

THE WAY EXCISE DUTIES EVOLVED IN ROMANIA AND EUROPEAN UNION IN TIME OF ECONOMIC CRISIS

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Abstract

The paper aims to present the position of the excise duties during the last economic crisis in Romania and European Union. The first part is summarising the empirical studies regarding the role of excise duties and the harmonization process at the EU level . Further, we used data for 2007-2012 period and we'd done an analysis regarding the structure of the tax system , bringing to the fore the excises, in 2007, the year when Romania had joined EU and in 2012, after five years of financial crisis. In the end, we emphasized the conclusions obtained with this article.

Key words: *Excise duties, harmonized, taxes, fiscal policy*

JEL classification: H20, H30, E20

1. Introduction

Indirect taxes represent a lever in the hands of the state, by which it can control the consumption for different products on the market and can adjust the supply and the demand in time of economic boom and crisis as well.

One of the most important indirect taxes are the excise duties. Excises are special consumption taxes placed on products that are consumed in large quantities and which can not be replaced with other buyers; in this way, they have a constant high tax yield. These types of taxes are widespread in the market economies and are included in the selling price of products, as the other indirect taxes. Excises are usually focused on products with an inelastic

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demand and therefore, the duty must have a high degree of tax efficiency and they are very important in each fiscal policy not only because they bring growth in public revenues, but they are used also for other purposes like to discourage consumption of goods unhealthy or “unfriendly” with our environment . They are calculated ad valorem, as percentage of the selling price applied , or as fixed amount per unit of measure.

During time, excises had experienced a trend with ups and downs, modified and controlled by the authorities, often blamed by consumers and producers. Since 1993, in European Union, excises applied on the main products have been harmonized , in order to fulfill the primary purpose: creating a single market. Apart from the three categories of goods, member states, including Romania, collects excises duties from other products also, calling them non-harmonized excises.

The evolution of excise duties during time and how they survived the last economic crisis in Romania in comparison with other states of European Union, we will illustrate in the next chapters.

2. The harmonization of excise duties

European Union is an economic and political area composed by 28 countries from the old continent Europe and its main goal is to create a single market that can provide wealth and development for its member states. The need to get to this single market led to a long and difficult process of tax harmonization that can facilitate the communication and the interactions between countries.

In this context, the 28 fiscal policies were harmonized by European Union and each of it had to meet four fundamental conditions specified in the Maastricht Treaty: free movement of goods, persons, capital and services. In this conditions, the harmonization of excise duties was absolutely necessary due to the big differences between the tax rates applied in each member state. European Union decided a minimum level of taxation that had to be respected , but each country adjusted its tax rates according with their economic development and political goals. Two of most important provisions of the single market were, first, to allow individuals to import relatively large quantities of goods purchased abroad, which had previously been subject to the importing country’s rate of tax; and second, the abolition of physical border controls, which were replaced by random spot checks.

Before 1 January 1993, all imports to EU countries (either from EU countries or from outside EU) were subject to a duty-free regime: a small quantity of the product could be bought at duty-free shops in airports, on boats, etc. without any tax payable, and then brought into the country of residence of the purchaser. Any excess imports were taxed by destination country (in practice, both duties and VAT are imposed).

On 1 January 1993, all imports to EU countries from other EU countries were subject to no restrictions, with two conditions: that tax must have been paid in the country of purchase of the good; and that good is not for resale. The second condition is enforced by generous upper limits, plus random customs checks at borders (Lockwood, Migali, 2008).

All member states are obliged to apply excise duties on three product groups: alcoholic beverages, manufactured tobacco products and energy products (motor fuels and heating fuels, such as petrol and gasoline, electricity, natural gas, coal and coke). In Romania, there are also other excisable products in a large variety such as green coffee, luxury products (furs, perfumes, crystals etc), cars or microwave ovens.

Obviously, this measure brought advantages for some countries and disadvantages for others, creating also competition between countries. Excise structure and the level of taxation of various products were very different from one country to another. For fuel, for example, the situation was totally different in Germany and the UK that charged relatively moderate taxes for gasoline, benefiting diesel very little in relation to countries such as France and Italy which practiced very high gas taxes, but applied very low taxes on gasoline.

Regarding alcohol the differences were even more important. There were basically three well defined areas: Northern Europe (Denmark, Ireland and the United Kingdom) which applied very high taxes; the Center (Belgium, the Netherlands, 158 Germany and France) with moderate taxes and the South (Spain, Italy, Greece and Portugal) which applied very low, almost null taxes. Such structures on products gave obvious advantage to local productions. For example, beer - producing countries, but which were not producing wine, favored beer consumption. The situation was reversed in the wine - producing countries, except for France and Germany which produce both products.

In tobacco area, taxation was, generally, more homogeneous, the weight of taxes in the final price of cigarettes being between 70 and 75%. The difference appears here between producing and importing countries. France,

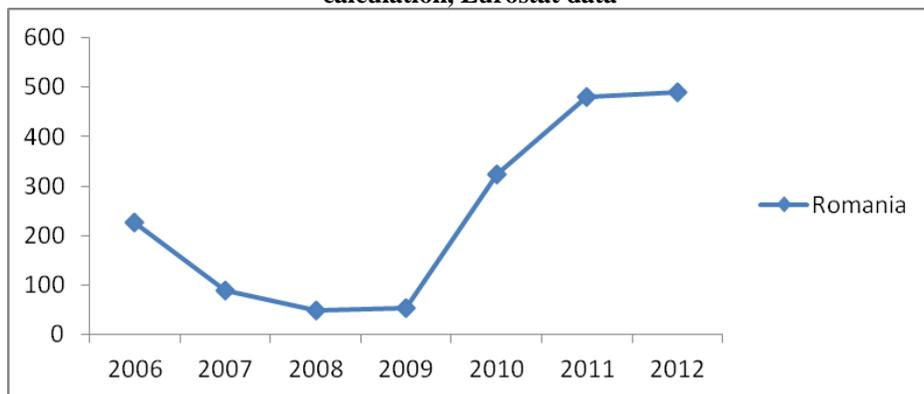
for example, which produced brown tobacco, of a lower value, applied a proportional tax system, favoring its own products, instead importing countries charged fixed taxes which benefit blonde tobacco whose price is higher compared to brown tobacco (Florea 2014). Of course, since then things had changed but the competition between countries is still present, despite the attempts of EU to create a unique sistem and a single market for the member states.

3. Excise dutries during the economic crisis

In Romania, the harmonization process started to have effects on the economic market in 2007, when it joined European Union and was mandatory to apply all the rules as other countries from the union. Unfortunatley for Romania, after a shor time the economic crisis came and made the harmonization process more difficult.

In the Figure 1, it can be seen the trend of revenues from excises duties expressed in mililion Euros, starting with 2006 , a year before joining European Union, until 2012, when Romania and also other european countries started to send some positive signs regarding the recovery after the crisis.

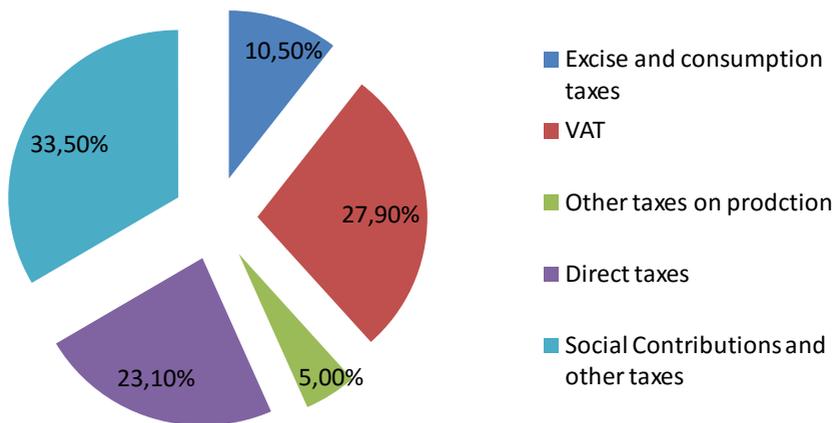
Figure 1: Excise duties revenues (mil. Euro) in Romania, Source: Own calculation, Eurostat data



In our graph it can be seen that in 2007, when Romania had joined European Union, the revenues from excise duties started to decrease and reached minimum levels in 2008 and 2009. For sure in 2007, people started to discover the european market and the demand for the products subject to excise tax had suffered, but in the next period the devastating effects of the financial crisis started to be felt and the revenues from taxes in general and from excise duties in particular registered very low levels. And for this there are many reasons such as reduced salaries, increased unemployment, absent foreign investment, all coming to the same point: lower budget revenues. In order to find solution for this impas, countries tried different ways of recovering. And one thing was for sure: they had to increase some how the budget revenues in order to get resources to unlock the economic environment. At that moment, for Romania the answer seemed to be found in the indrect taxes: VAT and excises. We can see on the graph that in 2010, the revenues from excise duties are exponentially bigger comparing with 2009, they keep going up in 2011 and in 2012 seems to stabilize. This growth in revenues was not due to the increased demand because in 2010 , Romania was fully facing the crisis effects; in 2009-2010, authorities decided to increase the tax rates in excises field and in this way to increase the budget revenues. We have to mention that starting with july 2010, also VAT increased from 19% to 24%., which helped also the excises to grow. They decided to change the indirect tax rates first of all because Romania , as other eastern Europe countries, has a fiscal system based on the indirect taxation and because these two taxes (excises and VAT) are consumption taxes, with a regressive behaviour and an inelastic demand.

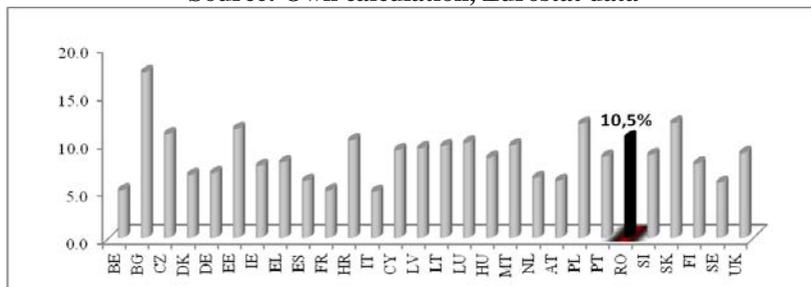
It is obvious that after 2007, when Romania became member in European Union, the fiscal system had sufferd serious and several changes. In Figure 2, we can see how taxes revenues were divided in Romania and as we mentioned before, indirect taxation is an important tool used for collectign budget revenues. As it is plloted, in 2007, excise duties were representing 10,5% from total taxes collected in Romania. It is not a small value, especially if we compare it with the percentage of direct taxes, which are more complex and they include a lot of signifcant tipes of taxes such as income or corporate taxes.

Figure 2: Total taxes in Romania in 2007, Source: Own calculation, Eurostat data



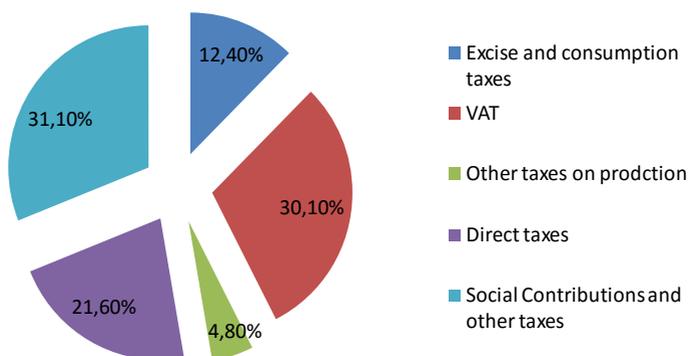
At the European Union level, every country is free to adjust the excises rates above the minimum rates, according with the financial needs. In 2007, the average of excise duties expressed as percentage in total taxes was 8,7%. With its 10,5%, Romania it is situated over the EU average. It can be observed in the Figure 2 that the biggest share of the excise duties in total taxes it's registered in Bulgaria (17,4%) and also Estonia, Poland, Slovakia and Czech Republic were having percentages above 10,5%. With this graph, Romania ranks six out of 28 countries regarding the share of excise duties in total tax, in 2007.

Figure 3: Excise duties as percentage from total taxes in European Union in 2007, Source: Own calculation, Eurostat data



When the financial crisis triggered, fiscal changes came in Romania and also in the European Union member states. Cumulating the need of applying the European directives with the one of growing the budget revenues, in 2009-2011 period, Romania had to bring new visions of taxation. Taking into consideration that indirect taxes are those that can grow faster the government financial resources, comparing with the direct ones, VAT and excise duties rates had to be changed. In this regard, with bigger tax rates, they also „won” bigger shares in total taxation revenues. In Figure 4, it is plotted the division of total taxes in 2012, after Romania passed five years of financial crisis.

Figure 4: Total taxes in Romania in 2012, Source: Own calculation, Eurostat data

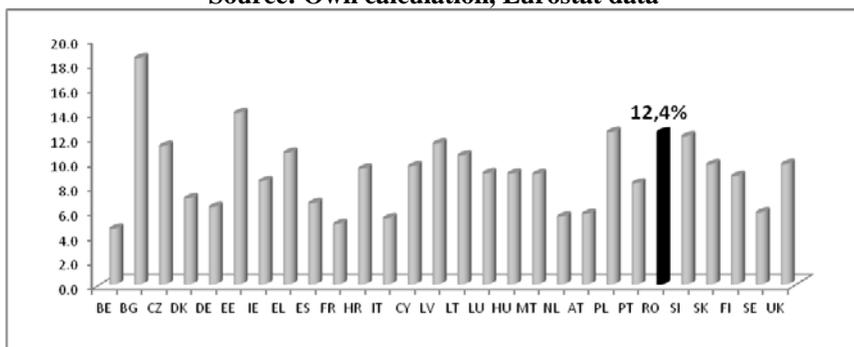


Comparing with 2007 situation, we can observe that excise duties share grew with 1,9% in five years and also VAT with 2,2%. Of course, this can only bring decrease on the other side and in our case, in the direct taxes area. Looking at this picture, we would be tempted to say that people were consumer oriented and they were able to buy more than in the previous period. But the crisis effects and the general instability in the economic field can only destroy this hypothesis. Excise duties share grew because the authorities decided to increase the tax rates on cigarettes and fuel and also because the VAT rate was changed from 19% to 24%. In this conditions, the result could not be different if we think that all the products we buy contain VAT,

excisable products have an inelastic demand and after calculating the excise duty for a product, it is applied VAT to the final price. On the other side, the increased unemployment rates, the decreased incomes and the disappearance of foreign investments had reduced the share of direct taxes in total budget revenues. The changes in excise duties were not stopped in 2012. In the past eleven years, there were issued over 60 legal acts regarding excise duties, of which at least 30 with major impact. This inconsistency had seriously affected business environment as well as the collection process, favoring the development of black economy.

As well as Romania, also member states of European Union had brought changes in fiscal system. The average of excise duties expressed as percentage of total taxes increased in European Union from 8,7% to 9,2%. Also in 2012, Romania registered a value above the European average and it is situated on the third place together with Poland, after Bulgaria (18,4%) and Estonia (14%). These percentages are plotted in Figure 5. It is more than clear that all the countries used different methods in order to increase their budget revenues, but most of the eastern European member states, including Romania had chose the „short term” way and they modified the indirect taxes which can ensure a fast and reliable revenue growth, but unhealthy on a long period of time. There are also some advantages in this way of administering taxes such as controlling the consumption on the market or decreasing the demand for different unhealthy products (e.g: cigarettes) or luxury products(e.g: furs). Of course that the strategy applied by each country depends on a large number of factors such as economic development, political stability or the consumer behaviour.

Figure 5: Excise duties as percentage from total taxes in European Union in 2012, Source: Own calculation, Eurostat data



4. Conclusion

Excise duties are consumption taxes , used separately or together with VAT to controll and stabilize the consumption on the market. Ever since the European Union was created, the taxes harmonization was situated on the fore. After long discussions and several directives, 1993 is the official year when excises become harmonized taxes. Consequently, member states adapted their fiscal policy to the rules imposed by EU and started to contribute to strengthening the single market.

Romania faced this harmonization process in 2007, when it joined EU. The period 2007-2012 was a very difficult one because the financial crisis triggered and came with devastating effects for the financial market and economic stability.

We analyzed with this paper how the the excises evolved during this period of time and we observed that they were used as one of the main tool to bring growth in budget revenues. In Romania,their share in total taxes increased in this period of time with 1,9% and in the last eleven years there were issued 60 directives and changes to directives for excise duties. This can only bring instability in the collecting process and complaints from both consumers and producers. At the European Union level, Romania ranks first places when we talk about the share of excise duties in total taxes. If in 2007, it was on the fifth place from 28, in 2012 ranks on third place from 28. We have to mention that there are also some categories of excisable goods , apart from the ones imposed by European Union. In 2010 Romania gave up to the excises on luxury products, but it turneds to be not a good idea , so it was returned to it. These numbers led us to a very important fact: Romania, as other eastern eurpean countries also member states in EU have a fiscal system based on the indirect taxes, so during the crisis, the best way to increase the budget revenues seemed to be increasing both VAT rates and excises duties.

The changes in the excise duties collection didn't sopped in 2012 and probably will continue until Romania will find the best fiscal policy which can bring enough budget revenues and also can encourage enterprises to produce goods for optimal consumption in a market economy.

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