



Faculty of Economics, University of Niš  
11-12 October 2017

International Scientific Conference  
**CONTEMPORARY APPROACHES  
IN THE ANALYSIS OF ECONOMIC PERFORMANCES**

**POSSIBILITIES FOR REDUCING EVASION OF INDIRECT TAXES  
IN SERBIA**

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***Abstract:** The significance of tax evasion is reflected in the balance of negative effects that this social phenomenon can have on the economic development of all countries. The purpose of this paper is to analyze the evasion of indirect taxes and factors which are determining its scope and to point out the magnitude of this problem, especially in the countries where taxes are the main source of public revenues. Special attention is committed to the analysis of Serbia's fiscal policy and tax reforms directed on increase tax rates. Relatively slow GDP growth, compared to comparable countries in central and eastern Europe and public debt, which amounted to 59.3% of GDP in 2008, initiated a tax rate growth strategy that increased tax evasion without significant implications on the growth of public revenues. In the last part of the paper, the author gives recommendations for increasing the volume and efficiency of VAT collection, which are also in the function of reducing the evasion of indirect taxes.*

***Keywords:** tax avoidance, tax evasion, tax revenues, indirect taxes, VAT.*

**1. Introduction**

The tax system in which there is a balance between efficiency and social justice does not necessarily involve consumption taxes. In such a tax system, for functioning, will be enough to subject direct taxes (Hillman, 2009). Joseph Stiglitz (1972), a well-known US economist and winner of the Nobel Prize, has proved that, if these conditions are met, indirect taxation is not necessary. People are unequal only in the ability to make money. However, in the event that consumption and tendencies for the consumption of luxury goods are different, indirect taxes will be necessary, they will increase efficiency and social justice. On the other hand, practice confirms that there is no environment in which human consumption does not differ. In this case, the tax system, without indirect taxes, would be inefficient and unjust. This conclusion is directly related to the nature of consumption taxes, that they affect people in various ways. People who spend more, will pay higher taxes and vice versa. The importance of indirect taxes is justified by the tendency of their

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UDC 336.228.34(497.11)

growth, which is in line with the growth of their participation in modern tax systems of developed countries. The key reason for their significance is increased international tax competition, which is based on the identification of differentiated tax rates within the various tax systems. Attention is drawn to the countries bearing the "tax paradise" label, since they significantly impede the collection of income tax for private and legal persons, which is initiating eviction of capital. Modern tax systems, in these circumstances, are routed to the restructuring of the tax system in favor of indirect taxes, such as consumption tax. (Đurović Todorović & Đorđević, 2013, p.12).

If indirect taxes become an important determinant of the economic growth and development of developed countries, and they are the basic tax revenue of the developing countries, then the evasion of these taxes creates the capital consequences for the growth and development of all countries. Emanation of this problem is important for every country, but the problem becomes more serious when it comes to developing countries. This is precisely because of the possibility of developing potential mechanisms for the suppression of the problem.

The aim of this paper is to point out the significance of this social phenomenon through the analysis of the evasion of indirect taxes. The collected public revenues are a mirror of the development of the national economy. The growth of the evasion of indirect taxes in developing countries, where these forms of taxation are the key in the structure of the tax system, can bring into question general social well-being, the functioning of many institutions (education, health, police, infrastructure, etc.) and, ultimately will lower the GDP of these countries because it would create an unfavorable business environment. The balance of negative effects that would result from evasion is not completed here. An unfavorable business environment would create a terrain for the gray economy.

Special attention was devoted to the analysis of Serbia's fiscal policy and implemented tax reforms. This paper gives an answer to the question: how to increase the collecting of VAT, without negative reflections which are generated by a standard rate increase? In the last part of the paper, with reference to the most common problems from practice, the author gives strategic directions for the development of the tax system, which are in the function of reducing VAT evasion and for the development of the economy.

## **2. Factors which are determining the extent of indirect tax evasion**

Taxes represent an institute that has a negative connotation since its inception. Introduction of taxes, as a basic state revenue, has brought the resistance of taxpayers to pay taxes. In order for the state to implement its tax policy, it is essential that taxpayers are satisfied with its tax system. The fact that the introduction of a taxes brought the resistance of the taxpayers to their payments, opens a capricious question: can we talk about a country in which exist the satisfaction with the tax system? The answer to the question, gets raised, additional, significance due to the fact that there is a positive correlation of the mentioned satisfaction with the collection of taxes by state delegates.

It is almost impossible to talk about a tax system that will have positive reflections on taxpayers. Tax planning is not only a problem for developing countries, it is also a source of serious potential losses for each government. It is estimated that the tax planning in developed countries often reaches up to 20% of the level of tax revenues. In the United States,

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in 1992, lost revenue which is based on less paid income tax, was estimated at \$ 95.3 billion (Orviska & Hudson, 2002, p.83). Tax planning arises from violation of tax regulations, but also by taking legal action. When a taxpayer avoids his obligation to pay taxes, taking legal action, we are talking about tax avoidance. Another form of tax planning is the tax evasion, and it arises when a taxpayer violates tax regulations. It is very important to distinguish between tax evasion, tax avoidance, and tax compliance. Tax compliance is the behavior that the tax authorities promote and which represents the behavior of the taxpayer. Tax evasion is the unlawful neglect of liability, imposed by tax law. Tax avoidance lies between the two institutes, and while bearing the character of legal activity, at the same time involves the misuse of understanding the tax regulations, which is, explicitly, the result of insufficiently precise and inconsistent regulations (Affairs, 2007). The biggest cause of loss of tax revenues in countries is tax evasion. Tax evasion is the result of activities that prevent government authorities from collecting revenues. Some theorists compare the problem with so called free rider problem. From this comparison, the definition of tax evasion crystallized: "Tax evasion is illegal" free use of "public goods" ( Hillman, 2009, p.280). Free rider problem, state authorities are trying to resolve it with mandatory taxation, however, people are continuing to perform their activities to avoid paying taxes.

How big taxation gap will exist in one country, as the difference between the collected indirect revenues and indirect revenues that would be charged, in a scenario without tax evasion, depends on different factors. Therefore, a dynamic approach is needed for this analysis. Undoubtedly, the economic factors are getting the greatest importance in the analysis of indirect taxes evasion. The tax "deterrence" is thought to be most strongly influenced by the complexity of the tax system<sup>1</sup>, the level of information of income, responsibilities and penalties for taxpayers, the likelihood that the taxpayer's business will be examined, the level of applicable tax rates and fines for tax evasion (Devos, 2014, p.14). Fiscal regulations are very complex, and the field of turnover is, on the other hand, difficult to control. The application of the Law must be carried out by trained personnel in the Tax Administration.<sup>2</sup> Taxpayers, very often, have distrust towards the state, and consider that the state takes too much from them, and gives too little. In this case, there is a problem of information asymmetry, since taxpayers do not have the feedback on the money they paid, in the form of indirect taxes. Taxpayers do not know what the state is doing with public revenue,

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<sup>1</sup> The complexity of the tax system is confirmed by US legislation. Tax legislation in the US has over 10 thousand pages. Exclusive, the scope of legislation in the tax system only contributes to the uncertainty of tax authorities in the application of the law.

<sup>2</sup> In the complexity of fiscal regulations, and insufficient knowledge of legal regulations, we can be convinced on the example of the Republic of Serbia. Apropos of this, one of the examples is the application of the Law on Excise (Official Gazette of RS No. 22/01 ... 108/16) and the application of Articles 9 and 39 of that Law. Article 9 of the Law on excises of RS stipulates the amount of excise duty, which is paid for derivatives of oil, biofuels and biotechnology. The same article of the Law prescribes what are considered derivatives of oil. Article 39a and 39b of the Law on excises stipulate that, the buyer, the ultimate beneficiary of these derivatives, can be entitled to the right to refund the paid excise if the derivatives are used only for the purposes specified by law (business purposes). Taxpayers unlawfully submit an excise tax refund request and claim it, even though the use of derivatives was not in accordance with the legally prescribed purposes. Accordingly, taxpayers use their derivatives for their personal needs (heating of a living space that is physically assembled or separated from the office space) . In addition to insufficient knowledge of legal regulations, the control tax authorities also have the problem of proving in the control procedure, whether taxpayers are using oil derivatives for business purposes or for personal needs.

and in a situation where a taxpayer has to fulfill his obligation, he principally assesses the potential benefits that he can derive from evasion and puts them in relation to the negative effects he can expose. If the benefits of evasion are greater than the negative effects of the same, the taxpayer will access evasion (benefit from tax evasion  $\geq$  negative effects of tax evasion).

Crisis periods, and post-crisis periods, followed by high unemployment rates, create a favorable ground for criminal offenses. At the same time, the taxpayer's income, in these circumstances, is decreasing, and appears the psychological factors that determine the taxpayer's decision to evade tax. Psychologists emphasize the importance of these "internal" perceptions of taxpayers. They propulsively search for the answer to the question, why some people choose to pay taxes, while others do not, using different instruments. Tax evasion, therefore, can be a consequence of the inner feelings of the individual. This is confirmed by the literature on criminal activities, although economics as a science starts from the assumption that taxpayers act within the law. The concept of "honesty", in relation to tax evasion, was presented by Erard and Feinstein (1994). Theorists linked the concepts of guilt and shame with tax evasion, as relevant concepts in the tax evasion decision. A feeling of guilt or shame can determine the taxpayer's decision to pay the tax. Tax evasion will, explicitly, be corroborated by the sense of shame. Arye L. Hillman (2009) wrote about blasphemy and shame as psychological determinants of a criminal deviation from the law. Recalling the relevance of the taxpayer's internal position, the theoretician has recounted the importance of tax evasion and pointed to the potential possibility that it would receive the character of a social norm. Such a statement is troubling and is a serious problem, especially for developing countries. If a number of people in one country do not pay taxes, because the social norm is "not to pay taxes," the question is whether the state can deal with it. Such a norm would, explicitly, mean that there is no penalty for unpaid tax.

From the perspective of most theoreticians, the decision of taxpayers can be analyzed according to the theory of games. Arye Hillman (2009) is one of the theoreticians who pointed out the link between tax evasion and "prisoner dilemma" In the following section, by calling the relationship between the problem that is the merits of this paper, tax evasion, and game theory, we will analyze the behavior of taxpayers .

**Table 1. Application of the theory of games to the problem of tax evasion**

		B	
		The taxpayer makes a decision to pay the tax	The taxpayer makes a decision to evade taxes
A	The taxpayer makes a decision to pay the tax	Public revenue 1	Public revenue 2
	The taxpayer makes a decision to evade taxes	Public revenue 3	Public revenue 4

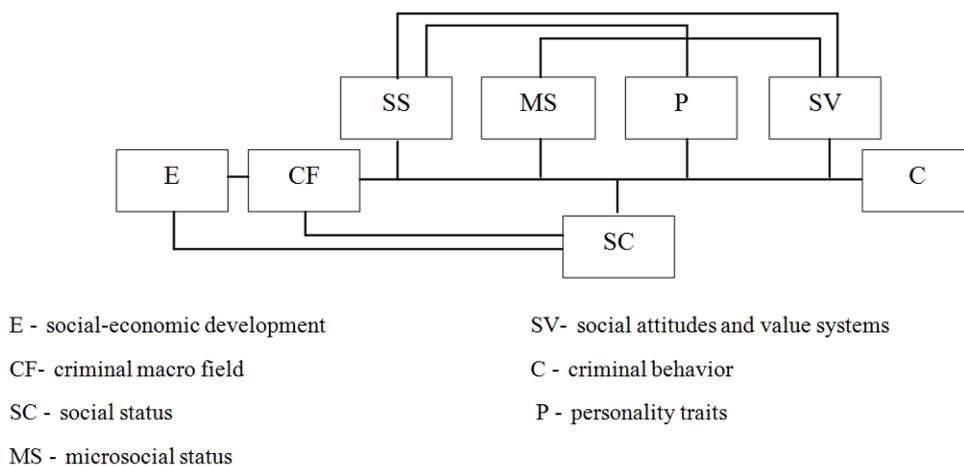
Source: Authors' analysis based on the relationship between tax evasion and game theory

The graph shows the dilemma of taxpayers based on game theory. Each taxpayer has two options. The taxpayer may make a decision to pay the tax and respect the law of the state.

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An alternative decision is to evade tax. How does a taxpayer think? If I pay taxes, and other taxpayers don't, I will be at a loss. Additionally, most of them start from the view that the state will not redirect that money to an increase in social welfare. A simplified presentation of only two taxpayers can indicate the possibility that each taxpayer can evade a tax, since he assumes that another taxpayer will make the same decision. The situation changes if the number of taxpayers increases, because the influence of one person on the behavior of others is getting smaller and smaller. However, if in the society "does not pay taxes" becomes a social norm, all taxpayers will make the same decision, they will not pay the tax because their behavior will not be different from others. This indicates a serious problem, which is very difficult to solve, as public spending would be significantly reduced. For the study of criminality, as a mass phenomenon, the whole range of models is relevant (quantitative, logical, mathematical, cybernetic, etc.), since contemporary criminological research is not satisfied simply by setting the hypothesis. Apropos of this, one of the models applied in the research conducted at the Institute for Criminological and Sociological Research in Serbia, which points to mediators useful for tax evasion, is presented below.

**Figure 1. Model of impact on development, social and personal factors on criminal behavior**



Source: Konstantinović-Vilić & Nikolić-Ristanović & Kostić, 2008, p.57

Figure 1 provides an overview of independent and dependent variables, whose reflections on criminal actions have been revealed by earlier research. It is possible to notice the influence and the connection between independent and dependent variables and variables of the intermediary mediator. For example, social status affects social attitudes, and together they influence criminal behavior. The application of this model is important for understanding the causal links between crime and tax evasion. Also, by analyzing the factors, we conclude that the phenomenon of tax evasion occurs in a large number of forms, and each form will have the same effects for the state, reducing tax revenues. At the same time, the picture realistically explains the complexity of the factors that influence the evasion.

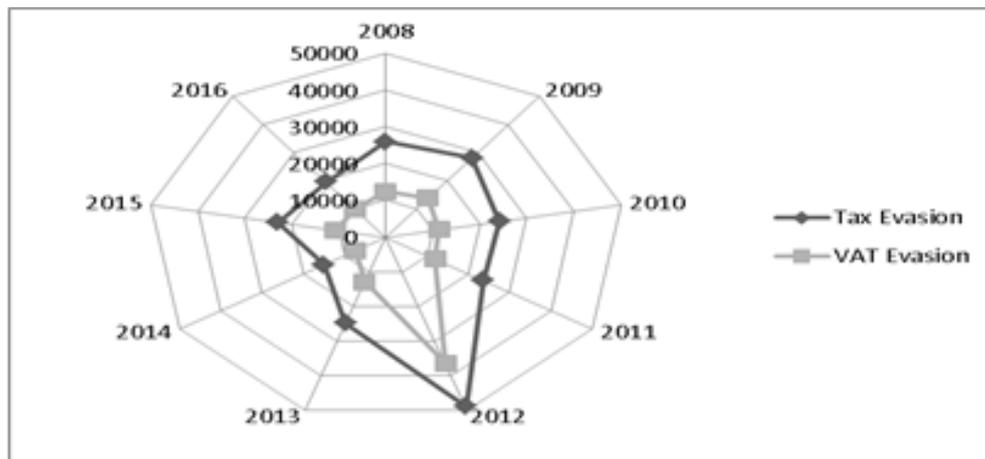
### 3. Methodology and data

#### 3.1. Evasion of indirect taxes in the Republic of Serbia

The crisis through which, the Republic of Serbia went through retrospectively, and through which it is still passing, has left a mark on its business environment and economic stability. Analogously, the crises have created a terrain for the emergence of illegal activities, which in such conditions persist. Alarming the significance of the problem of tax evasion in Serbia, added the global economic crisis, which left the biggest impact on developing countries. In addition to propulsive politics, to solve the problem of unemployment and increase economic activity, Serbia does not have anything left to do, but to fight the capital consequences of the crisis in line with tax rates.

In order to prove that such a policy has yielded poor results and identified the relevant ways to reduce evasion, which would possibly reduce the tax evasion, for positive repercussions on public spending, we analyzed the most expensive consumption tax, the value added tax, with the aim that this results will be beneficial to most countries where value added tax is a significant source of revenue.

**Figure 2. Tax evasion and VAT evasion in the Republic of Serbia (in millions of dinars), 2008-2016.**



Source: Ministry of Finance of the Republic of Serbia, Tax Administration

Figure 2 shows the total tax evasion in Serbia and the evasion of VAT, whose average participation in total fraud, in the observed period, is 51.99%. This volume is not surprising, since the Serbian economy is weakened and that the terrain of developing countries is more exposed to VAT evasion. The graphic shows an alarming increase in tax evasion in 2012, when the number of newly discovered tax revenues, determined in the field controls of the Tax Administration, increased by 25.448 million dinars compared to the previous year. This information was also the starting point for the author to write this work.

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### 3.2. Causes of VAT evasion in Serbia

„The potential of tax revenues from value added tax depends to a great extent on the number and level of tax rates, the volume of tax base and the taxpayer's consent to pay tax" (Jenkins, 2000, p.764).

Even in the 1980s, Lafer's curve (Arthur Lafer) and the view that cutting tax rates would increase revenue from defeats, which most economists then suspected, proved to be a good tax policy. Analyzes carried out by the UK Research Institute have proven that a maximum of 3% increase in tax revenues between 1980 and 1986 could be attributed to a reduction in income tax, a policy carried out that year by Margaret Thatcher (then Prime Minister), in this country, reducing the rate by 23%

High VAT rates are not the only problem for the state. Frequent changes in tax rates represent a "jump in the eclipse". It is very important that VAT rates do not change frequently, as this has direct repercussions on the operation of the entity and on attracting foreign direct investments, which, as one of the export strategies, are the basic strategy of Serbia's development.

**Table 2. VAT Evasion in Serbia (in mill.of dinars)**

	2008.	2009.	2010.	2011.	2012.	2013.	2014.	2015.	2016.
VAT evasion	12 432	13 707	11 250	11 962	36 583	12 958	7 462	10 757	9 970

Source: Ministry of Finance of the Republic of Serbia, Tax Administration

Since the introduction of VAT into the tax system of Serbia (January 1, 2005), the VAT rate had only one increase in 2012, which, according to the previously stated, is good. However, leading to the fact that the forced contribution of state authorities can "muffle consumption" and increase tax evasion, we need to look at this increase with the reserve in the analysis of evasion.

The following table shows the movement and structure of the VAT rate, in the period from 2010-2017, in order to analyze the justification of the increase in the standard and reduced rates.

**Table 3. Movement of standard and reduced VAT rates in Serbia (in%), 2010-2017.**

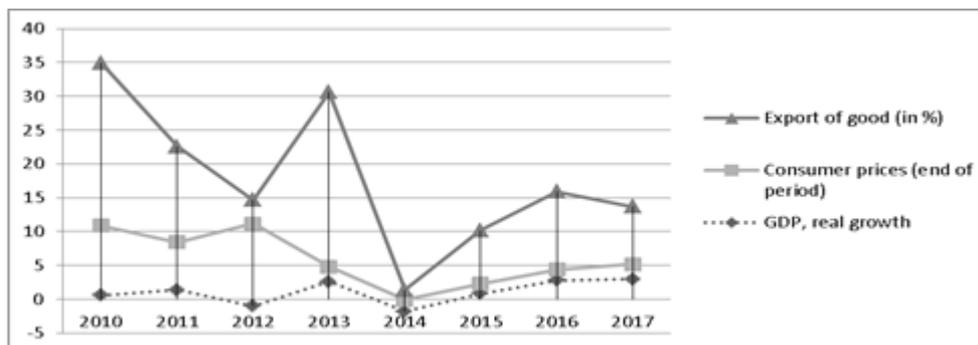
	2010.	2011.	2012.	2013.	2014.	2015.	2016.	2017.
Standard	18	18	20	20	20	20	20	20
Discounted	8	8	8	8	10	10	10	10

Source: Author made calculations based on: Public Finance Bulletin no. 150th, February 2017.

The reason for the increase of the VAT rate is, of course, the global financial and economic crisis, which has, apodictically, caught Serbia. The increase in the VAT rate was aimed at increasing public revenues, reducing public debt, increasing exports and GDP growth. Figure 3 shows the movement of trends in relevant macroeconomic indicators,

based on which the effects of changing the standard rate of value added tax in 2012 can be seen.

**Figure 3. GDP trends, consumer prices and exports of goods (in%), 2010-2017.**



Source: <http://www.mfin.gov.rs/UserFiles/File/bilten%20javne%20finansije/2017/Bilten%20150%20SRB%201805.pdf>, Accessed on 20 Jun 2017.

Figure 3 shows the growth of consumer prices in 2012, which amounted to 12.2%. The increase in prices has a value in terms of increasing the amount of GDP, taking into account that products that are not placed on the domestic market will be exported, according to the fact that VAT is not paid at the time of export. On graphics, we do not notice this growth. In 2012, it was accompanied by a decrease in exports and a negative GDP growth rate. True, this is not only a consequence of the growth of the rate, and it would be illusory to conclude that the same movement was determined, but certainly its share existed. We can increase the rate by either increasing export or tax evasion.

**Table 4. Total public and tax revenues in the budget of the Republic of Serbia (in thousands and in %), 2010-2017.**

	2010.	2011.	2012.	2013.	2014.	2015.	2016. (jan-apr)	2016.	2017. (jan-apr)
Total public revenue	1.278,4	1.362,6	1.472,1	1.534,9	1.620,7	1.694,8	565,9	1.842,6	606,7
Tax revenues	1.111,3	1.191,0	1.292,5	1.366,5	1.439,0	1.463,5	487,5	1.585,7	527,2
Value Added Tax	319,4	342,4	367,4	380,6	409,5	416,0	147,2	453,5	155,3
% Of VAT in Tax Revenues	28,73	28,75	28,43	27,85	28,46	28,43	30,21	28,60	29,45

Source: Author made calculations based on Public Finance Bulletin no. 150th, February 2017.

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By increasing the standard tax rate for 2012<sup>3</sup> (2%), public revenues should show a tendency for growth. In Table 4, we note that with the growth of value added tax, tax revenues and analogously total public revenues increase. Paradoxically, the share of VAT revenue in the same year is decreasing. While in 2011 the share of VAT in total tax revenues amounted to 28.75%, with a VAT rate increase this share was 28.43%. This reduction could be attributed to the growth of other forms of taxation.

Did the VAT increase at the same pace as in the previous years? The answer to this question is negative. Growth of VAT revenue, and analogous increase in total public revenues, therefore, is not relevant for economic objectivization. Based on the budget, it can be concluded that the rate of VAT growth, after increasing the VAT rate, is halved. The growth rate of 3.58% shows VAT growth in 2013. In comparison with 2012, and it is lower by 3.73%. There is also a difference in the rate of tax and total public revenue growth, in this period, which is explicitly the result of the reflection of a larger VAT rate. The discrepancy in the growth rate creates indications of the existence of the merits of this paper, the evasion of taxes. The question is whether the discontinuity in the growth of VAT, tax revenues and total public revenues would have led to an increase in the VAT rate. Alarming is the decrease and the growth rate of value added tax of 1.58% in 2015 in relation to 2014. Adoption of the Law on Changes and Amendments to the Value Added Tax Act in 2015 reiterated the payment of this form of tax and contributed to the reduction of the growth rate.

We conclude that the growth rate of VAT collection is reduced with a rate increase. Isn't it, despite the fact that indirect taxes are the basic income of the state, this increase is justified? The answer to this question is capricious. One thing is certain, the costs of tax evasion detection can be swallowed by positive reflections on collecting value added tax on a higher rate.

### 4. Results and Discussion

The increase in the VAT rate (standard and reduced) did not prove to be the best solution for the economic growth and development of Serbia, and additional growth of evasion is noticed. The participation of VAT revenues in the GDP of the Republic of Serbia, as a relevant indicator of the efficiency of collection of this form of tax, also confirms this. The available data show the VAT burden in Serbia, and the share of revenues from this form in the GDP of Serbia. The lowest share of VAT revenue was in 2013, in the year that followed the increased standard rate from 18% to 20%.

**Table 5. Possible ways for reducing tax evasion**

<i>Reengineering of the legal environment</i>	<i>Formation of various databases</i>
<i>Significant sanctions</i>	<i>Increasing the work efficiency of tax authorities</i>
<i>Introduction of extraordinary and sudden VAT controls</i>	<i>Introduction of detailed controls of newly established companies</i>
<i>Electronic VAT calculation</i>	<i>Increasing tax knowledge</i>

Source: Autor

<sup>3</sup> The Law on Amendments to the Value Added Tax Act began to be used on 01.10.2012. Changes in the law prescribe, among other things, a change in the general tax rate of VAT from 18% to 20%.

Reducing tax evasion would contribute to the *reengineering of the legal environment*. Reducing the scope of the law would change the image of Serbia, a country with a sluggish and over-ridden legal apparatus. The current regime has announced the Law on Property Testing, which would certainly greatly redistribute illicitly acquired property (solved partially the problem of evasion). One survey (Richardson, 2006) has shown that the complexity of the tax system is an important determinant of tax compliance. According to this survey, which included 45 countries, tax compliance is more important than education, income, tax morality and honesty. Many other studies, conducted in Malaysia (Loo, 2009), also determine the knowledge of tax regulations as the most influential factor in tax compliance. Therefore, clear and effective legislation and the *establishment of various databases* is one of the ways that will contribute to solving the problem.

"The state is, on the basis of sovereignty, called to establish a violated legal order and it belongs to the right to punish the perpetrators of the criminal injustice - *ius puniendi*" (Đurđić, 2014, p.7). In that sense, *significant sanctions* would increase the taxpayers' consent to pay taxes. Taxpayers are, in general, encouraged by insignificant sanctions to evade taxes. Each taxpayer, analyzing the expected penalty, makes his decision (expected penalty for avoiding payment of tax = probability of detection of x penalty) (Hillman, 2009). The probability of detection is determined by the efficiency of tax authorities in detecting newly generated revenues, and the costs of detection. The state must, among other things, increase the probability of detection and increase in the number of employees. The specificity of German law, emphasizing the importance of prosecuting and sanctioning tax crimes, provides a comprehensive tax collection and fair taxation. By introducing larger penalties and measures of prosecution, the state is directed against the efforts of individuals to reduce individual tax burden to the detriment of society. Perhaps developing countries will not have enough resources to implement the measures of developed countries, such as the actual "intimidation effect", but they will certainly have higher bailouts through larger penalties.

It is impossible to instrumentalize all countries within the strategy of reducing VAT evasion. Therefore, it is still impossible to apply effective mechanisms of developed countries to developing countries (reverse charge system). However, developing countries, such as Serbia, should be focused on the introduction of extraordinary and *sudden VAT controls* and *detailed controls* of newly established companies with a checklist<sup>4</sup>. These mechanisms have significantly reduced tax evasion in developed countries and increased their tax revenues.

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<sup>4</sup> The Law on Tax Procedure and Tax Administration of the Republic of Serbia ("Official Gazette of RS", No.80 / 2002 ... 108/2016) does not know the possibility of extraordinary and sudden VAT control, which, on the basis of efficient examples of their application in developed countries, Undoubtedly gave positive results. Extraordinary control should reveal any suspicious facts regarding VAT. Extraordinary control should be performed independently of the frequency of field control (unusually high amounts of previous tax, suspicion of turnover in the account, division of business from private sphere, newly established companies, realized right to tax exemption). When it comes to the control of newly established companies, the control of the actual existence of these is carried out by sudden control. Sudden control does not represent field control, as it is a control without an announcement that relates to the current situation.

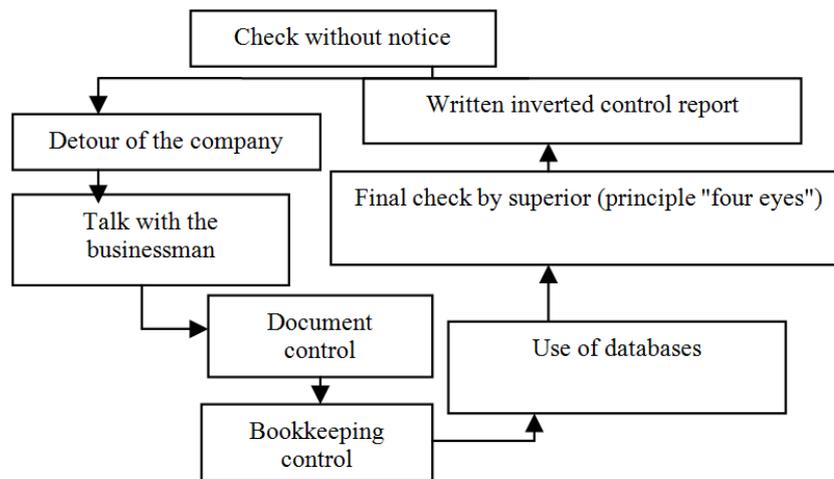
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**Table 6. Results of extraordinary VAT control in Germany, 2016.**

Number of controls carried out	86.000
Number of inspectors on the field	1.800
Additional tax revenue	1.720.000.000– evra
Average number of controls per inspector	46

Source: Deutsche Gesellschaft für, Internationale Zusammenarbeit (GIZ) GmbH.

**Figure 4: Procedure of extraordinary VAT control**



Source: Author based on the data of extraordinary and sudden VAT control in Germany

The reduction of tax evasion would also contribute to a better analysis of the *VAT account*. Electronic VAT calculation is not only insufficient, but also electronically necessary data.<sup>5</sup> Data on issued and received invoices, supported by the tax administration information system, can reduce tax evasion. Therefore, a *good information system*, financially supported by developed countries, must exist in the country.

*Tax knowledge* is a crucial element in voluntary tax payments (Kasippilai, 2000). Most taxpayers are insufficient, or not informed about government revenue. It is important that the state reports taxpayers on the allocation of their tax assets in continuity, because in this way, the tax system will be explicitly satisfied.

Last but not least, the *level of the rate* must be at the appropriate level. This means that the state should least rely on the policy of increasing tax rates.

<sup>5</sup> Employer is, in the Law on Changes and Amendments to the Value Added Tax Act (Official Gazette of RS, No. 83/15), the legislature is a legislator within the five new members of the VAT Law (10, 10a, 17, 21, 31) and 6 innovated regulations (12, 23, 24, 25, 41, 45), prescribed that from 01.01.2017. Taxpayers with tax VAT application, submitted in electronic form according to Art. 38. of the Law on Tax Procedure and Tax Administration, should submit a review of VAT calculation. With the call to the extent of this operation, the application of this article has been postponed.

We conclude that the highest efficiency of tax collection is achieved if fiscal policy measures correlate with economic, legal and structural policies and have a strong synergetic effect, and a clearly defined policy can improve the country's development and competitiveness.

## **5. Conclusion**

It is apodictic that the problem of tax evasion has been figuring for many years as a subject of research in theory, but it did not get the same significance in practice. Analogously, the evasion of indirect taxes is very complex and de facto difficult to control. In this paper, we analyzed the problem of tax evasion with a detailed analysis of its alarming character.

We have apostrofied factors that influence the tax evasion of indirect taxes, among which the most important ones are: economic and psychological factors. We have determined the complexity of tax evasion by factors, whose knowledge is necessary for tracing mechanisms to reduce evasion. By analyzing the value added tax, we pointed to his character. VAT is the most expensive consumption tax and, accordingly, the evasion of this tax would jeopardize the development of the countries in transition, including Serbia. Analysis of the change in the VAT rate in Serbia has served us in defining the strategy for establishing a better tax system. The increase in VAT rates did not result in a higher growth rate of VAT revenues, and accordingly the rate change policy can not be defined as a relevant policy to increase tax revenues. Also, the growth rate can have indications to increase tax evasion. As a result of this paper, the ways of reducing VAT evasion were crystallized, among which one can distinguish the re-engineering of the legal environment, which includes, among other things, the reform of the Law on Tax Procedure and Tax Administration and the introduction of extraordinary and sudden VAT controls, the introduction of major sanctions by the reputation of the developed countries, increasing the efficiency of the labor force, etc. This paper presents the proposal of the procedure for extraordinary VAT control. To find ways to reduce the evasion of value added tax, we also used the most common tax evasion modalities, which were collected by the field method of research.

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## NAČINI SMANJENJA UTAJE INDIREKTNIH POREZA U SRBIJI

*Apstrakt: Značaj utaje poreza ogleda se u bilansu negativnih efekata koje ovaj društveni fenomen može imati na privredni razvoj svih zemalja. Cilj ovog rada je da analizom utaje indirektnih poreza i faktora koji određuju njen obim, ukaže na važnost ovog problema, posebno u zemljama u kojima su ovi porezi osnovni izvor javnih prihoda. Posebna pažnja posvećena je analizi fiskalne politike Srbije i sprovedenim poreskim reformama, usmerenim na rast poreskih stopa. Relativno usporen rast BDP-a, u odnosu na uporedive zemlje centralne i istočne Evrope i javni dug, koji je 2008. godine iznosio 59,3% BDP-a, inicirali su strategiju rasta poreskih stopa, koja je uvećala utaju poreza, bez značajnih implikacija na rast javnih prihoda. U poslednjem delu rada, autor daje preporuke za povećanje izdašnosti i efikasnosti naplate PDV-a, koje su ujedno u funkciji smanjenja utaje indirektnih poreza.*

*Ključne reči: poreska evazija utaja poreza, poreski prihodi, indirektni porezi, PDV.*