

TAXATION ISSUES IN ROMANIAN PRE-UNIVERSITY EDUCATION PAYROLL COMPARED TO THE EUROPEAN UNION

Teodor Hada¹,
Radu Mărginean²,
Marina Simona Lukacs³

ABSTRACT: The school is one of the bedrocks of the citizens' development of any country, a reference system for future generations, but the importance given to the educational system varies from country to country, depending on each country's policy on funding and taxing the education. Our analysis emphasizes theoretically and with practical examples the calculation of payroll in Romanian pre-university education and the position of our country within the European Union in this field. We have noticed that Romania, in the framework of pre-university education among E.U. countries, is ranked in last place in terms of funding the education system, and in terms of remunerating teachers, having a reduced payroll tax compared to the analysed EU countries, because of the 16% flat tax applied in our country. We believe that an increase in investments in the Romanian pre-university education, by increasing teachers' wage and ensuring an efficient management of the education system, are factors likely to contribute to the sustainable development of Romanian education in terms of performance and international competitiveness.

Keywords: school education, tax, teachers' wage, social contributions, tax.

JEL Codes: G10, I21, I22.

1. Introduction

From a social perspective, one may claim that education is a fundamental right for humanity, guaranteed by the constitutions of most civilized countries. The development of all individuals in a society heavily depends on the education of citizens, as a direct means of improving their life quality. In the socio-economic context, problematic financially in the aftermath of the financial and economic crisis, the topic of payroll of education appears to be of great interest.

The right to education for all individuals of a society is a cornerstone of every democratic systems of the 21st century, also considered as such by Romania, but reporting to the functionality of the educational system is differently approached in EU countries, of which Romania belongs, element evident from the rate of funding the education system from the state budget.

The performance in education is another vast topic of great interest and may be highlighted on several indicators. In our view, the performance of the education system should be considered closely related to the human factor, the means through which the educational act occurs. Among the problems of the Romanian educational system, we can also remind teachers' poor remuneration, far below the European Union standards. This phenomenon may be studied from several points of view, and in this work, we shall have a comparative approach of wages and payroll in the case of pre-university teachers, both in Romania and in the EU.

¹ Ph.D. Professor, „1 Decembrie 1918” University of Alba Iulia, *teohada@yahoo.com* .

² Ph.D. Student, „1 Decembrie 1918” University of Alba Iulia, *marginean.radu23@yahoo.com*

³ Master Student, „1 Decembrie 1918” University of Alba Iulia, *marina_752000@yahoo.com* .

The main aim of this work is to present, in a comparative manner, both in Romania and in the European Union, aspects on wages, contributions and taxation of pre-university education system, as well as case studies related to the issue of taxation in this field.

After the introduction, in paper we present the research methodology, a chapter presenting aspects regarding salary and wage taxation in Romanian pre-university education and a chapter presenting aspects regarding the payroll and payroll taxation in the European Union. In the last part of the paper, we present the conclusions.

This paper addresses to tax professionals, researchers and policy makers with responsibilities in the management of pre-university education system in Romania, in the context of theoretical and practical approaches to payroll policy.

2. Research methodology

To achieve the main aim of this study, we used a descriptive analysis based on the comparison process to determine the position of Romania on the payroll system and payroll taxation in Romanian education, compared with the payroll system and payroll taxation in EU countries.

For this work, Romanian and foreign economic and financial literature has been reviewed, especially in the field of taxation, in Romania and in the EU countries. Such data have been collected from official sources of the National Institute of Statistics, Eurostat – the European Statistical Office of the European Commission, the Ministry of Education in Romania, the Romanian Official Gazette and specialised sites. All data were analysed temporally and dynamically to allow useful comparisons between wage and payroll systems of teachers' income in secondary education.

We also offered examples of wages calculation for Romanian pre-university education.

3. Aspects regarding salary and wage taxation in Romanian pre-university education

Fiscal requirements problems are closely related to the issue of financing of secondary education institutions. There is a necessity of correlation between funding needs funding resources (Țogoe Dan, p. 295) aiming to carry out the educational activity.

Also, more and more professionals suggest that the educational system must be managed today in the business manner. The sustainability of the system can be influenced for the management approach (Laurent Lahaye et. al, 2012).

In Loredana Ioana Pribac (2012) opinion, the educational system in Romania represents a real factor in the economic growth of our country. Education can increase the human capital intrinsic to the workforce, with a direct effect on work productivity, can increase the innovative capacity of the economy, and involves a progress in people's knowledge. Education is acknowledged as a key component of the European strategy in order to obtain success for the knowledge society, for the whole economy.

For 2014, the gross wages at employment value, the bonuses, allowances, compensations and other types of elements of the pay system for teachers and education support staff from the Romanian pre-university system, established in accordance with the provisions of Law no. 63/2011 on employment and wages in 2011 for teachers and support staff, is set at the same level as that granted in December 2013 given that the staff performed their work under the same conditions.

The base salary for a teacher in Romanian education is structured as a fixed part, the wages at employment under the Annex set by legislators and a variable part of the basic salary which includes bonuses, allowances, and other compensation (Law 63/10.05.2011).

The wages at employment is not identical, it is differentiated according to the following criteria (Law 63/10.05.2010):

According to teaching positions – the wages at employment for: a secondary school teacher, a primary school teacher, teacher - educator, master instructor;

According to the level of education – wages at employment for long-term and short-term higher education and medium level education;

According to the teaching degrees – wages at employment for: junior, permanent teacher certification, teaching degree level II, teaching degree level I;

According to professional stages – wages at employment for: junior, stage IV, stage III, stage II, stage I, stage IA (auxiliary teaching staff and non-teaching);

According to seniority – wages at employment for: 0-2 years, 2-6 years, 6-10 years, 10-14 years, 14-18 years, 18-22 years, 22-25 years, 25-30 years, 30-35 years, 35-40 years, above 40 years.

For each category of teaching, professional degree, education level and seniority, the legislation has caused a certain degree of wages quantified on the basis of a ranking factor. It is important to note the evolution of wages at employment starting from the onset to the peak reached by a university graduate teacher.

Table 1. The evolution of wages at employment for teachers in secondary education –the university graduate teacher (lei).

SENIORITY	JUNIOR	PERMANENT TEACHER	2 ND DEGREE TEACHER	1 ST DEGREE TEACHER
above 40 years		1743	1834	2200
35-40 years		1671	1761	2095
30-35 years		1599	1685	1991
25-30 years		1521	1627	1896
22-25 years		1478	1548	1814
18-22 years		1373	1472	1721
14-18 years		1334	1415	1682
10-14 years		1316	1387	1617
6 -10 years		1160	1217	1421
2 - 6 years		1148	1195	1281
under 2 years	1139			

Source: Own projection by Law 63/2011, updated.

Under the legislation in Romania, employers and employees, and other categories of taxpayers pay compulsory contributions to the state social, health and unemployment insurance. Their role is to cover pensions, child benefits, statements on temporary work incapacity, risks of accidents at work and occupational disease as well as other social services. The role of unemployment insurance is to cover the risk of loss of employment and receive unemployment benefits under the legislation.

Employers calculate according to salary and withhold employee contributions on the payment date of wages. Contributions to the state budget and state social insurance budget are paid by the employer until the 25th of the month following the month for which the salary is due. Failure to pay those contributions within 15 days of that date under the law is an offense and is punishable accordingly.

In accordance with Law no. 356/18.12.2013 - State Budget Law in 2014, published in the Official Gazette no. 805/19.12.2013 and Law. 340/12.10.2013 - Law on state social insurance budget in 2014, published in the Official Gazette no. 776/12.12.2013 percentages related to social contributions are the same in 2014 and applicable to the payroll fund of the calendar month. Thus, under current legislation, social contributions due by the **employer** and **employee** are:

The contributions owed by employer and employee, according to the Romanian Fiscal Code, are:

- The employer** pays depending on the work conditions specific to the unit
- **20.8%** - is the percentage for normal working conditions;
- **25.8%** - distinct working conditions;
- **30.8%** - special working conditions ((valid for what an employer owes);

In pre-university education the contribution is 20.8% for normal working conditions and it is applied as follows: "Calculate the gross income minus allowances for sick leave, plus 35% of the

average gross wages in the country having guaranteed payment * No. of working days of Medical Leave/ No. of working days in the month". Gross average wage on economy for 2014 is 2298 lei(Law 340/2013).

The employee is required to pay a percentage of 10.5% in normal working conditions.

➤ **Health contributions – Health Insurance Department**

- **5.2%** - This contribution is paid by the employer in accordance with legislation changes and completions;

- **5.5%** - It is paid by employees, and is calculated on gross income minus any sick leave payment provided in art. 257 of the Law no.95/2006, as amended and supplemented subsequently.

➤ **Contribution related to holidays and compensation**

- 0.85% - This percentage is paid by the employer;

➤ **Contribution to the unemployment insurance fund**

In Romania both the employee and the employer pay a contribution of 0.5% unemployment fund. This fund is not retained to retired employees. The calculation base includes sickness benefits paid from the state budget. Payment of individual contribution to the unemployment insurance budget stops where employees receive sick leave lasting more than 30 consecutive days, no matter whether the sick leave certificates have the same diagnosis code or not.

➤ **Contribution to insurance against accidents at work and occupational diseases**

- The contribution is between 0.15% and 0.85% depending on the risk class (according to NACE code of the unit);

➤ **Contribution for holidays and health insurance benefits**

- It is in the value of 0.85% and paid by the employer;

➤ **Contribution owed to the fund for people with disabilities**

Law 448 of 06.12.2006 (republished) through art. 78-(2) informs us that “employers with at least 50 employees are required to hire people with disabilities at a rate of at least 4% of the total number of employees”.

If the number of employees is over 50, the monthly average number of employees for each month will be determined as an arithmetic average from the sum of daily employees of the month, including weekly holidays, public holidays and other days when, according to the law, they are not working. This average is divided to the total number of calendar days. The number of employees will not include employees on leave without pay, or those seconded, or employees whose individual work contracts are suspended.

Employees who under contract with the employer are not employed full-time as it exists in secondary education will be included in the average number proportional to the working time stipulated in the individual labor contract.

➤ **Salary income tax**

For income from wages and other labour payment rights won in court during earlier periods, according to the law, the tax is calculated and withheld on payment date in accordance with the regulations in force and shall be transferred to the 25th of the month following that in which they were paid. The tax rate is 16%.

The taxable amount = taxable gross income minus the individual contribution to the unemployment insurance budget 0.5%, HID 5.5%, HIF 10.5%, personal deduction is calculated as required by law, union dues where applicable and optional deductible pension.

The incomes not subject to taxation are maternity allowance, maternity and parental risk and aid for child care, salaries made by people with severe disabilities paid from the health insurance fund.

Employees may transfer through Statement 230 up to 2% annual tax on income from salaries to support non-profit entities that operate under the law, established associations to support schools etc.

Under the tax code employees benefit from net income deduction of monthly salary from work. Personal deduction⁴ is granted to employees according to the gross monthly income threshold. Up to 1000 lei employees receive as well a deduction based on people maintenance(Law no. 571/2003, regarding the Fiscal Code, art. 56):

- No dependents - 250 lei;
- A dependent person - 350 lei;
- Two dependents - 450 lei;
- Three dependents - 550 lei;
- Four or more dependents - 650 lei.

For employees who receive monthly gross income monthly from salary between 1000.01 and 3000 lei, inclusively, personal deductions decrease gradually compared to the above being set by the Minister of Finance. Employees who receive monthly gross income from salary of more than 3,000 lei do not receive personal allowances. The role of this deduction is to reduce the salary tax base, which leads to a smaller tax withholding(Law no. 571/2003).

All these contributions are reported according to form 112 "Statement of obligations to pay social contributions, income tax and nominal record of insured persons" by natural and legal persons referred to in *art. 296, align. 3, letter e*, of Law 571/2003 on the Fiscal Code, as amended and supplemented(Law no. 571/2003).

➤ **Case study: Remuneration of teachers in the Romanian education system and the related compulsory contributions**

For illustration, we present the calculation of wages taking into account social security contributions in two real cases:

Table 2. Example of payroll calculation for two cases

CASE I.			CASE II.		
Teacher, S, Debutant, Under 2 ani			Teacher, S, 1 st degree, over 40 years seniority		
Base	1139		Base	2200	
Base pay realised	20 DAYS	1139	Base pay realised	20 DAYS	2200
Special increase (1139*15%)	15%	171	Special increase (2200*15%)	15%	330
Base pay (1139+171)	20	1310	Length of service allowance	25	633
Hourly rates (1310/64*4 ORE)	4	82	Gross returns	0	3163
Gross returns	0	1392	UNEMPLOYMENT	0,5%	16
UNEMPLOYMENT	5%	7	CAS	5,5%	174
CAS	5,5%	77	CIASOC	10,5%	332
CIASOC	10,5%	146	Tax	16%	423
DEDUCTION	1 pers.	250	Net income	2218 lei	
Tax	16%	146			

⁴ <http://www.mmuncii.ro/> (Ministerul Muncii, Familiei și Protecției Sociale – Ministry of Labour, Family and Social Protection)



Source: own processing.

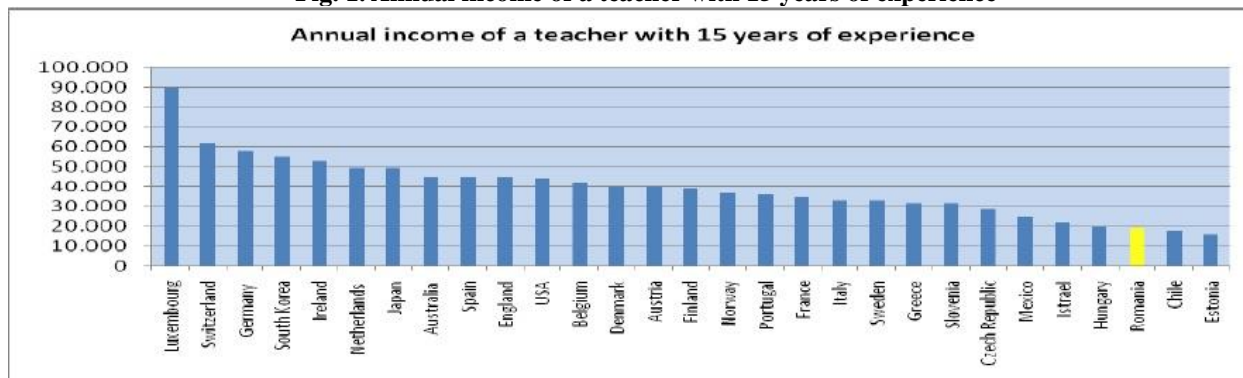
4. Aspects regarding the payroll and payroll taxation in the European Union

Salaries of teachers in Europe (monthly wages in Euros) are largely determined by some factors, namely the institutional status of schools, type of employment contract agreed, the stage a teacher went through and reached in his career, etc. Also, in most developing countries, the major programs for vocational training and manpower-skill development is financed from general government revenue (John Whalley, Adrian Ziderman, Omporn Regel, 1989).

In most countries, the minimum gross basic salaries of teachers in primary, secondary and upper secondary education are relatively small. Allowances added to the basic salary in European countries have a considerable share in the real wages of teachers. Most common allowances in European countries are granted for hours or additional responsibilities. In 50% of cases, countries give teachers allowances to the basic salary depending on experience allowance, teaching performance and student achievement, reaching a maximum gross salary which is generally three times the minimum wage for junior. Given that some countries can take up to 30 years to earn the maximum salary, young people could be discouraged from embracing this profession. Difficult is the path of teachers in Romania to get the maximum salary, this period lasting over 34 years old.

We consider stimulating teachers' remuneration in Romania on performance and educational outcomes is also an idea to follow for decision makers.

Fig. 1. Annual income of a teacher with 15 years of experience



Sursa : Hada Teodor, Lukacs Marina Simona, 2011.

As can be seen from Figure 1, the situation of Romanian education in terms of teaching staff remuneration is among the weakest of the 29 countries analysed, being on the 27th position. In our opinion, the poor pay of teachers will lead to lower the teachers' professional quality by targeting high school graduates very capable intellectually to other fields than professorship.

There is a European Commission report (2014 p. 13), which indicates the difficulties found in the Romanian education system, such as to differentiate Romania to the EU in this area. Thus, the education system in Romania has low wages and poor extracurricular activity. However, along with Romania, only the Czech Republic, Latvia, Lithuania, Poland, Slovakia and Norway) register a minimum salary **lower than GDP per capita**.

There are considerable differences between the tax systems of the EU member countries, differences that also influence directly the payroll in those countries. A major influence in this respect represents the policy lead by the majority of the country, left or right, and other factors related to culture and practice of individual countries.

In Table 3 we present the maximum rates of income tax in EU countries, in descending order:

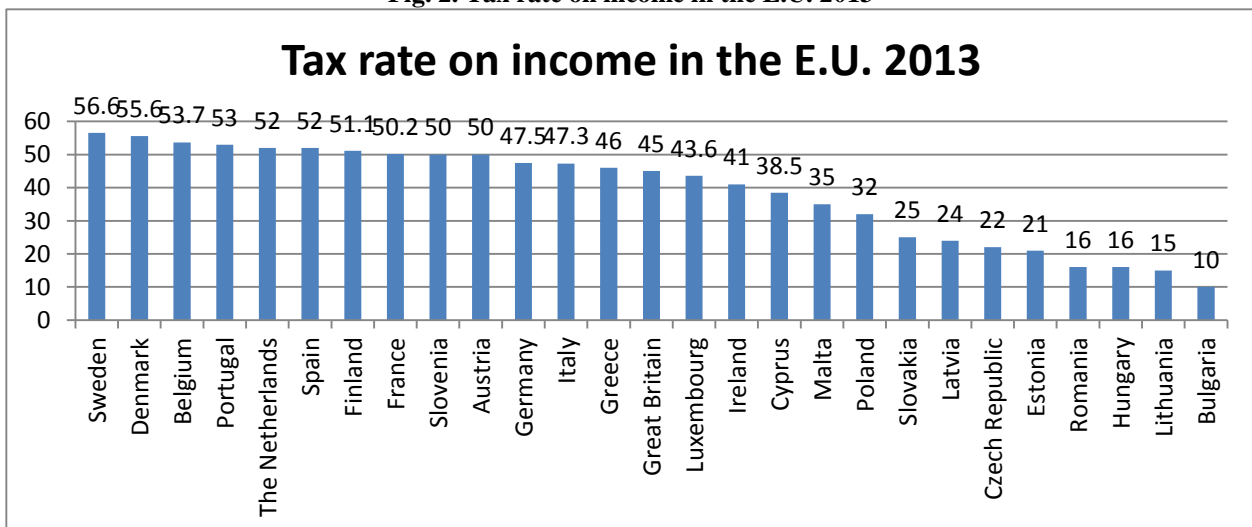
Table 3. The maximum rate of income taxation to the EU Member States

No.	Member State	Year 2013
1	Sweden	56.6
2	Denmark	55.6
3	Belgium	53.7
4	Portugal	53.0
5	Germany	47.5
6	Spain	52.0
7	France	50.2
8	The Netherlands	52.0
9	Finland	51.1
10	Italy	47.3
11	Austria	50,0
12	Slovenia	50,0
13	Luxembourg	43.6
14	Greece	46.0
15	Great Britain	45.0
16	Cyprus	38.5
17	Ireland	41.0
18	Cyprus	38.5
19	Malta	35.0
20	Poland	32.0
21	Slovakia	25.0
22	Latvia	24.0
23	Czech Republic	22.0
24	Estonia	21.0
25	Hungary	16.0
26	Romania	16.0
27	Lithuania	15.0
28	Bulgaria	10.0

Source: European Commission, Taxation Trends in the European Union, Eurostat Statistical Books, 2013

Rendered graphically, Table 3 is as follows:

Fig. 2. Tax rate on income in the E.U. 2013



Source: Own projection of authors.

As one can see, our country has among the lowest income tax rates in the EU, due to the 16% flat tax. Thus, we can maintain the favorable position of our country in this respect, compared to other countries in our analysis.

However, if we remember that teacher salaries in Romania are among the lowest in the EU, we may conclude that a 16% flat tax is not enough for teachers. In our opinion salary increases are necessary for teachers so that the school system can benefit from well-trained teachers, incentives for performance, and respect for the teaching profession to be on a similar level to the situation of teachers in developed countries of EU, where teaching profession is highly paid.

5. Conclusions

Analyzing teachers' salaries, we may notice that Romania is on one of the last places in the European Union when it comes to on wages, with real difficulties in ensuring a competitive education system in Romania.

In a comparative approach, Romania is among the losing out EU member states, in terms of funding education system in most of the significant aspects (payroll, logistics, etc.) but it is far from the last places at school results. Romanian students' participation at prestigious international contests, winning one of the highest awards, represent key elements that can directly stimulate an increase in attention to this vital sector for the development of Romania for future generations.

Thus, we may conclude that Romania, by the central institutions and decision makers existing in the Ministry of National Education and the Romanian Government, is obliged to find the necessary levers for proper funding of the education system, including measures of teacher payroll tax relaxation of undergraduate but also academic level.

The need for sustainable management in the field is more and more urgent today, when teachers give up teaching, either to emigrate to developed countries or for retraining. A nation without quality teachers will create students of questionable quality, leading ultimately to future employees of questionable professional quality, thus affecting the entire economy and society in Romania.

References

1. Baze de Date OCDE privind Administrare Fiscala.
2. European Commission, Taxation Trends in the European Union, Eurostat Statistical Books, 2013., http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-DU-13-001/EN/KS-DU-13-001-EN.PDF, on 10.08.2014.
3. Hotărârea Guvernului nr. 1.397/2010. - Prin Ordonanța de Urgență a Guvernului nr. 117/2010 „Declarația privind obligațiile de plată a contribuțiilor sociale, impozitului pe venit și evidența nominală a persoanelor asigurate”, formular 112.
4. Ministerul Finanțelor Publice, Registrul fiscal și al contribuțiilor sociale , <http://www.mfinante.ro/alegeTaxeAnaf.html?pagina=taxe> , on 19.08.2014.
5. John Whalley, Adrian Ziderman, Omporn Regel, 1989. Payroll taxes for financing training in developing countries, Policy, Planing and Reserch Working Papers, Education and Employment, online at http://www-wds.worldbank.org/servlet/WDSContentServer/WDSP/IB/1989/01/01/000009265_3960927114137/Rendered/PDF/multi_page.pdf, on 01.09.2014 .
6. Laurent Lahaye, Nicoleta Cristache, Catherine Dalfior, Alexandru Capatina, Pierre Maloteau, 2012. CSR Initiatives in two Higher Education Institutions from Belgium and Romania, International Conference “Risk in Contemporary Economy”, “Dunarea de Jos” University of Galati – Faculty of Economics and Business Administration, pp. 213-218.
7. Law 63/2011, Monitorul Oficial al României, partea I, nr. 323/10.05.2011, p. 2-23, online at http://www.sindicat.uaic.ro/legislatie/Salarizare_invatamant_L_63_2011.pdf, on 01.09.2014.
8. Law no. 340/2013, <http://www.mmuncii.ro/j33/images/Documente/Legislatie/L340-2013.pdf>, on 01.09.2014.
9. Law no. 448 din 06.12.2006 (republicată), http://www.cjraetm.ro/alemele/docum/LEGEA_448.pdf , on 18.09.2014 .

10. Law no. 95/2006, http://www.cdep.ro/pls/legis/legis_pck.htm_act?ida=64032, on 12.08.2014.
11. Law no.571/2003 privind Codul fiscal cu normele metodologice de aplicare, actualizat prin Ordonanța Guvernului 46/26.06.2014, online at. http://static.anaf.ro/static/10/Anaf/Legislatie_R/Cod_fiscal_norme_2014.htm#trei on 12.08.2014.
12. Strategia Post-Aderare a României, <http://www.edu.ro/index.php/genericdocs/7737>, on 25.08.2014.
13. Pribac Laura Ioana, 2012. Education- a factor in the economic growth. Romania's case. Annals of the "Constantin Brancusi" University of Targu Jiu, Economy Series, Issue 1/2012, pp. 146-149.
14. Teodor Hada, Laura Macavei, „Fiscalitatea din România in anul 2011”, Editura Aeternitas, Alba Iulia, 2011.
15. Teodor Hada, Marina Simona Lukacs, 2011. Aspects regarding contributions and taxation in Pre-University Education Institutions in Romania and other countries in the European Union. International Conference "Risk in Contemporary Economy", "Dunarea de Jos" University of Galati – Faculty of Economics and Business Administration, 384-393.
16. Țogoe Dan, 2010. Romanian Pre-University Education Financing. Ideal vs. Reality, *Annales Universitatis Apulensis Series Oeconomica* 12(1), pp. 495-500.
17. www.ier.ro (Institutul European din România), on 01.08.2014.
18. www.mfinante.ro (Ministerul Finanțelor Publice), on 01.09.2014.

Acknowledgment

One of the authors, (Mărginean, Radu), would like to specify that this paper has been financially supported within the project entitled „SOCERT. Knowledge society, dynamism through research”, contract number POSDRU/159/1.5/S/132406. This project is co-financed by European Social Fund through Sectoral Operational Programme for Human Resources Development 2007-2013. Investing in people!”