

THE INFLUENCE OF ACCOUNTING SYSTEM AND FISCAL POLICY ON REGIONAL DEVELOPMENT

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Abstract

Regional development is a concept that aims at stimulating and diversifying economic activities, stimulating private sector investment and it contributes to reducing unemployment and improving living standards. To achieve these goals accounting and tax policies are necessary to allow private operators to realize taxable income, to create jobs for people and to pay taxes and contributions due to the State budget. The State must reinvest a part of the resources collected to the community in order to improve infrastructure, education and health, thus contributing to regional development.

Changes in tax law and accounting adopted in Romania during 2009-2014 are regarded as tax breaks for companies created to ensure economic growth, dynamic and sustainable through efficient use of regional and local potential. In this paper we analyze the influence of the accounting and fiscal system on the regional development given that these measures do not always achieve their objectives established companies having benefit from the application of various tax measures. The paper will present the main changes of the tax and accounting systems and their impact on the regional development in Romania and the consequences resulting in implementing these measures.

Key words: regional development, fiscal deficit, State Budget

JEL CODE: H720

Introduction

Regional development policy represents a set of measures planned and promoted by central and local government authorities in partnership with various sectors to ensure economic growth, dynamic and durable by using regional and local possibilities in order to improve living conditions. The main areas that can be targeted through regional policies are: enterprise development, labor market, attracting investment, technology transfer, development of SMEs, infrastructure improvement, environmental quality, rural development, health, education and culture.

In order to apply regional development policy in Romania eight regions that include the entire country were established. The developing regions are not administrative units, they do not have legal personality, they are the result of an

agreement between the counties and the local partners as European partners consider a larger entity has a higher power. Each component comes with a specific geographical region, economic and cultural, bringing added value.

The concept of sustainable regional development has started to become a fundamental component of national policies in the economic, social and environmental fields promoted by the Government and Parliament since 2008 through the formulation and adoption of the Decision of the Government of the National Strategy for Sustainable Development in order to reduce the economic development deficit existing between Romania and other European Union countries.

Major themes of sustainable development at national level consider the EU strategic objectives set by the Europe 2020 agenda on one hand and on the other hand specific problems of Romania like low productivity of resources, poor collection of taxes, infrastructure and economic gap of Romania in relation to the countries located in western Europe. To solve these problems we need to ensure macroeconomic stability, improving fiscal policy, attracting funds and an effective use of EU funds, ensuring sustainable public finances and improving the business environment.

Regional development requires financial resources on one hand and qualified individuals to contribute to economic growth and development on the other hand. Companies activating on the market contribute significantly to the regional development with the jobs they provide and the taxes they pay to the contributions budget. Fiscal measures adopted by the Government influence the companies behavior in the business environment encouraging development or on the contrary widening economic gap between Romania and the economically developed countries.

The Research Methodology

In this study we made a normative research of the national legislation on the tax and accounting measures adopted by public authorities in order to achieve regional development including establishing corporate flat tax, income tax repeal, increase in VAT and the introduction of VAT collection system. We will also perform a statistical processing of the data in order to analyze the impact of these measures at the level of regional development.

Results and discussions

For renovated and restored homes, better roads and sewerage network rehabilitation, more modern buildings or commercial premises we need local investment and European projects. We can say that to achieve these objectives it requires financial resources. The size and structure of public funds vary depending on the degree of economic development of the volume of public expenditure to be made and on the policy of attracting foreign investment and funds. They are subject to financial policy objectives namely the priority fields to be funded. Public expenses are covered by the collection of funds from individuals and businesses by

the State by virtue of fiscal sovereignty . The right of the state to demand for taxes and the correlative tax liability of taxpayers appear when there is a tax base for contributions and generated taxes given the fact that the Romanian fiscal system is a declarative one which starts with the voluntary action of the taxpayer to calculate, declare and pay obligations to the State.

Allocation and utilization of public financial resources are two of the most important concerns of the authorities who determine the amount and expense within the volume of resources mobilized to ensure regional development. Through public expenditure, financial resources obtained through levies and payments of individuals and businesses are spent for the community.

The regional development involves performing exhaustive expenditure which, economically do not produce income but represent a definitive resource consumption as for example, public order charges, defense expenditures, purchases made for the functioning of public institutions, investment in schools, hospitals and infrastructure.

To achieve sustainable regional development, the Romanian State should make expenses which claim only an advance of resources. Investing in economic sector and subsidizing private activities are likely to acquire a similar efficiency to private expenditure, all these will be recovered in time and they are generating income and creating national wealth and the result is reflected in durable goods and economic services.

In addition to these two categories of already mentioned expenses which are characterized by well-defined profiles, there are a number of costs with education, culture, health, mixed expenses called quasi expenditures. They are funded both from public and private resources, joint funding reflects an objective necessity given that they claim for bigger budgetary funds. Thus the State assumes primary funding expenditure dedicated to basic public services following that high-quality services to be partially supported by the beneficiaries.

Political stability and economic vision of the government influence the functioning of the society. If not set, there are no money from the state budget, no investors because no one invests in an area with political uncertainty where you can not make long run development predictions.

The minimum tax was one of the measures taken by the Government to combat tax evasion and to increase revenue budget. The tax had to be paid by annual installments and it was a compulsory tax whether the company had profit or loss. For the government this tax meant equal treatment for all taxpayers aiming to increase the share of budget revenues, emphasizing the idea that Romania had the lowest level of income to the state budget, only 32.8% of GDP, compared to 40% in Bulgaria or up to 55% of GDP in the Nordic countries.

According to GEO no. 34/2009 on May 1, 2009 this tax come into force and it was established between 2,200 lei and 43,000 lei according to the companies revenue.

According to the Government Decision No. 488/2009 provisions on minimum income tax did not apply to temporary inactive companies registered with the Trade Register under Art. 237 of Law 31/1990 on trading companies (republished,

with subsequent amendments). Also the minimum tax law did not apply to companies which on May 1, 2009 were temporarily inactive and the law ceased in 2009 for the period related to the closure and up to 31 December 2009. After a year of implementation, minimum tax was repealed on October 1, 2010 by GEO no. 87/2010, published in Official Gazette no. 669 / September 30, 2010 as the tax measure represented a considerable financial effort for small companies, many companies choosing to suspend their activity.

Another tax measure enforced by Law 76/2010 of 6 May 2010 having impact on regional development was to repeal the income tax for small businesses. In 2010 under this law the small business tax system was amended from applying a rate of 3% on income to applying a tax with a rate of 16%, a measure that has saddled many businesses that were already affected by the global economic crisis. A year later this measure was amended so that the Law 571/200 combined with the Government Decision 44/2004 regarding the Fiscal Code rules for the application of enterprises' by Government Decision No. 150/2011 income tax reintroduced a tax rate of 3% on taxable income.

These fiscal measures adopted by the Government generated undesirable effects which unfortunately did not favor regional development but led to the suspension of activity of the companies previously generating jobs and contributions to the state budget. According to the National Trade Register Office, for the period 2009-2013 the following values have been observed across the country:

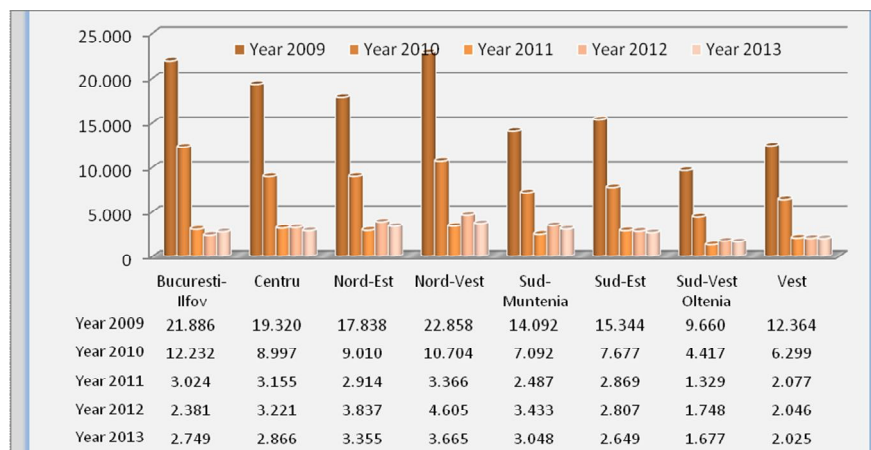


Figure no. 1 Evolution of activity suspensions in all eight regions of Romania

Source: own interpretation after the published list of National Trade Register Office

From the figure presented we observe that in Romania in the year in which the measure of minimum tax was introduced, namely in 2009, the highest number of activity suspensions were registered at National Trade Register Office across the country. We note that the highest number of activity suspension in 2009 was registered in the North-West region, namely 22.858 suspensions, followed by Bucharest- Ilfov region with 21.886 suspensions and the Central Region with

19.320 suspensions. The smallest number of suspensions were registered in the West region, with 12.364 suspensions of activity, followed by South-West Oltenia with only 9.660 suspensions. In 2009 across the country the total of activity suspensions reach the value of 133.363 companies. Compared to the year 2008 when 12.019 companies suspended their activity, we can observe that in 2009 the suspensions of activity registered a explosive growth. In 2010, the number of voluntary suspensions of activity decreases substantially, comparing to 2009, reaching the value of 66.428 companies. The highest number of suspensions in 2010 was registered in Bucharest- Ilfov region, namely 12.232 companies and the smallest number was registered in South – West Oltenia, only 4417 suspensions of activity were registered. Compared to 2010, in 2011 the number of suspensions of activity has a descending trend reaching the value of 21.221 firms. In 2012 the number of suspensions of activity increases compared to the year 2011 and in 2013 we registered a decrease compared to the previously year.

These fiscal measures adopted by the Government generated undesirable effects which unfortunately did not favor regional development but led to the suspension of activity of the companies previously generating jobs and contributions to the state budget. Given these figures the tax measure adopted did not stimulate regional development but on the contrary has generated numerous suspension activity. Their effect can be seen in the number of the registered unemployed persons. According to the National Agency for Employment for the period 31.12.2008-31.12.2013 the following values have been observed across the country

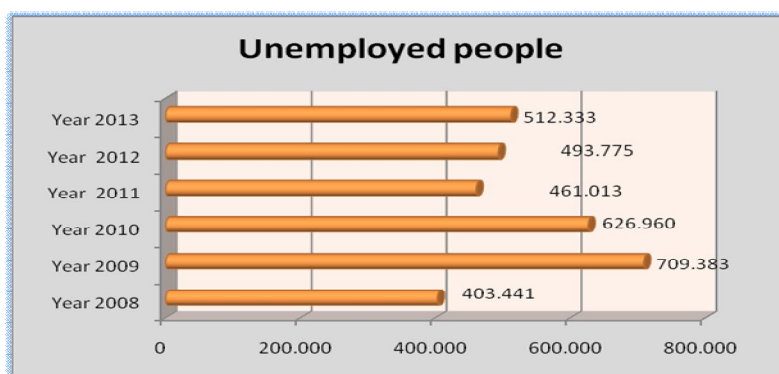


Figure no. 2 The number of unemployed people across the country

Source: own interpretation after the published list of National Trade Register Office

As can be seen from the figure, in 2009 was registered the highest number of unemployed people of all the years that we analysed, respectively the period between 2008-2013. Compared to 2008 the growth of unemployed people is significant in 2009 and represents the effect of suspensions of activity recorded in the same year when a lot of people loose their jobs.

In the years 2010 and 2011 the number of unemployed people registered a descending trend comparative with the year 2009, as we can see from the figure.

Over the next two years, namely in 2012 and 2013, we observe a growth from one year to the next.

Another tax measure adopted by the government in order to cover the budget deficit caused by the global economic crisis was the increase in VAT from 19 to 24%. Compared to other EU countries the VAT rate applied to Romania is among the largest, as we can see from the figure presented below:

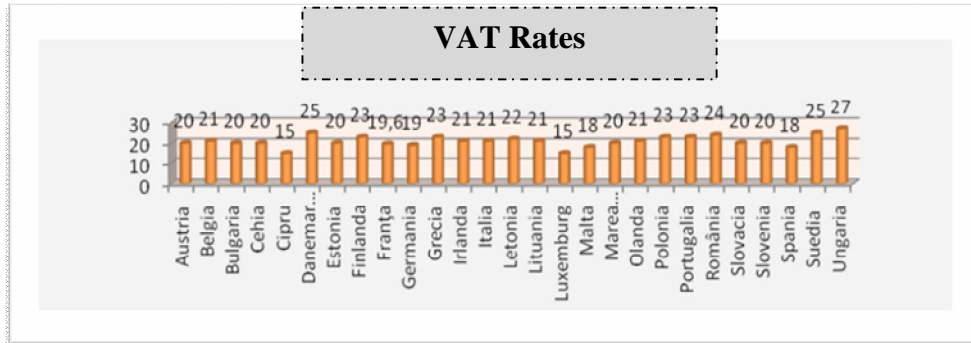


Figure no. 3 VAT rates applied in the EU countries

(Source: own interpretation after the published list of European Commission- VAT in the European Community)

Romania's economic growth in 2007-2008 was based on a rate of almost 70% on consumption. After the beginning of the crisis and the beginning of the recession period the household consumption was drastically reduced both in 2009 and in 2010 and the VAT increase to 24% led to an accelerated decline in consumption. The main effects of the VAT increase were raised prices with at least 5%, a declining purchasing power and inflation.

According to the National Statistic Institut of Romania, in the period 2009-2013, inflation registered the following values:

Table no.1 Inflation rates registered in the period 2009-2013

Year	Inflation rate
2009	5,59
2010	6,09
2011	5,79
2012	3,33
2013	3,98

Source: own interpretation after the published list of INS

As we can see from the table in the year 2010, when VAT increase with 5%, inflation in Romania reached the highest value, namely 6,09%, in the five years of analysis.

In 2013 taxpayers who had a business in Romania under Article 125¹ paragraph (2), lit. of Law no. 571/2003 regarding the Fiscal Code as amended and

supplemented and whose turnover for the period October 1, 2011 - September 30, 2012 did not exceed the sum of 2.250.000 lei applied a VAT collection system referred to in Article 134², paragraph (3) of Law. 571/2003 as amended and supplemented beginning with January 1, 2013. Applying this system was supposed to lead to economic growth, to a reduced unemployment rate and to increase Romania's competitiveness in attracting foreign investment and in ensuring a fiscal framework to support SMEs with the main aim of increasing the velocity of money in the economy and efficient collection of VAT .

Provisions of the Tax Code and norms on VAT collection system application provide that where persons obliged to apply this system and who have not received full or partial value of the supply of goods or the provision of services within 90 days from the date of invoice calculated in accordance with the Civil Procedure Code, the liability for unpaid tax intervenes in the 90th calendar day after the date of invoice.

After one year from its implementation in January 2014 major changes have taken place in the application of VAT collection system in Romania. Thus according to Government Emergency Ordinance no. 111/2013 published in the Official Gazette on December 19, 2013 regarding the tax measures to amend certain acts, the system becomes optional for taxpayers whose turnover in the previous calendar year does not exceed the threshold of 2.250.000 lei. The EO regulation no.111/2013 also stipulates that the chargeability of tax occurs in full or partial consideration of the goods delivered or services rendered and not after 90 days from the issuance of the invoice. Designed to release liquidity into the market and to help companies in difficult economical times the system has proven to be a deferred payment until the 90th day from receiving the invoice which does not bring significant benefits to taxpayers. In its first form the VAT collection system caused difficulties in the activity of some companies because hampered the running of the business creating a need for additional short-term financing to pay maturing obligations. The new form of the VAT collection system eliminates bottlenecks for companies so that the VAT collected is paid to the State Budget when it collects the invoices and not at the chargeability of 90 days; thus VAT is deducted when the payment is made to suppliers.

Even if there are numerous ways for the State to collect debts (to collect debts due to the State, the fiscal code stipulates the following ten possibilities: payment, compensation, reimbursement, remittal, debtor's insolvability, commissioning payment, enforcement, limitation, allowances and assignment of debts) the lack of resources, the lack of available funds to pay debts block the collecting process. The biggest loss comes from the annual debts which are prescribed and cannot be collected as well as from the intrinsic loss generated by any uncollected fiscal debt which is added to the financial burden that pres down on the shoulders of citizens.

We made a research on the basis of the data offered by the Romanian National Agency for Tax Administration, which has to provide resources for public expenditures by collecting and managing taxes and contributions owed to the State Budget, on 200 companies considered as large business taxpayers and to reflect

the outstanding obligations of the companies at VAT, payroll tax and income tax on the 31-st of December 2013 as compared to the same period in 2012 and 2011. The results of the research present the level of unpaid taxes of these companies as well as the impact of uncollected debts on regional development.

❖ **Unpaid fiscal debts of the large business taxpayers from VAT**

Value added tax owed by taxpayers is one of the most important sources of income of the State. As can be seen in the following figure, in the three years of analysis, from 2011 to 2013 the trend is down, reflecting the fact that the taxpayers obligations from VAT were paid at maturity.

RON

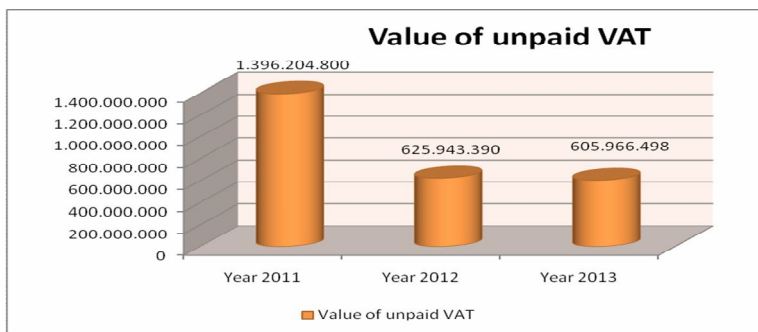


Figure no. 4 Unpaid VAT

Source: own interpretation after the published list of ANAF

❖ **Unpaid fiscal debts of the large business taxpayers from tax on profit**

Claims arising from the tax on profit, in the three years of analysis, recorded the following values:

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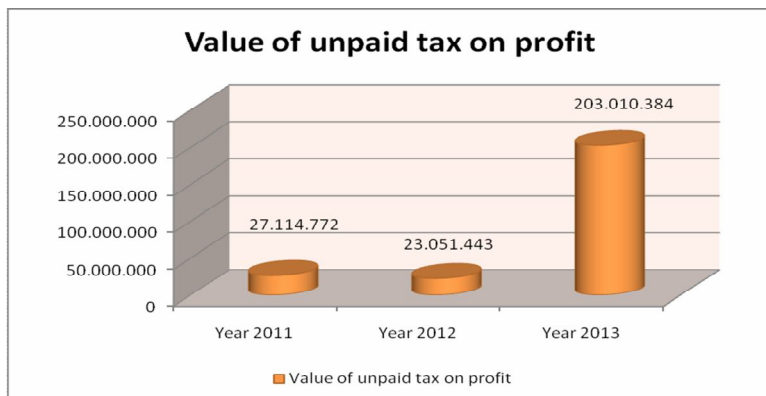


Figure no.5 Unpaid tax on profit

(Source: own interpretation after the published list of ANAF)

If the trend of tax claims of the State from VAT during the three-year review has been decreasing, in the case of the tax on profit payable by taxpayers, the situation

is reversed. As can be seen from the graph, in 2013 compared to the year 2012, the level of claims has increased 8 times, which reflects the company's inability to pay on time the contributions resulting from the tax on profit.

❖ **Unpaid fiscal debts of the large business taxpayers from income tax**

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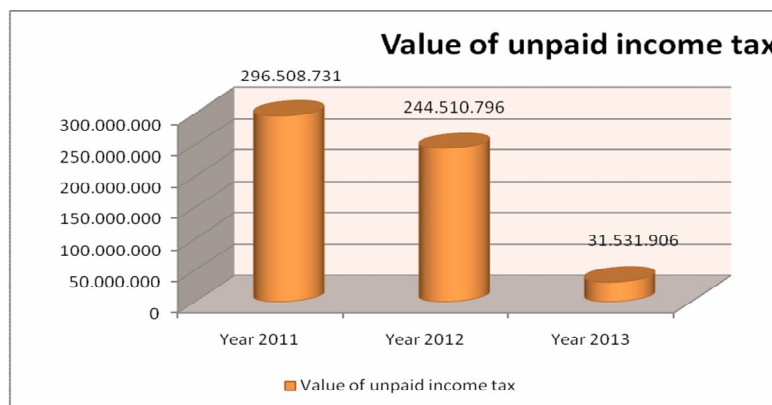


Figure no.6 Unpaid income tax

(Source: own interpretation after the published list of ANAF)

As you can see from the figure above, in those three years of analysis, claims arising from the income tax and salaries recorded a declining trend. Moreover, the decrease in 2013 compared to 2012 is very strong, a fact that reflects the efficiency of revenue from the tax on wages and salaries.

An overview of all State claims recorded on December 31 of the years 2013, 2012 and 2011 from 200 companies framed as large business taxpayers is presented in the following table.

Tabel no.2 Dynamics of the State Fiscal Deficit

RON

Nr.crt	Year	Value
1.	Year 2011	5.022.624.508
2.	Year 2012	3.172.909.294
3.	Year 2013	1.304.637.761

(Source: own interpretation after the published list of ANAF)

Comparing the values registered on the 31.12.2013 with those registered in the same period of 2012 and 2011 we can observe that the level of unpaid debts of the large business taxpayers has greatly diminished. If in 2011 the debts of the large business taxpayers reached 5.022.624.508 lei, in 2012 they dropped to 3.172.909.294 lei and in 2013 the dropping trend amounted the sum of 1.304.637.761 lei.

From the below figure we can see that since 2011 the sums coming from VAT, income tax, other taxes as well as those coming from interests and penalties dropped each year. In exchange in 2013 compared with 2011 the sums coming from the income tax have significantly increased from 27.114.772 lei, the debt registered at the end of 2011 up to 203.010.384 lei debt registered on the 31.12.2013. The excise duties situation is opposed to that registered in the case of income tax. Thus if in 2011 the companies’ debts due to the State reached the value of 82.382.985 lei and in 2012 the values of those debts compared to the previous year have almost tripled and by the end of 2013 the values dropped to 16.097.283 lei.

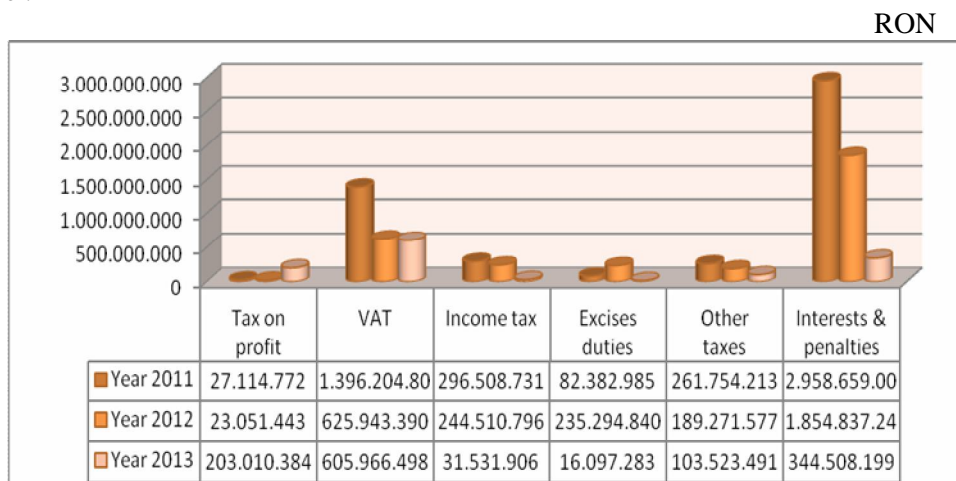


Figure no.7 All State claims
 (Source: own interpretation after the published list of ANAF)

On the whole, large taxpayers liabilities decreased in 2013 compared to the previous two years and considering the current economic climate this represents a favorable difference. In 2013 the State has fewer uncollected debts from large taxpayers compared to the same period of 2011 and 2012 which enables the State in making the necessary investments for regional development.

Conclusions

Regional development represents the State's obligation to create an environment conducive for economic development so that economic agents can produce and therefore pay matured debts to the state, thus avoiding economic bottlenecks that can occur.

To persuade investors to consider the development of a business in a certain geographic area is recommended to provide facilities and an open dialogue between authorities and potential investors, to issue long-term economic policies to stimulate business and to attract foreign investors to bring substantial funds in the monetary circuit of the region thus contributing to a long term development.

The accounting system applied contributes to the regional development. An accounting system devoid of bureaucracy, in which each taxpayer to be aware that the payment of taxes and contributions declared to the State contributes directly to the development process must become an objective to be achieved in the shortest time. In counterpart with contributions collected, the State must provide to society clear accounting legislation, high quality services, infrastructure, safety and professional fulfillment in their own country to all its citizens.

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