

FISCAL FRAUD- A DIFFICULT REALITY TO QUANTIFY

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Motto:

"Avoiding taxes is the only intellectual ambition that makes you feel rewarded." J.M.Keynes

Abstract

The specialized economic literature contains numerous reference works in the field of taxation, but those dedicated exclusively to tax evasion are not very numerous. Due to the increasing necessity of the decryption of this phenomenon, given the ingenuity of its manifestations, , I consider it a good opportunity to comment it in the light of the distortions it induces upon the functioning of the competitive market economy circuit.

From this perspective, efficient combating of the phenomenon must be a priority both at the level of the national governmental authorities and at the level of the international bodies charged with the detection and sanctioning of financial-tax frauds.

As an economic and social phenomenon with the most ingenious manifestations, tax evasion has particularly damaging consequences both at the macroeconomic level and at the level of the individual.

Keywords: *tax evasion, creative accounting, fiscal fraud, corruption, economic, financial crime*

JEL Classification: M1, M4

1. Introduction

In the modern age, state taxation has grown in complexity. The current tax codes appeared, laws regulating tax and tax issues, which soon became extremely rigid, rivaling in size with other legislative, civil and criminal elements. The purpose of the Fiscal Code was from the beginning to regulate everything it could do and cover any situation it could have predicted. Obviously, he also deals with circumventing taxes and duties. This practice, as old as taxing, has been given a general name: *tax evasion*. Hence the war of words and concepts began.

Thus, in the literature, tax evasion is a complex phenomenon which is manifested as a response of the taxpayer to the coercive action imposed on it by the state and has economic, social, political and moral, general or specific causes well rooted in the characteristics of the analyzed period

Given that tax fraud is circumscribed to the phenomenon of criminality in the economic and business sphere, determinants in its genesis are circumscribed to causality specific to the indicated segment (*Voicu et al., 2005, p. 40*)

From this semantic point of departure, to tax evasion, the territory of the specialists in the field of tax matters starts. They take into account the situation in which you want

to pay as little taxes and taxes as possible, so that you do not go through any existing law. This has been called *legal tax evasion* and can be achieved in several ways:

- *to make money in a way that was not regulated and taxed in the Fiscal Code, because it did not exist when the Code was written;*
- *pay less taxes, even zero, using "loopholes" existing in the Tax Code, whether voiced or not;*
- *pay less taxes, even zero, using "creative" methods that use the existing Tax Code.*

I have to point out: all the above methods are done inside the law, so they are not illegal, even if some of them are at the edge of the law (although they do not cross the border of illegality).

Tax evasion is a very difficult concept to express, and there is no clear definition of tax fraud. If fraud is spoken, it is also about legal or legitimate fraud, illegal fraud, international evasion, legal and illegal evasion, tax havens or refugees, abuse of the right to flee to the tax, freedom to choose the least taxed way, or fiscal underestimation, law fraud or underground economy.

2. Fiscal evasion/ tax evasion interdependence - excessive fiscal pressure

The state, a legally abstract entity, but a real economic and financial reality, has the constitutional obligation to reasonably satisfy the social needs of the existing population. Over time, the literature specialized in this field (*Ayuso, de Castro and Gomez, 2004*), along with the politicians discussed the state's involvement in the economy. In this respect, for example, economic theory has migrated from the principle of *laissez faire, laisserpasser* to interventionist theory developed and nuanced by Keynes.

Romania's integration into the European Union (*Bajuk, 2008*) necessarily implies the correlation of the Romanian tax system with the principles of the European Union. The Community tax system, compared to other areas, is an important feature, in that the principle of subsidiarity is fully applicable here. Thus, the Treaty establishing the European Community does not contain any specific provisions on direct taxes, which are left entirely at the discretion of the Member States. The situation is different when direct taxes have implications for the four freedoms laid down by the Treaty (*freedom of movement for goods, persons, services and capital*) and the right to freedom of establishment of persons and businesses.

Taxation, in particular corporate taxation, is one of the few policy areas (*Bouthevillain et al., 2001*), where the European Council can only adopt legislative measures unanimously, which makes it difficult in practice to adopt such measures. In the field of indirect taxation, the legal basis is provided by art. 90 and art. 93 of the Treaty establishing the European Community and aims to harmonize national systems of indirect taxation rather than to standardize them so that national systems are not only mutually compatible but also comply with the objectives set by the Treaty. At the informal meeting of the Ministers of Finance of the member countries, Verona, 12-13 April 1996, the European Commission presented for the first time ideas for an all-embracing taxation strategy (*please see the experience of Estonia regarding the flat tax*).

In Romania, the modern tax system was upgraded by the Fiscal Code, which entered into force on 1 January 2004. Since its entry into force until today, the Fiscal Code has been amended several times, which is in contradiction with the principle of fiscal stability provided by art. 4 of the Fiscal Code. From a procedural point of view, the Romanian

modern tax system was supplemented by the Fiscal Procedure Code, which was unique in the Romanian legal system and was accompanied by methodological norms of application.

The State Authority has seen, not least in the fiscal amplification, the easiest way to obtain public financial resources without taking into account their adverse effect. An increase in taxation generates an increase in the fiscal pressure, and, as it becomes suffocating, there appears the phenomenon of *"avoiding taxes" and tax evasion*, respectively.

Most of the time, the underground economy is a response of adapting to excessive taxation and is developing from the instinct of preserving the economic environment. **When the legal, transparent, market economy blocks, there is a spontaneous and more advantageous redistribution of financial resources, even on occult ways.** In other words, the poor economic environment and the hostile business environment push the taxpayer into adopting a survival behavior that also involves illegal activities.

Taxes and taxes psychologically harm that part of the human structure that protects the property right. Citizens need a huge boost to comply voluntarily with the tax system. This impetus, beyond tax and general interest, can also be attributed to the way in which the revenues generated by these taxes are used. The inefficient and arbitrary use of these revenues leads directly to a decrease in voluntary compliance of the taxpayer.

As a consequence, the State has to deal mainly with the measures necessary for the efficient management of the budget revenues (*Hodrick and Prescott, 1997*), the elimination of the fiscal bureaucracy, the reduction of the time required for compliance with the tax system, and last but not least the strengthening of the taxpayers' enforcement procedures. Unfortunately, this order of measures has been transposed in reverse, including in Romania, where the authorities with attributions in the field have been mainly concerned with the exacerbation of forced execution measures at the expense of measures to prevent forced execution.

A high degree of voluntary compliance is also determined by psychological aspects of education, which, from a certain perspective, explains the attitude of the Romanian authorities, who have tried to fill the lack of tax education through a high degree of state/fiscal coercion (*Mitchell, 2003*). If at one point this attitude can be understood, once the economy of our country has reached a degree of maturity, that is, fiscal consciousness has acquired substance, this attitude becomes incomprehensible in the absence of an exchange of proportions between the measures tax coercion and measures to increase voluntary compliance.

The fall in fiscal pressure has been approached over time by a number of finance specialists: physicist J.B. Say has proposed *"the minimum tax"* while economist, David Ricardo believes that *"any tax eviction reduces by itself the power of capital accumulation"*. On the opposite side, supporters of Keynesian theory believe that limiting tax cuts is not welcome due to the fact that it does not take into account the taxpayer's benefits from publicly-funded public expenditure.

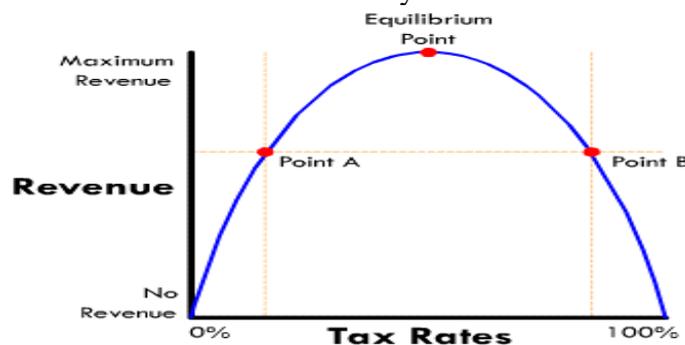
In 1974, a famous economist of the offer, the American Arthur Laffer, is said to have drawn on a napkin at a restaurant dinner with Donald Rumsfeld and Dick Cheney, a chart expressing an idea of Adam Smith in 1776, according to which too high tax rates reduce the receipts to the state budget. In fact, A. Laffer, then councilor president of Ronald Reagan and G. Bush, in an interview given to the Capital newspaper in 2005 on the country's single tax rate, also supported the idea that *"what's simple and small, it's nice"*

and beneficial "(hence, the fact that a small tax is beneficial to any economy by invigorating work, savings and investment).

A. Laffer remains famous for the idea he demonstrated with a curve that bears his name according to which any increase in tax pressure causes a decrease in the amount of mandatory levies collected by public power.

According to this curve, the sum of the mandatory levies is an increasing function of the fiscal pressure, but only up to a certain maximum threshold, denoted by M, corresponding to the maximum level of the curve, after which it becomes a decreasing function of this rate. This curve goes right up on cancellation if the rate reaches the theoretical level of 100% (*any taxable activity would then disappear in this case limit*).

This is explained by Laffer by the fact that the very large mandatory levies cause resistance and reduction of the productive effort (*disintegration of labor, economies and investments*) that reach such an extent that they decrease their total amount.



Source: author's view

Figure no.1 The evolution of the level of public financial resources depending on the level of taxation

More specifically, Laffer's curve divides into two areas:

- in the left area, *called normal or admissible*, the reduction in the sampling base is less than the increase in the tax pressure rate.;
- on the contrary, in the right area, *called the inadmissible area*, any increase in the fiscal pressure is not sufficient to compensate for the decrease in the base of the obligations levied by it: so it results in a decrease in the amount of public revenue.

In addition to the M2 maximum T2, the same amount of tax deductions can be provided by two tax rates that are located one in the admissible area, the other in the inadmissible zone (so the sum N can result either in T1 or T3).

Laffer, like other well-known "offer" economists, estimates that when the maximum threshold is exceeded and a reduction in tax pressure results, it would be likely to lead to an increase in the yields of mandatory levies by re-generating the economy, ie favoring labor, savings and investments.

I say that: tax evasion occurred with the state and will disappear with the state. Is the State, as an abstract entity, the root cause of evasion? In a broader sense, I could answer that, yes, through the obligations imposed on its citizens. If they were not "forced" to "divide" their wealth or income with the state, I would certainly not talk about tax evasion, and thus the essence of evasion: the evasion of payment would disappear. So taxing taxpayers themselves is a cause of tax evasion, and why not, essential. If this "cause" disappears, we certainly would not have to talk about the other, nor about the effects of evasion because there was no evasion. The state exists, although in some theory as a necessary evil or as a beneficial factor - essential for others. As the

state can not exist without income, there will be taxes and, also, tax avoidance from taxpayers.

3. Tax inequality - a manifestation of the impact of tax evasion on tax equity

The issue of tax equity has emerged in tax practice in connection with the elimination or reduction of privileges for some social classes or for some money obligations to the state. The bourgeois idea of fiscal equality required, as early as 1789, that every citizen be given a tax burden directly proportional to his wealth or income. It is likely that, starting from this statement, fiscal equity is understood in different ways, being indicated in the literature with terms such as: *fiscal equality*, *tax justice* or *fiscal justice*. To answer the natural question, if all these terms express the same phenomenon and have the same meaning?, I have analyzed the conceptual dimensions of fiscal equity and have analyzed this concept in relation to the "*positions*" of the authors who have expressed this view.

There is a differentiation between the socio-professional categories regarding the possibilities of circumventing their tax obligations, depending on the way of acquiring and appropriating the income or wealth subject to taxation, as well as the way of setting and dimensioning the taxable matter.

Thus, we can talk, about the sociological manifestations of tax evasion. This theory is based on the human condition and the egoistic character of its nature: most of the time, the idea of accepting the tax is being *a priori* rejected by the taxpayer, from the desire to put its particular interest beyond of the collective to which it belongs.

Although the taxpayer's tax tolerance differs according to a number of factors, this requirement is often perceived as a confiscation of income, and not as a legitimate and moral obligation of everyone to participate in the formation of financial resources at State disposition.

The concept of fiscal equity is highlighted **by the contributory capacity** to be taken into account when taxes are imposed on citizens. The above terms, from the presentation I have made in this chapter, do not respond to a sufficient degree of fairness requirement.

Tax equity, as privileges for specific categories of taxpayers, reflects "*injustice*" in tax matters, meaning, the application of justice in tax relations is based on the "*position*" of taxpayers. As a mathematical equality, equity means equal taxes on equal incomes, but personal equality implies that mathematical equality is applied taking into account the personal situation of taxpayers. Tax equity is a concept, a certain thought and action, above justice or mathematical equality, which requires that right and equality in the taxation process be "*duplicated*" by consideration of contributory capacity. When stating the concept of fiscal equity, it should be noted that: taxes must be so established that they take into account the contributory capacity of the citizens of a state. How can this be done? At least in the following three ways:

- a. *the use of progressive and progressive multi-tax rates on revenue installments, the number of which is the highest (we have stated that a minimum of ten would be necessary to ensure a gradual progressive tax);*
- b. *in the budget construction, the share of direct taxes should be higher than indirect taxes;*
- c. *establishing the non-taxable minimum for certain categories of taxpayers and incomes,*

Tax inequality, for taxpayers, is a perception of feelings of injustice beyond the obligation to pay tribulations to the state. Tax inequality is generated by the tax settlement

and levy process, the way in which tax is valued and how taxes are being cleared. I have noticed a different perception of fiscal inequality in indirect taxes than direct taxes. Indirect taxes are "*perfidious*" in terms of tax equity, by their very way of setting and perceiving. These do not take into account in any way the contributing capacity of those who support them being consumer-dependent. And for taxes on income or wealth, I have recorded a series of inequities in the process of settling and perceiving them.

In my research I have encountered expressions that refer to fiscal equity, such as: *fiscal justice, fiscal justice or tax equality*. These terms have been used in the conceptual approach, perhaps from the desire to "**push**" more on the importance and role of this principle in tax imposition.

I say justice has arisen from the need to separate equity from inequity and act on the basis of laws. So, justice has the role of observing equity, by applying the rule of law. As the rule of law is particularly extensive and refers to all spheres of economic, social or political life, I notice the extension that can be given to the notion of equity: economic, legal, social, political, and why not ... fiscal.

Equity sets out the rules by which justice is to be applied. The right to levy taxes is one that belongs exclusively to the state, but how does that right apply in tax relations meets the requirements of fairness? The major task of tax equity is to "*correct*" the law where it is insufficient.

Some authors claim that fiscal equity would be equal to tax, that is to say, that each taxpayer should be treated in a non-discriminatory manner and a neutral tax. This kind of equality would be possible if all taxpayers had the same income, the same wealth, and would have the same needs to cover, which is not possible.

It is precisely for this reason that, I say, a certain "*equalization*" of personal situations is required before taxation, and not the taxation system. This balancing of personal situations is possible by applying precisely **the requirement of fiscal equity: *the contributory capacity in which both the level of income and the size of the needs to be covered are found***.

Regarding tax equality, my view is that it is rather a taxing technique, a means by which the tax law rule, a "*dry*" and "*cold*" rule by which the tax is calculated, is implemented. But, fiscal equity is a principle of ethics and refers to the tax humanism that should be present in the taxation process.

Equity, however it may be pronounced in the current language, when referring to taxation, is to be understood as a moral conduct aimed at the so-called equalization of personal situations by establishing contributory capacity, that is, to take into account in the taxation process, the individual needs, at the same income level.

4. Tax evasion vs. tax optimization - two legal ways to avoid paying state taxes

In a general sense, any taxpayer, in representing the interest in protecting his property, resorts, within the limits of the fiscal and criminal law to a variety of actions or inactions, to diminish the volume of his tax obligations.

The taxpayer's intention of acting in the sense of avoiding or reducing taxation is a reaction specific to all tax systems. *Avoidance of tax* defines the "*behavior by which a taxpayer escapes from mandatory tax deductions*" (Detraz, 2004), **in an illicit sense - tax evasion**, but also **in a legal sense - tax optimization**.

Fiscal planning is a legal practice and is most often used in the context of allocating profits to a group of companies between jurisdictions or holding structures that allow an efficient transfer of cash flows / financial resources (such as dividends, loan finance, Of capital gains from sale / liquidation companies) among the various companies in the group.

"Of course, in order to remain in the allowed area of tax planning, it is important that the operations undertaken have economic substance, not to be purely formal, and that each company actually fulfills the role it assumes contractually. If the economic substance is missing or not enough, we move away from the allowed area of tax planning and get into the area of abusive tax practices like "tax avoidance" or even the type of tax evasion."

Regarding the definitions of the two phenomena, the definition of tax evasion does not explicitly use the term *"illegal methods"*, while in the definition of tax optimization it is said that it *"tends to the limit of legality"*.

I believe that this ambiguity in the above definitions is wanted, precisely to discourage tax optimization procedures. The ambiguous tone is not addressed to specialists, who know precisely that tax optimization is legal and can be demonstrated because it uses exclusively legal methods.

Thus, it appeared necessary to introduce tax optimization methods, one of these being the establishment of a company in offshore or onshore jurisdiction with a favorable fiscal climate.

Offshore companies are those companies that are incorporated into jurisdictions that are subject to different taxation depending on the place where business is carried out, reaching the majority of classical offshore jurisdictions such as corporation tax and dividends to be 0%.

Another form of tax optimization companies are those onshore jurisdictions with a favorable tax regime, for example companies in Malta, Cyprus or other European, intra-community companies. They operate as trading companies, they have a tax residence number (*in order to be able to apply the provisions of the double tax avoidance treaties*), they have VAT number, accounting is kept, annual declarations and balances are filled.

In the case of these European companies, the accounting is kept in a simple game, there is no concept of deductible or non deductible expenses, any proceeds represent profit, and any expense is recorded as a loss. In this situation, any contracts, invoices or any other economic operation to help reduce the profits of these companies to 0, depending on the need and willingness of each economic operator, is accepted in company accounts.

The presentation of these characteristics of tax havens leads us to subscribe to the idea that *"the benefit of the tax havens is not only the result of the absence of tax or of a poor tax, the non-fiscal advantages they have earned are just as significant"*(Nicolae Craiu, 2004).

Fundamentally, tax havens are used by money retailers to generate *"justifiable"* documents to make the control bodies' efforts to determine undeclared income, to analyze money flows, etc. However, there are some situations where the investments in tax havens have no fiscal reasons, but they are based either on the minimum requirements imposed by the respective central banks on the reserve fund or on the economic prestige of the financial and banking center of the respective region (for multinational companies that seeks to minimize the military and political risks of a particular country in which they operate).

Fiscal motivations that determine the use of tax havens range from those perfectly legal to fraudulent, true financial engineers designed specifically to wash huge amounts of money from criminal activities and tax evasion, among them:

- **"tax planning" transactions**, performed in compliance with the provisions legal and tax-specific shipbuilding and sales by means of subsidiaries in tax havens that do not affect related parties;
- **"tax avoidance" transactions**, which are at the limit of the law exploits with skill, with maximum efficiency, some legislative and administrative inconsistencies. They are in the form of the use of investment companies in the field of construction and service provision. Most of the time, an aggressive price transfer mechanism is being implemented;

"double trusts" transactions that involve tax fraud and are found in outside the law, without any doubt. This includes embedding tax evasion strategies and masking suspicious commercial transactions to hide the fact that the allegedly loss-making transactions have not actually taken place. The fraudulent use of tax havens through this type of transaction is most often done by setting up sales companies that are structured so they seem to have relationships only as separate parts, although in reality it is exactly the opposite, being managed and led by the same interest group.

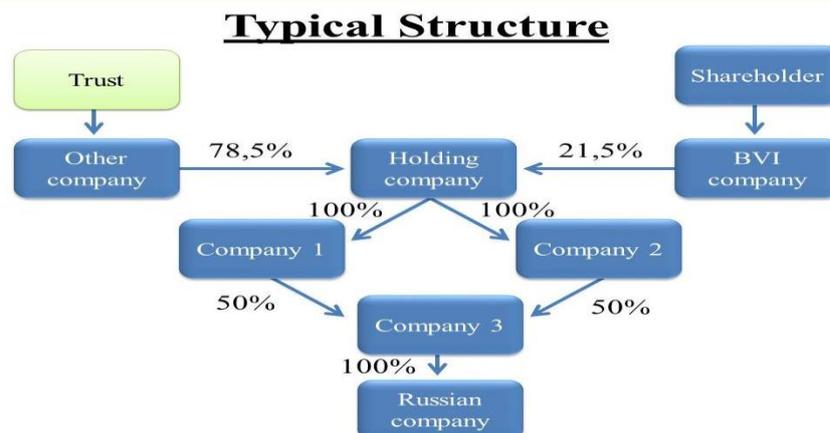


Figure no.2 Scheme of tax optimization by using a holding company registered in a tax haven

Source: author's view according to economic literature

Following the above, I submit to the definition of tax havens, namely: *"Tax paradises mean countries that prefer low taxes and accept fictitious group implants that use them as simple post boxes. Thus, a group using tax havens can pay for high transfer rates to its subsidiary, located in a country with normal taxation, increasing its profits in the tax haven and shrinking it into normal tax countries"* (Dictionnaire économique et social, 1993)

The transition to a competitive market economy and the increase of cross-border circulation of people, goods and capital have led to the internationalization of economic crime.

In this context, the need to *"recycle"* the clandestine gains generated by activities by the generic method of **money laundering** - a major component of the underground economy and inextricably correlated with the notion of fiscal paradox, emerged.

As a rule, the option to invest in a tax haven is based on an economic return calculation referred to in the **Option Pricing** literature, which refers to the total material

benefit resulting from tax evasion avoidance operations. Fiscal fraudsters in all cases pursue the transfer of revenue from their company to the final beneficiary with possible lower transfer costs.

In the current period, the rapid growth of offshore industry is favored by international labor market trends and the lifting of trade barriers, coupled with the internationalization of the outlets. The efforts of the ultranational firms that prefer to enter a new market through offshore companies (and not by the mother company), were characterized as follows (Kiss Laszlo Gyorgy, 2005):

"The offshore company is an element that minimizes risk. Rather than responding to all of the mother company's patrimony, it better responds with nothing. "

5. Phenomenon related to tax evasion: corruption and non-legal work

The phenomenon of tax evasion is of real interest to the international crediting financial institutions of our state and to the Romanian authorities.

Currently, tax evasion and related forms of crime inextricably linked to it raises problems with the state's inability to design and execute the public budget.

This concerns particularly, the financial areas that need resources for public activities consuming financial resources such as defense, domestic affairs, health and social security, etc.

5.1 Corruption as a destabilizing factor for the manifestation of free market principles

The phenomenon of corruption has always been considered one of the most serious behavioral deviations that distorts public affairs to private purposes.

The corruption phenomenon cannot be given a universally valid definition for all societies, the experts of the criminal law agree that *this concept is, in most cases, elusive, ambiguous and reductive*. Thus, for most criminal systems, corruption is a priority normative concept, designating the illegal and immoral violation or transgression of the rules relating to the duties of the civil servant, economic agents or persons performing financial or banking operations (Baciu and Radulescu, 1994).

In essence, **corruption** is a misuse of power in order to obtain material advantages or other benefits (honors, titles, advertising, liability, etc.). Most of the time, it is just a *"banal contract"* (illicit one) **that acts according to the principle of the Romanian law "do ut des"** (*I give you in order to give me*) and which is negotiated and unfolds under conditions of clandestinity and confidentiality.

Thus, most scholars - jurists, sociologists, criminologists, practitioners from different countries of the world, unanimously identify as **acts of corruption** those acts that are committed in connection with the exercise of certain functions or duties of service, **which consist of violations of attributions, following in all cases a profit**. The evolution of the phenomenon, reflected in the oldest laws, allows us to conclude that bribing, in essence, is a misuse in function in order to obtain material advantages, goods or other benefits.

Inflationary backs, legislative ambiguity, normative asymmetry and volatility, lack of institutional and behavioral transparency in a certain economic area, incoherence of tax administration represent only a few of the reasons undermining the attempt to reform the Romanian society, lead to overvaluation of the system of values and potentiate acts and Corruption acts.

In Romania, the process of political, social and economic changes that took place in the last 28 years, was accompanied by the ineffectiveness of legitimate control over institutions and favored the criminality, especially in the field of economics, profit-oriented, with the tendency to acquire an organized and global character, attacking public wealth.,

Regardless of whether there are illegalities in the public domain, fraud, tax evasion, smuggling, all these crimes are also under the corruption phenomenon:

"Economic and financial criminality distorts the business environment and is intimately associated with corruption (...) One of the enemies of those who want to combat this phenomenon is the mentality of the taxpayers who pay and the tricks manage to find the gates escape ",

said the former president of the Chamber of Commerce and Industry of Bucharest (CCIB), Ștefan D. Popa, at the opening of the symposium on combating economic illegalities.

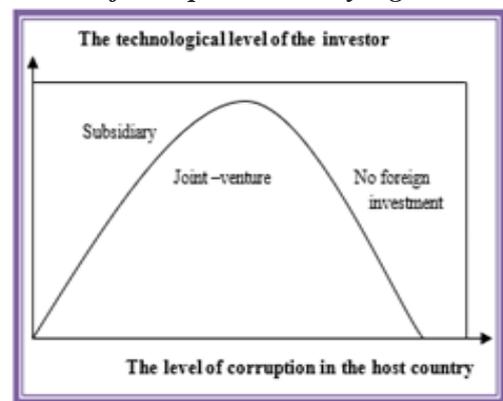
The impact of corruption on the economic and social development of society is particularly negative. First of all, the funds targeting the most disadvantaged beds of the population, namely hospitals, schools, other social investments, are often channeled to other destinations. This orientation makes the free market no longer benefit from the principles that lie at its disposal. Honest patrons either go bankrupt or are forced to bribe to enter the sphere of interest.

Through the extremely damaging effects it propagates, corruption can have unfavorable consequences on the external image of our country, both politically and economically (by stopping and even withdrawing foreign capital from the Romanian market).

The way in which corruption affects how to enter a foreign direct investment market can be replayed:

- *extremely high level of corruption lead to delocalization of foreign investments in that country ;*
- *if the investment is made, the foreign investor will opt for a subsidiary, when the level of its technology and corruption is "reasonable";*
- *as corruption increases, its option will move to a joint-venture, while maintaining a constant level of technology (Vass, 2001).*

Figure no.3 Scheme of tax optimization by legal means



Source: <http://mypanamalawyer.blogspot.ro/2012/05/>

In other words, the foreign investor will opt for the establishment of a subsidiary when the ratio between the estimated revenues is obtained and the costs related to the penetration of the market are higher than the degree of corruption of the host country.

With the rise in corruption, the cost of implantation increases more quickly for an investor who has opened a subsidiary than one who has a local partner. When growing with a unit of corruption in the host country, the marginal cost of setting up a joint venture is lower than the marginal cost of setting up a subsidiary.

5.2 Work without legal forms

Some of the financial resources resulting from illegal lending can be transferred to "support" the "black" work, without legal forms, also an integral part of the underground economy. Work without legal forms, as a generic name, refers to both the provisions performed under clandestine conditions and those undeclared to true value (so-called undeclared illegal work). Because of this, it leads to the alteration of the balance on the labor market, because there is a deregulation between labor demand and supply and, implicitly, the creation of a parallel labor market and a pronounced informational character (which is also negotiated with a parallel price of work: the "*unofficial*" salary, squeezed from the payment of the related tax obligations and, therefore, more attractive in the net amount and in the immediate future than the one existing on the official labor market).

Irrespective of the form of manifestation, work without legal forms escapes the incidence of tax laws (*either in whole or in part*), but also to social protection (*on the level of pension or unemployment insurance, sick leave etc.*). The most widespread manifestation of work refers to undeclared work, which is exerted at the limit of the legal provisions in the field with negative repercussions both on the state budget and the health insurance budget, and in a global form, on the budget Generally consolidated. In the short term, work done under legal conditions confers pecuniary advantages on both the employer (who reduces, in mode, the tax expenses and the contributions related to a higher salary), and to the employee (*as it causes an increase in its net money resources*), although, with the introduction of the 16% flat tax rate, the cumulative revenue on higher tier taxation and its drastic taxation was avoided). In the long run, however, the employee's interests are severely impacted from the point of view of his social security.

There are economic analysts and voices that support the beneficial effect of this segment of the informal economy; By occupying a certain number of people in this sector, the state is relieved (at least in part) from the payment of the amount of money that would be owed to them. Although the hypothesis cannot be totally denied, we do not share it, because, regardless of the forms under which it manifests itself, work without legal forms, escapes taxpayers by failing to declare (partially or totally) the income achieved and, as such, constitutes a form of tax fraud and an essential component of the underground economy.

6. Conclusions

In the face of persistent factors of legislative instability and normative volatility, the implementation of effective policies for the management of tax evasion practices is an objective necessity, possible by assimilation of some performing procedures and

instruments of fighting against evasionist techniques, but also by improving and adapting current legal regulations to the "requirements" in the field of organized crime.

A poor organization of fiscal policy against tax evasion can be assimilated to a malfunctioning at governmental level, in other words, the performance of governance is also reflected in the size of the non-constrained economy, by discouraging financial-tax frauds, in order to manage, effectively fiscal policy measures targeted by the public authority.

The lack of a firm action by the public authority to sanction and deter off evasionist practices will implicitly lead to the decreasing of the state institutions and the loss of the trust of the population in the efficiency and determination of the battle against this scourge.

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