



Financial Control Therapy in the Eradication of Undeclared Work and Tax Evasion

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Abstract: As forms of the black economy, undeclared work and tax evasion are topical issues that are the subject of governmental and non-governmental policies both nationally and internationally, treated from various angles and in the literature, because it has important implications and ramifications in the budget balance. and implicitly in everyday social life. The underground economy, which is mainly a feature of the market economy, is based on freedom not necessarily misunderstood but deliberately understood according to the pecuniary interest of actors operating in this type of undeclared economy, most often through well-behaved economic agents. fiscal and commercial that contravenes the rules of law, freedom that must be controlled in terms of the legality of activities. As a result, financial control through the forms and bodies that carry it out is very important, perhaps not in eradicating them as they should be, but at least in diminishing them.

Keywords: audit; financial control; economic crime; digitization; tax evasion; expertise

JEL Classification: E24; E26; H26

Introduction

The present study, with the topic presented above, starts from the fact that the underground economy, which is mainly a feature of the market economy, is based on freedom not necessarily misunderstood but deliberately understood according to the pecuniary interest of actors working in this type. undeclared economy, most often

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through economic agents with fiscal and commercial behavior that contravenes the rules of law, freedom that must be controlled in terms of the legality of activities.

According to the tendencies of the 21st century, the underground economy is recognized as a component of the real economy together with the official economy, the area between them being borderless, very dissipated which requires as necessary and important at least an analysis of correlations and interdependencies between them. to offer some solutions to control it and possibly to lessen the negative effects, in case, very unlikely, in which it cannot be completely eradicated.

Methods of investigating the underground economy place undeclared work and tax evasion as the main important forms of manifestation of the underground economy, and like this, undeclared work is found under various nominations: hidden, black, gray, informal, underground, unofficial, and so on.

Ever since the 1970s, when a conceptualization of the underground economy was attempted, the term informal has been used by the International Labor Organization (abbreviated IOM), which referred to the study of the Ghana urban labor market (Hart, 1970, pp. 104-120).

The informality of work, the division of labor relations into formal and informal, as a consequence of the survival instinct according to Keynes (Oxford Dictionaries), became specific to Romania after 1989, by moving to a market economy, abruptly giving up the centralized economy.

Undeclared work and tax evasion reflect an interdependent cause and effect bivalence, found as a specific feature of the underground economy defined as “type of undeclared economic activities and not recorded in the accounts of those who practice them, to evade the payment of taxes and legal fees.”

Within the EU, no established definition of undeclared work has been reached that reflects all the characteristics that may make it vulnerable to the regulator, but its association with tax evasion results from the EC Commission's definition of “any remunerated activity, which is legal in as to its nature, but not declared to public authorities, taking into account the differences in the regulatory systems of the Member States” (Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions).

Undeclared work and tax evasion, as forms of the underground economy, have certain specific characteristics that are relevant reasons to be known and can be used to identify an effective antidote, as they concern the evasion of:

- establishing legal limitations: minimum wage, minimum / maximum working time, working conditions, etc.
- payment of income tax;

- payment of social contributions.

Due to the polyvalent nature, undeclared work can be followed in 3 categorial forms, more or less controllable, namely:

- in an apparent “official” form practiced by society, in which part of it, larger or smaller, is highlighted depending on the interest and attitude of the company, and another part is “black”;
- undeclared or independent individual work, applied to clients of “official” enterprises or individuals;
- “voluntary” work provided to family, friends, cousins, meaning all kinds of services in the human household, a kind of mutual help in work.

In order to be controllable, a thorough analysis must be made of it, both in terms of its magnitude at local or global level and its structuring on various criteria, these two characteristics being different from country to country, even from area to area, due to:

- structure of the economy,
- the power conferred by law on control bodies and bodies;
- work regulation system;
- the area of manifestation of social protection systems;
- involvement of governmental factors;
- last but not least, the corruption and bureaucracy of public institutions.

In a study published by the European Commission (ec.europa.eu), for analysis are eloquent several indicators that frame the undeclared labor force and the underground economy in GDP, compared to the demand and supply of undeclared labor and its share in the labor force.

Table 1. Indicators of undeclared work and the underground economy

Country	Romani a	Hungar y	Polan d	Rep. Czech.	Slovaki a	Sloveni a
The underground economy (% of GDP),	28	21,9	23,3	15,1	14,1	23,3
UW (% of GDP)	16-21	18	12-15	9-10	13-15	17
UW% (% of the labor force)	18,9	17,3	20,8	7,7	13,4	13,2
Informal work	11,8	9,4	21,6	12,5	12,2	14,1
UW applications (%)	10	11	5	19	17	22
UW supply (%)	3	4	3	4	5	7

(Source: own projection)

In view of the need for control over the fight against undeclared work, it must be considered whether this is due only to the increased degree of taxation or to other factors.

From this point of view, in my opinion, there can be 3 causes that underlie undeclared work:

- aggressive, high taxation on payroll taxes and social security contributions,
- the irrational and unsustainable use of financial resources obtained from these taxes and contributions, an example of which is at times the budget insufficiency for indexing salaries, increasing pensions, depreciating the medical system, etc., which motivates the refusal to pay,
- the prohibition of some activities as being immoral (prostitution, drugs, etc.), a cause that when practicing them illegally, and as a result the staff involved cannot be hired and declared.

Data Analysis. Theoretical Fundamentals Control vs. Undeclared Work

Knowledge of the sources of undeclared work, the causes and factors that generate it and its forms of manifestation are very important to apply and achieve the most effective forms of control in order to make the best decisions and solutions to combat it.

As a result, financial control through the forms and bodies that perform it is very important, perhaps not in eradicating all undeclared work or tax evasion, but at least in reducing them.

The organs, forms and means of control must be very well dimensioned, otherwise the specific features of the underground economy in this field make its efficiency more difficult.

Financial control can be classified according to various criteria, but the most appropriate, in my opinion in terms of results, is that which is based on the membership of the bodies, namely:

- internal (accounting, internal audit, preventive, management, etc.);
- external (censored, statutory audit, contractual, expertise, institutionalized state).

In terms of the obligation criterion, the two categories can be:

- mandatory;
- optional.

As an example, internal financial control is mandatory for the public sector and for the private sector (accounting, preventive, management, etc.) is optional. This situation is totally counterproductive in terms of combating the phenomenon because in this sector there is undeclared work and related tax fraud, which reveals that the inefficiency of this control is related to regulation.

With regard to internal, external and censored auditing, things are somewhat different, in the sense that it is also mandatory for the public sector, but instead for the private sector it needs to be nuanced.

I say this because public interest companies and / or large companies that meet certain regulated size criteria are subject to financial and internal audit, the rest of medium and small companies, which in numerical weight represent over 85% of registered companies, have the option of applying this internal audit.

One criterion that is of particular importance in the eradication of tax fraud in the field of labor relations, is that of the moment of control, which can be:

- antifactual (preventive control);
- concurrently (censorship, control and internal audit);
- later (statutory audit, contractual, expertise, etc.).

No priority can be set, but it is certain that all forms are necessary and should be carried out in order to have the expected efficiency.

The ante-factual control prevents the undeclared work, the concomitant one can correct it operatively if it happens, and the subsequent one can ascertain the consequences in case it occurred.

With regard to undeclared work and tax fraud, a very important and decisive role belongs to the state control, institutionalized, which must be given the most attention being a normal and natural control, in fact an extension of the state's interest in the economy in two forms:

- legislative control attributed to Parliament by the Court of Auditors and has as its area of reference the public sector, and
- attributed administrative control of the Government through the relevant ministries and agencies (MoF, ANAF, ITM, MAI, OPC, etc.).

Legislative control, which at first sight can be said to be the least involved in eradicating the underground economy being carried out by the Court of Accounts, but considering the fact that the greatest resources consumed are public ones, this institution has a primary role, being usually a subsequent check.

However, in terms of undeclared work and tax fraud, which manifests itself mainly in the private sector, the most competent bodies are the administrative ones such as

ITM, ANAF, the General Anti-Fraud Directorate, and the MIA bodies on economic crime, which practice financial and fiscal control, previously, unexpectedly and subsequently, importance having their involvement and determination in the proposed purpose. The effectiveness of these control institutions depends on the legislative framework, which should be designed to encourage voluntary compliance and compliance with legislation, which can be achieved in three forms:

- sanctioning deviations from the legal provisions;
- waiver of tax amnesties;
- encouraging and motivating employers who comply with legal provisions.

For a very long time, only the first two forms are practiced, which in a very difficult time will give the expected results if they are not completed with the motivation of those who comply with the regulations.

A specific feature of undeclared work and implicitly of tax evasion in this field, was generated by the pandemic situation caused by Covid 19, which broke out in early 2020 and amplified in an unimaginable way today, which redefined the coordinates of wage activity. Regulated and / or accepted physical distance required finding adaptable solutions to the new requirements.

In everyday, legal and fiscal language, the usual terms have returned, but with a new correspondence in practice, much more active, such as quarantine, flexible hours, work at home, segmented hours, partial, individualized, salary reduction, unpaid leave, technical unemployment, Telework, Electronic Signature, and Cloude Computing. Cloude Computing in 2021 is used by over 85% of large companies, growing compared to 2012 when according to the Consult Blue study, initiated by the CIO Council (Romanian Association of Information and Communication Technology Directors, 2014), it emerged that 55% of them were courting Cloud Computing technologies and applications.

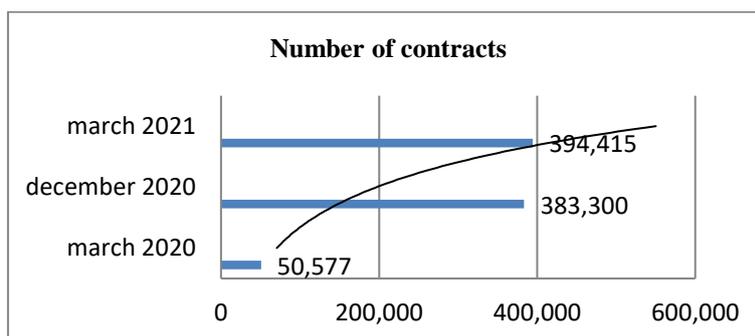


Figure 1. Evolution of the number of telework contracts

Source (Own projection)

One of them, and the most frequent, is telework, which has also acquired a new regulatory connotation¹ and which has willingly imposed and acquainted those who practice it with digitization, knowledge and use of the Internet and electronic signature in labor relations, commercial and public institutions.

According to data published by the labor inspectorate, the evolution of commitments with telework clauses was exponential over the period of one year, from 50,577 in March 2020, to 383,300 in December 2020 and 394,415 in March 2021.

Conclusions

The redefinition of labor relations in the epidemiological context of the effects of the health and economic crisis generated by Covid 19, imposed the flexibility and adaptation of even more severe financial control of the fiscal to new labor challenges, especially teleworking, with much emphasis on its digitization, modernization and computerization, the most appropriate form being the exhaustive electronic control, without physical presence by using alternative means of communication (fax, e-mail, mail, courier, platforms, etc.). The digitization and use of Cloude Computing (Ionescu, Cristina, & Tudoran, 2014, p. 3), to counter tax evasion in the labor market, involves rethinking and modernizing the entire computer system used, changing its infrastructure, while a specialization of the human factor, controllers, who must have adequate knowledge and skills much wider than the personnel who coordinate and manage the labor relations of the economic agents predisposed to undeclared work.

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