

## ASPECTS CONCERNING TAX EVASION IN ALBA COUNTY AND BRAȘOV REGION

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### Abstract

One of the effects of evasion is the reduction in tax revenues, so the state will have less money to supply public goods and services. Instead, if there are sustained efforts to reduce tax evasion, revenues to the budget will increase, will exist resources to counter the economic crisis and for providing public services to citizens: education, health, social security, etc. Additional money obtained from reducing tax evasion would solve many of the problems related to the lack of resources facing states today. That is why it is so important to combat and reduce tax evasion, both nationally and globally.

Starting from the analysis of some data about tax audit and budget revenues of Alba County, we highlighted the main factors that determine people to pay taxes: firstly, the positive incentives, then the fear of negative consequences of non-payment, and, to a small extent, the moral factors.

**Keywords:** tax evasion, taxes, tax audit, budget, fines

**JEL Classification:** H26, H61

### Introduction

This paper presents different ways in which individuals make evasion and evade the payment of taxes, and also the importance of reducing tax evasion. Also we point out the main reasons why people choose to pay taxes. Where at one time too many individuals evade taxes the achievement of collective goals is endangered, because there are not enough money at the budget for public goods and services. Instead, if tax avoidance would decrease, tax revenues would increase and also citizen satisfaction. There are opinions that evasion is a loss to society, because the state wastes its resources to detect evasion and the payers for masking it. There are numerous studies that point out that tax evasion is higher when tax rates increase, so in order to combat evasion it could be useful the relaxation of taxation. In this paper we propose also to analyze the results of the tax audit activity in Alba County.

### Literature review

There are numerous studies that argue that high tax burden has a negative effect on tax compliance; tax evasion is higher in case of higher tax rates, which is presented by Kirchler et al., (2007), Torgler et al., (2009) Bayer, Sutter (2004), Papp, Takats, (2008), Panades (2004), Trotin (2013).

The negative effects of tax evasion and social costs of evasion are highlighted by Bayer, Sutter (2004) and respectively by James Alm. Ways to reduce tax evasion

are highlighted by Papp, Takats (2008), Alstadsaeter, Jacob (2013) and James Alm. Also Alstadsaeter and Jacob (2013) talk about the complexity of the tax system that may lead to accidental misreporting. Torgler et al. (2009) show that the impulse to act in the shadow economy is greater when government activities and services are below the expectations of individuals.

The situation regarding tax audit activity is shown by the Performance Report 2013 - DGRFP Brașov, Performance Report for 2011 of DGFP Alba and Performance Report 2011 - ANAF.

#### *Forms of tax evasion*

Tax evasion is widespread in most countries. Ways of avoidance are multiple, here we can mention: the underestimation of income and assets owned, of sales, overvaluation of exemptions, deductions that individuals benefit or intentionally incorrect completion of tax forms.

To these we could add the following:

- nonpayment of taxes on time
- registration of fictive expenses using fictive companies
- illegal deduction of VAT on the basis of fictive invoices
- practicing double accounting
- the registration of fictive expenses in order to reduce corporate income tax
- work on "black" by registration of a minimum wage on economy in order to reduce the social security contributions paid and for the rest of the salary not paying the contributions related
- non-registration in accounting of goods with quick passage and whose amount is difficult to determine
- non-emission of fiscal receipts

Petre Brezeanu identifies several forms of illegal tax evasion (Brezeanu et al. p. 38-39):

- traditional fiscal evasion in virtue of avoiding tax liability payment by making false related documents or non-creation of these documents, for example: the elaboration of false VAT documents; intentionally reducing the tax base by not including income; sales without billing and cash receipts without receipts; production of illegal goods and services; carrying out clandestine activities; reducing the value of real estate to reduce the transactions tax base;
- hiding the true substance of the contract for avoiding tax payment;
- accounting evasion is to achieve certain accounting tricks by using false documents in order to increase spending, reduce revenues and, consequently, taxable income and state tax liabilities;
- evasion through assessment derives from the reduction in value stocks, supra-valuation and provisions for handling taxable income;
- evasion through assessment derives from the reducing inventories value, amortization and provisions overestimation in order to manipulate the taxable net income.

*The need to combat and reduce tax evasion*

Tax evasion has several negative effects on society: first decreasing tax revenues, thereby limiting the ability of states to achieve their economic policies. Then for evasion detection, catching evaders and their punishment are spent significant resources from the budget. Also evasion can induce among honest taxpayers the feeling of an inequitable tax treatment because it is not fair that only some individuals to pay taxes, and the others to evade paying them.

Some authors consider avoidance as a loss to society, since it causes two types of social costs: first, taxpayers invest effort and money in order to conceal tax evasion and second, tax authorities bear the costs of auditing in order to detect tax evasion. These resources could otherwise be used for productive purposes. The less resources are wasted in the contest, the more efficient is the tax-collection and enforcement system (Bayer, Sutter, 2004, p 1-2). Because penalties and higher control rates imply higher costs by the state, it requires that the tax system to be efficient. Evasion problem is not solved if its detection costs are very high, so it should that revenues recovered to the budget to be greater than the expenses related to the levying of taxes. Therefore it is need of efficiency.

As ways to reduce tax evasion we can mention: improving tax penalties, correlated with tax audits amplifying, respectively higher penalties and secondly increasing tax compliance as a result of decreasing the tax rate.

Also, the mere threat of a stronger enforcement and higher detection risk or information about audit rules can effectively decrease tax evasion. The main challenge for tax authorities is to distinguish between accidental tax evaders and those that deliberately evade taxes (Alstadsaeter, Jacob, 2013, p. 24-25).

Some authors pointed out an interesting aspect regarding tax evasion: "It is very important to combat evasion in the VAT field because it represents the indirect tax of the largest share in the consolidated general budget. VAT evasion represents the intention of not paying the tax, withholding or not declaring it, or requesting its refund which would not be fit, due to the exaggeration of the deductible amount of the VAT" (Deliman, Herbei, Bene, Dumiter, 2011, p. 354).

James Alm mentioned that the best government policy is a pragmatic one that recognizes that evasion cannot-and should not-be completely eliminated. Such a policy should include greater enforcement, but should also emphasize the wise use of taxpayer dollars (Alm, p. 5).

In this context it is required both a better tax administration and sustained efforts to reduce tax evasion. Evasion reduction would lead to an increase of tax revenues, making possible the restructuring of tax systems and also economic growth. It would thus obtain additional money to the budget, which would increase the quality of public goods and services that citizens benefit.

Tax fraud and tax evasion are also a challenge for fairness and equity. Combating them requires action at national, EU and global level. Experience has shown that Member States can only address these challenges effectively if they work together. Unilateral solutions alone will not work. Decisive action to minimize tax fraud and

tax evasion could generate billions in extra revenue for public budgets across Europe (Combating tax fraud and evasion, 2013, p.1).

Another important aspect that could lead to the increase of tax evasion would be the complexity of tax system because this, coupled with the lack of tax knowledge could make taxpayers to declare income incorrectly. There is also the possibility that some taxpayers to complete wrong tax returns, but accidentally. Meanwhile, if tax audits rates are low, taxpayers can deliberately take advantage of the complexity of tax forms and tax rules.

Since fiscal controls involve certain costs, a spending of budget resources, it would be desirable to increase tax compliance while reducing expenditures with the tax administration. The way of tax administration organization could affect non-compliance of the taxpayers. If tax authorities are relatively strong then compliance is the best strategy for the overwhelming majority of taxpayers. Tax rate cuts or increases do not change compliance much, as audits ensure it. Similarly, if the tax authority is relatively weak, no tax rate changes will induce compliance. With medium level tax authority strength, however, tax rates can have a pivotal role. In a way, tax evaders protect each other by tying down the tax authority's limited capacity (Papp, Takats, 2008, p. 16, 3).

There are numerous studies showing that tax compliance decreases when tax rates are higher and therefore there is an opposite relation between tax evasion and tax rates. Further we present views of different authors: High tax burdens have negative impact on compliance. Also perceived fairness of the tax rate is more important than its absolute level (Kirchler et al., 2007, p.9). It can be argued that a higher burden increases the attractiveness of behaving illegally and here has more importance the application of tax rates, by offering tax exceptions or concessions that affect individual decisions (Torgler et al., 2009, p. 17-18). Tax rates have also been shown to be the main factor for explaining the frequency of tax evasion. Our result is that higher tax rates typically lead to more evasion. Some econometric studies find a positive relationship between them, however others find the opposite (Bayer, Sutter, 2004, p. 26). Small cuts in the tax rates can lead to much larger changes in the behavior of taxpayers — most importantly, it can make them much more likely to declare their incomes honestly (Papp, Takats, 2008, p. 3). A tax rate increase results in more income concealed from the tax authority (Panades, 2004, p. 193). Tax evasion is increasing in the tax rate as soon as the relative risk aversion measure is larger with auditing, than without (Trotin, 2013, p. 3).

Another aspect that could lead to evasion is how taxpayers' money is spent. It is expected that when the government spends public money taking into consideration the preferences of citizens, to exist a greater incentive for them to pay their taxes. But if public services provided are below the expectations of individuals appears a greater temptation of them for the shadow economy. Thus Bayer and Sutter emphasized the following: the perception of the tax system to be fair, government spending to be efficient and politicians to be men of integrity has been shown to reduce tax evasion. These perceptions foster positive attitudes toward the state and taxation (Bayer, Sutter, 2004, p. 27). But here arises the following question: how

many individuals still consider this, when in fact in numerous cases there is much corruption among politicians, and not seldom they follow only their own interests? Then government spending often proved not very effective, since much of the public money is wasted.

As we said before one of the effects of evasion is the reduction in tax revenues, so the state will have less money to supply public goods and services. Instead, if there are sustained efforts to reduce tax evasion, revenues to the budget will increase, will exist resources to counter the economic crisis and for providing public services to citizens: education, health, social security, etc. Additional money obtained from reducing tax evasion would solve many of the problems related to the lack of resources facing states today. That is why it is so important to combat and reduce tax evasion, both nationally and globally.

Tax evasion leads taxpayers to develop creativity, innovation, attention to detail, thorough investigation of laws and existing loopholes to find new ways of cheating the state. State employees, public officials must find new ways to thwart the fraudsters.

### **Methodology and data**

We took the data from the website of the Ministry of Public Finance for Alba County and we analyzed the evolution in dynamics of incomes at consolidated general budget of Alba County on the period 2010-2013. We have also highlighted the taxes with the largest share in total income.

Then we presented the results of the tax audit activity in Alba County, compared to Braşov region of which our county belongs and compared to the situation at country level.

In the following we present the situation of tax revenues from Alba County and a comparison with Braşov region of which our county belongs. Braşov Region is composed of the counties of Alba, Braşov, Covasna, Harghita, Mureş and Sibiu. Regional General Directorate of Public Finance (DGRFP) Braşov operates since August 1st 2013.

### **Results and discussions**

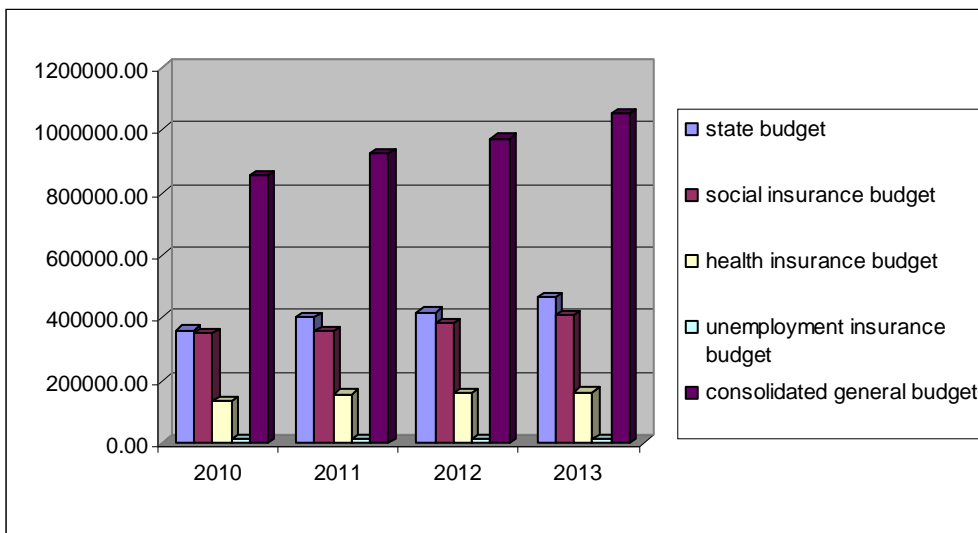
Table 1 presents the main budget revenues achieved in Alba County (to consolidated general budget) between 2010-2013.

From Figure 1 it is observed that in Alba County occurred an increase of earnings in the analyzed period, both on every type of budget (excluding unemployment insurance budget in 2011) and per the total consolidated general budget. This shows the efficiency of the tax administration activity in Alba County. It is thus noted an increase of revenues to the state budget in 2013 compared to 2010 with 29.77%, to the state social insurance budget by 17%, then to the health insurance budget by 22.7% and to the unemployment insurance fund with 8.01%. And on the total consolidated general budget the growth of earnings was by 23.13%.

**Table 1. Main budget revenues achieved between 2010-2013 per total and per budgets, Alba, thousand lei**

	2010	2011	2012	2013	2013/2010 %
state budget	359883.06	401411.33	418223.48	467037.00	129.77%
social insurance budget	350305.50	356542.83	381938.48	409874.79	117.00%
health insurance budget	132528.85	157733.65	159844.63	162613.62	122.70%
unemployment insurance budget	12204.96	11498.46	12572.89	13182.04	18.01%
consolidated general budget	854922.37	927186.27	972579.48	1052707.45	123.13%

Source: self processing based on data taken from Performance Report 2013 - DGRFP Braşov, Performance Report for 2011 of DGFP Alba

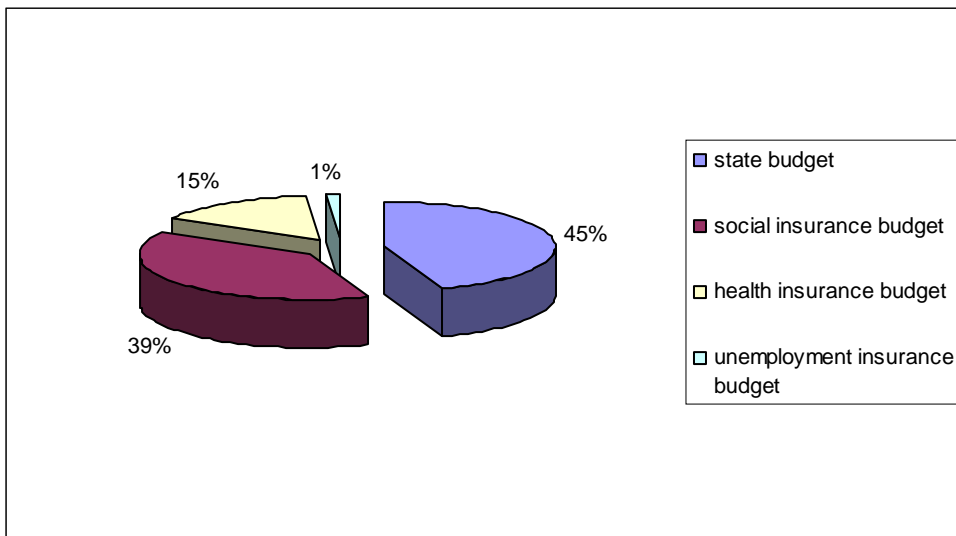
**Chart 1. Dynamics of revenues to consolidated general budget 2010-2013, thousand lei**

Source: self processing

From Chart 2 we observe that in 2013, in Alba County the largest share of the total consolidated general budget had the state budget (45%), on the 2nd place hovering the social security budget (39%), and on the 3rd the health insurance budget (15%). We note that on the first position in Braşov Region stood also the state budget.

However we mention that the share of Alba County budgets in the total of Brașov region is low, with only 5.17% for the state budget, 4.53% for the social security budget and 1.8% for health insurance budget.

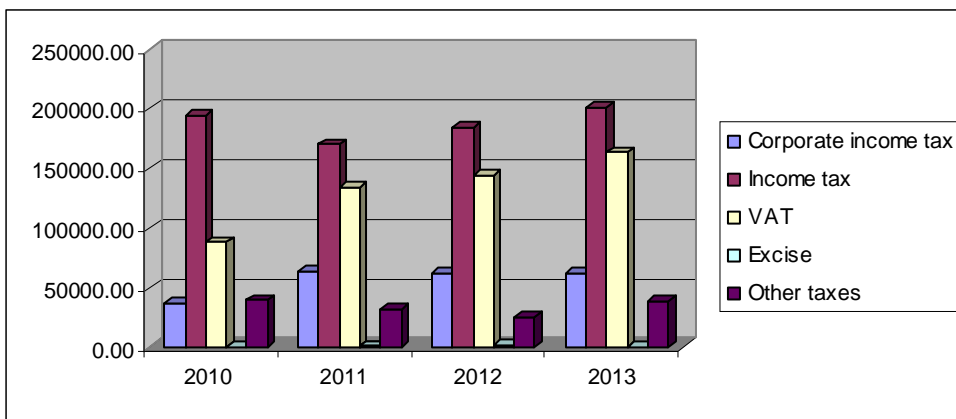
**Chart 2. The share into the revenues of consolidated general budget of the component budgets, 2013, Alba**



Source: self processing

Chart 3 shows the main budget revenues achieved in Alba County (to the state budget) between 2010 - 2013.

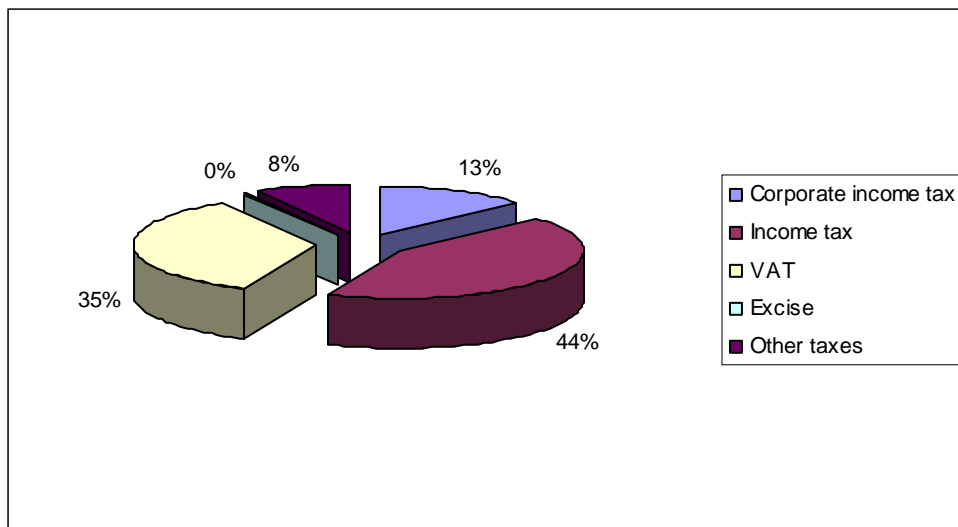
**Chart 3. The structure of revenues to the state budget 2010-2013, Alba, thousand lei**



Source: self processing

From Figure 3 we can see an increase in VAT receipts for the entire period. Corporate income tax had a slight decrease in 2012, the income tax in 2011, and excises decreased in 2012.

**Chart 4. The share of the main budget revenues in Alba County, in 2013**



Source: self processing

From Chart 4 we can see that in 2013, the largest share in the budget revenues achieved in Alba County had the income tax (44%), followed by VAT (35%) and on the 3rd place - corporate income tax (13%).

Next we highlight the aspects concerning tax audit activity in Alba County and Braşov region, respectively for ANAF, data being summarized in Table 4.

As we observe from Table 4, in 2013 the control organs of the Tax Inspection Activity - DGRFP Braşov conducted 12,641 inspections, and after that they have established additional amounts totaling 797,939.50 thousand lei. And as a result of deficiencies found were penalized 910 taxpayers with contravention fines amounting to 1707.05 thousand lei. Also were made penal complaints to 359 taxpayers who created damage to the consolidated general budget.

In Alba County in 2011 were conducted 1826 control actions and the additional amounts attracted to the budget were of 38,885 thousand lei. As a result of deficiencies found tax inspectors have applied a number of 301 contravention fines totaling 412 thousand lei and there were also 45 cases sent to prosecution authorities in order to continue investigation.

Also, referring to 2013, in Alba County were conducted 2073 control actions and the additional amounts attracted to the budget amounted 60,358 thousand lei. We note that their number has increased compared to 2011, which shows an intensification of control activity. There were applied 237 contravention fines in the amount of 266 thousand lei and were made penal complaints for 42 cases.



**Table 4. The results of tax audit activity**

	<b>Alba 2011</b>	<b>Alba 2013</b>	<b>Total DGRFP Braşov 2013</b>
No. of control actions	1826	2073	12641
Additional amounts attracted (thousand lei)	38885	60358	797939.5
No. of fines	301	237	910
Fines value (thousand lei) 412	266	1707.05	
No. of penal complaints	45	42	359
	<b>ANAF 2011</b>	<b>% Alba 2013 in total region</b>	
No. of control actions	96835	16 %	
Additional amounts attracted (million lei)	8454,4	7.56 %	
No. of fines	18928	26 %	
Fines value (million lei)	46	15.58 %	
No. of penal complaints	3860	12 %	

Source: based on data from Performance Report 2013 - DGRFP Braşov, p. 51, Performance Report for 2011 of DGFP Alba, p. 17-18 and Performance Report 2011 – ANAF, p. 12

For the whole country, in 2011, the control authorities from ANAF conducted 96,835 inspections and as a result were established additional amounts totaling 8454.4 million lei. Due to deficiencies found were sanctioned 18,928 taxpayers with contravention fines amounting 46 million lei. The number of penal complaints made was of 3860, in order to continue investigation.

The share of results of the tax audit activity from Alba County in total of Braşov region for 2013 shows that the number of control actions in Alba County accounted for 16% of the total region. Then additional amounts attracted to the consolidated general budget were of 7.56%, the number of contravention fines were 26%, amounting 15.58% of the total region. Also the number of penal complaints have accounted for 12% of the total Braşov region.

Among the deficiencies found by the control organs of the DGRFP Braşov after the performed actions of tax audit, we mention (Performance Report 2013 - DGRFP Braşov, p.51):

- non-registration in accountancy of all tax invoices issued relating to the supply of goods or provision of services performed;
- reversal of tax invoices from accounting evidence without being based on justificatory documents concerning these operations;
- overrunning the ceiling related to protocol expenses;
- registration in accounting evidence of tax invoices related to acquisitions of goods, invoices that have been issued by the taxpayers declared inactive;

- registration in accounting evidence of expenses related to acquisitions of goods or services and deduction of related VAT, expenses that do not aim to achieve taxable income;
- discrepancies between data contained in the statements submitted to the territorial tax authority and accounting evidence;
- overrunning the ceiling for the VAT exemption by individuals who have made real estate transactions and non-registration for VAT purposes.

### **Some reasons why people pay taxes**

In the following we would like to make some comments on the reasons why people pay their taxes to the state, as it is an important issue in the analysis of tax evasion. Taxpayers' voluntary compliance for payment constitutes an important factor in increasing revenue collection to the budget.

There is an opposite relation between tax evasion and tax compliance. When the degree of individuals' compliance to pay taxes is high, tax evasion will be less, and inversely. For this reason, of tax evasion reducing it is important to know why people pay their taxes. Also the tax administration should contribute to the encouragement and continuous improvement in the level of voluntary compliance of taxpayers, in order to ensure a rapid collection of revenues, at low cost.

In our opinion, among the factors that influence the payment of taxes by taxpayers, we can mention (for more details see Radu Claudia Florina, 2014, p. 109-110):

1) The size of positive consequences for taxpayers and their families arising from taxes payment, this size being influenced by the existing perception concerning the reversibility of taxes, namely the extent to which the state uses public money in the interest of taxpayers.

2) The size of negative consequences perceived as resulting from the nonpayment of taxes and contributions, these might be: possible, probable and sure. For example, concerning such sure consequences, if individuals do not pay contributions to pension and health, in most countries, they will not enjoy all benefits of pension system and health insurance.

3) The size of positive consequences for other members of society, meaning the measure in which the taxpayers wish voluntarily to participate in achieving the factors necessary for the proper functioning of the community in which they manifest, respectively in order to achieve the good of others in a relatively disinterested way (without a direct and immediate gain, mainly financial or material, resulting from their charitable action). But here arises the following question: what percentage of a community's needs are covered by voluntary donations made by citizens, without being forced by law and without being directly interested ?

We consider that in order to explain tax compliance of individuals, moral factor has an insignificant value. Then punitive factor is more important than moral factor (not reciprocal), but is itself less important than the direct incentive factor and often immediate. Therefore, the most important reason for tax compliance is the perception of a fair exchange, relatively direct and often immediate, sometimes on

short term (eg public administration, education, etc.) other times on long-term (eg, pensions system), between the individual and the state. Also we might say that finding the necessary reasons for paying taxes is correlated with the reversibility of taxes. That means if the individual considers he will receive as many as possible services from the state, he will be more willing to pay taxes. That is why when at a country level it is aimed combating tax evasion it should be taken into account also the reversibility of taxes phenomenon, which is verified only on the whole of individuals.

From the data of Table 1 and Table 4, we observe that during the 2010-2013 revenues of consolidated general budget from Alba County increased and at the same time has increased the number of tax audits in 2011 and 2013. This shows that there is a correlation between the growth of the number of fiscal controls and the growth of budget revenues of Alba County. So tax audit activity was effective, since additional amounts have been added to the budget. Also from Table 4 it is seen that in 2013, compared to 2011, decreased the number and the amount of fines imposed by tax inspectors and also the number of penal complaints. This shows that individuals, expecting frequent checks, tend to pay their tax liabilities more correctly.

Corroborated with what we mentioned above, this indicates that one of the reasons why individuals pay their taxes is the fear of being caught and punished for not paying them. Therefore punitive factor explains to a large extent why people usually pay their taxes. So a solution to reduce tax evasion and lead individuals to pay taxes on time and in the correct amount, could be the intensification of control actions made by the fiscal administration. However, we believe that the value of fines imposed to fraudsters influences, to a greater extent, individuals' compliance to pay taxes than the number of fines imposed, because more fines are applied in vain, if their value is very small.

Regarding positive incentives for individuals to pay taxes, we mention that the rate of tax reversibility is important in this regard. It reveals redistributions of resources that are achieved through the budget and actually shows the degree of tax return to payers. On the basis of taxes and of social contributions the money are mobilized to the budget, and then they are directed towards meeting the different needs of taxpayers, which appear in the position of beneficiaries of public services offered by the state. The level of this ratio indicates the extent to which taxpayers benefit as a result of taxes and contributions they have paid - how much they feel that the state uses the money collected in their benefit (health, education, social security, etc.). Implicitly, the higher the rate of tax reversibility is, the individuals as a whole will obtain a higher gain on the basis of payments made towards the state (Radu C. F., 2009, p. 7). Also the higher the rate is, the individuals will be more motivated to pay their taxes and their positive incentives will increase.

Then, for example, according to Balance sheet of Alba County Council ([www.cjalba.ro/buget](http://www.cjalba.ro/buget)), the amounts included in rubric "Income from donations and/or sponsorships received and transferred to the budget", in 2012, accounted for only 0.06% of total revenue, and in the year 2011 to 0.04%. This shows that "the

moral factor" (voluntary and selfless contribution to the common good) matters in a limited extent in understanding why people choose to pay taxes (see also Radu C. F., 2014, p 110).

### **Conclusions**

In the context of the economic crisis that has affected many countries it is required both a better tax administration and sustained efforts to reduce tax evasion. Evasion reduction would lead to an increase of tax revenues, making possible the restructuring of tax systems and also economic growth. It would thus obtain additional money to the budget, which would increase the quality of public goods and services that citizens benefit.

Among the objectives of D.G.R.F.P. Brașov for 2013 we can observe they are focused on (according to Performance Report 2013 - D.G.R.F.P. Brașov, p 28): the improvement of the level of voluntary compliance of taxpayers, combating tax evasion and fraud as well as all other avoidance forms of declaration and payment of tax liabilities and then increasing the efficiency of tax inspection activity, both in combating tax evasion and its prevention. That means the phenomenon of tax evasion represents an important issue, which is wanted to be diminished and there are sustained efforts both to encourage voluntary compliance of taxpayers and for the intensification of tax audits, and that is gladdening for the region which includes Alba County.

We could observe that in Alba County occurred an increase of earnings between 2010-2013, both on every type of budget (excluding unemployment insurance budget in 2011) and per the total consolidated general budget, this showing the efficiency of the tax administration activity in Alba County. The largest share in the budget revenues achieved in Alba County had the income tax (44%), followed by VAT (33%) and on the 3rd place - corporate income tax (13%).

Concerning tax audit activity, in 2013, in Alba County were conducted 2073 control actions and the additional amounts attracted to the budget amounted 60,358 thousand lei. We note that their number has increased compared to 2011, which shows an intensification of control activity. There were applied 237 contravention fines in the amount of 266 thousand lei and were made penal complaints for 42 cases.

Regarding tax compliance, we believe that people would be interested to pay taxes because (most of them) are aware they need education, medical insurance, pensions etc. But if there is no money in the budget, they will not be able to benefit from these services. From this perspective it is more useful for people to cooperate and each to pay their tax obligations. We consider that individuals pay taxes, primarily due to real or presumed benefits that they think they can get by paying taxes. Secondly, for fear of negative consequences that may arise as a result of their nonpayment and just thirdly (and only to a small extent) due to "fiscal consciousness" and, respectively, due to a desire to help achieve "the common good" (for more details see Radu Claudia Florina, 2014, p. 110).

So, usually people pay their taxes primarily to take advantage of their corresponding social benefits and then to not be exposed at the risk of paying fines. We can say that there is not much "morality" without law and actually, fiscal morality relies largely on law.

We can conclude that payment of taxes by the taxpayers can be explained only in a small measure by morality / moral factors (reflected, for example, in rubric "donations" from the budget) or (to some extent) by the fear of being caught and bear fines, penalties. And often what remains as a plausible explanation for individuals' tax compliance are positive incentives, meaning that generally individuals pay taxes in exchange for public goods and services provided by the state ("the tax - exchange"). So here it is about the reversibility of taxes phenomenon.

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