

## Preconditions that Affect in Increasing Control Effect and Increased Chance for Tax Fraud Detection

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### Abstract:

In this research we have submitted seven elements in order to identify the most powerful elements that increases the chances of detecting fraud or tax evasion, from retroactive control. Elements that have submitted in the research are: Professionalism of the officer who realizes control or tax audit; Integrity of Officer that realizes control or audit; Information from their competitor, with the aim of informing about tax evasion; Information from a dissatisfied employee or former employee; Information from freight forwarding; Information from accountant; Information from the data exchange with the export country. Elements that we presented, are the most powerful elements that increases the chances of detection of tax evasion, such as: professionalism of the officer who implements control or audit, which follows two other elements, which are: Integrity of official that realizes control or audit and the information are data exchange with the export country, these are the three most powerful elements until four other elements outlined in the survey have less impact compared with the three elements mentioned

The purpose of the paper is to Find the most powerful elements that increase the probability of detecting of tax evasion or tax fraud from retroactive controls.

Methodology: Survey was realize through questionnaires, which were distributed 232 questionnaires. Questionnaires were distributed mainly to the importing companies, officers that realize controls to businesses, customs agents, accountants and international transport companie.

*Key words: probability of detecting, tax evasion, control or audit*

### 1. The theoretical framework and review of literature

*M.E. Allinghan & A.S. Sandmo* In their work in 1974, among others have issued two parameters that are important in the control of tax evasion, such as: the level of the fine and the probability of detection. These two parameters have shown positive correlation with increased of reporting and reducing income tax. If individuals believe that will be revealed one day, then they will declare everything based on the Law. [So as we can see, the author has emphasized the probability of detection, in this case we looked at, as is possible to become more powerful this parameter].

It suggests that lower tax fraud is, if is increasing the probability of detection. [In this case study focuses on the probability of detection how to increase it, to achieve a more effective control].

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*Lemieux dhe Frechett [1994]*, when increase tax rates, increase the likelihood of participation in the informal sector. [Even in this case the probability of detection is in the research setting, enables the reduction of the informal sector].

*Mishra et. al. [2008]*, In this paper also is reviewed bribery, which can be obtained from the official, after detects fraud, this variable can affect the loss of effect of the audit. Therefore, in our research we take this parameter to understand how it affects the integrity of the officer in increasing the probability of detection.

*Joel Slemrod, Marsha Blumenthal, Charles Christian*, These authors have also conducted research on tax evasion, proving connections between probability of audit and evasion. The results also appear to be relevant, which were identified reactions of the taxpayers, in relation to the probability of audit. [Even the theory in this paper, will serve for us, to form a theoretical framework to approach in the probability of detection and to strengthen this element].

The probability of detection of tax fraud, which can be caused by the companies is one of the most important factors that can affect the growth or reduction of tax evasion, respectively, if the probability for detecting evasion are high it will affect the reduction of evasion and conversely, if the probability of detecting tax fraud or evasion are smaller this will affect directly the increase of tax evasion or tax fraud, for reasons that the companies that cause avoidance are less afraid that one day will be revealed tax fraud that they make to pay less to the detriment of the state budget. So here appear the question, how to contribute or how to find elements that would increase the chance of detecting tax fraud, and what are the elements that will increase the possibility of finding the tax evasion that is caused. Initially to detect tax fraud, it is necessary to undertake actions of control by state officials who have to do this work, if they are officials or tax inspectors, customs investigative who do the pursuit of tax evasion in the country. However, to achieve effective control, we think to be some preconditions, some preconditions that must possess control officials and other preconditions, not directly related to the qualities of the officer who realizes control. These preconditions that we have submitted, we believe that are powerful elements that influence the effect of control, so in our research we focused on these elements. Elements or preconditions that are presented in this research for a more effective control are:

Professionalism of the officer who implements control or audit, integrity of officer who realizes control or audit, information from the exchange of data with the export country, information from an employee of dissatisfied, former employee, information from the accountant, information from competitor their, with purpose that to give information for evasion. So as at this we have presented seven preconditions to see which will be more powerful to effectively performed a control. Officer professionalism is an important precondition. If the official does not have high professional qualities it is difficult to detect evasion. Therefore we have submitted this condition and we asked for their opinion of respondents through questionnaires. Another precondition in this study we present the integrity of the official that controller, which we thought to have enough influence in finding of the tax fraud.

Based on the fact, a officer with higher integrity, not corrupt, can have a high impact on the tax evasion, as compared to an official who has no integrity.

I think that an official if has the high level professional or low level professional, can have high integrity or low, so if an official has integrity low, then despite the professional level, he also can bring revenue that are caused earlier by evasion. Therefore we think that is the criterion with great weight to influence the effect of control.

Other preconditions for increases the likelihood of detection are those that do not have much to do with the quality of the officers, but to achieve the effect of detection must be considered by the controller, such as: Information from the data exchange with the country of export, this is the perfect element in the case of international trade, where goods move from the production to the place of destination.

In this case there are importers which during of import of goods, reduce the value of goods in commercial bills that upon filing for clearance to pay less customs duty, excise duty and VAT.

In this case a good mechanism for the exchange of data between countries if the automatic electronic exchange or through partial verification only suspected of value will significantly increase the effect of control, respectively chances of detecting evasion caused.

Therefore, this element must be considered during control international cooperation to increase the exchange of data enabling better infrastructure to increase revenue and reduce evasion.

Other element, it is information from a dissatisfied employees to a company that causes evasion or information from a former employee.

This element is submitted for the reason that the experience has occurred that evasion is detected by dissatisfied employees of that company, respectively employees who were informed that their company is causing evasion.

Therefore elements or preconditions are presented as well information from the accountant, information from competitor, information from freight forwarding and all these subjects that are related directly or indirectly to the company, so each of these can provide information valuable to the issue of evasion that can causes a company that they are engaged and to influence to the effect of control and the possibility of increasing the probability of detection of taxes without paying earlier.

### **Officer professionalism**

Is very important officer professionalism, because in this way accrue the probability of detected. *In Customs Blueprint – Pathways to modern customs*, we found, the strategy for training for auditors, where said: Training programmes are organised to provide auditors with knowledg (and training course to refresh and update such knowledge), familiarise them with systems and procedures, attitudes, methodologies and upgra ding skills and expreience, for better performance and higher standards of customs auditing. Auditors are trained on a continuous basis in the various field relevant to their duties: Customs procedures and rules that have to be applied, risk analysis and risk esessment, bookkeeping, electronic data processing auditing. Appropriate training is provided for all auditors and team leaders and audit menagers. Special training programmes are organised for newly recruited audit staf in order to make them aware of the quality standards required for audits. Annual training programmes are planned on a nedds assessment basis.

As a result of the tax administration modernization process, the training of senior and mid-level management officials will become increasingly important in the near future, Such training will focus on the changing management culture and modern management principles for public administrations, emphasizing flexibility and performance and linking career development to performance and training, (Trainig Strategy for the tax administration, for the period 2012-2015, Republica of Croatia).

In tax modernization efforts in developing countries, the *staff development (training) system*, if it exists in the tax administration, is frequently poorly organized, supply driven, not oriented toward the specific professional and skill upgrading for the agency, thus lack a focus and capacity to meet the change objectives of the agency. Typically, there is little management or supervisory input to shape capacity development. In some countries the educational system provides an adequate supply of accountants, auditors, economists and lawyers from which the tax administration can draw both before, during, and after reform efforts-depending on the size and strength of the private sector and its corresponding human capital demands. But in others, well-trained professionals are in short supply and the private sector is quick to absorb them, (World Bank).

To develop a robust fraud referral program, staff of the audit and collection functions should be trained to recognize the so-called "badges of fraud". "Badges of fraud" are the facts or circumstances that indicate the intent to hinder or defraud. Badges of fraud can include excessive false or fraudulent expenses, unreported income, or returns not filed ( Arturo Jacobs, 2013).

Professional competence and due care is an ongoing commitment to your level of professional knowledge and skill. Base this on current developments in practice, legislation and techniques.

### **Integrity of officer**

The integrity of officers is a basis principle for the auditors. Integrity includes auditors conducting their work with an attitude that is objective, fact-based, nonpartisan, and non-ideological with regard to audited entities and users of audit reports. Within the constraints of applicable confidentiality laws, rules, or policies, communications with the audited entity, those charged with governance, and the individuals contracting for or requesting the audit are expected to be honest, candid, and constructive. Making decisions consistent with the interest of the program or activity under important part of the principle of integrity, discharging their professional responsibilities, encounter conflicting pressures from audited entity, various levels of government, likely users. Auditors may also encounter pressures to violate ethical principles to achieve personal or organizational gain. In resolving those conflicts and pressures, acting with integrity means that auditors place priority on their responsibilities to the public interest (GAGAS, 2011, Ethical Principles in Government Auditing).

### **Source from third parties**

Communications from informants are very important sources of fraud investigations. Many third parties, particularly former or current business partners, accountants, and spouses, often have "inside" information not readily obvious and/or available to others about tax fraud and evasion schemes and associated details. They may even have

documents/records to substantiate their allegations. The staff of the information and analysis section should develop, widely publicize, and maintain an effective informant communication program ( Arturo Jacobs, 2013) .

## 2. Description of data from the questionnaires

Above in theoretical framework, we have described reasons why we present these elements as preconditions to advanced control effect and thereby to increase the chance for detecting tax fraud that could be caused by certain companies. In this section we present the results derived from research through questionnaires. Questionnaires were distributed to customs officials, tax officials, importing company, accountants. The responses we have received from the questionnaire are presented in the following table:

<b>Preconditions</b>	<b>Respondents</b>	<b>Percentage</b>
Officer professionalism	112	48.28 %
Integrity of officer	48	20.69%
The exchange of data with the export country	41	17.24%
Information by employees	13	5.18%
Information by accountant	11	5.12%
Information from competitive companies	5	1.82%
Information from forwarding agents	4	1.72%
	<b>232</b>	<b>100%</b>

As seen from the table shown above; The precondition - professionalism of the officer realizes control or audit, it appears to be more powerful compared with other preconditions, as shown by the 232 responses, 112 answered professionalism or 48.28% of all responses. The other Precondition, also have the powerful role in increasing the detection of tax fraud, this precondition is - integrity of officer in control, even in this precondition by 232 answers 48 are responded to this condition or 20.69% of responses, while the following or the third precondition is: the exchange of information from export country or expressed by the number of respondents were 40 responses until the percentage is 17:24%.But as seen from the table preconditions, such as: information from employee dissatisfied, former employees, then information from accountant, information from its competitor as well as information from freight forwarding, these elements significantly less powerful than the three elements that we presented before. Three elements that we presented before, together make up 86.21% of the respondents, or 200 responses, while four other elements have 13.79% of responses or 32 responses. So three elements will have to be always taken priority to increase the effect of control and the probability for detecting tax fraud.

### 3. Conclusion and recommendations:

From the responses received from the questionnaires, the seven elements that are submitted to understand their impact on the increase of the effect of the control, and increase the chances for detection of tax fraud, they are found only three elements or preconditions that are typically strong for an effective control and increase the chance of detection evasion. As were: professionalism, integrity of the official, these two elements directly related to the qualities of the officer to the controller, and the third element is the cooperation, respectively the exchange of data that can detect transactions of the companies.

*Recommended:*

We have found strong preconditions for increasing the probability of detection, thus it recommended that these three elements or preconditions be given a high priority during the audit activity by state officials who make control over companies.

Professionalisation of officials - need to increase the capacity of the controlling officer in the field of taxation, accounting methods, financial and auditing expertise, in order to have a sufficient potential to detect tax fraud caused specific companies.

Integrity of Officer - in countries with high levels of informal economy, often there is the problem of integrity, so countries that are in the way to stop, respectively reduce the level of evasion should focus on increasing integrity of official, respectively to strengthen law enforcement and the level of punishment for the officer who represents lower level of integrity or caught doing corruption.

So in this case we can see that these two elements are closely linked to each other by their and the best case is when the official controller, is at the right level professional and also holds high moral integrity.

Cooperation between countries to exchange data either electronic or physical - is a third important element which helps the country of import, to detect the value of goods coming from the country of departure or from the place of purchase. Therefore since practice shows that companies specified use mechanisms to reduce the value of the goods of those who have bought in order to pay less taxes, in this case it is recommended to strengthen cooperation between countries or exchange be effected in the way the automatic, from the time the goods are entered in the output in order until the goods arrive in the country of import is also available at the same time with the correct information for specific shipments, with the purpose that we do not allow the opportunity for fraud to taxes.

These were the three elements that need attention in order to increase the chances for detection of tax fraud, but do not think you should ignore the elements other that we submitted in this research, although did not show any effect, until always need to stimulate the subjects last four elements in order to advance their impact on the effect of control, respectively increases the chances of detection.

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**Annex:** The following are graphically based on the data presented in Table 1, in this paper:

