

On the Issues of Enhancing Tax Control Efficiency in the Republic of Armenia

K. S. Sargsyan

M. Kotanyan Institute of Economics of the RA National Academy of Sciences, Yerevan Republic of Armenia
Corresponding author. E-mail: kssargsyan@yahoo.com

Paper received 15.07.17; Accepted for publication 20.07.17.

Abstract. Tax control is a special activity of the state to substantiate the tax legislation, assess the state of the tax system and ensure legality in the field of taxation. One of the most basic and most effective ways of tax control is the tax examination, which enables the tax authority to simultaneously solve a number of problems, including detection of tax legislation violations and prevention of tax offenses. The analysis shows, that to improve the efficiency of tax control in the Republic of Armenia, a unified, transparent and simplified system of tax examination planning and taxpayers' risk assessment should be established. The latter will promote the tax discipline, ensure taxpayers' protection from unlawful actions of tax authorities. By and large, the system will ensure more convenient procedures and conditions for tax accounting and payments. The article deals with the issues on enhancing tax control efficiency in the Republic of Armenia.

Keywords: *Tax Control Mechanisms, Taxpayer Risk Assessment.*

Introduction. Tax policy reforms in the Republic of Armenia, including the issues concerning the reduction of the tax burden on business entities, the increase of the tax collection level and the improvement of tax administration, are largely dependent on the availability of effective tax control mechanisms.

Tax control involves a set of aims among them:

- ensuring legality,
- prevention of disciplinary offenses,
- disclosure of causes and conditions contributing to the committing of offenses,
- the enforcement of state coercion measures against perpetrators and etc.

In other words, tax control identifies to what extent the state and local self-governing bodies, state officials involved, and citizens' actions are in line with the legal norms [12]. Naturally, tax control is state-owned in its content, as it is implemented on behalf of the state with the exercise of state administration powers [1]. As is evident, in the theory of economics, there exist different views on tax control. Part of the experts hold the opinion that tax control represents a system aimed to research the financial and economic functioning of the taxpayer, which is oriented towards "optimization" of the qualitative process of tax compliance requirements [9]. Others suggest that the tax authority is endowed with the power of exercising control, which is perceived as a method of management (aimed at guaranteeing compliance with the tax law) exercised by the mentioned state authority [3]. In modern literature, we may also encounter quite specific interpretation for tax control, the content of which includes tax supervision. According to A. Bryzgalin, in a market economy, tax control grows into a special activity of state bodies, which is directly connected with the implementation of a specific function of the state [2]. According to G. Kleven, tax control, in particular, the conduct of examinations of taxpayers, is aimed at identifying the presence of cases of tax evasion, which ultimately leads to the reduction of cases of tax evasion [5]. According to B. Torgler, most of the research and empirical data on tax control is based on individual reports of taxpayers, surveys and laboratory analysis, therefore, the facts of tax control of companies are rather limited [14]. This opinion actually justifies the tax authority's implementation of tax examinations for taxpayers.

According to many experts, the tax control according to the legislation includes the following components [11]:

1. Prevention of cases of tax evasion;
2. Tax optimization.

It should also be noted that tax control is not limited to guaranteeing compliance with tax legislation, it also aims to ensure the appropriateness of the activities of state authorities in the implementation of tax policy.

In general, the essence of tax control in economics is viewed in broad and narrow terms. In broad terms, tax control is viewed as a universal means of state regulation aimed at implementing effective state financial policy and ensuring the protection of state and local fiscal interests. According to some experts, the concept of "tax control" broadly covers all spheres of activity of the authorized bodies (official registration of taxpayers, tax accounting, tax inspections, etc.) [8]. According to another existing point of view, tax control in a broad sense represents the maintenance of state-controlled tax legislation by tax-legal participants, at all stages of the taxation process, and the collection of taxes and other mandatory payments, up to the termination of tax liabilities [7]. In our view, tax control in a broad sense should involve the activities of the state, represented by authorized bodies, aimed at the maintenance of legislation in tax and tax collection and the regulation of tax legal relations among all tax participants according to the legislation.

In a narrower sense, tax control is often characterized as the state control over the relevant state bodies, the legitimacy of the registration and payment of taxes and other mandatory payments, also the implementation of direct inspections by the competent authorities [8]. According to another view, tax supervision in the narrow sense is the managerial activity of state authorized bodies in respect of legitimacy of registration and payment by taxpayers [7]. In our opinion, tax control is a process of detection of additional tax liabilities during tax inspections, as well as detection and prevention of offenses by tax authorities, taxpayers and tax offenses, as well as tax inspections.

In the tax control system, particular attention is given to the principles of tax control which reflect not only the relationship of the control nature, but also the regularities and interrelations that are of particular importance for the organization and functioning of that system. Below are the following that are more fundamental (Table 1).

It should be noted, that the principles of tax control are the guidelines of the tax system, state tax policy and tax legislation that allow to determine how well they correspond to the basics and principles of the state taxing activities.

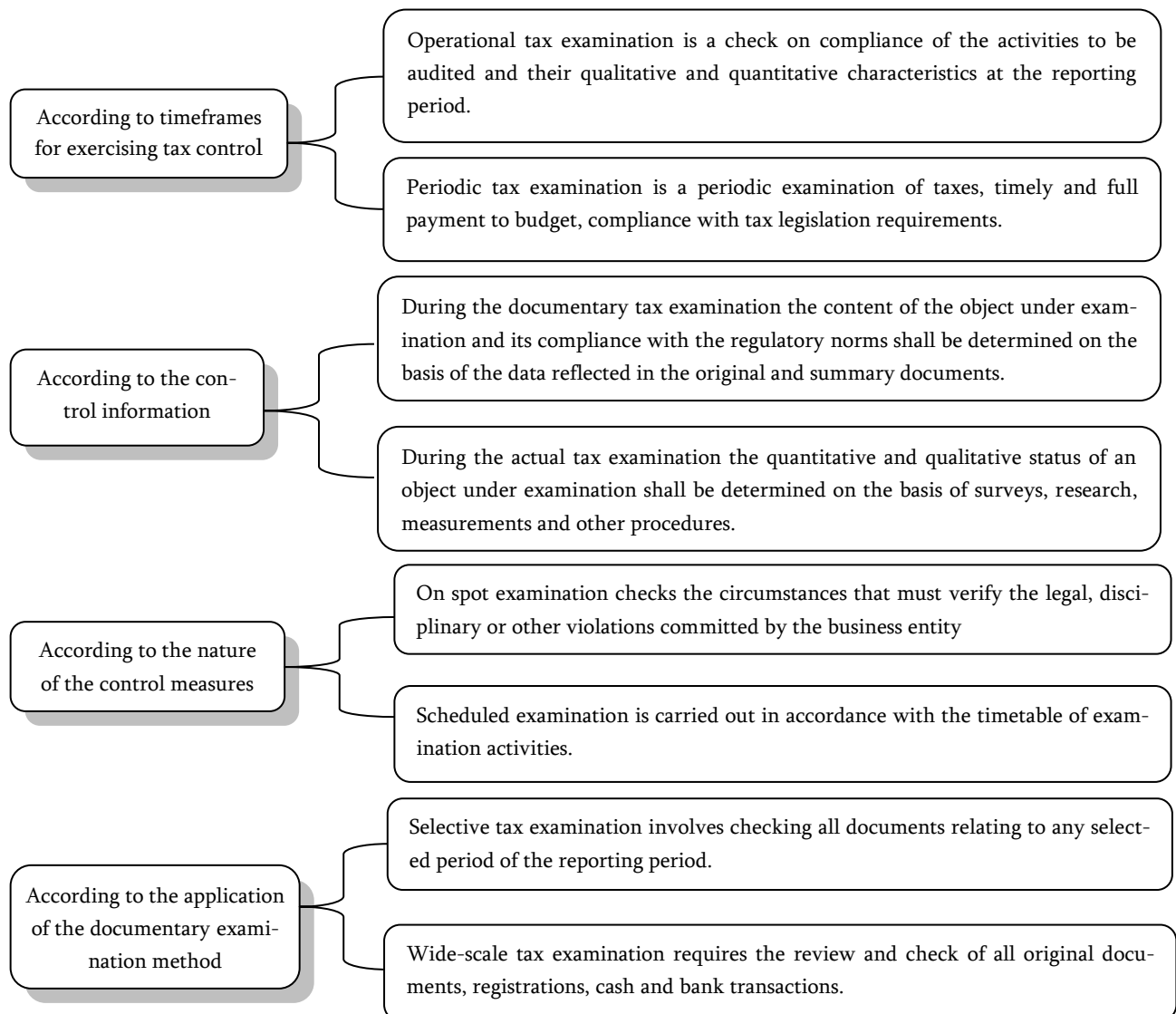
Thus, tax control is a special activity of the state to substantiate the tax legislation, assess the state of the tax system and ensure legality in the field of taxation.

Table 1. The Basic Principles of Tax Control

principle	Content
The principle of legality	The general requirement of this principle is to ensure the correct, clear and uniform preservation and enforcement of legal acts regulating tax legal relations, the implementation of social, economic, political and legal interrelated issues in the law-making and law enforcement activities of the state. The fulfillment of these requirements is reflected in the formation of effective tax system, elaboration and adoption of effective tax legislation.
The principle of independence	This principle is conditioned by the financial independence of the supervisory authority, with the exclusion of the organizational subordination of another state body in the area of this activity, also by the establishment of equality of interaction in the field of cooperation with international or other state bodies. The principle involves as well autonomy in the planning control program and respective activities.
The principle of publicity	One of the main conditions of this principle is the reliability of tax control results and their publicity, which, in its turn, is a subject of public control.
The principle of separation of powers of tax inspectors	The latter requires clear division of powers between the authorities of the state and the local self-governing bodies.
The principle of planning	The latter requires that all control measures should be pre-programmed and should be based on a single and complete system of tax legal acts.
The principle of effectiveness of tax control	The latter implies that the issues under control should be implemented with minimal state expenditure and at the same time ensure clear and unconditional enforcement of tax legislation requirements.
The principle of inevitability of punishment	The latter implies that any tax evasion attempts by the taxpayer will be revealed and will result in adequate sanctions.
The principle of the presumption of innocence	The latter implies that the taxpayer is considered innocent in cases of non-payment of taxes and concealing them as long as his guilt has not been proved [4]

Classification and Peculiarities of Tax Examinations, its forms and methods. The most basic and most effective way of tax control is tax examination, as a result of which the tax authority simultaneously solves a number of problems, including detection of cases of violations of tax legislation and prevention of tax offenses. The tax examination is a

form of taxing control and procedure of state competent authorities activities concerning right and timely calculation and payment of taxes [6]. If we try to classify the forms of tax examination according to the specific criteria, the latter can be represented in a following way:



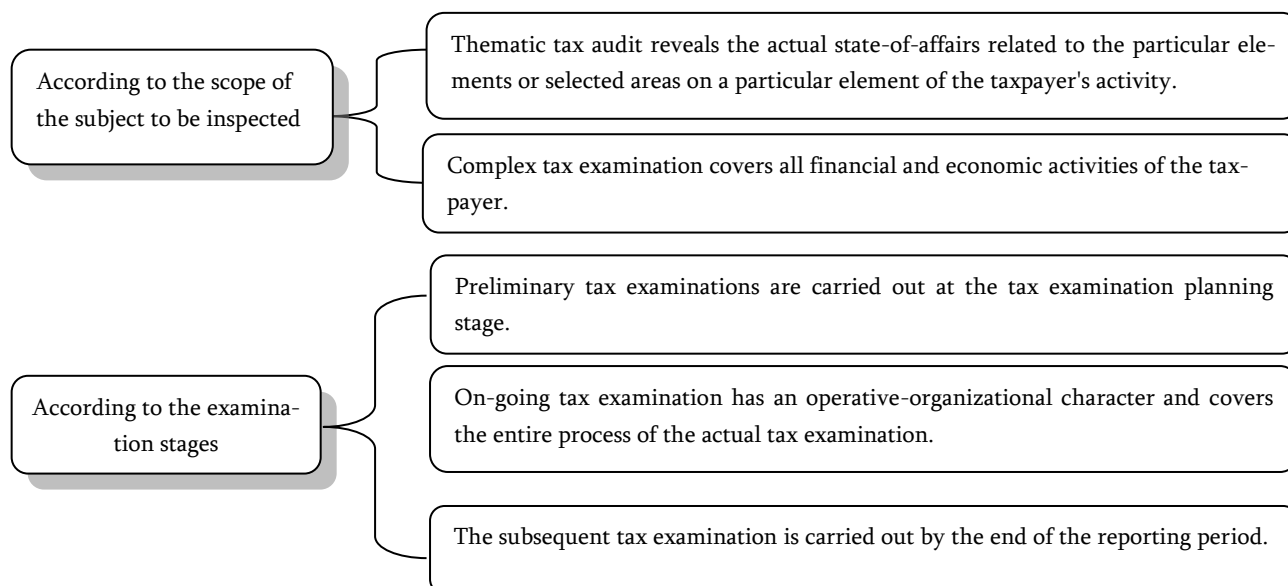


Chart 1. Classification of the forms of tax examinations [10]

In the current tax administration practice, it is important to apply such methods as: formal; logical and arithmetic check of documents; normative (legal) evaluation and cross-check of documents for economic functions; balance method; comparison; as well as the application of methodological (technical) techniques of the economic analysis. Studying the forms and methods of tax examination, we can state the fact that the latter are not exhaustive, having a complementary nature, dynamic development, constant tendency for improvement. In addition, the disclosure and justification of the principles, methods and forms of tax examinations are important in terms of clarifying the administrative activities of managerial bodies and establishing responsibility for the results of the examination. Currently, to improve the efficiency of tax examinations in the Republic of Armenia, a unified, transparent and simplified system of tax examination planning and taxpayer risk assessment should be established. This approach will promote discipline among taxpayers, ensure taxpayer protection from unlawful actions of tax authorities, as well as ensure more convenient procedures and conditions for tax registration and payment.

The Present Issues on Tax Control in the Republic of Armenia. In the Republic of Armenia, the existence and the proper application of the legislative framework regulating the implementation of examination is crucial, therefore, since 2000, the RA Law on Organizing and Conducting tax examinations has been in force for 17 years, which regulates relations connected with the organization and exercise of inspections and studies of business entities, as well as defines the common procedure for their implementation. This law provides for two mechanisms of control and supervision: investigation and verification [13].

The risk-based methodology and risk-setting criteria for tax service have undergone changes in 2011, and according to these amendments, the inspections conditioned by risk of the entity under examination are conducted at the following frequency:

- for high risk entities, not more than once in 1 year,
- for average risk entities - not more than once in 3 years;
- Low risk entities - not more than once in 5 years [13].

It should be noted that there are some deficiencies in the RA Law on Organizing and Conducting tax examinations, in particular, it contains duplications of functions of the inspection bodies, gaps and shortcomings in the process of regula-

tion. Moreover, the tax examinations are not public so as to be predictable for business entities. Moreover, the latter generally do not have an idea or have a very limited understanding of both the inspection bodies and their rights and obligations. Often, the scope of authority of the inspection officer and the objectives of the inspection are unclear. Therefore, in order to correct these shortcomings, it is necessary to carry out some reforms in the activities of the inspection bodies in such a way as to avoid frequent and inappropriate inspections, non-transparent processes, to minimize administrative corruption, and so on.

Changes in Armenia's economic relations, as well as integration of Armenia's economy into regional structures and the global economy, require an adequate tax policy, an efficient, fair and sustainable tax system, including specification of tax authorities' oversight functions and their transparency. In this regard, at present the Republic of Armenia needs to formulate a new tax examination planning system based on the following principles:

1. Validation of the object being checked by using clear criteria for risk assessment.
2. Timely and objective response to possible cases of tax offenses, as well as proportionate sanctions against offenders.
3. Establishment of bilateral responsibility for both the tax authority and taxpayer.

In the tax examination plan, those taxpayers who are known to the authorities for cases of tax evasion or tax incentives schemes are to be listed first. The same may apply to the cases when the analysis of the taxpayer's financial-economic activity is evidence of the alleged tax offenses.

In other cases, the tax authority should be guided by clear criteria for assessing the level of taxpayers' risk level, which will enable:

1. To ensure the validity of the choice of taxpayers to be examined, excluding the interests of taxpayers who perform their tax liabilities to the state budget in good faith.
2. To identify the most probable "risk zones" by tax authorities, which will allow a timely and adequate response to possible cases of tax offenses by defining adequate control measures in that direction.
3. For tax payers to evaluate the risk level of their business from the point of view of the possible use of tax control measures.

4. To promote taxpayers' law-abiding behavior in the field of tax accounting and collection by raising their literacy and discipline.

Ways of Enhancing Efficiency of Tax Examination in the Republic of Armenia. Taking into account the importance and urgency of the issue of improving the efficiency of tax examinations in Armenia and reviewing the taxpayers' risk assessment criteria, for tax examinations we find it appropriate to set the following criteria for taxpayers' risk assessment by the tax authority:

1. Significant deviation of the tax burden of the taxpayer from the average level of tax burden on other businesses operating in that specific economic sector (or economic activity).

2. Substantial deviation of the level of profitability of the taxpayer from the average level of profitability of that specific economic sector (or economic activity) according to the data reflected in the accounting documents (according to official statistical data).

3. Reflection of losses in accounting and tax reports of several tax reporting periods.

4. Reflection of such costs in tax reports that are most closely related to the income of the taxpayer during the reporting period.

5. Reflection of tax deductions in large sums in tax reports presented for several reporting periods.

6. Excessive growth rates of goods (works, services) sales in several tax reporting periods in comparison with the growth of earnings in the same period.

7. Payment of salaries by the taxpayer that are significantly lower than the average salary paid in that specific economic activity.

8. Approximation of taxpayers' economic turnover scale in several reporting periods to the threshold defined by the RA Law on Turnover Tax, in case of exceeding the latter, the taxpayer moves to overall taxation area, becoming VAT and tax payer.

9. Financial and economic activities carried out through the chain of mediators or resellers. without a reasonable

economic justification.

10. Failure to present substantiated clarifications to tax authorities in case of disclosure of inconsistencies in economic performance indicators.

11. Multiple changes of the place of tax registration (removal from one tax authority and registration in another territorial tax authority).

12. Implementation of financial-economic activities with high tax risks (non-submission of reports, multiple cases of delays, presence of numerous arithmetic errors in reports, etc.).

If any of the aforementioned criteria is available, the taxpayer's activities will be considered risky, which will serve as a basis for tax examinations.

It is also important to note that in determining the taxpayer risk assessment criteria, it is a prerequisite to ensure publicity, which will enable taxpayers to be fully aware of the reasons for tax examinations as well as reduce their risk and maximize their compliance with the RA tax legislation requirements.

Conclusions. As a result of the research, the following main directions of development of the tax control sphere in the Republic of Armenia were revealed:

- Implementation of a new tax examination planning system based on using clear criteria for taxpayers risk assessment,

- Introduction of effective mechanisms for comparing tax liabilities of taxpayers and their expenses;

- Coordination of work of government departments in the sphere of tax collection;

- Increasing the sense of duty among the society regarding the timely and lawful payment of taxes;

- Improvement of tax payment conditions for lawful taxpayers.

Thus, improving the effectiveness of tax control in the Republic of Armenia will help improve the activities of tax authorities, reduce tax violations, increase tax revenues of the state budget, create a favorable business environment and develop the country's economy.

REFERENCES

1. Apiryan N. Petrosyan A. Legal State and Legality .2001, pp. 104-105, 128-130 .
2. Bryzgalin A. "Taxes and tax law". M. Analitika - Press, 1997, p. 409
3. Gureev V.I. "Russian Tax Law". M. Economy, 1997, pp. 196-198.
4. Khimicheva N.I. Financial Right / M.: INFRA-M, 2012, p. 124.
5. Kleven et al., 2011, H.J. Kleven, M.B. Knudsen, C.T. Kreiner, S.Pedersen, E. Saez, Unwilling or unable to cheat? Evidence from a tax audit experiment in Denmark, *Econometrica*, 79 (2011), pp. 651-692.
6. Krokhnina U.A. The Tax Law, M.:Urait 2015, p.197
7. Lapina M.A. Administrative jurisdiction of tax authorities / M.: RSTA, Ministry of Finance of Russia, 2012, pp. 19-20
8. Nesterov G.G. Development of mechanisms of tax control in the system of economic security: The Abstract of Post Doc. Dissertation, M., p.17
9. Porollo E.V. Tax control: principles and methods of conducting. Moscow: Gardarika, 1996, p.7-9.
10. Sargsyan K. Kyureghyan A. Tax Control Principles: Forms and methods. "Current problems of social and economic development in the Republic of Armenia" -Yerevan, "Science" 2017 page156-161
11. Schwedhelm, Tax Compliance – Mehr als ein Trend?, *AnwBl* 2/2009, S. 90 ff, S. 90; vgl. auch Künstler/Seidel, in: Wecker/van Laak, Compliance in der Unternehmerpraxis, 2. Aufl. Köln 2009, S. 244 f.
12. Tikhomirov Yu. A. " Course on administrator rights. Rab. 2005, p. 514-520:
13. "The law on organization and conduction of examinations in RA" The Act of RA, 17.05.2000, The official bulletin of RA, 2000.06.23/14(112)
14. Torgler B. Speaking to the theorists and searching for facts: tax morale and tax compliance in experiments, *J. Econ. Surv.*, 16 (2002), pp. 657-683, Alm and McClellan, 2012, J. Alm, C. McClellan Tax morale and tax compliance from a firm's perspective, *Kyklos*, 65 (2012), pp. 1-17.

On the Issues of Enhancing Tax Control Efficiency in the Republic of Armenia

K. S. Sargsyan

Abstract. Tax control is a special activity of the state to substantiate the tax legislation, assess the state of the tax system and ensure legality in the field of taxation. One of the most basic and most effective ways of tax control is the tax examination, which enables the tax authority to simultaneously solve a number of problems, including detection of tax legislation violations and prevention of tax offenses. The analysis shows, that to improve the efficiency of tax control in the Republic of Armenia, a unified, transparent and simplified system of tax examination planning and taxpayers' risk assessment should be established. The latter will promote the tax discipline, ensure taxpayers' protection from unlawful actions of tax authorities. By and large, the system will ensure more convenient procedures and conditions for tax accounting and payments. The article deals with the issues on enhancing tax control efficiency in the Republic of Armenia.

Keywords: Tax Control Mechanisms, Taxpayer Risk Assessment.