



# TAX EVASION, PREVENTION MEASURES AND DETECTION PROCEDURES - THE CASE OF THE REPUBLIC OF SERBIA

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## Abstract:

The subject of research is to determine the knowledge and understanding of the importance of tax evasion (TE) and prevented measures in the Republic of Serbia. The main findings of executed research in 2019 were: 1) the majority of respondents were aware of TE, 2) working illegally is the most common way of TE, 3) the majority of respondents said that they hadn't received the bill after every shopping, 4) all respondents stressed that some party should be penalized for not possessing the bill after shopping, 5) the majority of respondents answered that adequate tax propaganda was the way of educating tax payers, 6) the majority of respondents would not report any notice of any form of TE. The state and tax authorities should take measures in order to create win-win climate for all stakeholders in order to reduce TE.

## Keywords:

tax evasion, penalties, prevention, reduction, education.

## 1. INTRODUCTION

Tax evasion (TE) is the non-payment of a statutory amount of tax (Jovašević & Simović, 2017). TE is the most common form of gray economy (Criminal Law, 2016). The prescribed penalties are strict, but in the practice they are too light. About 99% of perpetrators are punished on probation or in cash (Šuput, 2015; Vranko, 2015; Ivanović, 2014; Popović, 2012).

TE most often occurs in private activities, but also in the connection of private companies with the public sector. It is usually done through: 1) a reduction in the tax base, by increasing costs or reducing revenues, 2) payments of salary "on hand", 3) "phantom firms" which don't have assets, employees, actual turnover of goods and services, and they are registered on a person who doesn't exist or has sold his/her own data (Stojanović & Delić, 2018; Hoopwood et.al, 2014). Furthermore, globalization and transition on the world market, as well as on ours, lead to the creation of new forms of TE, which represents a great social danger (Kaličić, 2015).

Tax collection is one of the most significant revenues for the state. Due to great losses that have occurred over the centuries, the basic goal of the company and the state should be the prevention of fraud (Vukša et.al, 2013).

The subject of the paper is to determine the level of awareness of students and employees on the importance of TE in the Republic of Serbia /RS/ (Galečić, 2019). The aim of this paper is to assess it and to define the measures that can prevent it. The assumptions of the research are that: 1) business respondents are more knowledgeable about TE, 2) students are less knowledgeable because they did not encounter opportunities for TE as employees, and 3) both groups of respondents need to be more aware

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of the usefulness of tax collection. Accordingly, the work is conceived in 4 parts. The introduction is the first part. The methodology is presented in the second part of the paper. The results of the research are in the third part of the paper. The conclusion is the last part of the paper.

## 2. METHODOLOGY

In order to determine the knowledge and understanding of the importance of TE and prevented measures, authors of the research prepared the questionnaire, which was subject of discussion with relevant competent persons in RS. After the final approval, the questionnaire was sent on 100 e-mail addresses – to two equal groups of participants (50 each): students (on the higher years of the faculty or master studies) and employees (with huge experience in their field of expertise). Response rates of both groups were 60% i.e. 30 students (60% economists and 40% lawyers) and 30 employees (30% engineers, 30% technicians and 40% economists). The survey was executed in the first half of 2019.

The questionnaire consists of two parts: 1) general info about respondents – 3 questions (age, occupation and working experience) and 2) questions about importance and understanding of TE, way of execution and possibilities to prevent it – 17 questions (2 open and 15 multiple choices). The first question of the second part of the questionnaire was related to the awareness of TE. The second question was linked to the area where TE is present. The third question was related to the obvious TE. The fourth question was possibility for respondents to specify any type of TE. The fifth question was connected to the more common way of TE.

**Table 1.** Review on answers to the question: Have you heard of the term TE?

Offered answers	Employees		Students	
	Absolute	Relative (%)	Absolute	Relative (%)
Yes	30	100	29	96.67
No	0	0	1	3.33
<b>Total</b>	<b>30</b>	<b>100</b>	<b>30</b>	<b>100</b>

To the second question related to the area where TE is present (Table 2), the majority of respondents answered all over the world (95%).

**Table 2.** Review on answers to the question: Where TE is present (area)?

Offered answers	Employees		Students	
	Absolute	Relative (%)	Absolute	Relative (%)
RS	2	6.67	0	0
Europe	1	3.33	0	0
<b>All over the world</b>	<b>27</b>	<b>90.00</b>	<b>30</b>	<b>100</b>
<b>Total</b>	<b>30</b>	<b>100</b>	<b>30</b>	<b>100</b>

The sixth question was related to the more often way of executing TE in companies. The seventh question was linked to knowing somebody who works illegally. The eighth question was related to the receiving salary/earnings “on hands” at any time. The ninth question was connected to issuance of the bill after every shopping in a store. The tenth question was related to the party who should be penalized for not possessing the bill after shopping. The eleventh question was linked to the awareness of “phantom company”. The twelfth question was related to the awareness of types of penalties for the crime of TE. Furthermore, in the next question, respondents should answer whether penalties for TE should be stricter. Moreover, in the following question, respondents should answer which techniques should obtain better results in the prevention of TE. The fifteenth question was related to the way of education of tax payers. The sixteenth question was connected to personal attitude for reporting TE in the case of notice. The last question was open proposal of respondents for reducing TE.

## 3. RESEARCH RESULTS

The majority of respondents answered positively to the first question related to the awareness of TE (98.33%). All employees were aware of TE. Only the one student was not familiar with it (Table 1).

All students considered it all over the world (100%). However, minority of employees answered that it was present in RS (6.67%) and Europe (3.33%).



To the third question related to the obvious of TE (Table 3), the majority of respondents answered everywhere (95%). All students chose the answer all over the world (100%).

However, the minority of employees answered that it was obvious in privately owned companies (10 %).

**Table 3.** Review on answers to the question: Where TE is obvious?

Offered answers	Employees		Students	
	Absolute	Relative (%)	Absolute	Relative (%)
State owned companies	0	0	0	0
Private owned companies	3	10	0	0
Everywhere	27	90	30	100
<b>Total</b>	<b>30</b>	<b>100</b>	<b>30</b>	<b>100</b>

The fourth question was possibility for respondents to specify any type of TE (Table 4). The majority of respondents was able to specify any type of TE (71.66%). However, there is obvious difference in offered answers between students and employees due to (no) existence of working experience. Students had following ranking of answers: 1) no answer (46.67%); 2) working illegally /WI/ (23.33%); 3) avoidance of tax payment (16.67%); 4) not reported

tax on profit (10%); 5) money laundering (3.33%) and 6) not issuing fiscal bills (0%). Employees had following ranking of answers: 1) WI (40%); 2) not issuing fiscal bills (16.67%); 3) avoidance of tax payment (13.33%); 4) tree equal groups of respondents – not reported tax on profit, money laundering and no answer. It can be noticed that both groups put great importance on WI.

**Table 4:** Review of answers to the question: If you know, list some type of TE

Type of tax evasion	Employees		Students	
	Absolute	Relative (%)	Absolute	Relative (%)
Not reported tax on profit	3	10.00	3	10.00
Avoidance of tax payment	4	13.33	5	16.67
Money laundering	3	10.00	1	3.33
Not issuing fiscal bills	5	16.67	0	0.00
No answer	3	10.00	14	46.67
<b>Total</b>	<b>30</b>	<b>100.00</b>	<b>30</b>	<b>100.00</b>

To the fifth question related to the more common way of TE (Table 5), the majority of respondents (76.67%) answered WI, which is in line with the previous question. Equal group of respondents of students and employees (16.67% each) said that non-issuance of fiscal bills is the second common way of TE.

The third common way of TE was equal combination of WI and non-issuance of fiscal bills. However, there is a difference between the number of received answers between students (13.33%) and employees (3.33%).

**Table 5:** Review of answers to the question: To the best of your knowledge, which method of TE is more common?

Offered answer	Employees		Students	
	Absolute	Relative (%)	Absolute	Relative (%)
WI	24	80	21	70
Non-issuance of fiscal bills	5	16.67	5	16.67
Equally present	1	3.33	4	13.33
<b>Total</b>	<b>30</b>	<b>100.00</b>	<b>30</b>	<b>100.00</b>



To the sixth question related to more often way of executing TE (Table 6) two equal groups of respondents (50% each) said avoidance of VAT (Value-Added-Tax) payment and creative accounting. However, employees stressed that avoidance of VAT payment is more common (56.67%), while students chose creative accounting (56.67%). It is interesting that in both groups of respondents was the same response rate regarding the more often way of executing TE. This can be explained with knowledge generated through working experience of employees.

**Table 6.** Review on answers to the question: To the best of your knowledge, TE in companies is more often done through?

Offered answer	Employees		Students	
	Absolute	Relative (%)	Absolute	Relative (%)
Avoidance of VAT payment	17	56.67	13	43.33
Creative accounting	13	43.33	17	56.67
<b>Total</b>	<b>30</b>	<b>100.00</b>	<b>30</b>	<b>100.00</b>

To the seventh question related to knowing somebody who WI (Table 7), the majority of respondents (61.67%) said that they knew one or more than one person. The second large group of respondents (38.33%) answered that they didn't know any person that WI. It is interesting that both groups of respondents had the same ranking scale regarding persons who WI. This can be explained with employment experience which had both groups and their acquaintances – type of engagement, internship, part-time, replacement or similar.

**Table 7.** Review on answers to the question: Do you know someone who WI?

Offered answer	Employees		Students	
	Absolute	Relative (%)	Absolute	Relative (%)
I know one person	3	10	0	0
I know more persons	15	50	19	63.33
I don't know	12	40	11	36.37
<b>Total</b>	<b>30</b>	<b>100.00</b>	<b>30</b>	<b>100.00</b>

To the eight question related to the receiving salary/earning “on hands” at any time (Table 8), the majority of respondents answered no (66.67%). It is interesting that both groups of respondents had the same percentage of positive and negative answers. It can be explained with the fact that both categories of respondents or their acquaintances had relevant contracts which prescribed minimal salary or other type of earnings which was paid on the account.

**Table 8.** Review on answers to the question: Have you ever received a part of your salary/earning “on hand”?

Offered answer	Employees		Students	
	Absolute	Relative (%)	Absolute	Relative (%)
Yes	10	33.33	10	33.33
No	20	66.67	20	66.67
<b>Total</b>	<b>30</b>	<b>100.00</b>	<b>30</b>	<b>100.00</b>

To the ninth question related to issuance of the bill after every shopping (Table 9), the majority of respondents said no (60%). However, there is big difference between the experience of employees and students regarding the receiving of the bill after shopping. It is obvious that they often received bills (53.33%) compared to students (26.67%).

It can be explained with the fact where both groups of respondents spent money (students usually spent money in cafes or small retail shops, while employees in big retail shops or restaurants).



**Table 9.** Review on answers to the question: Do you get a bill every time you shop in a store?

Offered answer	Employees		Students	
	Absolute	Relative (%)	Absolute	Relative (%)
Yes	16	53.33	8	26.67
No	14	46.67	22	73.33
<b>Total</b>	<b>30</b>	<b>100.00</b>	<b>30</b>	<b>100.00</b>

The tenth question was related to the party who should be penalized for not possessing the bill after shopping (Table 10), the majority of respondents (78.33%) answered sellers. It is important to stress that for students, sellers are the only party which should be penalized for not issuing the bill after the sale. However, the minority of employees

said that both parties should be penalized (43.33%), i.e. buyers (23.33%) more than both parties (20%) at the same time. Here, we can notice that students are less knowledgeable about tax policy and the ways in which the state can and should act in order to increase public revenues.

**Table 10.** Review on answers to the question: to the best of your knowledge, who should be penalized for not having a bill?

Offered answer	Employees		Students	
	Absolute	Relative (%)	Absolute	Relative (%)
Buyers	7	23.33	0	0
Sellers	17	56.67	30	100
Both	6	20	0	0
<b>Total</b>	<b>30</b>	<b>100.00</b>	<b>30</b>	<b>100.00</b>

To the eleventh question related to awareness of “phantom companies” (Table 11), the majority of respondents said yes (85%). However, there is a difference between the level of familiarity between employees (93.33%) and students

(76.67%). It can be noticed that employees are aware of those companies and their activities. Furthermore, it can be concluded that employees are better informed as a result of working experience or proper education.

**Table 11.** Review on answers to the question: Have you heard of the existence of the “phantom company”?

Offered answer	Employees		Students	
	Absolute	Relative (%)	Absolute	Relative (%)
Yes	28	93.33	23	76.67
No	2	6.67	7	23.33
<b>Total</b>	<b>30</b>	<b>100.00</b>	<b>30</b>	<b>100.00</b>

To the twelfth question related to the awareness of types of penalties for the crime of TE (Table 12), all respondents (100%) answered positively. Furthermore, the majority of respondents (64.67%) said mixed penalties (cash and prison) are more common. The second large group of respondents (16.67%) answered cash, while the

majority of respondents (3.33%) said prison. It is interesting that both groups of respondents ranked on the same way type of penalties for TE. It can be explained with the fact that both groups of respondents are well informed, which can be a result of good tax propaganda.

**Table 12.** Review on answers to the question: What do you think are the penalties for the crime of TE?

Offered answer	Employees		Students	
	Absolute	Relative (%)	Absolute	Relative (%)
Cash	5	16.67	5	16.67
Prison	2	6.66	0	0
Mixed	23	76.67	25	83.33
<b>Total</b>	<b>30</b>	<b>100.00</b>	<b>30</b>	<b>100.00</b>



To the thirteenth question related to the stricter penalties for TE (Table 13), two equal groups of respondents (50% each) answered positively and negatively. Furthermore, there is a difference between employees and students in the positive and negative answer. Students were for stricter penalties for TE (76.67%), while employees were for less strict penalties for TE (76.67%).

It is interesting that it is opposite response rate regarding stricter penalties between students and employees. It can be explained with the fact that employees are informed that there are other measures which can decrease the level of TE, such as decrease of tax rates on different subjects of taxation (such as salary, trade, etc.).

**Table 13.** Review on answers to the question: Should penalties for TE be stricter?

Offered answer	Employees		Students	
	Absolute	Relative (%)	Absolute	Relative (%)
Yes	7	23.33	23	76.67
No	23	76.67	7	23.33
<b>Total</b>	<b>30</b>	<b>100.00</b>	<b>30</b>	<b>100.00</b>

To the fourteenth question related to obtaining better results in the prevention of TE (Table 14), the majority of respondents (53.33%) said reduction of tax rates. It goes in line with the previous question and employees' opinion. However, respondents who belong to students

had the equal response rate about both proposals (50%). It can be explained with the fact that students don't have working experience based on balanced approach of applied measures for the prevention of TE.

**Table 14.** Review on answers to the question: To the best of your knowledge, what would give better results in the prevention of TE?

Offered answer	Employees		Students	
	Absolute	Relative (%)	Absolute	Relative (%)
Stricter penalties	13	43.33	15	50
Reduction of tax rates	17	56.67	15	50
<b>Total</b>	<b>30</b>	<b>100.00</b>	<b>30</b>	<b>100.00</b>

To the fifteenth question related to the way of education of tax payers in terms of adequate tax propaganda (Table 15), the majority of respondents (76.67%)

answered positively i.e. that tax propaganda helps in education of tax payers. It is important answer for further prevention of TE.

**Table 15.** Review on answers to the question: Do you think that tax propaganda can help educate taxpayers?

Offered answer	Employees		Students	
	Absolute	Relative (%)	Absolute	Relative (%)
Yes	22	73.33	24	80
No	8	26.67	6	20
<b>Total</b>	<b>30</b>	<b>100.00</b>	<b>30</b>	<b>100.00</b>

To the sixteenth question related to reporting of any notice of any form of TE (Table 16), the majority of respondents (55%) said no. It is warning sign for the

state and tax authorities, who should proceed further in order to determine the reasons.

**Table 16.** Review on answers to the question: If you notice any form of TE, would you report?

Offered answer	Employees		Students	
	Absolute	Relative (%)	Absolute	Relative (%)
Yes	14	46.67	13	43.33
No	16	53.33	17	56.67
<b>Total</b>	<b>30</b>	<b>100.00</b>	<b>30</b>	<b>100.00</b>



To the last question related to proposal for reducing TE, employees said: decrease of tax rates (first of all on salaries and VAT), stricter penalty policy, tax education, and tax relieves, reconsideration of the origin of the property, and prevention of WI. The majority of students didn't have any proposal, and minority of them answered decrease of tax rates and more efficient tax policy. It can be concluded that both group of participants stressed that the decrease of tax rates would reduce TE.

#### 4. CONCLUSION

Executed researches related to the knowledge and understanding of the importance of TE and prevented measures in RS (2019) had good response rates (60%).

Relevant conclusions are that employees are more knowledgeable about TE on the basis of answers related to: specification of any type of TE, determination of the common way of TE, avoidance of VAT payment is more often a way of execution of TE, receiving the fiscal bill after shopping, parties which should be penalized for not possessing the bill after shopping, measures which should be applied in order to reduce TE, and familiarity with the meaning and function of "phantom companies". Opposite, it can be concluded that students are less knowledgeable about tax TE on the basis of answers on previously mentioned questions. Finally, it can be concluded on the basis of answer that: 1) 55% of respondents would not report any notice of any form of TE, neither of them has a sufficiently developed awareness of the importance of collecting taxes. 2) 76.67% respondents answered that adequate tax propaganda was the way of education of tax payers. The state and tax authorities should take measures on further tax propaganda, education of tax payers and introduction of measures and climate that employees and students feel free to anonymously fulfill form of "your opinion is important to us" in order to get valuable input (suggestions) for some improvements in collecting public income i.e. reducing TE. It should lead to win-win situation for all stakeholders in the country.

Further researches will be focused on particular cases of TE in RS.

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