THE AFFORDABILITY AND THE FISCAL PRESSURE – MAIN INDICATORS IN CAPITALISING THE DECISIONS OF THE PUBLIC MANAGER

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Abstract:The paper's objective is to present the affordability and the fiscal pressure, essential indicators, in our opinion, in capitalising every local community's fiscal policies, specific to the natural person and legal person tax payers. Therefore, these indicators must be considered when arguing the public manager's decisions in order to follow the pressure that the local taxes and fees owed by the natural person tax payers are exercising on the family budgets.

Key words: affordability, fiscal pressure, public management, public services
JEL code: M1, H3, H4,

General considerations

The importance of the income and expenditure budget for the financial management of a local community is such an obvious reality that it is not necessary to be underlined.

Generally, a public budget is conceived as "architecture of values" and it is the place where the collections confront the payments, budgetary surpluses or deficits might result.

Therefore, the problem a public manager might encounter is to maximize the incomes of the local budget, to streamline the costs of the public services that he/she must ensure to the citizens of the community and to make the most realistic decisions for the capacity of own citizens to cover their fiscal obligations to the incomes of that particular community's budget.

The budget's classical structure gives the possibility to make the calculation for a series of indicators regarding the incomes and expenditures, the most important being the scissors effect according to which the local communities' own incomes with an increasing tendency, in a certain period of time Tn, intersect with the levies form the state budget with a decreasing tendency.

The significance of the Tn moment is important for the financial management form several perspectives.

-it indicates the existence of possible treasury gaps due to the decrease of the sums received from the state budget but also to some possible syncope in the process of fee and tax payment by the tax payers of that particular community

-Tn is the moment when the public manager must decide whether the local fiscality can be borne by the tax payer or it is inhibiting

The scissors effect is very important for the financial management for in the moment Tn the local budget's availabilities are affected, occurring the tendency of own incomes increasing in the same time with a strong diminishing of the levies from the state budget. Without detailing too much, we will mention that the Tn moment has **multiple meanings** for the public manager:

   a)   it indicates consolidation of the **financial independence** up against the central budget, which must be compulsorily followed by a transfer of fees, taxes and shared taxes portfolio;

   b)   it indicates an increase of **own incomes** either as a result of a fiscal policy based on an increase of the taxation rate or, on the contrary, as a result of the support of local economic development we are witnessing a fiscal policy based on an extension of then taxation basis;

   c)   the Tn moment can be accompanied by a significant increase of the   **capital incomes** as a compensation measure of the policies based on the continuous increase of the taxation rates.

Together with the scissors effect and the indicators determined based on the income and expenditure budget, we consider the two indicators mentioned above: the affordability and the fiscal pressure to be useful for the "dashboard" of the financial management.

The affordability and the fiscal pressure

A recently introduced concept in the Romanian specialty literature[264], affordability means the pressure that the local fees and taxes owed by the natural person tax payers exercise on the family budgets. Thus defining affordability, it results that its defining elements contain:

- the local fees and taxes owed by the natural person tax payers from the estate duty (building tax, land tax, car tax etc.);
- the family budget resulted from the statistic surveys, a indicator usually communicated by the County Statistic Boards;

For the financial management it is important to know the calculation "technique" of this indicator starting from the following model:

$$Af = \frac{It,1/inh}{Bft}$$

Where:

Af – affordability

It,1 / inh – local taxes and fees /inhabitant

Bft – family budget during the t period

$$It,1/inh = \sum_{i=1}^{n} \frac{It,li}{Np}$$

Where:

It,li – local taxes and fees resulted from the budget execution

Np – number of population

Relatively simple to determine, the traceability of evolution and of the weighting that the fiscal incomes have in the family budgets is important in order to establish the type of fiscal policy to apply to the natural person estate duty.

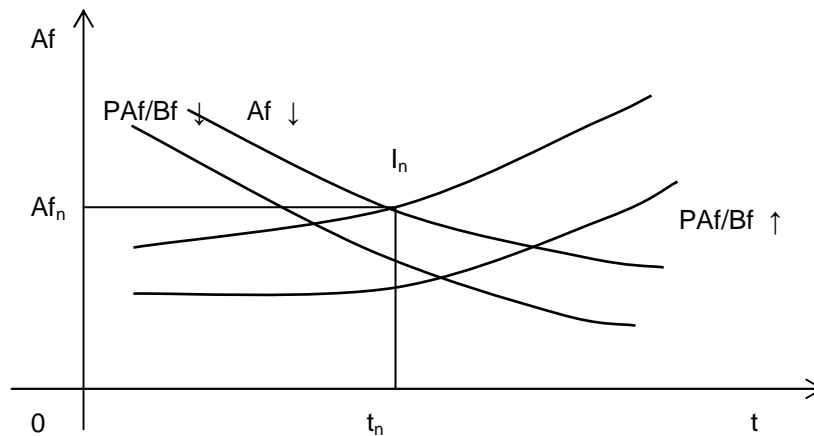The graph below is representative in this view:

Figure 1 – The Af and Paf/Bf evolution during the t period

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[264] *USAID – Studiu privind credibilitatea financiară şi descentralizarea administraţiilor publice locale, 1997, Bucureşti*

The following situations occur:

I) A tendency to increase the affordability value during a t period of time, followed also by an increase of the weighting of the affordability value in the family budget indicates the existence of a fiscal policy on the rise and may be the result of:

  a) the increase of the taxation rate (ri), a negatively appreciated thing by the tax payers, the yield of the collections from taxes and fees being also endangered;
  b) the increase of the taxation basis (Bi), as a result of the support of a sustainable economic development;

II) A tendency to diminish the affordability value and its weighting in the family budget is the result of a relaxing fiscal policy having as potential causes:

  a) a decrease of the taxation rate (ri) followed, up to a certain level, by an increase of the yield of collections and it is based on a fiscal policy considered to be favourable by the tax payers;
  b) a diminishing of the taxation basis, considered unfavourable, with a negative impact on the local economic development.

No matter the evolution of the indicator – affordability – I consider that, when establishing the fiscal policies for the natural person tax payers, it must have a deciding role in capitalising the type of fiscal policy to be implemented during a financial year.

The fiscal pressure – the second spectator in capitalising the fiscal policy decisions

The affordability and the fiscal pressure are main indicators in arguing the fiscal policies of every local community, specific to natural person and legal person tax payers. The fiscal pressure, determined as a ratio between local taxes and fees, owed by the legal person tax payers as estate duty, land tax or the car tax and the added value has a relatively simple mathematical expression, yet the calculation technique is relatively complicated, being an expression like:

$$Pf = \frac{\overline{It, l} / contr}{\overline{V_{At}} / contr}$$

Where:

Pf – fiscal pressure

$\overline{It, l} / contr$ - local taxes and fees per legal person tax payers during the t period of time

$\overline{V_{At}} / contr$ - average added value per tax payer

Establishing the average taxes and fees per legal person tax payer is a mathematical attribute, being used a relation like:

$$\overline{It, l} / contr = \sum_{i=1}^{n} \frac{It, li}{Nci}$$

The added value, in turn, belonging to the category of intermediary balances of administration[265], is known in the specialty literature as remuneration source, including of the local budget, in the forms of the priority tax, being established according to a relation like:

$$\overline{V_{At}} / contr = \frac{\sum_{i=1}^{n} (Q \, ex \, i - C \, terti \, i)}{Nci}$$

Replacing the relations from above in the fiscal pressure formula, it is obtained:

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[265] *Georgeta Vintilă – Gestiunea financiară a întreprinderii, Ed. Economică, Bucureşti, 2003, p. 152*

$$Pf = \frac{\sum_{i=1}^{n} I\,t,1\,i}{\sum_{i=1}^{n} \left(Q\,ex\,i - C\,terti\,i\right)} \times 100$$

It is important, in my opinion, to establish the manner to interpret the fiscal pressure in comparison with the fiscal policies, two situations, as in the case of affordability, being encountered:

I) The value of the fiscal pressure follows an upward trend and the weighting of the fiscality in the added value is increasing and it has as causes the following:

a) an increase of the taxation rate (ri), a situation usually appreciated as being unfavourable by the tax payers, even though it can be the consequence of an underestimation of the value of the taxable basis;

b) an increase of the taxation basis (Bi) reflects a favourable situation, determined by the support of a sustainable economic development, through implication modalities presented in the previous paragraph.

II) The value of the fiscal pressure has a descending evolution and a weighting of the fiscality in the added value which also follows a descending evolution, has as causes:

a) a diminishing of the taxation rate (ri), a result of relaxing fiscal policies, favourably appreciated by the tax payers;

b) a diminishing of the taxation rate (Bi) with most unfavourable consequences on the local economic development.

I am convinced that the two indicators, beyond the hardships encountered by the mathematic calculus or the interpretation of the values, will represent an orientation guide for the manager interested in obtaining the best performance for the fiscal policies, so that the ration between the values of the budget debts and collections register as low as possible values.

Conclusions

In the analysis of the financial management assumed at a certain interval of time by a public administrator (public manager) it must be considered the degree of affordability of the fiscal "burden" by the citizens of the local community, either it is about natural persons or legal entities (economic entities). If this reality does not represent a major benchmark in the field of public incomes, it is certain that the capitalization of own incomes achievement is wrong from the point of view of the tax payer's financial capacity to pay off his/her legal obligations to the local budget, with repercussions on the chapter of public expenses fulfilment engaged at the beginning of the budget period.

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