



British Romanian
Chamber of Commerce



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Common Position Letter of the Business Environment Regarding Progressive Taxation

Since 2019, Romania has been under the excessive deficit procedure. Real solutions have been postponed for too long, and we are now facing a difficult situation in terms of budgetary sustainability. Under these circumstances, the swift formation of a new government and the adoption of a realistic set of measures are essential to keep the economy on a path of stability.

In a previous public letter, we, representatives of the Romanian private sector, highlighted the principles that, in our view, should underpin the structural reform plan of the budget system. We believe the budget deficit should be corrected through efforts to reduce public spending and improve revenue collection, without further increasing taxation. In the long run, a strategic perspective is needed to reduce fiscal deficits, based on leveraging Romania's economic growth potential. Fiscal reforms should support the private sector's ability to invest in the national economy.

In response to public proposals to introduce a progressive personal income tax system as a measure to reduce the budget deficit, we reiterate our previously expressed position. The business environment believes that such a measure would not bring the necessary short-term budget revenues, and in the long run, it should be analyzed with regard to all its economic effects on the labor force and investors, with broad consultation of all stakeholders.

Maintaining competitiveness in terms of labor and capital taxation is a priority for Romania's economy to support the reduction of development gaps. Increasing taxation now would mean collecting more from the same compliant taxpayers to the detriment of collecting from delinquent firms or broadening the tax base to include a larger category of those currently not paying taxes or social contributions.

A stable and predictable tax system is crucial for any economy aiming to attract long-term investments and to retain and attract talent. Young professionals today have access to numerous opportunities, and a predictable and incentivizing fiscal environment can be decisive in their decision to stay and contribute to Romania's development. The flat tax provides this stability and has significantly contributed to simplifying the tax system, reducing evasion, increasing labor market participation, boosting voluntary compliance, and attracting investment.

The stability and predictability provided by this regime have been essential for the development of the business environment and the strengthening of the middle class, helping Romania converge with Western European countries. Econometric studies show that a simplified tax system reduces incentives for tax evasion and improves revenue collection in the short and medium term.

Data shows that Romania already has one of the highest and most uniform effective tax rates on wage income in the European Union – 37.2% in 2021, compared to the EU average of 31.9% and the OECD average of 34.5%, making Romania the 5th highest in the EU in terms of tax burden.

The introduction of a progressive tax system must be evaluated considering a country's stage of economic development, its position in the economic cycle, and the tax system's capacity to collect and implement major policy changes. Any change in taxation must quantify its effect both on total budget revenues and the economy.

Implementing a progressive system would imply an increased administrative burden for both taxpayers and tax authorities. It would require additional investment in staff training, tax education campaigns, and the proper application of a system of deductions, alongside reforms to the pension and health systems, which should be based on limiting citizens' contributions to these systems. Furthermore, shifting to progressive taxation may encourage redirecting wage income toward less transparent forms of remuneration to benefit from more favorable tax regimes. Instead of strengthening fiscal compliance and the transition toward a fully formalized economy, we risk amplifying migration toward informal or semi-formal practices.

Implementing a progressive taxation system does not automatically guarantee sustainable revenue growth or the reduction of economic inequality. These are not caused by the flat tax or by wage income.

Romania faces a reputational issue of having a tax system lacking predictability and stability. This perception is also shaped by frequent changes in tax legislation, lack of clarity and differing interpretations, bureaucracy, and complex procedures. Therefore,

moving to a higher or inadequately prepared progressive taxation system would only worsen this perception. Increased taxation directly reduces Romania's competitiveness. One of the priorities of fiscal policy, alongside distributional effects, is to support long-term economic growth.

Given all of the above, we call for political responsibility—both in assuming governance and in adopting a set of measures that will keep Romania on a positive path in relation to the investment environment, without progressive taxation (direct or disguised), and by maintaining the flat tax.

Signatory Organizations:

- Romanian German Chamber of Commerce and Industry – AHK
- American Chamber of Commerce in Romania – AMCHAM ROMANIA
- Romanian Businessmen's Association – AOAR
- Belgian Luxembourg Romanian Moldovan Chamber of Commerce – BEROCC
- British Romanian Chamber of Commerce – BRCC
- French Chamber of Commerce, Industry and Agriculture in Romania – CCIFER
- Romania-Portugal Bilateral Chamber of Commerce – CCBRP
- Italian Chamber of Commerce in Romania – CCIPR
- Swiss Romanian Chamber of Commerce – CCE-R
- Netherlands Romanian Chamber of Commerce – NRCC
- Employers Confederation CONCORDIA
- Foreign Investors Council – FIC
- Romanian Business Leaders Foundation – RBL