

LOCAL BUDGETS' OWN REVENUES IN ROMANIA

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Local own revenues represents a very important financial issue for every local community because their dimension assure the prosperity of the municipality. The decentralization process determined a rise of own revenue number, giving the possibility to local authorities to finance more objectives in their community.

The main local own revenues are presented and analyzed in this paper, emphasizing their role in the local budgetary process. The three categories in which local own revenues were divided are: local taxes and fees, rates from income tax and other local own revenues.

Key words: own revenues, local budgets, taxes, fees

The budgetary revenues are collected to different components of the budgetary system. These revenues include taxes, fees, property incomes etc. In many cases, the amounts owed to the budget are established by law and the most frequently these become revenues in state budget or social security budgets. But there are revenues collected to different budgets and their level is established by the beneficiary public entity respecting the limits imposed by law. This are considered own revenues in Romanian budgetary system.

The main own revenues categories, in the Romanian budgetary system, can be found in the following budgets or budgetary components:

- Local budgets – in every year, the State Budget Act presents in a special annex a list with the local revenues and expenditures, some of them being own revenues that can be collected by local budgets;
- Out-local revenues and expenditures - special local fees should be administrated in distinct account, opened apart from the local budget;
- Subsidized public institutions' budgets – subsidized public institutions can collect fees for the services they supply. These fees represent their own revenues;
- Autonomous authorities' budgets – autonomous authorities collect taxes and fees established by the legal acts that settle their activity;
- Wholly auto-financed public institutions' budgets – auto-financed public institutions cover all their expenditures from own revenues obtained performing services;
- Wholly auto-financed public activities' budgets - auto-financed public activities are organized by ministries and other budgetary entities and has a separate financial regime;
- Special healthcare tax.

Local budgets' own revenues represent the main category because all local budgets have such incomes. These can be divided in three main categories:

- Local taxes and fees – taxes established by the Fiscal Code;
- Rates from income tax – the most important local revenues;
- Other local own revenues.

The Romanian local budgeting system consists of 41 county budgets and over 3,000 municipality budgets (including the General Budget of Bucharest Municipality and the six separate district level budgets corresponding to the six administrative parts of Bucharest Municipality).

Every county has tens of municipalities: cities, towns and communes. From budgetary point of view, the tasks are clearly separated by law. Sub-regional interest public expenditures are financed from county budgets and local interest public expenditures are financed from municipality budgets.

The local own revenues include the fiscal revenues (excepting the amounts of VAT transferred from the state budget) and the capital revenues. The main categories of local own revenues are presented bellow:

- Building tax
- Land tax
- Fee on means of transport
- Hotel fee
- Tax on shows
- Fee for the issuance of certificates, permits and authorizations
- Fee for using means of advertising and publicity
- Rates from income tax
- Property revenue
- Revenue from service supplies
- Fine and penalty
- Capital revenue
- Financial operations.

The local own revenues proportion in total local revenues is very variable. In many cases, the excluded amounts of VAT transferred from the state budget and subventions from other public budgets (like unemployment budget or health insurance budget) are less important than the local own revenues.

Although the variation of proportions of local own revenues is quite large, a careful analysis can light the situation. The local own revenues can be grouped into three main categories:

- Local taxes and fees – taxes established by the Fiscal Code;
- Rates from income tax – the most important local revenues;
- Other local own revenues.

1 Local taxes and fees

The Fiscal Code (Law no. 571/2003) has a special part dedicated to the local taxes and fees. This act establishes the main rules that must be respected by local authorities when set the rate of taxation.

Any person that owns a building located in Romania owes an annual tax for building. In physical persons' case, this building tax is determined using the standard rates established by the Fiscal Code. The building tax paid by physical persons varies between 3 and 38 eurocents per square meter per year. In legal persons' case the local council establishes the rate and may be between 0.5% and 1%. This rate is applied to the inventory value of the building. In the case of a building not revalued, the rate of tax will be between 5% and 10%.

Any person that owns land that is located in Romania owes an annual tax for land. The land tax is to be determined by taking into account the number of square meters of land, the rank of the locality where the land is located, and the zone and/or category of use of the land, in accordance with decisions of the local council. The land tax is not higher than 21 eurocents per square meter per year.

Any person that owns a means of transport that is required to be registered in Romania owes an annual fee for the means of transport. The tax is established separately for cars, buses, commodity transport vehicles, trailers, means of water transport, etc. This tax per year is between 2 and a few hundreds of euros.

Local authorities may introduce hotel fees by establishing a rate of the fee between 0.5% and 5% applied to the cost of the accommodation.

The organizers of artistic performances, sporting competitions or other entertainment activities in Romania have to pay tax on shows with a rate of tax between 2% and 5%.

Any person that must obtain a certificate, permit or other authorization from the local authorities must pay a fee for certificates. There are many kind of certificates issued, the most frequent are those related to urbanization certificates, construction permits or permits to carry out economic activities.

Fees for advertising and publicity services are paid by the persons that benefit from advertising and publicity services in Romania on the basis of a contract or another form of agreement. The rate of the fee is to be established by the local council and is to be between 1% and 3%.

Fees for the display of advertising and publicity regards the persons that uses a sign, display or display structure for advertising or publicity in a public place. The amount of the fee for the display of advertising and publicity is to be computed on an annual basis by multiplying the number of square meters, or fraction thereof, of the area of the advertising or publicity display by an amount established by the local council, but not more than 6 euro.

For the functioning of local public services created for the benefit of physical and legal persons, local councils, county councils and the General Council of the Municipality of Bucharest, as the case may be, may adopt special fees. The domains, in which the local authorities may adopt special fees for local public services, as well as the amount of such fees, are established in accordance with the provisions of the Law for local public finance.

2 Rates from income tax

The income tax is cashed in the state budget, but every month 88% of the amounts collected in the previous month are transferred to the local budgets: 47% goes to the budget of cities, towns and communes, 13% is transferred to the county's budget, and 22% is kept in a special account in order to balance the local budgets. To assure a correct share of amounts to every local authority, the employers should have separate fiscal codes for every working places that have more than 5 employees.

The 22% rate is divided in two categories: 27% is transferred to the county's budget and the remaining 73% goes to the local budgets of cities, towns and communes after the following rule: 80% is distributed in two stages by the director of the county's public finance directorate and 20% is distributed by the county council's president.

The director of county's public finance directorate should establish the amounts respecting the legal methodology:

1. in the first stage are eligible only that local authorities that have per capita income taxes under the county's average. The amounts established in this stage can not exceed the average value registered at county level.
2. the remaining amounts are distributed in the second stage to all the local authorities depending on their financial capacity.

Beginning with 1st of January 2009, the balance of local budgets will be made in correlation with the possibility of financing the functional expenditures with own revenues, the minimal cost and quality standards of public services offered to population, and so on.

3 Other local own revenues

Other local own revenues groups property revenues, revenues from service supplies, fines and penalties, capital revenues and revenues from financial operations.

Property revenue refers to the payments made by local authorities owned companies (such as public transport companies, sanitation companies). All the payments are made from the net profit obtained by each local level owned company. All the state owned companies have to pay to the budget at least 50% of their net profit.

Other local property revenues are represented by the concession fees and rents. If local importance public spaces are leased or rented, the fees cashed become property revenues. The most frequent leased or rented items are parking places, markets and commercial areas owned by local authorities, mortuary places in cemeteries.

There are assimilated with property revenues the entire amount that should have been returned to the local budget in previous years. The Romanian budgetary mechanisms are cash based. This is why any amount cashed in a budgetary year becomes the revenue of that year. In the case of taxes, the problems are simple because the accounts are the same. Special problems are related to the operations regarding the year-end operations that can not be completed till the 31st of December. Examples of such operations met at local level are (provided that the later operation to be different to those of former one): differences to pay back by those employees that were sent in mission and had received cash advances in the previous year, recovers of amounts spent in previous years without respecting the legislations.

In case the local public authorities supplies services that are not compulsory, they can collect fees for services in order to cover partly or entirely the cost with this service.

In this category are included also the contributions of parents for children in state owned crèches, contributions of parents for keeping up the children in social protection units, the contributions of the beneficiaries of social restaurants, fees paid for survey services.

Fines are paid to local budgets in every case natural persons are sanctioned for not respecting the law. In legal persons' case, local budgets collect only those fines that are applied by local authorities or refer to running on public roads.

Penalties refer to that amounts that should be paid by those who omitted or delayed to declare at the local authorities some legally stipulated information such us property acquisition or car acquisition.

The revenues obtained from selling the confiscated or abandoned goods represent also a separate revenue type that weight very little in a local budget.

Donations represent an extraordinary budgetary revenue category because this are collected depending of the availability of donors or sponsors to support some actions or activities developed by local authorities. Usually, donations are not included in the budget drafts, but during the execution of budget there are made changes in order to present the exact amounts cashed from donors and sponsors.

Capital revenues represent all the amounts that are cashed from selling immobile goods of local communities or financial assets owned by local authorities.

In only some local budgets we can find financial operations. These operations refer especially at loan reimbursements. Local authorities can land certain amounts to organize self-financed activities by subordinated entities. When amounts are returned, they appear as financial revenues in the local budget.

Local authorities can obtain short term loans by borrowing the necessary amounts from State Treasury or by the territorial-administrative unit's working capital. State Treasury is authorized to land those local authorities which have cash deficit deriving from discrepancies between the income and payment. These loans should be paid back in the same financial year. The second loan type supposes borrowing the amounts necessary to cover the cash deficit from the territorial-administrative unit's working capital. The local working capital is formed by cumulating annually budgetary surpluses of the local budget and is used. The available funds of the working fund shall bear interest, shall be kept in a distinct account, opened for each territorial-administrative unit, with the territorial units of the State Treasury, outside the local budget, and may be utilized, temporarily, for covering the cash deficit deriving from discrepancies between the income and expenditure of the current year, as well as for the definitive covering of the potential budgetary deficit resulting at the end of the budgetary year. The working fund may also be utilized for the financing of certain investments within the competence of the local public administration authorities or for the development of the local public services in the interest of the community.

References:

1. Fiscal Code no. 571/2003
2. Local public finance Act no. 273/2006
3. www.mfinante.ro