TAX PRESSURE - GENERATING FACTOR OF FISCAL EVASION IN ROMANIA

Dumitru Mihai NEDELESCU[1]
Elena Lucia CROITORU[2]

Abstract: *The Fiscal Pressure implies certain limits of taxability on the part of the contributors. These limits are imposed by the contributor's reactions who can resist to the increase of compulsory duties, reacting by reduction of productive activity, fraud and in the end by evasion. Up to a certain point, if the honest contributor voluntarily makes the tax payment, on a different point, when the taxes exceed certain limits of the sustainability, there are phenomena that bring serious disservice to the state's will of collecting these revenues. The main purpose of this paper is to analyze de influence of the tax pressure on the fiscal evasion and to show that the existence of a high fiscal pressure creates an optimal environment for fiscal evasion.*

Keywords: *tax pressure, fiscal evasion, fraud, shadow economy, taxpayer*

1. The Fiscal Pressure concept

Up to a certain point, if the honest contributor voluntarily makes the tax payment, on a different point, when the taxes exceed certain limits of the sustainability, there are phenomena that bring serious disservice to the state's will of collecting these revenues. So the Fiscal Pressure implies certain limits of taxability on the part of the contributors. These limits are imposed by the contributor's reactions who can resist to the increase of compulsory duties, reacting by evasion, fraud or reduction of productive activity.

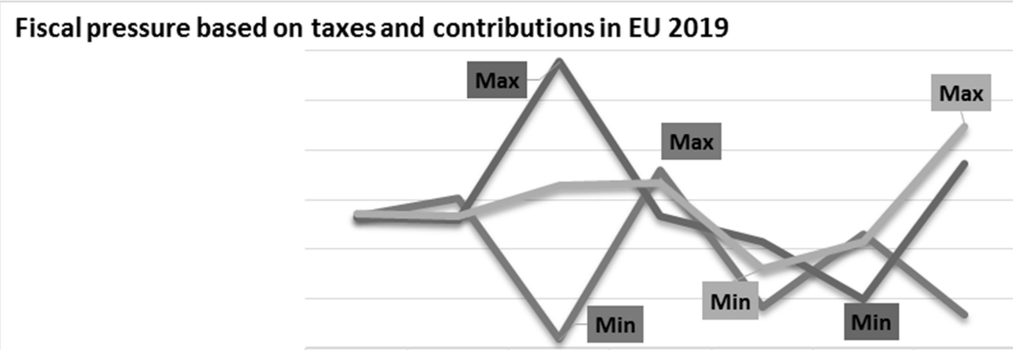
The Fiscal Pressure concept is used usually in the designate literature the extent of GDP redistribution through the payment and/or collection of taxes. Thus, fiscal pressure can be defined as the *relative expression of the tax burden borne by the* contributor or *how pressing the taxes are or, in other words, how big the tax burden is on the* contributor's *shoulders.*

In the US, the fiscal pressure is determined by considering the individual income taxes, the taxes on sailed goods and its excise duties, the social securities, the profit taxes, the VAT. Calculating the fiscal pressure at the federal states level, the taxes and fees paid to it are taken into account the property, the inheritance, certain on the sale of goods, *vices taxes.*

[1] Author Nedelescu Dumitru Mihai is Lecturer at the Romanian American-University, Bucharest, e-mail: nedelescu.dumitru.mihai@profesor.rau.ro
[2] Author Croitoru Elena Lucia is Assistant Professor at the Romanian American-University, Bucharest, e-mail: lucia.croitoru@profesor.rau.ro

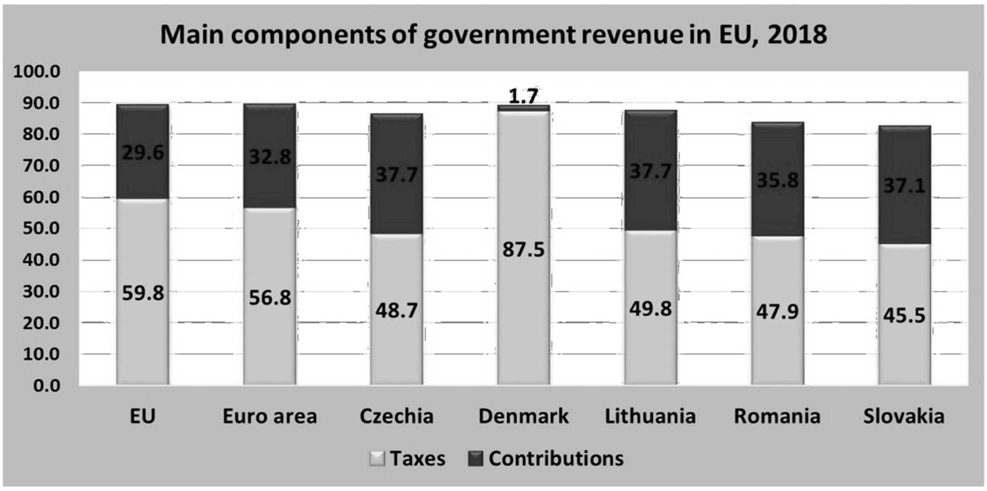
In EU, the fiscal coefficient or fiscal pressure is used in the fiscal practice by considering the tax receipts from: production taxes, income taxes and contributions. Thus, în a study conducted in 2018 at the level of EU Member States on fiscal pressure, the following aspects can be found:

- Regarding fiscal pressure based on contributions, France hit the maximum value – 18%, while the minimum value was registered in Denmark – 0,9%.
- Regarding fiscal pressure based on income taxes, Denmark reached the maximum value with 28,9% and Romania the minimum one – 4,9%.
- Regarding fiscal pressure based on taxes on production, the maximum value was registered by Sweden (22,4%) and the minimum value was registered in Ireland (8%)



	EU	Euro area	Denmark	France	Ireland	Romania	Sweden
Contributions	13.30	15.20	0.90	18.00	4.20	11.50	3.40
Taxes on income	13.20	13.00	28.90	13.30	10.70	4.90	18.60
Taxes on production	13.60	13.30	16.40	16.70	8.00	10.70	22.40

Source: data processed based on Newsrelease 166/2019, https://ec.europa.eu/eurostat/documents



Source: data processed based on, ec.europa.eu/eurostat/documents

As a result, the fiscal pressure expresses and measures the weight of taxes paid/collected in relation to the GDP.

$$\textbf{Fiscal Pressure} = \frac{\textbf{Fiscal Revenues}}{\textbf{GDP}}$$

The scale and dynamics of fiscal pressure is measured and estimated by the tax rate. The size of this rate shows the share of the national income taken by the state, the size established by tax laws or regulations.

Thus, in practice, three types of tax pressure rates are used:

- *The low tax rate* implies a low pressure on the contributors, so relatively low revenues to the state budget. For some authors of neoliberal orientation, such a tax rate can stimulate the effort to obtain a stability of the available national income, for an acceleration of the economic growth and, therefore, for an increase of the fiscal receipts to the budget.
- *The high tax rate*, especially a marginal rate of increasing taxation, could generate tax evasion and fraud, decrease in GDP, hence decrease of collected taxes to state budget.
- *The optimum tax rate or fiscal pressure* consists of an edge taxation up to and past it where the tax receipts are lower. A rate that exceeds the optimum level has a discouraging effect over both the investors and the employees.

The fiscal pressure is influenced by many factors, of which we mention:

- *External factors such as:* GDP level; the national economy's degree of development; the use of resources prioritisation set by public authorities (social protection / economic development); the efficient use of the public expenses financed by collected taxes from contributors; the contributor's degree of adherence to the government's policy; the contributor's degree of consent to tax payment; the size of the public debt.
- *Internal factors such as:* progressive scale of tax quotas; the way to establish the taxable matter; the products submitted as subject to consumption taxes.

2. The possible effects of high fiscal pressure:

- risk of inflation through taxation - meaning that any increase in tax rates can influence the increase in prices;
- tax evasion and tax fraud;
- diminishing productive efforts (for instance fiscal optimization over fiscal abstinence);
- political resistance - claims, taking positions in favour of some taxes or against others;
- international evasion in the sense of relocation some activities to those countries where the tax legislation is more favourable with the consequences for the country of residence;
- deterioration of international competitiveness. For the developed countries, with significant exchanges, with companies capable of facing competition - it is an important factor of economic growth and employment.

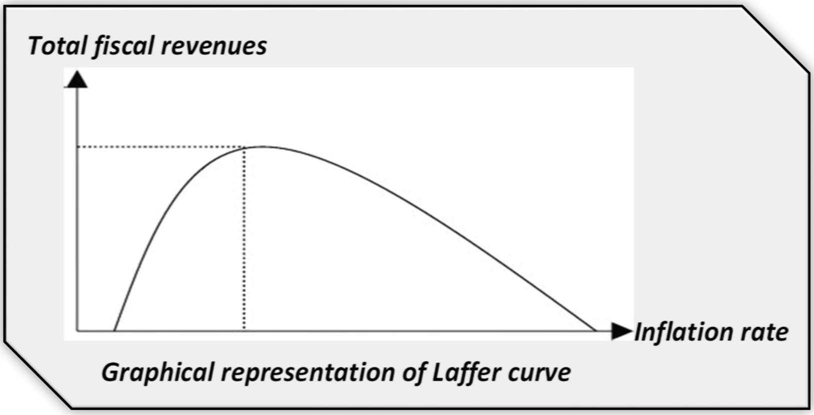
Many specialists envision as the main cause to increasing fiscal pressure the continuous increase of the public expenses, whose evolution is subject to certain economic, social, and political "legalities".

Any significant increase of the tax degree and of the obligatory duties can bring the risk of the competitiveness, meaning a price increase along with decrease of self-financing capacity of investments and/or modernization.

Opinions may differ from one author to another. Thus, J.B. Say proposed the minimum tax, while D. Ricardo believes that any tax deduction reduces by itself the accumulation power of capital.

Proponents of Keynesian theory believe that an imposed limit on tax deductions would be related to certain confusions, or technical purposes, because the contributors benefits from paying taxes to growing financial public resources would not be taken into consideration.

The fiscal pressure's optimal level was a particular concern to the economist Laffer, who represented the graph (Laffer curve), in 1974, starting from an idea of A. Smith (1776) - the tax rates, if they are too high could destroy the basis on which taxation acts.



Graphical representation of Laffer curve

Laffer estimates that there is a verge of fiscal pressure, which can lead to a reduction in the tax return if exceeded also discouraging the contributors to invest, produce, save.

According to the Laffer curve, the sum of the mandatory duties is a tax pressure rate increasing function only up to a maximum verge that corresponds to the maximum level of the curve, after which decreases until is cancelled if the rate reaches the theoretical level of 100%. Also, this verge differs not only from one fiscal system to another, but also from one tax to another and according to contributors and its capacity to withstand the fiscal pressure.

3. Fiscal pressure indicators

In practice, tax duties are identified mainly by taxes and fees, which represent the oldest and traditional means of financing that the state has available for carrying out its functions and tasks, while being in a permanent evolution. In addition, the public authority also calls for the establishment of special contributions, called contributions, in order to ensure adequate social protection for people in difficulty.

Theoreticians who consider social contributions as tax deductions are based on the inclusion in the structure of state budget of public budgets nourished through the mandatory collection of these contributions. Although social contributions pressure the subjects, they support them, as they are required by law. The distinction between the components of fiscal pressure is important from the following points of view:

- The contributors have a different perception of tax and contributions. If the tax is perceived as an irrecoverable loss, the contributions are perceived as a guarantee or assurance, not being of the direct insurance nature in the future is perceived as a manifestation of social solidarity.
- The administrative capacity of the state is different for the two categories of duties.

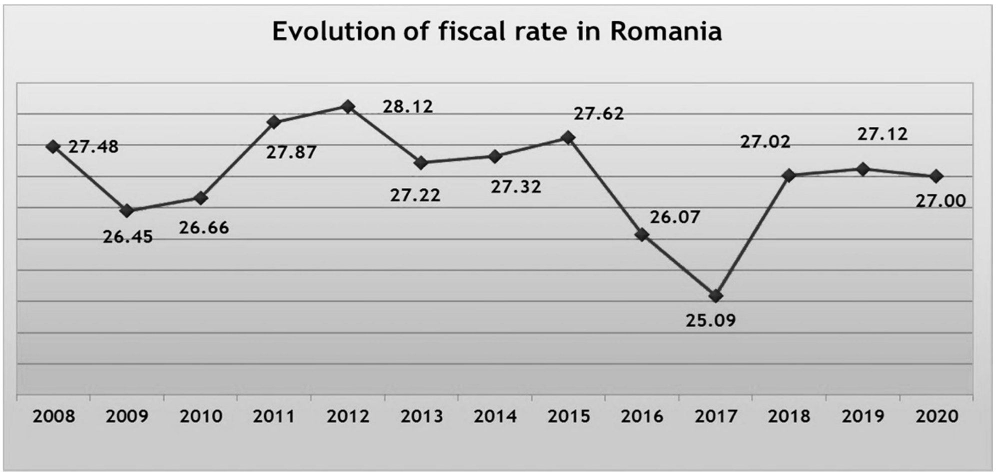
The taxation level or the taxation degree, represents the indicator that expresses, in fact, the *fiscal pressure (FP)* and its level.

$$\mathbf{FP} = \frac{\mathbf{taxes + fees + fiscal\ contributions}}{\mathbf{GDP}}$$

Besides the fiscal pressure given by the degree of taxation calculated from a technical point of view, one can also discuss a psychological fiscal pressure considered by the taxability verge of each contributor and his tolerance to taxes. It can be calculated according to the *individual tax pressure (IFP)* formula:

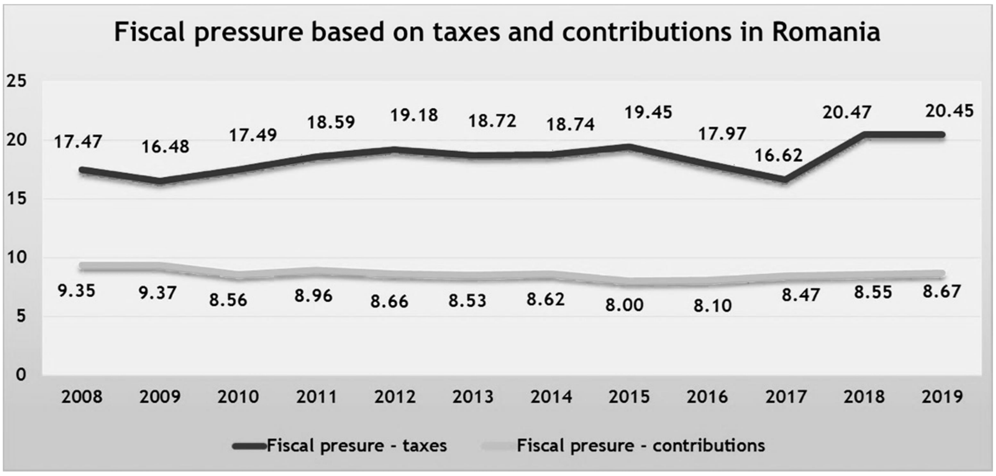
$$\mathbf{IFP} = \frac{\mathbf{Tax\ obligations\ borne\ by\ the\ taxpayer}}{\mathbf{Tax\ revenues\ obtained\ before\ taxation}}$$

This means that the fiscal pressure is given by the tax degree, respectively the degree in which the contributors bear on account of the results obtained from their activity, the taxes and fiscal duties as obligations that must be collected by the state. It should be kept in mind that in case of exceeding the portability verge, the taxes become counter-productive, meaning that they can no longer be paid by its contributors and thus the tax evasion is encouraged.



Source: data processed based on ANAF reports 2008-2019, www.anaf.ro

Thus, the evolution of fiscal pressure in Romania in 2008-2019, calculated by reporting the total of fiscal revenues colected by ANAF and GDP is constant (with a value of 27%), recording a minim in 2017 (25,09%) and a maximum in 2012 (28,12%).



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Also, if we analyze the evolution of the fiscal pressure on the main categories of fiscal obligations in the period 2008-2019 (taxes and contributions) we can see that the evolution of the fiscal pressure related to both taxes and social contributions is relatively constant throughout the study period. At the same time, the graph shows that the fiscal pressure exerted by taxes is approximately twice higher than the contributions for the entire analyzed period. In the case of the fiscal pressure generated by taxes in the period 2008-2019, the average of the indicator is approximately 18.5% with a minimum of 16.48% registered in 2009 and a maximum of 20.47% registered in 2018. While, in the case of the fiscal pressure generated by contributions in the same period, the average of the indicator is approximately 8.6% with a minimum of 8% registered in 2015 and a maximum of 9.37% registered in 2009.

4. The tax evasion concept

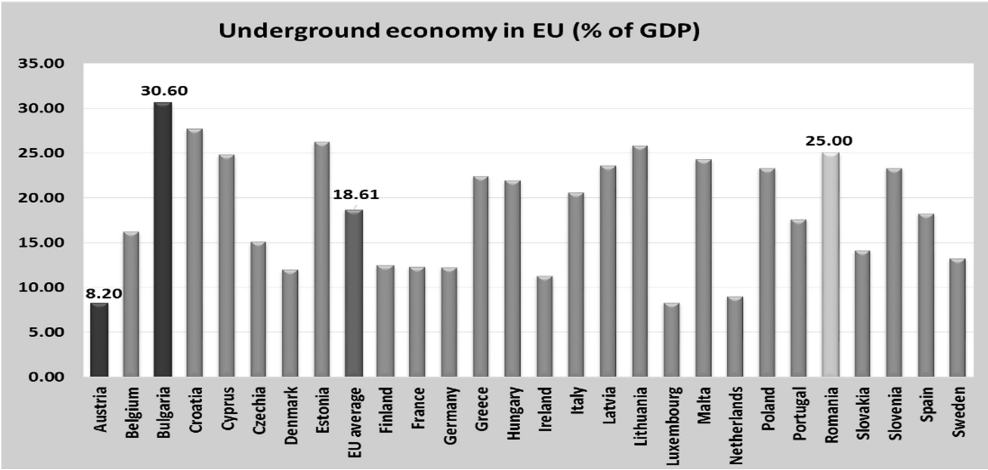
The tax law imposes so many fiscal obligations that the pressure resulted as a direct effect became the motivation into creative smart activities in order to avoid it. These activities happened of course, with sustain backup coming from law and fiscal experts.

Tax evasion has been always an witty active job due to the impact that fiscal dues wields upon the contributors wealth, tangible to the most sensible point, money.

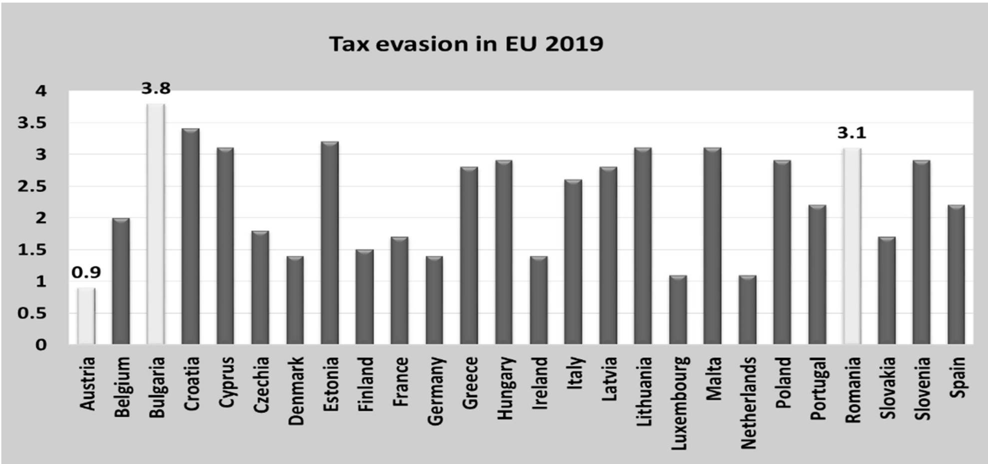
Tax evasion is one major interest chapters of most studied ones in Public Finances and Fiscal and Financial Law courses, both by theorists or practitioners as well as by ordinary people, who show interest in such fields. However, despite everything that has been and will be written of its causes, forms, modalities, extent, control and sanctions to combat tax evasion, the word itself that describes this phenomenon is quite inaccurate and so it is the corresponding field. Thus, tax evasion is a notion difficult to postulate since there is no self-defining/proper definition, *being associated with three meanings and a double appreciation in terms of legality*:

- 1st meaning attributed to tax evasion, especially in the period between the two world wars, was: *it is included in the tax fraud taking an extensive form*.
- 2nd the most common meaning is *tax evasion is assimilated to fraud*.
- 3rd meaning is a broader definition of tax evasion, which also includes tax fraud.

Tax evasion is a logical result of flaws and inconsistencies flowing from the imperfect and badly assimilated legislation and its application methods, wicked methods, as well as of the unpredictability and failure of the legislator, whose excessive taxation is as guilty, as those who cause this evasion.



Source: Source: data taken from the study conducted by Professor Schneider, University of Linz, Austria, September 2019, www.econ.jku.at



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The migration process of capital and labour towards the states with lower taxation determines the need to approach new mechanisms of control at EU level.

In order to prevent tax evasion and fraud, with serious consequences on EU financial resources, EU decision-makers have adopted a series of measures aimed at counteracting the negative effects that fiscal optimization solutions have on EU financial resources.

In parallel with fiscal harmonization and the coordinated efforts, the EU stepped up its fight against tax evasion and fraud, which poses a threat to fair competition and is the cause of a major budget deficit. Also, combating tax fraud and aggressive tax planning is a major challenge for the EU. Improving tax cooperation and

coordination along with increasing transparency in the relations between Member States in the field of fiscal policy allows them to avoid significant revenue losses and at the same time contributes to ensuring a high level of equity at EU level.
In order to complementing the made progress, the EU through the Commission has proposed several new initiatives in this area. These initiatives include a proposal to revise the Directive on administrative cooperation and amendments to the Fourth Money Laundering Directive. In addition, the EU aims to relaunch the proposal on a common corporate tax base and to draw up a comprehensive list of tax havens.
Also, in recent years, the EP has played an important role in developing new fiscal policies and launching new initiatives in combating tax avoidance, tax evasion, aggressive tax planning and money laundering.

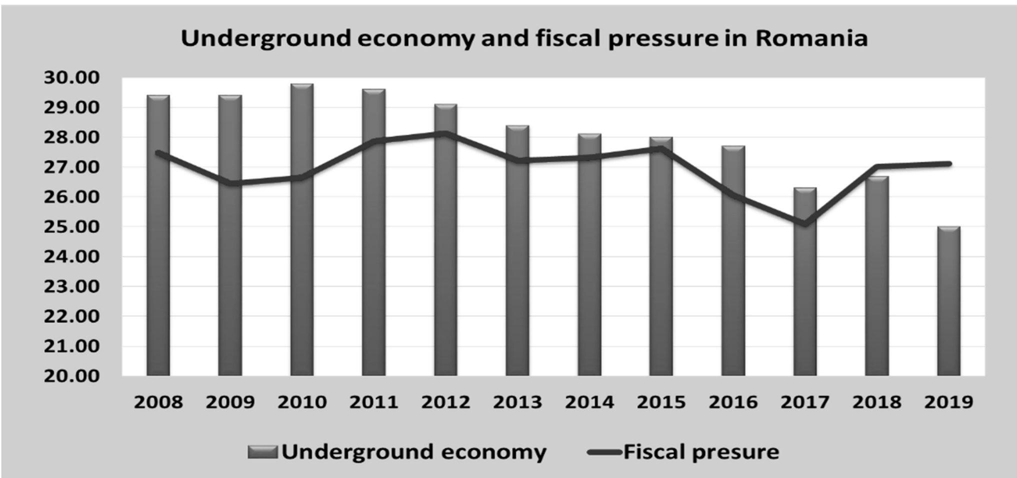
5. Tax evasion causes

Tax evasion is one of the most complex economic and social phenomena of the utmost importance that today's states deal with and whose undesirable consequences seek to limit them as much as possible, totally eradication of it being impossible.

The effects of tax evasion directly affect tax revenues at all levels of, leading to market mechanism distortion and might contribute to social inequalities (with their increase) due to "access" and "inclination" to tax evasion of the contributors.

The dimensions of tax evasion differ from country to country, depending on their tax laws and realities also the effectiveness of its fiscal system, measured not so much by the level of tax revenues attracted to the budget, but by consented tax degree.

The state’s level of tax evasion is inversely proportional to the tax rate of contributors in that state.



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In order to properly comprehend and dimension the tax fraud phenomenon, to elaborate and apply effective measures against it, we must first understand its causes.
The tax evasion has many causes of which we mention the most important ones as it follows:

- excessive taxation (fiscal pressure), especially for some contributors this excess is partly explained as rightful, precisely the extent of tax evasion;
- the fiscal legislative system, which in addition to being incomplete, presents large gaps, inaccuracies and ambiguities that creates a vast maneuverer space for the tax contributor to evade the payment of fiscal obligations;
- contributor’s psychology along with insufficient fiscal and civic education;
- the way of organizing, functioning and the endowment of the fiscal structures and those of the financial-fiscal controlling;
- lack of clear, precise, and unitary regulations to combat this phenomenon.

The avoidance possibilities differ from one social category to another, depending on the nature and origin of the income or assets that are subject to taxation, the way in which the taxable matter is established and the fiscal control is organized, as well as other specific factors. The employees are the ones of all the social categories who have the least possibilities of circumvention, because their imposition is made based on the declaration of the employer. In contrast, industrialists, traders, freelancers have full opportunities for tax avoidance, since taxation is based on a declaration.

6. Conclusions

When the fiscal dues burden too hard on a taxable matter has a tendency to escape from it, so they "get on the run" with taxable matter.

The fiscal fines will not cause the taxpayer to declare his exact income gained, but to take a series of careful measures and precautions in order to evade the obligations towards the state. There is a phenomenon called *the taxpayer psychology* to not pay only what one can’t afford. The tax evasion spirit arises from a playful preoccupation on the subject and is a form of human selfishness. This mentality and conduct also occurs even to the most honest ones and consist in the withdrawal of his duties towards the tax, without any hesitation.

Our human nature tends to place the particular preoccupation before the general wellbeing considering taxes more of a burden instead of a legitimate contribution to the public expenses as there are needed for the good functioning of our society. Since ancient times, taxpayers have sought to reduce their tax obligations, using the most diverse and creative methods. To deceive fiscal structures is a test of ability instead of dishonesty; to pay the said taxes seems to be more of a naivety proof instead of integrity. This represents the *human nature’s spirit* to evade from the tax obligations, lively and strong demonstrated through the various classes of contributors.

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