



ASPECTS REGARDING THE ROMANIAN FISCAL POLICY TO PREVENT AND FIGHT AGAINST UNDERGROUND ECONOMY

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Abstract *No matter what kind of economy may we approach, the main purpose of a fiscal system is to build a stable and solid source of public revenue. On the other hand, a tax system must be designed to support economic development of the country, as well as the disadvantaged social groups. The achievement of these objectives has to be accompanied by a permanent concern of the fiscal administration on increasing its efficiency. In this process, a paramount factor is to reduce tax evasion, particularly when it affects the efficiency of the state structures statehood, a factor generator of corruption.*

Key words:

Tax system, fiscal fraud, tax payer, fiscal pressure

JEL Codes:

H30, H26

1. Introduction

Switching from the conceptual approach of the fiscal system and tax evasion, as concepts, to the presentation of causes and effects of tax evasion phenomenon, this article analyses existing link between tax system and tax evasion phenomenon. The pressure exerted by the structure of a fiscal system has influenced over the tax revenue, and this can be seen by analysing evolution of the structure of the Romanian tax revenue for a period of 7 years. Also, by analysing the fiscal pressure in Romania we can see its influence on the level of the tax avoidance. Compared with other countries in the European Union, in Romania we are faced with a moderate taxation, with trends for the reduction of taxation level, but with a high tax evasion.

Another aspect highlighted in this paper refers to the evolution of tax civic spirit to increase the effectiveness of the declarative taxation system and reduce forms of avoiding paying taxes generated by the system. All of these are dependent on the existence of a climate suitable for the fiscal relationships. But, without a professional “arbitrator”, these ratios will be “adversely affected” by actions of the two parts:

- the State → out of its desire to obtain a maximum of revenue - will be tempted to increase the tax burden;
- taxpayers → irritated anyway from the obligation to pay - will resort to methods of the most innovative” to protect the income against taxation, including circumvention of the payment by breaking the law.

Consequently, the most efficient attitude on the tax fraud phenomenon is that of managing, forecasting, identifying and controlling it.

2. Tax fraud- various concepts of tax fraud

Literature gives multiple interpretations to the concept of tax evasion. One of them defines “tax evasion” as “all licit or illicit processes by the means of which those interested in this thing avoid, completely or partly, to accomplish their legal obligation”¹.

Tax evasion is one of economic and social phenomena of the utmost importance to which, nowadays, all States are faced in a smaller or larger extent. Unfortunately, what can be done, actually, in this area, is to limit this phenomenon as much as possible, its eradication being virtually impossible.

Another meaning of concept of tax evasion has been given by M. Duverger, saying that this phenomenon implies all kinds of actions meant to skip tax paying², which leads to tax evasion, the practical meaning of the concept, when the person who would have to pay the tax, do not paid, without the obligation to be sent on a third party³.

Corduneanu C (1998), in his book “Taxation System and the Finance Science” specifies that “tax evasion consists in taxpayers’ circumvention of paying tax obligations completely or partly, either using legislative lacunae or finding out ingenious manoeuvres, for the purpose of hiding taxable material.”⁴ Unlike him, Oreste Atanasiu considers that tax evasion is the “international assembly of tax obligations, committed not by direct infringement of the law, but by dodging, by circumventing those using simulated and only apparently real acts.”

An alternative definition is that given by Niță Drobotă in his work ABC-the modern market economy,” according to which tax evasion is the “failure to pay the taxes, by transmitting false data on sources and taxable income,” but this is incomplete because tax evasion can be materialized in several actions of taxpayers.”

Tax evasion, fraudulent pointedly, is well established in Romania by Law No 241/2005, on the prevention and fighting tax evasion, published in Official Journal no. 672/27.07.2005 that states that this tax evasion is “being circumvented by any means, completely or partly, of the payment of taxes, fees and other amounts due to the state budget, local budgets, state social security budget and special extra-budgetary funds, by natural and legal persons, Romanian or foreigner, having the status of the tax-payers.”⁵

Law no 50/2013 amends law no. 241/2005 on combating tax evasion, with the following effects:

- sets new facts regarded as criminal offenses;
- increased the penalties for acts of tax evasion.

No matter how the phenomenon of tax evasion may be defined, it is certain that it is sentenced everywhere. This phenomenon is still present in all countries and in all the periods, despite sanctions of any kind imposed by the State.

So, as a result of a national survey carried out in France, it was revealed that almost 20% of tax payers predicted that tax evasion is, however, slightly or not at all bad, a fact which may not minimise negative effects on the income of the State budget. Internal Revenue Service in the USA appreciate that tax evasion may reduce revenues from personal income tax, in this country, with 20%.⁶

The underground economy or black economy, as a form of tax evasion (moonlighting, illegal drug selling, prostitution, gambling) is estimated to be 9% of GDP in Great Britain, 13% in Sweden, 12% in Belgium, 15,5% in Italy, 8,5% in SUA, 5% in Japan, 9% in Canada and Germany⁷.

The phenomenon of tax evasion is widely encountered in Romania, too. According to a report drawn up by the US State Department, evasion in Romania amounted to 1.5 billion dollars. The main ways of financial fraud encountered in Romania are: cigarettes and counterfeit drinks smuggling, fraudulent bankruptcy, irregularities related to the taxes and fees and in the field of consumer credit. According to this

report, irregularities related to VAT amount to 10% of the total financial fraud, a decrease from previous years, when it accounted for 45 %.

Romania is currently holding its seat in EU classification on tax evasion, according to a report of the Association of Italian tax payers' and Klrs Network of Business Ethics. Tax evasion reaches in Romania 18% of the GDP, being exceeded only by the Italians, with 23% of the GDP.

Therefore, it may be said that tax evasion “constitute a social phenomenon with financial implications, which shall consist of the tax payers' money being circumvented by the state, as it happened in payment tax obligations imposed on them, completely or partly, using legislative lacunas or finding ingenious manoeuvres for the purpose of hiding taxable income”⁸.

3. Index of tax evasion

The index of tax evasion rank all countries according to the degree in which is levied on tax evasion in existence among individuals, but also of legal persons at the international level. Furthermore, on the basis that it has achieved a ranking in world countries, on a scale from zero (country with high degree of tax evasion) to 10 (country with reduced tax evasion). The index of tax evasion is based on data on tax evasion in the polls specialising in the IMD World Competitiveness yearbook (WCY) being the most popular and comprehensive annual report on the competitiveness united around the world.

On the basis of this index, there has been established a hierarchy of the countries on the basis of which we can appreciate that the country with the lowest index of tax evasion is the one where tax evasion is charged with the highest of those included in the list. From the report on IMD WCY for 2012, we present in table 1, the first and last positions of hierarchy as well as our country's position.

Table 1. The index of tax evasion in 2012, selective data

| Position | Country | Fraud index | Position | Country | Fraud index |
|----------|-------------|-------------|----------|-------------|-------------|
| 1 | Mexico | 0,70 | 13 | Romania | 2,09 |
| 2 | Croatia | 0,81 | 51 | Japan | 5,23 |
| 3 | Philippines | 0,90 | 52 | Finland | 5,29 |
| 4 | Hungary | 0,95 | 53 | Norway | 5,34 |
| 5 | Bulgaria | 1,20 | 54 | Singapore | 5,40 |
| 6 | Peru | 1,22 | 55 | Switzerland | 5,59 |
| 7 | Greece | 1,23 | 56 | Malta | 5,80 |
| 8 | Italy | 1,27 | 57 | Luxembourg | 5,91 |
| 9 | Colombia | 1,31 | | | |

Source: IMD World Competitiveness Online 2000- 2012, <https://www.worldcompetitiveness.com/OnLine/App/Index.htm>

In accordance with the tax evasion index of 2012, tax evasion in Mexico was perceived as having the largest shares. The significance problem is higher in less developed countries where governments may encounter great difficulties in monitoring transactions which take place in the economy. Luxembourg (5,91), Malta (5,80) and Switzerland (5,59) have the greatest index of tax evasion followed in close by Singapore (5,40), while at the top leader board is Mexico with 0.70, followed by Croatia with 0,81 and Philippines with an index of tax evasion of 0.90.

Romania is located in the first half of their classification, holding the position of 13th, with an index of tax evasion of 2.09 close to the first 10 positions. It should be noted, however very high density in the first half of this hierarchy: between 0 and 5, covers 50 countries of the 58 ranked ones.

4. Analysis of the identified fiscal fraud structure in Romania, between 2009-2013

Many obligations which that tax laws impose on them tax payers' money, to carry the burden that these

obligations have been made to foster, in all times, ingeniousness contributors in to invent new processes various of the circumvention of tax obligations. Tax evasion is the resultant logic faults and imperfect legislation, faulty methods for the application, as well as the unforeseen incompetence and they also expect it hopefully whose excessive taxation is as much to blame as those causes to tax evasion.

As a result, there is a need of deploying and maintaining the state of a financial control and taxation, which prevents or reduces losses of public revenue, as a result of the behaviour of tax evasion phenomenon of natural or legal persons. The most important powers of control of tax evasion phenomenon assigned to it by the Ministry of Public Finance, through the National Agency for Fiscal Administration.

In the reports of performance of the National Agency for Fiscal Administration - ANAF there is presented the fiscal civic evolution from declaration and payment, during the period 2009-2013, the period for which they are published official data, as follows:

Table 2. Evolution of the fiscal civic system regarding income statement and payment between 2009-2013 (%)

| Index | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|------|------|------|------|------|
| Degree of voluntary compliance with declaring | 84 | 85 | 87 | 90,4 | 93,1 |
| Degree of voluntary compliance with paying | 77 | 79 | 78 | 79,8 | 81,8 |

Source: www.mfinanțe.ro, ANAF Performance Report

Thus, on the basis of the table above there will result an increase in the fiscal civic system, in respect of both declaring tax obligations and the payment thereof. Increasing the degree of compliance of the tax payers for the period under consideration is an important objective for National Agency for Fiscal Administration in carrying out its mission of collection of budget.

Degree of voluntary compliance in paying taxes and charges (the weight of obligations paid at the full rate

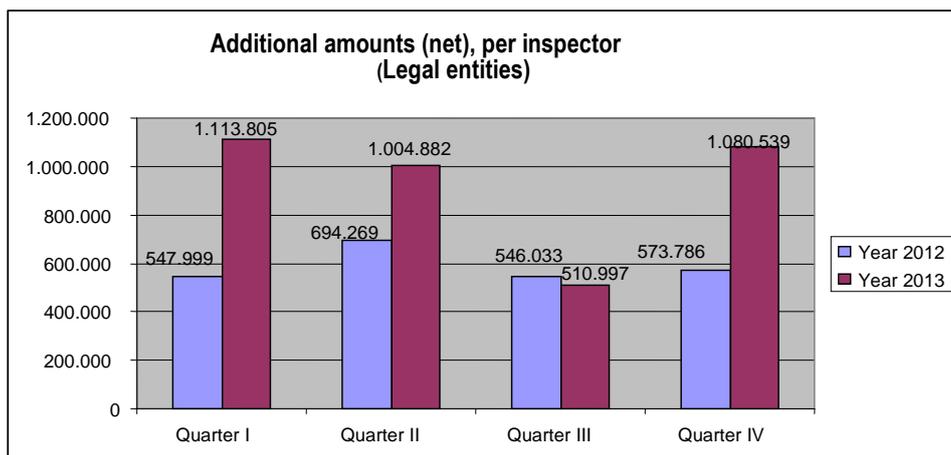
and on the long-term) has increased in 2009 from 77% to 79% in 2010, recording then a decrease to the level of 2011, 78%, and at the level of 2012 and 2013 by increasing slightly to 79,8% and respectively 81,8%.

During the period 2009-2013, there was also an increase in compliance with the declaration of payment obligations, so that, at the level of 2013, approximately 93.1% of artificial individual taxpayers who declared payment obligation and paid them in due time, to the consolidated budget.

Table 3. Administrating incomes and fiscal inspection

| Additional Amounts (net), per controller (legal entities) | | | |
|---|-----|-----------|-----------|
| Quarter | UM | 2012 year | 2013 year |
| I | lei | 547.999 | 1.113.805 |
| II | lei | 694.269 | 1.004.882 |
| III | lei | 546.033 | 510.997 |
| IV | lei | 573.786 | 1.080.539 |

Source: ANAF's Reports of Performance for 2012 and 2013



Graph 1

Source: ANAF's Reports of Performance for 2012 and 2013

From graph 1, we can easily notice that the additional amounts (net) per financial controller (artificial individuals), increased by 50% for the 1st, the 2nd, and the 4th quarters, and for the 3rd quarter, a slight decrease has been recorded.

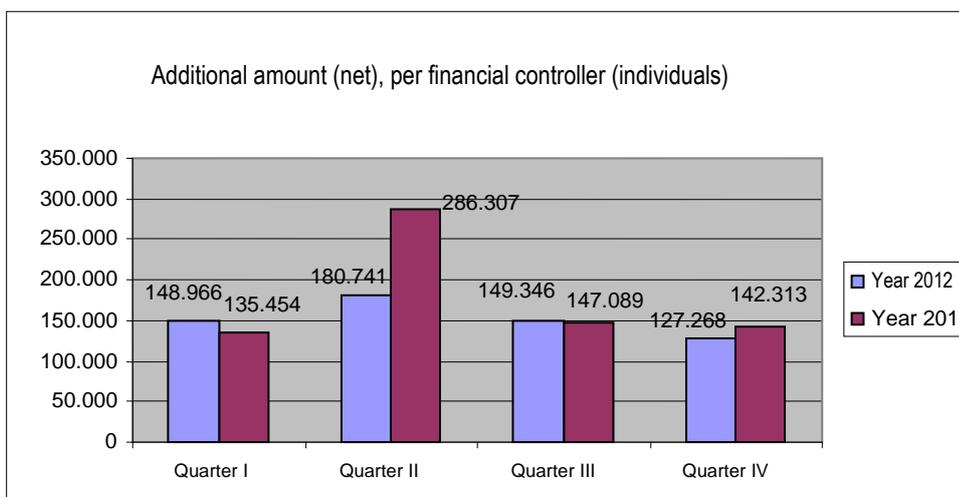
In the ANAF performance reports on 2012 and 2013

listed in Table 4, the graph 2 it can be seen that the sums attracted additional(net), an inspector (natural persons), increased significantly in the second quarter with 58,4% and in quarters 1st, 3rd, 4th there have been recorded almost equal values.

Table 4. ANAF performance reports on 2012 and 2013

| Additional amount (net), per financial controller (individuals) | | | |
|---|-----|---------|---------|
| Quarter | UM | 2012 | 2013 |
| I | lei | 148.966 | 135.454 |
| II | lei | 180.741 | 286.307 |
| III | lei | 149.346 | 147.089 |
| IV | lei | 127.268 | 142.313 |

Source: ANAF's Performance Reports for 2012 and 2013



Graph 2

Source: ANAF's Reports of Performance for 2012 and 2013

5. Conclusions and suggestions

As a result of those presented above, we remark a general trend of positive correlation between the index of tax evasion and the tax revenue level, as weighted in GDP, as follows: if the size of the tax evasion index has increased, the degree of taxation has also increased and vice versa, if the tax evasion index has fallen, the degree of taxation has decreased. This may be interpreted by the fact that the phenomenon of tax evasion may act indirectly to a reduction of the base tax or the level of all economic activities, which results finally in income tax reduction of the State.

Remarks: for individuals with low income there could be granted some deductions to gross earnings, which are higher, without changing the current quota of 16%; CAS (Social Insurance Agency) deduction for both natural persons and artificial ones; the reduction of quotas would ensure the sequence of payments that go to the state budget.

As a conclusion, I strongly believe that in 2014, which is an election year, the fiscal obligation will not increase.

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