

## Romania's budget loses 1/3 of VAT annually, state has difficulties in performing main functions (consultants)

**Romania's budget loses one third of the VAT annually, the European Commission points out in the report on the deficit of collection of this tax, the consequence being that the state has difficulties in performing its main functions, namely to provide public services, according to an article written by Daniel Anghel, Partner, Leader of tax and legal services PwC Romania.**

"The indicator published by the EC which measures the difference between the VAT potential to be collected to the budget, estimated on the basis of all transactions in the economy and the one actually collected in the accounts of the State treasury, is illustrative of the capacity to collect of the Tax Administration. Although Romania has experienced many legislative changes and procedures over the years in the hope that it will improve the level of the proceeds, the results are still lagging behind. These deficiencies are all the more visible lately, as budget revenues have suffered in the context of the COVID-19 crisis and the increase in expenditure," explained Daniel Anghel.

According to him, the national budget deficit shows that after the first seven months of 2020, the state spent 50 billion lei more than it received. In the same period last year the deficit was 18 billion lei. While spending on public sector salaries and pensions have increased steadily in recent years, reaching 96.3 pct of tax revenues and social contributions to the budget, the collection of taxes has remained at the same low share, around 26 pct of GDP, which places Romania in the penultimate place in the EU. In return for the increase in expenditure, the tax administration has not been strengthened in these years by implementing IT systems, preparing staff or starting coordinated reform processes.

Daniel Anghel points out that, with a budget deficit estimated at 8.6 pct of GDP in 2020, a possible increase in next year's tax to compensate for gaps and finance spending is not a medium- and long-term solution for Romania, especially in the context of the crisis when economic operators need incentives, not an additional fiscal burden.