

The Effectiveness of Control on Combating Tax Evasion and Fraud at National Level

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Abstract: The development of this paper, we aim to evaluate the fiscal control activity carried out by tax authorities in Romania in terms of its effectiveness, namely the fight against tax evasion and of creating a tax environment based on cooperation between tax authorities and taxpayers, for better knowledge and understanding of the effects of taxation on the economy and society and to stimulate voluntary tax compliance. The proposed objective will be achieved through research studies in the field of tax administration management, statistical reports on the results of activities to prevent and combat tax evasion by combining empirical analysis, comparative analysis and logical analysis.

Key words: fiscal control, effectiveness, evasion, fraud, tax

JEL Classification: H2, H26, H3

The typology of fiscal control

According to the Strategy National Agency for Fiscal Administration (NAFA) from 2013 to 2017, its purpose is to collect and manage efficient and effective taxes, social contributions and other amounts owed to the state budget and other budgets that make up the consolidated budget para. To achieve the goal, NAFA aims to achieve three specific objectives simultaneously, namely: combating tax evasion; improving voluntary compliance and increase collection efficiency.

Further, our approach will refer only to the first goal - combating tax evasion and tax fraud.

Fiscal control activity, as overall activity designed to prevent and combat the emergence and expansion of tax evasion, tax inspection covers operations, the unannounced and tax fraud.

We briefly describe further three fiscal control operations and will present elements distinctiv.

The operations of tax inspection under the Code of Procedure Fiscal updating of this level of 2016, is the work that is to verify the legality and compliance of tax returns, the correctness and accuracy of obligations related to determination of tax obligations by the taxpayer / payer compliance provisions tax law and accounting, verification or determination, where appropriate, tax bases and the facts relating to the determination of differences main tax obligations.

The operations of unannounced according to the same document mentioned above, means the operation control / verification of factual, documentary operations taxable and some elements of the tax base, which takes place without prior notice to the taxpayer / payer, initiated mainly due of information on the existence of violations of tax laws.

The operations of control fraud tax, in the same document mentioned above is not clearly explained, bounded by the other control activities described, but the fiscal legislation, control fraud tax is likely operative and unannounced and aims has carried out tax checks thematically, respectively verification seeking finding, analyzing and evaluating a specific fiscal risk to one or more specific economic activities.

The three control operations are distinguished by a few relevant items which we will present further, maintaining the order of their description (tax inspection, unannounced, control fraud), respectively:

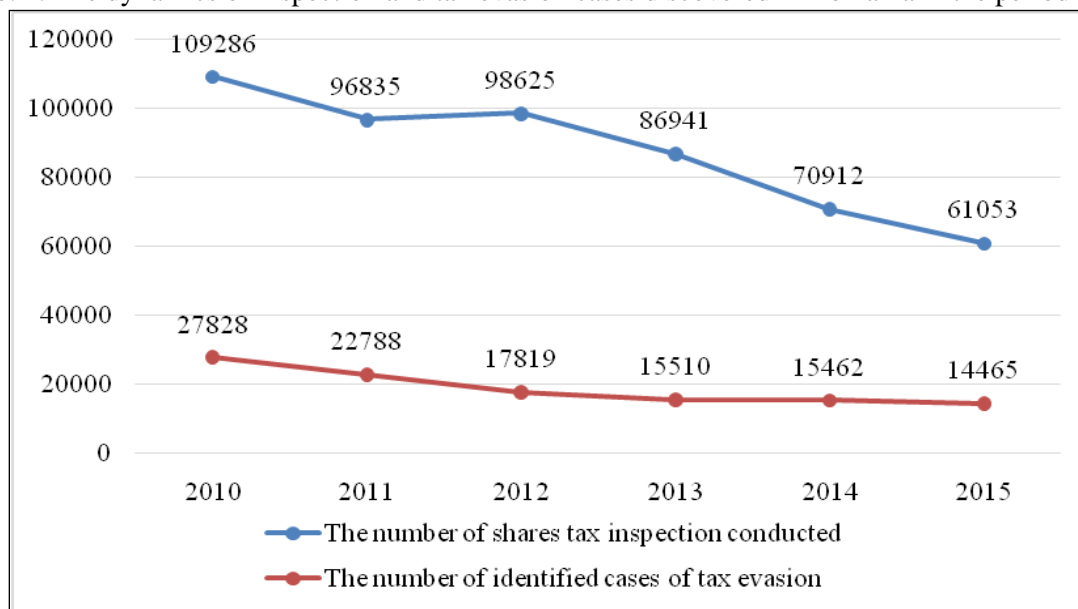
- ✓ how each specific action:
 - notified;
 - an unannounced;
 - venture.
- ✓ the area of inspection:
 - the whole of the taxpayer;
 - taxable operations and on some elements of the tax base;
 - tax on certain topics with risk of tax evasion.
- ✓ by allocated physical time control operation:
 - 45 to 180 days;
 - an up to 30 days;
 - one to goal.
- ✓ the treatment of the taxpayer:
 - taxpayer's may express its views in writing to the findings of inspection in a thermos for 5-7 days after the end of the tax audit;
 - taxpayer's can express their views within 5 working days from receipt of the official report concluded after conducting unannounced check.

The dynamics of fiscal control actions

In this section of the paper, we make an analysis of the dynamics of control actions at national level on their typology and overall during 2010 - 2015. It is intended to simultaneously control both the number of annual measures taken by authorities and the number of evasion and tax fraud discovered.

The dynamics of inspection tax imposed by the tax authority, in the reference period, shown in Figure 1, recorded a drop of approximately 44% from approximately 110.000 shares tax audit in 2010, approximately 61.000 shares 2015.

Figure no. 1. The dynamics of inspection and tax evasion cases discovered in Romania in the period 2010-2015



Source: Tax Statistical Bulletin no. 4/2010; no. 4/2011; no. 4/2012; no. 4/2013; no. 4/2014 and no. 4/2015

The results of the tax inspection actions have resulted in the identification of cases of tax evasion, as follows: in 2010, 25.5% of the shares (27 828 cases); in 2011, 23.5% of the shares (22 788 cases); in 2012, 18.1% of the shares (17 819 cases); in 2013, 17.8% of the shares (15 510 cases); in 2014, 21.8% of the shares (15 462 cases) and 23.7% of the shares in 2015 (14 465 cases).

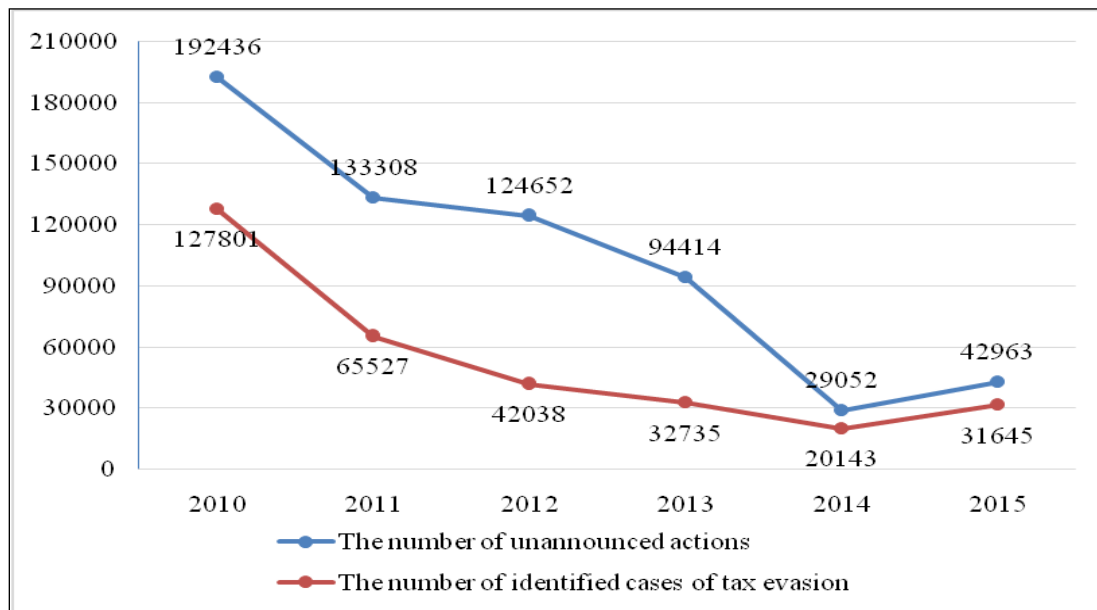
Comparative analysis of the number of shares tax audit with the number of cases of tax evasion identified, justified to a certain extent, the evolution rate of inspection tax, meaning that the actual number of cases of tax evasion continuously diminished, which number of shares resulted in relaxation of fiscal inspection.

It notes, however, that in terms of weight, the situation is different. Specifically, the share of discovered cases of tax evasion in the number of tax inspections is reduced by 2013, including from 25.5% in 2010 to 17.8% after it finds its growth by 24% in 2015.

The dynamics actions unannounced imposed by the tax authority, in the reference period, shown in Figure 2, recorded a sharp decline in impairment of approximately 85% from approximately 192.000 shares unannounced, in 2010, approximately 29.000 shares in 2014.

The results of any unannounced, have resulted in the identification of cases of tax evasion, as follows: in 2010, 66.4% of the shares (127.801 cases); in 2011, 49.1% of the shares (65.527 cases); in 2012, 33.7% of the shares (42.038 cases); in 2013, 34.7% of the shares (32.735 cases); in 2014, 69.3% of the shares (20.143 cases) and 73.6% of the shares in 2015 (31.645 cases).

Figure no. 2. The dynamics shares of unannounced and discovered cases of tax evasion in Romania in the period 2010-2015



Source: Tax Statistical Bulletin no. 4/2010; no. 4/2011; no. 4/2012; no. 4/2013; no. 4/2014 and no. 4/2015

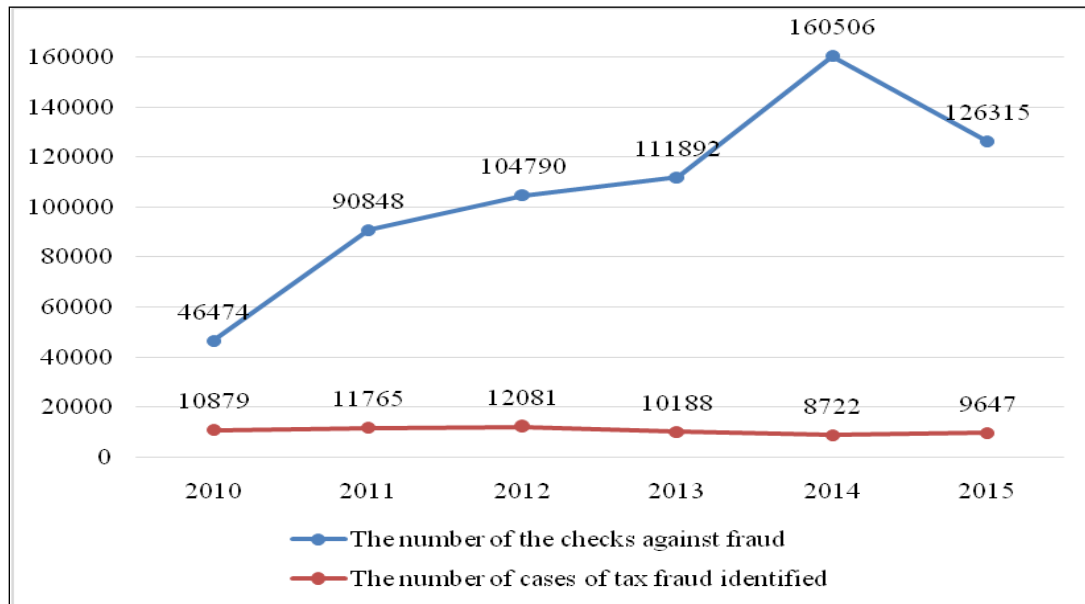
The comparative analysis of the number of shares unannounced number of cases of tax evasion identified, reveals that both rhythm actions unannounced, and the pace of documents discovered tax evasion, fell sharply in the period 2010 - 2014 and a trend growth in 2015.

An interesting feature resulting from analysis of data from Figure 2, is that this type of unannounced taxpayers generate a greater number of discovered cases of tax evasion. Thus, in 2010, 66% of the shares of unannounced were identified facts of tax evasion, and in 2015, 73% of the shares of surprise visits were recorded facts of tax evasion.

The dynamics control operations fraud tax imposed by the tax authority, in the reference period, shown in Figure 3, recorded a sharp increase of approximately 71%, from about 46.000 operations control fraud fiscal 2010, about 160.000 shares in 2014.

The results of the control tax fraud, have resulted in identification of an oscillating number of cases of tax fraud, in relation to the dynamics control operations fraud.

Figure no. 3. The dynamics of the controls fraud and tax evasion cases discovered in Romania in the period 2010-2015



Source: Tax Statistical Bulletin no. 4/2010; no. 4/2011; no. 4/2012; no. 4/2013; no. 4/2014 and no. 4/2015

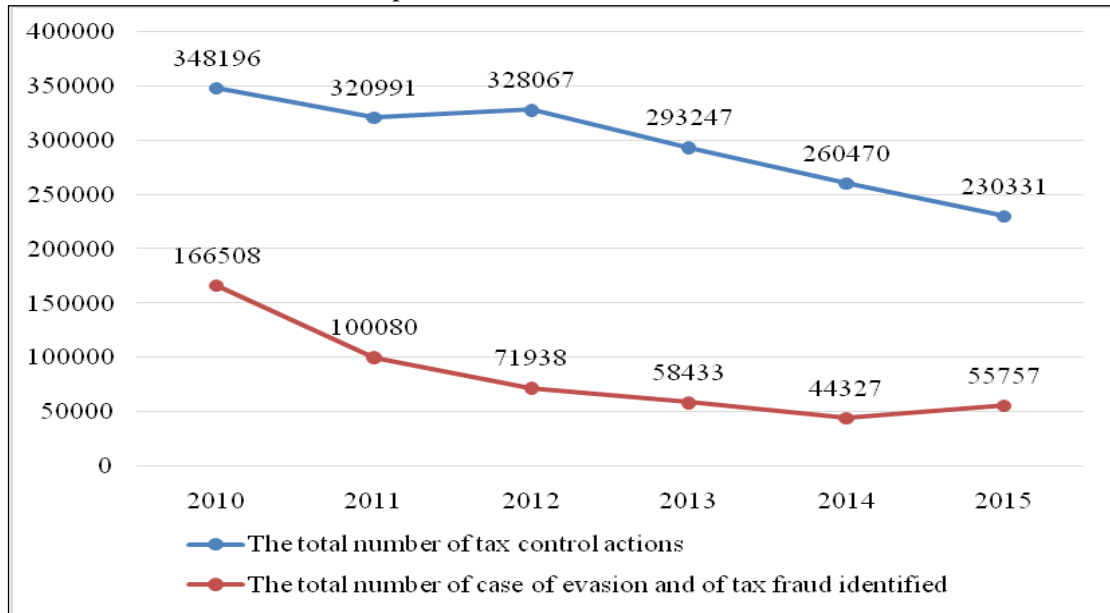
It notes analysis of the data in Figure 3, that the tax authority pays great attention to this type of control, actually requested by the existence of European and international agreements to which Romania joined, asking international and regional fight against tax fraud.

The dynamics of total control actions by the tax authorities responsible at national level, reflecting the attention the authorities attach to combating and preventing acts of evasion and tax fraud.

Analyzing the data shown in Figure 4, there is a leisure events the dynamics control actions total by the tax authorities during 2010 - 2015 from a total of over 348.000 shares in 2010 at an estimated 230.000 shares 2015.

The number evasion and tax fraud, a fall permanently by 2014 from more than 166.000 cases detected in 2010, about 44.000 cases in 2014

Figure no. 4. The dynamics of operations and total control of evasion and tax fraud discovered in Romania in the period 2010-2015



Source: Tax Statistical Bulletin no. 4/2010; no. 4/2011; no. 4/2012; no. 4/2013; no. 4/2014 and no. 4/2015

The share of annual tax evasion and fraud uncovered in total control action performed annually recorded a significant decrease, from 47% in 2010 to 17% in 2014. This trend influenced by the downturn in both indicators can mean two situations: modeling positive behavior overall tax effect controls, confirmed by the evolution of the two indicators by 2014 or that strategies of taxpayers anticipate the checks to be carried out by the authorities, which sometimes prove ineffective, also confirmed to some extent on the cases of tax evasion discovered in 2015 predominantly those discovered by controls unannounced, with over 57% of all cases in 2015 also discovered.

Some conclusions on the effectiveness of the tax control

According to the document mentioned in the introduction to the paper, the effectiveness of the tax administration, involves the collection of taxes by applying typology of tax control activities to combat and prevent acts of evasion and tax fraud.

Evaluation general picture of the dynamics of the checks and tax evasion and fraud, in terms of effectiveness, reveals several aspects, namely:

- ✓ number of discovered cases of tax evasion has decreased considerably by 75% in 2014 compared to 2010, with a growth trend in 2015, with approximately 25% compared to 2014;
- ✓ number of shares for fiscal control by the tax authorities decreased by approximately 34% in 2015 over 2010.

The two aspects that lead to a positive assessment on the effectiveness of control manifested by combating and preventing tax evasion and tax fraud, in that, amid diminishing number of cases of non-compliance tax discovered, the authorities relaxed the number of control activities.

Arguments supporting effectiveness, not very consistent, meaning that fewer inspections and therefore the number of cases of tax evasion and tax fraud discovered, may be the result of measures to reduce administrative costs generated by a larger number of tax audits.

In fact, increasing the collection efficiency is an important goal of NAFA, supported by implementing tax administration modernization project which runs from 2013 - 2018. This modernization process provision, among other targets, to reduce the cost of collection for each 100 lei collected, from 1.15 lei in 2013 to 0.9 lei in 2018.

Improve the work of NAFA requires spending cuts and a measure with immediate effect is to reduce personnel costs by reducing the number of posts in the tax administration, including in the sphere of fiscal control. The actions fiscal of control, by their nature, are carried out by moving the registered office of the taxpayer. Times, maintaining a relatively constant number of shares control while reducing the staff, can be maintained only by increasing tax inspector control actions.

The analysis presented is apparent that with the gradual reduction of staff was reduced and the number of control actions carried out and hence the number evasion and tax fraud discovered.

We find therefore that the positive assessment of the effectiveness of control over combat and prevent tax evasion and tax fraud, above, is relative, since reduced the number of acts of evasion and fraud uncovered therefore reducing the number of actions fiscal control on lower costs administrative control.

We appreciate that, according to results of the analysis, the effectiveness of control actions on combating and preventing tax evasion and tax fraud is relatively low. Highly effective control actions on combating and preventing tax evasion and fraud, cherish under a relatively constant control actions undertaken and significant diminuții (simultaneous) the number of cases of tax evasion and tax fraud discovered.

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