

Adapting fiscal polities for the Covid 19 pandemic. Setting up a fiscal system appropriate for the digital world

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Abstract

In the current context generated by the Covid 19 pandemic, Member States need secure tax revenues to invest in people and businesses affected by the health crisis. At the same time, we need to remove the tax barriers and make it easier for EU businesses to innovate, invest and grow. To achieve this, in July 2020, the EU Commission adopted the Action Plan, which includes measures to reduce the administrative burdens, improve tax compliance and combat fraud. The Action Plan is helping to create a more fair, easier tax system to be used and adapted to our digital world. In case of this article there were used tools like as: classification, synthesis, comparative analysis, induction and deduction methods, graphic representation of events and investigated phenomenons. The article is addressed to the university and the academic world, as well as to fiscal administration officials and to the decision-making factors for correcting inequalities, created by the Covid 19 pandemic.

Keywords: digital world, reduce the administrative burdens, tax facilities, tax system

1. Introduction

The COVID-19 pandemic has inflicted the decline of all countries' economies worldwide and, implicitly, of the global economy. In the current context generated by the Covid 19 pandemic, Member States need secured tax revenues to invest in people and businesses affected by the health crisis.

History brought up tax increasing after the economic crises recorded over the time, which is something that we are not willing to happen, even more taking austerity actions too soon would prevent a possible economic recovery.

The need for budget revenues is growing. Both taxpayers and governments will want stability in the future and will focus on the sustainability of certain types of tax revenues that will have the financial capacity to support the economy.

As a result of the sanitary crisis, globally concentrated supply chains and highly human-dependent processes are being reexamined at this time. Automation and robotics will replace more and more labor, with effects on labor taxes.

Currently, most governments have developed medium or long-term economic safeguard programs or plans that include measures to adapt fiscal policies based on:

- simplification of rules to facilitate compliance and administration;

- improve the way the system ensures a correct distribution of the fiscal burden;
- removing distortions and gaps from the tax system.

It's more important than anytime that Member States should have safe tax revenues, so that they can stimulate EU businesses to innovate, invest and develop.

2. Package of measures suitable to contribute to the recovery and growth Europe's economy

Taking into consideration the actual situation, the European Commission has adopted the *Action Plan* [6], on 15th of July, an ambitious new Tax Package which includes measures to reduce the administrative burdens, improve tax compliance and combat fraud. The Package is built on two pillars, the first one representing fairness and the second simplicity, and has as the main purpose building a more fair, easier tax system to be used and adapted to our digital world.

The Tax Package contains three separate but complementary initiatives:

A. Action Plan for fair and simple taxation supporting the recovery revenues

The Tax Action Plan is a set of 25 distinct measures. These actions will make life easier for honest taxpayers, by removing obstacles at every step, from registration to reporting, payment, verification and dispute resolution. The Member States needs to implement this initiatives between 2020 and 2024 to make taxation more fair, simpler and more adapted to modern technologies.

The Tax Action Plan sets out measures to:

- reduce tax obstacles and unnecessary administrative burdens for businesses in the Single Market. Tax simplification will improve the business environment, enhance business competitiveness and contribute to economic growth;
- help Member States enforce existing tax rules and improve tax compliance, ensuring they can secure reliable tax revenues;
- help tax authorities better exploit existing data and share new data more efficiently, in a way which will improve the enforcement of tax rules and help combat tax fraud and evasion more effectively;
- promote taxpayers' rights, by increasing their awareness of their rights under EU law, simplifying their obligations and facilitating their compliance.

B. Revision of the Directive on administrative cooperation (DAC7)

The Commission has proposed to amend the Directive on Administrative Cooperation, to extend the EU tax transparency rules to digital platforms, so that those who make money through the sale of goods or services on platforms pay their fair share of tax too. This new proposal will ensure that Member States automatically exchange information on the revenues generated by sellers on online platforms.

This will allow national authorities to identify situations in which they should pay taxes and will also reduce the administrative burden.

C. Communication on Tax Good Governance in the EU and beyond

The Communication on tax good governance focuses on promoting fair taxation and limiting unfair tax competition in the EU. Therefore, the Commission suggests a reform of the Code of Conduct, which addresses tax competition and harmful tax practices in the EU. It also proposes to improve the list of non-EU jurisdictions that refuse to comply with internationally agreed standards.

The Code of Conduct also outlines the EU's approach to work together with developing countries in the field of taxation, in line with the 2030 Sustainable Development Agenda.

3. Fiscal facilities granted to contribute to the recovery of the economy in Romania

Considering the decrease of the activity volume, in approximately all fields (except the construction sector, online commerce and, implicitly, home deliveries), as a result of the sanitary crisis triggered in Romania at the end of February, the National Agency for Fiscal Administration took a few measures in order to support the activity of the economic agents that carry out their activity on the Romanian territory:

- legislative measures have been adopted in order to reduce the economic effects felt by the slowdown in economic activity at national and international level. Therefore based on the Government Emergency Ordinances no. 29 [2] and no. 181 adopted in 2020, no interest and late payment penalties are calculated and not due, for the due and unpaid fiscal obligations starting with the date of entry into force of the provisions of GEO no. 29/2020 (March 2020) and until the cessation of these measures (December 25, 2020, inclusive), according to GEO no. 181/2020). Throughout this period, taxpayers have the opportunity to postpone the payment of budget obligations, without tax consequences;
 - legislative measures have been adopted to support the maintenance of voluntary compliance with payments, such as the granting of bonuses to taxpayers who have paid various categories of tax: profit tax, income tax on micro-enterprises for the first quarter of 2020, until the due date April 25, 2020 inclusive, in which case the bonus was 5% for large taxpayers and 10% for other categories of taxpayers;
 - by Government Emergency Ordinance no. 48/2020 [3], a series of fiscal measures were approved for taxpayers who had ongoing payment facilities, given the fact that they were already in financial difficulty at the time of granting the facilities, and the state of emergency made it difficult for them to carry out their activity;
 - by the Government Emergency Ordinance no. 181/2020 [4] a series of fiscal measures were approved:
- payment rescheduling for a period of up to 12 months for the main and ancillary tax obligations whose payment deadline has been met after the date of declaration of

the state of emergency and unpaid until the date of issuance of the tax attestation certificate;

- taxpayers obliged to pay the specific activity tax, according to Law no. 170/2016 “on activity-specific tax” (in the fields: hotels and other similar accommodation facilities, restaurant, food activities), do not owe specific tax for the period October - 31 December 2020.

Also during July 2020, the "*Operational Plan for Revenue Recovery of the National Agency for Fiscal Administration*"[5] was approved.

This plan includes three distinct measures:

A) Revenue safeguard measures, with the following main actions:

- ensuring the possibility of fiscal registration by electronic means, of all categories of taxpayers (including subsequent amendments);
- analysis and identification of the fields of activity that register decreases, stagnation or increases of the activity;
- identification of the first big payers (Top 100);
- identification of the first large debtors (Top 100), at the date of the analysis;
- updating the management of debtors, in order to increase the degree of voluntary compliance with payment and collection of budget receivables;
- performing the risk analysis for taxpayers who present a risk to the tax administration.

B) Ensuring the availability of services for taxpayers, with the following main actions:

- the development of electronic services offered to taxpayers, for example: creating the possibility to submit online all declarations/applications for individuals and legal entities; development of VPS (Virtual Private Space) functionalities for individuals; commissioning of the online programming application;
- organizing assistance sessions on the Agency's Facebook page;
- organizing media and awareness campaigns, for example: publishing information materials, on the institution's website, on the services developed and their functionalities, including instructions for use; providing regular information to taxpayers on the benefits of using online services (by publishing "rolling" texts in the VPS);
- identification of new services that can be offered through the Call Center (for example mobile application);
- analysis of how digital Chatbot support can be provided by the Call- Center.

C) Measures to support business processes, aims at the continuity of the current activities of the Agency with ensuring the safety and health conditions for staff and taxpayers.

Actions aimed at optimizing the activity of NAFA are considered, (including adaptation to the health crisis experienced during this period), for example:

- analyzing the measures taken during the state of emergency and implementing in the current activity the lessons of good practice;
- identifying the activities of NAFA consuming large resources and proposing their optimization.

Currently, NAFA is developing the new medium-term strategy, the main objective being the development of a partnership between NAFA and taxpayers. Partnership in which NAFA aims to provide taxpayers with quality services and reduce administrative burdens by developing simplified and friendly procedures, so that the taxpayers understand the tax burdens they have, become aware of the importance of declaring correctly and making taxes and taxes due to the state budget within the legal term.

4. Analysis of the degree of tax revenue collected in the state budget during January - October 2020 versus January - October 2020

The economic analysis of the effects caused by the health crisis shows that the end of the second quarter of 2020, compared to the same period of 2019[1], in Romania:

- gross domestic product decreased, in real terms, by 10.5%;
- the volume of turnover for market services provided to the population decreased by 68.0%;
- the volume of industrial production decreased by 26.8% and the turnover in industry decreased by 27.2%;
- turnover for retail trade, excluding motor vehicles and motorcycles, decreased by 7.3%;
- exports decreased by 33.6%, and imports decreased by 26.4%;
- the level of intra-Community trade in goods was 33.0% lower for exports and 27.2% lower for imports.

All these cuts in economic activity, coupled with fiscal measures taken by the government in support of economic agents, had a direct influence on the degree of compliance of taxpayers' payments and on the revenues collected in the budget. The monthly statement of revenues to the consolidated budget for the period January - October 2020, compared to the similar period of 2019 is presented in the following:

Table 1. Amount of tax revenue collected to the consolidated budget for the period January - October 2020, compared to the similar period of 2019

	2019			2020		
	Revenue taxes (RON)	Declared taxes (RON)	Payment rate %	Revenue taxes (RON)	Declared taxes (RON)	Pay ment rate %
January	21,250,953,769	25,035,452,700	84.88	23,652,626,871	27,367,798,791	86.43
February	15,617,393,403	18,255,949,127	85.55	17,921,961,751	20,500,716,660	87.42
March	19,552,970,618	22,629,519,479	86.40	16,529,027,238	24,705,467,581	66.90
April	21,656,904,903	25,229,189,945	85.84	20,152,899,275	26,865,469,498	75.01
May	18,347,568,336	20,983,540,403	87.44	13,649,734,525	18,202,277,406	74.99
June	17,926,293,463	20,778,327,513	86.27	15,795,939,674	19,741,149,384	80.02
July	24,446,027,922	27,999,748,607	87.31	21,637,272,998	26,935,693,533	80.33
August	19,259,491,580	21,999,503,273	87.55	17,967,781,429	22,757,413,392	78.95
September	18,701,225,079	21,551,303,476	86.78	16,728,061,145	22,015,093,957	75.98
October	23,988,909,359	27,646,639,104	86.77	23,130,893,046	28,465,861,092	81.26

Source: author's processing based on data provided by: <https://www.anaf.ro/>

Analyzing the graphic showing the level of compliance of the payment in the period January - October 2020, compared to the same period of the previous year, it can be observed that only in January and February there was a higher amount of payments compared to the amount recorded in January and February 2019. For the rest of the analyzed period, the indicator registered values below those of the periods similar to the previous year. In the same time, it can be observed that the lowest amount of payments made was registered in March 2020, when only 66.90% of the amounts declared by taxpayers were paid. This fact is understandable because, on 14th of March, Romania entered the third scenario COVID-19, and on 16th of March the country's president issued the decree establishing the state of emergency, which led to a massive decrease in the volume of certain economic activities, even freezing some of them.

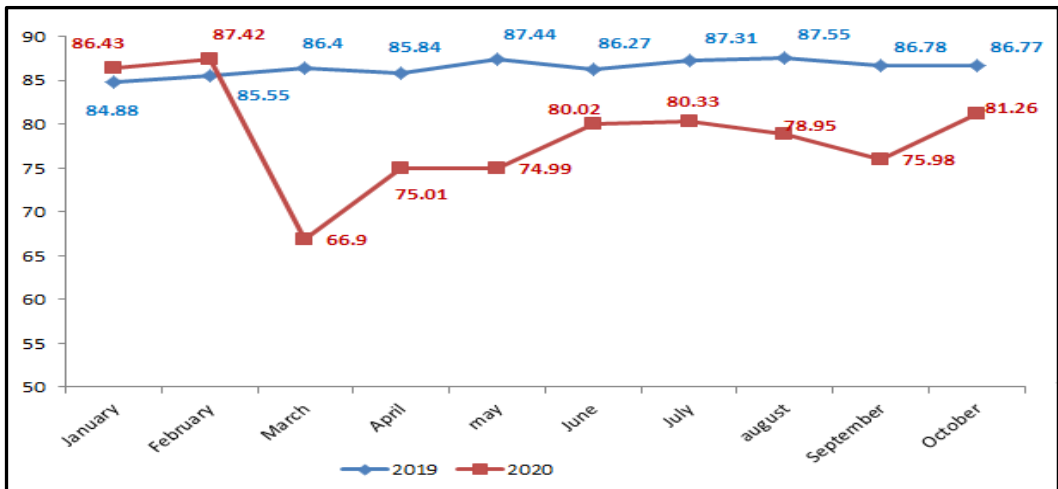


Fig. 1. On-time payment rate

Source: author's processing based on data provided by: <https://www.anaf.ro/>

Regarding the amounts collected in the budget, also, only in January and February 2020 they were higher than in 2019. Other than that the level of revenue was lower. The biggest gap was registered in May, when there was cashed with 4.7 billion RON less than the amounts collected in May 2019.

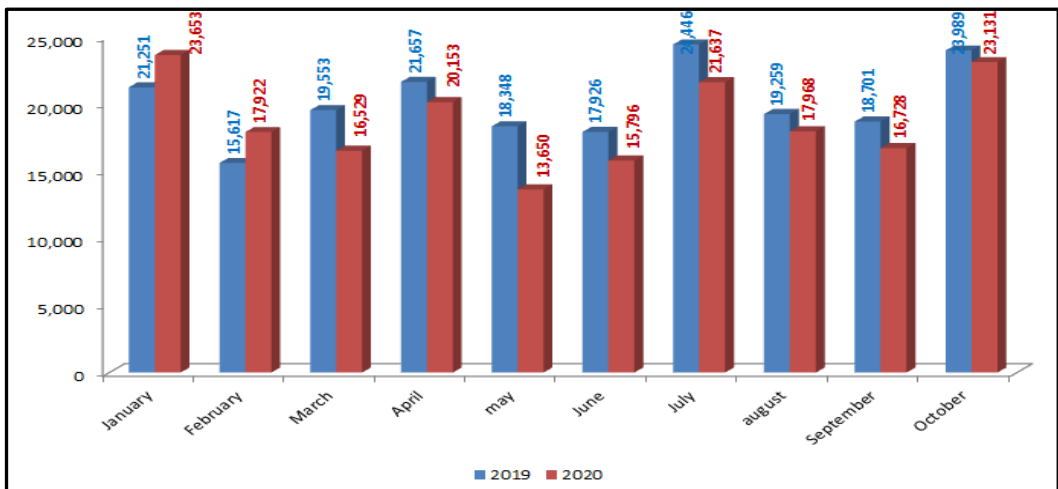


Fig. 2. Amount of tax revenue collected

Source: author's processing based on data provided by: <https://www.anaf.ro/>

Throughout the analysed period, the budget revenues decreased by 13.5 billion RON, compared to January-October 2019, and the amount of payments of tax obligations in the first 10 months of 2020 compared to the similar period of 2019, decreased by 7.70 percentage points.

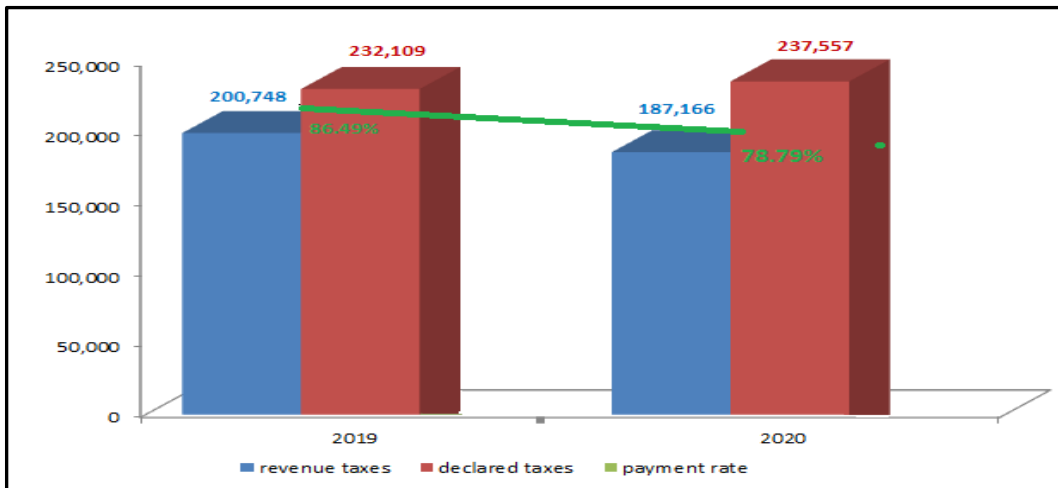


Fig. 3. On-time payment rate, in the first 10 months of 2020 compared to the same period of 2019

Source: author's processing based on data provided by: <https://www.anaf.ro/>

5. Conclusions

Whether they have resulted in postponements, payment exemptions or other facilities, fiscal facilities are a crucial component of the economic support plans that governments around the world have implemented in the first phase of the pandemic, also in the second phase of starting the activity over. All European states have adjusted their fiscal policies to respond quickly to the atypical economic conditions of this period.

Even if, during this period, no solid changes were made, the pandemic crisis accelerated the process of adapting the Romanian tax system to the changes brought by technology and digitalization.

Efforts to reform the tax administration and computerization must be continued in the coming period.

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