Fiscal reforms - Romania's Integrating Actions to EMU

MONICA SUSANU
Department of Business Administration, Faculty of Economics
"Dunarea de Jos" University
47 Domneasca Street, Galati
ROMANIA
susanu_mnc@yahoo.com

Abstract: - As a direct absolute drawing rule to the public authority's disposal, taxes are also the main regulators and engines of the social and economic system. However, their functions' exacerbation by growing the fiscal burden could lead to very negative social and economic consequences, since an old saying predicted that "it might kill the goose with the golden eggs". The estimation of the fiscal burden derives from a classic index that expresses the part of GDP that state takes as taxes and that might be relatively bigger in the developed countries than in the developing ones, directly connected with the whole volume of the national revenue. Associated with the fiscal policy, the term of fiscal pressure is widely spread in the literature and indicates the magnitude of the national revenue redistribution through taxes. Generally, it is a specialized word that expresses the average of the fiscal burden's intensity as a tax-payers' obligation to the central and local public authority. The amplitude and dynamics of the fiscal pressure is measured and estimated through the fiscal taxation ratio that is established by law or fiscal regulations. It is a fiscal coefficient expressing the very share of the national revenue taken by the state and is calculated as a percentage ratio for tax payments/revenues to the GDP considering. There are three ratios usually employed (low ratios, high ratios and optimum ratios) according to the average values of the fiscal taxation ratios on relatively long term of a certain country or group of countries, and by reference to the average ratios existing at a given moment in the countries at the top of world economy as well. To a certain extent, the present rise of the Romania's economy and social development reflects the existing global tendencies which are materialized in what the specialists call the transitional path towards the informational society, i.e. the society of knowledge and consciousness. As another challenge for the country, the integrative process requires the substantiation of a strategy that aims at gradually catching up with the countries that have developed within normal parameters along the trajectory of social and economic progress. Both support and motivation, the present Romania's struggle for integration in the European Union is actually an effort towards its social and economic second modernity. Being permanently interdependent with other macro-economic processes and policies, tax planning and tax policy play an important role both in ensuring and improving the financial stability and in sustaining an adequate environment for all economic activities. Although their different approaches and methods, tax planning and tax policy deal with the management of the accumulated public financial resources, i.e., the dynamics of fiscal pressure itself. The present study aims at analyzing the impact of fiscal reforms as reflected in the dynamics of the fiscal pressure from the perspective of various tax ratios and also the way it was felt against the integration in the euro zone background. Considering the context of the global financial turbulences, the paper intends to offer a mirror of the efforts Romania made towards the challenge that were faced up to now and that are still to be faced in the years to come.

Key-Words: Value added tax, corporate/profit tax, personal income tax, public finance, fiscal policy
JEL Classification: E $_{60}$, E $_{62}$; H $_{22}$, H $_{25}$, H $_{30}$

1 Introduction

The incidence and the action of the regulated taxes upon the various ways of manifestation of the national income as well as the manner they are transmitted along the economic circuits (through which income is generated, distributed and used), till the final consumer represent a matter of general knowledge. Within the wide classification of fiscal policy tools, there are three large categories of taxes of greatest relevance in the analysis of the quality of fiscal policy. They are considered *first-degree* taxes, and many analysts include them in a so-called *"taxes triangle"*, because of their structure that could serve as a solid ground for a conclusive analysis regarding the coherence of the relations established between the final objective and the fiscal tools of intervention, i. e., between the purpose and the instruments of the fiscal policy. The three taxes in question are the **VAT** (*value added tax*), the **CIT** (corporate income – *profit – tax)* and the **PIT** (*personal income tax,* where the salary tax represents a dominant component).

Moreover, the specific techniques of placing and collecting these three taxes could overlap the ways of calculating the aggregated macro-economic

indicators, arranged, in their turn, in a shape that describes the circuit of national economy. Thus, the informational relationship between these rates and the productive activity itself is useful for the policymakers, so that they could take appropriate decisions in order to improve the effectiveness of the tax system and of the national economy functioning as well.
It is worth to mention that this informational relationship is also the premises of the present study and. At the same time, one could consider as mostly relevant the developments of these three taxes within a certain period and aiming a certain goal, our analysis being focussed on Romania's efforts towards integration to EMU.

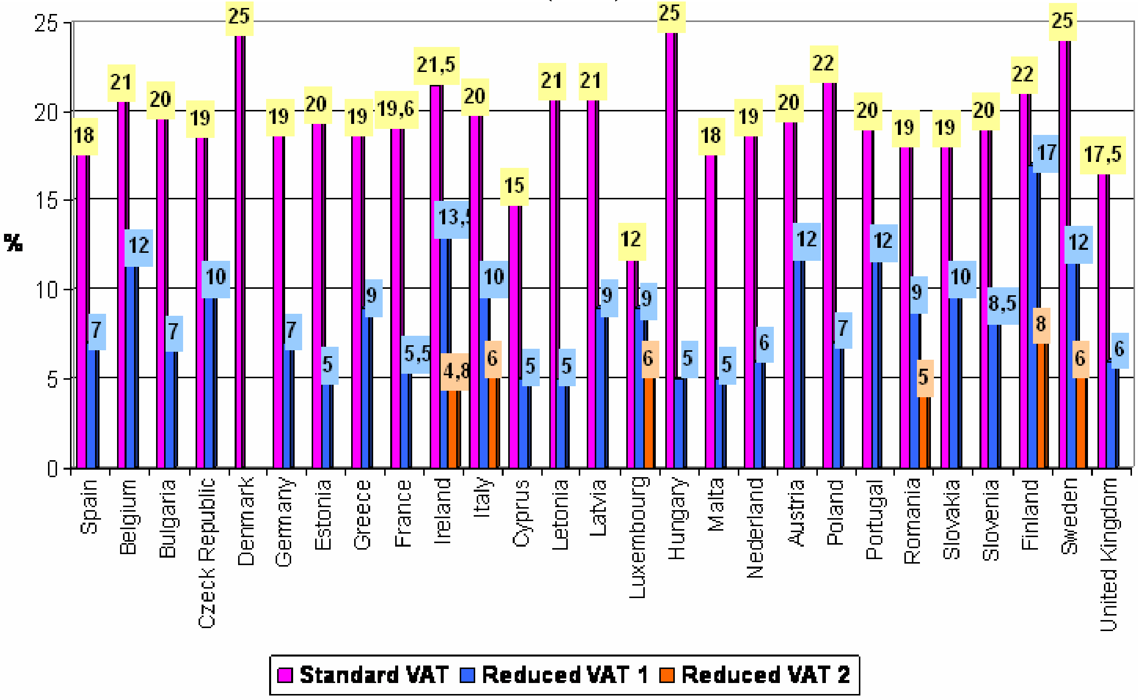
2 Significant Bench-Mark in VAT Practices

A first stage in approaching fiscal policy from the perspective of those three main taxes is based on the impact on economy exerted by the technique of placing the VAT, and that starts from the conception of national accounts, according to which the operations with goods and services are organized and carried on based on the market logics. Therefore, the *supply*, represented by imports and internal production, is confronted with and tends to counterbalance the *demand*, represented, in its turn, by exports and internal consumption.
On the one hand, at the basis of the mechanism of VAT functioning lie the complementary circuits of goods and services in a certain quantity named Q, and, on the other hand, the financial circuits also with a certain value named P. As constituted from both the above-described elements, the *quantity* (***q*** as a subunit of **Q**) and the *price* (***p*** as a fraction of **P**) negotiated at the value of factors, these circuits have complementary directions in economy and are accompanied by the value of the VAT corresponding to the regulated ratio (***c*** ratio VAT/%), without being included in this price though.
The engine that confers continuity and fluidity to these fluxes is the deduction principle and consists of the fact that the taxable person (registered as payer) collects VAT on the goods and services invoiced at selling, and then deducts VAT invoiced when acquiring goods and services necessary to carry on their own economic activity.
At a certain stage of the economic circuit a *difference* is made between the VAT corresponding to sells and the VAT corresponding to purchases at that stage, and according to regulations, this represents the *advance fractionate payment* of the single tax on added value. In doing so, the final payer of VAT will be the person and the individual households for their purchases which are evaluated at the market prices including VAT as well, smaller or equal to the regulated ratio, depending on whether the purchased goods and services come from payers or non-payers of VAT.
Although based on the theory of tax equivalence as well, there is another result of the deduction principle, meaning that the fractionate sums of VAT are paid in advance when selling goods and services and these sums are equal to the sums of VAT supported at their final purchase. Comparing these two factors, one can analyze the complex of causes that produce the difference between the potential VAT evaluated in the final product and the VAT effectively collected at the budget through anticipated fractionate payments.
The comparison of these two factors also displays the informational connection between the production planned for the market and the productive activity per se. The first is reflected in the turnover with which the VAT value circulates in the economy under the form of an annex, as an indirect tax, while the second is a value generator and is reflected in the gross added value.
This is the basis of calculating the VAT at the payer and it is also a taxable matter for several categories of direct taxes, among which the tax on profit and the income tax. Starting from the special mechanism of VAT placing and collecting, one could figure the first context in which the techniques of placing the main three important taxes and could express the predictable connections in the economy as well.
As regarding Romania, it is worth to underline that the fiscal policy in the first transitional years did not contain any mention of the Value Added Tax explicitly, but its meaning was appropriate in the so-called *trading goods tax*, which contributed to almost 30 per cent of the budgetary revenues. In accordance with the strategy goal of alignment to the EU fiscal practices and laws, in 1993 VAT was set up as a distinct and unique tax. Although there were frequent modifications adopted along these years, 30 per cent was constantly its weight in the sum of the indirect and consumption taxes.
Thus, starting with a standard rate of 18 per cent, it was increased to the present 19 per cent rate; concomitantly, another lower rate of 9 per cent is also set up, with yearly modifications at the level of the taxable basis; also zero VAT rate was applied for a long while, and a 5 per cent reduced share is recently set up as part of the social protectionist policy, since it concerns the selling of the dwellings and the land surfaces upon.
More and more detailed and comprehensive, VAT's application sphere was yearly diversified and enlarged with ever more goods, services and activities. It is important to mention that, both before and after adhesion, all these actions were aiming at the harmonisation of the Romanian fiscal laws with

the EU practices. When generalising the 19 % standard VAT rate in 2004, it was set up on almost all the goods and services, as against drastically diminishing of the basis of the 9 % VAT rate. The very alert rhythm and hardly predictable changes in the taxable basis led to a significant rate of fiscal evasion and to a worsening of the tax payers' behavioural and logics as well, concerning both economic activities and fiscal collection, too.

The graphics below shows the recent Romania's comparable developments in its efforts to integrating EU. One can observe the resemblance and even likening of the standard and multiple VAT rates, as to certify a certain Romanian economy's propensity to balance, despite the late start the history gave this country and regardless of so many and difficult stiffness.

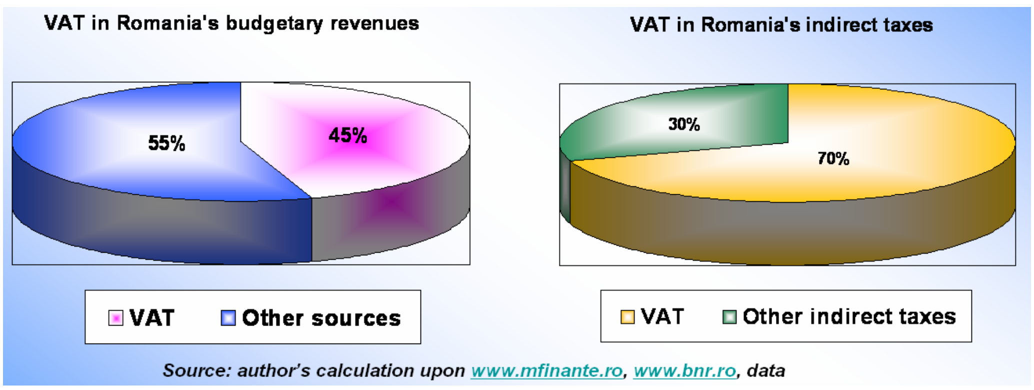
Value Added Tax (VAT) in EU Countries



Source: www.contzilla.ro/2009/10/, www.euractiv.ro/2009/10

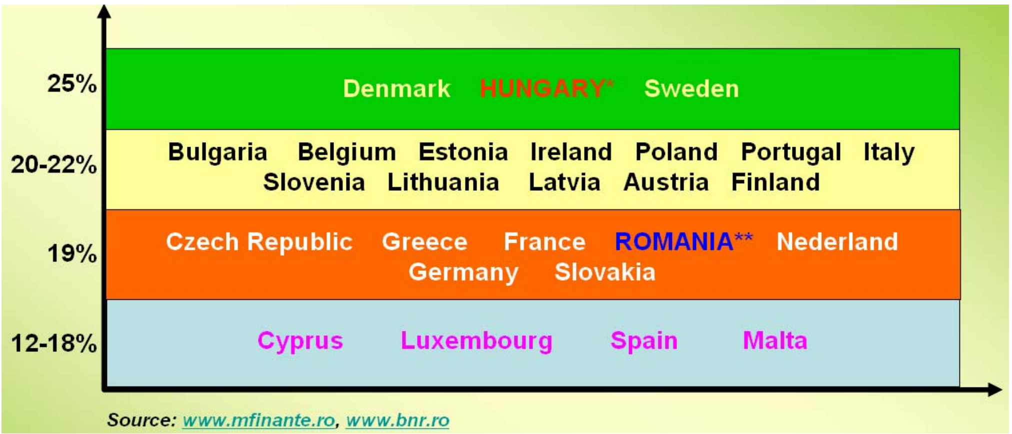
During 1993 – 2009, collecting VAT represented the most important source of the budgetary revenues, reaching to more than 45 per cent of the fiscal budgetary revenues and over 70 per cent from the sum of the indirect taxes in the last 2 – 3 years especially, out of all the modifications in applying and collecting this consumption tax. Otherwise, it followed the European trend, meaning the visible increase of VAT receipts and also as to-GDP ratios.

1993-2009 VAT collecting in Romania



Continuously large categories of goods, services and other activities were included within the standard VAT rate and thus the fiscal revenues were increased correspondingly. The highest rates are registered in Denmark, Poland, Sweden and Finland, while the lowest ones are in Spain, Italy and Malta. Hungary adopted 25 per cent VAT rate as one of the most rapid solution to growing the public revenues and damping the effects of the present financial turmoil as well.

EU countries upon VAT standard rate



Legend:
*** Hungary:** 25% VAT rate was adopted as rapid solution to growing the public revenues and to damping the effects of the financial crisis
**** Romania** continues to keep the same rate of 19% VAT

The last 5 – 6 years experiments contains the reason for such fiscal policy measure, since the indirect taxes gave certain but even slow impulse to the public revenues development.
When analysing the indirect taxes European developments and VAT especially, one could notice a slight growing trend of only 0.3- 0.4 per cent, similar but to South America countries.

3 Fiscal policy approaching on persons and income categories

Analysing the techniques of setting up the corporate/personal income tax should be founded on the conception according to which the balance between *supply* and *demand* is achieved not instantaneously but by means of the disposable income.
The disposable income is generated through the following successive stages of distribution operations:
a) The *primary distribution of income*, through which the added value is generated by the production and is distributed towards the factors and the budget. In the context of primary distribution, also called functional distribution of income, the focus of the analysis is upon the profit, which represents the income left from the added value generated by the achieved production, after covering all the factors involved in the productive activity. As a rule, the taxing ratio is fixed, but it can be differentiated according either to the source of origin, or to the basic destination of income.
b) The *redistribution of income and wealth*, as it results form the contractual commitments and especially from the legal obligations. In the context of redistribution of income and wealth, also called distribution of income according to size, the focus of the analysis is upon the income tax, taking into account the distribution of income among the individual households.

Introducing the principle of payment capability presupposes, as a starting point, to know the distribution determined by economic performance, on the one hand, and, on the other, it establishes the correction rules which lie at the basis of the analysis of income distribution into classes of size. Sustained by a certain economic doctrine, the public decision is the one that correlates the approach of the individual taxable income according to payment capability and, most often than not, this fact is expressed by a system of progressive ratios.
If various forms of fiscal income size and bases of taxation are combined, it results that multiple types of taxation can be calculated and used. These various ratios, in their turn, can have a particular use, according to the aim of any analysis of fiscal

policy and, correspondingly, they could play into the economy the role of transmitter of signals of inciting or hindering certain activities or processes, according to the social and economic agenda of the governmental management.

Financial planning at the individual level starts from knowing precisely the various facilities or constraints stipulated in the taxation system because based on these a certain decision is taken, a certain option regarding the consumption/savings ratio or the way of funding the investments – with own funds or with borrowed capital.

Different taxing ratios can have different uses at the level of fiscal administration as well, depending again on the goals of the financial and economic policy in force. For instance, the regulated ratio is used for the financial planning of regulating the general frame. Or, by reporting the intermediary values, the effective medium ratios are useful when evaluating the impact of the fiscal incentives upon certain variables and upon the basis of taxation.

Similarly, by relating the final fiscal obligations – or the effective payments from these – to the gross income, the medium effective ratio offers a series of valuable empirical observations and, at the same time, it expresses tendencies taken into account when elaborating the prognosis for budgetary income.

Therefore, at the stage of gross primary distribution and, respectively, of income redistribution, the types of tax payers involved are legal persons and, respectively, persons, taking into account the payment capability principle. These two groups of tax payers fall into distinct functional categories as follows:

- In the context of *supply*, the analysis is upon the legal persons, whilst
- In the context of *demand*, the persons are analyzed, as an expression of consumption.

Since the same principles and fiscal placement techniques operate both in the case of the legal persons' profit tax and in the case of the person's individual income, the occasional (and very possible) distortions in the primary distribution may be corrected by the state's intervention only and strictly at the individual level because, irrespective of their various forms of registration, the legal persons are actually the property of the individuals and the taxation of the legal persons have to be calculated down to their owners.

The analysis of how the disposable income is formed comprises the relevant aggregates for the analysis of the fiscal burden and, consequently, the correlation of the taxation techniques in the case of both categories of income becomes utterly necessary, i.e.:

- For legal persons it is necessary to apply the *a priori* analysis of the income incidence, in order to separate the aggregated fluxes of saving in direct relation to the investment, whilst
- For persons, the anticipation of the final consumption or of the saving determines the degree of correction, of adjustment (if the case be) of the disposable income at a given moment.

4 Referring to Corporate Income Tax

Due to the fact that the profit tax is calculated and collected only in the case of the companies that make a profit, the issue of a company's fiscal policy requires an extended analysis of other important elements in the evaluation of economic behavior, not only of the effective taxation ratio, such as:

a) Imposing the production factors both for their production cost feature and for that of the added value;

b) The treatment of depreciation which is very important in the economic reality strictly for its fiscal implications;

c) The treatment of fiscal losses, as an aspect which allows compensating some losses with the profits of several subsequent years;

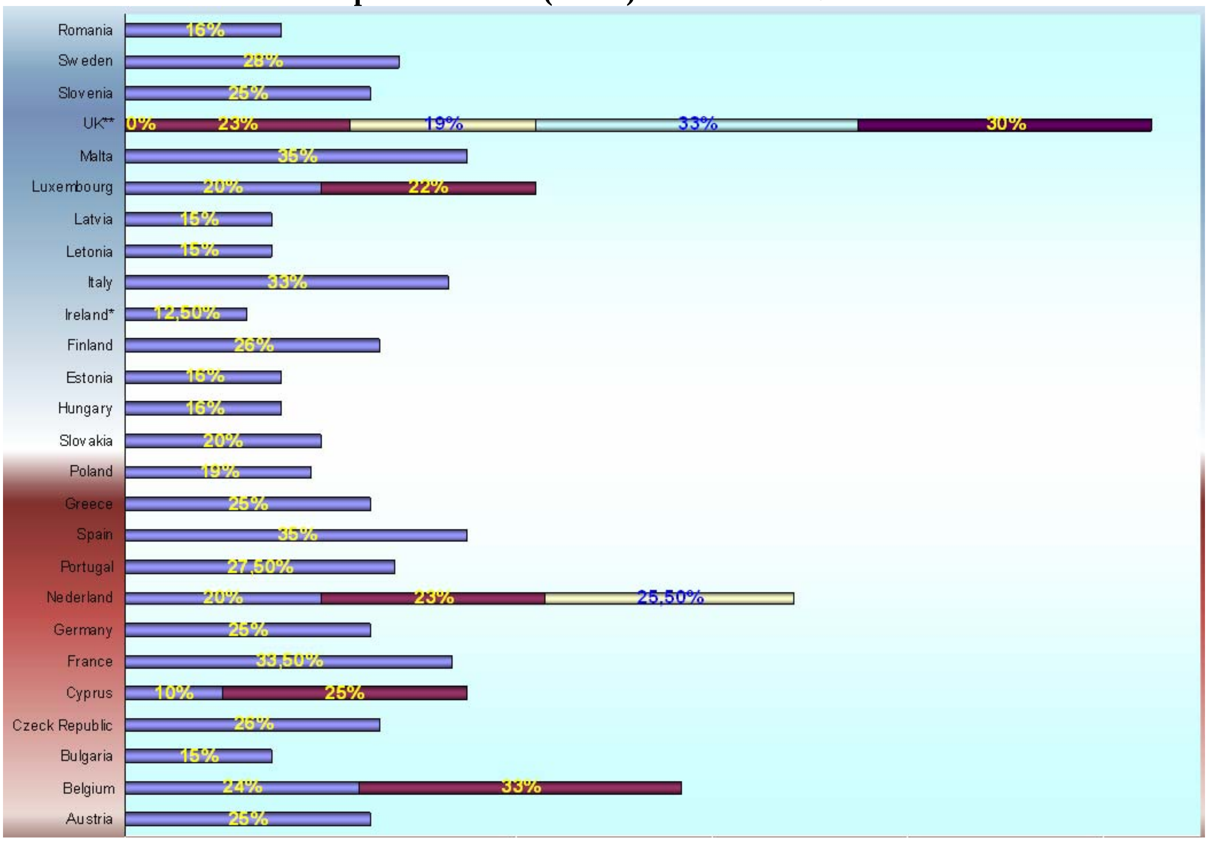
d) The fiscal treatment of the distributed and undistributed profit, as a fundamental aspect for the implications of the economic behavior upon the economy itself.

The ways of manifestation of the individual households' income are constituted and influenced by various categories of aggregates consequently, whether they come from primary distribution, from redistribution or from other sources.

The company's profit results after paying both for all the factors involved in the productive activities and all the contractual commitments and legal obligations. Usually, the taxing ratio is fixed, but it can also be differentiated according either to the source of origin, or to the basic destination of income.

As a starting point, the principle of *payment capability* assumes to know the distribution determined by economic performance and it also establishes the correction rules which lie at the basis of the analysis of income distribution into different size classes. On a certain economic ideology support, the public-policy makers should correlate the approach of the individual taxable income according to the payment capability and consequently, a system of progressive ratios is framed.

Corporate Income (Profit) Tax in EU Countries

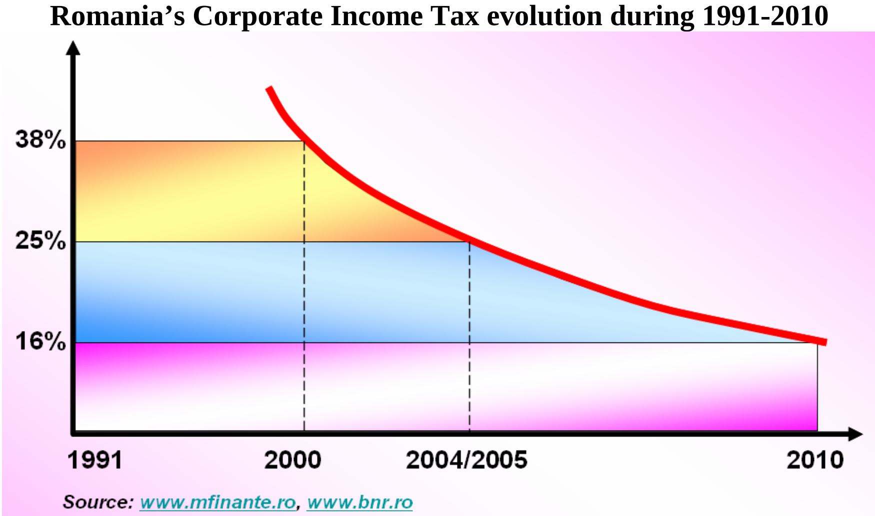


**10% since 2010*

*** Specific digressive system* *Source:* www.mfinante.ro

Since various forms of fiscal income size and taxable bases are combined, multiple types and rates of taxation can be calculated and used, according to the goal that fiscal policy analysis aims at. Moreover, it could deliver inciting or hindering signals for certain activities or processes correspondingly, according to the social and economic objectives of the governmental management. Therefore, many countries used the corporate income tax as one of the most an efficient mechanism to attract more and more foreign investments and Romania did the same by the beginning of its transitional process. But although unpleasant, with a view to ensuring more public revenues and also to reestablish the budgetary balance, new fiscal measures were approached in the last two years in many European countries, grounded on the actual financial turmoil especially.

Romania's Corporate Income Tax evolution during 1991-2010



As for Romania, the same trend of harmonization and alignment with the EU fiscal rules was applied, with an insignificant delay, however, comparing to the value added tax. By 1994 – 1995, the standard profit tax of 38 per cent was generalised for all categories or size of the firms and it was diminished to 25 per cent during 2000 – 2005.

EU countries upon CIT – Corporate Income Tax Rates

Legend
** For the maxim CIT rate*

Romania continues to be among the countries that used the CIT as an efficient mechanism to attract more and more FDI, thus explaining the lowering CIT rate from a general 38% standard rate in the beginning of the transitional process, to 16% standard rate, for both Corporate and Personal Income Tax. But while in Europe the average profit tax varies between 25.8 and 33 per cent, in January 1, 2005 Romania set up a fixed 16 per cent profit rate tax, similar to the personal income tax, which is still maintained even in these troublesome times. One can consider that this is another occasion to asses the visible and real Romania's economy capacity to a rapid adaptation to the rules and practices that traditional democratic countries carelessly experienced and applied for decades. Moreover, the graphics above also shows that all the fiscal measures concerning both corporate and personal incomes are pacing with the European tendency of continuously diminishing the direct taxes altogether. However, during 2009 many countries ceased the trend of slowly long-term diminishing the corporate income tax and, instead, important measures are oriented to restrict both the panel of deducible expenses and the tax collecting legal frame.

5 About fiscal pressure and behavioural public finance

Analyzing the predictable connections from the economy one should start from the placement techniques of the three important taxes. It refers to the balance between demand and supply, reached by means of the disposable income.

The result of production is identical to the (total) generated value, although correlated with the VAT to pay and with the income taxes. The disposable income (which reflects the distributed generated value) is identical to the final consumption of goods and services, as it is reflected in the VAT basis, to which the fractioned and paid in advance VAT, but supported by the final consumer, is added.

Thus, in the context of the income and expenses budget of the individual household, one may analyze the interaction of the fiscal burden resulting from the placement of direct and indirect taxes.

The structures of income and expenses are as multiple and various as the number itself of individual households. Analyzing the incidence of taxes requests the premise of gradate *a priori* analysis of the relations between the level and structure of income, as well as those between the level of income and the structure of expenses of a family budget.

In the modern fiscal systems, *the analysis of personal income tax* is frequently restricted to the

analysis of *salary income taxes*, keeping in mind its bi- dimensional condition:
a) Basic component of *supply*, from the perspective of production costs with which the human resource as labor force is remunerated, and
b) Relevant component of *demand:* because it reflects the consumption solvability, this tax is an anticipated payment, calculated and retained at the source by the very payers of income, i.e. it significantly participate in forming the gross disposable income. At the level of national economy, the effect of fiscal policy can be evaluated starting from the effective imposing ratio in the shape of *fiscal pressure*. This is calculated by reporting the sum of taxes paid by various categories of economic agents, after these values were processed and transformed, in order to adapt them to the demands of The European System of Accounts – ESA 95. Based on the data in the national accounting, the fiscal pressure is calculated reporting the sum of effectively supported taxes (by all categories of payers, producers or/and consumers alike) to that macro-economic variable which it has the strongest relation with. Many works in the field also call this report *"implicit ratio"* of imposing, being the result of some calculations based on the administrative information processing and then on their transforming and adapting to the rigours of the national accounts methodologies.

So far, most of the research evolves around the question of *how taxpayers perceive the burden that the government has placed on them.* According to this approach, at the individual, sector or global level, fiscal pressure indicates that part of income that is effectively supported by the tax payers involved in the income creating fluxes. Since its payers are producers, or consumers, this part influences the level of national income and, by this, the general macro-economic balance itself. Some analysts subsume all the above in the recently-adopted notion of *behavioural public finance*. They also provide a thorough review of the topics that are currently debated in this area of research. Within this area, it is generally implied that **"***form matters***"** when government revenues are to be levied from the taxpayers. Research in behavioural public finance brings forward biases that are known from psychology or behavioural finance in the area of public finances and thrives to discover biases that are yet unknown. This is why the analysis of fiscal pressure is indispensable both for the complete and coherent diagnosis of the economy, and especially for predicting certain complex phenomena which may exceed the economic sphere.

The careful evaluation of the elements that compose the basis of the aggregated imposing, as well as its reporting to the significant macro-economic variable, explains and substantiates the changes that may intervene in the level and weight of fiscal income in GDP; it also ensures the controlling levers of the budgetary deficit, and, from this perspective, could anticipate and describe the trend of the collective economic behavior.

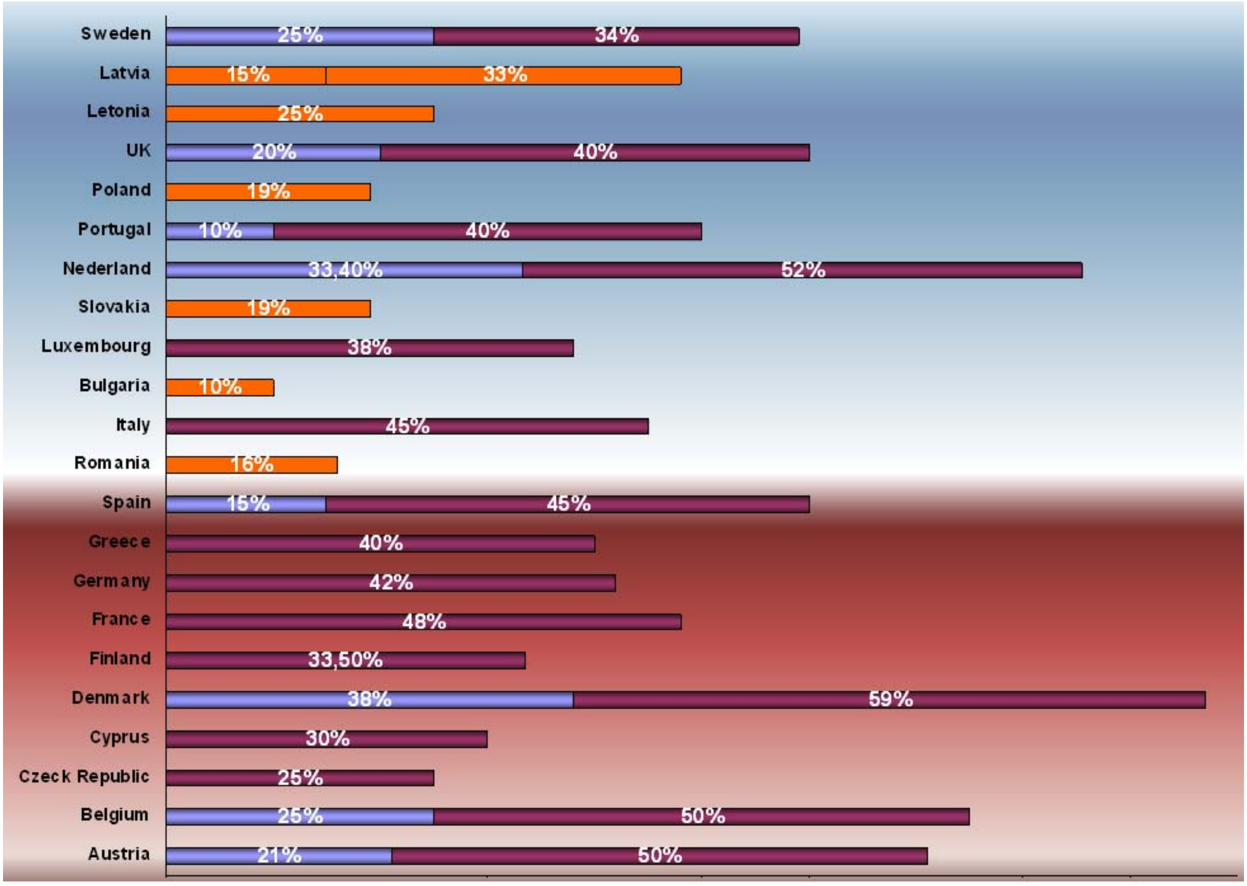
6 Developments of the Personal Income Tax

As regarding this tax, the lowest rates are typical of EU countries with low overall tax ratios; consequently, the new Member States tend to have low rates. The reverse is, however, not true: unlike in the case of the personal income tax, the two old Member States with the highest tax burden are Denmark and Sweden, which display corporate tax rates that are not much above the average. (This is linked to the fact that these countries adopted a Dual Income Tax system, which by its nature, tax capital income at a moderate rate.)

Top personal income tax rates differ very substantially, ranging from 16 to 59 per cent. Although detailed data on revenues after 2006 are slightly available, the development of tax rates is known up to the present. Currently, in the EU-27, the top personal income tax rate amounts to an average of 38.7 per cent and from 2006 it is unchanged yet. The present rate varies very substantially within the Union, ranging from a minimum of 16 per cent in Romania, to a maximum of 59 per cent in Denmark.

As a rule, the new Member States display lower top rates; indeed, only one of the old Member States, Luxembourg, would appear in a listing of the ten most moderate top PIT rates in the Union.

Personal Income Tax in EU Countries



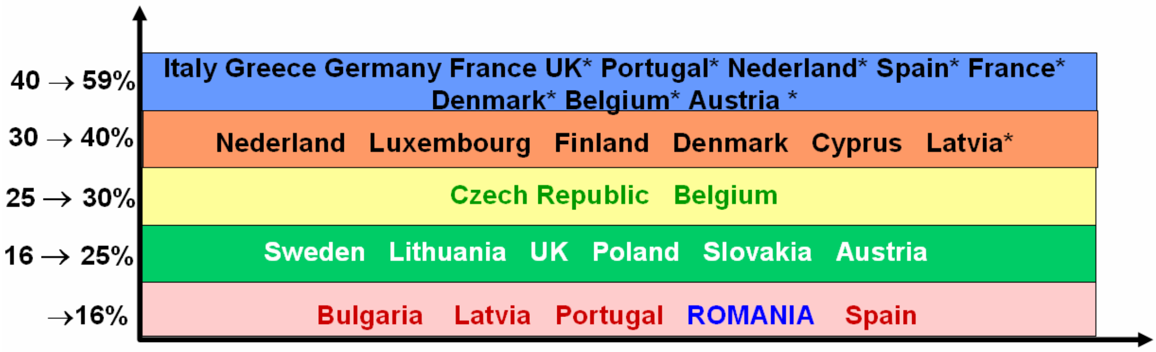
Notes:

ssive rates of income tax
come tax

Latvia: there are two flat income taxes according to the specific of income sources.
Source: www.mfinante.ro

As might be expected, the highest rates are typical of Member States with the most elevated overall tax ratios, such as the Northern countries, although Denmark, Belgium and Netherlands show the highest top personal income tax rate (excluding social security contributions). Not surprisingly, the lowest rates are found in Bulgaria, Romania and Slovakia, where the tax ratio (excluding Social Security Contributions - SSCs) is the lowest and respectively, the second lowest in the Union.

EU countries upon Personal Income Tax rates



Source: author's calculations upon www.mfinante.ro, www.bnr.ro data

Legend
** The maximum PIT rate*

Comments

- EU-27 PIT rate amounts at an average of 38,7%
- As a rule, the new Member States display lower PIT rates
- Denmark and Sweden adopted a Dual Income Tax System, which tax capital income at a moderate rate
- Romania keeps firmly the same 16% PIT rate, as a chance for an attractive business and environment

Obviously, the developed European countries would not agree the fiscal system of the flat/unique income tax, as long as investors are attracted to eastern countries and to the western countries disadvantage. But taking into account that there are not European directives that might restrict our policy in a way or another, the flat/income tax seems to be our only chance to preserve a stable and attractive business environment. Officials consider that the simplicity and flexibility of this tax make it a real magnet for the foreign investors, otherwise inhibited by the (still very) high level of SSCs.

Conclusions

In order to quantify the importance of these three taxes in the analysis of fiscal policy it is necessary to approach them from a double perspective: First, according to their contribution to the forming of public funds and the influence of evolution of the primary budgetary deficit in the context of the cyclic fluctuations of national income. Second, according to their influence on the interaction between the aggregated demand and supply, which determines the evolution of the national production and of the general level of prices, after all, meaning the inflation.

Despite the large literature on the impact of monetary policy on economic activity, fiscal policy has received less attention and its importance for economic stabilization has been typically neglected.
The recent financial turmoil has, however, revived the interest of academia, central bankers and governments on the role of fiscal policy.

In the policy debate on tax competition and tax harmonization in the European Union, there is a paradox: declining corporate tax rates have come along with rising tax-to-GDP ratios and that casts doubts on how serious is the threat of the public finances of Member States.

There are more difficulties in achieving a rigorous analysis of fiscal policy. For instance, as first impediment, one may mention the use of different accounting methods to determine the fiscal variables and the economic ones, such as: the public finances accounting, the economic agents accounting, the national accounting, the budgetary one, etc., but on top of these there are various studies and research of static nature which investigate the peculiarities of individual behaviors of economic agents. Then, there is somehow a natural time gap between different actions, and the direct or indirect effects cannot be completely evaluated till certain intervals have elapsed.
Another element of great importance worth mentioning is the theoretical position, the annalist's philosophy itself.
Tax competition undermines the fundamental reason for the existence of the corporate tax, which is to serve as a backstop for the personal income tax. It would imply that there *is* reason to worry about tax competition, since lower corporate tax rates do erode the financial basis of the public sector and of its redistributive policies in particular. But it is worth to mention that the European Commission proposed already a better co-ordination of national supervisors, harmonisation of national regulatory rules and the creation of a common European rule book.
Regarding the primary budgetary sold, this is directly influenced by the revenues collected from taxes and that cover the public expenses, except for the payment of interests for the public debt. The visible tendency of constant deterioration of the primary budgetary balance of the last years acutely raises the problem of detailed analysis of fiscal variables, as to identify the triggers of this evolution and which have direct implications on the predictions regarding public income. In addition, it ought to be kept in mind the fact that the hypothesis used in this type of predictions requires a serious empirical checking in order to guarantee them a certain degree of credibility and viability. Due to the multiple determinations and different sources of public revenues composed of taxes, the coordinates of fiscal policy aim at preventing the shocks which might influence the programmed revenues and expenses, i.e. maintaining the deficit as established in the economic target.

The level and the structure of the fiscal instruments exert a differentiated impact upon the size and dynamics of the budgetary deficit, as well as upon the relevant variables for the economic growth. For these reasons, one can explain the interest in determining the factors that might either stimulate or hinder the imposing flux at governmental level. Moreover, the conjectural variations, accumulated in time, of the VAT, of the personal / corporate income tax might determine very different and complex effects on economy. Due to the importance of these taxes in forming the public revenues, as well as to their ratio in the GDP, these variations manifest their influence synergistically and along a larger time span, reason for which one may state that they exert a privileged role in land-marking the coordinates of fiscal policy.

This paper shows that simply looking at these main taxes would lead to a relevant assessment concerning the trajectory of the integrating process of a European country. The graphics and statistics mirrored Romania's efforts towards its integration both to EU and EMU.

Many authors have analyzed the role of fiscal stabilization policy in the context of a monetary union, and thus, they concluded that there is a stabilizing role for fiscal policy, that goes beyond the efficient provision of public goods, as monetary policy is conducted by a common central bank, while fiscal policy is implemented at the country level.

As for Romania, as European study-case country, a coherent fiscal strategy is necessarily required, as long as the weight of fiscal revenues is almost 30 per cent in GDP. While the appropriate levels of rates were rapidly adopted in a significant extent, important problems are arisen concerning the collecting procedures and the present governance seem to focus on and solve them in due time.

References

[1]. Ivan Ungureanu, C. (2003), *„National Accounting: Concepts. Methods and Applications" (Romanian language),* IRECSON Publishing House, Bucharest;

[2]. Lipsey, R.G., Chrystal, K.A. (1999), *„Positive Economics" (Romanian language),* Economica Publishing House, Bucharest;

[3]. Corduneanu, C. (1998), *„Fiscal System and Public Finance" (Romanian language),* CODECS Publishing House, Bucharest;

[4]. Leal, T., Pérez, J. J., Tujula, M., Vidal, J. P. (2007), *"Fiscal Forecasting Lessons from the Literature and Challenges"*, ECB Working Paper Series, No. 843 / December;

[5]. Watrin, C., Ullmann, R. (2008), *„Comparing direct and indirect taxation: the Influence of framing on tax compliance"*, The European Journal of Comparative Economics Vol. 5, n. 1, available online at http://eaces.liuc.it ;

[6]. Ionescu, A., Voicu, A., (2008), *Perspective for the monetary integration of Romania into the European Union,* Proceedings of the 10th WSEAS International Conference, MACMESE 2008, Bucharest, Romania;

[7]. Afonso, A., Sousa, Ricardo M. (2009), *The Macroeconomic Effects of Fiscal Policy, ECB* Working Paper Series, NO 991;

[8]. Bundau, O.(2009), *Optimal conditions for the control problem associated to a Ramsey model with taxes and exponential utility,* Proceedings of the 10th WSEAS International Conference, MICBE '09, Prague, Czech Republic;

[9]. *Study on Reduced VAT Applied to Goods and Services in the Member States of the European Union* (2007), European Commission Final report written by Copenhagen Economics, http://ec.europa.eu/taxation_customs/common/newsflash/index_en.htm;

[10]. *„Taxation trends in the European Union",* Data for the EU Member States and Norway, European Commission, EUROSTAT Statistical Book, 2008 edition;

[11]. *„Taxation papers – Corporate tax policy and incorporation in the EU",* European Commission Working Paper, No. 11 / 2007, http://ec.europa.eu/taxation_customs/taxation/index_en.htm;

[12]. Fiscal Code Law nr. 571/2003, the Official Bulletin No. 927/2003 republished and updated.

*** www.contzilla.ro/2009/10

*** www.euractiv.ro/2009/10

*** www.mfinante.ro

*** http://ec.europa.eu/internal_market/finances/committees/index_en.htm