

# TAX EVASION FLAG OF THE CONTEMPORARY ECONOMY

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**Abstract:** *Tax evasion is considered to be the most widespread economic crime, of major importance, which all states face to a greater or lesser extent. Globalization is the main phenomenon that has made it more difficult to detect and stop tax evasion and tax evasion. The magnitude of this phenomenon has no time and space boundaries. Eradicating tax evasion is virtually impossible, so states are seeking effective measures to curb this worrying phenomenon. Within the European Union, Member States are directly affected by this phenomenon, in particular due to the multiple gaps identified in the economics and legislation of the member countries. Tax evasion has become a topic the European Union has been researching for a long time, which it is trying to combat through EU-wide fiscal policies. Tax policies involve identifying, analyzing, evaluating and monitoring the risks associated with the phenomenon of tax evasion at national and international level.*

**Keywords:** *tax evasion, tax policies, risk, economy, legislation, state, fraud.*

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## 1. INTRODUCTION

Tax fraud is steadily rising, though, over time, the fight against tax evasion has been attempted in different ways, but due to the complexity of the sale, it has failed.

State involvement in economic life has seen moments of growth or stagnation, but there is always a relationship between these two powers, which has constantly changed.

There is a negative aspect of the relationship between the state and the economy, according to Picciotto: „Taxation is the most direct point of intervention between the state and the economy.”

Since ancient times, state leaders have sought to compel citizens through tax law to pay taxes, and since ancient times it has been apparent that people have tried to evade tax.

Globalization is the main phenomenon that has made it more difficult to detect and stop tax evasion and tax evasion at EU and international level. Within the EU, Member States are directly affected by this phenomenon, in particular due to the significant gaps identified in the economics and legislation of the member countries. Against this background, it can be appreciated that globalization is a favorable factor for enhancing links and cooperation between Member States, especially in order to harmonize fiscal policies at Union level so that it is possible to break the techniques used by large companies to avoid paying taxes in the jurisdictions in which they operate. Moreover, the aim of European legislation in the current context is to apply the principle of loyal competition and corporate responsibility to halt the practices of multinationals to avoid paying taxes.

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## **2. RESEARCH METHODOLOGY**

The theme chosen is of particular importance because it presents a current phenomenon for most states due to its devastating effects in society.

The work is placed in an area of intersection of two areas of major importance in society: legal and economic.

Through the thematic approach we follow both the theoretical presentation of the main types of frauds of economic and financial nature and the causes that favor its occurrence.

The main objective of this research work is to deal with the phenomenon of economic and financial fraud, and aims at presenting and analyzing the current legislative framework and the set of regulations regarding the phenomenon of fraud.

At the basis of the research process, the objective was considered as: study of the specialized literature, such as: scientific papers, textbooks, articles from magazines, foreign literature and from the country, all of which are mentioned in the bibliography of the paper; identifying and presenting the concept of the principle of tax law, defining the theoretical and practical foundations on the concepts of fraud and tax fraud; the analysis of the concept of fraud regulated by the main institutions, with attributions in discovering, preventing, combating and resolving tax fraud.

Tax evasion has become a topic that the European Union has been researching for a long time, which it is trying to combat through EU-wide fiscal policies.

Mobilizing domestic revenue is essential to financing sustainable development - only self-sufficiency will allow for the development of fully functioning states with thriving political representation systems and economies that reflect the preferences expressed by societies on, for example, inequality. Tax evasion and tax evasion are important insofar as they affect both the volume and nature of public finances. Alex Cobham, in his paper, estimates the total cost of developing countries of these losses as \$ 385 billion annually in 2005.

There are countries in Europe, but also in the rest of the world, who maintain a low tax rate, and the law does not allow the exchange of information on taxpayers and bank account holders. These countries, also known as tax havens, are a source of attraction for investors, for obvious reasons.

In the table below, the tax rates of entities in European countries over the last 10 years are highlighted:

The most common tax havens in Europe and the world are countries that have a lower tax rate for foreign companies and do not disclose financial information about existing investors.

Table 1.1 Evolution of the tax rates of the EU member states, 2008-2017.

Country	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Austria	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%
Belgium	33,99%	33,99%	33,99%	33,99%	33,99%	33,99%	33,99%	33,99%	33,99%	33,99%
Bulgaria	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
Cyprus	10%	10%	10%	10%	10%	12,5%	12,5%	12,5%	12,5%	12,5%
Croatia	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%
Denmark	25%	25%	25%	25%	25%	25%	24.5%	22%	22%	22%
Estonia	21%	21%	21%	21%	21%	21%	21%	20%	20%	20%
Finland	26%	26%	26%	26%	24,5%	24,5%	20%	20%	20%	20%
France	33,33%	33,33%	33,33%	33,33%	33,33%	33,33%	33,33%	33,33%	33,33%	33,33%
Germany	29,51%	29,44%	29,41%	29,37%	29,48%	29,55%	29,58%	29,72%	29,72%	29,79%
Greece	25%	25%	24%	20%	20%	26%	26%	29%	29%	29%
Ireland	12,5%	12,5%	12,5%	12,5%	12,5%	12,5%	12,5%	12,5%	12,5%	12,5%
Italy	31,4%	31,4%	31,4%	31,4%	31,4%	31,4%	31,4%	31,4%	31,4%	24%
Latvia	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
Lithuania	15%	20%	15%	15%	15%	15%	15%	15%	15%	15%
Luxembourg	29,63%	28,59%	28,59%	28,8%	28,8%	29,22%	29,22%	29,22%	29,22%	27,08%
Malta	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%
Netherlands	25,5%	25,5%	25,5%	25%	25%	25%	25%	25%	25%	25%
Poland	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%
Portugal	25%	25%	25%	25%	25%	25%	23%	21%	21%	21%
UK	30%	28%	28%	26%	24%	23%	21%	20%	20%	19%
Czech Republic	21%	20%	19%	19%	19%	19%	19%	19%	19%	19%
Romania	16%	16%	16%	16%	16%	16%	16%	16%	16%	16%
Slovakia	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%
Slovenia	22%	21%	20%	20%	18%	17%	17%	17%	17%	19%
Spain	30%	30%	30%	30%	30%	30%	30%	28%	25%	5%
Sweden	28%	26,3%	6,3%	6,3%	6,3%	22%	2%	22%	22%	22%
Hungary										
<b>Mediate UE</b>	<b>23,17%</b>	<b>23,11%</b>	<b>22,93%</b>	<b>22,7%</b>	<b>22,51%</b>	<b>22,75%</b>	<b>22,39%</b>	<b>22,2%</b>	<b>22,09%</b>	<b>21,51%</b>

Source: own processing based on data from the EUROSTAT website

In most tax havens, no corporation tax is paid at all, or, if paid, the tax rates are very low. The existence of these tax havens puts pressure on tax rates in other countries despite the fact that there are bodies that try to tackle this problem through global or continental tax policies. The main advantages of tax havens can be: taxing income, taxing income at low tax rates, negotiating foreign tax rates, non-taxation of income that is not realized on the territory of that tax haven, etc.

Centralized, in the table below, we can find the names of 10 countries, the most common tax havens and their tax rates:

Table 1.2 Evolution of tax rates of countries considered tax havens

Countries	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Bahamas	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Switzerland						36%	34,5%	34,5%	34,5%	36%
Ireland	12,5%	12,5%	12,5%	12,5%	12,5%	12,5%	12,5%	12,5%	12,5%	12,5%
Luxembourg	29,63%	28,59%	28,59%	28,8%	28,8%	29,22%	29,22%	29,22%	29,22%	27,08%
Island Man	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Cayman Islands	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Netherlands	25,5%	25,5%	25,5%	25%	25%	25%	25%	25%	25%	25%
Mauritius	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
Singapore	18%	18%	17%	17%	17%	17%	17%	17%	17%	17%
Bermuda	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%

Note: Luxembourg was also considered a country of tax havens for privacy laws and policies on investor economic information, which favors investment in Luxembourg.

Source: of the author's projection

As can be seen from the table, most tax havens have a profit tax rate of 0%. The other countries (e.g. Ireland) negotiate with the big corporations the tax quota, most of them under the national quota of 12.5%.

Companies take advantage of this opportunity not to pay tax on profits or certain income or to pay taxes at lower rates. In this respect, large companies open their subsidiaries in tax havens and transfer their intellectual property to another subsidiary located in another tax haven to avoid paying taxes.

In recent years, the academic and policy debate on development finance and development aid has raised the issue that tax evasion can undermine the ability of developing countries to finance their public sectors. This view is based, among other things, on the perception that the underground economy in these countries is higher than in developed countries. The term „underground economy” has no generally accepted definition. But in the context of tax and revenue mobilization, a useful definition of the underground economy would include „undeclared revenue from the production of legal goods and services, whether from monetary transactions or barter transactions, therefore all economic activities that would generally be taxable, reported to tax authorities „(Schneider & Enste 2000, pp. 78-79).

Indeed, there is a negative correlation between the rates of tax revenue and GDP and some estimates of the size of the underground economy, although it is not necessarily an estimate based on the above definition. Many observers have concluded that a large underground economy actually generates a fall in tax revenue. But this view is not uncontroversial.

A number of recent publications have linked income tax evasion and tax evasion in developing countries to the financial support these countries receive through development aid. Many of these contributions conclude that aid dependency could be significantly reduced if developing countries manage to reduce tax evasion and avoidance. Reducing dependence on aid might have a number of advantages. Firstly, many aid projects require additional expenditure. Lack of complementary resources may reduce the effectiveness of development aid. Secondly, development aid is more volatile than domestic tax revenues. Third, mobilizing domestic revenue rather than dependency on aid is seen as a means to increase the political participation of the domestic population in public sector decisions. Fourth, the focus on development aid is partly determined by donors and may differ from the priorities perceived by developing countries themselves.

The underground economy is the one that points to a major problem in tax legislation, and it is measured at one fifth of GDP. Thus, tax evasion and tax evasion prevent the state from collecting revenue in line with national and international tax policies. The figure below provides estimates of the size of the underground economy in 2011:

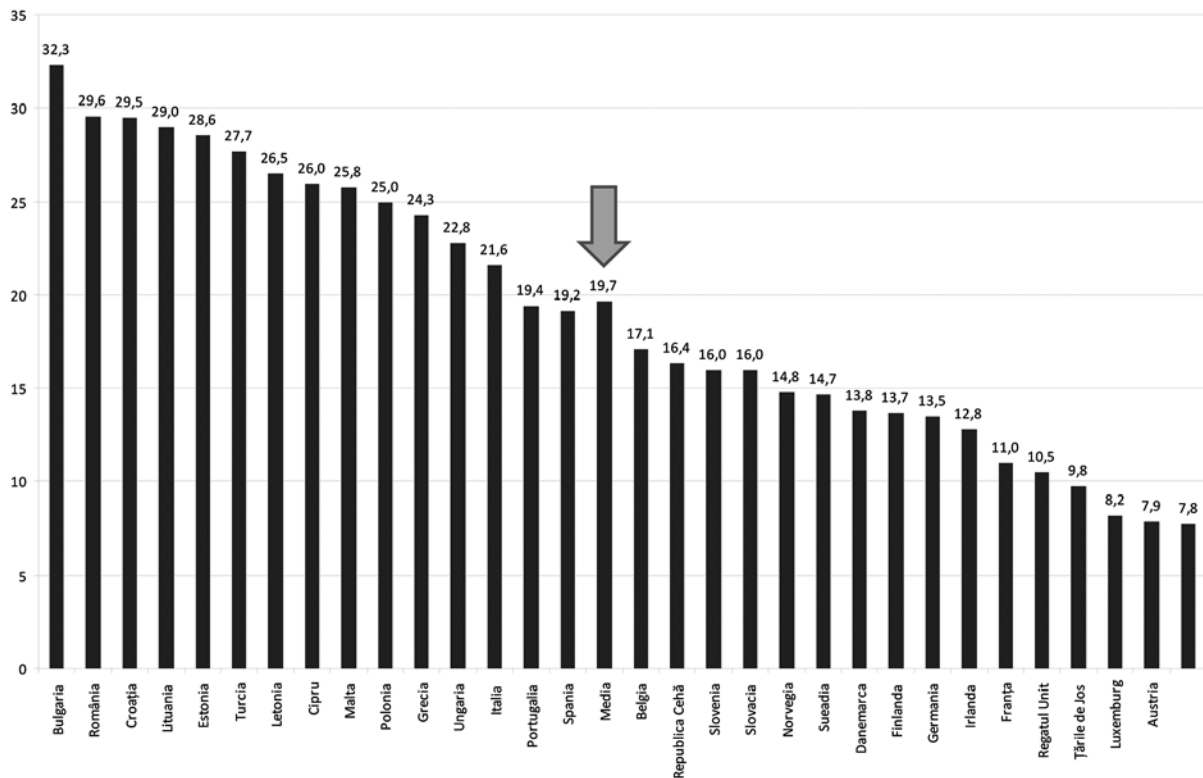


Figure 1.1 The size of the underground economy in 2011 at the level of Europe  
(Source: EUR-Lex Access to European Union Law)

In addition to these amounts, we also refer to amounts measured in billions of euro by the competent authorities in this respect, which represent undeclared revenues from offshore activities, the effect being a low tax revenue.

Taking into account the rapid globalization that has taken place, a globalized fiscal approach is needed in this respect, through the issuance of general tax policies valid in countries on all continents.

Collecting tax revenue by common standards would improve the quality of life in partner countries. Thus, countries that are considered to be major financial centers and have aggressive laws of banking secrecy would have to give up banking secrecy and automatically exchange information with other countries. According to the reports of the European Commission, Switzerland and Cayman Islands together, in 2011, have accumulated non-bank deposits amounting to 1.352 billion dollars, which represents 20% of the total non-bank deposits in the world.

In the following, the number of non-bank deposits opened in 5 of the most important tax havens is shown graphically:

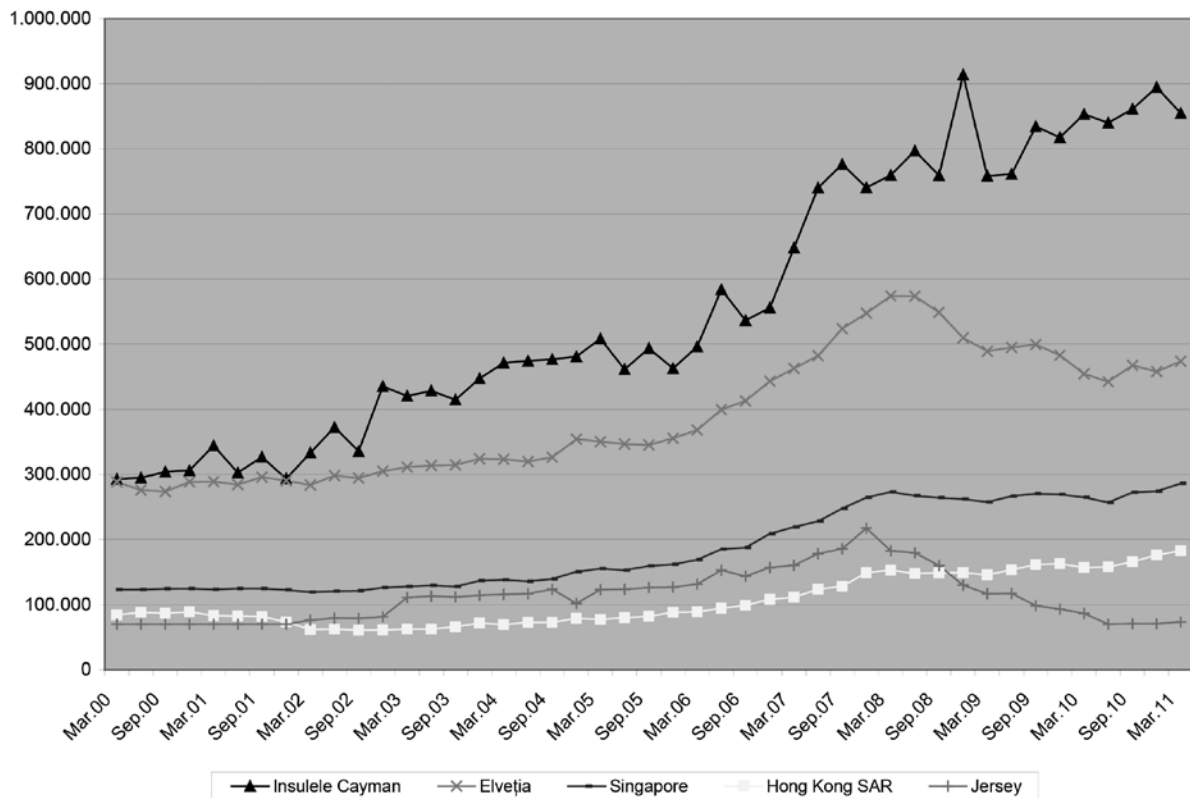


Figure 1.2 Non-bank deposits opened in 5 tax havens  
 (Source: Report European Commission on the concrete ways of stepping up the fight against tax evasion)

Thus, in order to reduce these non-bank deposits in tax havens, the EU needs to reconsider the existing economies agreements with countries such as Switzerland, San Marino, Monaco, Liechtenstein and Andorra.

The oldest and ultimately the only sustainable source of development finance is taxation. No vision of a sustainable future equilibrium for countries - however optimistic or pessimistic about levels of human development and economic welfare - may be based on assuming permanent dependence on aid. As such, the long-term goal must be to bring government revenue on a sustainable basis, in line with the levels of expenditure required.

With these different time horizons, the importance of tax evasion and tax avoidance for development is evident. Tax evasion has evolved rapidly in the development agenda in recent years. Following Oxfam's strong 2000 earnings report, billions of government revenue from developing countries was lost using corporate tax havens. The Enron and WorldCom cases, among others,

have brought to the public for the first time a series of licit and, above all, illicit tax practices. The Tax Justice Network, an umbrella group that reflects a wider interest among NGOs, has been increasingly successful in generating media interest and provoking a business response. However, it is not possible to provide a simple link between the fees paid and the availability of funds to finance development. To begin to address the question of how the impact of tax evasion and avoidance on development is necessary, a meaningful analysis is needed. This can be seen by taking into account an imaginative exercise: if a poor country in which 40% of the economic activity is completely non-taxed, some questions arise: what would be the impact (on economic activity, growth, investments and employment, government revenue and social spending, inequality and development) if the government was suddenly able to make such avoidance completely impossible? Or imagine a rich country that provides business subsidies in the form of tax gaps in foreign business registration: who would win and who would lose if this were illegal?

In order to take account of the policy of combating tax evasion, it is first and foremost necessary to set the underlying objectives. Political decision-makers cannot be motivated by a simple moral position (for example, the fact that a certain behavior is „bad”) without examining the implications. The speed with which anti-avoidance measures can be effective is not clear.

It goes without saying that the ability to raise this funding depends on a taxable economic activity that takes place and that both domestic and international trade are the most important components of economic growth. It is not clear about it, for example, what would be the moral distinction between the following:

- tax minimization strategies, from transfer prices to the creation of special purpose vehicles or nominal seat transfer;
- sub-reporting;
- bribery of tax officials;
- refusal to pay;
- government lobbying to reduce tax liability or the effective tax burden on the system;
- Lobbying by multinationals of the governments of the „home” countries to exert pressure on the „host”;
- Promoting lobbying through international institutions (IMF, World Bank, WTO) with similar effects.

### **3. LAWS AND REGULATIONS TO REDUCE TAX EVASION IN NATIONAL AND INTERNATIONAL LAW**

The specialized literature analyzes the relationship between accounting and taxation. In this sense, the specialists argue that „accounting appeared as a necessity, in order to supervise and control the resources, expenses and results obtained from the activity of the economic agents, based on the most important accounting principle, that of the true image.”

The table below presents the rules of the current legal framework for the protection of the financial interests of the European Union



Table 1.3 International Anti-Fraud Legislation

<b>THE LEGISLATIVE FRAMEWORK OF THE EUROPEAN UNION</b>	<b>CLAIMS</b>
Articles 310, 317 and 325 of the Treaty on the Functioning of the European Union	Their provisions include measures to combat fraud and any illegal activity affecting the financial interests of the European Union.
Regulation (EU, Euratom) 883/2013 of the European Parliament and of the Council of 11 September 2013.	Its provisions provide for investigations by the European Anti-Fraud Office (OLAF) and the repeal of Regulation (EC) Regulation (EC) No 1073/1999 of the European Parliament and of the Council and Regulation (Euratom) No 1074/1999.
Council Regulation (EC, Euratom) Council Regulation (EC) No 2988/95 of 18 December 1995	Concerning the protection of the financial interests of the European Communities.
Regulation (Euratom, EC) No. Council Regulation (EC) No 2185/96 of 11 November 1996	Provides legal advice on on-the-spot checks and inspections carried out by the Commission in order to protect the financial interests of the European Communities against fraud.
Decision (EU, Euratom) No 335/2014 of the Council of 26 May 2014	Establishes the European Union's own resources system;
Regulation (EU, EURATOM) No 966/2012 of the European Parliament and the Council on 25 October 2012	Strengthens the financial rules applicable to the general budget of the Union and repeals Council Regulation (EC, Euratom) No 1605/2002;
Convention drawn up on the basis of Article K.3 of the Treaty on European Union	By this provision, it protects the financial interests of the European Communities and the three related Protocols.

Source: Author's research and projection

The table below lists some sanctions granted by states other than those mentioned above for the commission of tax fraud:

Table 1.4 Sanctions granted by different states of the world for tax fraud

<b>Country</b>	<b>Sanctions</b>
Austria	The tax evasion, according to the Finanzstrafgesetz, is punishable by a fine of up to two years imprisonment, depending on the degree of social danger of the deed. The administrative-tax authorities may apply the fine and imprisonment for up to three months only in cases where the amount of the damage exceeds a certain threshold, reaching the court.
Slovenia	Tax evasion is punishable by imprisonment for up to three years. In the case of aggravated tax evasion, imprisonment of up to five years may be imposed.
SUA	Violations of tax obligations vary, so that for each category of facts either a fine of no more than \$ 500,000 may be applied, typically the amount of the damage or the imprisonment for a maximum of five years.
France	Tax penalties, usually fiscal fine, or criminal sanctions, respectively criminal fines or imprisonment, are applied as appropriate.

Source: Author's research and projection



#### 4. FRAUD CONTROL AND PREVENTION BODIES IN THE ECONOMIC AND FINANCIAL CONTEXT AT EU LEVEL

In the table below we find a comparison between the purpose and objectives of the control bodies at the level of the European Union

Table 1.5 The purpose and objectives of control bodies at the level of the European Union

ORGANIZATIONS AT THE LEVEL OF THE EUROPEAN UNION	REMARKS
The European Anti-Fraud Office (OLAF) is part of the European Commission but is operationally independent.	It carries out independent investigations into acts of fraud and corruption involving EU funds It develops a robust anti-fraud policy in the EU It is empowered to do both internal and external investigations
Regulation (EU, Euratom) 883/2013 of the European Parliament and of the Council of 11 September 2013.	Investigations carried out by the European Anti-Fraud Office (OLAF) and repealing Regulation (EC) Regulation (EC) No 1073/1999 of the European Parliament and of the Council and Regulation (Euratom) Council Regulation (EC) No 1074/1999;
Council Regulation (EC, Euratom) Council Regulation (EC) No 2988/95 of 18 December 1995.	It has the role of protecting the financial interests of the European Communities
Regulation (Euratom, EC) No. Council Regulation (EC) No 2185/96 of 11 November 1996.	It carries out on-the-spot checks and inspections carried out by the Commission in order to protect the financial interests of the European Communities against fraud.

Source: Author's research and projection

#### 5. CONCLUSION

The phenomenon of tax evasion in the world still requires research and analysis to arrive at a correct and complete perception of its dimensions. We also affirm this in relation to an aspect that is likely to convince, in our opinion, that tax evasion is far from being exhausted as an object of investigation: the framework law which, according to its name, should regulate the prevention and combating of tax evasion that is in fact only a tool to combat, preventing it from being represented in its provisions.

It is necessary to develop and implement procedures for interinstitutional cooperation with a view to identifying and timely reporting fraud, but also to combat them.

It is absolutely necessary to continuously train, at the highest level of professional training, to meet the challenges of any kind and, at the same time, to respect the highest standards of ethical behavior and integrity.

As a result of the research we found that one of the problems faced by European Union legislation in the field of tax regulations is the lack of correlation between these laws. Furthermore, the laws are not clear about the provisions and implementation instructions. Thus, taxpayers, but also the organs of the empowered states, have more opportunities to escape from the law.

We believe that this anti-fraud strategy requires further improvements in the fraud risk assessment in order to respond satisfactorily to exposure to the fraud offense.

Another important aspect in combating fraud, we consider to be prevention. Computer-based controls aimed at preventing and detecting fraud should be part of those designed to ensure the legality and regularity of operations and should be supplemented by the competent authorities within each Member State of the European Union.

In our opinion, education is a determinant factor that could mitigate the harmful effects of this economic scourge. States' competent bodies must devise a strategy to develop civic awareness about the taxpayer's obligations to the state, which a taxpayer must perceive as a protector, not as an enemy.

For a better understanding it is very important to publish specialized papers that facilitate the unitary interpretation of the normative framework, the adoption and application of a modern and transparent legislative framework and the bringing to the attention of the taxpayers.

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