

ANALYSIS OF THE TYPE OF COMPANIES INVOLVED IN TAX FRAUD

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Abstract: *Due to the constant increase in taxpayers' tax obligations, increasingly varied methods have emerged to evade the tax provisions that establish these categories of obligations. Thus, the method of evading the payment of taxes and fees to the state budget essentially represents the evasion phenomenon.*

In 2024, tax evasion represents approximately 10% of the gross domestic product, respectively 32-33 billion euros. The causes of the tax evasion phenomenon consist in the existence of an incomplete and interpretable legislative framework with gaps and many ambiguities to the lack of education of taxpayers.

The activity by which the evading commercial company evades the payment of tax obligations related to the income obtained consists of registering unreal operations, through "buffer" or "phantom (missing traders)" type companies, operations whose value is artificially undersized or oversized, depending on the position/price practiced in the market and the extent and necessity of obtaining illicit advantages by the real final beneficiary company.

A generally accepted truth is that, although this type of phenomena can be identified by legal institutions and by applying criminal, contravention or disciplinary penalties the offender can be eliminated, the phenomenon itself cannot be eradicated, on the contrary, this type of phenomena is being improved with legislative amendments.

This article highlights and analyzes a set of cases regarding tax evasion committed by various companies through different modes of operation that outline similar fraudulent behaviors, which mainly aimed at evading the payment of tax obligations owed to the general consolidated budget of the state.

Keywords: *fraud, corruption, public procurement, contracts, public institutions, anti-corruption measures*

JEL classification: D73

1. Introduction

Following the analysis carried out on an extensive set of cases regarding tax evasion committed by various Romanian companies, a series of recurring patterns and similar fraudulent behaviors are emerging, which mainly aimed at evading the payment of tax obligations owed to the general consolidated state budget.

According to the European Commission, around €1 trillion is lost annually in the European Union through tax fraud and evasion. As a result, Member States are experiencing serious losses in budget revenues and a weakening of their tax

systems, with the damage to state budgets caused by tax fraud and evasion reaching worrying levels.

Value Added Tax (VAT) is one of the main sources of tax revenue for governments in the European Union, and generates the largest share of the losses due to tax fraud and evasion. This is also confirmed by the European Commission's study, which shows that the losses generated by the shortfall in VAT collection have reached billions of euros.

Thus, according to the latest data published by the European Commission, significant amounts of VAT revenue have been lost due to non-compliance with VAT legislation or non-collection of VAT.

According to the study by the Institute of Economic Affairs, more than half of Romania's illicit economy is fueled by tax evasion. Thus, the budget suffers annual losses of EUR 22 billion as a result of non-payment of taxes, social security contributions and income tax, with the difference of up to EUR 40 billion representing the phenomenon of "undeclared work".

In Romania in recent years, in a precarious economic context, budgetary pressures, coupled with a reactive fiscal policy and fluctuating tax legislation, have favored the worrying increase in tax evasion, which represents a risk to national security.

The purpose of registering commercial operations consisting of deliveries/purchases of goods or services from several commercial companies is to disguise the real circuit of goods/services and to place the tax obligations due to the state budget on the shoulders of "ghost companies - missing traders - bidon".

2. Analysis of an extensive set of cases of tax evasion committed by various Romanian companies

The majority of the companies involved, more than 65 in number, resorted to recording fictitious purchases in their accounting records, materialized by tax invoices issued without real economic justification. The purpose of these documents was to falsely certify the provision of services or the supply of goods which did not actually take place, with the aim of illegally deducting VAT and reducing corporation tax. Frequently, such purchases were attributed to companies with "ghost" type behavior, and the total amount of damages declared in some cases exceeded 30,000,000 lei.

Another phenomenon identified is the creation of fictitious commercial and financial circuits, involving networks of shell companies, used to disguise real transactions and transfer tax liability to "buffer" or "expendable" entities. At least 15 companies appear to have been part of such networks, some of which acted exclusively as fictitious invoice providers, actively contributing to the evasion scheme of the real beneficiaries.

Also, in around 20 cases, the companies intentionally failed to register their actual income and business operations. They carried out business activities - whether wholesale, retail, transportation or services - without recording the transactions in their accounting records, thus evading tax. This behavior was also

encountered in the case of some individuals who carried out economic activities (e.g. resale of car parts or clothing) without declaring them.

In other cases, some companies intentionally issued fictitious invoices to other companies, helping them to reduce their tax base. Their role was that of "invoice providers", without actually providing the services or delivering the goods mentioned in the documents.

A particular sector targeted by the fraud was construction services, where several companies recorded fictitious invoices for landscaping, mechanized works or purchases of car parts, based on formal contracts but without any real economic activity.

In one isolated case, a medical fraud was identified, involving fictitious billing of medicines on the basis of false prescriptions issued by a pharmacy.

In conclusion, the most common types of fraud identified are fictitious purchases recorded in the accounts, found in more than 65 cases, failure to record real income, found in around 15-20 cases, issuing invoices without real coverage, found in 10-15 cases, involvement in ghost networks or buffer/missing trader schemes, involving at least 15 companies, and the adoption of recurrent and organized evasion practices, in some cases carried out on the basis of the same criminal resolution.

All these practices were aimed at reducing the tax obligations owed to the state and generated significant damage, in some cases exceeding millions of lei. Thus, it is necessary to closely monitor fictitious commercial circuits and strengthen tax controls, especially on companies with indicators of ghost-like behavior.

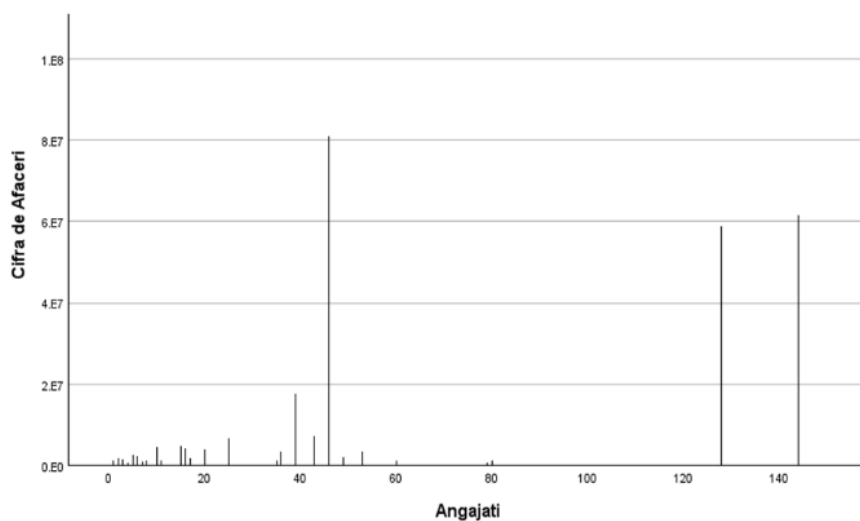
The statistical analysis of companies and institutions involved in economic criminal activities, in particular tax evasion and abuse of office, provides a clear picture of their economic profile as well as of the degree of dispersion and intensity of fraudulent behavior. The dataset examined includes relevant financial and structural indicators: turnover, net profit, debts, number of employees, VAT, corporate income tax and the amount of losses found. Summary results are presented below, accompanied by a contextualized interpretation.

3. Descriptive Statistics

Distribution of Key Indicators Reported to the Number of Employees: A Graphical Approach

	Observation	Minimum	Maximum	Average	Standard Deviation	Asymmetry	Bolters
Turnover	66	21,551	81,007,691	5,216,158.39	14,067,961.114	4.359	18.950
Profits	59	-1,086,463	2,726,281	157,140.80	492,716.833	2.899	13.426
Debts	61	33,652	73,758,671	3,915,758.36	12,177,466.864	5.193	26.886
Employees	61	1	144	19.38	29.929	2.496	6.664
TVA	61	1,658	5,806,452	456,655.51	902,432.803	4.075	20.743
Profit tax	41	0	4,137,931	182,806.46	646,834.572	6.015	37.387
Damage	68	0	9,944,383	523,132.53	1308,965.118	5.921	41.026

Figure 1 Distribution of Average Turnover by Number of Employees



Source: Author

Figure 1 shows a highly skewed distribution between the size of human resources (employees) and average turnover. Most firms are concentrated in the range 0-50 employees and have a relatively low average turnover, with a few notable exceptions that record disproportionately high values. There are three extreme values (around 40, 130 and 140 employees), which indicate firms with very

high average turnover, in some cases exceeding 80,000,000 lei. These entities can be considered as key firms in evasion networks or companies involved in large-scale fictitious operations, used for massive VAT deductions or for artificially lowering the tax base. There is also no evidence of a linear relationship between the number of employees and turnover, which means that a firm with many employees does not necessarily have higher turnover. Conversely, some firms with a very small number of employees report high turnover, which may indicate an unrealistic economic activity, typical of shell firms or fictitious trading vehicles. This dissociation between a low number of employees and high financial turnover is a typical feature of organized tax evasion and an important statistical clue in the identification of fraudulent networks.

The visual representation analyzing the average turnover as a function of the number of employees shows a clear dissociation between the actual working capacity and the volume of reported economic transactions. The presence of firms with a small number of employees but very high turnover suggests the existence of shell entities used exclusively for running fictitious operations. The lack of a direct correlation between human resources and turnover reinforces the hypothesis of a non-conforming economic operation, typical of organized tax evasion structures.

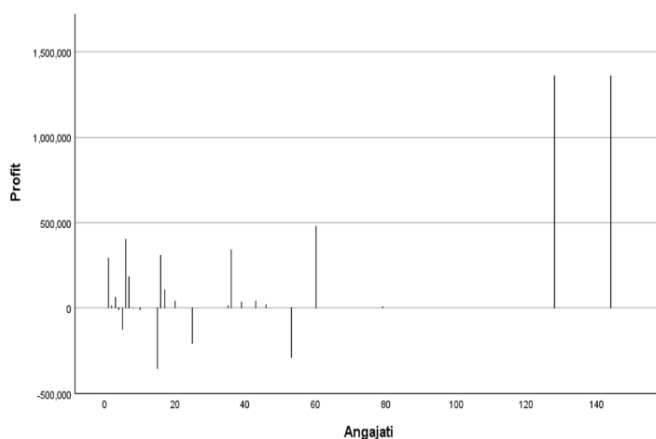


Figure 2 Distribution of Average Profit by Number of Employees

Source: Author

Figure 2 reveals a fluctuating average profit, including frequent negative values, especially for firms with fewer than 60 employees. These low or sub-zero profits may indicate the simulation of accounting losses, a common practice among companies that use fictitious invoices to artificially lower the tax base. There is also no proportional relationship between firm size and profitability. Although firms with more than 120 employees report considerably higher average profits, exceeding 1,500,000 lei, there is no clear progressive trend in profits according to the number of employees. This suggests atypical economic behavior, lacking the consistency expected in a normal fiscal context. Extreme values appear in the upper part of the

distribution, where high profit is associated with a high number of employees, which could indicate the existence of firms that have combined real economic activity with tax avoidance schemes or have been involved in high turnover and carefully manipulated profit schemes.

The graph analyzing the average profit by number of employees highlights the lack of a natural economic correlation between the size of the firm and the financial result obtained. A number of small-staffed entities record either minimal profits or significant accounting losses, indicating the use of fictitious accounting mechanisms to avoid paying corporate income tax. On the other hand, the presence of firms with a large number of employees and disproportionately high average profits in the context analyzed may reflect involvement in large-scale tax avoidance schemes or economic operations with illegal profits. These results support the hypothesis of strategic economic behavior tailored to avoid tax liabilities by artificially shaping accounting indicators.

Distribution of Turnover Among the Investigated Companies

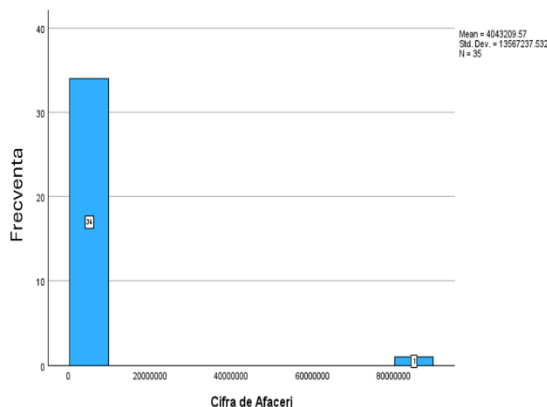


Figure 3 Distribution of Turnover Among the Investigated Companies

Source: Author

The histogram shown in Figure 3 illustrates the distribution of turnover for a sample of 35 companies investigated for tax evasion. The horizontal axis shows the variable "Turnover" (in monetary units) and the vertical axis shows the frequency (number of companies falling in each range).

The distribution is strongly positively skewed (with a long tail to the right), signaling the presence of extreme values (outliers). The majority of companies (34 out of 35) have relatively low turnovers, concentrated in a narrow range, while only one company has a significantly higher turnover, exceeding 80 million. This value considerably influences the arithmetic mean of the sample, which is about 4,043,210, while the standard deviation is very high (13,567,237) suggesting a high variability between observations.

This discrepancy indicates that the distribution is not normal and that extreme values may distort the statistical interpretation of general trends. In the context of

the analysis of tax evasion, this observation is relevant because it suggests that, although the vast majority of the companies involved are entities with modest turnovers, there are isolated cases of large companies committing large-scale acts. It is therefore recommended to use more robust central tendency indicators (such as the median) and possibly apply log transformations or robust analysis methods to mitigate the influence of outliers in further analysis.

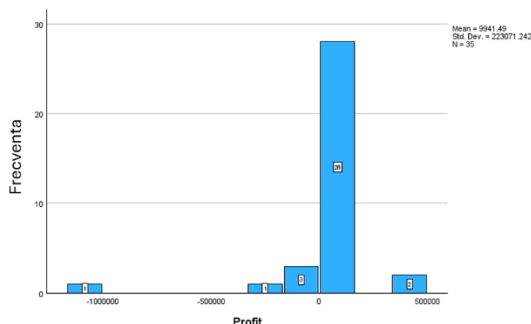


Figure 4 Profit Distribution Among the Investigated Companies

Source: Author

The histogram shown in Figure 4 reflects the distribution of profit values (expressed in monetary units) for a sample of 35 companies involved in tax evasion cases. The X-axis shows the profit, and the Y-axis the frequency, i.e. the number of companies falling in each value range.

The data show a significant concentration around values close to zero: 28 of the 35 companies ($\approx 80\%$) reported very low profits or negative/marginally positive values. There are also isolated cases of companies with large losses (below -1.000.000) or significant profits (up to 500.000), which denotes an asymmetric distribution, with outliers in both extremes.

The arithmetic mean profit is about 9.941, but this is of little relevance in the context of a highly dispersed distribution, given also the high value of the standard deviation (223.071). These results suggest that although most companies operate close to break-even, there are also entities that have made significant profits or losses, possibly as a result of accounting manipulations associated with tax evasion activities.

Thus, the distribution confirms the hypothesis that many of the companies involved in such acts operate with either very low margins or artificially negative or positive margins, indicating potential tax avoidance mechanisms through distorted reporting of financial results.

4. In conclusion

Strict monitoring, increased transparency, staff training and investment in cybersecurity are essential to reduce the risks of fraud in e-procurement. Creating a clearer and more effective legislative framework can also help fight fraud. The phenomena of corruption and fraud affect and violate the duties of public officials and create imbalances among communities, disrupt social relations both at the personal and institutional levels, influencing the discrediting of the prestige and authority of public institutions with an impact in the sphere of administration and justice.

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