"BABEŞ-BOLYAI" UNIVERSITY CLUJ-NAPOCA

Faculty of Economics and Business Administration

PhD Thesis

TAXING IMPACT ON COMPANY FINANCIAL STABILITY

- ABSTRACT -

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Cluj-Napoca

2013

Introduction and state of knowledge

Appearance of the first coins brought the appearance of the early charges, and also the first ways to avoid them. Reports point out that since the time of the Roman Empire some citizens rather live among the barbarians than pay taxes to the empire.

Even today the situation seems not to have evolved in a positive sense from this point of view, the impact of taxation is one of the complexes socio-economic phenomena of the utmost importance that states face and whose unintended consequences are sought to be limited.

The thesis seeks to examine aspects linked to fiscal pressure on the stability of economic entities. Proposed topic is one of interest, issues of endurance level of taxation are always in the pipeline.

Permissive legislation and suchlike competent authorities, in conjunction with an extremely high degree of taxation, especially for a country in transition to a genuine, viable, real market economy have led to the creation of a less favorable business development environment in Romania.

We consider it necessary that the tax burden in each country to be maintained within tolerable limits for all taxpayers, but in the same time to meet the basic needs of individuals. This, given that covering the growing expenses requires increasing resources and at the same time too high taxation is not favored by the business community. Therefore the tax burden issue on the financial stability of enterprises is quite complicated, since too much pressure discourages taxpayers to work, save and invest. It is desirable to combine taxation with satisfying as best as possible the needs of individuals, so that taxpayers feel that taxes and fees collected from them are really spent in their interest.

High public spending means first of all a good meeting of the social needs, and in particular those related to social protection, health and education. However, a significant level of public expenditure requires also increased fiscal resources mobilized to the budget through taxes and contributions. So by default, countries where public expenditure is significant present a high tax burden and, where public spending is more modest, taxation is more relaxed.

Based on the theoretical description of the concept of taxation, through this paper I intend to highlight, by calling the legislation and case studies the need to reduce the harmful effects of fiscal pressure in order to ensure the financial stability of businesses in our country.

The PhD thesis addresses the following issues:

► The issue of public finances which are a component of the first dimension of economic and social life, concentration of 30% -60% of GDP at the disposal of the central and local authorities.

► The impact of public finances on social reproduction within businesses.

► Interaction of public and private finance.

► Sampling methods of taxes, fees and contributions from those who participate in the procedure of creation of added value.

►Economic and financial analysis of companies done using cause - effect link of taxes and fees.

In developing the thesis I took into account the papers published in the country namely: *Public Finance* (Iulian Văcărel and colaborators,2003); *Economics and Public Finance* (Nicolae Hoanță,2000); *Public Finance and Taxation* (Constantin I.Tulai,2003); *Company Finance* (Gh.D.Bistriceanu,2001); *Taxation* (Petre Brezeanu,2009); *Tax and Financial Law* (Ioan Condor,1996); *Taxation from Law to Practice* (Lucian Târu,2010); *Romanian Financial Accounting* (Atanasiu Pop,2002); *Budgeting Policies and Techniques* (Tatiana Moșteanu and colaborators,2002); *Theory and Practice in Financing Companies* (Ioan E. Nistor,2004); *Company Finance* (I. Nistor,V.D. Lăcătuș,2008); *Public Finance* (T.Moșteanu and colaborators,2008); *Financial – Accounting Analysis and Diagnosis* (Silvia Petrescu,2008); *Financial Reporting. Developments, Content, Analysis* (Bătrâncea Ioan,2006); *Companies Balance Sheet* (Bătrâncea Ioan and colaborators,2006); *Companies Financial Analysis* (Maria Bătrâncea,Larisa-Margareta Bătrâncea,2004).

Most important reference works in this field published abroad are: Atkinson P., Van den Noord P., (2001), Ang, J.S. (1992), Angelopoulos, K., Philippopoulos, A. (2007), Arce, D.G.M, (1997), Ardagna, S. (2001), Buri, M., Franco, D. (2006), Caprizzi, V. (2005), Costas, A., Lam R.W.K.(2009), Coutinho, L. (2008), *Fiscal Policy and Macroeconomic Stabilizations: What are the Gains for Cooperation?*, Journal of International Tax and Public Finance, Volume 19, Number 1De Haan, J., Strum, J.E. (1994), Devereux, M.P., Griffith, R. (2003), Feld, L.P., Schaltegger, C.A.(2010), Glick, R., Hutchison, M. (1993), Goodhart, C.A.E, Sunirand, P., Tsomocos, D.P. (2004), *A Model to Analyze Financial Fragility*, Greiner, A. (1998), Guerard, J.B., Schwartz, E. (2007), Head, J.G. (1997), Jarass, L., Obermair, G.M. (2006), Kammas, P. (2011), Knoester, A. (1979), Krugman, P. (2012),Lin, Z., Nagurney A. (2012), Manzano, B., Perez, R., Ruiz, J. (2005), Mueller, A.P. (2010), Neck, R., Schneider, F. (2001), Reid, G.C. (2012), Roszkowski, M.J, Delany, M.M, Cardell D.M. (2011), Ruggery, J., Zou, Y. (2007), Schratzenstaller, M. (2005), Schuknecht, L. (2000), Semmler, W., Zhang, W. (2004), Sterks, C.G.M. (1984), Tervala, J. (2008), Van der Ploeg, F. (2011), Van Der Ploeg, F.(2005), Welfens, P.J.J. (2010), Yashiv, E. (1997), Zhang, L., Altman, E.I., Yen, J. (2010).

Also in this work we have considered tax legislation, complementary and subsequent amendments and indexed databases.

Keywords: fiscality, taxation, taxes, tax burden, financial stability, performance, rating

CONTENT

Research Objectives and Methodology

Through my research I aim to highlight the link between taxes and fees collected from companies on one hand and their financial stability on the other. This link is highlighted through both financial ratios and built statistical models.

I have also taken into account the specific objectives, namely:

● Study and research of public finance and their interaction with the finances of Romanian companies.

● Methods of creating public and private funds. Taxation of businesses: taxing income, capital and wealth, respectively taxing consumption and expenditure.

● Place and role of taxes, fees and social contributions in business economy.

●Taxation production and products, namely their impact on businesses.

●The influence of taxes, fees and mandatory contributions on the financial performance and financial position of businesses. The main indicator containing taxes and fees is value added.

● Models of analysis for financial performance and financial position of businesses. I have introduced new elements in financial theory and practice on the issue of determining the added value, quantifying influence of taxes and fees on value added, the impact of taxation on the financial stability of the company.

Research methodology through the nature of the researched theme ***is deductive***, ***non-interacting***, elements of ***qualitative analysis*** combining with those of ***quantitative analysis***.

In the first stage of the research, I've presented a general information (preliminary) through ***basic primary research***, achieving *completion of a series of primary documents (specialized studies and articles, comments on works).* Afterwards I continued the research, performing ***a series of empirical analyzes*** that reveal how taxation affects the work performed by companies, emphasizing how they help reduce volatility and increase their liquidity and increase their effectiveness in the context of EU integration.

As ***processing methods and data analysis*** I used both ***qualitative analysis*** such as *comparative analysis* and *documents study* and ***quantitative analysis*** such as *systematization, adjustment and standardizing, various indicators* (e.g. financial indicators: ROA, ROE) *correlation,* and *other statistical techniques.*

1 PUBLIC FINANCE, PRIVATE FINANCE AND THEIR INTERACTION

The emergence of *finance* is the result of long and complex historical process, which is determined by the evolution of social life through the emergence and development of human communities, of private property and the division into social classes, development of productive forces and commodity-money relations, the emergence of state and the creation of the constraint device in order to provide conditions for the accumulation of funds needed for the maintenance of the state apparatus and the performance of its functions. In all social – economic settings, finances manifested as social relations of an economic nature arising in the distribution of the social product and especially of the national income, in close connection with the performance of the functions and tasks of the state.

In my opinion, finances are a part of social and economic relations, expressed in cash, which appear in the distribution of the gross national product and especially of the national income, with the help of which are formed and distributed the funds of the state and companies, required to meet the general needs of society and business development.

In order to achieve the objectives, through consolidated budget law, funds available to central and local public authorities are created. These funds are formed at the expense of a portion of the gross domestic product, especially national income, and are used to finance general needs, both nationally and locally. Thus a lot of cash flows are recorded, on the one hand to set up public funds and on the other for the users of these funds, which generates a series of social ties between participants in the process.

To each component of the financial system corresponds usually more funds of financial resources. Each fund has its own rules of formation and distribution, its specific links with other funds and a certain reason.

These funds are grouped by different criteria, namely by level (echelon) to which are constituted, by destination, by type of property, by the title to which they levy funds and payments from them.

Funds of financial resources, public and private, are connected by a system of communicating vessels, but the surplus (excess) of a particular fund can be taken only by the fund with which it's correspondent and the lack (deficiency) of resources of a particular fund can only be completed by the fund with which it has links. In the balancing process of individual funds of financial resources the principle of compatibility of funds must be respected, using the appropriate control mechanism.

Private finance include socio-economic cash relations through which companies, insurance companies, private banks etc constitute, allocate, manage and control the funds of financial resources. Private finance include income, expenses, assets and liabilities, borrowing or lending, insurance premiums that are collectable, payments of compensation and amounts insured etc.

Companies with private capital procure the necessary financial resources from their own work and economic outcomes and also from the financial market on contractual basis, by comparing the supply and the demand on the capital market. Private companies can not use coercion to mobilize temporary resources available but can apply enforcement measures of contractual provisions, also can't influence legally the currency, but only use it.

The object of private finance is the way and proportions of the creation of the social capital of companies, distribution of profits for economic growth requirements, remuneration to shareholders, methods of making investments in cases where there are some temporary liquidity or with a prolonged character, operative mobilization of claims and settling obligations with third parties etc.

Private financial relations take place according to the provisions of the decisions taken by the board of directors and economic contracts or financial agreements with third parties. They do problems.

The content, structure and organization of private finance pursue the development of a profitable activity and optimal development strategy of each trader.

Private finances are facing financial equilibrium problems, meaning that outgoing financial flows can take place only in the limit of inflows. Among these an initial equilibrium is settled that must be followed in the process.

Being connected to the same system, between the various financial funds are frequent and intense movement of resources, inputs and outputs, also called financial flows. Often these movements are invoked in order to explain the interaction between the financial system and the unity of the system. This can be explained by the fact that the cash flows are the very concrete expression, on organizational level, of the financial relationships between the participants involved in the formation and distribution of funds. In this case we can determine the flows to and from the state on the one hand and taxpayers, individuals and businesses on the other. Resource movements occur in two ways, each of the partners with the quality of payer and also of recipient, however, the two ways don't necessary have to be conditioned.

In these reports the state is represented by its specialized agencies, which manage on behalf of the state various centralized funds, with responsibilities in financing the costs for meeting the different categories of general needs. It is the Ministry of Public Finance and its territorial units that administrate the central government budget, local councils administering local budgets; the National Bank and specialized banks that handle the loan resources, insurance and reinsurance institutions and social insurance bodies.

Businesses receive in certain circumstances resources from the State's central funds and makes payments for the supply of these funds.

Resource movements occur not only between these two categories of partners but, in some circumstances, also between the various central funds. Also some internal movement of resources occurs and these are specific to some subsystems such as the self-financing of businesses, those between banks, between insurance and reinsurance companies etc.

Financial funds form, due to the connection between flows and integration relationships a complete system. Some flows are foreshadowed in the revenue and expenses budgets. Others appear only during execution when due to the influence of the factors with unbalanced action compensatory movements are required to be able to compensate the deficits that appear in others on the account of surplus resources from some funds. Thus, because of the connection and interaction of flows by integrating funds in the funds system ensures balance system, self-regulation capacity and functionality of the financial mechanism.

2 TAXATION OF COMPANIES

Terms of *tax, tax administration and taxation* have a considerable age, existing even before the appearance of the state. The word treasury originates in French and means a state institution that sets and collects contributions to the state and chases those who have not paid in due time these contributions. (Coteanu, et al., 1998, p 382) On the other hand by taxation it can be understood a system of collecting taxes and fees through Tax Administration; the total of one's tax obligations. (Coteanu, et al., 1998, p. 382)

In our economic literature we find the current sense of the word, the *Tax Administration* is depicted as “state institution vested with the right and obligation to place, to collect and keep track of taxes payments and fees due to the State by taxpayers”. (Bistriceanu D., 2001, p. 161)

Between the derivative forms of the word tax, one has a particular importance to us, namely the notion of taxation.

In legal terms, taxation is the set of laws and regulations on taxes. Or, as pointed out by some authors, taxation is presented as a body of rules and mechanisms meant to ensure the realization of the fundamental role taxes play in the functioning of the state body and, more widely, of social life as a whole. (Tulai, 2003, p. 188)

In its economic sense, “taxation is not only the body of the regulations regarding the establishment and collection of taxes, but also a feature of state policy regarding taxes and an expression of tax burdens of different categories of taxpayers”. (Tulai, 1985, p. 127)

In fact, in common language, but also in specialized publishing, especially when talking about fiscal tightening, it is identified with the tax pressure which actually indicates the level of taxation. In reality it can not be measured through the absolute amount of taxes and neither can be the tax increase attributed solely to the increase in the tax burden, because the amount of taxes it may increase due to increased taxable matter while the tax burden remains unchanged. (Tulai, 2003, pp. 188-189)

In more recent work the concept of taxation is even superimposed to that of taxes. Taxation is, by definition, says M. Laure "in the levies imposed on the inhabitants of a country by a public authority, which offers protection and provides services from its part." (Laune, 1993, p 13) Obviously, this is a definition of taxes.

In the same way other authors act, who by comparing taxation with parataxation or with other mandatory or optional levies, compare, in fact, taxes with special tax, with social security contributions or with loans. (Gaudemet & Molinier, 1997, pp. 24-39)

As with tax administration and taxation, often emerges beside sober and neutral technical language the derogatory language, colorful and ironic, made to show off aversion to taxes and taxation, and also the lack of rationality that characterize tax systems. Assessments not so flattering about taxation arise from many scholars. For Nicolas Baudeau taxation is not rational: "Indeed, examining the universal system of ancient and modern taxation you realize that it is based everywhere on the same lack of reason" (Baudeau, 2009, p. 1771). The same negative perception of tax laws can also be found at Louis de Bonald who said that "passing and always provisional regulations, local arrangements and of circumstance, all these taxation and trade laws that loads the States codes and the heads of the officials and that rather oppose to the true interests of society are only a compromise between the Prince's greed and the cupidity of his subjects" (Bonaid, 1800). This old interpretations are also associated with the more recent opinions of renowned experts showing as little praise as those of their ancestors. "Taxation - says in 1993 Claude Champaud, honorary president of the University Rennes - is a difficult art that resides in choosing between different inconvenience and alternatives effects often unknown in advance, or rather unexpected." For Professor Martinez "taxation is a western movie where a sample of two is illegal, since the 1000 billion of social security contributions are never controlled by Parliament" (J. C. Martinez, 1995, p. 21).

Different angle from which taxation is seen depends on legal, economic or sociological formation of the author. Regardless of this, however, invariably all connect it with the tax regime. That is why it's said, with good reason, that taxation is the science of taxes. (Tulai, 2003, p. 188)

From the above definitions it appears that taxation brings together some common elements to other subjects such as macroeconomics, public finance, accounting and also own financial and legal concepts and elements.

Any of the above definitions, refers to a system that set in motion institutions, legal regulations, technical mechanisms, tools and procedures in order to mobilize public resources from taxpayers, individuals and businesses to the consolidated public budget.

The issue of tax burden in Romania is more current than ever, primarily because we are in the reforming of the tax system phase, began I believe with the adoption of the Tax Code, Fiscal Procedure Code and the Methodological Norms of implementing the Tax Code[1,2,3], secondly because Romania feels the lack of major investments that create stable jobs and better paid, and thirdly because income of most taxpayers are burdened by excessive taxation that discourages investors and encourage tax evasion.

In order to achieve its purpose in tax policy, the tax burden imposed by public authorities should harmonize two opposite trends: on the one hand, the state's who wants it to be higher to cover increasing public expenses and on the other hand, the citizen's who desires a tax burden as low as possible. (Hoanţă, 1997, p. 154)

Ion Botea has the same opinion, stating that regardless of the terminology used in the literature, the tax burden expresses the same idea of obligation through tax to the state. (Botea, 1997, p. 179)

According to Professor Dr. Constantin Tulai tax burden is a concept closely related to that of taxation and often used to characterize its level. (Tulai, 2003, p. 287)

We often hear about fiscal tightening or loosening. Obviously this is taxation increase or decrease, namely about modification of the tax burden. (Tulai, 2003, p. 287)

The taxation level can't be assessed based on the absolute amount of taxes, even if its evolution in time is studied. Volume of taxes may change when the state can not change the demands on taxpayers and the tax burden remains the same. The main influencing factors are the number of taxpayers, the taxable matter and inflation rate. (Tulai, 2003, p. 287)

It means that the taxation level or fiscal pressure means how overwhelming taxes are or, in other words, how high the tax burden is that lays on the shoulders of the taxpayers. Tax rate is calculated to measure the tax burden. (Tulai, 2003, p. 287)

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[1] Law 571 from 22.12.2003 on the Fiscal Code, published in the Official Gazette no. 927 from 23.12.2003

[2] Government Ordinance no. 92 from 24.12.2003 on Tax Procedure Code, published in the Official Gazette no. 941 from 29.12.2003

[3] Government Decision no. 44 from 22.01.2004 approving the Methodological Norms for the application of Law 571/ 2003 regarding the Fiscal Code, published in the Official Gazette no. 112 from 6.02.2004

In the opinion of renowned experts in public finance, the most important role of taxes is reflected in their contribution to the formation of state financial resources for needed for public spending. Both from a political and an economic, financial and social point of view, the sizing of the share of the gross domestic product given to the state through taxes is of major interest. This explains the fact that not only in the political environment, but in general, it is paid great attention to the issue of the level of taxation or the degree of taxation. (Văcărel, et al., 2004, p. 371)

According to Professor Dr. Gheorghe Manolescu tax rate is an indicator used to measure the share of income derived from the production side which transitions the budget through a mandatory and public involvement process, instead of being left open to the private initiative. (Manolescu, 1997, p. 69)

In my opinion, the tax burden as macroeconomic financial phenomenon represents the imposing level the taxpayer is subject to in a legal framework regulated by the Law on State Budget, and the Social Security Budget Law, according to the operating Government's annual financial and fiscal policy, policy that is adopted by Parliament with a majority. The size of the taxation on taxpayers income can be determined both at macroeconomic and microeconomic level using a system of indicators where the main one is the rate of tax burden.

Regardless of the terminology used in the financial literature (tax coefficient, fiscal tenseness, tax burden, the rate of compulsory levies, taxation levels, the degree of taxation, tax rate, etc.), tax burden expresses the same idea, namely that of obligation through tax to the state and private revenues decrease.

The tax burden rate or the rate of compulsory levies can be addressed in two ways. Thus, *broadly*, the tax burden rate is calculated as a ratio of total taxes and social contributions actually received by government and GDP. *Narrowly*, tax burden refers to the ratio between the amount of taxes collected and GDP.

Significance of tax burden rate stands on two levels, namely the accounting plan and the economic and financial analysis plan.

From an accounting perspective, the rate of the tax burden does not take into account that compulsory levy also funds other mandatory levies, in other words flows the measured by the rate’s numerator are not consolidated (doesn’t eliminate mandatory levies paid by public administrations).

From an economic and financial analysis perspective, tax burden rate highlights the seizures aspects of compulsory levies, neglecting the fact that they are reintroduced into use as public spending. Tax burden rate is an indicator used to measure that part of the income from production that goes through a mandatory public distribution process, instead of being left to the provision of private initiative.

Increasing the tax burden is clearly related to the expansion of economic and social role of the state. The political resistance to increasing the tax burden during the government of Margaret Thatcher in 1990 are very well known (Hoanţă, 2000, p. 155), or trying to cause cessation of payment of tax in 1970 in France.

In the last two decades most developed countries' tax systems have undergone significant changes, due to the adoption of a new acceptation on the fiscal plan. Global economic crises, excessive growth of the complexity of tax systems, negative influence taxes and fees had on economic growth are the main factors that led to fiscal reforms.

Economic philosophy embraced by more and more governments presupposed renunciation of Keynesian concepts that proved not to be viable in solving the occurred crisis. States have opted for a lower degree of interventionism, the focus moving on the free action of market forces. We should not forget, however, that the phenomenon of increasing government spending is a reality of the contemporary world, naturally transposed in the growing need for fiscal resources.

Therefore, by means of the implemented reforms, the developed countries had a hard mission to fulfill, namely finding that formula to ensure both resources needed for operability of public institutions and achieving the objectives mentioned above.

Anti-taxes movements were relatively common in the late 1970s, especially in the U.S. subsequently expanding in countries that had a reputation of a fiscal civics such as Norway or Denmark.

In Romania, the problem of tax burden is more current as ever, because we are in the phase of the Romanian fiscal system modernization, on the one hand, and on the other hand, because the Romanian economy feels the acute lack of capital available to be invested, own or foreign, which implies a particular fiscal policy.

Due to the growing financing needs required by political powers, the tax burden borne by national taxpayers experienced over time higher and higher levels without being possible to determine accurately the maximum limit where it can go.

Analyzing the evolution of tax revenue for the years 1991-1997 based on state budget execution we found the following:

- during this period were introduced specific direct taxes such as income tax, tax on capital income and other taxes and fees, respectively compulsory levies. It was reintroduced the payroll tax that is borne by income receivers replacing global payments made by economic entities, the remaining task of economic units is only fund payroll tax that exceeds a limit set by the government.

- a modern form of taxation appeared in 1993 in the structure of indirect taxes, value added tax which replaced the inland duty.

In this period was introduced income tax, payroll tax and also excise duties in order to organize a modern tax system. Also according to the international obligations of our country the customs duty in foreign economic trade liberalization has changed significantly.

The objectives pursued by the introduction of these taxes were designed to reform the budget fiscal system, harmonization of domestic tax legislation with the community one and forming the budgetary revenues.

State budget revenues in the period 1990-1997 increased significantly in percentage. Similarly, tax revenue increased, respectively direct and indirect taxes increased. During this period, tax revenues, namely taxes and fees show an increase, but their share in total GDP shows a decrease in percent (see table no.).

The share of tax revenue to GDP fell from 64.25% to 59.60% in 1993 to 39.94% in 1994 to 23.34% in 1995 to 23.36% in 1996 and 38.10% in 1997.

Income tax share of GDP for 1992 fell to 12.25% in 1993, to 9.14% in 1994, to 5.23% in 1995, to 4.69% in 1996 and 10, 39% in 1997.

The share of value added in GDP for 1993 was 11.86%, in 1994 was 10, 89%, in 1995 was 7.08%, 7.14% in 1996 and in 1997 was 11.41%.

In the period 1998-2004 total income in the state budget, respectively total tax revenue as a whole and in their structure have increased in nominal terms.

In 2000, income tax was introduced global income tax. In this period analyzed indirect taxes included in the State budget have exceeded the direct tax volume which is an additional burden on the end user (see table above).

The share of tax revenue to GDP shows a decrease from 16.37% for the year 1998 to 15.40% for the year 1999 to 14.12% for the year 2000 to 11.63% for 2001 to 11.3% for the year 2002 to 11.95% for the year 2003 and to 12.22% for the year 2004.

The share of income tax to GDP during this period remains in the range of 3.11% and 2.71%.

The share of value added in GDP in the period 1998-2004 is maintained in the range of 6.22% to 4.39%.

Share of excise to GDP is between 3.21% and 2.13%.

Other taxes and fees in the period under review have a share of GDP between 2.22% and 1.57%.

In 2005-2010, State budget shows a significant increase, as follows:

- Total revenues of 36559 million lei increased to 66546,5 million lei.
- Tax revenues from 34531,2 million lei increased to 56304,7 million lei.
- Income tax on profit from 6495,3 million lei increased to 10090,9 million lei.
- Income tax from 6670,3 million lei increased to 17852,31 million lei.

We can say that the income tax in 2005-2010 in real and nominal terms shows a higher volume of revenues to the state budget than income tax on profit.

Value added tax increased from 13021,3 million lei to 39246 million lei.

- Excise duty increased from 9079,4 million lei to 16212,3 million lei.

- In the period under review the gross domestic product increased in a similar manner to tax revenue. The share of tax revenue to GDP remain in the range of 12.7% to 11,26%.

State budget revenues at December 31, 2010 compared to the same period of 2009, present a total increase of 17.9% that is 10111,7 million lei, respectively 12.7% of GDP.

Income tax receivable in the amount of 10090,9 million lei represents 15.2% of total revenue received and 1.92% of GDP.

Compared with 2009 income tax in 2010 shows a decrease of 526,2 million lei (RON) with a rate of 5%.

Revenue structure in 2010 for income tax is as follows: : 9814 million lei from aggregated economic agents for the production of goods and services representing 97.3% of the total and 276,9 million lei from commercial banks which is 2 7% of the total.

In 2010, tax revenues of the state budget from other taxes on income, profits and capital gains from businesses totaling 838,2 million lei representing 1.3% of total revenues collected were made under the final provisions of the budget.

These revenues consist mainly of: - tax on income made by non-resident legal persons of 700,9 million lei that is 84,6%; - tax on income of small companies of 157,3 million lei respectively 18,8%; - tax on dividends payable by legal persons 43,2 million lei that is 5,2%.

Tax revenues of the state budget in 2010 from income tax amounted to 17852,3 million lei with 3,2 million lei over definitive budget provisions. In 2010 tax revenues of the state budget is 26.8% of the total earned income and 3.4% of GDP which shows a decrease of 3.7% compared to 2009.

Income tax in 2010 consists primarily of: - the tax on salary income 13002 million lei with a share of 72.8% - the tax on dividend income 1315,6 million lei, accounting for 7.4%; - tax on pension income 1007,8 million lei, accounting for 5.6% - income tax on personal property transfer 415,6 million lei with a share of 2,3%.

During budget execution for 2010 from income tax were broken for territorial administrative units amounts and shares in the amount of 14327,2 million lei, representing 21.5% of total revenues collected and 2.8% of GDP.

Referring to property taxes and fees in 2010 were received 4,5 million lei consisting primarily of legal stamp duties and other stamp duties, 4,4 million lei with a rate of 97,8%.

The value added tax received in the amount of 49480,8 million lei represents 74.4% of total revenues collected and 9.6% of PIB. In 2010 were returned 10825,7 million lei from total collected and were broken for territorial administrative units sums amounting to 14982,8 million lei representing a rate of 30,3%.

The sum of 14982,8 million lei had the following destinations: - funding decentralized expenditures of communes, towns, municipalities, sectors and Bucharest totaling 9997,2 million lei which represents 66.7% of the split amount - balancing local budgets in the amount of 2142 million lei which represents 14.3% of the total amount - funding decentralized expenditures of counties with the amount of 1959,9 million lei which is 13.1% - 497,9 million lei for roads or 3.3% - financing infrastructure development program and sports facilities in rural areas 396,7 million lei or 2,6%.

Excise tax revenues realized in 2010 quantified to the amount of 16212,3 million lei, representing 24.4% of the total and 3.2% of GDP.

Compared to the amount received in the amount of 14272,1 million lei in 2009 an increase of 13.6% in 2010 is recorded.

In 2010, charges for the use of goods, authorizing the use of the property or on conducting activities were collected as tax revenue amounting to 730,1 million lei which represents 1.1% of total. These charges consist primarily of : - gambling tax 606,4 million lei representing 83.1% amount of these charges - fees and charges for the issuance of licenses and operating licenses 113 million lei that is 15.5% - fees for activities of prospecting, exploration and exploitation of mineral resources 31,7 million lei that is 4.3% - special fees for cars and first registration in Romania minus 12,6 million lei or 1.7% - car pollution tax for compensated / replace cars minus 10,1 million lei at a rate of 1,4%;

Revenue assigned to own resources of the EU budget for 2010 were made in the amount of 574,0 million lei representing 0.9% of total revenues collected and 0.1% of GDP, consisting mainly of customs duties amounting to 568,6 million lei or 99,1%.

Revenues from customs duties to the state budget decreased by 12.4% in 2010 compared with 2009.

State budget revenues from insurance contributions for 2010 were made in the amount of 395 million lei (RON) which represents 0.6% of total revenues collected and employers' contributions consist of 220,9 million lei at the rate of 55.9% and to 174,1 million lei insured people contributions that is 44,1%.

In order to highlight the tax burden at microeconomic level, we have tax rates at the level of companies.

In order to establish the level of taxation of companies I have processed data from SC TRANSPORT LOCAL S.A. (Appendix 1) and found the following aspects.

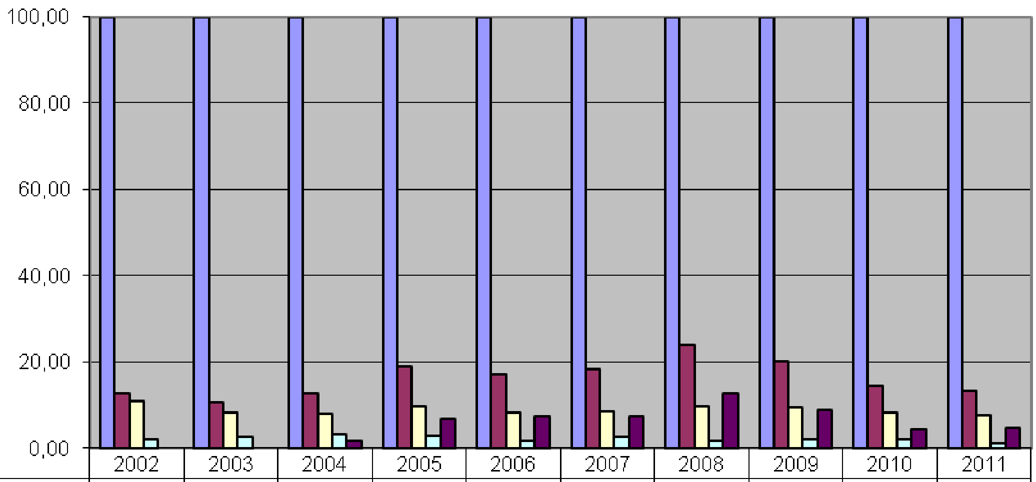
Primarily the tax rate related to value added decreased from 19.60% in 2002 to 4.77% in 2011. The decrease of both contributions and taxes and other local taxes and fees contributed to this reduction.

During the period under review (1997) it can be seen that increasing overall tax revenues is surpassed by nominal GDP growth which presents a process of erosion of incomes in real terms. *Influence factors of the erosion process of revenue* include: restricting the tax base and tax evasion that decreased the financial flows available to the state budget.

In the income structure it can be seen a decrease in the share of direct taxes and a corresponding increase in indirect taxes, which represent an orientation of the tax sources towards the final consume directly borne by the final consumer.

In the period 1991-1997 tax rate decreased because the share of tax revenues in GDP has declined. Given this economic reality businesses and people felt the aggressive taxation, because the tax burden has been addressed in relative terms without addressing it in real and material terms.

Figure 2. Contributions percentage + taxes from total turnover



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Cifra de afaceri	100,00	100,00	100,00	100,00	100,00	100,00	100,00	100,00	100,00	100,00
Total contribuții+impozite	12,73	10,56	12,53	18,98	16,97	18,27	23,82	19,96	14,56	13,14
-contribuții salarii	10,81	8,08	7,74	9,63	8,11	8,43	9,64	9,37	8,27	7,62
-impozite +taxe locale	1,93	2,48	3,17	2,77	1,62	2,63	1,61	1,93	2,04	1,02
- impozit pe profit	0,00	0,00	1,63	6,58	7,24	7,21	12,58	8,66	4,25	4,50

Source: own illustration

Tax rate related to equity evolved as follows: 315%% in 2002, 42,91% in 2006 and 14,15% in 2011.

Another aspect of the assessment of the tax burden in my view relates to the employer and employee contributions.

As apparent from the above figure the tax burden of social contributions increased from 23.37% in 2002 to 43% in 2011.

On the other hand the tax burden on employees has increased by 5%, from 30.60% in 2002 to 35.45% in 2011.

All these microeconomic tax developments have a direct involvement on financial stability reflected in the financial equilibrium and the performance of the economic entity.

3 ENTERPRISE FINANCIAL POSITION AND STABILITY UNDER TAXATION IMPACT

It is necessary to access information that reveals phenomena and processes that occur in the business activity when preparing the financial diagnosis that allows measuring the return on invested capital, the financial return on equity, assessing conditions where financial equilibrium is achieved, deducting the autonomy level of the economic entity.

The balance sheet is the main pylon of financial reporting, next to profit and loss account and cash flow statement, which is the *accounting document*, which presents the assets, liabilities and equity of the company at year-end, assets that are grouped by nature, destination and liquidity, respectively debt and equity that are grouped by nature, provenance and chargeability.

It can be said that there is direct and close connection between the classical and the dynamic model.

The following question arises: Why is this model useful? whereas the third component works as assets or fourth component functions as passive and theoretically the purposes for which the two components were introduced by detailing patrimonial assets and liabilities can be achieved.

In terms of analysis, the influence and decision factors, the two components, that is expenses and results include significant areas in which quantitative and qualitative changes occur. These spheres have an important role in the economy of the companies for establishing a positive or negative financial result. In these areas the circulation of the values provides useful information on ***financial stability, financial performance and financial position of the entity, respectively the structure and modification of the costs affecting net income.***

If we consider this model, assets (A) and liabilities (P) will be changed with expenditure and the results of the entity.

Economic operations reflect the influence on the patrimony, and thus can determine the types of patrimony changes: “STRUCTURAL CHANGES" and "CHANGES IN VOLUME", and then can be determined what patrimonial element changes, in what way (increase or decrease) and with what amount.

“Cause – Effect” Analysis

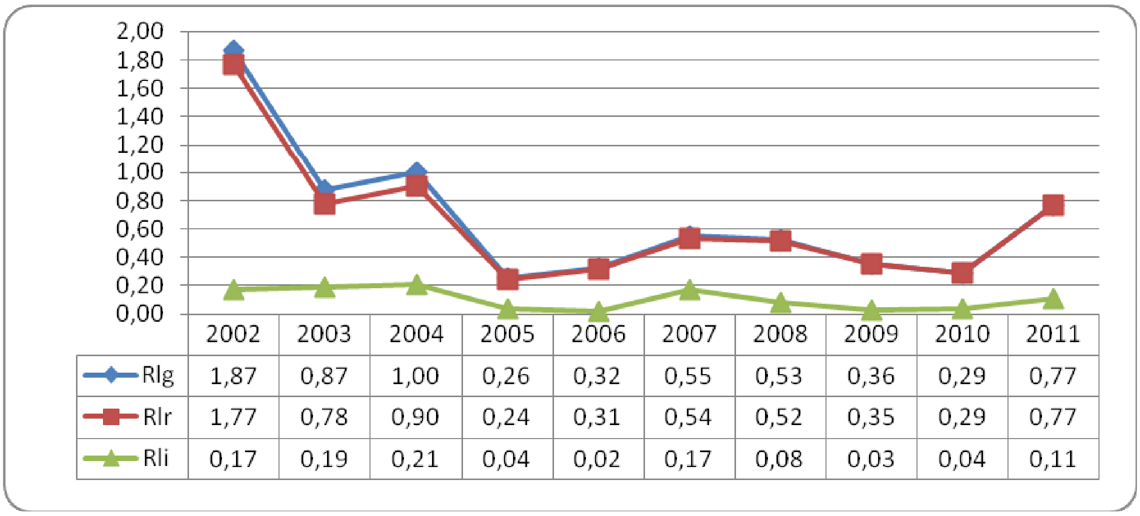
Type of operation (cause)	Effect of operation
Increase and decrease of economic means	causes changes in the structure of assets
Increase and decrease of expenditure	causes changes in the structure of expenditures
Increase of economic means and decrease of expenditure	causes changes in volume of assets and expenditure
Increase of expenditure and decrease of economic means	causes changes in volume of expenditure and assets
Increase and decrease of economic sources	causes changes in the structure of liabilities
Increase and decrease of the results	causes changes in the internal structure of the results
Decrease of results and increase of economic sources	causes changes in the volume of liabilities and the results
Increase of expenditure and decrease of economic means	causes changes in volume of assets and liabilities in the growth area
Decrease of economic sources and increase of results	causes changes in volume of the results and liabilities
Increase of economic means and increase of results	causes changes in volume of assets and results
Increase of expenditure and of economic sources	causes changes in volume of the expenditure and liabilities
Increase of expenditure and of results	causes changes in volume of the expenditure and results
Decrease of economic sources and of economic means	causes changes in volume of assets and liabilities in the decrease area
Decrease of economic sources and of economic means	causes changes in volume of the results and assets
Decrease of economic sources and of expenditure	causes changes in volume of liabilities and expenditure
Decrease of expenditure and of results	causes changes in volume of the results and expenditure

Source: own processing

Taxes and fees have a major impact on the financial balance as shown in the following text.

The developments in three liquidity rates are represented in the chart below.

Figure 1. Evolution of RGL, RLR, ILR



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Rlg	1,87	0,87	1,00	0,26	0,32	0,55	0,53	0,36	0,29	0,77
Rlr	1,77	0,78	0,90	0,24	0,31	0,54	0,52	0,35	0,29	0,77
Rli	0,17	0,19	0,21	0,04	0,02	0,17	0,08	0,03	0,04	0,11

Source: own illustration

Econometric modeling of the relationship between indicators of the tax burden, of indebtedness and of return of a panel of companies

In this subchapter I will try modeling the existent relationships between a number of indicators related to tax burden (tax pressure rate in value added, tax burden rate by equity, tax burden rate by turnover, tax burden rate by joint stock, tax burden rate by the consumption of resources) and indicators that reflect the level of indebtedness of a company (current liquidity ratio, general solvency ratio, total leverage ratio).

In this discussion I will also consider the relation between the tax burden indicators mentioned above and some indicators related to profitability (Return on equity, Return on economic rate, Overall return rate, Profit margin, Total return, Return on operations) which a company operates in a certain period of time.

These steps are taken in order to “pass” from a simple descriptive analysis of the situation faced by a company at a certain point, to a in-depth analysis based on econometric analysis of the relationships between indicators brought in discussion in the preceding paragraphs.

The data used for the calculations are coming from a sample of five companies (MAREN, EVEX, CELTIA, TRANSPORT LOCAL and CIMAR) whose evolution is tracked over a time period of ten years (2002-2011). Taking this into account one can see that we actually have to analyze a balanced panel.

After a series of trials and successive elimination of the various possible models available, the author of this work focuses on the general linear model derived from using the technique of the Method of Least Squares in Simple Form.

This model is chosen for modeling the relationship between variables because it fits quite well with the available data, and at the same time is the only relevant model in respect of creditworthiness indicators considered (F statistic, adjusted R^2).

The functional form of this model is the following:

$$y_{it} = \alpha + X'_{it} * \beta + \varepsilon_{it}, \qquad i = \overline{1,5}; t = \overline{1,10}$$

where y_{it} - the dependent variable

α – constant

X'_{it} - independent variables

β - regression coefficient

ε_{it} - errors (independent and identically distributed)

i - company i

t - year

Modeling the links between indicators of tax burden and of indebtedness

So, for starters the results of analysis undertaken in the modeling of the relationship between tax burden indicators and indebtedness indicators are presented. In order to avoid overloading the results with text I will introduce the following notations for both dependent variables as well as the independent ones, notations that will be used throughout the whole subchapter:

Tax burden rate by value added - RPFva

Tax burden rate through equity- RPFcpr

Tax burden rate by turnover - RPFca

Tax burden rate by joint stock - RPFcs

Tax burden rate on resource consumption- RPFcht

Current liquidity ratio – RLC

Overall solvency ratio - RSG

Total leverage rate - RÎT

a) Modeling the relationship between RLC – the dependent variable and RPFva, RPFcpr, RPFca, RPFcs, RPFcht – independent variables:

Source	SS	df	MS			
Model	3323485.56	5	664697.112		Number of obs =	50
Residual	5728709.93	44	130197.953		F(5, 44) =	5.11
					Prob > F =	0.0009
					R-squared =	0.3671
					Adj R-squared =	0.2952
Total	9052195.48	49	184738.683		Root MSE =	360.83

rlc	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
rpfva	-4.579394	4.725121	-0.97	0.338	-14.10225	4.943461
rpfcpr	-.1397813	.189856	-0.74	0.465	-.5224108	.2428483
ppfca	-4.435106	7.245632	-0.61	0.544	-19.03772	10.16751
rpfcs	.0014932	.0063343	0.24	0.815	-.0112728	.0142593
rpfcht	31.79305	6.914078	4.60	0.000	17.85864	45.72746
_cons	139.8524	200.4893	0.70	0.489	-264.2073	543.912

From the table above it can be seen that although the present model fits relatively well with the data (F=5,11; p<0,0009; R^2 adjusted=0,2952) is not a good enough because excluding the regression coefficient corresponding to RPFcht variable, all other regression coefficients are not significantly different from zero. Thus the model becomes *RLC = 31,79305* RPFcht + ε*, obviously a much too simple model to be relevant in explaining the evolution in time of RLC.

b) Modeling the relationship between RSG – the dependent variable and RPFva, RPFcpr, RPFca, RPFcs, RPFcht – independent variables:

Source	SS	df	MS			
Model	4714817.87	5	942963.574		Number of obs =	50
Residual	12624108.4	44	286911.555		F(5, 44) =	3.29
					Prob > F =	0.0131
					R-squared =	0.2719
					Adj R-squared =	0.1892
Total	17338926.3	49	353855.638		Root MSE =	535.64

rsg	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
rpfva	4.281334	7.014309	0.61	0.545	-9.855076	18.41774
rpfcpr	-.3896455	.2818358	-1.38	0.174	-.9576483	.1783573
ppfca	-14.43973	10.75594	-1.34	0.186	-36.11689	7.237434
rpfcs	-.0130588	.0094032	-1.39	0.172	-.0320096	.005892
rpfcht	35.73914	10.26375	3.48	0.001	15.0539	56.42437
_cons	307.8602	297.6207	1.03	0.307	-291.955	907.6754

As for subsection a) the resulting model is not a relevant one; this statement being based on the same set of arguments as above.

c) Modeling the relationship between RÎT – the dependent variable and RPFva, RPFcpr, RPFca, RPFcs, RPFcht – independent variables:

Source	SS	df	MS
Model	363295077	5	72659015.5
Residual	71114322	44	1616234.59
Total	434409399	49	8865497.95

Number of obs	= 50
F(5, 44)	= 44.96
Prob > F	= 0.0000
R-squared	= 0.8363
Adj R-squared	= 0.8177
Root MSE	= 1271.3

rit	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
rpfva	-78.02433	16.64804	-4.69	0.000	-111.5762	-44.47242
rpfcpr	9.760526	.6689203	14.59	0.000	8.412405	11.10865
ppfca	-75.41799	25.52856	-2.95	0.005	-126.8674	-23.96855
rpfcs	-.0103325	.0223178	-0.46	0.646	-.0553111	.0346461
rpfcht	-.1469436	24.3604	-0.01	0.995	-49.2421	48.94822
_cons	3309.209	706.3848	4.68	0.000	1885.584	4732.834

Unlike the first two subsections, the model resulting from this set of processing is one substantially better than the previous ones (F=44,96; p<0,0000; R^2 adjusted=0,8177), total leverage rate being explained more than 80% by the tax burden indicators considered.

However it must be noted that not all explanatory variables considered are relevant because for variables RPFcs and RPFcht the correspondent regression coefficients are not significantly different from zero.

Thus the final model for modeling this link will be i:

$$RIT = 3309{,}209 - 78{,}02433*RPFva + 9{,}760526*RPFcpr - 75{,}41799*RPFca + \varepsilon$$

4 PERFORMANCE OF THE COMPANY – CONDITION FOR FINANCIAL STABILITY

Modeling the links between indicators of tax burden and of profitability

The conducted research focused on the results of the undertaken analyzes in **modeling the relationship between the tax burden indicators and indicators related to profitability**. In order to avoid overloading the results with text, as in the previous analysis I will introduce the following notation for the independent variables, notation that will be used throughout the entire discussion:

- *Return on equity - ROE*
- *Rate of return on assets - ROA*
- *Rate of overall profitability – RRG*
- *Profit margin - MP*
- *Total return – RRT*
- *Operating profitability - RREX*

a) Modeling the relationship between ROE – the dependent variable and RPFva, RPFcpr, RPFca, RPFcs, RPFcht – independent variables:

Source	SS	df	MS
Model	16074988.7	5	3214997.75
Residual	4951801.66	44	112540.947
Total	21026790.4	49	429118.171

Number of obs =	50
F(5, 44) =	28.57
Prob > F =	0.0000
R-squared =	0.7645
Adj R-squared =	0.7377
Root MSE =	335.47

roe	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
rpfva	-16.95465	4.39305	-3.86	0.000	-25.80826	-8.101036
rpfcpr	2.049511	.1765133	11.61	0.000	1.693772	2.40525
ppfca	-22.24384	6.736425	-3.30	0.002	-35.82022	-8.667472
rpfcs	-.000463	.0058892	-0.08	0.938	-.0123319	.0114058
rpfcht	7.151452	6.428172	1.11	0.272	-5.803678	20.10658
_cons	680.7323	186.3994	3.65	0.001	305.069	1056.396

According to date from above table the present model succeeds to explain in proportion of more than 70% ROE's variance over time in the considered panel. Explanatory variables don't bring any contribution (regression coefficients equal to zero from a statistical view) in this model namely RPFcs and RPFcht and will be removed as follows

$$ROE = 680{,}7323 - 16{,}95465 \cdot RPFva + 2{,}049511 \cdot RPFcpr - 22{,}24384 \cdot RPFca + \varepsilon$$

b) Modeling the relationship between ROA – the dependent variable and RPFva, RPFcpr, RPFca, RPFcs, RPFcht – independent variables:

Source	SS	df	MS
Model	8866.269	5	1773.2538
Residual	14815.9358	44	336.725813
Total	23682.2048	49	483.310302

Number of obs =	50
F(5, 44) =	5.27
Prob > F =	0.0007
R-squared =	0.3744
Adj R-squared =	0.3033
Root MSE =	18.35

roa	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
rpfva	-.2989015	.2402974	-1.24	0.220	-.7831891	.1853861
rpfcpr	.0050101	.0096552	0.52	0.606	-.0144486	.0244689
ppfca	-.7428885	.3684787	-2.02	0.050	-1.485508	-.0002684
rpfcs	.0003297	.0003221	1.02	0.312	-.0003195	.0009789
rpfcht	1.516964	.3516174	4.31	0.000	.8083259	2.225603
_cons	15.64106	10.19594	1.53	0.132	-4.907507	36.18964

From the above table it appears that the present model succeeds to explain to an extent of about 30% the variance in ROA over time in the considered panel.

Explanatory variables that don't bring any contribution (regression coefficients equal to zero from a statistical view) in this model namely RPFva, RPFcpr and RPFcs will be removed as follows

$$ROA = -0{,}7428885 \cdot RPFca + 1{,}516964 \cdot RPFcht + \varepsilon.$$

c) Modeling the relationship between RRG – the dependent variable and RPFva, RPFcpr, RPFca, RPFcs, RPFcht – independent variables:

Source	SS	df	MS
Model	28225.3788	5	5645.07575
Residual	7840.20705	44	178.186524
Total	36065.5858	49	736.032363

Number of obs =	50
F(5, 44) =	31.68
Prob > F =	0.0000
R-squared =	0.7826
Adj R-squared =	0.7579
Root MSE =	13.349

rrg	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
rpfva	-.9152183	.1748028	-5.24	0.000	-1.26751	-.5629265
rpfcpr	.0026305	.0070236	0.37	0.710	-.0115246	.0167856
ppfca	-.8729478	.2680474	-3.26	0.002	-1.413162	-.3327337
rpfcs	.0003506	.0002343	1.50	0.142	-.0001216	.0008229
rpfcht	2.885875	.2557818	11.28	0.000	2.370381	3.401369
_cons	24.53061	7.416971	3.31	0.002	9.582689	39.47854

Regarding the relationship between RRG and tax burden indicators taken into account, it can be concluded from the above data that the proposed model succeeds to explain in proportion of over 75% the RRG variance recorded over time in the considered panel.

Just as in the previous subsections explanatory variables that don't bring any contribution (regression coefficients equal to zero from a statistical view) in the model, namely RPFcpr and RPFcs will be removed and thus the final relationship between the variables analyzed is as follows: *RRG = 24,53061 – 0,9152183*RPFva – 22,24384*RPFca + 2,885875*RPFcht +* ε

d) Modeling the relationship between MP – the dependent variable and RPFva, RPFcpr, RPFca, RPFcs, RPFcht – independent variables:

Source	SS	df	MS
Model	5984.62084	5	1196.92417
Residual	4265.67975	44	96.947267
Total	10250.3006	49	209.189808

Number of obs =	50
F(5, 44) =	12.35
Prob > F =	0.0000
R-squared =	0.5838
Adj R-squared =	0.5366
Root MSE =	9.8462

mp	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
rpfva	-.7370927	.1289373	-5.72	0.000	-.9969488	-.4772366
rpfcpr	.0012842	.0051807	0.25	0.805	-.0091568	.0117253
ppfca	.014134	.1977161	0.07	0.943	-.3843366	.4126045
rpfcs	.0002259	.0001728	1.31	0.198	-.0001225	.0005743
rpfcht	.8459089	.1886688	4.48	0.000	.465672	1.226146
_cons	28.57353	5.470877	5.22	0.000	17.54771	39.59936

From the data from the above table it appears that the present model succeeds to explain more than 50% the variance of MP over time in the considered panel. Explanatory variables that don't bring any contribution (regression coefficients equal to zero from a statistical view) in this model namely RPFcpr, RPFca and RPFcs will be removed as follows

*MP = 28,57353 – 0,7370927*RPFva + 0,8459089*RPFcht +* ε

e) Modeling the relationship between RRT – the dependent variable and RPFva, RPFcpr, RPFca, RPFcs, RPFcht – independent variables:

Source	SS	df	MS
Model	.675587948	5	.13511759
Residual	.134243522	44	.003050989
Total	.809831469	49	.016527173

Number of obs =	50
F(5, 44) =	44.29
Prob > F =	0.0000
R-squared =	0.8342
Adj R-squared =	0.8154
Root MSE =	.05524

rrt	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
rpfva	-.0033528	.0007233	-4.64	0.000	-.0048106	-.001895
rpfcpr	.0000295	.0000291	1.02	0.315	-.000029	.0000881
ppfca	-.0039614	.0011092	-3.57	0.001	-.0061968	-.001726
rpfcs	1.91e-06	9.70e-07	1.97	0.055	-4.63e-08	3.86e-06
rpfcht	.0141914	.0010584	13.41	0.000	.0120584	.0163245
_cons	.125732	.0306909	4.10	0.000	.0638786	.1875855

From the above table it appears that the present model succeeds to explain to an extent of about 80% the variance in RRT over time in the considered panel.

Explanatory variables that don't bring any contribution (regression coefficients equal to zero from a statistical view) in this model namely RPFcpr and RPFcs will be removed as follows

*RRT = 0,125732 - 0,0033528*RPFva - 0,0039614*RPFca + 0,0141914*RPFcht + ε.*

f) Modeling the relationship between RREX – the dependent variable and RPFva, RPFcpr, RPFca, RPFcs, RPFcht – independent variables:

Source	SS	df	MS
Model	.661284925	5	.132256985
Residual	.165400682	44	.003759106
Total	.826685606	49	.016871135

Number of obs	=	50
F(5, 44)	=	35.18
Prob > F	=	0.0000
R-squared	=	0.7999
Adj R-squared	=	0.7772
Root MSE	=	.06131

rrex	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
rpfva	-.0034725	.0008029	-4.33	0.000	-.0050906	-.0018544
rpfcpr	.0000408	.0000323	1.27	0.213	-.0000242	.0001058
ppfca	-.0022702	.0012312	-1.84	0.072	-.0047514	.0002111
rpfcs	1.39e-06	1.08e-06	1.29	0.203	-7.77e-07	3.56e-06
rpfcht	.0140886	.0011748	11.99	0.000	.0117209	.0164563
_cons	.1251478	.0340668	3.67	0.001	.0564907	.193805

Regarding the relationship between RREX and tax burden indicators taken into account, it can be concluded from the above data that the proposed model succeeds to explain in proportion of over 75% the RREX variance recorded over time in the considered panel.

Just as in the previous subsections explanatory variables that don't bring any contribution (regression coefficients equal to zero from a statistical view) in the model, namely RPFcpr, RPFca and RPFcs will be removed and thus the final relationship between the variables analyzed is as follows:

*RREX = 0,1251478 – 0,0034725*RPFva + 0,0140886*RPFcht + ε*

Statistical modeling of the tax burden on the company's rating

In concluding this subchapter on the study of relations discussed in the previous paragraphs, the author proposes as an exercise to model the relationship between described tax burden indicators and the total score obtained (synthetic indicator regarding the awarding of a general appreciation grade) by companies in the reviewed panel. The results obtained are shown in the table below:

Source	SS	df	MS		
Model	16.1232283	5	3.22464566	Number of obs =	50
Residual	13.4902209	44	.306595929	F(5, 44) =	10.52
				Prob > F =	0.0000
Total	29.6134492	49	.604356106	R-squared =	0.5445
				Adj R-squared =	0.4927
				Root MSE =	.55371

tp	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
rpfva	.0162844	.0072509	2.25	0.030	.0016711	.0308977
rpfcpr	-.0002461	.0002913	-0.84	0.403	-.0008332	.0003411
ppfca	-.0322695	.0111188	-2.90	0.006	-.0546779	-.009861
rpfcs	-4.40e-06	9.72e-06	-0.45	0.653	-.000024	.0000152
rpfcht	.0509116	.01061	4.80	0.000	.0295286	.0722947
_cons	3.615942	.3076609	11.75	0.000	2.995892	4.235991

Considering the information presented in this table it can seen that the proposed model meets the required standards for indicators of reliability (F=10,52; p<0,0000; R^2 adjusted=0,4927) and also can explain the evolution of the total score obtained by the commercial companies over the period of time taken into account at a rate of about 50%. Thus, in practice the final model taken into account will be:

*Total score = 3,615942 + 0,0162844*RPFva – 0,0322695*RPFca + 0,0509116*RPFcht + ε*

In conclusion, taxes and fees affect the three basic components of the balance sheet, namely the assets, liabilities and equity.

CONCLUSIONS

Given that different factors act upon economy, all fiscal decisions taken by political decision-makers must provide the financial resources to finance public needs and the achievement of some finalities of social and economic nature.

● Public figures, businesses and individuals have a permanent connection to the role and effects of public policy in society, to the need for taxes of the state and the allocation of public revenues. Any human organization requires costs the more higher the more complex the activity is. The state in order to function as a complex form of social organization needs not only moral, social and political support, but also an economic support, named *financial support.*

● Direct cash flows from taxpayers to general consolidated budget represent public finances, which are directed towards the funding of various expenses and close to public needs (of the taxpayers). These funds, in addition to supporting the work of the State through fiscal policy of the Government can be either a spring or a brake on economic and social development of the country.

● In the context of modern public finance there is a close connection between economics and public finance. Thus, in order to operate, the State depends on the country's economic development since financial resources are largely dependent on both economic activity and income from individual taxpayers and businesses operating in industries and sectors of the national economy. In turn, the state acts on the economy through its interventions and the economic forecast. This system of interaction between state and economy aims at the domestic economic context in which public finances operate.

● Income (resources) and public finance expenditures are reflected in the unitary budget (general consolidated budget): state budget, the social insurance budget, local budgets, special funds budgets, Treasury budget and the budgets of other public institutions with autonomy, and which aggregated at national level represent public revenues, respectively total public expenditure.

● After consolidation overall public financial income and expenses, after eliminating transfers between budgets, emphasize the dimensions of the annual financial burden, balance or imbalance status of the consolidated budget.

● The assembly of fiscal decisions taken by the political decision makers in order to ensure financial resources to finance public needs and the achievement of social and economic finalities represents the fiscal policy given that different factors act on the economy. Therefore we can say that fiscal policy includes all decisions by which the structural modeling of the tax system is done and its functioning is ensured in order to achieve the desired purpose. The efficiency of a tax system is not measured mainly by the importance of tax revenue, but by the degree of willingness of taxpayers to pay taxes.

● Taxes and fees, respectively assimilated payments are mandatory payments as per regulations and aim the income of individuals, corporate income, consumption, or capitals.

● Between economy and public finances there is a direct link. Public finances influence financial activities of companies and are factors that influence the position respectively the financial performance of companies. The increasing complexity of company's financial activity under competitive economy expansion conditions has profound implications for the adoption of managerial decisions requiring the abandonment of routine and the use of scientific methods based on recognition of reality in order to establish causal links between economic phenomena and the financial situation of the company regardless of ownership type. Addressing concerns regarding financial and accounting activity of the company in terms of cause-effect relationships requires interdisciplinary study of economic and financial activity that consumes resources, with direct reflection of their financial performance. Financial analysis serves this purpose as part of the economic and financial analysis and is included in the category of specialized disciplines being oriented towards the financial - accounting function of the company.

● Through microeconomic analysis, behavior of firms can be seen in economic activity and financial performances obtained, highlighting factors of influence.

● Following studies and research from financial practice, I consider that intermediate management balances structure should be modified due to flows of leasing operations, respectively flows of venture operations.

● Turnover is growing with a new element that is *interest income recorded for leasing activity.*

● Financial theory does not specify this new element, so I propose altering turnover formula and placing it in financial theory as follows:

Turnover (CA)= Production sold (PV) + Sales of Goods (VMF) + Interest income recorded for the leasing activity (VDI) + Subsidies related to turnover (SE)

● Interest income recorded for the leasing activity (VDI) is a new element required to be used in the financial analysis of the company.

● After analyzing the financial position and financial performance of the *I found two relevant and significant elements for the operating cash flow,* which influence intermediate management balances as follows: - Operating flows of the holding operations. These two elements are part of the value added.

● From operating flows of the leasing operations I have created a new indicator in the analysis of intermediate management balances that I called *leasing operations margin* and which is the supplement of value created by the leasing companies through their own operations and business and is determined as the difference between recorded interest income and expenditure on recorded refinancing interest:

Leasing operations margin (MOL) = recorded interest income (VDI) – expenditure on recorded refinancing interest (CHD).

Since financial theory does not highlight this indicator, we propose its introduction in the finance and financial analysis of the company.

● Based on operating flows of venture operations I have created another new indicator, namely "venture activity margin " or "venture operations margin" that can be determined as the difference between income transferred from venture operations and transferred expenses from venture operations. The margin of activity in venture operations represents the new allocation created in areas of activity of joint venture, industrial, commercial activities, services, or other activities determined in a reporting period:

Venture operations margin (MOP) = Income transferred from venture operations (VTOP)- Expenses transferred from venture operations (CHTOP)

In this case also the financial theory does not specify this indicator and I propose its introduction in finance and financial analysis of the company.

● According to the findings stated above, the added value expands with two new elements, namely *venture operations margin,* respectively *leasing operations margin:*

Value added (VA) = Yearly production (PEX) – Intermediate consumption (CI) + Commercial margin (MC) + Venture operations margin (MOP) + Leasing operations margin (MOL)

Therefore I propose the introduction of two elements in financial theory and practice of businesses.

● Value added can be analyzed in two ways, namely by synthetic method, respectively additive method (distribution). Value added analyzed using the synthetic method is influenced by the following factors: yearly production, trading margin, leasing operations margin, venture operations margin, respectively intermediate consumption. Value added analyzed using the additive method is influenced by the following factors: personnel expenses, tax and fees expenses, finance charges, value adjustments of tangible and intangible assets, value adjustments of current assets, adjustments of provisions, other operating expenses, extraordinary income, income from operating subsidies and financial income.

● By assessing the value added using the two methods I have developed *a model of analysis* of taxes, fees and assimilated payments, namely:

Taxes, fees and assimilated payments (I+TX) = Total Revenue (VT) – Total intermediate expenditure (CHTI) – Net Income (RN)

In this model the total intermediate expenditure is determined by the difference between total gross expenditure and total expenditure of taxes and fees and is an element of the analysis. Based on this model, in the financial analysis it can be determined the influence of the factors: of the taxes and fees that are constituents of the costs, income tax, total revenue, total expenses without taxes and fees expenses, and the net result. In this context we can say that taxes, fees and assimilated payments affect the financial position and the performance of companies, respectively the size of the value of taxes and fees is determined by the size of the value of total costs and revenues, and hence the size of the value of net result.

● Given the motivation of the theme I have pointed out that taxes, fees and assimilated payments are included in value added, respectively value added is the source of their funding. Since companies record a negative net result for the payment of taxes and fees they must rely on funds raised or reserves.

● Intermediate management balances on profitability characterize the financial stability of companies through flows of results as follows: Gross operating surplus, operating results, financial result, extraordinary result and net result for the year.

● Using the results flows the capacity of self-financing and self-financing of businesses can be determined.

● Since the total revenue and total intermediate expenditure are constant, taxes, fees and assimilated payments, respectively insurance and social security costs by reducing and increasing them influence the net result of companies. Influencing factors are: excise, duty, local taxes and fees, social security contributions, health insurance contribution, contribution to unemployment insurance and other social security and welfare expenses, other taxes and fees, respectively income tax.

● The financial position of companies is analyzed based on the balance sheet, the main reporting situation. Structural changes, respectively changes in the value of assets and of results of economic operations were performed using four sets of accounts accounting. The structure of the accounts in the accounting with four sets of accounts is as follows: - accounts of economic means (active), accounts of economic sources (liability) expense accounts and results accounts. Accounting in four series of accounts generates 16 types of operations in the analysis model of the influence of structure and volume changes reflected in the balance sheet. The accounting model with four series of accounts can be used to analyze the influence of factorial economic operations on assets, liabilities, respectively on expenditure and results. The financial position of companies is affected by structure and volume changes of economic means, economic resources, liabilities, expenses, results, respectively equity.

● Taxes, fees and assimilated payments influence the financial position and performance of businesses, which is reflected in the expenses and liabilities, but are components of the costs except the value added tax and income tax.

● I consider that economic policy objectives must be correlated to the fiscal system and fiscal and monetary instruments. Fiscal legislation must be clear, precise and concrete. Normative acts can not violate the Constitution, can not create confusion and errors in interpreting and applying the provisions. Legislative shortcomings in tax matters should be removed. Also we must remove the normative documents that are contradictory or in conflict with economics, financial analysis or the concept of finance.

● In my opinion bankruptcy cannot be taxed because it doesn’t create added value. Legal provisions on tax matters shall define clear and precise and imperatively budgetary obligations they cover.

● From the statistical survey conducted I have shown for the first time in this area that the tax burden rates have positive or negative influence on performance, financial stability and credit rating of companies, as these are more aggressive or more relaxed.

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