THE TAXATION OF SMALL AND MEDIUM-SIZED ENTERPRISES - A HINDERING FACTOR INFLUENCING THE EUROPEAN ECONOMIC GROWTH

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Abstract: *Considering that the fiscal treatment of small and medium-sized enterprises (SMEs') business requires a deeper insight into the features of these peculiar economic agents appears to be quite sensible.*
Now, the tax agencies have imposed a sector-specific tax treatment, by designing a series of strategies to ensure voluntary compliance with tax obligations with minimum costs for both taxpayers and tax agencies. This is why special emphasis will be placed on simplifying formalities and procedures and, in the major taxation principles arena, on the need to advocate for the principles of general application of taxes and simplicity.
The aims of this paper provides a higher degree of homogeneity and standardization in the formulation of fiscal policy and the fight against fraud, as well as a deeper level of integration of commercial and economical processes of European SMEs.

Keywords: *fiscal policies, taxation, SMEs'*

JEL Classification*: H32, O23, E62*

INTRODUCTION

Fiscal policy is one of the main components of macroeconomic policy and its tasks have been considered in a double context: first, the core of fiscal policy, and second, the consistency with the monetary policy.

On the other hand, the fiscal treatment analyzes of micro, small and medium-sized enterprises are necessary in contexts in which these enterprises are called upon to operate.

As usual, tax policy is, in practice, the only instrument available to fight informality. But this issue is far from simple. All statistical reports indicate that SMEs are the most important business sector for the economies of European countries. For governments, however, large companies are a more attractive, more clear-cut and less complex set than SMEs. In designing public policies, particularly tax policies, governments have usually targeted their strategies to large companies. This is one of the issues yet to be solved.

In the light of this context, appears a new dilemma: we should tax these sectors because they are "unfair" competitors' vis-à-vis the formal economy but, on the other side, social spending does not reach emergency situations in the usual contexts of fiscal constraint.

THE TAX SYSTEM APPLICABLE TO SMEs'

Taxation can contribute to development and to welfare through three sources:

- the tax system must draw enough funds in order to finance public services and social transfers at a high level of quality;
- taxation influences the economic decisions and should offer incentive for more employment and for an efficient and lasting use of the natural resources;
- the taxation system reallocates the income, and this action must be done in a way it bonds the effective demand and the social balance through covering some gaps in income distribution.

The tax systems of the EU member states suffered major changes from this point of view, by implementing various tax reforms. The measures regarding taxations, which raise much the inequality and strangle the demand, will hardly contribute to a dynamically growing economic region as called for in the Lisbon Strategy.

In the European Union the national fiscal systems are divers (27 systems) some being characterized by tax free (Greece, Portugal, Denmark) when it comes to tax the mobile bases or by lower taxes applied to the mobile bases in comparison whit the taxes applied to the less mobile bases. The most talk about subjects are the profit tax and the tax on the revenue obtain by placing capital, case these two are very mobile and can easily influence the fiscal pressure.

So, European tax systems are highly complex since there are many different tax instruments, regimes and agencies involved in their regulation and management, all of which vary according to the country's political and administrative organization.

Because the European Union level of the adhesion of new state members with a lower fiscal, the ancients' states have been forced to rethink their fiscal policy regarding the direct taxation because is clear that the activities are locating in these new areas. Each country will have the capacity to use different mechanisms to support the small and medium businesses activities, for example, France is the first country to introduce a special fiscal system to sustain the innovating businesses. The stimulants are regarding:

- tax free for the first three years when the businesses are obtaining profits;
- decreasing the profit tax up to 50% in the next two years;
- tax free for a 8 year period for the social contributions afferent to the highly qualified labor.

The World Bank research shows us the real ponder of different tax, income tax and contributions to the brut profit of small and medium enterprises. Even though the profit tax was reduced by 9 %, from 25% to 16%, the total sum of the taxes paid by the company, not the employers, in the brut profit, has decreased over 2004 with only 2,2% from 51,1% to 48,9%. The reason is that a small and medium enterprises firstly pay the contributions to the social assurance budget, health, etc, and then the profit taxes. That is why this tribute of 16%, is in reality of 9,3%, in the brut profit. In exchange, the different contributions paid by the employee for each employer is 38,6% of the brut profit. The World Bank also ignore the fact that the buildings taxes with commercial character hold by juridical persons will be some higher huge ones, by 100 times bigger then those hold by physical persons, being calculated at the market price and not at a fixed value, contained in the Fiscal Code. Then its weight in the brut profit of the companies should be bigger, probably the tribute weight in the brut profit being more then 50%.

So, in Europe the tax systems applicable to SMEs is shown clearly by the low profit rates applied to companies and we can add the facilities promoted by Holland, Denmark, Belgium and Sweden and many other European countries where the holding revenues are tax free. You can also obtain fiscal advantages in the form of decreasing taxes by applying the stipulations of some Conventions regarding the double taxation avoidance or through the European Union Directives in reference to dividends and interests.

From the evolution of statutory rate on corporate income tax (CIT) in the period 1995-2006 we can observe a decrease of these rate for the EU of the 15 member states (except Spain which maintains a statutory rate at the level of 35%) from an average of 38,0 % in 1995 to 29,5 % in 2006. We exemplify a decrease of the statutory rate in Ireland from 40% to 12.5%, Portugal from 39.60% to 27%, Greece from 40% to 29%, Luxembourg from 40.90% to 29.63%, Italy from 52.20% to 37.25%, Germany from 56.80% to 38.64%. At the level of the new member states we can also see a considerable reduction of the statutory rate for the corporate income during the period 1995-2006: in Cyprus from 25% to 10%, Latvia from 25% to 15%, Lithuania from 29% to 15%, Poland from 40% to 18%, Slovakia from 40% to 19%, the Czech Republic from 41% to 24%, Romania from 38% to 16%. But Malta (35%) and Slovenia (25%) kept the same statutory rate.

The process is far of being closed. Now, Germany prepares the new tax reform for corporations, carrying downwards the statutory rate under the level of 30%. Denmark intends to reduce this rate from 28 to 22%. These initiatives will certainly contribute to intensify the pressure on other countries. Due to the fact that the term „high-tax location" is a relative term, it isn't foreseeable a "race till the finish". It is known that the tax base differs from state to state; the fiscal authorities decide a number of deductions, exemptions, etc. This is why the tax base is changed, like the tax rate, and so result the effective tax rate. The literature supports the existence of some possibilities of calculation of the effective rate: a) using the data with a historical character b) anticipated approach.

From the perspective of political and territorial organization, tax agencies operate at different territorial levels, enforcing tax instruments and fulfilling the roles that are within the purview of the central government or, otherwise, of the provinces or municipalities.

Special attention should be drawn to the phenomenon affecting some countries with a high degree of political and administrative decentralization, as is the case of Belgium where at the regions has competence for regulating and administrating some taxes, particularly direct tax. This situation demands joint coordination and cooperation efforts from all tax agencies in the country. The purpose is to reduce as much as possible the inefficiency derived from the coexistence of several agencies as well as the indirect fiscal costs borne by taxpayers.

As for tax systems, these processes demand the implementation of fiscal harmonization policies and the strengthening of international cooperation in mutual assistance and information.

A simplified tax regime is to be understood as a special fiscal regime targeted to a specific category of taxpayers performing economic activities on their own, particularly low-income earning and subject to a presumptive tax base determination regime.

In our opinion, the reasons for implementing these simplified tax systems have been:

1. a special or simplified tax regimes for SMEs taxpayers: the purpose of these special regimes is to include a great number of taxpayers performing self-employed economic activities, whose compliance is hard to control, and who have low income levels and little impact in terms of revenue collection vis-à-vis global tax revenues, but strong impact in the political arena.
2. simplify tax formalities: considering the SMEs taxpayers' profile, these regimes intend to facilitate their compliance with fiscal obligations, reducing indirect fiscal costs by simplifying formalities as much as possible, so that taxpayers can comply not only with their taxes but also with their bookkeeping, accounting record and invoicing obligations.
3. maximize efficiency in resource allocation: efficiency in allocating tax agencies' scarce resources has been another key reason when evaluating the implementation of these special regimes. As the revenue

collection impact of this segment of taxpayers is almost negligible vis-à-vis total domestic revenue from the entire tax system, most staff and resources tend to be allocated to control high-income taxpayers, who are fewer in number but economically more significant, for which reason the cost-benefit ratio is far greater.

Thus, in pre-determined tax rate regimes - an essential feature common to all simplified systems -, control of these taxpayers is considerably reduced compared to the one they would otherwise require under the general system. Tasks only include verifying whether taxpayers are operating subject to the correct tax bracket or segment, i.e. to check whether they are assigned to the right category.

If we summarize the basic features of the simplified tax regimes implemented in Europe:

1. they are special tax regimes designed to promote and support small and medium-sized enterprises, to cope with a situation of considerable economic informality in that target segment, and to enhance efficiency in the use of administrative resources;
2. these regimes are intended for a very large number of small taxpayers who conduct low-income generating and hard-to-control business activities with a minimum impact on total tax revenue;
3. these are voluntary regimes in which taxpayers are self-categorized. The variable used to determine category or bracket inclusion and the calculation of the tax amount payable are determined by income or turnover volume;
4. administrative control of the degree of compliance and correct tax bracket inclusion and permanence is low;
5. administrative resources allocated to the control of these taxpayers are scarce and no skilled staff is assigned to these tasks.

Analyzing the fiscal policies applicable to SMEs elaborated and applied in Romania, in the transition period that started in 1990 (and we consider it is still unfinished) we can observe that they have been characterized by a series of realizations (such as the modernization of the fiscal system) often shadowed by certain measures with negative effects (the instability of the legislative framework), resulted from the copying of some policies applied in other countries without adapting them to the local realities, in our wish to fiscal alignment to the European standards, without fulfilling the same objectives on the other plans of the economic life.

CONCLUSIONS

To conclude, a tax system applicable to SMEs in the context of financial crises is seen as the efforts done by the state to reduce the tax quotas (most times this is done in correlation with the enlargement of the tax base) because it is trying to attract as many activities as possible. That means the fiscal equalization is shaped by the wider institutional framework such as size, number and geographical distribution of sub-central governments, the responsibilities and fiscal resources allocated to each jurisdiction, or the mechanics of power sharing between the central and the sub-central level. Those arrangements often form the constitutional backbone of a country and will, if ever, be difficult to change.

In future every national jurisdiction has to answer to questions like: “What tax rate should be used to impose the revenues?”, “How to uphold the small and medium businesses sector?”, “What facilities should be granted to this sector?”, “How to attract new investors or how to make the national territory more attractive?”

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