

GENERAL ASPECTS REGARDING TAX EVASION IN ROMANIA

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Abstract:

Tax evasion has been and is a general and persistent problem throughout history with serious economic consequences, not only in transition economies, but also in countries with developed tax systems. Generally, tax evasion can have ambivalent effects on economic growth: increase the amount of tax evasion by taxpayers accumulated financial resources, but also reduce the amount of public services provided by public authorities, thus leading to negative consequences for economic growth.

Keywords: *tax evasion, taxes, tax rate, public revenues, economic growth.*

Theoretical analysis of tax evasion begins with works by Allingham and Sandmo (1972) and Yitzhaki (1974), which analyzes tax evasion by interpreting a static model simply reflecting where the decision of evading taxation is the main objective of the taxpayer, ignoring interdependence that exists with other economic choices. They concluded that to promote an efficient allocation of resources should be levied primarily on goods and services which have a inelastic supply and demand and that the income tax is the best way that ensures income redistribution where labor market demand is perfectly inelastic.

Subsequent, empirical and experimental findings showed significant inconsistencies between theory and evidence. Specifically, in the literature we have identified four main theories: first, the finding that tax increases the tax rate (Clotfelter 1983 Poterba, 1987 Joulfaian and Rider, 1996) while the theory predicts the opposite. Secondly, the finding of low levels of tax evasion in many countries the high level predicted by theory (see Alm (1999) and Torgler (2002)). Third, the finding that some taxpayers are not exempted from taxation, even if tax evasion is the most profitable option (Baldry, 1986 Alm, 1999). Fourth, the finding that the level of tax evasion and tax avoidance attitude towards taxpayers are related to the behavior of other taxpayers (Gaechter, 2006).

As the illustrious author Iulian Vacarel presents as disadvantages, the volume of public funds is conditioned by the following factors: the size of GDP, public expenditure, monetary and demographic factors, social, political, military and financial factors. In my opinion, tax evasion is an important factor influencing the value volume of government revenue. In other words, we believe that the relationship between state and citizens, the quality of the taxpayers and the laws

governing the wide scope of taxation, influences the size of the resources mobilized to the state because the process of establishing a resource is dependent on the system of taxation law and the degree of fiscal civic temperament characterizing every taxpayer, natural person or legal one. The phenomenon of "avoid imposing" is directly linked to the positive or negative perception of tax payers that shows for taxes, whereas most taxpayers perceive taxes as a "necessary evil" that tries to avoid whenever they have an social and economic opportunity, and mostly, an favorable legislative framework. This is why the phenomenon of tax evasion and fraud became widespread around the world, both in developed countries, and especially in the developing or even poor ones.

Tax evasion produce an erosion of financial income public, even if the economy is characterized by either a boom or a financial crisis, leading to inability of governments to mobilize sources of funding for stringent public expenditure (health, education, public investment, assistance and social protection, etc.). Our country and other countries of the world, was facing an economic and financial crisis that touched often alarming sizes, compounded by the fact that outstanding tax obligations of individuals and companies have reached impressive, but also increasing national budget deficits and indebtedness of countries. In this context more and more countries recognize that tax evasion, which was quite far ignored, is one of the main causes of the dramatic drop in public revenues, this phenomenon being a permanent concern as long as governments do not find viable solutions to eradicate him.

In the market economy, the tax authorities are faced with an acceleration of the escapist phenomenon, prevalent phenomenon increasingly higher due to the "temptation" of avoiding the imposition of increasingly more substantial taxable income.

In the modern world, tax evasion has become a phenomenon, and a scourge in many countries, which grinds the economy, a fruit from the roots, not giving them a stifling any hope.[1]

I believe that regardless of how it is defined this phenomenon, tax evasion is, finally, removing bad faith by the taxpayers by honoring tax obligations. Thus, tax evasion always has a character of intentionality, because each taxpayer desire that performing tax evasion is to preserve as much a part of income or profit or protect their taxable matter in the way of taxation.

The field of manifestation of the phenomenon of tax evasion is so stretched as wide and varied is the scope of the tax, it is manifested both in the field of direct taxation and that of indirect taxes, influencing negatively financial returns and economic status. Financial efficiency of taxes, according to the principles of taxation, namely principle of financial policy, it is directly related to the ability of tax authorities to eliminate, in whole or in part, legal possibilities or illegal evasion of imposing a greater share or less of taxable matter. Also, as a phenomenon, tax evasion, meets both at national and international levels. [2]

As an essential element of modern society, taxation should be defined as a primary goal of public authorities to ensure that the volume of financial resources is necessary to fulfill state functions. Taxation has been an important area of government policy throughout history and will continue to have a decisive role in the politics of each state, as this is the basis of its revenue collection.[3]

There are numerous factors that can impact tax evasion, but the most important from my point of view are institutional deficiencies and loopholes, distrust of public institutions and the evolution of the informal economy.

According to calculations Fiscal Council, based on NSI calculation, tax evasion has a very high dimension in Romania, accounting for 16.2% of GDP in 2014, almost doubling in value over the past 15 years, in 2000 this representing 9.1% of GDP.

In Table no. 1 and chart no. 1, I presented an evolution of the level of tax evasion in the period 2000-2013, a situation which is as follows:

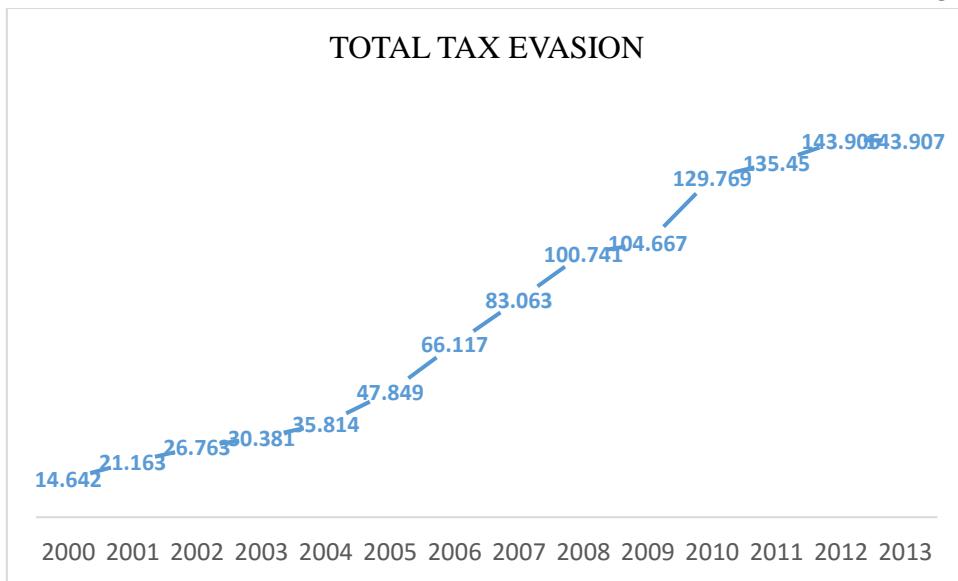
Table no. 1
The evolution of tax evasion in Romania during 2000-2013

	-millions lei-													
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Tax evasion on income tax	689	1.036	1.276	1.572	1.831	1.365	1.798	2.392	3.009	4.366	5.093	4.968	4.852	4.749
Tax evasion at CAS	1.889	2.839	3.497	3.978	4.324	5.037	6.267	8.015	9.357	14.052	16.393	15.989	15.617	15.285
VAT tax evasion	6.198	9.468	10.712	12.763	18.683	18.050	15.067	29.982	38.085	40.156	50.347	57.476	72.399	76.747
Tax evasion on income tax	489	680	815	1.012	1.351	1.780	2.555	3.126	3.993	3.237	3.512	3.126	2.624	2.795
Excise tax evasion and tax on alcohol and tobacco addiction	-	425	656	803	786	1.207	1.505	3.137	2.194	2.805	3.663	2.616	2.323	2.438
Total tax evasion	14.642	21.163	26.763	30.381	35.814	47.849	66.117	83.063	100.741	104.667	129.769	135.450	143.906	143.907

Source: Annual Report of the Fiscal Council of Romania, 2014, p. 96

Note: The calculation of tax avoidance and income tax from CAS, was considered adequate compensation of employees related to value added moonlighting and informal sector (population), according to the methodology of the National Statistics Institute

Chart no. 1

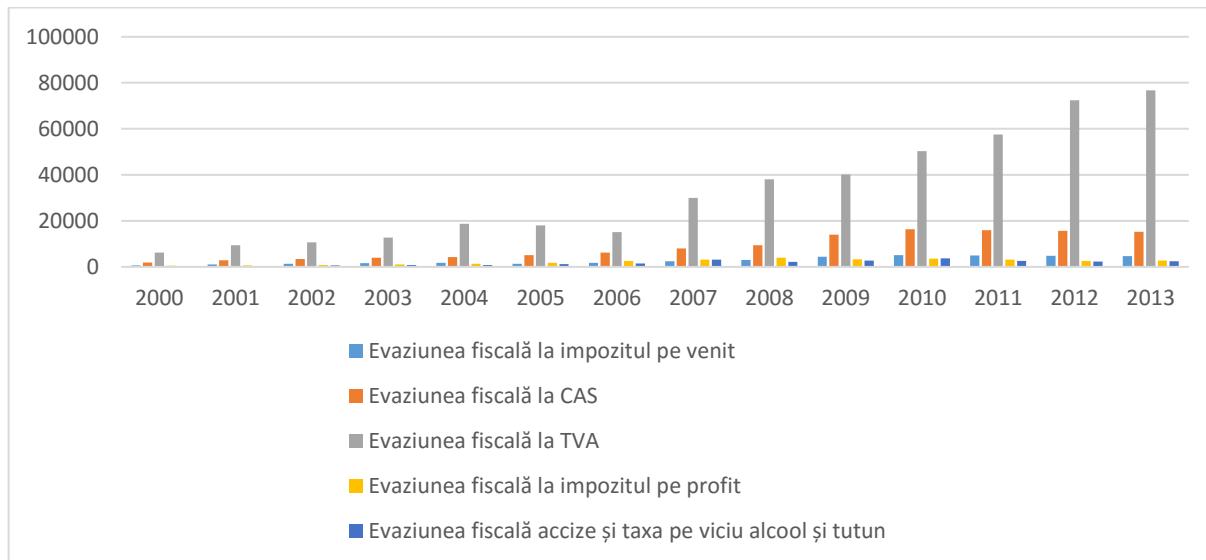


As can be seen from the above figure, tax evasion has shown an upward trend throughout the analyzed time period.

It can be seen that in the interval of time between the years 2005-2010, tax evasion presented the greatest fluctuations, volume of tax evasion increasing from year to year. Paradoxically, in 2005, the tax system has undergone a change in terms of applying tax rates, ie application of a unique rate of 16% on taxable material, regardless of its size. The basis of this change was the examples of other countries, and also the theories exemplified in the fiscal literature, according to which, a unique rate will:[4]

- Reduce inequality (the same tax rate for all)
- Reduce tax evasion
- Give incentives for those who want to save and invest,
- Eliminate all exceptions and exemptions from duties
- Encouraging investment in shares (obtain dividends) since profits are taxed once at source.

Chart no. 2



Taking as a basis for reporting the GDP, the share of tax evasion for the main taxes shows the following increases:

Table 2

The share of tax evasion in GDP between 2000-2013

%GDP	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Tax evasion on income tax	0,8	0,8	0,84	0,80	0,7	0,4	0,5	0,57	0,58	0,87	0,97	0,89	0,83	0,76
Tax evasion at CAS	2,3	2,1	2,4	2,30	2,01	1,7	1,7	1,8	1,93	1,82	2,80	3,13	2,87	2,66
VAT tax evasion	5,3	4,9	4,4	4,87	3,35	3,0	6,2	4,3	7,21	7,40	8,01	9,61	10,3	12,2
Tax evasion on income tax	0,6	0,8	0,5	0,54	0,51	0,5	0,6	0,7	0,75	0,78	0,65	0,67	0,56	0,45
Excise tax evasion and tax on alcohol and tobacco addiction	-	0,6	0,3	0,43	0,41	0,3	0,4	0,4	0,75	0,43	0,56	0,70	0,47	0,40
Total tax evasion	9,1	8,7	8,98	7,08	6,3	9,5	7,8	11,2	11,0	12,8	15,0	15,1	16,6	16,2

Source: Annual Report of the Fiscal Council of Romania, 2014, p. 99

Regarding the main categories of tax obligations, in the above figure we can see that the biggest volume of tax evasion characterizes VAT obligations, followed by the tax evasion on CAS.

Social security contributions contribute about 24% to total tax evasion, mainly through the phenomenon of "moonlighting" (employed in the informal economy). It can be estimated based on NSI data on the number of survey employees based on labor force (AMIGO) and the number

of employees in the statistical survey on labor costs in economic and social units. In the year 2012 in Romania there were about 1.45 million employers in the informal economy, representing approximately 23% of all employees in the economy.

Conclusions

Tax evasion is always condemned, but without prospects diminish, or even eliminate him, to be changed, improved or refocused. This phenomenon continues to exist, to be perceived, felt, be a subject of analysis, tax evasion is the result of logical flaws and tax system and the legislation incomplete and imperfect methods and ways deficient application and the lack of vision and direction of the legislature on the capabilities of contempt of tax procedures they exhibit certain taxpayers. Identification of tax evasion in the planning phase of tax audits, rethinking economic and mathematical models to highlight and quantify evasion, improving fiscal relations arising between the state and taxpayers, the necessary measures to increase the efficiency of tax inspection, etc., represent solutions with practical applicability in the Romanian fiscal system.

The volume of tax revenue collected at the general consolidated budget is influenced by many factors, among which the most important are the economic potential of the country (the GDP) and performance of tax administration, namely the ability to counter tax evasion and ensure high efficiency of tax collection. Activity tax administration makes its mark on the behavior of taxpayers, namely the level of voluntary compliance to declaration and payment of tax obligations.

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