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FISCALITY DURING THE CRISIS

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Abstract: *Economic crisis tends to reduce taxation. An analysis which included more than 50 states, leads to the conclusion that most have taken measures for reduction of fees and taxes or other incentives granted to investors. Anti - crisis approaches differ greatly from one state to another; the determinant is often not so much the economic situation, as the state of public finances.*
From the fiscal perspective, the approaches of the states analyzed varies from package of incentives adopted formally, at ad - hoc measures, temporary provisions or accelerating the introduction of measures already planned.
Keywords: *anti - crisis measures, tax treatment, impact*

1. INTRODUCTION

In Slovenia, Slovakia and the Czech Republic was promised the accelerated return of VAT, while in UK was reduced this rate by 2.5 percentage points. Bulgaria proposed a tax exemption for a period of 5 years for investors in disadvantaged regions, but is still waiting approval from the European Commission. In the Czech Republic have been reduced both tax and social contribution rate. Netherlands and Spain have introduced measures to encourage accelerated depreciation of investments starting 2009. In Portugal are held investments in agriculture, forestry, mining and manufacturing. Greece reduces taxes for the hotel industry and cancels tax credits applied to new contracts for tourism operators. Canada eliminated customs duties on 214 categories of products from the plant and equipment sector. Estonia has chosen a neutral fiscal policy, emphasis being placed on eliminating the budget deficit. The situation is quite different in Hungary and Lithuania, where governments have decided to increase value of VAT in a move described as a move of the fiscal pressure from income tax to consumption. Measures can be understood as imposed responses by the scale of the budget deficits in these two countries.
While the Czech Republic has reduced profit tax applied to companies, from 21% to 20% and in Hungary the taxes applied to companies all fell a percentage point, Romania is going exactly the opposite. Flat tax of 16% remains standing, but the companies have to pay a CAS with 3% higher and one percentage point in addition to health insurance. What is the reason? The reason is the drastic decrease of state budget revenues from taxes and duties and social commitments to which the former and the current government have committed.

2. CONTENTS

Each country has different economic conditions. Bulgaria, for example, for a long time has a budget surplus. That means that they may, to some extent, reduce fees and taxes. The difference is not only the increase or the decrease of taxes, but also whom it applies. While Hungary has reduced by one percentage point the tax applied to companies but at the same time proposed the VAT increase from 20% to 23%, being possible the increase of excise duties on petrol, cigarettes and alcohol, the officials from Bucharest, said that the VAT will remain the same, but the excise duty on cigarettes, alcohol and luxury goods will grow. Difference in strategy regarding fiscal policy is given by the fact that the tax level in Romania is still fairly low.
Numerous studies and analysis are trying to assess the effects of the crisis on the economy of Romania. What should be the Romania's strategy on taxation in the crisis context? It is one of the new questions for both government and business should respond. Economic crisis will show very quickly its effects on macroeconomic indicators. What impact would have on Romania's budget the increase of the flat tax at 19%?
A series of fiscal measures anti - crisis from tax advisers and the business environment could be subject to changes in the Fiscal Code. Why to think about raising taxes and not to make more efficient the collection system, the system of raising revenue from underground economy through reduced rates of VAT for certain types of services and encouraging the growth of labor productivity, the application of deductions, in fact principles of fiscal equity between businesses and individuals.
To have alternatives for addressing the issue, we will briefly review fiscal crisis measures taken recently by the most powerful European nations, as follows:
GERMANY has introduced new legislation on taxes, context in which we remember the law regarding Modernization Framework for Capital Investment, which has created a privilege in which means tax for risk companies. Contrary to the general rules of loss carryovers, the carryovers are not lost with a change of ownership of a qualified entity sold by the risk company as long as there are gains made in that entity. The main changes in business taxation include:
- Tax on dividends has been largely increased from 21.1% to 26.375% with a low retention rate for non-corporate dividends (effective rate of tax deduction of 15.825% due to a reimbursement of 40% of the normal tax rate). This reduced rate will be accessible only if the receiving company meets the essential requirements of the rule from commercial anti-treaty;
- Retention of tax on movable and leasing (21.1%) was eliminated;
- the rule of change of ownership has been extended so that indirect changes regarding the corporate partners in a partnership to generate a loss of fiscal carryovers and of the report of the interest;
- the rule of retroactivity in fiscal act of restructuring has been changed to prohibit the use of interest report, a report of fiscal losses and current losses after a damaging change of ownership, based on the principle of retroactivity from the fiscal act of restructuring;
- it was introduced an overwrite Treaty (applicable in all cases open to review) to override a recent decision of the German Federal Tax Court that qualified the interest paid to a U.S. non - resident partner in a German partnership, as interest income according to German-American treaty that could not be taxed in Germany, according to the article on business profits;
- In was also adopted the new law on inheritance tax, with effect from 1 January 2009. While the assessed value of real

estate and business will be greater than that of the old law, the free of tax amount was increased for close relatives. Other heirs will be subject to tax charges considerably higher. For the transfer benefiting EU / EEA companies, an exemption of 85% or 100% is provided with the condition of the continuity of the business for a period of 7 or 10 years.

FRANCE established the recovery of VAT measure for trade companies. Here, the VAT for these units with exposure was not recoverable when the goods were delivered free of charge to retailers. The fiscal authorities have abandoned this analysis and agreed that should be abandoned the exclusion of the right of deduction with the condition that:

- The cost price of the trade units with exposure that are exempt from taxes is borne by the company that produces or distributes the products to be promoted;
- the exposure space is used to promote the sale or presentation of products made by the company that supports the expenses for the exposure space;
- The delivery of the area of exposure to the recipient company must be made for the firm that has supported the purchase or production costs.

It was also decided to introduce a monthly reimbursement of VAT on credit and the president of the French Republic announced measures to facilitate the introduction of VAT refund and to obtain the introduction of monthly reimbursement of VAT on credit.

ITALY has adopted the following fiscal measures:

- have introduced partial deductibility for IRAP (Regional Tax on Productive Activities - the current rate: 3.9%) in calculating taxable income;
- have introduced regulations for the revaluation of real estate tax, trade and other intangible assets of companies;
- Have reduced the tax penalty imposed for voluntary correction of the declaration of income and late payment (so-called "rawedimento operoso");
- As regards real estate, fiscal revaluation is subject to a (i) substitute tax on IRPEF (individual income tax) / IRES (corporate income tax), (ii) and IRAP (iii) additional applicable taxes, equal to:
- 10% of the higher value, for the real estate devaluated;
- 7% of the higher value, for the real estate non-devaluated.

Regarding VAT, by the new legislation is introduced the possibility of postponing the time when VAT becomes taxable for goods and services until the payment is deducted. This regulation is intended to ease the cash flow disadvantage that materializes for delayed payments of the amount payable by the customer (this is why the regulation was originally created for goods which were provided by government institutions). It's annulled the application of the reduced rate (10%) to pay subscription radio and television services for digital coded transmission.

GREAT BRITAIN took the following measures:

- Has reduced the standard rate of VAT from 17.5% to 15% for the period 1 December 2008-31 December 2009;
- Postponed the increase of corporate tax rate for small companies (from 21% to 22%) from 1 April 2009 1 April 2010;
- Have extended the rules on transferring the loss for the period before for 50,000 pounds from the total trading losses at three years, both for companies and businesses not registered;
- Decided to temporarily increase the threshold at which an empty property becomes liable for rates of activity at 15,000 pounds for the financial year 2009/2010;

To counteract the negative impact of the elimination of the minimum rate of income tax (10%)on people with low earnings, the personal contribution was increased by 600 pounds and the upper limit of income tax base rate was reduced from 36,000 pounds to 34,800 pounds. This was announced in September 2008 but entered into force for the entire fiscal year.

Government is committed to provide the taxpayers book legal status in the 2009 finance law. There will be a single book and not a separate one, on different sectors.

3. CONCLUSIONS

In an unstable economy, banks may no longer consider the repayment capacity of firms, and they can not call this line of credit.

For Romania and not only, for moments of crisis would be a mix of measures between reducing public expenditure and the removal of surface-underground economy, which will mitigate the increase of unemployment. These measures will have a social effect, but will determine the GDP growth, which becomes essential in the case of Romania.

Under conditions of crisis, the taxation shouldn't be increased, because in this period, inherently, losses appear that must be borne jointly by the state and investors, as in periods of economic boom, the state is receiving a portion of the investors profit.

Everyone fears that because of the economic crisis Romania will not fit into a budget deficit of 3% of GDP, limit set by the Maastricht Treaty. Alternatives are searched, as always in Romania, by increasing revenues in the budget, namely by increasing taxes, and in any case there is no question of serious reform of public expenditure policy.

Any increase in the flat tax, profit tax in particular, would be unfavorable; it would be a negative signal to investors. The flat rate growth at 19% would lead to the increase of the fiscal pressure considering the crisis of liquidity and would discourage investment. Discouraging investment is caused first of by fiscal instability, on the other hand, by the withdrawal of investment to other areas with lower rates.

In an annex to the Directive are listed some activities, supply of goods and services, which may apply reduced rates of VAT, and it must be decided whether it will increase the standard rate of VAT.

According to European Directive on value added tax (VAT), the standard rate should be below 15%, and the reduced rates, at most two, can not be below 5%. Romania has the standard rate of VAT of 24% (from July 2010) and a single reduced rate of 9%. The average rate of VAT in the EU is 19% (also applied in the Czech Republic, Germany, Greece, Netherlands, Slovakia, 19.6% in France). Rate of 20% is applied in Austria, Italy, Bulgaria, Hungary, Slovenia, and 18% in Estonia, Latvia, Lithuania, Malta. A rate of 21% is applied in Belgium, Portugal, Ireland and Poland and Finland - a 22% rate. The largest rate, 25%, have Denmark and Sweden. The smallest rate, 15%, is applied in Cyprus and Luxembourg, 16% in Spain and 17.5% in the UK.

VAT rate increase could be a solution in parallel with the implementation of criteria for reduced rates of VAT, which the EU already has in the Directive on VAT and Romania may apply. Also, the EC will implement some extension of the reduced rates.

We should not raise taxation, but to bring up to the surface more revenues, which now should be at the state budget and are not.

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