

TAXATION TRENDS IN THE LAST COUNTRIES WHO JOINED EUROPEAN UNION: ROMANIA, BULGARIA AND CROATIA

Elena Lucia Croitoru¹

Abstract

The main purpose of this paper is to see the taxation trends in the last three countries who joined the European Union. Starting with the main features of the tax system (from the moment of accession) focusing on direct and indirect taxes and continuing with an analysis of the evolution of the structure and level of taxes, the paper reveals through comparison the diversity of the fiscality and it's trends in Romania, Bulgaria and Croatia. In the end, it's relevant to note the level of tax pressure, the factors that influenced the pressure in this countries and it's evolution.

Keywords: tax burden, duties, social contributions, fiscality, direct taxes, indirect taxes

JEL Classification: H24, H25, H27

1. Introduction

While the taxation is an important part of our lives, this paper aims to reveal the taxation trends in the last three countries that joined the European Union: Romania (2007), Bulgaria (2007) and Croatia (2013), starting from the year that they joined. In the first part it's presented the main features of the tax system that shows a classic fiscal system in Romania and Bulgaria and a classic and progressive taxation for Croatia, through the principals taxes. The paper rather aims to provide a qualitative evaluation of the trends, so the analyze of the taxation level evolution, not only reveals differences in all three countries, but also shows that the fiscal policy measures promoted by the tax authorities has influenced both the level and structure of revenues. Also, the economic situation that all three countries faced in the years after the joining moment influenced.

So, all the three countries faced some legislative modifications from the moment of accession to the European Union (i.e. Croatia started a fiscal reform from January 2017). From this point, the tax pressure analyze it's important in terms of financial, economic and even social.

The paper integrates statistical analyses and concludes with qualitative evaluation of major trends.

¹ Author Elena Lucia Croitoru is Assistant Professor, PhD, at the Romanian American-University, Bucharest. E-mail address: lucia.croitoru@profesor.rau.ro

2. Main Features of the tax system in Romania, Bulgaria and Croatia and the analyze of the taxation level evolution in these countries

The economy of these three countries is still struggling to recover after the crisis. Another fact is that the fiscal legislation suffered a lot of modification in the past years in all this countries. The tax system in all countries was changing after the accession. So as it can be seen in Table no.1, now Romania and Bulgaria presents a classical system, while Croatia features a classic and progressive taxation. Even if Romania and Bulgaria reveals a classical system, in terms of level of rates are some differences. Bulgaria, since 1th of January 2017, adopted some changes in tax legislation, in terms of corporate and personal taxation, social contribution, VAT or excise duties.

According to [K. Nightingale (2002/2003)], “taxation has exist since the birth of early civilizations, and it could be said that it is part of the price to be paid for living in an organized society.” This price it’s paid different from one country to another (table no.1).

Table no. 1 Main features of the tax system in Romania, Bulgaria and Croatia

	Croatia		Romania	Bulgaria
Fiscal system	Classic and progressive taxation		Classic	Classic
Corporate tax rate	18% *		16%	10%
Personal income rate	Monthly taxable earned income, HRK	Rate within brackets, %	16%	10%
	Up to 17.500	24		
	Over 17.500	36		
Employer contribution	17.2%		22.75% - 23.45%**	31.7%-32.4%
Employee contribution	20%		16.5%	13.3%
VAT	General tax rate: 25% Reduced tax rate: 13% and 5%		General tax rate: 19% Reduced tax rate: 9% and 5%	General tax rate: 20% Reduced tax rate: 9%

Source: www.mfin.hr, www.mfinante.ro, www.minfin.bg, <http://taxsummaries.pwc.com>

Notes:

*- for taxpayers with annual income under HRK 3 million the corporate tax rate is 12%

** - 22,75% it's calculated for the minimum risk of 0.15% on “Work accidents, risk insurance, and professional disease fund”. The contribution for this fund it's between 0.15% and 0.85% depending on the category risk. With the maximum category risk the social contribution rate paid by the employer it's released at 23.45%

Corporate tax is levied at of a flat rate in all three countries. Bulgaria reveals the lowest level of taxation at 10% (not only from the analyzed countries, but from all the EU countries), while Romania and Croatia stick to a higher level of 16% and 18%. A difference here is that in case of taxpayers from Croatia with annual income under HRK 3 millions the corporate tax rate is 12%. In Romania, for the entrepreneurs with a micro enterprise, the tax rate is between 1% and 3% depend on some certain conditions. Another difference is revealed in case of Romania, where the tax for gambling or nightclubs operations is either 16% of the taxable profit or 5% of the total revenues obtained from this activities, whichever is higher².

In Romania and Bulgaria (the country with the lowest level of taxation on personal income), the countries who joined EU in the same year, there is a classic system, with a flat-tax rate of 16% and 10%. In Romania, this classic system is from 2005³, 2 years before de accession and generally applies to income from many sources (independent work activity, royalties, rents, etc). In Bulgaria, is from 2008, one year after the accession, when the reform start, and switched from a four-bracket system to flat tax.

Ivica Urban (2006) says that, in Croatia“personal income tax in its current form has existed since 1994, and since then numerous changes have taken place”, but all this chances faces the progressive type of the system. Nowadays, Croatia still features a progressive taxation of earned income, with two tax brackets: up to HRK 17.500 – 24% and over HRK 17.500 – 36%.

Social security contributions are paid both by employers and employees in all the analyzed country. For the employer contribution, Bulgaria reveals the highest rates while Croatia the lowest⁴. Employer contributions, in Bulgaria, are paid for social security (13.56% to 14.26% - depending on contribution paid to the “Accident at Work and Occupational Illness Funds”, which vary from 0.4% to 1.1%) and for health insurance (4.8%). In Romania, the employers pay contributions for pension fund (15.8%, 20.8% or 25.8% depending on working conditions), for health fund (5.2%), for medical leave: (0.85%), for guarantee fund (0.25% of the salary fund), unemployment fund (0.5%), work accidents, risk insurance and occupational disease fund (0.15% to 0.85% - depending on the risk). In case of Croatia, employers pay contribution for health (15%), for health protection while at work (0.5%) and unemployment (1.7%).

For the employees, Bulgaria reveals the highest rates, while Croatia the lowest⁵. The employee pays contributions for pension (10.14% - Bulgaria; 10.5%

² According to the Law 227/2015 Fiscal Code, Title II, Chapter I, Article 18

³ Is interest to note that before 2005 there was a four-bracket system, with tax rates ranging from 18 % to 40 %

⁴ Croatian employers aren't subject of pension contribution.

⁵ Croatian employee are not subject of health or unemployment contribution, only pension contribution.

- Romania; 20% - Croatia), for health (3.2% - Bulgaria; 5.5% - Romania) and unemployment (0.5% - Romania).

In terms of VAT, there is a standard rate: 19% in Romania, 20% in Bulgaria and 25% in Croatia. Beside the general tax rate, there are reduced rate in all the analyzed countries, applied from books or admission to cultural services through pharmaceutical products or medical equipment, depend on the country.

2.1. Analyze of the taxation level evolution in Romania, Bulgaria and Croatia

This analyze reveals some similarities, but some differences also. The first common is that, regarding the structure of revenues and by level of government, the countries have the same structure. Another common is that, the share of indirect taxes in total revenue is higher than the share of direct taxes. Romania has the lowest share of indirect taxes, while Croatia has the highest one. Still in these two countries, the trend was increasing from 12.5% to 13.4% in Romania and from 18.2% to 19.7% in Croatia, while in Bulgaria presents a decreasing trend: from 16.2% to 15.5%. Even in Romania the overall trend is increasing, there was a drop from the moment of accession to 2010, which also is the year with the lowest numbers. For Bulgaria this year is 2011.

VAT in Romania had a constant trend exception from this makes the 2009-year, when we had a drop of 1.5 p.p. In 2010 we have an increase of 1 p.p. due to the change in the VAT rate from 19% to 24%. In Bulgaria, the VAT had a good year in 2008, but after that decreased continuous with 1.4 p.p. from 2008 to 2015 and 0.8 p.p. from 2007 to 2015. Croatia, the country with the highest rate of VAT, is the only country with an increase so high, from 11.9% in 2007 to 13% in 2015. In case of Croatia it's interested to note that from the start point of the analyze to the year of accession (2013) the trend was almost constant and after this moment there was an increase of the share of VAT. Regarding the tax rate on consumption, Bulgaria is the only country for which the numbers shows no decrease in 2008 after the crisis hit.

Direct taxes show commons, revealing almost the same share in GDP in all countries analyzed. Romania reveals a constant trend, while Bulgaria and Croatia a decrease. In case of Bulgaria from 7.7% to 5.6% which represents a drop of 2.1 p.p. and in case of Croatia from 7.3% to 6.0%, a drop of 1.3 p.p. In both countries, the reason for this decrease is the revenues from the corporate tax.

Another common is that in all countries the share of both personal and corporate income is the same, but in case of Croatia the personal income has a higher share than the corporate one, through the progressive system. The trend for personal income is the same in all countries. The difference come regarding the corporate income where all the countries present a drop: Romania from 3.0% in 2007 to 2.3% in 2015, Bulgaria from 4.1% from 2007 to 2.1% in 2015 and

Croatia from 3.1% in 2007 to 1.9% in 2015. The business climate it's not favorable in any of these countries.

Table no. 2 Structure of revenues in Romania

	Romania								
	2007	2008	2009	2010	2011	2012	2013	2014	2015
A. Structure of revenues	% of GDP								
Indirect taxes	12.5	11.8	10.8	11.9	10.0	13.2	12.8	12.8	13.4
VAT	8.0	7.8	6.5	7.5	8.6	8.2	8.1	7.6	8.1
Taxes and duties on imports excluding VAT	0.3	0.2	0.2	0.4	0.5	0.5	0.4	0.4	0.4
Taxes on products, except VAT and import duties	3.7	3.2	3.5	3.4	3.4	3.8	3.6	3.9	4.0
Other taxes on production	0.6	0.5	0.6	0.6	0.6	0.7	0.7	0.9	0.9
Direct taxes	6.7	6.6	6.2	5.7	6.0	5.8	5.9	6.2	6.6
Personal income	3.2	3.3	3.4	3.2	3.3	3.4	3.4	3.5	3.7
Corporate income	3.0	2.9	2.4	2.0	2.3	1.9	2.0	2.1	2.3
Social contributions	9.8	9.3	9.3	8.6	9.0	8.7	8.6	8.5	8.1
Employers	6.2	5.9	5.8	5.4	5.6	5.5	5.6	5.5	5.0
Employees	3.6	3.3	3.5	3.1	3.4	3.2	3.0	3.0	3.1
Total	29.0	27.6	26.3	26.2	28.1	27.7	27.3	27.5	28.0
B. Structure by level of government	% of total taxation								
Central government	62.4	63.1	60.9	63.2	64.0	63.5	64.0	64.4	66.7
Local government	4.0	3.2	3.5	4.0	3.8	3.6	3.7	3.6	3.4
Social security funds	33.2	33.2	35.2	32.5	31.9	32.5	32.0	31.7	29.5
EU Institutions	0.4	0.5	0.4	0.3	0.3	0.4	0.3	0.3	0.3

Source: *Taxation Trends in the European Union, 2017 edition; ec.europa.eu*

Social contributions do not show significant differences, can be noted that in the case of Romania percentage decreased in 2015 compared to 2007 with 1.9 percentage points, while in Bulgaria and Croatia remained constant. In case of Romania, the drop comes from the point of view of the employers, where we have a decrease from 6.2% to 5.0%, through the business climate and the legislative modification, but through the migration and decrease in number of working population. It is interesting to note that Croatia is the only country where the share of employers and employee contributions is almost the same. In Romania and Bulgaria the share of employers contribution is double than the employee contributions. It can be seen that only in Romania the share of employee contribution decrease – from 3.6% to 3.1%, in Bulgaria increase with 0.7 percentage points and in Croatia with 0.2 percentage points.

Table no. 3 Structure of revenues in Bulgaria

	Bulgaria								
	2007	2008	2009	2010	2011	2012	2013	2014	2015
A. Structure of revenues	% of GDP								
Indirect taxes	16.2	17.0	14.4	14.2	13.8	15.0	15.4	14.9	15.5
VAT	9.8	10.4	8.5	8.6	8.1	9.0	9.3	8.9	9.0
Taxes and duties on imports excluding VAT	0.3	0.3	0.2	0.1	0.1	0.2	0.2	0.2	0.2
Taxes on products, except VAT and import duties	5.6	5.8	5.3	4.9	5.0	5.1	5.2	4.9	5.5
Other taxes on production	0.4	0.5	0.5	0.5	0.5	0.8	0.8	0.9	0.9
Direct taxes	7.7	6.3	5.5	5.1	4.8	4.9	5.3	5.7	5.6
Personal income	3.6	2.8	2.8	2.8	2.7	2.8	2.9	3.2	3.1
Corporate income	4.1	3.0	2.4	1.9	1.8	1.7	2.1	2.0	2.1
Social contributions	7.7	7.4	7.2	6.6	6.7	6.8	7.4	7.9	7.9
Employers	5.3	4.6	4.3	4.2	4.3	4.0	4.5	4.8	4.7
Employees	2.4	2.8	2.9	2.4	2.4	2.8	2.9	3.1	3.1
Total	31.6	30.7	27.2	26.0	25.3	26.7	28.2	28.4	29.0
B. Structure by level of government	% of total taxation								
Central government	72.4	72.2	70.1	71.1	70.0	71.1	70.2	68.8	69.5
Local government	2.6	2.9	2.8	2.9	3.0	2.9	3.0	3.0	2.9
Social security funds	24.4	24.1	26.6	25.6	26.5	25.6	26.4	27.7	27.1
EU Institutions	0.6	0.8	0.5	0.4	0.5	0.4	0.5	0.5	0.5

Source: Taxation Trends in the European Union, 2017 edition; ec.europa.eu

Regarding the structure by level of government, there is a similarity that can be observed. In all these countries the share of central government revenue forms more than half of the total, while local government revenues are marginal, consisting in a percentage 5%, exception is Croatia with a percentage over 11%. The revenues of the social security funds, in percent of GDP, in case of Romania and Croatia, have a share of 30%, while Bulgaria reveals a share above 30%.

Table no. 4 Structure of revenues in Croatia

	Croatia								
	2007	2008	2009	2010	2011	2012	2013	2014	2015
A. Structure of revenues	% of GDP								
Indirect taxes	18.2	18.0	17.2	18.0	17.5	18.3	19.0	18.9	19.7
VAT	11.9	11.8	11.2	11.6	11.3	12.3	12.7	12.5	13.0
Taxes and duties on imports excluding VAT	0.5	0.5	0.5	0.5	0.5	0.5	0.4	0.2	0.1
Taxes on products, except VAT and import duties	5.0	4.8	4.5	4.9	4.6	4.5	5.0	5.2	5.5
Other taxes on production	0.8	0.9	0.9	0.9	1.0	1.0	1.0	1.0	1.1
Direct taxes	7.3	7.1	7.1	6.4	6.2	6.1	6.3	6.1	6.0
Personal income	3.9	3.8	3.9	3.5	3.5	3.7	3.9	3.9	3.6

Corporate income	3.1	2.9	2.6	1.9	2.3	2.0	2.0	1.8	1.9
Social contributions	11.5	11.7	12.1	11.8	11.6	11.5	11.3	11.8	11.9
Employers	6.2	6.3	6.5	6.3	6.2	6.0	5.7	6.2	6.3
Employees	5.4	5.4	5.6	5.5	5.4	5.5	5.5	5.6	5.6
Total	37.1	36.8	36.4	36.1	35.2	35.9	36.6	36.8	37.6
B. Structure by level of government	% of total taxation								
Central government	57.3	56.3	54.6	56.0	55.5	56.1	56.8	55.3	56.7
Local government	11.6	11.9	12.2	11.4	11.6	12.0	12.3	12.3	11.4
Social security funds	31.1	31.8	33.2	32.6	32.9	31.9	30.8	32.1	31.7
EU Institutions	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Source: *Taxation Trends in the European Union, 2017 edition*; ec.europa.eu

3. Tax pressure in Romania, Bulgaria and Croatia

The fiscal policy in Romania, Bulgaria and Croatia featured some transformations with the accession to the European Union and the economic and financial crises. Also, the level of taxation known significant differences in these countries. One explanation it seems to be the factors that influence. According to [Goode (1981)] there are some internal factors (the progressivity of tax rates or the taxable matter) and external factors (GDP per capita, the level of taxation in other countries, state priorities regarding public revenue, the nature of public institutions, the level of development of the countries), which influences the level tax burden.

Even if all the three country analyzed features a pressure above the EU media, the taxpayers feel aggressive taxation. This can be assumed from the point that in all countries the GDP per capita is lower than in other countries more developed. Also, in these countries there are a large number of taxes, special tax, fees or mandatory contributions, which emphasizes the perception of a high tax pressure.

According with table no. 5, Romania maintains a constant trend after the accession, while Bulgaria felt a dropped over 5 percentage points. Croatia presents a higher pressure than Romania and Bulgaria, probably due to the progressivity of the fiscal system and it's the only one which has a constantly increase of the tax burden.

All the analyzed countries reveals a GDP per capita lower that in the develop countries of the UE also, the multiple legislative changes, that were made after the accession, excessive bureaucracy, errors in law, the large number of tax and extra tax obligations, drove them to the results that all of us can see and feel.

Table no. 5 GDP compulsory levies pressure in EU, during 2007-2015 (%)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2015/ 2007 (+/-)
Romania	29.4	28.0	27.7	26.9	28.3	28.3	27.7	27.5	28.0	1.4
Bulgaria	34.2	33.3	29.0	26.0	27.2	27.9	27.8	28.4	29.0	5.2
Croatia	-	-	-	36.1	37.1	35.7	36.6	36.8	37.6	-
EU28	39.8	39.3	39.7	38.4	40.0	39.4	39.9	40.0	40.0	0.2

Source: own processing data based on Eurostat

3. Conclusion

In terms of economic, financial and social, all the countries paid special attention the issue of taxation, for the main reason that the rate of taxation shows what percentage of GDP is concentrated of the disposal of the state (through taxes, fees and contributions).

The last countries who joined European Union features a lot of differences in terms of taxation. While Romania and Bulgaria have a classic system, Croatia the last country who joined has a progressive system. The differences came from the structure of revenues, also. Even if all these countries show differences from the point of taxation, they have a common: they are not developed like other countries in EU.

The economical situation all these countries faced after the accession and the multiple legislative modifications come with this step, reveals the lower level of GDP, which provides lower coverage of public needs. So, if a developed economy leads to a tax burden that leaves room for savings, in these countries, the low level of economy leaves room for overwhelming taxation.

References

- Cnossen S.,2001, "Tax Policy in The European Union", Finanz- archiv, Vol. 58.
- Goode R. .1981, "Limits of Taxation" reform of tax systems, Wayne State University, Detroit.
- Dobrotă G., Chirculescu M.F., 2010, „Analysis of tax and extra taxes pressure in Romania and European Unio”n, Analele Universității ”Constantin Brâncuși” din Tg. Jiu, Seria Economie, Nr.4/2010.
- Eurostat Statistical Books, 2017, Taxation trends in the European Union, [ONLINE], www.ec.europa.eu.
- Eurostat News release, 2009, “Taxation trends in the European Union. EU27 tax ratio at 39.8% of GDP in 2007”, 92/2009 - 22 June 2009, [ONLINE], www.ec.europa.eu.
- Eurostat News release, 2010, “Taxation trends in the European Union. EU27 tax ratio fell to 39.3% of GDP in 2008.Steady decline in top corporate income tax rate since 2000”, 95/2010 - 28 June 2010.

- Eurostat News release, 2014, "Taxation trends in the European Union. The overall tax-to-GDP ratio in the EU28 up to 39.4% of GDP in 2012. Labour taxes remain major source of tax revenue", 92/2014 - 16 June 2014.
- Eurostat News release, 2016, "Taxation in the EU Member States. The tax-to-GDP ratio in 2015 continued to vary by 1 to 2 across the EU Member States. Taxes on production and imports main category in the EU", 234/2016 - 25 November 2016.
- Eurostat News release, 2016, "Taxation in the EU Member States. The tax-to-GDP ratio in 2014 varied by almost 1 to 2 across the EU Member States. Up in most Member States compared with 2013", 10/2016 - 15 January 2016.
- Haralambie George Alin, 2014, "Fiscal pressure in Romania in the current period", Annals of the „Constantin Brâncuși", University of Tg. Jiu, Economy series, special issue/2014- Information society and sustainable development.
- Ivica Urban (2006), "What makes the personal income tax in Croatia progressive? ", Institute of Public Finance, Croatia.
- Joumard, Isabelle, 2001, "Tax Systems in European Union Countries", OECD Economics Working Paper No. 301.
- Kalchev, Emil, 2009, "Flat Tax in the EU – 'Something of Craze?': The Bulgarian Case". Proceedings of 7th International Conference «Economic Integration, Competition and Cooperation», 2-3 April, 2009, Opatija, University of Rijeka – Faculty of Economics, CD with Full papers.
- PricewaterhouseCoopers (2012), „The Romanian Tax Pocket Book", [ONLINE], www.pwc.com/ro.
- Ramsey. F.P, 1927, "A Contribution to the Theory of Taxation", The Economic Journal, Vol. 37, No. 145, pp. 47-61.
- Nightingale K., 2002-2003, "Taxation. Theory and practice", Prentice Hall.
- Tudor F., 2011, "Fiscality and tax procedure in Romania- Regulation. Solutions. Limits. Doctrine", Galati University Press.
- www.ec.europa.eu
- www.institutmolinari.org
- www.minfin.bg
- www.mfin.h
- www.mfinante.ro
- www.oecd.org
- www.taxsummaries.pwc.com