

ANALYSIS OF TYPES OF TAX EVASION IN LATVIA'S TRADE

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***Abstract:** In this paper, ways of non-payment of some taxes in Latvia's trade as an element of the shadow economy are considered. The reasons that compel the company not to pay taxes are analyzed. Based on the results of the analysis, proposals are made to counteract the elements of the shadow economy.*

***Keywords:** Shadow economy, tax, non-payment, Latvia, trade.*

***JEL classifications:** O17, O5, D78, H2, H11, H26.*

1 INTRODUCTION

The relevance of the research topic is due to the need to increase tax revenues to the state budget, as well as to clarify the economy of the region under study.

The study of the shadow economy is carried out by economists from different regions and evaluates it according to different criteria, which leads to a multilateral study of this issue.

According to one of the set of definitions, the shadow economy is all the activity of economic entities, which is not officially registered in the relevant state bodies. The concept of "shadow economy" appeared only in the beginning of 1970 and was intended to designate hidden incomes and ways of their concealment. Literature uses this concept as an attempt to analyze the surge in economic activity in the informal sector.

The peculiarities of the shadow economy are deliberate evasion of the official registration of enterprises (as forms of economic entities management) and their agreements, as well as the distorted implementation of these agreements [1].

In this article "Analysis of types of tax evasion in Latvia's trade" tax evasion is considered as one of the forms of the shadow economy in Latvia's trade, the species and subspecies developed by the author are proposed, on which it is possible to divide the tax evasion in Latvia's trade. And also the methods of struggle against each tax evasion types are proposed

2 STUDY OF THE SHADOW ECONOMY OF LATVIA

With a share of the shadow economy of 20.3% and a GDP of € 25038 million (2016), the direct negative fiscal impact of the shadow economy is € 5,082.7 million. But, one must also take into account not a direct influence, namely the development of the shadow business instead of the legal one. This effect can be estimated as the ratio of GDP growth to the change in the share of the shadow economy in the region.

The shadow economy of Latvia began to be researched from the 90s of the last century. One of the well-known analysts of the shadow economy of Latvia Arnis Sauka in his report at the seventh annual conference on the shadow economy cites data for the period 2009 - 2016 [2]. From the data provided, it can be seen that the share of the shadow economy in Latvia has significantly decreased, but still remains the highest in the Baltic countries (Table 1).

	Latvia	Lithuania	Estonia
2016-2015	-1%	+1,5%	+0,5%
2016	20,3%	16,5%	15,4%
2015	21,3%	15%	14,9%
2014	23,5%	12,5%	13,2%
2013	23,8%	15,3%	15,7%
2012	21,1%	18,2%	19,2%
2011	30,2%	17,1%	18,9%
2010	38,1%	18,8%	19,4%
2009	36,6%	17,7%	20,2%

Table 1 Index of the shadow economy in the Baltic countries (% of GDP).

According to the practical experience of the author, the share of the shadow economy in trade differs significantly from the statistics given above, both in dynamics and in figures for a particular year.

The most significant impact on the growth of the informal sector is estimated by researchers such factors as the informal sector of labor, which is progressing against the background of growing unemployment in Europe, as well as imperfections in the tax system and legislation. All this adversely affects the size of official GDP and leads to increased corruption.

The Baltic countries characterize a high level of shadow economy. Moreover, Lithuania and Latvia are among the five most shadow states of the post-Soviet space. In all three Baltic countries, there is an interesting trend, State statistics indicate a steady decline in the shadow turnover, And alternative studies indicate its growth. At the same time, the evaluation indicators vary greatly in

different sources, which, incidentally, is also characteristic for similar developments in other countries [3].

Professor Friedrich Schneider also made a significant contribution to the study of the shadow economy. The joint work of Professor Schneider with Dr. Andreas Buehn is a vivid example of an analysis of the shadow economy, including the Latvian one [4].

3 EVASION OF PAYMENT OF TAXES ON GOODS

Evasion of taxes, according to the author, can be divided into several main types:

- tax evasion for goods
- evasion of payment of taxes on labor

Considering ways to evade taxes on goods, can also identify several major subspecies:

- non-payment of VAT
- failure to pay income tax (or dividends)
- non-payment of customs tax

Classical schemes of avoiding VAT :

- 1 Short-term work of a company registered, as a rule on a non-resident or on a person from whom there is no possibility to collect tax debts (for example, a beggar who has no income and who has no property).

Such companies are used:

- As a "interlayer" for the activities of the main company.

For example, a large Latvian trading company, a leader in its industry having a huge local trade turnover does not want to pay VAT. In the case of such a company, this is a very impressive amount. To avoid VAT, a "shield" is created from fake companies that work half a year - a year, sometimes this period can go up to three years, but in this case the company - the shield is used not only to avoid VAT. All the main profit settles on the accounts of fake companies. Goods are sold to the main company for at substantially inflated prices. Thus, the main

company works almost at zero (there are even examples when the main company operates at a loss), and accordingly the VAT is almost zero. Companies shields are periodically written off, for which there are different methods that in the context of this work we do not consider.

- For large transactions in a short time.

In this case, there is a short-term surge in the company's activity. For example, the company conducts business with the established and approximately identical trading turnover for a long period of time. There is the possibility of additional significant sales in the short term (for example, a new trading network is opened). In order to increase the marginality of a short-term project, a company is created, through which sales are made within the framework of this project. After that, the temporary company is liquidated, the activity continues from the main company.

- As a project to assess the potential of a new market.

This is a method of practical market analysis common in the Baltic States. Practical experience of the author of work in this market, has allowed to reveal that such a scheme is often used by Lithuanian and Polish entrepreneurs.

To get a qualitative analysis of a specific market, in this case, a company is used, from which it is initially planned to get rid in six months - a year. Such a company by any means and methods (dumping, bribes) is trying to capture the market despite the consequences and not caring about such things as the image. If the company shows the possibility of developing a brand in a given territory, then it gets rid of it very carefully, so as not to damage the image of the brand, which in parallel starts to be sold from the main company. In the case where the company shows the futility of the market, a commodity deliverance (dumping, sale of substandard products, often deceiving buyers) is arranged. The goal is to solve all the problems of the main company accumulated in the home market. For example, to sell a marriage, a product with an expiring shelf life or a product that does not meet the standards of this market.

- 2 Correspondence of goods between neighboring countries and sale from foreign companies. The scheme also implies the fragility of companies.

Companies are created in different countries, in the case of Latvia, more often a set of companies registered in Latvia, Lithuania and Poland and further, depending on the specifics of the product, are most often added to the Netherlands, Slovakia, Italy, England.

In this scheme, "VAT laundering" is more often used by chains consisting of 3-5 companies.

The essence of the scheme - from abroad the goods are issued without VAT, upon arrival the price is recorded as complete and sold to the next country again, net of VAT.

It should be noted that there are also developed versions of such a scheme, when the goods passing (not physically, only according to documentation) through a lot of companies in different countries can lose more than half of the original cost price. If it were not for the costs of maintaining the chain of companies, using such a scheme it would be possible to reduce the cost of goods by more than 99%.

This way of avoiding VAT is mainly used by companies engaged in Internet commerce.

- 3 Non-payment of VAT by large companies, based on the "inability to pay". As a rule, such tax debts the state partially "forgives" writing off huge sums in favor of large companies.

An example is a large trading and manufacturing company, one of the largest Latvian taxpayers, stops paying all taxes. As a result, he receives a claim for tax debt from the tax service, which the company's lawyers have already prepared a response, which says that due to an excessive tax burden, the company had to stop paying taxes in favor of paying employees' wages. The company offers the tax service to completely write off tax debts for the current moment, otherwise it threatens the bankruptcy of the enterprise. This is pure blackmail of the state, since the tax service understands that it is impossible to repay the tax debt in any case and it is necessary to choose the lesser of evils - to refuse collection of debts and to write off it in order to receive taxes from this company next year. Most often, this fraud is explained to the care of workers, the preservation of jobs and other popular arguments, but this is just one way of not paying taxes. As a result, the tax service and the company more often agree on a compromise, namely, the companies

write off only VAT, and the remaining taxes it still pays by breaking them into minimum payments and a long period.

- 4 The company has unregistered cash registers.

Such a scheme is widely publicized in connection with Latvian catering, but in large retail chains, this phenomenon is also common. For example, a large retail chain operating in the food industry may have 2-3 unregistered cash registers for each major store and one for each small store. At the same time, such cash registers do not always work. Given the turnover of the trade network, unpaid interest is a huge sum.

3.1 Non-payment of income tax (or dividends)

Until January 1, 2018, when the law on reinvested profits began, entrepreneurs thought how not to pay income tax. After the law came into force, they began to think about how to withdraw money from the company.

After the beginning of the said law, the meaning for tax fraud has become less. The main stratum of entrepreneurs in Latvia is small and medium business, which constantly lacks working capital and, thanks to the new law, they have the opportunity to direct additional funds to the development of enterprises.

At such class of businessmen the question on a withdrawal of money from the company is not necessary.

But, there are also larger companies that accumulate profits that shareholders want to withdraw from the company. Considering the new dividend rate of 20%, there is interest in non-payment of this tax.

At the moment, the most popular is a significant increase in the company's expenses in favor of the owners. For example, a company is bought cars that are used by shareholders personally, or are leased, the income from which the shareholder receives "black" money. The company pays all the costs associated with servicing the car. Such cars can be a large number. Everything depends on the amount of funds that need to be transferred from the company's budget to the shareholders' personal budget. With large volumes, real estate can be used, with small volumes payments for personal events of shareholders.

3.2 Non-payment of customs tax

Non-payment of customs tax can be divided into two categories:

- Transportation of goods from third countries without the assistance of customs officers

As a rule, without the help of customs officials, they transport small quantities of goods. This type of smuggling does not significantly affect the collection of customs taxes because of the insignificant total cost of illegally imported goods.

- Transportation of goods from third countries with the help of customs officers.

Unfortunately, corruption in Latvia is a total norm and customs authorities are no exception. In an effort to obtain personal benefits, customs officials are causing significant harm to the state by reducing tax revenues. In the context of this paragraph, it is a question of customs tax.

but damage is also caused through non-receipt by the state of VAT and sale of products in the market that do not correspond to the region's quality. There is also a third option for Latvia's loss of customs tax, this is the method of importing goods, which causes the greatest damage in obtaining customs tax. In connection with the absolutely poor work of the customs authorities and the total bureaucracy related to the import of goods into the EU through Latvia, many entrepreneurs import goods through other EU countries where everything can be done faster and easier. But, this is a legitimate method, accordingly, in the work on the topic of tax evasion, the author does not consider it.

4 EVASION FROM PAYMENT OF TAXES ON LABOR

Mostly, in connection with taxes on workers, employers try to avoid paying income tax from the population, which, in the vast majority, is paid by the employer for the employee, on the basis of an agreement with the employee on the amount of net wages and social tax. Other payments related to labor costs in this work are not considered.

Denote the main types of non-payment of taxes on labor:

- Payment of part of salaries unofficially ("in envelopes")
- Payment of 100% of the salary of a particular employee informally
- Failure to pay taxes for an officially registered employee

4.1 Payment of part of salaries unofficially

The most common method in Latvia of tax evasion is related to labor costs. The overwhelming number of Latvian companies use this way of reducing the cost of the work process. This method is used in all industries and at all levels of the company.

Olga Pavuk, in the article "The shadow economy in Latvia is much higher than that of neighbors" writes: "Estonia leads the way in wages in envelopes (53.6% in the total shadow economy), Lithuania - also in wages in envelopes (42.4%), and in Latvia the largest share of unaccounted incomes (42.1%). It is obvious that Estonians pay more attention to support and growth of business, forms of payment.

The share of wages in envelopes in real wages paid by entrepreneurs in Latvia is 18.1%, having fallen by almost two times in seven years (from 2009 to 2016). In Estonia and Lithuania, this indicator for the same seven years was almost unchanged (17.1% and 15.4% in 2016, respectively).

Bribes. Another indicator, revealed in the survey of entrepreneurs: the average share of bribes "to solve cases" in the income of the enterprise. In Lithuania this is 9.8%, in Latvia 6.5%, in Estonia 3.6%. The share of bribes in the amount of the contract of state order is the largest in Lithuania (8.1%), in Estonia 4.8%, in Latvia 3.9%. At the same time in Latvia and Lithuania, this indicator is slightly reduced, and in Estonia for seven years more than doubled. "[5]

Let's consider an example. The company has 10 employees, half of whose wages are paid "in envelopes", a gross salary of 1000 euros.

Using the salary calculator of the state tax service, you can see that when all taxes are paid (we do not think there are any dependents), the cost of each employee for the employer is € 1,241.26 per person, and provided that half is paid "in an envelope" of 1120.81 euros per person. Thus, the difference in the cost of ten people will be 1,204.50 euros, which is about 10% of the cost of employees.

Saving 10% of costs is an important argument, if the employer has the opportunity to legalize the funds without additional costs (or to receive additional "black" income). But, if there is no such possibility, then saving 10% economically does not justify the illegal part of the salary.

To explain salaries in "envelopes", in this case, can the lack of education of business owners and / or habits and upbringing.

4.2 Payment of 100% of the salary of a particular employee is unofficial

Completely illegal salary of an employee is a huge risk for the company and accordingly, in order to go to it, the profit should be significant.

Mostly, the times of completely "black" wages have already passed, but there are still areas in which this form of payment is used, mainly this construction and small retail trade.

Black wages in construction and small retail trade, except for saving on taxes, there can one more explanation - some employees are illegally imported into Latvia and can not work legally.

Turning to the salary calculator of the state tax service, we see that with the example of the ten employees mentioned above, the company saves already 2412.60, which is almost 20% of labor costs.

With 20% savings and the ability to legalize money without additional costs (or to receive additional "black" income) already clearly has an economic benefit.

Another question is whether the risk is comparable to the economic benefits obtained, but each entrepreneur decides for himself.

4.3 Non-payment of taxes for an officially registered employee

This form of non-payment of taxes, as well as completely unofficially working for the firm employees, is almost irrelevant for Latvia.

This is what companies that are on the verge of bankruptcy do.

Economic benefit is, the company saves the same 20%, which are mentioned above, but the risk in this case is obvious and this kind of non-payment of taxes in the long run is not possible.

Analyzing the pros and cons of saving on taxes related to the workforce in the average Latvian company, the author concluded that under existing laws, tax rates and control instruments, the risk exceeds the potentially saved funds.

Salaries in envelopes receive a quarter of all employees. The portrait of the payee in the envelope, drawn by the SRS, is as follows: the critical age group is 45-55 (27%), 25% of the group aged 30-44 and 56-63. Most often, salaries in envelopes are received by divorced people - 31% of men and 23% of women. Most often, these are low-skilled workers (71%), but quite a lot (29%) and those who hold managerial positions or highly qualified specialists. According to the

SRS estimates, as a result of receiving salaries in envelopes, 222,000 people or 25% do not receive in full social benefits for unemployment and illness, 39,000 people. - benefits for the birth of a child and 16 thousand people. - guaranteed retirement pension by age [6].

5 DISCUSSION AND CONCLUSION

Classically, the main determinants of the development of the shadow economy are:

- Non-optimal tax system, including too much tax burden
- Difficulty of regulation and required reporting
- Excessive influence of the public sector or mega-companies in the industry

In this paper, only tax evasion was considered.

Having considered the main types of non-payment of taxes on goods and labor and understanding the need to combat this phenomenon, the author suggests the following tools:

1 VAT.

- In order to reduce the possibility for third-country nationals, to open companies and, in case of unsuccessful business, to throw them, to pass a law stating that at least 51% (of each company) of Latvian companies should belong to Latvia's residents
- Legislatively prohibit the opening of new companies to persons who already had a bankrupt company, without compensation for non-payment that the debts of the previous company. This can be done through a one-time payment or an increased tax rate for 1-2 years.
- Introduce a reversible VAT payment principle for all goods and services
- To organize total verification of certificates and authenticity of available certificates for all groups of goods sold on the shelves of Latvian stores.

This is not a direct solution, but it should be borne in mind that on the shelves of stores there is a large number of goods that do not have certification, and therefore some of them, even theoretically, can not be traded legally.

Withdrawal of such goods from the shelves of stores will lead to increased sales of law-abiding sellers, which in turn will increase the receipt of VAT in the treasury of the state.

2 Tax on dividends.

- limit the possible availability of vehicles and real estate registered for legal entities
- to develop an option for a tax-free withdrawal of dividends by sponsoring local start-ups in the areas necessary for the country.

For example, there is a startup in which it is necessary to invest a substantial amount, which is expected to return in 1-3 years. An investor who wants to receive dividends without paying a 20% tax invests money in this start-up and receives a full amount of dividends after a certain time, without deduction of tax. Of course, such a project should be under state guarantee.

3 customs tax.

In order to combat non-payment of the customs tax, it is necessary:

- introduce a full-fledged system for controlling the activities of responsible employees, it is better to automate and computerize the process
- toughen penalties for complicity in smuggling by customs officers
- create a full-fledged automated control of the accuracy of the documents provided for customs clearance.

Limit the import of goods with forged documents. Thus, there will not be a significant increase in the customs tax to the budget, but such a step will lead to a significant increase in the quality of products presented in Latvia.

Eliminate unnecessary bureaucracy and simplify customs clearance of goods in Latvia, which will lead to an increase in customs turnover by transferring customs goods from other EU countries.

4 Non-payment of taxes on labor.

To increase the share of officially paid salaries, it is necessary to raise the non-taxable minimum to 1.2-1.3 today's minimum wage, gradually raising the very minimum wage. But, it is necessary to take into account the fact that raising the minimum wage can only go after state assistance in the development of business, otherwise, the business will not survive the salary burden, which will lead to massive bankruptcies or withdrawal into the shadows.

ACTA STING

For using the services of an employee who is not officially listed in the company, to introduce criminal liability, starting with the third registered case.

As a result of the introduction of the tools proposed by the author, the following changes are predicted:

- 1 The number of companies used for market analysis (temporary companies) will significantly decrease.
- 2 The ability of one person to open and bankrupt companies will be reduced.
- 3 Entering the reversible principle of VAT payment will significantly reduce the ability to use non-payment of VAT as a competitive advantage of the shadow business.
- 4 Introducing changes regarding dividends, growth of local companies is projected due to startups, which in turn will increase employment and tax revenues due to taxation of wages.

Also, the proposed introduction will limit the ability to have on the balance of the company resources used for personal purposes.

- 5 The proposed tools optimize customs activity, which in turn will lead to an increase in customs flow through Latvian customs through the transfer of goods from European customs (other EU countries).

The flow of high-quality goods through the control of the documents provided will also increase.

- 6 Increasing the non-taxable minimum in parallel with state support of business will provide an opportunity to increase the company's turnover through exports, as well as lead to the legalization of wages and their subsequent growth.

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