

TRANSACTION COSTS – ANALYSIS AT THE FIRM’S LEVEL FROM A FISCAL PERSPECTIVE

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Economic growth implies, at microeconomic level, a process of analysis and adaptation of the business climate, which requires continuous tracking of transaction costs. In this regard, our paper aims at identifying these transaction costs at the firm’s level, respectively the theoretical aspects of transaction costs and their analysis from a fiscal perspective, a comparative analysis of them in Romania and Moldova and some countries in the South East Europe. The methodology used will be a descriptive one, consisting of gathering data and information from the specialized literature and practice. Results of the analysis show that transaction costs, determined in our case, by the costs of compliance with tax legislation, influence the activity of the firm: the higher tax compliance costs are the more transaction costs grow, so the company results will be diminished.

Key words: *transaction costs, firm, administrative costs, tax compliance costs, taxes, tax system.*

Creșterea economică implică la nivel microeconomic un proces de analiză și adaptare a climatului antreprenorial, ceea ce presupune o urmărire permanentă a costurilor de tranzacție. În acest sens, lucrarea noastră are drept scop identificarea acestor costuri de tranzacție la nivel antreprenorial și, respectiv, studierea aspectelor teoretice privind costurile de tranzacție la nivelul firmei și analiza lor din perspectivă fiscală, analiza comparativă a acestora în România și Republica Moldova, precum și unele state din Sud-Estul Europei. Metodologia utilizată va fi una de tip descriptiv, constând în culegerea de date și informații din literatura de specialitate și din practică. Rezultatele analizei arată că, costurile de tranzacție, determinate în cazul nostru de costurile cu conformarea legislației fiscale, influențează activitatea firmei: cu cât costurile de conformare fiscală sunt mai mari, costurile de tranzacție cresc, deci rezultatele întreprinderii se vor diminua.

Cuvinte-cheie: *costuri de tranzacție, firmă, costuri administrative, costuri de conformare fiscală, taxe, sistem fiscal.*

Экономический рост означает, на микроэкономическом уровне, процесс анализа и адаптации бизнес-климата, который требует постоянного отслеживания транзакционных издержек. В этой связи, данная работа направлена на выявление этих транзакционных издержек на уровне предприятия и, соответственно, на изучение теоретических аспектов транзакционных затрат предприятий и их анализ с финансовой точки зрения, их сравнительный анализ в Румынии и Республики Молдова, а также в некоторых странах Европы и Центральной Азии. Используемая методология – дескриптивная, состоящая из сбора данных и информации из научной литературы и из практики. Результаты анализа показывают, что транзакционные издержки, определенных в нашем случае, стоимостью соблюдения налогового законодательства, влияют на хозяйственную деятельность предприятия: высокие затраты на соблюдение налогового законодательства влекут за собой рост транзакционных издержек, таким образом снижаются общие показатели результативности предприятия.

Ключевые слова: *транзакционные издержки, предприятие, административные расходы, затраты на соблюдение налогового законодательства, налоги, налоговая система.*

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Introduction. In the economic literature is missing the consensus on the content of transaction costs concept and the most important elements of its components, which partly explains the absence of substantial studies on measuring these costs. Diversity of interpretation relates either to the costs of obtaining information or to opportunistic behaviour of agents, either to concluding and honouring contracts. Lately there have been efforts to widen and specify the components of this concept by expressing the categories of economic activities and bringing them into line with statistical evidence. Also, the economic reality raises a number of issues related to the relationship between transaction costs and period specificity (economic and financial crisis, the actual status of the firm, etc.), and among these specific issues we consider the changes in taxation represent an aspect often invoked by the Romanian practice. Between transaction costs and taxation there is a direct correlation; any fiscal modification causes transaction costs at the enterprise level, costs that often lead to diminishing the entity's financial results.

Transaction costs – analysis at the firm's level from a fiscal perspective. By the transaction costs at the company's level we understand the costs when making transactions, beyond the value of the services that are the subject of transactions. Therefore, regulations or mechanisms that makes the economic exchanges difficult lead to transaction costs.

If an entrepreneur has to comply with numerous bureaucratic procedures to register as a taxpayer, as well as declare and pay the various taxes established in the tax regulations, those circumstances may entail redundancies, delays and additional costs, and trigger unnecessarily high transaction costs. In addition to paying taxes, business owners incur an opportunity cost for the time spent on complying with administrative procedures. This may also lead to the emergence of intermediaries who handle the paperwork, thus making it more costly to open and run a business. Complicated procedures and excessive costs might cause some entrepreneurs to quit and abandon their efforts; others choose to continue, without being subject to all the obligations required, or to operate in the informal sector. In the event, such businesses, in trying to pass unnoticed by the authorities, significantly constrain their own potential for growth and job creation. Informality not only creates uncertainty for businesses and workers, but it also deprives them of access to government support and to the financial sector in general.

Strategies to simplify and lower administrative barriers should, therefore, be properly devised, taking into account the various indirect costs or tax transaction costs that are prompted by tax compliance. Tax transaction costs are the total amount of money spent by society to comply with the tax system. Their main components are the costs borne by taxpayers when complying with their obligations (known as compliance costs) and the costs faced by the tax administration for ensuring compliance by taxpayers (or administrative costs).

Compliance costs include internal and external costs. Internal costs are those associated with the time needed to prepare fiscal data or other requirements of the national tax administrations, accounting software cost used to prepare this information, staff remuneration, training costs, etc. External costs are usually associated with external charges paid to advisors.

Briefly, identifying, measuring and reducing the main components of transaction costs could improve a country's business environment, thereby facilitating tax compliance in the formal sector of the economy and consequently promoting competition, productivity and competitiveness.

Many developing countries are looking for ways to improve their competitiveness and regulatory efficiency. In this context, they have implemented various strategies continuously to upgrade their tax systems. This quest for improvement is usually geared to simplification in the general belief that simpler is better.

Regarding the transaction costs, their reduction may lead to diminishing uncertainty and a better tax compliance. This entails three elements: taxation of different categories of taxes to be paid by the taxpayers as taxes on profits, labour, goods and services; efficiency costs, the manner in which they distort the decisions of economic agents and the way they induce a decline in social well-being; the operating costs of the tax system: the costs to the government (ultimately paid by taxpayers) of administering and collecting taxes, normally referred to as "administrative costs", and costs incurred by taxpayers in complying (or sometimes failing to comply) with their tax obligations, commonly known as "compliance costs".

Transaction costs are basically made up of administrative and tax compliance costs. Administrative costs are those that must be incurred by the tax system's administrator in order to discharge its functions and duties, including: registering taxpayers, carrying out control or auditing programmes, guidance and

assistance services, and so on. The costs most commonly considered are the human resources required; the acquisition of furniture, facilities and computer equipment; and the costs incurred in devising means of helping taxpayers to manage their tax obligations.

Tax compliance costs are those that taxpayers must meet in order to comply with the tax legislation in force. They include not only the acquisition or hiring of the human resources, material and information technology needed to comply with such legislation, but also the cost of the time spent in obtaining the information, assistance and guidance needed for tax compliance. Compliance costs can be divided into: quantifiable economic costs that have a direct impact on taxpayers' income; and non-economic, generally psychological costs, that spring from the need to comply properly with the tax system.

It must be noted that the goal of tax-system simplicity involves reducing the sum of the two costs and should avoid the fact that one of the cost components (administrative costs, for example) is reduced at the expense of lowering the other (compliance costs, for instance). There is a risk of introducing tax measures that do not minimize transaction costs, and thus it is important to understand each of them independently, to quantify them rigorously and to identify how both may be complemented.

From the perspective of the honest taxpayer, simplicity is the principle that the system is simple, easy to understand and easy to comply with. A simple tax system involves few taxes applied to a broad tax base – that is, what is taxed (income, consumption, property) is defined very broadly, without complicated valuation rules; the taxes are stable over time and special cases are not admitted. Administrative simplicity also means limiting “hidden” tax costs (determined by fiscal uncertainty).

It is important to mention that the level of compliance costs tends to vary widely by type of tax. For example, there are cases when it is usually easier to collect value added tax (VAT), but it requires more transactions for the taxpayer. Or, income-tax compliance, though entailing fewer transactions to be declared and paid, tends to be more complex because of the number of exceptions and other considerations that usually prevail, especially in determining the tax base.

Therefore, the size of transaction costs is influenced by the simplicity of the tax system. Basically, a simple tax system involves three areas: simplicity in fiscal policy, simplicity in tax regulations and in tax management.

Below there are presented several reforms that reduce transaction costs:

Table 1

Reforms geared to simplification and reduction of transaction costs

Tax policy	Tax legislation	Tax management
Reduction in the number and type of taxes	Stability of tax regulations	Simplicity of organizational structure
Taxes and simplicity (ex: number of rates)	Extent of tax laws	Simplification, standardization and automation of taxpayer life cycle processes
Number of changes in the tax structure	Clarity of the regulatory regime and simple consultation processes	Focusing on control and examination processes (risk management)
	Judicial claim costs reduction	Simplicity in administrative claims processes
	Consistency between norms at different levels of the hierarchy	Information, assistance and compliance facilitation tools

Source: Barra, 2006, Simplicidad de los Sistemas de Imposición. El caso de Chile.

Also we present the measurement of transaction costs at company level:

Table 2

Measuring the transaction costs at enterprise's level

Phase 0. Start-up
Identifying the general context; detailed understanding of the regulatory and administrative framework of the taxes to be analysed. It is important to understand the institutional framework, procedural maturity and political support for a possible reform geared to tax simplification.

Phase 1. Preparatory		
Defining the undertaking's financial resources and training the local technical team. In this phase it is important to analyse the financial viability of hiring an external organization to conduct the survey, as well as the quality of the internal information that will allow the transaction costs to be determined.		
Phase 2. Analysis		
	Step 1.	Identifying the information obligations, requirements and tax transactions, as well as the main internal indicators on the tax cycle
	Step 2.	Identifying the regulations relating to taxes and procedures
	Step 3.	Identifying the segments of firms relevant to the study
	Step 4.	Identifying the target group and transaction frequency
	Step 5.	Identifying related regulations
Phase 3. Measurement		
	Step 6	Measuring compliance costs
	Step 7	Measuring administrative costs
Phase 4. Reports		
	Step 8	National-level extrapolation of the data obtained
	Step 9	Final results report and determination of the simplification plan

Source: CIAT, 2014, Measuring tax transaction costs in small and medium enterprises, United Nation, New York.

In our analysis we will focus on compliance costs (monetary), internal and external, analysis that we realize according to the indicators from Doing Business Report 2016, prepared by the World Bank. These indicators present the evolution of the business environment in the countries analyzed over the previous year 2015. Which they are and what do they mean we can see in the following table:

Table 3

“Doing Business” indicators and their significances

Indicator	Meaning
Starting a business	Procedures, time, cost, minimum paid capital to start a business
Dealing with construction permits	Procedures, time, cost to complete formalities to build a warehouse, quality control and safety mechanisms
Getting electricity	Procedures, time, cost for the connection to the electrical grid, supply reliability and cost of electrical power consumption
Registering property	Procedures, time, cost of transfer property and the land quality management system
Getting credit	Movable collateral laws and credit information systems
Protecting minority investors	Minority shareholders' rights in related-party transactions and in corporate Governance
Paying taxes	Payments, time and total tax rate for a firm to comply with all tax Regulations
Trading across borders	Time and cost to export the product of comparative advantage and import auto parts
Enforcing contracts	Time and cost to resolve a commercial dispute
Resolving insolvency	Time, cost, outcome and recovery rate for a commercial insolvency and strength of the legal framework for insolvency
Labour market regulation	The flexibility of labour force regulation and aspects on work quality

Source: World Bank, Doing Business 2016 report.

As for the situation in Romania and Moldova, according to the report: Romania maintains, in 2015, the 37th place, of 189 countries in the general ranking of the World Bank, and Moldova loses three positions, reaching the 52 rank in 2015, compared to 2014, when it ranked 49.

The indicators analyzed in the report, which represent compliance and administrative costs of the company (transaction costs) are presented in the following table:

Table 4

Indicators in Romania, Moldova and some state in South East Europe

Indicator	Romania	Moldova	Bulgaria	Czech	Hungary	Poland	Slovakia
Starting a business(rank)	45	26	52	93	55	85	68
Procedures(number)	5	4	4	8	4	4	6
Time (days)	8	4	18	5	5	30	1.5
Dealing with construction permits (rank)	105	170	51	127	88	52	84
Getting electricity (rank)	133	104	100	42	117	49	48
Registering property(rank)	64	21	63	37	29	41	5
Getting credit (rank)	7	28	28	28	19	19	42
Protecting minority investors (rank)	57	36	14	57	81	49	88
Paying taxes (rank)	55	78	88	122	95	58	73
Payments (number/year)	14	21	14	8	11	7	10
Time (hours/year)	59	186	23	05	77	71	88
Total tax rate (% of profit)	42	40.2	27	50.4	48.4	40.3	51.2
Trading across borders (rank)	1	33	20	1	1	1	1
Enforcing contracts (rank)	34	67	52	72	23	55	63
Resolving insolvency (rank)	46	60	48	22	65	32	33

Source: World Bank, Doing Business 2016 report.

Therefore, we have: for starting a business, transaction costs are higher in the Czech Republic and the lowest ones in Moldova; for dealing with construction permits, costs are the lowest in Bulgaria and Poland, and the highest in Moldova; at getting electricity, the Czech Republic and Slovakia practice low costs and in Romania these costs are the highest, followed by Hungary; for register property, the smallest costs are in Slovakia, and the highest in Romania; at getting credit, small costs are practicing in Romania, and the highest ones in Slovakia; to protect minority investors, costs are the lowest in Bulgaria, and the highest in Slovakia; for paying taxes Romania is placed the best and highest costs are charged in the Czech Republic. We observe the large number of hours necessary for the payment of taxes in Moldova, which means high costs for companies, as compared with the other countries analyzed; for cross-border transactions, Moldova has the highest costs; at enforcing contracts, Romania ranks after Hungary, which has the lowest costs, at the opposite pole being the Czech Republic, followed by Moldova; for resolving insolvencies the lowest costs are in Czech Republic, and the highest ones in Hungary.

Conclusions Transaction costs represent, for the entrepreneur, everything related to the proper conduct of the firm on the market. These are the costs when making transactions, beyond the value of the services that are the subject of transactions. They include costs related to the company's activity (internal ones) and external costs that are usually associated with charges paid to external advisors. Entrepreneurs are obliged to provide the personnel training necessary for the proper application of the law - which

generates extra costs, and perhaps an unexpected one for the company. The legal provisions are difficult to understand, the company is forced to allocate resources to understanding the legislation, its implementation and ensure compliance.

Other hidden costs could be as follows: cost of the hours that the personnel complete the documents (at first sight, is a normal cost of business, but when changes occur, attention and time to complete documents to comply increase), cost of consultants services.

Also, a different kind of cost, but that can not be quantified in monetary terms, although there are approaches in this regard, is the stress. It plays an important role, considering that bureaucracy and complexity of the tax system and legislation do not allow a clear and simple understanding of measures that a company should have to comply with the law. Stress can be also caused by the fact that the state does not have the personnel trained to provide assistance, so the firm is forced to act as it believes is the best, while being aware of the risk of actions it undertakes.

Perhaps the greatest influence on costs is the fact that the rules change frequently, especially during a financial year, which may affect the company's plans and budget. Tax measures affecting the activities of firms, particularly small firms that can not withstand the market, nor have the means of development. A large business will be less affected, but the small one will have higher losses, mainly due to the lack of resources that can be used to cover these costs.

Compliance costs affect productivity and investment in various ways. On the one hand, a high tax burden imposes extra costs on taxpayers, both individuals and businesses. These costs tend to be higher when the business sector is more informal, a circumstance that in turn induces formal-sector companies to seek legal (or not so legal) "alternatives" in an effort to lower their tax burden, thereby spawning more compliance costs that ultimately will give rise to evasion.

The combination of high taxes, high compliance costs and marked levels of tax evasion distorts firms' investment decisions, reduces market efficiency and prevents governments from investing in essential public services, thereby constraining a society's productive prospects: an unwelcome vicious circle.

When a tax system is complex it can be rejected by taxpayers, because either they do not understand it and, therefore, consider it arbitrary or simply because in view of its complications they choose not to fulfil their obligations. From this perspective, reducing the tax system's complexity and lowering compliance costs may lead to a decline in fraud and corruption, or at least lessen the incentives to engage in such activities.

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