

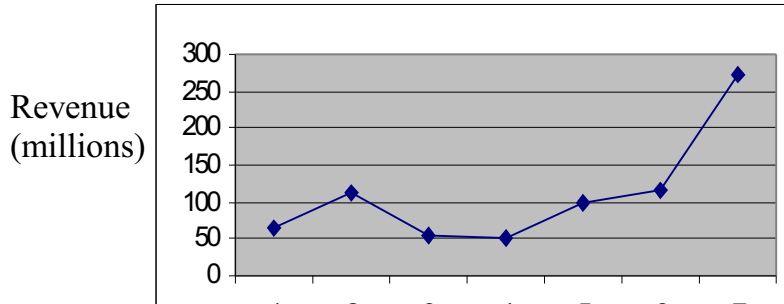
For your own country describe the main components of

- 1) Government revenue**
- 2) Government expenditures**

- 1) The sources of government revenue are plenty. There are the **taxes**, national insurance Contribution, borrowing (government Stock and treasury bills, bonds etc), there are also trading surpluses and rent, interest and dividend receivable, privatization proceeds and so on. But the main, and most important component are the taxes. There are two types of taxes: Direct taxes which are taken directly from people's and organization's income, which is collected from the Inland Revenue. The most popular direct tax is the income tax. It is a progressive tax, this means that the proportion (%) of income paid in tax increases as income increases, for people's income. Another important and similar tax, is the corporation tax. The only difference with the income tax is that it is specified for company's income tax. But for multinationals that set up in Cyprus there is a flat rate of 4.25% whatever their level of profit is. There are lots of other direct taxes such as capital gain tax, inheritance tax, special contribution for defence and social insurance contribution. The other type of rival tax is the indirect tax. This are taxes which are imposed on a good or a service and are collected by the Customs & Excise department of the government. The most popular tax is the value added tax (VAT). This is a tax on expenditure on goods and services. It is charged on an ad-valorem basis at 8% for most goods and services. VAT is collected by business and is imposed on the value added to a product by that business. Essential commodities such as food, children's clothing and electricity are no subject to VAT. If Cyprus enters the EU then our VAT should shift to 15% as all European governments. Another important indirect tax is the custom duties. These are imposed on goods from countries which are not members of the EU. The amount of tax paid is determined by the EU, is the same for all members of the EU and is know as the Common External Tariff.
- 2) The government has got a huge amount of costs so that it can preserve the high standard of living that Cyprus had accomplished during the last decades. The largest proportion of the governments expenditures go to the salaries of government employees, which make up about 40% of the whole working force of the country. This expenditure grow more and more since the salaries of government employees rice automatically every year based on agreed salary scales. Another important factor that we must consider for the government's expenditures, is the problem of the ageing population. The government must provide more and more old people with pensions and health facilities. It is expected that by 2028 those over 60 years old will be 23% of the total population as compared with 15% in 1994. Also the spending on defence has reached very high expenditure levels since we have to protect our self from our long time rival Turkey. As a final point, rising expectations from the public for more government spending and social and political opposition to government effort to reduce spending. Today everyone expect something from the government whether it is a farmer who want subsidies for his bad crop or a tourist agent who wants subsidies for his loses. Any government attempt to reduce its spending in a certain area is bound to face very strong opposition from some groups in society and there will be displeased voters, as a result expenditures can not be reduced.

Describe and account for recent changes in the pattern of Government income and expenditure in your own country.

During the last decade we have seen the government expenditure's to shift to the sky and so did the government's income with one way or another, so that the national debt will not be huge. From 1985 – 2000 the governments revenue quadrupled by 1483.6 million pounds. We can observe that the government revenue rises by approximately 85 million pounds per year, with an increasing rate as years go by. But the most sudden change occurred during the year 1999-2000 when the government's income rose by 273 million pounds approximately 300% rise.



The government increases its revenue by demanding more money from taxes, social security contribution, national insurance contribution, national insurance contribution. Although the tax revenue of the government increases as years go by, from 1985-2000 they amplified by 1482.6 million pounds, but its proportion as a whole of government revenue varies. The proportion of the direct taxes from 1985 to 2000 was 26 to 29 percent of the whole government's revenue with some but and downs. We can spot that in 1985 it starts generally low 26%, then in 5 years time it increase to 29% (1990), and during the next 5 years it decrease to 25% (1995). From there we can see a gradual increase, in 1996 it became 26%, 1997 was 27% and in 1998 was 28%. But in the year 1999 it shifted upwards to 31%, maybe due to inflations, and in the year 2000 it became 29%. So we can conclude that there is a general increase in the proportion of direct taxes the last one and a half decade. The promotion of the rise of direct tax is due to redistribution. The progressive nature of many direct taxes means that the wealthier members of society are taxed more heavily than the poorer groups. Many people think this is fair so the government has satisfied voters.

The proportion of the indirect taxes show a relevant decrease. From 1985-1999 it decreases from 38.4% to 35.9%, but in 1995 it increased to 40.5%. From then on it shows a significant decrease down to 35.1% the year 2000. This is because indirect taxes are regressive. The indirect tax, eg. VAT, that people pay as higher prices of goods and services are charged, is the same on low and high income people. This is unfair so the government tries to reduce it, so there will not be displeased voters and repulsion will occur from the poorer section of the society, which is quite a large proportion of the Cyprus population.

In the other hand as I said above, expenditures also increased dramatically. From 1985-2000 the expenditures increased by 1555.3 million pounds. We can see the pattern of expenditure to change rapidly during the last one and a half decade. In 1985-1990 the expenditures were 385.8 million pounds, which is relatively not a lot if you think that it is for 5 years time. If you calculate it, it is 77.16 million per year. The same is true for 1990-1995 when it was 99.36 m. per year, more than before. Then we have 1996 when the expenditures reached 165m rising 65% from the last year. After that we have a stable but effective decrease

during the years 1997-1999, from 165m. in 1996 to 56m. in 1999. But this efficient climate did not last a lot when in 2000 the government's expenditures reached 218m, from 56.1m. in 1999. The expenditures during that time tripled.

