

**CONSIDERATIONS ON SOME SHORTCOMINGS OF THE
FUNCTIONING OF THE STATE TREASURY AND POSSIBILITIES
FOR ITS IMPROVEMENT**

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Abstract

In Romania the State Treasury was established in 1992 as a result of the reorganization and adaptation to the conditions of market economy of the public finances. This paper aims to show some of the shortcomings of the functioning of the State Treasury, as well as some possibilities for the improvement of the State Treasury's functioning. One of the biggest vulnerability of the system is the Single Accounts Open on Budgets. We analyzed the influences these accounts have on the correct reflection of taxpayers' payments to the State Budget and according to our findings we made some recommendations on how these payments should be reflected in the annual budget execution account.

Keywords: State Treasury, State Budget, State Social Insurance Budget, Single Accounts Open on Budgets

JEL classification: H61, H62, H63

1. Introduction

The establishment of the State Treasury constituted a vital necessity in the early 1990s, given that public finances were in a process of reorganization and adaptation to the conditions of market economy. Thus, the abandonment of the financial planning concentrated in the centralized financial plan and the state budget led to particularly difficult and complex problems regarding the reorganization of public finances at all organizational levels, especially with the

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aim of ensuring the financial resources necessary for the fulfillment of the functions of the state, in the field of economic development.

2. The premises of the establishment of the State Treasury and the need to continuously improve its activity

The Public Finance Act in 1991 (Law no. 10 of 29 January 1991 on public finances) defined the basic objectives in relation to the structure of taxes and fees necessary to allocate funds for the fulfillment of public sector objectives, the structure and mode of elaboration of the State Budget, the State Social Insurance Budget, the National Health Insurance Fund, as well as special funds. An important place in the Public Finance Act was the definition of some basic principles underlying the functioning of the public finance mechanism, such as:

- a) precise definition of public institutions that have access to public funding, and certain categories were established: public institutions whose objectives and projects are fully financed from the State Budget and other budgets; public institutions financed from own revenues and in addition from public budgets; institutions wholly financed from their own income;
- b) the activity of all state institutions on the basis of revenue and expenditure budgets, rules and procedures for drawing up, substantiating and approving them;
- c) establish by law that state institutions cannot carry out commercial loan costs (supplier financing) thus protecting the business from blocking activity as a result of non-payment of the delivery of goods and services to the public sector;
- d) precise definition of the role and accountability of authorizing officers at all levels regarding the use of public funds;
- e) the allocation of budgetary funds shall take place only after the financial body concerned has examined the use made of the funds allocated to them.

All these regulations were intended to incorporate a financial discipline into the use of public funds, with particular emphasis on respecting their destination and the achievement of the objectives contained in the revenue and expenditure budgets. It should be noted that in 1990 the execution of public finances was carried out by the National Bank of Romania, which reported decadal to the Ministry of Public Finance the collected revenues and expenses, as well as the balance of the State Budget. The National Bank of Romania, having entered into reorganization, provided in its statute new functions (as state

central bank) of monetary policy and banking market equilibrium, having to give up execution of the State Budget, all operations being transferred to the Commercial Bank of Romania, with full state capital at that time.

Researching this period in the public finance field has shown that the execution of public budgets has encountered serious difficulties because the Ministry of Public Finance, as a fiscal and budgetary policy institution, did not have the necessary levers with which to act in the fiscal-budgetary sector regarding the collection of revenues and the allocation of funds in line with the objectives set for the approval of budgets and the tracking of revenue collection, the allocation of funds and the achievements achieved.

Taking over budget execution through the State Treasury has led to visible progress in this area, taking into account the IT systems developed specifically for treasury collection and payment operations. At the same time, we have to point out that the Public Treasury and Public Accountancy Department of the Ministry of Public Finance is currently the only information center on public finance execution, having permanent links with the National Agency for Tax Administration and the Directorates budgetary and financing policies of the Ministry of Public Finance.

Although the Treasury's work is functioning in accordance with the legal norms and procedures developed for this purpose, our research puts a particular emphasis on those parts of the State Treasury that need to be improved to help increase its efficiency.

As a member of the European Community we have Treaty obligations to comply with European standards regarding fiscal and budgetary policy and to convey the convincing information to the European fora (EUROSTAT) on which to analyze Romania's policies in this area of activity. In this sector, the State Treasury has become the only structure of the Ministry of Public Finance that provides credible accounting information.

In-depth research into the functioning of the State Treasury has made us convinced that there is now the possibility of improvement with positive effects on the elimination of some malfunctions resulting from the change of legislation as well as the growth of the business environment.

For this purpose, we present some proposals for improving the State Treasury's activity in order to increase its role and effectiveness.

3. Eliminating the vulnerability of Single Accounts Open on Budgets to collect budget income and creating the direct cashing and record mechanism in the accounts of individuals and legal taxpayers

At the establishment of the Treasury (Government Decision no. 78/15 February 1992 on the organization and functioning of the treasury of public finances), the system of settlement and payment of taxes and duties by taxpayers, individuals and legal entities, was especially pursued, because in execution this represents a large part of the Treasury attributes. Analyzes made on this issue highlighted important issues such as:

- ❖ Taxation and budgetary policies have a historical character, being organized according to the requirements of the respective stage. It is important to note that the documents examined revealed that until 1989, when the budgetary reform took place, the system of taxation by the tax authorities was implemented, which consists mainly in the fact that the taxpayer declares his income subject to taxation, the tax body establishes the related tax provided in the Tax Code and communicates it to the taxpayer, including the payment terms. The communication was highlighted in the payer's file, and the fiscal body followed the payment deadlines.
- ❖ Since 1989, the following fiscal system has been adopted in Romania:
 - the Ministry of Public Finance, through the Tax and Duties Directorates, establishes the fiscal policy of the state, which is reflected in the laws, Emergency Ordinances, Government Decisions, as well as in the Fiscal Code. In these normative acts are presented all the procedures for calculating and paying of taxes and duties;
 - the tax authorities carry out the control over compliance with the current rules on taxes and payments;
 - the taxpayers (individuals and legal entities) have the obligation to calculate the taxes due to the public budgets, to retain them and to record them in their accounting and to make the payment according to the deadlines stipulated in the Fiscal Code.

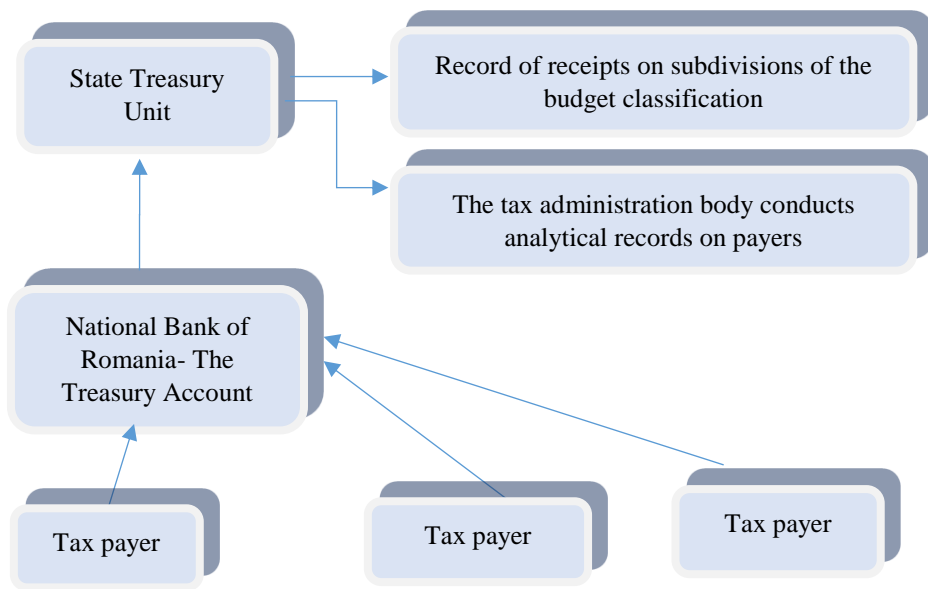
The statutes for the establishment of the State Treasury provided that taxes and fees are payable on maturity in the account opened with the National Bank of Romania with a separate payment order for each tax, duty and contribution, specifying the budget classification subdivision in which fits the respective tax obligations of the Fiscal Code.

We must point out that the State Treasury is functionally designed and especially accountable on the budget model approved by Parliament. In other words, the revenues approved on the subdivisions of the budgetary classification (chapters and subchapters) and the expenditures (chapters, subchapters, titles etc.) are found in the State Treasury's synthetic accounts in the analytical accounts of the earnings per payer. This evidence is organized and managed on a computer system by the tax administration at the level of the cities, municipalities and regions set up in recent years.

It results that the State Treasury system ensures the collection of receipts on the approved budget subdivisions and the tax authority keeps the analytical records on the payer. This ensures knowledge of the revenues of the budget revenues on the structure approved by the Parliament and the tax authorities, and the taxpayer knows the payment terms.

The above can be synthesized in the following information flow (Figure 1).

Figure 1. Payment of taxes and duties with distinct payment order



Source: made by authors

Since 2005, some "innovations" have been brought to the Treasury mechanism without being substantiated, one of which consists in: payment of taxes, duties and contributions is not carried out separately with a payment order for each tax and duty, but on a global basis with two payment orders. For this purpose, two current sub-accounts were opened in the basic State Treasury account entitled:

- State Budget account (includes income tax, corporation tax, income tax, etc.);
- State Social Insurance Budget account (includes the health fund, the unemployment fund and other budgets).

Under these circumstances, taxpayers pay out their budgetary obligations by making a global payment order for each of the two accounts opened in the budget.

The chronological record of payment orders in the two global accounts determines that the sums to be depersonalized, meaning that it is not known what each sum represents, and that the State Treasury units will perform other operations in order to know the budget subdivisions (chapters and subchapters) taxes, fees and contributions.

To this end, tax declarations made by taxpayers (individuals and legal entities) received by the tax authorities at all levels and on the basis of which are evidenced the revenue collection on the budgets and subdivisions of the budgetary classification and the tax body shows the extinction of the tax obligations in the analytical records led by taxpayers and taxpayers.

From the analyzes and researches carried out on this issue at the State Treasury units, we were surprised to find that the two global accounts are not closed, they remain with significant balances, due mainly to the failure to comply with the tax declarations, as well as to the delays in highlighting the respective operations.

Starting from the principles outlined in the Public Finance Act and in the legal norms for the establishment of the State Treasury, we are now faced with an anomaly with negative consequences on the knowledge of budget execution. Thus, the economic agents debit their tax liabilities at maturity, they register them in their own accountings, and in the records of the State Treasury and the National Agency for Fiscal Administration this operation is not found, which in fact leads to the fact that the respective taxpayers did not pay in due time their payment obligations to public budgets.

Expanding the research, we found that the balances of the global accounts opened on the budgets, respectively with the Ministry of Public Finance, with

important balances, which confirms the results of the researches carried out at the local Treasury level as well as the negative implications reflected in the construction of the State Budget execution and the State Social Insurance Budget on the subdivisions of the budgetary classification.

The occurrence of such a situation constituted a problem for the Ministry of Public Finance, which according to the legal provisions in force elaborates the public budgets (excluding local budgets) and draws up the annual execution accounts which are subject to the debate and approval of the Parliament. The solution applied to the budgeting was that besides the sources of income on categories of taxes and duties, a distinct position was also included "The balance of the State Budget account which was not broken down by the taxpayers", although this balance comprises a wide category of taxes and duties. In other words, the revenue of the State Budget with a breakdown by category of taxes and duties does not reflect actual revenue per source because some of it is in a global amount without knowing what it represents.

Analyzing this solution resulted that this is in substance a deviation from the provisions of the public finance law, which clearly state that the State Budget comprises taxes and duties provided for in the legal regulations in force at the end of the year and not the balance of current accounts. It is important to note that this applied solution creates serious difficulties for the State Budget. The analysis carried out on this topic highlights the fact that the use of the global accounts mentioned is of a high degree of vulnerability because no analytical working procedures have been developed with the emphasis on the responsibilities for tax and duty carrying through the two accounts. Under these circumstances, there is a slight suspicion that non-compliant operations can also be carried out, ie misappropriation and misappropriation of funds without a verification mechanism.

4. Conclusions

We consider it appropriate to apply measures to strengthen financial discipline, for which purpose we propose: to abandon the global accounts opened for the state budget and the state social insurance budgets, and taxes and fees to be transferred directly to the State Treasury account in order to effectively and operationally highlighting them on the approved budget subdivisions and the simultaneous recording in the analytical accounting on taxpayers led by the fiscal body. This proposal needs to be supported by the improvement of the payment system by legal entities, for which purpose it is necessary to verify the payment order with the tax declaration, which presents

the great advantage that at the moment of collecting a tax the Treasury and the tax authorities have and know all the elements necessary to highlight that tax. Our proposal implicitly leads to eliminating the formation of unpaid balances in those accounts, such as the reduction of document circuits. We believe that the proposal is applicable because it will be subject to the improvement of the current information system used by the treasury unit and by the tax authorities. We also consider the need to advance the deadline for submitting tax returns prior to payment deadlines.

We appreciate that our proposals will eliminate the susceptibilities of abnormal operations in the public budget account, as well as any inconsistencies in the record of payers from the fiscal body.

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