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href="http://www.thediplomat.ro/articol.php?id=1347#">The Diplomat Bucharest</a><!--END-OF-PUBLISHER--><!--END-OF-FILE-LIST--></div><p> </p><p>The de facto insolvency of Romania's

budget pushes politicians to propose the reinstatement of progressive taxation on individuals' income. <br />  
<br /> Romania had until 2005 a system of progressive taxation on the income made by individuals, with rates ranging from 18% up to 40% of the net income (the intermediate rates being 23%, 28% and 34%). The income thresholds used in order to determine the application of the percentage of the income tax were in fact very low - for monthly income exceeding about 300 Euro – so it was actually very easy to reach the limit beyond which the tax would be of 40%. The introduction of the 16% flat tax in 2005 (which applied not only to individuals, but also to companies) revolutionized the whole system: not only that the budgetary revenues from the payment of the income tax increased at a fast pace (until Romania was hit by the economic crisis), but also the reduced taxation made Romania a more enticing destination for investment (and attracted criticism from Western Europe due to so-called “fiscal dumping”). <br /> <br /> Now, Romania is again facing difficult economic challenges. The IMF sustained by our country's domestic political factors advanced proposals to switch back to the progressive tax system, or, at least, to increase the rate of the flat tax. At first sight this makes sense – progressive taxation is the system of choice for most developed countries, and, in addition to that, why shouldn't we tax the rich people more? </p> <p>On the other hand, we should be careful to avoid a copy-paste of solutions which may work elsewhere, but may not be appropriate for Romania. An equitable tax system should be designed having in mind the specific realities of our country and taking into account the experience related to the functioning of both the progressive and the flat tax systems which is already available here. We shall therefore briefly examine below some of the arguments which are in favor of the preservation of the current flat tax system in Romania. <br /> <br /> A reasonable flat tax is an effective mean to improve tax collection. </p> <p><strong>To read the entire article, please download the .pdf attached.</strong> </p>