

ASPECTS CONCERNING THE FISCALIZATION OF SMES IN ROMANIA IN THE CURRENT FISCAL CONTEXT

NICOLETA MIHĂILĂ

CENTRE OF FINANCIAL AND MONETARY RESEARCH "VICTOR SLĂVESCU"
nikmihaila@yahoo.com

SILVIA ELENA ISACHI

CENTRE OF FINANCIAL AND MONETARY RESEARCH "VICTOR SLĂVESCU"
silvia.isachi@gmail.com

Abstract:

Romania is placed the last but one in Europe in terms of number of SMEs reported per thousand inhabitants (24 firms per 1.000 inhabitants). The weak development of entrepreneurial culture in Romania has several causes, including low appetite for risk of Romanians, excessive bureaucracy for setting up and doing business, lack of capital and financing mechanisms for start-ups, the inadequacy of academic programs, from which often misses entrepreneurship education.

In this paper we propose, on the one hand, to emphasize the evolution of SMEs in Romania in the period 2004- 2014, their structure and position in the European context, and highlight the role of entrepreneurship in economic growth, and also to propose several measures that would help them to develop in the current economic climate.

Keywords: SMEs, taxation, entrepreneurship.

JEL classification: H25, G38, K22, M21.

Introduction

At present SMEs confront with the taxation issue, meaning that it, by size and compliance mechanism, can negatively affect their growth and development in the economic environment. Also, the current context in which SMEs operate, context influenced by the financial and economic crisis and with issues of deepening the globalization process, requires a rethinking of economic growth theories and models.

In conditions of the current economic and financial crisis, SMEs (with general characteristics and particularities for each size class or activity sector) have to evolve in an environment characterized by structural imbalances, instability of the tax system and a banking system less open to crediting small and medium enterprises.

Material and methods

In our article the general area of research is the taxation at the enterprise level, addressed at national and European level. Throughout the paper we have used a wide range of research methods that emphasize: gathering data and information from the specializes literature and practice, respectively scientific articles published in various journals, specialty books, legislation, studies and surveys, official documents and press releases of different tax organizations, tax documents and databases of the entities; Analysis of documents, using comparative, typological methods, non-participating and participating observation, appealing to an assembly of information sources.

Evolution of SMEs in the period 2004-2012

Entrepreneurial phenomenon began to manifest in Romania in 1990, with the appearance of the first SMEs, its evolution being as follows:

- 1990-1995 - SMEs have developed relatively accelerated, mainly due to the fact the economic, social and political environment in the communist regime became more permissive; small businesses have opened with different objects of activity, competition has increased, the State granted facilities for the creation and developing companies, individual creative potential began to develop;
- 1996-2000 - SMEs registered a delay period of development, mainly due to the fact that with increasing competition, it began to emerge the phenomenon of market saturation, and in the same time the state did not adjust the SMEs facilities according to their age and size;
- 2000-2008 - SMEs enjoyed a period of recovery, due to changes in economic, political and social environment, but also because of the integration of Romania into the European Union;
- 2008-present - SMEs have had an oscillatory evolution (in 2008 the economic and financial crisis started, with a negative impact on firms by approximately the end of 2011, the 2012 registering an increase in SMEs number).

Table 1: Evolution of firms, by size classes, in 2004-2012

Type.	2004	2005	2006	2007	2008	2009	2010	2011	2012
Micro	362.457	399.105	424.865	459.696	495.038	485.776	438.421	394.091	413.803
Small	36.670	40.195	44.513	48.915	48.190	45.800	43.854	47.790	48.275
Medium	9.197	9.391	9.605	9.988	9.978	8.609	8.085	8.640	8.584
Total	408.324	448.691	478.983	518.299	553.206	540.185	490.360	450.521	470.662

(Source: National Institute of Statistics, Statistical Yearbooks during 2006- 2013)

It can be seen therefore that in 2012, compared to 2004, SMEs increased by only 15 percentage points, a relatively small increase, but justified, because since 2008 Romania has been affected by the economic crisis. In the period 2008-2011, SMEs recorded an accelerated decrease, from 553.206 to 450.521 companies, because of the economic crisis effects that caused the instability of the tax system, the change of social environment, higher inflation, intensification of shadow economy activity, the existence of a reticent banking system for crediting small businesses etc.

In 2012, compared to 2011, the number of SMEs increased by 5 percentage points, due to measures taken by entrepreneurs, through which they have adapted to the changes imposed by the crisis, but also to measures adopted at the state level, that would create a more friendly business environment.

The difficulties confronted by SMEs in 2009 and 2010, according to Strategy of National Council for Private Small and Medium Enterprises in Romania, 2012-2016 (draft) were "decreased domestic demand; excessive taxation; bureaucracy; delays in receipt of the invoices from private companies; high cost of credit; inflation; relative instability of the national currency; difficult access to credit; corruption; increasing wage costs; hiring, training and retaining staff; excessive controls; non payment of bills by the state institutions; poor quality of infrastructure; decline in export demand; knowledge and adoption of the communautaire acquis etc. "

From the perspective of SMEs registrations at the Trade Register during 2009-2013, the situation was as follows:

Table 2: SMEs evolution during 2009-2013

Year	Erasers	Registrations	Suspends	Dissolutions
2009	43713	111832	134441	30105
2010	186144	119048	66420	8191
2011	73244	132069	21086	11660
2012	71746	125603	24078	22500
2013	80786	124816	22079	23208

(Source: National Trade Office Reports, 2009-2013)

Therefore:

- erasers registered a minimum in 2009, and in 2010 the maximum;
- for registrations, the minimum was reached in 2009 due to the strong effects of the economic crisis, and the peak in 2011, in the following years their number beginning to decrease;
- suspends had a downward trend in the period 2009- 2011, starting to increase slightly afterwards;
- SMEs' dissolutions recorded a downward trend until 2010, after which they grew.

However, overall, compared to 2013, the year 2014 was characterized by a recovery of Romanian business environment. According to the National Trade Register Office, in the first five months of 2014 the number of companies which became insolvent decreased by 13, 47%, compared with the corresponding period in 2013, to 11.030 firms. Meanwhile, 7.531 firms were dissolved, with 26, 29% less than 2013, and 7.546 companies have suspended their operations, decreasing by 29, 49%.

Although in figures things seem to move for the better, entrepreneurs are still skeptical, and the years of crisis have affected their way of decision making and action in the context of the commercial transactions closure. "We should mention that between the initial recovery moment of the economy and till the entrepreneurs will begin to invest and trust in future developments it must pass at least 18 months of sustainable financial results of their companies. Or, if many of Romanian companies have increased the turnover in the past year, the profitability has not improved yet for the majority, especially because of the difficulties of collecting invoices from business partners"(Dragoş Cabat, Managing Partner Risco).

In this respect, attentive and constant verification of business partners became extremely useful, fact resulted from the statistics made by RISCO, the platform on which were generated in the first six months of 2014 over 270.000 reports, much higher number compared to the same period of 2013. Basically, companies wanted to know which was the ability of those they worked with to meet their financial obligations, being more interested in their potential in order to limit uncertain future exposures to customers with unstable financial situation.

Regarding the entrepreneurs perspectives for the next few years, the most prominent objective is to maintain the business at current level. More specifically, the main objective for SMEs for the next two years is to maintain the business at its current size.

The state of uncertainty of entrepreneurship in Romania is visible in the forecasting activity. Despite the improvement rates compared to 2013, 42,8% of SMEs do not develop plans for the next two years, in decrease from 55% in 2013, while the percentage of those who think about the following 48 months amounts to 46,4% (up from 38,5%). The rest, meaning 10, 8%, develop strategies for periods of three, five years. Moreover, as the company is smaller, the more the forecast area is narrower: while for 16% of medium-sized enterprises there is no such plan, the percentage goes up to almost 50% for microenterprises.

Also, company performances depend on the capacity of forecasting, as companies that do not make plans recorded very poor performances, in a proportion of more than 50%, while among SMEs that manage to grow well less than 5% do not make plans.

The structure and positioning of Romanian SMEs in the European context

According to Eurostat data, the Romanian SMEs number in 2012 was nearly 530.000, and the number of employees amounted to 2.676.948 persons. The share of SMEs in total number of enterprises and the share of their employees in the total workforce employed are similar to the European average.

In return, the gross value added achieved by SMEs was only 52, 7% of that obtained at national economy level, significantly below the EU average of 58,1%. In other words, labor productivity is lower than the average in the economy, which is also found in other European countries, but the difference is higher at us.

Table 3 Number of enterprises and employment in Romania (2012)

Type of enterprise	Number of enterprises			Employment		
	Romania		UE %	Romania		UE %
	no	%		No	%	
Micro	475.536	89,6	92,2	993.079	24,9	29,6
Small	45.131	8,5	6,5	840.848	21,1	20,6
Medium	8.348	1,6	1,1	843.021	21,2	17,2
SMEs	529.015	99,7	99,8	2.676.948	67,2	67,4
Large	1.527	0,3	0,2	1.304.963	32,8	32,6
Total	530.542	100,0	100,0	3.981.911	100,0	100,0

(Source: European Commission, Annual Report related to the action plan Small Business Act, 2013)

Romania has fewer microenterprises than the EU average and the difference of share in terms of number of employees is even more pronounced. Moreover, the average of 2, 08 employees per microenterprise, at a micro area calibration interval of 09 employees, suggests family activities rather than hiring others on the basis of competence criteria.

In the bottom of the calibration range of 10-49 employees for small enterprises there is also the average of 18, 63 persons / small enterprise. However, from here we can talk about labor relations properly placed on the basis of competition and about an influence of labor market conditions. It is interesting that the average position is maintained within the medium-sized enterprises (average of 100, 98 employees in an interval of 50-249 employees).

About two thirds of Romanian employees work in SMEs, which constitute a sufficient argument to give more attention to this segment of business environment. Noteworthy, however, that the remaining third of employees in large firms contribute with about half of the gross value added in the economy.

Table 4: The value added by type of enterprise

Type of enterprise	Romania		UE 27 %
	Mld euro	%	
Micro	7	14,4	21,2
Small	8	17,8	18,5
Medium	9	20,5	18,4
SMEs	24	52,7	58,1
Large	22	47,3	41,9
Total	46	100,0	100,0

(Source: European Commission, Annual Report related to the action plan Small Business Act, 2013)

Remarkable is almost equal contribution of each of the three types of enterprises, micro, small and medium to the results of the economy. With the observation that Romania has an interesting feature, namely medium enterprises are given more importance than the EU, while microenterprises represent in a certain extent a fiscal role for those implied less in gross added value creation (14, 4% in Romania, compared to 21, 2% of the EU total).

Obviously, it would be taken differentiated measures for microenterprises and stimulated hiring more employees. At the same time, it would be useful to recognize the higher contribution of medium-sized enterprises and the provision of incentives to the creation of additional jobs in small businesses.

Another defining feature of Romania is the sectoral distribution. The share of SMEs operating in the commercial sector is 42% of total SMEs, well above the average of 30% at European level. The other SMEs are distributed between services (34%), construction (13%) and manufacturing (10%).

Finally, firms operating in sectors considered essential to restoring competitiveness, as high-tech manufacturing and those operating in knowledgeintensive use, represent 23%, below the EU average of 26%.

Regarding the number of SMEs per thousand of inhabitants, Romania is one of the European countries with the lowest number of SMEs per one thousand of inhabitants, respectively 24 firms, half of the EU average and exceeding only Greece (12,6) and Austria (11).

In comparison, in Portugal, the Netherlands, Estonia and Cyprus business environment means more than 200 SMEs per one thousand of inhabitants. Among the countries in the region, the dynamic one is Croatia, with 158 firms per thousand inhabitants, but good positions occupy Czech Republic (88 SMEs), Hungary (57) and Bulgaria (40 small and medium enterprises). On the other hand, in Austria, the European state with the fewest SMEs per thousand of inhabitants (11), most of them (about 64.000 of the more than 95.000 SMEs) have more than 250 employees.

Basically, the local economy is based on jobs currently created and taxes paid to the state by a "small" business environment, consisting of little more than 470.000 SMEs (more than 99% of the companies that currently exist in Romania).

Table 5: SMEs. Romania- EU comparison

Indicator	Romania	EU
No. IMM/1.000 inhabitants	24	41
No. employees (mil. pers.)	2,6	3,13
No. employees/SME	5,5	4,2
GAV (mld. euro)	26,8	122,9
GAV/SME (euro)	56.747	165.722
% SMEs of firms total	99,8%	99,7%
% GAV of total	58%	51%
% SME employees of total	67%	66%

(Source: DG Enterprise and Industry, 2014, SMEs Annual Report 2013)

In Romania, density value of SMEs is very low, standing at almost half the European average of 24 SMEs / 1000 inhabitants in Romania compared to 41 SMEs / 1000 inhabitants in the European Union.

At the level of the eight regions, entrepreneurship is well represented in the Bucharest-Ilfov region, at opposite side, with the lowest densities being Northeast region, with 13,1 SMEs / 1000 inhabitants and South-West Oltenia, 14,7 SMEs / 1000 inhabitants.

The level of taxation is, according to a survey conducted by the NBR, the most pressing issue for companies in the period April-September 2013. Thus, we observe the compared level in terms of perception on the level of entrepreneurs taxation in the EU in 2008 respectively 2013, ante and post crisis.

Table 6: To what extent taxation is an obstacle

Country	2008	2013	Diference 2008-2013	Evolution number of firms to 1000 inhabitants
Bulgaria	2,8	2,4	-0,4	+8,9%
Czech Republic	11,6	11,3	-0,3	+1,6%
Poland	6,8	11,3	+4,5	-0,4%
Romania	12,8	17,8	+5	-3,1%
Hungary	16,4	12,1	-4,3	0%

(Source: World Economic Forum, Global Competitiveness Report 2008-2009 and 2013-2014)

We notice, according to the table above, that taxation is a barrier to economic development in Romania, followed by Poland. On the opposite side, there are Hungary, Bulgaria, Czech Republic, where we find a friendly tax system.

In this context we mention the new Tax Code draft proposed by the Romanian Government, respectively the Fiscal Procedure Code, documents which, at first sight, encourage voluntary tax compliance, new jobs and increase of revenues to the state budget. However, we believe that the Tax Code draft should be modified because the most unfavorable proposals target SMEs, respectively the tightening of taxation for SMEs and PAPs (physical authorized person). The proposed tax scheme does not take into account the risk that thousands of firms created to perform an activity, and for no other purpose, might be closed.

Also, certain provisions will seriously affect the activity of small entrepreneurs. PAPs (physical authorized person) will pay 43, 5% instead of 26%. The project eliminates the current exemptions payment of social contributions for PAPs. Thus it becomes mandatory pension contribution of 10, 5% for all income from independent activities, including for people employed who are now exempt from payment. However, the contribution of health is not deductible in determining the income tax. Although the paid amount is a compulsory contribution, the fact that it no longer decreases in determining income tax will lead to a real increase in tax from 16% to 16,88%. All these changes will cause an increase in taxes due by PAPs from about 26% net income, to about 43, 5%.

Company headquarter or the placing of PAP in apartment represent higher local taxes. Another measure which will negatively affect microenterprises and also PAPs is the taxation by destination of buildings - residential and nonresidential - and not by ownership status - legal and physical person. The Tax Code draft also provides taxation way for mixed destination buildings. Since the vast majority of micro and PAPs are registered at home, it follows that they will pay extra taxes also from the measure implementation.

Because small initiative does not really succeed in Romania we consider discouraging the provisions of the new Tax Code and require the project authors to have a rational discussion before going into the Parliament with the document or to assume the Government responsibility.

The role of entrepreneurship in economic growth

Stimulation of the SME sector should be made, in our view, by providing a competitive, stable and predictable business environment. In this context, public policies aiming at developing entrepreneurship in Romania should have in the forefront

entrepreneurship education at all levels, streamlined and predictable regulatory framework and the access to finance focused on competitiveness.

Europe ranks behind other regions of the world, regarding entrepreneurship place in society. Thus, in terms of professional career option, the average percentage of people who prefer to be self-employed is 71% in China, 55% in the USA, while in Europe 45% of people would choose as an alternative entrepreneur status, the rest preferring the employee status.

Countries with effective regulatory systems and increased productivity became more competitive at international level intensifying exports and increasing jobs. Inside them, there is a positive correlation between the regulatory framework for business environment, enterprises development and attracting investors.

Simplification of legislation and reducing administrative burdens lead to an increase in the number and size of firms, strengthen certain economic sectors and successful operation of the single market, but can equally support exports outside the EU and attract foreign direct investment. Countries in which the authorities supported entrepreneurship by improving business infrastructure and facilitating access to credit for financing investments have the most advanced economies.

Overall, European regulations with direct or indirect impact on business are more burdensome than those applied in the US or Japan, but here there are also differences between Member States. The northern and western European countries have a better regulatory framework than those of southern and eastern Europe. Sweden, Finland and Norway are better than the rest of Europe regarding the balance between quantity and quality of business regulations and are "in line" with the most advanced countries in the world because of administrative systems efficiency.

On the basis of regulatory systems in Europe stays the social economy model that promotes profit-oriented economic activity, with the social and environmental responsibility.

To entrepreneurship analysis were dedicated several studies and programs that have contributed to the identification of factors that influence entrepreneurship and barriers that prevent development, providing useful tools for entrepreneurial policy formulation and evaluation .

The most representative is the Entrepreneurship Indicators Programme (EIP) developed by OECD and Eurostat, which produces and disseminates a new set of indicators focusing on comparability of data and frequency of reporting period. The program objective was to develop complex measurements of entrepreneurship, based on a simplified new conceptual framework that distinguishes between the manifestation of entrepreneurship, factors which influence it and impact of entrepreneurship in the economy and society.

Have been taken into account three components: entrepreneurs, entrepreneurial activities and entrepreneurship, the entrepreneurship measurement being made not only through the manifestation of the entrepreneurial phenomenon, but also through the influence factors, respectively regulatory framework, market conditions, culture or access to finance.

Within the determinant factors, the regulatory framework is of particular importance, respectively administrative barriers for starting a business, administrative barriers to increasing, bankruptcy regulations, regulations on safety, health and environment, regulations on products, income taxation and social charges, business and capital taxation

In conclusion, the authorities in many countries give constant support and allocate related resources for sustaining the entrepreneurship, in various forms of aid: better regulations, loan guarantees, tax subsidies, credits for research and development or to stimulate startups.

One of the essential motivations for stimulate the creation of firms by the government is the very important role that entrepreneurs could play in the return of

economic growth and creating jobs. SMEs represent the majority of companies in the economy and are the biggest employer.

In the OECD countries, SMEs represent 99% of the companies and 2/3 of employees. In Romania, SMEs contribute with 66% of the total number of employees from private companies. Also, these companies create jobs at a rate of two times higher than larger companies. In the European Union, in the period 2002-2010, 85% of the total employment growth was due to the SMEs.

Also entrepreneurial education is one of the main determinants for entrepreneurship. It plays a major role in acquiring key entrepreneurial skills, having a positive impact on the entrepreneurial spirit of the young generation, the attitude and availability to private initiative.

Among the difficulties faced by most of the entrepreneurs to start and develop a business in Romania, uncertainty prevails as determined by the regulatory framework. In this context, the results of the report realized in 2013 by Ernst & Young, "Entrepreneurs speak. Romanian Entrepreneurship Barometer 2013", the "regulation and taxation" are alarming: 72% of respondents believe that regulatory and fiscal environment has deteriorated in the last year, only 12% say the opposite.

As a solution, we believe that the need for transparency, direct communication, corroborated with a simplification of tax rules, represent the biggest wish of entrepreneurs.

Conclusions

One of the paradoxes of Romanian taxation is that the only constant of the field is represented by the process of continuous change. Fiscal Code provisions are adjusted, amended, modified and completed quickly; these changes, however, are often made in haste, without prior analysis or impact studies and are not based on a medium or longterm vision.

Essential components in terms of attractiveness of the business environment, predictability and fiscal stability, have been affected by the many changes in the legislation. It is well known that the interest of foreign investors for the development of local business is closely related to ensuring a favorable investment climate and thus to modernize tax administration and the relationship between tax authorities and the taxpayers.

Among the obstacles that business environment face with are: labor taxation, which is too high for wages income. Undeclared work is omnipresent and administration costs are high; lack of neutrality of the law, without exception. The tax burden should not be set depending on how to earn, but how much is earned; bushy tax legislation. This should be simplified and implemented a simple and efficient logic for calculation, retention, payment and annual regulation of the social contributions; lack of stability and consistency of Romanian legal fiscal framework; difficulty in tax compliance due to a lack of clarity of tax legislation and inconsistency of tax authorities views on various topics; lack of effective and transparent communication between authorities and business environment.

Strengthening taxes in Romanian tax system should represent the main concern of the authorities in order to ensure predictability of any business and of economy as a whole. If things are simple and focused on income size (how much income obtains) and not on its way to obtain (how to obtain income), it will increase the firms voluntary compliance. We believe that a modality which can be used might be simplifying the tax system depending on a ranking of "costs involved versus collection made."

In conclusion, we need a radical reform of the tax system by programs that ensure significant growth in revenues to the state budget, decrease of corresponding administrative costs and stimulate economic growth by supporting business environment.

References:

1. Deloitte, (2012), □The degree of tax certainty - a study on the relationship between companies and tax authorities□ Report;
2. DG Enterprise and Industry, (2014), 2013 SMEs Annual Report;
3. Ernst &Young (EY), (2013), “Entrepreneurs speak. Romanian Entrepreneurship Barometer 2013”;
4. European Commission, (2013), Annual Report related to the action plan Small Business Act;
5. EU Enterprise and Industry, (2011), „Member States Competitiveness Performance and Policies: Reinforcing competitiveness”;
6. National Institute of Statistics, Statistical Yearbooks during 2006- 2013;
7. National Council for Small and Medium Enterprises in Romania, (2009): „Survey on the Impact of the crisis on SMEs in Romania”;
8. OECD, (2013), “Entrepreneurship at a Glance”;
9. Post-Privatization Foundation, (2012), “Promoting entrepreneurship as a key factor for economic development”
10. The Trade Register Office, 2009-2014 Synthesis, 2003- 2005 Synthesis;