

THE EFFECTS OF FISCALIZATION IN SUPPRESSING UNDERGROUND ECONOMY IN CATERING INDUSTRY

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ABSTRACT

Based on the reported turnover of catering industry taxpayers in the past periods a very low turnover has been noticed. There arises a question of unrealistically reported income which is incongruent with the income scale of the taxpayers. Accordingly, Ministry of Finance suspects that there is an area of underground economy and therefore suggests the Fiscalization Act in order to try to suppress it.

In our paper we will show the stated results of turnover records after the obligation of reporting the records through the fiscal register office and compare them with the stated turnovers before the Fiscalization Act came into effect in the same period. The turnovers will be compared based on the average turnover per employee. We will provide an outline of two groups of taxpayers; small entrepreneurs and craftsmen, and large taxpayers, who have been obliged by the Fiscalization Act since 1st January 2013, and we will establish how much the Fiscalization Act has contributed to the state budget.

JEL Classification: O23

Keywords: fiscalization, turnover, proceeds, underground economy

1. INTRODUCTION

The problem of all modern countries is evident in constant struggles to use different measures in order to increase the awareness of citizens for the importance of paying taxes. A safe and uninterrupted collection of taxes insures constant filling of the state budget, which in turn insures normal functioning of the whole state machinery through financing public expenses.

Underground economy is a big problem for economic development of all countries, but also for the functioning of state machinery. Its rate is somewhere lower, but it can be found everywhere. Croatian economy is not the exception. The level of financial discipline, i.e. tax morale, today in Croatia is not satisfactory.

Survey results have shown that The Republic of Croatia, along with other countries in the region, is placed very low in the statistics of regular taxpayers, which points to a high level of tax fraud. Also, research shows that factors which lead to tax fraud are the opinions of taxpayers about the justice and complexity of tax regulations, about the state and the services it offers, the amount of fines for tax offenders and, what is perhaps the most important, the level of difficulty for committing tax fraud.¹

The analysis can also be applied to available data on realized turnover of entrepreneurs which operate in the Republic of Croatia. By analyzing the reported turnovers, that is business revenue of small entrepreneurs, it is noticeable that operating through a gyro-account is the method in which the majority of turnover is conducted.

In this way cash turnover is common mostly in the following industries: catering industry and industries connected to it, retail trade and some of the service industries. According to statistical statements about processed annual tax reports for crafts income and freelance jobs, industries which use cash commerce, point to a very low level of conducting business.

For example, annual tax reports for the income of natural persons that work in service catering industry (restaurants, bars and other) based on reports for the year 2000 show that average daily turnover (365 days) is 620,00 KN which gives an average daily income of 100,00 KN. With this data, it is also important to state that these taxpayers employed 1,5 employees in this period.

By analyzing the available data and the researches, it is necessary to question the objectivity of stating the realized trades in cash. To support this there are many tax inspections which report cash trade. Such inspections are very difficult, and are reduced to constant cataloguing of products and services and their comparison to the realized income. These supervisions use a great deal of energy in discovering

¹ Vlada RH (2012) – konačni prijedlog Zakona o fiskalizaciji u prometu gotovinom, str.15

perpetrators effectively and in time, and in removing them from the market by using punishments and sanctions, so that space is left for regular taxpayers.

From all of this, one can conclude that not giving a receipt is an everyday occurrence in cash trade. However, the damage of not giving a receipt for the realized cash trade is multiple. By not stating the trade made in cash, tax has not been paid for the total amount of the trade, and it also cannot be used for estimating the annual income tax or profit tax. In this way state budgets are deprived of the revenue from VAT, profit tax, income tax and surtax. Also, charged amounts, but without the receipt for the cash trade make it possible for individuals to fill their own accounts without taking care of common needs. In this way citizens are not even aware of the fact that by their payments they do not participate in public costs but only in filling individuals' accounts. The consequence is creating unfair competition; persons who do not give receipts are "dumping" prices and the possibility of competition for the rest of regular taxpayers, while the budget is left without the tax income.

2. REASONS FOR INTRODUCING FISCALIZATION IN THE REPUBLIC OF CROATIA

Fiscalization Act regulates the way to conduct cash transactions, determines who is subject to fiscalization as well as the model itself, determines the obligatory parts of a receipt which are to serve for an effective tax control, determines the process of introducing the fiscalization obligation in phases, the possibilities for fiscalization subjects for paying in cash and all other regulations important for fiscalization implementation.

According to the law, subjects to fiscalization are

- an individual person that is a taxpayer on revenue from a self-employment business (a craft or a businesses equal to a craft, freelance jobs and agriculture and forestry under certain conditions),
- an individual person that is a taxpayer for profit and
- a legal person that is a taxpayer for profit (companies and others), if they are subjects to giving receipts according to special regulations.

For this reason regulations on the receipt contents are additionally edited, so that the data can be used for tracking the work of employees of an employer in the whole duration of working hours. Also, for the purposes of a successful implementation of tax surveillance, the numeration of receipts is regulated, which will enable an effective control of all outgoing receipts.

To serve the fiscalization, the receipt has to have the following data (except the data as regulated by special regulations):

1. the time of giving the receipt (hour and minute)
2. the sign of the operator (the person) on the cash register
3. the mark for the way of paying the receipt – bank notes, cards, check, transaction receipt, other,
4. the unique receipt identification and
5. the security code of the fiscalization subject²

Fiscalization is primarily implemented for recording the trade, surveillance and collecting the appropriate VAT.

The process of fiscalization according to the regulations of the Act is done in two parts:

- giving a receipt which contains the Unique receipt identification (JIR), and
- sending the data about business premises.

Whenever giving a receipt for cash trade (before printing the receipt) the subject to fiscalization electronically signs the elements of the receipt and sends them to the Tax Administration via internet connection. The Tax Administration then checks if all the elements of the receipt as determined by the Act have been sent and if they have been signed by a correct digital certificate. If all the stipulations have cumulatively been realized (all the elements of the receipt and correct digital signatures) the Tax Administration gives the receipt elements a Unique receipt identification (JIR) and returns it to the fiscalization subject via internet connection. This exchange is done in a few seconds and it enables the printing of a receipt with a JIR, which means that the receipt that is printed is approved by the Tax Administration.

3. FISCALIZATION EFFECTS WITH SMALL ENTREPRENEURS AND CRAFTSMEN

Small entrepreneurs and craftsmen who are in catering industry, and are subjects to fiscalization from 2013, must report all the trade charged in cash via fiscal registers.

² Zakon o fiskalizaciji - NN 133/2012, čl.9

Comparing the data about the turnover in catering businesses owned by small entrepreneurs and craftsmen, by using the sales of monthly VAT forms for periods of January 2012 and January 2013 we have concluded as follows:

Table 1: The comparison of reported turnover for January 2012 and 2013:

	Reported turnover for 01/2012	Reported turnover for 01/2013	Percentile change in reported turnover
Taxpayer A	4.445,14	35.339,30	695,10%
Taxpayer B	36.702,02	95.454,00	160,08%
Taxpayer C	88.801,39	115.435,09	29,99%
Taxpayer D	64.737,00	111.981,00	72,98%
Taxpayer E	163.178,00	209.466,13	28,37%
Taxpayer F	33.685,91	63.904,86	89,71%

Source: Information system of the Tax Administration, calculations by authors

Analysis of the data we have presented shows that after the obligation of fiscalization in January 2013, as compared to January 2012, small entrepreneurs and craftsmen have increased their reported turnover in the range of 28,37% to 695,10%. We would like to state that the number of workers, or employees, with all the subjects was the same in both periods.

Reporting turnover via fiscal registers does not allow for a correction of the reported turnover for an individual taxpayer at the end of the workday, so the reported turnover during the workday is the total reported turnover of the day, which leads us to conclude that this was being done prior to the Fiscalization Act.

Also, in the observed period there were no major changes of retail prices which would justify for the large difference in reported turnover.

If we examine the amounts of VAT in the reported turnover in the observed periods we will notice that the tax duty was in a different ratio compared to the turnover. Tax duties of those taxpayers are given in the following table.

Table 2: The comparison of tax duties in outgoing receipts for January 2012 and 2013

	Tax duty in outgoing receipts 01/2012	Tax duty in outgoing receipts 01/2013	Percentile change of tax duty in outgoing receipts
Taxpayer A	831,20	3.546,63	326,69%
Taxpayer B	6.807,74	8.899,58	30,73%
Taxpayer C	16.605,18	10.494,10	-36,80%

Taxpayer D	11.928,29	16.339,51	36,98%
Taxpayer E	30.473,84	22.938,18	-24,73%
Taxpayer F	6.298,99	6.383,86	1,35%

Source: Information system of the Tax Administration, calculations by authors

VAT duty in the observed periods ranged from the increase in tax duty of 326,69% to a decrease of duty of 36,80%. The reasons for such variations compared to the percentage of changes in reported turnover are that the tax rate for catering services has been reduced starting from 1st January 2013 from 25% to 10% on nonalcoholic beverages, wine, beer and food in the catering businesses. In this way, regardless of the increase in reported turnover small taxpayers and craftsmen had lower duties per outgoing receipt, which we have shown in Table number 3. Amendments to the VAT Act of 1st March 2012, VAT rate was increased from 23% to 25%.

Table 3: Comparison of change in reported turnover and the change of tax duties

	Percentile change of reported turnover	Percentile change of tax duty in outgoing receipts
Taxpayer A	695,10%	326,69%
Taxpayer B	160,08%	30,73%
Taxpayer C	29,99%	-36,80%
Taxpayer D	72,98%	36,98%
Taxpayer E	28,37%	-24,73%
Taxpayer F	89,71%	1,35%

Source: Calculations by authors

We would like to state that in small entrepreneur and craftsman businesses usually a small number of employees or most often one person works in procurement of goods (marketing office), selling (merchant, waiter), book-keeping, storage, depositing receipts and reporting the turnover. In this way there is no possibility for another person to control such work and to correct possible work mistakes, and there is no person to control the irregularities in any work segment. By introducing fiscal registers and registering the turnover in the Tax Administration momentarily, the turnover report is under control and supervision.

4. FISCALIZATION EFFECTS WITH LARGE TAXPAYERS

Large taxpayers are those taxpayers that have a bigger number of employees, more stores, and have a division of labor through different sectors (purchase, sales, marketing, accounting, finance). In Table 4 we will survey a turnover report of such taxpayers in the period of January 2012 and January 2013.

Table 4: The comparison of reported turnover for January 2012 and 2013

	Reported turnover in 01/2012	Reported turnover in 01/2013	Percentile change in reported turnover
Taxpayer O	59.489,54	65.203,79	9,61%
Taxpayer P	339.607,21	309.863,94	-8,76%
Taxpayer R	7.590.127,16	8.399.645,80	10,67%
Taxpayer S	123.368,67	126.287,03	2,37%

Source: Information system of the Tax Administration, calculations by authors

The table shows that the turnover of large taxpayers in the observed periods has not increased in the percentile rates found with small entrepreneurs and craftsmen, and it is in the amount of 8,76% to 10,67%. This leads to conclude that there were no major deviations in reporting turnover before and after the Fiscalization Act. The large taxpayers that were observed had approximately the same number of employees in both periods, and the prices of products and services have also not changed significantly in the periods. This way of surveying turnover, which is well organized in large taxpayer businesses, resulted in the same reporting of turnover before and after the Fiscalization Act.

In the next table we will examine the VAT duties in the reported turnover:

Table 5: The comparison of tax duties in the outgoing receipts for January 2012 and 2013

	Tax duty in outgoing receipts 01/2012	Tax duty in outgoing receipts 01/2013	Percentile change of Tax duty in outgoing receipts
Taxpayer O	11.124,06	11.633,33	4,58%
Taxpayer P	47.193,08	30.449,50	-35,48%
Taxpayer R	1.263.318,95	1.536.484,41	21,62%
Taxpayer S	23.068,95	18.077,13	-21,64%

Source: Information system of the Tax Administration, calculations by authors

VAT duties in the outgoing receipts which have been reported through the Fiscalization Act, range from a decrease of duties of 35,48% to an increase of 21,62%. Again, there is an impact from the decrease of VAT on catering services, nonalcoholic beverages, wine and beer from 25% to 10% from 1st January 2013.

Large taxpayers also have in their businesses some services and products that have retained the VAT rate of 25%, and it is therefore impossible to exclude the services that are explicitly connected to catering industry.

By comparing the percentile changes of the reported turnover and the reported VAT forms as shown in Table 6, we can conclude the following

Table 6: The comparison of changes of reported turnover and changes of tax duties

	Percentile change of reported turnover	Percentile change of tax duties in outgoing receipts
Taxpayer O	9,61%	4,58%
Taxpayer P	-8,76%	-35,48%
Taxpayer R	10,67%	21,62%
Taxpayer S	2,37%	-21,64%

Source: Calculations by authors

As compared to small entrepreneurs and craftsmen, large taxpayers do not show a big discrepancy, i.e. big deviations, in correlation of the percentile changes of reported turnover and tax duties for the receipts.

Table 7 shown the average turnover per employee when comparing January 2012 and January 2013.

Table 7: The comparison of reported turnover per employee for January 2012 and 2013

	Reported turnover per employee 01/2012	Reported turnover per employee 01/2013
Taxpayer A	889,03	7.067,86
Taxpayer B	18.351,01	47.727,00
Taxpayer C	14.800,23	19.239,18
Taxpayer D	21.579,00	37.327,00
Taxpayer E	13.598,17	17.455,51
Taxpayer F	6.737,18	12.780,97
Taxpayer O	11.897,91	13.040,76
Taxpayer P	11.320,24	10.328,80
Taxpayer R	17.448,57	19.309,53
Taxpayer S	20.561,45	21.047,84

Source: Calculations by authors

Reported turnover per employee in the first observed period was in the range from 6.737,18 to 21.579,00 KN, with the exception of taxpayer A, who reported a very low turnover. In the second observed period the turnover was from 7.067,86 KN to 47.727,00 KN per employee. Most of the large taxpayers have a balanced turnover per employee, while small entrepreneurs and craftsmen have a bigger range of difference in reported turnover.

5. THE EFFECTS OF FISCALIZATION IN THE REPUBLIC OF CROATIA

According to Ministry of Finance and Tax Administration data, small entrepreneurs and craftsmen have shown a turnover of 182.932.210,65 KN for January 2013, which is 31,43% more than in January, which was 139.183.743,43 KN. Large taxpayers have shown a turnover of 182.799.127,22 KN for January 2013 in the catering industry, which is 23,52% more than in January 2012: 147.986.086,06 kn.³

The data published by the Ministry of Finance show that the difference between the two periods for the reported turnover for small entrepreneurs and craftsmen was bigger than for large taxpayers, which is the conclusion that we found by comparing different taxpayers from Osiječko-baranjska županija.

The point of fiscalization is to implement control over cash turnover. The most important link in fiscalization are the citizens who pay in cash for goods or services. Those citizens are becoming aware of the fact that the tax which they pay through the price has to go to the state budget and not in someone's private account.

In conclusion, fiscalization has significant benefits, but also calls for an adjustment of all the systems in the tax chain, the Tax Administration and taxpayers.

It is important to note that fiscalization has several indirect positive effects:

- it stimulates software development and ICT helpdesk,
- it stimulates market competition,
- it develops electronic transactions,
- it stimulates the ICT process of the whole society and
- it enables the taxpayers, subjects to fiscalization, to establish an effective system for internal control of their employees' work.⁴

CONCLUSION

Having all of the above in mind, the state has to make efforts but also create prerequisites which will prevent, or at least reduce to the lowest possible level, tax fraud, which will improve the processes of tax control so to make them quick and

³ <http://www.index.hr/vijesti/clanak/prvi-rezultati-fiskalizacije-u-sijecnju-ove-godine-prijavljeno-31-posto-vise-prometa-nego-u-sijecnju-2012/668449.aspx>

⁴ Vlada RH (2012) – konačni prijedlog Zakona o fiskalizaciji u prometu gotovinom, str.19

effective and raise awareness of buyers that persons who do not give receipts do not pay taxes, break tax laws, and in the long-term are the cause of higher taxes or some other kind of public levies.

One of the measures which is used as a measure against tax fraud in not giving receipts is the process of fiscalization, as the base measure which introduces surveillance of giving receipts in cash trade.

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