TAX EVASION - A TOPIC OF MAJOR INTEREST IN SPECIALIZED LITERATURE

Carmen Comaniciu
Prof., PhD., „Lucian Blaga" University of Sibiu

Abstract: Tax evasion is one of the complex economic-social phenomena, with unintended consequences and a particularly high impact on progress and economic growth, which all countries face in the current situation and for which solutions are constantly being sought to limit illegal acts and facts. For this reason, the specialized literature offers a series of studies and research that allow the analysis of relevant concepts, the identification of the causes that produce the phenomenon of tax evasion and the establishment of possible solutions to combat it. Without pretending to be an exhaustive approach, through this article we want to highlight some outstanding studies and research from the specialized literature, useful to theorists and practitioners in the field, based on the interdisciplinary analyzes offered and the observations and proposals proposed.

Keywords: tax evasion; tax avoidance, prevention; fighting; incidence

1. Introduction

The methods and scope of the tax evasion phenomenon sometimes make it difficult to specify the concepts, reason why, interest in the acts and facts of tax evasion is shared between experts in the economic sciences and those in the legal sciences.

In this regard, we note the following definitions:

- Analyzing public finances, in 1956, jurist, political scientist and law professor Maurice Duverger stated: "there is tax evasion, in the proper sense of the term, when the person who should pay the tax, does not pay it, without his obligation being transmitted to a third party" (Duverger, 1956).
- Although before 1990, in French domestic law, the notion of tax evasion was very often used, it was not precisely defined, but was taken into account by the French fiscal institutions through its practical aspects, namely "abuse of fiscal law and abnormal accounting practices, or related processes" (Robbez Masson, 1987).
- At the level of the European Union, tax fraud and tax evasion is considered a huge problem with an impact on every European citizen, reason why, permanent collaboration between the EU and its member states and cross-border cooperation is required to stop this scourge, based on common systems and tools, as well as the exchange of best practices. In defining the phenomenon of evasion, the EU uses three terms (European Commission, 2023), respectively: tax fraud (referring to the intentional use/making of false documents/statements); tax evasion (referring to the intentional non-declaration of the taxable object, in order to reduce the tax payment); tax avoidance (an action, often at the limit of legality, by which taxpayers eliminate or minimize the amount of tax that would be legally owed).
- According to Wikipedia, tax evasion is associated with the informal economy and represents evading taxpayers from paying taxes (Wikipedia, 2023).
- In Romania, by Law no. 87 of October 18, 1994 for combating tax evasion, tax evasion was defined as "avoidance by any means, in whole or in part, from the payment of

taxes, fees and other amounts owed to the state budget, local budgets, the state social insurance budget and special extra-budgetary funds by Romanian or foreign natural persons and legal entities". The repeal of this law, and the adoption of Law no. 241 of July 15, 2005 for preventing and combating tax evasion, no longer strictly defines the term tax evasion, but includes the notion in the title of the law, establishing measures to prevent and combat the phenomenon. In 2023, the law was amended and supplemented according to the provisions of Directive 1371/2017 on combating fraud targeting the financial interests of the European Union (Law no. 125, 2023).

Regardless of the definition of the evasive phenomenon found in legislation or specialized literature, through this one, reference is made to taxpayers' willful non-fulfillment of legal fiscal obligations, taking into account the three areas of manifestation: the white area (errors; inadvertences of the tax law; favorable tax regimes); gray area (fiscal ability; abuse of right); black zone (tax fraud).

The size, incidence in political, financial and economic terms, as well as the effects on the economy, society and taxpayers are the elements that led us to capture, through this article, relevant studies and research from the specialized literature (without pretending to be an exhaustive approach) that can contribute to preventing and combating tax evasion.

2. Some aspects regarding the structure and content of studies and research on tax evasion in the specialized literature

The effectiveness of the process of stopping the phenomenon of tax evasion consists especially in the ability to remove the causes that produce or may favor the facts which violates fiscal laws. Knowing the causes and favorable conditions of tax evasion creates the possibility of taking relevant, quick and effective measures to eliminate or at least limit this unwanted phenomenon.

Most of the time, the scientific approaches related to the issue of tax evasion, involves a complex interdisciplinary analysis, based on: extensive analyzes of relevant concepts; the relationships of dependence and interdependence between the phenomenon of tax evasion and other socio-economic and political phenomena and processes; investigating concrete ways of evading the fulfillment of fiscal obligations; presentation of the criminal schemes most used in tax fraud; national and international comparative analyzes regarding the extent of the phenomenon and the impact on public financial resources; econometric models designed to quantify the level of tax evasion and its impact; presentation of the relevant jurisprudence in the matter; the existence of international agreements on the fight against tax evasion.

According to bibliographic and bibliometric databases, the analysis of the tax evasion phenomenon is found in an impressively large number of studies and researches.

Using the Google Scholar search engine (Google Academic), on 20.09.2023 we were provided with: over 1,770,000 articles with reference to tax avoidance; approximately 412,000 articles referring to the phenomenon using the term fiscal evasion; approximately 394,000 articles referring to the phenomenon using the term tax evasion; approximately 277,000 articles with reference to money laundering. The extent of tax evasion in Romania has determined specialists and practitioners in the economic and legal fields to subject attention and analyze this phenomenon in more than 5,080 articles accessible in Romanian language.

At the level of prestigious international databases, we also note the treatment of the phenomenon of tax evasion in many studies and researches (as shown in the following table).

Tab. no. 1 Situation of documents from international databases debating the phenomenon of evasion, on the date of 20.09.2023

International databases	***Number of documents containing the expressions Tax avoidance, Fiscal evasion, Tax evasion***
Web of Science Core Collection	799 documents with the expression „tax avoidance" in the title
	2,637 documents that refer to tax avoidance in their content
	19 documents with the expression „fiscal evasion" in the title
	1,017 documents with the expression „tax evasion" n the title
	2,823 documents that refer to fiscal evasion/tax evasion in their content
Scopus	2,732 documents with the expression „tax avoidance" in the title
	18,456 documents that refer to tax avoidance in their content
	417 documents with the expression „fiscal evasion" in the title
	5,412 documents that refer to fiscal evasion in their content
	3,579 documents with the expression „tax evasion" in the title
	16,295 documents that refer to tax evasion in their content
Proquest Central	130,029 documents that refer to tax avoidance in their content
	140,127 documents that refer to fiscal evasion in their content
	523,535 documents that refer to tax evasion in their content

(Source: author processing, using the option Search in DB Web of Science, Scopus and Proguest)

The largest share of documents indexed in international databases analyzing tax avoidance are found at the level of articles, as shown in the following figure. Along with the high number of occurrences, the relevant scientific content of these articles is also given by the high number of citations in other specialist studies.

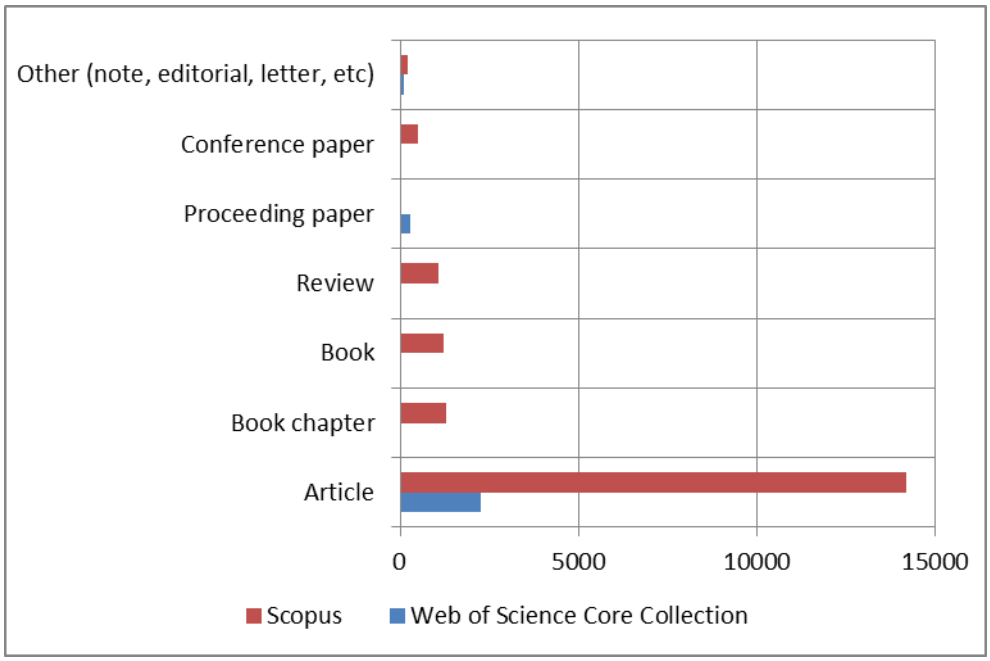

Fig. no. 1 Structure of documents from the Web of Science Core Collection and Scopus databases that analyze aspects of tax avoidance, as of 09/20/2023)

(Source: author processing, using the option Search in DB Web of Science and Scopus)

The number of citations of articles indexed in Web of Science and Scopus with analyzes on tax avoidance demonstrates the interest shown by other authors in identifying the determinants, causes and possible solutions for preventing and combating tax evasion. Thus, the most cited works refer to the following aspects:

- The relationship between corporate governance, managerial incentives and tax avoidance (Armstrong et. all, 2015) is taken into account by specialists in 1,260 articles,, considering how managers take the risk for tax evasion acts and deeds for personal benefits, without considering the level desired by shareholders.
- Surveys among managers to identify the impact of incentives on financial planning and implicitly on ways to avoid tax obligations (Graham et. all, 2014) are particularly useful for the purpose of identifying the determinants of tax evasion, reputation being considered an essential factor in tax planning.
- Treated in more than 1,200 articles, both from a managerial and accounting perspective, the relationship between social responsibility and tax evasion (Hoi et. all, 2013) stands out with a negative impact in the situation where excessively irresponsible activities are found.
- Business strategy and tax evasion (Zhang et. all, 2022) is inextricably linked to corporate governance, managerial type and style, as well as board size and actions.
- An analysis of the fiscal field taking into account the main fields of specialized literature (Hanlon and Heitzman, 2010), namely economics, finance, accounting, and law, will allow the identification much faster, on the one hand, of the factors that influence the occurrence of tax evasion and the practices that lead to tax avoidance, and on the other hand, to the possible solutions for prevention and combating it. In this sense, the work "A review of tax research" is cited 4,465 times in the specialized literature.
- The impact of the level and size of tax evasion on fiscal and budgetary indicators, on economic growth and development concerns specialists, practitioners and politicians alike. For this reason, substantial and relevant analyzes must be carried out periodically on the level of income, tax rates and tax revenues actually collected. Thus, the work "Top incomes in the long run of history" (Atkinson at. All, 2011) is cited in 3,538 articles, due to the importance that must be given to top incomes in the conception of public policies.
- Although it is difficult to measure elements such as tax shelter, managerial incentives and corporate governance, mathematical modeling allows the identification of dependency and interdependence relationships between these elements, as tax avoidance activities appear to be increasingly essential for corporate financial decision-making, thus being noted the work "Corporate tax avoidance and high-powered incentives" (Desai and Dharmapala, 2006), cited 3,079 times.

The most recent works (indexed in Google Scholar between 20.08.2023 – 20.09.2023) in which tax evasion is addressed, refer to aspects regarding the forms of manifestation and impact, the behavior of taxpayers, the level of tax education, dependency and interdependence relationships, possibilities for prevention and combat, summarized in the following table.

Tab. no. 2 Synthesis of the aspects subject to research regarding tax evasion, through specialized studies, in the period 20.08.2023 – 20.09.2023

Area of investigation	Aspects subject to research
The forms of manifestation of tax evasion	- tax evasion in the international trade with wood products - tax evasion through the use of computer technologies - digital assets and tax evasion - tax evasion through nanostores - taxpayers carrying out independent activities and acts of tax evasion - tax fraud in electronic transactions - tax evasion and artists' works - cryptocurrencies and tax evasion - accounting fraud - land taxation and tax evasion - fiscal aggressiveness - tax evasion through tax havens - individual investments and tax evasion
Taxpayer behavior and fiscal education	- perception of tax evasion by taxpayers - the perception of tax evasion among students - the level of tax education – the size of tax evasion - fiscal compliance and type of taxpayers - assessment of tax evasion by taxpayer category - fiscal compliance in the case of income tax and VAT - fiscal awareness and changing the anti-fraud mentality
Impact of tax evasion	- the influence of tax evasion on wage distribution - the effects of tax evasion - the impact of intellectual capital and the level of liabilities on tax evasion - the effect of income on the underground economy
Dependency and interdependence relationships	- governance - tax evasion - poverty - tax evasion - culture size - tax avoidance - company size and turnover - tax evasion - tax evasion - tax havens
Preventing and combating tax evasion	- ways to detect the main tax frauds - the determinants of tax evasion in the tax revenue collection procedure - analysis of the main methods of combating tax evasion - deficiencies in fiscal legislation - the rules, laws and regulations that facilitate illegal acts

	- the line between legal tax evasion and tax fraud - discrimination in legal provisions - possibilities to fight based on the relationship between tax potential and tax evasion - the power of the authorities and the ethics of taxpayers in preventing tax evasion - the role of tax institutions in combating tax evasion - procedures to combat tax evasion - the quality of the audit for evasive documents - sanctioning tax fraud - the use of IT technology to detect tax evasion - ethics and conduct of tax inspectors - comparative analyzes regarding the level of tax evasion at the international level - increasing trust in the government - the quality of public services and tax evasion - digitization and tax evasion - social norms - factors of tax evasion - corruption and tax evasion - control of transfer prices - profit shifting and tax evasion - fiscal equity and fiscal evasion - stability, sustainability and sustainable development - tax evasion during the Covid 19 pandemic

(Source: author processing based on articles selected through Google Scholar)

3. Directions and principles for strengthening the fight against tax evasion

Although the national authorities of the EU member states are responsible for collecting taxes and combating tax evasion, the cross-border dimension of tax fraud led the EU Council to adopt an action plan aimed at strengthening the fight against tax fraud and evasion (European Commission, 2012), the cooperation between the tax authorities of the member states and the European Commission being the key objective of this plan, and the 6 directions aimed at:

- the administrative cooperation framework,
- the fiscal loopholes of savings;
- tax cooperation and anti-fraud agreement;
- rapid reaction against VAT fraud;
- VAT reverse charge mechanism;
- a forum for VAT at EU level.

Since all the states of the world confronts the complex and innovative problems of financial crime (tax evasion, tax fraud, money laundering, corruption, other financial crimes), OECD supports 10 principles for combating tax crime, through which practical guidance and tools are offered to jurisdictions. These principles refer to (OECD, 2021):

- the existence of a legal framework for the practical application of the sanctions applied in the case of fiscal crimes;

- the existence of a strategy for dealing with tax crimes, regularly monitored and reviewed;
- competences suitable for the investigation of tax crimes;
- competences for sequestration and confiscation of assets during and after investigations into tax crimes;
- the existence of an organizational structure with clear responsibilities for combating fiscal crime;
- the appropriate allocation of resources for the investigation of tax crimes;
- designating a tax offense with reference to money laundering;
- the existence of a legal and administrative framework necessary for the collaboration at national level of all the authorities involved in detecting/resolving tax crimes;
- the existence of international cooperation mechanisms for investigating/resolving fiscal crimes;
- ensuring fundamental and procedural rights for all taxpayers suspected/accused of committing tax crimes.

4. Conclusions

No law can provide the ingenuity of taxpayers and the diversity of concrete situations in which they act, but the legislative bodies have the obligation to develop clear, concise legislation, which does not give rise to any arbitrariness, and to establish through a well-defined strategy the priority actions, which (directly or indirectly) will lead to the prevention/combat of the phenomenon of fiscal evasion.

Pertinent analyzes from specialist studies, based on induction-deduction, general-particular, national-international, theory-pragmatism and cause-effect found in national and international literature can offer a wide range of solutions for reducing tax evasion, increasing the degree of compliance voluntary for declaration and payment of tax obligations, improving the relationship between tax authorities and taxpayers, increasing the efficiency of tax revenue collection and modernizing tax institutions.

We believe that, by presenting the main research directions related to tax evasion found in the specialized literature (without claiming to be an exhaustive approach) and taking into account the continued survival of tax evasion, the size and complexity of the phenomenon, as well as the economic and social consequences that produces, new research and studies can be carried out by specialists and practitioners in the field.

BIBLIOGRAPHY

- Armstrong, C. S., Blouin, J. L., Jagolinzer, A. D., Larcker, D. F. (2015). *Corporate governance, incentives, and tax avoidance*. Journal of accounting and Economics, 60(1), 1-17.
- Atkinson, A. B., Piketty, T., & Saez, E. (2011). *Top incomes in the long run of history*. Journal of economic literature, 49(1), 3-71.
- Desai, M. A., & Dharmapala, D. (2006). *Corporate tax avoidance and high-powered incentives*. Journal of financial Economics, 79(1), 145-179.
- Duverger M. (1956), *Finances publiques*, Press Universitaires de Frances, Paris, p. 393
- European Commission (2023), *The fight against tax fraud and tax evasion*, available at: https://taxation-customs.ec.europa.eu/fight-against-tax-fraud-and-tax-evasion_en

- Graham, J. R., Hanlon, M., Shevlin, T., Shroff, N. (2014). *Incentives for tax planning and avoidance: Evidence from the field. the accounting review*, 89(3), 991-1023.
- Hanlon, M., Heitzman, S. (2010). *A review of tax research*. Journal of accounting and Economics, 50(2-3), 127-178.
- Hoi, C. K., Wu, Q., Zhang, H. (2013). *Is corporate social responsibility (CSR) associated with tax avoidance? Evidence from irresponsible CSR activities*. The accounting review, 88(6), 2025-2059.
- Robbez Masson, C. (1987). *La notion d'évasion fiscale en droit interne français* (Doctoral dissertation, Grenoble 2).
- Law no. 125 (2023). *Lege nr. 125 din 19 mai 2023 privind completarea Legii nr. 241/2005 pentru prevenirea și combaterea evaziunii fiscale (*Law no. 125 of May 19, 2023 regarding the completion of Law no. 241/2005 for preventing and combating tax evasion) available at: https://legislatie.just.ro/Public/DetaliiDocument/270539
- Wikipedia (2023). *Evaziune fiscal (Tax evasion)*, available at: https://ro.wikipedia.org/wiki/Evaziune_fiscala
- Zhang, X., Husnain, M., Yang, H., Ullah, S., Abbas, J., Zhang, R. (2022). *Corporate business strategy and tax avoidance culture: Moderating role of gender diversity in an emerging economy*. Frontiers in Psychology, 13, 827553.