

## Секция 3

# ЭКОНОМИЧЕСКОЕ МЫШЛЕНИЕ. ЭКОНОМИЧЕСКАЯ ПОЛИТИКА

---

### TAX EVASION AS A PART OF THE ECONOMY INFORMAL SECTOR

**Paientko T.** (Kyiv National Economic University named after V. Hetman, Kyiv, Ukraine)

---

Informal or shadow economy is one of the most interesting topics for discussions. Nowadays economists pay attention not only to the factors which caused the appearance or growth of the informal economy, but interested in connections between informal economy and market failures [1, p. 441]. An informal (shadow) economy is a full-fledged economic structure, which is formed and develops in certain conditions. The extent of its development depends on how effectively the official economy is working. If the official economy operates inefficiently, gradually it will force the removal of an informal economy, or result in a mixing of the two, forming a hybrid formation – the gray economy. The aim of this paper is to explain how an informal economy is related to tax revenue losses and tax evasion.

Informal relationships give rise to informal, unofficial payments, which, as remarked by O. Tishchenko and Y. Ivanov [2], do not serve the objects of taxation, thereby causing substantial harm to the budget revenue. The existence of the informal sector of the economy contributes to the spread of phenomena such as tax evasion. As a result, the state treasury annually loses a significant amount of tax revenue. These funds do not disappear without a trace, but make up a significant portion of the resourcing of the informal sector of the economy.

Tax evasion is closely associated with the informal economy. The implementation of informal economic activity does not fall under the sphere of the influence of tax legislation and does not require the payment of taxes, which negatively affects the formation of revenue. Such negative impacts can be partially neutralized by indirect taxation, but only in the case when a significant portion of income

from informal activities is aimed at consumption within the country.

V. Vishnevsky and A. Vetkin [3] stated that tax evasion is the use of illegal actions to reduce tax liabilities, the consequences of which in case of their detection may be liable for infringement of tax legislation. Quite often the evasion of taxes is associated with a low level of fiscal responsibility by taxpayers. In my opinion, the main cause of tax evasion is that taxpayers perceive they are receiving much more benefit from the non-payment of taxes than from receiving public benefits from the state. While the possibility of punishment to alter radically the status quo exists, there is a low probability of its occurrence, and even in the case of a successful prosecution, a successful evasion of taxes still holds out the likelihood of a better return.

Virtually all aspects of tax evasion are related to the informal economy, and the easiest way to legitimize income received because of tax evasion, is through the mediation of the informal sector of the economy. The amount of tax evasion is not seen in absolute monetary revenue value because of the size of the real tax base. Tax losses harm the subject of relationships, reduce it, and therefore reduce public relations in the field of taxation. It is worth noting that the least dangerous form of dodging taxes is in the form of improper business and tax accounting, as well as unremitted declared taxes, because such violations are quite easy to detect and eliminate.

In order to illustrate the negative impact of tax evasion due to the informal sector of the economy the loss of revenue was calculated. To determine the volume of informal economic activity, informal GDP, several methods were used to determine revenues. The tax calculation method

showed that revenue losses of VAT are increasing. This tendency is caused by increasing shadow value added (the shadow value added means the value added to goods which are produced in a shadow economy).

Because of the fact that one of the indicators of the development of informal economic activity is the growth of the cash supply, it is important to value the hidden cash incomes and profits of businesses that allow conclusions to be drawn about the extent of evasion of corporate and personal income taxes. The results of these calculations have shown the constant increasing of hidden amount of personal and corporate income. This situation has caused constant losses of government revenues of corporate and personal income taxes.

Tax evasion negatively affects the economic development of the state in both the short and long terms, causes budget revenue losses and disbalance an economy. In the short term, a negative impact manifests itself in the form of lost revenue and expanded margins for corrupt acts. In the long term, the negative impact of tax evasion is manifested

through discouraging the taxpayers to continue to conscientiously pay taxes due to a shift to unpaid taxes.

In the case of Ukraine, the scope of the informal economy and the volume of shortfall in tax payments because of its size indicate that the cost of tax evasion is lower than the value of the benefit received by the taxpayer. In addition, the cost of the penalty that can be applied because of exposing the fact of evasion also turns out to be much lower than the benefits that are received by a taxpayer by evading the payment of taxes in full. Issues of the institutional character of taxation are manifested in the form of peculiar behavioral reactions of the payer not only to the size of the tax payments, but also to a number of other factors – the size of the penalty, the probability of its occurrence, the volume of public goods which are provided by the state, their level of accessibility, etc. All these result in a complementary set of formal tax rules and the payer strategy defines behavior further. Therefore, further changes in tax legislation should be implemented taking into account the identified trends in the formation of informal financial flows.

## References

1. *Schneider, F.* The Influence of Public Institutions on the Shadow Economy: An Empirical Investigation for OECD Countries, *European Journal of Law and Economics*. – 2010. – № 6/3. – P. 441–468.
2. *Иванов, Ю. Б.* Современные проблемы налоговой политики : учеб. пособие / Ю.Б. Иванов, А. Н. Тищенко. – Х. : ИД «ИНЖЭК», 2006. – 328 с.
3. *Вишневский В. П.* Уход от уплаты налогов: теория и практика / В.П. Вишневский, А.С. Веткин ; НАН Украины. Ин-т экономики пром-ти. – Донецк, 2003. – 228 с.