

From Tax Strike to the Strike of the Tax Inspectors: why do we need a structural reform of the tax administration



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During a meeting I had this summer with other tax consultants, to discuss the never-ending story of the changes in the Romanian tax code, somebody came with the idea of a tax strike: *“why not asking all our clients to stop paying their taxes for a few months and throw the Government in a major crisis? Only then, the Government will be able to feel a similar sensation with those caused us when implementing a tax change without any basic upfront preparation!”*

Of course, such a radical proposal generated smiles around the room, as every tax professional attending that meeting was aware that this is a dramatic scenario and no reasonable decision maker will put his business in danger by implementing such a suicidal action. We all know that this concept is not accepted by any of the Romanian applicable laws and moreover, such a behavior can be ultimately seen as tax evasion by the tax authorities. Consequently, in case that one or more taxpayers will try to take such an action, the tax authorities have all the enforcement procedures available to make

him / them pay the outstanding amounts of taxes due: freezing the bank accounts, seizing tangible assets and selling them and finally, if the debt is not recovered, closing the business.

Now, a few months after that discussion, we realized that the risk of a strike in the tax field does not come to Government from the taxpayers but from its own employees, i.e. the employees of the Ministry of Finance: people refused to do their work, started a spontaneous strike and claimed their salary benefits (the so called “incentives”) which were eliminated as part of the budget deficit reduction plan.

Such an unexpected action raises two huge question marks:

(i) Are the Government and the taxpayers two antagonistic institutions having opposite interests? Considering the above presented case, I would rather say that this is not the case. The taxpayers acted as a real partner of the Government during these difficult periods, paying the taxes in due time and not even dreaming at such a tough decision as tax strike. We noticed that the cash collection improved during the last period and this is not due only to the increase of VAT but also to the fact that the voluntary compliance of the taxpayers increased.

Maybe this case will make the Government in general and the Ministry of Finance in particular, start considering the taxpayers and the business environment as business partners and start a real dialogue when comes to the changes in the tax legislation. This will make all our lives better.

(ii) How healthy is the Romanian tax administration in this moment and what can be done to change this abnormal state of facts?

All the details presented in the newspapers during the last days shown us the illness of the tax administration: people paid with embarrassingly low salaries, all their existence relying on this corrupt system of incentives. Incentives meaning amounts paid as bonuses to the salary, directly from the additional taxes cashed from the taxpayers, but without any basic rewarding system; the only way of distribution is the willingness of the head of department.

In my view, under these circumstances, there are no chances for the tax administration system to improve unless a structural reform is implemented. What are the main points of such a tax reform in my opinion?

- Implementation of an integrated IT system: each taxpayer has to be identified based on tax registration

number (in case of legal entities) or personal identification code (in case of individuals) for all his tax duties.

- Centralization of administration and control for all taxes and social contributions in only one institution. This will avoid the multiplication of the processes and doubling the work.

- As a consequence of the above two measures, an important number of people shall be released from the system. Indeed, this is a sad measure but a real reform of the system is not possible without it. This way, the low performers are eliminated, improving the quality of the work and in the same time, for those remaining in the system, the remuneration scheme can be significantly improved.

Of course, implementing such a tough reform is not an easy exercise as it may require political will, disputes with trade unions and last but not the least, dealing with change management. However, it is my opinion that without such reform we will continue to complain for another 20 years.

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