

Financial Education - Strategy to Combat Tax Evasion

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Abstract

In most countries, one of the reasons for economic problems is the extent of tax evasion in its various forms. Tax evasion is the way in which economic agents respond to tax pressure when they exceed a certain threshold necessary for starting, maintaining and developing their business or any other gainful activity and in relation to their current wealth or income.

Tax evasion can be said to be a social phenomenon with financial implications, including the partial or total use of legislative loopholes or the use of financial strategies or engineering to evade tax obligations.

The main aim of this research was to check the tax education of both firms and employees.

The specific objectives of this work are to present the factors and methods of combating tax evasion, the underground economy and the phenomenon of corruption, as well as the possibilities of reducing and keeping tax evasion under control.

Key words: tax evasion, public finance, corruption, tax fraud

J.E.L. classification: H2, H26

1. Introduction

In the field of legislation, preventive measures are diverse and involve the development of comprehensive and clear tax legislation that is sustainable and stable in space and time. At the same time, exemptions, deductions and certain interpretations should be eliminated or reduced as much as possible, which has led to multiple interpretations by the competent authorities and taxpayers, as well as complaints from those who have not benefited. The new methods of tax evasion require the tax and judicial authorities to have access to the information needed to correctly resolve the cases entrusted to them; the legal framework must oblige third parties to declare certain elements of the taxpayer's situation in order to be able to verify their declarations (Collier, 2020).

The scope of the obligations must include: the deduction of bank accounts and income from clients' movable property, the deduction of commissions and taxes paid by payers, the deduction of salaries paid by employers, as the criminal and financial penalties must be extremely severe, but at the same time in line with the legal provisions and effective implementation. This information is more necessary, but at the same time fair and impartial (Beckett, 2017). The legislative framework must ensure the possibility of enforcing financial obligations through tax forfeiture (Ene-Corbeanu, 2020).

2. Literature review

There is a mutually limiting relationship between tax evasion and corruption. Corruption facilitates the emergence of tax evasion, or rather the spread of tax evasion, while the latter supports and encourages corruption. Of course, by "agreeing" with the tax inspector, the possibility of evading taxes and penalties is open to corruption, both because of low wages, lack of professional integrity and dignity, and poor tax education, which is increasing significantly (Haslehner, Pantazatou, Kofler & Rust (Eds.), 2020).

Tax evasion and corruption are states of economic and social behaviour of economies. At the level of the individual taxpayer, they often escape public disapproval or are ignored for pragmatic reasons (Tatoiu, 2020). The 'underground economy' and the 'surface economy' are separated by a set of regulations and prohibitions; it can be seen that what once constituted the underground economy may later become the surface economy.

The underground economy manifests itself in the context of the prohibition of economic activity - the production and sale of drugs, prostitution, some gambling - by the state or by the protagonists of the economy outside of restrictions or laws.

The controls imposed by the Economic, Financial and Fiscal Control Agency make it possible to identify a number of factors that encourage taxpayers to evade and commit fraud (Turksen, 2021). According to the analysis of the Ministry of Public Finance and Anti-Fraud, the factors that lead to tax evasion and fraud are as follows:

- Engaging in illegal activities (obtaining a business license or complying with the declared object of activity) ;
- Intentional evasion or willful non-compliance with tax legislation for the purpose of evading obligations to the state ;
- Delaying or refusing actual payment of duly determined financial obligations;
- Incorrect or incomplete management of records to determine the elements of the financial obligation.

3. Research methodology

The main purpose of this research was to verify the tax education of both firms and employees. From the results we found that the majority of employees did not face a control from the tax authorities and also tax education is lacking given their answers to certain questions.

In this questionnaire we wanted to analyze some questions, namely the type of company , profession and field of activity, age and year of establishment of the company.

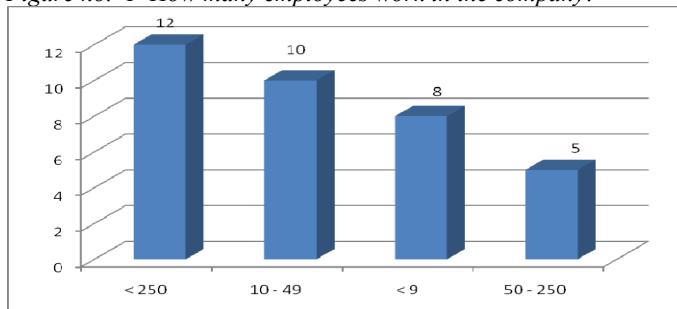
The main objective of the research approach was to identify the knowledge about the tax side of the company in which the employees work and their opinion about the importance of paying taxes, especially after the post COVID 19 period. As the questionnaire was conducted in a period when inflation increased a lot there were also questions about sales fluctuations and how the business environment was affected.

In the development of the questionnaire we used the application "Survio" , and we chose social media distribution to complete the questionnaire. The questionnaire includes questions related to age, type of company, profession and field of activity, as well as questions related to the topic of the undergraduate thesis, such as questions related to the relationship of companies with public institutions and public officials, opinions on bribery in relation to tax authorities, financial controls and fines, and how people who work in companies or own their own business see tax evasion.

4. Findings

From this questionnaire we received 35 responses, of which the surveyed colectvity is comprised of people aged 18-25 and 7 people aged 30-40.

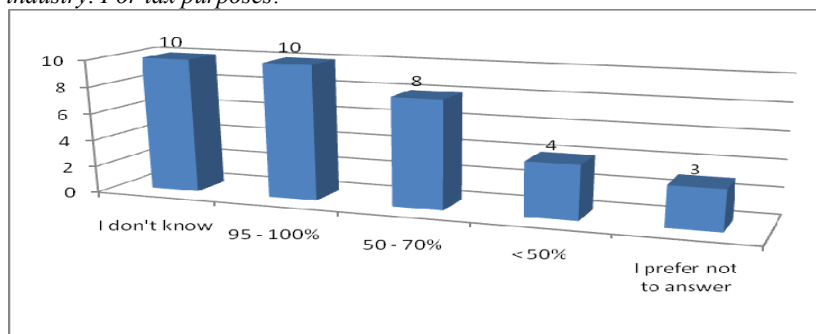
Figure no. 1 How many employees work in the company?



Source: personal processing and interpretation of data obtained from the questionnaire

Following your analysis of the question: *Given the difficulties Romanian companies face in paying taxes and complying with tax regulations, can you estimate what percentage of total annual sales are reported by companies in your industry. For tax purposes?*, we can observe that:

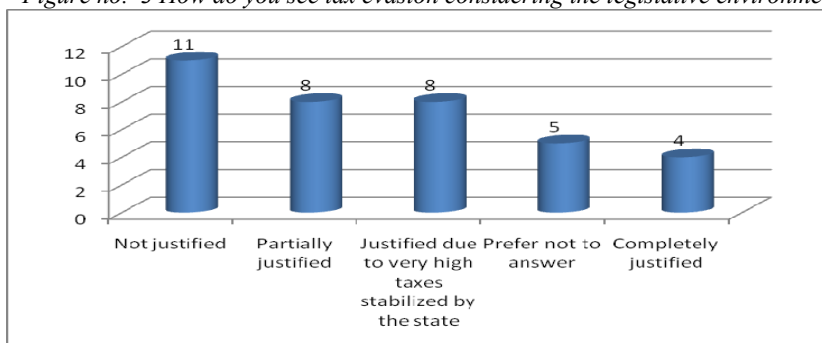
Figure no. 2 Given the difficulties Romanian companies face in paying taxes and complying with tax regulations, can you estimate what percentage of total annual sales are reported by companies in your industry. For tax purposes?



Source: personal processing and interpretation of data obtained from the questionnaire

10 / 35 people are unaware of the compliance and payment of taxes by the company they work for. It should be noted that some taxpayers do not communicate enough with their employees, which is a matter of the tax education of each employee. The other majority who completed the questionnaire are informed about paying taxes or in some cases, when we are talking about people in managerial positions, they are in charge of these payments themselves.

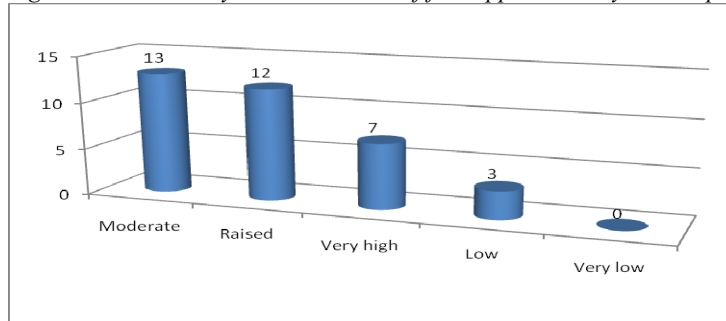
Figure no. 3 How do you see tax evasion considering the legislative environment after COVID 19?



Source: personal processing and interpretation of data obtained from the questionnaire

It is also not news that the Romanian legislative environment changes quite often, especially after the COVID 19 period when inflation suddenly increased. Due to major changes in tax legislation, many taxpayers tend towards tax evasion as a method to solve problems.

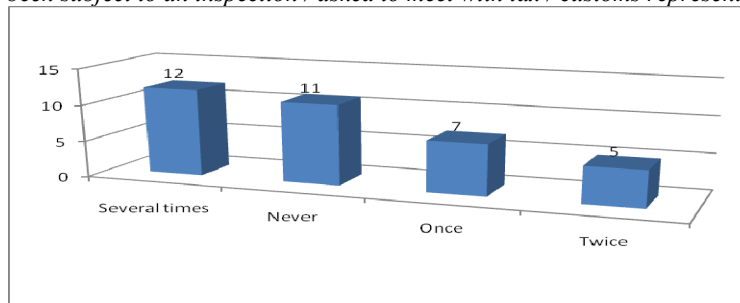
Figure no. 4 How do you rate the level of fees applicable to your company? (tax burden)



Source: personal processing and interpretation of data obtained from the questionnaire

The tax burden can be of a greater or lesser magnitude. It is also important to know that a lower tax burden does not mean higher or lower taxes are paid, if taxes increase, then the tax burden will increase.

Figure no. 5 Can you please tell me, during COVID 19, how many times the company you represent has been subject to an inspection / asked to meet with tax / customs representatives?

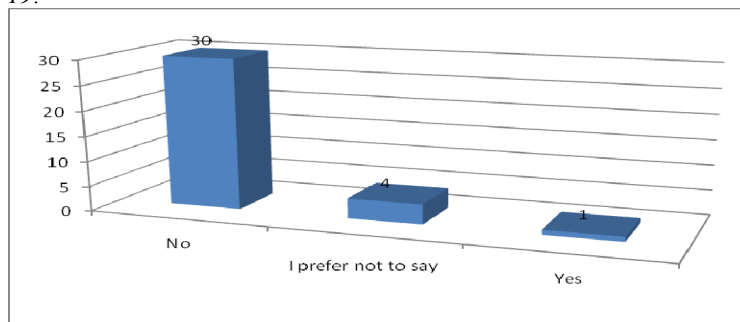


Source: personal processing and interpretation of data obtained from the questionnaire

It is well known that the COVID 19 period also meant the cessation of many economic activities, but this did not stop the tax authorities from doing their job immediately after the resumption of economic activities or even during the pandemic.

The pandemic apparently did not stop tax evasion, on the contrary, because it was the period of wearing masks and gloves, tax authorities had to collect more than 13,500 protective masks and 11,000 pairs of gloves.

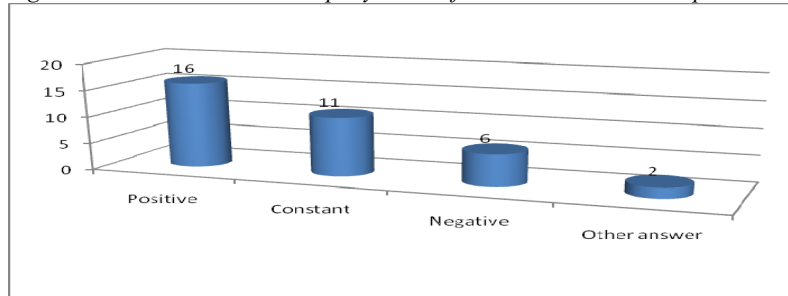
Figure no. 6 Can you please indicate whether your company was subject to any tax fines during COVID 19?



Source: personal processing and interpretation of data obtained from the questionnaire

30/35 people say they were not subject to a tax fine during COVID 19, also due to the fact that most economic activities did not operate.

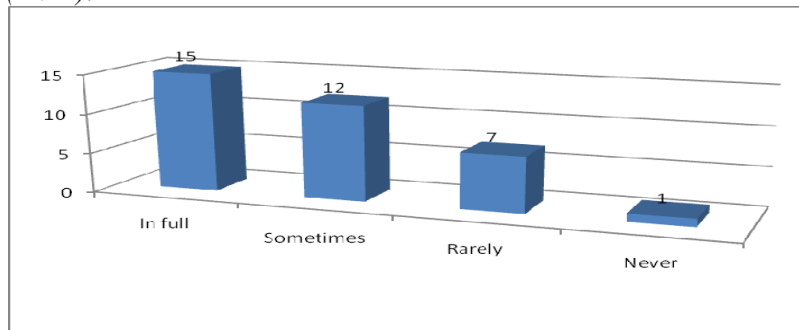
Figure no. 7 What was the company's sales fluctuation in 2021 compared to 2019?



Source: personal processing and interpretation of data obtained from the questionnaire

It is clear that 2021 has meant a rebound in sales compared to 2019, of course not in all cases, as 6/35 people say the fluctuation is negative.

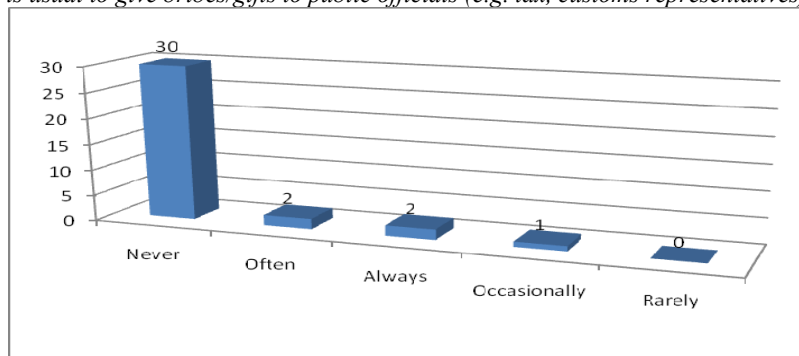
Figure no. 8 From your point of view, to what extent does business cooperate with the tax authorities (ANAF)?



Source: personal processing and interpretation of data obtained from the questionnaire

Cooperation with the tax authorities is in the companies' interest, the more they communicate, the more companies will be up to date with the new legislative regulations and thus avoid tax evasion attempts.

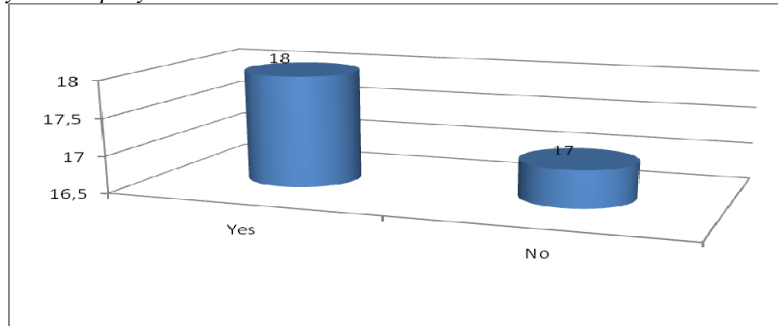
Figure no. 9 By an exercise of imagination, thinking of a company similar to yours, would you say that it is usual to give bribes/gifts to public officials (e.g. tax, customs representatives)?



Source: personal processing and interpretation of data obtained from the questionnaire

Bribes/gifts to public officials have often been a highly publicised topic. Very often economic agents prefer to evade paying taxes by various methods, and bribery is one of them.

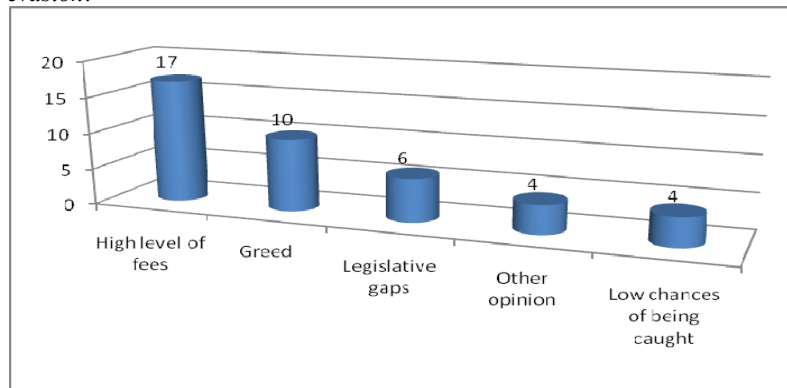
Figure no. 10 Do you consider that you spend a significant amount of time each month interacting with public officials/public institutions in order to understand and interpret laws and regulations applicable to your company?



Source: personal processing and interpretation of data obtained from the questionnaire

Most economic agents prefer not to seek help from public institutions, which is why there are problems in paying and filing tax returns on time.

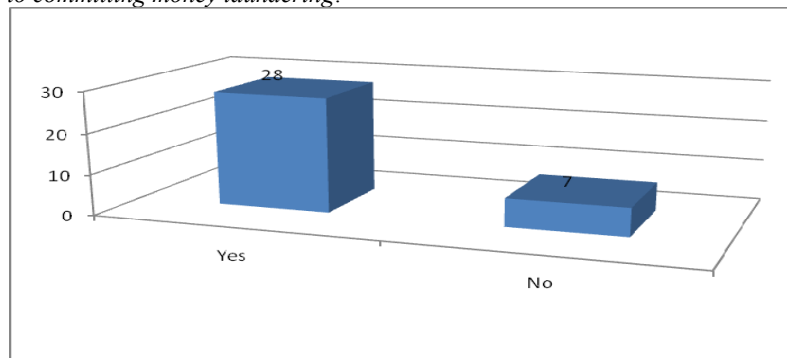
Figure no. 11 - In your opinion, what are the main factors that lead companies in Romania to commit tax evasion?



Source: personal processing and interpretation of data obtained from the questionnaire

High taxes are a major reason why taxpayers evade taxes, but greed is often a reason too. Most businesses take the risk of evading tax in the belief that they will not be caught, which is one of the signs of greed.

Figure no. 12 - Do you consider that individuals/companies committing tax evasion are also susceptible to committing money laundering?



Source: personal processing and interpretation of data obtained from the questionnaire

Money laundering means: transferring or exchanging property in order to conceal its origin, helping a person who has committed a crime to evade prosecution, concealing the means of origin of property which may be tangible or intangible, movable or immovable, possessing and obtaining property resulting from the commission of crimes.

5. Conclusions

Two categories of conclusions resulted from the completion of the research work: the conclusions of the theoretical part and the conclusions of the questionnaire.

A. Conclusions of the theoretical part

In the first part of the study we focused on the study of legal and illegal tax evasion, its causes and effects.

A first conclusion refers to the lack of clear legal provisions in the tax legislation, which allow individual and legal taxpayers to evade taxes within the legal limits, and the state cannot protect itself without significant improvement. Legislation and procedure must be designed to prevent circumvention of the law. One of the major factors in favour of tax evasion is corruption coupled with the lack of professional competence of those in charge of financial control, which means that any tax evasion goes undetected. The main practices identified as most commonly used in the legal practice of evasion are reinvestment of assets.

If we are talking about taxpayers' creativity, it is very high in terms of extracting legal claims, and it cannot be stopped without researching and completing the existing tax provisions. The main culprit for the existence of tax evasion is the legislative body itself, which is taking a motivated passive stance with regard to the much clearer regulation of this area.

There are a number of mathematical methods for quantifying the impact of tax evasion, starting with a classical economic utility function that characterises the maximisation of the revenue that a tax evader wishes to earn. An equation can also be generated to estimate the likelihood of tax evasion in relation to various variables such as tax levels and their impact, the likelihood of tax audits, changes in penalty levels or corruption of tax authorities. Depending on the evasion model applied and its constraints, the conclusions drawn differ significantly. Excessive taxation could lead to an increase in undeclared work, or an increase in penalties could lead to a decrease in tax evasion.

B. Findings from the questionnaire

Following the case study in the field of taxation, we identified several methods to combat EU fraud, namely :

- a detailed analysis of the risks associated with Community fraud;
- the use of risk assessment tools;
- identification of specific audit trails for each stage of the funding project;
- identification of the internal controls required to implement effective strategies to combat Community fraud.

For the improvement of fraud risk management we suggest :

- Implementation of regular fraud risk verification procedures, which clearly refer to the time period in which these verifications should be carried out
- Developing a general framework for fraud detection policies detailing each existing policy, how it is implemented and monitored;
- Continuously and regularly inform employees of the results of anti-fraud policies and educate employees on the effective implementation of these policies;
- Ongoing monitoring of control processes.
- In this way, the probationary period, which can now be extended by several years, would be greatly shortened and the state would benefit from more rapid collection of the budget revenue stolen by tax evasion.
- Legislative shortcomings can also be addressed operationally and corrected in a timely manner. Weaknesses in tax agencies are seen as one of the reasons for fuelling and increasing tax evasion, mainly due to misapplication and inadequate enforcement of the

laws adopted in this area, leading to an overall increase in the level of crime, even if this reduces tax pressure.

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