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Doctoral School of Economic Sciences

SUMMARY of PhD THESIS

"TAX EVASION COMBAT STRATEGIES"

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Tax evasion is indissolubly linked to the state, namely the formation of the state budget by the financial contributions of individuals and legal entities. The notion of tax evasion is extremely complex, and may differ from one state to another, in its concrete elements or, over time, even within the same state, depending on the dominant fiscal policy - reflationary (characterized by tax cuts and increase of public expenditure), or deflationary (characterized by tax increases in volume and scope and reduction of public expenditure). As for differences in tax policy between states, they are generated by the level of development of their economy. Thus, while in developed countries fiscal policy is centred on achieving a high level of employment and stabilizing economic growth, in developing countries the fiscal policy seeks to create an environment favourable to accelerating economic development.

Fiscal policies are very different depending on the form of the state, which in its turn, as shown above, results from the different weights of the three basic functions of a state, but *all are based on optimal taxation theory*, because none of the functions of the state would be possible without obtaining financial resources that would allow the functioning of the state's institutions, and they are obtained only through taxation. "The problem of optimal taxation theory is related to the fact that there is almost an infinite number of possibilities for resource allocation in the optimal sense, Pareto, which makes optimal taxation theory to achieve a real arbitration between two tendencies which exclude one another - on the one hand, the efficiency of allocations and, on the other hand, the equity of allocations"¹.

With the emergence of taxes and fees, the phenomenon of escaping from them also appeared. Egoism, a feeling that is part of the human nature, pushes the individual to put his own interest above the collective interest, making him to perceive taxes as a necessary evil, thus giving rise to the evasion, or at best, to the decrease of taxes. The spread of this phenomenon is worldwide, being found in varying proportions in all states of the world, being practiced by individuals and large corporations alike, being favoured by legislative loopholes, sometimes being even favoured by legislation that is also made and voted by... people.

The research begins in the first chapter "**Tax evasion. Characteristics and forms of manifestation**", with a theoretically rigorous approach to the notion of tax evasion. According to the legislation in force, Law no. 50/2013 on the amendment of Law no. 241/2005, on the prevention and combating of tax evasion, tax evasion is "*the evasion by any means of the return*

¹ Idem reference 4, p. 8.

or payment of taxes, contributions and other amounts owed to state budgets, local budgets, state insurance budgets and special budgets by Romanian and foreign individuals and legal persons.

"However, we notice that, over time, the laws defining and governing the phenomenon of tax evasion have undergone major changes, starting with Law no. 87/1994 which contained a quite comprehensive and especially useful definition of the phenomenon, continuing with Law no. 241/2005, from which the aforementioned definition was removed, up to Law no. 50/2013, which resumed this definition. This is also found, with non-essential changes, in the legislation of many European states, having in its wording the phrase "by any means" which helps to form an almost unanimous opinion by financial analysts, namely the division of tax avoidance into two main forms: legal or illegal, the latter being also called tax fraud.

Terminologies used in different countries, such as the Anglo-Saxon ones, where tax fraud is called "*tax evasion*" and "*tax avoidance*" only add more confusion to the discussions on this topic, adding that the same terms may have different meanings for different authors. As a rule, the term tax fraud designates a crime with reference to tax law, while tax avoidance also refers to a lean use of the possibilities offered by law.²

Legal tax avoidance (some authors call it "licit" and so do we going forward) is characterized by the existence of gaps in the tax legislation that the taxpayer uses in its favour, thus reducing its payments to the state budget, without violating any legal provision; this tax behaviour cannot be legally sanctioned. In order to be practiced, this form of tax avoidance entails a good knowledge of the legislation in the field, skill, intelligence; it is necessary to involve some people or firms specialized in these matters, or to request indirect advice through specialized papers (for example, the publishing collection "Consilier" of the "Rentrop & Straton" Publishing and Business Advice Group has a paper - "Consilier Taxe și Impozite"³ - which explicitly proposes to offer legal tax avoidance solutions, following a German concept that has been operating successfully since 1995); Considered as legal, licit tax avoidance is nevertheless immoral, as it contributes to the diminishing of budgetary revenues, which can lead to increased tax pressure on honest and moral taxpayers; it circumvents the law, but it can also be said that it is also bypassed by the law; it does not imply risks from the point of view of the taxpayer, this being done within the shelter of the law.

² Bofea, P., Ion , *Metode și tehnici fiscale*, Satu Mare, Someșului S.A. Publishing House, 2002.

³ ****Consilier Taxe și Impozite pentru Contabili + 12 actualizări*, Rentrop & Straton Publishing House, Bucharest.

In conclusion, we consider that licit tax avoidance is a real obstacle to the clear objective of the state institutions for the increase of the collected resources, and a careful analysis of this may lead to the development of a more coherent tax legislation that will make it possible to licitly reduce the amount of taxes and fees paid by taxpayers to the state budget by correcting existing errors or omissions.

Loopholes in the legislation, which allow for the non-taxation of some income, or parts of income, or of wealth (in whole or in part) which, according to the principles of taxation, or whether the legislation is rigorously and fairly interpreted, should have been taxed, allow the practice of the "legal" tax avoidance.

Backed by imperfect, permissive fiscal policies, which often have internal contradictions, the taxpayer relates to the tax legislation from the position which is advantageous to him and which allows him to "evade" from taxation a larger or smaller part in regard to his own ability and his own knowledge, of his income or goods.

Tax avoidance, within the limits of the law, involves specialized lawyers and accountants in this field. This manner of tax avoidance, which also involves substantial costs (the payment of the specialists involved), is particularly accessible to large taxpayers who earn high incomes, while smaller taxpayers generally appeal to tax fraud, which does not involve collateral costs. Tax avoidance and tax fraud are always advantageous, and even stimulated, over periods of time when changes or additions to tax legislation occur, or when the State itself promotes tax exemptions to favour of certain socio-professional categories, or certain areas of the economic activity.

It can be said that the approach of the phenomenon of licit tax avoidance should refer strictly to the relation of this type of behaviour to the legislation, because the tendency of some authors to extend this notion to the area of morality can only generate confusion and complicate efforts to limit licit tax avoidance.

In the idea of a pragmatic and beneficial analysis of the phenomenon of tax evasion, we believe that it should relate strictly to legality, not to morality. In this way, tax evasion can only be two types: legal tax avoidance (licit) which is done in accordance with the legal provisions and by speculating its loopholes, imperfections, gaps and illegal tax evasion, or tax fraud, which is done in violation of the law, these acts being criminal in nature.

Regarding the licit tax avoidance, the review of the manifestation forms, which we have made in this paper, very clearly expresses the large proportions of circumvented (licit) sums from the state budget, as well as the difficulty of measures to limit this fiscal phenomenon especially because this difficulty is also supported by tacit or explicit complicity of the authorities, without exception. On the contrary, exceptions are only in the sense of a "complicity" brought to the level of stimulation of licit tax evasion. The argumentation of this reality is reinforced by the analysis of tax havens, which we consider as a "*complex form of international tax evasion*".

The analysis of licit tax fraud ends with what is called "*creative accounting*", *which we, however, considered it to be more in the field of accounting skills based on a very good knowledge of the legislation, than as a "dodging" of its loopholes for the benefit of taxpayers*. Creative accounting should be seen as an activity by which, due to breaches or inconsistencies in tax legislation, the accounting information can be "manipulated" in the sole interest of the taxpayer, but without such a form of work being treated as a criminal offense.

Before tackling the issue of tax fraud, we felt the need for clarification, as some authors, when talking about the "forms" of tax evasion, consider the concept to be "controversial" (we believe it to be extremely clear, after we have defined it, like many other authors), and join licit tax avoidance and illegal tax evasion to others who are either on another level (do not fall within the notion of tax evasion), or mix the genre with the species, as it can be seen from the analysis of the following concepts proposed by some authors: *anomic and subsistence tax evasion, national tax evasion and international tax evasion*.

Anomic tax evasion as a concept, presented by Dragoș Pătroi, is based on "(...) *the taxpayer's conscious motivation for "non-action", being "stimulated" by the lack of a normative act, and not by its imperfection. Although it does not generate additional material costs, anomic tax evasion can lead to imbalances through the taxpayers' deviant wishes.*"⁴We consider this "form" of avoidance as unacceptable, because the The Explanatory Dictionary of the Romanian Language (DEX), according to which: "*Tax evasion = evasion by any means of the payment of taxes, fees and other amounts owed to state budgets by individual and legal persons who earn taxable income, according to tax regulations (our highlight)*", does not allow otherwise. And not only

⁴ Pătroi, Dragoș, *Evaziunea fiscală între latura permisivă, aspectul contravențional și caracterul infracțional*, Second edition, Economic Publishing House, Bucharest, 2007

for this reason. From the point of view of formal logic, "nonexistence" = "nothing", and nothing cannot generate anything, not even a state of mind, not to mention "imbalances," a negative and strongly perceptible state of affairs. In conclusion, there is no "anomic tax evasion," or, if we keep this idea, why not call it "*anomic fiscal attitude*".

Maintaining the same logic, we also do not consider the notion of *Subsistence tax evasion* which "(...) *is based on the methods and means of avoiding tax burden by taxpayers, by avoiding certain regulatory paragraphs, which in practice denies the taxable act itself*"

⁵, as self-sustaining, because if "*avoiding the tax burden*" is done in violation of the law, this is a case of tax fraud, and if "*avoiding*" is done through licit tax avoidance methods, we have a case of *licit tax avoidance* and not "*subsistence tax evasion*". At the same time Jean-Baptiste Geoffroy, according to which: "(...) *the taxpayer who diminishes its tax burden while still complying with the law, even by subscribing to the tax incentives it entails, will not be charged for having committed tax evasion.*"⁶, merely defines an already existing concept, the licit tax avoidance. And then why should we call it "subsistence tax evasion" when it already has a name? In conclusion, we have excluded this concept, for the very reason that it is covered by another more rigorous, clearer and more powerful one.

National tax evasion, as a concept, is wrong on another level. We do not see the usefulness of placing it between the concepts of "*licit tax avoidance*" and "*tax fraud*" for two reasons. Firstly, because it is defined by another criterion than the two - the criterion of the economic space in which it occurs, i.e it is "*national tax evasion*" for *I refer to tax evasion that takes place within the national territory*. The second reason is that between "*licit tax avoidance*" and "*tax fraud*" on the one hand, and "*national tax evasion*" *is a difference from species to gender*, because the two forms of evasion (species) are manifested in what we can call "*national tax evasion*" (gender). Thus being above them, subsuming them and not joining them.

The concept of "*international tax evasion*" which, of course, is on the same plane as "*national tax evasion*" and, in turn, subsumes licit tax avoidance and tax fraud.

We have concluded here that besides ***the two forms of tax avoidance- licit tax avoidance and tax fraud - another form should not be added. They represent the necessary and sufficient***

⁵ Idem, p.83.

⁶ Geoffroy, Jean-Baptiste, *Grand problemmes fiscaux contemporaine*", P.U.F., Paris, 1995, p. 564.

condition for the research of the tax avoidance phenomenon in the context of an analysis of tax evasion that is intended to be coherent and rigorous.

The approach of the methods of manifestation of tax fraud in a very concrete way, in relation to national legislation in this field, has led to *the structuring of the forms of tax fraud according to the category of taxpayer* (individuals and legal persons) *and the category of revenue* (profit tax, value added tax, salary tax, excise duties, local taxes and duties and other taxes and fees), a particularly fertile structuring for the analysis of this phenomenon:

(a) regarding the value added tax:

- Incorrect application of the deduction regime. Such deviations were found in economic agents carrying out both transactions subject to value added tax and exempted transactions by failing to observe the provisions regarding the calculation of the ratio in which the goods and services participate in carrying out the taxable transactions and thus influencing the deductible value added tax. There are cases where value-added tax deductions are made on the basis of illegal documents. Double deduction situations have been identified as a result of the repeated registration of invoices in the purchase journals and even value added tax deductions from documents belonging to other companies. There are also cases in which the right to deduct is exercised in advance;

- the non-inclusion of VAT-related operations in the calculation basis of the value added tax of all invoices;

- misapplication of the zero rate for export operations in the case of transactions carried out by intermediaries performing export operations on their own behalf;

- evasion from the payment of the value added tax on the import of goods by presenting fictitious donation papers from external partners instead of purchase papers as well as the non-inclusion in the VAT returns of the VAT postponed for payment at the customs;

- issuing receipts without the economic operator being registered as a payer and without registering and transferring the value added tax to the accounting records;

- non-registration or use outside the legal procedures of standardized forms, with partial registrations in journals or repeated registrations in the purchase journals, "lost" invoices, postponement of filling in tax invoicing to postpone the payment of value added tax, partial inclusion in the calculation basis of invoice items (packaging, transport costs etc.);

- non-calculation by the banks of value added tax related to the revenue obtained from the capitalization of pledged assets;

- non-payment of value added tax by declaring imports to be temporary;
- intentional computational errors.

(b) regarding salary tax:

- non-taxation of all amounts paid to employees as salary income (various cash or in-kind benefits, other rights granted in kind, bonuses, amounts representing participation in benefits, incentives);

- misapplication of the legal provisions on the taxation of salary rights;
- non-registration and / or non-payment of salary tax owed for people employed based on civil conventions or day workers;

- non-registration of the salary tax payment obligations;
- non-recording of additional salary tax for the storage of the reference fund;
- non-calculation and non-retention of tax;

(c) regarding excise duties:

- partial inclusion in the tax base of taxable amounts;
- use of lower rates than legal;
- production of alcohol from raw materials for processing (corn), with the payment of the value as toll retained from the produced production;

- non-inclusion of excise duties in the sales price of products for which excise duty is due (jewellery sold by consignees, alcoholic beverages purchased from individuals, etc.);

- omission to highlight in accounting the obligation to pay excise duties;
- non-payment of excise duties by changing the size of alcoholic products in import invoices.

(d) regarding the other taxes and fees owed to the state budget and local budgets by taxpayers legal entities:

- keeping buildings below their actual values in accounting;
- failure to submit to the tax authorities the statements regarding the owned buildings and the land owned or managed by the economic agents;

- declaring false, incomplete or intentionally altered data on building taxes, tax on means of transport, and tax on the use of land owned by the state;

- non-constitution and non-payment of the dividend tax, its erroneous calculation;
- non-registration of the dividend tax due for advances granted during the year, which after the distribution of the profit and approval of the balance sheet had the destination of dividends.

Obviously, as a Member State of the European Union, the issue of tax fraud has to be also analysed at the level of the Union, where the most widespread form generating the largest amount of circumvented funds is the "*carousel fraud*", which we have analysed in detail, *concluding that the group of measures taken in 2009 to combat this type of fraud were taken starting from the effect, and not from the cause. We believe that the cause of the phenomenon needs to be addressed, namely the radical change of the current tax system by changing the tax system at destination with the tax system at origin. But for the implementation of this goal, the unanimous agreement of the Member States is needed, and from this point onwards the discussion becomes much broader, given that some Member States are reluctant to do so.*

In the much-invoked issue of *uncertainties in delimiting licit tax avoidance from tax fraud*, based on its definition in our legislation, following our analysis *we have concluded that this conceptual delimitation, somewhat scholastic, would only have a purely theoretical result, as the "waters" are very clearly separated in our conception.* Whoever deals with "tax evasion" will only consider the illegal circumventions from the payment of taxes and fees and will not waste time with the "*legal tax avoidance*"- *which is absolutely unjustifiable named so, just because the current definition in the law refers to "any means", including the fiscal incentives that the state itself grants.* The fiscal relaxation measures, whether addressed to entrepreneurs (liberal policy) or addressed to the population (socialist policy), will be the expression of medium and long-term economic and social policies and fall under the responsibility of political parties, politicians and the Ministry of Finance, while the tax advisors will work on "tax optimization" that exists throughout the developed world. In this way, the permanent and sterile conceptual delimitation imposed by the current definition of tax evasion and which, unfortunately, is not only characteristic of the Romanian legislation, can be considered as obsolete and will make it possible to remove it.

Of course, in addressing a phenomenon, such as tax evasion, *its description and analysis must also be followed by a causal analysis*, which we have made in **the second chapter** of the work, entitled **"Genesis of tax evasion. Competent institutions in combating strategies"**. The

causes of tax evasion take undoubtedly into account firstly *the legislation*, the way it is conceived and applied, but should not be omitted either *the natural inclination of people to protect their own interests rather than giving priority to the general ones*, although maybe, in certain limits and conditions, can ultimately be found to a certain extent, the particular interests of the people. We consider tax policy to be an important factor in tax avoidance and tax fraud, which is the emanation of political will and which has priority over the legislation, which has the only purpose of transposing the fiscal policy strategies into legal obligations.

When and where appropriate, the fiscal policy must be held accountable, for the excessive taxation that can be expressed as a high level of tax rates and / or the high number of taxes, fees, contributions that can only, on the one hand, encourage taxpayers to tax evasion, and on the other hand leave room for disorganization, incoherence and fiscal inefficiency from the tax administration. At the same time, the fiscal policy determines how the tax collection principles are respected so as not to hinder the taxpayer and the yield on the budget collections be as high as possible. For the quantity and quality of the tax and fees collection and tax control apparatus to prevent and combat tax evasion, the fiscal policy is also responsible.

The most common causes for tax avoidance and tax fraud fall into four broad categories: *moral causes, political causes, economic causes and technical causes*, which we have presented both on the basis of specialized literature and on the basis of our own experiences.

Causal analysis necessarily follows *an analysis of the consequences tax evasion has on tax evaders, on the state budget and public finances, and finally on the society as a whole*. Beyond this general approach, however, we have noticed *an interesting point, whereby we have come to a problem that European taxation seems to neglect, namely that of fiscal equity*.

Addressing the issue of tax inequality in general, as well as tax evasion, started from a simple question: **why in North American taxation there is no value added tax?** From this point of view, in the theoretical debates on taxation, the 70's were marked by real disputes between economics schools. The value that VAT is enjoying in European tax systems has not convinced the American tax system craftsmen. The question then arises as to whether the United States does not need higher resources, which this "safe" and "cheap" tax can bring with a very high tax return? Surely it would need it. But, according to the American mentality, not in any way and under any condition, namely not with the "price" of promoting inequities in the field of

taxation, as it can easily be shown that the VAT generates, as it taxes the taxpayers „equally”, although their scale of income varies from very poor to very wealthy.

The US tax system, i.e. excluding VAT, is characterized by both efficiency and less fiscal inequities. This is because the state budget is predominantly based on direct taxation which, in relation to VAT (which is one of the most unequal taxes, especially if we refer to consumer goods prices), does not generate such inequity. The issue of fiscal equity has emerged in American tax theory and practice just after the War of Independence. At that time, when they became independent and thus liberated from the British tax system and burden, the question the morality of eliminating or reducing privileges for some social classes, or for some financial obligations to the state appeared. The American idea, of bourgeois origin, of fiscal equality, was based on the principle that tax burdens for citizens must be established in proportion to their income or wealth.

However, starting from this principle, fiscal equity is understood in different ways, being named in the literature in terms of: *tax equality, fiscal justice or fiscal rightfulness*. The analysis of these conceptual dimensions regarding fiscal equity highlights, as it was expected, significant differences in understanding.

The concept of fiscal equity is highlighted by the contributory capacity to be taken into account when establishing taxes on citizens. The above terms do not respond to a sufficient degree to the requirement of equity, since tax equity, as privileges for certain categories of taxpayers who are disadvantaged from the point of view of income, reflects the "injustice" in tax matters, i.e., the application of justice in tax relations are based on the taxpayers' position or, in other words, some kind of positive discrimination of poorer taxpayers.

From a strictly mathematical point of view, equity translates into equal taxes on equal incomes. Tax Equity is a concept, but also a mode of action that implies that equality in tax matters is doubled by taking into account the "contributory capacity" of the citizens of a state. How can this be done?

There are at least the following three ways:

- introduction and use of progressive tax rates, but also multiple progressive rates, to be applied on revenue instalments, with their number being as large as possible (so the minimum and maximum limits of the instalments should be as close as possible) so as to ensure a more "nuanced" taxation;

- *in the construction of the budget, direct taxes must hold the majority weight;*
- *establishing a minimum income below which no taxation should apply so as to ensure the decent survival of the most disadvantaged citizens of a country.*

For taxpayers, beyond direct financial consequences, fiscal inequality is a state of mind based on the feelings of injustice. This state of mind, however, differs depending on the type of taxation - direct or indirect - being much more pronounced in the case of indirect taxation, which does not take into account the differences between the taxpayers' income.

For direct taxes, such as income or wealth taxes, some inequities can be encountered in determining income instalments. The concepts that are used in the literature on the notion of fiscal equity - *tax equality, fiscal justice, fiscal rightfulness* - all come to signal, define and accentuate the importance of fiscal equity in taxing, but also connect with the notion of justice.

As a reality in itself, justice emerged from the need to separate social equity from social inequality and affirm itself under social laws. So, justice also has the role of monitoring compliance with equity by applying the rules of law. But the rule of law is not only in the social field, but it is particularly extensive and refers to all fields of life, and thus also economic or political. Thus, the extension of the notion of equity to taxation is quite natural.

Being considered an ethical and legal principle, equity, which underlies the regulation of all social relations in the spirit of rightfulness, equality and justice, of cooperation and mutual respect. The right to impose taxes belongs exclusively to the state, which is the sole responsible for complying with the principle of equity in its fiscal policy. As a result, the major role of fiscal equity is precisely to "correct" the law if it violates social and economic equity. Some theories state that tax equity would mean the equality of citizens regarding taxes, that is to say, that each taxpayer should be subject to the same treatment on the basis of a neutral tax. But this kind of equity would only be possible if all citizens had the same income, the same wealth but also the same needs to cover, which is not perfectly utopian.

It is precisely for this reason that some authors believe that, in order to apply this principle of taxation, a form of "equalization" of personal situations is required before taxation rather than of the taxation system. We cannot share this point of view because it is at least unrealistic. „Balancing” and equalizing personal situations is both unlikely and undesirable because it violates precisely the principle of fiscal equity in establishing the contributory

capacity, reflecting both the level of income and the size of personal needs related to the personal situation of each taxpayer.

In relation to equity, tax equality refers, in particular, to a taxing technique, to a means by which tax regulation is implemented, which is impersonal and neutral and on the basis of which the tax is calculated. But fiscal equity is an ethical concept and what we might call *fiscal humanism*, a principle that should govern the taxation process. Because tax equity, however it would otherwise be called by equivalent expressions when referring to taxation, should be understood as a way of moral conduct concerning a certain equalization of personal situations precisely by determining the contributory capacity.

As a result of the above, *fiscal equity is the statement of the general state of establishing taxes based on the contributory capacity of taxpayers. This has to be assessed objectively by the wealth, income or profit of a taxpayer, but personal circumstances are taken into account in order to satisfy the minimum needs of existence.* But, as can be easily seen from the systematic observation of this phenomenon, fiscal equity is "dimmed" in the taxation process by the application of the principle of fiscal return, and that this "balance" of the taxation principles ultimately leads to the accentuation of fiscal inequity and, as a result, to the increase of the phenomenon of tax evasion and the decrease of the fiscal return. This approach leads to measures to increase fiscal pressure, and thus the "fiscal spiral" continues.

The reverse of fiscal equity, its opposite is obviously the fiscal inequity. Every taxpayer has the feeling of injustice when it has to pay taxes, no matter their amount, as we have shown in our work. This is not necessarily an inequity, being just a subjective perception. But for the same income, having a different personal (family) situation, inequity is perceived more acutely by the one with greater personal (family) problems. As a result, without being a tribute to a socialist approach, but as an objective conclusion that emerges from this approach to fiscal equity, ***a single tax rate, even when it is "corrected" by some personal deductions, is perceived, and indeed it is in fact unfair. This is one of the partial conclusions of our work, as long as we agree and take into account the principle of fiscal equity.***

In the process of identifying inequality, the relationship between tax evasion and tax equity must be investigated, with reference to where it occurs, how it is solved, to the "fiscal relation actors" (state and taxpayers), and to the material support.

The influence of tax evasion on fiscal equity also reflects on other phenomena, such as the volume of corruption, tax evasion practices, the evolution in time of the fiscal pressure, fiscal returns, or frequency of the use of tax havens.

Assessing the degree of fiscal equity can be achieved either - objectively - by aggregating the effects (expressed in money) of tax inequality, or - subjectively - by using opinion polls on the subject. Such an assessment, in both aspects, could be utmost useful if there is political will in this respect, as it could lead to corrections in the normative documents on taxation (on a legislative level), measures to adjust tax policies (on an executive level) and even at the level of taxpayers, by appealing to civism, by addressing the negative social effects of avoidance and tax fraud.

The importance of fiscal equity also consists in the fact that an increased degree of tax equity contributes to a great extent to ensuring social order. This obvious causal link acts as a truism, and so it does not have to be proven.

Obviously, fiscal policy has a decisive role to play in promoting fiscal equity, and this is in turn influenced by a number of factors such as the level of inflation, development and economic activity dynamics, availability to use the tax incentives offered by tax havens, the taxpayers' attitude and behaviour towards taxation.

The concept of fiscal equity is also reflected directly on the social protection through the tax system. How? The answer is simple; by practising fiscal equity, taxpayers with low incomes have at their disposal more money for themselves and their families, which potentially reduces the number of cases in which the state should intervene with social assistance. And the truth is (also a truism) that the citizen will better manage his surplus of money than the state would do on his behalf

By addressing the issue of the relationship between tax equity and tax evasion superficially, we could not leave this fact aside even for the simple fact (which however is not "simple") that this analysis revealed a very important conclusion, including for the debates in our policy on this subject, namely that, ***a problem that seems to be related to the liberal political doctrine - the single tax rate - cannot only be criticised from the point of view of the opposite economic doctrine - the social (socialist) one, but can be also objectively criticized as a flagrant and elementary violation of the principle of fiscal equity.***

The analysis of tax evasion would be incomplete without presenting perhaps its simplest, in appearance, and its most complicated, in fact, issue - *that of measurement. Simple, because it does not raise special theoretical, conceptual or gnoseological problems, complicated because it has to provide some objective measuring instruments for such a complex phenomenon.*

Here we have listed and analysed some of the tax evasion measurement tools, but these are not precise due to the practical difficulties noted. Some measuring tools are based on *approximate methods* and others are based on *methodical, scientific estimates*.

We have highlighted here *the approximate methods*, which are based either on a political statement or on a scientific or pseudo-scientific methodical estimate. These "methods" are also called "*political incantations*" or "*pifometric methods*" (by smell). The political statement, as the name of the source itself suggests, is the statement of speculative figures by political leaders to get an impact on public opinion. The objective is to get a reaction in favour of measures pursued by those who use these figures. We are not told what is behind the stated figures, and their credibility is based solely on the level of credibility of that politician. This pseudo-method is commonly used in public finances to assess the underground economy, or tax evasion. The launching of these symbolic figures of tax evasion aims to alert the public opinion on the severe attitude of the necessary checks that are to be carried out. In our country, so far, there have been few cases of stated figures on tax evasion (in 1994 the Romanian Intelligence Service estimated fiscal evasion at 38% of GDP).

The presentation we have made, on a large scale, *of national institutions with authority in combating tax evasion* is not just for presentation purposes, but based on existing data, as well as on their own programmatic documents or organizational structures, *we have highlighted the organizational weaknesses and deficiencies, which, unfortunately, have proven to not be few.*

The scientific work continues, in **Chapter III - "Consequences of tax evasion: New approaches "** in which we have analysed *the effects of tax evasion from a perspective that has allowed us to go beyond the effects of tax evasion on the formation of state revenues, only in terms of their diminishing, but also in terms of the link and the influence that the diminishing of state revenues has on the way in which a democratic state fulfils its functions. From such a perspective we have subtracted - the economic effects, the social effects and the political*

effects of tax evasion, which only together give the real dimension of the negative impact of tax evasion on the human society as a whole.

The effective economic and financial structures of each country determine the consequences of the operation of underground economies. In other words, in countries where tax collection is deficient, social protection is deficient or even non-existent, the consequences are different from those of the countries that have an effective tax collection system and a high level of social protection.

The tax evasion phenomenon directly and compulsorily leads to a reduction in state revenues, which results in a lower state budget than normal, i.e. the provision of funds that cannot meet the needs of the basic functions of the state. This situation obligates the state to turn to the simplest but also the most efficient solution - the introduction of new taxes and fees and / or the increase of the existing ones. This solution solves, in the short term, the issue of the need for increased funds, but does not in any way affect the tax evaders.

Moreover, the increase in tax rates generates a high fiscal pressure, which naturally leads to the increase in the resistance to tax, and thus an increase in the share of the tax evasion phenomenon, to the existing tax evaders being added new ones, dissatisfied with the increase of the tax burden. We can see the chain reaction that takes place, the vicious circle created in this way can be exited by diminishing the tax evasion phenomenon, in order to obtain a substantial reduction of the volume of income that no longer reaches the state budget.

A consistent reduction of tax evasion would lead, in the short run, to an increase in the volume of state revenues under the same tax conditions and the same fiscal policy, without the need for new taxes and fees and without increasing the existing ones. Thus, with a larger budget available, the state can fulfil all its functions.

As mentioned above, **the analysis of tax evasion must be carried out at the level of several EU countries compared to what is happening in Romania, and in the chapter dedicated to the empirical analysis of this issue a comparative analysis based on econometric models of tax evasion in Romania, Bulgaria, Poland, Hungary, Italy and Sweden has been made.** The results obtained from the application of the known econometric apparatus were **in line with previous expectations** in connection with the **sensitivity** of the share of government revenue in GDP to the change in the taxation of corporate income and profits. Thus, in Bulgaria, the lowest sensitivity has been encountered following the application

of the econometric apparatus, which may translate into a very poor transmission of the fiscal-budgetary policy decisions in the economy, i.e. a high level of tax evasion, which prevents the effective implementation of the fiscal system established at Government level. The following countries in this order would be Romania, Hungary and Poland, and the best sensitivity of the budget revenues to the change in the tax burden brought about by income or profit taxes would be Italy and Sweden.

Therefore, taking into account the results obtained from the application of the econometric approach, it can be said that Romania is one of the most affected countries in terms of tax evasion, being surpassed only by Bulgaria, according to the approach taken in this thesis. The amplitude of tax evasion was measured by a sensitivity coefficient. All these issues of tax evasion continue to affect all areas of a society, ultimately leading to a weakening of the services offered by the state and to a much lower capacity for intervention and, implicitly, a lowering of the standard of living.

Of course, at this point in our analysis, *the following issue that gives substance to our work is that of combating and preventing tax evasion*, a problem that has been the focus of the **fourth chapter - "Strategies to maintain tax evasion within sustainable limits"**

Here, we have analysed the "Prevention of tax evasion" from the perspective of all the activities carried out by the state institutions in the management of public money, in order to prevent the formation of conditions that would generate tax evasion behaviours.

Starting from the causes of tax evasion, discussed extensively in the thesis, and the favouring conditions of tax evasion behaviour, we have identified several "warning systems" from the part of the state addressed to taxpayers in connection with its ability to identify and sanction tax evasion. These "warning systems" refer to several aspects of the tax fraud phenomenon, and *the first one* is the transmission by the governmental institutions responsible for combating this phenomenon to the potential tax evaders of information on the costs and consequences entailed by the effective performance of tax evasion.

Secondly, we have considered the firmness with which government institutions sanction the identified tax evasion as vital in the process of preventing tax evasion. Serious sanctions imposed on tax evaders can send a clear message to potential tax evaders, but still not identified as tax evaders.

Thirdly, we have considered that tax evasion can be prevented by constantly informing taxpayers about the ways in which companies (legal entities) subject to fiscal control are selected.

The combating of tax evasion has been analysed with direct reference to the activities following the identification of effective tax evasion. In other words, combating tax evasion must be understood, in its narrow sense, *as a legal sanction* for the offense of tax evasion, and *it encompasses several requirements that entail the same number of principles of achievement.*

The sanction applied to the taxpayer identified as having committed tax evasion *must be greater than the advantage it benefited* (or expected to benefit) that taxpayer in the event that it would not have been identified by the government inspector. Its motivation is clear: if the taxpayer receives a lower sanction than the damage it caused or would have caused to the state budget, the sanction does not fulfil its purpose. We can say that in order to discourage in the future the proven tax evader from such a behaviour, the sanction must be considerably higher.

The sanction applied to the taxpayer identified as having committed tax evasion must be transparent for the entire system to which the taxpayer concerned is part, so that the consequences of tax evasion are known and evaluated by all potential tax evaders in the system. We would like to mention here the necessity of continuous media coverage through the most diverse means of communication of proven and sanctioned tax evaders. We could say that in the absence of media interest in such situations, expenditure should be provided for promotion in the press, but also on other advertising channels specific to advertising, or public relations, of proven tax evaders, their mode of operation and the sanctions received.

The sanction applied to a taxpayer identified as committing tax evasion should also be accompanied by the promise of awards if the taxpayers in the system, not identified yet, give up tax evasion and self-denounce themselves to the fiscal control bodies.

The sanction applied to the taxpayer identified as having committed tax evasion should have such a size, structure and timing of application that the economic activity in question is not endangered according to the "principle" according to which "The hen who lays golden eggs must not be killed". In other words, the application of the sanction must reduce the net benefit of the taxpayer and not the activity potential of the organization, as otherwise it would work against the long-term public interest. Economic agents must be able to continue their business. The

sanction applied should not lead to the total closure of the business activity, but only the elimination of tax evasion within the organization.

The conclusion of the application of these principles is that, in this way, combating tax evasion, in its narrow sense discussed here, has a significant educational potential (at the economical reasoning of the taxpayer) and even cultural, because it contributes to forming an attitude towards the norm and the combination of the private interest with the public interest.

If the issue of preventing and combating tax evasion has given substance to our work, *the last issue addressed*, the *methods and techniques* by which this major social desideratum of any society can be accomplished, *gives it of course an end.*

Obviously, for the purpose of analysing, evaluating and establishing the most appropriate and effective measures to combat tax evasion, it is necessary to know the causes that make it possible and generate it, but also the aetiology of the phenomenon, which is complex. This statement takes into account all the economic, social, financial and moral implications resulting from the phenomenon of tax avoidance and tax fraud. The effectiveness of the fight against tax evasion is mainly about the possibility of knowing and removing the causes that produce or favour the two phenomena. Our work has fully responded to this desideratum, as we have shown so far. The idea of the techniques and ways of combating the tax evasion phenomenon was approached in terms of the hierarchy of the causes generating the phenomenon, as follows: *high volume of tax burdens* (especially for some taxpayers); *lack of sufficient citizenship education* and fiscal education of the taxpayer, as well as *the excess of the tax authorities* form the second cause of tax evasion; *the incomplete fiscal legislation system with large gaps, inaccuracies, ambiguities* which favours the tax evading taxpayer; *the lack of a well-organized control with skilled and fair staff* which leads to the amplification of the tax evasion phenomenon.

We also started from the premise that, ultimately, tax evasion is damaging not only to the state but also to the taxpayers. The state is thus deprived of the income necessary to fulfil its essential duties and the taxpayer is harmed by the fact that the total of taxes is applied on a smaller volume of income.

After presenting the methods and techniques of preventing and combating the tax evasion phenomenon, we have considered that the most appropriate conclusion for our work is the presentation and analysis of the Annual Report of the Fiscal Council, which assigns 10% of

the report to the tax evasion issue, which demonstrates once again the importance of this issue. And then, if we admit this, *why not have a National Report on Tax Evasion, to the achievement of which, under the coordination of the Fiscal Council, all the institutions involved in the fight against corruption should participate, which will also constitute a National Anti-Tax Evasion Commission?* This rhetorical question, ending the last chapter of the work, is also what we might call, *the conclusion of our work:*

If we recognize and demonstrate the great harm that tax evasion has on our society, then why do we not have the political will to give maximum priority to this issue, a priority that should begin with the establishment of a strong, multifunctional and multidisciplinary institution, to address this issue in a unitary and multilateral way? Such an over-institutional body could give more force and certainly more coherence to the prevention and combating of tax evasion.

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