



TAX EVASION IN THE CURRENT ECONOMIC INTERNATIONAL CONTEXT

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Abstract

From the beginning, tax evasion has been an intensely studied, particularly harmful, unusual and condemned concept. Due to the increased number of obligations that tax law imposes on taxpayers, or especially the burden of these obligations, it has stimulated the ingenuity of taxpayers in making them invent various processes to elucidate these tax obligations. The objective of this paper is to investigate the potential for tax evasion and explain the causes, effects and means of production.

Keyword: tax evasion, tax fraud, offshore, fiscal havens.

JEL Classification: M41

I. Introduction

The evasion is the illicit behaviour by which the taxpayer wishes to counteract the tax levy. Unlike tax evasion, reduction of tax burden differs from this in terms of implementation methods. In fact, the reduction of taxes or duties owed to the state is obtained by direct and unlawful infringement of tax laws by the external representation of a situation that does not correspond to the firm's economic or financial reality or an incorrect legal classification of the situation itself (for example, hiding taxable income or deducting non-existent costs). Evasion is punished by the legislator by providing for specific penalties, fiscal, administrative and penal, as well as by preparing an effective regulation of administrative controls. Tax evasion is a very difficult notion, and there is no legal definition of tax fraud. When it comes to fraud is also spoken of as legal or legitimate fraud, illegal fraud, international evasion, legal or illegal evasion, tax havens or

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refugees, the abuse of the right to flee to the tax, the freedom to choose the least taxed way or tax understatement, law fraud or the underground economy. Legal evasion, or rather, evasion tolerated by the authorities, expresses the action of taxpayers to circumvent the law, resorting to a combination unprepared by the legislator and thus tolerated by the escape. This type of evasion can only be possible due to inadequacy or gaps in the law. Taxpayers are looking for certain means and exploiting the shortcomings of legislation seeking to escape in whole or in part from the payment of taxes. In doing so, taxpayers remain within the strict limits of their rights, and the state can defend itself only through well-studied, clear, precise, scientific legislation.

II. Effects of evasion - distortion of financial information

Tax evasion is undoubtedly a major economic and social problem. Considering the concept of social efficiency, we can say that a certain allocation of goods and resources is effective for a society only if it is possible to obtain an alternative that improves the condition of at least one individual, but without worsening the one to another. Consequently, the reasoning that a certain allocation of goods and resources cannot be formulated in order to differentiate the rich class from the poor or the different assessment of the two factions. The avoidance of the correct payment of taxes will inevitably lead to the decrease and reduction of the state's financial resources, the result of tax evasion, with direct effects on the increase in public debt. This demonstrates how the rise in public debt is strongly influenced by the high rates of evasion that directly constrain the state by extracting resources and indirectly forcing it to indefinitely fulfil its public functions. Practically, we can talk about evasion and about the concept of unfair competition. In fact, if two entrepreneurs operating in the same sector and having similar economic features, but only one of them pays the due taxes, we can say that the latter is the victim of unfair competition from the other entrepreneur.

In order to identify taxpayers, who escape the payment of taxes and imputed taxes to the state, sectorial analyses can be made, comparing the data they have declared (in particular revenues and turnover) with the average values reported by similar and economically comparable taxpayers. These calculations must be made while taking into account a number of characteristics such as: taxpayer size, geographic location and production specialisation that differentiate taxpayers from the same sector. In Romania, it is common practice to keep some information on financial and economic results obtained secret, and requests to communicate information to partners are not commonly



encountered (Socoliuc et al., 2017; Socoliuc, 2016). For example, in Romania, the profit tax has the following scope, as also foreseen in Article 14 of the Fiscal Code:

- The taxable profit obtained from any source both in Romania and abroad, in the case of Romanian legal persons.
- The taxable profit attributed to the permanent establishment in the case of foreign legal entities that perform activities through a permanent establishment in Romania.
- Taxable income related to income from / in connection with immovable property located in Romania or from the sale / disposal of shares held by a Romanian legal person, in the case of foreign legal persons.
- Part of the taxable profit of the association attributable to foreign legal entities and non-resident individuals operating in Romania through an association without legal personality.

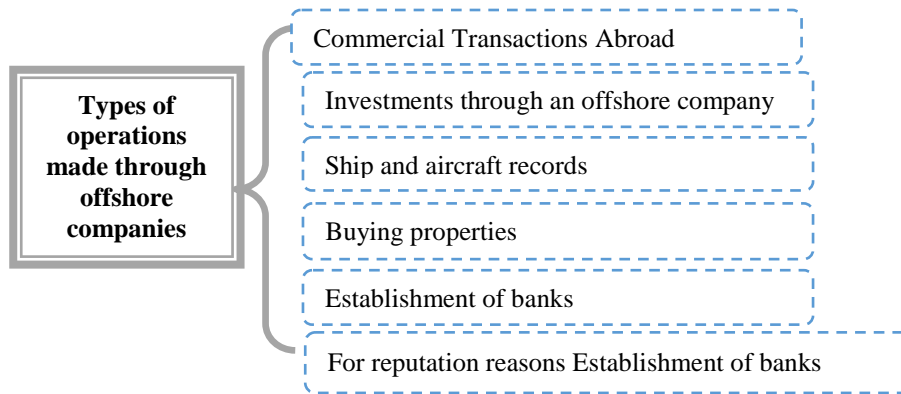
However, the idea of a disconnection and a connection between accounting and taxation is accepted in Romania. Disconnection - regarding the differences between tax principles and accounting principles; which, after being detected, proceeds to the deductions and reintegrations between the book value and the tax value. Connection - because the same informational support (accountant) achieves two practical goals, accounting and fiscal goals. For this reason, a philosophy has to be accepted by which the accounting system fulfils two purposes, with the help of limited restraints, which reduces the cost of acquiring and managing information for both companies and for tax purposes (Bostan et al, 2008, Mates et al., 2008).

III. Tax havens and offshores

International tax evasion, stimulated by the existence of small legal entities with a special or state-owned status, introduced in the literature of paradises or tax oases, is not a phenomenon characteristic of the contemporary world. The moment that marks the increase in the importance of tax havens is the end of the Second World War, when there is a multiplication of the number of subsidiaries of a parent company. Initially, these subsidiaries served to expand their parent companies abroad on an equal footing with other societies in countries that allowed for certain tax deferrals, and at the same time they represented a place of refuge for capital to be reinvested or repatriated. Direct tax benefits are granted to investors, taking into account that the income earned is taxed in the country where the offshore company is registered. So, taking advantage of the fact that these countries offer such companies a wide range of tax benefits, substantial savings can be made from tax.



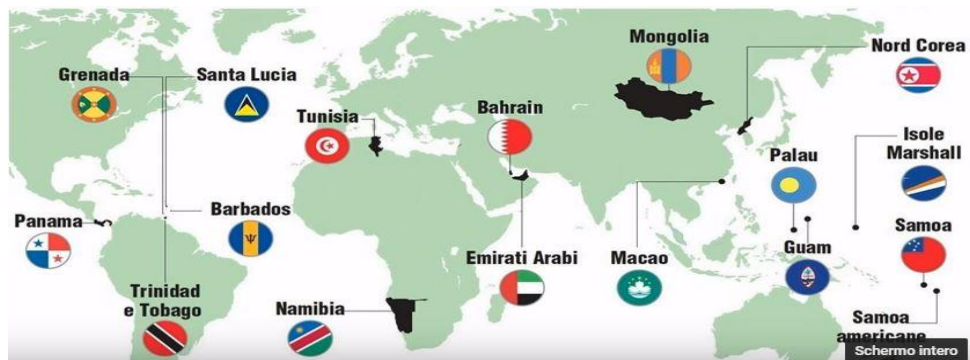
Figure 1– Types of operations made through offshore companies



Source: Own elaboration

Transit of capital through tax havens takes place in two phases, namely: the transfer from the home country to the tax paradise and hence the final beneficiary. In the first phase, the capital is transferred to credit institutions in foreign countries, fractionated in small amounts to obtain less visible and unattractive transfers, thus avoiding suspicions from the authorities. The second phase, which virtually makes it impossible to identify the origin of the profit, is successive, because there is a total lack of transparency in the operations performed. The concept of tax havens must not be confused with the more relaxed tax regimes in those countries which, while applying a customary tax, offer legislative and / or administrative advantages to certain subjects or certain income categories.

Figure 2- Examples of tax havens



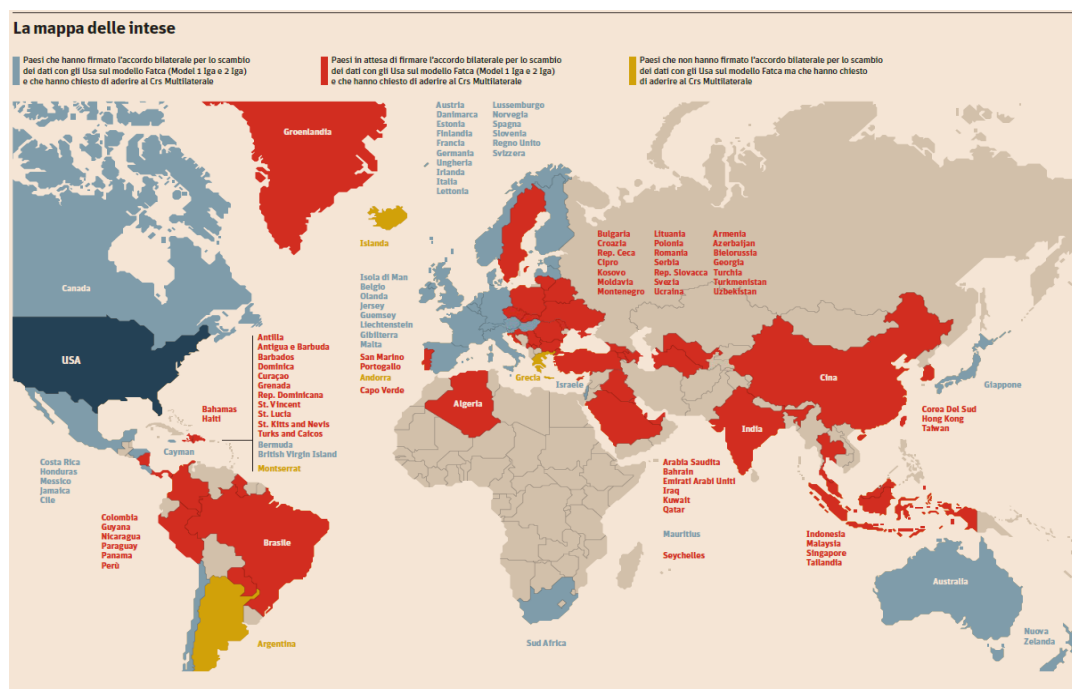
Source: <https://www.fiscomania.com/2018/07/societa-offshore-guida/>



The purpose of these countries is to provide services to companies and very easy regulation. Tax havens can be distinguished mainly in four different categories (Rossi, 2018):

- *Pure Tax Haven*: do not impose taxes, or there is only a nominal value and guarantees absolute banking secrecy;
- *No Taxation of Foreign Income*: only domestic revenue is taxed;
- *Low Taxation*: there is a low tax rate on revenue generated both internally and externally;
- *Special Taxation*: There are countries that allow for the creation of flexible companies but with a taxable tax regime comparable to that of normal countries.

Figure 4- Map of agreements on data exchange in tax matters



Source: <http://www.startingfinance.com/paradisi-fiscali-societa-offshore/>

Thus, tax havens are the natural habitat of so-called offshore companies, that is, companies that are registered in a foreign state but which carry out their activities outside



the country concerned. Offshore companies can therefore develop their business in their most favourable place but enjoy the benefits of tax havens: less (or zero) taxation, personal property protection, bureaucratic simplification, and weak controls. A state may decide to adopt such a tax policy and become a tax haven for attracting capital from other countries where the tax burden is likely to weigh more. The taxpayer, in turn, uses the tax haven to avoid paying taxes in his own country and because he knows he can count on inappropriate controls and bureaucratic facilities (Panicucci, 2013). The tax evasion is an economic and social process of great intensity with which countries are confronted and whose undesirable pursuits seek to limit more and more, eradication being unfeasible. The effects of tax evasion are personally resorted to fiscal revenue, leading to abnormalities in the market mechanism and participation in social inequities (Grosu, 2018).

IV. Conclusion

The growing interest of companies for tax havens led to the emergence of a new professional figure, namely financial experts who, from any part of the world, provide advice on how to perform financial transactions that, in compliance with the law, allow the payment of taxes lower, thus helping the clients to choose the most appropriate fiscal paradigm for their business. The many obligations that tax law imposes on taxpayers, or, in particular, the burden of these obligations have stimulated, at all times, the ingenuity of taxpayers to invent various ways of circumventing tax obligations.

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