

## METHODS OF INCREASING THE ROLE OF THE CORPORATE TAX IN THE ECONOMIC AND SOCIAL DEVELOPMENT

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*In this paper we will discuss about the implications of the corporate tax in the field of economical and social development. In the beginning we will present the results of the introduction of the new quota (16%) as budgetary receipts and after that we will discuss about the evolution of the DFI in Romania in the period 1991 – 2008 along with some measures by which the authorities could improve the development of some geographical areas.*

*Keywords: corporate tax, DFI, budgetary receipts, underdeveloped areas*

*JEL code: G*

In the case of the profit tax, things are relatively good if we take into consideration the drawing quota, which is low, in order to determine the tax payers to avoid tax dodging. On the other hand, if we put this quota at a lower level, we may notice problems at the total amount of the budgetary incomes. By reducing it from 25% to 16%, a part of the subterranean economy will be brought to light, but this thing should not affect the process of collecting the budgetary incomes necessary for the well-being of the economy. In order to see how things are, from this perspective, we will analyze some statistical data which will be grouped in a table, illustrated later on by a graphic.

Tabel no. 1  
The evolution of the budgetary receipts from corporate tax, 2002 – 2008  
millions RON

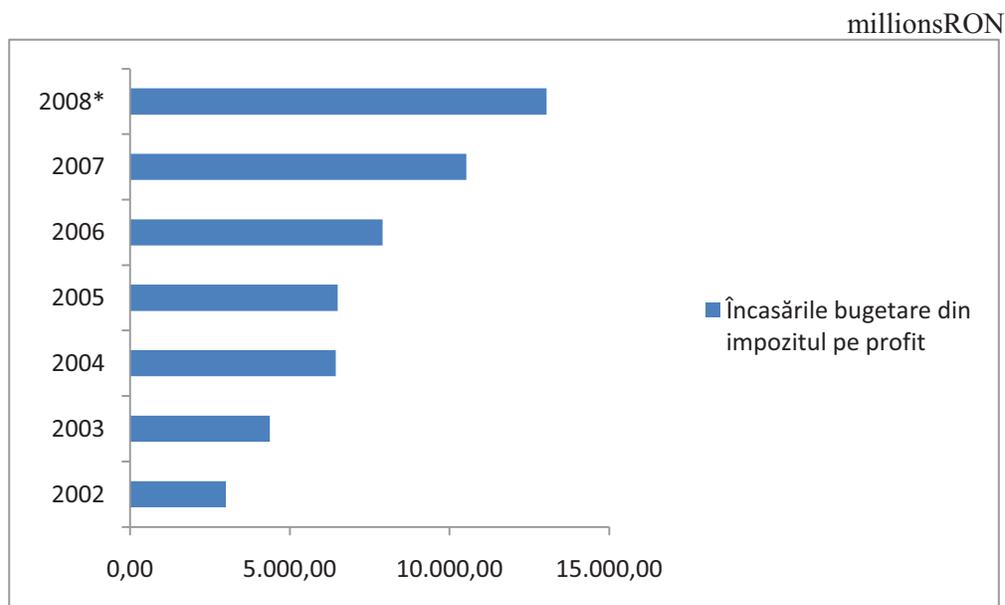
	2002	2003	2004	2005	2006	2007	2008*
Budgetary receipts from corporate tax	2.997,9	4.368,1	6.441,6	6.495,3	7.905,5	10.528,9	13.039,9
Annual growth (%)	-	45,71	47,47	0,83	21,71	33,18	23,85

Source: personal calculus based on data from *Statistical Yearbooks 1991 – 2008 and Monthly Statistical Bulletin, Dec. 2008*

\*for 2008 data are provisional

We mention the fact that, concerning the line of the percentage growth, we considered each year as a base for the next one, and the figures above represent the result. Now we will position only the first line in the graphic, the one representing the cashing in the absolute sum, because the representation for the percentage growth is a little bit disordered in comparison with the other one.

The evolution of the budgetary receipts from corporate tax, 2002 – 2008\*



Source: personal calculus based on data from *Statistical Yearbooks 1991 – 2008 and Monthly Statistical Bulletin, Dec. 2008*

\*for 2008 data are provisional

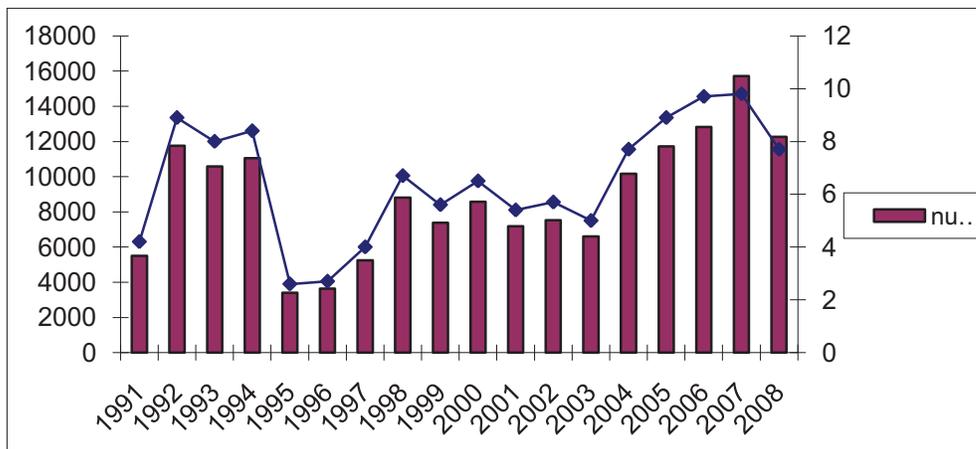
From the two analyzing tools, we can observe the fact that the reduction of the drawing quota of the profit tax has not given extraordinary results from the perspective of the budgetary incomes, even though at the beginning of 2005 there were optimistic estimates. Moreover, we can say that in the first year when the quota was changed, the increasing of the budgetary incomes from the profit tax was insignificant, as we could clearly observe from the table, too. We have chosen the period 2002-2008, in order not to dilute the space with older data, on one hand, and on the other hand, we can clearly observe the tendency of the three years previous to the changing of the drawing quota. We can notice the fact that in 2003 and 2004 we acknowledged significantly growths in percentages in comparison with the ones after the changing of the drawing quota. We could say that, in 2005 and 2006, the slope of the percentage growth suffered a loss of the sharp character that existed before the changing. After that, things became relatively normal, the growth of the attracted amounts increasing year after year.

Another possible dimension of the influence of this drawing is the one of attracting foreign capital in an economy. Generally speaking, the growth of the capital is good for any kind of economy, no matter how developed it is. Thus, every country tries to persuade the ones having investment capital to use it in economic activities in their domain. The profit tax and the regulations that govern it can be mentioned as a tool in this respect. In order to have a clear image of the amounts' growing rhythm coming from other countries we will use public statistical data.

The idea created from the data will be shown in the following graphics. First of all, we will make a graphic that will show us how the number and the structure of the commercial societies have changed every year, and then another one showing us the same thing from the perspective of the amounts invested, in Euro.

Graphic no. 2

DFI as number of companies, 1991 – 2008\*



Source: personal calculus based on data from *Statistical Yearbooks 1991 – 2008 and Monthly Statistical Bulletin, Dec. 2008*

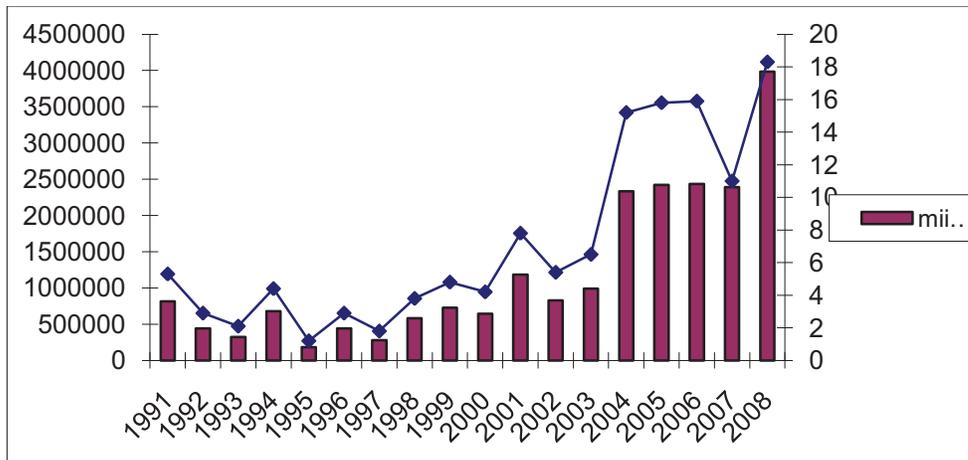
\*for 2008 data are provisional

From the Graphic no. 2 we draw the conclusion that the evolution of this indicator had a relatively inhomogeneous course until 2003, when its increasing tendency is absolutely clear. We cannot accept this evolution as a result of the changing of the drawing quota of the profit tax, but this measure had its role in this evolution. Another plausible explanation could be that, during this period, the efforts made by our country regarding the adherence to the European Union, have given a better image of the Romanian economy, fact that determined the foreign investors to come to our country. In the same manner, the calculations made by the investors, based on the forecasts, as well as the conclusions given by the rating agencies could determine such an evolution of the above analyzed indicators.

Going on, we will make another graphic in order to illustrate the evolution of the invested amounts in economic activities, in the same period in our country.

Graphic no. 3

DFI as amounts (Eur)



Source: personal calculus based on data from *Statistical Yearbooks 1991 – 2008 and Monthly Statistical Bulletin, Dec. 2008*

\*for 2008 data are provisional

The number of units in an indicator is significant, quantitatively speaking, it has an important role in its debate, but when we talk about its qualitative perception, things will change a lot. In the case of the studied indicator, the direct foreign investments in Romania, we can consider the number of the commercial societies having a foreign part in the social capital, as being a quantitative exponent, on one hand, and on the other hand the level of the invested amounts representing the qualitative part. A relatively big number of commercial societies have a foreign participation in the social capital, but without investing important amounts, they represent only some tests of the Romanian economy, but when the amounts start to be felt, then we can really talk about foreign investments in Romania.

We cannot say that the changes done in the profit tax had the most important role in the behavior of the investors but, this role cannot be neglected. This lever, in the hand of the authorities, has its own efficiency, and it is absolutely impossible not to be used properly.

One of the dimensions of its usage, as a method in influencing the behavior of the investors, is represented by the facilities which can be given to these. It is absolutely clear that the European Union does not agree with such fiscal methods, but taking into consideration the development of the Romanian economy, we think that it can bring only advantages, in the given context. For sure, these facilities need to have a well shaped temporal horizon, they cannot be applied endlessly, but during this short period the effects can be significant. We are talking here about Moldavia, especially its Northern part, which has the reputation of the worst developed part of the European Union. In this region, but in some other ones, too, the authorities could give some sparing in the profit tax payment, in order to attract companies, and permit them to capitalize being based on profit centers and not on subvention from the mother company.

In the following lines, we will try to analyze the areas in our country where the economic development is not so good. As an identification tool, we will use the foreign investments, too, because the investors do not put their money in the areas where the economic development is not good. Almost the same names of Romanian counties appear in the last positions of a *sui generis* classification: Giurgiu, Neamț, Teleorman, Vâlcea, Vaslui, Vrancea, Călărași, Ialomița, Sălaj. Not to mention but these.

The data concerning this classification are regarding December 2005 and December 2006 and refer to the last 15 places occupied, from the perspective of the two classification criterions (amounts and share).

We can observe that the same names of counties are repeated, fact that show an unwanted stability of the phenomenon in their respect. Even though the capacity of description of the data is reduced – we are talking about only two same months in two consecutive years, not only about a longer and more compact period – the repetitive character of the information can determine us to draw the conclusion that the “permanent” character is the one that describes best the situation in these counties. We won’t prolong the duration of the phenomenon analyze because there are no essential changes of the situation in the following years.

This is why we think that it is not useless that exactly in these counties the authorities should begin helping policies concerning the economic dimensions of these areas. The investors’ attraction, irrespective of nationality, has to be first priority for the authorities, even though the governing doctrine is based on liberalism or any other economic trend. It is true that the economic development of a region does not depend only upon the authorities’ will and it can be done without measures done in this respect, but the stake does not have to be seen as contemplative but proactive, and one tool which acts efficiently in this respect is the profit tax, on short term.

A way of gaining positive results is represented by making free of trade areas, especially because among the enumerated counties, ten are situated at the border of the state territory, being border counties. By regulating such business conditions in some regions, capital disposals could be created, determining the decrease of the unemployment along with the development of the respective areas. It is true that, in this situation, the role of the profit tax is a reduced one, but the implications of it cannot be neglected at all. The simple trade in the free areas and the possible customs changes represent just a few of the positive aspects of these modalities by which new jobs can be created and by which the potential of the economic growth of these areas can be increased. However, the institution of free areas does not represent a success for sure for the development of the area. An example, in this respect, can be Giurgiu County, where there is a free trade area for a relatively long time.

We consider that the changes of the market conditions, implicitly the ones regarding competitions, can bring positive changes in the economic development.

So far, we have referred only to the economic dimension of the profit tax influence, which can be exerted upon the society, in general, but we are not allowed to forget about the social dimension, too. We have already mentioned the fact that the economic and social areas are closely related, and normally they intermingle. Thus, when we act by the help of a fiscal lever, the results of our action are seen upon the followed objectives. We can say that, any growth of the economic activity determines the appearance of almost direct social effects. When the achieved effects have a strong durable character, the social dimension of the collectivity will feel them positively, on a long term.

Besides the economic measures, we have to mention the social ones which follow exact results in the social area. These are measures which can be brought in order to obtain less attractive effects in the economic activities, concerning the difference between the accountancy and economical costs, but because of the fact that some products and services are gained with higher costs, so as they would discourage the consumers if the profitability was the only result of the economic agents’ entrepreneurial abilities. We are talking about education, culture, sports and health, areas of activities in which the profit tax sparing can bring reduced costs of the respective products and services.

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