

## ANALYSIS OF THE ECONOMICAL-FINANCIAL BUSINESS OF THE CONTRIBUTORS – SUPPORT OF THE TAX EVASION FIGHT

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### **Abstract:**

*The work is trying to define and to impose the economical-financial analysis of the contributors as a main identification method of the fiscal evasion. The careful analysis of the financial documents of a company and their correlation with the factual reality must be the main identification method of the fiscal evasion on the economic agent level. This hereby work presents the main relevant financial indexes regarding their capacity to surprise the existence of the fiscal evasion on the level of a company and of the existing connections between their level and the existence of the fiscal evasion phenomenon. The economical-financial analysis becomes a support for the fiscal evasion fight especially through the fiscal inspection. The calculation of the financial indexes and the settlement of an alert margin regarding their value can be clear indexes for the financial inspections concerning the existence of the phenomenon on the level of a company and will help them in the identification of the evasion methods. This hereby survey opens up the research opportunities regarding the existing connections between the economical-financial indexes of a company and the fiscal evasion on its level.*

**Keywords:** tax evasion, economical-financial analysis, financial indexes, financial inspection, tax evasion fight.

**JEL Classification:** H26

### **INTRODUCTION**

The fiscal evasion is one of the economical-social phenomena of great importance with which, in a large or less extent all the states deal with. Some states fight against the phenomenon through well-lined policies, others through less clear measures, but one thing is for sure: no country succeeded to eradicate the phenomenon by now. Due to this reason, the fight against the fiscal evasion is an interest point for the scientific research in the finance field. The approach of the liaison between the economical-financial analysis and the fiscal evasion phenomenon is a departure point for such future surveys.

### **CONTENTS**

The analysis of the economical-financial activity of the contributors may have a decisive contribution to the identification of the fiscal evasion and the fight against it. The accounting financial statements are the mirror of the contributors' activity and supply relevant information regarding their activity and the correctness of the accounting registrations.

As patrimony template, the balance sheet reinforces and gives synthetic expression to the information regarding the functional investment forms of the funds in the activity of a patrimony holder, as well as to the way of their formation within the relationships with the economical-social environment. This characterizes in numbers and in monetary standard the dimensional and structural balance relationships between the economical means managed by the patrimony holder and the procurement ways of these means. Therefore, the balance sheet proves the obtained financial output, as a result of the consumption and multiplication of the invested funds.

The balance sheet is meant to generalize the current accounting data from time to time and to establish a series of synthetic economical-financial indexes, granting the accounting and informational template nature, but also of a management template of the material and monetary values under patrimony limits. On informational level, the balance sheet is emphasizing the cause relationships between the tangible assets and the money, as rightful objects and liabilities on the one hand, the holder's rights and liabilities of the patrimony holder, between the use of their values and

multiplication. This provides reflection and control information upon the balance relationships concerning the patrimony condition and movement.

As management template, the balance sheet serves to the movement of the mechanisms belonging to the rightful subject oriented to the efficient insurance of the matrimony multiplication; the decisions concerning the allocation, the financing, the use and the fund recovery are based on it. Also, the control upon the decision making is organized through the balance sheet, there are assumed rights and liabilities, and there are established responsibilities and co-interests regarding the management and development of the patrimony. Also, the balance sheet can be used as knowledge instrument of the norms regarding the preservation, management and disposition right upon the patrimony. Regardless the account and the account system, through which the description and the analysis of the patrimony financial morphology are provides, the balance sheet makes the syntax of this structure.

By the documentation availability, by the way of participation to the information-analysis-decision" cycle, the balance sheet is deemed a reference base, as penetrating offer and having catalytic effect in the process of management of the economical-financial business. The balance sheet data are base of the decision process, and by following the movements interfering in the structure of the patrimony elements, there is made the control of development of these processes, analyzing the obtained output in relationship with the parameters from the base of decision making.

By its structure and by the way of grouping the indexes, the balance sheet offers the possibility to appreciate the financial statement of the enterprise and responds to the information needs of the users, providing also the data necessary for the elaboration of the prognoses.

The balance sheet includes the patrimony situation of the company on a given time, providing information related to the financial balance of the company. The use of the balance sheet as instrument of analysis of the economical-financial business on micro- and macro-economic level, grants it the characteristics of an economical template.

Furthermore, we will try to present the balance sheet from another perspective, which is much closer to the subject of this hereby work, concretely from the perspective of the fiscal evasion.

Synthetically, the structure of the balance sheet can be presented as it follows:

### Form 1. Balance structure

<b>I. ASSET</b>	<b>II. LIABILITY</b>
1. Circulating assets	1. Current debts
-Cash and equivalents -Non-received debts -Expenses registered in advance -Inventory items -Advances withdrawn for discount -Other debts -Stocks -Other circulating assets	-Unpaid invoices -Taxes to be paid-up -Salaries to be paid-up -Dividends to be paid-up -Other payments -Incomes registered in advance -Short-term credits -Current part of the long-term debt -Other current debts
2. Intangible assets	2. Long-term debts
-Furniture and other tangible assets -Equipment -Buildings and arrangements -Land -Other non-circulating assets	-Long-term debts – Banks -Other long-term debts -Dividends to be paid-up – long-term -Long-term loans between associates to be paid-up
	3. Registered capitals

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| <ul style="list-style-type: none"><li>-Subscribed and paid-up registered capital</li><li>-Reinvested profit</li><li>-Other funds</li><li>-Distributed dividends which must not be paid-up</li><li>-Loans between the associates which are not paid-up</li></ul> |
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In case of the companies using the fiscal evasion in a frequent way, some balance sheet posts take specific values, easy to recognize by reporting them to other balance sheet posts. Thus, the cash (the cash register and the bank account) register low values, amounts resulted from sales which have not been registered in those accounts for not being justified in the accountancy. The companies practicing the fiscal evasion are known by the low account movement through the bank accounts and by the high account movement through the cash register account. Most of the time, these cumulated account movements are higher than the contributor's turnover, reflecting the underneath side of the business.

The non-received debts reflect the fiscal evasion condition existing into a company. For example, in case of a company selling wholesale products, the account movements reduced to the client account, in the direct correspondence with the income account movements, can reinforce the suspicion of the fiscal evasion.

The advanced-payments withdrawn for discount by the associates / employees, are the amounts withdrawn for displacements, for payments in cash, etc, and follow to be extinguished on the moment of the presentation of the justifying documents by the holder. In some companies, these advance payments are taking very high values and become permanent. This reflects the withdrawing of some amounts from the company, for the associate's personal needs or for activities related to the company which will not be reflected in the accountancy or which follows to be used in the activities related to the company, but without being reflected in the accountancy. Thus, the associates avoid the tax on dividends.

The stocks are also a very important balance sheet post in the identification of the fiscal evasion. On purchasing, they are accounted and, by the time of invoicing, the inventory is discharged. If the company makes the sale without its registration in the accountancy, the value of the sold stocks will not be discharged from the inventory, which leads to a high volume of stocks compared to the company's business. Thus the companies having an oversized stock sold and forced inventory discharges (inventory missing, perish goods, etc.) are suspected of fiscal evasion. This evasion can be proved only under a factual inspection through which there is followed the verification of the correspondence between the existing stock and the one registered in the accountancy. There is also the possibility that the invoices received from the suppliers should not be registered in the accountancy in order to avoid the registration of the stocks in the accountancy. This side can be verified by the crossed inspection to the supplier and client. It is indeed the possibility that neither the supplier, nor the client should register in the accountancy the delivery/reception of the stocks. In this case, the fiscal evasion is hard to prove, and the inspection must start from the initial manufacturer registering increased expenses in the accountancy, afferent to the performed production and then sold without documentation. These additional expenses can be proved by concrete calculations regarding the cost of production registered according to the norms of consumption and the average cost obtained by the company onto the production made with documentation, which is higher in case of the companies practicing the fiscal evasion.

The payment taxes are the main reason for which the economic agents reach the fiscal evasion. They do not have the capacity to reflect the fiscal evasion phenomenon except through their very low volume compared to a certain business volume which was factually certified on site by the control authorities. The most relevant aspect in this case is given by the salary fund. There are cases in which the companies developing production business register only 2 employees, or family associations developing production business, which is practically impossible this is a clear example of fraud to the state budget by the informal work and implicitly the non-payment of the taxes afferent to the salaries.

The loans between the associates reflect the amounts made available to the company by the associates. In most of the cases, in this account, there are registered amounts of money corresponding to the transactions not registered in the accountancy and which are subsequently introduced in the company as loans between the associates. Thus, very high amounts registered in the account 455 must draw attention of the control authorities upon the correctness of the development of the company's business. The value of these amounts must be correlated with the contributor's business, and with the associates' incomes, which, most of the times, are lower than the amounts they have landed to the company. This is a clue of the existence of the fiscal evasion.

The profit and loss account synthesizes the economic flows, respectively the incomes and expenses of the inventory period.

The incomes include the value of all the enrichment deeds of the company related or not to the normal and current activity. The main part of the incomes is represented by the turnover performed by the company during the exercise. The expenses are the total of the cost elements borne by the company during the exercise.

If the balance sheet permits the knowledge of the financial position of the company, the profit and loss account grants information upon the company's business, of the way in which the latter is managing the business through the incomes, expenses and the result they generate.

Synthetically, the structure of the profit and loss account may be presented as it follows:

INCOMES FROM EXPLOITATION  
 EXPENSES FROM EXPLOITATION  
     Output from exploitation  
 FINANCIAL INCOMES  
 FINANCIAL EXPENSES  
     Financial output  
     Current output  
 EXCEPTIONAL INCOMES  
 EXCEPTIONAL EXPENSES  
     Exceptional output

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TOTAL INCOMES  
 TOTAL EXPENSES

Gross output – Profit Tax = Net profit

Regarding the profit and loss account, the fraud attempts are directed to the same aspect: the maximization of the expenses and the minimization of the incomes.

The maximization of the expenses is made through the accountancy registration of some expenses which are not afferent to the activity developed by the company or the increase of some expenses over their real level. The minimization of the incomes is made by the non-accountancy of all the operations providing incomes to the company. The purpose of these operations is the decrease of the written profit and of its corresponding tax. Thus the profits make-ups (the profit make-up from exploitation, the net profit make-up, etc.) have a special importance in the appreciation of the reality of the financial statements of a company. These make-ups must be interpreted as a report between the profit from exploitation / net profit and the turnover and shows the profitability of the company. The make-up of the net profit should be compared with the interests the shareholders might obtain by submitting the registered capitals in the deposits with 0 risk or with the make-ups obtained by the companies with the same field of activity. In the way in which these are constantly low, here's the question: Which is the reason for which the company's shareholders keep their registered capitals into a company with lower profitability than a storehouse under the conditions of assuming a higher risk? The answer can be only the obtaining of some additional benefits not reflected in the net profit.

We are going to try to detail some relevant indexes for the appreciation of the financial statement of a company and for the identification of those practicing the fiscal evasion.

The liquidity of a company, more specifically the current liquidity to be calculated as a report between the circulating assets and the current debts. The value of this index must be supra-unitary. The companies applying the fiscal evasion are noticed through the high value of the stocks and their very high account movement due to their trading without the registration of the sale and discharge the inventory in the accountancy. In case of the companies practicing the fiscal evasion, the level of this index is high over 1.

Of course, the economic agents know that the inconsistency between the written stock and the factual one must be justified to a possible inspection and then they discharge forcedly those merchandises or finite products. This discharge is included on the expenses, generating a fiscal loss in most of the cases, which is not real but induced by the inventory discharge operation and encumbers the state budget from the amounts afferent to the profit tax. Due to this reason, the control authorities must check in detail the inventory discharge operations having high values, not consistent with the written business of the contributor. For example there can be made the comparison with the contributor's turnover. An higher inventory discharge than the company's business for a month must arise the suspicion of the control authorities regarding the existence of the fiscal evasion. This aspect must make the financial controllers think to the companies where the stock is not perishable.

Due to the non-discharge of the inventory of the products sold without being accounted, the revolving of the stocks is very slow, without correspondence in the real life of the company.

The degree of indebtedness, calculated as a report between the total debts and total assets, registers very high values (close to 1), being usually affected by the amounts registered in the account 455 as loans between associates. The money obtained from the not-registered sale of the finite products or of the merchandises is introduced in the company's business through the account 455 as contribution of the associate. The very high amounts reflected in the credit of this account must draw attention of the fiscal authorities. The value of these amounts must be correlated with the contributor's activity and with the associates' incomes which are most of the times lower than the amounts landed to the company. This is a clue of the existence of the fiscal evasion.

Nevertheless, the analysis of these financial indexes must be put under the law so that the fiscal authorities should have the legal possibility to question the associate / administrator regarding the more delicate aspects such as the personal incomes or the personal fortune. There must be also introduced clear regulations concerning the liability of the taxation of the personal fortunes of the associates / administrators, which cannot be justified through the results obtained by the company they owe / manage.

## CONCLUSIONS

As a conclusion, we can say that the economical-financial analysis of the contributors cannot counter attack the fiscal evasion all by itself but it can provide important clues concerning its size and existence. The economical-financial analysis must be combined with the financial control for obtaining the desired effect of fighting against the fiscal evasion. This can be deemed a way of fight against it, but it's a basic support in fighting against the phenomenon. The future surveys may line-up more clear and concrete liaisons between the abovementioned financial indexes and the level of the fiscal evasion, being able to reach a number of standard indexes which, according to the values we register, might generate a diagnostic concerning the fiscal evasion level. This result may be taken into account by the person performing the financial control for the intensification of the efforts to identify the fiscal evasion where the result presents suspicions regarding the existence of this phenomenon.

The study of the connection between the fiscal evasion and the financial indexes presented in this work will not lead to the eradication of the fiscal evasion, but through a better identification of the phenomenon, there are chances for the fighting methods to be more efficient and directly

oriented to the evasion's source. Thus, we can say that the analysis of the economical-financial indexes must be a basic support for the fight against the fiscal evasion.

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