THE ESSENCE OF FINANCIAL SANCTIONS AS A MEASURE OF ACCOUNTABILITY FOR TAX EVASION

ALIYEVA Asmar Alimusa gizi - Doctor of Philosophy in Law, Associate Professor, Head of the Department of "Civil Procedure and Commercial Law" of the Faculty of Law of Baku State University

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Financial sanctions are a fundamental tool to ensure compliance with tax obligations and combat tax evasion. This article explores the essence of these sanctions from a multidimensional perspective, highlighting their corrective, preventive and educational role. It also analyses how they contribute to fiscal sustainability and tax equity, while strengthening the legal framework and confidence in the tax system. Finally, the principles of proportionality and gradualness in their application are examined to ensure their effectiveness and legitimacy.

Keywords: financial, tax, sanctions, system, state.

Introduction

Tax evasion represents a critical challenge for tax systems around the world. In addition to eroding public revenues, it undermines fairness and generates distrust in institutions. In response, States implement financial sanctions as a measure of accountability for those who fail to comply with their tax obligations. Financial sanctions are restrictive measures applied to individuals or legal entities in order to limit their activities and exert pressure and influence on them. These sanctions have a dual function: to repair the economic damage caused to the public purse and to deter future evasive behavior. But what is the essence of these sanctions in terms of their purpose, design, and application? This article addresses this question, highlighting the key aspects that justify and guide their existence.

The nature of financial sanctions in the tax context

Financial sanctions in the tax field are economic penalties imposed on taxpayers who, deliberately or through negligence, fail to comply with their tax duties. These sanctions range from fines proportional to the amount evaded to surcharges and late payment interest that seek to compensate for the time elapsed without due payment. According to some experts, the development of the typology of taxpayers shows that the same tax rules can have different compliance effects [1, p. 119]. Beyond their pecuniary nature, their essence lies in their ability to balance the tax system.

1. Corrective and Reparative Function

One of the main purposes of financial sanctions is to repair the damage caused by tax evasion. This involves not only recovering the tax evaded, but also compensating for the economic losses resulting from non-compliance. Sanctions ensure that taxpayers do not obtain undue advantages over those who comply with their obligations.

The tax system, as the basis of public financing, depends on the correct collection of taxes. However, failure to comply with tax obligations - whether through omission, negligence or fraud - represents a significant challenge. Financial sanctions arise as a response to this problem, with a design that integrates corrective and remedial aspects. Financial sanctions in the tax context are economic penalties imposed on taxpayers who violate tax regulations. These penalties aim to correct improper behavior, restore

confidence in the tax system and compensate for losses suffered by the State due to noncompliance. They guide the behavior of taxpayers, promoting voluntary compliance with their obligations. They compensate the treasury for economic damages and seek to restore the fiscal balance affected by the violation. The corrective function of tax sanctions focuses on modifying the behavior of taxpayers, both individually and collectively [2, p. 11]. This aspect is based on principles of deterrence and prevention. The offender, when facing a sanction, internalizes the cost of his improper behavior, which reduces the probability of recidivism. The public imposition of sanctions creates an exemplary effect, discouraging other potential offenders. For example, fines for late or under-reporting income not only correct the conduct of the affected taxpayer, but also reinforce the perception that tax rules are strict and compliance is imperative. In this sense, sanctions function as a mechanism to strengthen confidence in the tax administration and the perception of tax justice.

According to Article 57.1 of the Tax Code of the Republic of Azerbaijan, a financial sanction in the amount of 40 (forty) manats shall be imposed on the taxpayer by the decision of the head of the tax authority (his/her deputy) for failure to submit a tax report within the established period without justification by a taxpayer who carries out taxable or tax-exempt (non-taxable) transactions for the reporting period [3].

For non-payment of some taxes on time, a financial sanction of 25 (twenty-five) percent of the amount due is envisaged. For example, let's say an individual wins 50,000 (fifty thousand) manats in a lottery. According to Article 101.5 of the Tax Code of the Republic of Azerbaijan, that individual must pay tax in the amount of 10 (ten) percent of the prize, i.e. 5,000 (five thousand) manats. If the person in question fails to pay the tax of 5,000 (five thousand) manats on time, a financial sanction in the amount of 25 (twenty-five) percent of 5,000 (five thousand) manats will be imposed - 1250 (one thousand two hundred and fifty manats) in accordance with Article 58.1-1 of the Tax Code of the Republic of Azerbaijan.

The Constitutional Court of the Republic of Azerbaijan "On the Interpretation of Articles 49.3 and 49.6 of the Tax Code of the Republic of Azerbaijan" dated August 6, 2002, stated that although the amount of money to be transferred to the state budget is in the personal property of the taxpayer, he/she does not have the right to dispose of that money as he /she wishes and must regularly transfer this money to the state. Otherwise, the rights and legally protected interests of other individuals, as well as the state, would be violated. Even if the amount of money, that is payable to the state budget, is within the private property of the taxpayer, he/she cannot dispose of this money at his/her discretion and this amount should be paid to the state. Otherwise the interests of other persons as well as the interests and rights of the state, protected by the legislation, would be violated [4].

The Decision of the Plenum of the Constitutional Court of the Republic of Azerbaijan dated March 17, 2016 stated that the obligation to pay taxes reflects the general interests of society. The state has the right to take measures to regulate tax relations in order to protect the rights and legitimate interests of not only taxpayers, but also other members of society, and must implement such measures. Therefore, tax collection should not be considered as an unjustified deprivation of the taxpayer's property, but as a lawful seizure of a certain part of his/her property arising from constitutional duties. Duty to pay taxes reflects common interests of society. State has a responsibility to take measures as to regulation of tax relations with a view of protection of lawful rights and interests with respect to not only taxpayers but also other members of society. Therefore tax withholding should be regarded not as the groundless deprivation of taxpayer of his/her property, but as a lawful taking of fixed part of property, that is the constitutional duty [5].

In addition to minimizing burdens, withholding regimes can also reduce misreporting and underpayments, as principals or intermediaries responsible for forwarding taxes to the administration have no right over the respective amounts [6].

In addition to correcting conduct, tax sanctions play a restorative role. Tax non-compliance generates a loss of public resources, which affects the State's ability to finance essential goods and services. The restorative function aims to ensure that all taxpayers comply with their fair share of the tax burden through the payment

of surcharges, interest and fines proportional to the damage caused. For example, in cases of tax evasion, sanctions include both the amount owed and accrued interest and, sometimes, additional fines. This prevents offenders from obtaining undue benefits over compliant taxpayers. The design and application of tax sanctions must respect fundamental principles, such as proportionality, legality and transparency:

1. Proportionality: Sanctions must be related to the seriousness of the infringement and the damage caused.

2. Legality: All sanctions must be previously established in the applicable tax regulations.

3. Transparency: The sanctioning process must be clear and guarantee the taxpayer's right to defense.

The balance between these principles ensures that sanctions fulfill their corrective and reparative functions without generating disproportionate effects or contrary to fundamental rights. Complex and cross-border practices make it difficult to identify and sanction offenders. The perception of fairness in their application is key to strengthening the legitimacy of the tax system. In the 1980s and 1990s, many empirical studies used data from the Taxpayer Compliance Measurement Program [7]. The digitalization of economic transactions requires sanctions adapted to new forms of non-compliance. In this sense, tax systems must evolve to ensure that sanctions remain effective in their dual function. Financial sanctions in the tax field are more than punitive tools; They represent a comprehensive mechanism to promote compliance, compensate the public purse and strengthen tax equity. By balancing their corrective and restorative functions, these sanctions contribute to the development of a fair and sustainable tax system. Appropriate design and equitable application of these measures are essential to meet contemporary challenges and maintain citizens' confidence in the tax system.

2. Preventive and Deterrent Function

The certainty of facing sanctions discourages taxpayers from considering evasion as a viable option. This preventive effect is essential to maintaining fiscal discipline and reinforcing a culture of compliance. Modern sanction systems consider both the seriousness of the non-compliance and the intentionality of the offender, promoting a balanced approach. Financial sanctions in the tax field are a fundamental pillar for tax compliance and the integrity of the tax system. These sanctions serve a dual preventive and deterrent function, aimed at avoiding non-compliance with tax obligations and promoting responsible behavior by taxpayers. Tax compliance is an essential component for the functioning of the State and the provision of public goods and services. However, tax evasion and avoidance pose persistent challenges that threaten the fairness and sustainability of the tax system. In this context, financial sanctions are presented as a key tool to prevent and deter conduct contrary to tax regulations. Financial sanctions in the tax field are coercive measures, generally economic, imposed by the tax administration on taxpayers who fail to comply with tax regulations. These sanctions not only punish the violation, but have a broader purpose: to prevent future illegal conduct and to deter both the offender and other potential offenders.

The preventive function of tax sanctions is aimed at generating a regulatory environment that encourages voluntary compliance. This objective is achieved through:

• Regulatory awareness: Penalties act as a constant reminder of tax obligations, creating a culture of compliance.

• Structuring incentives: Taxpayers evaluate the consequences of noncompliance and conclude that it is more beneficial to comply with their obligations.

For example, penalties for late filing of tax returns are an incentive for taxpayers to comply on time, avoiding subsequent problems. In this way, penalties not only correct, but prevent future violations by structuring clear incentives. Deterrence is based on the principle that fear of negative consequences can inhibit undesirable behavior. In the tax field, deterrent penalties have two main focuses:

• Individual deterrence: The penalized taxpayer faces an economic and reputational cost that leads him to avoid repeat offenses.

• General deterrence: The visible and consistent application of penalties serves as a warning to other taxpayers.

For example, penalties for tax evasion, which include fines, interest and potential legal implications, are designed to outweigh any gains

made from the violation. This sends a clear message about intolerance of non-compliance. The effectiveness of the preventive and deterrent functions of tax sanctions is deeply influenced by their regulatory design and the perception of fairness in their application. A system that complies with these principles will not only be more effective, but will also strengthen taxpayers' trust in the tax administration, an essential element for voluntary compliance. Tax sanctions must evolve to adapt to these realities, while maintaining their effectiveness and respecting taxpayers' rights. Financial sanctions in the tax field, with their preventive and deterrent function, are fundamental instruments to strengthen tax compliance and protect the integrity of the tax system. These sanctions not only discourage illegal conduct, but also promote a culture of voluntary compliance, essential for the financial sustainability of the State. Appropriate regulatory design, combined with fair and transparent enforcement, is key to maximizing the effectiveness of these sanctions, balancing the prevention of non-compliance with respect for taxpayers' rights. Looking ahead, the modernization of tax systems and the use of advanced technological tools will be critical to addressing the challenges and seizing the opportunities presented by the contemporary tax landscape.

3. Educational and Cultural Function

Taxpayer education is a long-term strategy whose main aim is to build a culture of voluntary compliance, an aim that cannot be achieved in the short term [8, p. 111]. Financial sanctions also have a pedagogical impact. By sanctioning illegal conduct, tax authorities reinforce the notion that tax compliance is not only a legal obligation, but also an ethical and civic duty. This educational dimension is crucial to building a fiscally responsible society. Tax compliance is an essential component of public governance and sustainable economic development. Beyond revenue collection, the tax system plays a role in consolidating social values such as equity, solidarity and trust in institutions. The gap between tax revenues and tax expenditures is growing, thus ensuring the imbalance of state budgets due to taxpayers not fulfilling their obligations. In this context, financial sanctions are positioned not only as coercive tools, but also as educational and cultural instruments. Tax sanctions are measures imposed by tax authorities to punish non-compliance with tax obligations. These sanctions may include fines, surcharges, interest and, in serious cases, penal measures. Beyond their coercive nature, sanctions have an educational and cultural component, which seeks to influence taxpayers' perception and behaviour by:

1. Fostering understanding of the importance of tax compliance.
2. Promoting a culture of tax responsibility.
3. Strengthening values of justice and social solidarity in relation to the tax system.

The educational function of financial sanctions is based on the capacity of these measures to raise awareness and educate taxpayers about their tax obligations. Sanctions make visible the consequences of non-compliance and reinforce the importance of compliance with tax rules for collective well-being. For example, a fine for failure to file taxes not only penalizes the offender, but also educates him or her about the relevance of established dates and procedures. Sanctions act as practical reminders of tax laws, especially in contexts where taxpayers may be unaware of certain specific obligations. In this sense, tax outreach campaigns combined with the application of sanctions can have a transformative effect, helping taxpayers internalize tax rules and understand the relationship between their individual compliance and the financing of essential public services. The cultural function of tax sanctions is linked to their capacity to shape society's attitudes and values around the tax system. This aspect focuses on building a tax culture that encourages voluntary compliance and a positive perception of tax contributions.

Among the most notable cultural impacts of tax sanctions are:

- Reinforcement of tax legitimacy: The visible and equitable imposition of sanctions reinforces the perception that the tax system is fair and transparent.
- Building trust in institutions: A well-designed and applied system of sanctions strengthens trust in the tax administration and in the fairness of the tax system.
- Transformation of social norms: Sanctions contribute to establishing tax compliance as an accepted and valued social norm, reducing tolerance towards behaviours such as tax evasion.

For example, in societies where sanctions are applied effectively and equitably, taxpayers are more likely to perceive their tax obligations as a civic duty and a contribution to social cohesion.

Although tax sanctions have great educational and cultural potential, their effectiveness is conditioned by several factors. In contexts where taxpayers do not understand tax laws, sanctions may be perceived as arbitrary or unfair, weakening their educational function. If sanctions are applied disproportionately or selectively, they can erode trust in the system and generate a culture of tax resistance. Sanctions, if not accompanied by tax education strategies, may be perceived as only punitive, limiting their transformative impact. Financial sanctions in the tax context go beyond their punitive and deterrent function. Their ability to educate taxpayers and transform cultural norms around tax compliance is essential for the development of a robust and equitable tax system. By balancing their coercive functions with an educational and cultural dimension, tax sanctions can foster greater social acceptance of the tax system, promoting a culture of voluntary compliance based on civic responsibility and understanding of the collective benefits of tax compliance.

Guiding principles of financial sanctions

For financial sanctions to be effective and legitimate, their application must be governed by fundamental principles:

1. Proportionality: Sanctions must be proportional to the seriousness of the violation. Minor evasions or unintentional administrative errors require less severe sanctions than cases of deliberate tax fraud.

2. Graduality: Modern tax systems employ a gradual approach, increasing the severity of sanctions according to repeat offences or the magnitude of non-compliance.

3. Equity and neutrality: It is essential that sanctions are non-discriminatory and applied uniformly, ensuring that all taxpayers, regardless of their economic capacity, assume responsibilities proportional to their actions.

The impact of financial sanctions on fiscal sustainability and social justice

Tax evasion compromises the financial sustainability of States by depriving them of resources necessary to finance essential public services. In this sense, financial sanctions play a crucial role in ensuring tax collection and maintaining economic stability. At the same time, they reinforce social justice by requiring all taxpayers to comply with their fair share of tax burdens. In addition, the effective application of sanctions strengthens confidence in the tax system, as it demonstrates the State's commitment to sanction illegal conduct and protect the integrity of the system. However, their effectiveness depends on transparency, institutional capacity and consistency in their application. Tax compliance is essential to ensure the financial sustainability of the State and promote social justice in the distribution of resources. Financial sanctions, such as fines, surcharges and interest for tax non-compliance, are instruments designed to correct, deter and prevent behaviours that erode the tax system. This article explores the impact of financial sanctions from two key perspectives: their contribution to fiscal sustainability, by ensuring the collection of necessary revenues, and their influence on social justice, by reinforcing the perception of equity in tax compliance. Fiscal sustainability refers to the State's ability to finance its functions and obligations without compromising long-term economic stability. By penalizing non-compliance, sanctions stimulate voluntary compliance, improving tax revenues. The threat of economic and legal sanctions discourages evasion, especially in high-income sectors and transnational companies. Sanctions reinforce the credibility of the system, improving cooperation between taxpayers and the tax administration. However, excessive or disproportionate use of sanctions can generate counterproductive effects, such as resistance to compliance or increased economic informality. Social justice in the tax context involves the equitable distribution of tax burdens and the use of public resources to reduce inequalities. For example, this focus not only can lead to greater compliance, a fairer system, and higher revenues, but also can contribute to building state capacity, sustained political support for further reforms, and a stronger fiscal contract between citizens and governments [9].

To maximize the benefits of financial sanctions on fiscal sustainability and social justice, the following strategies are suggested:

Proportional and equitable design: Sanctions should be proportional to the severity of the violation and applied uniformly to all taxpayers.

Transparency and accountability: The tax administration must guarantee clear and accessible processes, reducing the perception of arbitrariness.

Focus on large evaders: Prioritize the inspection and sanctioning of large taxpayers who represent the greatest impact on tax evasion.

Tax education: Complement sanctions with educational campaigns that foster a culture of voluntary compliance based on an understanding of the justice and benefits of the tax system.

Strategic use of technology: Incorporate digital and analytical tools to improve the detection of non-compliance and reduce administrative costs.

Financial sanctions in the tax field are key instruments to ensure fiscal sustainability and promote social justice. By penalizing non-compliance and reinforcing equity in the distribution of tax burdens, these sanctions strengthen trust in the system and promote a culture of tax compliance. In addition, they must be accompanied by broader strategies that include tax education and strengthening administrative capacity. Only in this way can it be ensured that sanctions contribute not only to regulatory compliance, but also to the development of a more equitable and sustainable tax system.

Despite their benefits, financial sanctions face significant challenges. These include resistance from certain economic sectors, lack of resources for adequate enforcement, and the potential perception of unfairness in their application. Furthermore, in highly informal economies, sanctions may be insufficient to address widespread evasion. It is crucial that governments design clear, transparent tax policies accompanied by support mechanisms to facilitate voluntary compliance. A balanced combination of incentives and sanctions may be more effective in reducing tax evasion.

Conclusions

Financial sanctions for tax evasion are a manifestation of tax responsibility and an essential instrument to ensure compliance with tax obligations. Their essence lies in their ability to deter, correct and educate, while strengthening fiscal sustainability and tax equity. However, to maximize their impact, they need to be proportional, gradual and applied with justice and transparency.

In a global context of increasing fiscal complexity, these sanctions must be part of a comprehensive approach that combines prevention, education and sanction, promoting a more efficient and equitable tax system.

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