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TAX AVOIDANCE AS A WORLD AND ARMENIAN PROBLEM: CAUSES AND CONSEQUENCES

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The article deals with one of the most important problems of the modern financial world – tax evasion. It is not a secret for anyone that each subject is trying to minimize its costs. There are frequent cases when such minimization is carried out in the form of a decrease in tax payments to the budget, and sometimes in the form of complete non-payment of taxes, which partially or completely contradicts the legislation of the country. The article discusses the problem of tax evasion in the world and in Armenia, the associated economic consequences, as well as possible ways to overcome this problem at the state level.

Taxes and tax policy in the hands of the state are a powerful tool for influencing the economy, as an indicator of the state's dependence on taxpayers, therefore, they are included in the system of economic security of the state. Most of the indicators and criteria of economic security relate to the state of the state budget formed on the basis of tax revenues. The tax mechanism is a means of ensuring security and at the same time a precondition for the emergence of threats and risks for the state.

It is no secret that most businesses try to reduce costs, including taxes. Moreover, the latter achieve it in different ways, both legally and illegally.¹

Reasons for tax evasion can be various, including economic, political, legal, organizational. In general, the preconditions for tax evasion can be considered:²

¹ Соболев В. И., Отраслевые особенности финансов торговых организаций // Экономика и предпринимательство. 2015. № 9-2. С. 687-693.

² Жарова Е. Н., Уклонение от уплаты налогов: причины, масштабы проявления и методы противодействия/ Е. Н. Жарова, М. Ф. Желтова // Молодой ученый. 2013. №6. С. 336-339.

- Deterioration of the financial condition of the enterprise,
- General decrease in population income,
- Existence of controversial points and shortcomings of tax legislation and tax policy,
- Lack of appropriate incentives, etc.

It is no secret that tax evasion with a chain effect leads to serious economic consequences, excluding the implementation of programs of public importance. The following can be distinguished from the consequences of tax evasion:

- Reduction of tax revenues to the country's budget and, as a primary consequence, a possible resulting budget deficit,
- Consequences of non-observance of the principle of social justice, etc.³

In order to eliminate the vicious circle of tax evasion, the state uses the tools at its disposal, among which we can single out:

- Exclusion of possible legal options for tax evasion through legal reforms,⁴
- Creating an effective package of measures to prevent, control and curb tax evasion and etc.⁵

Every year, all countries of the world lose a total of more than 427 billion US dollars in tax revenues as a result of the continuous operation of the vicious circle of tax evasion.⁶ Highlighting the current volatility of the global economy and trying to illustrate the global consequences of tax evasion, the first report on the state of tax justice, published by the Tax Justice Network, Public Services International and the World Tax Justice Alliance, states: that tax evasion costs countries the total annual salary of some 34 million

nurses, or the annual salary of one nurse per second.⁷

The report published in 2021 proves that the previously created situation becomes more worrying. Studies have shown that the estimated losses increased from \$ 427 billion last year to \$ 483 billion (9 359 billion), which is enough to vaccinate the world's population three times against COVID-19.⁸ At the same time, the United Kingdom alone is responsible for almost 40% of unpaid taxes.

We consider it important to note that the calculations are only the result of research, while the reality may be more worrying. Miroslav Palanski, a TJN researcher, agrees that the data are just “the tip of the iceberg”, and that the real losses from tax evasion are much greater.⁹

Interestingly, rich countries are responsible for about 78% of hidden taxes, the rest goes to countries with relatively low levels of development. Uncertainty over the epidemic suggests that lost tax revenues from low-income countries would be enough to vaccinate 60% of their population, reducing the current gap in vaccination rates between poorer and richer western countries.¹⁰

The structure of the country's tax system is a determining factor in its economic activity. A well-structured tax system is a basis for controlling possible abuses by taxpayers and can contribute to economic development while providing sufficient revenue for government priorities. In contrast, poorly structured tax systems can be costly, distorting economic decision-making and the country's economy.

The International Tax Competitiveness Index (ITCI)¹¹ is used to assess the

³ Гордиенко М.С., Финансовая политика на современном этапе // Международная торговля и торговая политика. 2011. № 10. С. 36.

⁴ Федоров Д.А., К вопросу об экономических целях общества // Экономика и социум. 2014. № 3-3 (12). С. 492-495.

⁵ Жахов Н.В., Концептуальный анализ современных моделей государственного регулирования национальных экономик // Молодой ученый. 2011. № 2-1. С. 109-112.

⁶ 427 bn a year lost to tax abuse by firms and rich individuals, study finds, <https://www.theguardian.com/business/2020/nov/20/427bn-a-year-lost-to-tax-abuse-by-firms-and-rich-individuals-study-finds>

⁷ See the same place.

⁸ Almost \$500bn 'lost to tax abuse by firms and super-rich in 2021, <https://www.theguardian.com/world/2021/nov/16/almost-500bn-lost-to-tax-abuse-by-firms-and-super-rich-in-2021>

⁹ International Tax Competitiveness Index 2021, <https://taxfoundation.org/2021-international-tax-competitiveness-index/>

¹⁰ Which countries are worst affected by tax avoidance?, <https://www.weforum.org/agenda/2017/04/which-countries-are-worst-affected-by-tax-avoidance/>

¹¹ Cristina Enache, “Sources of Government Revenue in the OECD,” Tax Foundation, Feb. 11, 2021, <https://www.taxfoundation.org/publications/sources-of-government-revenue-in-the-oecd/>

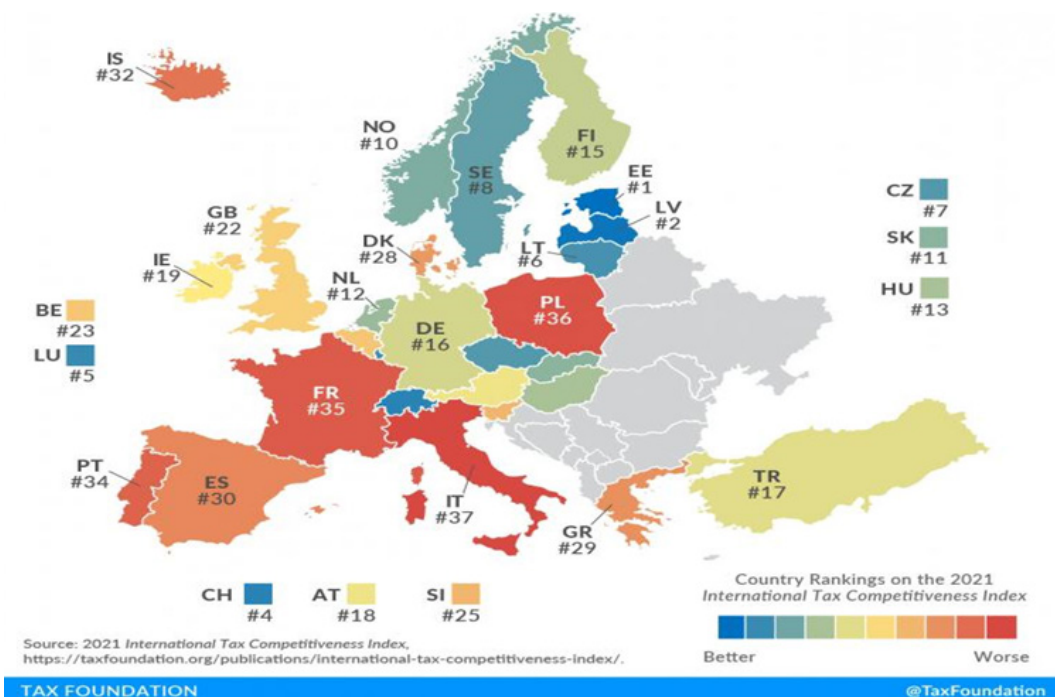


FIGURE 1

OECD member countries' classification according to the International Tax Competitiveness Index¹²

effectiveness of the tax system, which seeks to measure the extent to which a country's tax system meets two important aspects of tax policy: competitiveness and neutrality.

Interestingly, the International OECD Competitiveness Index has seen significant shifts in OECD member countries, which suggests that these countries attach importance to resolving or mitigating the problem of tax evasion or underpayment by increasing the competitiveness of the tax system. A number of member states, where tax evasion is more pronounced, make relatively little progress on this index.

In particular, the leader among the countries that have registered a setback is Colombia, which indicates that the current situation can create serious problems in the efficiency of the tax system of this country, causing chain problems in the payment of taxes or concealment.

The best result in terms of improving positions was registered by Israel, rising from 28th to 14th place. Such an increase in Israel's rating is due to tax cuts. One of its strengths is the relatively low rate of value added tax (VAT) applied to the broad tax base¹³. As a result, the confidence of the subjects in the country and its tax system grows, with all its positive consequences.

The Armenian reality: The transition to a market economy has led to significant changes in all spheres of Armenian society, including tax policy. However, this process is complicated and controversial. In our opinion, the tax system is not free of shortcomings, and these gaps create favorable conditions for tax evasion. Inefficient tax policy is a threat to the economic security of any country. It weakens the financial stability of the economy, creating a barrier between the state and taxpayers. As a result, the budget

¹² International Tax Competitiveness Index, Tax Foundation, <https://github.com/TaxFoundation/international-tax-competitiveness-index>

¹³ Movers and Shakers in the International Tax Competitiveness Index, <https://taxfoundation.org/oecd-tax-rankings-2021/>

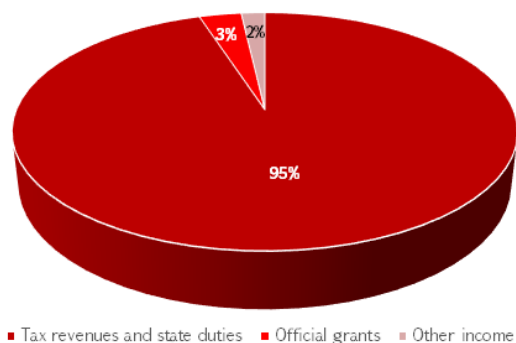


FIGURE 2

The structure of budget revenues envisaged by the draft state budget of the Republic of Armenia for 2022 (in% of the total)¹⁴

revenue base, which is the main source of state functions, can suffer significantly as a result of continued tax evasion or evasion.

If we look at the revenue structure of the RA state budget, as well as the movement of tax revenues, we can see that in all countries of the world, as well as in the RA, taxes are the main source of revenue, therefore, only law-abiding behavior of taxpayers, coordinated activities of supervisory bodies. As a result, the stability of the revenue part of the budget can be ensured.

As it can be seen, the draft state budget of

the Republic of Armenia for 2022 envisages 1,946.4 billion drams of revenues, of which 1,843.8 billion drams for tax revenues and state duties (Figure 2).

Interestingly, in the calculations of budget revenues for tax revenues and state duties for 2022, it was assumed that the existing legal preconditions for tax revenues and state duties for 2022 to ensure the expected level of GDP, the administrative measures to be applied, as well as Macroeconomic developments will provide sufficient preconditions. Based on this observation proposed in the draft, we consider it important to state that in order to make the projected level of tax revenues a reality, the provision of coordinated activities of control mechanisms becomes more important than ever.

Looking at the revenue base of the state budget, it becomes noticeable that in 2019-2021 the tax / GDP ratio has stabilized at around 22.4%. In this regard, it can be considered positive that the state policy is aimed at ensuring the growth of this indicator to 20.4% in 2022 (Figure 3).

If we look at the average level of tax / GDP ratio in OECD member countries and the movement of the indicators of some member

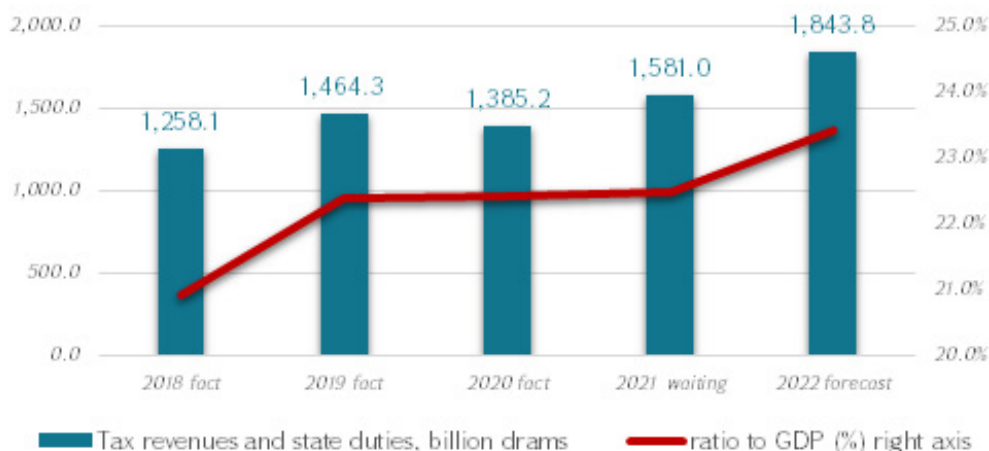


FIGURE 3

OECD member countries' classification according to the International Tax Competitiveness Index¹⁵

¹⁴ ՀՀ կառավարության 2022 թվականի բյուջետային ուղերձ-բացատրագիր, https://www.minfin.am/website/images/website/documents/2.Uxerdz_bacatragir.docx

¹⁵ ՀՀ 2022 թվականի պետական բյուջեի մասին օրենքի նախագիծ, Բացատրագրի հավելվածներ, https://www.minfin.am/website/images/website/documents/2.2.BACATRAGRI_HAVELVACNER.rar

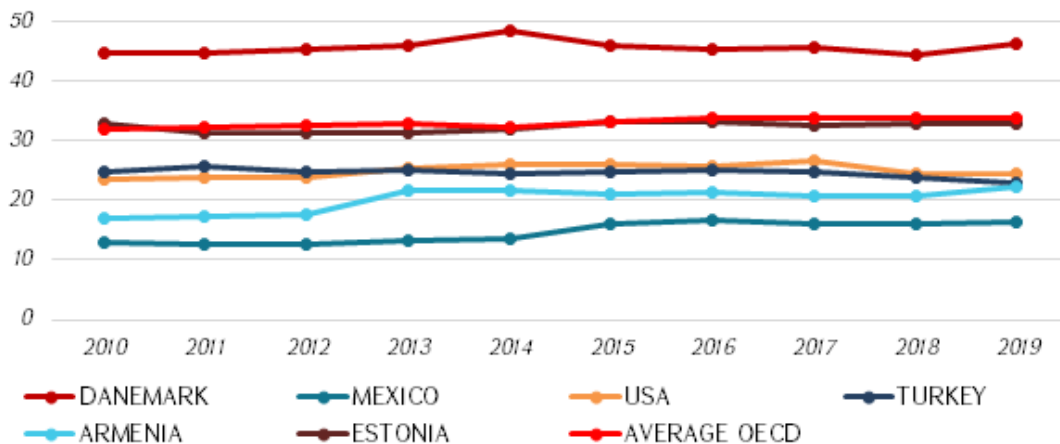


FIGURE 4

Taxes / GDP ratio in OECD countries and Armenia in 2010-2019 (%)¹⁶

states and Armenia towards the latter, we will notice that among the member states the average value of the index (33.8% in 2019) was closer to Estonia. (Figure 4). Moreover, the latter has lower tax rates compared to member states. In this respect, it is especially interesting that Estonia and Armenia have approximately the same tax system, but the advantage of this country's index over Armenia is obvious. This circumstance, in general, can be explained by the differences between the implementation of tax administration and

its efficiency.

In order to increase tax revenues, we believe that the primary precondition is the implementation of control mechanisms, which will make it possible to exclude the commission of tax crimes, including tax evasion or under-fulfillment of tax obligations.

An important issue from this point of view is also the insufficient level of taxpayers' awareness of the tax and customs legislation, the existence of countermeasures in case of tax abuses. It is an internationally proven fact

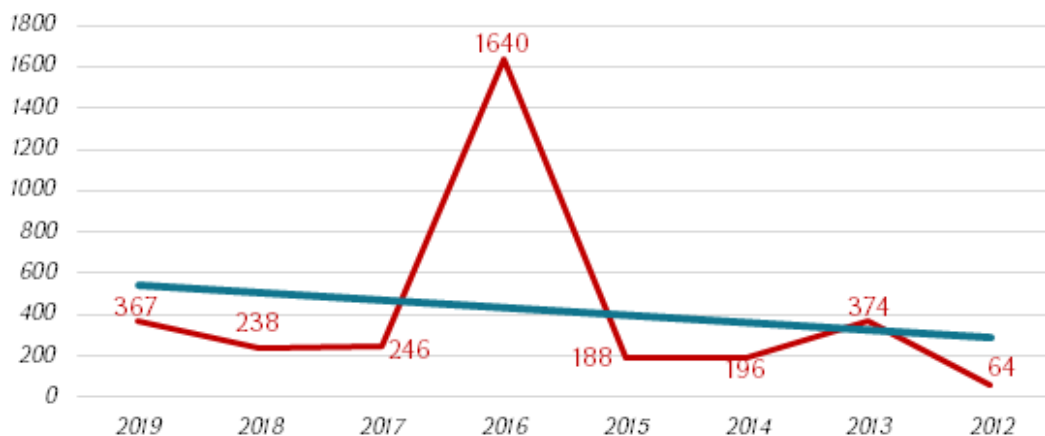


FIGURE 5

Number of criminal cases initiated by the RA SRC Violations Detection and Administrative Proceedings Department¹⁷

¹⁶ Tax revenue Total, % of GDP, 2010 – 2019, OECD Data, <https://data.oecd.org/tax/tax-revenue.htm>, Armenia: Tax revenue, The Global Economy, 2010-2019, https://www.theglobaleconomy.com/Armenia/Tax_revenue/

¹⁷ ՀՀ պետական եկամուտների կոմիտեի կայքէջ, Հարկային հանցագործությունների վիճակագրություն, <https://www.petekamutner.am/Content.aspx?itn=tsLBRStatisticsOnTaxCrimes>

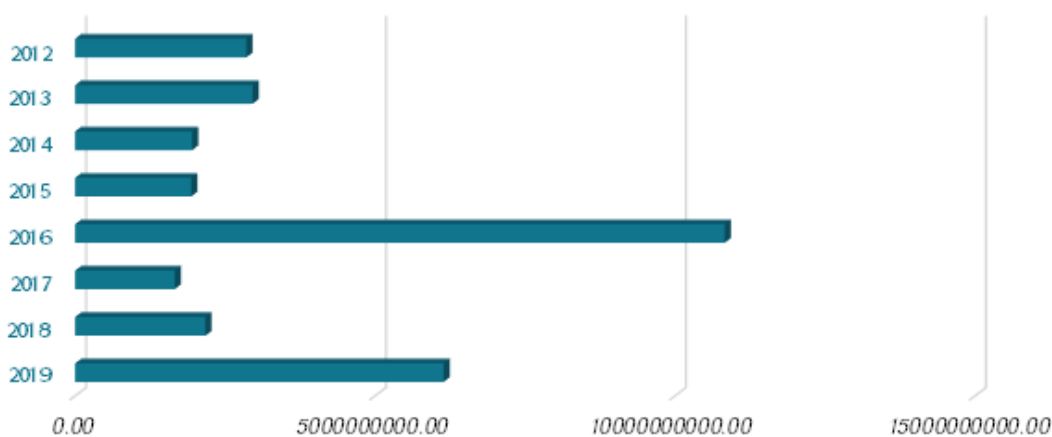


FIGURE 6

Amount of money recovered as a result of initiated criminal cases, annually¹⁸

that the best way to eliminate or reduce tax offenses, along with national characteristics, public behavior, is to use punitive mechanisms, which has a deterrent effect on both the most risky taxpayer groups or sectors of economic activity, as well as law-abiding taxpayers.

If we consider the total amount of revenues returned to the budget as a result of detecting tax crimes, we can see that in 2016 and 2019, the largest amount of hidden taxes were restored to the budget (Figure 6). However, we find that the above mentioned does not rule out that the tax crimes also had a rather large volume in the other years observed. Even if the volumes of revelations were the maximum in 2016 and 2019, they prove that in the Armenian reality this problem is more than urgent. And each new discovery and the application of punitive mechanisms has a sobering effect on economic entities.

Another important issue, which is obvious in the RA tax system and which is often "used" by those who avoid paying taxes, is tax expenses. The latter are non-levied (under-levied) tax revenues to the state budget as a result of existing tax benefits or alternative expenditures incurred by the state in the amount of those revenues, as tax

expenditures lead to a reduction in budget expenditures by the corresponding amount. It is especially problematic that, unlike state budget expenditures, which are subject to in-depth analysis and control, tax expenditures are often not properly controlled. As a result, the efficiency and transparency of public financial management decreases, and the scope of the state's redistributive function is limited. That is why regular assessment of tax expenditures is crucial for the state fiscal policy.

It is obvious that tax evasion or their underpayment has been and continues to be one of the current problems of the world economy. As a result of tax fraud, many countries around the world are losing huge budget funds every second, which, as a result of targeted use, could help solve the problems that are considered a priority in the global economic system. Today, more than ever, the formation of joint control mechanisms is more important, which will provide equal conditions for countries united in the fight against tax crimes. The reality in Armenia proves that the improvement of control mechanisms can become a precondition for the reduction of tax crimes. However, it should also be realized that the complete exclusion of the

¹⁸ ՀՀ պետական եկամուտների կոմիտեի կայքէջ, Հարկային հանցագործությունների վիճակագրություն, <https://www.petekamutner.am/Content.aspx?itn=tsLBRStatisticsOnTaxCrimes>

latter is practically impossible. As it was mentioned, the Republic of Armenia applies a rather wide range of privileges to a certain group of taxpayers. However, it is a fact that, due to the need to implement fiscal consolidation, it is necessary to reconsider the scope of existing privileges. This circumstance can also be a new test for the RA budget system, as the revision of tax privileges implies a change in the conditions of business and economic activity of the beneficiaries and the investment environment of the national economy with all the possible consequences. Therefore, based on the threat of potential risks, the review of the scope of tax benefits should be carried out with caution and consistency in order to avoid possible shocks and negative consequences for the economy. First of all, it is necessary to consider all the pros and cons of applying the current tax privileges, including from the point of view of both the state and the

beneficiaries of those privileges, to compare the benefits and harms of the privileges, to identify the possible impact of the revision of the privileges. activity, business and investment attractiveness, socio-economic situation of the country, economic competition, inflationary pressures and other important indicators. In other words, all the tax benefits, the benefits of which are not commensurate with the costs incurred by the state for consumers and businesses, should be gradually reduced, optimizing the expenditure part of the state budget.

As a result, the improvement of the tax system, control mechanisms, individual responsibility of economic entities becomes a precondition for one of the most important functions of the state - redistribution, full and targeted implementation of revenues, which is more necessary than ever for the Armenian economy and society.

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Նարինե ՊԵՏՐՈՍՅԱՆ
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ՀԱՅԱՍՏԱՆ ԵՎ ԱՇԽԱՐՀ

**ՀԱՐԿԵՐԻՑ ԽՈՒՍԱՓԵԼԸ՝ ՈՐՊԵՍ ՀԱՄԱՇԽԱՐՀԱՅԻՆ ԵՎ ՀԱՅԱՍՏԱՆՅԱՆ ԽՆԴԻՐ.
ՊԱՏՃԱՌՆԵՐ ԵՎ ՀԵՏԵՎԱՆՔՆԵՐ**

Հոդվածում անդրադարձ է կատարվում ժամանակակից ֆինանսական աշխարհի կարևորագույն խնդիրներից մեկին՝ հարկերից խուսափելուն: Գաղտնիք չէ, որ յուրաքանչյուր տնտեսավարող սուբյեկտ փորձում է նվազագույնի հասցնել իր ծախսերը: Հաճախակի են այն դեպքերը, երբ հարկերը նվազագույնի հասցնելու ձգտումն իրացվում է բյուջե հարկային վճարումների կրճատմամբ, իսկ երբեմն էլ՝ հարկերի լրիվ չվճարմամբ, ինչը մասամբ կամ ամբողջությամբ հակասում է երկրի օրենսդրությանը: Քննարկվում է նաև հարկերից խուսափելու խնդիրն աշխարհում և ՀՀ-ում, դրանից բխող տնտեսական հետևանքները, ինչպես նաև պետական մակարդակով այդ խնդրի հաղթահարման հնարավոր ուղիները:

Հիմնաբառեր. *հարկեր, խուսափում, հարկային համակարգ, անվտանգություն, հարկային քաղաքականություն*

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АРМЕНИЯ И МИР

**УКЛОНЕНИЕ ОТ УПЛАТЫ НАЛОГОВ КАК МИРОВАЯ И АРМЯНСКАЯ ПРОБЛЕМА:
ПРИЧИНЫ И ПОСЛЕДСТВИЯ**

В статье рассматривается одна из важнейших проблем современного финансового мира – уклонение от уплаты налогов. Не секрет, что каждый субъект старается минимизировать свои затраты. Нередки случаи, когда такая минимизация осуществляется в виде уменьшения налоговых платежей в бюджет, а иногда и в виде полной неуплаты налогов, что частично или полностью противоречит законодательству страны. В статье обсуждается проблема уклонения от уплаты налогов в мире и в Армении, связанные с этим экономические последствия, а также возможные пути преодоления этой проблемы на государственном уровне.

Ключевые слова: *налоги, уклонение, налоговая система, безопасность, налоговая политика*