DECREASING INDIRECT FISCAL PRESSURE – ESSENTIAL TOOL FOR COMPETITIVENESS ENHANCING OF ROMANIA'S TOURISM SECTOR

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Abstract
Present condition of Romanian economy is (still!) bad enough, given the yet existent (aftereffects of) world economic and financial crisis, so that this *economy badly needs bolstering up in any manner whatsoever; considering this perspective, and Romania's tourism potential, Romania's tourism sector can become a hub of/for economic recovery.*
But, in order to do this, Romania's policymakers need not lose from sight Romania's long term objectives, whilst trying to attain (just) the short term ones. For the latter' achievement fiscal policy is a main tool, but if this tool is used in extremis *tourism sector will definitely suffer. On the other hand, it is also true fiscal policy, if used wisely, is more than able to be an essential tool with which one can enhance competitiveness of Romania's tourism sector.*

Key words: *tourism, VAT, taxation, exportability*

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I. INTRODUCTION

National and international statistics (e.g. EUROSTAT) still records, even in present time (2015), for Romania' s economy, modest 'amounts' of economic growth and – in general – has a (very) dismal press, given this economy is, among other, 'house' for the following dynamics and phenomena:

A) a budget sustained – i.e. not quite balanced (in long-term perspective) – mainly through expedients and *not* through applying a coherent budgetary policy;
B) a quite inept fiscal policy – again, in long-term perspective;
C) an active and persistent **structure** (and not, 'merely', an ***atmosphere***!) of corruption.

All these simply make it compulsory for state administration to use any conceivable tool in order to alleviate at least the financial component of present – and powerful – *crisis*, as not only Romanian economy was damaged by it, but Romania itself.

For accomplishing this, Romania's tourism industry may become indeed, if not a perfect cure, at least *a* cure – or a part of it – whose impact is to (re)boost economic growth. In Romania, the main issue is that, whilst economic growth is a phenomenon whose planning *and* successful execution are confined, so to speak, to long-term strategy-making, most measures taken for balancing/funding state budget are applied, but even more so *planned* – in Romania – from within a short-term mental and administrative framework.

This is indeed at least apparently a contradictory situation, or more exactly a *dilemma* for state administration and/or Government, which cannot be surmounted but in one manner: if one insists less on reaching short-term goals, focusing, instead (which does not mean disregarding short-term objectives in the least), on economy's long-term goals.

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Nowadays, economic growth recorded in Romania, respectively the *welfare* 'recorded' as such by Romanian taxpayers are generated in a very limited extent by tourism industry; for example, in 2014, contribution of tourism industry to economic growth amounted to no more than 5% or so – larger part of contributing to economic growth (e.g. rise of GDP) came from industry, communications and *(net) indirect taxes*.

Romania' tourism ***potential*** is well known – at least for Romanians –, and it is clear something can *and* must be done in this respect (viz., for bolstering economic growth); on the other hand, however, it is equally clear that, without a sound-built infrastructure (in broad sense of this word) Romanian economy should not expect miracles from its tourism industry –

as such miracles will not arrive forthwith – if at all – from this industry in those circumstances.

In this respect, as well as in others, fiscal policy *can* do something, and even a lot; a flexible and carefully designed fiscal policy could – if it would be *desired* – support in the most literal sense of the word Romania' s tourism industry, given not only *this* industry would benefit from such support, but the entire Romanian economy.

In Romania, however, fiscal policy is designed in such a manner that most part of funds it provides to state budget comes from indirect (revenue) taxation (e.g. taxes levied on consumption), and not from ***direct*** (revenue) taxation. The reasons for this ever being are, we must underline it, for the most part, improper and almost ***shameful***:

(a) in Romania fiscal evasion is rampant – especially for those in the position of actually achieving it, such as (medium-sized and large) firms –, the corruption structure being not the least *material* basis of this;

(b) As a result, indirect taxation is by far *the* favorite type of taxation as far as government and fiscal authorities are concerned, and only because in this realm (technical) fiscal evasion is nearly impossible, given those who ***support*** indirect taxes are the consumers – who, moreover, can do very little to override this (to put it extremely mildly) *tendency*.

In practical terms, only *some* taxpayers are (over)taxed, the only reason – if reason it can be – for this being they simply ***cannot accomplish*** fiscal evasion, instead of levying taxes in accordance with one's economic and financial 'power' (this latter point of view led, in Western Europe, at least, from circa 1880 AD, to such 'wonders' as progressive taxation).

Such a (Romanian) fiscal practice, very little acquainted to realities of market economy, cannot but produce mishaps – and, as facts clearly illustrate it, it did generate and generates even today, if not many, at least great difficulties to Romanian economy, even in this very year of 2015, when the aftermath of last economic and financial crisis is still with us. Some parts of this aftermath have faded away, but by no means all of them.

A tool through which positive results within and for the benefit of Romanian economy could be brought off would be a fiscal policy bent on **supporting consumption**; more exactly, not nearly on *any* consumption, but, given Romania's fragile economy (and economic growth), on consumption of goods and services produced by the *indigenous* economy. Tourism would suit this principle well, in theory, but, as to consumption of indigenous output, in Romania, we are faced with a purely contradictory policy – if 'policy' is a good enough term for it:

A) on one hand, there is a fiscal policy focused on consumption taxation;

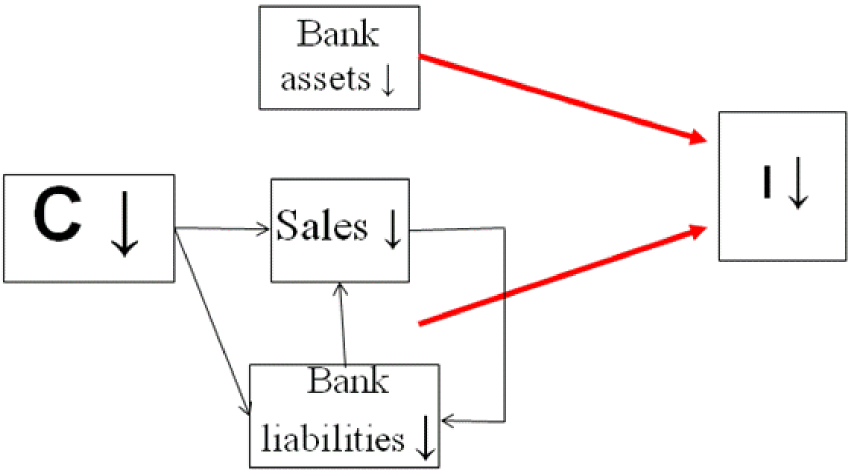
B) on the other hand, during a crisis (practically still active in most of Romania), *consumption is (nearly) on the rocks* – enough reason for a fiscal policy which inherently diminishes consumption *anyway* to be anything but advisable;

C) fact that Romania is member state – with full rights – of European Union implies that in Romania too Council Directive 2009/47/EC of May 5, 2009 is applicable – Directive which, in Annex 3, states services using intensive labor (*such as **hotels***) ought to benefit from a reduction of VAT (quota).

We are, thus, able to pinpoint that:

D) In an economy such as Romania's, where – as it goes – many a merchandise get sold but too few is actually *produced* here (as proportion of what it *is* sold – respectively, bought), the focus of fiscal policy should be *direct* (revenue) taxation.

Direct revenue taxation is desirable, as well, from a somewhat different point of view: overtaxing consumption generates profound negative outcomes – as profound as it is likely ***monetary policy*** is struck by all these 'antics' fiscal policy does – for the worse –, on one hand, and investment phenomenon tends to shrink, on the other hand. The figure below illustrates this clearly enough:



Source: Predescu, A., *Impozitarea veniturilor şi creşterea economică*, Editura Universitară, Bucureşti, 2013, p.

So, indirect *tourism* taxation, in Romania, is far from being characterized, *inter alia*, by an *optimal* fiscal pressure – in part, due to the fact *Romanian tourism (industry)* is – still! – an industry in desperate want of a *clear* and *unitary* strategy, even as regards targeting (successfully!) indigenous tourists – not to mention foreign ones.

While it is certain tourism industry cannot be shielded from fiscal policy – not even from *indirect* taxation, it is also obvious not even in Romania revenues obtained for state budget out of VAT are important, and the mere fact VAT has a powerful impact on prices tourists have to pay cannot possible determine any fiscal authority to consider tourism services as being – at least in principle – tax-exempt.

In our case, there is one *more* difficulty: impact of indirect (increased) fiscal pressure on Romanian tourism industry could be reduced, but, unfortunately, due to several reasons (the practical inexistence of a **nation brand**, the existence of a rather primitive infrastructure – roads, highways, airports, *hospitals*, etc. –, sqq.), the following dynamics, although feasible in others countries' practice, is, *in Romania*, of drastically reduced (positive) influence:

(A) on one hand, fiscal incidence of VAT falls, so to speak, on final consumer – i.e. the tourist –, and *not* on companies (hotels, restaurants, sqq.), the latter being busy with VAT *payment* to fiscal administration, and not with VAT support (according with Romania's Fiscal Code);

(B) On the other hand, ***this*** should be an advantage for developing even further Romanian tourism sector, that is *if* the tourist is *not* a taxpayer – as regards Romanian fiscal administration (in other words, if he/she is a foreign tourist) –, so that what is known as *tax exportability* might work.

But, in Romania, the ratio of foreign tourists is rather meager, which means this technique of *cushioning the shock of (indirect) fiscal pressure* is applicable but with minute amplitude.

III. Conclusions

Analysis of links existent between fiscal policy, in general, respectively indirect (revenue) taxation (or consumption, through VAT and excises, taxation), especially, and *tourism industry* (or tourism (economic) sector), links (and dynamics generated by those links) described above, allows us to state fiscal policy can really prove to be an important tool for increasing competitiveness of Romania's tourism sector, *through fiscal pressure*, if action is undertaken in accordance with following coordinates:

I. enhancing activity of fiscal institutions *especially in the direction of raising tax efficiency (e.g. as regards direct taxes) and, in the same time, of reducing sensibly levels of tax evasion*, as means of putting off the overusing indirect taxes just as an easy means of counteracting the failure of levying direct taxes;

II. diminishing VAT quota as compensation measure for VAT's 'influence' on tourism services as such – not in the last, in what *consumption* of goods (e.g. foodstuff) *bought and sold* as result of this services being developed is concerned;

III. Diminishing prices for package tours, and especially for package tours ***sold to foreign tourists***, in order to allow *tax exportability* to be applied to most transactions with tourism services.

In addition, what it should be known as *strategic planning* should, in the realm of fiscal and monetary policies, apart from applying measures such as these pinpointed in this paper, comprise also active action for rising quality of infrastructure (in large sense of word –

communication networks, health system, etc.), which any tourism industry, even Romanian one, works in.

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