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The Dimension and Dynamics of Tax Revenues. A Vision on the EU Level

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Abstract

Captives of the mutation to a so-called intangible economy, the recent history, and the economic and social trends, shows that the competitive or the power differences between economies/ societies derive, today, from the differences of intangible assets that each of them has. If this assertion remains a desideratum in the structure of the economic sciences, aiming at pragmatic consecration, the current economic landscape gives us a more realistic picture of the dynamics, welfare and competition of the world's economies. In the sense of the above mentioned, it is remarked that the international economic space, especially the one geographically delimited by the EU, still shows a clear focus on the ability of economies and political decision-makers to ensure the social well-being of different economic and social entities (population, companies, as well as of the state, per se) on the account of the ability to collect significant tax revenues from the population. Thus, the present paper was based on a comparative study at the level of the EU countries, referring to the size and dynamics of the public resources (the characteristics and particularities of some of the tax systems, the taxation and the collection methods, the relevant fiscal domains or charging new taxes) as the title, obviously, suggests.

Keywords:

tax revenues, welfare state, direct taxes, indirect taxes, social contributions.

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Introduction

Although we are tributaries of the idea that the competitive/power differences between economies/societies derive today from the differences of intellectual goods, prevalent from the differences of knowledge that each of them possesses, it is, nevertheless, noticed that the international economic space shows a concern clearly oriented towards the ability of economies and policy makers to ensure the **economic and social welfare** of the various entities (individuals, economic entities, state) on the basis of their ability to collect tax revenues from the population. Even though each new establishment of taxes or the increase of the existing ones is viewed with reluctance by the taxpayers, being perceived as a method of diminishing their wealth, the reality reflected at the economic level shows us that the purpose of these tax obligations (collected as compulsory, definitive, non-refundable and without consideration on behalf of the state) is, historically, a pillar of support for the pragmatism of the **welfare state** (it is well known that, in the current context, certain social commitments assumed by the state, in the sequence of the time, are difficult to be economically sustained, therefore the efforts of the state to support them will be reflected in the dimension of taxation).

Thus, we have already invoked, seemingly involuntarily, the basic objective we have pursued in the structure of this approach, which is based on the pivotal hypothesis of the paper, explicitly found in the form: **"there is a significant conditioning relationship between the sustainability of the welfare systems and the ability of the states to collect significant resources from the population as tax revenues."**

Among other things, in this paper, we substantiate the idea that there are countless reasons for which the tax revenues vary significantly from year to year in the structure of government revenue. Of course, in order to deduce certain peculiarities regarding the economic and social state of the countries it is necessary to analyze and individualize each of the tax systems. However, this article supports the idea that there are some general/universal reasons, which are found in the form of factors that cause variations in tax revenue. Thus, the **changes in the economic and social activity** per se, such as: *the level of unemployment, the sale of goods and services, the external trade or the age structure of the population*, as well as the **legislative changes**, including: *the change in tax rates, the determination of the taxable base or the exemptions from the payment of taxes*, produce changes, both at the level of the tax revenues and at the level of the GDP. For example, it is already known that both, the global economic crisis and the fiscal policy measures adopted by countries have

had a sizeable impact on the level, structure and dynamics of tax revenues in the period after 2009 to the present.

In the sense of the above-mentioned aspects, the work: *The Dimension and Dynamics of Tax Revenues. A Vision on the EU Level* presents, among other things, as the title obviously suggests, some aspects regarding the fiscal policies of the EU countries, focusing on the major changes and the particularities of the Romanian tax system. These represents the benchmarks in the chronology of socio-economic changes that characterize the dynamics of the last decade and show that taxation is an integral part of our lives, with fiscal policies having a major impact on business, economy, and on the population, shaping, inherently, the public services.

The welfare state in the taxation doctrine

Although it seems to be, by far, a utopia for the Romanian collective mentality, the government of this state, like the other political decision-making structures, collects on a compulsory basis, income from the population for two solidly founded reasons, which constitute engines for both, the functioning of market economy and the development of global economy:

- **financing the public goods/services** that they provide to different economic and social entities: citizens, businesses, and to the state, per se;
- **fulfilling the role of public finances redistributor.**

In order to highlight the importance of the public sector in the economy, with regard to the available financial resources, it is necessary, although often insufficient, to compare government revenue over the time, as a share of GDP or as income per capita. Therefore, in the structure of this paper, although we often use the phrase "government revenues"/"public revenues", when we use it we refer, strictly, to fiscal resources, as they are the largest sources of public revenues. The structure of tax revenues includes the following components: taxes on production and imports, taxes on income, wealth and capital gains, as well as social contributions, and the volume of this type of revenue collected by a state can be the "measure" for assessing the quality of the decisions/indecisions of the political decision-makers.

As mentioned in the introductory part of the paper, the role of tax revenues is to support the **welfare state**, a multidimensional concept (with economic, social and political valences) through which the individuals are situated in the relation with the state in "double quality", respectively

taxpayers and beneficiaries, reason for which the citizens, at different stages of their lives, contribute to the development of the **welfare state** and make use of it.

Therefore, contrary to the negative approaches and portraits, **welfare state** also invest in human and social capital, and **welfare**, as a result, becomes a complex process involving a number of institutions, including the state, the market and the family [1]. Regarding, also, those mentioned to this point, the opinions enshrined within the economic theory and practice show that **welfare of economies** is a complex concept, and its measurement is concerning the attention of specialists. However, quantification of **welfare** at this level can be achieved either by **objective indicators** (GDP per capita or HDI are representative metrics in this regard) or by **subjective indicators** (welfare is measured by surveys to directly capture feelings, experiences and emotions of the people) and which indicate, otherwise, people's perception on the life quality [2].

Welfare state is a concept of somehow recent origin, being used for the first time to describe the situation of Great Britain after 1945. A little bit later the phrase was known around the world, being used by politicians, historians or journalists to describe the development state of different societies. Thus, attempts were made to rewrite the history of the IX and XX centuries, with particular reference to British history, in terms of the origin and development of the **welfare state**. The concept of the **welfare state** was rarely defined clearly/coherently, since its role was to be the **form** of social and economic change, on the backdrop of the growing need for social security, equal opportunities, the "abolition of poverty" or the "conquest of unemployment" (*the last two are economic changes with immediate and direct social consequences*). That is why confusion has often been created about *social change* and *economic power* [3].

The *political dimension* of the *welfare state* shows that this is a concept of governance within which the state or a well-established network of social institutions plays a key role in protecting and promoting the economic and social *welfare* of citizens. It is based on the principles of equal opportunities, equitable distribution of wealth and public responsibility for those unable to avail themselves of the minimal provisions for a good life. The general term can cover a variety of forms of economic and social organization [4].

Historically, the *welfare state* has taken collective action to lift up the former slaves, the women and children, the aliens, and the downtrodden working class. This state, through its collective action on behalf of the lower classes, extended the right to vote, the health care system, schools and union representation. It enlarges the number and the rights of citizens, turning

powerless and homeless aliens into union workers, homeowners, taxpayers and voters, and therefore, to a large extent, the *welfare state* concerns the lower classes, responding positively to their demands [5]. Moreover, in an environment characterized by so much economic insecurity, the *welfare state* plays a very important role in women's lives [6].

In the same regard, the European countries have developed their **social protection systems** at a time when the demographic profile of the region could support widespread **social spending** and when solid economic growth made them accessible. Europe's political economy has been defined since the 1950s by the development, in each European country, of a more or less comprehensive **welfare model** through which the state has taken a central role in delivering certain social benefits, of which the most costly are: **pensions, support for the poor, social housing and health care**. One of the most complex challenges that the European governments and societies are currently facing is the reconciliation of these commitments with the provision of social services that are politically broadly supported, with pressures that can make them economically unsustainable [7]. The economies and industries are also different from the workforce point of view. Therefore, are preferred the *knowledge workers* (who become the main contributors) to the detriment of those who use physical force for creating value. These industries that prefer *knowledge workers* are the ones that bring: rapid economic growth, opportunities, jobs, high living standards and aspirations for the next decade and even for a century from now on [8].

Simply put, the welfare systems founded over 50 years ago, need to be reconfigured depending on both, the socio-economic changes and the current challenges associated to:

- *age structure of the population (implicitly aging);*
- *global economic integration (implicitly globalization);*
- *the risks resulting from the dynamics of the unemployment rate;*
- *restructuring the workforce;*
- *redefining the work productivity, etc.*

In this regard, Peter Ferdinand Drucker in a well-known work, *Management, tasks, responsibilities, practices* [9] states that the knowledge-based worker, who was in full ascension at the beginning of the 90's, an individual centered on intellectual abilities and knowledge to create value, and less on physical abilities felt, at that time, more social comfort than an economic one (today, it seems, however, that it had managed to recover considerably from this gap). Thus, in the context of those discussed up to this point, focusing on the restructuring of the global work force, as well on the ascension or disappearance of certain social classes, in the sequence of the

time, appear the following questions: *How does the workforce contribute to the welfare state? Which is the level of their needs and how can the states support them economically? Which is the state of welfare systems in the West compared to the East, in a social dispute which last for centuries?*

From a historical perspective, knowledge, innovation, education and the social reforms undertaken by Western countries have ensured an expansion of the Occident towards the Orient from 1500 until the onset of the Industrial Revolution (1776) (for example, the *printing* and the *social innovations* have become essential in this competition between the two civilizations). Around the year 1200, when Marco Polo explored China, the social development of this country was much higher than the one recorded by the West, and it took about three centuries until the West recover this social gap. [10] Therefore, the knowledge was historically at the basis of the social and economic progress of the countries. However, this became more evident after 1900, with the advent of big corporations and the systematic organization of R&D activities in the structure of these entities. Later, after 1950, corporate investors and executives accepted the idea that what we call knowledge (as the foundation of technical innovations) can be more precious assets than money, buildings or equipment. Moreover, after 1950, the European countries have begun to lay the foundations for welfare systems whereby the state has taken a central role in delivering some of the most important but expensive social benefits.

According to Esping-Andersen [11], the *welfare state* is classified according the three political movements which characterized the Europe and USA of the XX century, as follows:

1. Social Democratic: Denmark, Finland, Netherlands, Norway and Sweden;
2. Christian Democratic: Austria, Belgium, France, Germany, Italy and Spain;
3. Liberal: Australia, Canada, Japan, New Zealand, Switzerland and US;
4. Not clearly classified: Ireland and United Kingdom.

Today, several European countries are included in the modern structure of *welfare state*: Germany, France, Belgium and the Netherlands, as well as the Nordic countries: Sweden, Norway, Denmark and Finland, *as they appear to have fiscal systems that can economically support the social commitments such as those mentioned above.*

The Romanian **welfare state** is one that has long time sought its identity. Especially after a period of over four decades of communism with socialist command economy, therefore a welfare system in whose structure

the **state** was the main means of achieving social rights. Through its control over the economy and, basically, over all the income forms, the state held the levers that allowed it a high degree of income redistribution. The market was practically eliminated. The tendency was to include the whole population in some form of protection or another. Today, although it diminished its function of **welfare insurer** the state was not completely withdrawn from this role, a similar trend being registered in the political and economic structure of many European countries [12].

In the following, we will analyze, from a statistical perspective, the situation of the countries within the EU, by referring to the volume of tax revenues as well as by analyzing the structure and their dynamics in the sequence of the time. This, in order to understand the extent to which the social duties of the states in the EU, towards the population, can still be called viable from an economic perspective. Among other things, we pay attention to the tax burden and its transfer from labor and capital to consumption and vice versa, depending on the economy we are referring to.

The dimension of tax revenues in EU under the dynamics of a decade

The importance of the public administration sector in the economy can be measured by the total government revenues and expenditures as a percentage of GDP, as indicated above. In the classical sense, public administration is divided into two basic elements: the execution of the law and the provision of public services within the limits of the law. The two components are inherently interdependent in the sense that, for example, the condition of meeting the needs of public interest in a legal framework is not only desirable, but also mandatory.

For information, according to the latest data centralized by Eurostat [13], **in 2016 in the European Union, tax revenues accounted for 90% of total government revenue**. Moreover, according to the same source, tax revenues (including social contributions) for the same year were 40% of GDP at EU level and 41.3% of GDP at EA level.

Table 1 The dimension of fiscal revenues in EU over the period 2005-2015
(% of GDP)

N o.	Countries	200 5	200 6	200 7	200 8	200 9	201 0	201 1	201 2	201 3	201 4	201 5
1	EU 28	37. 5	37. 9	38. 0	37. 9	37. 1	37. 2	37. 7	38. 3	38. 8	38. 8	38. 7

2	EA 19	38. 2	38. 7	38. 8	38. 4	38. 0	38. 0	38. 5	39. 5	40. 1	40. 3	40. 2
3	Belgium	43. 5	43. 3	43. 0	43. 6	42. 7	43. 1	43. 7	44. 8	45. 7	45. 4	45. 1
4	Bulgaria	30. 5	29. 9	31. 6	30. 7	27. 2	26. 0	25. 3	26. 7	28. 2	28. 4	29. 0
5	Czech Republic	34. 2	33. 8	34. 4	33. 1	32. 1	32. 5	33. 8	34. 2	34. 8	33. 9	34. 3
6	Denmark	48. 0	46. 5	46. 4	44. 8	45. 0	45. 0	45. 0	45. 8	46. 5	49. 3	46. 6
7	Germany	37. 0	37. 3	37. 4	37. 7	38. 0	36. 7	37. 2	37. 8	38. 2	38. 3	38. 6
8	Estonia	30. 0	30. 5	31. 3	31. 4	34. 9	33. 3	31. 5	31. 7	31. 7	32. 6	33. 9
9	Ireland	30. 0	31. 4	30. 8	29. 0	28. 1	27. 9	27. 8	28. 3	28. 7	29. 1	23. 9
10	Greece	31. 9	31. 0	31. 8	31. 8	30. 8	32. 0	33. 6	35. 5	35. 5	35. 9	36. 4
11	Spain	35. 2	36. 0	36. 4	32. 2	29. 8	31. 3	31. 2	32. 3	33. 2	33. 8	33. 9
12	France	42. 7	43. 1	42. 6	42. 5	42. 0	42. 1	43. 3	44. 5	45. 4	45. 7	45. 9
13	Croatia	36. 2	36. 8	37. 1	36. 8	36. 4	36. 1	35. 2	35. 9	36. 6	36. 8	37. 6
14	Italy	38. 9	40. 1	41. 4	41. 2	41. 7	41. 5	41. 5	43. 5	43. 5	43. 2	43. 2
15	Cyprus	31. 4	32. 1	36. 1	34. 8	31. 8	31. 9	31. 9	31. 6	31. 5	33. 2	33. 0
16	Latvia	27. 9	28. 7	28. 2	27. 8	27. 3	27. 9	27. 9	28. 6	28. 6	29. 0	29. 2
17	Lithuania	29. 2	30. 1	30. 0	30. 6	30. 2	28. 3	27. 2	27. 0	27. 1	27. 6	29. 1
18	Luxembourg	38. 3	36. 3	36. 6	37. 2	39. 0	37. 6	37. 4	38. 7	38. 5	38. 1	37. 8
19	Hungary	36. 7	36. 6	39. 5	39. 6	39. 1	37. 4	36. 8	38. 5	38. 1	38. 2	39. 1
20	Malta	31. 6	32. 0	32. 9	32. 1	32. 5	31. 2	31. 9	32. 2	32. 4	34. 0	33. 7
21	Netherlands	35. 4	36. 4	36. 0	36. 4	35. 4	36. 1	35. 9	36. 0	36. 5	37. 5	37. 8
22	Austria	41. 4	40. 8	40. 9	41. 8	41. 4	41. 3	41. 4	42. 1	42. 9	43. 1	43. 8
23	Poland	33. 0	33. 6	34. 6	34. 1	31. 2	31. 4	31. 8	32. 1	31. 9	32. 0	32. 5
24	Portugal	30. 8	31. 3	31. 8	31. 7	29. 9	30. 4	32. 3	31. 8	34. 1	34. 3	34. 5
25	Romania	27. 7	28. 4	29. 0	27. 6	26. 3	26. 2	28. 1	27. 7	27. 3	27. 5	28. 0

26	Slovenia	38. 0	37. 6	37. 1	36. 6	36. 4	37. 1	36. 7	37. 1	37. 0	36. 7	36. 8
27	Slovakia	31. 3	29. 2	29. 1	29. 0	28. 8	28. 0	28. 5	28. 2	30. 1	31. 1	32. 2
28	Finland	42. 1	42. 2	41. 5	41. 2	40. 9	40. 8	42. 0	42. 7	43. 6	43. 8	44. 0
29	Sweden	46. 6	46. 0	45. 0	44. 0	44. 1	43. 2	42. 5	42. 6	42. 9	42. 6	43. 3
30	United Kingdom	33. 1	33. 9	33. 6	35. 1	32. 5	33. 5	34. 2	33. 4	33. 2	32. 8	33. 3

Source: Taxation Trends in European Union, 2017; available online at:

https://ec.europa.eu/taxation_customs/sites/taxation/files/taxation_trends_report_2017.pdf

As can be seen from **Table 1**, tax revenue per GDP in the EU remained within the range of 37-38% between 2005 and 2015. Of course there are countries which, due to the nature of their tax system, have a higher degree of taxation and collection than these figures. For example, Denmark has recorded over 45%, reaching even 49%. Finland, Sweden, but also France, Austria and Belgium record percentage between 42-45%. At the opposite side, there is a group of countries where tax revenues as a share of GDP only achieve percentages approaching and sometimes passing 30%. We refer here to Romania, Bulgaria, Ireland, Lithuania, but also to Spain or the United Kingdom.

The countries with the largest share of tax revenue in GDP are those whose tax systems are based on direct taxation, including: Denmark, Great Britain, Sweden, Finland, Italy. After recovering from the crisis, we can see an increase in the share of tax revenue in GDP in countries based on indirect taxation, including Estonia, Bulgaria, Romania or Poland.

In the traditional sense, tax revenue is divided into three main categories: **indirect taxes** defined as taxes on production and imports (such as VAT), **direct taxes**, which include taxes on income and wealth and taxes on capital; and **social contributions** [14]. Direct taxes allow a greater redistribution, and for indirect ones it is impossible to introduce progressivity. Direct taxation is also more visible to the electorate. Social contributions are, as a rule, closely related to social security (pensions, unemployment and health). In **Table 2** can be observed both, the structure of tax revenues and their dynamics over a decade at the level of the EU countries.

Table 2 The structure of tax revenues in EU over the period 2005-2015 (% of tax revenues)

No.	Countries	Indirect taxes			Direct taxes			Social contributions		
		2005	2010	2015	2005	2010	2015	2005	2010	2015
1	EU 28	35.0	34.9	35.1	33.8	33.1	34.2	31.3	32.3	30.9
2	EA 19	33.8	33.2	33.0	30.7	30.7	32.1	35.7	36.5	35.1
3	Belgium	30.4	30.5	29.3	39.0	37.3	38.9	30.6	32.3	31.8
4	Bulgaria	53.2	54.9	53.5	15.7	19.5	19.4	31.1	25.6	27.1
5	Czech Republic	32.1	34.8	36.5	24.8	20.4	21.3	43.2	44.8	42.3
6	Denmark	36.7	36.4	35.2	63.5	63.8	65.8	0.2	0.2	0.1
7	Germany	28.3	29.7	28.5	28.9	29.4	32.4	42.8	40.9	39.2
8	Estonia	42.9	41.8	43.2	23.2	19.8	23.4	34.0	38.4	33.4
9	Ireland	44.1	39.3	37.3	43.1	42.6	46.3	12.7	18.1	16.4
10	Greece	37.6	39.7	44.5	28.8	26.1	26.1	33.6	34.2	29.4
11	Spain	35.2	33.1	35.5	32.1	31.0	31.7	33.8	38.4	34.2
12	France	35.9	35.1	35.0	27.3	27.1	28.7	37.1	38.4	36.9
13	Croatia	51.1	49.7	52.4	16.9	17.6	15.9	32.0	32.6	31.7
14	Italy	36.1	34.0	35.5	33.2	34.6	34.4	30.7	31.4	30.1
15	Cyprus	48.7	45.3	45.1	27.4	29.5	29.5	23.9	25.2	25.4
16	Latvia	44.8	42.5	44.4	26.8	26.5	27.0	28.4	31.0	28.6
17	Lithuania	39.1	42.5	41.4	30.6	16.3	18.8	30.4	41.5	40.0
18	Luxembourg	35.7	32.6	32.3	36.5	38.5	38.9	27.8	28.9	28.8
19	Hungary	42.3	47.1	48.4	24.2	21.1	18.0	33.5	31.8	33.5
20	Malta	45.6	42.1	40.7	35.5	39.9	42.3	18.9	18.0	17.0
21	Netherlands	34.3	32.2	31.0	31.2	31.5	31.3	34.5	36.3	37.7
22	Austria	35.0	35.1	33.4	31.3	30.9	32.9	33.7	34.1	33.6
23	Poland	42.3	44.3	40.1	20.9	21.3	21.4	37.2	34.7	38.9
24	Portugal	47.4	43.8	42.4	26.0	28.0	31.4	26.6	28.2	26.1
25	Romania	46.3	45.3	47.6	19.1	21.9	23.5	34.7	32.8	28.8
26	Slovenia	40.8	38.3	40.7	22.6	21.7	19.8	36.9	40.1	39.5
27	Slovakia	40.1	36.6	34.1	20.0	20.1	23.0	39.9	43.3	42.9
28	Finland	31.8	31.9	32.5	40.9	38.4	38.5	27.3	29.7	29.0
29	Sweden	48.7	51.8	51.1	45.0	42.0	42.5	6.4	6.2	6.4
30	United Kingdom	35.6	36.6	39.0	45.8	44.8	42.6	18.6	18.6	18.4

Source: Taxation Trends in European Union, 2017; available online at:

https://ec.europa.eu/taxation_customs/sites/taxation/files/taxation_trends_report_2017.pdf

In 2015, tax revenues in the EU remained relatively evenly distributed among social contributions (30.9% of total tax revenues), taxes on income and wealth (34.2%) and taxes on production and imports (35.1%). Cannot be said the same about Romania, in the case of which the

most important incomes are indirect taxes (47.6%), followed by social contributions (28.8%) and direct taxes (23.5%). In the ranking of the countries that are part of the EU, Romania occupies the 5th position in 2015 regarding the share of indirect taxes in the total tax revenues, 19th in the share of direct taxes and 18th in the share of social contributions.

The structure of taxation varies significantly between EU Member States at the level of 2015, as can be seen from **Figure 1**. As regards the share of direct taxes in total tax revenue, Denmark has the largest share (65.8%), followed by Ireland, the United Kingdom, Sweden and Malta, with shares between 42% and 46% of total tax revenue.

Generally, the share of social contributions in total tax revenue is low in these countries. In Denmark, there is a special reason for the extremely low share of social contributions: most **welfare** spending is financed by general taxation. This requires high levels of direct taxes and, indeed, Germany, Netherlands and France have fiscal systems that represent the mirror image of Denmark, with high social contributions in total tax revenues and relatively low rates of direct tax revenues.

The lowest share of direct taxes in total taxes in the year 2015 is registered by: Croatia (only 15.9%), Hungary (18.0%) and Lithuania (18.8%). All these countries have adopted fixed-rate taxation systems, which lead to a sharp reduction in direct taxes compared to indirect taxes. These lower rates of direct taxes are counterbalanced in relatively large proportions by indirect taxes: Bulgaria (53.5%), Croatia (52.4%), Sweden (51.1%) and Hungary (48.4%), or higher social contributions: Slovakia (42.9%), Czech Republic (42.3%) and Lithuania (40.0%).

As for indirect taxes, Bulgaria (53.5%), Croatia (52.4%) and Sweden (51.1%) accounts the largest share of total revenues. Germany (28.5%), Belgium (29.3%) and the Netherlands (31.0%) recorded the lowest shares. There are significant differences between EU Member States regarding the distribution of tax burden based depending on tax bases. Although the most important indirect taxes are harmonized, there are major differences in consumption taxes.

Figure 1 The comparative levels of indirect and direct taxes & social contributions for 2015
(% of tax revenues)

Source: Based on the data from *Taxation Trends in European Union, 2017*; available online at: https://ec.europa.eu/taxation_customs/sites/taxation/files/taxation_trends_report_2017.pdf

Consumption taxation is an area that has been severely affected since the onset of the economic and financial crisis. The data show that consumer taxes have risen sharply since 2010. In the last four years, there have been high increases in VAT rates. However, only half of the theoretical VAT revenue is practically collected.

Between 2011 and 2012 a large number of Member States increased the VAT rate. Portugal increased VAT to 23%, Great Britain from 17.5% to 20%, Cyprus and Ireland from 17% to 23%. Moreover, 1% increases also occurred in Latvia, Poland, Slovakia and Italy. Some countries have differentiated VAT rates. In Hungary, Denmark and France both, the increase in VAT and the measures to broaden the tax base, were designed to shift the tax burden from labor and capital to consumption while in the other Member States the increases were made for growing the tax revenue.

However, the trend to increase the standard VAT rates by 2014 has stopped. Since then, only two Member States have changed their standard VAT rates. Luxembourg increased its rate by 2% in 2015, and Romania reduced its standard VAT rate in 2016 by 4%. In this regard, the highest standard VAT rate is found in Hungary (27%), followed by Croatia, Denmark and Sweden (in all three cases 25%). The lowest rates are in Luxembourg (17%) and Malta (18%).

In 2011 and 2012, the level of excise duty has increased significantly in most Member States, especially by increasing the standard rates. In a few countries, excise taxes on fuel used in transport, electricity, cigarettes and alcohol have been considerably increased. In some countries, excise taxes on energy and other environmental taxes have been increased. In addition, there was introduced: nuclear fuel tax - **Germany**, air tax for airplanes departing from domestic airports - **Germany** and **Austria**, CO2 tax - **Ireland**. **Austria**, **Belgium** and **the Netherlands** also took into account the gas emissions in the registration of motor vehicles. **Latvia** has introduced a tax on vehicles owned by legal persons and has increased taxes on luxury cars and high-capacity vehicles. In **Romania**, the **pollution tax** was introduced, which was removed in 2016. Excise duties on cigarettes and alcohol have been increased in a large number of countries, in the structure of which Romania is founded.

The tax system focusing on social contributions is found in Slovakia 42.9%, Czech Republic 42.3% and Lithuania 40.0% of total revenues. Germany and the Netherlands also focus on social security contributions representing the opposite of the Danish tax system (0.1%) and Sweden (6.4%), where the share of social contributions in the total income is low.

Compared to 2010, when social security contributions remained unchanged in most Member States, they increased considerably in 2011 and especially in 2012. Standard rates were increased in Greece, Latvia and the United Kingdom. The increase in social security contributions was registered in Bulgaria; the pension contribution, in France; in Hungary, health insurance; in Poland the contributions of people with disabilities.

Increases on various categories of employees were recorded in Austria, for farmers and unemployed, and in Portugal for civil servants. Other increases in the form of tax base amendment have been made in Cyprus and Slovakia. The only exception is Germany, which has lowered its contribution to pension provision from 19.9% to 19.6% from 1 January 2012.

Over the last decade, policy-makers have often resorted to reduced taxes and social contributions on low-wage labor, therefore to increase the employability of low-skilled workers. Thus, in 2005, the average EU tax rate

was 41% and 39% in 2014. In 13 Member States, labor taxes were lower in 2015 than in 2005 and cuts were particularly high in the Netherlands (10.8 %), Sweden (by 5.8%) and the United Kingdom (decrease with 4.6%). The highest increases in the same period were in Hungary (5.9%), Ireland (4.7%) and Portugal (4.1%) [15].

Incursions regarding the particularities of the Romanian tax system

To give some of the features of the Romanian tax system, we can mention the following:

Income tax for individuals: since 2005, the 16% single rate has replaced the system of progressive rates with four tax installments (between 18% and 40%). This rate applies generally to income from independent activities, copyrights, income from the use of movable and immovable property (such as rents), capital gains and also interest income. The national electronic payment system was launched in March 2011. Starting with 2018, the tax rate is 10% and applies to the taxable income corresponding to each source of income.

Profit tax: since 2005, a single tax rate of 16% is applied to taxable profit. The Romanian legal person who distributes/pays dividends to another Romanian legal person has the obligation to declare and pay the dividend tax determined by applying a 5% tax rate on the gross dividend distributed/paid to a Romanian legal person. Prior to 2005, the tax rate was 25%. Capital gains represent revenues which are the subject to profit tax regulations, with no separate regulation.

VAT: starting with 1st January 2016 and up to 31 December 2016, the standard VAT rate was 20%, and starting with 1st January 2017, the standard rate is 19%. In parallel, for some goods and services, are applied reduced VAT rates of 5% and 9%. Thus, the **reduced rate of 9%** applies to medicines, prostheses, orthopedic products, accommodation in hotels, as well as for the delivery of the following goods: food, including beverages, excluding alcoholic beverages intended for human and animal consumption, animals and live birds of domestic species, seeds, plants and ingredients used in the preparation of food, products used to supplement or replace food, and catering services. **The reduced rate of 5%** applies to the tax base for the following: deliveries of school textbooks, books, newspapers and magazines, excepting those exclusively or mainly intended for advertising; access to castles, museums, memorial houses, historical monuments, architectural and archaeological monuments, zoos and botanical gardens,

fairs, exhibitions and cultural events, sporting events, cinemas other than those exempt; delivery of housing as part of social policy, including the land on which they are built.

Since the introduction of VAT, from 1993 until the beginning of 2017, the evolution of VAT rates applied in Romania is presented by us in Table 3:

Table 3 The chronology of changes in VAT rates in Romania - genesis vs. present

No.	Period	Level
1.	01 July 1993 - 31 December 1994	18% standard rate
2.	01 January 1995 - 31 January 1998	18% standard rate and 9% reduced rate
3.	01 February 1998 - 31 December 1999	22% standard rate and 11% reduced rate
4.	01 January 2000 - 31 December 2003	19% standard rate and reduced rate was eliminated
5.	01 January 2004 - 31 December 2008	19% standard rate and 9% reduced rate
6.	01 January 2009 - 30 June 2010	19% standard rate, 9% and 5% reduced rates
7.	01 July 2010 - 31 December 2015	24% standard rate, 9% and 5% reduced rates
8.	01 January 2016 - 31 December 2016	20% standard rate, 9% and 5% reduced rates
9.	01 January 2017 - present	19% standard rate, 9% and 5% reduced rates

Also, in the sense of the above discussed, in the present, the VAT exemptions without deduction right are applied, among other things, to medical treatments, cultural activities, education and public postal services, certain banking and financial transactions, insurance and reinsurance.

Taxes on wealth and transaction: there are no net taxes on wealth, on donations or inheritance. Real estate properties are subject to a local tax on buildings. The tax is charged in the range of 0.08% to 0.2% of the taxable value of residential buildings owned by individuals and a range between 0.2% and 1.3% on the taxable value of non-residential buildings. The same tax rates also apply to company-owned buildings, stating that if the building has not been revalued in the last three years prior to the reference year, the rate is 5%. The land, within and outside the city limits, is generally the subject to local tax on the land. The tax is determined by taking into account the area of the land, the rank of the locality in which the land is

located, the area and the land use category, according to the classification made by the Local Council, by multiplying the area of the land, expressed in hectares, with the amount determined for each category.

Compulsory social contributions: are contributions expressed in percentages of the realized salary fund, due by both, the employer and the employee. The social security contributions for pensions currently due are:

- 25% for normal working conditions by the natural persons who are employed or for whom there is the obligation to pay the social insurance contribution, according to the law;
- 4% for extraordinary working conditions, as provided by the Law no. 263/2010 on the unitary public pension system, with the subsequent amendments and completions, by the natural and legal persons who have the quality of employer;
- 8% for special working conditions, as provided by Law no. 263/2010, by natural and legal persons who have the quality of employers.

These quotas have experienced, in the course of time, different values. Table 4 shows the changes in social contributions for pensions starting with April 2001.

Table 4 The chronology of changes in the social contributions for pensions in Romania

No.	Period	Level
1.	April 2001	the share was 35% divided between employer 23.33% and employee 11.67%
2.	January 2003	the share was 34% divided between employer 24.5% and employee 9.5%
3.	January 2004	the share was 31.5% divided between employer 22% and employee 9.5%
4.	January 2006	the share was 29.15 divided between employer 19.65 % and employee 9.5%
5.	January 2007	the share was 29% divided between employer 19.5% and employee 9.5%
6.	January 2009	the share was 28% divided between employer 18.5% and employee 9.5%
7.	January 2009	the share was 31.3%, divided between employer 20.8% and employee 10.5%
For special working conditions, the shares were increased by 5% and, respectively 10%.		

To supplement the current scoreboard with the recent changes in the structure of social contributions, both from the employers' perspective and from the employee's perspective, the following clarifications are also made:

- employees also contribute to the health insurance fund at a rate of 10%.
- the employer must still pay an insurance contribution for work due to salary and incomes assimilated to salaries. The share of the insurance contribution for work is 2.25%.
- from the insurance contribution for work collected to the state budget is distributed monthly: 15% to the Guarantee Fund for Debt Salary Salaries; 20% to the Unemployment Insurance Budget; 5% to the Occupational Accident and Occupational Insurance Scheme; 40% to the budget of the National Health Insurance Fund for Sick Pay and 20% to the state budget.

Conclusions regarding the role of tax revenues in the welfare state sustainability

Under the socio-political relationship, the past (genesis, welfare or failure) of the various nations/peoples shows us that there have always been classical, armed confrontations that have implicitly led to historical victories. Instead, the outcome of indirect economic confrontations has inherently brought to light, in the history of the world, certain states that have been set as examples for the economic practice and which now compose the so-called *economic development models* to which refer, at least theoretically, many of the world's economies searching for their own identity. Some of these models have also succeeded in establishing viable *welfare systems*, which still prove their social need.

As a synthesis, due to the result of the issues invoked and analyzed by us, we believe that in terms of the importance conferred to the state and its ability to collect tax revenues for the social good and for the life quality of individuals, there is and will be optics either in balance, either in diametrically opposed points with regard to the given subject. This remark is a desirable assertion, since well-founded opinions lead to progress and new knowledge that cannot, yet, be monopolized.

Thus, from the perspective of this paper, certain issues remain of interest, some of which can be formulated in the form of various conclusions, as follows:

- a. Welfare systems are still conditioned by the ability of the states to collect significant resources such as tax revenue from the population (individuals, economic agents, etc.), since the goods and services financed by the state are constituted under the form of social expenditures which are supported, predominantly, by fiscal resources. The pension, for example, as a social benefit offered by the state is, today, at least for the political decision-making structures in Romania, an eloquent example of a social commitment difficult to be financially supported. Besides, historically, the pension was one of the most expensive duties of the state. Influential factors such as: occupied population, age structure etc. seems to have a crucial impact on the given subject.
- b. Derived from the first conclusion, we believe that the pragmatism of the welfare state of today must be correlated with the socio-economic reality, restructured and rearranged in values for more than 5 decades. Thus, we can reduce the need to reconfigure welfare state to the idea that, historically, the rise, decline and even disappearance of the various social categories, which have been imposed as major segments of the workforce within the developed countries, show that the shift from unskilled industrial workers (who in the 1950s represented the largest labor force in the developed countries) to the so-called technologists, today's knowledge worker, impose the need to understand differently the concept of welfare state, as the social needs of this the type of worker has other dimensions. As an example, around the 1900s, farmers and servants (the oldest social categories) also represented the largest social categories and labor segments in the structure of developed economies. Nowadays, the knowledge workers in ascension as a workforce are the ones who contribute predominantly to the welfare state.
- c. In this regard, for example, referring to one of the states with a modern welfare system, Denmark, it was shown that most of the welfare costs are financed by general taxation, using countless intergovernmental

transfers to social security funds, while social security contributions have a small value. In the case of Denmark, the share of tax revenue in GDP at the level of 2015 was 46.6%, and more than 65% of these revenues are direct taxes. Moreover, the structure of direct taxes and related percentages: personal income taxes, corporate income taxes and others, shows that the most significant component is the one related to personal income taxes. Based on the latest data for 2015, personal income taxes account 56.8% of all tax revenues, or 26.5% of GDP. It is also well-known that Denmark, together with other European countries (Norway and Sweden), brought to the economic theory a model of economic development, under the name of the Scandinavian model; those states have chosen, as a vector of development, to build a system called the "state of general welfare", a system based on high taxes and in the structure of which the social functions are fulfilled by the state.

- d. In the attempt to support the welfare state, it can be noted that the general level of taxation has increased over a decade by 2% in EA countries and 1.2% in the EU.
- e. Economic developments (crisis, major economic growth) determine changes in tax policies (in this respect, the changes that have occurred with regard to tax rates can be observed in the structure of this paper).
- f. The countries heavily affected by the crisis have been forced to raise taxes. Thus, these changes can be seen in Greece (+ 4.5%), Italy (+ 4.3%), Estonia (+ 3.9%), Portugal (+ 3.7%). In this respect, there have been cases where the level of taxes has decreased. Changes can be seen in Ireland (-6.1%), Sweden (-3.3%), Denmark (-1.4%). Romania, for example, a member of the EU, not affected so strongly by the financial crisis started in 2007, registered a slight increase of + 0.3%.
- g. However, not only the need to support the welfare state determines the change in the tax system, but

also the mode of functioning and the structure of the economy at a given moment. This can be seen very well at the level of Romania, which has not been greatly affected by the economic crisis and that has changed the structure and philosophy of taxation over the last 5 years.

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