



THE ROLE OF LOCAL TAXES AND DUTIES IN THE ROMANIAN ECONOMY AND THE IMPORTANCE OF THEIR COLLECTION TO THE LOCAL BUDGET

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Abstract

This work aims to highlight the impact on the population from the perspective of the increase of local taxes and fees related to residential buildings by up to 50% depending on the notary grid that will take place at the beginning of 2025, compared to the last three years. Thus, Government Ordinance No. 16 of July 15, 2022 was adopted to amend and supplement Law no. 227/2015 regarding the Fiscal Code, the repeal of some normative acts and other financial-fiscal measures that provide for the elimination of all texts previously adopted by the Senate, specifying that starting with the year 2025 all taxes/fees on residential buildings will be calculated based on notary grids, the goal being that of increasing it by up to 50% by increasing revenues compared to the general consolidated budget. The objectives of fiscal policies in the field of taxes and local taxes regarding the review of the property taxation system contribute to the promotion and preservation of sustainable economic growth, by simplifying the taxation system to be more efficient, transparent and fair, resulting in the gradual reduction of fiscal facilities in the field of property taxation. Local budgets have an important role within the consolidated general budgets, as they occupy a constant position, which the states try to keep balanced, regardless of the periods crossed. Local taxes and fees are individualized by the fact that the local public administration authorities have powers in setting, calculating and collecting them.

Keywords: local taxes; fiscal policies; property taxation

1. Introduction

The collection of fees and taxes to local budgets has been a permanent concern of the public administration and taxpayers. Local taxes and fees, regulated by law, constitute revenues of the local budgets of the administrative-territorial units where the taxpayers have their domicile, headquarters or where the taxable or taxable

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goods are located, with the exception of taxes that, according to the legal provisions, are managed, controlled and used as extrabudgetary revenues.

Duties and local taxes play an important role in the economic development of a country, and the functions played by the local budgets are extremely important in the economic, social and working life of any community, being, in the same time, an “instrument in the service of economic efficiency” (Alexandru, 2022, p. 46).

Their role is manifested in three directions: financial, economic, and social, out of which the financial role is the most important, as “through local taxes and fees, local public expenses are founded, distributed and established, which are focused on the objectives of the local public administration and the community” (Ungureanu, 2007, p. 221).

2. The Legal Framework that is the Basis of the Calculation Method related to Taxes and Fees

Law no. 227/2015, regarding the Fiscal Code, is the most important law regarding local taxes and fees. The Fiscal Code establishes the general and legal framework for taxes, fees, and mandatory contributions that constitute the revenues of the state budget, local budgets, social security budget, health insurance budget, and unemployment insurance budget. It specifies which taxpayers are obliged to pay these taxes, fees, and local contributions, as well as the method of calculation and payment. Additionally, the Fiscal Code authorizes the Ministry of Public Finance to develop methodological norms and instructions for the implementation of this code and for double taxation avoidance agreements.

Therefore, Law 370/2022, which has already come into force as of December 23rd, 2022, provides for the preservation of the current rules for local tax on buildings for another two years. Thus, the new taxation system introduced by OG 16/2022 will only apply from 2025, not from 2023 as initially intended.

3. Taxes on Residential Buildings

Firstly, for individuals, the old rules for residential buildings, non-residential buildings, and mixed buildings tax will be maintained.

The provisions regarding the transition to a new market value taxation system will be postponed because such a mechanism requires a change in the form of property taxation starting from January 1st, 2025, and also due to the lack of an information

system that needs to be adapted to the new legislative changes. Therefore, the transition will be made from the tax based on the area and the building materials used to the tax on the property value established according to the notary grid after 2 years. If the taxable value increase had been applied, an apartment currently evaluated for tax purposes at €100,000 would have been assessed next year at €150,000, and the paid tax would have increased from €100 to €150.

For the period 2023 – 2024, the tax on residential buildings owned by individuals will be calculated by applying a rate ranging from 0.08% to 0.2% to the taxable value of the building. According to article 457 of the Tax Code, the taxable value of residential buildings is determined by multiplying the built-up area expressed in square meters by the taxable value in lei/square meter depending on the building materials used (the values from the table remain unchanged), provided that all the conditions regarding the installation of water, sewage, electricity and heating systems are met. Also, as it is now, the taxable value of the building will be adjusted according to the locality rank and the location area. The adjustment will also be made according to the year of completion of the building, and in the case of an apartment located in a building with more than 3 levels and 8 apartments, the correction coefficient is reduced by 0.10 as provided by paragraph 6 of the Tax Code.

Starting in 2025: this tax is calculated by applying a minimum rate of 0.1% to the value of residential buildings, regardless of whether the owner is an individual or legal entity. Specifically, the values of the building, annex buildings, and land areas covered by these buildings, as determined by market studies (so-called notary grids), are added up. The measure aims to determine the taxable base of buildings as close as possible to their market value. For example, for a two-room apartment in a neighborhood in the capital, the annual property tax is around 260 - 300 lei. At a rate of 0.1%, the same type of property would be taxed between 305 - 375 lei.

Secondly, for legal entities, the old rules for tax on residential and non-residential buildings, including mixed-use buildings, are maintained.

For the 2023-2024 timeframe, for legal entities, the property tax on residential buildings is calculated by applying a rate between 0.08% and 0.2% on the taxable value of the building, and the property tax on non-residential buildings is calculated by applying a rate between 0.2% and 1.3% on the taxable value of the building. For mixed buildings, the tax is calculated by adding the tax for the residential part to the tax for the non-residential part. Thus, the rule of determining the tax based on the assessment report prepared by an authorized evaluator once every five years is preserved.

For non-residential properties, the taxable value of buildings owned by legal entities for the purpose of determining the tax on buildings is the value as of December 31 of the previous year for which the tax is due, namely the value resulting from an evaluation report, which includes the value of the building and the land, prepared by an authorized evaluator in accordance with the appraisal standards in force at the time of evaluation.

In the case of buildings financed under a financial leasing contract, the value resulting from an evaluation report, which includes the value of the building and the land, prepared by an authorized evaluator in accordance with the appraisal standards in force at the time of evaluation.

Starting from 2025, for non-residential buildings, the tax is calculated by applying a minimum rate of 0.5% on the value of the building. The value of the building is determined by adding the value of the building, annex buildings, and the value of the land surfaces covered by these buildings, as included in market studies (so-called notary grids).

Calculation of the taxable value for residential/non-residential buildings based on the values included in market studies regarding indicative values for real estate properties in Romania, administered by the National Union of Romanian Public Notaries, as follows:

- a) for residential buildings, the minimum rate should be 0.1%;
- b) for non-residential buildings, the minimum rate should be 0.5%.

The minimum value information taken from the notary grids is based on a market study conducted by an evaluator who is a member of the National Association of Romanian Evaluators, which takes into account various factors such as economic aspects related to population density, unemployment rate, marketing studies regarding demand fluctuation (purchasing power and buyer preferences) and supply (referring to the availability of real estate property exchange), as well as socio-political changes and economic policies in Romania.

4. Conclusion

The only applicable novelty starting with local taxes in 2023 is the introduction of the possibility for local councils to exempt or reduce taxes for new or rehabilitated homes that have undergone energy efficiency works, for which electric energy production systems have been installed with the help of photovoltaic panels, or for which certified ecological systems have been implemented for the collection and

treatment of wastewater resulting from their own consumption. The facility applies (if introduced at the local level, since it is optional) only to those who have borne the necessary expenses from their own funds. The measure is at point 13 of Article I of Law 370/2022. Increasing property taxation through OG 16/2022 would have an impact of 2.79 billion lei in 2023, 2.94 billion lei in 2024, and 3 billion lei in 2025.

This fiscal process of increasing local taxes and levies based on studies undertaken by UNNPR aims to increase the structure of budget revenues starting in 2025, but we can also talk about a future economic recession that could influence the decline in real estate prices and therefore a decrease in revenues for local budgets.

In conclusion, local taxes and levies in Romania, although not very popular among taxpayers, help to develop the local units of administrative-territorial organization. Without these financial resources, public authorities could not offer all the services they currently provide, such as defense, education, sanitation, culture, and many others. On the other hand, if taxpayers contribute to the local budget in the first part of the year, public authorities manage to have financial resources in a shorter time and thus finance the services that contribute to the proper functioning of society more easily until the first half of the year.

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