SOCIAL CONTRIBUTIONS – IMPLICATIONS IN THE ECONOMIC ACTIVITY OF THE ENTERPRISE

MIHĂILĂ NICOLETA
ACADEMIA ROMÂNĂ, CENTRUL DE CERCETĂRI FINANCIARE- MONETARE „VICTOR SLĂVESCU”
nikmihaila@yahoo.com

Abstract
There is interdependence between taxation and the business operator; taxation is part of the enterprise itself, since it is according to this variable that choices are made as to the business finance, the depreciation and the legal structure.
This paper emphasizes the issue of fiscal burden, especially social payments, the actual impact thereof on employers and on employees and the predicted effect of reducing them by some percentage points. It is well known that a reduction of the social payments would allow the business environment to breathe, being already suffocated by all taxes and fees, and therefore would encourage work, investment, the creation of jobs, so it would eventually result in higher fiscal income, namely in economic growth.

Key words*: enterprise, social contributions, tax burden*

Jel classification**:** H26, H32

Introduction

Taxation is an area that has gone through the most significant transformations in recent years; these changes occurred either too slow or too suddenly, and this determined the taxpayer to interpret tax law as a factor of instability in the development of the Romanian economy.

1. Tax burden in Romania

Taxation involves, in addition to explicit costs, also implicit costs. These costs are directly proportional both to the structure of taxes and uncertainty associated with permanent changes, changes which, in our opinion, represent the *invisible part of tax burden.*

Regarding the *visible part of taxation*, we consider the current level of contributions in Romania, plus the share of 16% for income from wages or income taxes.

Table 1. Level of contributions in Romania

Type of contribution	Employee(%)	Employer(%)
Contribution to social securities	10,5	20,8
		25,8
		30,8
Contribution to health insurances	5,5	5,2
Contribution to FNUASS	-	0,85
Contribution to unemployment relief	0,5	0,5
Contribution to salary outstanding debts	-	0,25
Contribution to insurances for risks and working accidents	-	0,15- 0,85
Commission to the Labour Chamber	-	0,25- 0,75

Source: Tax Law, 2013

According to the report 'Taxation trends in the European Union "(Eurostat, 2012), social contributions and taxes paid by employers and employees amounted to 43% of labour cost on employees and employers. But the real tax burden includes, in addition to the amounts collected, also costs created by the slow bureaucratic mechanism and by the uncertainty concerning the achievement of state obligations (eg repayment) and future policy.

Fiscal policy uncertainty is a cost less visible and more difficult to quantify; in this context it is difficult for entrepreneurs and managers to develop medium and long term plans, reducing not only the efficiency of the existing businesses, but also the interest of potential romanian or foreign investors.

Therefore, in our opinion, high fiscal pressure and the complexity and unpredictability of fiscal policy are the main problems of taxation in Romania. As a solution, we propose both a reduction of taxes and dues and the simplification and stabilization of tax system.

2. Social contributions, impact on economic agent's activity

In present, Romanian employers pay social security contributions amounting to 28.75% of the gross salary of an employee, while employees contribute with 16.5%. Of these, the insurance contribution, which is the highest, is limited since January 2011. But the ceiling is very high, it represents the value of five medium salaries, meaning 10.585 lei in 2012.

Therefore, employees with income over 10.585 lei per month benefit by this ceiling, and they represent a minority. Regarding the company's social security contributions, the ceiling is reached only by few employers, the number of Romanian companies with an average wage per unit over 10.585 lei per month being negligible. Thus, the total wage cost is still very high in Romania, even in the current ceiling conditions for social security contributions.

2.1. Comparative analysis of employer contributions in the EU countries

Regarding the contribution to health insurance, there are countries in which is applied a ceiling on contributions, but there are also countries that have no ceiling, Romania being among the latter.

Table 2. Contributions to health insurances due by employer in European countries 2011/2012 (capped)

Country	Employer(%)	Upper ceiling established for the payment of contribution/month(euro)	Maximum contribution due monthly (euro)
Slovakia	10	2.307	230
Czech Republic	9	5.800(6 average gross wages)	522
Germany	7,3	3.825	279
Austria	3,83	4.230	162
Bulgaria	4,8	1.023	49

Source: PwC Worldwide Tax Summaries 2012

A significant number of countries limits the contributions, in conditions in witch, in return, they provide quality health care.

In Romania, the funds allocated to the health sector have doubled in the last six years, but the quality of medical services were not as expected . Thus, if in 2005 funds available to Ministry of Health and National Health Insurance House were 10.2 billion lei, last year they amounted to 21.8 billion lei.

Table 3. Contributions to health insurances due by employer in European countries 2011/2012 (uncapped) - % -

Țara	Employer
Slovenia	6,56
Romania	5,2
Lithuania	3
Finland	0
Poland	0

Source: PwC Worldwide Tax Summaries 2012

It can be seen therefore that countries where the share of health insurance contribution is higher than Romania's apply the ceiling on contributions, except Slovenia.

If we analyse Bulgaria, a country we compare with because of the average wage level, health contribution payable by the employer has a lower rate and is capped. In Portugal, social health contribution is financed from income tax, while in Finland and Norway is funded by local authorities; employers from Poland due no social health contributions.

Table 4. Contribution to social securities (CSS) due by employer

Country	***Employer(%)***	**Upper ceiling established for the payment of *CSS/month(euro)***	**Maximum contribution due monthly *(euro)***
Czech Republic	25	3.870 (4 average gross wages)	968
Slovacia	22,75	3.076	700
Romania	20,8	2.300 (5 average gross wages)	478
Poland	16,26	2,083 (2,5 average gross wages)	339
Bulgaria	13-13,7	1.023	140
Austria	12,55	4.230	530
Germany	9,8	5.600	549
Slovenia	8,85	-	-
Cyprus	6,8	4.342	295

Source: PwC Worldwide Tax Summaries 2012

According to the dates, Romania has one of the highest rate of contribution and the ceiling currently applicable has no real impact, being too high compared to wages in our country. For example, the social security contribution in Romania is 50% higher than the share paid in Bulgaria and in Romania the maximum contribution is 478 euro, while in Bulgaria it can not pass 140 euro. Therefore, Bulgaria offers to its employers superior conditions regarding the fiscal cost on labor force.

In practice, since the limit is taken into account by reference to the aggregate wage fund, most employers do not benefit by this ceiling, the contribution being actually paid from the total wages. Basically, Romania has both a higher contribution rate and a ceiling that only very few employers benefit by. That while countries as Bulgaria have a ceiling two times smaller and a contribution rate with 7 percentage points lower.

We present further the actual cost of total social security contributions payable by the employer.

Table 5. Efective cost of total social security contributions payable by the employer

Country	***Employer(%)***	**Upper ceiling established for the payment of social securities contributions *(euro)***
France	37,7	3.031
Slovacia	34,4	Ceiling of 3,076 euro for retirement, disability insurance, unemployment and fund reserves (22.75%); ceiling of 1,153.5euro for Guarantee and disease Fund (1.65%); ceiling of 2.307 euro for health insurance (10 %)
Czech Republic	34	3,950 (retirement); 5,926 (health)

Sweden	31,42	For young people between 18 and 25 years, contributions are reduced to 15.49%
Belgium	30,9	-
Romania	28,75	Social security contribution ceiling (five average gross wages per economy)
Greece	28,56	2.432,25 or 5.543,55
Hungary	27	-
Letonia	24,09	No contributions for micro-enterprises'employees
Portugal	23,75	-
Spain	23,6	3.262,5
Finland	23,15	-
Austria	21,83	4.200
Germany	20,225	maximum 5,600 / month for retirement and unemployment (11.35%);maximum 3,825/ month for contribution to health and disability insurance (8.875%)
Poland	19,48- 22,14	Contribution to retirement and disability insurance capped to 2,000 euro (16.26%)
Netherlands	19,43	Ceiling of 2.765,75 for health insurance (7.05%); ceiling of 4.059,58 for disability insurance (6.36%); Ceiling of 2.667,58 for unemployment and insurance for child raising (6.02%)
Bulgaria	18,2	1.023
Slovenia	16,10	-
Ireland	10,75	There is no ceiling. The reduced rate of 8.5% applies to income below 1420 Euros / month
Cyprus	8,5	4.342

Source: PwC Worldwide Tax Summaries 2012

For an overview of the costs for social contributions incurred by employers, there were analysed several states, including those where it is paid a full share of contributions, without being divided between various social funds. Excepting a few countries in the study above (Hungary, Belgium etc.) that practice a high share of social contributions and do not apply a ceiling to social security contributions, it is noticed that most EU member states practice either ceiling to contributions or reduced insurance rates for social contributions for employers. Romania is in fact among the countries with the highest rate of social securities for employer and the ceiling of the main contributions(the retirement ones) is only theoretical, in practice employers do not benefit of it because of the level of ceiling too high compared to the average wage.

Social security contributions in Romania, partially capped, place Romania in first seats in UE regarding the labour taxation. This is because of the imbalance between the number of contributors to the public pension system and the health insurance and the number of beneficiaries. To manage these issues we believe that the authorities should streamline the management of public resources in the social and health areas and stimulate the increase of number of contributors by reducing the level of social contributions and capping them at a reasonable level.

2.2. Social contributions in Romania

According to Law no. 5/2013 for state budget for 2013, in the Official Monitor in Romania, Part I, no. 106/22.02.2013 and Law no. 6/2013 for social security budget for 2013 in the Official Monitor, Part I, no. 107/22.02.2013, the average gross salary used to substantiate the social security budget in 2013 is 2.223 lei.

We calculate as follows the fiscal cost of labour, in the case of a gross salary of 1000 lei.

***Labour's fiscal cost*:**
Gross salary = 1.000 RON
The basis function (has the right to deductions) = YES
Persons under his care (children and others) = 0
Contributions employee TOTAL = 259
Contributions to social securities CAS 10.5% = 105
Contribution to unemployment relief 0.5% = 5
Contribution to health insurances CASS 5.5% = 55
Deductions = 250
Income tax 16% = 94
The net salary = 741
Contributions employer TOTAL = 281
Contribution to social securities 20.8% = 208
Contribution to FNUASS 0.85% = 9
Contribution to unemployment relief 0.5% = 5
Contribution to salary outstanding debts 0.25% = 3
Contribution to health insurances CASS 5,2% = 52
Contribution to insurances for working accidents minimum 0.4% = 4
Total fiscal cost = 259 + 281 = 540
Employer total cost = 540 + 741 = 1.281
*Fiscal cost(%) = total fiscal cost / total employer cost * 100* = 540 / 1.281 = 42.15%

As result,:

● the employer must pay to the State from the gross income given to the employee a total percentage of *28.75%* which includes: contribution to social securities (20.8%), contribution to the unemployment relief (0.5%)**,** contribution to FNUASS (0.85%)**,** the salary guarrantee fund (0.25%)**,** contribution to health insurances (5.2%), accidents fund (0,4% – here it depends on the activity field) and the commission to the Labour Chamber (075%)**.**

● the employee must pay to the State from the gross income a total percentage of *32.5%* made of: contribution to social securities (10.5%), contribution to unemployment relief (0.5%)**,** contribution to health insurances (5.5%) and income tax (16%).

At a simple calculation, we can see that what an employee gets from his gross salary is much lower than the State gets from this salary. The State for each working place cashes a hard percentage of 45.25% and the employee remains only with 54.75%. This percentage is an obstacle on the way of private business development in Romania, where labour force is overtaxed in a suffocating manner.

At present social contributions paid by employees are 16.5% (contributions to social securities - 10.5%, health contribution - 5.5% and unemployment contribution - 0.5%), while contributions paid by firms reach almost 30%.

In this context, any increase of minimum wage per economy determines a high pressure for entrepreneurs, generating unemployment, shadow economy and tax evasion.

Labour taxation is excessive, effective tax rate is about 45% (total employer costs / total tax burden), which together with the "valves" created in legislation explain the low level of fiscal compliance. We consider that social contributions should be reduced, this encouraging the economic agents to comply with taxes and create new jobs.

There are discussions regarding the adoption of a flat tax of 30% for social security for income from dependent activities and of 25% for income from other activities that could lead to lower costs for companies, net income growth for employees, especially for those with low income and reduced bureaucracy. We support this proposal because it involves the replacement of social contributions to a single tax rate, and this will determine simplification of legislation, implementation of a simple and efficient calculation logic, deduction, payment and annual settlement for social contributions. We believe that introducing the unique social contribution will reduce costs for employers and also will stimulate the economy and create jobs, increase net income for employees, especially for those with low income, and finally will increase consumption.

The advantages of this proposal are:

-Simplifying bureaucracy, reducing administrative costs,

- Reducing compliance costs for companies,
- reduce significantly the number of taxpayers,
- Creating a more equitable system of compulsory social contributions.

We further illustrate the impact of reducing social security contributions by several percentage points on the economic activity of the entity.

A reduction in social contributions by several percentage points for small and medium enterprises can lead to a reduction of the tax burden and for large companies, determines a higher economy.

We consider in this regard a company with 15 employees and a wage fund of 130,000 lei per month. If social contributions are reduced by, for example, 2 points, this would mean a saving of 2,600lei; for enterprises with a large number of employees, costs savings could be even higher.

Table 6. Reducing CSS with 2pp

Wage fund(gross wage)	130.000
Total social contributions for employer - aprox.28,10%	36.450
Total social contributions for employer - aprox.26,10%(reducing 2pp)	33.850

We support the reduction of social security contributions in order to increase the number of jobs, but should mention that only improving labour legislation is not sufficient for this purpose.Therefore, as increased taxation led to discouraging entrepreneurs to employ labour in the private sector, we expect as well the wage tax reduction to lead to development of business environment and especially the small and medium enterprises.

The reduction of CSS (Contribution to social securities) is a measure which obviously will have positive effects on middle and long term, but on short term will produce a sudden fall of the budget cashings. Thus, a reduction by 2 pp will cost the budget around 60-80 million euros per month, the amount decreasing on the way economy will generate new working places. But the problem is that the positive effects will not be visible earlier than 12-18 months, while the reduction of the cashings will be observed immediately .

We propose some solutions to balance the budget:

- *Increasing the retirement age*. Establishing a more advanced retirement age has the effect to decrease the financial burden of the public pension system. The European Commission proposed EU members to raise the retirement age to reflect an aging population and to support the public finances of states already affected by the crisis. European executive raises the issue whether the introduction of "automatic adjustment mechanisms based on demographic trends" in pension systems, "in order to balance the time spent in activity with time spent in retirement.

- *Increase the tax base by encouraging employment and labor absorption*. Net wage growth will encourage employees to move more towards the private pension insurance where they shoul find new solutions and services for saving their own resources.

3. Conclusion

This paper tried to emphasize the main difficulty of the economic agent, the tax burden, problem that hinders its growth and development in an environment where survival means to accept the rules imposed by authorities to tax compliance, if the agent is honest or, in most cases, to evade tax obligations in violation of the law.

We also highlighted the issue of social security contributions, their actual impact on employers and employees and what would be the impact if reducing them by a few percentage points. It is well known that in the conditions of reducing these contributions, the business, so suffocated by taxes, could breathe, work, investments, jobs creation would be stimulated, therefore would eventually increase tax revenues to the budget and an increase in economy.

For example, big economies of Europe did not wish to increase fiscality during recession, operating only some adjustments in the sense of enlarging the basis for taxation for the tax on profit (category of incomes which anyhow decreased much during crisis and is strongly correlated with the economic cycle) or of increaing the maximum quotas for the income tax for the big incomes taxpayers (France, Spain, Italy, Finland, Luxembourg, to which are added the overowing Greece and Portugal). In exchange, these countries tried to stimmulate fiscally the economy by reduction of labour taxation and of social contributions. The social European pattern is based on a high productivity, but also on a considerable taxation of the labour, over the level of other big economies in OECD. The reduction of labour taxation by reduction of social contributions had as a first objective the protection of the present jobs. Countries as Austria, Sweden, Belgium, Germany, Poland or Spain used such measures.

It is known that a sustainable redress of the European economies will need not only the protection of the present jobs, but also the creation of new jobs, in sectors with a high value added, which should restart the cycle emplyment-incomes-expenses.

REFERENCES

1. Brezeanu P., (2010) “Taxation. Concepts, theories, policies and practical approaches”, Wolters Kluwer Publishing House, Bucharest;
2. European Commission (2012) „ Taxation trends in the European Union ";
3. Mihăilă, N.(2012), „Incidence of fiscality in economic and financial activity of economic agent”, doctaral thesis, coordonated by prof. univ.dr. Aurel Octavian Berea;
4. PricewaterhouseCoopers(2012), Worldwide Tax Summaries;
5. World Bank Doing Business Romania, 2012.
6. *** Law No 571/2003 on the Fiscal Code, as amended and supplemented;
7. ***Government Decision no.44/2004 Methodological Norms for applying Law no.571/2003 on the Fiscal Code, as amended and supplemented.