

# DIRECT TAXATION IMPACT ON LEGAL STRUCTURES OF ACTIVE FIRMS IN ROMANIA

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## **Abstract:**

*Traders are sensitive to the tax obligations incumbent upon them as affecting the remaining resources after taxation and income use decisions. In general, the impact of taxation on economic activity is currently carried out under the following two aspects: the income taxes resizes economic and population incomes, influencing consumer demand and levying and collecting taxes provide the financial resources used to support state policies to increase economic.*

*In Romania, the national economy amid the entry path of market economy, policymakers have taken a number of measures affecting, on the one hand, replacing the system of taxes, on the other hand, its subsequent adjustment. These approaches, most often have not achieved their intended purpose or, in some cases had the expected adverse effects. The objectives of this study concerns the implications of direct taxation on active companies in Romania the following lines: number and pattern of economic agents, legal structure, territorial dispersion and their size, but also economic- financial performance (turnover, gross investment, value added).*

**Key words:** direct taxes, economic agents, profit

**JEL classification:** H 3, H 2

## **Issues related to straight/direct taxation**

Traders are sensitive to the tax obligations incumbent on them, because they affect the remaining resources after taxation and income use decisions. In general, the impact of taxation on economic activity is currently carried out by the following issues:

- level of taxes resizes economic and population incomes, influencing consumer demand;
- levying and collecting taxes provide state financial resources used to support economic growth policies.

Tax concept defines mandatory and permanent monetary contribution made by natural and legal persons in the state budget in the amount and the time limit set by law, tax revenues are used by decision-maker to finance public education, for health, for national defense, etc.. By supporting these processes are designed, in fact, achievement the conditions of development the society. The tax does not imply the existence of an obligation of the state to provide an equivalent payer directly or immediately.

In the literature there are many classifications of taxes, depending on the structure of event, rates etc, which is largely due to the complexity of tax systems. These classifications are intended to ensure comparability of tax systems in different countries to assess and analyze the effects of taxation on economic dynamics.

The most common classification of taxes in the literature delimit them on the basis of certain criteria (fiscal, legal, administrative) in direct taxes and indirect taxes.

Direct taxes are those who regularly and directly are hitting the taxable field (which is renewed from time to time) and ranked in real taxes (ie targets - those taxes that hit the capital and do not take account of ability to contribute to individuals and businesses, as for example, tax on buildings, etc..) and personal taxes (ie subjective -

those taxes hurt growth or transfer of capital, income saved and invested and income concerns of individuals and legal, affecting the ability to contribute, for example, income taxes, the wealth taxes, etc..).

### **Features of direct taxation**

The advantages of direct taxes as they are presented in the special literature are:

➤ *The stable fiscal efficiency.* Although this attribute compared to the previous period declined, whereas direct taxes meet cyclical developments, being flexible, however, have a more stable performance than indirect taxes, which are characterized by much higher stability to economic change.

➤ *Legal elasticity.* It's about yield stability or changed the legal rate. What characterize direct tax on wealth is that generally does not increase its share to reduce taxable volume. Taxable volume (value of buildings, the area of land, etc.), By virtue of its stability is maintained, leading only to increase the share corresponding increase in tax. This makes the tax amount will depend on the legislature, and in a sense, the resource needs of the state. The same is the case of direct taxes on income, as growth rates and tax payable lead to offsetting the taxable income.

➤ *The low cost of collection.* I believe that now, to streamline the tax collection process, we need trained specialists with complex training and equipped with an electronic computing equipment, which significantly increases the costs of settlement, collection and control over taxes, with an impact directly on their return. As the number of taxpayers has increased, and the taxable volume becomes more complex, methods of assessment and tracking of material were complicated taxable and tax device became more expensive. Meanwhile, tax returns claimed a growing number of taxpayers containing comprehensive information and therefore they are forced to turn to specialized offices that offer services in exchange for fees, often higher.

➤ *The correctness imposed.* Direct taxation is often accompanied by tax evasion. With the IRS strives to identify and assess exactly taxable matter, the desire to retain as much of it, consciousness becomes more elastic tax and taxpayers seeking to avoid taxes when they are oppressive

### **Inconveniences of direct taxation**

Despite to the advantages of direct taxes described above in the literature were reported also four major inconvenience of direct taxation:

➤ *time period rather high than as they arrive to the tax authorities.* This is due to time lag, which is usually between the time it becomes matter taxable and when to be declared to obtain them and to be paid taxes.

➤ *the degree of levy.* Direct taxes hurt the taxpayer directly, without it be able to pass the tax burden on others. Therefore direct taxes cause reactions even tougher by the taxpayers, the more they are more pressing. The usual way is tax evasion.

➤ *Inequity of imposed.* For example, if income from agriculture, direct taxation is lighter because of the difficulty assessing the exact and income. This is true for professions claiming professional secrecy to escape the investigation of tax.

### **Direct taxation and the impact on legal structures of active firms in Romania**

In the business area, the tax implications of direct taxes relate to: number and pattern of economic, legal structure, territorial and their size dispersion as well as economic - financial performance (turnover, gross investment, value added).

The analysis undertaken in this regard in Romania made in the timeframe 1995 - 2008, attempts to assess quantitative and qualitative effects arising from direct taxation on various macro and microeconomic measures.

*Effects of direct taxes on the number of operators active in Romania, and their legal structure*, in the period 1995 - 2008 are generated by the practice of exemptions or exemptions, total or partial taxable profits on certain times and for certain geographical areas (e.g. exemptions on certain times and certain geographical areas considered "disadvantaged"). If short term, these measures involve an increase in the use of resources and social tensions claim by reducing unemployment, with direct impact on consumption in the medium term these commitments will positively influence the public budget, tax revenues by extending taxable materials and long term, they would be otherwise, coming to a „false” increase in the number of companies and thus an escalation of the phenomenon of tax evasion.

Based on this, most entrepreneurs are oriented towards the establishment of companies in capital tax legally conferred, on the one hand a lower constraint, and secondly, greater leeway in the profit taxable income through deductions.

In Table 1 are reflected the number and structure of economic operators active in Romania, the legal forms of ownership, that is: autonomous, joint stock companies, limited liability companies and other businesses.

**Table no. 1.**  
**Number and structure of active economic agents in Romania during 1995 – 2008**

Indicators	2000	2001	2002	2003	2004	2005	2006	2007	2008
<b>Total number of active economic agents, consisting of:</b>	308.064	311.260	315.105	349.061	394.519	433.030	461.812	499.857	532.075
1. Autonomous companies	154	144	136	145	136	127	126	110	115
- Share of A.C. in total	0,04	0,04	0,04	0,04	0,03	0,02	0,02	0,02	0,02
2. Joint-stock company	12.536	12.598	12.258	12.267	11.866	10.923	10.749	8.398	9.354
- Share of J.S. total	4,06	4,04	3,89	3,51	3,00	2,52	2,32	1,68	1,75
3. Limited company	282.815	286.675	292.767	327.214	374.022	414.104	443.649	485.471	517.678
- Share of limited company in total	91,80	92,10	92,91	93,74	94,80	95,62	96,06	97,12	97,29
4. Other types	12.559	11.843	9.944	9.435	8.495	7.876	7.288	5.878	4.928
- Share of other types of companies in total	4,07	3,80	3,15	2,70	2,15	1,81	1,57	1,17	0,92

Source: National Statistics Institute

Analyzing the data presented in Table. 1 and chart. 1 it can be concluded that:

➤ years tax cuts have had the effect of increasing the number of company assets, 1,04 times in 1997 compared to 1995 and 0,63% in 1999 compared to 1997;

➤ the period 1999 - 2000 fiscal constraints on fund raising direct response was contraction in the number of active traders, namely from 318,736 in 1999 to 308,064 in 2000,

which in relative size meant a reduction in the number of companies active by 3,35 percentage points;

in the next period, the fiscal relaxation was accompanied by subsequent increases in the number of company assets, as follows: 1,24 times in 2002 than in 2001, with 13,02% in 2004 compared to 2003, and in period 2004 - 2007 the number of commercial companies active increased by 43,20%. Regarding the legal structure of companies active in Romania in the Table. 1 has been shown how investors have opted for a particular type of company, from 1995 to 2007, given the fact that the tax system is different from a legal firm to another.

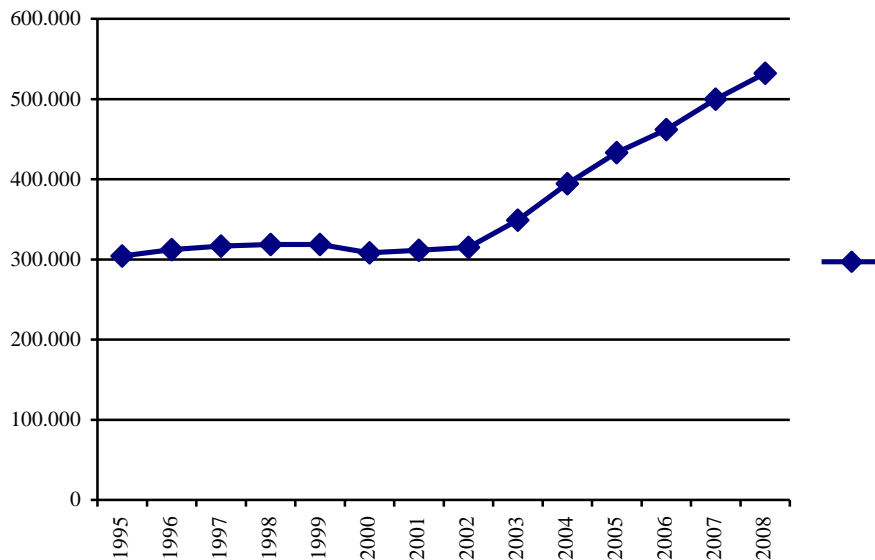


Chart no. 1. Evolution of active commercial societies in Romania, during 1995-2008

Graphical representation of companies active in Romania, in terms of legal structure are:

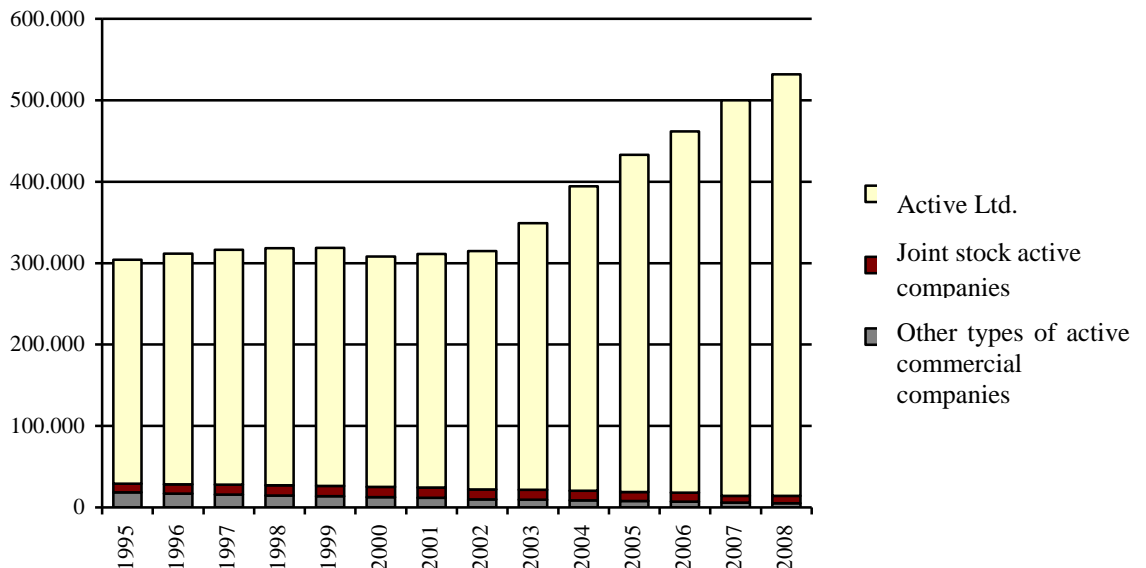


Chart. 2. Evolution of structure of companies active in Romania during 1995-2008

From the values presented in Table. 1, also the chart. 2 it is noted that the overwhelming share in total company assets, in terms of legal form of ownership,

limited liability companies is on average about 93%, followed (after 2001) of the joint stock companies and other legal companies.

The dynamic indicates that the number of limited companies increased from 275.012 in 1995 to 485.471 in 2007, which meant an increase with 76,53% and in the development of limited liability companies has been increasing the period 1995 - 1999, from 10,603 in 1995 to 12,678 in 1999, while the range from 2000 to 2007 the number of companies active stock fell from 12.536 in 2000 to 8398 in 2007, which in relative size meant a decrease of 33%.

### **Conclusions**

In Romania, the national economy amid the entry path of market economy, policymakers have taken a number of measures affecting, on the one hand, replacing the system of taxes, on the other hand, its subsequent adjustment. These approaches, most often have not achieved their intended purpose or, in some cases had the expected adverse effects. However „ the pursued finalities extent influence the technical characteristics of taxes, and these on micro-and macroeconomic effects”<sup>1</sup>.

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<sup>1</sup> Corduneanu Carmen, Sistemul fiscal în știința finanțelor, Editura Codecs, București, 1998, pag. 461.