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THE MANAGEMENT OF PUBLIC FINANCE LITERACY FOR SUSTAINABLE ECONOMICAL ENVIRONMENT

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Abstract. Understanding of the tax burden in public finance is probably an important issue for the each country's growth. It affects the public sector and the development of the country's and individual citizens' lives. Therefore a significant focus on the general development of the public finance studies is obviously increasing. Moreover that process is organized in connection with the relevant higher education and research programs. On the other hand the finance management education are treated differently in different countries. In some countries, social scientists are still debating whether the public finance management can be seen as an important educational and scientific branch of study. That is becoming increasingly important provision that such a discussion does not directly benefit the common development of financial education in recent years. One of the possible ways to deal with personal finances in different economic conditions could be changing attitudes to finance knowledge among students in universities. The young people could be supported by financial education programs that are clearly incorporated into their underground or postgraduate courses. The correct management of these programs helps to improve student and cadets learning experience and the economic well-being. Moreover the learning based on the public administration and the public finance probably educate patriots of the country and people intolerant to non-transparent activities of public servants. Eventually the best ways to determine the country consolidated tax paid by natural and legal persons could be the tax burden rate. Besides the financial data supplied to the main European Statistics Authority – the Eurostat – by the national statistical institutions sometimes can be not very correct. Therefore even more important could be an issue that an ordinary country's citizen who is living only from the income related to the labour relations (or corresponding relations of income) obviously has the much higher tax burden. Then we have an increase of the direct taxes burden by almost twice versus the official country's tax burden. However the additional tax burden includes hidden taxes related to the aggregated spending of an employee's income inside the EU. In that case the tax burden for an average employee could approach up to the two-thirds of the total (work-related) income. Then "the freedom from the taxes day" can be relocated to the second half of the year for the ordinary worker. This perception of the tax burden can encourage each citizen of the country to be responsible for the all public servant activities and for budget planning processes.

Keywords: education, public finance, taxation, economics, budget, tax burden

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JEL Classifications: H2, H24, E65

1. Introduction

The historical understanding of financial theories and realistic conception of the educational process is one of the most important topics in economics and financial literacy across various countries (Njaramba *et al.* 2015). Nevertheless it is not usual that studies programs are supplied for free for university students. Therefore the first financial impact in majority of studies probably is a payment for the education. Cash theme has the all possible number of complex aspects as the permanent change in the market economy and the monetary policy

considerations. How much such knowledge is required in the higher university education is a quite permanent question (Matetskaya 2015; Starineca, Voronchuk 2015; Tarabkova 2014; Išoratė *et al.* 2014; Raudeliūnienė *et al.* 2014). Therefore can be argued that probably it is essential to study mentioned topics in the majority of universities' programs.

Besides the municipal or local public authorities are the "first frontiers" in everyday relationships with the tax payers from these municipalities. Theoretically public servants are constantly trying to increase their tax base and to bill for their services they are expected to provide free of charge (i.e., for the taxes already collected). In this publication we discuss about the Lithuanian case (Tunčikienė, Drejeris 2015). Unfortunately that there are similar cases in the majority of the post authoritarian countries. From the transparency point of view expenditures of the local authorities must be accessible to the all taxpayers including quite detailed components, and possibly, with comments about the expediency of using the exact tax. Unlike the state budget legislation the local governments could be considered as a family that is not partially insulated from these observations about daily expenses and their municipal costs must be affordable. Municipal spending gives a theoretical examination for balancing the two key issues; increase of the the tax base, create new jobs and maintain the quality of life of the municipal community. Unfortunately this concept is probably poorly understandable in the post undemocratic countries both from the public servants and from taxpayer's side.

2. A Concept of the Financial Educational Process

Especially important for the public finances to understand their publicity in any case during totalitarian times the public finances were called "the state's finances" because the tax burden understanding was the quite secondary topic to the dominating idea of the creation of "a new world wide or at least nationwide socialism." Sadly these provisions often remain in perceptions of some public servants staff and even in the new generation concepts. At the same time the typical country's economic, financial ir administrative problems are almost always associated with the corruption and non-transparent situations in the public sector. Thus as it was mentioned these situations are probably the most common events in public finance management. Therefore finance and especially public finance literacy could be the one of keys solving state's corruption perception. Moreover university and college students often do not realize the seriousness of risks they are sometimes making in their financial decisions (Durband, D. 2012). Furthermore approaches to that data are often reflected in the country's position to the calculation of the tax burden. Therefore according to official figures Lithuanian tax burden's rate is relatively low, i.e., approximately the 28.7 per cent of the Gross Domestic Product in the 2014th. Nevertheless these statistic data can be biased due to the evaluation of the social and health insurances payments which are interpreted quite differently. It is possible to admit from the several decades of the teaching practice in a different programs of non-financial studies the knowledge and literacy in the financial area is improving quite slowly (EC Economic Review of the Financial Regulation Agenda, 2014).

In general, the concept of public finances in the education process starts with the tax and budget concepts. The municipal tax revenues and budget structure can be presented as a good example in which persons could see structure of public finance functioning and it should be likely the closest pattern to the each citizen of a different country. On the other hand that approach could be more suitable for the second or third year students or especially in part-time studies or in the postgraduate programs. The majority of students come directly from high school in the undergraduate or bachelor's degree programs and usually are unfamiliar with the self-living and self paying practice. Even more complicated is understanding of the State and National budgets or on the other hand the theoretical private enterprise finance (Išoratė, M. *et al.* 2014.) However the financing them from the revenues of the taxable and the non-taxable inflows. In terms of financial education that is the more or less significant. At the same time person begins to understand the role of the state (and municipalities) in the economy. Then materializes admittance to the State's economic regulation functions as a redistribution function, social function and the control function. Financial education is also important to the knowing of the State and local governments revenue and expenditure structure, to the basic laws which provides a framework for the tax collection and the allocation of assignments.

Tax perception is frequently challenging. Since using the same concept of ‘taxes and fees for public sector directly received nothing, and charges for specific services (Jurgutis 1995). Therefore, confusion of terms is fairly constant, which once again shows the need for public finances literacy in the all areas of study programs for students or cadets. In recent years the official Lithuanian tax burden usually comprises a little bit less than 30 percent taken involvement of the country’s gross domestic product (Table 1). What often politicians and experts are talking to, it obviously means, we need to increase Lithuania’s tax burden. However, there may be a cardinal mistake that social insurance contributions and compulsory health insurance contributions to the funds are not calculated into private individuals and legal entities tax burden. This payments are usually seen as an insurance premium. But knowing the private health insurance funds and social aspects of the activity we see some differences between private and public insurance funds. In such cases, all known figures that are donated into a abundant amounts, i.e., 34 per cent contribution to the Social Insurance Fund (SIF or SoDra in Lithuanian) and six per cent to the Compulsory Health Insurance Fund (MHIF) from the first Euro of the gross (or pre-taxed) income. Therefore adding this number to the given tax burden of 32 percent could be calculated the other number, showing what is the tax burden of the private households (approaching seventy percent from the gross income) or particularly the total economy of the country would have tax burden near the fifty per cent that is very close to the Scandinavian taxation burden which is one of the European Union’s largest and is one of the largest in the world.

3. The Management of the Tax Burden for the Public Finances Perception

Thus for individuals with only income from the employment or corresponding relations this tax burden will certainly has much bigger impact (De Haan 2002). We probably should consider this concept of public finances educational aspects. If the average Lithuanian earnings before tax (gross) is 700 Euros (data is from the 2015th). The employer in the workplace cost would be 700 + 218.86 Euros, as against 30.98 rate amongst wage “on paper” (or gross) is transferred into a lush and even the employer contributions to the guarantee fund of 0,2 rate amongst (in our case, it would be 1.4 Euro). It does appear that the additional amount of the employer costs consists of 218.86 Euros for the average monthly wage. So the one workplace costs 918.86 Euros for the business doing individual per month. It is often officially declared as the average job cost to the employer. Thus, such an amount is required that the employee receives a monthly fee of 700 Euros before taxes, as we have often said in the jargon “on paper”. But after-tax employee’s salary will be 540.91 Euro, it is said, “in the hand”. And again, from many years of practice can be anticipated that for many workers it does not matter what is the wage before tax, or officially “on the paper”. That once again confirms the tax burden is probably not realized correctly.

Continuing further the proceeding since this work in the contract for the amount of fees paid that are attributable to the official tax burden, that is, is a rich (sometimes called the pension and social insurance), three more three per cent from the first salary of the Euro, because the tax-free amount of income TFI (or NPD in Lithuanian) does not apply here, there is also the transfers to the compulsory health insurance fund six three per cent, and even the personal income tax (PIT) 15 taken interest, which depending on the income level or amount of tax-free income (TFI). It should be noted that the TFI are no valid for salaries of 929 Euros before taxes. The monthly non-taxable income rate calculator, after December 2008 Lithuanian Seimas adopted reforms came the global financial crisis is such that TFI only applies to labour relations or corresponding relations related income (wages, bonuses, premiums). Tax period, a monthly non-taxable income is calculated taking into account only the basic salary, bonuses and premiums. It is calculated by the following formula:

Monthly TFI = 166 to 0.26 x (resident monthly labour relations or corresponding relations related income - 290). When calculated according to the formula ITF is negative, it is considered that it is equal to 0 (State Tax Inspectorate, STI 2015).¹

Thus the workplace to the employer has a price of 918.86 Euros. In additions 55.18 percent amongst paid taxes, for an average salary (700 Euros) the ITF still exists which is 59.4 euro, that this amount must be subtracted

¹ There are corrections from the January 2016th and it is a new formula for monthly tax free income TFI = 200 – 0,34 x (resident monthly labour relations or corresponding relations related income – 350 Euro) (State Tax Inspectorate, STI, 2016)

from 700 Euros to calculate the amount of personal income tax, therefore, the average monthly salary income tax is 13.73, so generally from the workstation price will be paid 53.91 per cent tax, or 495.36 Euros, and the same employee (taxpayer) remains 423.5 Euros. That is amount of money paid for the workplace by the employer 918.86 Euros.

Making a natural assumption that the average wage in the average monthly income brackets is spent for goods and services in Lithuania, then the average consumer indirectly pays 21 percent of the value-added tax, which accounts for 88.94 Euro, then money remaining for person is 334.57 Euros, or 36.4 percent of his or her gross salary. Therefore only 36.4 per cent, (or 334.57 from the 918.86 Euros), the person theoretically can manage by himself or herself. However the tax does not stop at this point. There are additional the public finance impacts on the private person labor income. There are additional excise taxes, natural resource taxes, municipal taxes, which can be conditionally called indirect taxes. Moreover the land taxes, real estate taxes, inheritance taxes are direct taxes of which we should take into the account also.

Of all the mentioned additional taxes one of the most important indirect tax is an excise tax on petroleum products, electricity, alcohol products and tobacco without a doubt (Hyman 2009, Dubauskas 2013). Depending on the consumption basket, and taking in mind that the excise tax is often up to half the price of goods, from the remaining 334.57 Euros our average taxpayer still can “write off” taxes about 10 per cent, i.e., 33.5 Euros. Then a citizen freely available amount of money consists of 301.07 Euros or 32.77 percent from his or her salary.

In addition to last greater indirect excise duty, the land, real estate taxes and stamp duties has not to be forgotten. Meanwhile a potentially significant part of Lithuanian citizens are owners of the land and property. Thus that contribute to another additional tax. Besides a major part of the citizens are home-owners, i.e., about 80 percent interest Lithuanian households live in their private apartments or houses. Thus, more taxes should be paid from the 301.07 Euros disposable net income. The last addition of indirect taxes is imports into the EU. Taxpayers nonetheless are paying customs duties. This represents an additional some Euros and wage earners are already capable of handling only 285 Euros, or 31 percent of her or his salary. Thus income from person’s labour or corresponding labour related activities is taxed about of 70 per cent. This is sometimes called as the taxation on labour versus to taxation on capital. In this context, the concept as the “Tax Freedom Day” can be mentioned (Roger, J., 2015).

The Tax Freedom Day, can be described when the average taxpayers stop to work for the state and start to work for their self. The non-governmental institutions described that for the all Lithuanian legal and natural persons Tax Freedom Day was in 15 May, 2015. Although under the new direction-European Reform Foundation jointly with the L’Institut économique *Molinari* (Tax Burden for Typical Workers in the EU, 2014) using a unified methodology survey conducted in the all EU countries, the date when working person starts to work for himself or herself for the year 2014 were as follows: March 21st in Cyprus, April 28th in Ireland and Malta, May 12th in United Kingdom, May 18th in Bulgaria, May 30th in Luxembourg, June 6th in Portugal, June 7th in Denmark, June 8th in Slovenia, June 10th in Estonia, June 12th in Spain, June 13th in Croatia, June 14th in Poland, June 18th in Lithuania, June 19th in Czech Republic, June 20th in Finland, Slovakia and Latvia, June 21st in Netherlands, June 23rd in Sweden, June 30th in Italy, July 1st in Romania, July 11th in Germany, July 14th in Greece, July 16th in Hungary, July 25th in Austria, July 28th in France, August 6th in Belgium (Tax Burden for Typical work in the EU, 2014). That is the officially announced tax burden in various European Union countries. However Tax Freedom Day for persons living only from the labour related income or in other words only from the employment related or the corresponding relations financial gain probably is even not correct in the case of Lithuania, according to preliminary calculation presented above that day could be close to the August 15th. Maybe not a coincidence that this coincides with the old national and religious celebrations such as the Assumptions Day. Thus, in that case Lithuania even outrun Belgium where the Tax Freedom Day is on August sixth. Certainly it should be noted that the mentioned above study methodology could not calculate the taxes paid for the acquisitions of goods and services from the persons net wage. Nevertheless the tax freedom day probably could be a hyperbolic issue because without tax revenues existence of the state could be problematic. However the transparency of seventy percent taken from the person’s gross income for public interest is not

still adequate. Consequently the example of the tax burden as the basis of the public finances explanation could be an educational necessity.

Table No 1. Officially announced the tax burden in various European Union countries

| EU State | Tax burden percentage from the GDP | Year |
|----------------|------------------------------------|------|
| Austria | 43 | 2014 |
| Belgium | 44,7 | 2014 |
| Bulgaria | 28 | 2013 |
| Croatia | 26,6 | 2014 |
| Cyprus | 32,8 | 2013 |
| Czech Republic | 33,5 | 2014 |
| Denmark | 50,9 | 2014 |
| Estonia | 32,9 | 2014 |
| Finland | 43,9 | 2014 |
| France | 45,2 | 2014 |
| Germany | 36,1 | 2014 |
| Greece | 35,9 | 2014 |
| Hungary | 38,5 | 2014 |
| Ireland | 26,4 | 2013 |
| Italy | 43,6 | 2014 |
| Latvia | 27,6 | 2014 |
| Lithuania | 28,7 | 2014 |
| Luxembourg | 37,8 | 2014 |
| Malta | 34,5 | 2013 |
| Netherlands | 36,7 | 2013 |
| Poland | 31,9 | 2013 |
| Portugal | 34,4 | 2014 |
| Romania | 29 | 2013 |
| Slovakia | 31 | 2014 |
| Slovenia | 36,6 | 2014 |
| Spain | 33,2 | 2014 |
| Sweden | 42,7 | 2014 |
| United Kingdom | 32,6 | 2014 |

Source: European Commission 2013, Taxation Trends in the EU; 2013 projections: AMECO database- spring 2013, p.2-12.
OECD Economics Department Working Papers, Total Tax Revenue by Country, 2014, p.3-4

Conclusions

As it has been discussed in a number of European Union countries the process of financial education and financial literacy has existent importance to the general civic education for improving the financial knowledge and skills paradigm. This is especially true in higher education institutions in connection with the relevant higher education and research programs. Frequently public finance management and a variety of educational programming interfaces separate programs are treated differently. In some schools of higher social scientists are still debating whether the financial management and, in particular public finance management can be seen as an important educational and scientific branches of study, but in recent decades, are becoming increasingly important provision that such a discussion does not lead to direct benefits. Based on the public finances, in Central and Eastern Europe, has been called the state's finances, the model can develop their country's patriots and those intolerant opaque phenomena. Very often, the best citizen's participation in the governance of their country is the payment of taxes that are intended for the most important state functions. One way to determine the country's aggregated or consolidated taxes paid by natural and legal persons could be the tax burden rate. Since such data to the Central European statistics authority of the national statistical departments or offices, often reflecting the country's approach to the calculation of the tax burden. Thus, according to official figures Lithuanian tax burden is relatively low rate amongst 28.7 of gross domestic product in the 2014th year, but these statistics can be bias due to social and health contributions, which are interpreted quite differently. Even more

important is the the ordinary citizen living only from the labour relations or corresponding relations related income has obviously much higher tax burden. Then only the direct tax burden is almost double versus the officially presented figures as the national tax burden. Moreover including other taxes, sometimes referred to as hidden taxes or duties increase the tax burden for the labour related employee can reach even two-thirds of the all gross income. In the theoretical approach of the “freedom from taxes day” the ordinary worker starts to work for himself or herself only in the second half of the year. Therefore understanding of that tax burden can really encourage each citizen’s insistence for the transparency of public servants in their operations and budget planning processes. That also could be an outstanding financial literacy practice for a new generation seeking the country’s sustainability with greater involvement in political activities.

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