Classification of taxes

A. Direct taxes are established on a nominal basis, levied from individuals or business entities in accordance with their income or wealth and collected at certain pre-established deadlines. For this kind of taxes, the subject is the same per-son as the one that actually supports the tax, at least from the lawmaker’s point of view. From this reason it is mentioned that this kind of taxes affects directly the paying subject.

According to the criterion underlying their establishment, direct taxes are effective and personal.

– Effective direct taxes are also called objective or product based taxes as they are levied on the gross tax base without considering the situation of the taxable subject.

Such taxes are levied on the property of certain material objects such as land, buildings, plants, stores, as well as on movable capital. In this category are included: land tax, building tax, tax on industrial and commercial activities, tax on liberal professions and tax on movable capital.

– Personal direct taxes are levied on income or property, considering also the personal status of their subject, and consequently they are also called subjective taxes.
Classification of taxes

B. **Indirect taxes** are levied on disposal of goods, provision of certain services (internal or external) being paid to the public budget by producers, traders or service providers and paid for by the consumers of acquired goods and services.

For such taxes, the subject and the bearer of the tax are not one and the same person, at least from the legislator’s point of view. That is why, it is said that this type of taxes have an indirect incidence on the taxpayer.

In accordance with their corresponding pattern, indirect taxes can be grouped as:

- consumption taxes (special or general)
- monopoluri fiscale,
- taxe vamale.
Classification of taxes

2. From the point of view of the object on which they are levied, taxes are classified as:
   - income taxes;
   - taxes on property;
   - taxes on consumption or on expenditures.

3. According to the objective pursued by the government by their implementation, taxes are classified as:
   - regular financial taxes;
   - regulatory taxes;
   - The regular financial taxes are established by the state in order to realize the most important part of revenues of the public budget.
   - The regulatory taxes are established in order to limit the consumption of some goods or actions, as well as in order to achieve certain objectives that do not have a prevailing fiscal nature. As such, they are connected to the quality of financial levers.
Classification of taxes

4. According to the **frequency of collection to the budget**, taxes can be grouped in the following categories:
   - permanent (ordinary) taxes;
   - incidental (extraordinary) taxes.

The **ordinary taxes** are regularly collected and consequently they are included in each annual public budget. The **extraordinary taxes** are established and collected on an exceptional basis in relation with the appearance of taxable objects that are substantially different from ordinary ones (e.g. over profits in situations of war).

5. Taxes are also grouped according to the **managing institution**. Thus, in a federal state, taxes are classified as it follows:
   - federal taxes;
   - taxes at the level of states;
   - local taxes.

In unitary states, taxes are classified as:
   - taxes collected to the budget of the general government;
   - local taxes.
## Classification of taxes

1. by contents and general pattern of taxes;
   - Direct taxes
   - Indirect taxes

2. by the object on which they are levied;
   - Income taxes
   - Taxes on property
   - Taxes on consumption or on expenditures

3. by the objective pursued by the government in their implementation;
   - Regular financial taxes
   - Regulatory taxes

4. by frequency of collection to the public budget;
   - Permanent (ordinary) taxes
   - Incidental (extraordinary) taxes

5. by the managing institution.
   - Taxes collected to the budget of central government
   - Local taxes
The approach regarding a certain tax is reflected in the law establishing it. Firstly, in this pieces of legislation, in the introductory part, are explained the necessities that lead to the introduction of the new tax and the functions that it must fulfill. Subsequently, the law describes all technical data that should be known by taxpayers and fiscal authorities in order to correctly establish the tax and to timely collect it.

The implementation and individualization of each tax is extremely important both for fiscal authorities and for the envisaged taxpayers.

In this regard, the following technical elements are used:
Beside the technical elements already introduced, the legal act establishing a certain tax should also include:

• the authority and beneficiary of the tax
• all granted fiscal facilities
• applicable sanctions and the ways to appeal.

<table>
<thead>
<tr>
<th>Technical elements of taxes</th>
</tr>
</thead>
<tbody>
<tr>
<td>• tax subject or tax payer</td>
</tr>
<tr>
<td>• object of taxation</td>
</tr>
<tr>
<td>• taxation unit</td>
</tr>
<tr>
<td>• taxation process</td>
</tr>
<tr>
<td>• the entity supporting the tax impozitului</td>
</tr>
<tr>
<td>• source of the tax</td>
</tr>
<tr>
<td>• tax rate</td>
</tr>
<tr>
<td>• payment deadline</td>
</tr>
</tbody>
</table>
The **tax subject or taxpayer** is the individual or business entity bound by law to pay the tax.

Usually the tax subject is, or should be, the one covering its payment. If this correspondence between the subject / covering entity is verified, those taxes are direct taxes. Yet sometimes this correspondence is not verified – the entity effectively covering the payment is different from the one paying for it. In this case we deal with an indirect influence of the tax.

Here we can also notice the phenomenon of **fiscal repercussion**, i.e. the transfer of fiscal burden. The reason for which the taxpayer is bound to pay the tax is the fact that he owns a taxable object.

• The **entity covering the tax** – is the individual or business entity from whose revenues or wealth the tax is effectively covered. This element is important from the point of view of the fundamental distinction between direct and indirect taxes, as we have already explained in the previous paragraph.
Technical elements of taxes

• The **object of taxation (taxable object)** is the good, revenue or activity for which direct taxes are due, as well as the disposal – acquisition, capitalization or circulation of certain goods, products and services in the case of indirect taxes.

In other words, taxable object can be represented by: – revenues collected by taxpayers – the property they own – or the expenditures – consumptions made by the taxpayers.

The object of taxation, in order to be taxed, must be assessed and evaluated and this is the reason why the law should precisely specify the taxation unit.

• The **source of the tax** – indicates the source from which the tax is paid: income or property. It is an element not so often expressly stipulated by law, as it can be implicitly understood most of the times. As source of tax, revenues are collected in the form of salaries, profits, dividends or rents, while the property appears in the form of capital or movable or fixed assets. For taxes on income the object always coincide with the source.
Technical elements of taxes

• The **taxation unit** – is represented by the unit used for expressing the size of the object of taxation. It has either a monetary expression (in the case of taxes on income) either different natural physical expression (m², hectare etc.) in the case of taxes on property.

• The **tax rate** - este mărimea impozitului, stabilită pentru fiecare unitate de impunere. is the size of the tax, established for each taxation unit. It can be a lump-sum or a percentage rate – proportionally, progressively or regressively established in relation with the object of taxation or with the tax subject’s capacity to pay.
Technical elements of taxes

• The **taxation process** expresses the way in which the tax is established and levied and includes all the operations undertaken by fiscal bodies in order to identify the tax subjects, to establish the size of the object of taxation and the amount of taxes due to the government.

• The **deadline** indicates the date by which the tax should be paid. This deadline is of imperative nature and therefore if it is not observed, delay penalties are levied. The frequency of tax collection is very different from one tax to another. In this regard, a strong influence is exercised by the amount of due tax, the frequency of realizing the taxable income – there are taxes which are collected on a daily basis, there are other taxes collected at regulated time intervals (two weeks, one month, etc.), while for others there are no pre-established deadlines, but only the moments in time when they should be paid (e.g. for excises, the payment should be done when the commodity is acquired).

• The **authority and beneficiary of the tax** – is the public authority having the right to establish the tax, complemented by the bodies that effectively establish and levy the tax.
Technical elements of taxes

• **Tax facilities** – refer to the possibility that the legal act would also stipulate some exemptions for certain categories of subjects, certain exemption periods, certain tax reductions or some tax refunds, by the case.

• **Applicable sanctions** – envisage the consolidation of taxpayers’ responsibility in what regards the correct establishment of fiscal liabilities and their payment in the favor of the beneficiary.

• **Ways to appeal** refer to the possibility that taxpayers can use in order to submit complaints, claims or appeals to the bodies of the Ministry of Finance.
• The **taxation process** is the expression of all measures undertaken by fiscal bodies in order to establish the object of taxation, the size of the tax and the collection of tax to the public budget.

**A. Assessment of the objects of taxation.** In order to determine the object of taxation it is necessary first to identify its existence and then to assess it. Over time and also according to the type of the object of taxation, several methods of collection were used for assessment purposes:

1. **indirect assessment based on assumptions**
2. **direct assessment based on evidence**
1. The **indirect assessment based on assumptions** can be used in the following versions:

- the assessment based on **external indications** of the taxable objects and it consists in determining the approximate value of the taxable object (land, buildings, and industrial activities) irrespective of the circumstances of the entity owning the corresponding object.

- **lump-sum assessment** – fiscal bodies in mutual agreement with the tax subject allocate a certain value to the taxable object, without pretending to be the exact value. Besides the obvious insufficiency of the approximation, there are frequent cases of fiscal evasion due to the under evaluation of the taxable object in accordance with the agreement between the parties.

- the **administrative assessment** – it is based on the data or elements accessed by the fiscal apparatus within its own records. Thus, in this situation, the fiscal agent unilaterally establishes the volume of the object of taxation, while if it doesn’t agree the taxpayer may appeal against such assessment, but it is bound to bring some evidence in this regard.
The Taxation Process

2. The **direct assessment based on evidences** presents two versions in which it can be implemented:

- the **assessment based on the statement of a third entity** is applied when the size of taxable object is also known by another person different from the tax subject. This method presents the advantage of preventing the cases of fiscal evasion, as the third party has no interest in under-evaluating the taxable object. The main disadvantage of the method is its limited applicability. This kind of assessment is used in the case of salary income, whose size is declared by the employers paying the salaries, while in the case of income from rents it is declared by the renters, etc.

- the **assessment based on the taxpayers’ statement** is used when the subjects paying the taxes are bound to keep track of the revenues and expenditures generated by the undertaken activities, to prepare a fiscal balance and to submit specific statements.
B. The **calculation of taxes**, often referred to also as establishing the size of the tax due, it’s an operation differently undertaken in accordance with the type of taxes, i.e. distributive taxes or quota taxes.

- **Distributive taxes** (or contingency taxes) are characterized by the fact that they are established by fiscal authorities in a global amount that must be collected all over the territory of the country. Such global amount is distributed from top to bottom by each administrative and territorial unit, while at the level of the basic unit (town, village) it is distributed by objects of taxation or by paying subjects. This was a solution broadly applied in the past, but as it also involved a lot of inequities, it has been gradually replaced.

- **Quota taxes** – in this case, a bottom to top approach is used for the calculation, starting from the level of each taxpayer. Taxes are determined on each object of taxation and for each taxpayer, by using lump-sums or percentage shares or in a mixed fashion, by the case.
C. **Tax collection** to the public budget is the final operation of the taxation process, consisting in the collection of taxes in accordance with corresponding deadlines and modalities for each of them.

1. **Indirect collection:**
   - a) **taxes are collected by a certain taxpayer** who will subsequently transfer them to the state treasury. Yet, over time, this activity turned extremely sophisticated and this solution although simple and economic has proved to be non-viable.
   - b) **taxes are collected by concessionaires** often referred to as “tax lessees”. They pay in advance to the government the taxes due on behalf of the entire community and subsequently recover from the taxpayers the advanced amounts. The disadvantage of this method resides in the fact that the concessionaires where frequently appropriating for themselves a part of collected taxes, collecting more than they were transferring to the government, following several fiscal abuses.
2. Collection of taxes through a specialized tax apparatus of the government is undertaken as it follows:

- In the case of taxes collected from individuals, in accordance with the collection method, there can be identified:
  - portable taxes – when the paying subject goes to the financial administration and pays for the tax
  - taxes collected at taxpayer’s residence – when the collecting authority (employee of the financial administration) is going to the taxpayer’s residence and collects the due tax
In the case of taxes collected from business entities, for certain taxes the law stipulates the use of several methods:

- **withholding** – consists in the transfer of the tax to the budget by third parties (method of retention and transfer). The most common example is the tax on salaries. In this case, the enterprise or the owner calculates on the basis of legal provisions and gross wage due to each employee the legally due tax on salaries, while the remaining part, i.e. the net wage, is paid to the employee. The taxes withheld in this manner must be transferred to the state budget. Also for the taxes on profit, dividends or other compulsory payments the business entity has the same obligations: the calculation and direct transfer to the government.

- Collection by using **tax stamps** or, as it is also called, the method of buying and cancelling of tax stamps. This method is used for the taxation of certain revenues and for the collection of certain local taxes. Tax stamps are bought and applied on the corresponding documents in places and in the amounts expressly stipulated by tax legislation.
The “behavior” of tax rates

Tax rates represent one of the tax features, strictly compulsory for the definition of any tax. If the rates are not stipulated, the corresponding tax cannot be calculated, so basically it doesn’t exist.

Taxation rate can be defined as the total amount of tax corresponding to one taxation unit. Taxation rate is applied to the tax base and thus results the due tax.

The tax base is calculated by actually determining the taxable object from the quantitative and qualitative perspectives. In this regard, two operations must be undertaken: to identify the taxable object (matter) and to establish its nature, i.e. the qualitative identification followed by the assessment or evaluation over a certain time interval of the tax object. Tax base is expressed in monetary units and, not so frequently, in natural units.

The tax owed by the taxpayer is calculated by applying the taxation rate(s) to the tax base. Here we should mention that taxable object doesn’t always correspond to the calculation base of the tax. This is due to the fact that there are plenty situations when certain deductions are made from the taxable objects in order to determine the calculation base of the tax. This distinction is linked to the different meaning of the two concepts: taxable object and calculation base of the tax.
The “behavior” of tax rates

Taxation rates differ in accordance with the nature and size of the taxable income, as well as (possibly) with the categories of taxpayers. There might be found several types of taxation rates, such as:

1. lump sum rates (in a fixed, equal amount, a lump sum)
2. percentage rates:
   • proportional
   • progressive: horizontal and vertical; simple or mixed
   • regressive

1. **Lump sum rates** (fixed amounts, lump sums) are established in a fixed amount (equal), unchanged, irrespective of the size of taxable income, of the wealth or social circumstances of the taxpayer. These rates are usually used when tax bases are expressed in natural units. Lump sum rates on the measurement unit are applied in the same amount to each measurement unit of the respective commodity. As it can’t make any dis- tinctions in accordance with the size of taxable object, lump sum taxes become regressive as the taxable objects increases in size and, consequently, such a tax cannot be used, from the very beginning, as a financial lever.
The “behavior” of tax rates

2. Percentage rates:
Percentage rates consist in a percentage of the value of the taxable object. Such rates are applied only to tax bases that have a monetary value.

There are several versions of this method, as it follows:

Proportional rates are rates that remain unchanged (constant), irrespective of the size of taxable object and of the social status of the taxpayer. These rates are called proportional because in case a ratio is calculated between the tax resulted after using them and the taxable object, it can be noticed that the proportion remains the same, constant.

Proportional rates provide incentives to economic agents to develop and enhance their activity because irrespective of the increase of taxable object, the part due to the government remains constant – unlike the use of progressive rates when the part due to the government is increasing faster than the increase of taxable object. Such taxation rates are also applied to the revenues of the population if corresponding tax doesn’t have the purpose of redistributing the taxpayers’ revenues.
The “behavior” of tax rates

• **Progressive rates** are rates that increase together with the increase of the taxable income, either at a constant or variable pace. Depending on the nature of taxable income and categories of taxpayers, progressive rates can operate both horizontally and vertically.

**Horizontal progressivity** is characterized by the fact that, for equal taxable revenues, the taxation rate is different depending on the nature of taxable income and categories of taxpayers.

Instead, in the case of **vertical progressivity**, the taxation rate increases together with the increase of income, as well as depending on the nature of taxable income and categories of taxpayers.

At a certain point, progressive rates do not increase any more, they “freeze” and consequently turn into proportional rates. This provision is needed because otherwise might be reached a situation when not only taxable income would be equal to the due tax, but – if we make a reduction ad absurdum – the tax due could even exceed the tax base.
The “behavior” of tax rates

• **Vertical progressive rates** can be of two types: **simple** and **mixed**.
  – In the case of **simple progressive rates**, the taxation rate corresponding to installment taxable is applied to the entire tax base owned by the taxpayer.
  – **Mixed progressive rates** installment separately calculated and to each installment is applied a corresponding rate: after this operation the tax corresponding to each installment taxable is summed up, resulting thus the total due tax.

• **Regressive rates** are not specific for the current Romanian economy and in this case the rates decrease together with the increase of the taxable income, granting therefore an advantage to the taxpayer in order to obtain an as high as possible tax base – in this situation the tax, expressed in relative amounts is lower.
The “behavior” of tax rates

- **Lump sum tax**, as indicated by its name, is constant as absolute amount – from the moment when the minimum non-taxed ceiling is reached – and regressive as a share of taxable matter.

  Due to the fact that this kind of tax becomes a regressive one when the taxable matter increases, the tax burden is harder to bear when the taxable matter is small and it becomes easier to bear when as the taxable matter increases.

- Yet, on the other hand, this type of taxation rates flagrantly infringes any kind of principles of tax even-handedness: “in the case of this tax (lump sum tax) we cannot speak about even-handedness as at the moment of its establishment, the size of income or wealth are not taken into account and neither there are the personal circumstances of the taxpayer”. Basically, a tax with such rates is, already from a long time ago, a simple item of the history of taxation.
The “behavior” of tax rates

• The **taxes with proportional rates**, as indicated by its name, maintains its proportional ratio with the taxable matter, and only increases at same pace with the taxable matter, allowing it to remain constant as a share of total taxable matter.

A tax with such rates is neutral to the variation of the taxable matter and, consequently, it is practically impossible to be used as financial lever – irrespective of the taxable matter owned by him, the taxpayer will pay as a percentage the same tax, so he is not encouraged nor discouraged in his activities of producing the taxable matter.

This kind of tax is at most the expression of an “equal status versus the tax”.

Although it is still used in some countries, taxation with proportional rates was broadly used for the calculation of effective taxes, while today it is still used in the case of direct taxes for calculating the tax on profit and in the case of indirect taxes (value added tax, customs duties).
The “behavior” of tax rates

• This type of taxes is one of the oldest forms of taxation. Quite frequently appear requests for those practices to be used again:

• A 10 percent flat tax should be our goal. After all, back in Bible times, the people of Israel paid a "tithe" - that is, a 10 percent flat tax - to God. If God Himself only demands a tithe, who does Uncle Sam think he is, demanding more? - Michael Reagan;

• It is not too much to hope that some day we may get back on a tax basis of 10 percent, the old Hebrew tithe, which was always considered a fairly heavy tax. - Andrew Mellon (1855-1937).
The “behavior” of tax rates

• **Progressive rate taxation** was introduced starting from the second half of the XIX century. This type of tax is characterized by the fact that tax rate doesn’t remain constant – as it does in the case of proportional taxes – but increases faster than the increase of taxable matter, either at constant or variable pace.

Thus, according to the manner in which tax rates increase, in practice, can be found two versions of the progressive taxation: simple (global) progressivity and, respectively, mixed progressivity (by installment).

• The **taxes with simple progressive rates** are calculated by multiplying the taxable matter with the rate corresponding to its level. Consequently, it can be noticed that the tax increase somewhat faster than the taxable matter, both in nominal amounts and as a share of the taxable matter. As the same rate is applied to the taxable matter owned by a certain taxpayer, there can be noticed the proportionality related to each installment corresponding to the rate. For each switch of installment a sudden increase of the tax takes place, creating disadvantages for the taxpayers situated immediately after the switch of installments.
The “behavior” of tax rates

• The **progressive rate taxation by installments** involves the separation of taxable matter in several installments, while for each installment a certain rate is pre-established. The due tax is calculated by summing up partial taxes calculated for each installment of taxable matter.

The tax increases together with the increase of taxable matter, but faster than it, which is also obvious if we would analyze the tax as share of taxable matter.

Progressive rates by installments differ from simple progressive rates due to the behavior of the tax around the taxation installments. While in the case of simple progressive installments, when installments are switched it can be noticed a sudden increase of the tax, in the case of progressive rates by installments it can be observed that the increase is linear and uniform.

Thus it can be noticed that progressive taxes by installments eliminate the disadvantages of the progressive taxation by installments – for the taxpayers situated immediately after the switch of installment – while conserving all the advantages of even-handedness provided by the progressive taxation.