

DIGITALIZATION OF THE TAX ADMINISTRATION AND COMBATING TAX EVASION

Leliana DIANA (BOLCU), PhD student

IOSUD-SDSEU, Valahia University of Targoviste, leliana_d@yahoo.com

Andreea-Cristina SAVU, PhD student

IOSUD-SDSEU, Valahia University of Targoviste, andreea_savu@ymail.com

Mihaela-Raluca BOHARU (MIRCEA), PhD student

IOSUD-SDSEU, Valahia University of Targoviste, ralcont2003@gmail.com

ABSTRACT: *Romania is currently at the beginning of the road in implementing the digitalization of the tax administration and improving the efficiency of economic activity by combating tax evasion. The aim of the article is to highlight the impact of information and communication technology on accounting systems and the vision of transforming the tax system into a digital organization in order to increase the performance of public services in terms of collection and facilitate interaction between tax administration and taxpayers. A new challenge in the financial services sector can be seen by implementing in Romania the international standard for electronic exchange of accounting data between companies / organizations and tax authorities, SAF-T (Standard Audit File for Tax), interconnection of cash registers and implementation of electronic invoicing by adopting the common standard of the basic XML format. SAF-T has already been implemented by several European tax authorities and will be implemented in our country starting with January 2022. The SAF-T standard was introduced by the Organization for Economic Cooperation and Development, being seen as automatically generating files in a common, readable and easily exportable format, regardless of the software used according to a defined set of accounting records. This study presents the SAF-T standard, the connection of electronic fiscal cash registers, the evolution of the implementation of electronic invoicing in EU Member States and Latin America as well as the advantages of digitalization of the National Tax Administration Agency (ANAF) in combating tax evasion.*

Keywords: SAF-T, OECD, ANAF Digitization, SAF-T in Romania, e-invoices

JEL: M40, M42, M48

INTRODUCTION

In this article, we will try to emphasize the importance of digitizing the information systems of the National Agency for Fiscal Administration (ANAF) and the adoption of common reporting standards in the form of XML base.

The need to adopt this standard arises in a globalized environment with different accounting systems, standardization being essential for the identification of tax fraud.

The electronic invoice was implemented in our country only at the level of the public procurement field according to Law no. 199/2020 of September 8 and published in the Official Gazette no. 825 of September 9, 2020.

The implementation of the electronic invoice in Romania is based on the “European standard on electronic invoicing - a European standard specially created for the semantic data model on the essential elements of an electronic invoice. It describes the usefulness of electronic invoicing by simply circulating in electronic format keeping the XML structure defined by the EN 16931 standard and taken over automatically by the computer system, thus reducing savings with document processing and leading to the reduction of tax fraud.

Connecting the cash registers to the IT system of MF-ANAF and implementing the electronic invoice according to the digital strategy for 2021-2025 will reduce the VAT GAP (GAP is the difference that is collected from the state from VAT and what could be collected according to economic reporting).

In the age of digitization, the operations related to the movement of invoices as supporting documents continue to be prone to errors as long as a standard of data exchange is not established between the (accounting) purchase and sale operations to be taken over and processed by software applications. The European standard reduces the errors in public procurement, and it is possible to easily check the invoices in parallel with what has been contracted. Increasing the efficiency and accuracy of data now and in the near future will be due to new technologies of digitization, robotics, cloud services, artificial intelligence and Big-Data.

As we can see the interest of the digitalization of the ANAF institution lately and the proposals made in the strategies of the last years, the accounting profession rises in an area continuously subject to digitalization. This remark on the accounting profession in terms of knowledge in the technological fields can be seen all over the world due to the continuous globalization.

We can observe a quality of data recording in terms of automation of records through imports of bank statements that can be done directly in accounting software due to the recent development of banking services such as internet banking, mobile banking, etc., so with a few clicks The accountant has a maximum efficiency of tasks and at the end of the day can have the balance of receipts and payments for various reports.

The implementation of the electronic invoice aims to create a service without borders that will increase the degree of interoperability, trust in research and development and investment in networks in the markets of the electrical environment.

2. REVIEW OF THE SPECIALIZED LITERATURE

Regarding the specialized literature, the challenges of the accounting profession are digitized as a topical issue. In an economy characterized by digitalization, IT skills are necessary as most of the activities of the professional accountant take place on the computer.

According to the report from 8.10.2018 of the publication *Ziarul Financiar* (Razvan Botea, 2018), “Accounting is the field in which automation and digitalization have penetrated the strongest, along with the audit activity. The accounting profession is in the area where 97% of the activities are suitable for digitization, so there is a need to adapt to the new reality and reconfigure the activity of the accountant”.

”Those who adapt to change will survive, but those who do not keep up will be taken out of the market, said Phillippe Arraou, first vice president of CILEA (*Latin American Intergation Committee Europe-America*), at the CECCAR Congress (*Body of Chartered Accountants and Chartered Accountants Romania*), an event that took place at the end of September at the Parliament Palace.

In the future, we cannot rule out the risks that modern technology offers us, but they can be counteracted by the advantages they offer in terms of choosing the finished product (Delian David, 2020).

3. RESEARCH METHODOLOGY

In the literature, we find a variety of definitions. In a systemic approach, the methodology of scientific research is considered as the systematic study of methods that are, can be or have been applied in a discipline, the aim being to obtain a comparative study of different approaches (Mackenzie & Knipe, 2006).

For this paper, we used the comparative method that studied the steps of digitalization of tax administration and combating tax evasion, compared to other countries in the European Union.

4. DIGITIZATION OF PUBLIC INSTITUTIONS. CONNECTING THE FISCAL CASH REGISTERS TO THE COMPUTER SYSTEM OF MF-ANAF

In order to identify the tax fraud, the procedure for connecting the fiscal cash registers to the IT system of MF-ANAF was implemented, starting with 31.03.2021 according to ANAF no.435/2021.

The connection is made for all models of electronic cash registers installed in the areas served by the communication networks for which the National Institute for Research and Development in Informatics ICI Bucharest issued a favorable technical approval and, as the case may be additional approval, according to the legal provisions established at the art.3, paragraph (7) of GEO no. 28/1999.

After connecting the fiscal electronic cash register to the computer system, according to the procedure, the economic operator holding the cash register can check through the Virtual Private Space service any messages that the computer system can send, regarding the malfunctions of sending files from AMEF to the IT system, according to the provision of art.2 paragraph (2) of OpANAF no.435 / 2021.

The electronic cash registers will be connected to the MF-ANAF computer system by authorized persons.

The fiscal devices will automatically transmit, at the end of each day, as soon as the closure report has been issued, the necessary data to the ANAF server.

5. DIGITIZATION OF PUBLIC INSTITUTIONS SAF-T

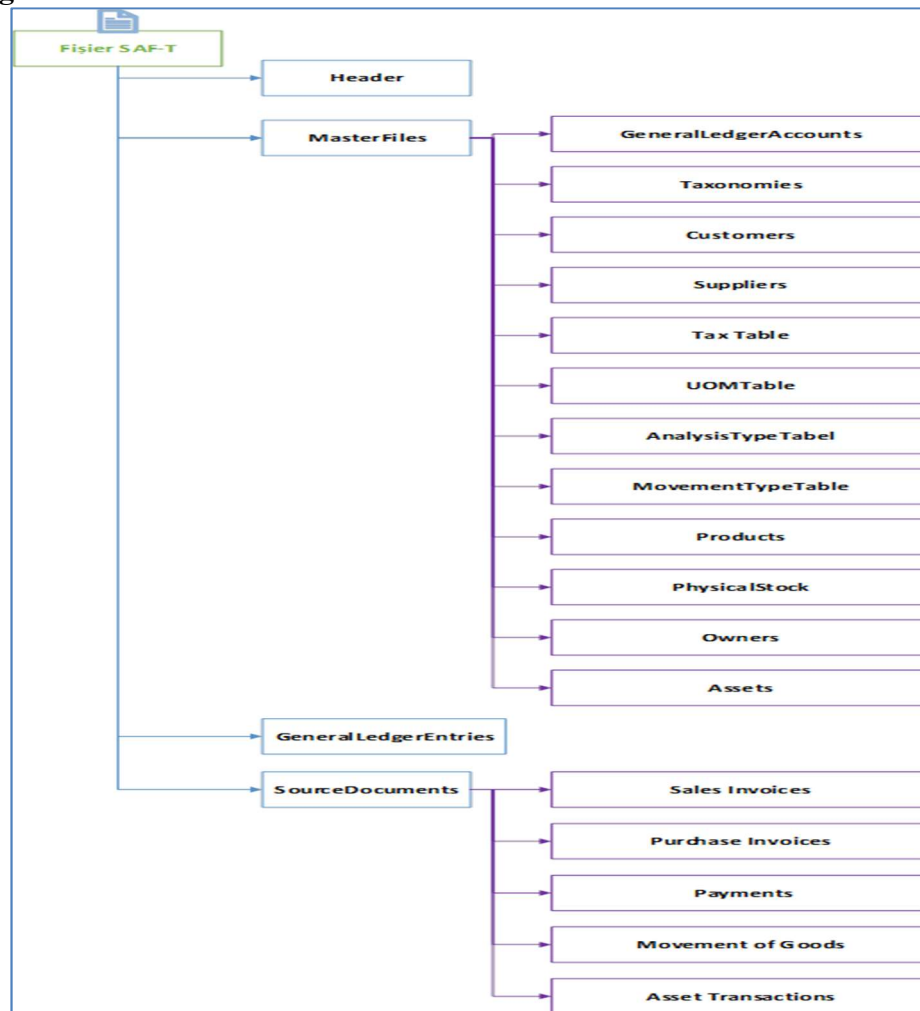
The need to adopt the SAF-T standard arises in a globalized environment with different accounting systems, standardization being essential for the identification of tax fraud.

Also for the identification of tax fraud on the agenda of the digital strategy for 2021-2025, the implementation of SAF-T (Standard Audit File for Taxation) was introduced starting with July 2021 according to the press release of 31.12.2020 sent by ANAF. ANAF makes available to software producers the SAF-T technical documentation through a press release with the number A_RPC 641 / 22.04.2021 "Mandatory and optional elements incorporable at the level of the new SAF-T declarative model. (ANAF, 2021) "

SAF-T is a standard file used by European tax authorities (Portugal, Hungary, Poland, Norway, Lithuania, Luxembourg, Austria) as a means of filing tax returns electronically.

Romania has taken over the implementation of SAF-T in order to reduce the VAT collection deficit to the state budget.

Figure 1. SAF-T structure in Romania



Source: https://static.anaf.ro/static/3/Anaf/20210422154037_comunicatsaft_%2022aprilie2021.pdf

"SAF-T is an international standard file that allows the exchange of information between tax authorities and taxpayers, based on a standardized format. The file was designed taking into account the financial-accounting data usually held by taxpayers. (CCF, 2020, p.26) "

Our country follows as an example other Member States that have managed to increase the collection rate in recent years, Poland being a good example. The integration of the SAF-T Audit Standard in Poland was based on three strong supporting ideas: *modern legislation, efficient tax administration and close cooperation with the business environment*. SAF-T is a tool that has a positive effect in combating the preparation of false invoices and reduces the risk of VAT fraud.

The first version v.1.0 of the SAF-T standard audit file was published in May 2005 by the OECD and is based on general ledger records, customer and supplier account statements, details of invoices, orders, payments and receipts. The SAF-T audit standard has as its syntax the schema in XML format.

Since April 2010, version v.2.0 has been updated and to improve it, the suggestions of OECD member countries, which have included information on inventory and fixed assets, have also been taken into account. The OECD leaves it to each country to choose how to implement the information that will be transmitted through the standard audit files.

Regarding the Digitalization of Romania, this took shape through the Government Decision no. 89/2020 regarding the organization and functioning of the Authority for the Digitalization of Romania (ADR). For the implementation of strategies in the field of digital transformation and information society, a new structure has been organized and operates, ADR which brings together all departments or services of strategy, coordination, supervision and implementation in the field of e-government.

6. DIGITIZATION OF PUBLIC INSTITUTIONS THROUGH ELECTRONIC INVOICING

In this paper we can highlight the advantages of implementing the basic XML standard in terms of implementing the electronic invoice taking as an example the short history of its implementation in Latin America and Europe.

By implementing the electronic invoice we can have a fiscal transparency, a control of the taxes and an efficiency of the provision of the services from the fiscal administration. With the passage of time and the improvement of the technological system, the tool can be updated both for information protection and for its quick and easy availability to the public. Following this implementation, the advantage will be on both sides both for the tax administration that will improve and for the small and medium taxpayers that will make more efficient the registration of their invoices in accounting through automatic processing systems.

The large amount of information created in the electronic invoicing information system can be used in risk analysis and could improve national accounting and the competition mechanism.

A complete map of transactions across the economy can provide an index of society's well-being. The electronic invoice originated in Latin America with the modernization process of the 1990s under the impetus of ideas that emerged from the innovative efforts of digitalization of the TA administration and under the influence of "*government reorganization*" (Osborne and Gaeler, 1993).

The key factor in modernizing the tax administration was due to the imbalance caused by the financial-fiscal crises and it was imperative to improve the efficiency of tax collection in the region.

Initially, *electronic invoicing in Latin America* was seen as a document control tool on the billing process, thus avoiding the omission of false records of sales and purchase invoices. The Latin American tax administration will change the relations following the digitalization between taxpayers, the public and the private sector. Thus, by controlling freight transactions and reporting prices for certain goods, clear conclusions can be drawn regarding certain exchange markets, as a conclusion these exchanges of goods in the electronic invoicing system can help the public sector to improve by ensuring real competition on the exchange market and better transparency of public procurement.

The 21st century was the engine of modernization that first started in Chile in 2003 and advanced in mid-2017 in Argentina, Brazil, Ecuador, Peru, Mexico and Uruguay, with electronic invoice implementation projects underway and in progress. Other countries such as Costa Rica, Colombia, Guatemala, Panama and Paraguay. The development of the system will also be analyzed in countries such as: Dominican Republic, El Salvador, Honduras and Venezuela.

Some Southeast Asian countries are also considering the introduction of the electronic tax invoice.

A development of this electronic invoicing system has also spread throughout Europe through the *pan-European project PEPPOL*.

The PEPPOL project was set up in 2008 as a pilot project with the aim of making external procurement as transparent as possible using the technological standards to be implemented by all governments in Europe. The PEPPOL project has implemented a standards-based pan-European IT infrastructure to provide public procurement services with electronic documents that have a standardized format. PEPPOL aimed to provide a set of technical specifications that allows business partners to implement in existing software solutions the exchange of electronic documents based on technological specifications standards in the procurement process increasing efficiency and reducing its costs. The pan-European Peppol project ended at the end of August 2012, transferring the responsibilities and services of the international non-profit association OpenPeppol, established on September 1, 2012.

We currently meet OpenPeppol members in 39 countries, "31 countries in Europe plus Australia, Canada, Japan, Mexico, New Zealand, Singapore, South Africa and the USA" (André Hoddevik, 2020).

According to the people.eu website, the Romanian Agency for the Digital Agenda is also part of the list of OpenPeppol members displayed since 22.06.2021.

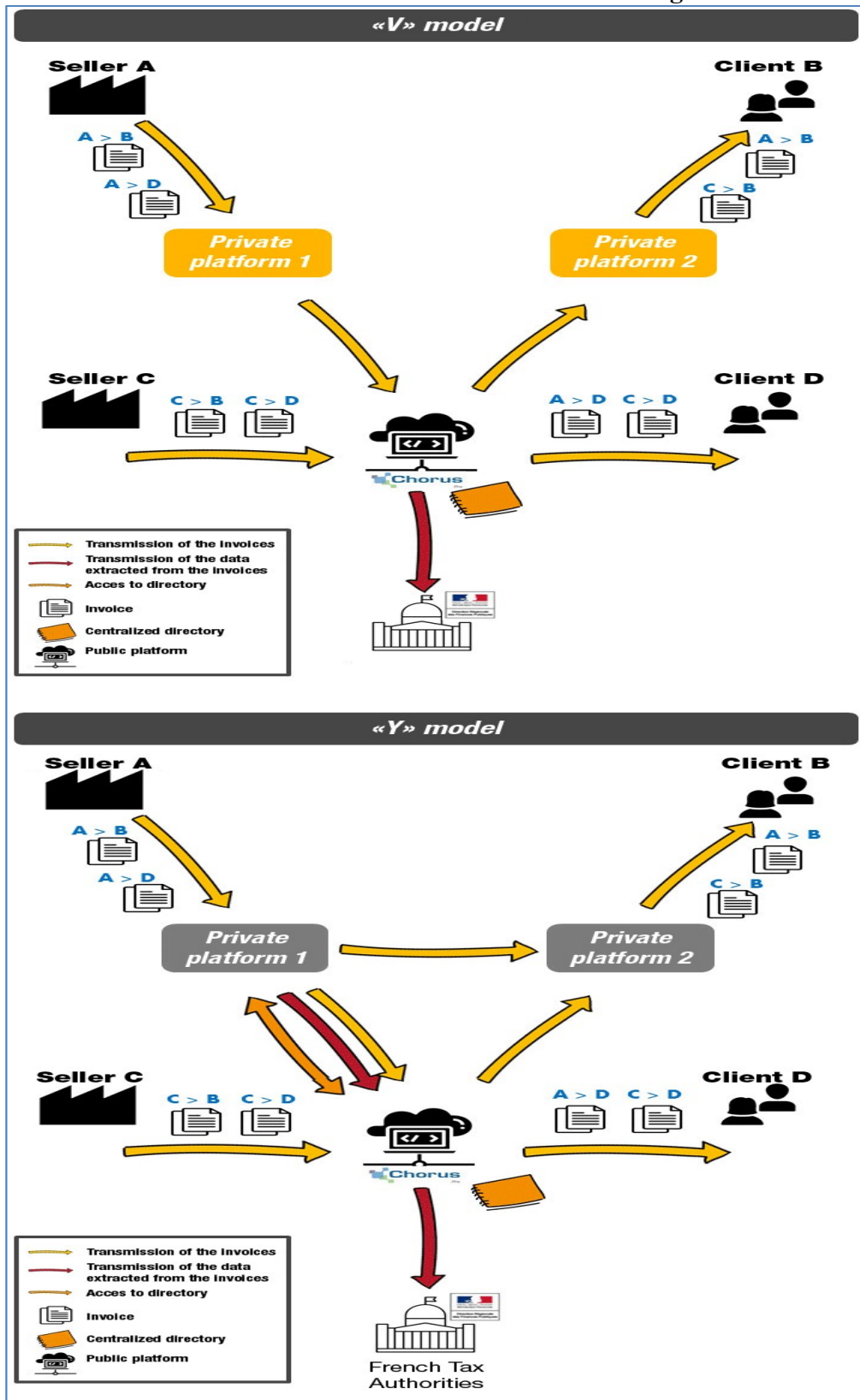
To enable companies to communicate with any government institution in the procurement process, they need to work with certified AS4 Peppol service providers (André Hoddevik, 2020).

"AS4 is a protocol for transferring electronic documents in the Peppol network, to protect data transfer, CEF eDelivery encourages software developers to examine the list of software products that have passed compliance tests by the European Commission of the AS4 eSENS profile" (CEF eDelivery, 2019).

The first EU country to introduce the electronic invoice authorization model was *Italy*. From 2019, all companies are required to be able to send and receive electronic invoices to the Italian tax authority through the system "*Sistema de interscambio*" (hereinafter referred to as "SDI"). SDI verifies each invoice and approves it with a digital signature, before sending it to the final customer.

Followed by *France*, which has gradually implemented electronic invoicing in recent years, the main difference being the legislation for B2G electronic invoicing from year to year, based on the number of employees in the company. As of January 1, 2017, B2G e-invoicing became mandatory for companies with more than 5,000 employees, a year later it became mandatory for companies with 250-5000 employees and, from January 1, 2020, B2G e-invoicing was mandatory for companies of all sizes.

Figure 2. Circulation flow of the electronic invoice-technical diagrams



Source: <https://www.pwcavocats.com/fr/ealertes/ealertes-international/2020/reform-2023-2025-or-the-generalisation-of-e-invoicing-in-france.html>

The figure above presents the flow of the electronic invoice between the customer and the supplier:

- Model "V": mandatory transit of invoices through a public platform that ensures the transmission of invoices to the customer through a private platform, in the form of a single hub. The public platform would extract from the invoices the data relevant to the authorities and transmitted to the information system (IS) of the DGFIP.

- Model "Y": invoices can transit directly between certified private platforms without using the public platform. Certified private platforms would extract the information for authorities from invoices and transmit it to the public platform, which would group it and send it to the IS from DGFIP. The main advantage is that these operators can ensure transmission while handling multiple billing formats.

In some countries such as *Denmark*, electronic invoicing has been mandatory since 2005, and transactions have been made in the public sector, with 99% of B2G invoices being electronic. Denmark has its own "NemHandel" platform and its own standard format. The standard adopted by Denmark regarding electronic invoicing is XML Billing Standard - OIOUBL UBL (Gerrit Onken, 2019).

Poland started this procedure in 2019, when the provisions of the Law on Electronic Invoicing in Public Procurement, Concessions for Construction or Service Works and the Public-Private Partnership, according to which the contracting authority must accept structured electronic invoices, entered into force.

Germany is one of the EU countries that has shown involvement in the procedure for regulating electronic invoices.

The federal legislation called the eBill Act was issued in 2017 and introduced some general key points regarding the implementation of EU Directive 2014/55, but it also went beyond the principles of the directive. Starting in 2020, invoice issuers will be required to send electronic invoices to federal public entities, non-federal public entities are subject to local legislation issued by federal states.

The Netherlands has adopted a more flexible approach, requiring only the sending of electronic invoices to central public authorities and only for contracts signed with one of these authorities after 1 January 2017. The Dutch government has not implemented or developed any other regulations at this time. , other than the adoption of the EU Directive and mandating all public authorities to be able to receive and process electronic invoices. The main government portal is Digipoort, but most companies deliver bills to the government through Peppol.

7. Electronic invoicing system

In order for an electronic invoice to be treated as absolutely equivalent to a paper invoice, the following instructions must be followed in addition to the basic requirements for an invoice:

- The recipient of the invoice must agree with the electronic invoice;
- The electronic invoice must be issued, sent, received and processed in an electronic format, such as PDF format;
- The electronic invoice must be legible to a person;
- The authenticity of the origin of the electronic invoice must be guaranteed, for example, by an internal control procedure;
- The integrity of the electronic invoice must be guaranteed.

Compared to traditional paper invoices, electronic invoices have a number of *key advantages* - including the following:

- Electronic invoicing is cheaper than paper invoices - we can see the difference, especially if the number of invoices increases. We can save on the cost of mailing it along with the money spent on paper and other goods;
- Electronic invoices can be paid faster compared to paper invoices. This means that we will pay the receivables, credited to the accounts of the business companies faster than before. An electronic invoice is more practical in terms of distribution, than an invoice sent by e-mail, which, for example, can end up in the spam filter due to its too large attachment;
- Electronic invoicing reduces errors because the recipient does not have to manually re-enter billing information. Verification and approval of the invoice are sufficient;
- An electronic invoice is paid effortlessly, so that we can offer it to customers together with a good quality service and a professional image of the business. Companies have the right to receive electronic invoices if they wish. So, we just need to make sure that we can meet the necessary requirements for electronic invoicing.

From the buyer's perspective, electronic invoicing also reduces the risk of fraudulent invoices and various types of fraud. In traffic between electronic invoicing operators, both the recipient and the sender must always be identifiable and, for this reason, false invoices are generally received by letter or e-mail.

Electronic invoicing is a system that protects the environment by reducing the number of paper prints in the world.

Thanks to electronic archiving, the tax advisor and the tax office can be granted access to important data at any time. The time saved can be used to the advantage of companies, leading to greater efficiency and increased potential for efficiency. In particular, small businesses benefit because they have to worry more about their core business and less about accounting. Annoying sorting, pre-accounting, filing and so on are no longer required. With a modern cloud-based system, sales invoice processing can be largely left to automation.

First, automation deals with creating and sending invoices, for example, monthly recurring sales invoices can be set to self-generate and leave at the time agreed for the customer. In addition, when the customer pays the invoice, the performance is automatically transferred to the accounting. This significantly saves working time and eliminates manual number entry as well as data transfer from the billing process.

Second, it is important that the software has ready-made banking connections so that you can view payments from the software in real time, instead of connecting to online banking several times a day. The software takes over the payments received to the invoices from the bank and they are automatically assigned to the invoices based on the reference. The software also detects if something in your billing does not match and reports errors.

Thanks to automation, the sales register and other financial reports are always real-time, which makes it easier to manage operations. Monitoring cash flows is an important function for a company's finances.

At the same time, it is important for liquidity that the money for the products and services sold be collected smoothly and on time and not be a commercial receivable longer than the payment period granted. E-government helps us see how much we owe. We can see from the sales register who paid their bills on time and who did not.

CONCLUSIONS

As can be seen from this article, different EU countries have different strategies when it comes to implementing electronic invoicing. Italy already has an authorization model, France is aiming for an authorization model, and Germany and the Netherlands have only implemented B2B regulations. Other EU countries are mainly following the path of Germany and the Netherlands.

The level of digitization varies from country to country, but now one can distinguish the final capacity of digitization. In the age of digital evolution, new technologies as well as new ways of working are helping to accelerate digitalisation and it is becoming clear that we need to take full advantage of the new era and the new economy. Tax fraud, the hidden economy and corruption remain major obstacles to an efficient and transparent economy of the tax system as a whole.

Digitization and new technologies such as blockchain, Distributed Ledger Technology DLT, Machine Learning, Artificial Intelligence and Robotics are all tools that can help reduce these situations. The benefits of e-invoicing have been recognized not only in public procurement procedures in the European Union, but also in the context of transactions between B2B companies in some EU Member States and in many countries around the world.

Romania is currently at the beginning of the road in implementing the digitalization of the tax administration and improving the efficiency of economic activity by combating tax evasion.

The challenge in the financial services sector can be seen by implementing in Romania the international standard for the electronic exchange of accounting data between companies / organizations and tax authorities, SAF-T, the interconnection of cash registers and the implementation of e-invoicing.

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