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LEGAL TAX EVASION THROUGH STOCK EXCHANGE GAMES

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Abstract

*Claims related to investments may be a source of tax evasion by granting a loan to a daughter company (in which the parent company holds a majority interest rate) with a higher or lower interest * depending on the need to transfer value between companies, by the limit of expenses allowed by the tax law, as well as other interests, such as the need to cover the interest expenses from the financial and other incomes of the debtor company. Starting from the above, a very large number of value transfer strategies can be conceived between companies belonging to the same holding (a company that holds the majority interest in several companies). This paper refers to the classic case of tax evasion through loans between companies of the same holding company, including those in the agricultural field.*

Key words**:** *stocks exchange, tax evasion, shares, commission, profit*

INTRODUCTION

Stock exchange operations offer participants the opportunity, as well as the purchase of securities whose value is expected to increase over time, and the opportunity to conduct operations [6] as a result of which the taxable profit of the economic agent investing in securities may be significantly reduced. But in order to understand the mechanism of legal tax evasion through the stock market, we will have to present at least the nature of the operations, which are the support of the tax evasion and the financial institutions, which act within them.

MATERIALS AND METHODS

We assume, for a start, the existence of a stock exchange in which brokerage houses operate, which carries out intermediation on securities transactions and an investor (own company), which is endorsed in stock market speculations, it may be a company with agricultural activity [4]. When an investor opens an account with a stock exchange brokerage firm, he may wish and receive some "difference account" privileges, which allow a complete list of services. Having a difference account, he can borrow funds to purchase shares, buy and sell more speculative securities and engage in more complex strategies. Part of this difference account will be the subject of a pledge agreement [8]. This allows the brokerage firm to borrow the investor's shares on behalf of other investors who wish to engage in financial speculation [1]. The shares are held on behalf of the brokerage firm, and in the interest of the investor; that is, they are kept, as the "unofficial name" of the broker says. The brokerage firm holds its shares on its behalf, but with the contractual obligation to offer the shares of the investor, upon request. It allows the brokerage company to lend the shares, periodically, to the speculators, who assume that the share price is going to fall. They engage in "sales without cover". These assume that the investor borrows from the brokerage firm a number of shares at a certain value, for which he pays a commission (and possibly an interest) and sells them on the stock exchange at a certain price [3]. He waits for a while until the share price drops and announces the brokerage firm that it wants to close its position without coverage, meaning he wants to buy back the shares he owes. Thus, with a part of the money he obtained from the sale without coverage, the speculator purchases the borrowed securities by entering a purchase order on the stock exchange.

After the payment of the acquired shares and the related commissions, the speculator can remain with a positive difference that constitutes his profit. However, there are also situations when the share price increases unexpectedly, and the amounts obtained from the sale of the shares are not sufficient to allow the repurchase of the borrowed shares, causing risks for the intermediary company. Thus, the brokerage firm will call the speculator, requesting to deposit additional funds in the account in order to make the hedging transaction possible. Because these things happen under the condition of the existence of a difference account, such an unwanted event is called a difference request. If the funds required for hedging are not paid on time, the broker may sell other securities from the speculator's account to cover the damage. There are other complications. If the borrowed capital offers its holder a dividend, not the same thing happens during the period corresponding to the sale without cover. In short, two people (at least), believe that they own the shares at the same time, the initial owner (the investor) and the person to whom the shares were sold. The only way in which the initial holder can receive his dividend is for the one who sells without coverage to pay it, giving rise to an additional expense for him. The speculator must give back any income lost to the investor as a result of the sale without coverage. But speculation can be achieved not only by selling without coverage, but also by buying without coverage, which involves contacting a credit from the brokerage firm for the purchase of a volume of shares whose price is expected to increase in the next period. Thus, in exchange for commissions, the speculator now acquires a volume of shares which he sells when their price has increased so as to cover the commissions paid for granting the credit and carrying out the transactions.

Even for long-term investors, these types of transactions are useful either to protect the value of the stock package or to reduce their taxable income at the end of the year.

For example, when a period of temporary decline is seen in the business of a company, and the investor knows that they are of limited duration, he can take advantage of this to increase his income [5]. At the beginning of the decline period, the investor sells without cover an amount of shares at least equal to that held by him, without selling his own shares (this bears the name of sale without cover against the box and refers to the fact that the investor has not sold his own shares, he owns at the brokerage firm in a box). When the decline in the share price is maximum, the investor orders the hedging of the position without coverage by mobilizing a part of the amount with which he sold the uncovered shares for the acquisition of new shares. So by purchasing the new shares the investor repays his credit. When it wishes to temporarily reduce its income in order to record a loss at the end of the year, to stop paying income tax, or to reduce its amount, the investor proceeds one month before the end of the financial year to occupy simultaneous positions in front of the course of an action [9]. That is, to buy and sell at the same time without cover a volume of shares that he usually holds effectively at the box (so we are in a case of transactions without cover against the box). By the end of the year, one of the positions is losing (assuming the stock price changes). On December 31st or in any case in the last days when the stock exchange is opened in the respective year, the investor deliberately decides to cover its position in loss, generating in this sense a loss in the account of the year already completed. At the beginning of the year he decides to cover the other position, which transfers his income to the other fiscal year without paying any tax related to them. The price of the tax deferral is the commissions that can be covered from future earnings [10].

RESULTS AND DISCUSSIONS

Operation efficiency calculations: On 30.11.N

1. The investor requests a loan of 6,000,000 m.u., Commission 2% 6,000,000 * 2% = 120,000 m.u.

2. The investor orders the purchase of 1,000 shares of 6,000 m.u., Commission 1% 6,000,000 * 1% = 60,000 m.u.
3.The investor borrows 1,000 shares present value of 6,000,000 m.u., Commission 1% 6,000,000 * 1% = 60,000 m.u. On 31.12.N
4.The investor covers his position at a loss, meaning he buys 1,000 shares to repay them in the account of the loan granted. 1,000 * 9,000 = 9,000,000 m.u., 1% commission 9,000,000 * 1% = 90,000 m.u. So the loss from the sale without cover is 9,000,000-6,000,000 = 3,000,000 m.u. without commissions. On 1.01.N + 1
5.The investor hedges his winning position by selling the acquired shares without cover. 1,000 * 9,000 = 9,000,000 m.u. So he sold the shares with a profit of 9,000,000 - 6,000,000 = 3,000,000 m.u., Commission 1% 9,000,000 * 1% = 90,000 m.u.
Total commissions paid = 120,000 + 60,000 + 60,000 + 90,000 + 90,000 = 420,000 m.u..
The result of the operation = 3,000,000-3,000,000 = 0 m.u.
But at the end of the year he saved the payment of a profit tax of 3,000,000 * 16% = 480,000 m.u. For this he spent 420,000 m.u., so he registered a net profit of 60,000 m.u.
Tax fraud is a means of increasing the performance of the company. However, it should be noted that, as a rule, this performance is no longer highlighted in any way in the accounting of the company, but rather in the own accounting of the owner or administrator [2].
Of course, such accounting is usually conducted according to our own methods, but we can consider the value of the additional gain through the value of taxes and fees evaded to be paid [8].

CONCLUSIONS

Managers, wanting to preserve within the company as much as possible of the added surplus value, resort to tax evasion in order to restrict the company's treasury scores in favor of the state.
Making money (performance) is far from leaving you in the hands of a free market economy, which will protect your value created through the work done in an organization. The current competition requires the use of new techniques much higher than the actual production or marketing process to take value, these are the financial processes by which you protect what you have created. Perhaps not always moral, perhaps often illegal, these processes allow a new way of developing companies, and in this war in which each of us fights alone the winners are those who take advantage first, as long as possible and as much as possible.

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