The impact of budgetary resources of financing investment decision

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Abstract. In this study we will present the impact of the budgetary resources regarding the decision of financing investment in Republic of Moldova.

In order to finance investment activity, economic entities can benefit from the resources from the state budget. Through budgetary resources with impact on the decision of financing investment we understand all the financial resources available at the state level by which the public authority can influence the growth and development of various sectors of the economy in general and businesses in particular. Thus, as budgetary resources we consider subventions and subsidies paid in order to finance different business sectors for development of their financial support, fiscal facilities as well as taxes and dues. If subsidies and financial aids are intended for a limited circle of economic operators who satisfy some conditions or practice types of activities protected by the state, then fiscal policy influences the investment volume of the enterprise, exerting an impact on all economic agents.

Keywords: budgetary resources, investments, subsidies, taxes, finance.

JEL Codes: G32, H25, H32

1. Introduction

The budget revenues of any state are mostly made up of taxes and fees paid by taxpayers. Analyzing their circuit in the economy, we notice that the economic agents, being taxed, transfer a part of their benefits to the state, so that later may benefit, as appropriate, of different financial aids. Thus, the liquidities received from the taxpayers as taxes and fees, return to the firm in the form of budgetary resources. In this way, the budgetary resources include on the one hand, the financial aids granted by the State to the economic entities as grants, subsidies, donations, etc., and on the other hand, all savings and tax incentives regulated by the tax law of the State.

2. The impact of budgetary resources on financing investments

2.1. Subsidies – a source of investment financing

By providing capital subsidies it aims to reduce the effective investment effort with a growing impact of marginal efficiency of the capital and to increase entrepreneurs’ impulsion to invest [6, p. 176].

In the Republic of Moldova the agricultural producers’ work is subsidized. According to the Regulation on the way of distributing the fund resources of subsidizing of the agricultural producers, the subsidy is defined as being the non-refundable and non-taxable moneyed aid granted from the subsidization fund of the
agricultural producers for supporting the investments made by the agricultural producers who correspond to the eligibility criteria.

Generalizing the measures for which the financial support is granted, we may mention the following:

1) encouraging agricultural producers’ lending by the financial institution in order to facilitate the access to the necessary financial resources for development;
2) stimulating the agricultural production risk insurance;
3) stimulating the agricultural investment in order to increase the productivity and the competitiveness of the sector which requires subsidies;
4) stimulating the consolidation and the irrigation of the agricultural lands in order to increase these areas and their productivity.

On this basis, we state that the subsidies can be considered as sources of financing investment activity of agricultural enterprises. In order that the agricultural producers may benefit of budgetary resources in the form of subsidies, is required them to be eligible and to submit the necessary documents to obtain the grant.

Thus, summarizing the Regulation on the way of distributing the fund resources of subsidizing of the agricultural producers, may benefit of the subsidy, the agricultural producer that made the investment corresponding to the goals and the fields of action related to each financial support measures in any locality in the country except Chisinau and Balti without the use of the grant, being the legal owner of the property that is the object of the investment and assumes the obligation not to alienate, in any way, the investment subjected to the subsidization. At the same time, he is not included in the List of agricultural producers’ prohibition; he does not have arrears of taxes and holds the mandatory documents and those that are requested additionally, according to the support measures.

The subsidies are considered, as well, some financial aid granted by the State to individuals or organizations. Analyzed from the perspective of economic agents, they aim to reduce the investment costs. In some cases, they can be treated as donations.

2.2. Investment resources resulting from the application of direct taxes

Both direct and indirect taxes exert influence on the enterprise investments. In the category of direct taxes enters the income or profit tax, as is called in other countries, which influence the size of the profit of the economic entity, thus diminishing its own financial resources, which leads to reduce the financial available funds necessary financing investment activity.

In determining the taxable income, we will consider some aspects that directly influence its size, such as:

- the deductibility of the expenditure with the interests generate a significant tax economy for an indebted enterprise because the State accepts the income tax reduction, bearing in such a way a part of the indebtedness [7, p. 48]. However, according to researcher C. Mihai the deduction of interests and repayment rates of loans involves a double effect: it reduces the tax burden due to increased financial costs, but also may lead to a situation in which the enterprise cannot cope with, at some point, the expenses related to the contracted debit;
- the deduction of expenses on the wear for tax purposes equally helps to reduce the taxable income and subsequently the income tax. Taking into account the consumable character over time of the properties, the wear deduction for tax purposes allow their regeneration or enrichment of the immobilisation fund through new investments related to replacement and modernization. Also, it is allowed the deduction of expenses for reparation, which will generate a direct impact on the taxable income, diminishing it and thus producing beneficial effects by reducing the tax burden on the economic agent.
The researcher M. Diaconu explains the favourable tax effects which the damping has, by the following synthetic relation [6, p. 204]:

\[ \text{CF}_t = (V_t - C_t - A_t) - u(V_t - C_t - A_t) + A_t \]

where: \( \text{CF}_t \) – the financial and monetary flows resulting from the exploitation of new investments; \( V_t \) – the operating incomes; \( C_t \) – expenses of the same type, specific to the investment, registered at time moment \( t \) (except for the amortization); \( A_t \) – the amortization of the properties at time moment \( t \); \( u \) – the established rate on profit (income) tax.

To make visible the favourable incidence of the deductibility of expenses regarding the amortization for tax purposes, the previous relation may take the following form:

\[ \text{CF}_t = (V_t - C_t)(1 - u) + uA_t \]

Therefore, the tax benefits obtainable as a result of the wear deduction for tax purposes are highlighted in the previous relation by \( uA_t \) and will participate in the additional supply of the financial effects generated by the commissioning of the investment.

- carry forward of the losses in the future - is another aspect that contributes to achieving tax economy, under the terms in which the tax legislation requires the deduction of losses in future years. But this provision of the tax legislation occurs a tax treatment intended for the patrimonial entities that need financial support in the early stages of their subsequent evolution. The Tax Code of the Republic of Moldova allows by Article 32 the carryover by instalment in equal parts of the amount of losses resulted from the entrepreneurship activity for the next three years. The favourable tax impact entrained by this operation provides the enterprise the possibility of continuous development by reducing the amount of taxable income by the amount of loss allowed for deduction. This tax economy, so necessary for the firms which are out of deadlock, will contribute to the financing of the activities generating economic benefits, spurring investments;

- the change of the income tax rate involves incidence on the evaluation indicators of the investments projects. The fiscal policy exerts influence on the investment behaviour of the economic agent through the income tax rate. A high rate of the income tax will raise the cost of the invested capital and will determine the stagnation of the investment process at the enterprise level, while a reduced rate of the income tax will reduce the cost of the investment effort and it will create additional liquidities at the enterprise level through which the investments are stimulated. In this context, in order to boost the investments, in the tax practice they use the tax facilities and the bonuses that appear as a deduction from the taxable income of a part of the costs incurred for investments, the tax free of the economic agents during the first tax periods, in order to consolidate their activity and the sustainable development, the tax free of the part of profit reinvested in the enterprise activity, the tax credit, etc.

Through these tax breaks, according to researcher M. Diaconu, the authority may encourage the desired activities, by the fact that they are granted conditionally on the adoption of new investments, without any option, at the firm level, to allocate greater financial resources and for other destinations. These facilities may be directed to promote the investments with long functioning period, encouraging the long-term planned investments, admitting that the higher the expense is, the longer the functioning period will be and the budget revenues, lost by the granting of these facilities, may be more reduced than in the case of practicing the zero tax rate [6, p. 219].

Analyzing the evolution of the income tax rate in the Republic of Moldova, we noticed a gradual transition from a fiscal policy aimed at stimulating the investments to a more demanding one, but with positive effects. The respective statistics is synthesized in the table below:
Table 1. The evolution of the indicators related to the investments and the income tax

<table>
<thead>
<tr>
<th>The indicators</th>
<th>The examined period</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2008</td>
</tr>
<tr>
<td>The volume of investments, millions lei (MDL)</td>
<td>18224.8</td>
</tr>
<tr>
<td>The income tax rate, %</td>
<td>0</td>
</tr>
<tr>
<td>The income tax rate for individual enterprises and peasant farms, %</td>
<td>0</td>
</tr>
<tr>
<td>The income tax rate for the SMEs’ subjects, %</td>
<td>-</td>
</tr>
<tr>
<td>The relief from the income tax for the first years of activity</td>
<td>YES</td>
</tr>
<tr>
<td>The fiscal facilities for investments</td>
<td>YES</td>
</tr>
<tr>
<td>The stimulation of free economic zones (FEZ)</td>
<td>YES</td>
</tr>
</tbody>
</table>

From the presented statistics is noteworthy that the highest investment volume is reached in 2008 in the amount of 18224.8 million lei, under the conditions of the zero tax rate and the presence of all tax incentives expressly stipulated. In 2009, the fiscal policy undertaken by the State enables new investments, keeping the same rates of the income tax, but the global economic crisis leaves its mark on the development of enterprises in particular and on the Moldovan economy in general in 2009, and determines the considerable reduction of the investments volume up to the amount of 11123.6 million lei. Between 2010 and 2011, we may observe an economic recovery by expanding the investments volume of about 1.24 times and respectively 1.19 times, compared to previous years, encouraged inclusively by the favourable fiscal policy carried out by the State. In 2012 the investments manifest a rising trend but with a lower tempo, while the tax legislation provides the taxation of the legal entities taxable income with 12%, the taxable income of individual enterprises and farms is subjected to a rate of 7%, and for SMEs, which includes the economic subjects who are not registered as VAT payers, except for the individual enterprises and farms, the quota of 3%* from the operational activity income is introduced. Meanwhile, it is found that for the economic entities which at 31 December of the previous fiscal period obtained income from 100000 lei to 600000 lei, the Tax Code allows the option of choosing between the tax rate of 12% of the taxable income or 3% of the incomes from the operational activity. In the situation of becoming a VAT payer during the declared fiscal period, the economic agent will be subject to the general tax regime - 12% of the taxable income. In such a way, we conclude that the State, through restrictive methods stimulate the economic activity of the patrimonial entities, because the enterprises are not tempted to pay 3% of the income generated by the operational activity, whereas this is a gross income that is not subject of deductions. Registering incomes exceeding the amount of 100000 lei or becoming VAT payers, the economic entities opt for the payment of 12% of the taxable income. Therefore the investments are stimulated indirectly, because the amplification of the operational incomes level is possible by stimulating the investment activity. Simultaneously with the establishment of these fiscal rigors, were excluded all fiscal facilities expressly stipulated, except the
stimulation of FEZ. In 2013 and 2014 the fiscal policy conceived in 2012 was continued. The impact on the level of investments volume is the same as in 2012, the investments increase keeping a slow tempo. The amount of 16983.2 * lei is approximate, being deducted by the percentage data presented in the statistical database from the Republic of Moldova, because of its absence as a separate indicator. Therefore, it is certain that the introduction of the income tax, the exclusion of fiscal facilities related to investments and tax deduction of newly created enterprises from the income tax, the introduction of the tax regime for the subjects of the small business sector contributes to maintaining the increased investment, but determined at the same time the reduction of the tempo of the volume investment increase.

In the international economic practice are known several versions of the enterprise profits tax which present implications on the financial decision concerning the enterprise investments through the effects entailed on the remaining financial resources available to the firm in order to be reinvested [5, p. 208]. These versions will be synthesized in the following table:

Table 2. Variants of profit taxation outlined in the international economic practice

<table>
<thead>
<tr>
<th>No.</th>
<th>Variants of profit taxation</th>
<th>Implications on investments</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>The application of the tax on the taxable income, before establishing and distributing the dividends. Afterwards, it will set a tax on the dividends.</td>
<td>The application of the respective variant of profit taxation, on the one hand taxes the dividends twice, and on the other hand, favours the retention and the reinvestment of a considerable part of the obtained profit, thus financing the investment activity from the own sources. However, in these circumstances, the enterprise manifests opening for debt, while the interest is deductible for tax purposes.</td>
</tr>
<tr>
<td>2.</td>
<td>The tax deduction of the profit intended for reinvestment, taxing only the dividends.</td>
<td>This variant stimulates the investments by their financing on the account of the untaxed profit and favours the retention of dividends.</td>
</tr>
<tr>
<td>3.</td>
<td>The tax deduction of the dividends, taxing only the remaining profit available to the enterprise.</td>
<td>The interest in reinvesting profit falls, however, the issuance of new shares as a way of financing becomes favourable.</td>
</tr>
<tr>
<td>4.</td>
<td>The separate imposition of the profit after the distribution of dividends and the separate taxation of dividends paid to shareholders.</td>
<td>The enterprise is favoured by a low level of dividend distribution and the unique taxation of dividends compared with its double taxation, determines the fact that the financing of the enterprise’s investments by issuance of shares to be attractive and, from the shareholders’ perspective, who can buy a great number of shares, thus allocating the financial resources required to finance the investment activity.</td>
</tr>
</tbody>
</table>

According to the provisions of the tax legislation of the Republic of Moldova, the economic agent pays dividends from the remaining income after taxing, being obliged to pay to the budget 12% tax withheld of the profit from the current fiscal year from which will be paid the dividends (Article 80). However, this amount paid is passed in the account as a tax applied to the taxable income of the economic agent in question, for the fiscal year in which the payment was made. If, in any fiscal year the passing in the account of the tax paid for dividends exceeds the amount of the income tax in that year, the economic agent, according to the Article 175 of the Tax Code of the Republic of Moldova, has the right to compensate for the difference by its return from the tax body.

The dividends received by shareholders are taxed according to the Tax Code of the Republic of Moldova with a 6% tax from dividends, inclusively in the form of shares or quotas-sides and 15% of dividends related to the undistributed profits obtained in the fiscal periods 2008-2011.
In these conditions, we note that the economic entities from the Republic of Moldova are interested to finance the investment activity on the basis of the own sources in a proportion of about 57% in 2012 (9492.3 million lei own sources / 16601.4 million lei total investments), also resorting to the borrowed resources, in order to replenish the financial funds, deducing, for tax purposes, the interest related to credits and borrowings.

2.3. The incidence of the indirect taxes on investments

Besides the impact of the direct taxes on the investments volume, it is also obvious the fiscal incidence of the indirect taxes, in the category of which are subscribed the value added tax (VAT), excises and customs duties. Although the indirect taxes are put in charge of the final consumer, affecting his budget, their impact on the economic agents is inevitable. In this respect, the volume of the investment resources can be negatively influenced by the reduction of the demand level to the enterprise products or services as a result of their increasing price levels on the account of the indirect taxes.

In the opinion of the Romanian researcher C. Mihai, the influence of VAT on investments is manifested by crediting the amounts paid into the VAT account until their recovery time [4, p. 80]. Taking into consideration that, according to the Tax Code of the Republic of Moldova, the moment of the tax liability of VAT is the moment of delivery and the payment of this tax is allowed until the date of presentation of the VAT return, i.e. until the last day of the month preceding the current month, the VAT still exerts influence by reducing the liquidities available to enterprise in the situations when the term of payment for the values procured by the enterprise is smaller than the term of the collection of receivables related to the values commercialized by the economic entity. It is remarkable that for detecting the respective influence, the transactions described above, occur between the enterprises paying VAT. On the other hand, the VAT can exert positive influence on the available cash of the economic entities, on the account of the VAT amount returned to them, of which the economic agents, who are VAT payers, will benefit in terms of carrying out taxable deliveries with VAT at zero or reduced rates, as well as of capital investments. In these conditions, the deductible VAT will exceed the VAT amount collected as a result of the reduced rates application and the difference will be offset by return from the State budget of the VAT amount to the economic agent, if he does not have any other debts to the budget. If they exist, their extinction occurs due to the VAT recoverable amount. Whatever the case, the VAT refund process, either as cash or in the form of savings from payment of other taxes will indirectly foster the investments.

Similar effects on investment resources of economic entities are also conditioned by the excises. As for customs duties they can generate positive effects on investment's resources of economic entities, given the implementation of some favourable tariff treatments materialized in the reduction or the exemption from the import customs duties of goods or services, with the effect of reducing the final prices at the importers’ level [6, p. 234]. In these circumstances, these scheduled facilities applicable to goods at the import, and which are subsequently used in the production process, stimulate the investments on the account of savings obtained by the reduced costs of the imported raw materials. The purpose of these scheduled facilities is to develop those regions, zones or sectors of the national economy which require imported goods for the promotion of the basic activity.

3. Conclusions

In conclusion we should mention that in the investment activity financing the budgetary resources plays an important role. Due to them, the economic entity can benefit from liquidities in the form of subsidies and various aids that increase the level of the investment resources at the enterprise and speeds up the process of making investments. The subsidies and the aids, however, are not granted to all economic entities, at the
same time the presence of the budgetary resources in the investments financing is noticeable by each economic entity on the account of fiscal facilities, the deductions allowed for tax purposes that generate savings which determine the reduction of the investment effort and the return of taxes applicable to the indirect taxation.

Thus, the economic agents, analyzing the provisions of tax legislation and, at the same time, and implementing in the enterprise practice all tax incentives, will be able to reduce the investment effort, assigning thus performance and efficiency to the promoted activity.

4. References


[8] [www.statistica.md](http://www.statistica.md)