

The Impact of Tax Evasion on Fiscal Equity in Romania in the Period 2010-2020

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Abstract

The field of tax evasion has generally been the subject of repeated research at various levels. However, the reality fully demonstrates that tax fraud is now far from being perceived correctly and completely, so that the mechanisms designed to prevent and combat it are far from effective.

This information is also supported by the fact that officials with strict and high-level responsibilities in this field state in official positions that an accurate assessment of tax evasion cannot be made.

The purpose of this paper is to highlight the fact that in Romania the phenomenon of tax evasion began to be taken seriously since the 2000s, and the impact of tax evasion on tax equity is becoming more intense becoming an international phenomenon.

Key words: tax evasion, tax equity, indirect taxes, direct taxes

J.E.L. classification: H2, H20, H26

1. Introduction

A thorough analysis of any fiscal policies and measures often involves deepening the issues of equity, a concept with deeply subjective valences that is often the subject of controversial debates.

The relevant bodies of contemporary states are primarily concerned with economic efficiency, budgetary impact or political and electoral considerations when determining the manner in which taxes are levied, sometimes ignoring the basic principles of fiscal equity, long studied and analyzed by researchers. in the economic field.

The basis of research on fiscal policies in terms of equity is the theory of social equity formulated by Stacy J. Adams in 1965, who states that all people expect a comparable level of effort and benefits, being tempted to change their behavior if who perceive the existence of differences in treatment.

In the field of taxation, the economic literature identifies two types of fiscal equity, namely, vertical and horizontal fiscal equity.

Vertical fiscal equity refers to the establishment of a fiscal burden that reflects the contributory capacity of each payer, and the second is the horizontal one, which has a special social significance, being considered the most important principle in the theory of taxation.

The horizontal tax equity rule requires equal tax treatment for taxpayers who are in similar situations or circumstances.

Fiscal practice in most states often ignores the principle of horizontal tax equity, because all efforts are channeled on vertical fiscal equity, which is clear from the relevant legal provisions in Romania.

Basically, the contemporary fiscal systems from which our country was inspired also aim first of all at the economic efficiency and the impact that the collected taxes and fees have on the state budgets.

The principle of horizontal fiscal equity is not intended to define how taxes are levied, but requires government bodies to justify uneven fiscal policies. This ensures protection against arbitrary tax regulation, especially where public policies lack transparency.

The problem of fiscal equity arose in fiscal practice in connection with the elimination or reduction of privileges for some social classes or for some monetary obligations to the state.

2. Literature review

In this paper we will try to define as easily as possible the notion of tax evasion having the financial-fiscal and legal-criminal field in the matter of tax evasion. The legal framework that establishes the taxes and fees that constitute revenues to the state budget and local budgets, specifies the taxpayers who have to pay these taxes and fees, as well as the method of their calculation and payment is represented by the Fiscal Code.

Regarding tax evasion, Law no. 241/2005 for the prevention and combating of tax evasion, stipulates imperatively the activities that a taxpayer must carry out, as well as the fiscal obligations that he must fulfill in order to be fully legal.

Within the fiscal legal relationship, the state unilaterally establishes, in charge of natural and legal persons, the obligation to pay a certain amount of money within a term in the account of the state budget (Costea, 2011). The amount of money that the taxpayer has to pay represents an income to the state budget, and the obligation is a fiscal one.

The tax obligation is a legal obligation. It defines the content of a legal relationship that arises between the state and the persons determined by law, the execution being ensured through the coercion of the state (Florescu & Bucur, 2013). What differentiates the civil obligation from the fiscal one is the very legal nature of the fiscal legal relationship (Marinescu, 2010).

Tax evasion is the evasion of a greater or lesser part of the taxable matter. As a phenomenon, tax evasion is encountered nationally and internationally (Drăgoescu, 2006).

Tax evasion is presented as the evasion by any means from the imposition or payment of taxes, fees, contributions and other amounts due to the state budget, local budgets, state budget and social insurance of special funds budgets by individuals, personal, Romanian or foreign legal entities.

From the point of view of the manner in which it can be committed, of the relationship that exists between the phenomenon in question and the legislation in force, tax evasion has two forms of manifestation: Illicit or fraudulent tax evasion or tax fraud; Legitimate tax evasion by law (Mrejeru, Pantea and Martinescu, 2013). From a spatial point of view, two forms of tax evasion are identified, namely: Tax evasion at national level.

International tax evasion In essence, the difference between legal tax evasion and illegal tax evasion lies in the legality of the transaction. Every taxpayer has the right to try to avoid paying them, but there is a time when the evasion of payments changes depending on its form after the action taken by the taxpayer (Văcărel, 2002).

Thus, we can say that if legal tax evasion means crossing a border to enter a toll road without paying, illegal tax evasion consists in finding an alternative route, but still free of taxes (Șaguna & Tutunghiu, 1995).

The most common evasion cases that use the favorable removal of tax legislation are:

- Establishment of amortization or reserve funds in an amount higher than that which is economically justified, thus reducing taxable income;
- The practice of some companies to invest a part of the profit realized in machines and technical equipment for which the state grants reductions to the income tax;
- Family associations, as well as occult societies between the entrepreneur's wife and children, lead to their separate taxation, the distribution of income on each partner and the reduction of tax burdens;
- The total income of the family members can be divided equally, regardless of the contribution of each one, being obtained a decrease of the taxable amount due to the state;
- The establishment of deposits for the custody and administration by the guardian of funds for the minor child, leads to a lower payment tax compared to what would be due on the income thus redistributed;

- The use within certain limits and according to the legal provisions regarding philanthropic donations, regardless of their wear or not, leads to the theft of a part of the income from taxation;
- The taxpayer has the possibility to choose the income tax of individuals or legal entities. The choice of income taxation on the company leads to the evasion of the taxpayer from certain taxes and duties at a lower cost.

Protocol, advertising and publicity expenses, whether made or not, lead to a decrease in taxable income.

The favorable interpretation of these provisions granting tax exemptions for different periods from the establishment of the company, depending on the profile, has led to the establishment of a large number of companies for the purpose of tax evasion.

Accelerated depreciation, when permitted by law for certain categories of fixed assets, leads to a decrease in taxable profit in favor of setting up a depreciation fund higher than that imposed by the amount of physical and moral wear and tear recorded by those fixed assets during the period considered.

Tax evasion under the rule of law can be avoided by correcting, refining and improving the legislative framework that is already possible (Voicu and Boroi, 2006).

Unlike legal evasion, illicit tax evasion is committed in violation of the law. In this case, the taxpayer takes serious action, in order to evade the payment of taxes, fees and contributions due to the state.

Basically, there are many forms of illegal tax evasion and it is difficult to determine them on a separate basis. Instead, they are frequently found in various forms of fraudulent evasion, such as: Non-declaration of taxable matter; Declaring income lower than real; The existence of false and real copies; Intentional destruction of documents that help to find out the truth about the prices charged, the delivery of goods, the commissions collected or paid; Preparation of fictitious documents and statements; Unjustifiable change in supply or transport prices; Making false customs declarations on the import or export of goods; Recording of expenses not incurred in the respective company with the lower turnover statement; Sales granted without invoices, which hide the real operations subject to taxation; Counterfeiting the balance sheet.

3. Research methodology

The working method is the one of documentary research in archives, of qualitative and quantitative type. I used the documents archived within the National Bank of Romania and the National Institute of Statistics. The archive information was supplemented by reading several books and specialized articles, which deal with the topic of research. We also used scientific research papers and interviews with dignitaries involved in Romania's relations with the IMF and the WB in the current period. The statistical information identified in the archive documents was synthesized, analyzed and processed in the form of tables and graphs, which will be found during the research.

4. Findings. The dynamics of tax evasion in Romania in the period 2010-2020

We will follow the dynamics of tax evasion in Romania in the period 2010-2020 through the annual reports of the Fiscal Council.

The Fiscal Council is an independent authority established under the Law on Fiscal-Budgetary Responsibility, which aims to support the work of the Government and Parliament in the process of developing and carrying out fiscal-budgetary policies and to promote transparency and sustainability of public finances.

The initial budget provided for the reduction of the budget deficit to 4.4% of GDP according to the cash methodology and 5% according to ESA95. The budget execution recorded a budget deficit of 4.12% of GDP, the target set at the end of 2011 being achieved with a comfortable margin of about 0.3% of GDP. With regard to the general budget deficit consolidated according to ESA95, the clarification of the statistical treatment of the state's salary obligations towards certain

categories of employees in the budget sector following final court rulings involved exceeding the 5% of GDP ceiling by 0.2 percentage points.

By comparison with the degree of efficiency of VAT collection in 2019, related to groups, the value of 0.68 registered in Romania is significantly lower than those registered in other Member States of the European Union.

Thus, in 2019 Romania collected VAT revenues representing 6.2% of GDP, compared to 9.7% of GDP in Member States.

At the same time, the weighted average VAT rates in other countries were 20%, while Romania registered a weighted share of 14.2%.

The VAT receipts in cash standards net of the impact of the swap compensation schemes, registered in 2019 a level of 65.3 billion lei. It is 3.5 billion below the level set in the initial draft budget.

The projection of VAT revenues at the level of the initial budget, there is an increase of 3 billion lei from 2019 to 2020.

Compared to 2018, where VAT revenues of 59.4 billion lei were registered, 2017 ended with total VAT revenues of only 53.31 billion lei.

A significant increase took place in 2015 by 6 billion lei more than the previous year where VAT revenues were only 54.41 billion lei.

The significant share is 5% for the period 2015-2020.

It should also be mentioned that the non-fulfillment of the scheduled level of VAT revenues occurs in the context in which the Ministry of Finance estimated an advance of about 6 billion lei of these revenues due to the effect of measures to improve collection.

Revenues collected from excise duties amounted to 32.2 billion lei, representing almost 3% of GDP in 2020, this level being higher than the estimates taken into account when substantiating the draft budget by almost 0.4 billion lei.

Thus, the initial program provided for excise revenues amounting to 31.1 billion lei in 2019, given a forecast increase in the macroeconomic base of 6.4% due to the increase in the level of excise duty on tobacco products, as well as a positive effect expected by one billion lei due to the increase in the degree of excise collection.

The first budget rectification increased the initially estimated level by approximately 0.5 billion lei as a result of the project to introduce soft drinks with a high sugar content in the field of excisable products, as well as to advance by 4 months the increase of the total excise duty for cigarettes initially established for January 1, 2020.

Thus, in 2016 the excise revenues increased by one billion, and in 2017 they reached 26.6 billion lei, followed by the second increase in 2018 by 2 billion lei.

In 2020, a total income of excise duties of 32.2 billion lei was registered.

The revenues from the profit tax in cash standards net of the impact of the compensation schemes, were in the amount of 17.7 billion lei representing an increase of 2.1 billion lei compared to the previous year, with 13.4% more, but also a exceeding by about 0.5 billion lei the estimates from the budget approved for 2019.

Thus, the initial program provided for revenues from income tax amounting to 17.2 billion lei, in the context in which an unfavorable effect of almost 0.2 billion lei was anticipated due to the increase in own revenues, but also a positive effect estimated at 0.5 billion lei on account of a potential improvement of the collection.

The value initially forecast for this budget aggregate was supplemented by 1.1 billion lei at the first budget rectification due to the fact that the execution at 6 months indicated a higher growth rate of revenues than forecast in the draft budget.

However, in 2020, revenues from the profit tax of 18.5 billion lei were registered, with 0.8 billion more than the previous year.

In 2018, revenues from the profit tax in the amount of 15.6 billion lei were registered, in 2017 of 14.64 billion lei, and in 2016 15.38 billion lei were collected.

Revenues from income tax and salaries according to cash standards amounted to 24.5 billion lei, which represents a non-achievement by 0.6 billion lei of the budgeted level at the beginning of the year.

Thus, the initial program provided for revenues of 23.7 billion lei in 2019 due to an estimated increase in the average number of employees of 3.4%, respectively an advance of 14.7% of the average gross salary, while anticipating an effect of decreasing revenues by 0.8 billion lei as a result of facilities granted in the field of construction.

The level initially forecast for income and salary tax revenues was maintained at the first budget rectification, but the second rectification decreased by almost 0.6 billion lei due to the unfavorable evolution of labor market indicators compared to the initial estimates.

The actual execution confirmed the estimates on the occasion of the second rectification, accounting for a level of income and salary tax revenues, net of the impact of compensation schemes of about 23.1 billion lei.

This value of revenues represents an advance of only 2.3%, ie 0.5 billion lei, compared to revenues in 2018-2019.

The positive evolution of corporate tax revenues in the period 2010-2020 exceeded the dynamics of the relevant macroeconomic base, which advanced by 11.3% of GDP and by 13.4% of its value.

This could indicate at first sight a realization of the expected positive impact due to the increase in the degree of collection.

An analysis of the revenue structure related to this budget aggregate indicates a situation similar to that recorded in 2018.

The above-expected evolution of income tax revenues was mainly supported by the profit tax paid by commercial banks, which increased by over 70%, generating revenues of 0.7 billion lei compared to estimates based on the evolution of Gross Domestic Product.

The analysis of the structure of revenues from income tax and salaries on its main components, represents 78.4% of revenues related to the aggregate budget year. There was an increase of 1.3%, ie 0.2 billion lei in 2020 compared to 2019, and the growth rate is faster by 2.3% compared to 2018-2019.

The execution of expenditure on goods and services recorded a much higher level, both compared to that envisaged in the draft budget, by 4.2 billion lei more, and compared to the values projected on the occasion of the two budget corrections made in during the year 2020.

Initially projected at 48.6 billion lei, the final execution of this aggregate reached a level of 52.8 billion lei, being 4.6 billion lei higher than the revised value in the second budget rectification in 2019.

Expressed as a share in Gross Domestic Product, on the one hand, expenditures on goods and services increased by 0.3 percentage points compared to 2018 and reached 5% of Gross Domestic Product.

On the other hand, the share in GDP of 2019 was below the average of the period 2010-2018 by 0.5 percentage points.

Compared to the execution of 2018, the expenditures of goods and services amounted to 44.6 billion lei. This category of expenditures was projected in February 2019, where the net expenditures of the budget reached a higher level by approximately 1.9 billion lei.

When preparing the budget for 2019, the return on an upward trajectory of the aggregate of investment expenditures was considered after the modest result registered in 2018, of 3.6% of the Gross Domestic Product, based on a possible claim in the aggregation of European funds and of the continuation of Romania's commitment within NATO.

In the initial budget construction, investment expenditures were provided by over 11 billion lei over the 2018 program, which recorded 38.9 billion lei.

The increases are located mainly at the level of expenditures related to projects financed from European Union funds, with an increase of 6 billion lei.

In addition, 1.9 billion lei were allocated. Thus, through the construction of the budget for 2019, it was provided the allocation of a net share higher than financing from external sources in total investment expenditures, respectively reducing the share of internal sources, thus expected to release resources that would be used to build fiscal space or other purposes.

However, the initial plan to increase investment by replacing expenditure with non-reimbursable European funds was not implemented in 2019 either, with a significant deviation from the estimate of investment expenditure in the initial budget.

Based on the updated projections of the Fiscal Council for the period 2010-2020, as well as the estimates from the Ministry of Finance, regarding the evolution of interest expenditures related to public debt, a forecast of the share of public debt in Gross Domestic Product over the next two years was made. .

Thus, a stock-flow adjustment is considered that will be equal to 0 on the forecast horizon. The results indicate a major impact of the deterioration of the macroeconomic framework on Romania's public debt, which is projected to increase from 35.2% of Gross Domestic Product in 2019 to 45.9% in 2020.

The trajectory has shown an increase in public debt and is driven by the manifestation of an unfavorable differential between the real growth rate and the real interest rate on public debt, doubled by the impact of the budget deficit.

However, it should be borne in mind that the projection of government debt depends to a large extent on the forecasts used for the real interest rate and the real growth rate of real Gross Domestic Product.

5. Conclusions

However, the phenomenon of tax evasion in Romania requires research and analysis in order to reach a correct and complete perception of its dimensions. This statement is supported by a very important aspect.

Tax evasion is far from being exhausted as an object of investigation by the framework law which, as its name implies, should regulate the prevention and combating of tax evasion. In reality, it is only an instrument of control, prevention not being representative in its provisions.

The multitude of obligations that the tax law imposes on taxpayers and especially the burden of these obligations, have always led to stimulate the ingenuity of taxpayers in inventing various procedures to evade tax obligations.

Tax evasion has always been active and ingenious because the tax authorities hit the fortunes of individuals and touch them in the most sensitive interest, the money.

The causes of tax evasion are multiple, the legal provisions that favor tax evasion, the application of laws, which allows tax evasion, taxpayers who, with an unhealthy mentality, resort to various methods to hide taxable material, corruption of tax authorities, unfair distribution of tax rates by income groups and social categories.

The current tax system can even lead to a decrease in employment. People are not driven to work extra, because the income thus earned will be taxed, which encourages undeclared work and thus tax evasion.

The high degree of specialization of tax evasion offenses requires the concentrated effort of many state institutions to prevent and combat them, namely the General Directorate of Public Finance, the Economic Crime Investigation Directorate within the Police, as well as the General Anti-Tax Fraud Directorate or the departments. economic activities of the secret services.

The adoption and application of a modern and transparent legislative framework, together with the motivation of the staff of the institutions involved, are likely to reduce the harmful effects of this true economic scourge of the contemporary world, but also to create premises for better cooperation on obligations. Of the state.

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