THE VAT SPLIT-PAYMENT MECHANISM, MEASURE FOR COMBATING TAX EVASION IN ROMANIA

IONUT - GHEORGHE CARAUS,
Phd. Student, *"LUCIAN BLAGA" UNIVERSITY OF SIBIU*
email:ionutzca78@gmail.com
MADALINA CARAUS,
Phd. Student, *"LUCIAN BLAGA" UNIVERSITY OF SIBIU*
email:mada.caraus@gmail.com
IOANA TATIANA STANESE,
Phd. Student, *"LUCIAN BLAGA" UNIVERSITY OF SIBIU*
email:Tatiana@stanese.ro
GABRIELA DOBROTA,
Phd. professor, *UNIVERSITY "CONSTANTIN BRANCUSI" TARGU JIU*
email:gabi.dobrota70@gmail.com

Abstract
The need to improve the methods of collecting and detecting value-added tax amounts is an increasingly difficult process for tax authorities. In this respect, a rigorous analysis of the ways in which the state manages to prevent or combat VAT evasion, in the context in which VAT fraud accounts for about 60% of Romania's total tax evasion, is required. Therefore, the new provisions concerning the VAT split payments, applicable from January 1, 2018 for all categories of taxpayers, can contribute significantly to the efficiency of collection, of the amounts derived from the VAT, as well as to reduce tax evasion in the field of value added tax and providing a fair competitive environment, by eliminating benefits for economic operators with incorrect tax behavior who do not pay VAT to the State budget. Also, through these measures taken by the state, the main motivation for the introduction of the value added tax split-payments mechanism, contributes to the increase of the voluntary compliance degree by providing the financial resources for the payment of VAT due to the State budget.

Keywords: *VAT, VAT split-payments, VAT gap, tax evasion, State budget*

Classification JEL: *H20, H26, H61*

1. INTRODUCTION

The need to collect revenues to the State budget represents a challenge for the governors of any state. However, taxpayers often try to evade tax obligations, especially if the tax burden becomes unbearable. Tax evasion is a great way to avoid payment of liabilities arising from work carried out. The spirit of tax evasion is born out of the simple game of interest, whatever the tax burden is, and which is but a form of selfishness and human amorousness (Saguna, 2000). The phenomenon of tax evasion is highly debated and reviewed in the literature, both conceptually and structurally as well as in terms of causes and effects generated or measures to combat: (Alm and Martinez-Vazquez, 2007), (Văcărel, 2008), (Rădulescu, 2007), (Aniței, 2014), (Florescu et all 2013), (Hoanță, 2010), (Golban, 2015), (Balaban, 2006), (Pădurean, 2010) and so on. The option to earn a higher income seems to be the fundamental motivation for any individual who gets involved in tax evasion or shadow economy activities (Pickhardt and Prinz, 2012).

2. THE VAT SPLIT-PAYMENT MECHANISM IN ROMANIA

The issue of tax evasion remains one of the most important aspects that negatively affects the growth of any economy.

This is more pronounced in the emerging economies, its effects generating a series of economic costs, both in terms of slowing economic growth and inequality ratios determined by the different categories of taxpayers (ie between those who conduct voluntary compliance and those who evade payment of tax obligations). In this respect, value added tax is a good way for taxpayers to develop a high degree of creativity in combining various elements to obtain tax benefits (Brezeanu, 2009). For this reason, tax authorities often find it impossible to efficiently manage the amounts that are collected from acquisitions / deliveries of goods on the Romanian territory.

Thus, according to the Fiscal Council report for 2016, Romania annually collects about 11.2% of the consumption tax by VAT, compared to the legal quota of 20%, which denotes a poor administration of the way the State collects the amounts due by the economic operators.

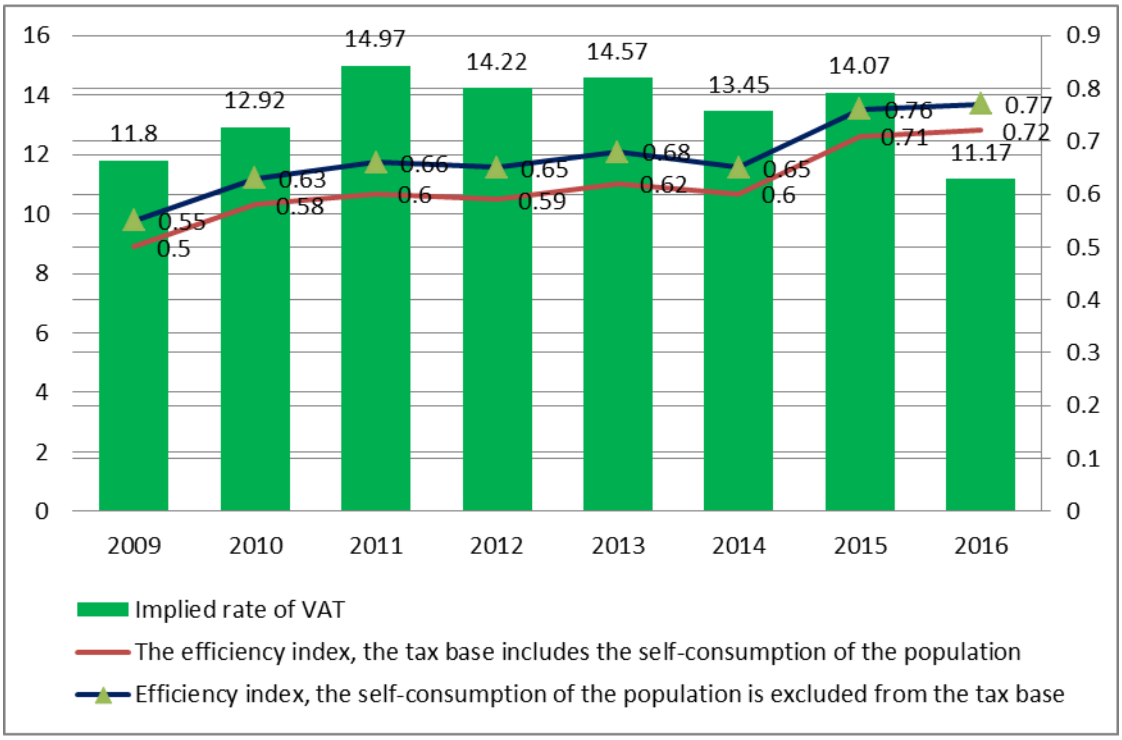

Figure no. 1 – The evolution of the implied rate of VAT and the Efficiency index of the VAT collection

Source: made by authors based on www.consiliulfiscal.ro

Analyzing the data in figure no. 1, the efficiency of VAT taxation in Romania is relatively weak, ie only 6.5% of GDP compared to other EU Member States, such as Slovenia (8.3% of GDP) or Hungary (9.4% of GDP) following the high level of VAT Gap.

Regarding the evolution of VAT receipts, they are as follows:

Table no. 1 - Revenue collected from VAT during 2011 – 2016

Romania	|Anii					
	2011	**2012**	**2013**	**2014**	**2015**	**2016**
Income	47.919,4	50.516	51.827	50.878,5	57.134,2	51.675,1
Share in GDP	8,6%	8,6%	8,3%	7,6%	8%	6,8%

Source: NAFA Performance Reports, www.anaf.ro

Following the evolution of the VAT collected from the state budget for the period 2011-2016, there is a decrease due to the progressive reduction of the VAT rate, respectively from 24% to 20% in 2016. However, although tax evasion on VAT operations should encourage declaring long-term purchases and deliveries of goods and services, it is found that VAT fraud is getting worse

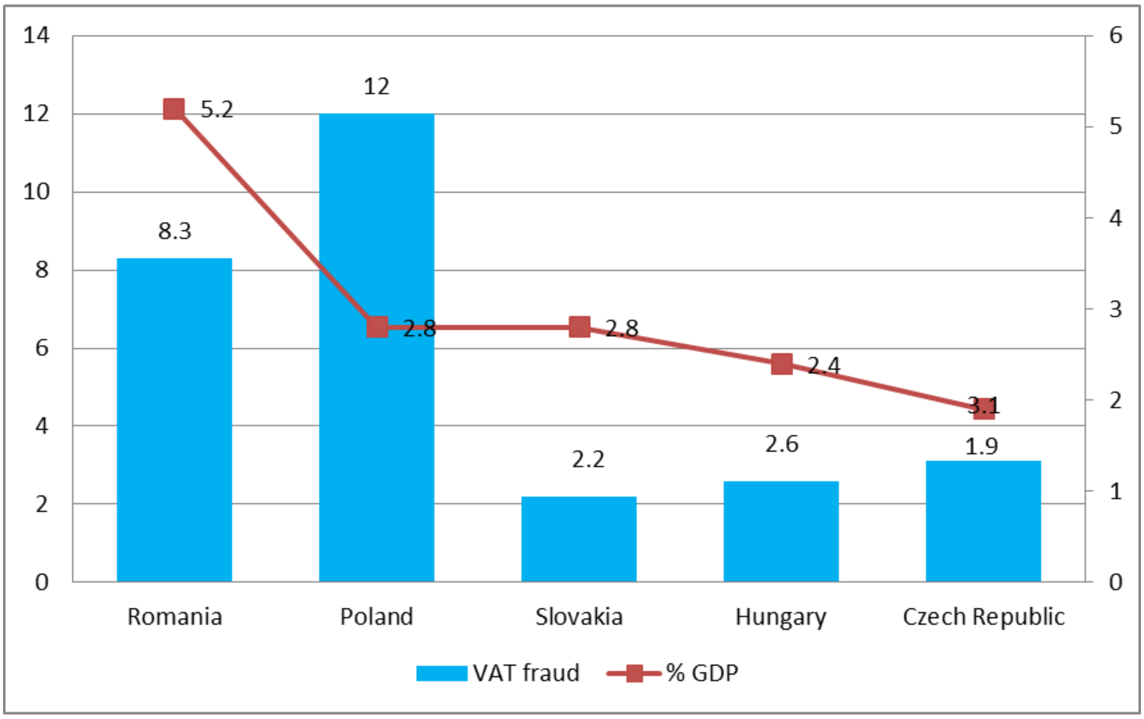

Figure no. 2 - Evolution of VAT receipts and share in GDP
Source: made by authors based on data from table no. 1

For example, in 2015, this VAT Gap was estimated at 39.6% in Romania, 29.2% in Poland, or 20.5% in Hungary, respectively 8.3 billion, 1 billion and 2.6 billion euros respectively.

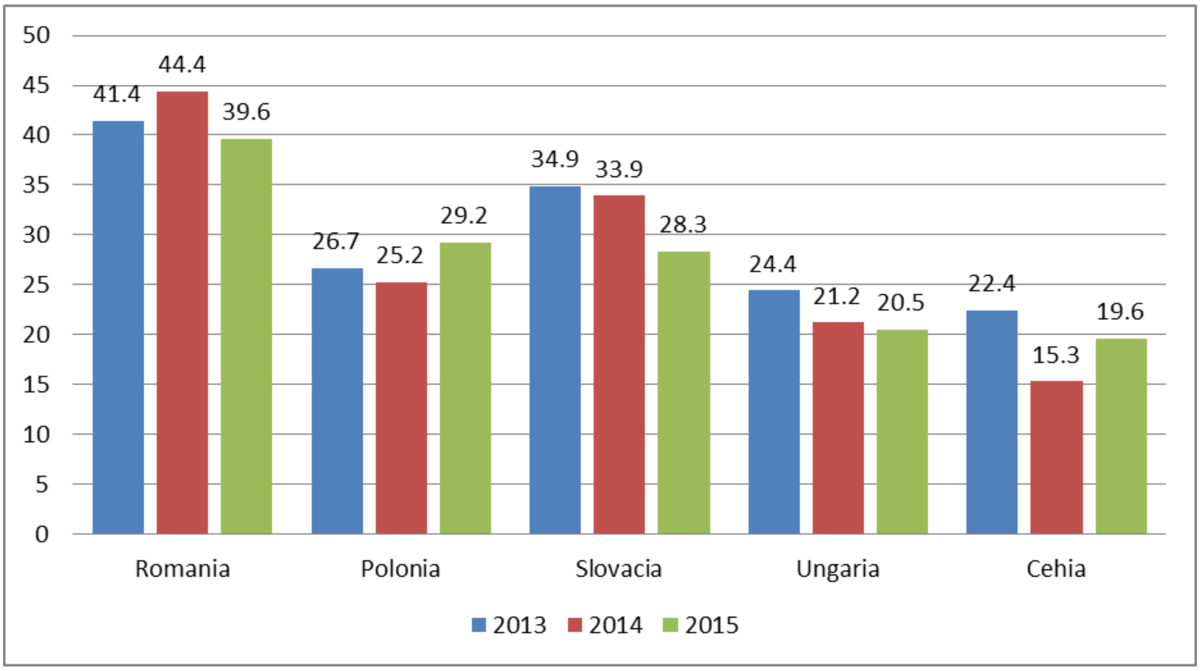

Figure no. 3 - VAT fraud

Source: made by authors based on data from www.pwc.ro

Related to gross domestic product, VAT fraud was located, as shown in Figure no. 3, at the following value thresholds: 5.2% of GDP in Romania, 2.8% of GDP in Poland and Slovakia, 2.6% of GDP in Hungary and 1.9% of GDP in the Czech Republic.

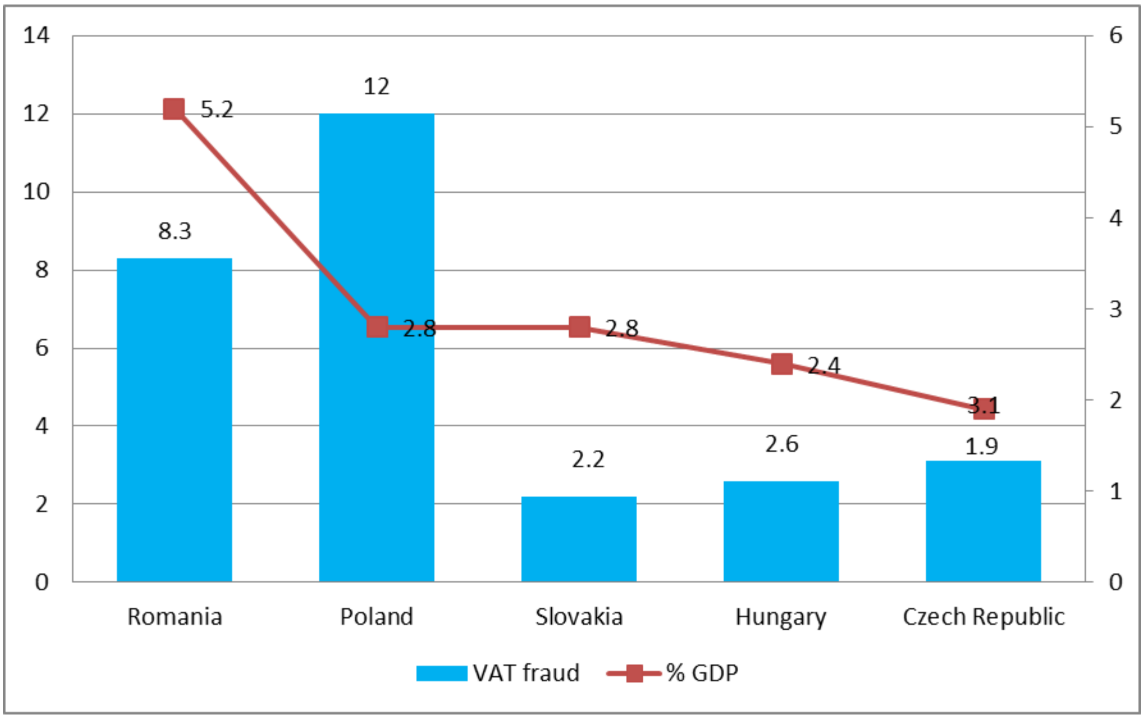

Figure no. 4 – The impact of VAT fraud

Source: made by authors based on www.pcw.ro

At European Union level, according to the European Commission, in 2015, VAT fraud was estimated at almost € 152 billion, of which cross-border VAT fraud accounted for about 80% of the total revenue that is lost annually. To this end, in order to reduce this VAT gap, an action plan was proposed to improve the VAT rules at Unit level as follows:

- ✓ a single European VAT system;
- ✓ measures to combat VAT fraud, in the short term;
- ✓ updating the framework on VAT rates, through increased flexibility for Member States;
- ✓ simplify the VAT rules for e-commerce according to the Single Digital Market Strategy (DSM).

In Romania, in order to combat the effects of this large phenomenon as well as to avoid unlawful VAT reimbursements, which significantly affect the state budget, the tax authorities have implemented a series of measures to control the value-added tax operations, respectively the VAT split-payment mechanism (Government Ordinance No. 23/2017 on the VAT split-payment). In this respect, starting with October 1, 2017, companies can opt for this mechanism, by benefiting from certain tax incentives, such as the cancellation of the late payment penalties for outstanding tax liabilities (outstanding on 30 September 2017) and a 5% reduction corporate / micro enterprises income for the fourth quarter of fiscal year 2017. At the same time, starting with January 1, 2018, all taxpayers registered for VAT purposes will be required to apply for VAT split-payments mechanism. Categories of transactions for which this mechanism aims to apply taxable transactions, in terms of value added tax, for which the place of delivery or provision is considered to be in Romania. Thus, economic operators paying VAT must have separate accounts for the collection and payment of value added tax and pay their own VAT within these accounts within 7 working days of receipt of the value of the supplies of goods / services. Also, in the case of receipts and / or cash payments, taxable persons paying VAT have the obligation to deposit in cash or to pay in their own VAT account within a maximum of 7 working days from the receipt of the value of the goods / supplies services, the VAT difference related to cash receipts and VAT related to cash payments made daily.

In order to combat the phenomenon of tax evasion at VAT, the debiting of these VAT accounts will generally take place with the consent of the National Agency for Fiscal Administration (NAFA). Therefore, operations that are allowed in this case are the following:

- value added tax payable to suppliers / service providers related to procurement of goods / services, including VAT related advances;
- value added tax paid to the State budget (difference between VAT deducted and collected);
- amounts transferred into another VAT account opened by the account holder;
- amounts paid as a result of corrections of material errors in the payment process;
- amounts transferred to the current account holder opened with the same credit institution, within the limits of the amounts that have been transferred temporarily from this account;
- VAT amount paid in cash or with debit / credit card;
- amounts representing VAT deducted between the members of the single tax group;
- commissions charged by credit institutions, related to the VAT account, etc.

Also, in order to prevent the causes of tax evasion, National Agency for Fiscal Administration, applies the following penalties:

- for the payment of VAT by the beneficiaries in a different account than the supplier's VAT account (if it is not properly made within 7 working days) - a fine of 0.06% per day of the wrongly paid amount; after 30 days of delay from the wrong payment date - a fine of 50% of the wrongly paid amount;
- for incorrectly charged VAT account (not settled within 7 business days) - a fine of 0.06% per day of the wrongly paid amount; after 30 days of delay from the wrong payment date - a fine of 50% of the wrongly paid amount;
- for the failure of the provider in their own VAT account of the amounts cashed by credit card/cash (if not accrued amounts within 7 working days) - a fine of 0.06% per day of the unpaid /

unpaid amount; after 30 days of delay from the date of non-payment / non-payment of the amounts - a fine of 10% of the unpaid / unpaid amount in the VAT account.

Regarding the application of this VAT split-payment mechanism, at the level of the European Union, only Italy applies this system starting with 2015 and refers to the transactions carried out by the state institutions by paying the VAT directly in the treasury account of the Italian tax office. Subsequently, this split VAT payment mechanism was extended to state-controlled companies, to companies directly or indirectly supervised by local public authorities or companies listed on the Italian Stock Exchange.

Also, as of January 1, 2018, Poland will also apply this VAT split-payment mechanism by transferring the proceeds from this charge to a supervised supplier account.

CONCLUSIONS

Considering the fact that these measures concerning VAT split-payments will be mandatory as of January 1, 2018, it requires special attention both from the tax authorities, as well as on the part of taxpayers as VAT accounts management will have a significant impact on both sides, such as:

- the lack of a system for online payment of VAT to the State Treasuries will result in delayed delivery of goods/services performance due to the inability of the confirmation of payment online;
- unable to check online by NAFA cash registers for analysing all operations carried out by the taxpayers, by referencing information contained in Form 394 - Informative Statement relating to supplies/services and purchases made on national territory, will have the effect of maintaining the tax evasion at a high level;
- blocking VAT amounts in distinct accounts will generate a financial bottleneck among taxpayers due to the restrictions imposed by NAFA.

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