

## CONTEMPORARY TRENDS IN TAX ADMINISTRATION AIMED AT REDUCING THE SHADOW ECONOMY

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**Introduction** Since 1992, a number of programs have been implemented in the direction of modernization of the tax system: legislative changes, development and implementation of three-year strategic plans, application of the latest technologies. Moreover, within the framework of the above-mentioned programs, a number of measures have been implemented over the years, the most important of which are the submission of tax reports to the tax authority in electronic form, new programs for training and re-qualification of employees, the introduction of the mechanism of selection of inspections based on the taxpayer's risk, etc.

**Methodology** The theoretical and analytical provisions of the tax administration, as well as the results of the researches of foreign and domestic economic scientists and relevant organizations were the theoretical basis for the formulation and solution of the problems presented in the article. Systematic, comparative and statistical analysis methods were used during the research.

The informative basis of the dissertation was the tax legislation of the Republic of Armenia, the publications of the National Statistical Committee of the Republic of Armenia, as well as the statistical publications of the Organization for Economic Cooperation and Development, the World Bank, the International Finance Corporation and other international structures.

**Literature review** We may state that the complexity of the shadow economy phenomenon, expressed in a variety of forms of manifestation, the subjects involved, stages of economic activity, allows us to consider various aspects of this phenomenon based on the following economic theories:

- neoclassical theory;
- institutional theory;
- neo-institutional theory;
- theory of economic systems.

Significant increase in interest in the shadow economy as noted higher appeared only from the late 60s - early 70s of the last century [Gutmann,1977, 20]. A kind of “discovery” of the shadow economy began in developing countries. One of the first was the

English sociologist K. Hart, who discovered that Third World citizens were in the majority have no relation to the official economic system [Hart, 1973, 61-90]. He was the first to introduce into scientific circulation the term “informal sector”. Difference between formal and informal opportunities earning income is based on the difference between working for a salary [wage-earning] and self-employment, points out an English researcher Hernando de Soto in his work “The Other Way” (1989) defined: “The shadow economy is a spontaneous and creative reaction of the people to the inability of a corrupt state to satisfy basic the needs of the impoverished masses” [De Soto, 1989]. He also proposed a classification of transaction costs into based on the criterion “legality – extra-legality” [De Soto, 2006, 97].

**Analysis** It is noteworthy that initially the tax reforms were aimed at increasing the state budget revenues through the tax system, and later a number of legal acts were adopted to regulate the tax burden in Armenia since the country gained independence..

In 2022 tax revenues amounted to AMD 1 trillion 926 billion, which increased by 21% compared to 2021. In December of last year, a record number of jobs was registered in RA: 704 thousand, the average salary was also a record – AMD 230 thousand. During the previous year, AMD 36 billion of income tax was returned to beneficiaries in terms of mortgage loans, the number of beneficiaries was 29 thousand. According to the official statistics, the number of beneficiaries using the income tax refund has increased dramatically in recent years, for example, in 2017, only 2,400 beneficiaries used the privilege. In this context, it was reported about the implementation of the electronic platform for the return of the interest paid for the servicing of the mortgage loan, the reduction of the time period for entering the refundable amounts (VAT) into the unified account. In 2022 according to the SRC of RA CA the main problem was ensuring the programmed indicators of the state budget. The indicators planned by the state budget have been achieved<sup>1</sup>. In terms of the structure of tax revenues, it is noteworthy that the share of direct taxes continued to grow in 2022, accounting for almost half of tax revenues. Emphasizing this fact, the SRC strives that the growth of direct taxes is directly related to the effective management of the administrative tools of the tax authority<sup>2</sup>.

The reforms planned by the tax strategic plans were one of the priority issues of 2022. 2022 the reforms implemented in previous years were continued. As a result, it was possible to carry out large-scale works in the directions of modernization of existing mechanisms of tax control, improvement of the quality of tax payers' services, as well as improvement of the efficiency of SRC management. It is also noteworthy that the current program of tax reforms is mainly aimed at ensuring revenues controlled by the

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<sup>1</sup> <https://www.petekamutner.am/mdNews.aspx?sid=cs&nid=9552>

<sup>2</sup> <http://taxservice.am/>

RA state budget and tax authorities. Moreover, this determines the priority of solving the goals and problems faced by the tax authorities: to continue the adopted path of reforms, combining it with the growth of revenues.

Judging by the tax administration in 2022-24 from the goals set by the strategy and the speeches of the Chairman of the SRC published on the website [www.taxservice.am](http://www.taxservice.am), it can be concluded that the primary directions of reforms in the coming years will be the rapid increase in the volume of services provided to taxpayers and the continuous improvement of their quality, the effective management of human resources, the implementation of the electronic management system full implementation, as well as the implementation of modern mechanisms of tax control, and strengthening of taxpayers' self-declaration<sup>1</sup>:

In many countries, tax revenues lost as a result of the "shadow economy" represent a very important component of the tax gap, where the tax gap is the difference between actual and potential tax revenues. Although the shadow economy has been recognized by many superpowers as a risk to their revenues, the extent of the shadow economy by its nature is difficult to determine. Nevertheless, as a result of the huge budget deficit caused by the fall of the GDP in RA in some years, the active measures taken by the Government to increase the degree of transparency of businessmen's income led to the fact that the volume of the shadow economy [Schneider, et al., 2020] significantly decreased and, as the Armenian office of the World Bank defined, made up about 35-40% of the GDP in the republic<sup>2</sup>. For comparison, we consider the volumes of the shadow economy of Armenia's immediate neighbors, Georgia and Azerbaijan, which make up 72.5% and 69.6% of the GDP, respectively. At first glance, from the comparison, it can be concluded that the situation in the Republic of Armenia was not so bad, because it was in a more favorable position than its two immediate neighbors in terms of the volume of the shadow economy by about 30%, however, 50% and even 35-40% [Schnider. Et al., 2020] the shadow economy that we have now is considered an extremely negative phenomenon, and the economic policy of any country should be aimed at reducing its volume. It is noteworthy that the USA, Switzerland and Austria have the smallest volumes of the shadow economy, which are 9%, 9.1% and 10.1%, respectively<sup>3</sup>.

Tax planning, audits, improvement of information systems, increasing the degree of attitude of taxpayers towards their responsibilities to pay taxes, increasing the degree of qualification of tax authorities employees and, of course, improving the quality of

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<sup>1</sup> <http://taxservice.am/>

<sup>2</sup> <http://news.am/eng/news/22759.html>

<sup>3</sup> Ibid

services provided to taxpayers are among the tools known to tax professionals that increase the efficiency of tax administration.

Improving the quality of service provided to taxpayers has been recognized by the tax authorities of many countries as an important factor contributing to the voluntary fulfillment of their tax obligations by taxpayers and, therefore, also to the reduction of the volume of the shadow economy.

It is appropriate to mention that the mission of the RA Tax Authority is to ensure the revenues of the RA state budget controlled by the tax authority through the full and equal application of tax legislation and the effective use of existing resources, and the vision of the tax authority is a policy strategy for the improvement of tax administration in the long term. aiming to have a radically new system. From this point of view, the focus of the tax administration system on providing high-quality services to taxpayers, which will lead to the rooting of the voluntary tax payment/self-assessment/ system, is very important<sup>1</sup>. It is noteworthy that the adopted tax administration 2022-2024. in the strategy, "increasing the quality of tax payers' service" was a defined primary goal, within the framework of which the tax authority carried out significant work during that period in the direction of introducing the principle of voluntary tax payment/self-assessment. In order to achieve the result set by the above strategy, the works were carried out in the following directions:

- submission of reports electronically through automated notification system,
- expansion of taxpayer service centers,
- improvement of clarification mechanisms.

As a result of the works carried out in the above-mentioned directions, the tax authority achieved significant successes, in particular:

- the concept of the implementation of the electronic management system was approved, based on which the basic operation of the electronic system for submitting tax reports is implemented as a result of the works carried out;
- the electronic reporting service center started to operate;
- taxpayer service centers were created;
- a new procedure for providing clarifications on the provisions of legal acts regulating relations with taxes, duties and other mandatory payments began to operate.

The results described above were certainly important steps towards the introduction of the institution of self-declaration. It is significant that along with achieving the mentioned results, certain problems aimed at ensuring the full application of the self-assessment system were also highlighted, the main ones being:

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<sup>1</sup> <http://taxservice.am/>

- rather high expectations of taxpayers from the service sector; the tax authority is still unable to provide complete, quality and timely service to taxpayers;
- expanding the system of receiving reports electronically for taxpayers who are not considered VAT payers as defined by Article 3 of the RA Law "On Value Added Tax";
- existence of problems in providing up-to-date information to taxpayers through media, website, service centers and other means.

"Increasing the quality of taxpayer service" as a strategic goal was also fixed for 2022-2024. in the tax administration strategy, from which it can be concluded that the tax authority in 2022-2024. within the framework of tax administration reforms, priority will be given to increasing the quality of service to taxpayers, which will lead to the rooting of the principle of voluntary tax payment, taking into account the fact that the introduction of the voluntary tax payment system is the most important basis for having a tax authority that applies effective administration. This will create an opportunity for the tax authority to minimally intervene in the process of tax calculation and payment, and will help to avoid the need to calculate the taxpayer's tax obligations by other methods as much as possible<sup>1</sup>. Taking into account the problems aimed at ensuring the full application of the self-assessment system, in order to solve the issues described above, the tax authority has defined the following three sub-goals aimed at achieving the stated strategic goal<sup>2</sup>:

1. defining new ways of providing services to taxpayers, which will ensure low reporting costs and high efficiency,
2. provision of an effective system of taxpayer awareness,
3. ensuring effective cooperation with the public.

At the same time, the 2022-2024 tax administration in order to have a summary assessment of the performance of the stated strategic goal, the expected results of the tasks aimed at achieving its sub-goals and the performance indicators were also defined, which would enable to determine whether the tax authority was able to achieve its goals and whether the actual actions it carried out were in line with its mission and goals :

It is essential that the performance indicators for the mentioned sub-goals are: in line with the first sub-goal, the increase in the number of electronically provided services by the tax authority, taxpayers who use electronic services among general taxpayers and the number of users of the electronic reporting system on a voluntary basis, in the second sub-goal, the number of taxpayers applying to service centers and telephone call service centers, users of the official website of the tax authority and the increase in the number

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<sup>1</sup> Tax administration strategy for 2022-2024

<sup>2</sup> Tax administration strategy for 2022-2024

of taxpayers included in the training events organized by the tax authority, the increase in the number of events related to tax legislation and administration with the participation of public and professional organizations in line with the third sub-goal.

Nevertheless, it is necessary to note that with the performance indicators described above, tax administration in 2022-2024. In our opinion, the evaluation of the performance of the goal of increasing the quality of taxpayers' services set in the framework of the strategy will not be so unsatisfactory, because only quantitative growth cannot give an assessment of the improvement of the quality of services provided to taxpayers, for example, the increase in the number of electronically provided services and the number of taxpayers applying to service centers. in itself does not speak of an increase in the quality of service, because there is a possibility when the number of electronically provided services increases, but their users are not so satisfied, or the number of taxpayers who turn to service centers increases, but they do it out of necessity.

**Conclusion** Thus, in order to get an accurate idea of the performance evaluation of the mentioned strategic goal, it is recommended to apply, along with the mentioned performance indicators, an evaluation of the service quality of taxpayers through an independent professional body, which will conduct surveys among representatives of tax associations and public unions, in order to find out the opinion of taxpayers about the services provided. Of course, the questionnaires should be comprehensive and targeted, so that it is possible to find out the reasons for taxpayers' dissatisfaction.

It is recommended to carry out the above-described assessment of the quality of tax services by independent research centers on an annual basis. This will create an opportunity to follow the dynamics of the work of the tax authority - public assessment over time and to put forward specific goals related to the quality of service, for example, such a goal could be to increase the quality of services provided by the tax authority to at least 90% by 2025.

On the other hand, so that the tax authorities do not receive information only once a year, we consider it necessary to organize regular inquiries about the quality of services provided to taxpayers by the tax authority itself, and to do this mainly within the framework of that strategic goal in the policies, procedures and approach necessary to achieve the desired results. in order to make changes. In our opinion, these surveys can be conducted in several ways.

- during seminars,
- during inspections,
- through the official website of the State Tax Service of the Republic of Armenia .

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#### Contemporary trends in tax administration aimed at reducing the shadow economy

*Key words: shadow economy, taxation middle term projects, electronic service, taxpayers*

It is obvious that the shadow economy is being fought in almost all countries, because the shadow economy causes negative consequences at many levels, the most important of which are:

- the government suffers huge revenue losses, which directly affect the level of public debt and threaten its ability to provide services and finance programs that meet the demands of society;
- some people have to pay for others. Law-abiding people shoulder a "heavier" tax burden than they should because they pay for those in the shadow economy;
- those businessmen who fulfill their tax obligations find themselves in unfavorable competitive conditions.

Realizing the above, state authorities have been fighting against the shadow economy in Armenia for a long time. The need to improve the tax administration was constantly emphasized, which should be aimed at significantly reducing the volume of the shadow economy. Management of financial processes (correct calculation of taxes, disclosure of integrity) can be implemented not only through state coercion, but also through other legal and institutional tools.