sweden (25%). On the opposite pole we have Luxembourg (15%) and Malta (18%).

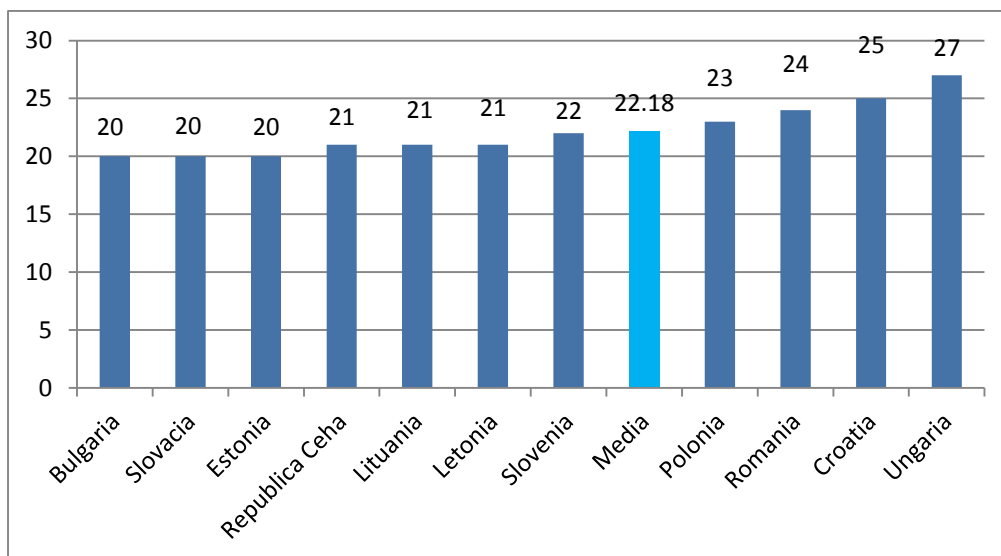


Chart 3. VAT quotas in Central and Eastern Europe - UE

Source: Author calculation based on the data from the study *Central Eastern European Tax Brochure 2015*

Evaluating the efficiency of collecting the taxes through the report between the implicit taxation rate (defined as a report between the collected earnings for a certain type of tax and the macroeconomic taxation basis) and the legal taxation rate we notice that the degree of taxation efficiency for VAT significantly decreased in Romania as compared to the period previous to the economic crisis, this phenomenon being common on the level of the new EU Member States from Central and Eastern Europe (NSM10). After a relative stability of the index in the period 2010-2013 we notice a significant deterioration of it in 2014 in Romania probably due to the growth of fiscal evasion.

Table no. 2.

Efficiency of taxation - VAT

Country	Standard taxation quote			Implicit taxation rate			Efficiency taxation index			Position		
	2013	2014	2015	2013	2014	2015	2013	2014	2015	2013	2014	2015
Bulgaria	17,2	17,2	17,1	14,9	14,2	14,7	0,87	0,82	0,86	2	4	4
The Czech Republic	18,9	18,9	18,8	15,0	15,4	15,6	0,79	0,82	0,83	4	5	5
Estonia	18,9	18,8	18,8	16,0	16,8	17,6	0,85	0,89	0,93	3	2	2
Lithuania	19,5	19,4	19,4	12,1	12,4	12,5	0,62	0,64	0,65	8	7	9
Latvia	19,4	19,4	19,3	11,9	12,1	12,1	0,61	0,62	0,63	9	9	10
Hungary	22,9	21,8	21,7	17,1	18,6	19,8	0,75	0,85	0,91	5	3	3
Poland	16,9	16,8	17,1	11,6	11,9	12,0	0,68	0,71	0,70	6	6	7
Romania	21,5	20,8	18,4	13,5	12,7	13,3	0,63	0,61	0,72	7	10	6
Slovenia	15,4	16,4	16,5	15,4	15,9	16,1	1,00	0,97	0,98	1	1	1
Slovakia	18,7	18,9	18,7	11,2	11,7	12,4	0,60	0,62	0,66	10	8	8

Source: Fiscal council, annual report 2015

As compared to the degree of efficiency of taxation in the case of VAT on the level of 2015 for the new EU Member States in Central and Eastern Europe (NSM ECE), the value of 0,72 registered by Romania, is significantly lower than the one from Slovenia (0,98), Estonia (0,93), Hungary (0,91), Bulgaria (0,86) and the Czech Republic (0,83). Romania collected in 2015 8,17% from GDP from earnings from VAT as opposed to 8,35% from GDP in Slovenia, 8,93% in Bulgaria, 9,15% in Estonia and 9,81% in Hungary, under the circumstances when the average VAT share in these countries was of 16,5% in Slovenia, 17,1% in Bulgaria, 18,8% in Estonia and 21,7% in Hungary; Romania registering an average share of 18,4%. On the level of 2015, a reduced efficiency of taxation according to the above mentioned definition could be noticed in Lithuania, Latvia, Poland and Slovakia. We can notice a significant leap in this classification registered by Romania in 2015, an advance of 4 places up to the sixth position. The best classified is Slovenia on the first place followed by Estonia and Hungary.

On the other hand, Aizenmann J. and Y. Jinjark (2005), examining a panel of 44 de countries in the period 1970-1999, infer that the efficiency of collecting VAT is in inverse ration with the GDP share in agriculture and directly proportional with the degree of urbanisation and degree of trade openness – the Romanian indices are not favourable in the case of the three variables. We have to mention that the method of calculating the efficiency indicator of VAT does not take into consideration the impact of the reduced VAT shares.

Another aspect is the fact that the differences on the level of taxation efficiency index point out the structural differences between the economies taking into account that the highest percentage of the population in the rural environment from Romania is reflected in a higher share of the self consumption and the country market (non-taxable).

5. Tax on profit

The system of the tax on profit in the 10 analysed states from Central and Eastern Europe did not register any changes in the period 2013-2015. Bulgaria remains the country with the lowest tax on profit share in the region, of 10% which the highest rates are in Croatia and Slovenia (maximum quote of 50%). The taxation system based on the flat tax is applied in 7 of the 10 countries while in the other 3 states the system of progressive taxes works. The Eurostat data point out the fact that on the level of the European Union there were no major changes: besides Finland and Sweden increasing the tax on profit, no other Member States changed the taxation quotes in the last years.

Table no. 3

The tax on income share in Central and Eastern Europe - UE

Country	Type of tax	Share
Bulgaria	Flat tax	10%
Slovakia	Progressive	19%/25%
Estonia	Flat tax	20
The Czech Republic	Flat tax	15%
Slovenia	Progressive	16%/27%/41%/50%
Poland	Progressive	18%/32%
Lithuania	Flat tax	15%
Latvia	Flat tax	23%
Romania	Flat tax	16%
Croatia	Progressive	12%/25%/40%
Hungary	Flat tax	16%

Source: Processing of the author based on the data from the study *Central Eastern European Tax Brochure, 2015*

Comparing the variations of the tax on profit share on the level of the region with those from the European Union, we notice high differences between the countries. In the European Union, the lowest share is that of Bulgaria (10%), and the highest of over 55% are applicable in Sweden and Denmark. With 16%, Romania is among the EU countries with the lowest tax on profit, along with Bulgaria, Lithuania and Hungary. The analysis of the percentages and differences between the countries has to take into account a lot of aspects: the existence of the progressive taxation system, the criteria of granting fiscal deductions, fiscal deductions, differences in defining the taxation base, etc.

Table no. 4

The efficiency of taxation – tax on profit

Country	Standard taxation rate			Implicit taxation rate			Taxation efficiency index			Position		
	2013	2014	2015	2013	2014	2015	2013	2014	2015	2013	2014	2015
Bulgaria	10,0	10,0	10,0	8,5	9,2	9,1	0,85	0,92	0,91	1	1	1
The Czech Republic	15,0	15,0	15,0	9,0	9,4	NA	0,60	0,63	0,61	7	7	7
Estonia	21,0	21,0	20,0	16,0	16,5	16,1	0,76	0,79	0,81	5	4	4
Lithuania	24,0	24,0	23,0	17,1	16,7	16,1	0,71	0,70	0,70	6	6	6
Latvia	15,0	15,0	15,0	11,7	11,8	12,2	0,78	0,79	0,81	3	5	3
Hungary	16,0	16,0	16,0	12,4	12,8	12,8	0,78	0,80	0,80	4	3	5
Poland	25,0	25,0	25,0	14,3	14,5	NA	0,57	0,58	NA	8	8	NA
Romania	16,0	16,0	16,0	13,5	13,4	13,7	0,84	0,84	0,86	2	2	2

Slovenia	27,0	27,0	27,0	11,9	12,0	12,3	0,44	0,45	0,46	10	10	9
Slovakia	22,0	22,0	22,0	11,6	11,7	12,7	0,53	0,53	0,58	9	9	8

Source: Fiscal Council, Annual report 2015

As compared to the other countries from the region, Romania is on the second position in the sample, with a degree of efficiency of taxation of 0,86 and an implicit taxation rate 13,71% (calculated as a report between the direct taxes paid by the population and the gross salaries in the national accounts – including the ones in the unobserved economy, from which CAS was deduced and paid by the employees). The level registered by this indicator in Romania remains pretty high, the period 2009-2015 being characterised by a constant improvement of the efficiency of collection, the receipts for the tax on profit and salaries advancing constantly in a high rhythm registered by the corresponding macroeconomic base.

6. Social contributions

In the case of social contributions, we notice big differences between the states from the analysed sample, from the states with the lowest levels of contributions Slovenia, Bulgaria and Croatia, to states as the Czech Republic, Slovakia and Estonia where the level is almost double as opposed to the first mentioned ones. Romania is on the middle of the interval with the level of 23% along with Latvia and Poland.

Table no. 5

The shares of social contributions (employer) in Central and Eastern Europe - UE

Country	Share
Bulgaria	16,7%
Slovakia	35,2%
Estonia	33,8%
the Czech Republic	34%
Slovenia	16,1%
Poland	21%
Lithuania	30,98%
Latvia	23,59%
Romania	23%
Croatia	17,2%
Hungary	28,5%

Source: Calculations of the author based on the data from the study Central Eastern European Tax Brochure 2015

As compared to the other countries from the region, Romania is on the 6th place as for the efficiency of collecting the social contributions, improving its position in 2014 with one place, but under the circumstances when Poland was not taken into account for 2015, the data are not available yet, this country being before Romania. In spite of these, the implicit taxation rate is inferior to the level from many countries perceiving a lower level of social contributions, and the level of legal aggregated share of social contributions is the fifth in the region being equal to Poland (after Slovakia, Hungary, Lithuania and the Czech Republic). An improvement of the degree of efficiency of taxation in Romania on the level of Slovenia (country situated on the third position according to efficiency) would have generated additional income of 10,5 mld. lei (circa 1,6% from GDP) on the level of 2015.

Table no. 6

Efficiency of taxation – social contributions

Country	Standard taxation ate			Implicit taxation rate			Efficiency taxation index			Position		
	2013	2014	2015	2013	2014	2015	2013	2014	2015	2013	2014	2015
Bulgaria	31,0	31,0	31,0	22,0	22,5	23,2	0,71	0,72	0,75	10	8	7
Czech Republic	45,3	45,3	45,3	47,7	48,4	49,1	1,05	1,07	1,08	2	1	1
Estonia	37,2	36,0	35,4	32,9	32,4	31,9	0,88	0,90	0,90	6	5	4
Lithuania	35,1	35,1	34,1	25,7	24,6	23,3	0,73	0,70	0,68	9	9	8
Latvia	40,1	40,1	40,0	35,9	36,6	37,2	0,90	0,91	0,93	5	4	3
Hungary	47,0	47,0	47,0	38,0	38,9	39,0	0,81	0,83	0,83	7	6	5
Poland	39,6	39,6	39,4	42,5	42,2	NA	1,07	1,06	NA	1	2	NA
Romania	44,4	43,1	39,4	33,2	31,9	29,9	0,75	0,74	0,76	8	7	6
Slovenia	38,2	38,2	38,2	34,7	34,6	35,4	0,91	0,91	0,93	4	4	3
Slovakia	48,6	48,6	48,6	47,0	46,9	47,5	0,97	0,97	0,98	3	3	2

Source: Fiscal Council, Annual report 2015

7. Conclusions

When we compare the evolutions in the countries from Eastern Europe, they seem to be according to the suggestions from the reference literature, respectively the decrease of the share of direct taxation and the growth of the share of the consumption taxes. The fiscal measures from these countries suggest a positive evolution, according to the recommendation of the strategy Europe 2020 that is the budget consolidation accompanied by a restructuring of the fiscal system which could be favourable for development.

Analysing the changes in the fiscal systems from Eastern Europe we can notice a wide range of fiscal strategies in these countries generated by the crisis: some of them increased the consumption taxes, while others introduced and increased tax on profit and we can also identify new solutions which have not been previously used as for example the sector crisis taxes or the introduction of direct price regulation systems and of some new taxes generating additional taxes for the economic actors.

Some of the adopted measures do not appear as new taxes but they imply indirectly the reduction of incomes. Therefore, the region aimed at the development of complicated systems and less transparent taxation system, and in consequence these fiscal systems are harder to compare.

Taking into account the fiscal policy, the East-European governments should continue to move the fiscal task from work to taxation bases related to consumption, ownership and against pollution, with potential positive effects both for the economic growth and for the fight against fiscal evasion.

The examination of the taxes system in the EEC proves that fiscal tasks are a consequence of the high level of public expenses. In order to reach the major goal of the fiscal policy of reducing global fiscal pressure in these countries, the reduction of taxes should be accompanied by adjustments of public expenses and their reduction.

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