THE EFFECTS AND CONSEQUENCES OF TAX PRESSURE ON THE BUSINESS ENVIRONMENT

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Abstract. After important steps were taken regarding the development of the market economy of the Republic of Moldova, a continuous policy of modernization of the national tax system followed, which from the point of view of tax pressure on the business environment was both upward and downward.

Currently, it is found that the majority of the country's population continues to have modest incomes to support an increase in the tax base, and small and medium-sized enterprises are insufficiently developed to allow the increase in tax revenues.

Considering such situation, which will mark the taxation of the Republic of Moldova in the future, as well as the effects of the COVID-19 pandemic crisis and the war in Ukraine, it is expected that in our country, the taxpayers’ tax pressure will experience gradual increase until when a balance will be reached again, marked by a sustainable economic stabilization.

Considering the aspects mentioned above, the authors aimed in this article to analyze the effects that tax pressure has on the business environment.

Key words: tax pressure, tax levy, taxation, business environment, enterprise, taxpayers.

JEL Classification: H21, H22, H26

The topicality of the research topic

In a deeply competitive economic world, the imperative of competitiveness is one of the major economic concerns for taxpayers.

Even if not all the cost of taxation on the added value is borne directly by the enterprise, nevertheless the inclusion of some components of this "cost" in the delivery price does not have the ability to ensure sufficient competitiveness of the enterprise's products and services, if it does not find sufficient sources and reserves of increasing labor productivity and efficiency in general.

From this point of view, legal entities have every interest in being affected by the tax pressure in the least possible proportions.

But since the tax pressure is one of the levers through which the state acts on the economic environment and on the financial decisions of the enterprise, it can neither be ignored nor avoided.

Due to the social incidence of taxation both as a redistributive instrument of state revenues and as an element of tax pressure on taxpayers, we believe that this topic is quite current and important, which needs to be researched in more detail.

The arguments required to research the respective topic result from:
• identifying problems and proposing solutions regarding the effects and consequences of tax pressure on the business environment;
• identifying a balance between tax levy and tax pressure;
• elucidation of the way of interaction of the tax administration body with the business environment;
• expressing some reasoned opinions as a result of the research carried out;
• highlighting the observations by emphasising the observed variables, thereby establishing causal relationships, based on some research theories;
• highlighting some conclusions with reference to the management of tax pressure based on scientific arguments.

The aim of the research is to find a balance between the level of tax levies and tax pressure.

Research methodology

The scientific research methodology applied in this article served us as a basis for deepening the study and knowledge of the field of taxation, through the tax pressure on the business environment.

As research tools were used:
• the scientific knowledge achieved along the way, gradually, which allowed the study, perception and analysis of the tax pressure on the business environment;
• the fundamental research that allowed the elucidation of the current trends in tax levies, the basic subject being the level of tax pressure. The fundamental research included investigations in the form of theoretical studies, which consequently allowed the formulation of scientifically argued conclusions;
• research for development aimed at using those procedures and devices that can directly influence the practical research activity. Thanks to the use of the respective method, it was possible to demonstrate in practice that the level of tax pressure is inversely proportional to the level of tax collections.
• applied research had the task of providing necessary data for directing practical activity in order to increase methodical work. The result of the applied research will result in the formulation of some practical conclusions on how to balance the tax pressure. Also, applied research will allow finding solutions and the direction of studying the investigated phenomenon, through which various problems can be solved.
• motivational research includes itself a range of psycho-social methods and techniques, necessary to obtain primary information that facilitates a better understanding of the reasons by which taxpayers react to tax pressure in a certain way. This research seeks to determine and explain the motivational causes of tax evasion.

The research carried out has a practical-applicative nature and can serve as informational support for the state institutions responsible for tax levies, representatives of the business environment, as well as for the academic community.

No research method or research technique is exclusive, we can find advantages and disadvantages, and their choice and combination is a component of the professionalism of the researcher, who will try to use those that can provide relevant information in the given situation.
In the research process, a review of the specialized literature that interferes with the field of taxation was carried out, using the deductive method, which allowed the presentation of general notions. Consequently, the deductive method allowed the establishment and definition of research objectives according to the needs of the scope.

Given the existence of a diversified base of observations and practical data, combined with plausible tests to verify the viability of the research carried out, significant theoretical opinions were generated in order to improve the respective research.

**Research results.** As a result of the study carried out, the authors will draw certain scientific conclusions on the investigated subject, able to some extent to establish benefits both for the state institutions, responsible for tax levies, and for the business environment.

**Introduction**

Tax pressure on taxpayers from the Republic of Moldova has appeared since independence in 1991, with the emergence of indications that the country's economy will become a market economy.

Tax pressure, although it also existed in the Soviet period, through the specific way of distribution of national income by the Soviet state, according to the ideological principles that were its basis, became felt for businessmen from 1991 onwards. Since then, the state renouncing the claim to take at its disposal the majority of the profit from state enterprises, as a result of the transition to their organization on commercial principles, its tax revenues began to be supported by the gross income of national taxpayers: individuals and legal entities, subjects of taxation.

Thus, the tax pressure that is borne by a national economy at that time is the result of the summation of the individual tax pressures. Consequently, all tax revenues are generated by individuals and legal entities, in their capacity as owners of the patrimony accumulated as a result of economic activity, specific to the market economy.

**Description of the topic**

Businessmen are those who, according to their way of increasing their individual patrimony, create with the help of production factors new increments of material and immaterial assets, which they appropriate in different phases of distribution. It is therefore logical that they also bear the tax contribution to the formation of the National Public Budget (NPB). But the size of this contribution must be a fair one, both from the point of view of the taxpayer and from the point of view of the state, as the general administrator of tax revenues collected from taxpayers.

It is well known that, in any state, economic agents are concerned about the severity of tax pressure. In the situation where the tax pressure is relatively high, "any taxpayer will be able to choose to evade the obligations to the Budget, either in whole or in part, practicing tax evasion". [Dinga E., 2008].

Based on these considerations, the tax pressure (TP) generated by the state must not have the objective of discouraging business, but of business development, attracting investments and, last but not least, stimulating private initiative.

What is tax pressure anyway? Since taxes represent "a form of taking a part of the income or wealth of individuals or legal entities at the disposal of the state, in order to cover advanced
expenses”, [Manole T., 2016], it is normal to admit the idea of quantifying this taking felt by taxpayers as a tax pressure.

By its mere existence, the tax is able to modify the economic and social behavior of the taxpayer through the influence exerted on the income it generates, as a result of the economic activity.

Thus, the tax pressure is given by the taxation rate which is calculated as the ratio between the tax receipts in a certain period, usually a year, and the value of the Gross Domestic Product (GDP), achieved in the same period, by a national economy.

National Tax Pressure (NPF) can be calculated according to the formula below:

\[
NPF = \frac{\text{Taxes + SSSC (State Social Security Contributions)}}{\text{GDP}}
\]

Source: Adapted by the authors from [Solomon A., 2015]

In an article, dedicated to the level of taxation, Professor Gheorghe Filip reveals: "the distortion of the image of taxation, which results from the prism of reporting only on the size of resource withdrawals in favor of the state, is amplified by the way of determining and perceiving its relatively known level and under the name of degree of taxation or tax pressure". [Filip Gh., 2016].

As authors, we believe that tax pressure must be analyzed not only from a mathematical point of view, as a ratio between payments taken from taxpayers and revenues obtained by the state. In our view, the tax pressure must reflect the state of affairs in the national economy. You cannot burden legal entities to make exorbitant payments to the budget, if the economic, political and social situation does not allow this. As an example, the effects of the COVID-19 pandemic and the war in Ukraine, which strongly affected the national economy of the Republic of Moldova, can serve.

Consequently, the taxes and duties collected by the state from taxpayers are formed, from their point of view, in elements of tax pressure, which is all the more pronounced the higher their share in the added value.

Tax pressure is also felt and amplified by indirect taxes (excise duty and VAT) which, although not borne by legal entities, affect the volume of sales and the competitiveness of products through prices.

The level of tax pressure to which an enterprise is subject can be calculated according to the following formula:

\[
TP = \frac{\text{Income tax + SSSC + other taxes}}{\text{The added value achieved by the enterprise}}
\]

Source: Adapted by the authors from [Vintilă N., 2013]
Other taxes - all direct and indirect taxes and fees borne by the enterprise, with the exception of income tax and State Social Security Contributions.

Since the SSSC is an obligation that the enterprise cannot avoid, this levy is included in the numerator of the fraction that determines the tax pressure.

The elements of withdrawal from the numerator of the fraction contribute in different proportions to the size of the value added by the enterprise, i.e. to the denominator of the fraction. It therefore follows that the size of the tax pressure depends on the weight of these levy elements in the formation of added value and on the level of the tax rate of each element.

At the cost of financing on the added value, the cost of financing must also be taken into account, which can be an actual cost if the company does not have the necessary liquidity to pay the tax obligations, or it can be an opportunity cost if it has the liquidity to make the payment, but the value of the taxes paid could be invested directly by the enterprise in the profit of its associates. This cost, which must be taken into account by the enterprise in carrying out its relationship with the State Tax Service, is generally equal to the cost of capital available on the market at the time when the tax obligations are paid.

A fundamental characteristic of the costs borne by the company related to tax obligations is that they are absolutely not necessary for the specific activity of the company to achieve the purpose for which it was established. Instead, these costs are costs imposed forcibly by the tax policy of the state, costs that, if ignored, would inevitably lead to the company's demise.

A certain, rather qualitative assessment of the tax pressure can be made based on the Laffer curve model.

Arthur Laffer is a prominent American economist, one of the founders of supply-side theory, who became famous during the administration of Ronald Reagan, who through his theories argues that the reduction of tax rates is completely compatible with constant tax revenues or even with higher revenues than the original ones. He became famous for the discovery of the effect – the legality of the influence of the tax rate on the tax receipts of the state budget – called in his honor "The Laffer Effect or the Laffer Curve". Laffer transposed in 1980 the graph known as the "Laffer Curve", an idea expressed in 1776 by Adam Smith, according to which rates of taxation that are too high destroy the basis on which taxation acts.

The Laffer curve is a graph that depicts the relationship between tax rates and total tax revenue. The Laffer model captures the dynamics of tax revenues (TR) of the state budget, depending on the average tax pressure (ATP) in the economy of that state. It also shows that when tax rates rise a lot, an increase in the tax rate causes a decrease in tax revenues collected by the budget. Similarly, under certain circumstances, a decrease in the rate of taxes and fees may actually generate additional economic activity, leading to increased tax revenue.

Thus, it is marked that the dynamics of tax revenues follow, in the opposite direction, the dynamics of evasive behavior: the more tax revenues decrease, the more it is considered that the forms of tax evasion are expanding. [Neaçu C., 2019].

To be more explicit and render the evasive practice dependent on tax pressure, we present the simplified form of Laffer's curve.

The revenue collected at the National Public Budget

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According to the chart, if the tax rate will increase from 0 to 100\%, the income from taxes and fees will increase from 0 to the maximum level M and will trend downward from there. Tax revenue falls beyond this point, because the increase in tax pressure generated by the increase in the tax rate will discourage economic activity and consequently reduce the tax base.

Consequently, the higher the tax pressure increases, the more the revenue to the consolidated budget decreases its share, since a high tax pressure automatically leads to various forms of tax evasion and, therefore, to the reduction of receipts to the National Public Budget.

It is important to mention that the increase in tax pressure does not only lead to evasion, but also to the closure of some businesses that cannot meet their tax obligations, resulting in the disappearance of a certain number of jobs. As a result, the exaggerated tax pressure can lead to the reduction of the tax base and the reduction of tax revenues to the National Public Budget.

So, the Laffer chart demonstrates that the reduction in revenues to the National Public Budget appears as a consequence of tax pressure, not just as a result of tax evasion.

Exaggerated tax pressure can cause legal entities to proceed to tax non-compliance, which can take different forms: tax abstinence, tax fraud and tax evasion.

**Conclusion**

As we have seen, it is not possible to draw limits of the tax pressure scientifically based and applicable in practice to achieve a "tax oppression" agreed both from the point of view of the taxpayer and from the point of view of the state tax body. This is because the question of limits refers us to the psychological, emotional and social aspects of the taxpayer, all of which are difficult to quantify.

The respective limits are imposed by the reactions of the taxpayers who can put up a strong resistance to the increase in mandatory levies, when they estimate them to be excessive through: evasion, fraud, reduction of activity, etc.

On the other hand, a slight laxity by lowering the tax pressure can be made to appear less burdensome and therefore more bearable for economic agents, who will be willing to honor their tax obligations.
But this balance must be worked on consistently. Thus, we believe that alongside the techniques of transforming burdensome mandatory levies into bearable levy techniques, there must be the competence, availability and ability of the State Tax Service to make visible the consequences of a balanced taxation by carrying out pilot projects that have a wide adherence and be brought to the attention of taxpayers in due time.

BIBLIOGRAPHY