

The Influence Of The Reduction Of The Employers' Social Insurance State Contributions On The Staff Expenses. Case Study For Public Institutions Of Lower Secondary Education

NICOLETA CRISTINA MATEI
Nicolae Titulescu University
185 Calea Văcărești, District 4, Bucharest
ROMANIA
cmatei@univnt.ro

MARIANA GURĂU
Nicolae Titulescu University
185 Calea Văcărești, District 4, Bucharest
ROMANIA
marianagurau@univnt.ro

Abstract: - Public institutions of lower secondary education are financed mainly from the public resources allocated from the local budget. Expenditures incurred from these resources have a maximum limit and a destination set out in the budget of each educational unit.

The revenue and expenditure budget or only the expenditure budget of a lower secondary education institution provides for the maximum amounts to be used for the expenses made throughout a budgetary exercise. Therefore, reducing the share of social security contributions from your employer by five percentage points would affect the budget of such institutions as it would lead to a modification of the social insurance contributions expenses.

In this paper we have described the structure of the current expenditure of a lower secondary education institution, especially with regard to staff expenses, because they hold the largest share in the total expenditure constantly incurred by the units concerned and are affected by the social security rate change. We have also presented the theoretical aspects related to the staff expenses, the budgetary execution phases that staff expenses must cover, the accounting treatment of costs of employers' social insurance contributions, the recognition of employers' expenses for the social insurance State contributions in the bookkeeping of lower secondary education institutions, as well as the influence of changes in rates of the social security State contributions from the employer on the staff expenditure of the institutions mentioned.

Key-Words: - staff expenditure; social insurance contributions; the revenue and expenditure budget; the local budget; lower secondary education institutions.

1. Introduction

With effect from October 1st, the current year, the employers' social insurance State contributions is to be reduced by five percentage points, which will cause a change in the sense of reducing the costs borne by employers with the State social insurances. The term employer refers to any natural or legal person that may, according to the law, engage workforce on the basis of an individual contract of employment. [1] Public institutions are legal persons who employ workforce on the basis of individual contracts of employment, and in this regard can be considered employers. Thus, public institutions as well will apply the provisions relating to the reduction of social security State contributions. According to the Labour Code the obligations incumbent on an employer include the payment of all contributions and taxes in their task, as well as to apprehend and transfer the contributions, taxes due from their employees, according to the law.

In order to make expenditures or expenses for the social insurance State contributions, public institutions must stipulate these on a legal basis. Thus, the expenses incurred by public institutions of lower

secondary education institutions are provided for in the revenue and expenditure budgets drawn up at the level of each unit as well as in local budgets.

The budgets drawn up at the level of each unit of lower-secondary education comprise income and expenses or only the fees to be paid by the institution concerned in the following budget year, totally and broken down by quarters, as well as the estimates for the following three years.

Local budgets are documents which yearly provide for and approve the revenue and expenditure of all administrative-territorial subordinated units. [2]

In local budgets, expenditures are classified according to a functional and economic criterion. The functional criterion involves the separation of expenditure according to areas of activity: general public services; Defense, public order and national security; social-cultural expenditures (education, health, culture, religion, social assistance, pensions, grants and allowances); economic activities etc. [3] The economic criterion separates the expenses according to their nature in current expenditures that are constantly made to any public institution (staff expenses, charges for goods, services etc.) and capital expenditure (investments to institutions). [3]

The staff expenses have got an important place in the revenue and expenditure budget of lower secondary education institutions and include salary costs in money and in kind as well as contributions.

Using the information in the revenue and expenditure budget can analyze the influence of the change in expenditure for the State contributions social insurance on the staff expenses.

2. Theoretical assertions relating to staff costs. The accounting treatment and recognition of expenses for the employers' social insurance State contributions

Expenses reflect the cost of goods and services used in pursuit of public services or, where applicable, revenues and subsidies, transfers, social assistance granted, for a period of time. [4]

Staff expenses include: salaries of personnel; labour rights in kind; employers' contributions to social security, unemployment insurance, health insurance, accidents at work and occupational diseases, costs relating to insurance and social protection; benefits of delegating, detachment.

Under accrual accounting, expenses are recognized in the period in which they occur. [5] Thus, expenditure on wages and salaries in cash and in kind, with the first, the 13th salary and expenses with related contributions are recognized in the period in which the work was performed, although their pay is implemented in the following period.

In view of the above, employers' social insurance State contributions will be recognized in the period in which the work was done in the debit of an account for expenses and credited to an account of debt, both having the same name, namely "Employers' Social Security Contributions", however, having different accounting functions and symbols.

The expenses account for the costs of employers' social insurance State contributions shall be credited at the end of the period, monthly, or upon preparing the financial documents at the latest, with the expenses allocated to the account of patrimonial result.

The payables account concerning the employers' social insurance State contributions will be charged at the time of the payment of these contributions with the amounts paid.

According to the tax code the social security State contributions are compulsory social contributions due and payable by any tax-payer of income such as salary or income to be assimilated to salary until 25th of the month following the month for which it is due, or until the 25th day of the month following the quarter for which it is due.

Any public institution, regardless of the subordination and the mode of financing the expenditure, shall comply with the procedures for completing the following phases of the budgetary execution of expenses: making, liquidation, authorisation and payment of expenses.

Operations specific to making, liquidation and authorisation of costs of public institutions are the responsibility of authorising officers, and of their superiors respectively, and shall be carried out on the basis of proposals from specialized departments of the public institution. [6]

Making staff expenditure from public sources includes legal and budgetary commitment.

The legal commitment represents any legal document which shows or might lead to an obligation at the expense of public funds. [7] In this case, the legal commitment is represented by the individual employment contracts concluded with the institution's employees.

The budget commitment represents any document by which a competent authority commits public funds to certain destinations, within the approved budgetary appropriations. [7] The budget appropriations being the maximum amounts approved by the budget up to which one can authorize and make payments during the budgetary year.

For the staff expenses of the lower secondary educational institution that have been studied a global budget commitment is to be drawn up by the accounting section which will be authorized by the person designated to carry out the preventive financial control and signed by the Director, in his capacity as credits authorizing officer.

Liquidation of staff expenditure is the stage from the budget execution process in which one checks for the existence of legal and budgetary commitments, determines or verifies the reality of the amount owed, checks the date of payment of the costs on the basis of the data in the legal commitments or the individual employment contracts respectively.

Payment obligations, both salaries and contributions, will be recorded in the patrimonial bookkeeping of the lower secondary education institution on the basis of supporting documents which certify the completion of the liquidation phase, namely the state of salaries, salaries synoptic table, summary situation regarding salaries.

Supporting documents are verified by the person empowered to carry out the liquidation expenses, implicitly staff expenses, upon confirmation that the verification has been carried out.

Authorisation of staff expenses is the phase in the process of budgetary execution in which it is confirmed that these expenses have been verified and that their payment can be made. At this stage one is to draw up the

“Payment Authorisation” document which will specify: the amount due, the identification data of the beneficiary of the amount, the nature of the expenditure, method of payment, cash before payment, the amount to be paid, cash after payment etc. The “Payment Authorization” accompanied by the original supporting documents, must be authorized by the person empowered to carry out the preventive financial control and then signed by the Director of the institution. After approval, the “Payment Authorization” accompanied by all documents shall be forwarded to the accounting department for the payment to be made.

Staff expenses payment represents the final act whereby the public institution pays its obligations. The payment instrument used for the lower secondary education institution under study is the payment order to the State Treasury, and the payment of salary and corresponding contributions is to be made from the account of the Treasury where the institution opened the account.

The staff expenses payment is to be made by the head of the Accounting Department of the institution only if the following conditions are met:

- expenses to be paid have been engaged, liquidated and authorised;
- There are open/distributed budget loans or cash available in the accounts;
- the subdivision of the budget approved by means of which the payment is made is correct and corresponds to the nature of expenditure;
- all the supporting documents justifying payment exist;
- the signatures on the documents belong to the authorizing officer or the persons appointed by the former to exert attributions arising from the execution of the budget expenditure, according to the law;
- the beneficiary of the amounts is the one entitled according to the documents;
- the amount due to the beneficiary is correct;
- the employment and authorization documents have got the internal preventive financial control approval;
- the documents are drawn up with all the data required by the form;
- other conditions stipulated by law. [6]

The bookkeeping records of the lower secondary education institution under study show at the end of the month the employer's social security State contributions using the 645.01.00 account “Employers’ contributions for social security”. The expenses account mentioned is developed analytically using the sector codes, the symbol of the source of funding and the budgetary classification structure, namely the codes of the functional classification and the economic one developed by Ministry of Public Finances as follows:

645.01.00	“The employers’ social insurance contributions”	The symbol of the account from the Plan of Accounts
02	The Local Budget	The Budgetary Code
A	Integrally from the budget	The financing source
65.00.04.01	Lower secondary education	The functional classification
10.03.01	Social insurance contributions	State The economic classification

For examples see the data in the following table:

Table 1. Excerpt from the budget of a lower secondary education institution – staff expenses – provisions for the year 2014
- thousand lei -

Code	Indicator Name	2014 Quarterly Budgetary Provisions				
		Total	quar. I	quar. II	quar. III	quar. IV
01	CURRENT EXPENDITURE	1.029,60	286,08	278,07	265,78	199,67
10	TITLE I Staff expenses	947,60	256,58	256,57	251,48	182,97
1001	Salary expenses in cash	736,91	199,66	199,65	195,66	141,94
1002	Salary expenses in kind	8	2	2	2	2
1003	Contributions, from which:	202,69	54,92	54,92	53,82	39,03
100301	State contributions for social insurance	153,27	41,53	41,53	40,69	29,52
100302	Contributions for unemployment insurance	3,60	1	1	0,98	0,62
100303	Contributions for health insurance	38,39	10,38	10,38	10,18	7,45
100304	Contributions for accidents at work and occupational diseases insurance	1,16	0,31	0,31	0,31	0,23
100306	Contributions for leaves and compensations	6,27	1,70	1,70	1,66	1,21
20	TITLE II Goods and services	82	29,50	21,50	14,30	16,70

According to the data from the table above, the total cost of the institution's social security State contributions for the fourth quarter of the year 2014 is 29, 52 thousand lei, therefore the approximate cost for each month of the quarter IV are 9.84 thousand lei, and the bookkeeping record is the following:

645.01.00.02.A. = 431.01.00.02.A 9,84 thousand lei
65.00.04.01.10.03.01
“Employers’ contributions for social security”

At the end of each calendar month the lower secondary education institution under study will distribute the costs of the employers’ social security contributions on the patrimonial result account:

121.00.00 .02.A = 645.01.00.02.A. 9,84 thousand lei
”Patrimonial result”
65.00.04.01.10.03.01
“Employers’ contributions for social security”

Actual expenses for the employers' State contributions to social security will appear in the financial statements drawn up by the public lower secondary education institutions in the "Patrimonial result account" because this is the reporting and summary document that provides information on expenditures, income, funding and patrimonial results of public sector entities.

3. The influence of the five percentage points reduction of rates of the employers' social security State contributions on the staff expenses

The educational institutions financed from public resources make expenses within the spending limits and for the destinations approved by the budgets to which they belong. For a strict control of the expenditure of public institutions subordinate to the local budget, including those of lower secondary education, the revenue and expenditure budget will be drawn up, making provisions for the expenses and revenues or only the expenses incurred each budgetary year, as well as the following three.

The analysis of the data presented in the table 2 Excerpt from the budget of a lower secondary education institution - current expenditure for the 2014-2017 period and table 3 The Structure of the current expenditure of a lower secondary education institution shows that the share of staff expenses in the total current expenditure for the period 2014-2017 is significant, this going from 91,18% to 92,18%.

Table 2. Excerpt from the budget of a lower secondary education institution – current expenses - provisions for the 2014-2017 period
- thousand lei -

Code	Indicator Name	Annual budget provisions 2014 -total-	Annual budget provisions 2015 -total-	Annual budget provisions 2016 -total-	Annual budget provisions 2017 -total-
01	CURRENT EXPENSES	1.029,60	1.078	1.077,50	1.151,50
10	TITLE I Staff expenses	947,60	984	982,50	1.061,50
20	TITLE II Goods and services	82	94	95	90

Table 3. Structure of the current expenditure of a lower secondary education institution

Code	Indicator Name	Structure of current expenses			
		2014	2015	2016	2017
01	CURRENT EXPENSES	100%	100%	100%	100%
10	TITLE I Staff expenses	92,04%	91,28%	91,18%	92,18%
20	TITLE II Goods and services	7,96%	8,72%	8,82%	7,82%

On the basis of table 1. Excerpt from the budget of a lower secondary education institution – current expenses - provisions for the 2014-2017 period, one can determine the structure of staff expenses, presented in table 4. Structure of the staff expenditure of a lower secondary education institution and the structure of expenses on contributions in table 5. Structure of the expenses on contributions of a lower secondary institution.

Table 4. Structure of the staff expenditure of a lower secondary education institution

Code	Indicator name	Structure of staff expenses in 2014				
		Total	Quar. I	Quar. II	Quar. III	Quar. IV
10	TITLLE I Staff expenses	100%	100%	100%	100%	100%
1001	Salary expenses in money	77,77%	77,82%	77,82%	77,80%	77,58%
1002	Salary expenses in kind	0,84%	0,78%	0,78%	0,80%	1,09%
1003	Contributions	21,39%	21,40%	21,41%	21,40%	21,33%

Table 5. Structure of expenses on contributions of lower secondary education institutions

Code	Indicator name	Structure of expenses on contributions in 2014				
		Total	Quar. I	Quar. II	Quar. III	Quar. IV
1003	Contributions	100%	100%	100%	100%	100%
100301	State contributions of social security	75,62%	75,62%	75,62%	75,60%	75,63%
100302	Unemployment contributions	1,78%	1,82%	1,82%	1,82%	1,59%
100303	Health social insurance contributions	18,94%	18,90%	18,90%	18,91%	19,09%
100304	Contributions for accidents at work and occupational diseases insurance	0,57%	0,56%	0,56%	0,58%	0,59%
100306	Contributions for leaves and compensations	3,09%	3,10%	3,10%	3,08%	3,10%

Staff expenses provisioned by the budget of the public institution of lower secondary education under study include salary costs in cash (basic salaries, compensations, fund pertaining to payment by the hour etc.), salary costs in kind (transport costs to and from the place of work etc.) and expenses on contributions. According to the data from table 4. Structure of the staff expenditure of a lower secondary education institution, salary costs in cash hold the largest share, namely 77,77%, followed by expenditure on contributions.

Expenditure on contributions comprise expenses on State contributions to social insurance, the costs of unemployment insurance contributions, expenses with contributions for health insurance, expenses with contributions for insurance against accidents at work and occupational diseases, and the costs for leaves and compensations. According to the data in table 5. Structure of expenses on contributions of lower secondary education institutions, expenditure on social insurance State contributions hold the largest share in the total expenditure on contributions, respectively 75,62% for the whole year 2014 and 75,63 % for the fourth quarter of 2014.

The bill that stipulates the provisions relating to the reduction of the contributions of employers to the social insurance State contributions will apply, if adopted by the Parliament, starting with 2014 revenues for the month of October. Thus, they will affect the costs of social security contributions and, implicitly, the staff expenses of the employers starting in October 2014, respectively in the last quarter of 2014.

According to the tax code in effect the contribution share for the social insurance payable by the employer for normal job conditions is 20.8%, and the amendments to the bill set a 15.8% share. These changes will affect the amount of costs for the State contributions to the social insurance for quarter IV, as well as staff expenses as shown in the following table:

Table 6. The influence of the reduction of the contribution share to the State social insurance on staff expenses

Code	Indicator name	Budget provisions for quar. IV 2014		Expenses modification	
		Share 20,8% (thousand lei)	Share 15,8% (thousand lei)	Absolute dimensions (thousand lei)	Indices
0	1	2	3	4=3-2	5=3/2*100
01	CURRENT EXPENSES	199,67	192,58	-7,09	96,44%
10	TITLE I Staff expenses	182,97	175,88	-7,09	96,13%
1001	Staff expenses in cash	141,94	141,94	0	100%
1002	Staff expenses in kind	2	2	0	100%
1003	Contributions, of which:	39,03	31,94	-7,09	81,83%
100301	Social insurance state contributions	29,52	22,43	-7,09	75,98%
100302	Unemployment	0,62	0,62	0	100%

	insurance contributions				
100303	Health social insurance contributions	7,45	7,45	0	100%
100304	Contributions for accidents at work and occupational diseases insurance	0,23	0,23	0	100%
100306	Contributions for leaves and compensations	1,21	1,21	0	100%
20	TITLE II Goods and services	16,70	16,70	0	100%

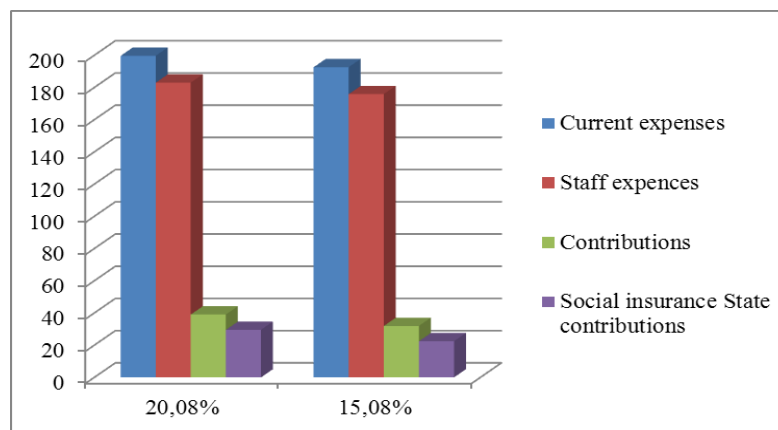


Fig. 1. The influence of the reduction of the share of the social insurance State contribution on staff expenses

Reducing the share of the social insurance contribution by five percentage points would result in a decrease of the expenditure on social insurance State contributions by 7,09 thousand lei, respectively 24,02%. This change will cause the reduction of expenses on total contributions and staff expenses by 7,09 thousand lei respectively, 18,17% and by 3,87%. In conclusion, the decrease of the share of social insurance contribution from 20.8 to 15.8 will cause a reduction in staff expenses by approximately 4%.

4. Conclusions

Units of lower secondary education funded from public resources are subordinate to local institutions whose expenses shall be provided and approved by the budgets. Expenditure in accordance with the economic criteria is divided into current expenditure and capital expenditure.

In the budgets drawn up by lower secondary education institutions, current expenses consist of staff expenditure and expenditure on goods and services, and staff expenses are the result of the combined salary costs in cash and those in kind, as well as the contributions. Thus, changing the share of the State social insurance will entail the chain reduction of the expenditures on contributions to the State social insurance, contributions expenses and staff expenses. This aspect will be favorable to lower secondary education institutions, because staff expenses have the highest share in total current expenditure and hence in total expenditure. The reduction of the staff expenses will allow the institution under study to save analyzed approximately 7,09 thousand lei from the total allocated expenditure for the fourth quarter of the year 2014, the quarter concerned by the bill which aims to reduce the employers' social insurance contributions by five percentage points.

From the point of view of the institution under study the reduction of the employers' contribution to social insurance by five percentage points is beneficial, for the reasons set out above. However, the effects of this step should be considered together with the effects of minimum salary increase on the staff expenses to see exactly the amount one may save from their application. Consequently, the research topic for a future paper could be linked to the effects of the reduction of the employers' social insurance contributions by five percentage points in the context of increasing the minimum salary.

References:

- [1] Law 53/2003- The labour code with the subsequent amendments
- [2] Law on local public finances no. 273/2006 the subsequent amendments and additions
- [3] *The Green Book of Public Institutions Bookkeeping*, Rantrop & Straton Publishing House, Bucharest, 2014, p. 20
- [4] Ordinance of the Public Finances Ministry no. 1917/2005 for the approval of the methodological norms regarding the organization and management of public institutions bookkeeping, the accounting plan for public institutions and guidelines for its application
- [5] A. Ștefănescu, M. E. Glăvan, M. Dumitru, I. C. Pitulice, *Public Bookkeeping*, ASE Publishing House, Bucharest, 2013, p. 183
- [6] Ordinance of the Public Finances Ministry 1792/2002 for the approval of the methodological norms regarding the commitment, the validation, authorisation and payment of the expenditure of public institutions, as well as the organizing, recording and reporting of budgetary and legal commitments
- [7] Government Emergency Ordinance 45/2003 regarding local public finances