

# The lifetime tax costs for a family with one child in Romania



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## How much money do I pay to the state over my lifetime?

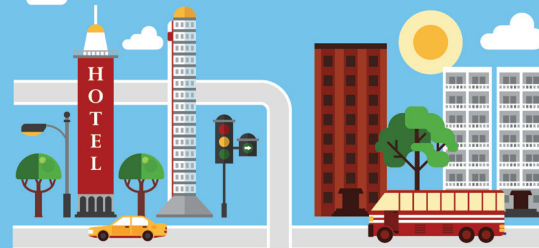
This is a question that many of us have certainly asked. Another question that a lot of people have wondered about is: What happens to the money we pay to the state?

In this article, we will try to answer these questions in a practical and comprehensible way

For this purpose, we are presenting below two ordinary people:



They could be your neighbors, your coworkers or those people next to you on the bus in the morning. They represent an average family in Romania, who live in a city that is neither small nor big (e. g. Buzau).



At the age of 20<sup>1</sup>, each one of them gets a job, and earns their first salary. Each of them is expected to earn a gross monthly average salary of 4.488 RON<sup>2</sup>, which represent a net income per family of 5.250 RON. Upon graduation, Andreea will get hired as a public servant at the local tax administration. Andrei will start his career as an engineer at a local plant, in the private sector. They will each have the same employer for the rest of their careers.

With regard to consumption, we will consider the average shopping cart throughout their lives. This will cover the basic needs of the family (food, clothing, public transport, expenditure related to health, housing, electricity, water, gas, etc.)<sup>3</sup>. In order to reflect a realistic level of spending for this family, we have added an additional amount of money for fuel, tobacco and alcohol consumption.

3,804



Thus, the level of monthly expenditure for a family of two persons would be 3,804 RON, while monthly expenditure for a family of three would be 5,079 RON<sup>4</sup>.

5,079



On top of this, other incidental expenses will be added such as rent, leasing installments, mortgage installments, insurance and local taxes, as well as other expenditure, such as fuel costs.

At the age of 23, Andrei and Andreea move together into a studio apartment for the next five years, with a monthly rent of 800 RON<sup>5</sup>.



Andrei and Andreea are dedicated to their careers. So throughout their lives they will be promoted and will benefit from salary increases. Each will be promoted three times at successive intervals of 10 years, the first salary increase will be 20% and the next two increases 10%. From time to time, during the course of their lives, the two will use a shopping card.

After a while, the two decide to start a family and thus will trigger a number of important events in their story. At the age of 27, they will get married.

After a beautiful party with relatives and many friends, the couple will receive a wedding gift of 10,000 RON, which they decide to save.



A year later, the two will make a new decision: to buy a two room apartment. So they decide to purchase an apartment located in a good neighborhood, in a new building and at an attractive price of EUR 39,000<sup>6</sup>.



In order to be able to buy it, the two will receive financial support from their parents to pay the mandatory 5% value of the apartment's price. So, they will opt for a First House mortgage that they will pay for the next 30 years.

After buying the apartment, they need to buy the necessary furniture, which will cost them a total of 10,000 RON and for this, they will use the money saved after the wedding.

When the two are 29 years old, their family will grow by one family member. The two will celebrate the birth of their first and only child, Cristian.



Over the next year, they will buy a second-hand car from an individual, for which they will get a personal loan of 25,000 RON<sup>7</sup>, repayable over five years. The two will keep this car for 10 years, after which they will dispose of it through the Rabla program, and obtain a voucher with a value of 6,500 RON<sup>8</sup>. They will use this voucher to purchase a new car, on lease for five years. For the payment of the 20% advance, they will use their savings.

At the same time, they will also buy a CASCO insurance policy, which will be kept until the car lease is fully paid.

Over time, the family is expected to enjoy an ordinary and quiet life.

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- They will have two holidays every year outside the city, usually in the mountains and at the sea side<sup>9</sup>; after 14 years, the family will supplement its travel budget by 50%.
- They will reserve some of their income and time for entertainment and will go to their favorite restaurant each month and to the cinema or theater.
- Monthly family expenses are the usual: Andrei is a regular smoker; not more than 10<sup>10</sup> cigarettes a day, and both have an average alcohol consumption<sup>11</sup>. Also the family pays for food and utilities.

Cristian will remain in our story until the age of 19, when he leaves his parents' house, and goes to university.



At the age of 50, the two will renovate their apartment, investing 10,000 EUR in the refurbishment. To do this, they will use the savings they have built up in recent years.

*As time goes by, a tragic event with strong emotional impact will happen to the family. When Andrei turns 52, following his parents' death, he will inherit a two-bedroom apartment in the same city. After serious consideration, the two will decide to sell the apartment. In a short time, they find a buyer willing to pay 39 000 EUR for the apartment. After the sale, they decide to give half of the sum to their son Cristian and keep the other half for their retirement.*

After retiring, both Andrei and Andreea will each have a monthly average pension of 1,172 RON<sup>12</sup>.

They will continue to go to the restaurant every month and to the cinema or theater, but they will give up their holidays, since their budget will be smaller.



They decide to give up the car and to offer it to Cristian.



After Cristian's departure, the two decide to travel more, doubling the budget allocated up to then.

Due to health problems, Andrei will quit smoking. During their retirement years, Andrei and Andreea regularly receive financial support from their son Cristian of around

4600 RON/year



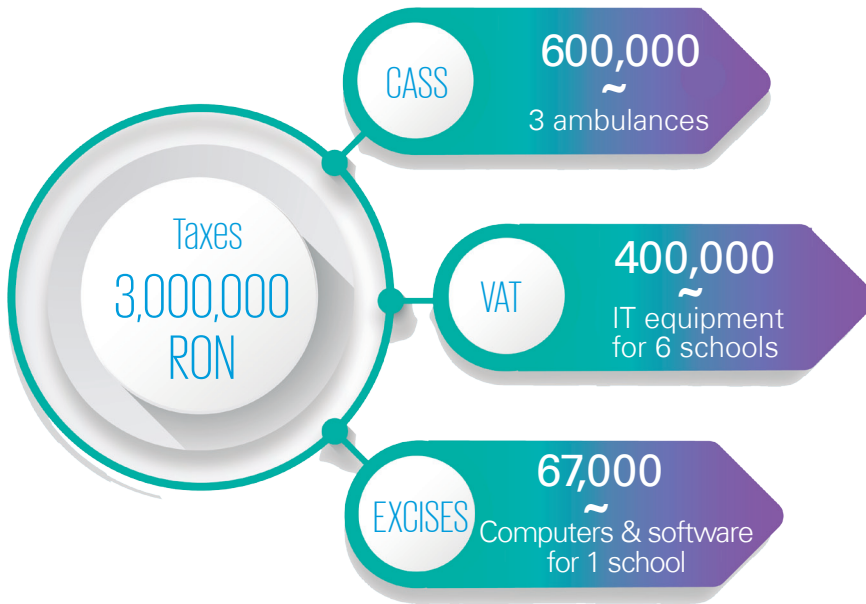
The two will still enjoy a quiet life together, visiting their friends and spending time with their grandchildren.

Our story will end when the two are 80 years old.



# Conclusions

During their lives, the members of our family carry out many activities that involve payment of money to the state. In our case study, the total taxes paid to the state are approx. 3 mil. RON.



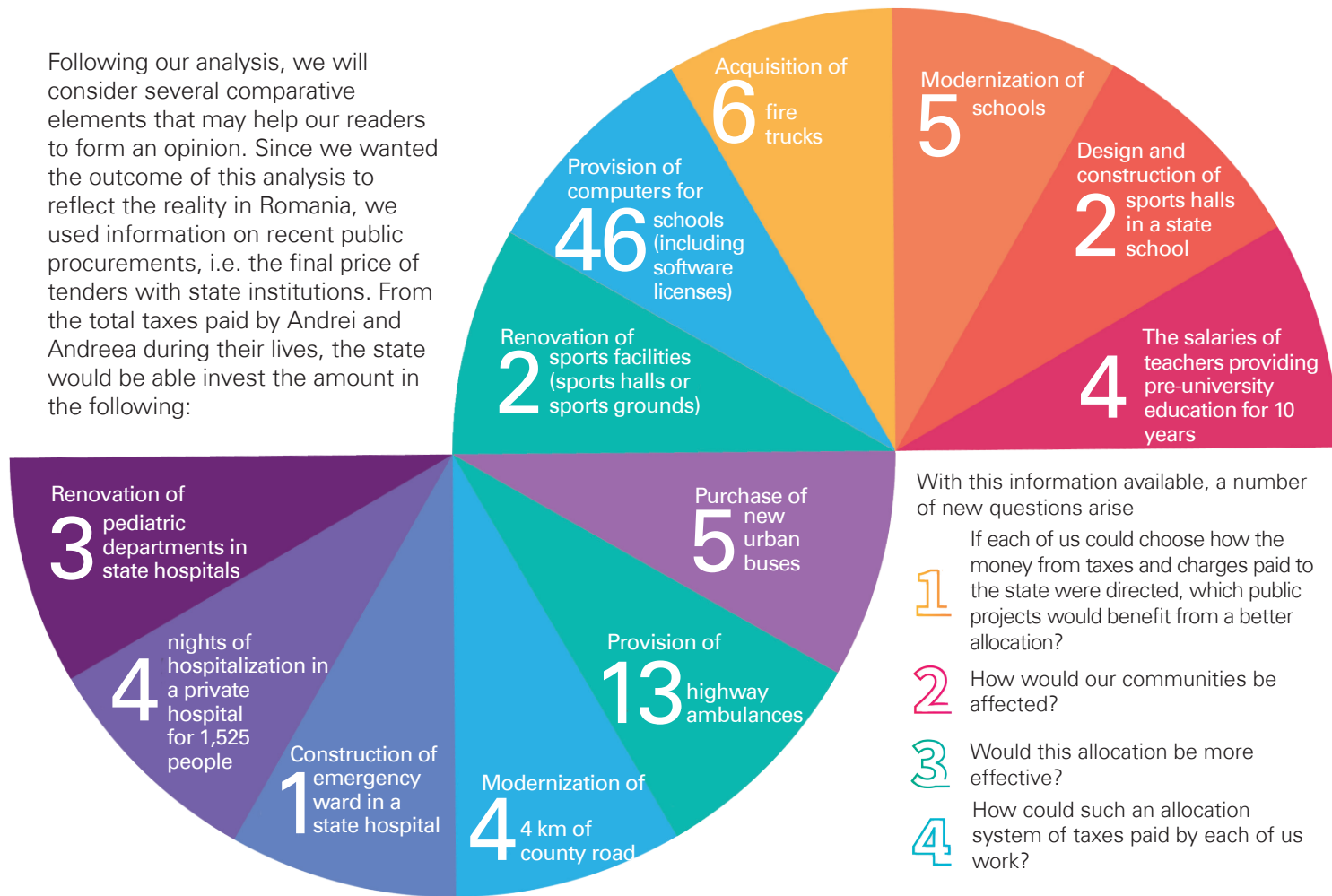
Most of this amount is represented by taxes and charges deducted from their gross salaries, i.e. 2.5 mil. RON. From this total, approx. 600,000 RON represents CASS. This amount is enough to finance 4 nights of hospitalization for 307 people in a private hospital or the purchase of 3 ambulances. VAT paid over the entire lifetime is approx. 400.000 RON, enough for the purchase of a fire truck or to equip 6 schools with computers and software licenses. The 67,000 RON amount for excise duties for alcohol, tobacco and fuel can't be overlooked.

The use of a car involves a total fiscal cost of roughly 64,000 RON, based on an annual consumption average of 480 liters of gasoline and 8,000 kilometers traveled. Out of this amount the excise tax for fuel is approx. 27,000 RON. The VAT related to the purchase of the car under a leasing agreement and for the fuel consumption is approx. 28,000 RON, plus the national tax for road and the local taxes for cars.

Is it a little? Is it a lot?



Following our analysis, we will consider several comparative elements that may help our readers to form an opinion. Since we wanted the outcome of this analysis to reflect the reality in Romania, we used information on recent public procurements, i.e. the final price of tenders with state institutions. From the total taxes paid by Andrei and Andreea during their lives, the state would be able invest the amount in the following:



With this information available, a number of new questions arise

- 1 If each of us could choose how the money from taxes and charges paid to the state were directed, which public projects would benefit from a better allocation?
- 2 How would our communities be affected?
- 3 Would this allocation be more effective?
- 4 How could such an allocation system of taxes paid by each of us work?

## Disclaimer

The story is based on statistical information available from INS, Eurostat, World Health Organization or other reputable statistical sources (e.g. on average national salary, average age on employment, average shopping cart for households with 2 and 3 members, average marriage age, age difference between spouses, childbirth, life expectancy, etc.), as well as other public sources (e.g. daily average consumption of cigarettes, average alcohol consumption, average fuel consumption, etc.). We have eliminated the influence of inflation and historic legislative changes and we used the level of taxes and charges applicable on 31 December 2018 for the entire period under review. The calculation of the bank installments was made using the computer available on the site of two of the largest banking institutions in Romania. The calculation of the taxes and charges is based on the legal conditions in force as at 31.12.2018. The historical level of taxes and duties (such as VAT) has not been taken into account. Thus, we assume that the level of taxes and duties as at 31.12.2018 remains constant over the entire period. The value of investments from the state budget was calculated on the basis of the information available on the Electronic Procurement System. The exchange rate used to convert amounts denominated in foreign currency was that of 31.12.2018, i.e. 4.66 RON/ EUR.

This analysis is not intended to be an exhaustive one and is not intended to be used as a basis for making business decisions or other types of decisions.



# Notes

1. According to INS data: Workforce employment and unemployment in Romania, 2016, INS, p. 58
2. Calculated as the average of the monthly gross wage in 2018 communicated by INS for each month
3. According to INS press releases on the level and structure of the quarterly expenditures in 2018; amount calculated as an annual average of quarterly household expenditure
4. KPMG analysis based on INS press releases for 2018
5. Estimation based on an analysis of online published advertisements
6. According to data provided by *Guide 2019*. Market study containing information about the real estate market for the previous year, Buzau county
7. Price estimated based on the analyses and advertisements published online
8. According to Order no. 661/2017 for the approval of the Guidelines for financing the program to stimulate the renewal of the national stock of cars for 2017 - 2019
9. Estimated based on the data published by Eurostat concerning total tourism expenses incurred by Romanians and the number of Romanian tourists
10. Estimated based on the information published by the Romanian Institute for Evaluation and Strategy (IRES) <http://www.ires.com.ro/articol/310/fumatul-in-romania>
11. Estimated based on the information published by the World Health Organization (WHO) <http://apps.who.int/gho/data/node.sdg.3-5-viz?lang=en>
12. According to a press release issued by the National Statistics Institute (No. 74 of 29.03.2019)

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