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Fluctuations and Factors that Generated the Evolution of Tax Evasion in the Period 2018-2022

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The evolution of tax evasion in Romania from 2018 to 2022 is highlighted by significant changes in the number of inspections, imposed fines, business suspensions, and criminal reports. The COVID-19 pandemic had a substantial impact, leading to declines in various sectors, and measures to combat tax evasion are being discussed from multiple perspectives. We advocate for fiscal education, legislative simplification, and efficient control as essential elements to counter tax evasion. Additionally, addressing the complexity of the tax system and developing strategies to encourage voluntary compliance are considered crucial.

Keywords: Tax evasion, tax, taxation, budget, income
JEL Code: H26, G00, H61, E62

1. Introduction

Tax evasion was born immediately after the emergence of fiscal systems and, unquestionably, is a timeless phenomenon with global dimensions. It is detrimental both to citizens and the state, as, on the one hand, the state is deprived of a portion of the obligatory revenues it should receive to fulfill its assumed duties, and, on the other hand, numerous taxes are distributed over a large mass of smaller incomes. Anywhere in the world, from the moment taxes, fees, levies, or any other dues were established, there have been individuals attempting to evade payment through a multitude of methods, some obvious and easily anticipated and combated, while others are extremely elaborate.

Throughout history, numerous obligations imposed by constitutional tax laws on respective taxpayers have stimulated their inventiveness and ingenuity in the nefarious effort to evade many laws. From this perspective, tax evasion is considered a phenomenon of great magnitude that, although has been carefully analyzed and studied by theorists and practitioners, is still imprecisely defined, dominated by rarely encountered confusion, and highly contradictory opinions. In the fight against tax evasion, imposing sanctions is necessary, but these should only represent a final alternative and be applied only when guidance, tax education, and correction of fiscal behavior services fail to achieve their intended purposes.

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2. Literature review

Richard Murphy defines tax evasion as the act of individuals or legal entities, either entirely or partially, avoiding fulfilling their tax obligations, including the payment of taxes and other amounts owed to the local budget, state budgets, as well as budgets associated with social insurance and extrabudgetary funds. To prevent and combat this phenomenon, the implementation of a robust legal framework is imperative, encompassing efficient measures and corresponding sanctions for tax-related offenses.

Tax evasion involves the avoidance of paying taxes, income, and acquired goods falling under the scope of fiscal taxation. In a broader perspective, it represents a central element of the harmful underground economy, which, in interaction with other specific aspects of economic and financial crime, can distort the breadth of the regulatory framework of the economy, as mentioned by Ognedal, Tone, and Barth. In documents elaborated by the Ministry of Finance, tax evasion is defined as the partial or total withdrawal by taxpayers, both legal entities and individuals, through various forms, from fulfilling obligations to the budget. For instance, French authors use the term "tax fraud," describing it as an illicit manipulation of the tax system to avoid contributing directly to public funds. The established term "tax avoidance" is used to highlight various legal methods of manipulating the tax system with the aim of reducing the taxable base.

In many cases, tax fraud is considered a criminal offense, sometimes distinguished from tax evasion, which involves skillful use of legal gaps. "Legal" tax avoidance is defined by Brown, Charles Victor, Jackson, and Peter McLeod as a lawful reorganization of an activity to minimize tax obligations, while tax fraud consists of an elaborate illegal rearrangement of a business for the same purpose.

3. Research methodology

The primary financial characteristic effect of tax evasion is the reduction of a state's revenues, which can lead to severe dysfunctions in how it fulfills its functions. Consequently, faced with an acute lack of financial resources to fulfill its tasks, the respective state has no other solution than to implement efficient and immediate measures. The most readily available measure is to increase tax rates and existing taxes or introduce new taxes. This measure leads to an increase in the tax burden and, implicitly, a significant rise in tax resistance, with the phenomenon of tax evasion becoming even more acute. A vicious circle can be created, which can only be broken by significantly reducing tax evasion, thus reducing the volume of income diverted from the budget. Once this effect is achieved, the state will have more funds and can meet society's needs and may even choose to reduce tax rates.

The effectiveness of combating tax evasion depends primarily on the determination of authorities, including tax authorities, the police, and the prosecutor's office, but the active involvement of the political class is also essential. The latter must support efforts to combat this phenomenon instead of hindering them, as unfortunately happened in some situations.

It is crucial for authorities to have adequate resources and the necessary support to investigate and prosecute cases of tax evasion. At the same time, the political class must promote and support policies and legislative reforms that strengthen the legal framework against tax evasion and create a favorable environment for transparent and efficient tax administration.

4. Findings and Discussion

According to the information contained in the fiscal statistical bulletins published by the National Agency for Fiscal Administration on its official website, regarding anti-tax evasion activity, the following quarterly data for the years 2020, 2021, and 2022 have been obtained. Thus, raw, unsystematized data has been transformed into information that communicates something relevant about the phenomenon of tax evasion in Romania. Methods, procedures, and formulas have been employed to collect raw data, analyze it, and draw relevant conclusions.

The main objective of the analysis by the National Agency for Fiscal Administration (A.N.A.F.) of information related to tax evasion is to enhance the understanding of the phenomenon from the available information.

Table 1.1 - Anti-tax evasion activity 2020-2022

	Q1 2020 compared to Q1 2019 (%)	Q II 2020 compared to Q II 2019 (%)	Q III 2020 compared to Q III 2019 (%)	Q IV 2020 compared to Q IV 2019 (%)	Q I 2022 compared to Q I 2021 (%)	Q II 2022 compared to Q II 2021 (%)	Q III 2022 compared to Q III 2021 (%)	Q IV 2022 compared to Q IV 2021 (%)
Number of inspections conducted	45,47	12,43	52,06	52,34	150,56	158,87	117,17	129,52
Number of fines imposed	27,38	7,65	42,29	29,44	137,82	134,36	125,11	183,51
Value of fines imposed (million RON)	28,57	21,97	48,77	34,52	66,25	121,24	124,19	175
Estimated value of confiscated assets and amounts (million RON)	14,46	102,93	177,5	31,16	836,84	54,84	491,67	180,77
Number of business activity suspensions	40,54	21,95	42,13	61,19	48,53	120,41	107,02	59,71
Number of criminal complaints filed	86,21	92,45	64,29	70,59	53,13	60,24	74,63	78,18
Established damage value related to criminal complaints (million RON)	49,54	119,57	67,08	159,43	104,8	141,54	87,57	24,04
Value of precautionary measures (million RON)	252,57	131,25	86,72	54,04	21,39	76,67	48,11	88,39

Source: Own processing based on data published in the fiscal statistical bulletins on the ANAF website.

In the period 2020-2022, we analyzed a series of indicators that form the basis of activities related to tax fraud prevention. The first indicator analyzed is the number of inspections conducted, where a significant decrease in the number of inspections performed is observed from quarter to quarter in 2020. A notable peak occurred in the second quarter of 2022, with an increase of 50.56% compared to the first quarter of the previous year. Additionally, we note that the second quarter of 2020 experienced a sharp decline of -87.56%. The number of fines imposed shows a declining trend from the beginning of the analyzed period, but starting in 2022, the situation changes. In the fourth quarter of 2022, it reached a maximum level, increasing by 83.51% compared to the same period of the previous year.

As observed in Table 1.1, the total value of fines imposed shows a significant decrease until the first quarter of 2022. The lowest value was recorded in the second quarter of 2020, decreasing by -78.03%, due to the Covid-19 pandemic. The maximum value was recorded in the fourth quarter of 2022, with a 75% increase over the previous year. The estimated value of asset and cash confiscations highlights an exponential increase in the first and third quarters of 2022, reaching 836.84% in the first quarter. The number of business suspensions has significant fluctuations, with a notable increase in the second quarter of 2022, reaching a value of 120.41%. The lowest value was recorded in the same quarter, only for the year 2020 compared to 2019, with a decrease of -78.03%.

The number of criminal reports remains on an approximately constant line, with minor fluctuations ranging from 53-93% throughout the analyzed period, both for the year 2020 compared to 2019 and for 2022/2021. The fewest criminal reports were recorded in the third quarter of 2020, only 36 in number. The table presented shows a fluctuation in the value of the damages established following criminal reports until reaching a peak in the second quarter of 2022 compared to 2021, with an increase of 141.54%. The value of precautionary measures has a notable variation, peaking in the first quarter of 2020, with 252.57% over the year 2019. This value has not been reached throughout the analyzed period.

Overall, the data indicates an intensification of efforts in combating tax evasion, with significant increases in various aspects, especially in the year 2022, but also major decreases in 2020, highlighting a more aggressive and efficient approach in law enforcement and investigative processes.

Additionally, from the fiscal statistical bulletins published by the National Agency for Fiscal Administration, we were able to aggregate data regarding the number of inspections carried out by fiscal anti-fraud structures, the number of sanctions applied by them through the imposition of fines or by suspending the activities of economic agents, as well as the number of notifications made by criminal investigation authorities. Thus, we obtain the following annual data for the period 2018-2022.

Table 1.2 - Statistical Values – 2018 - 2022

	2018	2019	2020	2021	2022
Number of inspections conducted	53019	46205	16799	26200	35669
Number of fines imposed	31218	23198	6645	12434	18176
Number of business activity suspensions	615	479	188	622	462
Number of criminal complaints filed	328	235	183	301	194

Source: Own processing based on data published in the fiscal statistical bulletins on the ANAF website

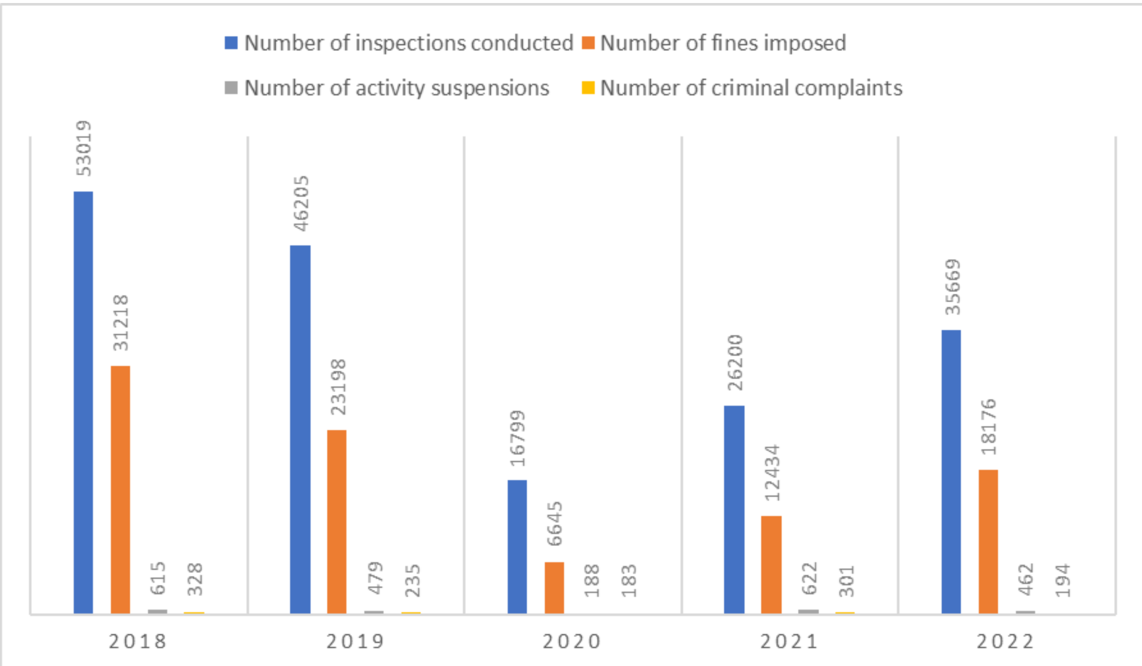

Chart 1.1 - Statistical values 2018-2022

Source: Compiled by the author based on the data presented in Table 1.2.

In 2018, a significant number of inspections were conducted, indicating increased attention to tax compliance. This was followed by a significant decrease in 2019 by 6,814, suggesting possible changes in law enforcement strategies. However, in 2020 and 2021, the number of inspections decreased significantly compared to 2018, indicating possible restrictions or changes in priorities due to the Covid-19 pandemic. Nevertheless, in 2022, there is a significant increase in the number of inspections by 9,469 compared to the previous year, indicating a possible heightened interest in verifying tax compliance. The number of fines imposed experienced a decrease in 2019 by 8,040 compared to 2018, but then increased significantly in 2020 and 2021, suggesting intensified sanctioning efforts. The year 2022 shows a continuous increase with a value of 5,742 in the number of fines compared to 2021, reflecting a possible consolidation of measures against tax non-compliance. The number of business suspensions initially decreased by 136 in 2019 but had a significant increase in 2020 and 2021, indicating a possible stricter approach to serious violations of tax compliance. However, in 2022, the number of suspensions decreased again by approximately 160 compared to the previous year. The number of criminal reports had a significant increase in 2018 and 2019, suggesting increased attention to the criminal aspects of tax non-compliance. In 2020, there is a slight decrease with 52 reports compared to 2019, and in 2022, the number of criminal reports continued to decrease by 64.45% compared to 2021. The data suggests that in recent years, there has been a pronounced focus on sanctioning and tax compliance, with certain annual variations, possibly influenced by legislative changes or tax authorities' priorities. Immediately with the outbreak of the Covid-19 pandemic, we observe a sharp decline, extending from the fourth quarter of 2019 to the beginning of 2021, where there is an apotheotic increase, a sign that the pandemic has begun to recede from Romanian society and, why not, from the global society we live in. The pandemic has left many unresolved criminal reports and business suspensions, as shown by the graph, which are still unfolding towards achieving stability, as is normal for a European state. From the statistical data, as well as its graphical representation, it is easily observed that in 2020, a year marked by the SARS-CoV-2 coronavirus pandemic, all indicators were at the lowest level in recent years, and in 2021-2022, they experienced a slight recovery but not at the levels reached in 2018.

Romania is among the countries threatened by tax evasion. To understand the gravity of the situation, we must be aware that tax evasion has its roots not only in the upper class and among large companies that unabashedly choose tax fraud as the main method to sometimes obtain income. To better understand the above information, we must ask ourselves: *How many times have we received a fiscal receipt when buying a product from a public market?* Illegal tax evasion has become commonplace in this country, and most of us may already consider it a habit.

5. Conclusions and recommendations

Tax evasion has long been a pervasive phenomenon in the social and economic landscape. Its alarming magnitude, coupled with a lack of effective countermeasures, suggests that Romania is already significantly affected. A well-balanced state budget is crucial for macroeconomic stability and the fulfillment of conditions for sustainable economic development. Addressing tax evasion requires more than just imposing sanctions; it necessitates the implementation of a highly efficient, robust, and stable fiscal control system. Equally important, if not paramount, is the need for fiscal and financial education for citizens. Tax laws should be simplified, clear, stable, and precise to differentiate cases where legal regulations are violated due to negligence or factors beyond the taxpayer's control.

Tax evasion has always been condemned, yet perspectives on this phenomenon have not significantly changed over time. It persists in all countries and periods, regardless of the sanctions imposed for such actions. The evasion phenomenon is inherent to a market economy, with taxpayers ingeniously devising methods to circumvent fiscal obligations. Given the scale and dynamics of tax evasion, a reconsideration and redesign of the public revenue administration system are imperative. In terms of financial and fiscal control, identifying tools and indicators to ensure legal economic functioning is necessary, focusing on taxpayers presenting higher risks.

Efficient fiscal administration requires an organized and effective fiscal record system for the rapid identification of high-risk taxpayers. The fight against tax evasion should be conducted in the context of reasonable and minimally burdensome taxation, fostering normal and efficient operation. While tax evasion is perceived as solely the result of taxpayer actions, the state actively contributes to this process through its measures or lack thereof. Excessive taxation of commercial enterprises has hindered the formation of small and medium-sized enterprises, leading to rapid enrichment of large enterprises.

The continuous goal of the state to increase budget revenues through measures that escalate the tax burden is a contributing factor to tax evasion. Legislative ambiguity, driven by political interests, induces uncertainty among fiscal officials, making it challenging to clarify issues raised by taxpayers. Undeclared work has become one of the most significant sources of illicit income in recent years, contributing to tax evasion by not reporting the total number of hours worked in a month. The instability in labor legislation, marked by frequent changes, fuels this phenomenon. Additionally, high taxation on salaries and individual incomes prompts businesses to consider tax evasion. Professionally, the level of training and involvement of financial and fiscal control authorities in detecting and handling complex tax evasion cases has increased. However, there are economic agents deliberately ignoring these aspects and attempting to evade taxes for quick enrichment. Besides the desire for wealth, those engaged in tax evasion are driven by psychological factors and the mentality that taxation unjustly harms them.

A significant source of tax evasion is the complexity of the tax system. The intricacies of tax settlement techniques, tax reduction and deduction mechanisms, and fiscal incentives for certain investors both permit and incite taxpayers to engage in tax evasion.

Streamlining the tax legislation application uniformly will eliminate the intention to defraud the state budget through illegal methods. To counteract tax evasion, encouraging voluntary compliance with tax obligations, both declarative and financial, can be effective. Strategies should be developed to convince taxpayers of the necessity of proper tax collection and demonstrate that their money will be utilized for their benefit.

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