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ROMANIA

SELECTED ISSUES

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SELECTED ISSUES

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Approved by
European Department

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OPTIONS FOR TAX REVENUE MOBILIZATION IN ROMANIA

Romania's tax system went through substantial changes over the last five years. However, its tax revenue ratio remains among the lowest in the Central, Eastern, and South-Eastern Europe (CESEE) region and does not seem to reflect the country's relative level of development. Against this backdrop, this paper reviews the level and structure of tax revenues in Romania, analyzes the growth-friendliness and efficiency of its tax structure, and proposes options to improve revenue mobilization drawing from other countries' experiences.

A. Introduction

1. **Around 2011, Romania used to have a fairly well-designed tax system that was supportive of growth, despite low tax revenue collection.** The findings of the last tax policy diagnostic from 2011 (IMF, 2011) concluded that Romania's tax system was generally broad-based, with low rates and few exemptions (Figure 1). Moreover, after the 2008 crisis, the tax structure became more supportive of economic growth, with successive tax rate cuts and other reforms to growth-harmful taxes such as social security contributions and the corporate income tax (Box 1). However, Romania stood out in the EU context for having a very low tax-to-GDP ratio, and several areas for revenue improvement were identified. Excises and the property tax were proposed as potential sources for additional revenue, and some areas for improvement in Corporate Income Tax (CIT), Personal Income Tax (PIT) and Value-Added Tax (VAT) were highlighted.

Figure 1. Summary of Romania's Main Taxes in 2011

CIT	PIT	VAT	Excises	Property
• Reasonably sound design • Tax rate comparable to region • Broad tax base, few exemptions • Some areas for reform	• Fairly simple and clean • Low revenue productivity • Interacts with complex and distortionary SSC – high tax wedge	• Adheres to EU VAT-directive • Simplified VAT regime could be further extended (partially introduced in 2015)	• Most excises conform to EU requirements • Higher excises on selected products could additional yield revenue	• Potentially a good source of revenue for local governments • Inequitable and complex • Produces low revenue

Source: IMF (2011)

2. **Multiple changes to the tax code have been implemented since 2013, seemingly without an overall tax policy strategy, while progress in revenue administration has been slow.** These changes included tax rate changes, introduction of new exemptions, incentives and special rates, as well as modifications that have impacted the tax bases (Figure 2 and Appendix I). Some of these reforms (for example, changes to the social security contributions (SSC)) have also resulted in a tax structure that is now less supportive of growth. At the same time, progress in tax

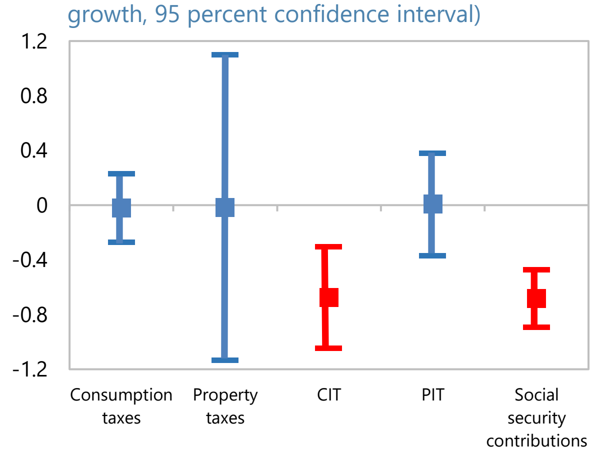
administration reform has been slow, failing to strengthen compliance and resulting in Romania having the largest VAT gap in the EU for several years. Consequently, the revenue envelope has structurally shrunk: tax revenue in 2017 was 24.8 percent of GDP, down from 27.3 in 2013, making it among the lowest in the EU (Appendix Tables IIA and IIB).

Box 1. Defining a Growth-friendly Tax System 1/

A growth-oriented revenue reform would shift the revenue base away from corporate income tax and social security contributions, toward consumption and property taxes. Economic theory offers some broad principles into how budgetary policies can support growth. A ranking of growth-friendly taxes has been developed (Arnold, 2008; Johansson et al., 2008), according to which taxation of corporate profits has the most adverse impact on growth, as it reduces the return on savings and investment, thus discouraging domestic investment, foreign direct investment and productivity improvement. Labor taxes can reduce both the demand for and supply of labor. Social security contributions (SSC) can be especially harmful to employment if they interact with the withdrawal of social transfers upon taking up work. By contrast, recurrent taxes on immovable property are the least distortive tax instrument, followed by broad-based consumption taxes, particularly VAT, as they discourage neither savings nor employment. The composition of spending also matters for growth, especially if the reduction in tax revenue undermines infrastructure spending.

Empirical evidence for European countries supports the ranking of a growth-friendly tax structure. Results based on panel regressions that relate real per-capita GDP growth to a country's cyclically-adjusted revenue categories (as a share of potential output) show a negative and statistically significant relationship of corporate income taxes (CIT) and social security contributions (SSC) with growth among European countries (box figure), as suggested by theory. In contrast, neither consumption nor property taxes show a significant relationship with growth. Interestingly, personal income tax (PIT) is also not associated with a significant negative growth effect.

Estimated impact of taxes on growth
(Percentage points of real per capita GDP growth, 95 percent confidence interval)



1/This box draws on the analysis and conclusions in IMF (2015), where extensive details are provided, including on the regression analysis.

Figure 2. Changes to the Tax Code in Romania (2013-2018)

Number of measures implemented, by year and tax

	2013	2014	2015	2016	2017	2018	Total
VAT	3	1	3	4	2	2	15
CIT	4	2		2	2	1	11
PIT	5	1	1	4	2	2	15
SSC		2		5	6	2	15
Excises	4	2		3	3	1	13
Property	1	1	1	5	2	1	11
Other	5				1		6
Total	22	9	5	23	18	9	86

Types of measures, by tax (2013-2018)

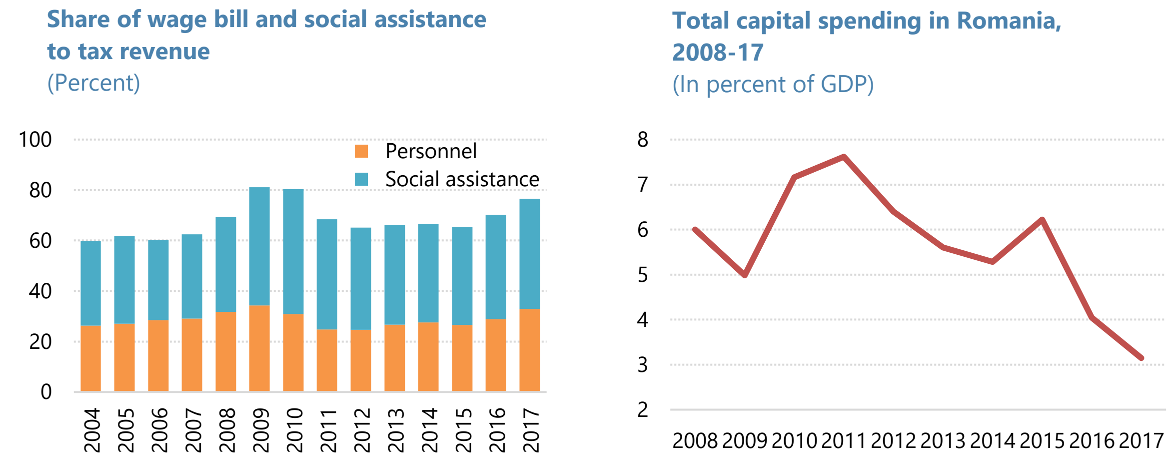
	Tax rate	Exemptions, incentives, special rates	Administrative	Base-broadening /shrinking
VAT	2	6	7	
CIT		3	3	5
PIT	3	8		4
SSC	2	6	1	6
Excises	10	1	1	1
Property	6	2	3	
Other	5	1		
Total	28	26	15	17

Source: Ministry of Public Finance, Romanian Fiscal Council, and IMF staff.

3. **More tax revenue will be needed in Romania to support the implementation of the government program and fiscal consolidation towards the medium-term objective** (MTO). The government program envisages bringing more Romanians into the middle class, with increases in wages and pensions as well as tax cuts. A sizeable portion of the program has been implemented since the beginning of 2017, raising the budget deficit from 1.5 percent of GDP in 2015, to close to the excessive deficit procedure (EDP) limit of 3 percent of GDP. The share of rigid spending to tax has increased in recent years, undermining infrastructure spending (Figure 3). Government's priorities of reducing poverty and increasing incomes will likely continue to require a significant increase in spending over the medium-term. In this context, tax revenue reform is key to preserving fiscal sustainability.

4. **This paper conducts a diagnostic analysis of Romania's tax system and proposes policy options to improve its revenue mobilization**. Section B reviews the level and structure of tax revenue in Romania, including its growth-friendliness, in comparison to regional peers and other EU countries. Section C examines the efficiency of the tax system. Section D discusses revenue administration reform priorities drawing from other countries' experiences, and how these reforms can help address efficiency gaps and thereby improve revenue mobilization. Section E provides some policy recommendations.

Figure 3. Rigid Spending and Tax Revenues in Romania



Source: WEO, IMF staff calculations

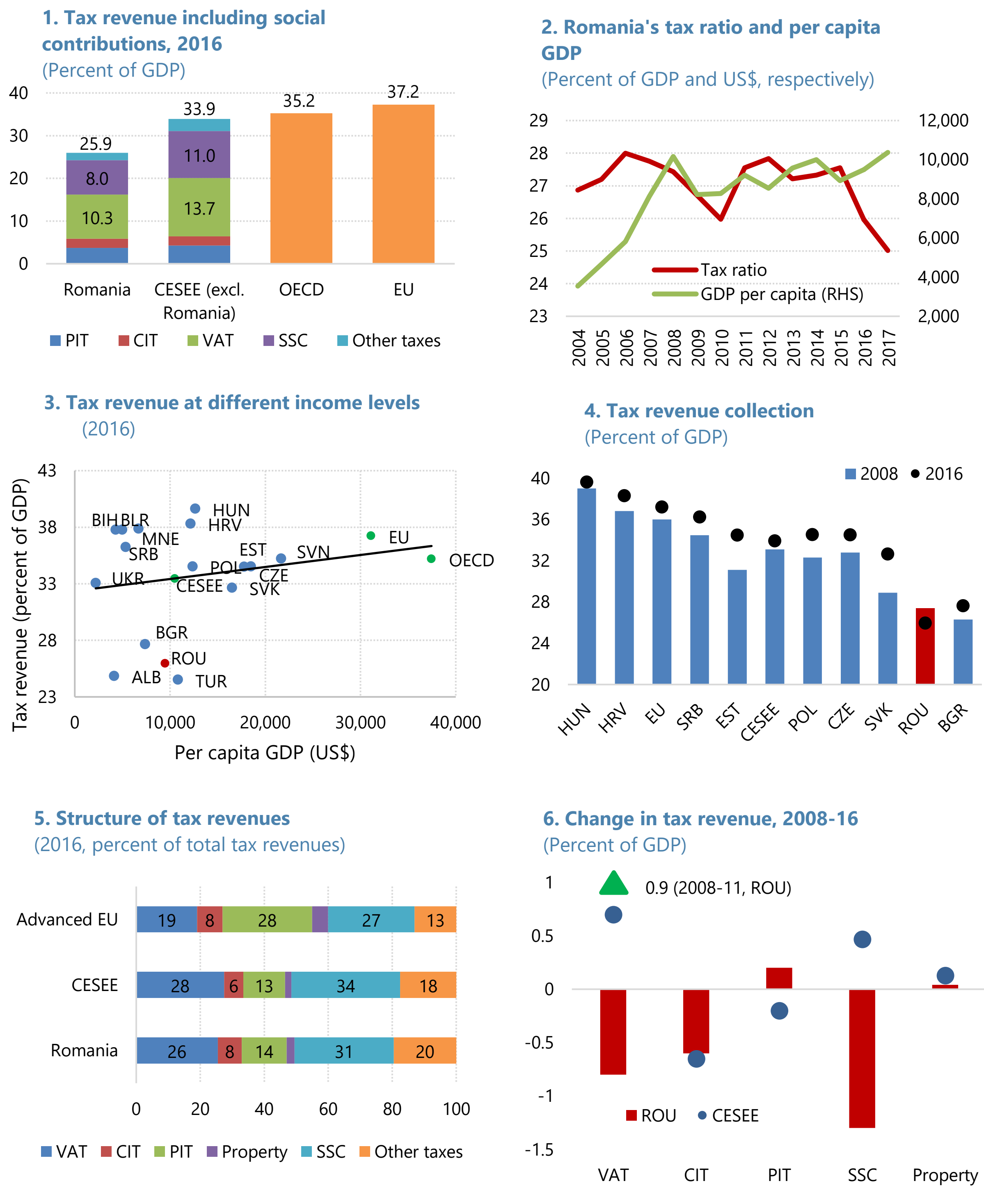
B. Romania's Tax System in a Regional Perspective

5. Tax revenue in Romania is low compared to peers, and has been declining over time. In 2016, Romania's tax revenue was on average 8 percentage points of GDP lower than in other Central, Eastern, and South-Eastern European (CESEE) countries, and about 11 percentage points of GDP lower than in other EU countries. The difference to CESEE countries is mostly explained by lower collection of VAT and SSC (Figure 4, Panel 1 and Appendix Table IIB). In addition, tax revenue in Romania has dropped by about 2½ percentage points of GDP since 2015 (Figure 4, Panel 2), and seems too low for its relative level of development measured by per capita GDP (Figure 4, Panel 3).[1] Finally, in contrast to other CESEE countries, tax revenue in Romania remains below pre-crisis levels (Figure 4, Panel 4).

6. While Romania's tax structure is similar to that of other CESEE countries, it has large discrepancies compared to advanced Europe. Romania raises a significant share of revenue from consumption taxes (26 percent of total tax revenue) and social security contributions (31 percent of total tax revenue), similar to other CESEE countries (Figure 4, Panel 5). However, Romania raises less from direct taxes on personal and corporate income. For taxes on personal income and property, the revenue yield in Romania—and more broadly in CESEE countries—is about half compared to that in advanced Europe.

[1] The overall development of the economy is expected to show a positive correlation with revenue because of a higher degree of economic and institutional sophistication (Ghura, 1998; Sen Gupta, 2007).

Figure 4. Tax System in Romania – A Regional Perspective

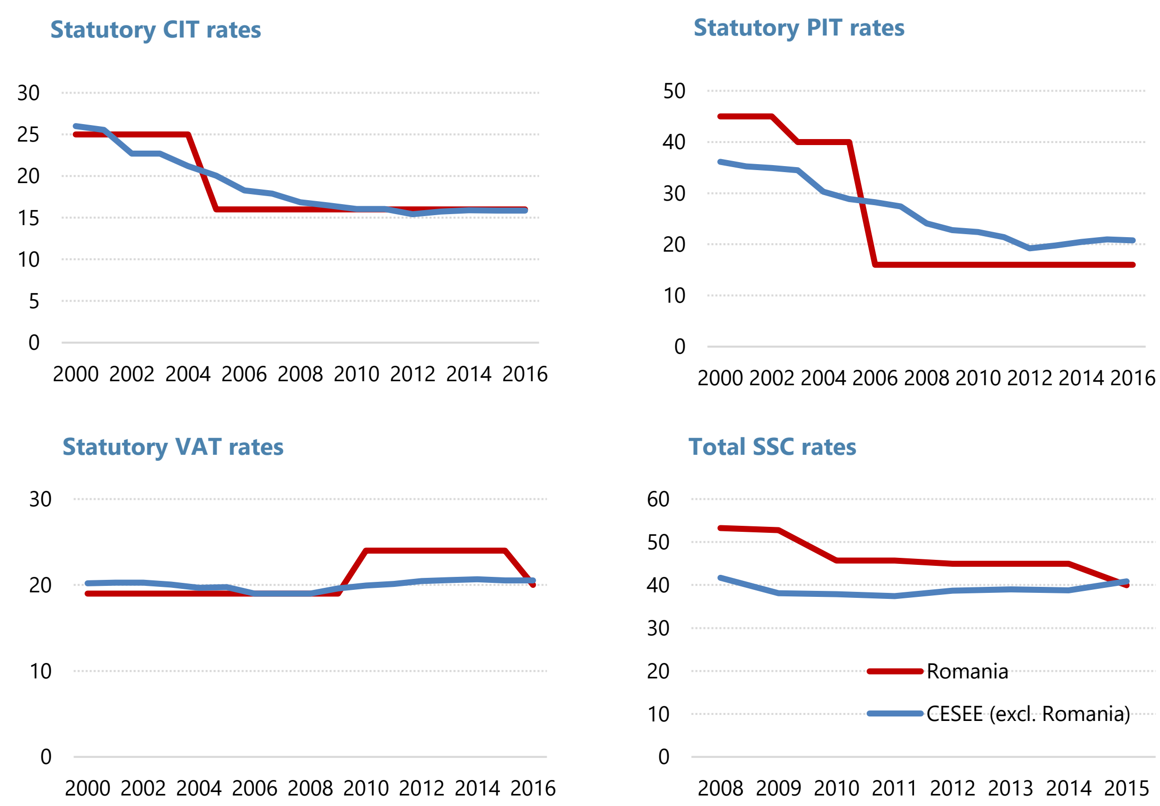


Source: Revenue Analysis Tool (RAT), IMF fiscal Affairs Department, Tax Policy Division; WEO; IMF staff calculations

7. The growth-friendliness of Romania's tax structure improved after the 2008 crisis, but may have deteriorated with recent changes to the tax system. Revenue from social security contributions and the corporate income tax declined substantially in the period 2008-16, following successive tax rate cuts and other reforms to these taxes (Figure 4, Panel 6). Up until 2011, the resulting revenue loss was compensated with an increase in VAT revenue. Overall, this contributed to a tax structure that turned more supportive to economic growth. Since then, however, successive VAT tax cuts, and extension of the number of goods and services subject to VAT reduced rates, have resulted in an overall drop in VAT revenue of around 1 percentage point of GDP. As a result, the share of revenue from most growth-supportive taxes (VAT, PIT, and property taxes) is still lower in Romania (and other CESEE countries)—at about 43 percent of total tax revenue—when compared to more advanced European economies (close to 53 percent).

8. Tax rates in Romania were comparable to peers until 2016 (Figure 5)**.** This may suggest that its fairly low tax revenue relative to CESEE peers could be mostly explained by the low efficiency of tax collection. It should be noted, however, that since 2016, cuts in VAT, PIT and SSC rates have moved Romania below the CESEE average, and would have negatively impacted tax collection.

Figure 5. Tax Rates in Romania – A Regional Perspective



Source: Revenue Analysis Tool (RAT). IMF fiscal Affairs Department, Tax Policy Division.

C. How Efficient is Revenue Collection in Romania?

9. Tax efficiency in Romania is lower than in peer countries. Although tax rates are broadly aligned with peers in CESEE, tax efficiency[2] lags behind, especially for VAT (Figure 6, Panel 1). The VAT C-efficiency indicator in Romania (0.5) is lower than in other CESEE or advanced EU countries (0.6). For the other main taxes, such as the PIT and CIT, efficiency indicators in Romania are close to other CESEE countries, but still below advanced EU countries. Similarly, the cost of collection in Romania is close to other CESEE countries but higher than in advanced EU countries.

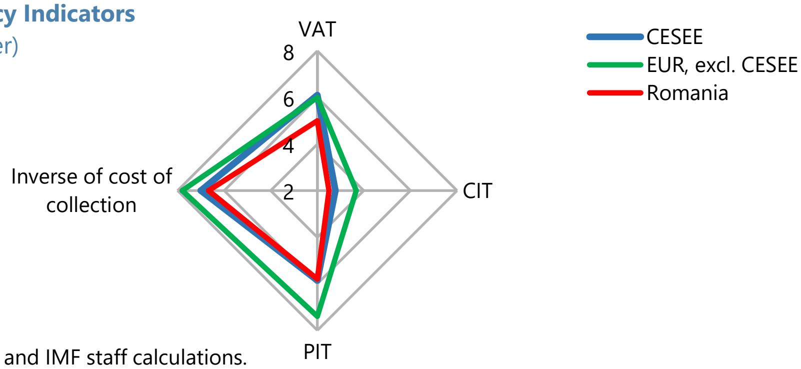
10. The compliance gap is the predominant cause of low tax efficiency in Romania. Tax efficiency gaps can arise either because of a policy gap, which reflects deviations of current tax rules from the benchmark—as a result of tax exemptions, reduced rates, and special regimes—or the so-called compliance gap, which refers to imperfect compliance under the current tax system (Keen, 2013). While on the rise, policy gaps are relatively small in Romania (and more generally in emerging Europe), partly because tax systems in the region were designed from scratch during the transition from socialism in the early 1990s. In contrast, the compliance gaps, which are most closely related to the inefficiency of the tax administration, can be substantial in emerging Europe. This finding is particularly true for the VAT (Figure 6, Panel 2), where the estimated policy gap for Romania in 2013 was among the lowest in the EU but the estimated compliance gap was the highest in the EU. More recent estimates (CASE, 2016) show a marginal improvement for Romania—an estimated gap of about 37 percent.

11. Multiple changes to the tax system may have resulted in rising policy and compliance gaps in Romania. Since 2013, multiple changes to the tax code have been legislated (Figure 2 and Appendix I). While some of these changes have simply lowered standard rates (for the VAT, PIT), several changes have also introduced special tax regimes, loopholes and exemptions (for example, the number of goods and services subject to reduced VAT rates has increased). Besides the higher policy gap, multiple changes to the tax code in a relatively short period of time may have complicated tax administration and thereby negatively impacted revenue collection efficiency.

[2] The standard measures of tax collection efficiency compare the revenue actually raised (for a given tax) with that which could be raised if it were perfectly enforced and levied at a uniform rate on the full tax base. For this purpose, "tax efficiency" is measured here using tax collection efficiency indicators for the main taxes, such as the widely used C-efficiency indicator for the VAT (Ebrill and others, 2001), and similar indicators for the CIT, and the PIT. In addition, the cost of collection indicates how much revenue can be raised per unit of resources spent on tax collection.

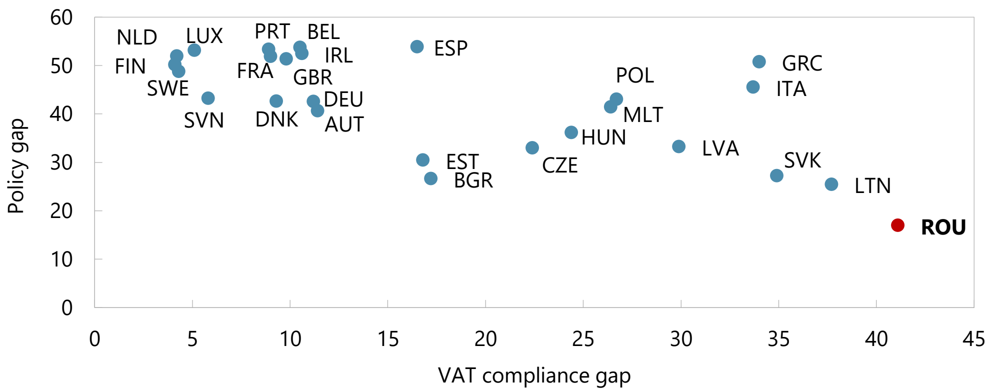
Figure 6. Efficiency of Tax Collection in Romania – A Comparison

1. Efficiency Indicators
(10 = higher)



Source: OECD and IMF staff calculations.
Note: Values for 2016. Inverse cost of collection is (net revenues/cost of tax administration) x 100.

2. VAT policy and compliance gaps
(Percent)



Source: European Commission (2015).
Note: Estimates for 2013. The VAT policy gap is the difference between the potential VAT that could be collected if all final consumption were taxed at the current standard VAT rate and the VAT that is actually collected. The VAT compliance gap is the difference between actual VAT collections and those that could be obtained if the existing VAT laws were perfectly enforced.

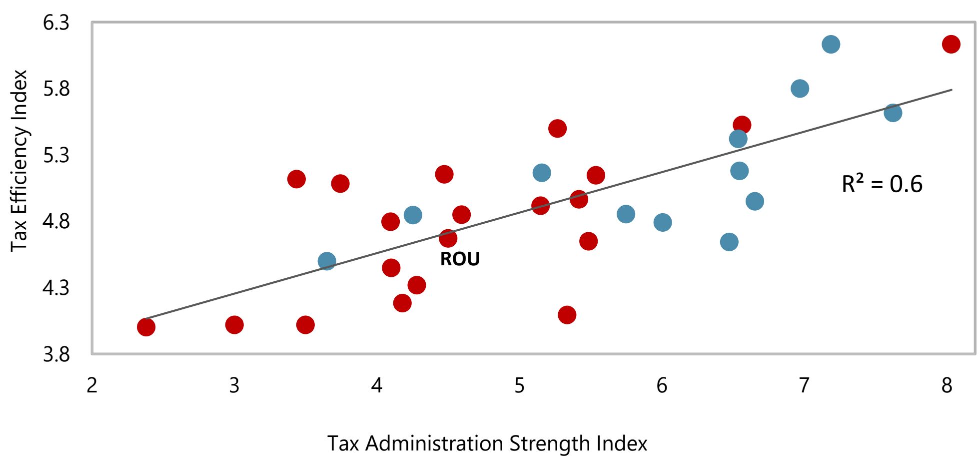
D. Tax Administration Reform and Tax Efficiency

12. Tax efficiency is tightly associated with the strength of tax administration. Figure 7 shows that there is a positive association between the tax administration strength index and tax efficiency—as measured by the combined tax efficiency indicators for the VAT, CIT, and PIT—for the sample of CESEE and advanced European countries. This suggests that addressing weaknesses in tax administration would help improve tax efficiency by narrowing compliance gaps.

13. The strength of the tax administration in Romania has been measured by objective criteria. Based on previous IMF work (IMF, 2016), a set of objective indicators have been compiled based on data from the OECD, to assess the strength of the tax administration in Romania. These indicators can be grouped into six key areas reflecting key organizational and operational aspects of revenue administrations in different countries relative to best international practice (Figure 8, Panel 1). The indicators were compiled for all CESEE and advanced European countries and scores were assigned to each of these indicators. The individual scores were subsequently aggregated into an overall index capturing the overall strength of tax administration—the tax administration strength index.

Figure 7. Tax Administration Strength and Tax Collection Efficiency

Tax administration strength and tax collection efficiency
(In percent)

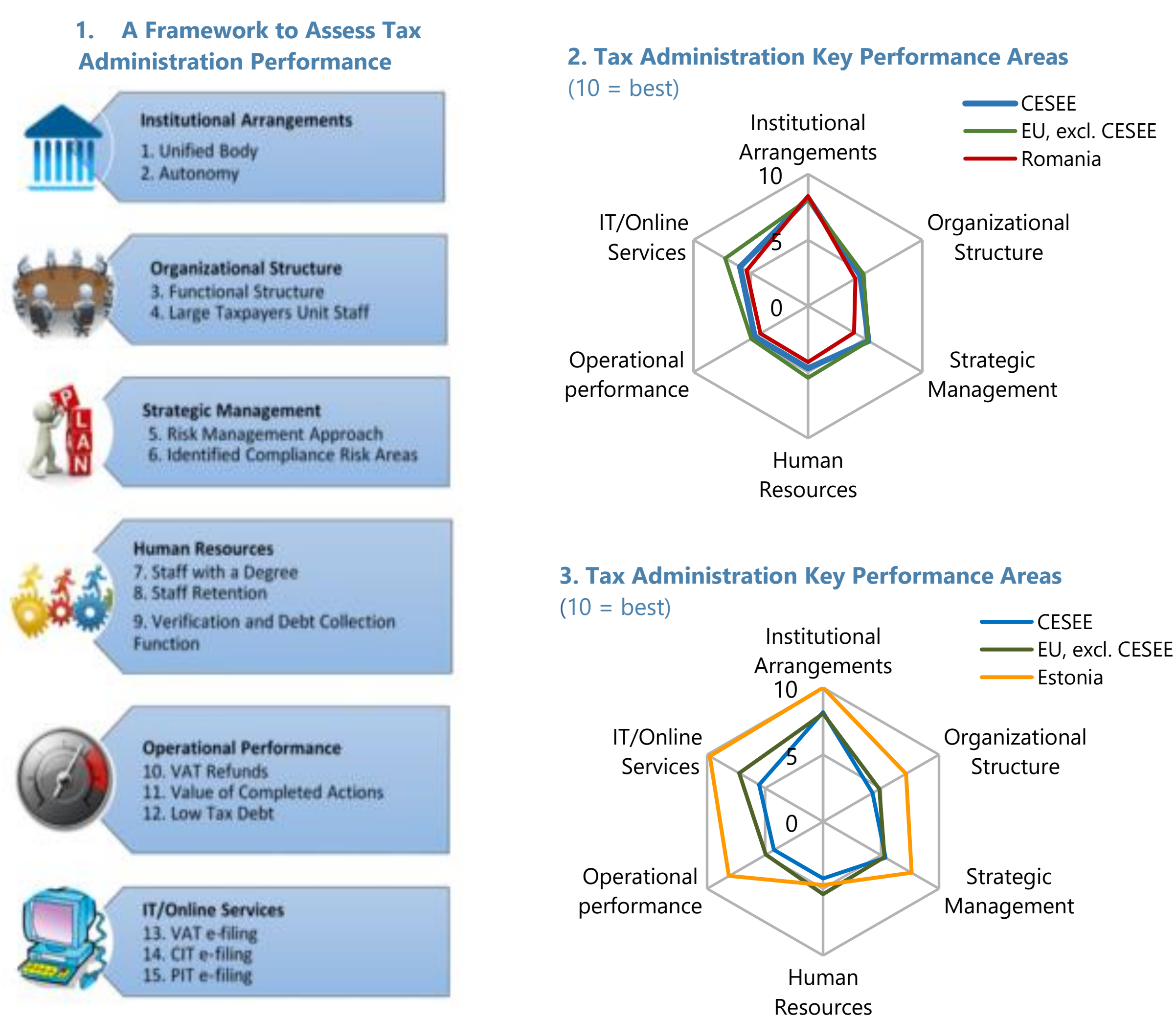


Source: IMF Staff calculations
Note: Red dots are CESEE countries, blue dots are advanced EU countries.

14. There is scope for improvement in several areas of Romania's tax administration. The revenue administration agency (ANAF) should become more service-oriented, by proactively encouraging accurate reporting, speeding up dispute resolution and tax refund processing, as well as obtaining taxpayer feedback on services. Special attention should be given to implementing and operationalizing a new IT infrastructure, given ANAF's outdated and fragile systems. This is borne out by the relatively low take-up of e-filing for the main three taxes in Romania as compared to other CESEE or advanced EU countries (Figure 8, Panel 2). Partly due to its weak IT systems, a modern compliance risk management approach has not been fully adopted in Romania. In addition, the effectiveness of the administration of large taxpayers continues to be limited by legislative, procedural and structural constraints. Romania also faces a relatively high level of tax debt, which requires resources to be allocated to debt recovery instead of audit and verification functions, consequently resulting in a relatively low value of completed verification actions.

15. Estonia provides a good example of how improving tax administration has resulted in high levels of tax efficiency (Figure 8, Panel 3)**.** The Estonian Tax and Customs Board (ETCB) developed into a fully service-oriented revenue body, which allows for maximum simplification in the fulfillment of tax liabilities, through extended use of information technology (e-filing now covers almost 99 percent of total tax declarations). Risk analysis has been substantially upgraded, supported by the introduction of new methods for data analysis, development of a third-party reporting environment and automated submission of third-party reports. Information systems have also supported the administration of tax arrears, resulting in improved quality of tax recovery (tax debt is below 5 percent of revenues). These reforms started in the 1990s, with the adoption of a new tax system, but got new impetus in the context of a wider public administration reform in 1996, aimed at establishing an efficient and citizen-oriented administration that would meet the demands for the EU membership. Tax administration reform strengthened further during the global financial crisis in order to secure revenues following a severe recession. As a result of these reforms, Estonia stands out as having one of the lowest VAT compliance gaps in the EU and very strong tax efficiency also for other taxes.

Figure 8. Tax Administration Strength

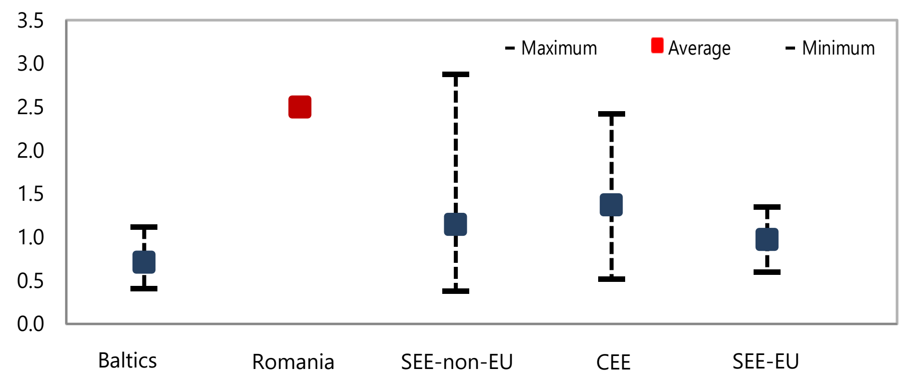


Source: IMF (2016), IMF staff calculations

16. By improving tax collection efficiency, tax administration reform could generate sizable additional fiscal revenues in Romania. Considering the average tax efficiency for the main three taxes (VAT, CIT, and PIT), if Romania would raise efficiency to the average level of other CESEE countries, the overall revenue gain could be conservatively estimated at about 2½ percentage points of GDP (Figure 9, Panel 1). Moreover, raising tax efficiency to the level of the best performers in advanced Europe or Estonia would bring higher revenue for Romania, estimated in the range between 5-6 percentage points of GDP in the medium-term (Figure 9, Panel 2).

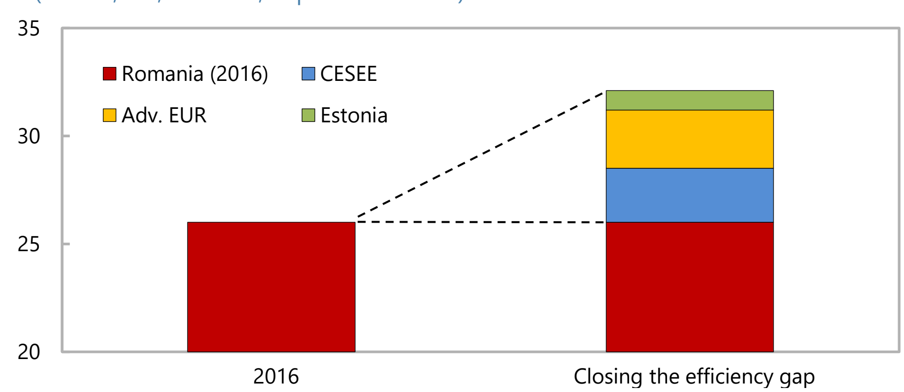
Figure 9. Potential Revenue Gains from Efficiency Improvements in Romania

1. Potential revenue gain from tax efficiency improvement
(On CIT, PIT, and VAT, in percent of GDP)



Note: Compared to average CESEE efficiency levels, at average tax rates.

2. Potential revenue gain from tax efficiency improvement
(On CIT, PIT, and VAT, in percent of GDP)



Source: IMF staff calculations

E. Policy Recommendations

17. Strengthening the tax administration is crucial to improving tax collection efficiency in Romania, and requires commitment and ownership at the highest levels. Implementing and operationalizing new IT infrastructure in Romania is a key priority, given its outdated and fragile systems. The significant funding agreed on in 2013 under the World Bank's Revenue Administration Modernization Program (World Bank, 2016) has not succeeded in bringing the much-needed IT reforms, primarily because of lack of ownership. In addition, ANAF's organizational structure needs to be improved to better deliver reforms, by simplifying the law and procedures. The effectiveness of the administration of large taxpayers continues to be limited by legislative, procedural and structural constraints. Modern compliance risk management approaches should be adopted, especially those that target large tax payers and high-wealth individuals, to better identify, assess, and quantify key compliance risks. Management of tax arrears should be improved, also to make more efficient use of limited human resources. Finally, ANAF should move towards a service-oriented revenue agency by proactively encouraging accurate reporting, speeding up dispute resolution and tax refund processing, and obtaining taxpayer feedback on services. All these reforms require strong political ownership to be successful in improving ANAF's efficiency.

18. Romania should conduct a comprehensive review of its tax system. This review would guide future reform needs in the area of tax policy with the primarily focus on improving revenue productivity and the growth-friendliness of the tax system. Until this review is conducted—and until tax efficiency has improved considerably—further tax rate cuts and the introduction of new exemptions or special regimes should be avoided. In this context, further increasing the number of goods and services subject to VAT reduced rates should be resisted as this results in significant revenue losses, gives incentives for misclassification of goods, and increases the demand for refunds. Instead, a determined effort to gradually withdraw excessive tax incentives should be assessed as part of the tax system review.

Appendix I. List of Tax Measures Implemented since 2013

Tax Measures	Date of Implementation	Estimated Fiscal Impact 1/					
		2013	2014	2015	2016	2017	2018
Value Added Tax							
VAT threshold increased from EUR 65,000 to EUR 88,500	April 1, 2018						
Introducing split VAT regime for insolvent and poor track-record companies	January 1, 2018						n/a
Reduce the standard VAT rate from 20% to 19%	January 1, 2017					-3,504	
Introduction of a special regime for agricultural activities regarding VAT	January 1, 2017					n/a	
Introduction of the reduced VAT rate 9% for supply of goods and services in agricultural production	August 1, 2016				-66	-191	
VAT standard rate reduced from 24% to 20%	January 1, 2016				-7,462		
VAT reduction rate for books and cultural services from 9% to 5%	January 1, 2016				-69		
Reduced VAT rate 9% for drinkable water and for water used for irrigation purposes	January 1, 2016				-234		
Reduced VAT rate on the supply of foodstuffs, non-alcoholic drinks to 9% (from standard 24%)	June 1, 2015			-2,823	-5,646		
Reduced VAT rate of 9% (from 24%) for all tourism packages offering accommodation	January 1, 2015			-100			
VAT threshold increased from EUR 35,000 to EUR 65,000	January 1, 2015						
VAT cash accounting system became optional	January 1, 2014		n/a				
Reduced VAT rate of 9% applicable for the supply of bread, wheat and flour	September 1, 2013	210	635				
VAT collection on a cash accounting basis for businesses with an annual turnover below EUR 500,000	January 1, 2013	n/a					
Reverse charge mechanisms for several sectors with high risk of VAT evasion and fraud	January 1, 2013	n/a					
Corporate Income Tax							
Increase of the turnover threshold for micro- enterprises tax regime from EUR 500,000 to EUR 1000,000 (tax rate of 1% applies to micro-enterprises with one or more employees and of 3% to micro-enterprises without employees)	January 1, 2018						-200
Tax rate of 1% applies to all micro-enterprises with one or more employees (previously, those with one employee applied a rate of 2%); increase turnover threshold to EUR 500,000 from EUR 100,000	February 1, 2017					-300	
Introduction of "specific tax", determined based on the size and location of the activities for companies carrying out hospitality activities	January 1, 2017				n/a		
Increase of the turnover threshold for micro-enterprise tax regime from EUR 65,000 to EUR 100,000 euro per year and change in the tax rate according to the number of employees (1%, 2% and 3%).	January 1, 2016				-359		
New income tax rates for start-up small enterprises that have at least one employee for the first 24 months from the date of creation is of 1% (3% after that period)	January 1, 2016				n/a		
Exemption of reinvested profits in new technological equipment	July 1, 2014		-137	-550,0			
Unused tax credits for sponsorship and patronage expenses can be carried-forward for seven years	January 1, 2014		n/a				
Tax incentives for R&D costs increased from 20% to 50%	February 1, 2013	-5					
The 3% tax on income of micro-enterprises becomes compulsory for legal entities with a turnover of maximum EUR 65,000	February 1, 2013	457					
Capping the deductibility for cars depreciation to a maximum of RON 1,500/month	January 1, 2013	169					
Commercial companies, other than banks, can opt for the anticipated installments payment for CIT	January 1, 2013	n/a					
Personal Income Tax							
Lower PIT rate from 16% to 10%	January 1, 2018						-12,742
Increasing personal deduction for low income	January 1, 2018						-600
Eliminating the transaction tax on property sales below RON 450,000	February 1, 2017					-300	
Increase the amount of monthly exempt pension allowance from RON 1,050 to RON 2,000	February 1, 2017					-1,318	
Increase the amount of monthly exempt pension allowance from RON 1,000 to RON 1,050	January 1, 2016				-138		

Tax Measures	Date of Implementation	Estimated Fiscal Impact 1/					
		2013	2014	2015	2016	2017	2018
Increase the personal deductions for individuals with a monthly income below RON 1,500	January 1, 2016				-540		
Reduce the tax on dividends from 16% to 5%	January 1, 2016				-1,606		
Increase deduction on income from rent/leasing from 25 to 40%	January 1, 2016				-111		
The income tax rates applicable to income from gambling activities modified	January 1, 2015			n/a			
Contributions paid to optional pension schemes to authorized entities are deductible up to the limit of RON equivalent of EUR 400/employee/year	January 1, 2014		n/a				
Tax incentives for collective savings for housing were cancelled	August 1, 2013	n/a					
Withholding tax of 16% on income from services outside Romania, except international transport and ancillary services	February 1, 2013	437					
Withholding tax of 50% if the income is transferred to a country without a treaty for exchange of information	February 1, 2013	n/a					
Repeal the cap of 2.5 times the ceiling set for public institutions of deductible expenses for per diem granted to employees who travel in Romania or abroad	June 1, 2013	-171					
The per diem allowance that exceeds 2.5 times the level established for public employees will be classified as income from salary	February 1, 2013	171					
Social Security Contributions							
Capping SSC base for self-employed to minimum wage	January 1, 2018						
Shift SSC from employer to employee, total rate reduction to 37,25% from 39,25% and change the way social security contributions are due by self-employed individuals and individuals deriving income from independent activities 2/	January 1, 2018						8,544
Introducing social security contribution for part-time workers	August 1, 2017					190	631
Pensioners are exempt from of social healthcare contributions	February 1, 2017					-868	
Eliminating the maximum ceiling for the monthly calculation base of the compulsory contributions to the pension fund and to the health insurance fund	February 1, 2017					1,057	
Reintroduction of the exemption that individuals who obtain revenue from investment (dividends, interests) or/and other sources do not owe health contribution on this income if they also have salary income	February 1, 2017					-471	
Elimination of the exemption that individuals who obtain revenue from investment (dividends, interests) or/and other sources do not owe health contribution on this income if they also have salary or other income	January 1, 2017					471	
Introduction of a maximum ceiling 5 gross average earnings for the monthly calculation base of the social health insurance contributions	January 1, 2017					-472	
Increase in the ceiling for health insurance contributions for pension income from RON 740 to an annual pension point value	January 1, 2016				-145		
Change in the system of social contributions for the military, police and staff of special penitentiaries	January 1, 2016				-936		
Elimination of the exception that private individuals who obtain income from independent activities do not owe pension contribution on this income if they also have salary income	January 1, 2016				200		
Apply social contribution rates to full amount of income from independent activities through a reconciliation of anticipatory payments to actual income in first quarter of following year	January 1, 2016				-162		
The social security contribution obligations for free lancers are determined by applying the individual contribution rate (10.5%), but taxpayers may opt for the full rate of the SSC	January 1, 2016				n/a		
Reduction of the social contributions (pension) rates paid by employers with 5 percentage points	October 1, 2014		-1,080	-6,480			
Applying a mandatory health contribution on rental income of individuals	January 1, 2014		50				
Excise duties							
Reintroduction of the 3.5 cents excise on fuel	October 1, 2017					590	2,784
Increase in excise duty from RON 430.71 / 1000 cigarettes in 2016 to RON 435.58 / 1000 cigarettes	January 1, 2017					156	
Increase in excise duty from RON 412 / 1000 cigarettes in 2016 to RON 430/ 1000 cigarettes	January 1, 2016				456		

Tax Measures	Date of Implementation	Estimated Fiscal Impact 1/					
		2013	2014	2015	2016	2017	2018
Removal of the 7 cents excise duty	January 1, 2017					-2,586	
Reduce excise duty on alcoholic beverages	January 1, 2016				-313		
Removal from the scope of excise duty of the excise on other goods (luxury products, coffees) and the tax on crude oil from domestic production	January 1, 2016				-72		
Introduction of the 7 cents excise duty	April 1, 2014		1,709	2,279			
Excise duties will be expressed in Romanian currency (RON) and adjusted upwards with the consumer price index	January 1, 2014		1,107				
Increase alcohol excise	September 1, 2013						
The scope of application of the excise duties is extended for a series of luxury products, cars and SUVs, with engine capacity greater than or equal to 3,000 cc	September 1, 2013	253	481				
Cigarette excise increases calendar moved forward three months	April 1, 2013	312					
Excise duties for beer and fermented beverages aligned for alcohol concentration as well as the production process. Increase the excise duties for beer	February 1, 2013	80					
Increase diesel excise	January 1, 2013	403					
Property Taxes							
Elimination of the land tax for utilized agricultural land	January 1, 2018						-300
Eliminating the construction tax	January 1, 2017					-1,062	
Local taxes set as fixed amounts will be indexed to inflation annually not every 3 years as previously	January 1, 2017					n/a	
Change in the rate of property tax (residential 0.08%-0.2% instead of 0.1%, business 0.2%-1.3% instead of 0.25%-1.50%)	January 1, 2016				334		
Local authorities will be able to increase local tax rates set out in the New Fiscal Code by a maximum of 50%, compared with 20% as previously	January 1, 2016				n/a		
Eliminates provision according to which individuals, owners of two or more buildings, are liable to an increased tax on buildings' payment	January 1, 2016				n/a		
Buildings will be taxed according to their purpose (residential, non-residential or mixed-purpose), and not solely according to whether the owner is an individual or a legal entity	January 1, 2016				n/a		
For agricultural land uncultivated for 2 consecutive years, the Local Council may increase the tax on land by up to 500% starting from the third year	January 1, 2016				n/a		
Tax on special constructions reduced to 1% (from previous 1.5%)	January 1, 2015			-550			
Introduction of the 1.5% special construction tax on book value of constructions less the value of the buildings which are subject to building tax	January 1, 2014		1,000				
Local authorities with arrears are required to increase the level for local taxes by 16%	February 1, 2013	285					
Energy, environmental and other taxes							
Elimination of 102 fees/taxes	February 1, 2017					-1,009	
Increase of tax rates for mining activities	July 1, 2013	62					
A new 'environmental stamp' was introduced	March 15, 2013	100					
60% surcharge levied to companies carrying out both natural gas extraction and sale activities in Romania on additional income derived further to the deregulation of prices in the natural gas sector, from which related royalties and upstream investments not exceeding 30% of the total additional income are deducted	February 1, 2013	1,103					
The tax 'on natural monopoly' apply to electricity and natural gas transport and distribution operators per every MWh for which electricity and natural gas transport and distribution services are billed. The corresponding tax ranges from RON 0.1 / MWh to RON 0.85 /MWh	February 1, 2013	205					
Turnover tax of 0.5% for companies deriving income from exploitation of mineral resources, other than natural gas	February 1, 2013	107					

1/ Estimated fiscal impact at the introduction of the measure. For measures introduced during the year, the full annualized impact is presented in the following year.

2/ Starting January 2018, pension and health insurance contributions are payable by the employee at a rate of 25 percent and 10 percent, respectively. The employer is required to pay only the pension contribution for special conditions of work at a rate of 4 percent and 8 percent respectively. In addition, an "Insurance contribution for work" at a rate of 2.25 percent payable by the employer was also implemented. The monthly basis for computation of the pension contribution for self-employed and independent activities is the chosen income, but not less than the country's gross minimum wage. The monthly base for computation of the health contribution is the gross minimum wage for self-employed, individuals deriving income from independent activities and from other categories of income such as: income from the association with a legal person, rental income, income from agricultural, forestry and fish farming activities, investment or other sources of income.

Source: Ministry of Public Finance, Romania's Fiscal Council, and IMF staff estimates.

Appendix II. General Government Revenue 1/

Table IIA. Romania: General Government Revenue, 2000-2017

(In percent of GDP)

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Revenue (A + B + C + D + E)	30.9	29.7	29.4	28.5	29.8	31.2	32.1	31.3	30.8	29.7	31.8	32.3	32.4	31.4	32.0	32.8	29.0	28.0
A. Taxes, excl. SSC (a + b + c + d)	...	...	...	...	17.8	17.7	18.5	17.9	17.6	16.8	17.6	18.7	19.2	18.7	18.7	19.4	17.9	16.4
a. Taxes on income, profits, and capital gains	...	...	...	...	5.9	5.0	5.5	6.1	6.1	6.1	5.5	5.4	5.5	5.5	5.6	5.9	5.9	5.5
a.1. Income Taxes Payable by Individuals	...	...	...	...	2.9	2.3	2.8	3.4	3.4	3.5	3.4	3.5	3.5	3.6	3.5	3.8	3.7	3.6
a.2. Income Taxes Payable by Corporations and Other Enterprises	...	...	...	...	3.0	2.7	2.7	2.8	2.7	2.6	2.1	2.0	2.0	1.9	2.0	2.1	2.2	1.9
a.3. Other Income Taxes	...	...	...	...	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
b. Taxes on goods and services	...	...	...	...	9.9	10.9	11.1	10.2	10.1	9.5	10.7	11.9	11.9	11.4	11.2	11.7	10.3	9.4
c. Taxes on international trade and transactions	...	...	...	...	0.7	0.8	0.7	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
d. Taxes Not Elsewhere Classified	...	...	...	...	1.3	1.1	1.2	1.3	1.2	1.1	1.3	1.2	1.6	1.7	1.8	1.7	1.6	1.4
B. Grants	...	...	...	...	0.7	0.6	0.5	0.7	0.9	1.0	1.8	1.2	1.4	1.4	1.7	2.4	0.5	0.6
C. Social contributions	...	...	...	...	9.1	9.5	9.5	9.2	9.1	9.1	8.6	9.0	8.7	8.5	8.6	8.1	8.0	8.4
D. Other Revenue	...	...	...	...	2.2	3.4	3.6	3.5	3.2	2.9	3.9	3.4	3.2	2.8	2.7	2.9	2.5	2.6
E. Residual*	...	...	...	...	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	0.3	0.0	0.0	0.0

*Residual is due to tax revenues not elsewhere classified by WEO. In some cases (e.g. Iraq), this may refer to non-tax resource revenue.

Source: WEO and/or Fiscal File. SSA Database for PIT and CIT revenue (% GDP) for 2000-2002.

Note: Marked fields represent WEO estimates. "..." fields represent missing values.

1/ Revenue Analysis Tool (RAT). IMF fiscal Affairs Department, Tax Policy Division.

Table IIB. Romania and Comparators: General Government Revenue by Source, 2017

(In percent of GDP)

Country	Year	Total Revenue	Tax Revenue (excl. SSC)	Taxes on: Income, Profits, and Capital Gains				Taxes on: General Goods and Services	Taxes on: International Trade	Taxes on: Unclassified Taxes	Social Contributions	Grants	Other Revenue
				Personal Income	Corporate Income	Other	Total Income						
Romania	2017	28.0	16.4	3.6	1.9	0.0	5.5	9.4	0.1	1.4	8.4	0.6	2.6
Albania	2017	27.5	19.9	2.0	2.0	0.0	4.1	14.2	0.4	1.2	5.5	0.7	1.3
Belarus	2017	41.7	25.1	5.8	2.7	0.0	8.5	10.9	3.2	2.5	11.7	...	...
Bosnia and Herzegovina	2017	43.3	22.5	...	...	...	4.1	17.6	0.8	0.0	15.2	0.7	4.9
Bulgaria	2017	34.0	21.4	3.4	2.3	0.0	5.6	14.5	0.2	1.0	6.9	1.5	4.3
Croatia	2017	47.0	27.1	3.6	2.1	0.0	5.7	21.0	0.0	0.4	11.8	3.0	5.2
Czech Republic	2017	40.6	20.1	4.0	3.4	0.5	7.9	12.2	...	...	15.3	0.7	4.5
Estonia	2017	40.1	22.5	6.2	1.5	0.0	7.7	9.3	4.5	0.9	11.7	2.0	3.9
Hungary	2017	47.7	25.3	5.5	1.8	0.0	7.3	17.8	0.2	0.0	12.7	2.5	7.3
Kosovo	2017	26.2	...	...	...	...	...	...	...	...	...	...	...
Latvia	2017	37.3	...	...	...	...	...	...	...	...	...	...	...
Lithuania	2017	33.8	...	...	...	...	...	...	...	...	12.2	1.2	...
Macedonia, FYR	2017	29.0	...	...	...	...	...	...	...	...	...	...	...
Montenegro, Rep. of	2017	41.0	26.2	4.0	1.2	0.0	5.2	17.9	0.6	2.5	10.5	0.7	3.7
Poland	2017	39.8	21.2	4.9	1.9	0.5	7.3	11.2	0.3	2.5	13.9	0.0	4.7
Serbia	2017	42.6	25.8	3.7	2.5	0.0	6.2	17.0	0.9	1.6	11.2	0.2	5.4
Slovak Republic	2017	39.4	18.1	3.4	3.2	0.5	7.1	11.0	0.0	0.0	14.8	1.9	4.6
Slovenia	2017	38.8	20.9	5.1	1.8	0.0	6.8	13.2	0.2	0.6	14.1	0.9	2.9
Turkey	2017	31.5	17.8	3.6	1.7	0.0	5.3	9.5	0.4	2.5	6.2	0.0	7.5
Ukraine	2017	40.1	28.7	6.4	2.5	0.0	8.9	15.2	0.8	3.7	6.2	0.0	5.2
Avg, excl. Romania		38.0	22.8	4.4	2.2	0.1	6.5	14.2	0.9	1.4	11.2	1.1	4.7
Avg, incl. Romania		37.5	22.4	4.3	2.2	0.1	6.5	13.9	0.8	1.4	11.1	1.0	4.5

Source: WEO.

Note: Tax Revenue does not include Social Contributions. "..." fields represent missing values.

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