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# ROMANIAN TAXPAYERS' INCLINATION TO TAX CHEATING

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**Abstract:**

*Any taxpayer lives with the feeling of being stolen when it finds that tax revenues are not used effectively and corruption is prevalent everywhere. Tax psychology appears often as an explanation of tax payers' behavior in relation to taxation. This paper aims to underline the disparity between the degree of verbal fiscal morality declared by the Romanians in international surveys (World Values Survey) and the degree of factual fiscal morality provided by annual reports of National Tax Administration Agency of Romania. Results of the survey undertaken at the international level cannot be extrapolated to the complex territorial space with millions of working individuals and corporate taxpayers. While the tax authority figures indicate an increase in the number of taxpayers checked, a rise in the number of illegal activities and an increase in the value of sanctions applied.*

**Keywords:** *tax morale, tax evasion, tax cheating*

## 1. Introduction

As is well known, the state is an economic actor whose functions are closely related to the achievement of welfare, assisting and protecting low-income population, providing a social balance in terms of relations of equity and social justice. Noteworthy is its function to guide the business through economic policies, it outline a trend of economic growth in line with the doctrine of state policy. Public tax revenues policy (fiscal policy) leaves its mark on the conduct of economic and financial processes and thus on the evolution of the entire society. But, in turn, it is conditional by the economic environment, through a series of factors, such as the economy, the relationship between public and private sectors, citizens' income levels etc.

During the process of mobilizing financial resources to the state budget and local budgets may appear a risk in non-collecting the amount of public money at their deadlines. This phenomenon has multiple causes including: the level of taxation, organization of the tax authorities, the number and the retention of staff, clarity of legislation, taxpayers behavior, etc. The degree of tax revenues collection is directly related to tax evasion, a tax risk may appear.

This paper aims to underline the fiscal disparity between the level of verbal tax morality in international surveys declared by Romanians and the level of factual tax morality provided by annual reports of National Tax Administration Agency. The paper is structured in three main parts. In the first part can be found some theoretical aspects on taxpayers resistance to tax liabilities. The central idea of this first part is that tax psychology is an explanation of taxpayers behavior in relation with taxation. The second part contains a brief foray in the literature on moral tax in order to identify some factors of moral tax behavior according to previous researches. The last part includes a brief descriptive analysis on tax cheating in Romania based on the data of World Values Survey.

## **2. Tax resistance**

Resistance to taxes is a general phenomenon in different proportions, no matter how perfected a collection technique is. Taxes can be totally or partially circumvented in certain circumstances. The starting point of tax evasion is the tax burden. Any taxpayer seeking to escape especially when he considers that the state exaggerates. He compare the effort to with what he benefits from the public authority and if the result is negative, then appears a resistance to taxes. Taxpayer resistance to taxes is a matter of tax civics.

Tax risk is a concept more psychological than legal, tax resistance may generally refer to organized forms of opposition to tax levies. The tax resistance means individual or collective behaviors that tend to reduce or even eliminate the tax liability payable by a person or group. Resistance to tax event may occur in various stages of taxation both at the stage of settlement, in the calculation, payment and tax control. Such resistance can be multiple in the sense that it can be occasional or habitual, occult, discrete or even provocative, spontaneous and anarchic, organized or institutional. (Mihaescu S., 2000, p. 132-133)

Nobody likes to pay taxes, must be quite unpleasant and exercise psychological pressure on the citizens, hence the tendency of citizens to partially evade from payment of taxes and fees. Psychological surveys have shown that the tax debt do not achieve the morality and the individuals' conscience. (Ciobanu O, 2003, p. 161) Schmolders argues that psychological aversion to taxation is vital to the human sphere, it is conditioned by its natural instincts that are diametrically opposite to achieve rational tax debt. It is argued that any restraint, and therefore taxation is immoral because it strikes at the freedom of individuals, and on the other hand,

recognizes that paying taxes is a moral duty. Fiscal constraint is a very old, we find it in the Bible where is mentioned "Give to Caesar what's Caesar's.

Between psychology and economics are a number of barriers, but also some common points, but in the end people have to find the middle way between those two extremes. Economics and psychology have common origins, since the early seventeenth and nineteenth centuries, namely the British school of psychology. However, throughout history of economic psychology and economic behavior occurs, intentionally or not, research economists. To talk about economic problems requires the involvement of psychological factors, to talk about psychological problems requires economic implications, therefore there is no contradiction, exclusion or confrontation between the two. It accepted the idea that psychology cannot explain the successful economic development of business processes better than economics, but it explains the most common behavior of citizens. Fiscal discipline cannot be separated by the state philosophy, ethics and psychology. Tax psychology appears as an interdisciplinary explanation of attitudes, emotions, motivations and tax payers' behavior. This term has the same origins as tax mentality, "their father" is the German Günter Schmolders. He extended his research on economic-social behavior in finance and sociological aspects of fiscal pressure, tax mentality and tax morality.

### **3. Factors of tax morale behavior**

Among factors affecting moral behavior of tax payers can be found taxpayer gender (male / female), age, marital status (married / unmarried), education level, mode of employment (employed / self-employed), social class, income, religion, the type of democracy, the community's trust in government and public attitudes to democracy, the tax rate, corruption, etc. These factors were the subject of numerous econometric researches after 2000 in order to determine the degree of correlation between them and tax morality. Among these we mention the research undertaken by Benno Torgler 2003; Benno Torgler, Kristina Murphy 2004; Frey Bruno 2003; Benno Torgler, Christoph Schaltergger 2006; Bruno Frey, Benno Torgler 2007 etc. Many researchers, e.g., Lewis (1982), Pommerehne et al. (1994), Frey (2003a), Alm et al. (1999), Frey and Feld (2002), Torgler (2002) argue that tax morale helps to explain the high degree of tax compliance.

Literature on tax moral can be divided into two categories. First, are those studies focused on one country only, but then analyze regional differences and changes over time. This is the case for the papers by Torgler (2005), Martinez-Vazquez and Torgler (2005), and Prieto, Sanzo and Suárez-Pandiello (2006). Second, are those papers using cross-national data. Papers by Torgler and Schneider (2006), Alm and Torgler (2006) and Cummings, Martínez-Vázquez, and McKee and Torgler (2007) are focused on two or three countries. On the contrary, research by Torgler (2006) and Alm and Torgler (2006) use a dataset with a wide sample of countries. Given that tax morale is measured with survey questions, the methods used are very similar in all these studies: regression models.

All correlative analysis on the taxpayers' tax morality is based on primary data provided by the World Values Survey and European Values Survey. For example, the database "The World Values Survey (WVS) allows analysis of fiscal morality as a dependent variable. WVS study consists in a worldwide investigation of socio-cultural and political changes that occur due to the comparative values of global citizenship. This study is based on a representative sample in each nation of at least 1,000 respondents / country of about 80 countries worldwide. All studies are conducted personally, face to face, between interviewers and respondents at the address of the latter and in their own language.

By researches based on correlation analysis and considering tax morality as dependent variable was obtained that the U.S. recorded the highest level of tax morality of all countries analyzed over time, followed by Austria and Switzerland. Taxpayers in the former Soviet Union countries (Russia, Belarus, Ukraine, Lithuania, Estonia or Latvia) recorded a lower level of tax morality than that found in other European countries (EU Member States and Croatia). The level of tax morality is directly proportional to age, degree of satisfaction with financial and inversely proportional to the level of education of the taxpayer and corruption. Tax morality is stronger for retirees than for those taxpayers who are still active. Also it is stronger if married to unmarried. Religion has a positive influence on tax morality.

The fact that the spending of public money produces differences in the population is not new. For example, the majority ethnic groups in a given country have public money to a greater extent than members of minority groups, resulting in a low tax morality for the latter. It was shown that ethnic and national identity plays an important role on tax morality and their effects depend on the heterogeneity of of each country's population. To prove the above statement, Sherry Xin Li used "The European and World Values Surveys" databases containing information about taxpayers' inclination to "theft" of taxation (i.e. avoidance of tax obligations), the national and ethnic identities of the population in 77 countries. Sherry Xin Li (2010) investigated the relationship between social identities, ethnic fragmentation and tax morality of a society by showing that ethnic fragmentation adversely affect citizens' tax morality and leads to higher costs of collecting tax revenues in these countries compared with ethnically non homogeneous. (Sherry Xin Li, 2010, p. 146-177)

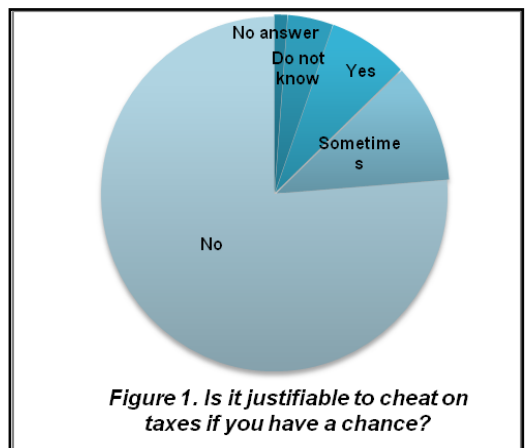
The link between cultural differences of countries and the fiscal behavior was investigated in 2004 by Cummings, Martinez-Vazquez, and Torgler McKee, for U.S., Botswana and South Africa. (James Alm, Benno Torgler, 2004, p. 224-246) The research undertaken by them have shown that differences in tax morality can be explained by differences in perception of exchange equity tax (taxes and fees for public services). Another factor affecting the morality of collecting taxes is the correct degree of tax burden, an unfair tax system leads to theft in taxes and fees. It was demonstrated that the degree of fiscal autonomy affects the morality of citizens before taxes. (Benno Torgler, Jan Werner, 2005, p. 423-452) In countries where corruption occurs systematically, there is a lack of transparency in the preparation, execution and completion of budget execution, taxpayers do not accept some tax liabilities as social

norms. Institutional instability, the degree of corruption of civil servants in the administration of public money causes an increase in the inclination to conduct business in the underground or informal economy. Any taxpayer lives in the sense of being stolen when it finds that tax revenues are not used effectively, corruption is prevalent everywhere and the laws do not protect their interests, so a reduction in the level of tax morality lead to an increase of illegal activities. (Benno Torgler, Friedrich Schneider, 2007)

#### 4. Descriptive analyze on tax cheating in Romania

Surveys offer the best possibility to investigate tax morale. The World Values Survey provides a valuable data source for getting internationally comparable information on tax morale. To assess the level of tax morale can be used the World Values. Surveys allow us to work with a representative set of individuals, which is not often the case in experimental studies as many use students as participants. A survey use some question to state if tax evasion is or not justifiable. This descriptive analysis reveals the percentage of individuals in Romania stating that 'tax evasion is always justifiable'. It is based on database of World Survey Values, available on website <http://www.wvsevsdb.com>. The last survey is from November 2005 and was made by personal interview, by Research Institute for Quality of Life (of the Romanian Academy). We used in this paper the Survey Values Databank from 1993, 1999 and 2005, by six to six years. The next survey will take place during the current year. We focus on Romanian citizens perceptions of resistance to taxes and about tax morality. The analyzed indicator from World Survey Values is **V200 - Justifiable: cheating on taxes**. The question is "Please tell me for <<**cheating on taxes if you have a chance**>> whether you think it can always be justified, never be justified, or something in between. The possible answers are: 1-never justifiable to 10-always justifiable.

In Romania, the study was conducted on a sample of 1776 persons interviewed, of which 22 persons (1.2%) refused to answer this question, and 86 persons (4.8%) did not know what to answer. Because the range of responses possible answers include 10 variants we recode as follows: 1, 2 and 3 variants meaning NOT justified to not pay taxes, if you cannot pay, options 4,5,6 and 7 meaning SOMETIMES justified to not pay taxes, if you cannot pay them, and options 8, 9 and 10 meaning YES it is justified to not pay taxes, if you cannot pay them.



Of the total respondents 75.8% said that is not justified to not pay taxes, if you cannot pay them, while only 7.4% of respondents recognized the inclination towards

tax evasion. (WSV, 2005-2008) The sample of 1668 people who responded to this question is formed in proportion of 47.5% of people aged over 50 years, 35.2% of people aged between 30 and 49 years and 17.3% aged 15 – 29 years. Age is one of the factors that cause resistance of the tax payers. In Romania, the analysis indicates that the Romanians give evidence of more severe fiscal morality by age. According to the survey, over 17% of respondents aged over 50 said that it is justified to not pay tax liabilities, while young people aged under 29 answered the same thing but in a greater extent, over 24%.

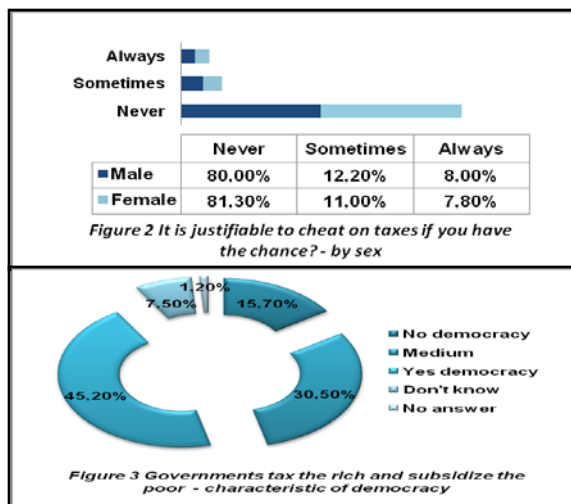
It was observed a direct connection between education level and the inclination to tax fraud. 87% of people with no studies have a high tax morality level because they have a lack of necessary knowledge to do tax evasion. As the number of years of education increases for each individual, the inclination to tax cheating increases too. Thus, according to data centralized in World Survey Values, more than 6% of people with higher education acknowledge the justification not to pay tax liabilities each time they have the opportunity to do so.

**Table 1: Employment status survey**

"It is justifiable to cheat on taxes if you have a chance?"	Total	Employment status							
		Full time	Part time	Self employed	Retired	Housewife	Students	Unemployed	Other
Never justifiable	80,70%	80,40%	62,00%	74,40%	84,30%	79,90%	68,10%	76,10%	90,40%
Sometimes justifiable	11,40%	11,40%	11,00%	20,00%	12,80%	9,50%	11,70%	21,40%	19,70%
Always justifiable	7,90%	7,90%	8,60%	18,00%	12,80%	6,20%	8,50%	10,70%	4,20%
Total	1657 (100%)	605 (100%)	50 (100%)	39 (100%)	601 (100%)	213 (100%)	47 (100%)	71 (100%)	31 (100%)

Source: World Survey Values for Romania

In terms of employment form, in Romania the most prone not to pay taxes, each time they can, are freelancers (18% of them agree with the justification for tax fraud), pensioners (12.8% of them have low tax morality) and those who have no job (10.7% of them admit to being tempted to avoid being some honest taxpayers). In terms of marital status, the most tax immoral are the people who live in concubinage, 9% of those interviewed admit a justification for non-payment of taxes



whenever they can. The most fiscally responsible of Romanians are married or widowed persons, over 80% of them feel that it is no justification for non-payment of tax obligations.

If we refer to the religion of the respondents it can be noticed that the Roman Catholics Romanians (10.5% admit to always justify tax evasion) are more "tax immoral" than the Orthodox (7.5% admit that always is justified a tax evasion action). In terms of gender we cannot say that there are differences between women and men on fiscal mentality in Romania.

Another question provided by this international survey refers to democratic or undemocratic character of income distribution in society through the intervention of public authorities. So, 1776 Romanian persons were interviewed if <<governments tax the rich and subsidize the poor>> is a characteristic of democracy. They used a scale a where 1 means - "not at all year essential characteristic of democracy" and 10 means "it definitely is an essential characteristic of democracy". Over 45% of Romanians consider this as being very democratic, while only 15.7% lumped it as undemocratic. A simple reasoning leads us to believe that 15.7% of Romanians, who consider undemocratic income taxation, should fall into the category of tax immoral individuals. But as we said before, only 7.4% of them recognize all the time the justification of tax evasion inclination. The difference of 8.3% (15.7%-7.4%) of respondents either disagree with income taxation, they comply fully with taxpayers liabilities or were not honest in completing the questionnaires.

We should also note the Romanians attitude towards increasing the tax burden for protecting the environment. When asked "whether or not they agree with an increase in taxes if the extra money we're used to prevent environmental pollution", 32.2% of respondents would accept such a decision. This approach allows us to get an idea about the degree of tax morality of the Romanians.

If we refer to the published results of surveys conducted in 1999 and 1993 by World Values Survey, it can be observed some slight changes in the perceptions of Romanians taxpayers. In 1993 83.3% of the 1103 people interviewed have had some fiscal civism and they cataloged as unjustified tax avoidance by any means of taxation, and 3.8% of them recognized the inclination towards tax evasion. After six years, the survey conducted in 1999 show a reduction in tax civics of taxpayers. This time, 68.5% of respondents said that it is not justified in any circumstances to not pay taxes, even if it would be possible, while 10.2% of people would resort to tax evasion if it is timely.

According to this three international surveys in Romania there is a high level of tax morality, more than two thirds of the population believe that is not justified to circumvent the tax payment even if it became possible. Theoretical, this should be factual materialized by reducing cases of tax fraud carried out by control officers. But annually released figures by the National Agency for Fiscal Administration (NAFA), comes as a proof of the facts and contradict the results of studies by interviewing taxpayers, coming as evidence of verbal statements. In the Romanian Constitution, in Article no. 53, states that "citizens must contribute through taxes to public spending". Annually reports published by NAFA do not reflect compliance with Article posted in



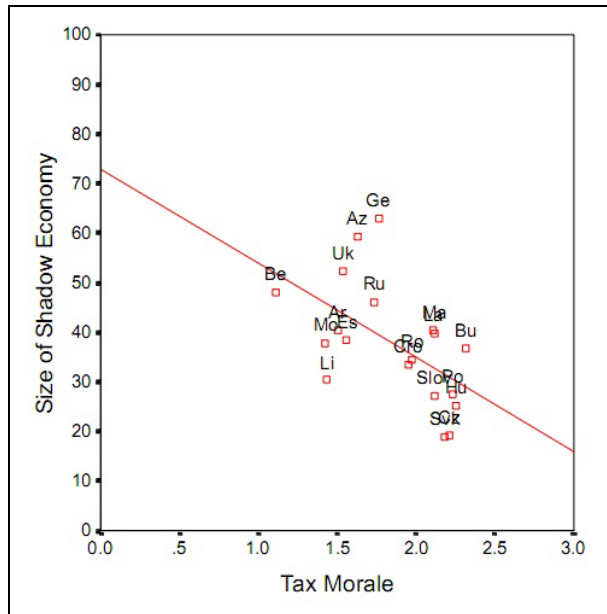
Constitution, and more, it comes to contradict the results of World Survey Values. For this we turn attention to 2007 and 2009 NAFA report. To ensure equality of citizens before taxes and to maintain fair competition between companies, NAFA is always concerned to reduce tax evasion, which affects revenues and distort businesses. So every year the fiscal control activities have intensified. These are focused on verifying the tax bases, legality and compliance of tax returns, reliability and accuracy of taxes, compliance of tax law and accounting.

In 2007 were performed 103,503 checks according to the 2007 NAFA report. As a result of tax inspections, have been attracted to the general consolidated budget additional amounts totaling 2,588,143,306 lei, with 28% more than in 2006. In 2007, the commissioners of Financial Guard have made 173,350 control actions. In approx. 80% of cases were discovered irregularities in financial discipline. In 2009 were made 112,170 checks to corporate taxpayers and individuals, of which 83,010 (74%) to companies (compared with 97,077 in 2008), and were set additional requirements amounting to 6,082.0 million lei (32.6% more than in 2008). A significant share of the total additional tax liabilities have attracted as value added tax - about 60% (3644.6 million) and corporate tax - about 27% (1631.7 million). Furthermore, tax auditors confiscated goods and amounts totaling 96.9 million lei as compared to 36.0 million lei in 2008. In addition, deficiencies were sanctioned by applying fines totaling 43.2 million lei. (NATA Report 2009, p. 25)

All this facts come to certify that the survey undertaken at international level cannot be extrapolated to the complex territorial space in which several millions individuals and corporate taxpayers operates. In case that 70 percent of people who believe that is unjustified to not pay taxes respect their principles, the tax control activity would reduce nationwide. However, the figures indicate an increase in the number of checked taxpayers, a rise in the number of illegalities, a rise in sanctions imposed. In other words, the degree of fiscal morality in Romania is facing a gradual impairment in time. Another argument to support previous ideas derived from the punishment of state by taxpayers by not paying taxes that they have already declared. These taxpayers' facts can certainly be included in the category of tax immoral acts. Arrears remained to be recovered as share of GDP are changing unfavorable upward after 2008. All these are correlated with increased activities of the underground economy of a country.

The correlation analysis of variable tax morality and underground economy as share of GDP in Eastern Europe countries shows a concentrated layout of the analyzed countries in relation with direct proportionality. (James Alm, Jorge Martinez-Vazque, Benno Torgler, 2006, p. 832-857) Thus, countries such as Romania, Slovenia, Hungary, Slovakia registered a high tax morality and an underground economy share of GDP below 30%, while the reverse situation can be found in Belarus and Ukraine. Unlike developed countries, Eastern European countries recorded higher levels of the underground economy.





**Figure 4 The correlation between tax morality and the underground economy in developing countries**

Source: James Alm, Jorge Martinez-Vazquez, Benno Torgler, *Russian attitudes toward paying taxes – before, during, and after the transition*, *International Journal of Social Economics*, Emerald Group Publishing, vol. 33(12), December, 2006, p. 832-857

Between fiscal morality and the economy is a direct relationship, but of opposite sign. An individual taxpayer is strongly influenced by other contributors' behavior. If he believes that tax evasion is a common phenomenon, then the tax morality decreases, if he consider others as honest taxpayers, then it strengthens his morality. One's own willingness to pay taxes may lead to the expectation that others behave in the same way. However, results from strategy method experiments done by Fischbacher et al. (2001) and Fischbacher and Gächter (2006) that investigate carefully the causality problem suggest that causality goes from beliefs about others' cheating to one's own behavior rather than vice versa.

Elffers et al. (1987) find marked differences between the assessments of tax evasion and reported tax evasion in survey responses. Nonetheless, because the way we define tax morale is less blunt than asking whether a person has evaded taxes, we expect the degree of honesty to be higher. Moreover, a taxpayer who has evaded tax payments in the past may tend to excuse this kind of behavior and report higher tax morale in the survey. Furthermore, the survey question used to measure tax morale may allow other forms of interpretation. For example, an individual may think that cheating on taxes is justifiable if he believes that the government is not to be trusted.

## **5. Conclusions**

Nobody likes to pay taxes, must be quite unpleasant and exercise psychological pressure on the citizen. Taxes are considered unethical because they violate the freedom of individuals. But paying taxes is often considered a moral duty. Tax payers moral behavior is influenced by the community's trust in public institutions and Government, by attitudes towards democracy, by tax rate, corruption, gender of taxpayer (male / female), age, marital status (married / unmarried), education level, mode of employment (employed / self-employed), social class, personal income, religion, type of democracy, etc.

According to the World Values Survey 2005-2008, in Romania 75.8% of citizens believe that it is not justified to not pay taxes, if you cannot pay them, while only 7.4% of respondents recognize the propensity for tax evasion. Once taxpayers get old they prove a higher tax morality level. It shows a direct relationship in the same direction between education level and inclination to tax fraud. If 87% of people with no studies show incredible tax morality because they have a lack of necessary knowledge to do tax evasion, as the number of years of education increases for each individual inclination to tax cheating increase too.

According to the survey conducted in Romania, it was found that there is a high level of tax morality, more than two thirds of the population said that it is not warranted to circumvent tax payments since it became possible. Theoretical, this should be factual materialized by reducing cases of tax fraud carried out by control officers. But annually figures, released by the National Agency for Fiscal Administration, come as a proof of the facts and contradict the results of studies by interviewing taxpayers, coming as evidence of verbal statements.

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