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## **THE RECOVERING OF THE FINANCES BY THE STATE BUDGET**

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*In this paper is presented a case study realized on an enterprise which has debts to the state budget. The scope of this paper is to show how the State is able to collect its finances from the economic agents more efficient and the economic agents have the possibility to pay off their debts using an effective system, established according to everyone's needs based on a set of criteria's.*

**Keywords:** *finances, state budget, facilities, exemptions.*

### **1. Introduction**

In Romanian economy, the fiscal system's role is to ensure the financing of the public economy by tax collecting beside other means which allow the government intervention regarding the national economy in order to correct some negative fluctuation of the economic cycle. The fiscal resources are formed by and administrated through the state budget, the local budgets, the special funds budgets, the state treasury budget and the other autonomic public institutions budgets. All these represent the main source to finance the government and to allow its direct intervention on the market by subsidies, investments, and indirect intervention through the total amount of allocations result from the real economy.

### **2. Information**

The taxes that are collected from the legal persons for the Governmental State Budget are: the profit tax, income tax, dividend tax, value-added tax, excises, customs duties, the payments made by the natural and/or legal persons for the services executed in their behalf by certain public institution. Besides these rates and taxes one might mention: the tax for using the state owned lands for other purposes than agriculture or silviculture; the tax on the buildings owned by legal persons; the tax on lands occupied by buildings and other constructions owned by legal persons, the tax on means of transportation possessed by economic agents; the tax on advertising media. The fines supported by the companies and the increase in taxes owed for not paying the duties in the specified time limit are attached to the taxation debts. Due to the multitude and complexity of duties and taxes, a large number of economic agents are facing difficulties in their attempt to be "good taxpayers". In this situation is also

"MODEXIM" Ltd., which took form by reorganizing (from a public owned company to a joint stock company) in 1991 (according to the 15<sup>th</sup> /1990 Law and 31<sup>st</sup> /1990 Law). The opening capital was 6.834 euro, entirely subscribed by the Romanian State as single shareholder. Nowadays, the company's organized as a joint stock company, which were private capital and its registered share capital riches, the amount of 205.022 euro.

### **3. The Company Evolution in 2005 Regarding 2004**

The Company assets registered a rising of 1.118.186 euro due to real assets revaluation (977.555 euro) and due to the paying off of same debts that are due in less than one year (net current assets = 140.631 euro). The total assets value registered in 2005 is 2.201.417 euro regarding 1.083.231 euro in 2004. (Table 1).

**Table 1. The owned capital evolution in 2004-2005, EURO**

Owned capital	2004	2005
Subscribed and paid-up capital	203.209	203.209
Revaluation reserves	422.675	1.421.073
Reserve	457.347	577.135
<b>Total value</b>	<b>1.083.231</b>	<b>2.201.417</b>

In 2005, the company's debts were about 238.013 euro (Table 2), being diminished with 222.640 euro than the debts in 2004 as a result of the paying off of the tax liabilities, the contractors debts and also as a result of the exemption according the 40/2002 Ordinance. The main rates have registered the following values:

1. *Gearing ratio* = borrowed capital/ owned capital = 2.13% (3.87% in 2004): it shows the proportion between its owed funds and the borrowed ones. The decreasing of this ratio indicates an increase in the owned capital.
  2. *General solvability*= owned capital/ permanent capital = 90.2% (70.16% in 2004): shows the company's ability of covering its payable liabilities.
  3. *Speed of turnover* = turnover/ stocks (on hand) = 1.2 - 312 days (1.3 – 280 days in 2004) the decreasing of 32 days is caused by the climb down of company's activity volume.
  4. *Profit rate* = gross profit/ turnover = 17.06% (11.73% in 2004).
- Regarding the incomes, expenditures and the operation outcomes it is registered a decreasing by the 2004 results.

**Table 2. The "MODEXIM" Ltd. debts structure on 31<sup>st</sup> December 2005**

Debts	Values (euro)	Debts	Values (euro)
Salaries	9.074	Dividends	63.229
Social Insurance, Health Insurance, Unemployment Fund	10.426	Increase in tax (regarding the Health Insurance)	675
Profit tax	106	Creditors	285
Salary tax	2.794	Contractors	100.952
Value-added tax	2.936	Banking loans and payable interest	47.075
Special funds	460	Total value	238.013

The operation outcome is 87.513 euro (a 74.469 euro decreasing) as a consequence of the climb down of the sales with 218.894 euro of the extraordinary incomes have increased reaching 125.330 euro, caused by the execution of the increase in taxes and penalties for overdue from 2002 until 2005. The profit tax, reaching 24.323 euro is lower than the one in 2004 by 10.560 euro.

#### **4. The Company Evolution in the First Trimester of 2006**

The turnover is under expectations being lower than the one in the first trimester of 2005 (325.005 euro vs. 514.955 euro 2005) and the company has less finances than necessary to pay off all the period expenditures. Due to the increase in establishment charges (duties, taxes, depreciation fund), the operation outcome is negative (- 15830 euro).

The owned capitals reach the value of 2.183.274 euro mainly because of the positive revaluating differences. The liabilities towards contractors have a lower value (79.636 euro) and the stocks value is 855.836 euro (891.503 euro in 2005). The other liabilities are in due date. But the company has dividend and dividend tax back debts that reach the value of 22.686 euro. It is noticed that "MODEXIM" Ltd., even if has several loses, is in a balance state and for the future has planed to obtain profit and not to have back liabilities towards the state. This is the actual state of "MODEXIM" Ltd., but until 2005 it had to struggle to get out of difficult situation. The company had several back debts towards state budget, the Social Insurance Budget, The Health Insurance Budget, Special Funds, so on 30<sup>th</sup> of June 2005 these debts reached 119.195 euro (Table 3).

**Table 3. The of the company's debts:**

- EURO -

Owed liabilities	Owed on 30.06.2005	Paid off 01.07.2005-05.08.2005	Balance
Dividend tax	716	218	498
Profit increase in tax and penalties proposed for exemption	9.592		9.592
VAT Increase in tax and penalties proposed to be exempt	81.474		81.474
Dividend Increase in tax and penalties proposed to be exempt	310		310
Unemployment Fund Increase in	99		99
Salary Increase in tax and penalties proposed to be exempt	10		10

Owed liabilities	Owed on 30.06.2005	Paid off 01.07.2005- 05.08.2005	Balance
Education and Inability Funds Increase in proposed to be exempt	3		3

From 1<sup>st</sup> July until 5<sup>th</sup> August 2005 the Company paid off 27.806 euro the difference of 91.388 euro being exempt. If the exemption had granted would ask for a banking loan considering its rather good situation.

### 5. State facilities

For the companies confronted with difficult situation regarding the debts for state budget the Romanian legislation approved an Urgent Ordinance (40/2002) according to which, the state propose the economic agents several attractive solutions to recuperate its claims. The back payments owed to the budget have severe economic and social implications, which affect the entire society. Their unsettlement and continuous accumulation also the matching increase in tax and penalties affects even more the budgets and as a result of this situation, the Urgent Government Ordinance (40/2002) regarding the budget arrears recuperation might be the proper solution for this problem.

The state established for the tax liabilities represented by duties, taxes, rates and other state back finances including matching increase in tax and penalties for overdue spread out payments, postponements, tax exemptions (free from taxation) or reductions of payments, as law provides. All this is licensed based on the debits justified petition no matter the property forms and the organizing method. The legal regulation is meant to help the economic agents through these facilities and also by stopping or by not beginning the debtor's enforcement that benefit from facilities.

In order to benefit of these facilities, the economic agent must hand in an application and the documents required by law to the taxation entity where he is registered as taxpayer. This fiscal unit must keep a separate register for the application of the legal person and one for the applications of natural persons. The analysis that determines whether the debtors receive any facilities or not is based on the applicants' economic and financial performances and financial discipline criteria. In order to insure the fiscal organism's objectivity, the criteria and its score are established by the Ordinance schedules. According to the criteria total points there is established the debtors facilities category and the ex-gratia payment term, spread out payments, the reductions percentage for the increase in back tax and for the penalties or their exemptions. The information used to determine the criteria' percentage is taking from the latest balance-sheet and from its schedules hand in by the debtors to the territorial fiscal unit, but the information is also collected from the application's schedules.

MODEXIM Ltd. showed interest in the offered facilities and having a total number of 146 points (Table 4) the company handed in an application to General Direction of Public Finance asking for exempt the payment of the increase in taxes and penalties for overdue for the state liabilities until 31<sup>st</sup> December 2004, calculated until 7<sup>th</sup> April 2005 reaching the value of 34.270.560 lei RON. In order to benefit of this exemption, the company paid off its state liabilities including those for the current year.

**Table 4. The economic and financial performances (yield) criteria**

Rates (Index, Indicators)	Calculation	Points
The taxpayer length of service	<i>Over 10 years</i>	10
The arrears length/ debts length	6 years/12 years	8
Registered office mobility	Stable office in the past 5 years	10
Changes in main shareholders evidence	None in the past years	10
Financial gearing	Total debts/ turnover = 19.02% (<30%)	10
Global liquidity	Floating assets/ total debts (working)<1 year = 4.156 (>1)	10
Solvency (trust-worthiness)	Total assets/ total debts = 3.352 (>2)	10
Number of returns on tax and other rates hand in during the past 24 months	24	15

Rates (Index, Indicators)	Calculation	Points
(The liabilities balance noticed by the fiscal control/ return on tax hand in for that period)*100 = 3,118% (<20%)		5
Existing arrears referring to stopping by source taxes	None	20
The existence of previous facilities	Yes, default	0
The taxpayer had stipulated by contract (relations) relationships with economic units financed by the state budget and it didn't cashed in due time their counter value		10
The current years debts situation	More than 90% are paid off (settled)	20
The taxpayer had been penalized for fiscal evasion (tax)	No (it hadn't)	10
(Total value of the payment facilities (turnover))*100 = 7.52% (<25%)		8
Total points		156

This table indicates a total of 156 points that is diminished by 10 points, obtaining a final total of 146 points. The Company's application has been approved, been exempted the following increase in taxes and penalties (Tables 5 and 6):

**Table 5. Exempted increase in tax, EURO**

Liabilities	Increase in for overdue taxes				Total
	1999	2000	2004	2005	
Profit tax		5.542	2.102	1.556	9.200
VAT	33.467	35.704	12.241		81.412
Dividend tax		23	183	84	290
Salary duty		4	6		10
Education Fund			2		2
Risk (venture) Fund			1		1
Total	33.467	41.273	14.534	1.641	90.914

The general exemption is of 91.388 euro. This amount is not taxable and is considered an owned financing source for the company. This is a *real advantage* for company that compensates the effort made to pay off the liabilities for the state budget, including those for the current year in order to be granted the exemption. The exempted amount has been registered to the extraordinary incomes.

**Table 6. Exempted penalties - EURO -**

Liabilities	Penalties for overdue taxes		Total
	2004	2005	
Profit tax	172	220	392
VAT	62		62
Dividend tax	3	17	20
Total	237	237	474

By setting the goal to pay in such a short term the debts, the companies had faced a

huge risk. What would have happened if the society hadn't been granted the exemption, but (would have been granted) a spread out payment? In this case the company might have chosen a one-year spread out (according to the rapport between the total state liabilities and the turnover results, it may spread out its payments for 24 months). This method implies a security for debts in some of 27.806 euro. The spread out payments would be of 2.317 euro monthly, until the last month when the company might pay either 2.317 euro or an increased by a proportion of the postponed payments sum. The payments of increase in for overdue taxes and penalties are postponed until the last due date and may be reduced or exempted according the law. This method implies the existence of a security for tax that increases the company's costs.

In conclusion, the best solution for the economic agents that are in impossibility to pay their debts is the obtaining the governmental facilities that is an advantage for the state budget which has recovered the finances.

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