

IMPROVING LOCAL BUDGET REVENUES COLLECTION - CASE OF ROMANIA

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Abstract:

The present paper attempt to provide an analysis of the evolution of the collection rate of local budget revenues in Romania, considered as an expressive indicator of local fiscal effort, focusing on the causes of it was situated in the undesirable frequency (min. 100%) and especially during the crisis. We will use the background offered by literature and the official statically data for analysis offered by National Institute of Statistics, Ministry of Regional Development and Public Administration, Ministry of Public Finance, Court of Accounts and other national and international institutions. We estimate the analyses of the collection rate of local taxes to present various trends, depending on the type of territorial-administrative units/subdivisions, showing disparities regarding administrative capacity in terms of tax collection.

Key words: local budget revenues collection, tax burdens, administrative capacity, local government, local public policy

JED Classification: H7, H71, H72, H73

Introduction

Constant pressure based on the discrepancy between the local social needs and corresponding expenditure and the local revenues available is a problem which must be solved by local community (local authorities, financial managers, taxpayers etc.). Therefore, it requires the corresponding efforts primarily by local government, and not a direct intervention of central authorities, which would be required to balance the local budget in all conditions. When central government offers unconditional financial support to local authorities can be understood as a demotivating factor for local governments more "active". On the other hand, in terms of involving the central government in the local budget balance must be taken into account "local fiscal effort" also. However, it appears reasonable at least by assuming, in the foreground, a civic tax attitudes (by paying on time and fully tax liabilities) by the members of a local community, and in the background, the efforts of local authorities to increase the rate collection (by stimulating taxpayers in various ways, through efficient control and tracking of budgetary debts through better exploitation of local potential, etc.).

Starting from this premise, the present paper attempt to provide an analysis of the evolution of the collection rate of local taxes in Romania, using the background offered by literature and the official statically data for analysis. In the end, we will propose, therefore, some reconsideration of public policy that can help improve the situation in Romania, being a useful viewpoint for other research in a much more complex approach.

1. The subject of the research, methodology and state of knowledge

The scope of this study is to provide an analysis of the evolution of the collection rate of local taxes in Romania over the period 2008-2013. The analysis is based on the territorial approach (by type of administrative divisions – counties, towns/cities, town

which are municipalities, and communes) that aims to highlight the particularities and discrepancies regarding administrative capacity in terms of tax collection.

Our approach is based on a quantitative analysis, using processed data from the Ministry of Regional Development and Public Administration’s reports on administrative capacity in terms of tax collection and budget execution, as well as data from the Ministry of Public Finance, National Institute of Statistics, Court of Accounts and other national and international institutions. In interpreting results and formulating public policy recommendations, our analysis has permanently related to the legal framework in work over the considered period of time.

The subject of local administrative capacity in terms of tax collection did not represent the subject of a major and distinctive research in Romanian literature or international, partially being captured in the broader context of treating local public finances or public budgetary system issues. Thus, Bilan and Roman (2014), Beer-Tóth, (2009), Dafflon (2002), Ichim (2012), Cigu (2011), Oprea (2011, 2013), Oprea and Cigu (2013) approach the issue of local budget (considered to be in close relationship with local autonomy) when analyzing the resources and expenditures of local activities, without giving a quantitative picture of the local administrative capacity in terms of tax collection. Literature offers some studies (Ebraico and Ruà, 2015; Brondolo, 2009) based on the performance of the tax debt collection system as recovery of tax, tax debt collection, collection of arrears, or recovery of claims.

2. Local tax’s collection rate in practice

Through local budgets, local government authorities shall establish, administer and use financial resources to fulfill their duties under the law and with the provisions and procedures in local public finance. The general budget centralized of administrative-territorial units is the result of aggregating revenue and expenditure of the following budgets: local budgets of communes, towns/cities, municipalities, counties; public institution budgets and activities financed in whole or in part of their revenue; budgets of the external and internal loans contracted by local government authorities; external grants budget.



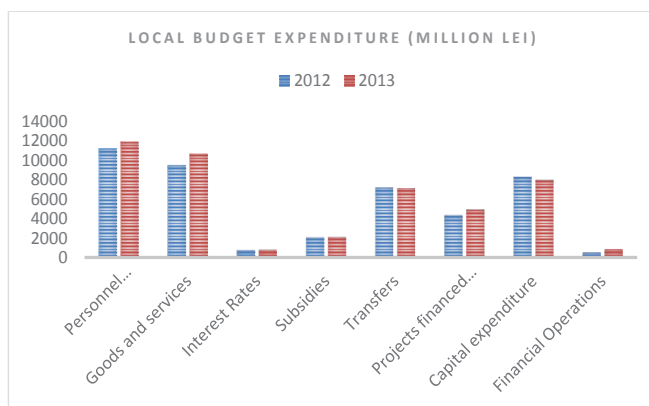


Figure No. 1 - Summary execution of Romanian local budgets

Source: computed by authors processing data of Romanian Court of Accounts, Ministry of Public Finance, and National Institute of Statistics

Important resources are managed financially by local authorities through local budgets as a result of local financial autonomy, the category of own revenues (related to the Romanian legal framework) accounted in practice for approximately 50% of local budgets (see Fig. 1).

In Romania, the situation of the collection rate of local taxes over the period 2008-2013 (see Fig. 2) for all of administrative-territorial units (counties, municipalities, towns/cities and communes), reveals non-significant fluctuations with a tendency of improvement, respectively in 2013, the collection rate of local taxes reached the highest level (85,38%), being 1,67% higher than in 2012, when was calculated a level of 83,98%.

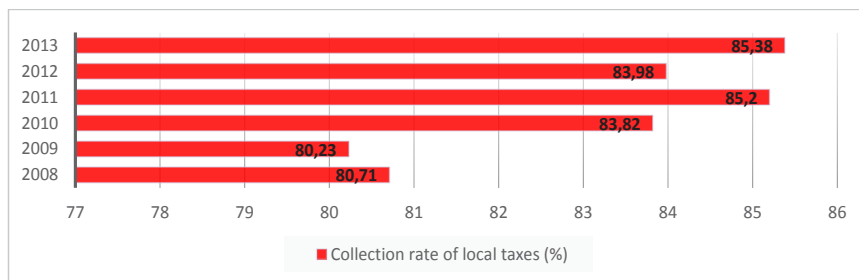


Figure No. 2 – The collection rate of local taxes in Romania over the period 2008-2013

Source: computed by authors using data offered by Ministry of Regional Development and Public Administration and Court of Accounts

It is noted, however, that taking into account the collection rate of local taxes only for administrative-territorial units represented by communes and towns/cities (see Fig. 3), the percentage is always to a low level of local own revenues budget of total administrative-territorial units of Romania, which suggests the necessity of continuing concern over the need of local authorities to assess their own revenue collection and collecting them during budget execution. If communes are compared with towns, in 2008 and 2009, the rate collection is higher for towns, and starting with 2010, it is a reverse situation, the communes outranking the towns. Municipalities (see Fig. 3) registered a tax collection rate between 84,11% and 81,37% for the period of time 2008-2013, with a high level over national average in 2008, 2009, and 2010. Comparing communes and municipalities, in 2008 municipalities reached the highest level (84,11%) and communes the lowest (79,09%), and in 2013 it is a reversed situation, communes -84,38% and

municipalities - 81,64%. The national average is always overtaken by capital of Romania, Bucharest, range from 94,55% in 2012 to 88,58% in 2008 (see Fig. 3).

In the communes, the collection rate of local taxes grew by 2,23% in 2013 compared to 2012, and +5,29 to the base year, 2008. In the cities, the level of tax collection grew by 2,10% in 2013 compared to 2012 and +4,6 compared to the base year 2008. In municipalities, the collection rate of local taxes decreased by 0,88% in 2013 compared to 2012, and -2,47 to the base year, 2008. Thus, in the last 4 years (2010-2013) the collection rate of local taxes has declined steadily at the level of municipalities.

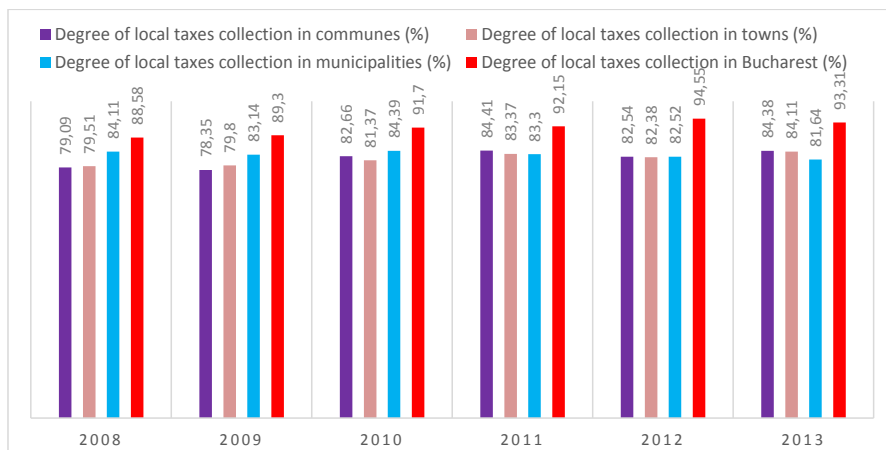


Figure No. 3 - Evolution of the degree of tax collection in communes, towns and municipalities over the period 2008-2013, in Romania

Source: computed by authors using data offered by Ministry of Regional Development and Public Administration

Taking into account the collection rate of local taxes by Romanian counties (see Fig. 4), divided on four groups (50,01%-70,00%, 70,01%-80,00%, 80,01%-90,00%, over 90,01%), there are some change over the period 2008-2013, which show an improvement of the tax collection. In 2008, in the first group (collection rate between 50,01% and 70,00%) were three counties (Giurgiu, Suceava, and Vaslui). In 2009, were four counties (Dâmbovița, Giurgiu, Ialomița and Vaslui), and since 2010, there was no county to fit into this group. Regarding the second group, between 70,01% and 80,00%, there are fluctuations which show an improvement of tax collection by fiscal authorities from 17 counties in 2008 to 9 counties in 2009. The third group (80,01%-90,00%), fits most counties (28 counties in 2011, 25 counties in 2013), and the fourth group, which is the most performant and desirable, registered an increase over the period 2008-2013, range from one county in 2008 to eight counties in 2013.

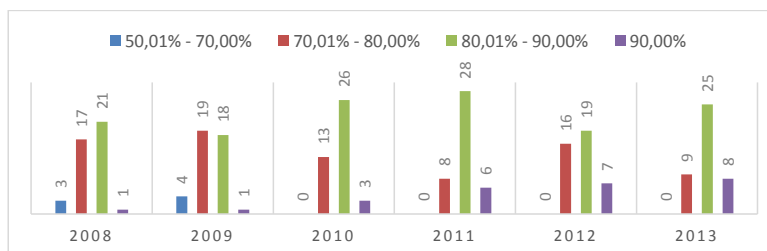


Figure No. 4 - The collection rate of local taxes collection on number of Romanian counties

Source: computed by authors using data offered by Ministry of Regional Development and Public Administration

3. Alternatives for raising local tax revenue collection

Our analysis reveals two important aspects of the degree of local tax revenue collection. On the one hand, situations when the degree of local tax revenue collection is below the legal limit at which the next budget projection constraint is operating (97% for two consecutive years) are very frequently. On the other hand, there are obvious vertical disparities on the collection rate, which (the collection rate) is lower in smaller communities (rural). On this bases, we believe the necessary solutions must be oriented toward countering both difficulties detected simultaneously. A first stimulus encouraging good citizenship regarding tax system. Increasing voluntary compliance payment through administrative actions of awareness and encouragement to assume tax obligations, can have positive effects on long-term fiscal efficiency plan, which can be consider as a prerequisite for sustainable collection of tax revenues' growth.

From another viewpoint, vertical disparities reveals implicitly consistent correlation between local fiscal potential and tax payment, imposing on the one hand measures to encourage / development the local economic and social base (eg tax breaks of or public utilities facilities for local entrepreneurs), and on the other hand encouraging tax payments on time (for example, by providing financial incentives to those who undertake voluntary payment of tax liabilities before the deadline).

Also from the perspective of the relationship with taxpayers, creating comfortable systems and providing convenient locations for payment of tax liabilities may be a factor favoring the full and timely payments. We believe that a viable alternative for raising local tax revenue collection, combating any negative perceptions of the tax payers, may consider building a record of "good" and "difficulties" taxpayers on which to strengthen the relationship with them. For example, for the first category of taxpayers ("good" taxpayers) may act as an stimulus the procedure of free tax advisory services, imposing also quick reaction alert of local tax authority if they passage into the second category ("bad" taxpayers), taking into account, even in principle, that are more easily restored to the "good" class taxpayers. For the second category ("bad" taxpayers), local tax authority must identify firstly real causes of situating them among taxpayers in difficulty (situation / structure of taxable matter, particularities of income sources or forms of wealth held, personal situation as part of their contributory capacity), generating particularized reactions on categories of problems, if not individual, supporting realistically of those concerned.

However, a possible review of the legal framework of the domain, should take into account the real disparities by setting minimum collection limits differentiated on the rank of local authority and, as possible, an aggregate indicator of "budgetary capacity" to reflect more accurately the correlation between the local fiscal potential and local fiscal effort. Such a differentiation would support comparable situation of various local actors through the degree of revenue collection and simultaneously could be a clearer benchmark used to dimension transfers from the state budget.

Last but not least, the concern of local financial managers for effective monitoring and control of local budget receivables collection, along with efforts to reduce tax evasion, may be a viable alternative to current conditions to increase the collection of local tax revenue in Romania.

4. Conclusions

The analyzes presents various trends, depending on the type of territorial-administrative units/subdivisions, showing disparities regarding administrative capacity in terms of local taxes collection. Generally, it can be stated a growing trend of the performance in preparation, approval and execution of local budgets. However, it can be observed a management of public and private property of local government based on the

principles of economy, efficiency and effectiveness in enforcing their material, human, and financial available resources. Starting from the premise that a solid and efficient management of public funds is necessary, first, developing a realistic budget, followed by a correct execution according to budgetary principles and rules, we find that not setting, not seeking appropriate legal and non-collection of revenue budgets public are the result of deviations from legality and regularity. In this context, we believe that is necessary the examination of the managerial responsibility in the use and administration of public funds, requiring further steps to improve public financial management and the development of the institutional capacity on elaboration and execution of administrative-territorial units budgets.

Although our analysis not included an empirical research of the quality of local budget process, it is worth wondering if, from this point of view, the persistence of a low collection rate at the level of local authorities can be a clue regarding the professionalism of budgetary projections. This is a research direction that we intend to expand in the future, starting from the reality that legal authors of the local budget draft in Romania under legal framework into force are mayors (who may request technical assistance of the Regional Directorates of Finance), and for them legal framework do not impose a condition of study or expertise that would contravene to their eligibility. In any case, it is necessary to identify correctly the local taxable matter in Romania, as can be seen as a condition to ensure budget projections realism.

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