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COMPANY TAXATION AT NATIONAL AND EUROPEAN LEVEL

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Abstract: *The directions of adaptation of the taxation regarding the stimulation and favoring of the stability and the competitiveness of the Romanian companies start on the one hand from the strategic objectives of the European Union, as they were defined in terms of competitiveness, and on the other hand from our national objectives. mentioned both in the government programs, but especially in the competitiveness strategies realized by the relevant institutions. The key factor in achieving real convergence is competitiveness. A faster increase in competitiveness can lead to a reduction in the economic gaps. The efficiency of the markets of goods, labor and capital that must take into account social imperatives (inclusive economic growth) would favor a higher degree of business value and the promotion of endogenous economic growth engines - greater investments in innovation, research and development and human capital. Romania needs a healthy economic growth, a growth that will not generate unbalances difficult to control. Therefore, in this paper we aim to address elements of fiscal influence at national and European level, such as: increasing tax revenues in order to reduce the disparities compared to EU Member States; supporting research and innovation in the field of finance; fiscal compliance and fiscal predictability; fiscal policies, unitary cost of labor force; aspects regarding the underground economy.*

Keywords: *taxation; competitiveness, financial innovation*
JEL Classification: *O30, P43, Q56*

Introduction

Also, increasing competitiveness depends essentially on the activity of companies, their decisions to invest, and these decisions are conditioned by other elements, which refer to institutions (property law, regulatory barriers, programs and incentive measures). of the competitiveness of the business environment), or elements that relate to the efficiency of the market (the efficiency of the legal framework, the impact of taxation, the number of procedures required to start a business, competition, trade barriers, the labor market and the financial market).

Therefore, the way in which the convergence process can be accelerated is to focus on the essential issues of the economy: encouraging entrepreneurship, developing SMEs, increasing the business environment competitiveness, developing domestic production and exports through retraining investments, ensuring a friendly fiscal framework and stable, balanced fiscal policies based on public investments and structural reforms.

Research methodology

To substantiate this paper, we used observation and examination tools, research methods based on the basic principles of scientific research, and also created procedures based on factual analysis, as a result of significant practical experience and intensive documentation at the level of the specialized literature existing internally and internationally.

Research results

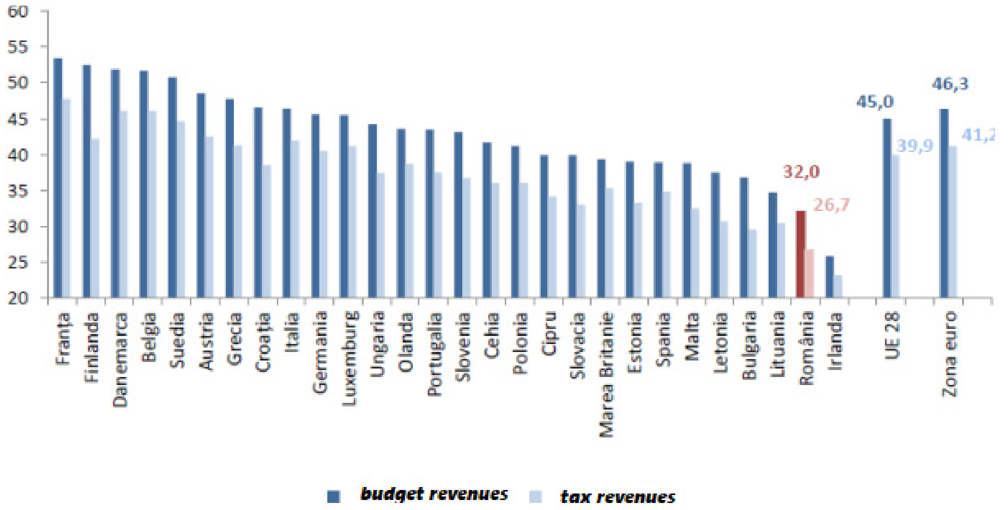
Establishing some directions for adapting the taxation in order to promote stability and competitiveness has as a starting point the current situation in Romania, from a fiscal perspective. These directions imply: the increase of the tax revenues to the state budget (we present in this context comparative aspects regarding the situation of the tax revenues in Romania and the EU), the increase of the level of collection, the stimulation of investments in research development through fiscal facilities, the increase of the degree of fiscal compliance, fiscal predictability.

1. Increasing tax revenues in order to reduce the disparities compared to EU Member States

1.1. Tax revenues in Romania and the EU

In the perspective of increasing competitiveness, fiscal policy plays an extremely important role, and in this context, improving the collection of tax revenues represents an undeniable wish, given that they are below the European average.

Figure 1. Budget revenue vs. tax revenue in the EU, 2018 (% of GDP)



Source: Fiscal Council, 2019a, Annual Report 2018

Romania registers among the lowest budgetary revenues among the countries of the European Union (% of GDP), being ranked in the penultimate place, only Ireland having a smaller proportion; Among the causes are the reduced taxation (through the fiscal relaxation measures adopted lately, in order to attract foreign capital), the problems related to tax compliance, or granting a multitude of deductions and exemptions from the payment of taxes.

In 2018, our country registered a level of budget revenues of 32% (weight in GDP), below the European average - 45% of GDP. The level of tax revenues (taxes and social contributions) reported to GDP in Romania reached 26.7% of GDP in 2018, still being in the penultimate place (EU average - 39.9% of GDP). The main problem we consider is that of collection. The improvement of the collection implies the structural development of the economy, the efficiency of the use of fiscal policy instruments (deductions, exemptions, etc.), but especially the increase of the degree of fiscal compliance.

Compared to other countries with economies similar to Romania, the share of tax revenues in GDP is significantly lower than in Hungary (37.4%), Slovenia (36.7%), Czech Republic, Poland (36.0%) or Bulgaria (29.5%).

The structure of the tax revenues in Romania in 2018 has changed significantly, compared to the previous years, the year 2018 being the first year in which the share of indirect taxes in tax revenues is outpaced by that of the income from social contributions, although the share of indirect taxes in tax revenues has decreased compared to the previous year. The share of indirect revenues in total tax revenues, in 2017, was 39.9% compared to the EU28 average of 33.7%. The share of revenues from social contributions in fiscal revenues in 2018 reached a level of 42.7% (Romania being the fourth place in the EU28). In contrast, the share of direct taxes in tax revenues has decreased to 18.4% (compared to 23.7% in 2017), this category of income being strongly affected by the reduction of income tax from 16% to 10%.

Indirect taxes continue to be an important component of tax revenues in Romania, a characteristic characteristic of developing countries, their share in total tax revenues being significantly above the EU average (+ 5.4 pp), even if in 2018 they were there were reductions in the share of indirect tax revenues compared to the previous year.

The fiscal relaxation measures of the last four years which led to the reduction of the standard VAT rate from 24% in 2015 to 19% in 2017 simultaneously with the extension of the reduced VAT rates, have contributed to the significant reduction of the gap between Romania and the EU average compared to 2010-2015. Thus, the fiscal consolidation initiated in 2010, which aimed at increasing indirect taxes, contributed to increasing their share in total tax revenues (from 43.9% in 2010, to 47.3% in 2015), while at EU level this indicator ranged from 33.6% to 33.9% in the same period.

The structure of the budgetary revenues in Romania is mainly oriented towards indirect taxes and revenues from social contributions, while, at European level, there is a tendency to balance the share of direct, indirect taxes and income from social contributions; many Member States, which have recorded high weights of budget revenues in GDP, also benefit from relatively high weights of direct taxes in total revenues.

Table 1. Evolution of tax revenues in the EU,% of GDP

	2009	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2018/ 2017**
Total revenue	30,3	33,7	33,3	34,1	35,4	31,8	30,9	32,0	1,1
Tax revenues, of which:	16,1	18,9	18,6	18,9	19,8	17,7	16,4	15,3	-1,1
- Indirect taxes	10,2	13,1	12,7	12,7	13,2	11,3	10,3	10,4	0,1
- Direct taxes	3,9	5,8	5,9	6,2	6,6	6,4	6,1	4,9	-1,2
- Social insurance contributions	2,3	8,8	8,6	8,5	8,1	8,8	9,4	11,4	2,0

Source: Fiscal Council, 2019a, Annual Report 2018

Compared to the previous year, in 2018 there was a 1.9 pp increase in GDP. The fiscal revenues had the most unfavorable evolution (according to the annual report of the Fiscal Council), against the background of new fiscal relaxation measures introduced in 2018, the evolution being the following:

- income tax (-1.1 pp from GDP), as a result of reducing the income tax quota by 6 pp from January 1, 2018;
- excise duties (-0.1 pp of GDP), due to the legislative changes regarding the reduction of the excise duty level for energy products in certain categories of activities;
- profit tax (-0.05 pp of GDP), as a result of the changes made to the tax regime of micro-enterprises;
- property taxes and taxes (-0.05 pp of GDP).

From the perspective of the income tax revenues, the income from the taxation of the profits of the companies can be found within the chapter "Income tax, profit and capital gains from legal persons", which includes both the income tax and the income tax receipts microenterprises, the latter representing most of the revenues from the subchapter "Other taxes on income, profit and capital gains from legal persons". To these two subchapters is added starting with the year 2017 and the specific tax that is found in the budget execution in the chapter "Other taxes and taxes", even though from the economic content point of view it is a way of taxing the profits of the companies, replacing the tax on profit for the categories of activities that fall under its scope.

It should be mentioned that in 2018 the process of starting (gradually starting in 2015) continued the gradual extension of the scope of the tax on the income of micro-enterprises at the expense of the corporate income tax. Thus, starting with February 2018, the ceiling of annual revenues was raised again until a company is considered a micro-enterprise from the equivalent in lei of 500,000 euros to 1,000,000 euros, and the companies that make revenues from consulting and management, in proportion of over 20% of the total revenues, are no longer excluded from the category of micro-enterprises.

The budgetary receipts for the period 2015-2017 related to the chapter "Income tax, profit and capital gains from legal persons" together with their details on sub-chapters can be found in the following table:

Table 2. Income from "Income tax, profit and capital gains from legal persons" between 2015 and 2017 (MDL MDL)

	2015	2016	2017	Modification from the previous year (%)	
				2016/ 2015	2017/ 2016
Income tax, profit and capital gains from legal entities	14,75	16,35	16,11	10,84	-1,46
Total profit tax, of which:	13,77	15,39	14,69	11,78	-4,57
Profit tax from economic agents	13,25	15,09	14,00	13,88	-7,18
Profit tax from commercial banks	0,52	0,31	0,69	-41,44	124,10
Other income taxes:	0,98	0,96	1,42	-2,35	48,65
Tax on the income of micro-enterprises	0,87	0,83	1,32	-4,71	59,10
Specific tax	-	-	0,1	-	-

Source: Fiscal Council, 2019b

In 2016, the revenues from the taxation of the profits of the Romanian companies totaled about 16.35 billion lei, increasing by 10.8% compared to the previous year. In the structure, the revenues from the income tax increased by 11.8%, supported by the increase of the amounts paid by the non-bank economic agents by 13.9%, while the component "Other taxes on income, profit and capital gains from legal entities"was characterized by a decrease of 2.3% in the conditions of reducing the income from the tax on the income of micro-enterprises by 4.7%.

In 2017, the receipts related to "Income tax, profit and capital gains from legal persons" decreased by 1.5%, provided that the income tax revenues decreased by 4.6%, the equivalent of about 700 million lei, an evolution that could not be compensated by the increase of the revenues from the tax on the income of micro-enterprises by 59.1% or about 490 million lei.

These developments are closely related to the changes made at the level of taxation of corporate profits. These were partially offset at the aggregate level of budget revenues, by higher revenues from:

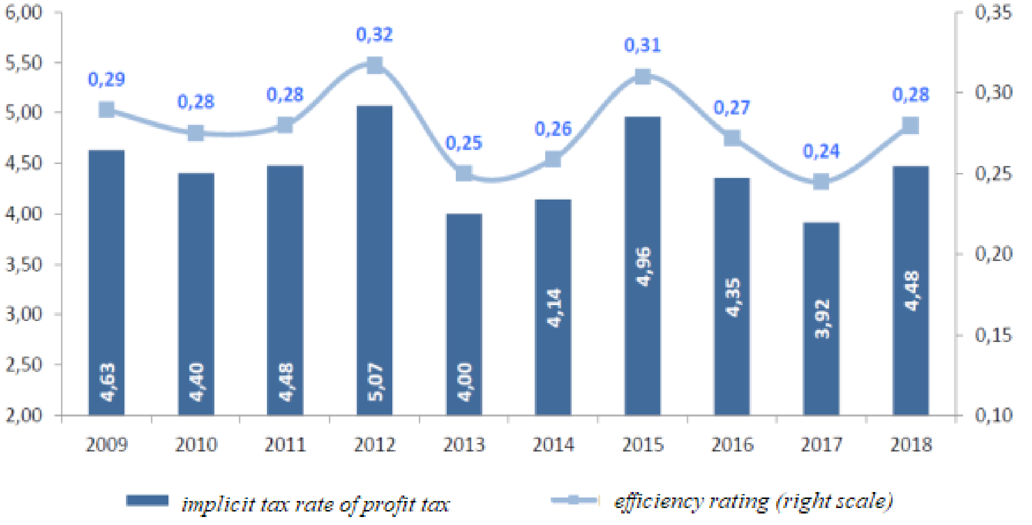
- social insurance contributions (+2.04 pp of GDP) as a result of the impact of changing the social contributions regime by transferring them from the employer to the employee and some payments from legal entities for the disabled;

- amounts received from the EU on account of payments made (+0.88 pp of GDP) of which: amounts related to the financial framework 2014-2020 (+0.45 pp of GDP) and other EU funds (+0.43 pp), as this is a new category of income introduced on the occasion of the second budgetary rectification, corresponding to the ex-post settlement on European funds of projects already realized with non-EU financing;
- non-tax revenues (+0.32 pp of GDP) on account of the dividends distributed by the state-owned companies.

1.2. The degree of revenue collection

The low share of tax revenues in GDP, compared to the EU average, has multiple causes, including the low degree of tax compliance, the imposition of lower tax rates than in other Member States, in some areas, or the provision of deductions and exemptions, all of which affect the level of tax revenues and collection efficiency (The efficiency of collection is calculated as a ratio between the default rate of taxation (defined as the ratio between the incomes actually recorded from taxes and the macroeconomic basis of taxation) and the legal rate of taxation).

Figure 2. The evolution of the implicit tax rate and the efficiency index of the collection related to the corporate tax in Romania



Source: Fiscal Council, 2019, Annual Report 2018

The efficiency index of collecting taxes paid by companies registered the highest value in the post-crisis period in 2012 (due to the resumption of economic growth in 2011), followed by a significant decrease in the next two years. In 2015 there was an improvement in the efficiency of the collection, the index approaching the level registered in 2012, but temporarily, whereas, due to the reduction of the income tax revenues, the index decreased in the next two years, in 2017 being the lowest one its value throughout the period analyzed.

In 2018, the efficiency index of collecting taxes paid by companies increased from 0.24 in 2017 to 0.28, due to the taxes paid by companies, compared to the previous year. Considering that the revenues from the corporate tax have increased slightly, compared to 2017, the improvement of the collection efficiency is most probably due to the evolution of other categories of receipts (eg from the income tax on microenterprises), as well as the evolution payments of taxes made by companies to beneficiaries other than the Romanian state.

Efficiency of collecting tax on profit (calculated as a ratio between the implicit tax rate (the ratio between the direct taxes paid by the companies and the gross operating surplus) and the legal tax rate) saw an improvement in 2018 compared to previous years. In the table below we present the comparative situation with other states.

Tabel 3. Efficiency of collecting tax on profit

Country	Legal share of corporate tax			Default tax rate*			Tax efficiency index**			Position		
	2016	2017	2018	2016	2017	2018	2016	2017	2018	2016	2017	2018
Bulgaria	10	10	10	4,6	5,1	5,1	0,46	0,51	0,51	1	2	1
Cehia	19	19	19	7,0	7,1	7,0	0,37	0,38	0,37	2	3	3
Estonia	20	20	20	4,4	4,0	5,3	0,22	0,20	0,26	10	10	8
Letonia	15	15	20	4,5	3,7	3,4	0,30	0,24	0,17	5	8	10
Lituania	15	15	15	3,5	3,3	3,4	0,24	0,22	0,23	8	9	9
Ungaria	19	9	9	6,0	5,2	3,8	0,31	0,58	0,42	4	1	2
Polonia	19	19	19	4,4	4,7	5,2	0,23	0,25	0,27	9	6	7
Romania	**16**	**16**	**16**	**4,4**	**3,9**	**4,5**	**0,27**	**0,24**	**0,28**	**6**	**7**	**5**
Slovenia	17	19	19	4,3	4,8	5,2	0,26	0,25	0,27	7	5	6
Slovacia	22	21	21	7,0	7,2	6,5	0,32	0,34	0,31	3	4	4

Source: Fiscal Council, 2019, Annual Report 2018

* it was calculated as a ratio between the budget receipts from direct taxes paid by companies and the basis for calculating the corporate income tax (approximated by the gross operating surplus from the national accounts, which also includes the unobserved economy).

** the tax efficiency index is calculated as a ratio between the budget revenues from direct taxes paid by companies and the standard corporate tax rate * gross operating surplus or as a ratio between the implicit tax rate and the legal tax rate.

Therefore, Romania is in fifth position in 2018, a short distance from Slovenia (0.27), Poland (0.27) and Estonia (0.26), which occupy the following places. On the other hand, Bulgaria (0.51) and Hungary (0.42) remain in the first two places, at a significant distance from the other states.

At the level of 2018, there is a slight general tendency to improve the efficiency of collecting the income from the taxes paid by companies, five of the ten analyzed states registering increases of the efficiency index, while Bulgaria remained at the level registered in the previous year.

Regarding the considerable decrease of the efficiency index in the case of Hungary, this is due to the reduction of the tax rate on profit from 19% to 9% (starting with 2017), which caused a significant increase of the index in 2017 on the fund the achievement of some income from the profit tax calculated on the old quota of 19% (result of a fiscal facility granted to the companies that allowed them to defer payment of the tax on profit).

1.3. The efficiency of the system of taxes and duties

The process of simplifying the tax system and reducing bureaucracy has gradually taken place, the recognition of these advances being highlighted by the World Bank's Doing Business report - the Paying taxes indicator made by PricewaterhouseCoopers. Thus, the latest available report, Paying taxes 2020 (with reference year 2018), ranks Romania, from the perspective of ease of payment of taxes, at position 32 in 190 countries analyzed, a much better position, compared to the previous year (position 49). Compared to last year, in 2017, the number of hours required to pay taxes remained the same (163 hours), as did the number of annual payments a company must make to pay taxes and taxes (14 payments), and the weight taxes and taxes in total profit decreased to 20.0% compared to 40% (due to the change in the tax regime of social contributions).

Romania's position in 2018 in the first third of the global ranking of Paying Taxes 2019 is a positive result, but maintaining a leading position implies efforts to continue investments in fiscal infrastructure and technology, because the digitization of financial reporting processes has the potential to streamline processes internal tax authorities, including the control and verification mechanisms, also for the benefit of taxpayers.

Table 4. The efficiency of the system of taxes and duties

An	EE	LV	SI	LT	BG	SK	PL	CZ	HU	RO
The ease with which taxes and fees are paid (position)										
2016	14	13	58	18	90	48	51	53	93	**42**
2017	14	13	41	18	92	48	69	45	86	**49**
2018	12	16	45	18	97	55	72	53	56	**32**
Number of annual payments for payment of tax obligations										
2016	8	7	10	11	14	8	7	8	11	**14**
2017	8	7	10	10	14	8	7	8	11	**14**
2018	8	7	10	10	14	8	7	8	11	**14**
The number of hours per year to pay the tax obligations										
2016	50	169	245	109	453	192	290	248	277	**163**
2017	50	169	233	99	453	192	334	230	277	**163**
2018	50	169	266	95	441	192	334	230	277	**163**
Total tax rate (% of profit)										
2016	48,7	35,9	31,0	42,7	27,1	51,6	40,5	50,0	46,5	**38,4**
2017	48,7	32,6	31,0	42,6	27,7	49,7	40,7	46,1	40,3	**40,0**
2018	47,8	38,1	31,0	42,6	28,3	49,7	40,8	46,1	37,9	**20,0***

Source: World Bank, Doing Business Reports 2018-2020

* Romania made the payment of taxes less expensive by eliminating five taxes and contributions paid by employers. At the same time, Romania introduced a new labor insurance contribution paid by the employer.

2. Supporting research and innovation

The investments made in the field of research and development represent an important factor that determines the increase of the competitiveness, boosting the employment and compensating for the dysfunctions of the market, contributing, finally, to the development and the economic growth. Therefore, the governments of the different states have adopted various measures with the purpose of supporting and promoting the activities of the RDI within their own jurisdictions, both by granting subsidies and by providing fiscal incentives.

At the level of the European Union, besides reducing the rates of the corporate tax, measures were taken regarding some fiscal facilities to support the activity of the companies. The research and development activity, as well as other actions aimed at encouraging business development, benefit from more support from governments to be competitive - Denmark, Germany, Italy, Poland (increase of general tax deduction, special provisions for SMEs).

Measures are also being taken to encourage innovative start-ups and start-ups - Latvia, Ireland (a reduction in the capital gains tax for entrepreneurs). As regards capital investments, Hungary, Portugal and Cyprus have introduced tax incentives for investors offering financing to young businesses. Currently, in Romania there are four programs to stimulate research and development:

- exemption from the payment of the tax on profit in the first 10 years of activity for companies that carry out exclusively research-development and innovation activities, as well as related activities;
- the additional deduction of 50% of the eligible R&D expenses when calculating the corporate tax;
- accelerated depreciation of qualified research and development assets;
- exemption of income tax from salaries for employees who carry out activities in the fields of research and development or technological development.

Economic growth is based on three main components: a) capital accumulation - including investments in real estate, equipment and human resources, b) population growth and, consequently, labor force, and c) technological progress. In this context, over time, theories have emerged that point to the importance of technological change in the equation of economic growth, supporting the idea that its main engine is innovation.

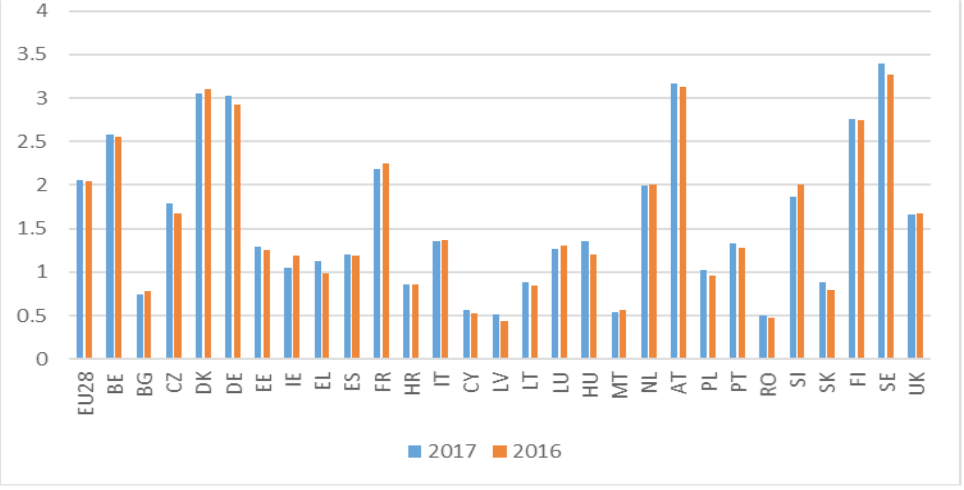
Encouraging research-development-innovation we believe that it can be achieved through fiscal-budgetary policies:

- Clarifying the way in which the activities of the RDI are defined that are eligible for the implementation of the fiscal facilities implemented, either by including in the legislation more detailed definitions, or by developing guides with examples of activities / processes eligible for various fields of activity;
- Defining guidelines regarding how the tax authorities will evaluate the eligibility of the projects / activities of the RDI for the application of the specific fiscal facilities;
- Clarification and simplification of the administrative conditions for the application of the existing fiscal facilities, so that the benefits obtained are not exceeded by the costs associated with the implementation of the facilities. For example, as an alternative to the existing regulations, certain conditions can be defined, in exchange for fulfilling which employers can apply the income tax exemption in a simplified manner and on the whole wage income obtained by the employees involved in research and development activities and innovation. Thus, the degree of access of the tax facilities for the existing RDI could significantly increase, resulting in the increase of the investments of the private environment in the RDI;

- Extension of tax facilities and their adaptation to the specific of certain types of entities, such as SMEs or companies in certain fields of activity:
    - Extending the tax exemption of the reinvested profit or granting higher deductions for the acquisition of innovative technologies, which would indirectly stimulate the creation of new technologies through RDI activities;
    - The possibility of receiving tax credit and thus obtaining tax refunds (instead of the additional deduction), at least in the case of SMEs, thus making the facility much more attractive for companies in the start-up phase, which record tax losses and has difficulties in obtaining financing;
    - The introduction of differentiated RDI tax facilities for SMEs or for certain sectors of activity considered to be of strategic importance. For example, in addition to the tax credit, SMEs could also benefit from simplified conditions for documenting their activities;
- Targeted financing of research projects from the state budget, both for public institutions and for private entities (for example, granting incentives for the registration of new patents, granting grants for research projects in certain fields of activity of interest strategic for the Romanian economy, etc.).

Currently, the expenditures on research and development in Romania in 2017 were 0.5% of GDP, the lowest in the EU and representing only a quarter of the national target.

Figure 4. Research & development spending in EU (% of GDP) in 2016-2017



Source: Eurostat, 2019a

It is thus noted that, among the EU member states, Romania allocates resources well below the European average, ranking very close to the last place of the ranking

Fiscal compliance and fiscal predictability

There are still significant differences between EU countries in terms of tax compliance costs. The complexity of the tax systems, the high level of compliance costs and the lack of fiscal security consume productive resources and act as a barrier to business and investment. The high level of tax compliance costs mainly affects SMEs.

Compliance costs come mainly from the time spent on this task, with no direct costs such as accounting costs.

In order to improve the business environment, the reform of the tax systems can target the following:

- simplification and reduction of tax obligations, in particular for emerging entrepreneurs and smaller enterprises,
- extending the range of electronic services and making them available in one-stop shops,
- conducting awareness-raising, information and advisory actions for taxpayers of companies, in order to help them comply with tax regulations, including through social communication channels.

Harnessing the opportunities offered by new innovative economic models is important to prepare tax systems to meet the challenges of the future. EU countries are increasingly relying on digital integration to facilitate tax compliance and are encouraged to further simplify and clarify the application of tax regulations in the case of the collaborative economy. They are also encouraged to facilitate and improve the collection of taxes by exploiting the potential of collaborative platforms, which are encouraged to cooperate with national authorities.

The clarity, stability and predictability of tax law, as well as its implementation and interpretation are essential conditions in investment decisions. Any changes to the legislation, including its interpretation, should be adopted after consultation with the business environment and properly applied by the tax authorities, only for the future, and not retroactively.

Referring to the obstacles encountered in the development of business, first is the fiscal and legislative uncertainty, followed by the lack of political stability and the vision of public policies and bureaucracy. Thus, the most important obstacles in the development of business for the boards of directors and executives in Romania relate to the public policies and factors controlled by the state institutions. Other obstacles are lack of entrepreneurial education and difficult access to finance.

Regarding the effects of the frequent legislative changes, beyond the feeling of uncertainty induced in the market, they consisted of the fluctuation of the exchange rate, the restriction of the extension of personnel, the negative impact on the profitability of the company by increasing the expenses with the employees and by the lack of investments, the reluctance of the clients to incur expenses, additional costs of complying with the new fiscal measures, or impairing corporate governance and redirecting profit to dividends, rather than investments. In conclusion, all these effects lead to a decrease in the competitiveness of the Romanian companies.

When we talk about fiscal unpredictability, we exemplify the fact that in the first 6 months of 2019, the legislative framework was majorly modified, being adopted 614 normative acts: 120 Laws, 4 Government Ordinances, 46 Government Emergency Ordinances, 444 Government Decisions Government, to which are added the orders of ministers.

With this huge volume of normative acts adopted in the first quarter of 2019, it is foreseeable that Romania will continue to place this year in the first place in the regional top of the legislative changes (in Central and Eastern Europe), while in other ones states the tendency is to simplify and ensure a stable and predictable legislative framework, an essential condition for investors. Trust in the tax system is an essential condition for investors, predictability being one of the most important factors influencing investment decisions.

The fiscal policy in Romania needs more stability, transparency and predictability, and the administrative burden on the taxpayers should be reduced by streamlining and computerizing the tax administration system in order to reach a fast and flexible fiscal system that will lead to the improvement of the tax contribution. Romania's propulsion in the international tops of competitiveness. A less excessive bureaucracy, encouraging investments and even lowering tax rates, as well as facilitating an efficient and coherent dialogue between tax authorities and taxpayers could be other pluses in increasing Romania's competitiveness. Thus, the changes necessary for Romania to advance in the top of the global competitiveness may be the reduction of the number of taxes and the related payments or the encouragement of investments (by fiscal incentives, as well as by avoiding discouraging investors due to some fiscal policy decisions, such as increasing the tax rates or introducing new taxes).

The unit cost of labor

The unit cost of labor can be considered not only the best indicator of approximating inflationary pressures from costs, but also the indicator that reflects competitiveness through the cost of an economy or a group of countries.

The workforce plays a major role in the functioning of an economy. From a business perspective, this represents a cost (labor cost) that includes, in addition to the salaries and wages paid to the employees, and the non-wage costs, in particular the social contributions payable by the employer.

In 2018, average hourly labor costs across the economy (excluding agriculture and public administration) were estimated at 27.4 euros in the European Union (EU) and 30.6 euros in the euro area. However, the average shows significant differences between EU Member States, with the lowest hourly labor costs recorded in Bulgaria (5.4 EUR), Romania (6.9 EUR), Lithuania (9.0 EUR), Hungary (9.2 EUR) and Latvia (9.3 EUR) and the highest in Denmark (43.5 euro), Luxembourg (40.6 euro), Belgium (39.7 euro), Sweden (36.6 euro) , The Netherlands (35.9 euros) and France (35.8 euros).

Hourly labor costs in industry were 27.4 euros in the EU and 33.2 euros in the euro area. In services, they were 27.0 euros and 29.6 euros, respectively. In construction, the hourly cost of labor was 25 euros in the EU and 27.6 euros in the euro area. In non-economic activities (except public administration), they amounted to 28.5 euros, respectively 30.8 euros. Labor costs consist of wages and non-wage costs (for example, employers' social contributions). The share of non-wage costs in the total labor costs for the whole economy was 23.7% in the EU and 25.6% in the euro area. It ranged from 6.1% in Malta to 32.6% in France.These estimates are issued by Eurostat, the statistical office of the European Union. The data covers companies with 10 or more employees and is based on data on the Labor Cost Survey for 2016, which are extrapolated through the Labor Cost Index.

In Romania, firms have the largest percentage increases in labor costs, including wages, compared to the situation throughout the European Union, according to Eurostat (we refer to the percentage increase in wages; in absolute figures, Romanian employees remain among the last in the EU regarding the money they actually receive from employers). In the business sector (private, state and mixed companies), the hourly cost of labor increased by 13.7% in the first 3 months of 2019 compared to the first quarter of 2018. The breakdown by components, the cost with wages increased by 13.8% and by 9.7% non-wage costs (ie social insurance and other benefits) increased. For comparison, on average, companies in the European Union have incurred increases in the hourly labor cost of 2.5% in the first 3 months of 2019 compared to the same period last year. These increases in labor costs appeared against the background of the increase in the minimum wage. The gross minimum wage in Romania exceeds the average of the region of Central and Eastern Europe. At the same time, it has the highest effective tax rate among the states in the region, of 41.5%, according to the Deloitte analysis (2018). The effective tax rate remains the highest, 41.5%, and in the case of a gross salary of 1,000 euros, for which the region average is 27%.

Due to the transfer of social insurance contributions to the employee and the increases in the gross minimum wage, Romania exceeds the average gross minimum wage in the region, by 421 euros, surpassing five states. In contrast, the other 10 countries have lower effective tax rates, the average being 21%, compared to 41.5% in Romania. The Deloitte Romania analysis (2018), based on the calculations provided by the member companies of the Deloitte network, includes Romania, Bulgaria, Serbia, Croatia, Hungary, Slovakia, Czech Republic, Poland, Estonia, Lithuania and Latvia. In the case of Romania, the value of the minimum gross salary in the amount of 2,080 lei was taken into account. The gross minimum wage varies between 500 euros (Estonia) and 261 euros (Bulgaria), the average being 421 euros.

Table 5. Comparative situation regarding the effective tax rate of the minimum wage in Romania and Central and Eastern European states

Country	**min.brut salary (euro)**	**I am a committed employee**	**Income tax**	**Net salary**	**I contribute employer shock**	**Full wage cost**	**Net salt% in salt brut**	**Effective tax rate (%)**
Estonia	500	18	-	482	169	669	96	4
Lituania	400	63	3	361	125	525	90	10
Cehia	472	52	15	405	160	632	86	14
Slavacia	480	64	18	397	169	649	83	17
Letonia	430	47	37	346	104	534	81	19
Croatia	499	92	-	367	79	537	80	20
Bulgaria	261	36	22	202	51	312	78	22
Polonia	485	104	28	354	99	585	73	27
Ungaria	426	79	64	283	89	515	66	34
Romania	446	156	29	261	10	456	58	41,5
Medium	422	67	21	334	100	522	79	21
RO difference /average	24	89	8	-73	-90	-66	-21%	21%

Source: Deloitte, 2018

The main findings of the analysis were:

- Estonia has the lowest effective minimum wage tax rate of 4%, followed by Lithuania (10%) and the Czech Republic (14%), and Romania, the highest rate, 42%, the average being 21%.
- The effective rate of taxation of a gross salary of 1,000 euros is the highest in Romania (42%), Hungary (34%), Latvia (29%) and the lowest in Estonia (13%) Bulgaria (22%) , Lithuania (23%).
- Romania has the lowest level of contributions due by the employer (2.25%), the average being about 23% in both cases.

Romania presents an increase of the average gross salary of about 41% in the last two years. However, if we take into account the effective tax rates, the net minimum wage in Romania drops towards the end of the same ranking. This means that, at the end of the month, the Romanian employee takes the least money “in hand”, unlike other countries in the region. However, it should be mentioned that at the level of the employer, the costs are the lowest in Romania, but they have no impact on the employee. However, in both situations - ratio to gross salary and full wage cost - taxes and contributions to public systems in Romania significantly exceed the region average.

Aspects regarding the underground economy

A recent analysis by the IMF (Medina and Schneider, 2018) estimated the level of the underground economy as a percentage of Romania’s GDP at 26.3%, for 2016, ranking fourth in the EU. The largest share of the underground economy is in Bulgaria, with 29.6% of GDP, but it has made considerable efforts lately to combat these activities.

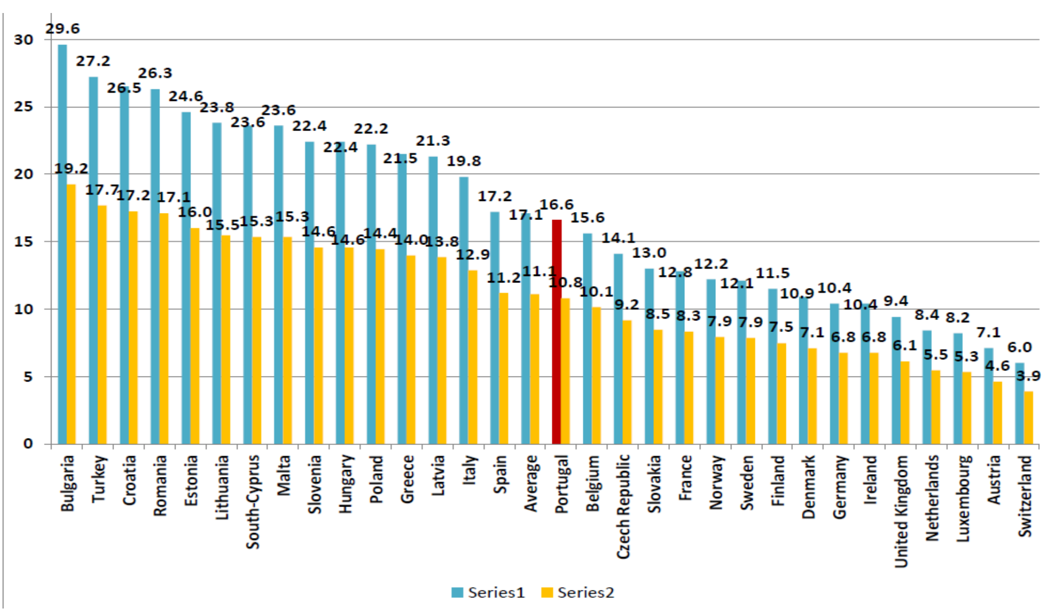
The average size of Romania’s underground economy in the period 1991-2015 was 30.14% of GDP, with a maximum in 1991 of 36.03% and a minimum of 22.73% in 2014. The contribution of the hidden economy in the Romanian economy it has decreased significantly since 1991 overall, with slight variations over the years. Since 1991 there has been a downward trend and in 1997 it reached a weight of 31.65%. In 1999, it rose by more than three percentage points, to 34.4% of GDP, then returning to a downward trend.

The economic crisis has led to an increase in the size of the informal economy in almost all European states. The contribution of the Romanian hidden economy increased in 2009 to 28.23% of GDP, from 25.44% in 2007, an increase of almost 3 percentage points. After 2009, the share of these types of activities decreased steadily, reaching in 2014 to 22.73% of GDP. The causes of the size and development of the underground economy are manifold, among them the burden of taxes and taxes in general and the tax burden on work in particular (especially that of social security contributions) being determinant factors for the size of the hidden economy. In Romania, the fiscal burden, the difference between the total costs of the employer and the net salary of the employee, is 36.7%, ranked 7th in the European Union and the largest in Central and Eastern Europe. The European average is 32.5% (Dumitru, 2018). Other factors that influence the level of the unofficial economy are: state control over corruption, government effectiveness (quality of public services, quality of social services), rule of law, but also the ability of the government to effectively regulate the economy, so as to enable and benefit development the private environment, labor market regulations.

The reduction of the level of the underground economy is due to the same factors that are decisive for its size, but also to the digitization of the Romanian institutions, in particular the fiscal authority. Also, the level of the taxes on labor, the quality of the public services, the efficiency of the spending of the public money are other factors that would lead to its decrease.

Comparatively, the average size of the hidden world economy is 31.9% of GDP. Of the 158 countries analyzed, the largest share of the underground economy exists in Zimbabwe - 60.6% - and Bolivia - 62.3% of GDP. The lowest rates of this economy are found in Austria - 8.9% of GDP - and Switzerland - 7.2% of GDP (Medina and Schneider, 2018).

Figure 5. Underground economy at EU level



Source: Medina and Schneider, 2018

Conclusions

Competitiveness, at country / sector / firm level, means productivity, labor force, investment, friendly environment in which the respective entity operates. Taxation influences all these factors. Trust in the tax system is an essential condition for investors, predictability being one of the most important factors influencing investment decisions.

The fiscal policy in Romania needs more stability, transparency and predictability, and the administrative burden for taxpayers must be reduced by streamlining and computerizing the tax administration system in order to reach a fast and flexible fiscal system that will lead to improving the contribution of taxation to Romania's propulsion in international competitiveness rankings. A less excessive bureaucracy, encouraging investments, as well as facilitating an efficient and coherent dialogue between tax authorities and taxpayers could be other pluses in increasing Romania's competitiveness.

Therefore, in order to ensure the stability and stimulate the competitiveness of the Romanian companies, it is necessary, first of all that the tax revenues to the state budget increase. This can be achieved by: increasing the level of collection, encouraging fiscal compliance, through measures leading to a reduction in the cost of labor, reducing the underground economy, encouraging investments.

Reducing the fiscal pressure on the business environment can be considered one of the measures to stimulate the competitiveness of companies at national and European level. To support this measure, the data regarding the ranking provided in Global Competitiveness Report 2017 - 2018 (WEF, 2018), respectively on the indicator „Effect of taxation on the incentives to invest" are relevant, Romania ranked 121st globally in 2017, rising 7 places in front from 2014, but at a distance from the target of „70th place" proposed by the National Strategy on Competitiveness (SNC) for 2020.

Moreover, on the indicator „Total taxation rate", Romania was ranked 73rd in 2017, again in progress with 18 positions in the world ranking compared to 91st place in 2014, but far from the 50th place, targeted by the SNC for 2020. Regarding the „Effect of taxation on incentives to work", Romania was 126th place in 2017, with a jump of 14 places compared to 140 in 2014, but below the target assumed by the SNC, respectively 70th place in 2020. appreciated the fact that in recent years we are seeing progress compared to 2014, but we still have much to achieve the targets proposed by strategy by 2020.

Another measure to promote the stability and competitiveness of the Romanian companies is given by the improvement of the access to financing of the companies and, in particular, of the SMEs. And for this measure we refer to the data of the last edition „Global Competitiveness Report 2017-2018", respectively the presentation of the indicator „Existence of financial resources", which places Romania on the 121st place in the world in 2017, in a decrease from the 93rd place 2014 and at a distance from the target proposed in the national strategy, respectively the 50th place in 2020. Also within the same report, at the indicator „accessibility of financial services", we are on the 119th place, falling from the 66th place in 2014 and at a significant distance from the target proposed in the national strategy, namely the 45th place in 2020. Also regarding the improvement of access to finance, we have in the same report, the indicator „regulating exchanges of financial instruments", where we find the 114th place in the world, down from the 101st place in 2014 and at a distance from the target of the Na Strategy Competitiveness law or 60th 2020.

Also as a measure to stimulate the development of the competitiveness of the business environment, it is also the measure regarding the improvement of the degree of transparency of both the authorities and of the public and private companies. According to the latest „Global Competitiveness Report 2017-2018" published by the World Economic Forum (2018), Romania was 113th in the world in terms of Transparency of Public Policies, down 3 places from 2016 and at a distance from the target of the place. 40 within our strategy.

Improve the predictability of decisions regarding the fiscal changes (governmental decisions) related to the business environment. It should be mentioned that although we have art. 4 of the Fiscal Code [1] dedicated to predictability, this is not respected, given that successive fiscal changes have been introduced in the last two years, without consistent public consultation. Most of the times, public consultations with the business environment have been organized before the issuing of the new legislative measures that affect it, based on the principle „changes of the changes made in a hurry".

Also as a measure to stimulate the competitiveness at the level of the business environment is also the measure to support the improvement of the regulatory framework regarding Public-Private Partnership.

1 Art. 4. (1) The present code is amended and supplemented by law, which comes into force within a minimum of 6 months from the publication in the Official Gazette of Romania, Part I. and (2) If by law it is introduce new taxes, duties or contributions, increase existing ones, eliminate or reduce existing facilities, they will enter into force on January 1 of each year and will remain unchanged at least during that year;

Currently, in Romania, public-private partnerships are practically non-existent (0% of GDP), compared to the European average of 0.4% of GDP. On the opposite side are Slovakia (2.9% of GDP) and Portugal (2.73% of GDP) in the EU (Eurostat, 2019) According to the National Competitiveness Strategy, the establishment of sectoral working groups was envisaged to ensure transparency, predictability, monitoring and accountability regarding the regulatory framework, but so far we do not know that they exist.

Another measure regarding boosting the competitiveness of SMEs is the measure on Research, development and innovation - supporting SMEs in order to launch innovative products or services through venture capital funds, grants, collaborative projects (Paul, 2018). According to the White Paper of SMEs (2017, made by Prof. Ovidiu Nicolescu - CNIPMMR), the frequency of opportunities to access a grant in Romania in 2016 was very low, respectively 13.87% of the interviewed SMEs . The latest Eurostat official data, however, indicates a number of only 3,645 innovative companies active in Romania (compared to 3,764 in Hungary, a country with half our population) out of a total of 380,455 innovative companies in the EU (Eurostat, 2020)

A positive measure with an impact on the competitiveness of the business environment is the measure on Digital Infrastructure - the improvement of the digital broadband infrastructure, the target set in the National Strategy on Competitiveness of 80% by 2020 reached 82% in 2017 (Eurostat, 2019b).

Entrepreneurship, respectively the improvement of the number of SMEs related to the population is another stimulating measure regarding the competitiveness of the business environment, respectively in Romania there are 23 companies per thousand inhabitants and we are the last in the EU in this chapter, far from the target of 36,45. % proposed by SNC for the year 2020. Comparatively, in Bulgaria there are 46 companies per thousand inhabitants, and in the Czech Republic 138 companies (Paul, 2018). According to the White Paper of SMEs, 26.26% of SMEs have been established in the last 5 years, most of the total of SMEs in Romania (34.93%) are concentrated in the Bucharest-Ilfov region, being also the richest region at national level. Moreover, the increase of the contribution of SMEs to the gross added value in Romania in 2017 was only 51.3%, being 26th out of 28 EU countries (Annual Report on European SMEs 2017-2018).

In order to create a sustainable economic environment, together with economic-financial incentives, we consider that another aspect that we should reflect is related to a better employment rate, respectively in 2017 was: 68.8%, at 1.2 percentage points compared to the target highlighted in the CNS of 70%

for 2020. The competitive development of agriculture and rural space could be considered a basic pillar in the competitive development of the real economy, especially in the context that in 2017, the productivity of agricultural work in Romania stood at only 4,380 euros per unit of labor, 4.5 times below the EU average, far from the CNS target to double this indicator by 2020.

A functional relationship between economy, environment and society through the correct and efficient management of consumption sources and their transformation into resources, can ensure the social sustainability of the real economy in Romania and contribute directly to sustaining economic convergence (internal and external convergence).

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