HOW YOUNG PEOPLE UNDERSTAND TAX BURDEN, FISCAL ADJUSTMENT AND TAXES AS FINANCIAL LEVERAGES?

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ABSTRACT: The language used in taxation is sometimes strict specialist, sometimes a language comprehensible to any taxpayer. If a taxpayer does not fully understand the terms used by taxation, will define each term through the impact they have on him, directly or indirectly. The question of this paper is how well young people perceive some notions of tax field. This paper consists in a selective research made on the level of knowledge of the scientific content of tax burden, fiscal adjustment and taxes as financial leverages. The results reveal that there is a lack of understanding of these three terms and a lack of young people fiscal education.

KEY WORDS: tax burden, fiscal adjustments, financial leverages

1. INTRODUCTION

In order to understand the purpose and role of taxation, any compulsory levy should answer the questions: Why? What for? In fact, the answers are likely to explain, basis of economic theory, the need for that levy and use of resources derived from levy. In other words, it should be noted that through the taxes and contributions can ensure economic growth and development, namely the development of the personality of each citizen. All these issues require the existence of a rational tax system, of an optimal fiscal policy, understandable and acceptable. (Comaniciu, 2007)

Often, when we realize radiography of taxation in Romania, we see an incomplete tax reform and when we say taxes „the pain” arises. „The vicious circle of taxation” creates „the pain”. State „complains” frequent for low level of public financial resources and taxpayers „complain” for high tax liabilities and how public money is spent. It can break this vicious circle? The answer is yes, provided that the state’s fiscal system is not abused and the degree of tax rationality provides a better responsiveness of the tax burden to the taxpayer. (Comaniciu, 2010)

The language used in taxation is sometimes strict specialist, sometimes a language comprehensible to any taxpayer. If a taxpayer does not fully understand the terms used by taxation, will define each term through the impact they have on him, directly or indirectly.

Starting from this assumption, a selective research was initiated on the level of knowledge and understanding of the specific terms of taxation among taxpayers, and a questionnaire was prepared with open, closed and mixed questions, in terms of form and with opinion and knowledge questions, in terms of content. The questionnaire was distributed only to people who said they were interested in aspects of taxation. The study was conducted in the period 02/03/2011 to 20/03/2011, on a sample of 200 young people (22-27 years) following university master degree courses in Sibiu, Romania, being collected a number of 180 completed questionnaires.

Through this article, divided into three chapters, we present only a part of the research results. The first two chapters presented the scientific content of the terms „tax burden” and „fiscal adjustment” and was analyzed knowledge and understanding of these terms by respondents. The third chapter examines the place and role of taxation in all economic and financial levers and how respondents perceive the tax as financial leverage.

2. PERCEPTION OF “TAX PRESSURE”

Often we seek an answer to the question „How can be quantified the purpose of a tax system?” If scientists have found a pertinent answer to this question, through the term of fiscal pressure, the negative aspects of the tax system and the inappropriate fiscal policy actions, determine the taxpayer to believe, sometimes, that can not be quantified the purpose of a tax system, it is possible only to make assessments of the reasonableness of tax system.

The literature provides some definitions of tax burden, in the sense that:

• an obligation supported from our individual or global income to the formation cash-flow from
taxes is the content of fiscal pressure concept, it is used to quantify the purpose of the tax system (Corduneanu, 1998);

- ratio of all taxes and social contributions actually received by government and Gross Domestic Product is the rate of compulsory levies or tax burden broadly (Brezanu, 1999).

Tax burden rate is a relative size determined by the ratio of tax revenue at the company level and the taxpayer’s Gross Domestic Product, as the ratio of its tax obligations and its revenues. As long as there is a balance between tax burden and social stress, this only spice up business.

When considering the tax burden we use two approaches: tax burden in terms of flow and tax burden in terms of indices.

The fiscal pressure in terms of flow is determined on annual national accounts data. At the individual level, the tax burden is given by the flow of direct levies from companies and the flow of direct levies from population. At global level, tax burden is supported by the subjects of economy and it reflects the sum of individual samples flows through fiscal instruments.

Tax burden in terms of indices reflects ratios in the monetary expression of economic flows and flows that create tax revenues. A major importance is what two indicators to choose for being reported to determine the index. Tax pressure or fiscal effort reflects, in monetary aspect, the tax return, and in economic aspect, the redistributions of value which a part of the income created in the real economy is taken under the market action (Corduneanu, 1998).

These considerations, reflected in the literature, have led to the request of the research participants to specify the meaning of the term fiscal pressure.

![Figure 1. Knowledge and meaning of the term “tax pressure”](image)

Information processing emphasizes that 91.67% of respondents considered that the term fiscal pressure is understandable, but only 11.11% correctly defined the term. Thus, very few respondents have considered the report of tax liabilities – income, most respondents had joined for fiscal pressure term expressions such as “large number of taxes”, “high levels of taxation”, “large number of regulations on tax”.

3. PERCEPTION OF “FISCAL ADJUSTMENT”

Fiscal adjustment is the process that occurs to reduce state budget deficit, either by reducing spending or by increasing revenues.

Even if there is no a clear consensus among specialists about the definition of fiscal adjustment, features for any process of fiscal adjustment are: during the process of adjustment, usually measured in years, that defines the intensity of effort to reduce budget deficit; composition adjustment, measured as the proportion of adjustment from reducing budgetary expenditures and proportion of adjustment derived from increasing budgetary revenues. (Mierau, Jong A Ping, Haan, 2007).

Even for advanced economies, the implementation of fiscal adjustment strategies is difficult. For this reason, should be observed following “10 commandments” (Blanchard, Cottarelli, 2010):

- the existence of a credible medium-term fiscal adjustment plan, resulted either in the average rate adjustment, or to establish a fiscal goal achievable in 4-5 years;
- fiscal adjustment should not be a forced process, but should occur only when necessary;
- carrying out the process of fiscal adjustment must provide stabilizing the ratio debt / GDP in the long term, not just at post-crisis levels;
- focusing on ways to achieve fiscal consolidation involving a strong positive growth;
- any strategy of fiscal adjustment must take into account the early retirement system and health care reforms, provided they are not sustainable;
- to be sustainable over time, the fiscal adjustment must meet the criteria of fairness;
- to stimulate the growth potential will must implement major reforms; success in the field of fiscal adjustment depends very much on strengthening fiscal institutions;
- the process of fiscal adjustment should be proper coordination of monetary and fiscal policy;
- positive results of fiscal adjustment require proper coordination of intern policies with those of other states.

The European countries were particularly concerned with the budgetary consolidation, whether using fiscal adjustment models based on
increasing taxes, or using models that have aggressively focused on reducing public expenditure.

In the period 1980 - 2001, there were 12 major fiscal adjustment in Europe, which led to an adjustment of the budget deficit (% of GDP), with values ranging between 3.6% (in France, period adjustment 1993-1997) and 10.8% (in Greece, period adjustment 1989 – 1994). Reducing public expenditure was the main model for aggressive fiscal adjustment in the period 1980-2001 (in Netherlands 189.1% of total deficit adjustment, between 1990 and 2000; in Finland 163.4% of total deficit adjustment, between 1992 and 2000; in Ireland 146.9% of total deficit adjustment, between 1985 and 1989). Changing public debt as % of GDP, after five years of implementation of fiscal adjustments, in the period 1980-2001 in European countries, showed values ranging between -16.8% (in Sweden, period adjustment 1993-1998) and 4.2% (in Belgium, period adjustment 1981-1990). (Alcidi, Gros, 2010).

Given these considerations, research participants were asked to indicate whether they know the term “fiscal adjustment” and which is its significance.

Figure 2. Knowledge and significance of the term “fiscal adjustment”

Processing answers revealed that 69.44% of the respondents noted that fiscal adjustment can be defined, but only 4% of them gave a correct definition. Most of the definitions have been considered, on the one hand, increasing or reducing taxes, and on the other hand, increasing or decreasing tax rates. Thus, fiscal adjustment term is understood by respondents as the construction process of the tax system, or the fiscal decisions on tax rates (increase or decrease them), very few considering the budget deficit.

4. PERCEPTION OF “FINANCIAL LEVERAGE”

Financial leverage, as a concept that comes from physics, with significance of a force that gives impetus to a particular process or phenomenon, is adapted to the economic field, meaning in this context, the use of financial categories as tools to influence economic and financial activities in a certain way and to achieve certain objectives. Financial and economic levers, as tools of economic management, provide a dual function in the mechanism of market economy. The first function is for sampling and relocation of financial resources and the second function is to influence and to correct socio-economic processes. (Lazăr, Matei, Andrei, 2007).

Financial leverage are required to trigger, through incentives that are appropriate to them and by their coercive force, a desirable response from the addressees, so, to harmonize, using the economic path and not the administrative path, their interests with the national public interest (Tulai, 2003).

Economic levers contribute to improved performance of different activities, supplying any failures of the economic mechanism and the financial mechanism. Thus, the characteristic features of economic and financial levers refer to (Banc, 2003): are economic methods, not administrative, of state intervention in economic and social life; are activeness economic values; have both stimulatory powers and coercive force; are characterized by stability and elasticity; their use not preclude administrative measures taken by the state; they must have convergent action and complementary effects.

Financial and economic levers are instruments by which the State acts to stimulate the economic interest of a determined community or its members, taken individually, to achieve a specific objective (Moțeanu, 2008). They act in two directions: encourage and stimulate certain economic activities (expansionist policies); restrict economic activity of economic agents (restrictive policies).

The use of financial levers may have larger or smaller positive effects, in depending on how they have been designed and integrated into the economic mechanism. Assuming that at the same time can run more levers, becomes necessary to correlate their actions and therefore their treatment as a subsystem within the economic mechanism. The integrated system of economic and financial levers help: to accelerate the rhythms of socio-economic development; to achieve material, financial, currency, monetary and labor resources balance; to the use more rational of all resources and increase economic efficiency. (Ungureanu, 2007):
Taking into account that all the experts, in a unanimous consensus, considers taxes as financial leverages, research participants were asked to indicate whether, in their opinion, believes that tax is financial leverage, acting as means of dimensioning, means of alert, control and regulation, means of encouraging or sanctioning, means of quantifying the efficiency.

Processing answers reveals that 68.75% of respondents considered the taxes as forming a part of the financial leverage, but his action was assessed differently (87.5% consider taxes - means of dimensioning, 62.5% consider taxes as means of alert, control and regulation, 50% - means of encouraging or sanctioning, 75% - means of quantifying the efficiency).

Respondents who did not consider the tax as financial leverage, appreciated the Romanian tax system as onerous, and the tax administration activity without efficient and effective.

5. CONCLUSIONS

Based on information received from respondents and analysis carried out, confirms the general hypothesis of this research, under which misunderstanding of terms used in taxation, determined taxpayers to present only the negative aspects found in the tax system and tax policy.

In this respect, emphasize the need to increase the fiscal education, for understand the place of taxation for the life of a nation, by all taxpayers. Also, external communication, as a major element in tax policy, by presenting fiscal terms using taxpayer language, improve fiscal citizenship and establish a coherent framework of relations of tax administration with taxpayers.

Fear and duty, seem to be the main reasons that determine the consistency of the taxpayers in the tax compliance.

Often, insufficient fiscal education resulting from misunderstanding the fiscal terms, destroy the relationship between taxpayer and tax administration, causing damage to public money, and the lack of tax education, distort the scientific content of the fiscal terms.

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