

## TAXES: CHALLENGES BETWEEN REASONABILITY AND RESISTANCE OF THEIR PAYMENT

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### Abstract

Even though taxes are the main instruments of income of a state, when it comes to tax collection, however, human society continues to be deeply divided in terms of the need and reasonableness of paying taxes. The collected funds are used to invest in different public expenditure programs. Although taxes are an essential part of the *Organisation for Economic Co-operation and Development (OECD)* business, it nevertheless defines taxation as a mandatory payment without compensation to the government. If one fails to pay the taxes or refuses to contribute towards it will result in serious unforeseen consequences and disorders for the government. It has been proven that although people and companies seek and welcome the general benefits offered by the government through central and local government bodies and institutions, tax incentives still require incentives, even coercive measures, to persuade them to pay the tax fees that bind legal provisions. The main purpose of the author is through this study to provide a theoretical and empirical framework for the battle between reasonableness and resistance to paying taxes.

*Keywords:* tax, income, legal provisions, reasonableness, resistance.

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### 1. INTRODUCTION

Taxes are treated as involuntary payments paid by individuals or legal entities to the accounts of central or local government bodies and institutions, in order for the latter to finance activities in the general social interest. The taxation institute in terms of definition is covered by both legislation (domestic and international) and legal theory. The Law on Tax Procedure of North Macedonia defines taxes as: "Payments of taxpayers which must be paid without compensation, which serve the general good of the state and which are imposed on all taxpayers by law". The *Organization for Economic Co-operation and Development (OECD)* as a global organization that aims to promote economic progress and world trade, in its short list of activities has the treatment of the phenomenon of taxation of which it briefly defines as a mandatory payment without compensation to the government. Taxes lack compensation in the sense that government benefits for taxpayers are not normally in proportion to their payments. In this case, the notion of "tax" does not include fines not related to tax offenses and mandatory loans paid to the government.

In contrast to the definition given by the legislation, whether domestic or international, which mainly turns out to be shorter and more general, the theory attempts to expand to concretize the definition and interpretation of the tax institute. In the financial literature, different authors give different definitions of the meaning, reasonableness, need for and importance of taxes. Such definitions also vary and differ from the time and socio-economic system in which they are given.

Moreover, the notion of tax has been used since ancient times. In ancient Greece, as well as in ancient Rome, taxation was understood as submission to the winner, by which the tax liability was

equated with free citizenship. In the Dark Ages, individuals provided services to their feudal lords. Taxes existed at this time but were not in cash. In the Middle Ages in Northern Europe meets the term tax gift, which means the consent of the king's office to collect taxes.

The French Revolution influenced the acceptance of the term: obligation, tax, above all with the slogans: "The state is common property" and "Tax obligation is an honest duty" (Jovanovski, 2008). After the Revolution, the role of taxes in financial life and thus in economic life is growing more and more, causing three phenomena to emerge:

- Expanding the circle of persons (natural and legal) who share a part of their income to finance the needs and expenditures of the state;
- Increasing the number of tax forms with which those revenues are collected;
- Increasing the tax burden (Tafa-Bungo, 2003).

The tax system is also known in the field of tax regulation and study. The tax system can be defined as the number of tax forms used to achieve a country's tax policy objectives and operate within the economic, political, and social system. The term system means a structure that should distort the effects of certain elements, while the tax system is considered synonymous with tax chaos. In modern countries, there are tax systems with a variety of taxes called tax pluralism, which some countries recognize as a monistic tax system. Tax systems vary based on political, economic, and social circumstances, to a limited extent, sometimes more radical and comprehensive which represent tax reforms (Bexheti, 2007).

## **2. REASONABILITY OF TAX COLLECTION**

With the very fact of filing taxes, the need has arisen to answer the question of what right the state obliges its subjects to pay taxes. This is because fulfilling the obligation to pay tax, regardless of whether it is done in kind or cash, means reducing the economic power of the taxpayer and interfering with his private life and his economic activity. Paying taxes causes changes not only in the economic position but not infrequently in the social one of taxpayers. Finding an acceptable answer to the question of why the tax is paid, is focused on changing the negative attitude of citizens and enterprises to tax payment (Jelčić et. al, 2008).

The unintended consequences of paying tax for taxpayers result in their resistance to such payment obligations. For this reason, the burden of paying the tax, for the taxpayer constitutes a burden from which he tries to escape. Not only financial theorists but also others, including economists, philosophers, lawyers, sociologists, theologians, and psychologists, have written about the reasonableness of taxation. This has led to all theories about the reasonableness of taxation being presented at different times, but regardless of when and where they are presented, they relate to the specific period of implementation of the tax payment obligation. Given the argumentative wealth through which different authors justify the authorization for collection, respectively the obligation to pay tax, the following theories can be distinguished (Jelčić et. al, 2008):

- Theory of power;
- Price theory;
- Victim theory;
- Theory of tax reproduction;
- Organic theory;

➤ Socialist theory.

All attempts and actions to limit the reasonableness of tax collection-payment to only one theory and from one point of view, in time have turned out to be incomplete and incomplete. Today more and more the question is not asked nor is there a dilemma whether tatami should exist and be paid because taxes are rightly treated as a condition sine qua non for the existence and functioning of the state.

Moreover, as a rule, companies as the taxpayer can claim a tax deduction for the salary, wages, commissions, bonuses, and other compensation that you pay to your employees, provided the payments meet the following requirements. The compensation must be:

- Ordinary and necessary,
- Reasonable in amount,
- Paid for services actually provided, and
- Actually, paid or incurred in the year for which you claim the deduction.

### **3. OPPOSITION (RESISTANCE) TO THE PAYMENT OF TAX**

Observance of the obligation to pay taxes has the consequence of reducing the economic power of the obligor, respectively the taxpayer. Such a thing has caused resistance or opposition to the payment of tax by taxpayers. Therefore, the resistance to the payment of the tax is as old as the tax itself, while it has been strengthened by the character of the lack of destination, respectively the purpose of spending and investing the funds collected from the payment of taxes. The lack of direct compensation of the state to the taxpayer for the tax he pays, in the latter evokes a sense of resistance, which has resulted in the state using its force to force the payment of tax, which led to the acquisition of the obligatory character of the tax, because in the absence of continuous state binding force, they could not be secured in the collection of funds in the state reserves (Jelčić et. al, 2008).

Resistance to the payment of taxes and efforts to avoid or mitigate its effects that are present in all tax systems are observed in the payment of any form of tax. The intensity of resistance to tax payment depends on the degree of the tax burden. The higher the burden on the taxpayer, the higher the intensity of resistance to paying taxes. Therefore, the intensity of resistance to tax payment is not the same for all types of taxation.

For example, in direct taxes (income tax), the resistance to tax payment is greater than in indirect taxes (turnover tax or customs), because in the latter, the tax amount is calculated at the price of production or service, so that the taxpayer pays the tax in case of purchase of production or reception of certain service (Komoni, 2008).

Božidar Jelčić and others offer six features that set the process of resistance to paying taxes. First, the intensity of resistance during taxation is related to the amount of tax, so the increase of tax increases the resistance of the taxpayer. Second, the resistance is greater if there is an inequality in tax payment between taxpayers, respectively breaking the balance of the criterion of the principle of inclusion in taxation, which can create dissatisfaction among certain groups of taxpayers. Third, resistance to tax payment also depends on the state's intention to spend the funds collected through the tax. Fourth, the tax morality of taxpayers themselves has an impact on the resistance of taxpayers, but also the fear of various penalties provided by law in case of disobedience for voluntary compliance with the obligation to pay tax. Fifth, the resistance to tax

payment also depends on the form and technique of taxation applied. Sixth, insufficient professionalism, lack of conscience, and objectivity of the tax administration, as well as its attitude towards taxpayers, leads to resistance to tax payment (Jelčić et. al, 2008).

#### **4. TAX PAYMENT AVOIDANCE (TAX EVASION)**

Given the fact that the payment of tax reduces the economic power of the taxpayer, but may also change his social status, pushes the taxpayer to resist, and ultimately to evade payment of tax partially or completely. As such, this phenomenon is not only a problem of modern society but has its roots deep in the institutionalization of the tax liability itself. Tax evasion depends on many factors, such as: tax system, tax burden, educational structure, tax discipline and awareness of the residents, professionalism of the tax administration, the system of sanctions against those who do not meet their tax payment obligations, tax morality, etc. (Jelčić et. al, 2008).

Tax evasion is present to a greater or lesser extent in all tax systems. If the taxpayer evades the payment of the tax, violates the legal provisions, then there is talk of illegal tax evasion. However, the payment of tax can be avoided in such a way that the taxpayer does not violate the legal provisions, and in this case, we are dealing with legal tax evasion. According to this, it turns out there are two types of tax evasion: illegal evasion (illegal) and legal evasion (permissible). In the financial literature today, the term "avoidance" is increasingly used for legal evasion, while the term "evasion" is used to refer to illegal evasion. Legal avoidance includes any attempt through legal means to prevent or decrease (reduce) tax liability that would otherwise be in force, taking advantage of certain provisions or the lack of certain provisions in tax legislation. On the other hand, illegal evasion includes actions taken with the aim of evading or reducing the tax liability, actions which conflict with the provisions of tax legislation (Webley, 1991).

##### **(a) Illegal avoidance**

This form of avoidance is a violation of laws and other legal acts which provide and regulate the obligation of tax payment. Such avoidance is sanctioned by the Criminal Code: "A person who intentionally or through someone else avoids in whole or in part the payment of tax [...] provides false information about his income, items or other facts relevant to the determination of the value of such obligations or one who intentionally in the case of compulsory filing does not present income [...], while the amount of the obligation is of a greater value, shall be punished by imprisonment of six months to five years and with a monetary penalty (fine)".

In addition to the general provision contained in the Criminal Code, it should also be noted that sanctions are provided in other laws in the field of tax regulation. Thus, according to the Law on Profit Tax: "A fine in the amount of ten times the amount of lowest paid tax in accordance with the provisions of this law, will be imposed on the taxpayer for the violation committed if to determine the basic tax and tax reliefs in the tax return form records inaccurate data in which case has come to determine the smallest tax base.

A fine in the amount of 30% of the fine imposed on the legal entity shall be imposed on the responsible person in the legal entity for the aforementioned violation. For the violation in question, in addition to the fine, the perpetrator of the violation will be imposed a misdemeanor sanction, a temporary ban on exercising the activity for a period of 3 to 30 days, while the responsible person in the legal entity, a ban on exercising the profession, activity or responsibility in a period of 3 to 15 days. According to the Law on Personal Revenues: "A fine in the amount of 3,000 Euros in MKD equivalent for the violation committed will be imposed on the taxpayer if: (a) he does not calculate the tax and does not pay it to the appropriate account; (b) does not fulfill the obligations from article 85 of this law. A fine in the amount of 30% of the fine imposed on the

obligor will be imposed on the person responsible in the legal entity for the aforementioned violation". According to the Law on Value Added Tax: "A fine in the amount of 1,200 Euros in MKD equivalent for the violation committed will be imposed on the taxpayer - legal entity and individual trader if he submits an application for registration of value-added tax after expiration of the foreseen term. A fine in the amount of 30% of the fine imposed on the legal entity and the individual trader shall be imposed on the responsible person in the legal entity and the responsible person in the individual trader for the violation. For the above-mentioned violation, the natural person - the taxpayer will be fined in the amount of 120 to 180 Euros in MKD equivalent".

(b) Legal avoidance

Legal avoidance means avoiding tax liability by not violating the law or any other legal act, but by exploiting the gaps that can be found in laws or other legal acts, in which case it reduces or avoids the payment of tax altogether. As such, the avoidance in question is not considered a violation nor a criminal offense (Murray, 2012). Law provisions in particular and legal provisions in general, may be incomplete, inaccurate, unregulated, and contradictory for different types of tax, make it easier, and even encourage the taxpayer to avoid paying tax in whole or in part so that the taxpayer always tries to present his expenditures as large as possible, and revenues as small as possible, to avoid paying tax or ultimately reduce the tax liability (Komoni, 2008).

There are various forms of legal avoidance of tax payment, the most common of which are:

- The taxpayer changes the place of residence (if it is a natural person) or the headquarters or place of business (if it is a legal entity);
- Decreasing or reducing the use of certain products;
- Vertical concentration in the economy, usually in cases of multi-phase taxes;
- Exploiting the weaknesses of tax systems in a "double" sense.

## 5. Conclusion

To support the process of financing activities and services of public-social interest, but also to build and maintain infrastructure in a country - the government usually imposes taxes on its residents, including citizens as natural persons, but also companies as legal persons. Paying taxes is an inevitable part of the life and existence of citizens and companies, helping to set up every sector of a country through the provision of services and general goods.

The taxes collected will then be used to improve the economy and well-being of all citizens and traders operating and living in it. To accomplish the purpose of tax collection, governments establish special bodies in the form of agencies or departments authorized to enforce the tax payment. When determining the amount of taxes, governments are guided by several factors, including the taxpayer registration status - married, single, or head of household. The status that a person has can make a significant difference in how much is taxed. Payment of taxes at state-imposed rates is mandatory and tax evasion - deliberate avoidance to pay tax liabilities in full - is punishable by law. The most common reason given by taxpayers who do not pay taxes is their protest to know how the government spends their money, with the main motive because they do not want their money to be spent on war and military armaments.

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