

## Increasing Possibilities of Voluntary Tax Compliance Degree

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**Abstract.** *Achieving the social and economic objectives of local and central public administrations requires considerable resources, which are generated by a contributory effort involving, on the one hand, economic entities and, on the other hand, citizens. The instruments through which the state procures these resources are mainly taxes and fees. In our study, we will try to make an analysis as relevant as possible, regarding the possible ways in which this general desideratum of increasing the degree of voluntary tax compliance can be achieved. In this way, in order to achieve the objectives we set ourselves, we will study from the perspective of the real implementation possibilities, certain ways that can represent solutions for a relevant increase of the voluntary tax compliance.*

**Keywords:** budget deficit, social responsibility, causes, solutions, growth factors

**JEL Classification:** E60, E62

### 1. Introduction

Achieving the social and economic objectives of local and central public administrations requires considerable resources, which are generated by a contributory effort involving, on the one hand, economic entities and, on the other hand, citizens. The instruments through which the state procures these resources are mainly taxes and fees. They represent “*permanent pecuniary levies from taxpayers in favour of the state, without established counter performance, in compliance with a set of legal principles that have the role of setting the rules of taxation, but also of avoiding any slippage, both in terms of tax evasion by taxpayers and the possible manifestation of an excess of power on the part of the tax administration.*” (Beudean, 2016)

Discussions regarding the size of the budget deficit, the causes of this deficit, the insufficiency of funds so necessary in various fields of activity, the management of existing financial resources, etc., have persisted for many years in the public space in Romania.

In a very broad sense, the concept of budget deficit refers to those situations in which, at the level of an entity (family, economic agent, government, etc.), expenditures exceed revenues (cashing).

In our opinion, one of the important causes, which are at the origin of the budget deficit in Romania, is also represented by the existence of a low degree of voluntary tax compliance.

The subject we approach in our study can be characterized as topical, especially if the analysis is performed in the context of the problems that the health crisis generated by the coronavirus pandemic, which has manifested itself for several months, with obvious prospects of expansion on an even longer period, causes to the national economies and implicitly to the Romanian one. We make this allegation starting from the recent statements from the public space that officials from the

executive of our country have made, relevant in this respect being that of the Minister of Finance Florin Cițu according to whom “*The budget deficit is estimated to increase from 6.7% of GDP at 8.6%. Three percentage points of this deficit come only from the effect of the crisis period. The contraction estimated by the Commission for Prognosis is 3.9% compared to the initial contraction of 1.9%, which will lead to less revenue in the budget.*” (www.zf.ro, accessed 20.10.2020).

In this context, the issue of attracting as large sums of money as possible to the state budget, which would contribute in a relevant way to mitigating these extremely pessimistic forecasts, becomes a very sensitive one, which is why we express our opinion that a significant improvement of the degree of voluntary tax compliance can be a future solution for the sustainable solution of the budget deficit problem.

That is why, in our study, we will try to make an analysis as relevant as possible, regarding the possible ways in which this general desideratum of increasing the degree of voluntary tax compliance can be achieved. In this way, in order to achieve the objectives we set ourselves, we will study from the perspective of the real implementation possibilities, certain ways that can represent solutions for a relevant increase of the voluntary tax compliance.

## 2. Tax compliance between sanction and social responsibility

In general, the concept of voluntary tax compliance refers to the correct calculation, reporting and full and timely payment of tax obligations by taxpayers, on a voluntary basis.

We note that the definition of the concept we are analysing brings into question the voluntary nature of the steps taken by taxpayers to honour their tax obligations. However, we believe that this voluntary nature is somewhat relative, given that there is legislation that tells us that we have to pay certain taxes and fees and how much we have to pay. In our opinion, the tax compliance approach could be considered truly voluntary if the taxpayers would pay sums of money to the state, in the form of taxes and fees, without the latter requesting them and without setting a certain amount, which obviously it is not possible. We also support the idea on the meanings that the Explanatory Dictionary of the Romanian language gives to the word “voluntary”: done voluntarily, facultatively, unforced. Moreover, the same document defines the concept of “voluntary contribution” as “*the amount or tax determined by the payer*”. (<https://dexonline.ro>, accessed 20.10.2020).

Therefore, in the context of the analysis of the concept of voluntary tax compliance, we consider that two questions can be asked:

✓ the taxpayer pays “voluntarily” the obligations incumbent on him, from a fiscal point of view, due to his civic conscience and social responsibility, sincerely considering that he **must (it is his duty)** to contribute to the support of public expenses of the state ? or

✓ does the taxpayer pay “voluntarily” the obligations incumbent on him, from a fiscal point of view, because he knows that if he does not do it, at the time and in the required amount, **there is a real risk of being sanctioned?**

From the above we note that this concept of voluntary tax compliance can be approached from two different angles, both with the same purpose – the correct calculation, declaration and timely payment of taxes and fees. But a proposed goal (objective) can be achieved to a greater or lesser extent or not at all.

Given that the subject of our study is the identification of possible ways to increase the degree of voluntary tax compliance, the reasoning behind the idea of our research continues with another question: the degree of voluntary tax compliance can increase significantly through targeted measures mainly in the direction of stimulating

the social/civic responsibility of the taxpayers or through measures oriented mainly in the direction of intensifying the coercive factor?

The ideas that we will develop further will be oriented in the direction of supporting our opinion according to which the increase of the voluntary tax compliance degree must be seen as a very complex approach, **which has not only a correspondent in the area of fiscal regulation**, but also in the social, political, educational, administrative field, etc. We express this point of view, because we believe that the steps that are necessary to achieve the overall goal of increasing voluntary tax compliance, should not focus only on the idea of coercion, as the coercive factor, as it has been seen for years, it cannot be the mainstay of such an initiative.

Although it is generally stated that an intensification of control actions can lead to an increase in tax compliance, the opinions we will express in our study focus more on the idea of education, fiscal/social awareness, belief in fiscal matters based on the quality of the fiscal system, the relevant legislation, the quality of social (public services) and political life, etc. and not exclusively on the coercive factor, as an element to stimulate fiscal compliance.

### 3. Ways to increase voluntary tax compliance

The specialised literature (Leonida, 2013) supports the idea that most of the mechanisms implemented by the authorities to detect cases of tax non-compliance and to try to correct them, use control and sanction as predominant tools.

Contrary to the general trend found in the practical activity, our plea will be directed in the direction of promoting other ways through which to achieve the desire to sustainably increase, in a general way, the degree of voluntary tax compliance. In this respect, we will discuss, as proposals, those ways through which we consider that the civic spirit and social responsibility of taxpayers are stimulated.

In our analysis, in order to identify such ways, we will start from the causes that determine the non-compliant behaviour of taxpayers, causes which, as it can be seen in the table below, are multiple and of different natures.

**Table 1. Causes of tax non-compliance and possible ways to improve tax compliance**

Nature of the cause	Cause	Solution
Politics	- abuses and disinterest of those holding positions of public dignity (representatives of the political class)	- reforming the political class by supporting those parties that promote in Parliament and Government genuine professionals in various fields of activity and not political clientele; - significant improvement of the quality of the legislative act by issuing quality normative acts and in the public interest (it is related to the existence of a quality political class, in which specialists predominate).
	- the loss of civic legitimacy (trust) by those who manage public finances, despite the preservation of legal legitimacy	
	- public actions of politics makers, including in the legislative field, which are not in the public interest	
	- poor quality of public services (health,	- digitization of public services (it may not necessarily be a

Social/administrative	infrastructure, education, etc.)	solution for older age groups); - the correct information of taxpayers about the destination and use of the amounts collected through taxes and fees; - reforming and streamlining the administrative apparatus; - improving the quality of life and public services; - elimination / correction of existing inequities between various socio-professional categories.
	- waste of collected resources by inefficient spending of money	
	- very high inequities and unjustified dysfunctions in terms of budget allocations between professional or social categories (parliamentarians, magistrates, teachers, pensioners, etc.)	
	- the existence of an oversized and inefficient administrative apparatus	
Education	- low economic and fiscal culture among the population	- increasing the level of education, in general, among the population by improving the education system.
	- low level of general education and inadequate civic education	
Fiscal system	- the asymmetry of fiscal sanctions in relation to the facts ascertained by the control bodies – the feeling of distrust in the control actions	- ensuring fiscal equity and respecting fiscal principles; - developing rules that are as simple as possible, easier to understand and apply, including simplification of declaration and payment procedures; - ensuring quality counselling for taxpayers wishing to comply, in order to have a correct understanding of the legislation; - reconsideration of the legislative process in the fiscal field by ensuring legislative stability (with positive influences on the business environment in general); - the existence of benefits for taxpayers, in the form of tax facilities/bonuses;
	- the inability of the fiscal system to solve the phenomenon of high tax evasion in certain areas	
	- major deficiencies in the communication process between fiscal authorities and taxpayers, associated with the opacity of tax rules – unintentional deviations are favoured	
	- dense, unstable legislation with many inaccuracies and controversies – evasion may be the case for poor legislation	

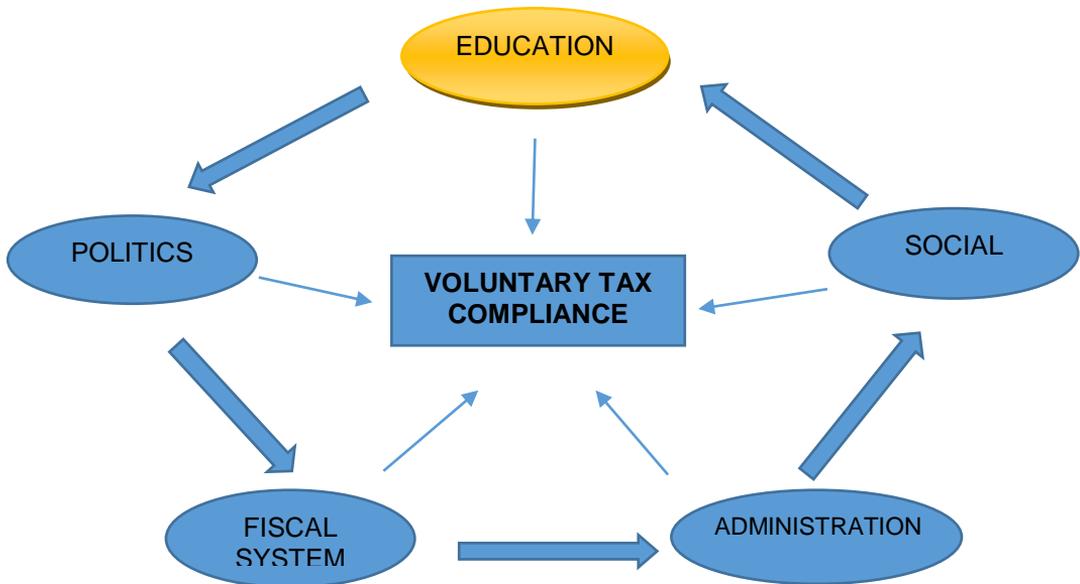
Source: personal processing

From the analysis of the causes and solutions brought into discussion in table no. 1 it can be observed that no reference was made to solutions based on the coercive factor, because we believe that the manifestation of voluntary tax compliance and in a natural, intrinsic manner is not related to the idea of coercion.

On the other hand, from the analysis of the table presented above it can also be concluded that achieving the goal of increasing voluntary tax compliance through these proposed solutions cannot be achieved in a short period of time, but it is a long

process, because it involves profound changes in social, political, educational field, etc. However, we believe that the implementation of these solutions, even if it does not produce immediate effects, in the long run will lead to a sustainable, durable and non-conjectural increase in the degree of voluntary tax compliance.

Practically, the previously promoted solutions do not have to be analysed independently, because they are, in many respects, interdependent, they depend on each other. For example, we could say that the existence of a quality tax system (with all that entails, including coherent tax legislation) can be correlated with the reform of the political class, which in turn depends on the quality of the education system, the level of culture of voters, etc.



**Figure 1. Interdependence of ways to increase the degree of voluntary tax compliance**

*Source: personal processing*

Therefore, from the above, it results that the increase in voluntary tax compliance must be the result of combined efforts, in the medium and long term, which come from several areas of our society and are not directly related to the tax system.

#### 4. Conclusions

From the ideas presented above, it can be concluded that obtaining a high degree of voluntary tax compliance is conditioned by the simultaneous fulfilment, within the economic and social environment, of several factors, which, as pointed out, are interdependent and not always related directly with the tax system itself.

In our opinion, the most important factors that can significantly contribute to an increase in the degree of voluntary tax compliance relate to:

- 1) Increasing the level of education in general;
- 2) Ensuring fiscal equity and compliance with fiscal principles;
- 3) The existence of clear and stable tax legislation;

- 4) Reforming the political class and streamlining the administrative apparatus and act;
- 5) Improving the quality of public services;
- 6) The most transparent and efficient use of the financial resources collected at the level of the central or local administration budgets.

As it can be seen, we consider that increasing the level of education is the starting point of the process of increasing tax compliance, as several factors depend on this factor, of which we list several significant ones: the quality of professionals working in the economic and political environment, the quality the legislative process, the ability of taxpayers to understand the fiscal legislation, the correct perception of the role and importance of the system of taxes and fees for the society, etc. This consideration is also reinforced by the existence in the specialised literature (Haas & Zolde, 2020) of several studies that show that there is a direct link between the level of education and tax compliance of taxpayers.

Therefore, solutions aimed at significantly and sustainably increasing the degree of voluntary tax compliance must be identified on the basis of the causes of tax non-compliance and must not be based solely on the coercive factor, which, as can now be seen, does not produce the expected effects.

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