

THE IMPACT OF THE FISCAL-BUDGETARY POLICY ON THE ENTERPRISE CASH FLOWS

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Abstract

The aim of this paper is to analyze the effects of the fiscal-budgetary policy on one of the most important enterprise indicators: the cash flows. The information regarding the enterprise cash flows is important in the financial decision making process, because maintaining the equilibrium of these cash flows is a condition for enterprise survival and development. For this reason, this paper analyze, from theoretic and practical point of view, the way in which the Government decisions in the fiscal-budgetary field, regarding the tax rate and subsidies level, the fiscal facilities etc., affect the enterprise variables, in this case, its cash flows. Also, in this paper we'll notice the positive and negative effects of an expansive fiscal-budgetary policy on the enterprise cash flows.

Key words: fiscal-budgetary policy, cash flows, tax facilities, subsidies.

JEL classification: E62, H32, M48.

1. Introduction

Traditionally, the analysis of the economic behaviour was divided in two great fields: macroeconomics and microeconomics. Each of this field analyzes specific domains, without taking into consideration the interrelations between them. In the last decades, some economists recognized the necessity of analyze the effects of its interaction. This analysis is necessary to have a complete view about the economic behaviour and to face the problem can appear.

In this paper, we'll establish the relation between one of the most important financial instruments of the Government, which is the fiscal-budgetary policy, and a variable less known at macroeconomic level, the enterprise cash flows. In the second paragraph of the paper we present the cash flow concept, its' interpretation and the relation with the fiscal-budgetary policy; continuing, in the third and fourth paragraph we study the impact of fiscal-budgetary policy on the enterprise cash inflows and outflows. Finally, we present the conclusions of our study.

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2. The enterprise cash flows and the relation with the fiscal-budgetary policy

In the Romanian financial-accounting practice, we encounter several notions that belong to the notion of cash, such as “the net treasury”, “liquidities”, “liquid assets” or “currency”. However, in order to define the enterprise cash flows, the Anglo-Saxon notion of “cash flow” is used. The cash flow is the variation (the flow) of net treasury (ΔNT) from the beginning until the end of the financial year (Onofrei 2004, 70), aiming at ensuring the balance between the receipts and payments from the beginning until the end of the financial year.

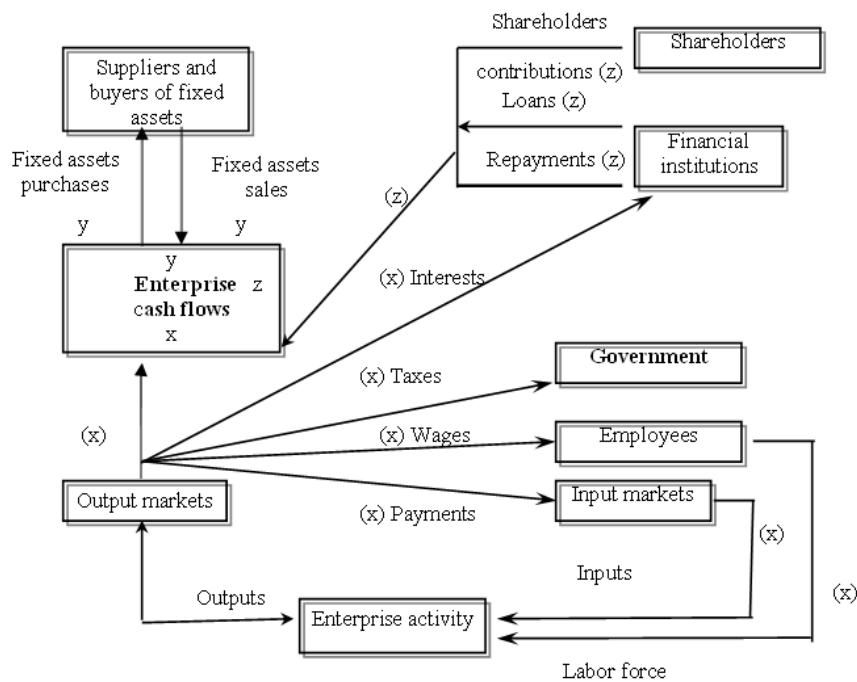
Currently, there are two theoretical currents for explaining the cash flow: the French and the Anglo-Saxon. In the French meaning, the cash flow is explained through the difference between the variation of the working capital (ΔWC) and the variation of the necessary working capital (ΔNWC):

$$\Delta CF = \Delta WC - \Delta NWC \quad (1)$$

In the Anglo-Saxon connotation, the cash flow is the sum of cash flows resulted from operating (CF_{op}), investing (CF_{inv}) and financing activities (CF_{fin}):

$$CF = CF_{op} + CF_{inv} + CF_{fin} \quad (2)$$

A summary of these cash flows, taking into account all these components (operational cash flows (x), investment cash flows (y) and financing cash flows (z)), in which we distinguished the fiscal variable, is presented in the figure below:



Source: [Onofrei, 2004, 76]

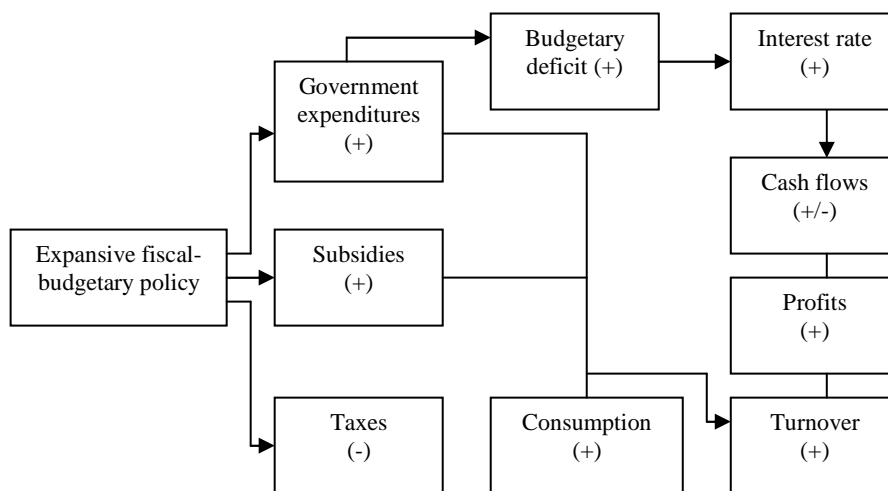
Fig. 1. The enterprise cash flows

The fiscal-budgetary policy influences on the enterprise through the decisions taken in the field of budget incomes and expenditures, aiming at stimulating the producers in the sense of increasing the production and this creating the premises of the appearance of new jobs.

Therefore, in the field of budgetary expenditures, the Government can directly intervene by giving subventions (subsidies) to the companies. An indirect effect would be produced by increasing the public expenditures, consisting in increasing the consume capacity of families. In the field of budgetary incomes, similar effects can be attained. Thus, by reducing the corporate income tax, the companies are stimulated to increase their volume of activity, while the reduction of the personal income tax would suppose a bigger available income for families, which would correspond to a greater demand.

As a result, an expansive fiscal-budgetary policy would have as outcome stimulating the entrepreneurs to develop and increase their activity. However, an expansive fiscal-budgetary policy has both beneficial and negative effects for the enterprise.

As we can notice from the figure below, the expansive budgetary policy determines the consume increase, which for the enterprise means a bigger volume of sales and receipts, favouring the cash inflows. However, the effects also depend on the manner of financing this policy. Appealing to loans leads to the increase of the interest rate, and the companies that are financed appealing to credits will pay a higher cost, which supposes bigger payments, increasing the cash outflows, reducing the positive impact.



Source: [Méndez Picazo, 2007, 109]

Fig. 2. The effects of an expansive fiscal-budgetary policy

Among the aspects that can negatively affect the enterprise cash flows, we can mention the following:

- The increase of public expenditures or the reduction of taxes determines the increase of prices as a result of the demand increase. This favours the enterprise in a first stage because it will obtain greater incomes that will positively influence the enterprise cash flows. Nevertheless, while the families become adapted to the new situation, this effect will disappear. The families could request salary increments,

which would increase the costs for firms, or could substitute the respectively goods with cheaper ones.

- The budgetary deficit, which results because of the expansive policy, must be financed. If, for the beginning they appeal to loans, with the effects mentioned above, the variant of tax increase must later be taken into account. This will attract a negative effect on the enterprise sales and implicitly on the liquidities.
- The increase of the interest rate determines the increase of financial costs for the firm and constitutes a break for the investments, which could inhibit the activity of firms and would negatively affect the cash flows.

In order to emphasize these aspects, our study will focus on a separate analysis of these influences on the receipts and payments at the company level.

3. The impact of the fiscal-budgetary policy on the receipt flows/cash inflows

At the enterprise level, the receipts include: the sales with immediate payment; the receipts from the credit sales from the previous period; the securities sales; the sales of assets; obtaining a loan or the sale of a new share issue; subventions; receipts from leases, interests, dividends and other incomes.

a) *The sales operations and supplies* belong to the sphere of VAT application. Although VAT has incidence on the consumers, the net deviation of VAT flows, respectively the difference between the VAT collected on sales and deductible VAT on the buyers produces effects on the enterprise liquidities.

In the situation that the receipt of invoices from customers and the afferent VAT takes place after exerting the right of deduction and the payment of the due sum to the budget, VAT afferent to the sold merchandise and non-cashed negatively influences the liquidity and the balance state of the selling enterprise cash flows. On the other hand, when the payment of invoices to the suppliers occurs after exerting the right of deduction by the buying company, VAT has a positive influence on its liquidities. In both situations the intensity of effects depends on the value percentage of the uncollected invoices in the total value of the issued invoices and respectively the value percentage of the unpaid invoices in the total value of the bought goods and services, within the legal interval of time established for drawing up the VAT reimbursement.

b) On the other hand, the VAT discourages the resort to the *commercial credit* because of the influence on the liquidities. The VAT afferent to the advances paid to the suppliers for the merchandise which is about to be paid, becomes deductible to the payers of advance payments, only since the moment of drawing up the invoice to the suppliers. As a result, the VAT together with the sums paid as advances diminishes the enterprise liquidities. The VAT afferent to the advance payments received from the customers in the merchandise account which are about to be delivered increase the total sum of the VAT collected at the moment when the advance payment is received. If the draw-up of the invoice to the beneficiaries of advances intervenes after drawing up the TVA settlement, the negative influence of the VAT flow afferent to the advances received is overlapping the partially positive influence of the sums (diminished with the VAT value) received as advance payments. Thus, the final effect on the enterprise liquidity depends on the set of operations carried out.

When the deductible VAT is bigger than the collected VAT, then for the deduced VAT, the firm has a book debt right on the public budget. The increase of the time interval

mentioned by the fiscal legislation, in which the enterprise can recover its right of book debt, negatively influences the enterprise liquidities since for the public budget it constitutes a temporary financing that is not carrying interest. For counter-attacking the unfavourable effects on the enterprise cash flows, it is necessary to administrate the VAT flows.

c) Another flow of receipts is represented by the *subventions* that the enterprise can receive from the Government. The subventions represent the most used form and the most important financial help that the Government gives to the enterprises found in difficulty, ensuring their functionality under the conditions that their activity is inefficient. Thus, if the enterprise is found in such a situation, it can solicit such a financial help, benefiting from the fact that it is unilaterally given and without counter-service, but conditioned and has a special affectation.

d) The decision to appeal to *new credits* for completing the necessary of financial resources is influenced by the rate of interest, which supposes supplementary costs for the enterprise, but in this context we must not forget the taxation, given the fact that the interest is a deductible expense from the fiscal point of view, fact which determines the decrease of the effective borrowed capital cost. As a result, the taxation decreases the cost for the beneficiary firm, and increases the ROE (return on equity). Thus, taking into account a tax rate of 16%, 1 RON interest paid will diminish the taxable result with 1RON and the tax with 0.16 RON, determining a fiscal economy.

The cost of debt after taxation can be expressed in the following manner:

$$K_d = R_i(1 - t) \quad (3)$$

Where: K_d = the cost of debt after taxation; R_i = interest rate; t = corporate income tax.

In order to illustrate this aspect, we will take as example an enterprise about which we know the data from Table 1. This enterprise must reimburse the interest afferent to the previously contracted credits, and these payments are paid on a quarterly basis as follows:

Table no. 1 – Situation regarding the incomes and the expenditures at S.C. „Primo” S.A.

Indicator	Cumulate values 31.03	Cumulate values 30.06	Cumulate values 30.09	Cumulate values 31.12
Total incomes	300.000.000	500.000.000	700.000.000	800.000.000
Interests incomes	1.000.000	3.000.000	4.000.000	5.000.000
Interest expenditures	40.000.000	94.000.000	124.000.000	184.000.000
	31.03	30.06	30.09	31.12
Debt level (compared to January, 1 st)	1,5	3,1	1,8	3,2
Interest expenditures (quarterly)	40.000.000	54.000.000	30.000.000	60.000.000

This enterprise does not present interest expenses that are reported to be deduced for the study year, and the rate of corporate income tax is 16% (according to the actual legislation).

Before analyzing the impact of these expenses with the interest, we must mention a few aspects from the Fiscal Code, regarding the regime of deducing the expenses with the

interest, as follows: in the case of loans received from other institutions than the credit institutions, the deductibility is influenced by the debt level. Thus, if the debt level is higher than 3, the expenses with the interest are non-deductible, being reported for deduction in the following periods.

Table no 2 – Situation regarding the calculation of interest expenditures at S.C. „Primo” S.A.

Indicator	Cumulate values 31.03	Cumulate values 30.06	Cumulate values 30.09	Cumulate values 31.12
Interest expenditures	40.000.000	94.000.000	124.000.000	184.000.000
Deductible interest expenditures	40.000.000	-	124.000.000	-
Interest expenditures deductible in the next periods	-	94.000.000	-	184.000.000
Interest expenditures deductible, from the previous periods	-	-	94.000.000	-
Fiscal savings ¹	6.400.000	-	19.840.000	-
The cost of debt (taking into account the corporate income tax rate) ²	33.600.000	94.000.000	104.160.000	184.000.000
The reduction of debt cost determined by the corporate income tax ³	16%	-	16%	-

Starting from this example, we ascertain that under the influence of taxation occurs a percent reduction of the borrowed capital cost equal with the level of corporate income tax rate if the debt level is smaller than 3, these expenses are not deductible, but are postponed for deduction in the following period.

Even if in the moment of carrying out the payments of interests, the positive effect of this fiscal facility is not observed, but becomes reality in the moment that the enterprise honours the obligations of paying the corporate income tax. Thus, in the case of a firm that appealed to credits, the corporate income tax is reduced, the fiscal economy being equal with the interests to whom the corporate income tax rate is applied.

e) On the other hand, the enterprise has as solutions of attracting some supplementary financing resources, at a zero cost. The *debts from operating activities* result from the contractual relations of the enterprise with the third parties (which ensure the supply of materials, labour force and services) or with the Government (towards which the enterprise has the obligation, through law, to pay the taxes and duties). In the time interval that takes place since the entry and receipt of materials, services, labour force or appearance of debts to the state and until the moment of the effective payment of this debt, the company benefits from a capital source, provided by these third parties freely.

Taking into account the advantageous character of this capital source, the company could profit through the decision to increase, from the point of view of volume, these debts and postponing the effective payment term. Since the engagement of these debts is regulated through contracts or through tax laws, in the moment that the company applies such a decision, it will be penalized for exceeding the falling due payment.

We must also mention the *settlements regarding the shareholders*. At the enterprise level, we can apply the decision as dividends owed to the shareholders to be paid with a cer-

tain delay, under the conditions that the financial situation at the respective moment requires it and there are no harmful effects regarding their confidence in the real performances of the enterprise.

We must mention that some firms from Romania have practiced the system of financing the operating activities because of the non-payment (or at least of delaying the moment of payment) of debts of the public budget. The application of such a decision by the enterprise was supported, to a certain extent by the Romanian Government, which allowed the functioning of this system, through the absence of measures such as blocking the bank accounts and by accepting the re-lagging or even cancelling these debts [OUG 40, 2002]. Although the companies found in this situation pay a cost for this financing resource, represented by the delay penalizations, still the decision to appeal to this financing source can be more attractive than the one of contracting loans on the banking market or issue shares, under the conditions in which the penalties paid are smaller than the interest afferent to the bank credits, the manager being tempted in the moment when he takes a decision to opt for the cheapest resource.

Afterwards, given the process initiated by the Ministry of Finance of forced execution of the firms with debts to the public budget [OUG 26, 2005], the firms appealed to another source of financing in order to honour these obligations, such as the banks credits for the payment of unpaid budget obligations. The characteristics of this type of credit are emphasized through few aspects as follows [BCR, 2008]:

- The credit is only given in lei;
- Destination: only for paying the obligations to the consolidated budget;
- The crediting period : maximum 5 years, without guarantee period;
- Maximum volume: the sum of unpaid obligations to the consolidated budget, determined based on the fiscal certificate, if from the cash flow statement it results that there is the capacity of reimbursement of the credit and afferent interests;
- Falling due payment: monthly, on a quarterly basis, without exceeding the maximum crediting period and according to the reimbursement capacity resulted from the expected cash flow;
- Conditions : the applicants must not be in bankruptcy or in course of carrying out the forced execution procedure;
- Guarantees accepted by the bank: real estate guarantees, real movable securities (bank deposit, deposit certificates, deposit certificates with discount, shares, transfer of debts, equipments, installations etc.) and personal guarantees.

We encountered the same type of credit in other banks as well, named “budget credit” [BC Carpatica, 2008].

Besides the attractive interest offered in this type of credit, another advantage consists in the fact that the company can transfer the costs, the interest paid to the bank being deductible, while the interest paid to the state, for delays in paying the debts to the state, is not deductible.

The dimensioning of receipts flows/cash inflows would have no relevance if they were not compared with the payments flows/cash outflows.

4. The impact of the fiscal-budgetary policy on the payment flows/cash outflows

At the enterprise level, the payments include: the payment of open and credit purchasing from the previous period; the payment of salaries and social security expenses; the payment of operating expenses, administration and sale expenses; the payment of duties and taxes to the public budget; the assets acquisitions; the payment of interests and rates due in the previous credits; the payment of dividends to the shareholders.

a) The execution of the decision to make *the payment of salaries and afferent social expenses* is influenced by taxation, through the level of tax rate. The bigger it is, it can determine the enterprise to register smaller salaries in their employee's labour cards, so that the quantum of those taxes and contributions is as small as possible. Given the fact that these expenses are considered cumbersome for the company, the current fiscal policy aims at cutting down the social security contributions, which at the enterprise level means the diminishing the expenses of this nature, remaining several financial resources at the enterprise's disposal, with a positive effect on its cash flows.

b) The intensity of effects produced by the *fiscal obligations* on the enterprise cash flows is emphasized by the sensitivity of the taxable base, the regime of deductions and fiscal discounts, the rate level, the date of financial exigibility of taxes, the fiscal costs of fees and penalties applied by the control organs and the instability of fiscal legislation. The fiscal flow need to be analyzed because of the great percentage and the influence they had in the total of financial flows, in order to reflect the manner of appearance of effects on the cash flows.

Therefore, the duties and taxes have fix payment terms and often monthly, and their extent is determined according to the incomes, respectively the enterprise profit. In these conditions, besides the rest of the cash flows, the fiscal obligations influence the short term balance of the cash budget.

The fiscal flow, maybe the most important one, represented by the payment of the *corporate income tax* influences the enterprise cash flows through the taxable basis, the tax rate and the financial exigibility. When through the fiscal legislation it is awarded the right of deducing some fiscal provisions (for research studies, price increases, creating some branches etc) the influence is double. It first appears in the moment of the provision constitution and afterwards in the moment of reintegration. The dimension of the provision constituted, of the unused part and the financial balance of the enterprise in the moment of reintegration constitute factors that influence the dimension of the effect on the cash flows. Also, the accelerate fiscal depreciation and the deficit results through the temporary fiscal economies produce positive effects on the cash flows. The existence and increase of time deviation between the moment of the achievement of benefits and the tax payment has a positive effect.

Since the technique for determining the taxable profit is complex and generates permanent or temporary differences between the accounting and the fiscal profit, which, besides the corporate income tax rate, influences the net profit, and implicitly the cash budget as well.

The permanent differences appear especially because of the fiscally non-deductible provisions, of the sums used for constituting or increasing the legal reserve fund, but also the non-deductible fiscal expenses. The temporary differences are generated by the fiscal regime of covering the fiscal losses from the previous years and any other incomes and

expenses which are included in the taxable basis during an year, in a different manner compared to the one in which they were registered in the accounting books.

The positive effects on the cash flows appear as a consequence of temporary economies of tax, mainly generated by the tax facilities given, by the fiscal deduction regime and by reporting the tax losses from the previous years.

c) The corporate income tax generates special effects on the enterprise decision as well to allot available financial resources in view of procuring the tangible assets (reflected as payment flow) given the possibility of the enterprise to buy or rent them.

The decision to buy the tangible assets generates payments that are not fiscally deductible. In exchange, the fixed assets being able to be paid off, during the normal depreciation period, the depreciation expenses are deductible, which positively affects the enterprise cash flows. On the other hand, the decision to lease a fix asset through a leasing contract confers the company which received in its location (the lessee) the right to deduce the interest and depreciation of the good which is the object of the contract in the case of the financial leasing, respectively the lease in the case of operational leasing. In the case of financial leasing, from the fiscal point of view, this means that the user is treated as owner. In the case of operational leasing the lessor/financer has this quality. Since the lease is financed because of the operating incomes, while the buying usually supposes recurring to a more varied range of resources, the effects produced for taxation in the case of buyers are more complex and are produced for a bigger period of time.

The payments to the consolidated budget include not only the corporate income tax, but also the local taxes and duties as well. Their percentage, as extent, although not as big, put their mark on the dimension of payments that the company must make, diminishing the balance of cash. While the local authorities decide giving some facilities, eventually exemptions, from their payment, in view of achieving some local development objectives, the local taxes and duties positively influence the cash flows.

Also, the fiscal policy influences the cash flows not only through the tax rates and fiscal facilities, but also through the payment terms of these obligations. They generate payments to be made at the term established by law, payments which are concretized in cash outflows which affect the final balance of the cash flows.

In the situation that any sum, which represents an obligation to the Government budget, local budgets or social insurance budget, is not paid at the established term, the taxpayer is obliged to pay delay penalties for the period comprised between the legal payment term and the date where the due payment is made.

d) Another payment flow refers to paying the *interests* afferent to the previously contracted credits for which we have already mentioned the inferences of the fiscal policy on these decisions of spending the financial resources.

e) The flow represented by the payment of dividends due to the shareholders, respectively its dimension is indirectly influenced by the dividend tax rate, which has an impact on the shareholder's decision to receive the dividends, which he is entitled to, or to leave them at the enterprise's disposal, of course with the hope of obtaining greater future dividends. Thus, if in the moment when the decision to pay dividends to the shareholders becomes operational, the dividend tax rate is high, for the shareholders this means diminishing the profitability of the capital held in shares, which can determine them to leave the dividends at the enterprise's disposal. This decision is concretized in reducing the volume of payments that the company must honour, which has a positive impact on the enterprise cash flows. On the other hand, the shareholders manifest their preference for this option, because, since if

they accept the dividends, they must address the brokerage companies and pay brokerage costs for acquiring the desired shares.

5. Conclusions

All these receipts and payments flows daily modify the level of banking accounts of the enterprise. Thus, the enterprise treasurer must be preoccupied not only with dimensioning the receipts and payments, looked at separately, but also comparing the receipts with the payments, covering the cash flow balance, through short term credits (in the case of deficit) or to place the cash excess (in case of surplus) .

Therefore, the cost of credits generates supplementary payments which increase the necessary which must be financed, and the liquidities placements bring incomes which increase the receipts. That is why, when determining the final cash flows balance, we will also take into account these last influences.

This thing is important since, through the manner of administering the cash flows, the financial activity can influence the entire activity of the enterprise and the information that the cash flows offer are important for taking the financial decisions. As we noticed during this study, the fiscal-budgetary policy can have important influences on the enterprise cash flows. Given the fact that the increase of public expenses or the decrease of taxes generates its variations, we must notice the fact that, the expansive fiscal-budgetary policy can have, on the one hand positive effects, and on the other hand, negative effects on the enterprise cash flows.

On the one hand, the increase of public expenditures or the reduction of taxes creates the premises of the consumer increase; as a result, the enterprise will produce more, in order to respond to a greater demand, which will be reflected in a bigger volume of sales and receipts that positively affect the enterprise cash flows. However, at the same time, the modality of financing of the budget deficit, which results from the applied policy, must also be taken into account. If they opt for public loans, they will increase the credit as a result of the interest rate growth, leading to higher liquidities, which will reduce the positive results. Financing the increased public expenditures through the increase of taxes would inhibit the desire of entrepreneurs to invest. On the other hand, the negative effects on the cash flows must not be ignored, such as for example the higher salaries requested by the employees not to reduce their purchasing power as a result of inflation, which would trigger higher liquidities outflows.

In this context, in which the expansive fiscal-budgetary policy is generating inflation, as future directions of research we will analyze the effects that an expansionist monetary or restrictive policy would have on the enterprise cash flows, given the fact that in practice, the action of the financial factors of fiscal-budgetary nature and of the monetary factor are inter-related and mutually conditioned.

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Notes

¹ interests x tax rate

² interests – fiscal savings

³ fiscal savings/interests expenditures