PSYCHOLOGICAL IMPLICATIONS OF TAXATION IN ROMANIA AND EUROPEAN UNION

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Abstract

The appreciation of the place and role of taxation in the economy can not ignore the psychological and political aspects. The willingness to obey the tax laws is not among the top choices of the participants in the economic life, whether individuals or juridical persons. The amounts owed are felt as obligations and even as burdens while the benefits and the public services offered as consideration are not aware. Therefore, we propose an analysis of the psychological and political implications involved in taxation, particularly in the context of the economic and fiscal changes at the level of the European Union.

Keywords: taxation, psychology, tax laws, political implications, fiscal changes, European Union

1. Taxation – "a necessary evil"

Taxation should not currently represent a concept to scare any longer, especially that the debates created around it are often constructive. It should be accepted as a "necessary evil" because the modern state needs resources to cover the public expenditure that it must make for the fulfillment of its economic and social role.

Most of these resources come from charges, taxes and social contributions. Thus, "taxes are a form of sampling a portion of the income and/or of the wealth of individuals or juridical persons to the State in order to cover the public expenditure. This sampling will be mandatory, as grant, and without direct consideration of the State".

This definition reveals the role of taxation that can be seen as a link between the State and individuals and juridical persons. Thus, taxes are a necessity because, without them, the State would be unable to run (through public institutions) the activities it is mandated with.

We all are beneficiaries of the public services and, without accepting the need to finance them, we cannot construct a modern society, we cannot live the standards that we want. Especially that, after joining the European Union on January 1, 2007, we also assumed the tax harmonization and the legislation one, in general.

We must be aware that the financial resources that the State acquires from individuals and juridical persons and to which it adds, if necessary, funding from other sources are not unlimited. Therefore, it is required a rational use of them and a permanent and effective control of their allocation. Also, by taxation, the State takes over, at its disposal, a part of the purchasing power of the private sector, the latter having fewer resources that can be allocated for the production of private goods and services.

2. The principles of taxation - the modern tax system

According to the Tax Code, there are a number of principles for determining the taxes in Romania:

a) The neutrality of the fiscal measures in relation to the various categories of investors and shareholders with ownership, ensuring equal conditions to investors, to the Romanian and foreign capital. Thus, by means of the measures provided in legislation, it is aimed to ensure the same tax regime for taxpayers in similar situations.

In fact, this principle has become essential in the free and increasingly more open economy of our country, constituting a guarantee granted to the investors on the Romanian market who will be sure that they will receive equal tax treatment.

b) The certainty of taxation, by establishing clear legal norms that do not lead to arbitrary interpretation, and the timing, manner and amount of payment to be precisely determined for each payer meaning that they would be able to follow and understand the tax burden they bear, as well as they would be able to determine the influence of their own financial management decisions on their fiscal burden.

c) The tax equity to individuals, by imposing the incomes differently, depending on their size.

The personal deduction also affects the tax equity, in the case of individuals, this representing a non-taxable minimum that can be allocated to meet the needs of their strictly personal life. Its quantum is determined by the dependents and is diminishing as the monthly gross income from the wage increases.

d) The efficiency of taxation, by ensuring the long-term stability of the Tax Code provisions, for these provisions to not cause adverse retroactive effect to individuals and juridical persons in relation to the taxation in force upon the adoption by them of some major investment decisions.

A very important element is the fact that the Tax Code provides that any amendment or supplement to the tax rules existing at some point come into force from the first day of the year following that in which the law was passed. Thus, an individual or a juridical person may adopt some decisions knowing the existing tax provisions during the entire fiscal year. This provision eliminates the accusations on the instability of the tax legislation, because over time there have been instances when certain provisions were valid only for short periods of time, or have been modified in a fast pace, with negative effects on business.

Equity vs. efficiency - especially in the case of the income tax which raises the question of arbitration between the requirements arising from the principle of efficiency and the ones arising from the principle of equity: equity requires, for example, a system of progressive tax rates which may be considered as disincentives in terms of efficiency. Equity requires custom taxes, which leads to the increased complexity of the tax system.

In order to ensure the tax equity to individuals, an important step was made by introducing a tax on the global annual income. Thus, most of the income categories earned by individuals (in terms of their volume) are subject to the globalization process in order to determine the tax payment.

This way, the horizontal equity in taxation is achieved: equal pay, equal taxes. However, because of the fact that not all the income derived by individuals is subject to globalization (such as retirement income, income from agricultural activities, from investments, from gambling and from prizes etc.), the equity is not fully achieved.

It must be taken into consideration the ensuring of the equity vertically as well, that means providing a progressive tax, on installments, in which the tax rates and installments to be set such that the transition from one tax to another leads to the same utility loss of a person's income.

The pursuit of equity in taxation should not be seen only as a tax on the revenue. For example, for individuals, a tax impact is also made by their contributions to the social insurance (State, health, unemployment, etc.) or their indirect taxes (Value Added Tax, excise, etc.). Equity in taxation at 100% (utopian to achieve) should pursue all the taxes incurred by a person, these ones being reported in income and other opportunities an individual benefits or can benefit from. Equity, or at least the horizontal one, can be achieved only so far as the taxation level of people is equal.

3. Psychological implications of taxation on individuals and juridical persons

The appreciation of the place and role of taxation in the economy can not ignore the psychological and political aspects of this phenomenon. Taxes sparked controversy because they affect the economic interests of individuals and juridical persons. In such situations, the reactions dictated by selfishness prevail over those based on logic, especially when assessing the size of their own taxes.

This psychological attitude appears in assessing the taxes paid by the others, especially based on a feeling of envy.

The assessing of the implications which a very high taxation has on juridical persons is also required. They may give up some economic activities, may use some ways of manifestation of the underground economy as the illegal work, and even may resort to tax evasion, all in an effort to keep their business and also to capitalize their business and make a profit.

Amid these discussions there occurs the notion of "social justice" demagogically exploited, especially by politicians. From here the implications and the psychological political–taxation relationship come.

Achieving the social justice goal can be considered a budgetary policy problem rather then a fiscal policy one and thus it can be resolved by the social protection system. Be means of this one, it must be achieved both the equal opportunities among children from disadvantaged groups and the ensuring of a decent life for them. The fiscal policy should help protect the individual initiative; it should stimulate the actions taken by individuals and economic agents.

In this plan, the solution seems to be the maintaining of a tax base as broad as possible and the strong disproof of the attitudes of fraud and tax evasion and not the increasing taxation of those who achieved higher incomes.

But in this situation also, there occurs the refusal of those who earn incomes to "carry on their back" a part of the population unmotivated enough for work, who does not want to evolve, to learn. This is another psychological aspect of the people who, although do not manifest their refusal, often think of this as being unfair and inconsistent with their efforts.

The tax system should ensure optimum performance for the individual initiative in a market economy, but it should also take into account the psychological attitudes of citizens.

For politicians, the fundamental concern should necessarily represent the accomplishment of the general interest and not the demagogic promotion of some egalitarian principles.

The manner in which the tax system in a country combines the principles of taxation, by choosing one way or another to solve the numerous and complicated contradictory situations, reflects the political, economic and social priorities.

A tax system economically optimal should be politically acceptable, that is why the optimum condition in terms of taxes can not be assessed only in terms of economic criteria.

Therefore, I believe that it is the duty of the State to accept the psychological aspect as being important, to analyze the impact of the level of taxation before the future tax changes and to keep a balance between the fiscal pressure applied to individuals and juridical persons.

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