

## ANALYSIS OF DIRECT TAXES AND EFFICIENCY OF THEIR COLLECTION IN ROMANIA

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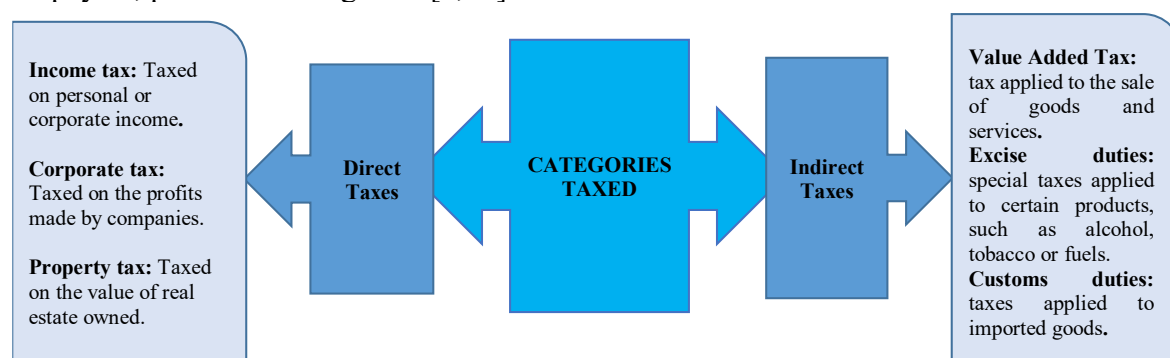
**Abstract.** The purpose of the article is to explore the revenues from profit tax and income tax and salaries in Romania. These taxes constitute important components of the tax system. Also, the two categories of direct taxes have a special impact on the financial situations of taxpayers, but also on the economy as a whole. Direct taxes have a negative impact on economic growth through the decrease in income held, which influences consumption and investment decisions. Through the analysis carried out, the authors followed the dynamics of the two categories of direct taxes, with an emphasis on the efficiency of the collection rate. Through better collection of tax revenues and their increase, a problem of national economic security is solved, but at the same time that of national solidarity.

**Keywords:** profit tax, income and salary tax, income, economic growth

### INTRODUCTION

Taxes are a form of deduction from the income of individuals or legal entities of a part that is made available to the state to cover expenses. This withholding is mandatory by the state, non-refundable and without consideration. As a result, knowledge of tax regulations and compliance with them by tax authorities, but also by the payer, is required [4,5,15].

Financial practice uses a wide range of taxes that differ in form and content. We distinguish the following categories, depending on how the tax is collected and borne by taxpayers, presented in Figure 1 [6,15].



**Figure 1. Categories of taxes**

To measure the efficiency of tax collection, two variables can be used, one input and one output. The input involves the resources available for managing and collecting taxes. The result is given by the productivity of those resources. Another component aims at estimating and identifying inefficiency factors [7].

The set of taxes and duties at the level of a country that come from individuals and legal entities are the components of the fiscal system. Taxes and duties are justified by the existence of public spending, and their collection is considered necessary, being written in the fundamental law of a country [2].

Direct taxes represent taxes paid directly by individuals or entities on which they are imposed. They will be collected directly from taxpayers and cannot be transferred to other persons [11].

Profit tax is one of the important aspects of managing a company's financial situation. It falls under tax obligations that companies must manage regularly, with an impact on profitability and business strategy [14]. Profit is a form of income obtained through an economic activity. Profit tax is a direct tax that is applied to the benefit obtained from carrying out an economic activity and falls under the main sources of state budget revenues.

According to Article 138, paragraph 1 of the Romanian Constitution, taxes due to the state budget are established only by law [10]. The mandatory nature implies that paying taxes is a task that is imposed on individuals and legal entities that obtain income from: profit, salaries and income from self-employment, etc. The role of taxes paid to the state is to procure the financial resources necessary to cover public expenses. Within the global tax system, companies must pay income taxes [3].

The income tax on salaries is applied to any resident individual in Romania on income obtained from any source and to non-resident individuals who carry out economic activities in Romania. The latter are subject to taxation only on income obtained in Romania. The tax rate is unique in Romania and has a weight of 10% applied to the income obtained [18]. Income taxation in the case of individuals is one of the most used forms of obtaining financial resources at the disposal of public authorities. This method of taxation is in fact the foundation of the tax systems of the modern era [1].

The objective of the article is to emphasize the importance of direct taxes, which have a special role in financial terms, because they constitute the main means for procuring the necessary sources of financing to cover public expenses.

## MATERIALS AND METHODS

The paper identified and explored the evolution of the collection of revenues from income, wages and profits to the state budget, known as direct taxes in the period 2019-2023.

It is estimated that Romania can achieve a considerable increase in budget revenues through better collection, but there is also a need to reduce the numerous exceptions and loopholes of the current tax regime.

The data used by the authors in this article were obtained from the statistics of the Ministry of Finance, the Fiscal Council and publications of the specialized literature. Based on this collected information, the authors performed analyses, interpreted and created tables and figures, and then formulated the conclusions.

## RESEARCH RESULTS

Structurally, total budget revenues include fiscal and non-fiscal revenues. Fiscal revenues include direct and indirect taxes. The category of direct taxes includes profit tax and wage and income tax.

In 2019, (Figure 2) budget revenues had a value of 320.4 billion lei, and a share of 30.4% of GDP, a lower level compared to 30.9% of GDP in 2018. This situation was determined mainly by the reduction in the percentage of amounts received from the EU, but also of non-fiscal and fiscal revenues.

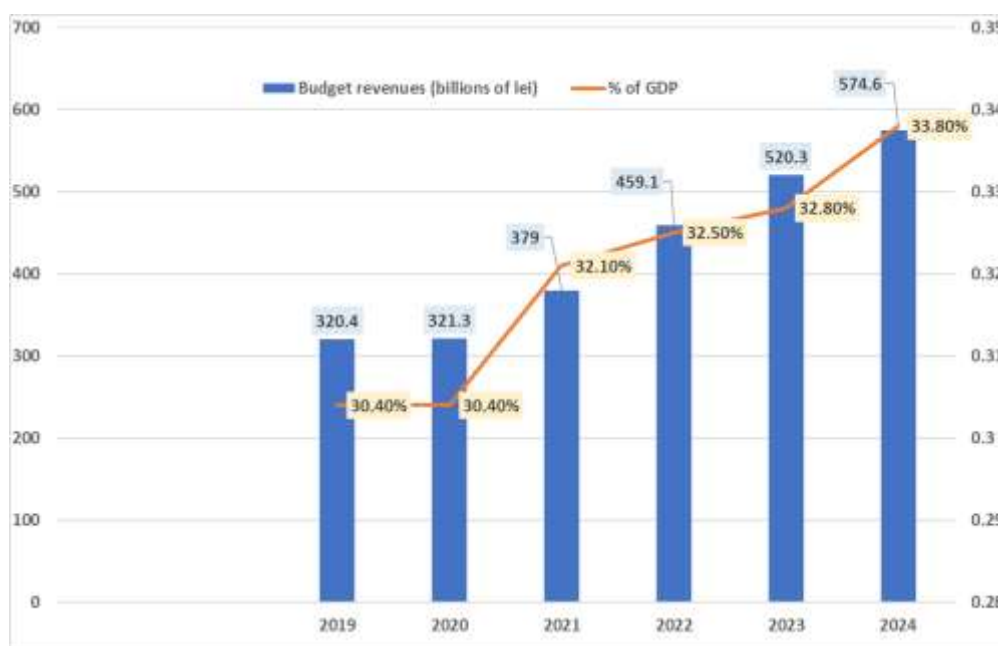
The year 2020 was characterized by budget revenues in the value of 321.3 billion lei and a share of 30.4% of GDP.

In 2020, Romania, in the difficult context generated by the pandemic, recorded a structural deficit of more than 4% of potential GDP, being the highest in the EU, which

affected the possibilities of combating the effects generated by it, and ended 2020 with a structural deficit of 7.54% of potential GDP.

Budget revenues in 2021 registered a level of approximately 379 billion lei, respectively 32.1% of GDP, 1.7 pp more than in 2020. The year 2022 was marked by budget revenues that stood at 459.1 billion lei (32.5% of GDP), respectively an increase of 0.6% compared to 2021.

According to official data, budget revenues increased in 2023 to 520.3 billion lei, over 13% more than in 2022, supported by amounts from European funds, income tax and social contributions.



**Figure 2. Evolution of budget revenues and their share in GDP**

Sources: Annual report, 2019-2023, Fiscal Council, Romani, <https://cursdeguvernare.ro>, <https://evz.ro> [9,13,14]

In 2024, 574.60 billion lei were collected, representing an increase of 10.4% compared to 2023.

Romania had a budget deficit of 152.72 billion lei in 2024, or 8.65% of GDP. Revenues increased by only 52 billion lei. The deficit was higher than in 2023, of 90.06 billion lei (5.61% of GDP), as a result of increased spending [8].

Budget revenues in 2025 are expected to amount to 667.5 billion lei, and expenditures to 802.2 billion lei, recording a budget deficit of 134.6 billion lei (7.04% of GDP), according to the draft budget published by the Ministry of Finance [12,15,17].

Analyzing the recorded data on income from profit tax, we further presented the following aspects observed during the analyzed period.

In 2019, it is found that the amount of income tax receipts in cash standards, net of the impact of compensation schemes, accumulated 17.7 billion lei, 2.1 billion lei more than the previous year. Although the initial program provided for income tax revenues of 17.2 billion lei, in the event of an unfavorable effect of approximately 0.2 billion lei, following the increase in gambling taxes, it had a positive effect of 0.5 billion lei due to improved collection. At the first budget revision, the initial forecast value was supplemented by 1.1 billion lei because the execution at 6 months indicated a higher rate of advance of revenues than forecast.

The year 2020 (tables 1 and 2) was marked by income tax revenues, cash standards, net of the impact of compensation schemes, amounting to 15.7 billion lei, respectively a

reduction of two billion lei, respectively 11.4% compared to 2019, but also the failure to meet estimates by 3.8 billion lei for 2020. The initial program provided income tax revenues of 19.5 billion lei, in the context of anticipating an increase in the relevant macroeconomic base (nominal GDP) by 8.5%. The value was revised by decreasing by 2.3 billion lei in the first budget rectification in the context of the reassessment of the macroeconomic framework following the manifestations due to the COVID-19 pandemic, but also the granting of bonuses to taxpayers who chose the advance payment of quarterly income tax.

Income tax revenues for 2021, in cash terms, net of the impact of the compensation scheme, recorded about 20 billion lei, representing an advance of 4.3 billion lei, in relative value of 27.7% compared to 2020, but also an increase of 2.6 billion lei in the estimate from the budget adopted for 2021. The initial program provided for income tax revenues of 17.4 billion lei, based on the anticipation of an increase in the relevant macroeconomic base, namely nominal GDP, by 7.3 percentage points. However, the value was revised in the budget revisions (tables 1 and 2) by 0.9 billion lei in the first revision and by 1.8 billion lei in the second, due to favorable developments compared to the initial estimate and the revenue situation, which included the recovery of deferred payment obligations in 2020.

For 2022 (tables 1 and 2), the revenue situation reflected an increase of 6.6 billion lei compared to 2021, i.e. 26.6 billion lei, representing an increase of 33%. The estimates for 2022 were also exceeded by approximately 5 billion lei. The initial program provided for revenue from corporate tax of 21.6 billion lei, in the context of the anticipated increase in nominal GDP by 10.7%. The expected value was revised upwards in the two budget amendments, by 4 billion lei and 1.6 billion lei, against the backdrop of the nominal GDP projection exceeding the initial estimates, but also of the increased inflation in 2022.

Profit tax revenues in cash standards in 2023 were 29.1 billion lei, i.e. an increase of 2.5 billion lei compared to 2022, but were also marked by the failure to achieve the target by 4 billion lei. The initial program provided for receipts of 33.1 billion lei, against the backdrop of an anticipated increase in the relevant macroeconomic base by 11.2 percentage points. However, the advance of 9.4% of profit tax receipts compared to 2022 was below the effective increase in nominal GDP of 14.6%.

**Table 1.**

**Evolution of corporate income tax revenues without compensation schemes,  
2019-2023**

**-billions lei-**

	Initial program		Execution	
	No compensation schemes	swap	No compensation schemes	swap
<b>2019</b>	17.2	-	17.7	0.0
<b>2020</b>	19.5	-	15.7	0.30
<b>2021</b>	17.4	-	20.0	-
<b>2022</b>	21.6	-	26.6	-
<b>2023</b>	33.1	-	29.1	-

Source: Annual report, 2019-2023, Fiscal Council, Romania [9]

**Table 2**

**Budgetary corrections regarding corporate income tax revenues, 2019-2023**  
**-billions lei-**

	Rectification 1		Rectification 2		Rectification 3	
	No compensation schemes	swap	No compensation schemes	swap	No compensation schemes	swap
<b>2019</b>	18.3	-	17.9	-	-	-
<b>2020</b>	17.2	-	16.6	0.01	15.9	0.01
<b>2021</b>	18.3	-	20.1	-	-	-
<b>2022</b>	25.6	-	27.2	-	-	-
<b>2023</b>	-	-	-	-	-	-

Source: Annual report, 2019-2023, Fiscal Council, Romania [9]

The analysis of income tax and salary revenues highlighted the following aspects presented below. The year 2019 was marked by income tax and salary revenues in the amount of 23.1 billion lei, respectively a 0.6 billion lei shortfall of the level at the beginning of the year. The initial program provided for revenues of 23.7 billion lei, as a result of estimates of an increase in the average number of employees by 3.4 percentage points and an advance of 14.7% for the average gross salary, and an anticipation of a decrease in revenues by 0.8 billion lei due to facilities in the construction sector. The forecast level for income tax and salary revenues was maintained at the first rectification, but at the second rectification it decreased by about 0.6 billion lei due to an unfavorable evolution of labor market indicators compared to the initial estimates.

In 2020, the income and salary tax revenues amounted to 24.2 billion lei, representing a 2.1 billion lei shortfall in the initial budget, which had foreseen revenues of 26.3 billion lei, due to the increase in the average number of employees by 1.9% and the average gross salary by 9.8%. The level was revised by reducing it by 1.5 billion lei in a first rectification, following the revaluations carried out on the labor market in the wake of the COVID-19 pandemic. The second rectification also saw a decrease of 0.4 billion lei, based on the available labor market data at that time.

For 2021, income and salary tax revenues increased to about 28 billion lei, an increase of 1.8 billion lei compared to the initial level of the year. The initial program provided for revenues of 26.1 billion lei, based on an estimated increase in the average number of employees of 1.3% and an advance of 4.5% of the average gross salary. The level was revised during the budget revisions by 1.3 billion lei in a first revision and by 0.6 billion lei in the second revision based on favorable labor market developments and the higher-than-expected recoveries of deferred payment obligations from 2020.

Revenues from income tax and salaries for 2022, cash standards, recorded 33.6 billion lei, 2.2 billion lei more than the level at the beginning of 2022. Revenues of 31.4 billion lei were provided for on the basis of an estimated advance for the average number of employees of 2% and an increase of 8.7 percentage points in the average gross salary. This level was revised at the first rectification by the amount of 1.7 billion lei following more favorable developments in the labor market. The second rectification was marked by a decrease of 0.1 billion lei, and the final execution of the earnings from these taxes (on income and wages) was 0.6 billion lei, higher than the estimate from the second rectification. Compared to 2021, the receipts increased by 20.1%, respectively by 5.6 billion lei.

The year 2023 recorded a quantum of these receipts of 40.3 billion lei, representing an excess of 2.9 billion lei of the initial level in which receipts of 37.4 billion lei were provided by increasing the average number of employees by 1.5 percentage points and the

average gross salary by 10.9%. Compared to 2022, revenues from these taxes (on income and wages) increased by 19.9%, or 6.7 billion lei.

**Table 3.**  
**Evolution of income tax and salary revenues without compensation schemes, 2019-2023**

**-billions lei-**

	Initial program		Execution	
	No compensation schemes	swap	No compensation schemes	swap
<b>2019</b>	23.7	-	23.1	0.1
<b>2020</b>	26.3	-	24.2	0.1
<b>2021</b>	26.1	-	28.0	-
<b>2022</b>	31.4	0.1	33.6	0.1
<b>2023</b>	37.4	0.2	40.3	0.2

Source: Annual report, 2019-2023, Fiscal Council, Romania [9]

**Table 4.**  
**Budgetary corrections regarding income tax and salary revenues, 2019-2023**

**-billions lei-**

	Rectification 1		Rectification 2		Rectification 3	
	No compensation schemes	swap	No compensation schemes	swap	No compensation schemes	swap
<b>2019</b>	23.7	-	23.1	-	-	-
<b>2020</b>	24.8	-	24.4	0.1	24.6	0.1
<b>2021</b>	27.5	-	28.0	-	-	-
<b>2022</b>	33.1	-	33.0	0.1	-	-
<b>2023</b>	-	-	-	-	-	-

Source: Annual report, 2019-2023, Fiscal Council, Romania [9]

Income tax revenues in 2025 will register an increase of 0.2% in GDP compared to revenues in 2024. These revenue estimates took into account, in addition to the evolution of the average gross salary with an increase of 6.2% in 2025, the increase in the average number of employees by 1.2% and the influence of the elimination of tax incentives for employees and the increase in the tax on dividends from 8% to 10%.

## CONCLUSIONS

Taxes have effects on several levels, namely financial, economic and social. The most important effect of taxes is the financial one, because it represents the main means of obtaining financial sources to cover public expenses. The economic one will manifest itself when the state uses taxes as a means of intervention in the economy. Taking into account the needs of individuals, taxes can be used to encourage or inhibit certain activities. On the social level, taxes are used by the state to redistribute part of the gross domestic product to social groups or individuals.

The revenues obtained by the state from the profit tax reached the value of 17.72 billion lei in 2019. The same receipts from the profit tax totaled 15.99 billion lei in 2020, 9.8% less than in 2019. The negative evolution can be explained by the contraction of economic activities, the restructuring/rescheduling of some tax obligations, as well as by the bonuses obtained by certain categories of taxpayers.

The same tax (on profit) revenues amounted to 20.04 billion lei in 2021, an advance of 25.4%. This advance was due to the receipts from the profit tax from economic agents, which had a positive dynamics of 28.4%.

The year 2024 was ended with a budget deficit of 150 billion lei, (8.65% of GDP). Budget revenues in 2024 increased by only 52 billion lei.

Budget revenues from income tax totaled 23.20 billion lei in 2019 and presented an advance of 2.3% compared to the previous year. The share in GDP decreased to 2.2% in 2019. This was mainly due to the receipts in January 2019 compared to January 2018 (impact was 1.2 billion lei) by transferring social contributions from the employer to the employees and the decrease in the tax rate according to GEO no. 79/2017 (from 16% to 10%). The receipts compared to the initial program were lower by 0.46 billion lei, respectively 98%.

In 2020, the receipts from this category of taxes reached 24.33 billion lei in representing an increase of 4.9%, also due to the contribution brought by the receipts from the pension income tax (40.9%), those from the Single Declaration (9.2%) and the dividend tax (7.9%).

The year 2021 was notable for the advance in receipts from the tax on salaries and income of 28.02 billion lei. The increase in 2021 was 15.1%, as a result of increases in receipts from the taxation of pensions of 38.6% and dividends of 32.0%.

In 2023, receipts were 40.1 billion lei (an increase of 19.9%), but the Ministry of Public Finance published data showing that the Romanian budget recorded an uncontrolled increase in spending. State revenues rose in certain segments, such as receipts from the tax on pensions and dividends, but in 2023 it failed to regulate the deficit.

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