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Efficiency and Equity of Tax

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Abstract: *The basic aim of public finance is the financing of the State by compulsory take-offs, i.e. through taxes, fees, contributions, work that reveals the obvious three functions exercised by a State through the tax system: resource allocation, welfare distribution and economic stability. The accuracy of such functions has in view the observance of certain principles, such as: the function of funding must conform to the principle of budgetary efficiency, the redistribution function complies with the principle of equity and the function of economic stabilization or correction of disequilibrium complies with the principle of economic efficiency. In this context, the question that preoccupies the Romanian society is as follows: "How efficient and how fair is the tax system in Romania, where the fiscal pressure felt by every taxpayer is great, the collection of budgetary incomes is precarious, tax evasion is high (over 30% of GDP), the economy works with a low yield, and the standard of living of citizens lies on the last places in Europe?" Economic analysts provide various relevant solutions of economic recovery and improvement of the State functioning, but the decisions are taken by politicians who prove everyday lack of flair and vision, who are insensible to the citizens' signals and unable to act effectively and for the public good.*
Keywords: *budgetary efficiency, equity, tax evasion, performance, economic stability.*

Introduction

The fundamental objective of public finances is constitutes the State funding through mandatory levies, namely the taxes and contributions. In this respect, public finances take into consideration three key topics of economic analysis: resource allocation, distribution or distribution of wealth and economic stability.

In fact, the three themes of economic analysis have been identified by Robert Musgrave, in 1959, as being the three state functions which it exercises through its own tax system, namely [1]:

1. Function of financing public expenditure according to budget efficiency target;
2. Function of redistributing income and wealth as the objective of equity;
3. Function to stabilize economic activity or to correct imbalances as economic efficiency objective.

The relative importance of these functions has evolved over time directly related to increase state role in economic life. The need for resources to the state is related directly to tasks and functions that the state meets. Just as the economy needs banks to provide credit, so the state needs its own tax system that assures the financing (public finance).

1. Historical Evolution of the Concepts

If at the early twentieth century, the tax represented a favoured tool to finance public spending, after World War II, under the influence of Keynesian ideas, with increasing state intervention in the economy, the tax become a tool for meeting the objectives of economic policy and social stabilization macroeconomic and redistribution of GDP.

The compulsory levies level is largely related to the amount of public spending, because they are the main source of funding these costs. However, they are not the only source drawn from the state budget. The existence of public deficits and grow from year to year, through the failure of the budget performance objective request to resort to other means of financing the state, such as: internal and external public credit, and in the worst case, the issue of currency (money creation without coverage).

But this requires "brutal" state intervention in economic life resulting to an increased tax burden on real economy, because, ultimately, deficits are covered by the future taxes. The tax burden is passed on to future generations.

Amount of public expenditure related to GDP reflects the sharing of tasks between the public and private sector. For many goods and services, this share resulting from a choice of society. But the two sectors operate to different principles: the private sector is interested in developing business and maximizes profits according to the market laws, the public sector leads on policy decisions.

Public expenditure that has progressed most rapidly is social spending and the redistribution function performed by them is accomplished by the tax.

The two objectives of taxation: efficiency - equity are conflicting and causing most unexpected social effects.

Thus, equity requires, among other things, a progressive tax scale, but this is no longer an incentive for certain categories of taxpayers, contrary to economic efficiency. We refer to, specifically, the income tax, where equity is associated, generally, with customization tax, which increases its complexity.

However, tax relief applied for efficiency or equity reasons determines further reduction of tax efficiency.

In a liberal perspective, public spending and tax should be as small as possible, tax neutrality is first quality, thus ensuring the funding function. Cyclical fiscal policy (short-term effects) is considered harmful and redistribution policy through tax is considered arbitrary. Correcting market failures is the only warranted tax intervention.

In an interventionist perspective (social), the public sector must play an important role in the economy, and the compulsory levies is justified by the high amount of public expenditure. Taxation should have a redistributive function through progressivity.

After 1980 and until the current global crisis, tax interventionism was recommended for cyclical and structural stabilization. But the redistribution function was not anymore considered a priority, the efficiency objective replaced the equity one.

2. Efficiency Criterion

Tax can be a tool in efficiency service. It plays this role in two state functions: the allocation function (funding) and the regularization function (stabilization).

Tax is a correction of market failures. Certain economic activities are controlled by the State due to negative external effects which generates divergence between private costs and social costs. Therefore, they can not just be left up to market forces, state tax interfering through tax correcting market distortions (market failures) and restores optimal prices.

These negative external effects are caused by the products consumer (e.g.: tobacco, alcohol, etc.). State-controlled retail price reflects their true social cost. Internationalization of external effects through taxation is also expected to the state policy regarding the environment. Using the collective and free natural resources and by businesses employing generate social costs.

An example is the pollution tax, which is a particular case of taxation whereby those who pollute are required at a cost to use these resources within reach of all.

Tax is an instrument of macroeconomic policy. State acts on global demand in cyclical stabilization policies through taxes. A reduction in taxes causes a multiplier effect to stimulate activity because of increased disposable income and thus increase economic global demand. In the long run, such a policy leads to economic growth because it stimulates savings and investment.

A tax increase causes an inverse effect. An optimal tax, from economical point of view, must be politically acceptable. Tax optimality can not be examined only by economic criteria but rather, given the policy choices of the party (or coalition) in power. The problem is to find a tax which least disturb the market mechanisms, considering that the fiscal neutrality and optimality are confused at this level.

The tax is neutral, the more it causes less distortion and becomes bearable. Tax neutrality depends on the form. The only neutral tax is a capitation tax, which is a flat fee per unit and an elector. However, it is difficult to apply today. For example, a proportional income tax is more neutral than a progressive tax. Tax neutrality is not always a condition of effectiveness.

About the optimality of tax there are two political options, namely:

a) Keynesians, who believe tax an instrumental variable, being preoccupied with finding a rate of tax burden likely to allow the fulfil of macroeconomics objectives; fiscal pressure rate is determined by the degree of state intervention;
b) New classics, which consider the tax a financial variable are mostly concerned about determining the best way to finance public expenditure, i.e. obtaining an optimal tax structure.

However, regardless of policy option a tax must meet four principles of Adam Smith:

1. Justice: equality before tax;
2. Certainty: the achievement of fiscal targets trims to eliminate the arbitrage in tax settled and to be viable;
3. Convenience: setting simple rules in terms of understanding, acceptance by the taxpayer;
4. Effectiveness: finance public expenditure with the lowest cost.

Justice of taxation requires that the tax burden of taxation should be fair, that is to allow each taxpayer to pay his tax obligation correctly. This is the starting point of each taxpayer ability to pay, the principle underlying the new tax system.

The principle of capacity to pay is contrary to the principle of equivalence and equity (the voluntary agreement) which means that every taxpayer has to pay an amount corresponding tax advantages and offers state as public goods and services. Public economy is an economy award, where the public goods and services are not subject to a voluntary exchange, but free attributed to citizens. Satisfaction they feel it is independent of the amount of tax that they pay the state. This principle is based on the law of tax-price, i.e., a portion of tax paid is the price of public goods and services provided by the state.

The principle of capacity to pay, rather, is associated theory of constraints, i.e. state (no longer a partner but power factor) imposes obligations beyond fiscal choices that citizens (he separates the taxpayer by the user).

3. The Principle of Fairness

Principle of fairness is difficult to justify, from moral point of view, in a corrupt society, overly politicized and based on a minimum of social solidarity. Horizontal equity requires identical treatment of taxpayers who have the same pay capacity. Vertical equity requires different treatment of taxpayers, meaning that those with higher incomes devote a larger share of their income to finance collective costs.

State must provide aid to those excluded from the labour market (to correct inequities created by operation of market mechanisms) by establishing a guaranteed minimum income as a means to combat poverty and social exclusion.

Constraint on taxes (high tax pressure) gives rise to reactions of passive resistance (from tax avoidance, evasion, underground economy), but also to acts of active resistance (strikes, street riots, etc.). Therefore the state has a moral obligation to its citizens to maintain the tax burden in bearable limits. An excessive taxation is immoral, especially when administration proofs to be corrupt, wasteful and is not transparent to citizens. Morally, charging excessive taxes is an attack on freedom of citizens.

4. Choosing a Concept of Fairness to the Citizen

Trim is a way of settlement of tax for each taxable and subject matter of taxation. Each trim has its advantages and disadvantages. Multiplicity of taxes allows combining different trims and limits the risk of avoiding taxation of certain items of taxable matter. We know three predominant materials that are taxable: income, capital and expense.

Choosing one of these forms of taxation or the proportions in which they are used has consequences on the distribution of tax burden between individuals, because the distribution of flows varies from one individual to another.

Income is generally considered taxable matter best reflects ability to pay. It is recommended as suitable for satisfying the criterion of fairness. It allows collecting all taxpayer income, whatever its source; can be also customized easily and is difficult to translation from one taxpayer to another (as in indirect taxes).

It also has drawbacks. It should be remembered that he tax workloads "sanctioning" work. Therefore, the trim must be chosen carefully to have no inhibiting effect on the working. We consider here a single tax, 16% practiced in Romania, which, despite its simplicity, does not meet budget imperatives of equity and efficiency. Meanwhile, note that the progressive tax scale is, by default, a condition of tax fairness. Progressive taxation is more complex and requires a larger trim.

Second, income tax employing double taxation of savings: first on the source, on income received and then taxing savings income (dividends, interest, etc.).

Tax on capital taxing (charged) property acquired or purchased. It has a low yield because the difficulty of valuing assets and ignores the subject of taxation.

Tax on income flows taxing (charged) working income flows and labour savings when they leave the property taxpayer. He has limited opportunities for customization and allows translation from one taxpayer to another. Directly affect the standard of living and it injures those on low incomes.

It is true that this tax favours the tax savings and has a high yield, but differences must be made on taxable matter of fairness (e.g. 5% VAT on food). Tax expense is more neutral than income one (i.e. it is not charged directly) and at the same time, avoids double taxation of savings which employs the second.

Starting from the theory presented above can categorically put the following question: How is fair and efficient tax system in Romania? The question is highly complex and should be given many answers.

Firstly, Romanian tax harmonization with European taxation, without keeping account of living in Romania (GDP/capita.) involves increasing the tax burden in the Romanian taxpayer. This requires a strict timetable of steps to implement legislation passed through because he assumed an attitude (due to changing attitudes in the Romanian society) and a new approach to fiscal policy Romanian.

Achieving this goal can not be reached without the existence of a fiscal program that, at the macroeconomic level, is given by the national budget. This is based on aims to ensure a balance between collective needs of society and funds necessary for financing. So, the fiscal program is identified, on the one hand, with the ways of obtaining revenue from the state budget and, on the other hand, to establish and prioritize collective needs, according to the vision (perception and political interests) ruling parties power.

Secondly, an efficient collection of taxes to allow a high yield of their budget should be the main concern of government. This involves a complex of operations, namely:
- maintaining fiscal pressure in bearable limits should be a moral obligation of the state to the citizens, which involves changing attitudes of the state from tax collector one to the partner;
- combating tax evasion, not only through strict control, but by a complex of measures including: legislative stability and simplification of tax laws too thick, respect for fiscal discipline and modernize tax administration through computerized technologies, while improving tax administration staff.

Thirdly, should be considered broadening the tax base through incentives: increasing number of businesses creating new jobs in existing companies. As mentioned tax incentives: reducing tax rates for profit and for profits from export activities.

Also be considered other facilities namely: the initiation of public-private partnership because private sector is blocked by system (e.g. lack of credit, financial blockage failure to return VAT, etc.), reducing CAS 5% accompanied by minimum wage to 800 lei. As some analysts say (Aurelian Dochia, Liviu Voinea etc.) this measure has a neutral effect on businesses, bringing additional income to the budget and has direct effect on consumption growth. The state should not intervene directly in the economy, but to provide leverage and facilities. The state should regulate and not to do!

Conclusions

Finally, I wish to mention that the objective of combating tax evasion can not be achieved without tax cuts, because every time we have done on the effects without to consider the causes. Prevent tax evasion and limit its effects will be possible only based on its causes: the legislative instability and indiscipline tax payer, high tax burden and tax inequity, and citizen distrust in state institutions.

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