

The interaction between tax evasion and tax supervision: Between deterrence and compliance

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Abstract---This study aims to highlight the complex relationship between tax evasion and tax oversight, focusing on the impact of regulatory measures in reducing evasion rates and enhancing tax compliance. It addresses the concept of tax evasion, its forms, and underlying causes, alongside a review of the tools and methods of tax supervision and their role in supporting the national economy. The study also analyzes the challenges faced by effective oversight, such as financial manipulation and technological advancements, while examining successful international experiences in this field. The study concludes with a set of recommendations to strengthen tax supervision, including digital transformation and the cultivation of a robust culture of tax compliance, in order to establish a more equitable and stable tax system.

Keywords---Tax supervision, tax evasion, tax avoidance, taxpayer, tax compliance.

Introduction

Tax evasion is one of the most critical challenges facing financial systems worldwide due to its detrimental impact on government revenues and economic stability. Conversely, tax supervision serves as the fundamental mechanism to combat this phenomenon and ensure tax compliance, thereby promoting social equity and achieving fiscal balance. Effective tax oversight requires an integrated approach that combines stringent legislation, advanced technological tools, and enhanced tax awareness among individuals and businesses. Within this framework, the present study aims to examine the concept of tax evasion, its causes and methods, with a particular focus on the role of tax supervision in curbing its prevalence and fostering a more efficient and equitable tax system. However, the question remains:

Is tax supervision alone sufficient to balance the rights of the state with the obligations of taxpayers?

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To address this issue, it can be broken down into the following sub-questions:

- What are the primary causes and various forms of tax evasion?
- How does tax supervision influence the reduction of tax evasion rates?
- What are the main challenges faced by tax supervision in light of recent developments?

Study Hypotheses:

Based on the above questions, this study tests the following hypotheses:

Main Hypothesis:

The effectiveness of tax supervision has a direct impact on tax evasion rates, whereby advanced and comprehensive oversight contributes to reducing evasion and enhancing tax compliance, while weaknesses in supervision lead to the spread and exacerbation of the phenomenon.

- Hypothesis One: Tax evasion is primarily attributed to a lack of tax awareness and the complexity of tax regulations.
- Hypothesis Two: Effective tax oversight enhances tax compliance and reduces attempts at evasion.
- Hypothesis Three: Technological advancements and financial innovations contribute to increasing the complexity of combating tax evasion.

1. Tax Evasion:

The issue of tax evasion is significant due to its adverse effects across various sectors. To provide a comprehensive understanding of its concept and fundamentals, the following is presented:

1.1 The Nature of Tax Evasion:

Several definitions of tax evasion have been proposed by researchers, each reflecting their disciplinary perspective and viewpoint. Generally, some of these definitions are as follows:

1.2 Linguistic Concept of Tax Evasion:

The synonyms for tax evasion vary in both Arabic and English. In Arabic, the term *taharrub* (evasion) implies to flee. In English, most public finance literature agrees that the term *Evasion fiscale* denotes tax evasion, though its meaning varies across sources. Multiple terms are used, such as *Tax Evasion*, meaning tax fraud, and *Tax Avoidance*, referring to tax avoidance strategies (Khalaf, 2017, p. 264).

1.3 Scientific Concept of Tax Evasion:

Tax evasion is a negative phenomenon that has attracted considerable attention from researchers, who have also focused on methods to combat it. To develop these methods, it is necessary first to understand and define tax evasion scientifically, as follows:

- Delahaye Thomas defines it as the taxpayer's effort to eliminate tax liability without violating tax law, by creating situations that legally enable such avoidance. (Rahhal & Mouwaffaq, 2018, p. 243).
- Dr. Faleh Al-Ali defines it as a phenomenon whereby the taxpayer attempts to avoid paying tax either wholly or partially after the taxable event has occurred. (Torsh, 2012, p. 11).
- Tax evasion refers to the behavior by which a legal taxpayer attempts to avoid paying all or part of the due tax without transferring the tax burden to another party (Doua, 2016, p. 105).

From these definitions, it can be concluded that tax evasion is an act by which the taxpayer seeks to evade payment of taxes owed, either fully or partially. This evasion may involve legally permissible methods not punishable by law or fraudulent practices that are punishable. This distinction leads us to differentiate between two forms of tax evasion:

- **Tax Avoidance (Legal Evasion):** This occurs when the taxpayer avoids tax liability or compliance without breaching tax legislation, typically by structuring income sources to exploit

loopholes within the law in a manner that does not contravene legal provisions (Aliemat, 2013, p. 20).

- Tax Fraud: This refers to the illegal total or partial non-payment of taxes due. It encompasses various forms, such as deliberate administrative errors in tax declarations aimed at reducing taxable income or inflating expenses (Yousfi, 2014, p. 30).

2. Causes, Effects, and Methods of Tax Evasion:

2.1 Causes of Tax Evasion:

The prevalence of tax evasion stems from various factors, some related to the external environment surrounding the taxpayer such as tax legislation, economic conditions, and political context and others related to the taxpayer's individual characteristics. These causes are outlined as follows:

2.1.1 Causes Related to the Tax System:

Several legislative factors contribute to the spread of tax evasion. Among the most prominent are (Murad, 2010, p. 120):

- Heavy Tax Burden: A primary justification for individuals evading taxes is the excessive tax burden. When the tax liability exceeds taxpayers' expectations and psychological readiness to bear it, the heavy burden drives them to evade taxes.
- Complexity of the Tax System: Taxes that require numerous and complicated procedures, whether during calculation, assessment, or collection, encourage taxpayers to evade their obligations.
- Weakness of Penalties Imposed on Evaders: The severity of penalties imposed by the state significantly influences tax evasion. Taxpayers assess the risk involved; if the penalty exceeds the financial gain from evasion, they are deterred from evading. Conversely, if the penalty is less than the potential gain, or absent altogether, evasion becomes widespread.
- Instability of Tax Legislation: Frequent changes in tax laws create ambiguity due to overlapping regulations and undermine taxpayers' trust in the tax system, thereby increasing the propensity to evade taxes.
- Weak Tax Enforcement: When taxpayers perceive tax oversight as weak or non-existent, their inclination to evade taxes rises substantially.

2.1.2 Political Causes:

Government expenditure policies play a crucial role in tax evasion. When public spending is directed toward beneficial uses, taxpayers feel their contributions yield returns, which reduces evasion. Conversely, misappropriation or waste of tax revenues by the state increases tax evasion (Al-Oday & Abdullah, 2013, p. 38).

2.1.3 Economic Causes:

The prevailing economic conditions in society significantly affect tax evasion. Generally, taxpayers are less resistant to paying taxes during times of economic prosperity and high income, when liquidity is ample; thus, tax evasion tends to decrease. In contrast, evasion increases during economic downturns and crises (Najib, 2018, p. 122).

2.1.4 Causes Related to Tax Administration:

The presence of an effective tax administration is directly linked to controlling and minimizing tax evasion. Inefficiency in tax administration often results from inadequate resources, lack of qualified personnel, and the absence of material and moral incentives for staff, which in turn fosters corruption and facilitates evasion (Lachlah, 2016, p. 284).

2.1.5 Causes Related to the Taxpayer:

A prevailing perception among taxpayers in many societies is that taxes represent a tool for exploitation and impoverishment. This view often stems from historical experiences inherited from colonialism for example, the French colonial administration in Algeria used taxes as a means to plunder individuals' wealth. Such historical grievances have led to widespread distrust of taxation, with many perceiving it as unjust and restrictive of their freedoms. Some taxpayers also question the fairness of the tax system. For instance, comparing two companies one a limited liability company (LLC) and the other a partnership illustrates perceived inequities: the LLC pays corporate tax on profits, and then shareholders pay personal income tax on dividends, resulting in double taxation. Meanwhile, partners in the partnership pay only one layer of tax on their income. Taxpayers in the first scenario may feel the system is unfair and thus attempt to evade one of the two taxes (Boudlal, 2013, p. 217).

3. Effects of Tax Evasion:

Among the most significant consequences resulting from tax evasion are the following:

3.1 Financial Effects:

Financial constraints represent one of the most critical obstacles to any developmental strategy or economic recovery program. Achieving objectives and accomplishments is closely linked to securing adequate funding. Given the vital role of regular taxation in financing the public treasury as a primary revenue source, tax evasion directly undermines this foundation. Evasion results in a substantial loss of financial resources for the state, thereby hindering its ability to carry out public expenditure effectively. A shortage of funds in the treasury leads to a partial inability of the government to implement beneficial projects. In its developmental path, the state relies on revenues and resources to cover its expenses, and a deficit in these resources causes financial imbalance and budgetary shortfalls. A balanced budget requires that revenues match expenditures, a condition often unmet in many developing countries that heavily depend on indirect taxes related to consumption and spending, which are difficult to regulate and considered inequitable. Budgetary gaps frequently stem from reduced tax revenue due to evasion. To compensate for these deficits and financial imbalances, governments may resort to alternative funding sources, which typically exert pressure on economic development. These include monetary issuance or borrowing from domestic or international sources to cover the shortfall caused by reduced revenues due to tax evasion. Such measures often lead to inflation of various forms and consequent deterioration in citizens' living standards, as their purchasing power declines due to austerity policies involving cuts in public spending and postponement of certain projects. Moreover, tax evasion contributes to reduced exports, causing difficulties in obtaining foreign currency, disrupting social balance among different societal groups, and fostering the emergence of black markets, which place additional burdens on the balance of payments. In cases of external borrowing, future generations bear the responsibility of repaying these debts, compelling the state to secure necessary financial resources for debt servicing. This in turn puts pressure on public expenditure components and reduces the purchasing power of beneficiaries of such spending. Despite the state's reliance on borrowing or public debt, taxation remains the fundamental instrument for covering public expenses and plays a crucial role in generating budget revenues (Belouadhah & Saidi, 2014, p. 34).

3.2 Social Effects:

Tax evasion is a serious social issue that harms the national economy and undermines the government's ability to implement its fiscal policies and developmental goals. It leads to a loss of vital financial resources that the tax system should provide for the public treasury. Furthermore, the repercussions of tax evasion may manifest in increased burdens on certain segments of society, violating the principles of tax equity in practice and thereby encouraging further tax evasion behaviors (Bakr, 2015, p. 19).

4. Methods Used in Tax Evasion:

The ethics and practices within accounting and auditing professions have become critical issues attracting significant attention from institutions and organizations. Manipulation of financial data

whether through creative or non-creative accounting is classified as unethical behavior, despite sometimes being regarded as a form of sophisticated deception. Such manipulation can be challenging for internal or external auditors to detect, especially when conducted by a skilled accountant well-versed in these techniques.

There are various methods and approaches to tax evasion, ranging from advanced and technical means, such as creative accounting techniques, to more rudimentary methods employed by some accountants, such as underreporting income and revenues. Below, we outline the principal techniques used in creative accounting practices:

4.1 Income Statement: Divided into two categories (Hafi, 2019, p. 96):

4.1.1 Revenues:

Revenue manipulation includes:

- Accelerated revenue recognition, where revenue is recorded prematurely while the sale is still uncertain. According to accounting principles, revenue should be recognized only after the exchange of benefits is complete. In this method, revenue is recorded in accounting books before the actual completion of the sale and before the transfer of benefits.
- Recording fictitious revenue by registering false or fabricated income.
- Inflating revenues through one-time gains, where a company's management artificially increases revenues during a specific financial period by including unusual one-off items.
- Deferring current revenues to future accounting periods.

4.1.2 Expenses: Expense manipulation includes (Neqmoush, 2019, p. 714):

- Deferring current expenses to prior or future accounting periods, which may involve capitalizing ordinary operational costs, changing accounting policies, applying very slow depreciation, failing to record impaired assets, or reducing asset services.
- Accelerating and increasing expenses in the current accounting period by estimating future costs prematurely.
- Recording fictitious expenses by entering false or fabricated costs.
- Early recognition of purchase expenses before the purchase transaction is completed and before the exchange of benefits.
- Recording accrued expenses prior to actual payment or settlement.

4.2 Statement of Financial Position (Balance Sheet) (Neqmoush, 2019, p. 715):

Branches into:

- Intangible Assets: This involves the overvaluation of intangible asset items such as trademarks, along with accounting recognition of intangible assets in ways that contradict the principles and rules set forth in international accounting standards, such as the recognition of internally generated goodwill.
- Tangible Assets: This pertains to non-compliance with the historical cost principle in determining the value recorded in the balance sheet. It also includes manipulation of the commonly accepted depreciation rates for assets by reducing them below market-standard rates.
- Long-term Investments: For example, altering the accounting methods applied to long-term investments, such as switching from the cost method to the equity method.
- Current Investments: This includes manipulation of market prices used to value the securities portfolio, unjustified reductions in allowances for declines in cash-equivalent prices, failure to disclose cash items recorded, and manipulation of exchange rates used to translate cash items held in foreign currencies.
- Shareholders' Equity: This involves reducing shareholders' equity while increasing reserves.

- Inventory: This area is prone to manipulation and the use of creative accounting techniques, including the inclusion of obsolete and slow-moving inventory items in stock reports, manipulation of valuation prices, and unjustified changes in inventory pricing methods.
- Inflation of discretionary receivables and manipulation of allowance for doubtful debts.
- Manipulation of financial instrument valuation methods.

4.3 Cash Flow Statement:

The treatment involves the following (Hafi, 2019, p. 99):

Accountants may classify operating expenses as either investing or financing expenses, or vice versa. Such actions and practices do not affect or alter the final values.

4.4 Statement of Changes in Equity:

All components of this statement are susceptible to creative accounting practices through fictitious adjustments in increases or decreases in paid-in capital, earned capital, and attributed capital. These manipulations also extend to the revaluation of prior errors, losses from previous stock options, and balances of foreign currency (Neqmoush, 2019, p. 715).

5. Theoretical Framework of Tax supervision:

5.1 Concept of Tax supervision:

Henri Fayol defined control as: Verifying whether everything is proceeding according to the planned objectives, issued instructions, and established rules. Its purpose is to identify weaknesses or errors in order to correct them and prevent their recurrence. (Suleiman & Al-Qubailat, 1998).

Another definition describes tax supervision as the examination of declarations, records, documents, and supporting materials of taxpayers whether individuals or legal entities with the objective of verifying the accuracy of the information contained in their tax files. (Boulkhokh, 2002, p. 53).

Based on these perspectives, tax supervision can be defined as an organized process conducted by the tax authority towards taxpayers to investigate their overall tax situation, aiming to verify the accuracy and integrity of their tax records.

5.2 Objectives of Tax supervision (Aitour, 2012, pp. 82-83):

- Legal Objective: This involves ensuring that taxpayers' various financial transactions comply with relevant laws and regulations. To safeguard the legal framework, tax supervision emphasizes the principles of responsibility and accountability, aiming to penalize taxpayers for any deviations or violations intended to evade their tax obligations.
- Economic Objective: The tax supervision seeks to increase public treasury revenues, thereby enhancing the funds available for public expenditure, which ultimately contributes to the economic welfare of society.
- Social Objectives: These encompass two primary goals:
 - Achieving tax equity among taxpayers by establishing a fundamental principle of fairness, where all taxpayers are treated equally before the tax system.
 - Preventing and combating taxpayer misconduct in its various forms, such as evasion, negligence, or failure to fulfill tax obligations.
- Administrative Objective: Tax supervision plays a vital role in supporting the tax administration through the services and information it provides, which significantly enhance administrative efficiency and effectiveness. This can be summarized in two points:
 - Tax supervision helps identify deficiencies and flaws in existing legislation, enabling tax authorities to implement corrective measures.
 - Detecting irregularities and errors assists the tax administration in understanding their causes, assessing their impact, and making informed decisions to address resulting problems.

5.3 Forms of Tax Oversight (Hadjar, 2018, p. 35):

Tax oversight encompasses several forms that enable the administration to perform its duties effectively. These can be summarized as follows:

- Formal Control: This represents the initial stage of tax oversight and pertains to the tax declarations submitted by taxpayers. The tax inspector reviews the information declared by the taxpayer in terms of form and compliance with formal requirements, without delving into the substantive accuracy of the data.
- Document Review: Unlike formal control, this form involves a comprehensive examination of taxpayers' declarations, comparing them with information available to the tax authority. It also includes cross-checking data obtained from other administrative bodies related to transactions and contracts conducted between these entities and the taxpayer.
- On-Site Inspection: In contrast to document review, on-site inspection involves direct intervention by tax officers at the locations where taxpayers conduct their activities. The objective is to verify the accuracy and integrity of the declarations by conducting field examinations of accounting books, supporting documents, and relevant justifications, aiming to detect potential tax evasion. This process seeks to reconcile declared elements with actual conditions observed on the ground.

This investigative method involves two key procedures:

- Accounting Audit
- In-depth Investigation of the Overall Tax Situation

5.4 Rights and Obligations of Taxpayers Subject to Tax Supervision:

The following summarizes the rights and obligations of taxpayers subject to tax supervision (Ministry of Finance (Algeria) , 2022, pp. 8-10):

5.4.1 Rights:

- Prior Notification: Tax oversight procedures cannot be initiated without prior notification to the concerned taxpayer. A formal notice must be sent to the taxpayer subject to inspection, accompanied by a receipt confirming acknowledgment of the notification.
- Access to the Taxpayer Charter: Before commencing the inspection process, the tax officer is required to provide or send the taxpayer the Taxpayer Charter. This document clearly and concisely outlines the fundamental rules governing tax oversight, as well as the rights and obligations of taxpayers. The inspector must deliver this charter along with the inspection notice on the first day of the intervention.
- Right to Assistance from a Tax Advisor: Under penalty of nullity of the procedures, the taxpayer has the explicit right to appoint a representative of their choice during the inspection process for consultation or representation purposes. However, the presence of this representative is not mandatory during surprise inspections aimed at examining physical evidence that may lose value if inspection is delayed.
- Right to Access and Respond to Inspection Results: Regardless of the type of tax oversight conducted, the taxpayer has the right to review the detailed results of the inspection. The taxpayer may submit any comments or objections deemed necessary regarding these results within a period of 40 days.

5.4.2 Liabilities:

Taxpayers are required to observe and comply with certain obligations in order to benefit from granted rights and avoid penalties arising from non-compliance. These obligations primarily pertain to accounting duties that must be maintained by taxpayers, including:

- Implementing accounting practices that align with the content of the applicable accounting system;

- Maintaining accounting records mandated by commercial law, principally the general journal and inventory ledger, both of which must be kept in accordance with legally prescribed methods.

Additionally, there are other tax-related obligations concerning the organization of tax collection processes from taxpayers to tax authorities. Full adherence to the regulations and procedures imposed by the tax administration is essential, including compliance with the prescribed tax declarations and their deadlines.

Case Study of an Institution at the Sub-Directorate of Tax Control.

Directorate: Taxes of Wilaya of M'sila.....

Investigation Case No.: 08VP20

Taxpayer: XXXXXXXX

Retail Unit 316, Residence 03, Municipality of M'sila

Preliminary Notification No.: 2020/224

Dated: 13/10/2020

Number of Pages: (2/4)

Content of the Preliminary Notification

6. Introduction to the Tax-Regulated Entity:

The taxpayer, XXXXX, has been engaged in freight forwarding support activities since January 20, 2011, as registered in the commercial register under number 11 A 2853252. The business operates at retail address 316, Unit 03, Shop 02, Municipality of M'sila, with the taxpayer residing in the Municipality of Ouled Addi, Kabbala.

The taxpayer holds a registered tax file at the Ishbilia Tax Inspectorate under activity code XXXXX, and at the Ouled Draj Tax Inspectorate under residence code XXXXXXXXXX, with tax identification number XXXXXXXX.

6.1 Tax Status:

- Direct Taxes and Related Levies: The profits generated from the taxpayer's activity are subject to gross income tax according to Articles 02, 03, and 04 of the General Tax Code.
- Value-Added Tax (VAT): The activity is subject to VAT pursuant to Articles 01, 02, 21, 23, and 29 of the VAT Code.

6.2 Preliminary Investigations:

Tax-related information regarding the activity was collected from administrative and financial authorities under the tax administration's right to access, in accordance with Articles 45 to 63 of the Tax Procedures Law.

The taxpayer's activity was scheduled for a directed audit as part of the 2020 annual program and was officially notified by audit notice No. 92 dated March 16, 2020, accompanied by the Taxpayer's Charter pursuant to the provisions of Article 20 bis of the Tax Procedures Law. The audit focused on the categories of gross income tax and value-added tax.

6.3 Accounting Audits:

- Formally: The taxpayer does not possess the legal accounting records required under Articles 09 and 10 of the Commercial Code. A loss certificate was submitted, and consequently, an official report was drawn up documenting the absence of accounting records.
- Subsidiary Ledgers: These include the purchase ledger, bank ledger, cash ledger, and miscellaneous transactions ledger, all maintained via an organized computerized system.
- Substantively: Review of the customer account (Account 411) related to invoicing transactions for the taxpayer revealed that the accounting entries commence from the date of receipt as reflected in the bank statements.

6.4 General Evaluation of Accounting:

The taxpayer lacks the legal accounting records mandated by Articles 09 and 10 of the Commercial Code, and thus does not maintain statutory accounting. Based on the existing tax pathway reflected in the accounting entries recorded in the subsidiary journals and monthly declarations, it was observed that the taxpayer reports only the commission amount as turnover. However, the taxpayer's activity is classified under service providers rather than commission agents, which results in a mismatch between the recorded accounting information and the actual tax treatment applicable to this type of activity.

The turnover figure corresponds to the amounts received as evidenced in the bank statements, with the services provided by carriers considered the corresponding expense. It is noted that, as previously explained, the taxpayer acts as a transporter and forwards the full amount received in their bank account to the carriers, supported by invoices issued by them. The taxpayer regards their role as an intermediary between companies and carriers according to their tax and accounting declarations.

Given that the actual tax treatment does not align with the substance of the accounting entries, accounting records were excluded from the establishment of the various tax bases for this activity. The entirety of the turnover received is therefore subject to taxation.

Regarding value-added tax and the professional activity tax, due to the impossibility of verifying the turnover extracted from the accounting records which are based on a turnover figure different from the amount recorded in the bank statement and given that the accounting records are unconvincing, the automatic penalty method was applied in accordance with the provisions of Article 44-02 of the Tax Procedures Law.

7. Impact of Tax supervision on the Tax Base:

Documents submitted and accounting records reveal that all receipts recorded in the bank statement were transferred to transportation service providers engaged by the taxpayer. The taxpayer declared only the turnover corresponding to the commission received from these providers, rather than the total amount collected from the companies. Accordingly, profits were recalculated, considering the turnover to include the total invoiced amounts whether from the companies or the carriers while applying the automatic penalty method at a 10% margin rate.

Table 01: Impact of the Audit on Gross Income and Applicable Taxes

Item / Year	2016	2017	2018
Extracted Revenue Number	302,776,240	222,156,947	171,292,641
Declared Revenue Number	6,471,364	4,654,513	3,438,533
Difference in Revenue	296,304,876	217,502,434	167,854,108
Margin Rate	0.1	0.1	0.1
Declared Profit	2,897,913	4,034,140	1,504,786
Extracted Profit	30,277,624	22,215,695	17,129,264
Profit Difference	27,379,711	18,181,555	15,624,478
Extracted Tax	10,465,168	7,643,493	5,863,242
Declared Tax	882,270	1,279,949	394,675
Difference	9,582,899	6,363,544	5,468,567
Penalty Rate	0.25	0.25	0.25
Penalty Amount	2,395,725	1,590,886	1,367,142
Total	11,978,624	7,954,430	6,835,709

Source: Prepared by the researchers based on data obtained from the Sub-Directorate of Tax Oversight

Table 02: Impact of Oversight on Value-Added Tax

Item / Year	2016	2017	2018
Total Extracted Revenue Number	302,776,240	222,156,947	171,292,641
Declared Revenue Number G50 07%	6,417,901	3,770,495	3,438,532
Exempted Extracted Revenue Number	320,000	23,401,814	23,118,643
Extracted Revenue Number 17%	302,456,240	126,284,248	0
Extracted Revenue Number 19%	0	72,470,886	148,173,998
Tax Rate	0.17	0.19	0.19
Due Tax	51,417,561	35,237,790	28,153,060
Tax Eligible for Merging	0	0	0
Paid Tax G50	449,253	326,599	309,468
Tax Eligible for Deduction	50,348,178	34,313,096	27,423,252
Tax Payable	620,130	598,094	420,340
Penalty Rate	0.25	0.25	0.25
Penalty	155,033	149,524	105,085
Total	775,163	747,618	525,425
Rights	23,053,575		
Container Fine	5,763,394		
Total Rights Payable	28,816,968		

Source: Prepared by the researchers based on data obtained from the Sub-Directorate of Tax Oversight

7.1 Reassessment of the Tax Base:

Upon receiving the initial notification, the taxpayer engaged a tax advisor to mitigate the tax burden. In accordance with the provisions of the 2012 Finance Law amending Article 20 bis of the Tax Procedures Code, taxpayers have the right to request arbitration from the Provincial Director of Taxes concerning factual or legal questions related to the case under investigation. The tax advisor submitted objections regarding the taxpayer's tax situation.

Pursuant to the aforementioned legal provision, a meeting was held on December 17, 2020, at the premises of the Provincial Directorate of Taxes, under the supervision of the Director and members of the tax administration, to discuss the taxpayer's objections.

After reviewing the taxpayer's response and examining the tax file, the Provincial Director ruled as follows:

- The taxpayer's objection to using bank deposit receipts as turnover figures forming the basis for various taxes and fees was rejected, as the taxpayer's activity is categorized under service providers, not commission-based intermediaries.
- The taxpayer's objection concerning the profit margin was accepted, adjusting the profit margin to 3% instead of 10%. Consequently, the tax base was reassessed as follows:

Reestablishment of profits based on a 3% profit margin instead of 10%, according to the table below:

Table 03: Reassessment of Gross Income and Related Taxes

Item / Year	2016	2017	2018
Extracted Revenue Number	302,776,240	222,156,947	171,292,641
Declared Revenue Number	6,471,364	4,654,513	3,438,533
Difference in Revenue	296,304,876	217,502,434	167,854,108
Margin Rate	0.03	0.03	0.03
Declared Profit	2,897,913	4,034,140	1,504,786
Extracted Profit	9,083,287	6,664,708	5,138,779
Profit Difference	6,185,374	2,630,568	3,633,993

Item / Year	2016	2017	2018
Extracted Tax	3,047,151	2,200,648	1,666,573
Declared Tax	882,270	1,279,949	394,675
Difference	2,164,881	920,699	1,271,898
Penalty Rate	0.25	0.25	0.25
Penalty Amount	541,220	230,175	317,974
Total	2,706,101	1,150,874	1,589,872

Source: Prepared by the researchers based on information obtained from the Sub-Directorate of Tax Control

Table 04: Reestablishment of the Value Added Tax (VAT)

Item / Year	2016	2017	2018
Total Extracted Revenue Number	302,776,240	222,156,947	171,292,641
Declared Revenue Number G50 07%	6,417,901	3,770,495	3,438,532
Exempted Extracted Revenue Number	320,000	23,401,814	23,118,643
Extracted Revenue Number 17%	302,456,240	126,284,248	0
Extracted Revenue Number 19%	0	72,470,886	148,173,998
Tax Rate	0.17	0.19	0.19
Due Tax	51,417,561	35,237,790	28,153,060
Tax Eligible for Merging	0	0	0
Paid Tax G50	449,253	326,599	309,468
Tax Eligible for Deduction	50,348,178	34,313,096	27,423,252
Tax Payable	620,130	598,094	420,340
Penalty Rate	0.25	0.25	0.25
Penalty	155,033	149,524	105,085
Total	775,163	747,618	525,425
Rights	5,996,042		
Container Fine	1,499,010		
Total Rights Payable	7,495,052		

Source: Prepared by the researchers based on information obtained from the Sub-Directorate of Tax Control.

7.2 Summary of the Tax Status of the Taxpayer:

It is observed that the taxpayer was subject to significant tax supervision risk, as indicated in the initial notification. Consequently, the taxpayer decided to engage a tax consultant to attempt to mitigate or reduce the tax risks. The consultant reviewed the taxpayer's tax file and assisted in responding to the tax administration.

The tax base was initially very high, as reflected in the preliminary report prior to the tax consultation, but was subsequently reduced to a minimum level as shown in the final report following the consultation.

After submitting a series of objections regarding the nature of the activity and the automatic penalty estimated at 10% of turnover as a profit margin, the Tax Administration Board, led by the Provincial Director of Taxes responsible for arbitration and case resolution, convened. In the final notification, the board rejected the taxpayer's objections related to the type of activity on which the tax base was established but accepted the request to reduce the automatic penalty rate applied to turnover. The penalty rate was adjusted from 10% to 3%, and the tax base was recalculated accordingly on the basis of 3% of turnover.

The following table illustrates the difference in the tax situation before and after the tax consultation:

7.3 Tax Situation Before and After the Tax Consultation:

Table 05: Comparison of the Tax Status Before and After the Tax Consultation			
Tax Base Establishment	2016	2017	2018
Difference in Profit			
At 10% Rate	27,379,711	18,181,555	15,624,478
At 3% Rate	6,185,374	2,630,568	3,633,993
Difference in IRG Tax			
At 10% Rate	9,582,899	6,363,544	5,468,567
At 3% Rate	2,164,881	920,699	1,271,898
Difference in Penalties			
At 10% Rate	2,395,725	1,590,886	1,367,142
At 3% Rate	541,220	230,175	317,974
Difference in Total Rights			
At 10% Rate	23,053,575		
At 3% Rate	5,996,042		
Difference in Container Fine			
At 10% Rate	5,763,394		
At 3% Rate	1,499,010		

Source: Prepared by the researchers based on information obtained from the Sub-Directorate of Tax supervision.

It is observed that the total tax liabilities and penalties on the tax base before the tax consultation amounted to 23,053,575 DZD and 5,996,042 DZD, respectively. Following the tax consultation, these amounts decreased to 5,763,394 DZD and 1,499,010 DZD, respectively. This demonstrates the significant role of the tax consultant in mitigating the risks associated with tax supervisions.

Conclusion

In conclusion, tax evasion stands as one of the most significant challenges confronting the national economy, negatively impacting state resources and limiting its capacity to provide public services and achieve sustainable development. Tax evasion is not merely a legal violation but constitutes a breach of national loyalty, undermining trust between the state and its citizens and eroding the credibility of the tax system, thereby complicating efforts to ensure tax compliance. This underscores the critical role of tax oversight as an effective tool in combating this phenomenon. It serves as a protective shield for public revenues and directly contributes to enhancing financial transparency and equity.

Given the evolving and increasingly sophisticated methods of tax evasion, it is essential to advance oversight mechanisms and adopt cutting-edge digital technologies, such as big data analytics and artificial intelligence, to strengthen the capacity of relevant authorities to detect violations swiftly and efficiently.

Moreover, the importance of awareness and educational initiatives in fostering a culture of tax compliance cannot be overlooked. Different segments of society must recognize the vital role of taxation as a primary source of funding for infrastructure and social services. Reducing tax evasion also requires strengthening cooperation among government agencies, financial institutions, and the private sector, as effective information exchange helps close loopholes exploited by evaders. Additionally, tax

legislation must be continuously updated to keep pace with economic developments and impose deterrent penalties that ensure compliance with the law.

Ultimately, achieving a robust balance between deterrence and compliance demands a comprehensive vision and an integrated strategy that combines effective oversight, public awareness, and ongoing modernization of legal and technological frameworks. Through this balance, countries can safeguard their financial resources, promote social justice, and foster a more stable and investment-friendly economic environment. Therefore, the greatest challenge remains transforming tax supervision from a mere monitoring tool into a genuine partner in building a strong and sustainable economic future.

Study Findings:

- Tax supervision contributes significantly to recovering concealed tax revenues.
- The study confirms that tax evasion poses a major threat to the stability of the economic system by undermining public revenues and adversely affecting social equity.
- Effective tax supervision plays a pivotal role in reducing evasion rates but faces multiple challenges, including complex financial technologies and the rapid evolution of evasion methods.
- Cooperation between government bodies and the private sector enhances supervisory effectiveness and limits loopholes exploited by evaders.

Study Recommendations:

- Promote the use of advanced technologies in tax supervision, such as artificial intelligence and big data analytics. Implement internal tax advisory services within economic entities to assess tax efficiency.
- Update tax legislation to align with ongoing economic and technological changes.
- Intensify awareness campaigns to foster a culture of tax compliance among individuals and businesses.
- Strengthen international cooperation for the exchange of financial information to detect cross-border tax evasion.
- Enforce stricter penalties on offenders to increase deterrence and achieve tax justice.

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