
TAX FRAUD AS SECURITY THREAT

Boyko M. Petev¹

E-mail: ¹boykopetev@gmail.com

*In this world nothing can be said to
be certain, except death and taxes.*

Benjamin Franklin

Abstract: The challenges faced by the EU Member States in the fields of taxation and tax fraud are a topical issue. Its importance stems from several groups of factors, such as changes in public relations, new legislation in the Republic of Bulgaria related to its EU membership, and lack of comprehensive research in this field. Moreover, the need for such a research arises from the by Bulgaria's drastically changed financial and legal relations, which, after more than ten years of the country's EU membership require an analysis of its experience and the lessons it has learned in the field of its public relations that emerged and developed in the financial system of the Republic of Bulgaria and the threats for its national security as a part of the EU financial system. In some aspects, an attempt has been made to present and interpret them from a new perspective.

Key words: tax fraud, security, aggressive tax planning, law enforcement bodies, phantom companies, tax heaven, offshore companies, threat

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Although Franklin's claim about death is undisputed, his claim regarding taxes is begging the question. There are many ways to avoid or evade all or at least some of the taxes due. Tax evasion is generally categorized as tax fraud.

In practice, there are certain clues that can indicate and are used to detect tax fraud. Some of the most commonly used have the following characteristics:

- newly VAT-registered companies with huge turnovers over very short periods of time;
- companies that report only revenues from sales and no expenditures (known as “missing traders”);
- suspicious bank transactions – mostly transfers;
- business operations among companies registered at the same address and using the services of the same accountant or accounting firm.

There are many forms, means, and schemes of tax fraud. One of them is aggressive tax planning. It consists in taxpayers' reducing their tax liability through arrangements that may be legal but are in contradiction with the intent of the law. Aggressive tax planning includes exploiting loopholes in a tax system and mismatches between tax systems. It is a complex cross-border scheme that exploits mismatches in tax treatment (differences in income tax rates, tax accounts, etc.) under the laws of two or more jurisdictions to achieve double non taxation or double deductions from the due tax.

The main role in these schemes is played by tax consultants (many of them former employees of revenue administrations), lawyers, and expert accountants who design the scheme and convince their clients to use them.

Such schemes usually include:

- artificial shifting of profit from a high tax to a low tax jurisdiction;
- use or misuse of transfer pricing (where tax bases of low tax jurisdictions are artificially inflated at the expense of the tax base of high tax jurisdiction);
- strategic location of intangible assets into countries with high tax rates.

Aggressive tax planning is to the detriment of society in general. It costs billions of euros every year to the EU member states. It also distorts the level playing field between companies that manage to avoid paying their fair share of taxes and other companies that do not have access to the same cross-border tax planning possibilities and ultimately undermines fair and efficient taxation.

Aggressive tax planning is used mainly with regard to:

- corporate income taxation (CIT);
- value-added taxation (VAT).

In terms of corporate income taxation most cases of tax fraud include:

- tax base erosion and profit transfer;
- taxation at source (dividend tax, equity tax, etc.)

These taxes are levied according to the Personal Income Taxes Act (PITA).

It is common practice for a company to transfer its profits to a country with low tax rates, in which it does not have real operations – the so-called "tax haven" (or offshore zones). Examples for such countries are: Estonia with zero tax rate, Hungary with 9%, Ireland and Cyprus with 12.5%, including Bulgaria, where the tax rate of 10% is the third lowest rate in the EU.

Considerable efforts are being made to put an end to this harmful practice. For example, last year the EU adopted a rule that prohibits the transfer of profits to branches located in member states with very low tax rates in order to avoid some of the taxes that would be due in member states with higher corporate tax rates.

The unfair practice of financial statements tampering continues. Under pressure from owners and managers, accountants disregard the professional ethics and moral principles of accounting to forge the company's statements. This is done both through the fully legitimate use of misinterpretations and loopholes in the accounting and tax legislation, and through their blatant violation. Accounting fraud schemes are used to misreport the actual financial position of the companies by means of various accounting tricks such as incorrect recognition of assets, revaluation of receivables and payables, etc. Fraudulent financial reporting is a very serious and complex issue. (Льондев, А., 2017, pp. 131-137).

Another tax fraud scheme includes:

- double tax deduction – when the same loss is reported both at the source country and in the acquisition country;
- double non-taxation – when a tax-exempt income is reported in both jurisdictions.

Dividend tax (taxation at source) is levied on personal income (dividends, royalties, etc.) generated from participation in public companies as well as unjustified fringe benefits misreported as retained earnings.

Dividends are distributed from profits that remain after taxes, deductions for reserve funds, and capitalization for investments.

Unlike other member states, Bulgaria's legislation does not have provisions for dividend distribution. The procedures for capitalization and distribution of profits are provided for by the Commerce Act (CA).

The gross amount of the dividend determined by the general shareholders meeting of the company is subject to 5% tax. Pursuant to the Personal Income Tax Act, the tax is deducted and paid by the company to the respective territorial directorate of the National Revenue Agency (TD of the NRA).

As strange and inexplicable as it may seem, although the tax base, the tax rate, and the payer of the tax are clearly defined, still quite a few tax

frauds are committed using certain loopholes in the tax legislation of the EU member states and the fundamental differences among them.

The most notorious tax fraud schemes are LuxLeaks, The Panama Papers, The Paradise Papers, FootballLeaks, BahamaLeaks, etc. The most spectacular of all, however, is the CUM-Ex scheme, which continued for more than 10 years (from 2001 till 2011) in the EU and cost more than € 55 billion to the budgets of the Member States.

How exactly did the scheme work? It involved complex tax tricks that allow shareholders to claim multiple refunds for a single tax payment on dividends they had received.

What is the technology for such transactions? On the day the dividends are paid, banks and stockbrokers rapidly traded shares with and without dividend rights, in a way that enabled them to hide the identity of the actual owner. The shares changed hands so quickly that the tax authorities could not process them in a timely manner and identify the actual owners. This tactic enabled both parties to claim tax rebates on capital gains tax that had only been paid once and create large profits.

The European Investigation Centre CORRECTIV published the results of a large-scale investigation on the Cum-Ex Files tax scam. The investigation was conducted by 37 journalists from 19 media from 12 European countries. The bottom line: 11 European countries have lost 55 billion as a result of suspicious stock market transactions. The list of swindled countries includes Germany as well as France, Spain, Italy, the Netherlands, Denmark, Belgium, Austria, Finland, Norway and Switzerland. Transactions were made in all these EU member states originating in Germany, which suffered a loss to its budget revenue of nearly EUR 32 bln., followed by France (17 bln.), and Denmark (1.7 bln.). These transactions are impossible to carry out without the participation of banks, investment intermediaries, and leading law firms.

In its current form, the procedure for distribution and taxation of dividends contradicts the requirements to prevent double taxation. The income is initially subject to a 10% corporate tax and then the dividend is subject to an additional tax of 5%. Some people believe that it should be repealed because it does not stimulate the shareholders and puts off the foreign investors.

The most common type of **tax fraud** is the value-added tax (VAT) fraud. This is quite logical, as it accounts for about 55% of the annual, along with other indirect taxes. VAT fraud is facilitated by the fact the tax is levied on a wide range of goods and services and has three rates (zero, normal, and specific), which is a favourable condition for committing this type of tax fraud

across all EU member states including Bulgaria. Moreover, the VAT system is susceptible to fraud involving transactions.

VAT fraud cases are more numerous and result in greater losses than all types of tax fraud. Generally, VAT fraud involves:

- tax return forms are not submitted at all or the submitted forms contain untrue information with the intention to evade all or part of the tax due;

- transfers of money to foreign bank accounts or registration of companies in offshore zones without notifying the tax authorities with the intention to evade taxation;

- skillful use of loopholes in various laws and regulations;

- participation in tax fraud schemes.

There are two main groups of tax fraud types:

- underreporting of sales through false financial reports or non-disclosure of financial reports and other accounting documents, etc.;

- illegal VAT refunds or deductions through phantom companies and other VAT fraud schemes.

The most common types of VAT fraud are:

1. Fictitious exports

Within this type of tax fraud, the goods are exported only documentary while at the same time remain in the country and are sold on the domestic market. In practice, there are two options:

- when the goods are exported to an EU member state as intra-Community supplies (ICS), which are taxed at a zero rate and no tax is due;

- when the goods are exported to a non-EU country - in this case no tax is levied in the exporting country.

In both cases, the goods are sold on the black market without invoices, the sales are not reported and the tax is not paid. At the same time, the exporter gets the tax refund reimburses the tax credit on the costs incurred.

2. Phantom chain (missing trader fraud)

This form of tax fraud involves a chain of several companies conducting transactions. One of them accumulates all tax liabilities, and all the others only use their right to a tax credit and VAT refund. The goods are usually sold through these companies. The VAT-liable company does not pay the due tax and is usually registered to an unemployed or socially disadvantaged person. The court will then start penal proceedings against the company, which in fact has no property that could cover its liabilities and the central budget incurs losses not only from the VAT refunded to the other companies but also from the VAT that remains unpaid and the court cases. Therefore, in most cases, these liabilities are written off. This scheme has been in use for more than 25 years. In Bulgaria there are no normative

documents and the government does not seem to be willing to prevent it although it can be discontinued by enforcing certain regulations that would prohibit the acquisition of companies with tax liabilities or require the buyer to incur the outstanding liabilities of the acquired company.

3. Internet VAT fraud

Internet VAT fraud is one of the newest types of tax fraud. A specific feature of these schemes is that they are in the field of advertising over the global computer network. They are usually organized by offshore companies which sell copyrights with VAT included. The prices are several times greater than the usual price of banner ads, which is difficult to prove by the control authorities. All buyers along the get VAT refunds while the seller actually does not pay the tax due. It is difficult to identify because, as we have said, it is registered in an offshore zone. Usually, the owners are unknown and it is impossible to hold them accountable.

4. Carousel fraud

The scheme is usually implemented with two or more EU Member States, usually by at least three companies. A supplier (A) established in Member State 1, the so-called conduit company, supplies goods (VAT exempt) directly to a second company (B) located in Member State 2 (the so-called missing trader) or to a third company (C) using the missing trader as a failsafe vehicle. The missing trader (or Company C) takes advantage of the VAT exempted intra-Community supply of goods and resells the same goods in the domestic market of Member State 2, at very competitive prices. Such transactions are known as tripartite deals and their taxation regime is provided for by the Sixth Directive of the EU.

5. Faithful Dog schemes

The "faithful dog" scheme is well known to tax officials and widely used by taxpayers. It involves a company that has the right to a VAT refund and companies that have to pay VAT. The first company may opt for a deduction of the amount of the refund from its tax liabilities over the next three months. It prefers the option to "sell" her claim against a certain commission. On the other hand, the VAT-liable companies are willing to "buy" its receivable refund. At the end of the operation, the VAT-liable companies will not pay anything to the budget and the "donor" will make a profit from the commissions. This scheme is very often carried out between affiliated companies without any actual transfers.

6. Re-export fraud

This scheme involves intra-Community supply of goods subject to VAT. In these cases, the taxable person (TP) participates in two supply chains in the same tax period. The tax levied on the activity in one chain is intended to compensate for the acquisition tax in the other chain. The first chain

generates tax losses, which the TP does not pay on the territory of its country. At the same time, it performs an ICS of goods and services to another member state. The second chain is the so-called "Reverse flow", through which the same person sells goods and services from another member state (the so-called intra-Community acquisition - ICA) and sells them in the country, acting as a recipient. They are liable to pay the VAT on the goods sold on the domestic market. The loss generated by the first chain is incurred by the ICS buyer (the second chain) in a double reverse trading scheme. In this case, that tax will not be paid based on a claim of being offset by the loss from the first chain.

Mist tax fraud chains originate from offshore zones (organized by offshore companies) also called "tax havens." These companies are registered there to take advantage of the zero or very low rates for VAT and income tax (corporate, dividend, etc.) as well as personal income tax, which is not subject to taxation at all in these zones. Usually such tax havens are small countries. There is no consensus on their definition, so their meaning has a different context. In general, an offshore company is one that operates in one country but is registered in another. For example, a company operates in Bulgaria but is tax registered in Cyprus. These countries have special characteristics and advantages that make them attractive destinations - the presence of a preferential tax regime (zero and low tax rates), as well as complete confidentiality regarding the ownership of the company.

There are two types of offshore companies - those registered in EU Member States (Cyprus, Luxembourg, Switzerland, the Netherlands) and in countries outside the EU (Panama, Andorra, Belize, the Seychelles in the Indian Ocean, the Cayman Islands in the Caribbean, the British and Virgin Islands). The offshore zones remain completely anonymous and do not provide any information about their activities and financial position. This makes them particularly interesting to both politicians and wealthy businessmen. Exceptions to this rule are the countries that have signed agreements for avoidance of double taxation and exchange of tax information with Bulgaria, such as the United States, the Swiss cantons, etc.

The advantage of offshore zones is that they work with all currencies, without restrictions and influence of exchange rates, as well as without special permits. The rule that offshore companies are not allowed to render some important public services, such as financial audits, insurance, pension insurance, social services, etc. is extremely important for reducing the risk of financial fraud. Offshore companies are used to launder money generated from drug trafficking, prostitution, arms trade, etc. Such activities are prevented and limited through financial intelligence.

We have to consider two intriguing questions:

- Why isn't Bulgaria considered an offshore zone, since its income tax rates of 10% are among the lowest rates, especially compared to countries (e.g. the Scandinavian states) with tax rates of more than 50%?

- Why isn't Ireland considered an offshore zone, since it has tax regimes with zero rates?

It should be noted that at present, after in-depth research, it has been established that the biggest frauds committed by offshore companies are in construction and trade (especially with fast-moving goods). We would add agriculture to them, but after the introduction of reverse taxation they decreased sharply.

According to the EU, the losses from unpaid taxes are unacceptably high. The amount of unpaid taxes and social security contributions is estimated to more than one trillion euros a year due to shortcomings in VAT systems conducive to tax fraud. According to experts from the Bulgarian Academy of Sciences, the treasury in Bulgaria loses over BGN 2 billion annually from VAT, as 35% of the actual revenue remain in the grey sector or is not reported at all. A serious loophole that facilitates economic fraud and abuse (Iliev, P., 2020), and especially tax fraud, is that both in the EU member states lack sufficient information and transparency regarding business activities as well as an effective system for prevention of fraud. Another very important factor is the changing management environment and the new type of management qualities and style. (Dimitrova, S., 2010, pp. 16-18).

These problems are seen and assessed by the EU. According to Pierre Moscovici, Commissioner for Economic and Financial Affairs, Taxation and Customs Union, "tax administrations must have the necessary information on tax avoidance schemes."

As we have already mentioned, the constant increase in tax fraud, both in number and in the amount of losses for the budget of the EU Member States, requires urgent measures to amend the current situation. These problems have been tackled by the EU since its establishment. Article 325 of the Treaty on the Functioning of the EU (TFEU) sets out all the measures to be taken in relation to tax fraud. In recent years, the EU has developed a number of packages of measures (directives, decisions, recommendations, guidelines, etc.) to combat tax fraud and tax avoidance.

Some of these measures are:

- Implementation of the VAT Information Exchange System (VIES) for the tax administrations of all Member States. It is a search engine with access to databases of information about all intra-Community supplies of goods and services;

- Establishment of VAT accounts, which were then compromised and were revoked with an amendment of the VAT Act;

Although it aimed to reduce VAT fraud by increasing the security and the access to information on business transactions and thus reduce the time of VAT refunds, it was in force for only 3 years. Moreover, it created opportunities and was used for tax fraud by missing trader companies which used it illegally to claim tax credit and VAT refunds before a tax audit;

- Although as a pilot project, in 2018 Bulgaria adopted the „reverse charge mechanism“ aiming to stop VAT fraud in the trade in grain, industrial crops in unprocessed form, household services, and scrap. The first results are positive and therefore the project was extended with an amendment of the VAT Act. The mechanism may be used by Member States until 30 June 2022 if it meets the following criteria:

- only for ICSs of goods and services that exceed the threshold of EUR 17 500;
- if 25 % of the lost VAT revenue is due to carousel fraud schemes;
- if they have enforced regulations for electronic reporting by the taxable persons.

The mechanism is applied on request of the Member State following an approval by the EC. Under this measure, the tax is levied on the buyer rather than the seller.

- the implementation of uniform tax rates across all EU Member States is being considered.

From a documentary point of view, these measures seem feasible, but the actual situation and results are far from good. Rising tax crime is a serious threat to the financial security of the EU as a whole and each individual Member State.

What measures should the EU Member States consider in order to reduce and restrict tax fraud and tax evasion? Above all, they should give priority to the creation of effective and consistent policies that cover the following areas and activities:

- implementation of an anti-fraud strategy;
- introduction of mechanisms for tracing and exchange of information regarding suspicious practices among the competent authorities;
- enforcement of clear regulations for definition and identification of the permanent establishment. Profits should be subject to corporate taxation at the permanent establishment while VAT should be levied where consumption takes place;
- new mechanisms to reduce the differences and deviations in taxation, prevent tax fraud and evasion and limit aggressive tax planning in order to minimize the opportunities for money laundering;
- elimination of harmful tax practices, with special attention to taxation justice. The threshold must be set with arguments in compliance with

the principle of equality before the law, or what you receive must correspond to what you give. This is especially important for Bulgaria, where this principle is being violated;

- gradual implementation of effective tax competition in a competitive environment. It should be understood that “tax competition is not an attempt to replace some fictitious justice. It is exactly what allows countries to offer the best conditions for their citizens and businesses to work.” (Institute for Market Economics (IME), Economic Policy Review, No. 919/18 Jan. 2019.)

We have to tell the difference between tax dumping and tax competition. In general, both phenomena occur in a competitive environment, but are radically different. Dumping is a process wherein a company exports a product at a price that is significantly lower than the price it normally charges in its home market. A typical case is China, whose goods have conquered the entire European market. Generally, tax dumping is considered a scam. It is frowned upon but unfortunately not prohibited by the World Trade Organization (WTO) rules. Dumping destroys competition, conquers national markets, and dramatically increases prices. Dumping for fiscal purposes (tax dumping) affects three types of tax – the value-added tax (VAT), the corporate income tax (CIC) and the personal income tax (PIT).

During the stage of VAT harmonization, the official website of the European Union published the range of VAT rates across the Community with the lowest rate being 15% and the highest - 25%. Despite the fact that the range was quite wide (from 17% in Luxembourg and 16% in Germany to 25% in Denmark and Croatia and 27% in Hungary), it was not excessively so.

In many countries, the rates of the other two taxes are unrealistically low. Such rates are usually set by the less developed and smaller countries from the so-called Eastern Bloc, following the opinion of the famous Polish economist and politician Leszek Balcerowicz, according to whom: "Poor countries cannot afford the high tax rates set in the rich countries." Tax dumping is widely used by companies registered in offshore zones, where these taxes either have very low rates or are not levied at all. For example, in Bermuda and the Kingdom of Bahrain there is neither income tax nor VAT, and in the Bahamas the rate of personal income tax is 0% and the VAT rate is 7%. It is well known that low unrealistic tax rates guarantee economic progress. This is corroborated by the low rates in Ireland, Luxembourg, Estonia and Poland, which achieved financial stabilization and economic growth very quickly. Unfortunately, Bulgaria, which has set some of the lowest income tax rates, did not achieve such growth due to many reasons that we will not dwell on. They are the subject of another discussion related to the

implementation of the Unfair Commercial Practices Directive (Georgiev, V., 2020, pp. 77-90).

Tax dumping must be used very carefully and taking into account its negative and positive effects on companies, the economy and the society in general.

- to continue the process of tax harmonization, considering how far it should go and in which areas of tax legislation, without prejudice to the incentives of effective tax systems. It must be carried out only in compliance with the rule of acceptance by unanimity of the Member States, a fundamental principle of the Union;

- introduction of uniform tax rates across the Union, eliminating zero and differentiated rates and limiting the various types of preferences and reliefs.

The fight against financial and tax fraud plays an important role in the EU. Art. Article 280 of the Treaty on European Union states: "The Union and the Member States shall counter fraud and any other illegal activities affecting the financial interests of the Union." (EU Treaty / Maastricht, 1992). The sharp increase in financial and tax fraud is a serious threat to the security of the Union, most often linked to organized crime. According to the Court of Auditors' report No 24/2015 on intra-Community VAT fraud, "it is estimated that 40-60 billion euro of the annual VAT revenue losses of Member States are caused by organised crime groups and that 2 % of those groups are behind 80 % of the missing trader intra-community (MTIC) fraud." (Report of the Court of Auditors No. 24/2015 on intra-Community VAT fraud). At the same time, the anti-mafia system is ineffective. Only about 3% of tax fraud leads to lawsuits, the result of which in most cases is ineffective. VAT fraud is the second largest source of organized crime in Bulgaria after human trafficking. This is stated by one of the largest studies of organized crime in our country - the 2015 analysis of the Center for the Study of Democracy "Financing of Organized Crime" in the period 2008-2012 (Center for the Study of Democracy, 2015).

At EU level, the fight against fraud is carried out by OLAF (the European Anti-Fraud Office)¹. Its role is to protect the financial interests of the Union by being responsible for combating fraud in the use of funds in all institutions, as well as conducting internal investigations. It coordinates the actions of the competent authorities in the Member States, liaising directly with the police and the judiciary, and assisting with the findings. Any suspicion of fraud is reported on the basis of the requirements of Art. 122 of

¹ Established in 1999.

Regulation (EU) 1303/2013 on the generally applicable provisions (known as POP).

In the Republic of Bulgaria this function is assigned to the National Revenue Agency (NRA), the Customs Agency, the General Directorate of the National Police (GDNP) and its subordinate territorial units, as well as the General Directorate for Combating Organized Crime (GDCOC) - financial intelligence.

The Council and the Directorate for Protection of the EU Financial Interests also have a place. (PIF). It is a specialized structure of the Ministry of Interior and carries out control, information and coordination activities in the field of protection of the financial interests of the EU.

The EU has adopted hundreds of normative documents such as strategies, directives, regulations, decrees, laws, etc. to combat financial and tax crime. As some of them were already discussed above, we will focus only on the ones providing for other bodies responsible for combating tax fraud. At the level of law enforcement agencies such are:

- The cooperation agreement signed in 2020 by AFCOS and the Commission for Combating Corruption and Confiscation of Illegally Acquired Property (CCCCIAP);

- the establishment of a European Anti-Fraud Prosecutor's Office affecting the financial interests of the European Union. It has the power to investigate crimes affecting the EU budget - fund fraud, corruption and cross-border VAT fraud. The Prosecutor's Office will work with national prosecutors and law enforcement agencies (GDNP and GDCOC) in close cooperation with OLAF, Europol, and Eurojust²;

- implementation of complex measures for prevention of corruption practices through interaction and cooperation among the responsible institutions;

- preparation of annual information on economic crimes. In 2019, 12,007 cases were registered, of which 3,938 or 32.8% were solved.

This is an increase of 1.3% from the level in 2018.

There were 6 563 financial, tax and social security crimes, which is 54.6% of the total number of crimes.

In 2019 alone, the structures of the Ministry of Interior have carried out 131 specialized police operations (SPO), of which 59 are with the assistance of foreign partner bodies.

² The European Union Agency for Criminal Justice Cooperation established in 2002.

- improving coordination and interaction between partner services for the investigation of tax crimes. Five operations were carried out and crimes worth BGN 7.6 million were revealed.³

- strengthening mutual cooperation with equivalent foreign bodies, gaining an increasing degree of information exchange powers has made it crucial to combat fraud on a global scale.

At the level of the National Revenue Agency (NRA):

- annual amendments of regulations;

- changes in the Tax and Social Security Procedure Code (TSSPC).

Adoption of measures against transfers of taxable profit to offshore companies, prevention of transfers of companies with large liabilities, especially during audits of socially disadvantaged people without property;

- creation of a "Fiscal Control" unit to prevent tax fraud with risky goods;

- control over gambling, granting and revoking licenses, investigating sites for illegal gambling;

- creation of special software for processing information about the companies from their information files in order to establish and track suspicious connections and perform illegal transactions. Creating profiles of such companies;

- Real-time Internet connectivity of cash registers with NRA;

- creation and use of the AT standard - a gift for measuring the budget revenues taking into account the difference between the planned and the actual budget revenue;

- preparation of a series of legal acts to improve the collection of tax revenue, including VAT transfers;

- elaboration of a strategy for prevention and fight against tax fraud;

- performing electronic inspections and services;

- introduction of a "gold standard" for fair companies that are diligent taxpayers, in compliance with certain criteria developed by the NRA;

- creating rules to reduce the amount of outstanding VAT, known as "purging" (revealing the identity of missing traders, forged documents, registration of companies by "fake" owners).

All these results are commendable but insufficient. Most of them did not lead to actual collection of budget revenue.

Bulgaria's membership in the European Union contributes to the significant detection of tax fraud, especially related to VAT.

Bulgarian citizens (according to Eurostat over 70% of the respondents) want real results in terms of how the executive and the judiciary fight the tax mafia at all levels, how many and what schemes are revealed,

³ According to the Annual Report of MI for 2019.

what value they are, how many court proceedings are initiated, how many sentences have been pronounced and who the criminals are.

The cause for these unsatisfactory results and omissions in the field of control is the lack of coordination among the law enforcement bodies and the National Revenue Agency. In practice, when serious tax violations are detected by the bodies of the revenue agency, they are reported as achievements of the Ministry of Interior. According to the NRA, however, the economic police is uncooperative in two thirds of the cases.

The challenges faced by the EU Member States in the fields of taxation and tax fraud are a topical issue. Its importance stems from several groups of factors, such as changes in public relations, new legislation in the Republic of Bulgaria related to its EU membership, and lack of comprehensive research in this field. Moreover, the need for such a research arises from the by Bulgaria's drastically changed financial and legal relations, which, after more than ten years of the country's EU membership require an analysis of its experience and the lessons it has learned in the field of its public relations that emerged and developed in the financial system of the Republic of Bulgaria and the threats for its national security as a part of the EU financial system. In some aspects, an attempt has been made to present and interpret from a new perspective some legal disciplines based on positive law and practice, on theoretical constructs such as "financial system", "public finance", "control", "financial control", "supervision", "audit" and "financial administration" (Mihailova-Goleminova, Sofia, 2019).

The achievement of this ambitious goal depends on the implementation of the measures discussed above both in terms of political and economic nature and are related to the protection of security in all its aspects outlined in the Updated Strategy for National Security of the Republic of Bulgaria (Updated National Security Strategy of the Republic of Bulgaria, 2018). The implementation of the Strategy will guarantee the rights, freedoms, security, and well-being of the citizens and the society, preserving the sovereignty and the territorial integrity of the country and the unity of the nation, as well as protecting the constitutionally established order and democratic values.

To conclude, the above ratiocinations imply that we need to establish new and more effective control bodies. In recent years, the EU has repeatedly proposed the creation of a "European Financial Police" and a Financial Intelligence Unit. Due to the different views of the member states, there is still no solution to this issue. What prevents the creation of a "tax police" in our country, especially since such a possibility has been considered for years and there are different proposals and views. What prevents us, despite the serious resistance of the Ministry of Interior, to change the TSPC, in compliance with the Law on Specialized Intelligence Means and other regulations in this area.

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Boyko M. Petev acquired the degree of Doctor of Philosophy from the Department of Finance and Credit of the Academy of Economics in Svishtov, Bulgaria following a successful defense of his dissertation thesis “Harmonization of Indirect Taxes in the EU Member States”. Scientific research field: financial system and national security. Scientific interests: public finance and national security.

ORCID ID: 0000-0002-9786-1979

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2, Emanuil Chakarov street, Svishtov 5250
Prof. Andrey Zahariev, PhD – Editor-in-Chief
☎ (+359) 889 882 298
Deyana Vesselinova – technical secretary
☎ (+359) 631 66 309, e-mail: nsarhiv@uni-svishtov.bg
Blagovesta Borisova – computer graphic design
☎ (+359) 882 552 516, e-mail: b.borisova@uni-svishtov.bg
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