



TAX FRAUD- SPECIFIC FORMS OF MANIFESTATION IN THE UNDERGROUND ECONOMY

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Abstract: *The paper addresses several issues related to the tax evasion as part of the underground economy: Terminology, i.e. tax fraud, evasion, showing concrete forms of the tax evasion, and violent unsuitable forms of the tax evasion, the tax fraud on the national and international level, and ways to fight them with success.*

Key words: *evasion, tax, legal, illegal, operations*

1. INTRODUCTION

The scope of activities that may include the economy, is comprehensive, is justified by the fluidity, flexibility and dynamics in relation to economic reality.

The following are accepted and considered parts of the underground economy: tax evasion, black labour and criminal activities.

It can be stated from the start that certain demarcations between the three above listed elements are purely theoretical; in reality activities with continuity and progress of the order are subject to a single goal to maximize revenue. The present paper addressed several aspects of tax fraud, as a specific manifestation of the economy.

2. TAX FRAUD - TERMINOLOGY, DEFINITION, FORMS OF MANIFESTATION

The term for tax fraud as currently used to define illegal operations, generating damage to the state budget, is not defined in the English law. Tax fraud can be defined as all practices designed to circumvent all or part of the tax due the state. It should be noted that while, for defining the scope of coverage of tax fraud and to analyze its content it is appropriate that a contact exists between the economic theory and the law which defines, regulates and penalizes illegal acts that are committed in this space (Ciutacu, 2001).

Depending on the event and intensity, fraud may take violent forms, such as tax evasion, smuggling, cheating but also forms that cannot be observed or speculative, interpretations of particular provisions in order to avoid taxation.

In practice employment fraud and the speculation, harsh forms of manifestation, are determined by the laws of states and time pursuing a certain activity (Dinu, 2003). Depending on the economic policy adopted at a time, import operations may be carriers of high taxes or, where appropriate, the charges may be justified by conventional cost of customs services. Without detailed reasons for the choice of a customs policy, it appears clear that *circumvent* customs requirements will produce different effects in both cases; the same act can be considered a serious offence or a statistical error.

Thus, there are many situations in practice where low-income tax payers are rigorously taxed, while owners of multiple sources of income enjoyed by a lot of circumstances that ultimately lead to a tax that is manifestly contrary to the principles of tax fairness (Dinu, 2003).

3. TAX EVASION - FORMS OF MANIFESTATION

According to the procedure used to avoid tax regulations, one can differentiate between:

- Legal tax evasion;
- Fraudulent tax evasion.

3.1 Legal Tax Evasion

Legal tax evasion means for the tax payer to circumvent the law using a combination of unexpected and, therefore, tolerated by the escape of the law. This form of evasion is not possible until the law shows lacks or inaccuracies. In this case, the tax payer is trying to put in a more favourable position to benefit the most out of the advantages of tax current regulations. The only guilty of such evasion is the legislature and therefore this form of tax evasion is criminally not punishable and is not the subject of our analysis.

3.2 Fraudulent tax evasion

Illegal tax evasion is to conceal the taxable object, the underestimation of the taxable amount of matter or the use in other ways of refusal to pay off the due tax. Basically tax evasion may be fraudulent under the form of concealing taxes, the declaration of taxable income below the actual level or driving a faulty accounting, double accounting.

Factors that must be taken into consideration in the accounting research are: registers to shrink results, establishing liability accounts with fictitious nomenclature; unlawful payment and redemption overestimation, dormant supplies, not justifying legal documents with the registration, unreal data and information in the trading registers; errors in personal accounts of parts of benefit, reducing turnover, masking part of the revenue through omission, accounting for fictitious expenses and invoices, etc. (Paraianu, 2003). The law sanctions the cases of infringements of tax customs regulations, by declaring the goods inaccurate, in any form or the unlawful removal from customs operations in order not to pay duties or reduce their obligations or other taxes.

Practicing by importers and exporters of various fraudulent means to evade the payment of amounts due in foreign currency is the currency evasion. Estimates due circumvent state practice, especially by falsifying the import and export statements which show that the goods would be of lower quality. Therefore lower prices than the actual ones are obtained, private compensation, a lack of accurate customs charges is created, transfers in foreign currencies and other countries in violation of the laws, tourism.

Fraudulent tax evasion is punished with fines or criminal law actions, as appropriate, as the deed is considered a criminal offense or contravention.

“There is a psychology of the tax payer never to pay but whatever he/ she cannot pay. Human nature has always tended to put the general interest after the particular interest, it is inclined to consider taxes more as an injury than a legitimate contribution to public expenditure and to always see with bad

eyes the one who wants to lower her heritage” (Martinez, 1990).

Regarding the size of the tax fraud causers, studies confirm that fraud is a reverse function of income or turnover. In other words, it is proportionately more important in the case of small contributors than of the big ones. This observation was made for all categories of taxes (Martinez, 1990). Small businesses use to fraud rather than large ones because of the facilities and needs. Facility is often provided by the family business like character.

4. TECHNICAL MANIFESTATIONS OF THE TAX FRAUD

Fraud techniques are classified according to various criteria. A first criterion, most popular, is the tax, under which fraud is distinguished, that is based on the tax settlement and the one which occurs in the state tax payment obligation. It consists in reducing the tax base by minimizing revenue, profits or turnover, or by increasing deductible expenditure; tax fraud that takes place when liquidity (tax payment obligations) refers mainly to the duties and to the VAT.

The existence of multiple levels of taxation incites to achieve a good transition from a forced entry to a faster box less imposed. Thus, through a false customs statement on the characteristics and use of imported products, a tax can be reduced by applying a tax rate lower than due.

Another criterion of classification is the material, which allows distinguishing two main techniques of fraud: fraud by concealing (hiding) the tax matter and fraud by increasing deductible expenses.

Also according to the criterion of material, fraud can be distinguished by the action and by omission. First assume an active behaviour, for example using a fictional writing, while others are limited to abstinence, such as non-income (Murgu et al., 1979).

Taking into consideration the authors of fraud, one may distinguish frauds committed by individuals and frauds committed by legal persons (moral). This distinction is interesting, particularly related to sanctions.

Fraud can be regarded from a geographical point of view, when it comes to national and/ or international tax fraud. National tax evasion manifests between the borders of a state through its artisan and industrial forms.

Artisan tax evasion's major feature is that it is defined less by the technical scale of achievement or avoidance of tax payment to the state budget, but by the action of its authors. The author of artisan fraud acts alone or at least without recourse to an organization with this purpose,

Another form of tax fraud is working on the black market which is symptomatic for resistance to taxes. It allows the author to obtain undeclared income (or principal components). When it is operated on the salary activity it allows a discharge of social spend for an employer (social contributions or contributions). The higher the difference between net wage actually received by the worker and the overall cost of employment (gross salary plus fees which for the employer is chargeable) is, the employer may be more interested to use undeclared manpower. Therefore, loss of income tax and social contributions can be considerable.

Industrial tax evasion manifests through the use of complex procedures and ingenious legal arrangements. This type of fraud is both a fiscal and criminal law. Industrial tax fraud is carried out through a division of action in an underground network which aims to help cover operations and fictitious. So in this case several individuals/ legal entities are involved to make profits, usually very important profits, by the unlawful removal of fraudulent tax.

The principle those who commit industrial tax fraud start from is simple. The control authorities find and ensure that their

line between the accounts (balance sheet) and supporting documents consisting of invoices, shipping notices, bills of command, etc. slips is maintained. To achieve security fraud, it is sufficient to achieve a consistency between the accounts and documents that underpin it

The methods of committing international tax fraud in particular are two:

- The transfer of profits to a country with low taxes, by manipulating the prices of transactions;
- Non-refunding income earned abroad by handling pay-offs.

A transfer of profits poses one of the classical problems of international tax law. The issue of transfer price manipulation occurs in the relationship between parent companies and subsidiaries. Members of a group have in fact only a very limited autonomy in relation to the parent who leads. Commercial transactions taking place between subsidiaries of a group, give place, therefore, to prices that are not fixed in the light of economical truth (market prices) but by a tax wheeze using the way outs and exits offered by various tax laws (Murgu et al., 1979).

Method two is the price of transfer (transfer pricing). Broad sense, transfer means any output of the values found in a business that matches an entry of equal value in the accounts of other businesses. For the tax administration to establish a presumption of indirect transfer benefits overseas two conditions have to be fulfilled: the simultaneous existence of links of dependency between companies and the existence of an unreasonable advantage.

Specifically, tax evasion is the increase of prices or the lowering the purchase price of sale.

Increasing purchase prices works on imports, while reducing selling prices for export operating. All operations are carried out in the accounts and, although the fiscal authority knows the mechanism well, it cannot do anything.

5. CONCLUSIONS

Although the terminology referring to tax evasion is well defined in literature, the particularly wide area in which it occurs combined with the lack of national laws makes it practical to include the entire world, regardless of geographical location.

From the procedures and instruments shown before, one could conclude that the border that separates the international tax fraud of tax evasion remains uncertain.

The problem complicates to the extent that the actions taken by the tax payer can be classified in a country like evasion and tolerated in others, such as manoeuvre's tax fraud.

A reduction in the area of manifestation of tax fraud could be achieved through a cooperative effort of justice of a multinational geographic area, for a standardization of national laws in an international context, but this requires a unified political will, worldwide.

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