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TAX BURDEN IS AN IMPORTANT INDICATOR OF THE EFFECTIVENESS OF TAX POLICY

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Abstract: The main impact of taxes on economic activity is through the tax burden indicator. Therefore, it is necessary to analyze its impact. The problem of calculating the tax burden is one of the most important and controversial in the theory and practice of taxation. The tax burden indicator is of significant importance in solving a number of problems, which include: developing tax policy; conducting a comparative analysis of the tax burden in different countries; forming the state's social policy; forecasting the economic behavior of entrepreneurs, etc. The problem of determining, establishing and maintaining an optimal tax burden on the economy plays a special role in improving the tax system of any state. World practice shows that the withdrawal of up to a third of the taxpayer's income causes a process of reduction of savings and investments in the economy. If more than 40% of the taxpayer's income is withdrawn, this practically deprives him of incentives for entrepreneurial initiative and production growth. Therefore, constant monitoring of the level of tax burden both in the country as a whole and for individual groups of taxpayers is an extremely necessary process for developing an effective tax policy.
Key words: taxation, tax burden indicator, tax incidence, tax policy
JEL Classification: H21; H22; H3

Introduction. One of the fundamental macroeconomic challenges for any country is optimally determining the burden of taxation. The tax burden is used as a criterion for assessing the burden of taxation. The tax burden indicator is essential for addressing a number of socioeconomic challenges for any country. Therefore, the problem of determining, establishing, and maintaining an optimal tax burden on the economy plays a special role in improving the tax system of any country.

Headings. The interest of economics and practice in the tax burden is not accidental. Firstly, this indicator is essential for governments to develop tax policy. By increasing the number of taxes, changing tax rates and tax breaks, the state is obliged to determine and not exceed the maximum permissible levels of pressure on the economy, beyond which negative economic processes may arise.

Secondly, calculating the tax burden at the state level is necessary for a comparative analysis of the tax burden in different countries and for economic entities to make decisions about the location of production, the distribution of investments and, ultimately, the movement of capital.

Thirdly, the tax burden indicator is necessary for analyzing the impact of the tax system on the formation of the state's social policy, on which the financial situation of taxpayers also depends. The study and practical analysis of the universality and fairness of taxation in relation to the country's population, and the burden of taxation between different social groups, enables the state to more fairly distribute the tax burden in order to stabilize the socio-economic situation in the country.

Fourthly, the tax burden indicator is used as an indicator of the economic behavior of business entities. It is the level of this indicator that largely determines the decisions of economic entities to invest their own financial resources in the development of a particular production, and the financial position of each specific economic entity. (Derina and Morozova, 2025).

The tax burden is an important indicator reflecting the share of tax revenues in household and business income, as well as their impact on economic activity. The effectiveness of tax policy can be assessed through the prism of the tax burden across several key aspects:

1. Defining the Tax Burden

The tax burden can be expressed as a percentage of gross domestic product (GDP) or as a share of tax revenues in the income of individuals and businesses. It shows what portion of their income individuals and businesses pay in taxes.

2. Impact on Economic Growth

A high tax burden can hinder economic growth by reducing individuals' disposable income and corporate profits. This can lead to a decline in consumer spending and investment activity. On the other hand, an adequate tax burden can help finance public goods and services, which also supports economic development.

3. Fairness and Progressivity

Effective tax policy must take into account the principles of fairness and progressivity. The tax burden should be distributed so that wealthier individuals and companies pay proportionally more, which helps reduce inequality.

4. Stimulation or deterrence

Tax policy can be aimed at stimulating certain sectors of the economy (for example, through tax breaks) or, conversely, at deterrence (for example, through high taxes on harmful products or services). The effectiveness of the tax burden in this context is determined by the extent to which it contributes to the achievement of economic and social goals.

5. Sustainability and Adaptability

Effective tax policy must be resilient to economic changes and able to adapt to new challenges, such as the digitalization of the economy, changes in the employment structure, and global economic trends.

Thus, the tax burden and its impact on economic activity is a significant tax issue in the modern world. However, the very concept of tax burden requires clarification. In our view, this is a comprehensive characteristic that can include for analysis not only the tax burden coefficients themselves, but should also take into account:

- the number of taxes and other mandatory payments
- the tax structure
- the tax collection mechanism.

The Tax Code of the Republic of Moldova contains a closed list of 24 taxes: 8 national and 16 local taxes, duties and fees, but these are also tax groups, not individual taxes (for example, fees for natural resources and road tolls include several different fees, therefore, the total number of taxes and fees increases).

At the state level, the tax burden is usually calculated as the ratio of budget tax revenues to the country's GDP. However, in our opinion, calculating the tax burden in Moldova using this formula is not entirely correct. In our country, there are state contributions for compulsory health insurance and social insurance, which are allocated to a separate group of budget revenues (not tax), although for businesses and individuals these payments are absolutely identical to tax payments. Therefore, we will calculate the tax burden without taking these mandatory contributions into account and with them (see Table 1).

Table 1. Dynamics of the tax burden in the Republic of Moldova in 2020-2024

Indicators	2020	2021	2022	2023	2024
GDP, mil. lei	199 734	242 079	274 488	300 554	323 817
Revenues of the national public budget, mil. lei	62 650,0	77 373,0	91 505,4	102 299,2	110 338,5
Taxes and fees, mil. lei	39 747,1	49 388,8	57 524,2	63 006,1	68 481,3
Contributions to compulsory social and health insurance, mil. lei	19 234,9	21 839,0	24 923,2	29 022,4	33 564,2
Tax burden, %	19,90	20,40	20,96	20,96	21,15
Tax burden including contributions, %	29,53	29,42	30,04	30,62	31,51
Total burden of government revenues, %	31,37	31,96	33,34	34,04	34,07

Source: author's calculations based on: Moldova_in_numbers. 2023. Moldova_in_numbers. 2024. Moldova_in_numbers. 2025.

If we consider the tax burden (as a share of tax revenues in the GDP of the Republic of Moldova) in dynamics (for 2020-2024) (see Table 1), then it is noteworthy that throughout all five years the tax burden has been almost constantly increasing (from 19.90 to 21.15%). The tax burden, including contributions, decreases very slightly in 2021 and then increases each year thereafter. The total government revenue burden also increases throughout all five years.

For greater clarity, let us present the dynamics of the tax burden in the form of a figure (see figure 1).

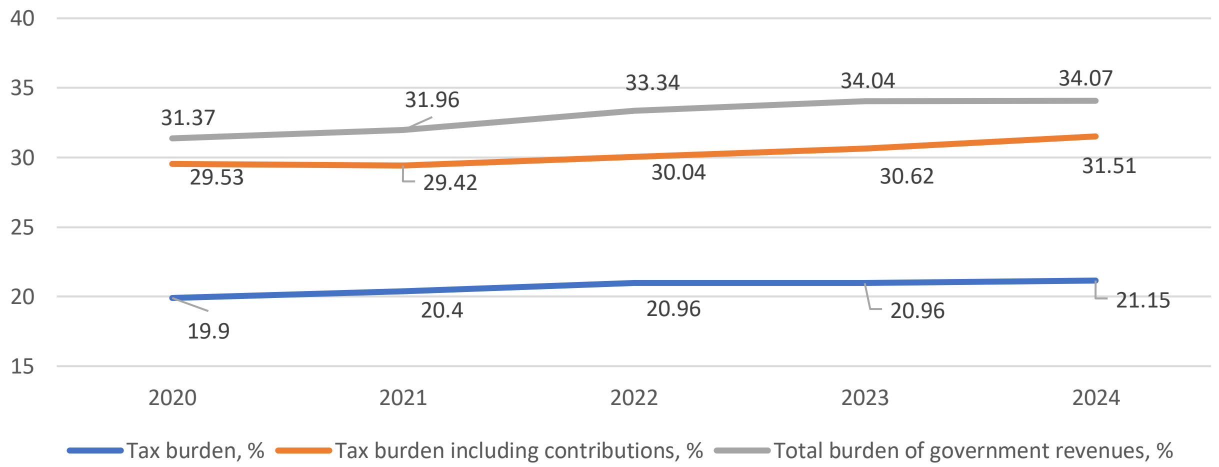

Figure 1. Dynamics of the tax burden in the Republic of Moldova in 2020-2024, %

Source: created by the author based on the data in Table 1

Next, we'll compare the tax burden in Moldova with that in other countries. To compare the tax burden in different countries, we'll use two indicators: the share of taxes and social contributions as a percentage of GDP and the share of government revenue in GDP (see Table 2).

Table 2. The share of government revenue in GDP and the share of taxes and social payments in GDP in different countries in 2023

Selected countries	Share of government revenues in GDP, %	The share of taxes and social payments in GDP, %
Norway	63,2	41,8
France	51,6	45,6
Sweden	48,6	42,6
Italy	46,7	41,7
Germany	45,9	40,3

Spain	41,9	37,0
Estonia	40,5	34,0
Bulgaria	36,8	29,9
Lithuania	36,7	32,4
Republic of Moldova	**34,04**	**30,6**
Romania	34,0	27,3
Ireland	24,3	22,7

Sources: compiled by the author based on data from: General government revenue % of GDP, 2023. Revenue from taxes and social contributions, 2023, % of GDP.

As the table shows, the level of tax collection in our country is not significantly lower than the tax burden in developed countries. At the same time, the specific maximum permissible tax burden in different countries is determined by a multitude of other factors not directly related to taxes. Thus, the level of the tax burden may depend on the state's share of participation in the population's expenses for medical, educational, utility and other services, as well as in scientific research, investment and other programs. For example, the Swedish tax system is designed in such a way that taxpayers give up almost 50% of their income, and this does not reduce their incentives for entrepreneurial activity. There is no paradox in this, since the state, through tax revenues, centrally solves many economic and social problems that in other countries the taxpayer is forced to solve independently, using his own income remaining after paying taxes.

The tax share as a percentage of GDP does not reflect the actual tax burden on a specific taxpayer who conscientiously fulfills their obligations, which is explained by the following facts. First, serious problems with tax compliance must be taken into account. The existence of this problem is confirmed by indicators characterizing the amount of tax arrears to the budget. As practice shows, accrued tax liabilities and actual fulfillment do not match, so the level of tax collection calls into question the objectivity of this indicator. Thus, the aggregate tax burden indicator should be adjusted taking into account the collection rate, i.e., by the amount of the annual increase or decrease in arrears in payments to all types of budgets.

Another factor affecting the objectivity of tax burden assessments is distortions in GDP due to significant measurement errors. This situation is explained by the fact that statistical agencies add the amount of GDP produced in the "shadow economy" to the GDP indicator calculated from statistical reports in their official data.

Another factor that must be taken into account when determining the tax burden indicator is the socio-economic conditions in which taxpayers have to carry out financial and economic activities and pay taxes. The underdevelopment of market relations, the imperfection and constant changes of the country's tax system, and a number of other important factors, without affecting the absolute size of the tax burden indicator, "heavier" the tax burden of our taxpayers.

It should also be noted that the tax system of the Republic of Moldova still provides for the possibility of providing taxpayers with significant tax benefits and preferences, including in the form of tax exemptions, tax deferrals and installment plans, regardless of the level of income received. For the purposes of state support for entrepreneurship, this is correct, but for the purposes of an even distribution of the tax burden, it is not, and this should be taken into account by adjusting the total tax burden indicator. Thus, taxpayers who do not have preferential tax treatment pay more into the budget than the average taxpayer.

Thus, even with an acceptable average tax burden as a share of GDP, the actual tax burden for individual taxpayers may be significantly higher. This fact demonstrates that the problem of reducing the tax burden on organizations remains pressing.

The tax burden on a company is largely determined by the tax collection mechanism itself. Discussion of a company's tax burden remains pointless until agreement is reached on the methodology for calculating a consolidated indicator characterizing this burden. For an individual taxpayer, the tax burden can be calculated as the ratio of the amount of assessed or paid taxes to the amount of the source of funds for tax payment. The list of assessed (paid) taxes includes all taxes and mandatory payments of the enterprise to the budget and extra-budgetary funds. It is sometimes suggested to exclude payments such as VAT, excise taxes, personal income tax, and contributions to mandatory health insurance funds from the tax burden calculation. The argument here is that these taxes are transit taxes and neutral for the company. But taxes that are neutral for a company simply do not exist: they are actually paid from current cash receipts, and the degree of their transferability is inconsistent and is not fully implemented.

When considering the composition of sources of funds for paying taxes, it is necessary first of all to note their possible discrepancy with the taxable base. The source for paying taxes may be: revenue from the sale of products, works or services (for VAT, excise taxes), the cost of production (for real estate tax, land tax and social contributions), the profit of the enterprise in the process of its formation and distribution, the net profit of the enterprise, the income of the employees of the enterprise.

The overall indicator for all tax payments should undoubtedly be the value added. This indicator is comparable to the country's gross domestic product, which is used to determine the overall tax burden. Taxpayers typically consider a tax burden of up to 30% fair, find a tax burden of 40% difficult, and are unacceptable when it exceeds 50%. An excessive tax burden undermines the tax base itself and reduces overall tax revenue.

The search for a “critical point” for the optimal tax burden can be aimed at developing industry standards for the maximum tax burden by substantiating the share of wages, depreciation, and net profit in added value. Tax burden standards can have maximum and minimum values. If these are exceeded, there would be objective grounds for requesting deferrals or waivers of tax payments.

Conclusions. The tax burden is a multifaceted indicator that can serve as a proxy for the effectiveness of tax policy. Achieving an optimal balance between government revenue and economic development requires considering numerous factors, including social, economic, and political aspects. An effective tax policy must be fair, stimulating and adaptive to changes in the economy.

At the same time, the implementation of an active tax policy aimed at effectively regulating the economy is impossible without taking into account the limits of the tax burden on business activities and the population. The aggregate indicator of the tax burden, defined as the ratio of taxes paid to GDP, does not reflect the real state of the state’s tax system, and its level cannot serve as a vector determining the direction of tax regulation of the economy. To achieve this, it is necessary to separately determine the level of tax burden on businesses (by industry and individual taxpayers) and on the population.

Accordingly, the primary focus for improving the effectiveness of tax policy in our tax system should be the redistribution of the tax burden between the population and businesses, as well as between different segments of the population. It is necessary to implement a set of measures to increase the level of fairness of taxation of the population by introducing a progressive tax scale for total annual income and reducing the tax burden on business activities. Shifting the tax burden from legal entities to individuals, as global experience shows, is the least painful direction of tax regulation for the purpose of building an effective tax system that promotes economic development. Implementing this vector of tax regulation will not only increase investment activity, accelerate the process of upgrading fixed assets, and increase GDP growth rates, but will also make the tax system fairer and more efficient.

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