

**OVERALL ANALYSIS OF THE TAX EVASION
PHENOMENON AND ITS DYNAMICS IN ROMANIA AFTER
1989**

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Abstract

In this paper the tax dodger phenomenon is approached from the perspective of the tax evasion identified as a consequence of the fiscal inspection activity. Based on the data referring to the level and dynamics of the tax dodger phenomenon have been made appreciations regarding the fiscal discipline of the Romanian tax payer and to the attitude of the qualified organs in discovering and sanction of the fraudulent tax evasion, in the period 1995-2005.

In this sense have been analyzed a series of indicators like: the number of verifications, the number of tax evasion cases, the frequency of tax evasion, the total value of the identified tax evasion, the real volume of the identified tax evasion, the medium measure of tax evasion, the penalty rate and the potential and effective multiplier of tax evasion.

Also it has been realized an analysis on the capacity of the sums additionally drawn after the identification of tax evasion of financing the budget's deficit. Thus, in 2005, the additionally drawn sums have exceeded the consolidated general budget's deficit, but unfortunately, these have been received only in a proportion of 21, 4%, the receiving remaining difference, of 2,265,766 RON, representing 97,4% from the consolidated general budget's deficit.

Related to the fiscal regulations, various tendencies and motivations manifest at taxable level in order to elude the fiscal duties. The proportions the fiscal evasion has reached in our country make this phenomenon so real, as its presence has become ordinary in all income areas.

We are able to assert without any exaggeration that after 1989 a social norm of fiscal evasion has gradually arrived, and the Romanian taxpayers, irrespective of their financial position or social status, have been trying and many times succeeding to avoid the fiscal duties payment.

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The fiscal evasion ubiquity in our country has been sustained by a series of agents:

- A fiscal legislation characterized by inconsistency, incoherence, lack of precision and stability in time;
- The late issuance of an evasion combating law (Law no. 87/1994 entered into force at the end of the year 1994);
- The absence, until 2004, of a fiscal Code and fiscal procedure Code, indispensable to the fiscal legislation uniformed application having effect over the fiscal evasion limitation;
- The existence of a high level of taxation related to the real payment capacity of the Romanian taxpayer;
- The corruption present within the society;

As the fiscal evasion is punished by law only when committed by fraud, during the hereby work the fiscal evasion level in our country will be analyzed grounded on the information provided by the fiscal and financial control bodies regarding the recognized fiscal evasion¹. It has though to be mentioned that not all the fraud recognized due to fiscal control is certain. In this respect, it must be taken into account that there is a long enough process of fiscal control results litigation or judgment at various courts of law. Until the date of definitive and irrevocable decision ruling, the additional amounts of money cannot be registered with the fiscal registries as certain debts.

1. Considerations on the fiscal discipline of the Romanian taxpayer

The fiscal discipline at national level but also the **attitude of the bodies competent** in revealing and punishing the fiscal evasion committed by fraud are displayed by the following data, which is related to the number of controls and their results during 1995-2005.

Table 1: Evolution of the fiscal evasion recognized in Romania during 1995-2005

N o.	Indicator	1995	1996	1997	1998	1999	2000	2003	2004	2005
1	Examination number	668.543	760.467	741.455	623.878	469.503	494.209	446.822	273.020	286.903
2	Number of recognized fiscal evasion cases	273.482	235.573	285.514	257.766	197.018	199.139	195.425	120.077	115.158
3.	Fiscal	40,9	31	38,5	41,3	41,9	40,3	43,7	44	40,1

¹ The term of „evasion” used in the Ministry of Public Finances will be kept, but the right acceptance is the fiscal fraud (fiscal evasion committed by fraud)

	evasion frequency (%) (2/3*100)									
4.	Total value of the recognized fiscal evasion (thousand RON)	87.597	92.720	180.984	203.560	341.920	360.512	798.900	982.350	1.746.304
5.	Total value of the applied sanction (thousand RON)	...	95.505	368.062	743.170	1.126.685	1.147.679	1.804.700	1.984.522	1.137.326
6.	Total amounts additionally added (thousand RON) (4+5)	...	188.225	549.046	946.730	1.468.605	1.508.191	2.603.600	2.966.872	2.883.630

Source: Reports on the evasion phenomena level, The National Agency for Fiscal Administration, The Financial-Fiscal Control Department

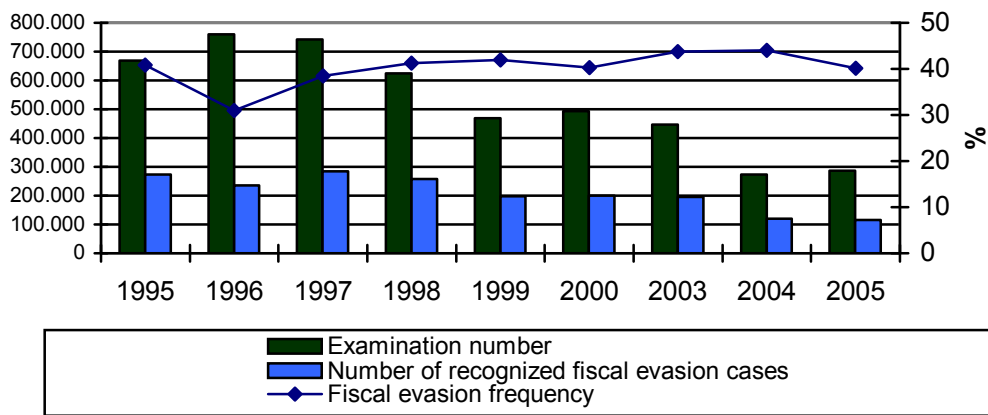
The displayed data helps us to notice that although the number of the taxpayers tracked down for fiscal legislation evasion both decreased during 1995-2005 with nearly 57%, the frequency of fiscal evasion cases has remained comparatively stable, especially after 1998, around 40% of the performed examination. The comparatively stable fiscal evasion frequency, as fiscal discipline indicator, may be construed as the lack of improvement of the Romanian taxpayer fiscal conformity. On the contrary, taking into account the slight increase of the recognized fiscal evasion, during 1996-2004, we are able to assert that the number of people who illegally avoid the taxation has slightly increased, or, if in 1996, out of 100 performed controls 31 tax dodgers were revealed, in 2000, their number reached nearly 40, while in 2004, 44.

Of course the organization of fiscal control is also important as well as targeting of the taxpayers with high risk of fiscal evasion, so the slight increase of the fiscal evasion cases frequency may be also appreciated as an improvement of the fiscal evasion cases recognition activity.

Aggrandizing and taking into account a certain error degree, we can consider that less than a half of Romanian taxpayers avoid by fraud the fiscal obligation payment. The decrease of the number of performed controls and subsequently the probability for a dodger taxpayer to be revealed, except for the

fact that determines a decrease of the fiscal control costs, it cannot have a favorable impact over the Romanian taxpayer fiscal conformity degree.

Figure 1: The frequency of the fiscal evasion cases within controls total 1995-2005



Regarding the nominal value of the recognized fiscal evasion, it has increased during the analyzed period from 87,597 thousand RON, in 1995, to 1,746,304 thousand RON, in 2005, meaning an augmentation of 1,893.5%. For a real image of the alteration regarding the amounts the revealed taxpayers have evaded from the public budget, their analysis is required grounded on the real value of the recognized fiscal evasion, expressed in constant prices.

Table 2: Nominal and real volume of the fiscal evasion recognized during 1995-2005

Year	The fiscal evasion recognized thousands RON – current prices)	P.I.B. deflator coefficient chain-grounded (%)	P.I.B. deflator coefficient with fixed ground 1995, %)	The real volume of the fiscal evasion recognized thousands RON – constant prices)	The average extension of the revealed fiscal evasion (RON – current prices)	The average extension of the revealed fiscal evasion (RON – constant prices 1995)
995	87.597	100	100	87.597	320,3	320,3
996	92.720	145,3	145,2	63.856	393,6	271,0
997	180.840	247,3	359,32	50.368	633,4	176,4
998	203.560	155,2	557,66	36.502	789,7	141,6
999	341.920	147,8	824,22	41.484	1.735,5	210,6
000	360.512	144,3	1.189,34	30.312	1.810,3	152,2
001	...	137,4	1.634,15
002	...	123,4	2.016,54
003	798.900	119,4	2.407,74	33.180	4.088,0	169,8
004	982.350	115,8	2.788,16	35.232	8.181,0	293,4
005	1.746.304	112,0	3.122,73	55.922	15.164,4	485,6

Source: Reports on the evasion phenomena level, The National Agency for Fiscal Administration, The Financial-Fiscal Control Department, The National Statistics Institute, www.insse.ro and our calculations

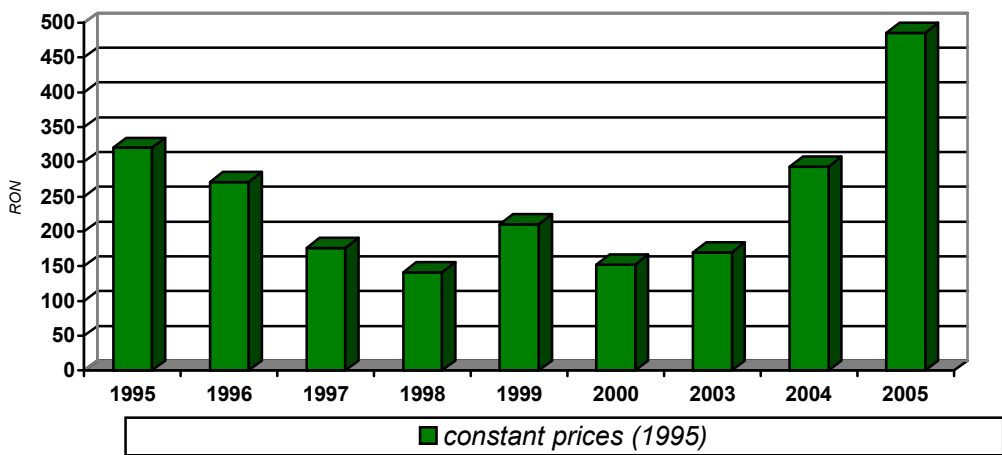
The abatement of the number of controls performed by the fiscal control bodies is having also impact over the real volume of the recognized fiscal evasion. If in 1995, the revealed taxpayers prejudiced the public budget with 87,597 thousand RON, in 2000, the evaded revealed amounts were 30,312 thousand RON, after which an augmentation period has followed, reaching 55.922 thousand RON, in 2005, in 1995 prices, somehow similar to 1997.

Per total, the 57% decrease of the controls performed by the fiscal control bodies meant a deflation of the amounts revealed as evaded with, nearly, 36%, having impact over the additional budget cashed amounts (out of income differences and applied sanctions).

Another coefficient which expresses the Romanian taxpayer fiscal discipline is the average extension of the amounts evaded by a revealed dodger taxpayer, determined by relation between the revealed fiscal evasion level and the revealed fiscal evasion case number.

From the displayed date results that in 2005, a taxpayer used to evade, in average, 485.6 RON (4.856.000 former lei), with 51.6% more than in 1995 (320,3 RON) and with 185.9% more than in 2003 (169,8 RON). As these numbers are expressed under constant prices (1995), the augmentation in real terms of the average amount evaded by a taxpayer can only mean a fiscal discipline degradation regarding the Romanian taxpayer.

Figure 2: The average extension of the fiscal evasion recognized with a dodger taxpayer



2. Considerations regarding the sanctions applied subsequent to the fiscal evasion recognition

Through recognizing the fiscal evasion cases, the additional income entailing to budget is quantified under the value of the applied sanctions.

In table no.3 the total value of the sanctions applied subsequent to the fiscal evasion cases recognition is displayed, both in absolute and relative values, in form of *penalty* rate.

$$Penalty - rate = \frac{Total - value - of - applied - sanctions}{Total - value - of - recognized - fiscal - evasion} * 100$$

Table 3: Sanctions applied due to the fiscal evasion cases recognition

	Total value of applied sanctions (Thousand RON – current prices)	Total value of applied sanctions (thousand RON – constant prices 1995)	Penalty rate (%)
1996	95.505	65.774,8	103,0
1997	368.062	102.432,9	203,3
1998	743.170	133.265,8	365,0
1999	1.126.685	136.697,1	329,5
2000	1.147.649	96.494,6	317,0
2003	1.804.700	74.954,1	225,9
2004	1.984.522	71.176,7	202,0
2005	1.137.360	36.421,9	65,1

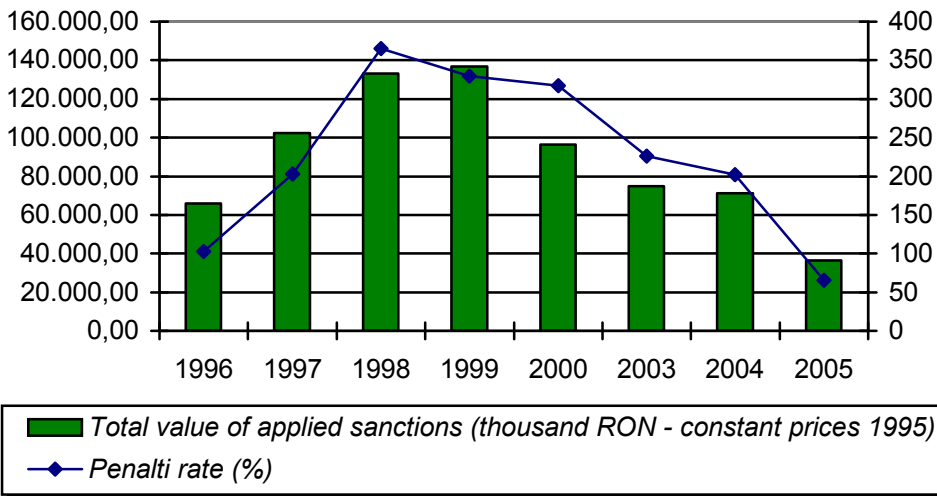
Source: Reports on the evasion phenomena level, The National Agency for Fiscal Administration, The Financial-Fiscal Control Department and own calculation

We notice that, subsequent to an augmentation period, recorded during 1996-1999, in real terms, the applied sanctions, expressed as absolute amount, begun to decrease, starting to represent, in 2005, a little more than half of the value of 1996 applied sanctions.

The penalty rate has recorded comparatively the same abatement tendency. Thus, while during 1998, the applied sanctions were only 3.6 times bigger than the evaded amounts, during 2004 the applied sanctions decreased to only 2 times the recognized evasion value, and only during 2005 the applied situated under the recognized evasion value.

During 2005, the penalty rate was 65.1%, meaning that for 100 evaded monetary units, the taxpayer only received 65.1 monetary units as penalty and all this while the recognized fiscal evasion value was during 2005, in real terms, bigger than the revealed one during 1997 (when the penalty rate was 203.3%) and the average value of the recognized fiscal evasion recognized with a taxpayer situates at the highest level recorded over the entire analyzed period.

Figure 3: Applied sanctions and the penalty rate during 1996-2005



It may be interesting to see in what extent the applied sanctions annual variation kept up with the recognized fiscal evasion annual variation.

From table number 4 it can be noticed that:

- during the first part of the analyzed period, i.e. years 1996-1998, the decrease of the recognized fiscal evasion value was accompanied by a pronounced increase of the applied sanctions. This may indicate an exaction character in case of evasion recognition, which is a hazardous situation in a corrupt environment, leading only to corruption augmentation;

- during the second part of the period, i.e. years 1998-2000, the control bodies had a balanced attitude in front of the fiscal evasion phenomenon, the alteration way of the recognized evasion value being followed by the same way of alteration of the applied sanctions value;

- during the third part of the analyzed period, i.e. years 2003-2005 the situation was quite opposite. Thus, at a recognized evasion real relative augmentation of 6.18% in 2004 compared to 2003, the fiscal bodies answered with applied sanctions having a real relative abatement of 5%.

The situation is even worse in 2005, when the 70% real relative augmentation of the recognized fiscal evasion, compared to 2004, was accompanied by a 50% real relative abatement of the applied sanctions.

Table 4: The annual variation of the recognized fiscal evasion and of the applied sanctions, during 1997-2005

	The annual variation of the recognized fiscal evasion		The annual variation of the applied sanctions	
	The real absolute alteration (thousand RON – current prices)	The real relative alteration (%)	The real absolute alteration (thousand RON –current prices)	The real relative alteration (%)
1997/1996	- 13.488	- 21,1	- 15.536,4	+ 55,7
1998/1997	- 13.866	- 27,5	+ 82.937,4	+ 164,7
1999/1998	+ 4.982	+ 13,6	+ 3.431,3	+ 2,6
2000/1999	- 11.172	- 26,9	- 40.202,5	- 29,4
2004/2003	+ 2.952	+ 6,2	- 3.774,4	- 5
2005/2004	+ 20.690	+ 70	- 34.754,8	- 48,8

Source: Own calculation grounded on the reports on the evasion phenomena level, The National Agency for Fiscal Administration, The Financial-Fiscal Control Department

3. Considerations regarding the fiscal evasion capacity to finance the budgetary deficit

The applied sanctions value offers information also regarding the budget carrier capacity for additional income through fiscal evasion revealing. Thus, the budget carrier capacity for additional income through fiscal evasion revealing can be quantified with the *fiscal evasion potential multiplier* help. This is defined as the number of monetary units additionally carried to the budget subsequent to a monetary unit of fiscal evasion.

Compared to the fiscal evasion potential multiplier, the taxpayers' fiscal discipline but also the capacity of the bodies competent in enforcing the debts resulted from the ascertained tax differences and the applied sanctions may be analyzed also in respect of the *fiscal evasion effective multiplier*, which represents the number of monetary units effectively collected to the public budget for a monetary unit effectively collected out of fiscal evasion.

Table 5: The potential multiplier / effective multiplier of fiscal evasion

Current number	Specification	1996	1997	1998	1999	2000	2003	2004	2005
1.	Recognized fiscal evasion (thousand RON)	92.720	180.984	203.560	341.920	360.512	798.900	982.350	1.746.304
2	Applied sanctions and penalties (thousand RON)	95.505	368.062	743.170	1.126.685	1.147.679	1.804.700	1.984.522	1.137.326
3. (1+2)	Amounts additionally carried to budget	188.225	549.046	946.730	1.468.605	1.508.191	2.603.600	2.966.872	2.883.630

	(thousand RON)								
4. (3/1)	<i>The potential multiplier of the evasion (coefficient.)</i>	2,03	3,03	4,65	4,29	4,18	3,26	3,02	1,65
5.	Collected fiscal evasion (thousand RON)	...	63.399	77.575	...	91.014	197.227	326.590	438.219
6.	Sanctions and penalties collected subsequent to the evasion (thousand RON)	...	65.590	133.637	...	129.644	198.893	188.490	179.645
7.	Amounts additionally carried to the budget (thousand RON)	...	128.989	211.212	...	220.658	396.120	515.080	617.864
8.	<i>The effective multiplier of the evasion (coefficient)</i>	...	2,03	2,72	...	2,42	2	1,58	1,41

Source: Reports on the evasion phenomena level, The National Agency for Fiscal Administration, The Financial-Fiscal Control Department and own calculation

Although decreasing, the high values of the fiscal evasion potential multiplier indicate a high potential to carry budgetary income through control, but unfortunately, there is a great difference between it and the effective multiplier, which reveals serious deficiencies regarding the fiscal bodies' capacity to enforce and collect effectively the amounts additionally established subsequent to fiscal evasion recognition.

The funds constituted related to the budgetary deficit financing, during the budget execution, as well as the effective capacity of the fiscal evasion to finance the budgetary deficit are displayed within table number 6.

Table 6: Balance of amounts additionally carried to the budget, subsequent to fiscal evasion recognition, in the consolidated general budget's deficit

thousand RON-

	1996	1997	1998	1999	2000	2003	2004	2005
Deficit of the consolidated general budget	429.030	887.650	1.329.290	1.007.820	3.204.510	4.395.100	2.907.500	2.326.300
Total amounts additionally carried	188.225	549.046	946.730	1.468.605	1.508.191	2.603.600	2.966.872	2.883.630
Balance of	43,8%	61,8%	71,2%	145,7%	47%	59,2%	102,0%	123,9%

additionally carried amounts in deficit								
Total of additional carried amounts collected to the budget	...	128.989	211.212	...	220.658	396.120	515.080	617.864
The balance of additionally carried amounts collected within total amounts additionally carried	...	23,5%	22,3%	...	14,6%	15,2%	17,4%	21,4%
Differences remained to be collected	...	420.057	735.518	...	1.287.533	2.207.480	2.451.792	2.265.766
The balance of the differences remained to be collected in deficit	...	47,3%	55,3%	...	40,2%	50,2%	84,3%	97,4%

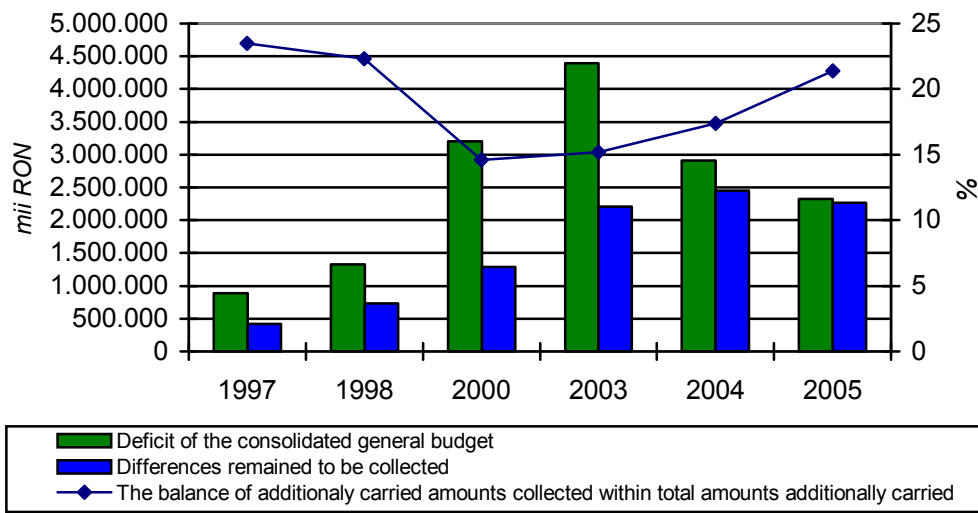
Source: Ministry of Public Finances, The General Department of Budget Policies Synthesis, reports on the evasion phenomena level, The National Agency for Fiscal Administration, The Financial-Fiscal Control Department and own calculation

It can be noticed, from the displayed data, that the fiscal evasion represents a great capacity to finance the budgetary deficit, reflected both under the balance of the additionally carried amounts subsequent to the fiscal evasion recognition within the deficit of the general consolidated budget, and the balance of the differences remained to be collected (uncollected during the respective budgetary exercise) within the deficit of the general consolidated budget.

Thus, if during 1997 the total of additionally carried amounts subsequent to the fiscal evasion recognition would have been collected to the budget, the deficit of the general consolidated budget would have been smaller with nearly half of the recorded one, and in 2005 would have represented only 2.6% of the recorded deficit of that year, respectively 60.534 thousand RON, i.e. 0.02% of P.I.B. Therefore we may consider that the fiscal bodies' attention to better collect the debts ascertained subsequent to the fiscal evasion recognition may constitute a modality for the considerable adjustment of the budgetary deficit. Unfortunately, over the analyzed period, the balance of the additionally carried amounts in the additional carried amounts total was reduced, without exceeding 25%.

We have to notice though the slight tendency to increase that balance during 2003-2005, from 15.2% to 21.4%.

Figure 4: Capacity of additionally carried amounts subsequent to the fiscal evasion recognition to finance the budgetary deficit



4. Conclusions

During the last 10 years, the fiscal discipline of the Romanian taxpayer has gradually degraded, assertion grounded on the constant conservation, on the background of controlled taxpayers number acute deflation, of the frequency of the recognized fiscal evasion, as well as the real terms augmentation of the average amount evaded by a taxpayer.

At the same time, the applied sanctions were not able to act efficiently towards the limitation of this exercise, the penalty rate having after 1998, parallel to an increasing fiscal evasion, an acute tendency towards abatement.

Although the level of the amounts carried subsequent to the fiscal evasion revealing indicate a high potential to finance the budgetary deficit, the fiscal bodies have not apparently had the capacity to effectively enforce and collect but a small part of them.