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ORIGINAL PAPER

Reforming the Property Tax System in Romania: A Necessity

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Abstract:
Purpose and need for study: Given the enormous need for financial resources of local communities, imposed by the growing and diverse needs of citizens, our study aims at a holistic analysis of the need to reform the property tax system in Romania, as the main source of tax revenue available to the local public administration. If the strengthening of democracy means the strengthening of local autonomy, then it means that we must create a system of financing local authorities that is efficient, fair and directed to the real needs and capabilities of the citizen.
Methodology: In developing the study we used a methodology of multidimensional comparative analysis, both domestic tax performance and the alignment of legal provisions and objectives assumed by government policies, with the real possibilities of reforming the property tax system. Every time a tax reform is proposed, there must be certain elements or steps to follow, which are recommended for its success and implementation. A fiscal reform consists, by definition, in modifying the structure of one or more taxes or the tax system, in order to improve its functioning to achieve the assumed objectives.
Findings: It is important to make a very good diagnosis of the current property tax system including, in particular, the various issues related to the tax base, fiscal facilities, digitization and the need for energy efficiency and the elimination of pollutant emissions. A tax reform must contain a description of the proposed ideal system, i.e. what is intended to be done and the direction of the changes that are intended to be adopted. Any tax reform that a country intends to undertake should, today more than ever, consider simplifying tax legislation and procedures, incorporating also issues related to digitization and many other issues and phenomena resulting from studies carried out by experts in the field, both in the public and in the private sector.
Practical Implications: Carrying out a tax reform involves analysing multiple variables, which vary depending on the national or local specific. Our study aims to be a basis of analysis and a potential foundation for the reconstruction of the property tax system in Romania.
Keywords: *property tax system; decentralization; digitalization; tax reform; financial resources; local communities.*
JEL Classifications: H21, H3, H71

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1. Introduction

Cannot govern if you do not have the power, and if you do, you must know how to use it effectively. Margaret Thatcher, a former British prime minister, has pointed out since 1983 that the state has no other source of income than the money earned by taxpayers. 'There is no such thing as public money, there is only taxpayers' money', Thatcher points out (Perry, 2020). This meant that people would not enjoy prosperity as long as they could not get involved in the sound management of the financial resources collected from them.

> *It is a very fundamental truth that is frequently forgotten. Any time you see or hear the terms 'public funding', 'public funds', 'government funding' or 'government funds' be sure to substitute "taxpayer funding" and "taxpayer funds." (Perry, 2020).*

One way to govern efficiently, proven by the experience of many states, is the transfer, from the central authority to the local authorities, of the necessary competencies and financial resources (Dincă & Mihaiu, 2019). Having its own financial means and benefiting from autonomous decision-making power, this system responds to the idea of freedom (Dincă, 2012) and presents the guarantee of a functional democracy (Alexandru, 2008).

Decentralization is not an end in itself, the main objective of decentralization being to provide more efficient public services at a lower cost, while modernizing the structures that provide these services.

2. Financial independence - the goal of decentralization

The concept of decentralization starts from the premise that local public administration authorities are better able to respond to the needs of citizens, knowing more deeply their problems, but also the best ways to solve them. Decentralization means bringing the decision closer to the citizen, making decisions more appropriate to his needs. No centralized system can truly meet the variety of needs of local communities. Practice has shown that a whole range of public services are provided more efficiently locally. Pre-university education, social assistance, water supply and road infrastructure are just some of the public services for which local public administration authorities are best placed to make the best decisions on the efficient allocation of resources, by their finite nature. Thus, decentralization is a complex process, whose dimensions and preconditions are not only political, legal and administrative, but also social, cultural and economic (Illner, 2000).

Especially in highly centralized environments, decentralization cannot be a momentary action, but a lasting one over time. In Romania, so far, certain decentralization actions have taken place, but they are sporadic, selective and unsystematic, aiming at formulating responses to external (EU) conditions and requirements, and less a strategic objective of state political reform and of society. Decentralization was a rather declarative action, tolerated only insofar as its effects did not affect too much the hierarchical model of state administration, the only structure invested with responsibilities for directing economic and administrative processes.

Decentralization is defined as the transfer, from the central authority to the local authorities, of the necessary competencies as well as the necessary financial resources. There is no real decentralization unless the powers of the local authorities - town halls, local councils - are accompanied by appropriate budgetary allocations, sufficiently consistent to cover real funding needs.

The implementation of the decentralization process is further conditioned by the existence of technical and financial means to enable decentralized authorities to exercise autonomously the powers transmitted through this process. Therefore, ensuring an effective decentralization process must be correlated with the identification and/or creation of these means. The creation of the legal framework and the provision to the decentralized authorities of financial means necessary to carry out the specific activity implies not only a subsidy from the budget of their central administration, but also the possibility to establish and collect taxes and duties in an appropriate reform in the local fiscal sector (Gîrleșteanu & Smarandache, 2009).

In the process of tax reform of local and central public administrations, special attention must be paid to digitalization, which must always have, as a guiding principle, the citizen, thus aiming at simplifying systems, reducing bureaucracy, electronic cooperation with other bodies and institutions involved; interoperability (the ability to exchange and use information) and increasing transparency. Digitization can reduce the costs of tax administration and thus increase the degree of voluntary compliance of taxpayers in fulfilling tax obligations. However, digitalisation, including in the field of taxation, involves rethinking, adapting and transforming institutional policies, services and architectures to the new needs of citizens, aiming at the maximum effectiveness and efficiency of the public sector..

3. Domestic fiscal performance

There is no single model of decentralized governance that can be prescribed to all countries and that could be applicable in all circumstances. Romania's economic growth in the last twenty years, visible more in statistics and less by citizens, broke records in European Union statistics, but did not solve the structural problems of local communities: underdeveloped infrastructure and underfunded and low-quality public services. While a number of government measures have stimulated investment - especially foreign investment - and allowed the economy's engines to pick up speed, the state has failed to perform at an adequate level in its functions as an impartial redistributor of values and an insurer of social solidarity.

The lack of performance in the area of collection and redistribution is obvious and explainable by the extremely small financial resources attracted from GDP to the consolidated state budget. The analysis of the Annual Budget Execution Reports published by the Ministry of Finance (2010 - 2020) as well as the studies carried out by certain authors, reveals the situation in which the economic growth of the last ten years was accompanied by a decrease in collection and resources available to society in relation to the size of the economy (GDP) (Ban & Rusu, 2019; NALAS, 2021).

Romania indeed collects very little of the resources generated by the economy: in 2020, the general state revenues accounted for 33.1% of GDP (in 2019 - 31.8%), the second lowest level in the EU and well below average 46.5% (46.1% - in 2019) (Table 1):

Table 1: Total general government revenue - Percentage of gross domestic product (%GDP)

GEO/TIME	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
European Union - 27 countries	**45,1**	**44,7**	**44,6**	**44,5**	**45,1**	**46,1**	**46,6**	**46,6**	**46,2**	**46,0**	**45,9**	**46,2**	**46,1**	**46,5**
Euro area - 19 countries	***44,9***	***44,7***	***44,7***	***44,6***	***45,2***	***46,3***	***46,9***	***46,8***	***46,5***	***46,3***	***46,2***	***46,5***	***46,4***	***46,8***
Belgium	48,6	49,7	49,2	49,8	51,0	52,2	53,0	52,5	51,3	50,8	51,3	51,4	50,2	50,6
Bulgaria	38,8	38,7	35,2	33,2	31,9	34,1	37,4	37,9	38,9	35,1	36,1	38,6	38,5	39,5
Czechia	39,8	38,9	38,9	39,5	40,5	40,8	41,4	40,5	41,3	40,5	40,5	41,5	41,7	41,3
Denmark	54,6	53,6	53,7	54,0	54,4	54,5	54,6	56,4	53,2	52,4	52,3	51,3	53,2	53,3
Germany	43,7	44,1	45,0	43,8	44,4	44,9	45,0	44,9	45,1	45,5	45,6	46,3	46,7	46,9
Estonia	36,5	36,8	43,4	40,1	38,2	38,7	38,4	38,2	39,4	38,7	38,5	38,7	39,0	40,2
Ireland	35,9	34,5	32,9	32,7	33,8	34,1	34,1	33,9	27,0	27,2	25,6	25,4	24,8	23,1
Greece	40,4	40,7	38,9	41,7	44,7	47,6	49,5	47,1	48,3	50,3	49,1	49,4	49,0	51,0
Spain	41,1	36,9	35,0	36,5	36,4	37,9	38,8	39,2	38,7	38,1	38,2	39,2	39,2	41,3
France	49,9	50,0	50,0	50,0	51,1	52,1	53,1	53,3	53,2	53,0	53,5	53,4	52,3	52,9
Croatia	43,9	43,3	43,1	42,4	41,5	43,3	43,3	43,7	45,4	46,5	46,1	46,3	47,5	48,0
Italy	45,4	45,3	46,0	45,7	45,6	47,6	48,1	47,9	47,8	46,7	46,3	46,2	47,1	47,8
Cyprus	40,8	39,3	36,7	37,1	36,5	36,4	37,4	40,6	39,7	37,7	38,7	39,5	41,2	40,6
Latvia	34,0	34,1	35,7	37,3	36,8	37,2	37,0	37,4	37,2	37,5	37,9	38,6	37,8	39,1
Lithuania	34,5	35,0	35,8	35,5	33,6	33,0	32,9	34,1	34,8	34,4	33,6	34,5	35,1	36,1
Luxembourg	42,3	43,3	44,9	44,0	43,3	44,6	44,4	43,6	43,3	43,0	43,6	45,4	44,7	43,7
Hungary	44,8	45,0	45,9	44,5	43,9	46,9	47,6	47,4	48,4	45,0	44,1	43,8	43,6	43,5
Malta	38,8	38,0	38,0	37,5	38,4	38,3	38,1	38,3	37,3	36,8	38,0	38,3	37,2	36,5
Austria	47,9	48,4	48,8	48,4	48,3	49,0	49,7	49,7	50,1	48,5	48,5	48,9	49,2	49,0
Poland	41,0	40,6	37,8	38,4	39,1	39,4	38,8	39,0	39,1	38,7	39,8	41,3	41,1	41,7
Portugal	41,6	41,6	40,4	40,5	42,4	42,7	44,8	44,4	43,8	42,9	42,4	42,9	42,6	42,8
Romania	**34,7**	**32,3**	**30,3**	**33,1**	**34,1**	**33,8**	**33,3**	**34,1**	**35,5**	**32,0**	**30,8**	**31,9**	**31,8**	**33,1**
Slovenia	43,4	43,7	43,5	44,6	44,2	45,4	45,7	45,3	45,9	44,2	44,0	44,3	43,7	43,6
Slovakia	34,3	34,5	36,3	35,0	37,3	36,8	39,6	40,2	43,1	40,1	40,4	40,7	41,4	41,8
Finland	51,7	52,1	51,6	51,4	52,6	53,3	54,3	54,3	54,1	53,9	53,0	52,5	52,2	51,2
Sweden	52,6	51,9	51,5	50,3	49,4	49,9	50,2	49,2	49,3	50,7	50,6	50,7	49,9	49,9
Iceland	50,4	51,3	45,1	42,2	44,1	45,2	44,8	46,2	43,2	59,1	45,4	44,9	41,9	42,4

Source: *Authors' processed, based on Eurostat data [gov_10a_main]*
https://appsso.eurostat.ec.europa.eu/nui/submitViewTableAction.do

Romania also collects the lowest financial resources through revenues from taxes and social contributions, as a percentage of the Gross Domestic Product (GDP) of the EU, after Ireland, which, however, has an exceptional situation due to a very high GDP, explainable by the fact that many of the headquarters of multinational companies operating in the EU are located there.

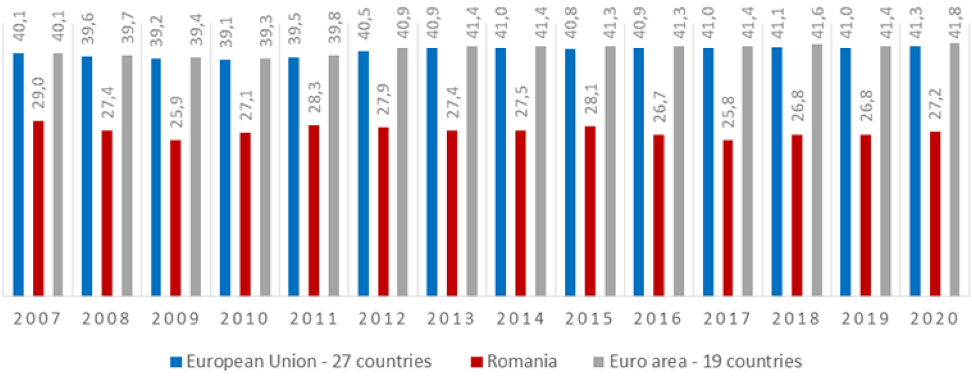

Figure 1: Total revenue from taxes and social contributions, EU-27 and EA-19 vs. Romania (% of GDP)

Source: *Authors' processed, based on Eurostat data [GOV_10A_TAXAG]*
https://ec.europa.eu/eurostat/databrowser/view/gov_10a_taxag/default/table?lang=en

According to Eurostat data, Romania attracted, in 2020, total tax revenues represent a percentage of 27.2% of GDP, while the average of EU countries (EU-27) is 41.3% of GDP. In the euro area (EA), tax revenue accounted for 41.8% of GDP in 2020 (Fig. 1). We are not wrong if we say that Romania has the lowest collection of revenues from taxes and duties in the EU.

The tax-to-GDP ratio varies significantly between Member States of The EU, with the highest share of taxes and social contributions in percentage of GDP in 2020 being registering in Denmark (47.6%), France (47.5%) and Belgium (46.2%), followed by Sweden (43.4%), Italy (43.0%), Austria (42.6%), and Finland (42.2%).

At the opposite end of the scale, Ireland (20.8%) and Romania (27.2%), ahead of Bulgaria (30.6%), Lithuania (31.2%) and Latvia (32.0%) registered the lowest ratios.

4. Property tax in Romania

According to the latest report of the European Commission - Taxation Trends in the European Union, (2021), with a collection percentage, in 2019, of only 0.6% of GDP (Table 2), property taxes are a small part of the Romanian tax system. However, the revenues collected through property taxes are extremely important for local administrations, because they are used entirely at the level of administrative-territorial units, the revenues representing 100% own income.

Table 2: The structure of property taxes in Romania (2019)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Ranking 2019	Revenue 2019 (billion euros)
Property taxes - Romania	as % of GDP														
Taxes on property	1.0	0.8	0.8	0.8	0.8	0.9	0.9	0.9	0.9	0.8	0.7	0.6	0.6	22	1.4
Recurrent taxes on immovable property	0.6	0.6	0.6	0.7	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.5	0.5	15	1.1
Other taxes on property	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	24	0.3

Source: *European Commission, based on Eurostat data*
https://ec.europa.eu/taxation_customs/system/files/2021-06/taxation_trends_2021_country_chapter_romania.pdf

Almost every country has its own property tax system with different implications and contributions on the financial resources made available to the local public administration (Rosengard, 1998; Oates, 2001; Bahl & Martinez-Vazquez, 2007).

Property tax is justified by the fact that property tax revenues are often the main discretionary financial source of local government (Bell et al, 2010) and, therefore, an essential component of tax decentralization that supports local self-government and complements government tax transfers. Also, the property tax is economically efficient because it is difficult to avoid and easily enforceable if evaded.

The coverage fiscal area of property, in Romania, refers to transportation means, land, buildings or constructions built or incorporated in an area of land.

In Romania, any person that owns a mean of transportation is required to pay the tax on transportation means. The tax rate varies depending on the cylindrical capacity of each vehicle (from 8 lei to 290 lei), for each 200 cm3 or a fraction thereof.

The tax on transportation means is due for the entire tax year by the person who owns the mean of transportation as of December 31st of the prior tax year.

According to the Romanian Fiscal Code, buildings are classified based on their utilization purposes, as follows:

- Residential buildings, i.e. buildings which are used strictly for residential purposes;
- Non-residential buildings, i.e. buildings which are used for economic purposes;
- Mixed-purpose buildings, i.e. those used for both residential and non-residential purposes.

In case of residential buildings owned by individuals and legal entities, the building tax is calculated by applying a rate ranging from 0.08% to 0.2%, to the taxable value of the building. In case of non-residential buildings owned by individuals and legal entities, the building tax is calculated by applying a rate ranging from 0.2% to 1.3% to the tax value of the building. In case of mixed usage, if the building address is registered as a fiscal residence (e.g., for an individual or for a company) but at which no economic activity is performed, the tax is calculated according to the regulations applicable to the residential buildings.

Where there is mixed usage with actual economic activity, the building tax is determined proportionally. There are also other rules concerning mixed usage.

In case of non-residential buildings, there is an obligation to perform a valuation (every three years for legal entities or every five years for individuals). The valuation should be performed by an independent Romanian valuator according to a specific valuation standard. If this requirement is not met, the building tax rate may be increased to 2% (for individuals) or even 5% (for legal entities).

The tax on buildings is due for the entire fiscal year by the person who owns those assets at December 31st of the previous fiscal year, irrespective of whether these assets are alienated during the reference year.

The owners of land are subject to land tax. The Local Council establishes a fixed amount per square metre, depending on the rank of the area where the land is located and the category of land use.

The provision according to which for the surface of land, covered by a building, the tax land is not due was eliminated.

Likewise, the land tax is due for the entire fiscal year by the person who owns those assets at December 31st of the previous fiscal year, irrespective of whether these assets are alienated during the reference year.

Similar to tax on transportation means and building tax, land tax is paid annually in two equal instalments, until March 31st and September 30th.

However, these three sources of tax revenue to local budgets cover a small part of the local government budget. Spatari (2020), identifies the fact that at the level of Romanian municipalities, the revenues generated by property tax represented only 12.8% of the total revenues of local budgets in 2019, of which 9.7% came from taxes and duties on buildings, 1.9% of taxes and duties on land and 1.2% of taxes on means of transport.

The current deficiencies of the property tax system in Romania are obvious and can be summarized as follows (Ioniță, 2011; Spatari, 2020):

- it has an accentuated regressive character, so the more valuable the property is, the lower the tax represents a percentage of this value;
- it generates strong centripetal and centrifugal phenomena, creating significant distortions between the central and peripheral areas of the localities, the taxable value being consequently higher or lower than that dictated by the reality of the market;
- the differential treatment applied to the properties owned by natural and legal persons also generates distortions, encouraging evasion phenomena (incorrect classification of buildings in the residential or non-residential category, migration of buildings actually owned by legal persons to natural persons and vice versa, etc.).

The deficiencies mentioned above stem mainly from the rigidity of the system, according to the current legal framework, at the local level, only marginal changes can be made in the parameters of these taxes (setting additional rates for local taxes and duties, rates that cannot exceed 50% compared to the levels provided in the Local tax code). Both their percentage and the tax base have always been established in the national framework legislation. The local room for manoeuver in setting property taxes, allowed by current legislation, is too narrow for the system's shortcomings, no matter how well-intentioned local governments are, so that they can be corrected or adjusted. The current trend seems to be to align the tax burden downwards (so as not to put too much tax pressure on the poorer strata of the population or for electoral reasons). The consequence of this is the low property tax in general, in Romania, taxation that has among the lowest levels in the European Union. According to the report - Taxation Trends in the European Union, (2021), Romania ranks 22nd in the EU in terms of property tax as % of GDP (0.5% recurring property tax and 0.1% other property taxes) (Fig. 2).

Figure 2: Composition of property taxes by EU, 2019 (% of GDP)
Source: *European Commission, based on Eurostat data*
https://ec.europa.eu/taxation_customs/taxation-1/economic-analysis-taxation/taxation-trends-european-union_ro

The lack of autonomy but also the fact that the property tax in Romania continues to be based on a system that has remained practically unchanged since the 1980s, which takes into account random criteria (often without correspondence in the real situation in which the property is located), in the context of an increased and obvious need for local financial resources, towards an increasingly poor estimate of the taxable value of properties, as the years go by and the real estate market grows in volume, value and complexity.

Declaratively, from the perspective of the provisions of the Recovery and Resilience Plan for Romania – RRP (2021), Romania assumes a major reform in the sector of property tax. The stated objective is to reform the legislation on property tax through a legislative project that will be submitted to public debate at the end of 2022, with staged implementation (depending on the result of comparative studies and the determination of development steps, respectively determining the need for development of administrative capacity required for implementation), starting with 2023.

Starting from the premise that Romania bases its budget revenues on consumption taxation and less on the taxation of profits, revenues or property (taxes that are the basis for EU member states in Western Europe characterized by a more developed economy), the reform is based on several declarative baselines (Recovery and Resilience Plan for Romania, 2021):

- aligning the tax system with the current and future stage of Romania's economic development by eliminating distortions and gaps in the tax system, which allow taxpayers to undermine the fairness of the property tax system, while respecting key principles such as fairness, transparency, stability and fiscal neutrality;

- encouraging the freedom of local authorities to establish tax rates, estimating the tax base as close as possible to the market value of the property to the detriment of other criteria used so far, including mechanisms to adjust the tax burden to take into account energy efficiency in the case of buildings and the level of pollutant emissions in the case of vehicles;
- building a national computer system to ensure the collection and provision of data corresponding to Romanian properties, this information being necessary both in the legislative process and in the process of collecting, monitoring, controlling local budget revenues, as well as for potential simplification of current compliance requirements. The computer system aims to automate real estate valuation in order to determine the tax base using information available in the systems of other institutions (e.g. National Agency for Cadastral and Land Registration, local authorities), as well as public information (e.g. real estate ads, catalogues used by professionals in evaluation, statistical data, etc.);
- simplification of tax rules to facilitate compliance and administration, as well as the elimination of exemptions and preferential treatment;
- revision of the principles of property tax and discontinuation of the practice of using a tax base which is not linked to market value.

The reform of the current property tax system, considered by Biriș (2012) as archaic and anti-competitive, and the elimination of its current regressive character (World Bank Document, 2014; Spatari, 2020; Bastani & Waldenström, 2020), has an important stake, because it would lead to the partial balancing of the scale, which currently puts a large part of the tax burden on wage labour and overprotects real estate owners. Of course, the reform of the property tax system alone cannot solve the inequities of the Romanian tax system, but it is an important element of the process of building a more transparent, fairer, stable and efficient tax system.

5. Conclusions

A closer analysis of the legislative framework and the current national fiscal environment, as well as the chapter dedicated to property tax in the Recovery and Resilience Plan for Romania (2021), highlights a number of work variants (assumptions) to reform the tax system. These working variants are not mutually exclusive, but involve certain conceptual and transposition adjustments.

Assumption 1. Real estate tax as a whole. When we talk about real estate, we are talking about the pair consisting of land and building.

According to the Assets Valuation Standards edition (NAARV, 2020), real estate includes land and related constructions, located underground or on the surface of the land, including pipes, cables and other installations belonging to real estate. In Romania, the real estate tax as a whole has never been applied (except for the flats where the land is in undivided share). Currently, the Romanian tax system treats the land and the building separately. Therefore, probably a first direction of the reform is to give up the separate taxation of land and buildings and to move to the taxation of the total value of the whole (land and building). This type of approach to real estate as a whole is common in most countries around the world.

Assumption 2. Granting a much higher degree of local autonomy than at present with regard to the establishment of property tax rates. At this moment, the local authorities can establish, by Decision of the Local Council, higher tax rates, without being able to exceed the maximum rates established by more than 50%. The current room for manoeuver that local authorities have in setting tax rates and zoning localities cannot correct the structural deficiency of the system given the regressive nature of real estate tax, which favours owners of expensive properties, who pay lower taxes (from the real value of the properties given by the market) compared to the owners of less valuable properties.

Assumption 3. Introduction of a green tax system. In the current context, the energy efficiency of buildings and the level of carbon dioxide emissions from motor vehicles are becoming, worldwide, important criteria according to which taxes will be set. In Romania, too, energy inefficiency and a high degree of pollution must be in line with the principle that 'the polluter pays'.

Assumption 4. Analysis of preferential tax treatments and encouragement of voluntary compliance. According to Pele (2021), preferential tax treatment, i.e. the cumulation of measures targeting tax exemptions, deductions and facilities (reduced tax rates, differentiated calculation rules, differential treatment for good payers, etc.) for certain taxpayers and economic sectors, in 2020, had an impact of 52.5 billion lei (approx. 10.5 billion euros) on budgetary resources, the equivalent of 4.7% of GDP. The amount is more than twice higher than in 2015, the first year in which this indicator was calculated in Romania, called 'tax expenditures'. The share of GDP has risen by about one percentage point in the last six years.

'Tax expenditures' represent the totality of provisions, regulations or legislative norms whose effect is to reduce budget revenues or postpone their collection, applicable to certain categories of taxpayers, in relation to the tax standards generally established. Romania has started to calculate the impact of these tax expenditures, opting for the use of the 'lost income' method in determining this indicator. The lost income method is considered the easiest method of estimating and involves calculating the product between the rate at which a certain tax is reduced and the tax base to which that tax applies.

Preferential treatment is often used in global tax practice to influence certain types of economic and social behaviour. The problem of Romania, of the local communities, is related to the real capacity of these facilities to positively model the local economy, to positively change the taxpayers' behaviour (Mitu, 2020), to increase the number and quality of jobs and to what extent the facilities granted really support the growth of added value in total local financial resources.

Excessive use of these tools can lead to erosion and increase the complexity and instability of the tax system as well as excessive narrowing of the tax base, with an impact on budget revenue collection capacities (Talpoș & Ludoșan, 2012; Zolt, 2015; Balan, 2018). There may also be distortions at the microeconomic level that may lead to an increase in other taxes (due to a decrease in the tax base for certain physical or legal situations) or may encourage client behaviour (lobbies, interest groups). The impact can also be negative on social equity. Complex tax systems favour evasion and avoidance, as they generate uncertainty about the scope of tax rules, increase the costs of control and voluntary compliance (Mitu, 2018). Ban and Rusu (2019), point out that some tax facilities can benefit the best and less the poorest (even if the facility is applied similarly, the tax burden is felt more strongly by the poor compared to those rich), resulting in a phenomenon contrary to the expected one, namely: discouraging voluntary compliance.

Modern technologies, digitization, are undoubtedly a great ally for simplifying and streamlining tax structures (Collosa, 2017).

Assumption 5. Digitization of the system for determining the taxable amount and the tax. Computer systems for determining and managing taxes are absolutely necessary in a world where the computer is becoming a common tool. More than ever, today, due to the isolation measures and the lack of functionality of the fiscal units resulting from the coronavirus pandemic, it is necessary to digitize the tax administrations. The current crisis, with profound health, social and economic implications, is generating a huge loss of revenue, which is why the digitization of tax systems is mandatory for every responsible administration.

Any tax reform must include all aspects of new technologies that are essential for the digitalization of public administrations, while legislating their impact on taxpayers' rights and guarantees. The whole process should not be seen in isolation, but rather as an integral part of a concept of digital and open governance involving different agencies and levels of government in a country (or even at EU level).

‘Mass appraisal’, ‘mass valuation’, ‘real estate appraisal’ or ‘property valuation’ are names of a relatively recent concept, which is based on the use of the computer to determine the value of real estate. International Association of Assessing Officers (2017) in SMARP (Standard of Mass Appraisal of Real Property), defines mass appraisal as the process of valuing a group of properties as of a given date and using common data, standardized methods, and statistical testing.

For local authorities that base taxes on the market value of property, mass appraisal is an efficient and cost-effective way to value all properties in a fair, transparent and consistent manner, because properties with the same attributes will receive the same value (Wang & Li, 2019). By using mass assessment, it is possible to produce very accurate values that can be explained to property taxpayers. For municipal authorities that base taxes on the market value of property, mass appraisal is an efficient and cost-effective way to value all properties in a fair, transparent and consistent manner, because properties with the same attributes will receive the same value. By using mass assessment, it is possible to produce very accurate values that can be explained to property taxpayers. With the development of computer-assisted mass appraisal (CAMA), both models and standards gradually adopt an automated valuation methodology (AVM) for mass appraisal (Kontrimas & Verikas, 2011; d’Amato, 2017).

Assumption 6. Anchoring the taxable value in the market value of properties. This work variant raises the biggest controversies among many specialists’ connoisseurs of the local tax system (Biriș, 2012, 2021; Spatari, 2020; Vascu, 2021).

Modifying the system exclusively based on a mechanism that takes into account the ‘market value’ of the properties involves significant risks in Romania.

Market value is a subjective concept that fluctuates a lot depending on many variables. The tax system must be predictable, both for local authorities and taxpayers, but a very large number of fluctuating elements make it impossible to achieve this goal (predictability). The ‘real estate bubbles’ generated by the huge liquidity existing in the market at this moment, the historical minimum interest rates, the very large discrepancy between the urban and the rural environment, the actual location, the view, the quality of the neighbours, etc. are elements that change the market value with a very high frequency. In addition, anchoring in market value would make it impossible to have a coherent multi-annual budget, with a large part of the revenues of cities and communes suddenly becoming very volatile, as the market cannot only rise but fall sharply, as it happened in 2009-2010.

Linking the taxable value to the market value will involve periodic valuation reports for millions of homes, these periodic valuations generating additional costs both for citizens (costs that in most cases exceed the annual tax) and for local tax authorities forced to process a lot of new tax returns in a very short time. Problems could also arise in the case of professional evaluators, in Romania there are not so many evaluators who can make their evaluation reports in a timely manner.

The new real estate tax system must also take into account the fact that Romania is ‘a country of owners’. In 2019, more than half of the population in each EU Member State lived in privately owned homes, the percentages varying between 51.1% in Germany and 95.8% in Romania (Fig. 3).

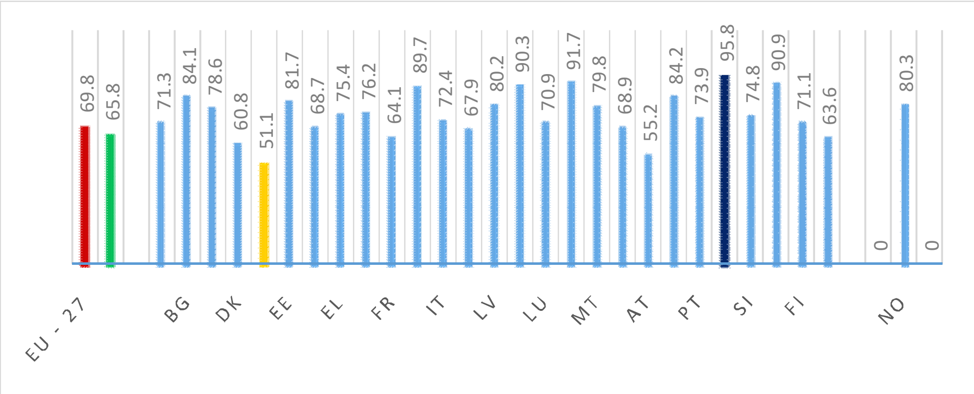

Figure 3: Distribution of population by tenure status in EU, 2019 (%)
Source: *Authors' processed, based on Eurostat data [ILC_LVHO02]*
https://ec.europa.eu/eurostat/databrowser/view/ilc_lvho02/default/table?lang=en

Given that a large part of the population has incomes below the level necessary for a decent living (Guga, Mihăilescu and Spatari, 2018), and property prices have risen sharply in recent years, a strict alignment of taxes to ‘market prices’ could mean an excessive tax burden for many property owners.

Besides, tying the tax to market value can have negative effects on the quality of real estate, but also on the energy efficiency of buildings (see assumption 3). The market value of a building obviously depends on its size, on the quality of the materials used for installations and fittings, on the architectural quality, on the energy efficiency, but also on the quality of the administration. Quality always costs. An investor can assume an investment in quality, with the thought that these additional costs can be recovered by adding value to the property at the time of confrontation with the market. Or a higher market value generates a higher annual tax, which will make the investor reconsider the option of investing in quality, an investment he/she will not be able to recover, in the context in which the future owner or tenant is very attentive at the total cost of the contract (including tax).

Therefore, the potential positive effects of anchoring taxable value to market value can be far outweighed by a number of negative effects: discouraging quality real estate investment; huge administration costs, both for taxpayers and for local tax authorities; uncertainty about costs (for landlords and tenants) but also about revenues (for the state, local communities), making impossible a sustainable and predictable budgeting.

The authors of this article argue for a digitized, automatic assessment of the taxable value, which introduces in the tax determination algorithm, elements of the assumptions stated above and not a sterile anchoring in a value given by the imperfect and subjective characteristics of the markets. In this direction, in addition to the identified assumptions, a series of solutions could be included that would be part of a general logic of progressive taxation of large assets: progressive taxation of multiple properties; progressive taxation of large and very large properties, possibly with the introduction of value thresholds; more efficient taxation of properties used for commercial purposes. Thus, the reform of the tax system in Romania is absolutely necessary and it must be based on international experience but in a close correlation with the national specifics.

Authors' Contributions:
The authors contributed equally to this work.

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