

The interdependence between fiscal public policies and tax evasion

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Abstract: *The importance of studying tax evasion derives from its effects. The state budget of public revenues, which could be used to finance public health services, education, public order and safety, etc., is being damaged by evasion. At the same time, tax evasion also has negative effects in the market economy, generating unfair competition. The study of tax evasion is of major relevance in determining the degree of economic, social and even cultural development of a country. The analysis of tax evasion aims at identifying the causes that lead to tax evasion, as well as identifying new solutions for higher voluntary compliance. The work is focused on the analysis of the causes and effects that will indicate the possible solutions to be applied in order to reduce the phenomenon of evasion tax. The results of the research show the impact of fiscal policies on the economy and the ways in which the reduction of tax evasion generates a considerable increase of the macroeconomic indicators that characterize the economy of a country.*

Keywords: *fiscal policy, business environment, fiscal evasion*

JEL: H2; H3; G28.

DOI: 10.24818/amp/2019.32-03

Introduction

In the context of globalization, tax evasion is a phenomenon that affects the economies of all countries. There is no state that is not affected by tax evasion. At EU level, according to data provided by INS (Schneider) in 2015, the average share of the underground economy was 18.3%. Romania ranks second, after Bulgaria, with 28.1% of GDP. The lowest level of the underground economy was achieved by

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Switzerland (6.9% of GDP) and Austria (7.8% of GDP). At present, all state governments are involved in a continuing fight against tax evasion by adapting their fiscal policies (Tung, 2018; Ślusarczyk, 2018). Tax evasion is a complex economic and social phenomenon. The phenomenon has been the subject of numerous economic, legal and social studies and research. Each specialist looked at the phenomenon from the point of view of his professional training, trying to find the motivation and the best ways that could lead to the fight against it. The opinions are divided. There are even opinions that tax evasion, up to a certain level, is beneficial to the economy, for example in Japan, tax evasion is tolerated by the authorities, believing that in this way the entrepreneur can accumulate the initial capital needed for further development (Cseh Papp et al., 2018; Grancay M. et al., 2015).

In most countries tax evasion is considered a threat with a major impact on the evolution of a country's economy by creating a major imbalance at the macroeconomic level (Luzgina, 2017; Osipov et al., 2018; Keliuotyūtė-Staniulėnienė, Mironenko, 2019). The importance of studying tax evasion derives from its effects. By evasion, the state budget is harmed by public revenues that could be used to finance public health services, education, public order and safety, etc (Anyakoha, 2017; Nadirov et al., 2017). At the same time, tax evasion also has negative effects in the market economy, generating unfair competition (Meilā, 2018; Mura et al., 2017). The study of tax evasion is of major importance for the economic, social and even cultural development of a country (Čábelková, Strielkowski, 2013; Prakash & Garg, 2019; Schouten, 2019; Vandina et al., 2019). Analyzing tax evasion seeks to identify the causes that lead to tax evasion, as well as identifying new solutions for higher voluntary compliance.

1. Literature review

Tax evasion is defined as the evasion of taxes and duties owed to the state budget by hiding taxable income (Wysłocka & Verezubova, 2016). In the literature there are different notions for tax evasion: tax evasion, tax fraud, economic crime, without a clear delimitation of these concepts (Hamid, et al., 2018). In the literature there are many definitions of tax evasion. Some authors make a distinction between revenue hide by "bypassing" the law (illicit tax evasion or tax fraud), and diminishing tax obligations by using tax law evasion (licit tax evasion). For example, C.V. Brown and J.M. Jakson defined tax evasion as "a legal reorganization of a business in order to minimize the tax burden," and tax fraud as "an unlawful reorganization of a business for the same purpose." In France, lawyer Maurice Duverger appreciated that this phenomenon designates "all tax evasion manifestations", and M.C. by Brie and P. Charpentier considered tax evasion to be "the art of avoiding falling into the field of tax law attraction." Gary S. Becker, Nobel Prize winner for the economy in 1992, defined evasion as a "component of economic crime." The other experts consider tax evasion to be "represented by" all licit and illicit procedures through which a contributor escapes, in whole or in part, from paying obligations established by the fiscal laws (Kliestik et al., 2018; Veselitskaya et al., 2019). Romanian law does not distinguish between "licit" tax

evasion and "illicit" tax evasion. In Law no. 87 of 1994 for combating tax evasion, tax evasion was defined as "the evasion by any means from the payment of taxes and other amounts due to state budget. In most countries, tax evasion can be classified into: (1) licit tax evasion; (2) illicit tax evasion.

Tax evasion is the evasion of tax liabilities without being classified as an "economic crime" based on the gaps in the existing legislative framework. In order to avoid tax obligations, taxpayers, without violating the law, take advantage of existing or non-existing legislation in a particular field of activity or region / country or lack thereof (Tvaronavičienė & Razminienė, 2017; Poór et al., 2018). Usually, lawful tax evasion is the privilege of large companies that have income and specialists (lawyers, accountants, tax advisers) that carry out so-called tax optimization (Ključnikov & Popesko, 2017; Darabos, 2016). To avoid paying tax liabilities, taxpayers (citizens and/or organizations) take advantage of certain tax benefits (lower taxes) that a state offers, for example:

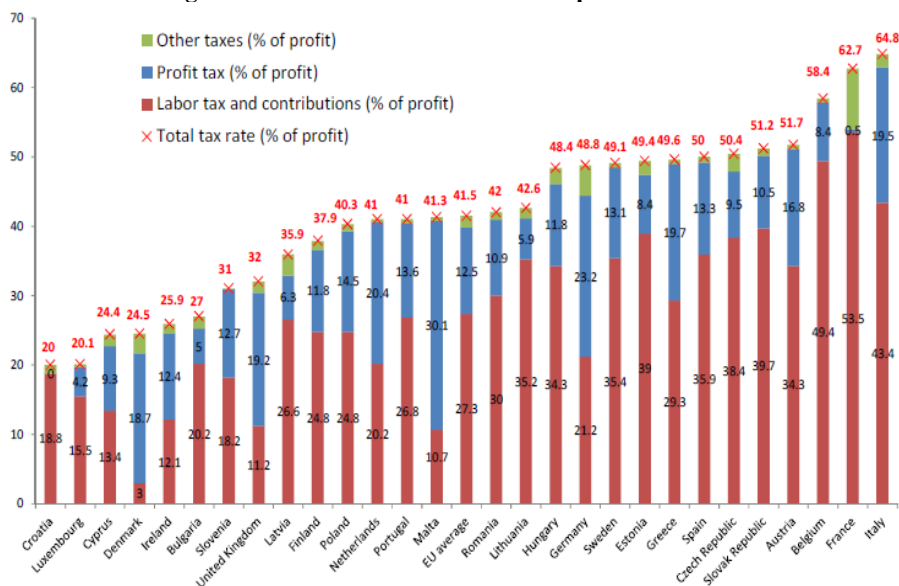
- reduction of the profit tax by reinvesting profits in procurements for which the state offers discounts or tax exemptions;
- moving incomes to countries where reductions and exemptions are granted;
- moving revenues to that countries which offer more favorable tax conditions, benefiting from double taxation conventions;
- reduction of taxable income through protocol expences, advertising and advertising costs higher than legal quotas;
- Creation of reserve funds or provisions that can be economically justified.

Illicit tax evasion (tax fraud) consists of deliberately evading, by circumventing the law, from legal tax obligations by wholly or partly concealing taxable income. The basic feature of this form of evasion is intentional violation of legal regulations. Another classification of tax evasion is based on the area of expansion. Thus, national tax evasion and international tax evasion can be identified. National tax evasion is localized at national level and is divided into two subcategories: individual tax evasion - has a simple, individual character and group tax evasion - is complex in nature (Ionescu, 2018 a, b), involves the creation of a criminal group using both fiscal and criminal methods especially in the case of excisable products: cigarettes, alcoholic products which are regarded as the controversial sectors (Sroka & Szanto, 2018; Lazányi, et al., 2017) and where ethical approach is of crucial importance (Lőrinczy & Sroka, 2017). International tax evasion involves two or more states. This is based on the principle of avoiding double taxation, and consists of transferring taxable income to low taxed countries or concealing revenue in extraterritorial areas (tax havens). For example, in the case of the Value Added Tax, based on the principles that the final consumer pays and the tax is due in the country in which they are consumed (Siekelova et al., 2017). Some economic operators report fictitious intra-Community deliveries, the goods being traded on the domestic market (Rădulescu, 2018) without establishing and paying the state budget obligations (Mihăilă et al., 2018; Simionescu, 2016; Simionescu et al., 2017).

2. Research results and analysis

According to data provided by the World Bank, Romania ranks 16th in terms of total taxes paid by companies. This represents 42% of their profit. The figure below shows the percentage of the taxes paid by companies in different European Union countries.

Figure 1. Fiscal taxes in different European countries



(Source: World Bank Doing Business report 2015-2016)

For example, in Romania there is an excessively large number of taxes, excise duties, contributions, royalties, tariffs and commissions. According to the data published on the website of the Romanian Ministry of Finance, there are 293 taxes in total of which 113 are registered in the fiscal register and 180 are in the non-fiscal register, as are grouped in Table 1 - Taxes/Fees/Excise/Contributions.

Table 1. The number of taxes paid by Romanian contributors and institutions

Number of taxes / fees / excises / contributions / royalties rates / commissions by type of registers	
Number of fiscal institutions	24
Number of taxes	293
Fiscal register	113
Nonfiscal register	180

(Source: Own determination based on the data of the Ministry of Public Finance, Romania)

As can be seen in Romania, there is a major discrepancy between the institutions (Ministries, Agencies, local Public Finance institutions, County or Local Councils) to which the fiscal taxes are paid and the number of taxes. Thus, the number of institutions with attributions in the fiscal field is 24 and the total number of fiscal taxes is 293. For example, in the field of human resources wages there are 10 separate taxes: income tax, social security contributions, health insurance (Nica et al., 2018), unemployment contributions, contributions to the wage claim fund, contributions to the risk fund and accidents and allowances for holidays and benefits health insurance. Some of them are applied separately for the employee and employer, but administered by the same institution. In recent years a simplification of the fiscal procedure has been made to wages taxes in the sense that all taxes are paid in one account. It is still necessary to have all taxes integrated in one and paid in the same account. According with the information published on the official website of the Romanian Ministry of Finance, it appears that since 2018, the fiscal field in Romania was regulated by a number of 178 normative acts, of which 73 are minister orders or orders and decisions of the President of The National Authority for Fiscal Administration, as can be seen in Table 2.

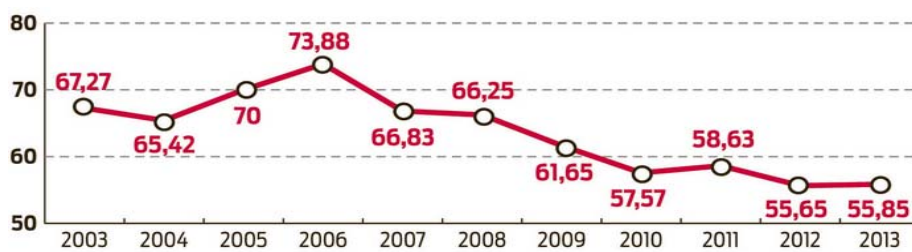
Table 2. Type of regulations and the number of them applied in Romania in 2018

No.	Type of regulation	Number of regulations
1.	Laws	33
2.	Government Emergency Ordinance	17
3.	Government Ordinance	13
4.	Government Decision	42
5.	Minister Order	39
6.	Other orders and decisions of the heads of tax institutions	34
	Total	178

(Source: Ministry of Public Finance, Romania, 2018)

The Romanian Fiscal Council showed that in the period 2006-2013, the compliance rate for the payment of the main taxes showed a downward trend, standing at 55.85% in 2013. The best compliance with the payment was recorded in the year 2006 (73.88%) according to the graphical representation in figure 2.

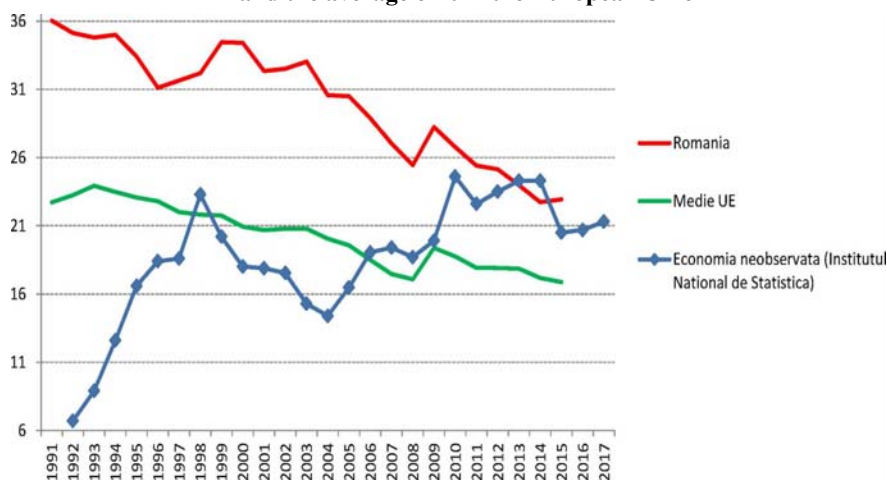
Figure 2. Evolution of the degree of compliance to payment in Romania



(Source: Fiscal Council of Romania, Annual report, 2017)

According to analyzes made by the Fiscal Council, there is an increase in tax evasion in 2004-2012, with a slight decrease in 2013 to 16.2%, compared to 16.7% estimated for 2012. In 2018, tax evasion has decreased but continues to affect the significant GDP, as can be seen in Figure 3, where deviations from the European average can be seen.

Figure 3. The underground economy in Romania and the average of it in the European Union



(Source: Fiscal Council Report, 2017)

From the centralization and comparison of the 2002-2018 statistical data on the evolution of the Gross Domestic Product (GDP - source of the Ministry of Finance), of the Total Income Received (VTÎ- source of the Ministry of Finance) and of the Total Tax Evasion estimated (TEF- source Fiscal Council), it is noted that tax evasion related to tax revenues represented 76% in the year 2017, and on GDP was 15.2%. There is an increase in the total revenues collected in the consolidated state budget, expressed as a percentage, during the period 2013-2017, corresponding to the period of modernization and reorganization of the Romanian tax administration. Thus, the total revenue earned represents 33% of GDP, consisting of 59% of tax revenues and 41% of non-tax revenues. By applying the linear regression method, a prediction of the value of tax evasion was made. In order to identify the typology of the regression function we have done a graphical representation of the points pairs including the values of the total revenues collected to the state budget and the estimated total tax evasion. It can be argued that there is a direct and linear correlation between tax evasion and total revenue received. there is a direct and linear link. The regression model is presented in Figure 5.

Figure 5. The regression model

SUMMARY OUTPUT								
Regression Statistics								
Multiple R		0,9770						
R Square		0,9545						
Adjusted R Square		0,9488						
Standard Error	6558,837378							
Observations	10							
ANOVA								
	df	SS	MS	F	Significance F			
Regression	1	7218249764	7218249764	167,7947	1,2E-06			
Residual	8	344146782	43018347,75					
Total	9	7562396546						
	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95,0%	Upper 95,0%
Intercept	-30664,482	7392,878134	-4,1478	0,0032	-47712,4900	-13616,4749	-47712,4900	-13616,4749
venituri totale	0,6391306	0,049340153	12,9536	0,0000	0,5254	0,7529	0,5254	0,7529

(Source: Own calculations)

It is found that the correlation coefficient between the value of the evasion and the value of the GDP is 1, which means that there is a strong and direct link between the value of the tax evasion and the value of the Gross Domestic Product. Adjusted R Square (R) shows the validity of the chosen model. This is well chosen if the value is close to 1. Gross Domestic Product explains 95.45% tax evasion variation. The standard error shows the mean deviation of the observed values from the theoretical values, respectively the deviation may be $\pm 6558,83$. We used a total of 10 observations.

3. Conclusions

There is a large number of taxes (293) regulated by an equally large number of laws, governmental orders and orders, (178) which makes voluntary compliance more difficult. At the EU level, Romania ranks 16th in terms of total taxes paid by companies, slightly above the European average, but the living standard is lower compared to other EU countries. The taxes and regulations are elements that agglomerate the business environment and lead it to tax evasion for survival. To reduce tax evasion, one can act by: reducing the number of legislative acts and taxes that regulate the tax area, developing efficient information systems (Popescu, 2018; Popescu et al., 2018) to reduce direct contact between tax authorities and the taxpayer, and reducing the level of taxes and duties. Evasion is present in any country and in any region. It can not be reduced, but through wise tax policies, awareness of the role of the state, and gaining citizens' trust in the authorities and the political class (Nica, 2018; Popescu Ljungholm, 2018). It is necessary to increase the voluntary collection of taxes instead of applying penalties for their non-payment.

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