ISSUES ON THE POSITION OF EUROPEAN EASTERN COUNTRIES IN WORLD RANKINGS INCLUDING ELEMENTS OF TAXATION

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Abstract:
Taxation is an essential component of any nation. Taxation, with its economic and social implications, is taken into account when the world rankings are made. The level of fiscal pressure, the design of the tax system, the number of taxes, the relationship between taxpayers with the fiscal administration, the principles of taxation, the existence of a real partnership between the taxpayer and the state are a part of fiscal elements that determine attractiveness or rejection from a particular country. Without claiming an exhaustive approach, our work presents some fiscal aspects from Eastern European countries found in world rankings, by emphasizing the influence of these factors on the position occupied by each state in each classification. Starting from the world rankings and the position of the Eastern European countries in these rankings we conduct a hierarchy of these countries.

Key words: *taxation, ranking, easy to pay taxes, fiscal freedom*

1. Introduction

Classical definitions of taxation, fiscal policy and tax system highlight their interdependent relationships. This reason determines taxation to have the same meaning in any state, while the tax system and tax policy are designed and implemented based on socio-economic conditions existing in each nation, the social and economic priorities of each state (James S., 2012).

Economic and social changes, local, national and international framework increase the importance of taxation, both in developed economies and in developing countries. Fiscal and budgetary strategy establish with responsibility policies, priorities, objectives on short, medium and long term, measures to reform the whole system of public finance on efficiency values and a solid and transparent management.

Analysis of fiscal policy, especially of its role, has been into attention of many specialists, on the premise that fiscal policy is particularly important in determining the policy mix and in managing shocks and imbalances (Allsopp C., 2005) and fact that the fiscal policy reflects the philosophy of each state to government spending and taxation (Boyes W., Melvin M., 2009). Appropriate use of fiscal policy instruments (Jain T., Sandhu A., 2009), respectively tax policy, public expenditure policy, debt policy and deficit policy, increase the role of fiscal policy also in: restoring macroeconomic balance in the basis of optimal resource allocation models (Buiter W., 1988); promoting development through its impact on economic growth and human development (Gupta S., Clements B., Inchauste G., 2004); achieving the objectives on mobilization of public resources, minimizing inequalities, increase economic growth, reduce the negative effects of trade cycle, increasing employment, reducing inflationary and deflationary trends (Deepashree, 2007).

Specific evolution of taxation indicators has been analyzed in many studies and researches, thus achieving a variety of rankings among countries of the world. Without a comprehensive approach to these rankings, we can say that they were based on: fiscal autonomy, the structure of government revenues and expenditures, tax revenues as a percentage of GDP, personal income tax rates, corporate tax rates, consumption tax. (OECD, 2012); tax revenue structure based on economic function, fiscal adjustments, direct taxes as a percentage of GDP, indirect taxes as a percentage of GDP, social security contributions as a percentage of GDP, consumption tax as a percentage of GDP, labor taxation as a percentage of GDP, capital taxation as a percentage of GDP, implicit tax rates of consumption, labor, capital, business income, so. (European Commission, 2012); the tax burden (Lotz J., Morss E., 1967); the structure and level social security (Dixon J., 2000); tax influence on quality of life (Slottje D., 1991); the effectiveness fiscal measures (Baylor M., 2005); fiscal performance (Teera J., Hudson J., 2004); the effect (Blonigen B., Davies R., 2004) and the impact (Buettner, 2002) of taxation on foreign direct investment; and so on.

Based on quantitative and qualitative indicators, international institutions made periodically world rankings, which include elements of taxation. In this sense, may be mentioned the studies: “Globalization Index” published by A.T. Kearney/Foreign Policy Magazine; “The Business Environment and Enterprise Performance Survey“ published by de World Bank; “Business Environment and Enterprise Performance Survey“ published by European Bank for Reconstruction and Development and World Bank; “World Competitiveness Scoreboard“ published by International Institute for Management Development (IMD); “The Index of Economic Freedom“ created by The Heritage Foundation and The Wall Street Journal; “Doing Business Indictors“ published by The World Bank and International Finance Corporation; “Global Competitiveness Report“ published by World Economic Forum; “Paying Taxes“ published by PricewaterhouseCoopers; and so on.

Our work will focus on analyzing the position occupied by the states of Eastern Europe (BY – Belarus; BG – Bulgaria; CZ – Czech Republic; HU – Hungary; MD – Moldova; PL – Poland; RO – Romania; RU – Russian Federation; SK – Slovakia; UA -

Ukraine) in world rankings which contain one or more indicators from the field of taxation.

2. Eastern European states in the ranking of tax burden

The answer to the question "How can we quantify the finality of a tax system?" is provided by the tax burden. Tax burden in a broad sense is determined as the ratio of all taxes and contributions actually received by the public administration and gross domestic product and it shows how each nation builds its tax system, based on the relationship: who should pay taxes - how much should pay each taxpayer - how are used the resources collected from taxes.

Analyzing the situation of 214 jurisdictions in 2011, Central Intelligence Agency achieved a ranking based on the level of taxes (personal income taxes, corporate income taxes, value added taxes, excise, tariffs and other revenues (social security contributions, hospital insurance, grants, net revenues from public enterprises) as a percentage of GDP (CIA, 2012).

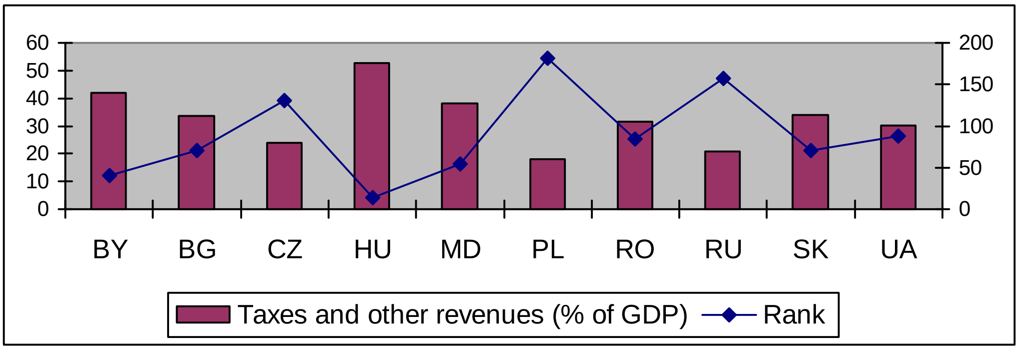

Fig. no. 1 Taxes and other revenue (% of GDP) in Eastern Europe in 2011
(Source: CIA: Country Comparison**:** Taxes and other revenues, 2012**)**

Tax burden registered by states in Eastern Europe in 2011 ranged from 18% (in Poland) and 52.8% (in Hungary), which led to the occupation of different positions in the rankings. Honorable positions were occupied by Poland (182) and Czech Republic (131) and the least honorable by Belarus (41) and Hungary (14).

3. Eastern European states in rankings of ease in paying taxes

Taking into account the costs of taxation and administrative burden of tax compliance, annual PricewaterhouseCoopers International Limited (PwC), the World Bank and International Finance Corporation (IFC) conducted a study that measures the ease of tax payment, thus establishing a rating.

Indicators considered for achieving this ranking focused on the number of payments, time for payment and the total tax rate.

For 2008 (PwC), in the 181 jurisdictions analyzed, Eastern European countries have not occupied an honorable place in the ranking, with countries that have occupied even last position. Thus, the best position in terms of ease of the payment of taxes was occupied by Bulgaria – pos. 94 and Hungary – pos. 111, while the last positions were occupied by Ukraine – pos. 180 and Belarus – poz. 181. Total number of payments existing in Eastern European countries ranges from 113 in Romania and 12 in the Czech Republic, while the total number of payments for corporate taxation ranges from 24 in Belarus and 1 in the Czech Republic, Russian Federation and Slovakia. From this point of view, the best positions were occupied by the Czech Republic – pos. 33 and Hungary – pos. 38 and last positions were occupied by Belarus – pos. 180 and Romania – poz. 181. Total hours / year required to pay taxes of 1188 hours - of which 960 for corporate income tax time, places Belarus at position 179, while Moldova occupies the lowest position respectively 91, with 234 total tax time, of which 86 for corporate income tax time. In terms of the total tax rate, Belarus remains an unflattering position – pos. 176, with 117.5% total tax rate and 22.0% Corporate Income tax, while Bulgaria occupies position 55 with 34.9% total tax rate and 4.2% corporate income tax.

In 2011 (PwC, 2012) in the ranking on the ease of paying taxes targeted 183 jurisdictions. Fiscal measures taken in countries in Eastern Europe in 2008-2011 have resulted in changes in the ranking, both in a positive sense (in Belarus, Bulgaria, Moldova, Poland, Russian Federation) and in a negative sense (Hungary, Romania, Slovakia, Ukraine). In the ranking, the best positions are occupied by Bulgaria (pos. 84) and the Russian Federation (pos. 102), and the less good positions are occupied by Belarus (pos. 156) and Ukraine (pos. 181). While in most countries there is a reduction in the number of payments (Belarus, Czech Republic, Hungary, Moldova, Poland, Russian Federation) there are states without no progress (Romania, Slovakia) and in Ukraine witnessing a significant increase in the total number of payments, from 99 to 135. In terms of time needed to pay taxes progress has been made in all countries, except Romania where we are witnessing an increase of 20 hours / year. At the level of total tax rate the measures taken during this period resulted in recording of values between 28.1% (in Bulgaria) and 62.8% (in Belarus).

An important role in achieving this ranking is held business taxation, especially in the tax rate and the number of payments.

If in 2008 (Deloitte, 2012) the highest corporate tax rate was found in Ukraine (25%), Belarus (24%) and the Russian Federation (24%), in 2012 we witness a reduction in the corporate tax rate, highest values were recorded in Ukraine (21%) and the Russian Federation (20%). For the period analyzed, the lowest tax rate for companies is found in Moldova (0%) and Bulgaria (10%).

Tab. no. 1 Ease of paying taxes in Eastern European countries

Eastern European Country		Ease of paying taxes (Rank)	Tax payments		Time to comply		Total tax rate	
			Rank	Total tax payments	Rank	Total tax time	Rank	Total tax rate (% of profit)
BY	**2008**	181	180	112	179	1188	176	117.5
	2011	156	63	18	172	654	157	62.8
BG	**2008**	94	52	17	167	616	55	34.9
	2011	84	59	17	166	500	36	28.1
CZ	**2008**	118	33	12	174	930	121	48.6
	2011	117	17	8	169	557	137	49.1
HU	**2008**	111	38	14	132	330	145	57.5
	2011	114	46	13	124	277	143	52.4
MD	**2008**	123	154	53	91	234	90	42.1
	2011	109	158	48	98	228	47	31.3
PL	**2008**	142	127	40	151	418	83	40.2
	2011	127	96	29	130	296	112	43.6
RO	**2008**	146	181	113	74	202	119	48.0
	2011	154	182	113	89	222	119	44.4
RU	**2008**	134	70	22	155	448	123	48.7
	2011	102	29	9	128	290	132	46.9
SK	**2008**	126	94	31	129	325	115	47.4
	2011	129	103	31	100	231	135	48.8
UA	**2008**	180	178	99	172	848	147	58.4
	2011	181	183	135	175	657	152	57.1

(Source: PwC - Paying Taxes 2009, Paying taxes 2012)

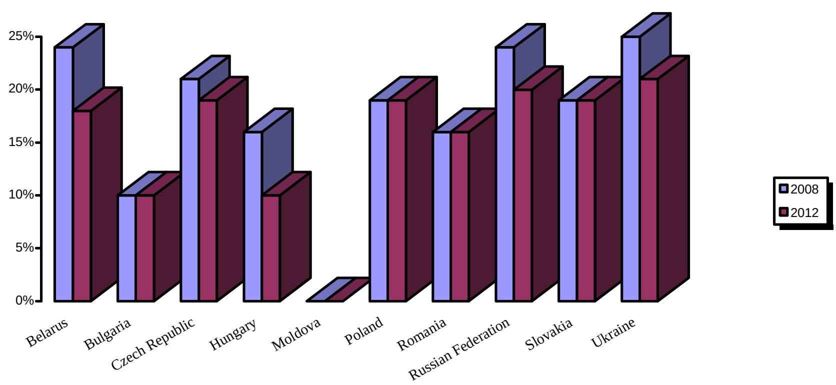

Fig. No. 2 Corporate Tax Rates in Eastern Europe

(Source: Deloitte – Corporate Tax Rates 2008-2012)

During 2008 – 2012 half of the states in Eastern Europe were concerned about changes in the corporate tax rate (Belarus, Czech Republic, Hungary, Russian Federation, Ukraine), the other countries keep an unchanged tax rate (Bulgaria, Moldova, Poland, Romania, Slovakia).

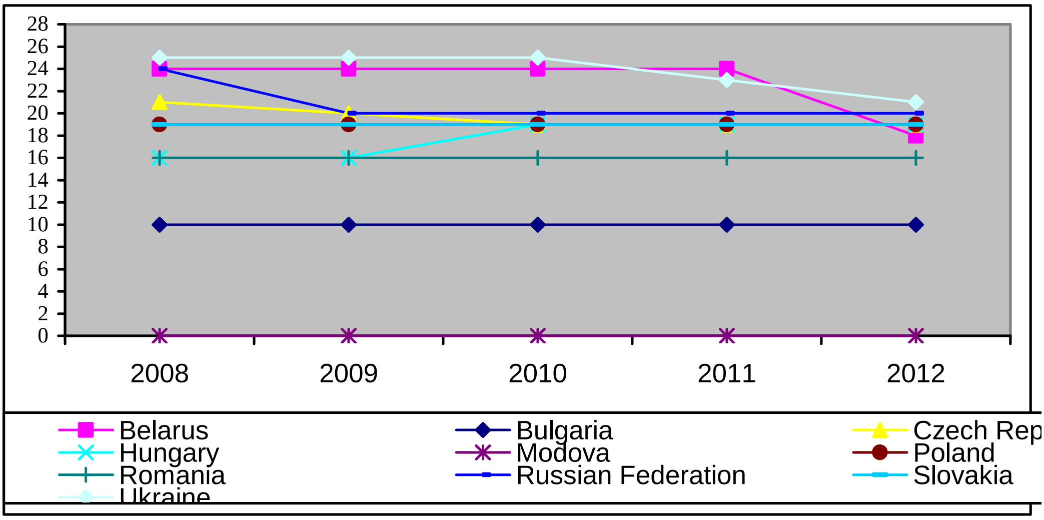

Fig. no. 3 The evolution of corporate tax rates in Eastern Europe

(Source: Delloitte – Corporate Tax Rates 2008-2012)

The largest decrease was recorded in Belarus (a reduction of 6 percentage points). Since July 1, 2010, in Hungary are charged two rates by income tax for companies, respectively 10% applies to tax base up to HUF 500 million and 19% applying to tax base exceeding HUF 500 million.

4. Eastern European countries in the ranking of economic freedom

Annually, The Heritage Foundation in partnership with The Wall Street Journal achieved a ranking of economic freedom in the more than 170 jurisdictions. Among the 10 components of economic freedom index an important position is for fiscal freedom, calculated based on three quantitative components: individual income tax rate, corporate income tax rate, tax revenue as a percentage of GDP.

The score for fiscal freedom is calculated "using a function:

$$FF_{ij} = 100 - \alpha (C_{ij})^2$$

where FF represents the fiscal freedom; i represents the country; j represents the component; α represents a coefficient set equal to 0.03; C represents the component. The minimum score for each component is zero, which is not represented in the printed equation but was utilized because it means that no single hight tax burden will make the other two components irrelevant" (Beach W., Kane T, 2007).

In the year 2011, states in Eastern Europe recorded the following index of economic freedom (The Heritage Foundation, 2012) among the 179 jurisdictions analyzed:

Tab. no. 2 Index on Economic Freedom in Eastern Europe

Eastern European country / Indicators	BY	BG	CZ	HU	MD	PL	RO	RU	SK	UA
Rank	153	61	30	49	124	64	62	144	51	163
Economic freedom score	49.0	64.7	69.9	67.1	54.4	64.2	64.4	50.5	67.0	46.1
Property Rights	20.0	30.0	70.0	70.0	40.0	60.0	40.0	25.0	50.0	30.0
Freedom From Corruption	25.0	36.0	46.0	47.0	29.0	53.0	37.0	21.0	43.0	24.0
Government Spending	34.9	50.3	36.8	24.4	38.7	40.3	55.1	48.6	48.2	29.4
Fiscal Freedom	86.6	93.6	82.0	78.6	86.5	74.4	87.4	82.5	84.2	78.2
Business Freedom	71.3	72.7	67.7	79.8	70.0	61.4	70.5	65.1	71.0	46.2
Labor Freedom	77.0	84.2	77.9	67.6	41.7	61.3	62.6	63.5	58.1	51.2
Monetary Freedom	65.3	77.8	81.5	76.1	74.4	79.1	74.3	66.3	83.5	67.7
Trade Freedom	80.4	87.1	87.1	87.1	79.0	87.1	87.1	68.2	87.1	84.4
Investment Freedom	20.0	55.0	70.0	70.0	35.0	65.0	80.0	25.0	75.0	20.0
Financial Freedom	10.0	60.0	80.0	70.0	50.0	60.0	50.0	40.0	70.0	30.0

(Source: The Heritage Foundation – The Index of Economic Freedom, 2012)

Registration of these values for states in Eastern Europe (The Heritage Foundation, 2012) highlight the following:

- With a modern and flexible economy, with supporting the world trade and investments with open-market policies, Czech Republic occupies position 30 in the ranking of economic freedom, being the state on top position among countries from Eastern Europe.
- 49th place occupied by Hungary in the ranking of economic freedom is mainly due to critical reforms implemented in many sectors, in the recent years, but in

order to reduce public debt is necessary a fiscal consolidation and a better management of public finances.

- The inefficient fight against corruption, the lack of political commitment to strengthen the legal framework, undermining respect for law, the judicial vulnerability are some negative aspects that led to lower scores for economic freedom in Slovakia, the country occupying position 51 in the ranking.
- The positive aspects which put Bulgaria in position 61 in the ranking of economic freedom were economic stability, the use of a competitive tax rates and the existence of a competitive trade regime.
- Although Romania occupies position 62 in the ranking of economic freedom, there are enough negative aspects, respectively a high level of corruption, inefficiency in the management of public resources, tough fiscal adjustments.
- An improvement in reducing corruption, a transparent and efficient business climate are the main reasons that have led to an increase in scores on economic freedom in Poland, State occupying position 64 in the rankings.
- For Moldova which occupies position 124 in the ranking, the low score in terms of economic freedom is influenced by economic performance well below potential, sometimes inadequate state intervention in the private sector, high levels of corruption and bureaucracy.
- Negative elements that places Russia in 144 position in ranking are found in the area of corruption, state intervention in the economy, foreign direct investment, market competition, public spending.
- Lack of efficiency and effectiveness of the control undertaken by the state, widely spread corruption, an inefficient judicial system, high bureaucratic are shortcomings that placed Belarus in position 153 of ranking.
- Although Ukraine has registered growth for many years, lately fragile foundations of economic freedom has placed the country on position 163 of the ranking, the fundamental issue is the sustainability of public spending.

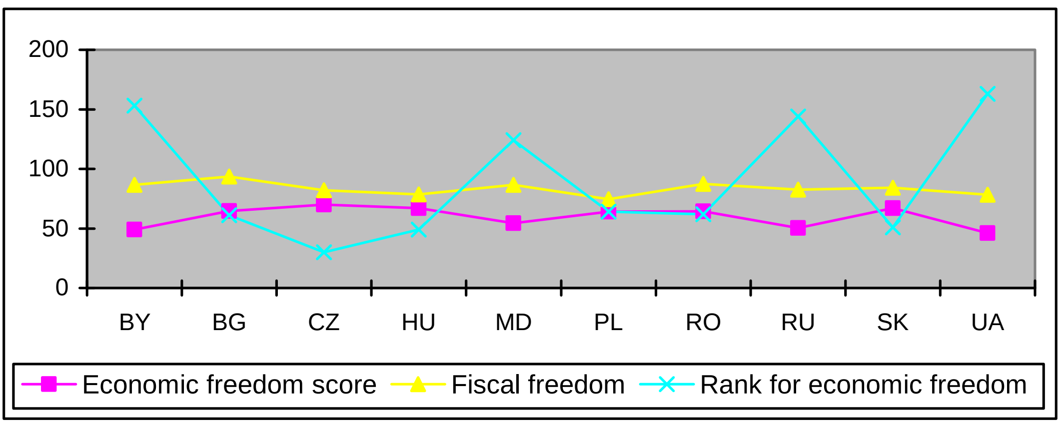

Fig. no. 4 Index on Economic Freedom in Eastern Europe

(Source: The Heritage Foundation – The Index of Economic Freedom, 2012)

In all the countries of Eastern Europe, Fiscal Freedom component alongside Trade Freedom component registered the most valuable, contributing significantly to economic freedom index.

5. Eastern European states in the ranking on the ease of doing business

If tax items were those that positively influenced the economic freedom index for the countries of Eastern Europe, for the world rankings on the ease of doing business conducted by The World Bank and the International Finance Corporation, these items have had in the year 2011 a negative influence in most countries, except for Bulgaria and Moldova. Among the 183 jurisdictions located in Ranking for 2011 (The World Bank and the International Finance Corporation, 2012), the best positions are occupied by Hungary (pos. 51) and Bulgaria (pos. 59), on less honorable position are Russia (pos. 120) and Ukraine (pos. 152).

Tab. no. 3 Ease of Doing Business in Eastern Europe, in 2011

Eastern European country / Indicators	BY	BG	CZ	HU	MD	PL	RO	RU	SK	UA
Ease of Doing Business Rank	69	59	64	51	81	62	72	120	48	152
Starting a Business	9	49	138	39	88	126	63	111	76	112
Dealing with Construction Permits	44	128	68	55	164	160	123	178	50	180
Getting Electricity	175	133	148	103	160	64	165	183	102	169
Registering Property	4	66	34	43	18	89	70	45	10	166
Getting Credit	98	8	48	48	40	8	8	98	24	24
Protecting Investors	79	46	97	122	111	46	46	111	111	111
Paying Taxes	156	69	119	117	83	128	154	105	130	181
Trading Across Borders	152	91	70	74	134	46	72	160	95	140
Enforcing Contracts	14	87	78	19	26	68	56	13	71	44
Resolving Insolvency	82	90	33	66	91	87	97	60	35	156

(Source: The World Bank and the International Finance Corporation - Doing business in a more transparent world, 2012)

Both the global economic integration as well as technological innovations has reduced barriers for the capital flows and labor, which in terms of taxation intensified tax competition over mobile capital. This tax competition resulted in a decrease of corporate income tax rate, with major implications for ease of doing business. (Piatkowski M., Jarmuzek M., 2008).

Also, at the last period, there is a growing concern among countries in Eastern Europe by attracting foreign investment and therefore causing the latter to provide tax solutions for the questions such as: How to make increase tax revenues from corporate taxes? How to reduce the complexity of taxation? How to create an attractive investment climate? (OECD, 2007).

In this framework, best practices, especially for the SMEs are those that: make it easier to start a business; make it easier to obtain a building permit; make it easier to connect to the electricity grid; make it easier to register a property transaction; make it easier to obtain a transaction credit; is made better investor protection; make it easier to pay taxes; are lighter operations targeting cross-border trade transactions; are easier to implement contracts; resolve problems of insolvency easier. (The World Bank, The International Finance Corporation, 2012)

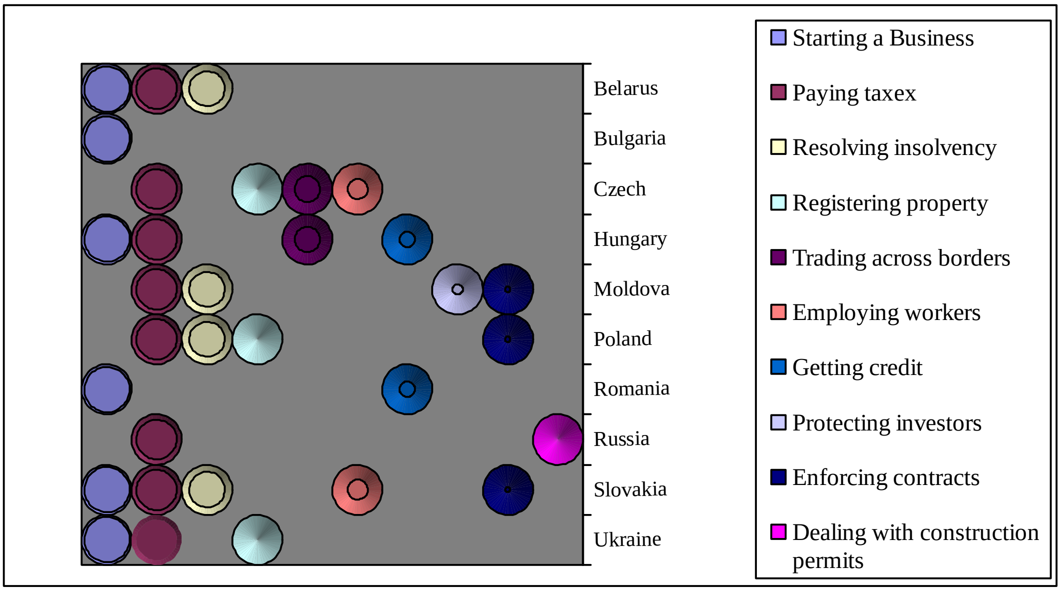

Fig. no. 5 Measures taken in Eastern Europe in 2012, for the ease of doing business

(Source: Doing business 2013)

Thus, the reforms undertaken by countries in Eastern Europe in 2012 than in 2011 (The World Bank, The International Finance Corporation, 2012) were: reduced tax rate (Belarus); using the electronic system for declaration and payment of tax liabilities (Belarus, Czech Republic, Moldova, Poland, Russian Federation, Slovakia, Ukraine); exempting the previously state-owned property of a privatized company from the bankruptcy proceeding (Belarus); reducing costs for the company registration (Bulgaria); achieve online access to commercial register (Czech Republic); electronic transmission of customs declarations and other documents that cover import and export operations (Czech Republic, Hungary); increase the maximum duration for fixed-term employment contracts (Czech Republic, Slovakia); creating a database with positive information for the easier access to information on crediting (Hungary); elimination of taxes (Hungary); cancellation of the contracts that prejudice the parties (Moldova); extend the duration of reorganization of companies in insolvency (Moldova); improving management system for property registration (Poland); changes in Civil Procedure Code for ease of executing contracts (Poland, Slovakia); improving insolvency proceedings (Poland); reducing the time required to obtain the tax certificate (Romania); automatic extension of security interests for the products, incomes and guarantee (Romania); elimination of requirements aimed at execution of construction (Russian Federation); simplifying registration procedures for tax liabilities (Russian Federation); reducing the time required to obtain licenses and registration taxes (Slovakia); redefining the roles of creditors and administrators in insolvency (Slovakia); eliminating the minimum capital required to start a business (Ukraine); setting a time limit for the registering property (Ukraine).

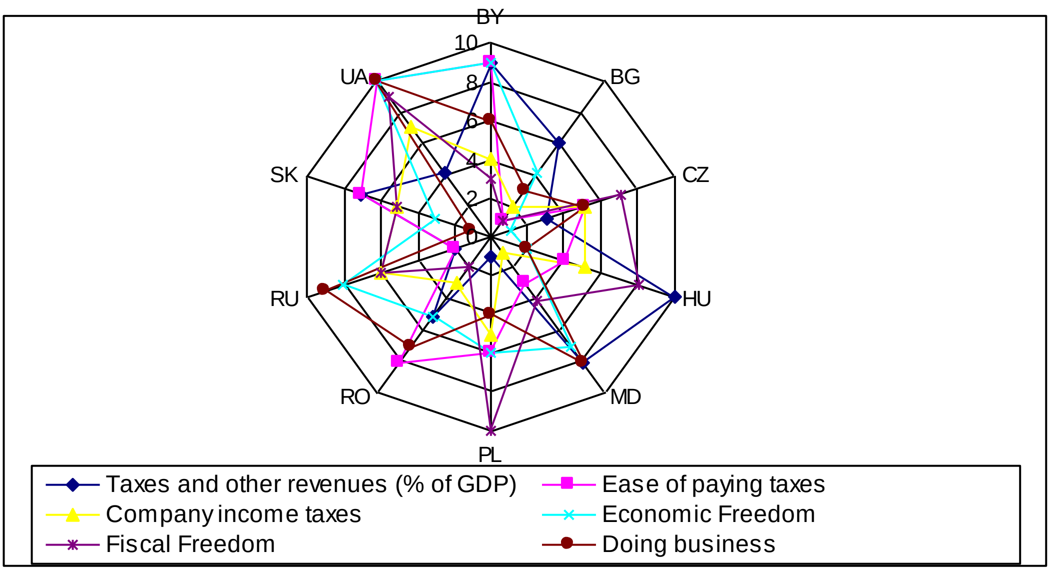

Fig. no. 6 Hierarchy for Eastern European countries according to world rankings which contain elements of taxation

(Source: processing authors)

A combination of positions occupied by each state from Eastern Europe in world rankings can lead to a hierarchy, which can provide a picture of how taxation practiced becomes an attractive element.

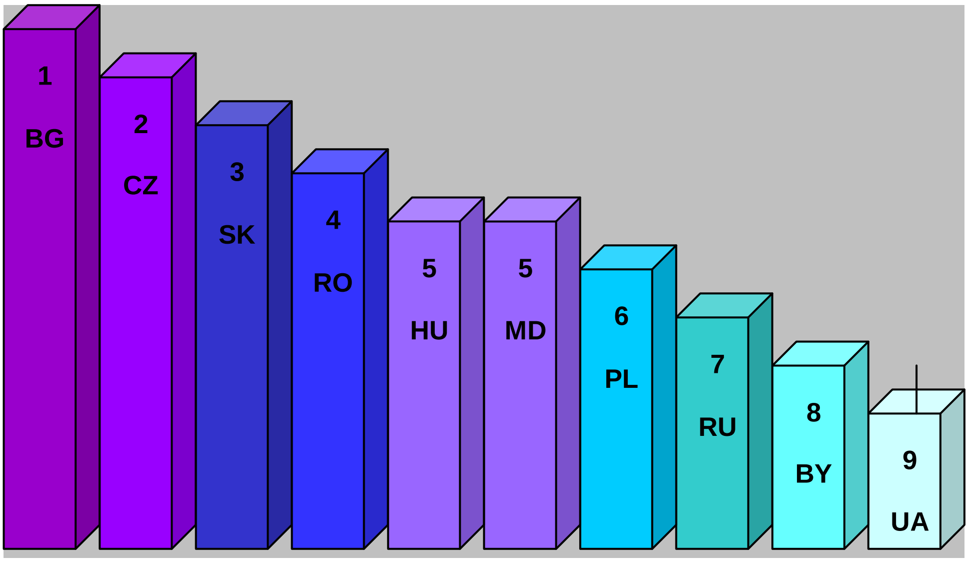

Fig. no. 7 Hierarchy for Eastern European countries according to the attractiveness for taxation

(Source: processing authors)

6. Conclusions

Based on data included in the overall rankings that have considered some specific indicators for the taxation area, the positions occupied by the states of Eastern Europe are very different. A hierarchy of these 10 states according to the world rankings shows that in 2011 the top positions were occupied by Bulgaria, the Czech Republic and Slovakia, and the last positions were occupied by the Russian Federation, Belarus and Ukraine. Very different situations are encountered in: Hungary occupied position 2 for the Index of Economic Freedom and Doing business and position 10 for Taxes and other revenue (% of GDP); Poland occupied first position for

We believe that these analyzes can be starting points for further studies and research to highlight, beyond certain hierarchy, constructive practices of taxation in the countries of Eastern Europe.

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