"Dimitrie Cantemir" Christian University
Knowledge Horizons - Economics
Volume 11, No. 3, pp. 40 – 47
P-ISSN: 2069-0932, E-ISSN: 2066-1061

www.orizonturi.ucdc.ro

THE INCIDENCE OF TAXATION ON THE DECISIONAL ACT OF THE COMPANY

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Abstract *Taxation problems are not interesting for anyone and they often produce unpleasant moments, however, they are extremely well addressed, because, finally, every entity must pay a certain amount of money, on behalf of the state, which represents a major issue. From this point of view, our work is considered serious and we want it to be useful and pragmatic, to be a useful species for those who want to know more in detail, some aspects of taxation and its application. Basically, our research is an experimental one and we used as methods of approaching the theme, the experimental method, which has as tools: the method of information processing, the method of information interpretation, the deductive method and the explanatory method.*

Key words:
Taxation
Decision act,
Enterprise
Costs
Financial policy

JEL Codes:
G23 , G32

1. INTRODUCTION

It is well-known that by its specificity, taxation always has an impact with the Incidence, less have more pronounced, on the managerial decisions, in general, and the financial decisions of the company, in particular and it is manifested directly or indirectly, through: (Vallabhaneni, 2008)

- the monetary income and expenses generated by the current activity;

- non-monetary items (calculated revenues and expenses) with indirect impact on financial results (net profit, self-financing capacity)

- the financial flows generated by the investment and financing activity, carried out through the treasury of the company;

- the costs of managing the fiscal obligations regarding the personnel and shareholders, withheld at the source and paid to the state budget.

From the perspective of the managerial decisions, the effects of the taxation of the profit, are relevant in the policy of investments, financing and remuneration of the employees and managers of the company.

In the management of investments, the opportunity of investing in fixed assets versus working capital or personnel is pursued, taking into account economic, financial and fiscal considerations, as well as the choice of financing modalities.

1. OPPORTUNITY OF INVESTMENTS IN PURCHASING FIXED ASSETS

1.1 THE EFFECTS OF TAXATION ON THE DECISION OF THE ENTERPRISE ON THE PROCUREMENT OF CORPORATE ASSETS

The investment opportunity study deals with the advantages and disadvantages of the decision to purchase fixed assets / leasing, leasing, respectively of the decision to invest in working capital or in personnel.

The effects of taxation on the decision of the company regarding the way to purchase tangible assets, are generated by the tax regime regarding the expenses with depreciation and the cost of the financing sources: (Green, 2005)

- the decision to buy from borrowed sources- is influenced by the expenses with the tax depreciation, deductible according to the option on the depreciation regime, as well as the expenses with the interest, deductible according to the origin of the sources borrowed and the degree of indebtedness of the company;

- the decision to rent the lease, gives the tenant the right to deduct the interest and the depreciation of the good, in the case of the financial lease, respectively, the right to deduct the rent, in the case of the operational lease.

The tax on profit has an impact on the financial results of the investment projects, respectively on the net profit and implicitly on the cash flows deriving from the respective projects with direct impact on the indicators of their financial evaluation.

1.2 INVESTMENT DECISION IN CURRENT CAPITAL - VERSUS PERSONAL CAPITAL

The decision to invest in current capital - versus personal, is not an exclusive one, usually the manager opting for a mixed decision. In this regard, within the objective of optimizing the tax burden, "the deductible material costs generated by the methods of evaluating the stocks and receivables agreed by the management will be followed, and, on the other hand, the tax deductions generated by the the insurance and social protection contributions owed by the employer with a significant impact on the company's treasury" (Newquist et Russell, 2003).

2. EFFECTS OF TAXATION ON FINANCING POLICY DECISIONS

From the perspective of the financing policy, the effects of taxation are different, as financing is done from own sources, borrowed or by leasing - financing from own sources: internal - self-financing and / or sales of fixed assets; external - the increase of the own capital by contribution in cash and / or subsidies for investments: (Modigliani et Miller, 1958).

- financing from borrowed sources: long and medium term bank loans; compulsory loans; loans from other entities;

- leasing financing: financial leasing; operational leasing;

The corresponding financing costs (the dividends distributed to the shareholders, the interest due for the sources borrowed and leasing), can be absorbed by the future economic advantages generated by the operation of the investment, and from the fiscal point of view, the deductible expenses with the depreciation and the interest / rents generate tax savings advantage.

„In the plan of its own sources of long-term financing, the company can choose to set up and increase the legal reserve, benefiting from tax deductions when calculating the taxable profit" (Vallabhaneni, S. *Corporate management, governance, and ethics best practices*, John Wiley & Sons Inc; 2008.(Toma, 2003).

2.1 DECISIONS CONCERNING THE COSTS OF THE FINANCING SOURCES

From a fiscal point of view, the costs of the sources of financing (borrowed and own) are approached differently: "the interests related to the bank loans are tax deductible expenses; interest on loans obtained from other entities, with the exception of banking companies, Romanian legal entities, branches of foreign banks operating in Romania, leasing companies, for leasing operations, mortgage companies, credit institutions, as well as credit institutions, non-bank financials have limited deductibility, depending on the type of loan" (Adochiței, 2000) (at the NBR reference rate, for loans in lei / annual interest rate, for foreign currency loans) and the degree of indebtedness (May less than or equal to three); dividends do not constitute expenses, but are a destination for the distribution of net profit.

$$\text{Degree of duty} = \frac{\begin{array}{c}\text{Borrowed capital} \\ \text{at the beginning of year}\end{array} + \begin{array}{c}\text{Borrowed capital} \\ \text{at the end of period}\end{array}}{\begin{array}{c}\text{Personal capital} \\ \text{at the beginning of year}\end{array} + \begin{array}{c}\text{Personal capital} \\ \text{at the end of period}\end{array}}$$

Borrowed capital means the total of loans and loans with a repayment term of more than one year, according to the contractual clauses. Equity includes social capital, legal reserves, other reserves, undistributed profit, profit for the year and other equity elements established in accordance with legal regulations". (Prisecaru, 2005).

Considering that "dividends, as part of the net profit distributed to shareholders, are taxable income of the shareholders, it is possible to find a repercussion of the tax on profit and on the shareholders in the sense that they will considerably reduce the amounts due as dividends" (Halpern et all, 1998). In fact, the shareholders bear from the tax burden of the corporate income tax only that part materialized in the double taxation of dividends.

2.2 THE IMPACT ON THE DEDUCTIBLE CHARACTER OF EXPENDITURE WHICH IS GENERATING PROFIT TAX

The tax-deductible character of interest expense generates a profit tax economy. In this respect, in the case of indebted companies, the specific cost of the debts generated by the fiscal policy is not equal to the interest rate but with an interest rate diminished by the tax rate of the profit, when the accounting profit is equal to the tax profit, ie there is no non-deductible expenses or with a deductible limited to the calculation of the taxable profit.

"The tax economy is offset, however, by the decrease in accounting profit, which affects either the degree of distribution of dividends or that of reinvestment. This means that, the degree of indebtedness and the minimum level of the net profit for the shareholders' remuneration, is in a relation of the form of a decreasing linear function". (Prisecaru, 2005).

In order to highlight the effect of indebtedness on the fiscal obligation representing tax on profit and finally on the size of the income due to the shareholders, we analyze comparatively the company in two hypotheses respectively, as an indebted company (financed entirely from equity) and as an indebted company (financed in proportion by 46,205% of equity and 53,795% of bank loans).

We assume that the data are taken from the annual financial statements submitted to the competent fiscal body by the taxpayer legal entity, and the profit tax rate was 16%.

Table no. 1 - Impact of debt on corporate income tax

Company	Not Indebted	Indebted
Economic asset	1515	1515
Degree of duty	0	53,795%
EBIT	520	520
Interest expenses (Rd=0,2)	-	163
Taxable profit = EBIT – Interest expenses	520	357
Interest expenses t=0,16)	83,2	57,12
The difference of tax on profit due (fiscal economy)	0	-26,08
Net income	436,8	299,88
Investor income: EBIT - Tax = Interest expenses + Net profit = EBIT (l-t) + Interest expenses x t	436,8	462,88*
Change in investor income (growth)	0	26,08
Interest actually borne by the enterprise: Dob x (1-t)	0	136,92
Tax economy: Dob x t	0	26,08

Source – Author

Interest actually borne by the company = Interest expense × (1- t) = 163 × (1-0.16) = 136.92 or 163 - 26.08 = 136.92 mil lei.

It is observed that the analyzed company being indebted benefit from tax savings in the amount of 26.08 million lei determined by the total deductibility of the expenses with the bank interest in calculating the taxable profit.

Tax on profit = 357 x 16% = 57.12 million lei

By comparatively analyzing the results from the table, we find the following:

- the indebted company calculates and pays tax on the entire taxable profit, in the amount of 83.2 million lei;
- the borrowed company pays a lower tax of only 57.12 million lei, achieving a tax saving of 26.08 million lei from the tax difference. This means that for the indebted enterprise the state takes part of the interest due to the creditors (representing precisely the fiscal economy that the enterprise realizes by indebtedness);
- the increase of the investors' income (by 26.08 million lei) of equity (shareholders) is determined by the deductible character of the expenses with the interests and not by the structure of the capital of the company (own and borrowed). In fact, the income of the investors (shareholders and creditors), at the indebted company are formed from the income of the shareholders at the indebted enterprise ie EBIT × (1-t), plus the tax savings, that is Interest expenses × t (462.88 = 436.8 26.08). The tax economy is in favor of the shareholders as they pay a reduced profit tax (57.12 thousand lei) at the same EBIT as the indebted company (520 thousand lei).

The payment of the interest to the borrowers in the amount of 163 thousand lei is supported as follows:

- by the company at the level of the net tax interest ie:

Expense. interest × (1-t) = 163 (1-0.16) = 136.92 thousand lei;

- by the state, as a sacrifice, as it receives from the borrowed company a lower profit tax: interest expenses × t = 163 × 0.16 = 26.08 thousand lei representing the fiscal economy.

Creditors will always collect the full amount of interest (given Rd = 815 x 0.2 = 163), the sacrifice for tax reduction being taken over by the state budget.

3. THE PERSPECTIVE OF THE FISCAL REGIME AND THE MANAGERIAL OPTION FOR LEASING

3.1 DECISIONS CONCERNING THE LEASING TAX REGIME

From the perspective of the tax regime of the leasing, as an alternative to the sources of long-term financing, the manager can opt for financial leasing / operational leasing.

In the case of leasing, the depreciation of the good that is the object of the leasing contract is performed differently, depending on the leasing category, respectively financial or operational.

It represents a financial lease, any lease that meets at least one of the following conditions:

- the risks and benefits of the ownership right over the property that is the object of the lease are transferred to the user at the moment when the lease contract takes effect: (Modigliani et Miller, 1958).

- expressly provides for the transfer of the ownership right over the good that is the object of the lease to the user at the time of expiry of the contract;

- the user has the option to buy the good at the time of expiry of the contract, and the residual value expressed as a percentage is less than or equal to the percentage calculated as the ratio between the difference between the normal maximum operating time and the duration of the lease (at the counter) and the normal duration of the contract. maximum operation (at the denominator);

- the lease period exceeds 80% of the normal maximum operating life of the asset subject to the lease (the lease period includes any period for which the lease can be extended);

- the total value of the lease rates, less the ancillary expenses, is greater than or equal to the value of the entry of the good.

3.2 OPERATIONAL LEASING CONTRACT

The operational lease is any lease concluded between the lessor and the lessee, which transfers to the lessee the risks and benefits of the property right, minus the risk of capitalization of the asset at the residual value, and which does not fulfill any of the conditions specified in points b ÷ e (from financial leasing).

The risk of valuing the asset at the residual value exists when the purchase option is not exercised at the beginning of the contract, or when the lease agreement expressly provides for the return of the asset at the time of expiry of the contract.

From a fiscal point of view, the lease agreements are treated differently, as follows: (Ehrhardt et all, 2002)

- in the case of the financial leasing, the user is treated as the owner, deducting the depreciation of the good that is the object of the contract and the interest;
- in the case of the operational leasing, the lessor is the owner, deducting the depreciation of the good that is the object of the contract, and the lessee deducting the rent (the lease rate).

4. MARGIN OF MANAGERIAL ACTION ON THE REMUNERATION POLICY

The remuneration policy of employees and managers, by granting salaries / dividends to shareholders managers; by granting salaries and other incentives in money and in kind to the employees. ”In the policy of remuneration of employees and of shareholders or non-shareholders, the optimization of the ratio between the fiscal burden borne by the company and the net profit of the financial year will be pursued, taking into account , on the one hand, the deductible character of the insurance and social protection contributions incurred by the employer, generating profit tax savings, and on the other hand, the impact of these expenses on the net profit” (Hirschey, 2003), from which it is to be the dividends of the shareholders are distributed.

5. CONCLUSIONS

The impact of fiscal aspects on the enterprise can be extended to other aspects such as the form of legal organization. In enterprises with majority or wholly state capital, set up under various forms of legal organization, the state can appear not only as a public authority, but also as an owner entitled to receive dividends, or payments from the net profit, in the case of autonomous regions.

Although, in recent times, economic conditions have improved, the European Union must continue to face the consequences of the crisis, including the lack of investment and growing inequalities. In this context, many voices among citizens call, throughout the Union, for greater attention to social justice. Taxation plays a fundamental role in creating a fair society and in building a strong economy. Through it one can move towards eliminating inequalities, not only by supporting social mobility, but also by reducing inequalities in market revenue.

Also, fiscal policy can have a great influence on employment decisions, on the levels of investments and on the availability of entrepreneurs to expand their activities, all these aspects leading to a stronger economic growth.

Thus, fiscal policies are evaluated by reference to four priorities: stimulating investments; support for employment; reducing inequalities; ensuring fiscal compliance. The factsheet presents a summary of the challenges related to the fiscal policy that EU countries face in these areas. Then, the political levers that could help to find answers to the respective challenges are presented. Finally, the fact sheet presents an analysis of the situation in the countries concerned, based on which are a set of indicators and recent fiscal reforms.

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