

## IMPACT OF THE TAX ON SPECIAL CONSTRUCTIONS – 2025 VERSION

### Synthesis

The introduction of a new tax, such as the tax on special constructions, to achieve the declared objective of reducing Romania's budget deficit was an unexpected, undisputed and apparently risky measure. Given these characteristics of special constructions as economic assets, an asset tax penalizes the ownership of assets and can have several effects: it discourages investment in this type of asset; it discourages the production of this type of asset; it discourages the ownership of this type of asset; it reduces the competitiveness of enterprises, especially those in certain economic sectors; it reduces labor productivity: the assets that employees have at their disposal are the ones that allow their productivity to increase; penalizes "new" assets over "old" assets: given that the tax is calculated on their net book value, new assets, which have a higher unamortized remaining value, will be taxed more heavily than old assets, which have reduced book values or even equal to 0. Taxing special constructions ultimately has the same effect as taxing demand, being equivalent to an increase in VAT, doubling this tax applied to consumption.

For profitable companies or economic sectors, asset taxation is fundamentally a double taxation of economic profit (both through profit tax and asset tax). Companies are taxed both on their profits and on the assets they use. So, fundamentally, it is double taxation of the equity invested by the partners. For unprofitable companies or economic sectors, however, asset taxation is fundamentally a taxation of capital to the extent that a financial loss in a given year is covered, according to financial and accounting practices, from the equity of the company and, ultimately, of the partners of the company in question.

Our analysis had 3 main directions: a counterfactual analysis of the fiscal-budgetary impact in order to estimate the potential impact on the Romanian budget generated by the reintroduction of this type of tax; a counterfactual analysis at sectoral level (the main sectors sensitive to this type of tax) with the estimation of fiscal effects at sectoral level; an analysis of the impact of this tax on state budget revenues (3 scenarios).

The **counterfactual analysis of the fiscal-budgetary impact** of the special construction tax applied between 2014 and 2016 revealed the following aspects: in the short term, the application of this tax led to a significant increase in property taxes, but the additional revenue was significantly diluted by the non-collection of other more important taxes and duties (VAT, taxes on the use of goods), partly explained by the sudden slowdown in investments in fixed assets or the slowdown in their rental for production processes; in the medium term, the pace of additional revenue from this tax slowed down (both against the background of its reduction in value and as a result of the reaction of those who paid this tax), with the state continuing to lose revenue from other taxes (in practice, the additional revenue from the special construction tax was completely canceled by the losses in

revenue from the tax on the use of goods); the long-term trend remains similar. From the counterfactual analysis of state budget revenues as a result of the application of this tax, we can draw the following general conclusion: the tax generated additional revenues to the state budget that were significantly higher than the period before its application, but these revenues are marginal in relation to the amount of additional tax revenues collected, the amount of additional total revenues collected and the total value of the budget deficit. The counterfactual analysis of the impact of this tax on the structure of state budget revenues reveals the following: in the short term, the importance of this tax in total tax revenues, total revenues increased but the share of this tax in GDP increased insignificantly, from 0.07% in 2013 to 0.08%, which shows that the value of the tax remained insignificant both for the budget construction and for the budget deficit relative to GDP. Budget revenues continued to be concentrated equally on the 5 important taxes/duties (over 85% of fiscal revenues), during the period of application of the special construction tax, excise duties having an essential role, well above the role associated with the special construction tax; the situation is similar in the medium and long term. In conclusion, we consider that despite the increase in the importance of property taxes in total state budget revenues, current revenues and fiscal revenues, this increase was diluted over time and this increase was made by decreasing the importance of similar taxes in value (taxes on the use of goods) but also of important taxes (VAT). Changes in the structure of revenues are evident following the application of this tax but not favorable for the budget and its balance. The special construction tax did not improve the structure of state budget revenues, it did not represent a solution to its structural problems. Given the findings, we believe that the special construction tax cannot be considered a success story and no (miraculous) solution for solving the structural problems of the Romanian state budget. On the contrary, this tax did not produce a significant increase in tax revenues, deteriorated the structure of the state budget, inhibited economic activities generating additional revenues to the budget from important taxes (on salaries, on profit, from VAT and excise duties) through a drag-on effect and broadening of the tax base.

Starting from this counterfactual analysis of the fiscal impact of the initial version of the special construction tax, according to our estimates, in the first year of application of this tax, property tax revenues will be higher by about 1.8 billion lei (pessimistic scenario) and 2.4 billion lei (optimistic scenario) compared to the level in 2024. In the long term (time horizon 3 years), we will have a halving of these revenues, to about 1.11 billion lei / year in the pessimistic scenario and 1.4 billion lei in the optimistic scenario. However, the amounts are derisory compared to the total level of tax revenues, compared to the total revenues collected to the state budget, compared to the total deficit or GDP of Romania. Considering the estimated values, we note that these additional revenues estimated by us in the three scenarios represent only 0.73% of the total deficit estimated for the next period (in the pessimistic scenario) and 0.92% of it, in the optimistic scenario.

These estimates confirm that the tax on special constructions has a marginal effect, represents an additional and unnecessary stress for the business environment, a fiscal non-solution that will

significantly inhibit the drag effect and fiscal consolidation by broadening the tax base generated by the flourishing of the private economy as a result of investments with a high degree of technology and innovation. Romania is today facing major projects that will capitalize on important natural resources and transform them into additional added value. This fiscal "innovation" that does not exist anywhere in the world will have a devastating impact on the value chains based on these natural resources. In the end, we will see how the processing of these resources will be done elsewhere than Romania, we will witness a trade deficit for which we do not have the necessary solutions, we will see more imbalance than balance.

The counterfactual analysis **at sectoral level** revealed the following: lower VAT receipts: because turnover slowed down or decreased or because fewer fixed assets were purchased; lower receipts from profit tax: because profitability slowed down or decreased significantly during the period of application of this tax; lower receipts from dividend tax: because profit dynamics slowed down or even decreased profitability; lower receipts from payroll tax: because the number of employees in the analyzed sectors slowed down or even decreased during the period of application of this tax; lower receipts from the special construction tax: because the pace of acquisition of new fixed assets slowed down, fixed assets less relevant to the production process were alienated, fixed assets considered no longer useful in the production process were scrapped. There are sectors where the dynamics of fixed assets were severely affected, we can even speak of a decrease in the total value of fixed assets during the period of application of this tax, compared to the previous period. Applying this special construction tax, net revenues were, rather, negative in the end, the tax generating across a chain decreases in other taxes collected by the state from an economic activity affected in a very aggressive and direct way, thus penalizing fiscal measure for assets generating added value in the economy. Our analysis demonstrates once again the extremely complex harmful nature of this tax which is reflected almost instantly on other taxes, creating an illusion of additional revenues from something like this because of this measure.

In the last section of our analysis, we started with the results of the first two counterfactual analyses (fiscal-budgetary and sectoral) and estimated the cumulative tax loss over two-time horizons (short-term and long-term) and over 3 scenarios (pessimistic, realistic and optimistic). According to the results obtained, in the short term, we are talking about a cumulative tax loss of about 950 million lei from the application of the special construction tax (pessimistic scenario) and about 780 million lei as a result of unfavorable developments at the sector level generated by the application of this tax. In the long term, we are talking about a cumulative tax loss of about 1.52 billion lei (pessimistic scenario) and 1.24 billion lei in the optimistic scenario, as a result of the non-collection of taxes generated by the reduction in sales, the decrease in assets (total, fixed), the decrease in the number of employees or the decrease in profitability in the analyzed sectors.

Given these results, **our proposals are:**

- Urgently abandoning this tax on investments and the development of economic activity, a tax that is not found anywhere in the world, a tax that has obvious adverse effects on the dynamics of turnover, the dynamics of total assets, the dynamics of fixed assets, the dynamics of employment, the dynamics of net profit.
- An alternative to waiving this tax may be to replace it with tax-accounting measures that are much less harmful to the business environment: temporary elimination of depreciation facilities for fixed assets included in the "special constructions" category, application of decelerated depreciation for these assets, extension of the accepted depreciation period for this type of assets (doubling the depreciation period), special tax regulations for the residual value of equipment or for differences in the revaluation of fixed assets that are included in the "special constructions" category.