

TAX EVASION UNDER THE INFLUENCE OF FISCAL POLICY MEASURES

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ABSTRACT: *The collection efficiency of the budget revenues depends largely on the ability of the State, through tax authorities empowered, to apply firm measures to prevent and fight against fraud and tax evasion. However, the phenomenon of fraud and tax evasion is a complex process that extends quickly beyond national borders. That is why it is necessary to the existence of international cooperation against fraud and tax evasion as much as possible, in accordance with the principle of good governance in the field of taxation, thus eliminating negative fiscal measures. Therefore it requires a strict monitoring of collection activities arranged by fiscal legislation of each EU Member State, the automatic exchange of information to be made permanent through mutual information between countries regarding incomes or financial liquidity held by individuals resident in other EU countries, by creating an effective mechanism to fight against tax evasion regarding VAT, by sending alerts between EU Member States in case of suspicious economic activities. Also, it is necessary to correlate and intensify measures to prevent and fight against tax evasion, addressing various issues in a different manner, namely in terms of the taxpayers. Thus, it is necessary to identify factors that cause taxpayers to evade from payment of tax liabilities and declarations in conjunction with tax burden or with the existing tax easing measures. Only in this context we can understand and fight against the phenomenon of tax evasion in the business environment. In this context, the research carried out has had as its principal objective to analyze the phenomenon of tax evasion in Romania as well as the capacity of the State to recover tax arrears through the application of enforcement measures. Descriptive analysis revealed a dynamic of tax evasion, the highest levels recorded in VAT.*

KEYWORDS: tax evasion, tax burden, fiscal policy, fiscal control

1. Introduction

The necessity of collecting revenue from the State budget is a challenge for any State rulers of most of the time. However, taxpayers are trying to evade the payment of tax obligations, in particular where the tax burden is becoming an unbearable burden. Tax evasion is a great way to avoid payment of liabilities arising from work carried out. The spirit of tax evasion is born from the simple game of interest, whatever tax put in charge and that is not just a form of selfishness and human cupidity (Saguna, 2000). The phenomenon of tax evasion is highly debated and reviewed in the literature, both conceptually and structurally and in terms of causes and effects that are generated or control measures (Anitei, 2009), (Buchanan, 2013), (Hoanta, 2010), (Gally, 2015), (Balaban, 2006), (Padurean, 2010).

An efficient tax system involves knowing and identifying the causes that lead to the appearance of the phenomenon of tax evasion, collection efficiency of budgetary incomes being in close connection with the degree of voluntary compliance to the payment and declaration of tax liabilities. In this respect, the National Agency for Fiscal Administration, through the strategic objectives defined in the short term, aims at raising philosophical issues in each tax payer, emphasizing the unique control measures and guidance and assistance offered to the taxpayers. But in order to establish relevant measures it is necessary to identify the main causes that determine the appearance and evolution of tax evasion, such as: the tax burden generated by the urgent need to increase budget resources, tax legislation, which leaves room for interpretation, bureaucracy in the tax system and psychological behavior of taxpayers. Failing to detect the proper measures to eliminate the causes that lead to the proliferation of tax evasion (Moldovan, 2002) can determine the maintenance and even the amplification of this phenomenon. Considering these aspects, we consider necessary to analyze the level of tax evasion in Romania, on the tax categories, so that measures can be identified that may cause reduction.

2. Tax Evasion in Romania

Fiscal policy adopted in Romania after 1990 in the form of a gradual reform has had undesirable effects in the economy and on the activity of economic entities (Dobrota, 2010). Often, the implementation of tax obligations was achieved without a realistic anchorage in practice, being allowed evasion of tax, even without violating any legal provision. However generated an inefficient collection of tax revenues and they have burdened the State opportunity of cashing large amounts to general consolidated budget. Currently in Romania measures to prevent and combat tax evasion is achieved through specific activities carried out within the National Agency for Fiscal Administration, by tax authorities subordinate, such as: Tax Inspection, Antifraud service, Customs Control, The Service Tax Information, The Tax Checks service and the Solving Complaints service. The Tax inspection activity generally involves checking the tax payers with high risk based on risk analysis. Also, the Antifraud service activity involves, besides the strategic objectives of the National Agency for Fiscal Administration, verifying the intent and ability to carry out economic activities involving operations in the sphere of VAT, verifying Lottery related receipts, verifying allegations made by taxpayers through TelVerde. Custom control service involves the supervision of customs control and customs tax by using an integrated customs information system, border surveillance systems installed and canine teams to detect drugs or tobacco goods category, relying on good practices used at European and international level. Tax information activity involves combating the risk of tax non-compliance, management and extension of protocols for the exchange of information between the various institutions, as well as cooperation with EU Member States on VAT and direct taxes. The Tax checks activity involves checking documentary tax both for individuals with tax risk and also those with large fortunes. The Solving Complaints activity involves the determination of appeals filed by taxpayers against tax decisions, tax administrative acts or re-checking decisions.

As regards the legislation of Romania, for the purpose of preventing and combating tax evasion, this is regulated by Law no. 241/2005 establishing measures for preventing and combating criminal offences of tax evasion and offences that are in connection with it. Unfortunately these measures are restricted to categories of offenses of tax evasion or causes of punishment or reduction of sentences. Instead, Law no. 207/2015 regarding the Fiscal Procedure Code regulates in Title VI the work of fiscal Control which includes all categories of tax checks such as: tax inspection, unannounced control, antifraud control, checking personal tax situation by the central tax authority and documentary verification. In addition to these legislative measures, an important aspect is the method of collection and the receivables tax liability by enforced execution, covered by Title VII of the same Law. Thus, according to article 227 paragraph(1) of Law no. 207/2015 regarding the Fiscal Procedure Code, enforcement implies tracking and valuing income property in the debtor's property, limiting it to 150% of the value of accounts receivable, including enforcement costs. Also, in accordance with article 229 from the above mentioned law, enforcement documents must make reference to the instrument permitting enforcement, including the nature and amount of flow subject to enforced collection. Enforcement warrant is issued by the competent tax authority, according to the tax domicile of the debtor or a document that, by law, be enforceable. Moreover, the debt becomes enforceable title of the date when the tax receivable is due by the deadline for payment by law (within 15 days).

Thus, through these regulations, NAFA is trying to limit the growth of tax evasion through various ways of verification of taxpayers who evade payment and declaration of tax liabilities, by lowering the underground economy of Romania situated at 28% of GDP compared to the EU average of 18% in 2015¹. In fact, the phenomenon of the tax evasion is a complex one, with negative implications on multiple plans and, as such, it must be watched constantly, in order to be more easily countered in effective (Vacarel, 2007). Simplification of procedures and continuous improvement of services provided by NAFA is an important step in terms of educating taxpayers and eliminate the perception called "the illusion of free" (Salin, 2015). Also, it should not be omitted any tax pressure, which remains an important element in determining the taxpayers' behavior (Dobrota, Chirulescu, 2011).

In Romania, the evolution of tax evasion on the main taxes and fees, it shows (table 1):

Table no. 1 - Dynamics of tax evasion in Romania in 2010 - 2013 (mil. Lei)

Categories of taxes	2010	2011	2012	2013	2013/2010
Income tax	5.093	4.968	4.852	4.749	-6,75
Social insurance contribution	16.393	15.989	15.617	15.285	-6,76
VAT	50.347	57.476	72.399	76.747	52,43
Corporate tax	3.512	3.126	2.624	2.795	-20,41
Excise and vice tax	3.663	2.616	2.323	2.438	-33,44
Total tax evasion	79.008	84.175	97.816	102.013	29,11

Source: www.consiliulfiscal.ro, (own calculations)

Analyzing the evolution of tax evasion during the period 2010-2013, according to the data from table no. 1, one can observe the fact that 63% (2010) of tax evasion is generated from VAT, due to the increase of the tax rate from 19% to 24% (2010). This growth trend has been maintained including in the ensuing years, 68% in 2011, 74% in 2012 and 75% in 2013. Also, the tax burden generated by Social insurance contribution has contributed to maintaining tax

¹ www.capitol.ro

evasion at a high level, i.e. 20% in 2010, 18% in 2011, 15% in 2012 and 14% in 2013, due to perceived tax allowances in accordance with Law no. 571/2003 regarding the Fiscal Code. Noteworthy is the fact that VAT remains the main determinant of the overall level of tax evasion in the period under review, an increase of about 52% resulting in an increase this by 29%. Is highly suggestive and graphic presentation of the level of tax evasion as a percentage of GDP (figure no. 1)

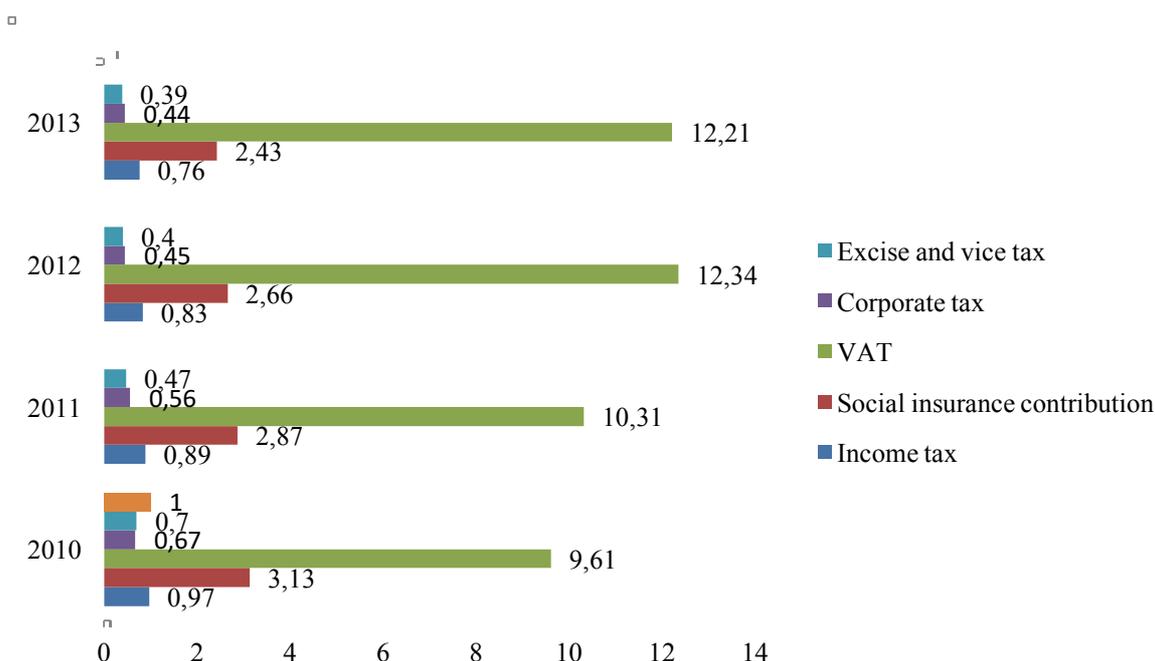


Figure no. 1 - Evolution of tax evasion in Romania in the period 2010 -2013 (% GDP)

According to the Fiscal Council, tax evasion in 2013 accounted for 16.2% of GDP, mainly generated by the VAT, reaching 12.21% of GDP in the same year. An important aspect is the fact that it should be cut down since the year 2016, according to the fiscal relaxation measures adopted by the tax authorities, by reducing the share of VAT tax from 24% to 20% by 2016 and to 19% in 2017 according to Law no. 227/2015 regarding the Fiscal Code. Without a deep and systematic analysis in conjunction with the internal mechanisms of international tax evasion phenomenon it is hard to put into motion instruments and measures that lead to effective combating and prevention of tax evasion (Vacarel, 2007). Until then, however, the State can impose measures on recovering overdue and recovery of arrears which causes gaps in the economy.

Given the terms for settling tax debts through enforcement in Romania, the takings categories and budgets are as follows (tables 2 and 3):

Table no. 2 – Revenues evolution by enforcement procedures

Enforcement procedures	2012	2013	2014	2015
Revenues from sequestration on bank accounts	4.261,9	4.745,5	3.306,8	3.603
Income sequestration (at third party)	446,2	413	364,6	334,6
Seizure of movables	13,6	13,1	15,5	12,1
Preservation of movables	22	21,6	22	30,8
Payments received after summons delivery	12.936,1	11.227,2	10.811,1	11.795,7
Total	17.679,8	16.420,4	14.520	15.776,2

Source: www.anaf.ro

Table no. 3 – Evolution proceeds in accordance with arrangements enforcement budgets

Budgets (mil. lei)	2012	2013	2014	2015
State budget	12.074	10.399	9.509,9	10.156,9
Social state insurance budget	4.088,2	4.357	3.537,4	3.871,7
Unemployment insurance budget	158	173,4	144,5	174,5
Unique social health insurance budget	1.359,4	1.490,1	1.328,2	1.573,2
Total	17.679,8	16.420,4	14.520	15.776,2

Source: www.anaf.ro

Analyzing the evolution of revenues in the period 2012 - 2015 budget categories and enforcement procedures (Table no. 2 and 3) can be seen a growth rate of 8.7 % in 2015 compared to 2014 revenues collected to the general consolidated budget as a result of revenues from sequestration on bank accounts and preservation of movables. Instead, the general consolidated budget revenues in 2013 stood at 92.9 % compared with 2012 due to the income reduction after the summons communication (86.8 % in 2013 compared to 2012) and seizure of movables (95.9 % in 2013 compared to 2012).

For better representation in figure no. 2 we find the rate of increase / decrease in receipts budgets broken down as follows:

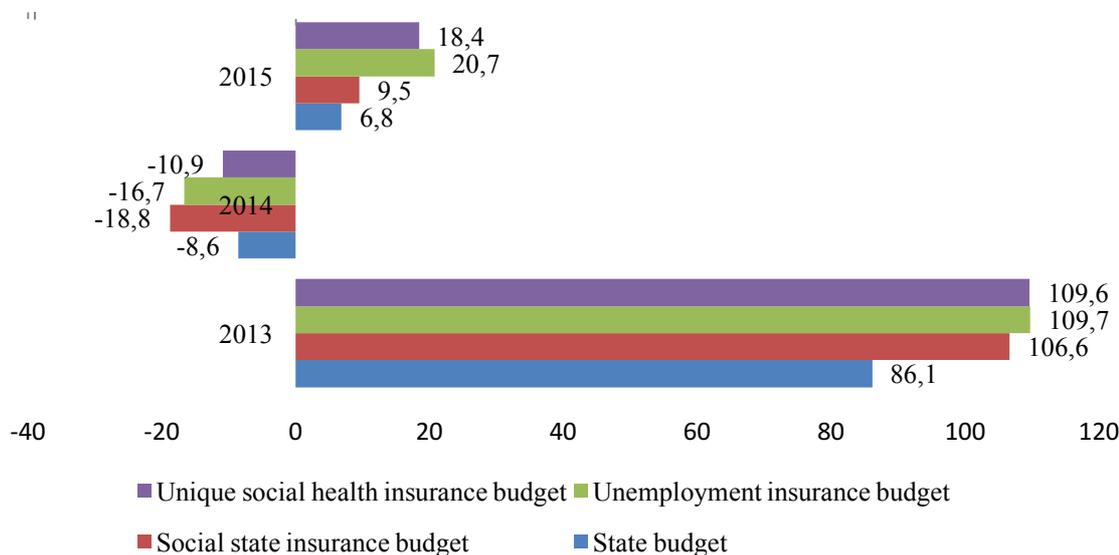


Figure no. 2 – The rate of increase/decrease of NFA's income in the period 2013 - 2015

3. Conclusions

The main objective of this work was to identify trends of tax evasion in Romania and their ability to apply appropriate measures for its reduction and recovery of amounts not paid by taxpayers. In this regard, the data analyzed finds an undesirable phenomenon, namely increasing amounts evaded from taxation, in particular from VAT (according to the Fiscal Council, our country received in 2015, by taxing consumption through VAT, only 13.3% compared to the standard rate of 24% during the year in question)

The need to reduce them has been embodied in the fiscal-budgetary Strategy for the period 2016-2018, the politics of tax administration in the year 2016 on combating tax evasion regarding farm the following priority actions:

- generalization of risk analysis and risk criteria for the entire tax administration activity;
- improvement of IT applications in terms of their tax inspection through generating information for risk analysis;
- the continuation and development tax compliance program for individuals at risk or high net wealth tax;
- strengthening the activity of customs control measures on security and safety of citizens of the European Union, anti - dumping duties, consumer and environmental protection and the common agricultural policy.

However, these actions largely affect legitimate business, creating unfair competition in the market due to the non-declaration of income obtained from certain categories of taxpayers or sectors. The existence of stability in terms of legislative changes about a period of time can generate trust in the State, bringing benefits for both parties. At the same time, it needs to find a balance between taxes collected by the state and the categories of taxpayers. Also, it must not ignore the fact that in rural areas, the degree of tax evasion can't be controlled as long as there is no fiscal record of those who produce and sell various goods.

Another measure to limit tax evasion can be identified in reducing bureaucracy, which often prevent access to certain rights or tax liabilities. Implementing programs for continuous training of civil servants, aimed to improve the way of serving taxpayers, adopting a model similar to that of serving private companies, taxpayers may lead to changing the mentality towards budgetary system and vice versa. Reducing waiting times at the counter may also represent a way to reduce tax evasion by introducing modern systems of payment and online viewing of tax liabilities. The reduction in excise duties on tobacco, alcohol and fuel can also be an effective way to combat and reduce tax evasion. Extension methods for recovering the arrears, by developing IT applications designed to identify the profile of the taxpayer, according to the appellant the filing of tax returns and tax payments made in the last 12 months.

All these measures can prevent and limit the tax evasion, generating a significant increase in revenues collected at the consolidated budget relative to GDP, with positive implications in the increase of employment, attracting foreign investors and reduce the budget deficit.

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