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THE PHENOMENON OF TAX-EVADING  
IN THE CONTEXT OF LEGAL ENTITIES'  
INCOME TAXATION IN GREECE AND  
SOME PROPOSALS TO FACE IT

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ABSTRACT

*The phenomenon of tax-evading in the context of legal entities' income taxation and, more specifically, the ways employed by these entities in order that they may avoid paying the tax corresponding to them is the object of this article.*

*This work comes down to specific proposals concerning the re-organisation of legal entities' income taxation system to the purpose of obtaining the preventive as well as the suppressive treatment of this phenomenon.*

1. INTRODUCTION

Under the term «tax-evading» we mean the evasion attempted by a taxed person in paying the tax corresponding to him/her. Tax-evading in the context of legal entities' income taxation is carried out in two basic ways:

- a) By being under the cover or tolerance of the law: incomes lawfully exempted from taxation, like investment incentives<sup>1</sup> provided

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for by development laws that are occasionally in force, bond loans and bonds, sums taxed in a special way etc.<sup>2</sup>, are included in this case.

The sums belonging to the above category are not considerable: it suffices to be noted that only the tax-free reserves of the time period 1970-1985 ranged from 34% to 60% of the taxed profits while higher percentages than these<sup>3</sup> ones were observed for the years 1971-1973.

- b) By violating the law, in which case the offence of tax-evading is committed. In practice, deliberate and ingenious attempts to which taxed individuals usually resort in order that they may select suitable points of their entrepreneurial activity at which they will conceal or alter a part of their taxable revenues have been confirmed through tax controls. Pursuant to articles 34 and 35 of the Legislative Decree 3323/1955, at it was amended and is in force today, net income is the balance resulting from the deduction of the expenses referred to in the law restrictively from the total of gross revenues.

On the basis of the above mentioned items, entrepreneurs have the option of affecting both accounting procedures and the formation of their net profits at various phases of their entrepreneurial activity at the end of a fiscal year<sup>4</sup>. In particular, they can conceal purchases and sales to achieve a symmetric reduction in their net profits, reduce the value of the fiscal year's end inventory, which will result in the tantamount increase in the cost of the sold items and, in consequence, in the tantamount reduction in the net profit, augment the expenses and the supply cost of raw and auxiliary materials, conceal purchases and expense in a way that they will present a reduced transactions activity in the event of tax controls etc.

## **2. METHODS OF VIOLATING TAXATION PROVISIONS**

In order that an entrepreneur's goals to evade the payment of the respective tax may be accomplished as well as in view of the liabilities imposed by the law per books category, violating the tax-oriented provisions each of which constitutes also a special method of tax-evading is presupposed on his/her part. The most frequently used methods are the following ones: a) Fictitious presentation or concealment of gross revenues.

## THE PHENOMENON OF TAX-EVADING

Entrepreneurs, violating the provisions of the law, many times, when performing or providing services, will not issue, as they are obliged to, the required receipts or invoices or other necessary vouchers for a part or the whole of their sales. Issuing and presenting veritable or inaccurate data may refer to the purchaser's name, value, quantity, quality, kind, weight, length, pieces, volume as well as to other features of the certain merchandise, the date on which the transaction was performed etc. b) Markets concealment or markets and expenses augmentation.

Entrepreneurs, violating the provisions in force, will conceal purchases expenses or augment expenses in a way that a relative harmony will exist between expenses and revenues and that the competent tax controller be misled. The methods through which the above violations are accomplished involve mainly: i)

Procuring raw and auxiliary materials or merchandise by entrepreneurs who will not issue the relevant invoice or perform the respective registration of the performed purchases in enterprise's books and who, thenceforward, will carry out sales also without issuing an invoice.

ii) Purchasing products in terms of which the seller may issue invoices, but they are issued in the name of another person usually indicated by the purchaser.

iii) Purchasing products on the basis of invoices in which, nevertheless, not their real value but another lower than it will be stated (underpricing)<sup>5</sup>.

iv) Producing fictitious returns of purchased products on the basis of annulling invoices issued by the seller to the purpose of reducing the amount of his/her gross revenues, v) Purchasing on the basis of an invoice in which another product is stated instead of the really purchased one, which probably aims at settling warehouses surpluses or deficits through this inaccuracy as far as a certain item is concerned, vi) Purchasing products from farmers as well as from other persons that usually do not issue invoices to the purpose of concealing these purchases from the purchaser or issuing and filing invoices containing inaccurate data in the books in as far as the item, quantity, quality and the unit price are concerned. It should be noted that, due to the considerable size of Greece's primary sector, violating the provisions of

taxation legislation on purchasers' part represents a considerably high percentage of tax-evading involving entrepreneurs dealing with agricultural products. In addition to these, presenting the transacting parties as allegedly plain mediators on commission, the percentage of which, however, is shown to be much lower than the real one, is another usual form of law violation.

- vii) Non-registering, in enterprise's books, imported foreign items which are sent and custom-cleared at times in the name of entrepreneur's employees or friendly persons.
- viii) Non-stating, in the books, the duty and other encumbrances upon imported foreign items the duties upon which are shown, allegedly, to have been paid by the purchaser, who is supplied by the importer at C.I.F. prices, including, however, the said value in his/her profit. This case is usually encountered in the trade of considerably valuable items, such as automobiles etc..
- ix) Importing items of underpriced value from a foreign firm on condition of the reimbursement of the concealed part of the price by the importer through a foreign currency stock he/she keeps abroad. The case of importing products by use of inaccurate invoices as far as their quantity, weight, volume and other characteristics of the merchandise are concerned should also be noted.
- x) Concealing the production of either raw and auxiliary materials the purchase of which is concealed or raw and auxiliary materials which are registered in enterprise's books in violation, on liable parties' side, of provisions concerning the issue of products internal circulation vouchers as well as the maintenance of a special product and of a price-listing book. In the case of the concealment of raw and auxiliary materials, the enterprise will not show the produced items corresponding to these purchases in its books, concealing the respective purchases eventually.
- xi) Augmenting purchases (overpricing) of imported foreign raw materials, ready products and mechanical equipment<sup>6</sup> subsequent to consultations with a foreign firm. The entrepreneur performs, in this case, annual depreciation upon the augmented value of these purchases, which leads to the ac-

complishment of a favourable result obtained from the deducted values of the respective profits subjected to the income tax. Also the usual augmentation of transport expenses concerning the above products, especially, when they are encumbered by high transport expenses because of their volume, should be noted in this case. In addition to these, the cases of excluding reductions provided subsequently by the foreign firm and referring to returns of duties due to bad quality, damages, errors etc. from enterprise's books as well as of overpricing raw materials and products purchased domestically could be mentioned.

- xii) Presenting fictitious invoices with excessively high industrial and other expenses not corresponding to reality entirely or partly in entrepreneur's books.
- c) Inaccurate set-up of expiration inventories.  
When compiling the inventory at the end of the fiscal year, entrepreneurs are likely to conceal or alter real data and elements to the purpose of showing enterprise's financial situation as being worse than the real one and, in consequence, of giving a fictitious picture of enterprise's net result. The above inaccurate presentation of data entails the increase in the cost of the commodities produced and sold at the end of a fiscal year along with a respective reduction in both gross and net profits. In particular, the most principal methods used during the inventory by the entrepreneur to alter the real situation of enterprise's property assets refer to the statement of lower quantities of stocks, raw materials and ready products than the really existing ones, the employed technique of assessing the above property assets, the likely statement of fictitious passive data, the presentation of excessively high depreciation of fixed assets or bad debts or forecasts etc..
- d) Other ways of tax-evading.  
Apart from the above mentioned cases of tax-evading by the violation of taxation provisions, evading legal entities' income tax is accomplished also in other ways, like setting up fictitious companies or recruiting fictitious partners, who usually are friends or family members, to the purpose of distributing their income among more beneficiaries and of subjecting it to a respective taxation-oriented treatment, liquidating and re-establishing legal entities of a different composition, losing accounting books and vouchers,

keeping double books, artificially providing physical persons with stocks of a low corresponding tax etc..

The above mentioned exempting taxation outlets, in combination with the fact that the revenues from legal entities' income tax in Greece as a percentage of the Gross National Product are on low levels (between 0.4%-1.1%, which makes Greece be the first of OECD's countries with the lowest percentages)<sup>7</sup>, will bear out the view about the need for reorganising not only legal entities' income tax, but also the whole of Greece's taxation system, which turns out to be too unfair since the provided possibilities of tax-evading and tax-exempting will concern only a specific part of the population (non-equitable distribution of taxation burdens) and results in the violation of the principle of taxation justice and of financial effectiveness<sup>8</sup>.

### **3. SOME PROPOSALS FOR FACING THE PROBLEM**

Some proposals of paramount importance towards the accomplishment of a more rational function of legal entities' income taxation system to the purpose of restricting tax-evading are:

- a) The gradual abolition of tax-oriented exemptions, alleviation schemes and special treatments aiming to restore the universality of tax.
- b) That taxation should be concrete in order that the phenomenon according to which some revenues (e.g. from stocks) is taxed in a special way may be effaced or the liability to taxation be exhausted at the deduction of tax in the source without their being accrued with the revenues of other categories<sup>9</sup>.
- c) The adoption of the taxation coefficient progression to the purpose of alleviating medium-size revenues and of encumbering respectively the large-size ones.
- d) The simplification of the taxation system in order that the huge diversity of the laws characterising it and entailing a high managerial as well as social cost may be avoided.
- e) The amendment to the Data Books Code (DBC) in order that it may rid of its formalistic provisions.
- f) The clear definition, pursuant to article 35 of the L.D 3323/55, as it is in force today, of the concept "General Management Costs» deducted from gross income in order that violating the taxation law may be avoided.

- g) The adoption and application of the General Accounting Plan and of the Single Accounting Models by the whole of enterprises, h) The extension and systematisation of tax-consultation procedures of performing strict and uniform tax controls by the services of the Ministry of Economics.
- i) The activation of the law providing for the investigation concerning the source of acquisition and the increase in the evidence concerning the living standard.
- j) The systematisation of the co-operation among European Union's<sup>10</sup> countries-members.

We should not fail to mention also some contrasting views<sup>11</sup> at certain points of the above proposals arguing that the reconstruction of the Greek system concerning legal entities' income tax to the purpose that tax-evading be restricted should be accomplished by taking action, such as the:

- a) Non-privileged taxation on interests from bank deposits or investments in loan bonds and public bonds. The argument is that the specific measure will serve also as an incentive for financing investments through the extra-banking capital market<sup>12</sup>. Apart from this, the supporters of this view will regard the exemption of revenues acquired in the absence of risks from any taxation whatsoever and the taxation on revenues from investments entailing numerous and various entrepreneurial risks<sup>13</sup> as senseless.
- b) Undistributed profits taxation, which should be reduced by establishing adequately lower coefficients since the already existing ones are deemed excessively high. Likewise, also all the coefficients provided for the taxation of stocks should be reduced.
- c) Modernisation of the Data Books Code to the purpose of eliminating the vague areas and imperfections of the Greek taxation legislation as well as the redemption of the competent taxation instruments from formalism, which will result in entrepreneurs'<sup>14</sup> excessive taxation and in the violation of taxation justice.

## NOTES

1. Brown C, 1962, «Tax Incentives of Investment», *American Economic Review*, Supplement, May.
2. In terms of most principal exemptions and discounts provided for by the legislation concerning legal entities' income taxation as well as the development laws, cf. Thanos G., Chilas J., Tzouanaki K., 2002, «A Critical Approach to the Development Dimensions of Legal Entities' Income Tax Through Two Important Laws



- of the Greek Investment Incentives Policy (Laws 1262/1982 and 1892/1990)», *Archives of Economic History*, Vol. XIV, No 1, Jan-Jun, pp. 277-306.
3. Patsouratis V., 1989, *Legal Entities' Income Tax in Greece and International Developments*, Athens, IOBE, pp. 304-305.
  4. Reid W., Myddelton D., 1986, *The Meaning of Enterprises' Accounts*. Translation by Cazandzis Ch., Athens, Papazisis, pp. 234-235.
  5. Papandreou V., 1986, *Multinational Enterprises and Developing Countries. The Case of Greece*, 2nd Edition, Athens, Gutenberg, p. 221.
  6. Roumeliotis P., *Multinational Enterprises and Overpricing-Underpricing in Greece*, Athens, Papazisis, pp. 153-183.
  7. Patsouratis V., 1989, *Legal Entities' Income Tax in Greece and International Developments*, Athens, IOBE, pp. 308-309.
  8. About the principles of taxation justice, cf. Musgrave R., Musgrave P., 1983, *Public Economics in Theory and in Practice*, Vol. II, Translation Stamatoukos G., Athens, Papazisis, pp. 21-44.
  9. About the taxation of dividends, cf. Sakellis E., 1984, *Companies' Distributed Profits and Reserves (from an Economic, Legal, Tax-oriented and Accounting View point)*, Athens, Pamisos, pp. 94-102.
  10. It is noted that removing administrative restrictions and obstacles as well as banning banking secrecy when it is though necessary due to existence serious evidence that the crime of tax-evading has been committed by entrepreneurs will play a crucial role in the context of the accomplishment of this co-operation. Cf. Carouzos G., 1989, "Taxation Becomes Multinational", *Market*, issue 53, June, p. 64.
  11. Pavlopoulos P., 1989, *Taxation Burden, the Size of the Public Sector's and Paraeconomy: An Empirical Analysis*, Athens, IOBE, pp. 218-251.
  12. Thanos G., 2001, «The Greek Process Towards the Eurozone Faces Two Frictions: The Wage Rigidities and the Budget Deficit», *Essays in Honour of the Late Professor D. Codosakis*, University of Piraeus.
  13. Thanos G., 2000, *A Theoretical and Empirical Investigation on Investment Banks' Medium-Long-Term Funding and on Their Impacts on Economic Growth in the Context of the Alternating Tendencies of the Financial-Credit and of the Development Environment. The Case of Greece 1960-1995*, a doctorate thesis submitted to the Pantion University, pp. 199-205.
  14. Cf. Argyriou Th., 1989, "Overtaxation on Enterprises by Rejecting of Books», *Market*, issue 53, June, p. 30.

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