CONSIDERATION REGARDING THE TAXATION IN FINLAND AND ROMANIA

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ABSTRACT: *The paper shows through comparison, in the first phase, the main features of the tax system focusing on direct and indirect taxes, in Finland and Romania, and then presents an analysis of the evolution of the structure and level of taxes in both countries. Last but not least, is presented an analysis of the level of tax burden and also the factors that influenced the pressure in these two countries. The diversity of the fiscality in Finland and Romania reflecting the political choice of a given moment and is the result of the economic and social structure of each country.*

KEY WORDS: *tax burden; tax; duties; social contributions; fiscality.*

JEL CALSSIFICATION: *H24, H25, H27.*

1. MAIN FEATURES OF THE TAX SYSTEM IN FINLAND AND ROMANIA

Nowadays it is becoming increasingly obvious that the world develops gradually as a result of interdependent connections, in a single system. The tax system in each country is changing not only locally but also internationally, because of the globalization process. As can be seen from Table no. 1, the tax system in Finland is different from the one in Romania, both in terms of how this system can be found, and the level of rates applied.

Finland corporate tax is levied at a 24.5 % rate on all corporate income, while in Romania corporate income tax follows the classical system, with a standard flat-tax rate of 16%, which applies for all the corporate profits at the company level and for the distributed profits which are taxed again at the level of both corporate and individual shareholders. In Romania the capital gains are generally treated as ordinary business

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income and subject to the same rate, while in Finland, both the capital gains and dividends are not included in taxable corporate income.

Table 1. Main features of the tax system in Finland and Romania

	Finland			**Romania**
Fiscal system	Classic and progressive taxation			Classic
Corporate tax rate	24.5%			16%
Personal income rate	Taxable earned income, EUR	Tax at lower limit, EUR	Rate within brackets, %	16%
	16 100-23 900	8	6.5	
	23 900-39 100	515	17.5	
	39 100-70 300	3 175	21.5	
	70 300 -	9 833	29.75	
Employer contribution	19.47%			26.5%
Employee contribution	9.14% if it's over 65 years old and 7.79% if it's under 65 years old			16.5%
VAT	General tax rate: 23% Reduced tax rate: 13% and 9%			General tax rate: 24% Reduced tax rate: 9% and 5%

Source: www.vm.fi and www.mfinante.ro

In Finland, since 1993 the taxation of personal income has been based on a dual system, into two separate components, earned income and capital income, taxed according to different rates. So, as we can see in table no.1, central government taxation of earned income is progressive, with for tax brackets, marginal rates ranges from 6.5 % to 29.75 %. The capital income is taxed at a rate of 30 % on income up to € 50 000 and at 32 % on income exceeding € 50 000 and applies on dividends, interest income, rental income, capital gains, income from the sale of timber and a share of business income. Finland, unlike Romania, applies a municipal income tax which is levied at flat rates on earned income and the estates of deceased persons and a church tax rate that varies between 1 % and 2 %.

In Romania, there is a classic system since 2005 (before that, there was four-bracket system, with tax rates ranging from 18 % to 40 %), with a flat tax rate has been set at 16 %, which generally applies to income from independent work activity, royalties, income from movable and immovable property (such as rents), but also to interest income, short-term capital gains on listed shares.

Social security contributions are paid both by employers and employees, in Finland and Romania. Employer contributions in Finland are paid for social security (2.12%), for pension insurance (17.35% on average), for unemployment insurance (0.80% if total salaries are at a maximum €1,936,500 and 3.20% on salaries exceeding €1,936,500), for accident insurance (1 percent on average) and group life insurance (0.07 percent on average). In Romania, the employers pay contributions for Social

Security fund (20.8%; 25.8%; 30.8% depending on working conditions), Health fund (5.2%), Medical leave: (0.85%), Guarantee fund (0.25% of the salary fund), Unemployment fund (0.5%), Work accidents, risk insurance and occupational disease fund (0.15% to 0.85%).

The employee pay contributions for pension (5.15 percent if an employee is under 53 years old and 6.50 percent if an employee is 53 years old or older in Finland and 10.5% in Romania), health (2.04% in Finland and 5.5% in Romania) and for unemployment (0.60% in Finland and 0.5% in Romania). All social contributions are deductible for income tax purposes.

Both in Finland and Romania, there is a standard VAT rate: 23% in Finland and 24% in Romania since 2010. Beside the general rate, in both countries there are reduced rates of 9% that applies to books, newspapers, admission to cultural services and hotel accommodation, pharmaceutical products, medical equipment for disabled persons. In Finland, another reduced rate of 13 % is applied on selected goods and services, including food and restaurants and in Romania from 2009, a 5 % reduced rate applies to the supply of social and some private dwellings.

2. THE ANALYZE OF THE TAXATION LEVEL EVOLUTION IN FINLAND AND ROMANIA

Fiscal policy measures promoted by the tax authorities has influenced the level and structure of tax revenue, both in Finland and Romania. In recent years, the level of taxes, in both countries, suffered modifications because of the action taken by the authorities and because the economic situation which faced it. This situation is especially visible in Romania, in 2008, when the financial crisis hit and there was a decline in terms of revenue from corporate income and consumption taxes.

Regarding the structure of income, indirect taxes shows no differences in both countries, both in terms of value and time variation (one explanation is revealed to be done here in the case of Romania, the share of indirect taxes in total revenue is higher than the direct taxes). VAT in Finland has not recorded changes in the analyzed period, but in Romania is an increase of 1.3 percentage points in 2010 compared to 2000 and an increase of 1.2 percentage points compared to 2009. This increase compared to 2009 is due to the change in the VAT rate from 19% to 24% in 2010. On excise duties and consumption taxes can be seen, as in Finland during 2000-2010 they declined by 0.8 percentage points, while in Romania, their share in GDP increased. Increase was not significant (0.4 percentage points), but is due to growth period that Romania has until 2007 and that encouraged consumption. An interesting thing to note here is 2008, the year when the crisis hit Romania, which was felt regarding the consumption, tax rate on consumption in GDP was only 2.7%. About other taxes on products and production the analyzed countries didn't suffer modification, the exception in made by Romania, which recorded a decrease of other taxes on product in GDP from 2.2% to 0.4% in the analyzed period.

Table 2. Structure of revenues in Finland

	Finland											
	2000	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
A.Structure of revenues												% of GDP
Indirect taxes	13.9	13.4	13.7	14.2	14.0	14.1	13.9	13.3	13.1	13.6	13.5	14.1
VAT	8.2	8.0	8.1	8.6	8.5	8.7	8.7	8.4	8.4	8.6	8.5	
Excise duties and consumption taxes	4.3	4.1	4.2	4.3	3.9	3.8	3.7	3.3	3.3	3.4	3.5	
Other taxes on products	1.2	1.2	1.2	1.2	1.3	1.3	1.3	1.3	1.2	1.3	1.3	
Other taxes on production	0.2	0.2	0.2	0.2	0.3	0.2	0.2	0.2	0.2	0.3	0.3	
Direct taxes	21.4	19.3	19.1	18.1	17.8	17.8	17.6	17.8	17.8	16.3	16.1	15.5
Personal income	14.5	14.1	14.0	13.7	13.3	13.5	13.3	13.0	13.2	13.3	12.5	
Corporate income	5.9	4.2	4.2	3.4	3.5	3.3	3.4	3.9	3.5	2.0	2.5	
Social contributions	11.9	12.0	11.9	11.8	11.7	12.0	12.2	11.9	12.0	12.7	12.5	12.5
Employers	8.8	9.0	8.9	8.9	8.8	9.0	8.9	8.7	9.0	9.4	8.9	
Employees	2.2	2.2	2.1	2.1	2.1	2.2	2.4	2.3	2.2	2.4	2.6	
Total	47.2	44.8	44.7	44.1	43.5	43.9	43.8	43.0	42.9	42.6	42.1	43.4
B.Structure by level of government												% of total taxation
Central government	52.2	50.1	51.4	51.6	51.9	51.4	50.5	50.4	49.4	45.8	45.4	
Local government	21.6	22.1	21.5	21.1	20.8	20.7	21.1	21.3	22.0	23.8	24.4	
Social security funds	25.2	26.9	26.5	26.7	26.8	27.3	27.9	27.7	28.0	29.8	29.7	

Source: Eurostat and www.vm.fi

Direct taxes shows differences, their share in GDP for Finland is much higher than in Romania. Interesting to note is that in Finland share of direct taxes declined from 2000 to 2011 from 21.4% to 15.5%, for Romania percentage remained about the same. Another aspect is that, in case of Romania, both personal and corporate income have the same share, but in case of Finland the personal income has a share higher than the corporate one (the explanation it probably the progressive system). Another difference is that in case of Finland the share of corporate income decreased significant from 5.9% to 2.5% in analyzed period. In Romania it is interesting to note that since 2008, the year when the crisis hit our country the share of corporate income in GDP decrease constantly. Social contributions do not show significant differences, can be noted that in the case of Romania percentage decreased in 2011 compared to 2000 with 1.9 percentage points, while in Finland has increased less than 1%.

Table 3. Structure of revenues in Romania

	Romania											
	2000	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
A.Structure of revenues												% of GDP
Indirect taxes	12.2	11.3	11.6	12.3	11.7	12.9	12.8	12.6	12.0	11.0	12.3	12.7
VAT	6.5	6.2	7.1	7.2	6.7	8.1	7.9	8.1	7.9	6.6	7.8	
Excise duties and consumption taxes	3.0	2.8	2.6	3.5	3.6	3.3	3.2	3.0	2.7	3.2	3.4	
Other taxes on products	2.2	1.6	1.3	1.0	1.0	1.0	1.2	0.7	0.6	0.4	0.4	
Other taxes on production	0.5	0.6	0.6	0.6	0.5	0.5	0.6	0.8	0.8	0.7	0.7	
Direct taxes	7.0	6.4	5.8	6.0	6.4	5.3	6.0	6.7	6.7	6.5	6.2	5.5
Personal income	3.5	3.3	2.7	2.8	2.9	2.3	2.8	3.3	3.4	3.5	3.3	
Corporate income	3.0	2.5	2.6	2.8	3.2	2.7	2.8	3.1	3.0	2.7	2.3	
Social contributions	11.1	10.9	10.7	9.4	9.1	9.6	9.7	9.7	9.3	9.4	8.8	9.2
Employers	8.1	7.1	6.5	6.2	5.9	6.4	6.3	6.2	6.0	5.9	5.6	
Employees	3.0	3.8	4.2	3.1	3.0	3.0	3.3	3.3	3.2	3.3	3.0	
Total	30.2	28.6	28.1	27.7	27.2	27.	28.5	29.0	28.0	26.9	27.2	27.4
B.Structure by level of government												% of total taxation
Central government	59.5	59.7	60.1	62.8	63.4	63.0	63.0	62.2	62.9	61.1	63.4	
Local government	3.9	3.8	3.1	3.5	3.4	3.1	3.4	4.0	3.2	3.5	4.0	
Social security funds	36.6	36.5	36.8	33.7	33.2	33.9	33.6	33.0	32.9	34.5	31.9	

Source: Eurostat and [*www.mfinante.ro*](www.mfinante.ro)

Regarding the structure by level of government, there is a major difference that can be observed. In Romania the share of central government revenue forms more than half of the total (63.4 %), while local government revenues are marginal, consisting of only 4 %. In case of Finland the share of local government revenues it's higher 24.4% and the share of central government revenues is above 50%. The revenues of the social security funds, in per cent of GDP, in both cases, have a share of 30%.

3. TAX PRESSURE IN FINLAND AND ROMANIA

Both in terms of economic, financial and social, is generally paid a special attention the issue of taxation, because as we know the rate of taxation shows what percentage of GDP is concentrated at the disposal of the state with taxes, fees and contributions.

Level of taxation known significant differences from one country to another and from one period to another and in this context it is important to identify several factors that explain these differences. Thus it can be (Goode, 1981) identifies both internal factors of the tax system, and its external factors.

Internal factors are: the progressivity of tax rates (taxes have a higher share of GDP in countries where progressivity tax rates is more pronounced), how to determine the taxable matter (is particularly important to know whether the gross income is granted certain discounts to achieve net income or taxable) and tax relief for taxpayers.

In terms of external factors can mention: the gross domestic product per capita (usually tax limit is higher when per capita income is higher; for exemplification in 2011 the GDP per capita in Finland was 49.391 euro and in Romania 8.400 euro), the level of taxation in other countries (an effect of globalization is that capitals tend to migrate, so regarding this factor capitals tend to migrate to countries with lower taxation), state priorities regarding public revenue (tax limit is higher if the costs of education and health have a higher share in total public spending; In Romania, for example, the percentage of health expenditure in GDP is between 3-3.5 percentage points, three times lower than most EU Member States), the nature of public institutions (tax limit is lower in countries with governing bodies democratically elected compared to that ones with totalitarian regimes), the level of development of the countries (in developed countries taxation rate is generally high; a developed economy leads to a tax burden that leaves room for savings, in contrast to this situation, the low level of economic development and low income available to taxpayers lead to overwhelming taxation, a high tax burden).

In Romania, in 2010, the pressure has been compulsory levies a 27.9% level, by 15.4 percentage points less than Finland. Despite this reality, the Romanian taxpayers feel aggressive taxation, because taxation in Romania, although comparable with other member states can not be assessed without taking into account the fact that GDP per capita in Romania is in a ratio much lower than in Finland. Also, in our country there are a large number of taxes, mandatory contributions, special tax, which emphasizes the perception of a high tax burden.

Table representation of indicators: tax burden related to direct taxes, indirect taxes related to fiscal pressure and the pressure caused by social contributions emphasize the suggestive structure of compulsory levies on the countries level examined. As we can see (table no. 2 and table no.3) the structure of compulsory levies shows us that share of direct taxes in Finland it's higher than in Romania. The share of indirect taxes and contribution is about the same.

Table 4. GDP compulsory levies pressure in EU, during 2000-2010 (%)

	2000	2002	2004	2005	2006	2007	2008	2009	2010	2010/2000
Finland	47.2	44.6	43.5	44	43.5	43	42.7	42.7	43.3	-3.9
Romania	30.4	28.1	27.3	27.9	28.6	29.4	28.5	28	27.9	-2.5

Source: Eurostat

This table shows us that both countries recorded a pressure drop in GDP compulsory levies, in case of Finland the drop was higher. In Romania there is a reduction in the level of tax burden by 2,5 percent over 2000, but this should be read considering a number of issues: economic and financial crisis, reducing the size of the

GDP and the collection of revenues, maintaining the trend of direct tax revenue exceeded the revenue from taxes on consumption.

Finland even if has a higher fiscal pressure, presents a favorable business climate, unlike our country, which, although having a much lower level of taxation, is situated on the back of this top. If we try to find answers to this situation, maybe we should shift to multiple legislative changes, errors in law, excessive bureaucracy, the large number of tax and extra tax obligations. Beside the advantages, globalization has negative effects that were felt in Romania, at, for example, the level of multiple legislative changes that were made by Romania after joined UE.

CONCLUSIONS

Level of taxation known significant differences from one country to another and from one period to another. In developed countries, the state takes over at its disposal, through taxes, a larger share of GDP than in the developing countries. Noted, however, that differences occur, sometimes quite large, also between developed countries as between developing. It is noteworthy lower level of taxation rate in developing countries compared to developed countries, a phenomenon that can not be appreciated, however, that the net favorable developing countries, as reflected by the fact that a lower rate taxation in developing countries, approximately 20% corresponds to a standard of living lower than in the developed countries, where taxation rate is about 50%. These countries, with high levels of taxation follow a social balance from a developed economy level, the effect is the existence of the middle strata which cover needs taking into account a certain standard of education and civilization and the ability of saving.

A developed economy leads to a tax burden that leaves room for savings, in contrast to this situation, the low level of economic development and also a low income at the disposal of taxpayers lead to overwhelming taxation, a high tax burden, moreover, the relative level of taxation reflected by a low rate of taxation veils the real socio-economic situation of the developing countries, a lower level of GDP provides lower coverage of public needs.

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