

New initiatives regarding the minimum wage in Romania

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Description

The Romanian Government has recently adopted a tax break for low-paid employees, alongside special regulations for wages in agriculture. While these measures are aimed at increasing workers' welfare and at compensating for the negative effects of the worsening economic situation, they are also a response to employers' demands to secure work and economic productivity.

Set at national level by governmental decision, the statutory minimum wage has been raised significantly during the last decades. Since January 2022, the national monthly gross minimum wage is 2,550 Lei (€516), an increase of 130% since 2014. However, this was done on an ad-hoc basis, as the current legislation lacks a transparent indexation mechanism – a gap which is expected to be filled in 2024, as part of the commitments under the National Recovery and Resilience Plan (NRRP). The minimum wage has increased more slowly during the COVID-19 pandemic, while the ratio of the national minimum gross wage to the national average gross earnings deteriorated from a peak of 44.5% in 2017 to 41.4% in 2019. (Romanian Government, 2019)

The Romanian legislation does not stipulate special taxation rules for low wages, with the exception of a personal exemption from the general income tax, established by governmental decision and depending on a person's level of income and number of dependents. For a single person earning a minimum wage, the monthly personal exemption amounts to 330 Lei (€66), triggering a reduction in taxes of 33 Lei (€6.7), which represents around 1.3% of gross income. At the beginning of 2023, the personal exemption will be set as a percentage of the minimum wage, which will also vary with the level of income and number of dependents. In addition, special provisions are foreseen for workers under 26 years old and workers with school-enrolled children (Government Ordinance No. 16/2022). However, given the low level of the general income tax (10%), the impact on net

income will rather be negligible for low-wage earners.

To prevent a deterioration of the welfare of low-paid workers and to compensate for the accelerated rise in prices, the Government has issued a series of temporary measures aimed at stimulating increase of the minimum wage through tax deductions and targeting particular occupational sectors with more advantageous fiscal regulations.

Between June 2022 and December 2022, if employers decide to grant a pay raise of 200 Lei (€40) to employees in the private sector with labour contracts stipulating the statutory minimum wage, this amount of 200 Lei will be exempted from all (employers' and employees') taxes and social contributions (Government Emergency Ordinance No. 67/2022). While the measure is voluntary and the number of beneficiaries will depend on how many employers choose to increase the minimum wage by 200 Lei, it is expected to affect around 1.3 million out of a total of approx. 5.6 million employees (Romanian Government, 2019)

Beside these measures applied in all sectors, the statutory monthly minimum gross wage has been increased in the agricultural sector and food processing industry. It is set, for the period between June 2022 and December 2028, at 3,000 Lei (€607). Moreover, between August 2022 and December 2028, the employees' taxation rate for salaries up to 10,000 Lei (€2,023) is reduced from 41.5% of the gross salary (i.e. the general level of taxation) to 21.25% of gross salary (Law No. 135/2022, amended through Government Ordinance No. 16/2022). The employees pay only the social contributions to the statutory public

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pension scheme, and are thus exempted from paying healthcare contributions (i.e. 10% of gross wage), the general income tax (i.e. 10% of gross wage) and the contribution to the second pillar of the pension system (i.e., 3.75% of gross income), which becomes optional. In addition, in these two sectors (agriculture and the food processing industry) the contribution for work insurance payable by employers has been reduced from 2.25% to 0.33%. The employees will still be covered by health insurance, sickness insurance, unemployment and work accidents insurance by default, without the contribution needing to be paid. Only for those choosing not to pay the social contribution to the second pillar, which becomes optional, will there be a difference in future pension entitlements.



Outlook and commentary

Up to now, the tax breaks were targeted solely at certain occupational sectors (i.e. the IT industry, research and development sector, hospitality industry, construction sector). Exempting an amount of 200 Lei from taxation de facto reduces the fiscal burden for low-wage workers, triggering an increase in the ratio of net to gross minimum wage from approx. 59% to 62%. Replicating the regulations granted previously to the construction sector, the preferable fiscal regime for agriculture results in a net minimum wage 1.5 times higher than the value at national level and in an increase of the net to gross minimum wage ratio of 20 percentage points, compared to its regular value.

The two measures respond, on one hand, to employers' demands to help with the costs related to the increase of the minimum wage under current fiscal regulations and, on the other hand, to the need to motivate the labour force

employed in agriculture and the food processing industry and to prevent further shrinkage of the labour force in these sectors.

Trade unions have generally disapproved of the tax break for the minimum wage, as the measure targets only employees in the private sector. Furthermore, the measure is considered to be discriminatory towards workers with a wage only slightly higher than the minimum wage, who end up with a lower net wage compared to those benefiting from the tax break. The fiscal measures for agriculture and the food industry have been subject to even harsher criticism, given that they incur an important cost for the public budget. According to estimates of the Romanian Fiscal Council (2022), the costs associated with this latter measure will be 1.4 billion Lei (around €0.28 billion) or 0.11% of the 2021 GDP. The tax breaks for agriculture and the food industry have also been criticised for maintaining a practice that discriminates between occupational categories. This is considered to negatively impact other contributors' willingness to pay taxes (Biris et al., 2022).

However, while both measures are expected to positively impact employees on a low wage, they are expected to impact even more the incentive structure for employers, with important consequences for the labour market. In recent decades, employers have shown themselves unwilling to pay wages higher than the statutory minimum wage. The proportion of workers paid at minimum level has increased proportionally with the increase in the minimum wage, and the number of workers paid at this level reached 30% of the total number of labour contracts in 2020, from less than 8% in 2011 (Guga, 2021). Therefore, the tax breaks may trigger a "whitening" of incomes paid in the informal economy, which, in return, could partially offset the costs for the public budget. The number of

employees in the construction sector has increased by 12% since 2019, when preferable fiscal regimes were granted to this sector. This would be of crucial importance for the agriculture sector, where informal employment is predominant. However, this outcome is unlikely to be achievable unless tax breaks are accompanied by stricter enforcement of labour regulations alongside measures aimed at stimulating production, so that work in agriculture becomes a more regular and predictable source of income.

Further reading

Biris et al., 2022, [Consolidarea bugetară și creșterea veniturilor fiscale – necesitate vitală pentru stabilitatea și securitatea economică a României.pdf](#) [*Budget strengthening and the increase of fiscal revenues - a vital need for the stability and the economic security of Romania*], Bucharest

Government Ordinance No. 16/2022 on the amendment and completion of Law no. 227/2015 on the Fiscal Code, the repeal of some normative acts and other financial-fiscal measures (adopted on 15 July 2022)

Government Emergency Ordinance No. 67/2022 on fiscal measures and on the amendment and completion of Art. 59 of Law No. 207/2015 on the Fiscal Code (adopted on 18 May 2022)

Guga, Stefan, 2021, [Salariul minim si traiul minim decent. De la mituri la oportunitati](#) [*The minimum wage and decent welfare- From myths to opportunities*], Bucharest

Law No 135/2022 on the amendment and completion of some normative acts (adopted on 13 May 2022), amended through Government Ordinance No. 16/2022

The Romanian Fiscal Council, 2022, [The Opinion of the Romanian Fiscal Council on the Law regarding the amendment of the GO 114/2018](#)

The Romanian Government, 2019, [Impact analysis on the minimum wage for 2020](#)

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