ISSN 2229-5518

Taxation – an ongoing and challenging topic – VAT special case

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Abstract— This paper came to underline the principle and policy of taxation, taking as a special case the mechanism of VAT, and why this tax is a controversial one – it can bring benefits, or can adversely affect individuals, businesses and the economy in general. The working paper present in details the mechanism of taxation, VAT separately, and reason for which VAT comes with benefits, and in the same time, if the law is not clear, how VAT can generate fraud. The research conclude with following findings – VAT may be called a controversial tax because without a clear laws and regulations it can generate fiscal fraud; VAT influences purchasing power, as a crucial element in the retail price structure; VAT is a main tool used by the government to relax or accelerate the economic growth; VAT is a key factor in business decisions; and, nowadays, VAT is a subject of many fiscal bi or multilateral states agreements to avoid stimulate international trade, avoid double taxation and tax evasion.

Index Terms — Taxation, VAT, taxation policy, tax evasion, business decision, purchasing power level, governmental tool

1 Introduction to Taxations' World

The research has revealed that, from the very incipient state's creation, when people were setup in groups of families, clans or tribes around a temple, there was a use for a contribution with a certain amount of money from their earnings (and not from assets). The temple was the first place where people prayed, and it was used also as the judgment room and the jury for the members of these groups or clans. As with the years, the number of group members grew, the divergences appeared, and along with them the boarders between them, and *states* starts to be in place officially, end to end with their own pecuniary mandatory contributions to the functioning of the state [1]. The earliest known tax records are in the form of clay tablets found in the ancient city-state of Lagash in modern day Iraq (dating from approximately six thousand years B.C.) [2]. Similarly, the early taxation appears in ancient Greeks, Egyptians and Romans, Chinese and English society.

Nowadays, in order to ensure the financing of the public expenditure (needed to create public goods and services), in all the countries in the world, governments use to impose taxes on economic activities, including income from consumption or use of good and services, or properties [3]. Therefore, in the present time, taxation become one of the main sources of the public revenue and, in the same time, one of the most significant fiscal tool used by the government to stimulate or to control the economic growth and specific economic sectors. Moreover, tax revenue present higher sustainability and efficiency in getting state's revenue than reliance on public borrowing. The Organization for Economic Cooperation and Development (OECD) defines tax as *compulsory unrequited payments to general government* [4].

With time, tax policy took a crucial place within macroeconomic country's policies and it is part of public finance policy [5].

The significant role of tax policy targeting to help individuals and businesses which struggling financially, and, in the same time, this policy aids to reduce the differences between poor and reach people. In other words, tax policy plays a vital part in both microeconomic and macroeconomic life [6]. Tax policy consists of a set of government decisions which follows economic activity influencing social mobility using public revenues and expenditures. Tax policy is a key part of public finance and economic policy. Through taxation, financial system aims to influence the aggregate economic activity. It includes all measures relating to the amount and perceptions/use taxes in an economy. Tax policy can be defined as the totality of methods, means, forms, instruments and institutions used by the government and other public authorities to obtain financial resources, including for influencing economic and social life.

Tax policy can leave its mark, influencing the unfolding economic and financial processes and default on the evolution of the society. Today, tax policy has interdependent relationships with economic development policy, public investment policy, monetary policy, currency policy, price policy, social and employment policy, and financial policy of the country. Through tax policy, the state can influence many economic developments (demand for specific goods or services, income, etc.).

The main aims of tax policy target the economic development and the fiscal consolidation environment. Tax vision must be qualitative and actively, by stimulating initiative and the respect for the risk taking. The implementation of tax law, rules, and regulations, ensuring correct operation of the mechanism and achieving tax receivables are made through specialized governmental authorities and the work of tax experts, trained following the requirements of national and international taxation.

Currently, taxation is one of the most used tools to for economic recovery within the recession. In this respect, it is better that the government should act primarily towards reducing the level of taxation, and to encourage both consumption and investment, together with the relaxation of the monetary policy too. Instead, during the stages of the economic' boom, in-

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creasing in level of taxation on many taxes and governmental fees will slow down consumer demand and private investment (land for creating additional revenue for the state budget - used to cover deficits during recessions).

2 Principles of Taxation

The economy of a country, as part of the world economy, includes a set of activities, carried out by individuals, companies and economic actors from other countries (foreign investors). Because of these activities, inside each country appears a set of relations between: production, exchange, division, consumer, and finance, credit, which is manifested in the form of actual monetary and financial flows.

The actual tax system is a product of the history of human civilization. The evolution and the completion of the main characteristics of taxation reflect developments in social and economic structures, the ideological and political trends, and scientific research for the past three hundred years [7]. A key role in the tax system it is taken by the tax policy. Tax policy has envisaged the establishment of origin and volume of resources to feed the financial public, sampling methods to be used, goals and means of achieving it. To be benefic for individuals and for entire society, tax system, through tax policy should respect a set of principles. Principles of taxation being the formal guidelines which are widely accepted and/or discussed it should be considered whenever specific laws are proposed, amended and implemented [8].

The principles of taxation were expressed 1860 by one of the most representative economists J.S. Mill [9] and Adam Smith [10], which stated that a good tax system usually it follows the four principles of taxation: *neutrality* of tax measurement (related to distinct categories of investors and shareholders, and ensuring equal conditions to investors, local and foreign capital); *certainty* of the imposition by developing the clear legal rules, which will not lead to arbitrary interpretations, and deadlines; how perception and amounts of payments to be *accurately determined* for each taxpayer, that they can follow and understand the tax burden falls on them, and can lead to influence their decisions on fiscal management on their tax burden); *tax equity* at individuals' level (by imposing the income in a different way, depending on their size); taxation *efficiency* (by providing long-term stability of the Tax Code/Law, in order to do not lead to retroactive effects, unfavorable for individuals and companies.

Principles of taxation which have been seen in European and USA Tax Code/Laws, in conjunction with the principles formulated by economists Adam Smith [10], could be grouped into the following categories:

Principles of tax equity. This involves imposing a distinguish tax on income and wealth, depending on the strength of the tax matters contribution. Tax equity it has *seen* as a fairness of imposing or the right of every taxpayer in respect of imposition. Compliance with tax fairness implies cumulative performance of the following conditions: *setting a minimum non-taxable base*, that settle the tax exemption for a minimum level of income for a property, enabling the needs of living strictly necessary – condition applies only to direct taxes; *the tax burden to be determined by the strength of the contribution of each taxpayer*, respectively depending on the size of income and wealth tax, and the personal situation; *a certain tax contribution* – the tax burden applied to one group of social category to be established in the tax burden compared with other social categories; *general imposing settlement* – respectively to cover all subjects which performed revenues from a source or possess a certain kind of fortune, except only those who are below a certain level.

Principles of the financial policy include financial requirements which need to be met by any new tax introduced into practice. Thus, according to these principles, taxes must have a high tax efficiency, to be stable and to be elastic.

For a tax to have a high yield of *efficiency*, certain conditions must meet cumulatively: a universal character of the tax (respectively to be paid by all individuals and companies who obtain revenue from the same source or have the same kind of fortune); and the whole matter to be subject to tax imposition; no possibility, legal or illegal, to subtract a taxable income from imposing; the existence of a dedicated low of tax's settlement.

For a tax to be considered *stable*, it must do not change its settlement's way, along with an economic cycle. In other words, tax quota should not be increased or reduced even if there is an increase/decrease recorded in revenues recorded over one economic cycle.

Principles of economic policy concern the state to use taxes not only to get public financial revenues but also to encourage or discourage specific activities of the economy, to support investments, etc. In this sense, to stimulate economic activity, the state use the reductions or exemptions from payment of taxes, establishment of higher customs duties on imports, reducing direct taxes or partial refund of indirect taxes related goods exported etc.; and, for the restriction of economic activity the state can resort to lines at some increased taxes and fees for certain areas or fields, at the tax applied for polluting activities, the protectionist policies in purpose of limiting access to the country of goods or of quantitative quotas, at the increasing excise duties on certain products deemed harmful to health, etc.

Principles of social policy requires the fulfillment of social policy's objectives. In this respect, following these principles, the State aims to protect certain social categories and maintaining public confidence in politics promoted by itself. The principles of social policy translated into practice, mainly through tax measures such as: providing tax incentives for taxpayers with low incomes or who have as dependents more persons; the special tax burden for people married and/or unmarried who have not children, to encourage childbirth; increase the amount of indirect taxes on polluting products or which have harmful effects on health.

All these principles can be accompanied by another principle: ***principle of simplicity***. According with this principle any tax should be assessed and decided in an effortless way, to be understand by any taxpayer. A tax system should be easy for tax payers to comply [8].

In all the countries where there is a taxation law in place,

ISSN 2229-5518

must and exists at least a public authority with specific responsibilities in taxation. Usually the financial public policy is conducted by the Ministry of Finance [Depend of the country the name of the ministry which has attributions and responsibilities in conducting public finance policy. Example: Ministry of Finance (in USA, UAE, UK, or Netherlands, Belgium, Russia, Japan), Ministry of Economy and Finance (France), Federal Ministry of Finance in Germany, Ministry of Public Finance (Romania)], and they are the one which is drawing up the public revenue policy (which include tax policy, as part of public revenue) and there is a separate public authority which is responsible for taxation collection and auditing the way of taxation process is conducted by all person participant to the entire economic life [Depend of the country the name of the authority responsible for tax collection and audit is different. Example: Internal Revenue Services, in USA; Federal Tax Authority, in UAE; HM Revenue and Customs, in UK; or Tax and Custom Administration, in Netherlands; General Administration of Taxes, in Belgium; Federal Tax Services of Russia; National Tax Agency, in Japan; Federal Central Tax Office, in Germany; Romania's National Fiscal Administration Agency].

Nowadays, we are living in a highly globalized and integrated world economy and together with the economic development of all states, public tax authorities face many irregularities in collecting tax debts. Here's way, the tax liability is not limited to the mere duty to give income to the state budget, in the form of taxes. It has a more complex content and includes: *the obligation to declare assets and income taxable*, or, where appropriate, taxes, fees, contributions and other amounts due to the general consolidated budget; *duty to calculate and record in the bookkeeping* the taxes, fees, contributions and other amounts due to the general consolidated budget; *the obligation to pay* at the legal deadlines the taxes, fees, contributions and other amounts due to the state budget; *the obligation to pay interest and penalties for any delay* related to taxes, fees, contributions and other amounts due to the general consolidated budget, named *accessories obligations of payment*; the obligation to calculate, to retain and record in the accounts and payment books, at the legal deadlines, taxes, and contributions that are collected by withholding tax; any other obligations of taxpayers, individual or companies in tax law enforcement.

In other words, the tax is required in conjunction with the concept of civic tax, that ethical behavior that gives evidence of a good citizen in a statement calculates and submits the correct and timely tax obligations. What will have happened if not all citizens of the country would show civic tax behavior? The answer may be: we will face tax fraud. Unfortunately, as long as tax liabilities will exist, fraud will continue to exist in a form or other.

3 Characteristics of Taxes

3.1 Features of Taxation

What are taxes and fees? The answer is very simple and concrete one: taxes are the main instruments of the state's interventions into economy – for the creation of the public financial resources, for a stimulation the development sectors of the economy and to discourage tax evasion.

As it was presented earlier in this paper, taxes, and fees represent *a form of removal of a part of income/profit and/or assets of individuals and companies to the state, to finance the public expenditure*. In other words, the most key role of taxes and fees are manifested on the financial field, they are one of the primary resources for covering public expenses incurred due to funding public collective needs.

But what it is a tax? A *tax is a cash contribution*, in the sense that individuals and companies are required to participate, with certain quota, to the creation of public funds needed for the development of the society. The *tax is mandatory*, meaning that all persons who create income (in a form or another) must pay a part of it to the state (according to each state's law). The *tax is due under the laws*, means taxation law establish all the rules for charging taxes; *The charge is final (non-refundable) and without direct benefit* straight from the state, means that taxes are payments which are made to state definitively and, in exchange for it, the taxpayers cannot claim the state for a direct benefit, with equal value or close to the amount paid; A *tax is a way to participate in the establishment of public funds* [11] and it is due to earnings and assets held, means that individuals and companies have to pay taxes tax only when they earn income or wealth, according to the taxation law. In Arab World, individuals use to pay *Zakat*, which is a kind of imposing (only for individuals), which is settled as a portion of individual's stable wealth and is designated for the poor or needy, and this part of wealth needs to be given, to purify that person's prosperity. (*Zakat* is a *mandatory* alms-giving or a form of charity to people in need, due to Muslim, during one complete lunar year, which succeed to record an untouched minimum level of wealth. At the opposite site, *Income Tax* is a *mandatory contribution* to the state budget to complete its public expenditures. *Zakat* is paid only by Muslims based on their wealth, and *Income Tax* is paid by all members of the society if they are recording any kind of earnings) [12]. Zakat is a form of imposing. However, it must not be confused with *Tax*, which has a specific characteristics and elements.

When the state began to be actively involved in the country's economic life, it found out that to cover all expenses required to meet the needs of citizens it must be some financial resources at the country level disposal. And from where these resources can be made it? As we presented earlier, there is a very simple and direct answer: from its own citizens. It appeared as a requirement that all those who achieved any form of income/profit/fortune to pay a share to the state. This obligation today it is called a *tax liability*, and the amounts of the resources collected in this way, are named *taxes* or *fees*. In other words, the liability to pay taxes to the state, fees and another form of imposing it is regulated by state's law. The right to claim tax and the proper tax liability appear as soon as the event had a place (the income, the profit or the assets has been created etc.).

In terms of features of a tax liability it can be said that it is: a *legal act*, because of its origin, being in accordance with the law which establish taxes, fees and contributions; a *judiciary act*, because it is giving the rise to legal relationships between individuals and/or company, on the one hand, and state, on the other hand; *a form of cash*, being made effectively (collected) to the consolidated budget of the state, in national currency; *a public liability*, because of the quality of the legal parties involved in the process of settlement and collection, with the consequence that involves more rigorous legal treatment.

3.2 Elements of Taxation

Like any other financial tool, also tax presents its own elements. Tax's elements are those components that contribute to setting up the size of the tax, the fact that it generates, similarly maturity date. Therefore, tax's elements have been important to determine the right legal procedure for their collection and the correct amount of the tax liability.

Tax's elements include [13]:

- *the event* (the fact that it generates), means that the act or event that gives rise to the legal tax claim about tax due budget [The generator fact it is important for setting up the rules (the methods for deciding and assessing the matter taxable, the quotas of tax, methods of calculation and payment deadlines), which is applicable at the certain specified time];
- *the taxpayer* means individual or company obligated by the law to calculate and pay taxes [E.g.: in the wages tax case, the taxpayer is the employer; in the profit tax case, the taxpayer is the company; the tax on successions, the taxpayer is successor. Also, should be mentioned that, in some cases, the taxpayer may be confused with the subject of tax]; [in relations with the Tax Authority, the taxpayer may be represented by an attorney who recording act of empowerment to the institution tax. Also, the taxpayer who has not tax residency in his home country, and have the obligation of tax return can nominate one person to represent him to the Tax Authority and comply the tax duty].
- *the subject of taxation*, means a person obligated directly (personal) by the law to support the payment of tax, fee or other public income, as a result of that possess or carry out goods for which revenue law requires payment of a tax;
- *the object of taxation*, that matter taxable [E.g: in the direct tax case, is object to the taxation of income or assets, and in the case of indirect taxes, the object of taxation may be object to product sales, services, etc. or sales value, services, and imports];
- *the source of the tax*, which shows from where the tax is paid from income or wealth;
- *the quota of tax*, which means tax for a unit to impose [The tax can be set up in fix amount and/or as a percentage (proportionate, progressive or regressive)];
- *asieta* (method of settlement of the tax), which means all measures which are taken by the tax authority in respect of each taxable subject, for identifying the taxable object, establishment size matter taxable and the tax liability to the state. *Asieta* consists in finding and assessing the matter taxable.;
- *tax collection*; *the maturity date for payment*, showing the date on which taxes must be paid to the state [if the tax is not paid din due time, penalties may be added].

4 Completing Tax Duties

Well, we understood that every citizen must pay to the state budget a percentage or a fixed amount (or a combination of both) of income/profits or assets held. But can go anywhere and pay? In another place, city, country? Or we need to go back to our *home*? Generally, the *home tax residency* is specified in the taxation law [and in dedicated agreements between states for avoiding double taxation]. As a general rule, *tax residency* means: for individuals, address where they have a home, according to the law, or address where they live actually (residency) if it is different from home [it has to be present more than 183 days in that specified country, during one fiscal year]; for individuals who carry on economic activities independently or freelancers, the home tax is the place where they actually carry the main; for companies, the headquarters or the place where is exercised administrative management and effective leadership in business, if they are not made at headquarters said; for the associations and other entities without legal personality, the home tax is the headquarters or the place where is exercised the main activity. [Through the address where they actually live it is understand the address of a place where an individual use to live consecutively over 183 days in a calendar year, interruptions of short duration are not taken into account. If a stay is solely to visit, holiday, treatment or other private purposes and does not exceed the period of a year, then not consider this as the address where they actually live]. If the home tax cannot be ascertained as above than the law provides the home tax is the place where are the most assets. In all cases mentioned above, the taxpayer is called to declare and establish its *tax or fiscal residency*.

Payment of taxes and other obligations to the budget is the easiest, may common and widespread way of extinguishing the tax obligation, taxpayers executing and willingly obligation imposed unilaterally by the State. Payments by the taxation authority are carried out through banks, treasury and other institutions authorized to conduct operations payment.

Payments may be made by done in cash, that by submitting the amounts of cash from the public treasury offices or establishments; transfer, through specific instruments settlement (postal or bank) submitted by the banks with which they have accounts; by banking transfer, payment date being the date on which the transaction was made; application and cancellation of mobile stamps, which is anticipated service provision or at the time of receipt or issue to the act which is due to tax.

Compensation occurs when from the payments due at a certain maturity a specified amount earlier paid to the budget the earlier date, is deducted. Offsetting the debt will be with obligations owed to the same budget, following that, with the remaining difference, to compensate with obligations owed to the same budget, following that, with the remaining difference, to compensate obligations owed to other budgets. The competent authority will notify in writing the debtor about the extent of compensation, within certain numbers of days from the date of the transaction (according to the tax law in force).

Amounts repaid as a difference of paid taxes resulting from the settlement of annual income tax payable by individuals shall be returned ex officio by the tax authorities, within certain numbers of days from the date of the communication's decision to impose.

The compensation amounts are made by the competent authority, ex officio or at the payer's request, with other budgetary obligations, irrespective of their nature. The amounts paid in advance may be returned at the taxpayer's request, based on a report approved by the tax authority in the following three cases: 1) taxpayer has no obligation budgetary arrears from previous years or the current year; 2) if after compensation there are still recorded amounts paid, and taxpayer has no debts to be paid and does not require such compensation amounts with the next budget obligations; 3) payment was made wrong to another tax authority. The right of asking for compensation or refund of amounts related to budget obligation is prescribing within a certain number of years specified by the law.

Restitution is a way of extinguishing the tax liability against the taxpayer when it was paid in addition to the taxpayer. May be returned on request, to the debtor, the following amounts: those paid without the existence of a debenture; those paid in addition to the tax liability; those paid as a result of erroneous calculation; those paid as a result of erroneous application of legal provisions; those reimbursed by the state budget; those determined by the decisions of judicial bodies or other competent authorities according to law; amounts remaining after the payment of the tax liability; the results of the valuation of assets seized or deductions of attachment, as appropriate, pursuant to a court decision that has dissolved execution.

The *prescription* is a way of extinguishing the tax liability by crossing a certain period, from the rise of the tax obligations. The right to demand enforcement of tax claims are time-barred within a certain number of years (specified in the tax law).

Limitation periods may be: specific terms, which are covered by special regulations that are set taxes; general terms, running in the absence of specific deadlines and they are referred to general regulations applied on prescription extinct. Limitation periods of prescription interrupt in cases and under the conditions laid down by law for discontinuation and suspension period of the limitation prescription period for the right to action regarding common law; at the date of the performance by the debtor, before the start of execution or during it, a voluntary act of implementing the obligations in enforcement or recognition in any other way the debt; for the period between the time the tax inspection and the time issue a decision imposing a result of carrying out tax inspection; in other cases provided by law.

Where the taxpayer is not executed voluntarily tax obligations, the competent taxation authority proceeds to *enforcement actions*. Enforcement actions aimed: locked and deduction accounts, enforcement of movable and/or immobile (seizure and sale by public auction, debt collection and expenditure works performed it) and enforcement of third party custodian. Enforcement of tax claim means an extraordinary procedure of making budgetary revenue and other rights of the state, applicable to both legal persons and individuals. Within the enforcement, taxes, fees, contributions and other income due to state budget cannot be pursued by any other creditor for any category of claims.

Enforcement of tax claims is made under an enforceable issued under the tax law, by the competent execution authority in whose territorial area is domiciled tax debtor or another who entered, according to the law, is enforceable. *Garnishment* is a procedure by which the debtor cannot make an available the money due to the debtor or by another person (third party garnishment). *Enforcement of movable assets* is made by sequestrate and recovery of them, under an enforceable. Any movable property of the debtor, except goods that cannot be pursued on the basis of laws may become the subject of execution (ex. goods necessary life and work debtor and his family). *Enforcement of real estate assets* is made by sequestrate and recovery of them, under an enforceable. The real estate assets, debtor's property, may be subject to execution, except for the minimum living space of the debtor and his family, determined in accordance with the rules in force.

Cancellation is a way of liquidation of the tax liability because of tax authority decision – *tax amnesty*. A tax amnesty is an official document issued by the state as a result of certain socio-economic and political events, through which some taxpayers are exempted from payment of outstanding amounts to the budget.

There are many legal ways to complete the tax duty. However, depending on the nature of tax liability if there is a failure in paying them, this it may arise other liability to individuals and companies in charge, namely administrative, disciplinary, material and criminal liability.

5. VAT – A CONTEMPORARY AND CONTROVERSIAL TAX

As we presented earlier in this paper, countries use to impose its citizens which are earning income, individuals or in a form of business. Generally, there are two main categories of taxes: direct taxes (imposed on properties, income, wages, salaries earned) or indirect taxes (applied movements of goods). In the present time, Value Added Tax (VAT)– an indirect tax, it is imposing on most supplies of goods and services which are bought and/or sold (some exceptions are specified according to each country's law). VAT was originally a French idea, started in the 1950s [14]. In practice, governments have implemented the VAT largely as an improved sales tax. European countries, for example, are mostly using the VAT to reduce or cut other sales taxes. They continue to keep separate corporate income taxes. Many European countries enacted a VAT in the 1960s and 1970s. Developing countries followed in the 1980s and thereafter [15]. The OECD define VAT as a *specific type of turnover tax levied at each stage in the production and distribution process. Although VAT ultimately bears on individual consumption of goods or services, liability for VAT is on the supplier of goods or services. VAT normally uses a system of tax credits to place the ultimate and real burden of the tax on the final consumer and to relieve the intermediaries of any final tax cost* [4].

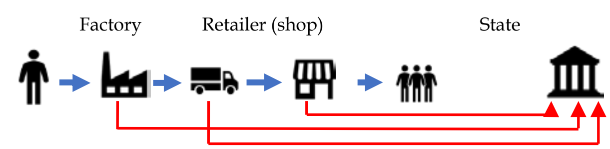
Because of the process of globalization and harmonization of international trade between states, multilateral treaties and multilateral development and economic cooperation agreements have appeared. VAT, as a consumer tax employed on consumption that goes inside and beyond the borders of any state, has been the subject of multilateral international eco-

ISSN 2229-5518

nomic development agreements and the elimination of tax evasion. Consequently, as an example we found, for example: 1) *European Union Value Added Tax* with a main goal to harmonize VAT law within European Union states, to harmonize of content and layout of the VAT declaration. The standard VAT rate vary between 17% (Luxembourg) and 27% (Hungary), and reduce tax starts with 5%; 2) *Gulf Cooperation Council* with, among other aims like common custom and common market, foreseen to unify the VAT rate to 5%, for all member states, but still there are reduction in VAT rate, for specific activities [16].

VAT is a type of general consumption tax that is collected incrementally, based on the increase in value of a product or service at each stage of production or distribution. VAT is usually implemented as a destination-based tax, where the tax rate is based on the location of the customer. At this moment, VAT is implemented in approximatively 193 countries around the world. During the implementation process the VAT mechanism must be very well understand to avoid any tax evasion [17]. The complexity of the entire mechanism of VAT is sometimes difficult to understand by all citizens, and this may lead to a lack of taxpayers' payments [18], later to tax fraud. The mechanisms seem to be, at the first sight, very simple: a business pays the government the tax that it collects from the customers while it may also receive a refund from the government on tax that it has paid to its suppliers. The net result is that tax receipts to government reflect the 'value add' throughout the supply chain. To explain how VAT works we have provided a simple, illustrative example presented on figure no.1.1.

Figure no.1.1.: The mechanism of VAT collection and payment



Note: Selling Price = productions costs, including profit + VAT

VAT quota = 5% (applied in UAE, starting with January 1st, 2018, [19])

VAT to be paid to the budget state = VAT added – VAT collected

The figure no.1.1 is presenting the mechanism of VAT, how much each intermediary is contributed to the state budget and how much the consumer really supported, from the initial price:

Selling price (from producer to factory): =$2000 + VAT =$2000 + 100 = $ 2100

Selling price from factory to distributor (after adding his costs and profit share) = factory price + VAT = ($ 2100 + 400) + ($2100 + 400) *5%= $2500 + 125 = $2625

VAT to be paid to the state = VAT added – VAT collected = $ 125 – 100 = $25

Selling price from distributor to retailer (after adding its costs and profit share) = distributor price + VAT = ($ 2625 + 275) + ($ 2625 + 275) *5%
= $ 2900 + 145 = $ 3045

VAT to be paid to the state = VAT added – VAT collected = $ 145 – 125 = $20

Selling price from retailer to final consumer (after adding its costs and profit share) = distributor price + VAT = ($3045 + 155) + ($3045 + 155) *5%
$ 3200 + 160 = $ 3360

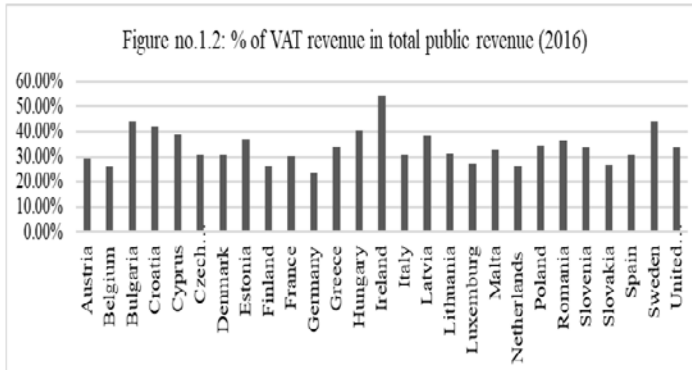
VAT to be paid to the state = VAT added – VAT collected= $ 160 – 125 = $35

Total VAT accumulated to the state

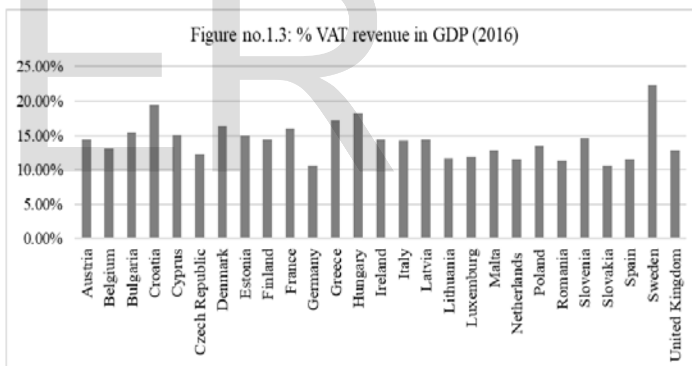
VAT from factory + VAT from distributor + VAT from retailer
= $25 + 20 + 35 = $85

Total VAT paid by the final customer = all VAT added in intermediary selling chain = $100+ 125 +145 +160 = $ 370 which is 11.01% from the final selling price. In other words, the one which is really support the tax is the consumer.

Our research revealed some difference in the way VAT is settle in GCC and EU. Based on European statistical data base (https://ec.europa.eu) and GGC public data base, the standard rate for VAT register high level, over 17% and up to 27% in EU area, compared with the VAT in GGC area, 5%.



Source: based on Eurostat data base



Source: based on Eurostat data base

VAT is an old and new tax in the same time. For European countries, VAT become a very well-known tax, being introduced for the first time in 1950s in France (it was a French idea) and started to be applied in most of Europe in 1970s. Since that time and till today, the way of VAT is settle and implemented suffered continuous updated process. Using best practices from countries which implemented it, European Union endlessly tried to uniformize VAT elements and its mechanism, to decrease and cut any misalignments and errors in implementing the rules, and to avoid tax fraud. In GCC area, the approach is different. In this region, VAT is still new tax (since 2017, 2018), and it needs time for businesses to get use with it, and to understand correctly the VAT mechanism.

VAT is one of the most certain revenue to the state budget. Figures no.1.2-1.3 presents how VAT is the most important tax within fiscal/taxation system. VAT contribute with more than 25% to public revenue, and more than 10% to the formation of GDP.

6. Research findings – VAT – a controversial tax

The research finds out that VAT may be called a controversial tax mainly because: without a clear laws and regulations can generate fiscal fraud, on domestic and international level; VAT influences purchasing power, as a crucial element in the retail price structure; is a main tool used by the government to relax or accelerate the economic growth; is a key factor in business decisions; and, nowadays, VAT is a subject of many fiscal bi or multilateral states agreements.

VAT – Tax fraud generator. During the years, after its implementation, VAT has proven to be an important revenue for the state budget. However, VAT is also an important amount that companies must pay from their accounting profit; and, from this perspective VAT is susceptible to tax evasion where legislation is not clear and tax control is not rigorously implement. VAT fraud is a global phenomenon that can involve vast sums of money. Some of the measures aimed at combating VAT fraud undermine the fundamental design features of the tax, while others do not [20]. Nowadays, the VAT fraud system evaluated in line with new selling technologies, online, e-marketing and others. This makes VAT fraud possible without any existence of tangible goods transfer. Therefore, VAT fraud moved from real economic flows to online, virtual sales backed by invoices or sales agreements. According with European Commission statements, over 150 billion of VAT is lost annually. Out of this figure, around 50 billion euros – or 100 euros per EU citizen – is estimated to be due to cross-border VAT fraud, according to the EC, which says this money can be used to finance criminal organizations, including terrorism. Under the current EU system, companies and consumers face 28 different VAT regimes when operating cross-border [21].

VAT – Main factor in purchasing power level. VAT is imposed on most supplies of goods and services that are bought and sold. The mechanisms (as it shows in figure no.1.1) of settle and collect the tax has a directly influences on the sale price, starting from the production stage, and completing with the retail sale to the final consumer. The process fallows all chain of production till the final consumer: 1) the producer, after determining the price of the respective product or service, adds VAT and establishes the final selling price (including VAT); 2) VAT collected from supplier will pay which government; the supplier who bought the product/service with VAT included, recalculates the price for resale (which includes, among other things, the purchase price, all operational costs required for resale, to which the profit is added) to which it adds VAT in the end; the supplier will pay to the government the difference between the VAT collected from the producer and the VAT added at his own sale price.

The purchasing power of individuals and businesses also depends on the evolution of the retail prices of the goods and services, as well as the taxes that are included in the price. Therefore, if the price level become higher, and the level on income remain the same, the purchase power decreases, which imply a decrease in general consumption. If the level of consumption decrease, the level of production decrease, and, so on so far, the economy will be affected. As it was presented earlier, level of VAT rate affects the level of the sale price, and the purchase power level.

VAT – Key factor in Business decisions. Giving that VAT affect the selling price, the production and the profit, since this tax is introduced, companies tried to align their business decision to minimize taxation effect on their final income and wealth. Taxation – VAT – may affect the structure of the business, types of goods/services to be trade, types of foreign investment, or even choosing the location for business. Having in a view that on international level, the VAT quotas is not yet uniformized, many businesses intend to relocate them headquarter in tax free zone, or tax haven – places where level of taxation is zero or tends to be zero. Level of VAT affect investment too – business will take decision to invest their capital in those states where the level of VAT is lower than that existed in their home country. In some cases, business decided to restructure their field of activity, focusing on areas that are exempt from VAT, or crucial exemptions are offered.

VAT – Fiscal governmental tool. Nevertheless, not only business give a special attention to the effect of VAT. The government use taxation as a main secure tool to collect revenue to the state budget. Depend on the level of economy, the government may increase or decrease the taxation quotas level, may grant exemptions or reductions of VAT quota. When the economy is growing smoothly, the level of taxation can be slightly increased; when certain economic sectors or certain country's regions need to be developed, then the government reduce the level of taxation, or grant exemptions or reduction for VAT.

VAT – Subject of interstate agreements. As it was presented above, VAT, with its complexity, can generate tax fraud. To avoid this, nowadays, when the globalization process increased so rapidly, governments concluded fiscal agreements. Some agreements decided the same level VAT quotas - *Gulf Cooperation Council* – along with other specifications, like common custom and common market, and unification the VAT quota to 5%, for all member states, along with reduction in VAT quota, for specific activities [16]; other agreements target to harmonize the VAT law - *European Union Value Added Tax* – with a main goal to align the content and layout of the VAT declaration inside European Union [22].

This paper has tried to emphasize that knowing and understanding the meaning and the principle of taxation, it can help both the public authority, on one hand, and individuals and companies, on the other hand, to prepare their own budget of revenue and expenditure and their own future strategy for development.

Taxation revenue has a very important place in a state budget, and not only from revenue perspective, also as a tool in helping the entire economy to achieve a sustainable growth. from this perspective, taxes should be used in a properly way. The level of taxation, implicit level of VAT quotas it is better to do not be very high, to avoid tax burden, and later tax avoidance or fraud. Correspondingly, financial and fiscal policy, which plays a very important role in creating and spending a country money, need to respect carefully the principles of taxation, to implement in a correct way, the mechanism of VAT settlement for all participants to the economic country's life. And the most important final word: taxes, implicit the VAT can help or it can harm every individual, business or economy, if the law is not regulated (without and door for interpretation) and implemented clearly.

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