

TAX EVASION AND THE FIGHT AGAINST IT

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Abstract: Tax evasion is a complex socio-economic phenomenon of the utmost importance, that states are facing today and seeks to limit its undesirable consequences as much as possible, eradication is virtually impossible. The effects of tax evasion are directly reflected on the levels of tax revenues, leading to distortions in the market mechanism and contribute to social inequities due to "access" and "inclination" tax evasion from various taxpayers. These adverse events to the tax evasion are not confined to that, and the state should concern itself systematically and effectively to prevent and limit tax evasion.

JEL classification: H21, H26, H 71

Key words: critical; tax evasion, taxation, fiscal control, enforcement procedures, tax audit.

1. INTRODUCTION

Tax evasion is a complex socio-economic phenomenon of the utmost importance, that states are facing today and seeks to limit its undesirable consequences as much as possible, eradication is virtually impossible. The effects of tax evasion are directly reflected on the levels of tax revenues, leading to distortions in the market mechanism and contribute to social inequities due to "access" and "inclination" tax evasion from various taxpayers. These adverse events to the tax evasion are not confined to that, and the state should concern itself systematically and effectively to prevent and limit tax evasion.

The problem of tax evasion is a matter of morality, to which man abandons and in situations other than that which faces payment obligations to the state. There are enough cases where some people do not recognize, or forget the pay certain obligations from which they received something in return from their peers. This can be called evasion as well, but evasion from honor and reputation. We begin the analysis of tax evasion with skepticism and realism, arguing that tax evasion and morality are world characteristic features and how morality in our time, where money and wealth are considered attributes defining a human being, is not appreciated or promoted and tax evasion will continue to be a manifestation of this faulty morality. Politicians unanimously condemned evasion (fraud) tax. However, the outlook for this phenomenon has not changed over time. It persists in all countries and all periods, despite sanctions. Moreover, many people have indifferent beliefs. Thus, a national survey conducted in France shows that almost 20% of the taxpayers estimated tax fraud not or not at all reprehensible. This cannot minimize the negative effects of tax evasion on the state budget, the budgetary policy of public authorities and even the social climate. Internal Revenue Service (IRS) in the U.S. appreciates, for example, that tax evasion can reduce personal income tax revenue in this

country by 20%. Underground economy as a form of manifestation of tax evasion (illegal employment, illegal drug sales, prostitution, gambling, etc..) Is estimated to be 8% of GNP in the United Kingdom, 13% in Sweden, 12% in Belgium, 11.5% in Italy, 9% in France, Holland, Canada and Germany, 8.5% in the U.S., 5% in Japan. This problem is greater in less developed countries where governments may have difficulty in monitoring transactions taking place in the economy. But the economies of these countries are not closed economies and, consequently, they can be and often are a hub for providing "raw materials" necessary to underground activities, eloquent expressions of tax evasion and corruption outside the borders of these countries. It is estimated that tax fraud in Third World countries is between 4 / 5 and 9 / 10 of the tax revenues forecasts.

No state wants, at least declaratively, to have tax evaders from the paying their obligations, however states want their taxpayer profile to be as close the states interests as possible. In the same context, consumerism, which is imposed by all ways and means to consumers worldwide bears as results, in addition to purely economic purposes, primarily to increase the asymmetry of wealth, and its concentration in lesser and lesser individual private hands, and tax purposes. However, the state, by public authorities, may incite tax evasion, by pursuing two main purposes:

1. The "positive" purpose argued by the desire (intention) to stimulate capital formation and

2. The "negative" purpose reflected in the support some interest groups, often mafia-like, with all the procession of consequences. Hence the role of tax evasion as a wanted or not part of tax policy, arising directly from taxation in general. One of the secrets of the Japanese capital formation is that tax evasion is officially encouraged. Legally, a Japanese adult is exempt from fees for an average savings account. Japan has five times as many accounts of this kind than the population, including children. Therefore have the highest rate of capital formation. "On this basis, one can continue and prescribe the following instructions: "Any country that wants to be competitive in an era of entrepreneurship needs to build a tax system such as the Japanese, through an attitude of semi-official hypocrisy, encourage capital formation ".

Like any legal obligation of honoring the debts to the state, whether they are called taxes or duties, it was seldom violated, based on different reasons, so some individuals especially certain legal persons, virtually refusing to understand the necessity that established this obligation.

2. TAX EVASION - POSITIVE AND NEGATIVE SIDES

Referring to government measures, that amend the U.S. income distribution, Milton Friedman, showed that the effect of high and powerful progressive tax rates disappeared due to the fact that "they have stimulated the emergence of laws and others instruments that support tax evasion, in this case, the so-called legal loopholes that allow tax quotas percentage reduction ... As a result, actual tax rates were much lower than nominal rates, and what is very important, the incidence of taxes has acquired a capricious and unequal character. People in the same economic situation pay very different taxes, depending on the random nature of their source of income and opportunities they have to achieve tax avoidance ". The conclusion the acclaimed economist draw: "Bypass taxation might have been so essential to economic welfare. If things would have been so, the gain was achieved at the cost of a large waste of resources and the introduction of widespread inequities".

"The state intervention" in maintaining a degree of tax evasion, for the purposes shown, we believe that should be analyzed in terms of the ratio between the (capital formation) and efforts (a big waste of resources, budget or not, creating inequality in the disposable income of taxpayers, etc.). One also needs to take into account the fact that the beneficial effect of state intervention, especially in relation to legislation, is direct, immediate and, so to speak, visible, while adverse effects are gradual, indirect and unperceivable. One of these effects is that corruption is almost inevitable companion of tax evasion.

Some economists see the manifestation of tax evasion as an expression of the vitality of democracy. True, no one knows the exact effects tax fraud. Perhaps even tax fraud is a chance for tax systems to become viable. In this regard, contrary to the simple idea to consider fraud antidemocratic behavior, it is rather a modest direct expression of the taxpayer believes and declaration. Far from being contrary to democracy. There are necessary some comments about this opinion so it does not leave room to spread ideas that are not in the spirit of truth. If given the correct and exact meaning of the word "democracy", namely the majority rule as a method of governance, how can we admit that the majority wants to jeopardize the vitality of democracy by encouraging tax evasion and fraud? It is nonsense. We should all recognize the reality that, increasingly, the majority rule, all over the world, is becoming more than just a slogan used only for winning elections and vote for the accession to power of groups that are handled by the power of the money behind them. Democracy is a means, not an end. The aim is the conquest of power and its use, primarily for the coming to power of such groups and their associates. But political power without the use of money and any means that they supply them, no longer means anything because it cannot be sustained. We do not disagree in the consideration that tax evasion is contrary to democracy, but we want just to point out the contradictions that this phenomenon induces, especially in a democratic system, economic and social life (between the overall need for financial resources, taxes and illegal theft among most taxpayers understanding not those that "escape" from the taxes and those who pursue it with ostentation, which increases the contribution of the first to cover the general needs and lead to increasing income gap between the first and the latter, etc.). Therefore, it is in the interest of democracy, necessary to fight permanently and well organized to prevent and combat tax evasion.

3. THE NEED TO PREVENT AND COMBAT TAX EVASION

Need to prevent and combat tax evasion results immediately in apparent impact analysis that tax evasion and fraud have on the economic, social, economic behavior training, etc.. In essence it is not only about defending public financial interest but also the defense of competition, consumer rights (given that tax evasion and the underground economy is often associated with bending the rules on consumer protection), the elimination of moral hazard in economic activity and the establishment of respect for rules and institutions. Although prevention and combating tax evasion and underground economy, in general, are expensive and time-consuming activities, their purpose brings far greater benefits than costs; it is true, on medium and especially long terms.

The concept of combating tax evasion refers to the activities / actions that will effectively identify tax evasion. In other words, combating tax evasion should be understood in the narrow sense, the application of legal sanction for the offense of tax evasion. In connection with this concept we will develop the following ideas:

1) the sanction imposed on taxpayer identified to have committed tax evasion must be greater than the benefit received by (or expected to benefit) for the event that the said taxpayer would not have been identified by the government inspector; reason is that it should provided a net cost of the evasionsist taxpayer that it has been identified as such, otherwise, the taxpayer will continue, based on economic rationality, practicing tax evasion;

2) the sanction imposed on the taxpayer found to have committed tax evasion must be transparent for the whole system to which the taxpayer is part of, so the significance of the penalty assessed to be known by all potential tax fraudsters in the system;

3) the sanction imposed on taxpayer found to have committed tax evasion must be accompanied by the promise of prizes, benefits in the case in which the taxpayer (or other contributors in the system) to gives up tax evasion;

4) the sanction imposed on taxpayer found to have committed tax evasion must be sized so that the size, structure and timing (calendar application) that the economic activity in question should not be jeopardized; more accurately, the penalty application should reduce the taxpayer's net advantage and not the potential activity of organization, because, otherwise, it would work against long-term public interest.

Combating tax evasion, in its restricted sense discussed here, has an important educational potential (at the taxpayer's economic reasoning) and even cultural, as it contributes to the formation of attitudes towards combining time and private interests with the public interest.

4. STRATEGIES TO PREVENT AND COMBAT TAX EVASION

In this section we will cover only some specific procedures to prevent and combat tax evasion, but we will try one of their typology, the separation of classes of techniques for preventing and combating tax evasion. Identification and characterization of such classes is likely to serve, then, in practice, empirical solutions for the design, location and customization, depending on causality faces at some point, the government inspector.

1. a first inspection technique that government can use is announcing its intentions regarding planned fiscal control.

This technique has a double impact:

a) generation, at the taxpayers level, the need to eliminate, through the manager's internal control organization, the actual or potential tax evasion cases;

b) generation, at the taxpayers level, to ensure that the tax inspection is not conducted by partisan interests, asymmetric to the fiscal control of government institutions, but the defense of public financial interests (security tax collection).

As we can easily see, both consequences of the above serve private interests (the taxpayer) and the public interest (the government) as well. Place, however, this issue of announcement on fiscal control. Indeed, by law, even if the sample will be checked in a particular fiscal period is set at random, making proper fiscal control should be told to the concerned taxpayer with a certain length of time before. You can ask here an important question: instead of a random sample control training tax would be more efficient in terms of government inspection, to select taxpayers screened based on an analysis of associated

risk (similar to the where each activity is associated risks / actions in the organization, the purpose of exercising internal control)? Our answer is negative and it is based on the fact that it is important to generate preventive behavior for the taxpayers themselves, behavior based on the uncertainty of entry in the control sample, but to provide a simple tax return monetary control;

2. a second technique to prevent and combat tax evasion may be besides the involvement of government inspection, in the action of fiscal control, the internal control within the organization. There are several advantages of using this technique:

a) first, an advantage of the nature of effectiveness: indeed, internal control of the organization knows best and in detail all the work of the organization, including in terms of calculating / recording accounting transactions of operations and organization. This is likely to provide a control action only depth but also economical, so effective;

b) Secondly, the training organization's internal control, fiscal control action is likely to empower the management control structure, so that on medium and long term, to form a true organizational culture for the structure and realize its important role for the legality and effectiveness of the organization. In addition, collaboration between government inspection of external and internal control structure of the organization can lead to a better understanding of ventilation and understanding of accounting and methodological issues regarding tax evasion - in fact, both partners will gain expertise in this commune activity: internal control structure will be put in touch with legal and methodological innovations, while control structure will provide current governmental news, and methods of tax evasion arising from the private sector trying to escape from voluntary compliance payment of financial obligations;

3. third technique useful in preventing and combating tax evasion is tax base development control subjects, respectively based on the principle of traceability. Conclusively and significant object of control. Notice that the principle of traceability does not intend to check the whole object subject to fiscal control (for example, the organization as a whole) but only those components that succeed together to achieve those two goals. By conclusive image is meant the feature of links that have been placed on 'path' traceability to provide information that is relevant for control purposes;

Through the depth of tax audit we propose to understand the level of detail of the checks carried out, in other words, the degree of detail in control of making decisions on the results. Note that this concept, in depth control is complementary to the concept of width control, which aim to understand the focus of fiscal control.

4. A fourth technique for preventing and combating tax evasion is the use of default error control keys which, when applied directly to certain categories of accounting information must indicate inconsistencies suggesting the production of all accounting information distortion, deformation announcing the effective or potential tax evasion. These keys preset numbers are similar to the error codes are used in computer science, namely the transmission of digital data: a certain amount of error code means that the sequence of prime numbers is erroneous in the transmission channel. Such error keys should be true fiscal control key libraries that are automatically applied. After selecting sequences that accounting information associated keys to. Note also that a key error, contained on the tax and accounting information and past experiences the government inspection had in prior periods of time or similar organizations, led to the identification of the evasion phenomena. However, these keys are only relevant error in identifying tax evasion and not to quantify or prove them, and this technique should be combined with other techniques to ensure these last two results.

Trying to get in the fight against tax evasion area, to prevent and combat tax evasion and fiscal indiscipline in Romania, we believe that there are several measures that can be taken, including:

→ increase the quality of tax audit;

Quality of the tax audit is the result of a heterogeneous complex of factors which together enhances the examination results. In this respect it is recommended: the development of inspection guidelines fiscal fields with high fiscal risk and types of taxes, improving tax audit methodologies and existing topics, create a database with cases identified in the tax audit activities by taking data from existing applications, developing a unique database with the results of tax inspection conducted on individuals and businesses.

→ improving the effectiveness of fiscal control;

It is necessary the optimization of control actions for that the economic effect - attracting additional funds for the budget – should be as safe and effective and have the effect of avoiding infringement in the future. Fiscal control efficiency is dependent on better targeting of high risk areas and taxpayers prone to tax evasion. Therefore, establishing control plans must be based on a comprehensive risk analysis, completing or even replacing the currently used methods. Since many taxpayers using electronic means for the preparation of financial records, accounting and taxation, is necessary to develop electronic control, computer application analysis, respectively.

To increase the efficiency of tax control is recommended: developing a system for selecting taxpayers for control based on fiscal risk indicators, implementation of fiscal risk indicators, namely the techniques and tools to identify high risk areas and taxpayers, the development of procedures for preparation programs annual risk-based control approach.

→ the development of information exchange and mutual assistance with EU Member States;

Obtaining information from national and international institutions and organisms and their proper operation are essential to prevent tax evasion. A increasingly volume of information is necessary to combat international tax evasion favored by the current juncture, following Romania's accession to the EU and the abolition of internal borders of the Union. Preventing VAT fraud carried out by organized networks should be a priority of tax administration in Romania, along with surveillance of excisable products, an area with high risk potential. To do this requires: implementation of electronic information exchange based on double taxation conventions, development of surveillance and control of the movement of excise goods in accordance with the timetable established by the European Commission, arrangements exchange of information and mutual assistance concerning VAT matters in Member States; improving the collection of information from third parties to support tax audit activity.

→ strengthening financial control;

Use of public funds is a risk area in terms of opportunities for financially indiscipline and evasion. Therefore, after the financial control exercised by state programs conducted using annual, quarterly and monthly, NAFA must carefully monitor the use of public money to the businesses involved. To achieve this requires: the development of business management tools for precise control; the development of a rating system based on indicators of financial and thematic controls; the development of methodologies and procedures for financial control adapted to control economic diversity, implementation of procedures for computer training and financial control including database on the taxpayer's tax paying habits.

→ the improvement of enforcement procedures .

By aiming enforcement to obtain more profitable results, taking into account the creditor's legitimate and immediate interest and the debtor's rights. Collection of taxes is an ongoing NAFA concern, aiming at a rapid action to prevent the formation of tax arrears to avoid bringing forward by other creditors of recovery actions. In this respect it is necessary: systems development and creating a centralized database containing information submitted by banks, public authorities, public institutions, central and local tax authorities to allow rapid identification of movable and immovable property, to seize their enforcement process, improvement of distribution of cases the inspectors tracking claims, development of existing procedures.

5. CONCLUSIONS

Tax evasion phenomenon is inherent in a free market economy. Therefore, the most effective attitude towards this phenomenon is to achieve good management of, in the identification, forecasting, control and turning it in perspective designed to ensure budgetary revenues.

Due to the scale and dynamics of tax evasion, there is an urgent rethinking and reworking process to be developed and implemented by the administration of public revenues and control system of business entities in respect with tax legislation.

Escapist phenomenon should be evaluated throughout its complexity, taking into account its negative connotation with its impact on the budget attracted multiplication amounts to the identification of cases of tax evasion. Multiplier tax evasion can be taken to cover the budget deficit calculation, with the necessary precautions.

It also requires a deep analysis of internal mechanisms of the phenomenon of tax evasion, allowing detection instruments and measures to control the phenomenon.

In terms of financial and fiscal control, it must identify the tools and indicators to ensure the functioning of the legal economic parameters, under the impact of possible control rather than under the actual control. Orientation control should be directed to control the exception rather than the permanent control and excessive.

In this respect, control strategies will be developed in a more flexible way, to detect cases of tax evasion, not as a result of a comprehensive control, but after the notification of the specific difficulties in the administration of public revenues.

As always tax was imposed on citizens by law, this considering it, for reasons of human nature, as a confiscation of his income in order to realize objectives without tangible and direct consequences on him. This is probably the explanation for some taxpayers who try to evade taxation, as a reaction to "the state attempt" on their freedom to use all their earned income as it sees fit.

It therefore creates a "conflict" state - taxpayer, the stake being tax evasion.

Siding with the taxpayer point of view makes its arguments fell strong, especially when taxation is excessive and becomes a barrier to individual prosperity. No doubt we stand in the general interests of the state and would be natural to consider it as long as the fight against tax evasion goes under reasonable taxation policy, and also given that this struggle seeks equity in front of taxation.

But none of these positions (the individual or the state), taken separately, will allow an objective analysis of tax evasion. The individual cannot be removed from the social context in which they live and therefore escapist phenomenon treated in both the interests of the taxpayer and the state.

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