

CORPORATE INCOME TAX VS MICRO-ENTERPRISES REVENUES TAX TAX: EVIDENCE FROM ROMANIA

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Abstract

Corporate income tax tends to become more complex and expensive, especially for small businesses. Also, for these companies, the probability of reporting a tax loss is quite high, in Romania. In these circumstances, the tax authorities created a micro-enterprise revenue tax (MERT), applicable since 2001 to companies with revenues below 100,000 euros and which still meet other eligibility conditions. After more than 10 years in which the number of companies subject to this tax was quite small (somewhere around 10% of the total number of taxpayers), the lowering of the threshold to EUR 65,000 and the introduction of the mandatory character of MERT led to a massive increase in the share of companies that owed this tax. On this occasion, businessmen discovered the advantages of such taxation: lower compliance costs, controllable tax burden, relatively low taxes paid, especially after the increase of the threshold to 1,000,000 euro. However, the MERT brought to the budget only insignificant amounts in relation to what is collected from the corporate income tax, which is why the authorities decided to lower the threshold from EUR 1.000.0000 to EUR 500,000, which was not necessarily to the liking of the entrepreneurs. Looking for other examples of income taxation, I found similar situations, with many differences, however, in other states. In Europe, we have at least Latvia and Portugal that also simplify the taxation of small businesses, but also a lot of other countries where simplification of taxation is done in different ways than MERT. In France, the revenues of large digital firms are already taxed, and Latin America offers many examples of complementary taxation of firms' revenues, instead of taxation of profits.

Keywords: *micro-enterprises revenues tax; tax simplification; tax compliance costs; corporate income tax.*

JEL Classification: H25, M40.

1. INTRODUCTION

Corporate income tax (CIT) is one of the major sources of financing public expenditure. In the collection of this type of tax, moral, ethical, solidarity, equity and social responsibility considerations can be invoked, by virtue of which companies are obliged to contribute to the constitution of public revenues. The structure of taxes levied by a State includes, in addition to the CIT, other components, depending on the fiscal policy applied by that State and the

economic, social, financial developments with influences on the behaviour of taxpayers.

Romania, with the beginning of the economic reorientation toward the market economy and the political reorientation toward a normal society, tried to modernize the tax system, with elements of originality, but with influences from the available models, both as individual countries, but also as regional or international organizations. The statistics available in the Tempo-online database of the National Institute of Statistics have as starting point the year 1991 and stop at 2020. More recent data, on 2021, and even on 2022, can be obtained from the tables Eurostat (2023) as well as from the budget information published by the Ministry of Public Finance (MPF, 2023). Even though there are some differences (generated, very probably, by the slightly different methodologies applied) between the three sources I mentioned, they do not significantly affect the overall picture they offer about the Romanian public finance system, more specifically, about the state budget.

The difficulties and the compliance costs that a CIT system creates, while it imposes strict records of revenues and, in particular, charges, as well as justifications for accounting recognition and the proposal for tax recognition of charges, have led fiscal authorities to consider and propose simplifications in the taxation of firms, especially small ones. The European Commission (2007) and Bergner and Heckemeyer (2017) identified in the literature results that found that, for small businesses, tax compliance costs are becoming disproportionately high in relation to the level of those businesses, which has led the authorities to create simplified systems for small business taxation. The most common form of simplification is the taxation of non-corporate businesses through a tax calculation system that takes into account, essentially, cash flows and not revenues/charges as designed according to the accrual accounting. Another form of simplification is to tax only the revenues of some firms, without taking into account the charges or the fact that those firms have a profit or loss.

The objective of this study is to analyse the main reasons and consequences of the introduction of the micro-enterprise revenues tax in the Romanian fiscal system, as well as the reactions of some of the parties involved to the authorities' attempts to modify some criteria for the tax classification of companies as micro-enterprises.

2. ROMANIAN STATISTICS ON CORPORATE TAXATION

One of the basic components of the direct taxation of companies in Romania is the CIT. In 1991, the revenues generated by the Romanian state from this tax had a share of 5% in GDP. However, we should remember that in 1991, Romania did not yet apply VAT, and the tax system was quite outdated, despite attempts to adapt to the new economic and social conditions after the fall of Ceaușescu. These attempts have resulted in a series of legal regulations on income taxation. After

two government decisions of 1990 (GD 201/1990 and GD 741/1990) that sought to adapt the communist legislation to the new conditions, including by introducing the term tax instead of the term pay-out, and which established extremely harsh tax conditions, in relation to what we can perceive today (rate that could reach up to 58%, depending on profitability and other criteria), as of January 1, 1991 the first modern Romanian law on corporate taxation (Law 12/1991) came into force. This law, without establishing very strict rules for the calculation of the taxable profit, complicated the calculation of the tax, given that the rates were between 0% and 77%, calculated on 68 profit tranches. Fortunately, these tranches did apply only in 1991.

Starting with 1992, it was switched to a simpler version, with two rates: 30% for profits up to 1,000,000 lei and 45% for the part that exceeded 1,000,000 lei, and without too many details about taxable income or deductible expenses. The accounting system applied in that period (until 1994, when the new Regulation for the application of the accounting law came into force) had specific that the recognition of revenues was usually made as the cash inflow arise, which was quite far from the accrual accounting applicable since 1994 and generalized, at that time, in normal countries. The wording was “taxable profit shall be determined as the difference between the revenue received and the charges referred to in Annex 2”. Even if, as of January 1, 1994, the new Romanian accounting system was switched, based on the accrual accounting, the wording of the tax law (confirmed by GD 804/1991) remained the same, referring also to the revenues received. This rule was valid for one year, until the entry into force of Government Ordinance 70/1994 on corporate income tax (GO 70/1994), which no longer refers to revenues received, but simply to revenues. Beyond the rates applied or the rules on the determination of taxable profit, the share of the CIT in GDP had, after 1991, a downward evolution, even if it showed a certain stability (Table 1). After 1997, this share decreased significantly, to around 2.5%, after which, starting with 2010, it fell (with one exception - 2016) below 2%; of course, this evolution depends not only on the revenues to the budget from the corporate tax or other taxes, but also on the size of the GDP.

In fact, the decrease of the share of CIT in the public revenues in Romania is somewhat in contrast to the developments in other countries: Bunn (2003) analyses data from OECD countries and notes an increase in the dependence of budget revenues on CIT (also reported by Devereux and Sørensen, 2006), despite the drop in tax rates. Devereux and Sørensen (2006) also confirms a substantial decrease in statutory corporate tax rates since 1980; the pace of this decrease has been variable over time, but has continued.

Table 1. Ratios of some taxes to Romanian GDP

Year	% CIT in GDP	% VAT in GDP	% MERT in GDP	% specific tax (ST) in GDP	% CIT + MERT + ST in GDP
1991	5.00	n.a.	n.a.	n.a.	5.00
1992	5.24	n.a.	n.a.	n.a.	5.24
1993	3.75	3.62	n.a.	n.a.	3.75
1994	3.83	4.56	n.a.	n.a.	3.83
1995	3.65	4.93	n.a.	n.a.	3.65
1996	3.07	6.24	n.a.	n.a.	3.07
1997	4.14	6.06	n.a.	n.a.	4.14
1998	2.91	7.97	n.a.	n.a.	2.91
1999	3.00	8.07	n.a.	n.a.	3.00
2000	2.45	8.26	n.a.	n.a.	2.45
2001	1.86	7.98	n.a.	n.a.	1.86
2002	1.96	8.87	0.14	n.a.	2.11
2003	2.20	9.23	0.18	n.a.	2.38
2004	2.59	7.30	0.18	n.a.	2.77
2005	2.24	6.61	0.19	n.a.	2.43
2006	2.28	8.00	0.17	n.a.	2.45
2007	2.52	7.47	0.10	n.a.	2.61
2008	2.49	7.79	0.07	n.a.	2.56
2009	2.08	6.72	0.08	n.a.	2.16
2010	1.89	7.35	0.01	n.a.	1.90
2011	1.82	8.48	0.03	n.a.	1.85
2012	1.82	8.48	0.04	n.a.	1.85
2013	1.71	8.13	0.10	n.a.	1.81
2014	1.83	7.62	0.12	n.a.	1.94
2015	1.93	8.02	0.13	n.a.	2.06
2016	2.02	6.78	0.10	n.a.	2.12
2017	1.71	6.24	0.18	0.01	1.90
2018	1.64	6.26	0.26	0.01	1.92
2019	1.67	6.17	0.26	0.01	1.94
2020	1.51	5.74	0.23	0.01	1.74
2021	1.68	6.67	0.23	0.00	1.92

Source: NIS (2023) - data about IP and VAT for 1991-2020 period; Eurostat (2023)- data about MERT and ST; MPF-Ministry of Public Finance (2023) - some data for 2021 year

Since 1998, when the share of CIT in GDP falls, for the first time, below 3%, the authorities were probably concerned about the situation and sought a solution that would bring money to the budget from enterprises. Of course, these small proportions in GDP can be explained most simply by the fact that the profits of the companies were small, and even by the fact that many companies reported tax losses, from which the state could hardly collect corporate tax. The economic situation, the need for reforms of all kinds, the poor institutional capacity of the Romanian state, including in checking the correctness of the establishment of the taxable base, corruption and the interventions of politicians in economic mechanisms, the recruitment and stimulation policies of the fiscal staff, the lack of experience of those who made the rules, the entry into Romania of foreign capital, managed by companies for which tax planning strategies (in the sense of lowering taxes) was a common and very well-managed policy, chaotic and difficult to verify tax facilities, the habit of Romanian companies to operate on medium and long term with negative equity (compensated by loans from associates/shareholders) represented as many causes of the decrease of the budget revenues from the CIT.

The year 2001 sees the decrease of the ratio CIT/GDP below 2% and, starting with this year, the government proposes a solution consisting in creating a distinct category of entities, which go outside the scope of CIT, to pay a tax on revenues; these entities were called micro-enterprises. We can appreciate that this new tax appeared not only as a result of the decrease in CIT revenues, but also as a result of efforts to simplify tax mechanisms, following the models proposed in other states. In the initial version of the ordinance regulating this new tax regime, the maximum revenues limit up to which a company became eligible for this tax was 100,000 euros. Part of the eligibility conditions, as well as the mandatory or optional nature of the micro-enterprise revenues tax, are presented in Table 2. The global financial crisis started in 2008 brought an additional measure of corporate tax collection, namely the minimum tax, valid in Romania between May 2009 and September 2010.

We must not forget that the rules on corporate income tax already contained a specification establishing a kind of minimum tax, depending on the revenues, for companies that carried out certain categories of activities: nightclubs, discos, casinos (from 2003 to 2015, sports betting was included in this list): the tax was 16% of the taxable profit, but could not be less than 5% of the revenues related to these activities.

The rule was also valid in the second half of 2002; until then, taxpayers with such activities calculated the CIT applying a higher rate of tax (starting with 1998).

Table 2. Conditions for the companies paying the microenterprises revenues tax

Year*	Number of employees	Maximum threshold for revenues (euro)	MERT rate (%)	mandatory/ optional
2023	cu employees***	500.000	1	optional
2022	cu employees** no employees	1.000.000	1 3	mandatory
2021	cu employees** no employees	1.000.000	1 3	mandatory
2020	cu employees** no employees	1.000.000	1 3	mandatory
2019	cu employees** no employees	1.000.000	1 3	mandatory
2018	cu employees** no employees	1.000.000	1 3	mandatory
2017	cu employees** no employees	500.000	1 3	mandatory
2016	no employees one employee 2 or more employees	100.000	3,0 2,0 1,0	mandatory
2015	no restrictions	65.000	3,0	mandatory
2014	no restrictions	65.000	3,0	mandatory
2013	no restrictions	65.000	3,0	mandatory
2012	between 1 and 9	100.000	3,0	optional
2011	between 1 and 9	100.000	3,0	optional
2010	not applicable			
2009	between 1 and 9	100.000	3,0	optional
2008	between 1 and 9	100.000	1,5	optional
2007	between 1 and 9	100.000	1,5	optional
2006	between 1 and 9	100.000	1,5	optional
2005	between 1 and 9	100.000	1,5	optional
2004	between 1 and 9	100.000	1,5	optional
2003	between 1 and 9	100.000	1,5	optional
2002	maxim 9	100.000	1,5	mandatory
2001	maxim 9	100.000	1,5	mandatory

* For simplification, I have put entire years, but some rules have been valid for fractions of years; for example, the suspension of application was made from April 1, 2010 until the end of that year, and the new conditions imposed in 2017 were applicable from 1 February 2017.

** The condition regarding the employee is considered fulfilled if the employment is carried out within 60 days, including from the date of registration of the respective legal person.

*** If the firm does not have an employee, it became a CIT payer tax.

Source: Istrate (2022, pp. 204-205)

For the English version of the name of this tax (named in Romanian *impozitul pe veniturile microîntreprinderilor*), I find several formulations: in the Eurostat document from which I took the data presented in Table 1, the wording is *tax on micro-enterprises incomes*, one consultancy company calls it *micro-company revenue tax* (PwC, 2023), another consultancy companies uses the term *micro-enterprise income tax* (KPMG, 2023) or *microenterprise income tax* (EY, 2023 and Deloitte, 2023). I think that, to avoid ambiguities, the most appropriate version would be *micro-enterprises revenues tax*.

The introduction of MERT represented a measure that led to the collection of low taxes from all entities, whether they reported profit or loss. We can also make some simplistic calculations that show us under what conditions the CIT would have been more favourable than the MERT:

- at the initial rate of 1.5%, the maximum tax would have been $1.5\% \times 100,000 \text{ euro} = 1,500 \text{ euro}$; in order for a CIT liability to be 1,500 euros, the calculation basis (apart from tax credits and other facilities) should have been given by a taxable profit of $1,500 / 0.16 = 9,375 \text{ euros}$;
- at the rate of 3%, the maximum income tax was $3\% \times 100,000 = 3,000 \text{ euros}$; the taxable profit for such an amount would have reached $3,000 / 0.16 = 18,750 \text{ euros}$;
- at the rate of 3% and maximum income of 65,000 euros, the maximum income tax reached 1,950 euros, corresponding to a possible fiscal profit of 12,187.5%;
- the transition to the threshold of 500,000 euros led the maximum income tax to $1\% \times 500,000 = 5,000 \text{ euros}$ or to $3\% \times 500,000 = 15,000 \text{ euros}$, for which, if it were for CIT, the tax result should have reached $5,000 / 0.16 = 31,250 \text{ euros}$, respectively $15,000 / 0.16 = 93,750 \text{ euros}$;
- the threshold of 1,000,000 euros led to a maximum tax of $1\% \times 1,000,000 = 10,000 \text{ euros}$ or $3\% \times 1,000,000 = 30,000 \text{ euros}$, translated into possible taxable profits of $10,000 / 0.16 = 62,500 \text{ euros}$, respectively $30,000 / 0.16 = 187,500 \text{ euros}$.

We could see, from the simple simulations above, that the approach to the maximum ceiling up to which income tax could be paid led to fairly consistent amounts paid as tax. However, the MERT made a maximum contribution of 0.26% of GDP in 2018 and 2019, well below the CIT contribution to the public revenues. These figures are all the more worrying for the authorities, as the share of the companies paying MERT was very high in the total companies in Romania. For companies, this tax is very easy to budgeting, without the worries inherent in the deductibility of expenses, over which doubts can almost always arise.

If, for the CIT, the tax rules establish non-taxable revenues, non-deductible charges and tax deductions (including the possibility of carrying forward the loss), in the case of the MERT, the revenues that form the basis of calculation are established starting from the accounting revenues, with some adjustments. Thus, pseudo-revenues are not taken into account in taxation, i.e. those that do not meet

the accounting criteria for recognition as revenues: they don't lead to the company's enrichment, resulting in increases in net wealth (equity), but rather are intended to compensate for the effect of some charges on the net income. This is mainly the pseudo-incomes accounted for with the reception of products and work in progress (in fact, Changes in inventories of finished goods and work in progress), those from the reversal of provisions/depreciation adjustments. Here we can also include the revenues generated by grants and subsidies – also non-taxable at the MERT.

For a very long period (2001-2016), the classification of micro-enterprises was made on the basis of a relatively low threshold: EUR 100,000, except for the years 2013-2015, when the ceiling was EUR 65,000 (equal, at that time, to the one below which companies could apply the special scheme of exemption of VAT for small enterprises). The political change generated by the 2016 elections, when the Social Democratic Party came to power, with about 45%, together with their ALDE ally, with 5.6%, allowed the new government – with majority support in Parliament – to try various changes – some radical – of the Romanian legislation. Besides the famous and, fortunately, the unapplied ordinance 13/2017 (GO 13/2017), which tried to amend some provisions of the criminal law, with the suspicion that it was in favour of party leaders, the succeeding governments also had the intention to introduce a generalized revenues tax to replace the CIT. It was publicly discussed about this tax, with arguments that were mainly related to the possibilities that multinationals with businesses in Romania had not to pay too much CIT in Romania (Velicu, 2017). This method of taxation was not applied, after all, in Romania, as a result of the fact that it would not have been accepted by the European Union (Cireaşă, 2017). Following the failure to introduce this generalized revenues tax, the majority party of the Romanian Government in 2017-2018 significantly extended the limit to which companies can be eligible for the MERT, from 100,000 euros in 2016 to 500,000 euros, starting with February 2017 and to 1,000,000 euros, starting with January 2018.

In Table 3, I have taken over, from public sources and literature, the number of companies registered as payers of MERT and CIT: the main source are the national fiscal authority (NAFA) statistical bulletins, available since 2010. In the last of the four numbers for each year, NAFA provides statistics on the number of companies, by categories of paid taxes.

Table 3. Tax payers for CIT and MERT

Year	Number of taxpayers at December 31				Ratios to GDP (%)	
	CIT		MERT		CIT	MERT
	N	%	N	%		
2022	128,114	12.31	912,875	87.69	n.a.	n.a.
2021	121,269	12.34	861,235	87.66	1.68	0.23

Year	Number of taxpayers at December 31				Ratios to GDP (%)	
	CIT		MERT		CIT	MERT
	N	%	N	%		
2020	118,477	12.88	801,377	87.12	1.51	0.23
2019	115,987	13.19	763,409	86.81	1.67	0.26
2018	103,993	12.64	718,767	87.36	1.64	0.26
2017	137,253	17.70	638,399	82.30	1.71	0.18
2016	196,772	28.44	494,993	71.56	2.02	0.10
2015	223,659	31.13	494,748	68.87	1.93	0.13
2014	220,043	32.86	449,628	67.14	1.83	0.12
2013	221,549	33.70	435,869	66.30	1.71	0.10
2012	571,618	89.22	69,081	10.78	1.82	0.04
2011	640,623	91.67	58,226	8.33	1.82	0.03
2010	824,882	-	n.a.	-	1.89	0.01

Source: Fiscal statistical bulletins of NAFA (2023), NIS (2023), Eurostat (2023), and Istrate (2022, p. 206)

From Table 3, we see that the share of payers of MERT has become very consistent, starting with 2013, when the regime became mandatory (I cannot comment on the situation between 2001 and 2009, in the absence of official data). Apart from the conclusion that most Romanian companies have low revenues, we can also imagine that the administration of the MERT, on the part of taxpayers, is much easier, much less ambiguous and is much better suited to the behaviour of the Romanian company administrators, than in the case of CIT. Indeed, MERT eliminates almost any reference to charges: it is no longer a question of whether they are deductible or not, that is, the company's concerns from this point of view have diminished significantly. We can assume that, in the accounts of the companies paying the MERT, we find significant charges that would not have been accepted as deductible, in the case of the CIT. We can ask what happens, in the companies where the main associate is also administrator, with the expenses related to the lack of goods found at the inventory, with the expenses related to the maintenance and operation of the cars used by the family or the close of the administrator, with other expenses related to affiliated persons, the costs for which the supporting documents are at the limit, etc.

For the tax authorities, even if, from their point of view, the administrative costs of MERT are lower than in the case of the CIT and the risks of tax evasion decrease significantly, the small contribution to the state budget probably represented a signal that companies prefer the simplicity of this tax and consider that its impact on the company's finances is lower than in the case of CIT. In the

substantiation note aimed at amending the tax code (MPF, 2022), the government acknowledges that the tax burden of micro-enterprises is low and that businessmen choose to fragment the activities carried out, in order not to exceed the ceiling of 1,000,000 euros.

As often in taking legislative decisions with a significant impact on the business environment, the Romanian authorities invoke, in the same substantiation note mentioned above, the recommendations of the international financial bodies (IMF and WB), of the European Commission, in justifying the decrease, from 2023, of the maximum ceiling up to which companies can opt for MERT.

The reaction of small Romanian companies did not delay to appear: these companies have so well adapted to the MERT (“simple, clear and uninterpretable system and without fiscal stress”), with the advantages mentioned above, that a representative of CNIPMMR declared that the measure of the decrease of the ceiling is without economic justification, given that only about 8,000 companies declared revenues between 500,000 and 1,000,000 euros (CNIPMMR, 2022; Mihai, 2022). Moreover, in Latvia, a similar tax regime became so popular with the tax advantages created by eligible companies, the number of companies applying it increased rapidly, leading to unexpected consequences, creating distortions in the economy and forcing the authorities to modify essential characteristics of the tax. In order to avoid dividing businesses into multiple companies, the new Romanian rule establishes that a person may own no more than 25% of the capital than at most three micro-enterprises subject to MERT. Also, in order to stimulate employment and bring money to the budget as tax and salary contributions, the new rule on micro-enterprises eliminates the possibility for a company without employees to apply this regime – such companies automatically become payers of CIT.

3. SOME OTHER EXPERIENCES ABOUT THE TAXATION OF THE REVENUES OF THE COMPANIES

Taxation of revenues rather than profits is a solution that other countries have used or have tried to apply, faced with the behaviour of firms in order to significantly reduce their taxable profit or with difficulties generated by various crises.

Latvia introduced in 2010 a Micro-Enterprise tax (MET) valid for companies with turnover below 100,000 euros, the cap decreased to 40,000 euros in 2018 (Leibus, 2019). The application of this regime required the fulfilment of other conditions, including the existence of 5 employees, one person could own only one company to apply the regime, one person could be employed at only one company eligible for this tax system (condition removed later). The rate of this tax applied in Latvia was 9% in 2010 and 15% in 2018, given that, in fact, that tax completely replaced several other taxes and contributions, including labour

contributions, which greatly simplified the taxation of the companies involved and reduced the tax compliance costs, with the decline of undeclared work.

In 2019, after two years of preparation, the French government began the formalities for issuing a law setting a minimum tax of 3% on the revenues of companies in the field of digital technologies (Google, Amazon, Facebook, Apple, etc.). This law was adopted by France in July 2019 (Loi 759/2019), and its application was limited to multinational companies with total global revenues of at least 750 million, of which 25 million were made in France. According to a French minister, this tax has brought about 700 million euros a year to the state budget. France has been supported by other countries in this way of taxing global internet companies, but the global generalization of such taxation – through the OECD – has to faced strong opposition from some large countries – the USA, India, Saudi Arabia (Le Figaro, 2023). Also in France, there is a special simplified system of taxation of micro-enterprises that does not necessarily mean the taxation of revenues, as in Romania, but the taxation of a profit obtained by deducting a flat rate of charges from revenues/turnover, depending on the type of activity (Bercy Info, 2023). This scheme applies to annual net turnover below EUR 188,700 for some activities or below EUR 77,700 for other activities.

In Portugal companies could apply – since 2001, suspended in 2009 and reintroduced, with some differences, in 2014 – a simplified optional tax regime for businesses of less than EUR 200,000 (reference is also made to a maximum limit of 500,000) euros for the assets). These companies are not subject to CIT, but to an revenues tax calculated by applying quotas of maximum 1%, depending on the activity (Dâmaso and Martins, 2016; PwC, 2022a; Pais and Dias, 2022). However, Pais and Dias (2022) find data suggesting that many Portuguese eligible companies are not opting for this regime, especially as a result of the potential tax increase paid.

Scot (2020) writes about the situation in Honduras, where companies whose revenues exceed 10 million lempira (about \$400,000) must pay 25% of their profits, but not less than 1.5% of their revenues. In these circumstances, Scot (2020) finds an unnaturally high number of companies with revenues immediately below the threshold of 10 million lempira, which makes him conclude that these companies manipulate the revenues so as not to exceed the respective ceiling and, consequently, for not paying taxes. The covid-19 pandemic has significantly affected Ecuadorian micro-enterprises, so the law has changed to the effect that companies with less than 300,000 euros pay an annual tax established by applying rates from 0% to 2%. In fact, Latin America comprises many countries (including Argentina, Brazil, Mexico, Colombia) where corporate income tax is supplemented or replaced by some corporate revenues tax (Arias, 2022).

In the United States, following the change in corporate tax rules, the tax rate fell from 35% to 21% under the Tax Cuts and Jobs Act of 2017. The health crisis, followed by the military crisis in Ukraine, the tax evasion practices of the US

companies, added to other factors, led US authorities to introduce a tax mechanism to ensure that corporate tax is obtained by applying the tax rate to a profit as close as the accounting profit, reported to ordinary users of accounting and financial information. This mechanism, called the Corporate Alternative Minimum Tax (CAMT), (re)appeared in 2022, with application since 2023 and refers to companies whose adjusted profits exceed 1 million USD for three consecutive years (IRS, 2022; PwC, 2022b). In fact, this measure requires the prior calculation of the CIT, according to the general rules, after which the CAMT is calculated and the highest amount is due to the tax authorities.

The use of thresholds for businesses that are subject to a simplified tax regime is very common. Bergner and Heckemeyer (2017) present statistics on European countries and, for non-corporate entities, identifies thresholds ranging from 25,565 euros per year to 1,500,000 euros per year (at 2010 level); being below these thresholds makes companies eligible to set tax on a cash flow basis.

4. CONCLUSIONS

Taxing companies' profits is a complex and costly action, both for the authorities and for taxpayers, without many chances of simplifying in the foreseeable future, on the contrary. The not always very high yield of the corporate income tax in Romania, as well as the tax evasion/ tax planning possibilities it allows, have led the Romanian tax authorities to create, starting with 2001, a category of companies that exit the CIT system, paying tax on the revenues of micro-enterprises (MERT). The initial ceiling of 100,000 euros of revenues up to which this regime could be applied (along with other specific conditions) made the number of companies in this category initially quite limited. After two initial years (2001 and 2002) in which it was mandatory, MERT becomes optional (until 2012) and does not yet attract many companies: Somewhere up to 10% of the number of taxpayers registered within this tax system. Starting with 2013, the decrease of the ceiling (to 65,000 euro, for three years) and the reintroduction of the obligation to pay this tax for eligible companies led to a massive increase in the number of companies paying MERT, up to 70% of Romanian companies. On this occasion, entrepreneurs quickly discovered that MERT is much easier to manage than corporate tax and, even if it is paid under the conditions of accounting/tax loss reporting, the tax burden relative to tax compliance costs is easier to bear than for the classic corporate tax.

The political options of the Romanian government led, starting with 2017, to a significant increase in the ceiling – to 500,000 euros in 2017, to move to 1,000,000 euros starting with 2018 – which led to almost 90% of companies becoming payers of MERT. The success of MERT among businessmen also led to unexpected consequences, such as the fragmentation of businesses across multiple firms, so that the ceiling would not be exceeded, to avoid to enter in the CIT category. However, despite the extremely large number of taxpayers in the

MERT, the contribution of this tax to GDP remained very modest: No more than 0.26% of GDP (in 2018 and 2019). This figure is very low in relation to what the CIT bring to the public revenues, even if CIT is paid by slightly more than 12% of companies: about 0,25% compared with about 1.6% of GDP in recent years.

In the face of these figures and the high need for money to the budget, in the context of two successive major crises (covid-19 and the war in Ukraine), the Romanian tax authorities decided to change the conditions for the classification as a payer of MERT, by (re)bringing the revenue threshold to 500,000 euro and introducing the obligation to have at least one employee, once limiting to 3 the number of micro-enterprises in which a shareholder may own 25% or more of the capital. This decision was not well received by the businessmen.

Comparing the Romanian situation with what is happening in other states, I found elements of similarity, even though the context of revenues taxation instead of profits taxation and the manner of establishing revenues tax are different. Latvia has an income tax system that replaces the majority of corporate taxes (including taxes/salary contributions) for companies with incomes below 100,000 euros (limited at 40,000 euros). France has already raised money to the budget from taxing the revenues of major digital technology firms, but it also has a simplified taxation system for micro-enterprises. In Portugal, too, we have a revenues tax for businesses of less than 200,000 euros. Complementary revenues tax systems are also found in many Latin American countries.

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