

THE EVOLUTION OF EXCISE TAXES IN ROMANIA vs EUROPEAN UNION

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Abstract

Excises taxes are special consumption taxes that is due to the state budget for certain domestic and import products, being included in their selling price.

The goal is excise taxes is a fiscal one, namely the formation of resources available to the state. Equally important is the social motivation for excise duty, in that they can be used as levers for controlling the consumption tax, to discourage those who harm health.

Romania practice excise taxes on products such as: alcoholic beverages, wines and wine-based products, beer, tobacco products, petroleum products (gasoline premium, unleaded petrol and diesel), coffee, mineral waters and aerated waters containing sugar or other sweetening and flavoring substances, fur cloths, crystal items, gold or platinum jewelry, cars, perfumes, cologne water and toilet waters, cameras, microwave ovens, mobile phones, devices for air conditioning.

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JEL classification: *M1, M2, M3*

1. Introduction

A consumption tax is a tax on spending on goods and services. The tax base of such a tax is the money spent on consumption. Consumption taxes are usually indirect, such as a sales tax or a value added tax. However, a

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consumption tax can also be structured as a form of direct, personal taxation, such as the Hall–Rabushka flat tax (Bartlett Bruce, 2002).

Value-added tax

A value added tax (VAT) applies to the market value added to a product or material at each stage of its manufacture or distribution. For example, if a retailer buys a shirt for \$20 and sells it for \$30, this tax would apply to the \$10 difference between the two amounts. A simple VAT would be proportional on consumption but also beregressive on income at higher income levels (as consumption falls as a percentage of income). Savings and investment are tax-deferred until they become consumption. A VAT may exclude certain goods, intent being creating progressive effects. The tax is used in countries within the European Union. In Australia, Canada, New Zealand, and Singapore this form of national tax is called a Goods and Services Tax (GST). In Canada it is also called Harmonized Sales Tax (HST) when combined with a provincial sales tax.

Sales tax

A sales tax typically applies to the sale of goods, less often to the sales of services. The tax is applied at the point of sale. Laws may allow sellers to itemize the tax separately from the price of the goods or services, or require it to be included in the price (tax-inclusive). The tax amount is usually calculated by applying a percentage rate to the taxable price of a sale. When a tax on goods or services is paid to a governing body directly by a consumer, it is usually called a use tax. Often laws provide for the exemption of certain goods or services from sales and use tax.

Excise tax

An excise tax is a sales tax that applies to a specific class of goods, typically alcohol, gasoline (petrol), or tourism. The tax rate varies according to the type of good and quantity purchased and is typically unaffected by the person who purchases it.

Expenditure tax

A direct, personal consumption tax may take the form of an expenditure tax or an income tax that deducts savings and investments, such as the Hall–Rabushka flat tax (Hall R.E. and Rabushka A., 2014) A direct consumption tax may be called an expenditure tax, a cash-flow tax, or a consumed-income tax and can be flat or progressive.

Expenditure taxes have been briefly implemented in the past in India and Sri Lanka (Encyclopedia Britannica, 2015) This form of tax

applies to the difference between an individual's income and increase/decrease savings. Like the other consumption taxes, simple personal consumption taxes are regressive with respect to income. However, because this tax applies on an individual basis, it can be made as progressive as a progressive personal income tax. Just as income tax rates increase with personal income, consumption tax rates increase with personal consumption (Edmund A.L., 2005) (Auerbach A. J (2005).

2. The excise tax in the European Union

In the field of excise taxes there are significant differences among Member States, which causes serious obstacles to cross-border trade activities, strongly affecting the proper functioning of the single market in the European Union. The harmonization of excise faced many difficulties over time.

A common system of excise duties was introduced on 1st of January 1993 when the Single Market was founded. Member States may continue to levy other non-harmonized taxes, such as environmental taxes, road taxes, registration taxes for cars, because those taxes are not returnable or a barrier to market, as it was appreciated by the Commission.

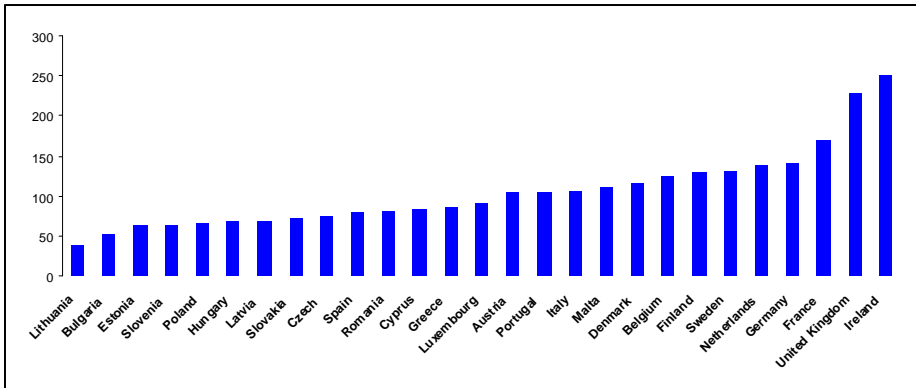
The evolution of excise taxes on cigarettes in the EU in 2013

Most governments impose excise duty on tobacco products mainly to earn an income, although some governments have recently increased excise duty to discourage tobacco use and to promote public health.

Aggressive taxation of vices has been explained on the assumption that a voluntary exchange between two people can have negative effects on a third party. Therefore, the legitimate purpose of government is to force individuals to bear the full cost of their decisions through taxes and regulations "in order to correct market errors" (Saguna DD, 2003).

Comparison between the rates of excise duty on cigarettes in member countries of the European Union in 2013 is as follows:

Figure 1: Excise taxes on cigarettes in European countries, 2013



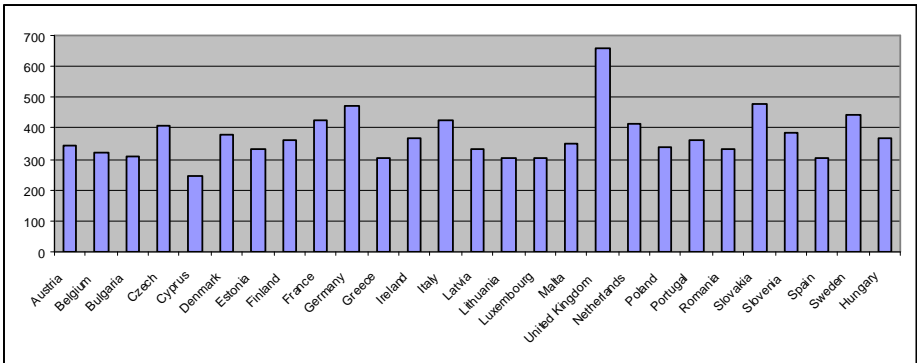
Source: own analysis of data taken from the website of the Ministry of Finance

Comparison between the rate of duty in Euro / cigarettes shows that Romania has a subsided level of excise among EU countries, after Spain (79,45euro / 1000 cigarettes) namely 81.77 euro / 1000 cigarettes. In the other countries the level of excise duty is the one practiced in our country, the largest being touched by Ireland, namely 249.32 euro / cigarettes. However, neighboring countries such as Moldova, Bulgaria and Ukraine have a much lower level of excise duty which makes the price of cigarettes to be lower than the price charged by Romania.

Evolution of fuel excise taxes in the EU in 2013

The excise tax on fuel is another important source of income to the state budget (Mosteanu T., 2005). In addition to the fees that a vehicle owner must pay for own car to enjoy it, he has to pay excise duties required by every administration on fuel, their level substantially influencing the pump price and consequently, operating costs of a vehicle.

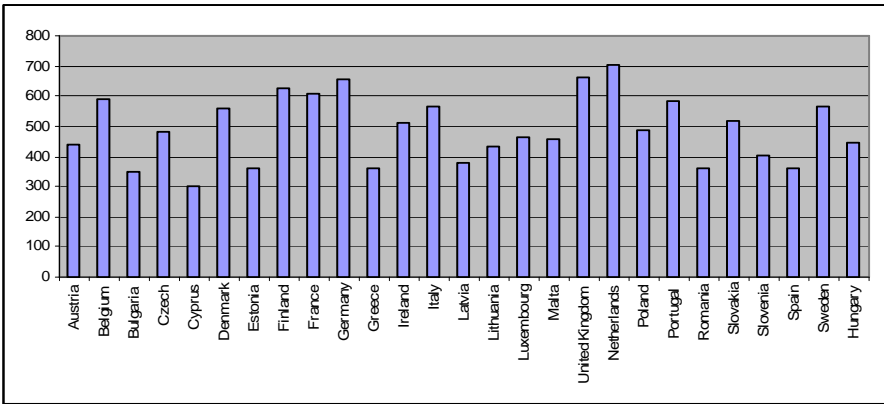
Figure 2: The level of excise tax on diesel in European countries



Source: own analysis of data taken from the website of the Ministry of Finance

Along with the information about what a vehicle owner need to pay, EAMA (European Automobile Manufacturers Association) collected financial data from several European countries on the contributions brought by automotive industry to the respective countries budgets. The numbers are not exhaustive, primarily due to lack of data from several countries, including Romania. But they outline a fabulous amount, approximately 400 billion euro, received yearly in European Union from vehicle registration, vehicle taxes, excise duties on fuel, taxes on driving licenses, VAT (including service, spare parts, oils), insurances, different tolls. Without directly communicate this, representatives of car manufacturers are trying to emphasize the importance of this industry to the economy of each state and to the European Union as a whole.

Figure 3: Level excise tax on petrol in European countries



Source: own analysis of data taken from the website of the Ministry of Finance

The highest level of excise tax on fuel is applied in the Netherlands, its value, 701 euro per tonne, on gasoline, being twice the minimum European Union. Romania, ranking on one of the last three places, recorded a level of excise duty on petrol of 359.59 euros / tonne.

3. The excise tax system in Romania

Tobacco excise tax

By taking effect of the Tax Code, tax guarding system applies to all authorized warehouse for the production of undenatured ethyl alcohol and distillation, for each such a warehouse the fiscal authority assigning one representative officer that will be present throughout the process flow.

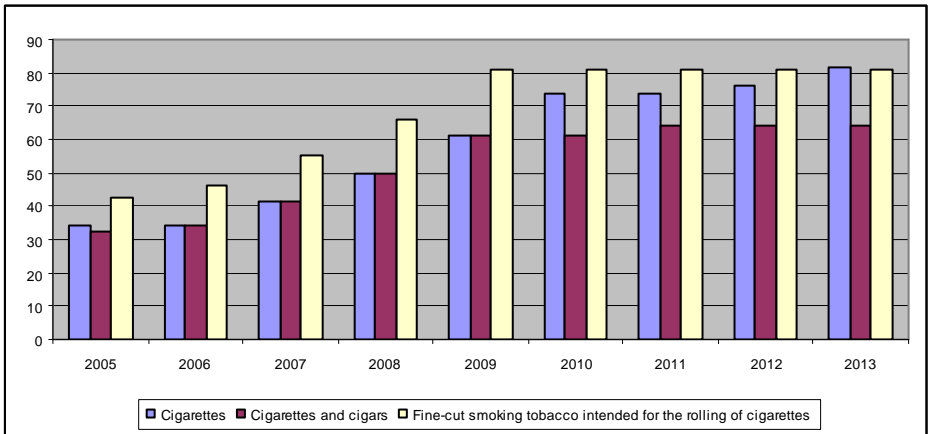
Excise tax, known as the vice tax, constitute the struggle of state against the vices. Fight against vices is not new, in the past it had an important religious component. The active role of the state in this crusade has however a recent date. Very few people know that the first country that has made from this campaign a state policy is nazi Germany. According to Robert Proctor, professor at Stanford University (*cool Hygiene: Medicine Under the Nazis*, Harvard University, 1988), here was established the first Commission to control tobacco and alcohol, here occurred the notion of passive smoking (launched by a Nazi official - dr. Fritz Licknit) and were sterilized alcoholics

who did not respond to rehab program (the program for the prevention of genetic diseases) (Condor I., 2007).

Smoking is one of those cases where state officials have identified social costs imposed by smoking: tobacco smoke, encourage young people to start smoking. These costs are impossible to measure but at most they can be "estimated" by the system specialists who have a personal interest to exaggerate (they are paid from the public revenue). The only cost that can be somewhat appreciated is the expenditure for health. Smoking causes serious diseases which waste resources for health of the state. But the argument is not so strong in a country where health care costs would be some private, where health would not be provided "free" by the state. In a private health system, "social" costs would be covered almost entirely by smokers. Insurance firms would have differentiated products for different categories of customers, depending on their risk of disease. In Romania and throughout Europe, however, health care costs are incurred in a greater extent by the state. The intervention in the individual's life through discriminatory taxes but also by regulating certain markets, is "legitimized" by state costs (Vintilă G., 2004).

In the previous table we presented the differentiated level of excise duty on tobacco according to the period of time to which it is addressed.

Figure 4: The excise duty on tobacco in Romania during 2005-2013



Source: Fiscal Code

Analyzing the evolution of excise duties on cigarettes, cigars and cigarillos, fine-cut smoking tobacco intended for the rolling of cigarettes, we see that they have increased about every year. About cigarettes and cigars we can say they have increased from 2005 to 2010 reaching € 61.20 / 1000 cigarettes from € 32.13 / 1000 cigarettes, in 2011 registering a growth of 2.8 € / 1000 cigarettes compared to 2010, by 2013 remaining the same level of excise duty of € 64.00 / 1000 cigarettes.

Fine-cut smoking tobacco intended for the rolling of cigarettes came in 2013 from 81 € / kg from 42.51 € / kg (2005). In the first five years there were slight increases (3.49 € / kg in 2006, 9 € / kg in 2007, 11 € / kg in 2008 and 15 € / kg in 2009), following that from 2009 until 2013, the excise duty should remain the same.

Tobacco is grown for its leaves used in the preparation of smoking products: cigarettes, pipe tobacco, cigars, chewing tobacco.

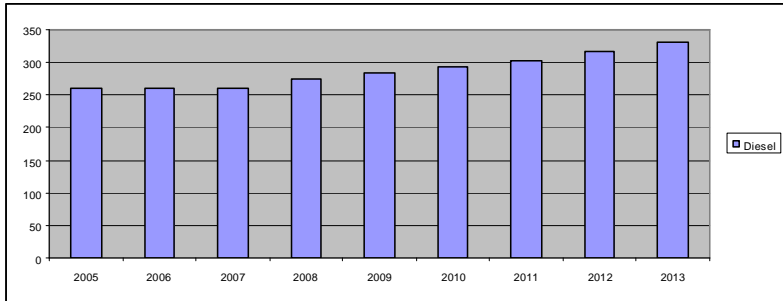
Excise duties on mineral oils

In Romania excise duties, as well as turnover tax, were abolished by the 1953 tax reform, indirect taxes were considered incompatible with the new order. In fact, instead, the tax on movement of goods was introduced, which has worked for decades as a universal consumption tax, until it was replaced in 1993 by the value added tax (Bufan R., 2005).

Excise duty becomes payable in Romania also for the quantities of energy products released for consumption in another Member State and transported by individuals or on their behalf using atypical modes of transport, such as fuel transport otherwise than vehicles tanks or adequate spare canisters, and the transport of liquid heating products otherwise than tankers used on behalf of professional traders.

Energy products for which excise duty is payable are leaded petrol, unleaded petrol, diesel, fuel oil, liquefied petroleum gas, natural gas, kerosene, coal and coke.

Figure 5: The excise duty on diesel during 2005-2013 in Romania



Source: Fiscal Code

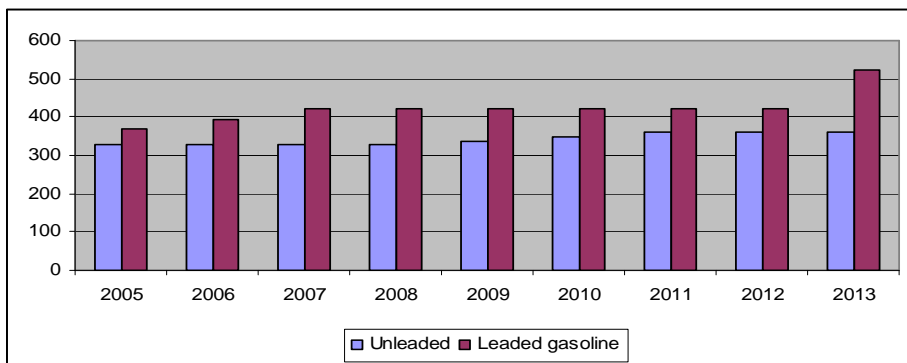
According to an estimate from 2005, the Romanian economy consumes 5.3 million tons of fuel. In addition to fuel, there is a consumption of 7.3 million tonnes of fuel, used in industry.

Excise duty on diesel for 2009 was reduced to a rate of about 21 euros per tonne, which means a 90% lowering of the rates of excise duty on diesel used in agriculture this year. This reduction will benefit farmers exploiting agricultural land individually or in forms of association, and recognized producer groups and organizations.

As we can see from the chart above, the excise duty on diesel in the analysed period, there is an increasing from year to year ending in 2013 to 330.395 € / 1000 liters from 259.91€ / 1000 liter excise duty level recorded in 2009.

Excise taxes generally are sensitive to inflation, leading to periods of high inflation to a decrease in yield excise (although this problem is more or less present for all categories of tax). That applies to the customs value plus customs duties on products imported, or a fixed amount of the quantities of oil or gas delivered, makes these taxes to reduce yield under high inflation.

Figure 6: The excise duty on leaded/unleaded petrol during 2005-2013 in Romania



Source: Fiscal Code

Regarding the chapter "fuel", Romania appears with one of the lowest level of excise on unleaded petrol.

Excise duty on diesel for 2009 was reduced to a rate of about 21 euros per tonne, which means a 90% lowering of the rates of excise duty on diesel used in agriculture this year. This reduction will benefit farmers exploiting agricultural land individually or in forms of association, and recognized producer groups and organizations.

Energy products, other than those mentioned, are subject to excise duty if intended for use, offered for sale or used as fuel. Excise duty shall be fixed according to destination, at the level applicable for heating fuel or equivalent motor fuel.

Consumption of energy within the place of production of energy products is not considered to be a chargeable event for excise if the consumption consist of energy products produced within the curtilage of the place of production.

4. Conclusions

As ancient forms of taxation, excise duties are an important source of income with minimum expenses of the state apparatus. The biggest shares affect prices for alcohol, cigarettes, cars and fuel.

Increasing excise taxes on fuel leads to higher supply - transportation costs for all categories of goods or service charges. Specifically, with the

increase in the price per unit of fuel, increase the cost of basic necessities (bread, milk, medicines), electricity, transport. Therefore, an uncontrolled increase in excise duty for certain categories of products may cause lowering of living standards.

Excise acts on all levels and in all areas of economic life. They affect both the manufacturer and the consumer, by their increase, will increase the price of the goods. Also, these taxes affect the enterprise, the company, because the prices of products sold by it will increase.

In terms of state, excise tax increase is an increase in income, because indirect taxes, and thus excise duties, are an important source of revenue to the state.

Using these categories of taxes has both positive aspects and negative aspects. As advantages we can mention that by their application the state discourages the consumption of harmful products like cigarettes, alcohol etc.

The year 2008 brings in Romania increases excise duties on cigarettes, electricity, gas and oil, but also substantial reductions in these taxes for gold and platinum jewelry, crystal articles, roasted and soluble coffee. Increasing excise follows the schedule established by the Government in the negotiations for accession to the European Union and implemented in amendments of the Fiscal Code and the orders of the Minister of Economy and Finance.

From the standpoint of the state, the advantage is that the application of excise duty is (in countries where applicable) an appreciable source of income, easy to obtain, at a cost not to high. Highest quotas excise generally affects drinks, cigarettes, cars and fuels and provide most of the revenue acquired from these special taxes on consumption, namely $\frac{3}{4}$. Another advantage of indirect taxation, implicitly excise application, represents the speed, convenience and relatively low cost of collecting.

As a disadvantage, we can mention that excise duties leads to higher prices of production, depending on the level of excise, and this can reduce, under certain conditions, the demand for these products. As a result, sales volume will decrease, respectively the amount of profit. This will affect the further development of the company

Another disadvantage is that excise duties in general are sensitive to inflation, leading in periods of high inflation to a decrease in yield of excise duty (although this problem is present more or less for all taxes). The fact that these taxes applies to the customs value, plus customs duties on products imported, or in a fixed amount on the quantities of delivered oil or gas, it

makes that these taxes to reduce the yield under high inflation. It appears the necessity of a change of such taxes to offset the effects of inflation.

Therefore, constituting an important source of budget revenues, readily available, by the duties are pursued budgetary objectives and administrative efficiency.

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