

Tax Evasion: Concept, Causes and Forms at the Macro and Microeconomic Level

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Abstract

Tax evasion is an important topic of national and international taxation. The research carried out by this paper highlights the definition of the notion of tax evasion by established authors, the objectives of the paper being to point out that this negative phenomenon of tax evasion has undesirable macroeconomic effects for the economy, in the sense that tax evasion does not allow the state to collect the budgetary resources required. Another objective of the paper was to reconsider the categories and forms of tax evasion by pointing out that the state is responsible for it, mainly due to the legislative vacuum of the 1990s - the first law on combating tax evasion was adopted in 1994, but this was also due to taxpayers' behavior that was permanently opposed to state measures to amplify national taxation by introducing new taxes and duties, by increasing their amount or by applying unclear taxes and duties.

Key words: Tax Evasion, Microeconomic, Macroeconomic, State,

J.E.L. classification: H2, H26

1. Introduction

The process of tax evasion is a scourge of both the Romanian and international economies. It has emerged since the 1990s, due to the legislative vacuum (lack of a concrete law on preventing and combating evasion, this legislation being adopted only in 1994). The phenomenon of tax evasion was based on the fact that over time the fiscal pressure exerted by direct and indirect taxes increased, the phenomenon of corruption was amplified due to the fact that civil servants who ought to have supervised the phenomenon of tax evasion were often badly paid, trying to supplement these incomes otherwise, or they were not financially motivated to do their job properly. The underground economy and corruption are mutually reinforcing, corruption being necessary for the expansion of the underground economy and, at the same time, underground activities involve bribery and corruption. In order to obtain additional revenues from the economic agents in the underground economy, public authorities demand bribes and thus benefit from the underground market. In low-income economies there is a positive relationship of complementarity between corruption and the underground economy.

2. Theoretical background. Tax evasion

The phenomenon of tax evasion is a widely discussed and debated topic in the literature so that the first definition emerged between the two wars and puts this process around fraud (Lerouge, 1944, p.258) bearing an extensive conception (Piatier, 1938, p.7). Subsequently, tax evasion gained another meaning, the art of circumventing the temptation of tax law (De Brie, et al, 1975, p.9). In 1986, 14 determinants of tax evasion were identified: age, education and occupation - demographic factors, gender, source and level of income, tax margin, penalties and probability of detection of economic factors, fairness, complexity, control authorities, tax-behavioral ethics (Jackson, et al, 1986). Tax evasion is defined as a legal reorganization of a business so as to minimize the tax liability, tax fraud is regarded as an illegal rearrangement of a business for the same purpose

(Clocotici, et al, 1996, p.174). Another interpretation of this concept considers this generic term and presents it as a manifestation of tax evasion (Hoanță, 1997, p.218). In the local literature, tax evasion is presented as a taxpayer's exemption from the payment of tax liabilities, partially or totally, using some ingenious maneuvers the existing legislative loopholes in order to conceal the taxable matter (Corduneanu, 1998, p. 347) . Over the years, the authors have approached in general, and in particular the definitions of tax evasion, types and formulas of tax evasion, identified and presented the type of tax evasion in the person of the natural or legal person that conflicts with the state, not declaring or avoiding taxes and duties, central and local, direct and indirect taxes, which are more or less suited to evading payment (Melinescu, et al, 2004, p.58). There is also a link between the tax evasion phenomenon followed by money laundering, research into evasion practices pursuing the efforts of those who do not pay to legalize hidden amounts at national level or in tax havens (Voicu et al, 2003, p.38).

3. Methods of determining tax evasion

The large amount of data, in fact, makes it impossible for the competent authorities to accurately determine the amounts that are part of the underground economy. A method used to highlight evasion is the *statistical* one, which involves examining the activity by the institutions with control duties on the acts of tax evasion and their damage, at a number of selected agents to be checked, and the extrapolation of these data obtained from the control , nationally (Nita, 28, p. 78). The tools used are based on approximate *methods* or *investigations* that are more precise methods. Thus, within the category of approximate methods we find the political incidence (the advancement of speculative figures for gaining an impact on public opinion) that helps to appreciate the underground economy .The role of this investigation is to prepare public opinion on the severity of the inquiries that are required and are to be carried out. Methodological estimation is done through economic and sociological tools. Economic instruments are used to measure tax fraud and the phenomenon of the underground economy. The clues of the underground economy on the labor market can be surveyed and provide the opportunity to have information about the entire community by observing only a sample of it and extrapolating the results to the entire population (Patroi, 2007, p. 108).

Statistical methods use sociological tools to measure tax evasion, based on fiscal control statistics in the form of private investigations, measuring instruments in certain liberal professions (lawyers, doctors, accountants, etc.) considered more prone to evasion. Through them it was deduced that much of the national income is taken away from taxation. Thus, the best known method is the representative sample method of taxpayers, associated either with a poll for an opinion poll or with in-depth tax checks. The combination of a thorough tax audit and a representative sample of taxpayers involves selecting the sample according to the nature of the taxable income and the nature of the dominant income. Due to the representativeness of the samples, the results for each of them, in terms of tax rates increase rates and the tax collection percentage, make it possible to estimate statistical, by extrapolation, the entire mass of taxpayers. Tax control is of several forms and uses various instruments. The forms of this type of control, according to the literature, are chosen, depending on the accuracy of the research and the taxes to which it refers, as follows: summary control and in-depth control. The summary control is carried out on the tax folder in the office of the verification agent, and the in-depth control involves the control of documents through accounting and cross-checks (Patroi, 2007, 168).

To be as eloquent as possible, financial control to reduce tax evasion must be well-coordinated, streamlined and computerized. One important thing is also the elimination of abuses, harassment, unprofessional attitude of the authorities. Computerization can provide real-time complete information on revenue, expense, the amount of evasion and its forms.

4. Tax evasion: causes and forms

Tax evasion, the result of imperfect and insufficiently assimilated legislation, is one of the economic and social phenomena of particular importance that all countries of the world are currently facing. The effects of tax evasion cause distortions in the market mechanism, can

contribute to creating social inequities and are directly felt on levels of tax revenue. The *forms* of manifestation of tax evasion are very diverse, which calls for a realistic and effective intervention by national and international authorities to prevent and combat this phenomenon, its eradication being impossible (Sasu, at al, 2009, p. 128).

Regardless of how it is defined, tax evasion is the willful non-fulfillment of tax obligations by the taxpayer. The phenomenon of tax evasion is condemned everywhere. It persists in all countries and in all periods, despite sanctions of any kind applied by the state. When tax burdens push too hard on a taxable item, it tends to escape. Fiscal fines will not cause the taxpayer to declare the income he has, because there is a taxpayer's psychology of not paying (Diaconu, 2004, p. 138). The notion of tax evasion is sometimes confused with fraud. When talking about fraud, reference is also made to legal or legitimate fraud, to illegal fraud, to legal and illegal evasion.

Tax evasion refers to minimizing taxation by using acceptable, real alternatives. On the other hand, tax fraud is determined by taxpayers concerned with the intention to disregard the tax law. The decision on tax evasion acts as a variety of factors, making a clear demarcation of each individual's action difficult. Although tax evasion has connotations that enter the semantic sphere of the underground economy, it is not a component of the underground economy but rather lies at the inherent interference of the underground economy with the official economy (Nita, at al, 2008, p. 121). Tax evasion is therefore an actual or potential behavior of the economic subject (individually or collectively, as the case may be) to lead to avoidance of payment of legal obligations owed to the state. Therefore, not any evasion of legal obligations is tax evasion, but only the evasion of payment of legal obligations owed to the state. This is logical, given that fiscal obligations are set by the State for the benefit of the state. Fraudsters prefer lawful tax evasion (to the shelter of the law), which is therefore not incriminated and is due to the conjunction between a competent (the taxpayer's competence to choose the most advantageous solution in law) and incompetence (the incompetence of the legislator who has escaped his "loopholes" mentioned above). The situation in which the legislator can prove that he has "designed" the tax evasion gateways based on the text of the law to the pressure of lobby groups and to the detriment of state interest does not automatically fall into the category of illegal tax evasion because the taxpayer has used a legal text that he did not violate, but may lead to other qualifications, for example, in qualifying a deed the qualification of a criminal act (Ciobanu, 2012, p. 143). If we look at illegal tax evasion, things are obvious here: Any breach of the tax rule that is detrimental to the financial interests of the state must be qualified as illegal tax evasion. The main forms of management of legal tax evasion are: granting tax incentives (exemptions, exemptions, reductions, income tax deductions), benefits in kind, domicile in tax havens, favorable interpretation of legal provisions (Anitei, at al, 2016, p. 2018). The most representative *causes* for tax evasion are: the weakness of the tax administration (reduction of the collection of budgetary obligations), moral hazard (granting tax incentives) and contagion (imitation of the action of others).

5. Tax evasion at the macroeconomic and microeconomic level

The impact of tax evasion can be analyzed at both macroeconomic and microeconomic level. In fact, the microeconomic impact of tax evasion is aggregated in its macroeconomic impact (Saguna, at al, 1995, p. 242).

In Romania, legal tax evasion is done on the basis of tax incentives granted by the government (staggered, deferred or tax exemptions, surcharges and related penalties) and omissions in regulating taxes and duties.

At *macroeconomic* level, tax evasion has the following important effects:

- financial impact: it negatively influences the dynamics of the budget deficit, generating increases and, as a result, increasing the public debt (whether internal or external); this, however, causes other negative phenomena; for example, the increase in government debt leads to an increase in debt service expenditure, which in turn influences the budget deficit in the coming years, etc.

- social impact: by reducing public revenues, tax evasion leads to a reduction in public spending or restructuring, which generates a reduction in the amount of public goods the state provides to the entire population; in addition, reducing and restructuring public spending as a result of tax evasion can lead to increased disparities and economic inequalities in society;

- economic impact: tax evasion seriously distorts economic competition, as taxpayers who practice tax evasion are likely to become more competitive on the market by being able to reduce prices as a result of gains from tax evasion; the distortion of competition is ultimately at the expense of the consumer but also to the detriment of the producer, because tax evasion, as we have shown, generates a certain moral hazard for the taxpayer, so that when the tax evasion ceases or is no longer the tax escapist taxpayer is suddenly unable to cope with real competition on the market;

- cultural impact: the state's inability to prevent, curb or reduce tax evasion and evasion behavior creates a strong sense of insecurity and distrust in institutions, which is likely to cause serious cultural deformities on the institutional level (Popescu, et al, 2009, p. 171).

At the *microeconomic* level, the impact of tax evasion is reflected in the change (the term change has different meanings from different perspectives: a) for the organization, change may mean improvement (as it appears in management accounting); b) For the state (for the government inspector), a change may mean worsening (to justify reducing the organization's budget commitments) to the organization's financial position, financial performance, and cash flows (Craiu, 2005, p. 126).

The financial position of the organization is released from the balance sheet (and also from the financial balance sheet). Tax evasion will reduce the company's debt (debt to the state, ie budgetary obligations), the first effect of tax evasion on the company's financial position will be the increase in net worth. As the net situation reflects the net wealth of the shareholders of the organization, it results that the shareholders become richer in proportion to the tax evasion produced at the organization level (Afrasinei, 2016, p.28). We therefore have a clear and massive improvement in the financial position of the organization, attracting new investors, thus providing additional chances of prosperity. Obviously, the rise in net worth will lead, in the coming years, to increasing the net asset of the organization, leading, through a "virtuous circle", to the growth and consolidation of the organization. This can be done by increasing the self-financing capacity of investments at the organization level.

In addition, the organization can use the net surplus to increase its permanent sources of funding for its current activity (primarily the operating activity), so it can increase its working capital, which has a beneficial effect on securing the financing of its activity exploitation of the organization (Mănăilă, 2004, p. 138).

The organization's financial performance is released from its profit and loss account. As tax evasion is obtained, as a matter of principle, by reducing the tax base observable by the government inspector, it results that tax evasion will "display" a smaller gross profit of the organization. So, from an official point of view, the organization will record lower economic and financial returns, ie lower performance. This reduction in visible performance for the government inspector is misleading. The main effects of tax evasion on performance are: the organization will benefit from a supplementary monetary mass, the effects should be seen in the medium term, and this operation functions as a currency substitute capable of providing all the functions of a monetary injection of any kind banking, bond issue, asset sales, redemptions of government securities held by the organization (Afranasiei, 2016, p.233).

Treasury flows are released from its treasury bill. Thus, tax evasion from the perspective of the organization represents (irrespective of its illegal nature) an attracted amount, is a financial resource that increases the funding of the organization; therefore there is an increase in this category of financial (monetary) flow. At the same time, tax evasion represents, from the perspective of the government inspector, an increase in the state's claims on the organization, although legally, the organization would have had to pay the state the monetary amount of the tax, in reality it retains this amount, so from the perspective of the organization, we have no change in the financial flows with the state (Voicu, 2003, p. 218).

6. Conclusions

Exact estimation of the extent of the tax evasion phenomenon is impossible because it is very difficult to draw a line that will make the exact demarcation between the illegal evasion and the one permitted by the legal loopholes (the fiscal code). This and the frequency with which it changes and introduces new tax provisions that promote certain "stimulating" economic policies for certain socio-professional categories or which target certain areas of activity. The major dangers resulting from high tax evasion affect the economy and can be synthetically stated as follows: a decrease in tax revenues collected from taxpayers; the induction of a fiscal inequity between taxpayers as regards the tax deductions actually incurred by them; altering the economic, social and political environment (Virjan, 2016, p. 147)..

Tax evasion is a field of the underground economy - high taxes and charges motivate more and more taxpayers to hunt down to the underground economy. Tax evasion and the underground economy generate corruption in the sense that fraudsters are increasingly tempted to give benefits and sums to tax inspectors and other officials who ought to oversee this negative phenomenon.

The main reasons for the evasion and the underground economy can be described as over-taxation of taxpayers, continued lack of trust in state institutions, inconsistent promotion of legal and administrative legal acts, high tax rates and low social security it tempts employees and employers to go to the black market to work, the existence of part-time employment contracts accompanied by early retirement of certain categories of the population who will seek extra income in the underground economy. Increasing the size of the underground economy will have the effect of reducing public revenues (governments lose their financial capacity to improve administration and infrastructure) (Popa, at al, 2000, p.53).

In order to limit and combat tax evasion that has the effect of tax evasion, a series of urgent measures should be taken, such as:

- Continuously increasing the quality of tax inspection activity: for tax audit methodologies and themes that need to deepen the areas with the highest tax risk;
- Improving the efficiency of fiscal control, which involves attracting additional amounts from the budget withdrawn by non-taxpayers and taxpayers (this would also involve a system of tax payer selection based on fiscal risk indicators, the elaboration of a procedure the preparation of fiscal control programs based on risk analyzes)
- Developing a mutual exchange and mutual assistance to identify, limit taxpayers' tax evasion between our country and tax organs in the other EU member states, which has the effect of improving the collection of information from third parties for supporting the European tax inspection activity;
- Improved forced execution procedures in the sense that in the present, even if money fraud is identified, the collection of tax receivables being a priority of ANAF, this is practically impossible because the fraudsters manage to alienate their wealth and stolen amounts;

The phenomenon of tax evasion has reached high quotas, record for Romania as the country of the European Union, its evolution being in a continuous ascendant, although the number of fiscal control actions has increased, although the detected deviations increase from one year to the next, we find that the measures of discouragement is proving ineffective and does not provide the expected effects as there is a heterogeneity of tax evasion in terms of tax evasion taxpayers who are proliferating, the more sophisticated financial engineers that limit the results of tax evasion studies.

7. References

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