

TAX EVASION AS A CRIMINAL OFFENSE IN DEVELOPING COUNTRIES: SOME PERCEPTION FROM BUSINESS ORGANIZATIONS

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Abstract

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A reduced budget negatively affects the socio-economic development of developing countries. The research problem lies in analyzing the views of 200 Kosovar taxpayers of business organizations, regarding the impact of fiscal evasion on socio-economic development. The purpose of this research is to analyze the views of business organizations regarding weak penalties for tax evasion in Kosovo, tax rates in Kosovo, tax authority in Kosovo, and their impact on the level of fiscal evasion in Kosovo. The methodology of this paper is based on descriptive statistics, multiple linear regression, and ANOVA. The contribution of this paper lies in the fact that it is one of the first papers that has theoretically addressed tax evasion and its impact on the socio-economic development of Kosovo, therefore, this is where the relevance of this study lies. So, as the research of Abdixhiku, Krasniqi, Pugh, and Hashi (2017), this paper also provided evidence related to tax evasive behavior of Kosovo business organizations. The main findings of the research show that the level of taxes affects the level of tax evasion, so the perceptions of business organizations are that the current level of taxes affects the growth of fiscal evasion, which is harmful to the socio-economic development of developing countries. Tax evasion is a criminal offense against the economy (Ameyaw, Addai, Ashalley, & Quaye, 2015). This activity has a devastating effect on the state budget (Omodero, 2019). In conclusion, it can be affirmed that the level of taxes for Kosovo's organizations should be reviewed with the aim of reducing the current level of fiscal evasion.

Keywords: Tax Evasion, Criminal Offense, Multiple Linear Regression, Kosovo, Business Organizations

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1. INTRODUCTION

Tax or fiscal evasion is a problem of the illegal economy, so it is difficult to assess because a phenomenon or economic problem has a hidden

nature. In order to elaborate on this issue and make comparisons with different countries, the figures of tax evasion must first be compared. Comparison of tax evasion figures is possible only if an internationally accepted definition of this problem

is reached. In addition, the legislation of different countries plays an important role in defining and theoretically and empirically examining this phenomenon (Postea, 2021).

Literature sources show that there is an impact of tax evasion on the socio-economic development of a given country. From an economic and social perspective, doing undeclared work has important consequences both at the individual and at the societal level (Ameyaw, Addai, Ashalley, & Quaye, 2015). In a developing country, there is a positive relationship between socio-economic development and tax payments (Ferrer-i-Carbonell & Gërxhani, 2016). In the short run paying taxes reduces individuals' income, tax payments might increase life satisfaction or socio-economic development for different reasons such as individuals might feel satisfied with paying taxes that contribute to public goods and to a sustainable social security system, individuals might be worried about the future impact of evading taxes today (Levinson, 2012). For example, they may not receive or have rights to social benefits. Individuals might also experience a utility loss by failing in their civic duty to contribute to society (Lubian & Zarri, 2011).

Most authors in their theoretical and empirical evidence pay special attention to public services and the quality of infrastructure of a given country. The quality of infrastructure and public services are important factors in the socio-economic development of a country. Tax collection is vital for financing public services and improving infrastructure. However, many countries, especially developing countries, face many difficulties in tax collection, thus jeopardizing the fulfillment of these important functions. Fiscal evasion, therefore, limits a country's potential in collecting revenues that as mentioned above are vital to a country's legal and economic system (Postea, 2021).

Tax evasion negatively impacts governments' funding while improving the standard of living of a few individuals who evade or avoid taxes. High taxes are imposed to increase the capital needed to stimulate the socio-economy development of the given country. Socio-economic development depends on revenue generation for infrastructure development. Revenue generation for securing these infrastructural developments is done through an efficient tax system approved by the governments of the countries (Nzotta, 2007). Taxes are methods of social engineering to stimulate economic growth (Sani, 2005). It can also be stated that tax evasion increases the resources of the entrepreneur, but also reduces the public services provided by the governments of the countries, thus negatively affecting economic growth and social welfare. The high level of tax evasion leads to lower tax revenues and a reduction in public services provided by the government. This causes a low rate of economic growth and a low level of socio-economic development (Schneider, Buehn, & Montenegro, 2011). As well, countries with high levels of tax evasion experience weak direct democratic rights and low-quality governing institutions (Frey & Torgler, 2007).

This paper focused on theoretical and empirical evidence for developing countries, in particular Kosovo. Developing countries collect fewer taxes

than developed countries as part of total taxes and as part of the gross domestic product (GDP) (Richard & Zolt, 2005). Tax evasion can have a very negative impact on an economy where there is a reliance on human capital for public spending (Omodero, 2019). So, public spending and social support dominate the GDP structure of that economy (Freire-Serén & Panadés Martí, 2011). The public expenditures of the governments of Western Balkan countries are quite large, while the quality of public services is not satisfactory due to corruption, economic crime, nepotism, etc. (Jusufović et al., 2020b). Despite the fact that these phenomena are criminal offenses, they still can not be eradicated from the mentality of the societies of these countries.

As the poorest country in the Western Balkans, Kosovo has been facing the problem of economic crime and tax evasion since 1999. Economic crime and tax evasion have a very negative impact on the state budget because the country's government loses revenue, and fails to perform its functions to society (Abdixhiku, Pugh, & Hashi, 2018). Preventing economic crime, and in particular tax evasion during these years, has been impossible due to many factors. Kosovo needs to reach regional revenue levels. It ranks last in most economic indicators compared to all Western Balkan countries. According to Abdixhiku, Krasniqi, Pugh, and Hashi (2017), tax evasion in developing countries, such as Kosovo, is affected by low trust in the government and juridical system.

This paper is of great importance because it addresses this issue which is inhibiting the socio-economic development of Kosovar society. Also, this paper is one of the first papers that has reviewed the theoretical sources related to tax evasion as an economic crime and its impact on the socio-economic development of a country like Kosovo. The purpose of this paper is the theoretical and empirical analysis of the impact of tax evasion on the socio-economic development of Kosovo. The research objectives of this paper are:

1. Review of the literature on tax evasion as a problem that hinders the economic and social development of developing countries.
2. The study of the effect of tax rates on fiscal evasion in Kosovo.
3. Analyzing the effects of weak penalties on fiscal evasion in Kosovo.
4. Analyzing the relationship between tax authorities and fiscal evasion in Kosovo.

The structure of this paper is as follows. After the introduction section, there is a literature review section, where theoretical evidence from different authors on the studied issue will be provided. Meanwhile, the methodology section provides information related to the research, the way and methods of conducting the research, the time of the research, the data on the questionnaire, etc. After this, the obtained results are presented in Section 4, and their commentary and discussions are presented in Section 5. A conclusion and various implications are provided in Section 6.

2. LITERATURE REVIEW

2.1. Tax evasion in Kosovo

Aghion, Dechezleprêtre, Hémous, Martin, and Van Reenen (2016) claim that tax collection is an important process for the socio-economic development of developing countries because tax revenues finance public infrastructure, the educational system, and the justice system. Tax evasion and unequal distribution of resources cause corruption and poor public services and demotivate firms from paying taxes properly. Therefore, an unstable economic environment is created. Crivelli, Mooij, and Keen (2016) state that global revenue losses as a result of tax evasion are \$650 billion annually, about 1/3 from developing countries. So, it can be said that fiscal evasion is an inhibitor of the economic and social development of developing countries.

Despite the fact that progress has been made in the fight against fiscal evasion in Kosovo, the level

of fiscal evasion remains high, which is damaging the country's budget. In a country where fiscal evasion remains high, serious business organizations that are also regular taxpayers aim to find other solutions, even some of them have abandoned the Kosovo market and are oriented towards the North Macedonian market. Simply, public and private investments fall as a result of the rate of fiscal evasion.

Dzhumashev (2014) claims that fiscal evasion, specifically its impact on the economy of a country, depends a lot on the level of the economy of that country. Kosovo is faced with low economic development, a low production base and, therefore, social inequality and nepotism are very common in Kosovo. Raising the level of tax evasion can only further undermine the civic trust of government institutions. Kosovo considers tax evasion a criminal offense, and even the punishments for the perpetrators of this criminal offense are sanctioned by law.

Table 1. The main penalties related to the informal economy and tax evasion

Content of the article	Penalty with fine	1-2 months	2-6 months	6-12 months	1-2 years	2-5 years	5-10 years	Probation	Court reprimand	Mandatory treatment measures
Tax evasion	15	-	3	4	-	-	-	17	1	-
Co-perpetration of tax avoidance	2	-	2	-	-	-	-	5	-	-
False documents related to taxation	360	-	4	2	1	-	-	370	9	2
Co-perpetration of false documents related to taxation	24	-	-	-	-	-	-	38	-	-

Source: Kosovo Agency of Statistics (2020).

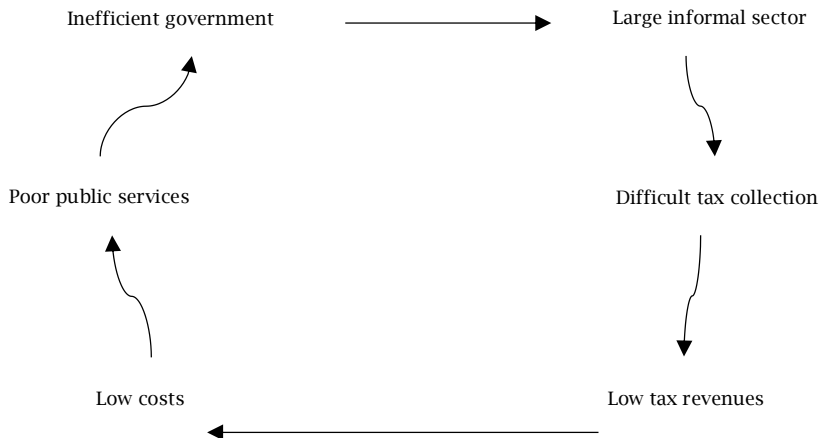
Table 1 presents the number of convicts for this criminal offense in 2021. Since 2008, several reforms have been undertaken with the aim of modernizing the tax system in Kosovo. The tax payment system has been digitized with the aim of reducing fiscal evasion. Fighting the informal economy is an important objective of Kosovar institutions. The rate of informality in Kosovo is estimated to be 31.7% of the GDP. Other Western Balkan countries have similar levels of informality. All efforts are undertaken with the aim of combating fiscal evasion, which burdens Kosovo's poor budget and deepens social inequality.

About 100,000 private sector workers in Kosovo do not have employment contracts and work for minimum wages. This has the effect of increasing the informal economy and, with this, damaging the country's budget. With a reduced budget as a result of fiscal evasion, many regions of Kosovo do not benefit from infrastructure and social welfare. Therefore, this has the effect of deepening the gap between the different layers of the different

regions of Kosovo. Unfortunately, the government of Kosovo does not have a program to fight the black economy, nor does it have specific policies, strategies, or action plans for the prevention of fiscal evasion.

It should be emphasized that the transition from the socialist economy to the market economy, or the transition process, has influenced the growth of fiscal evasion in Kosovo. This situation has been aggravated even more by the fact that Kosovo has the lowest number of tax inspectors per 1000 inhabitants in the Western Balkan region. Of these, 350 inspectors work in the field. However, over time, the fiscalization process has somewhat reduced the level of fiscal evasion. Almost every business is equipped with a cash register (Rashiti, 2019). This has been widely opposed by business owners and is still done less than a quarter of the way through the long implementation phase. Figure 1 shows the vicious circle of informality in Kosovo.

Figure 1. The vicious circle of informality



Source: Rashiti (2019).

Therefore, after 1999, during the international administration, Kosovo had a small budget, and international aid almost filled this budget. Therefore, fiscal evasion has negatively affected the state budget thus reducing capital investments, whereas, for a country like Kosovo, which came out of the riots of the nineties very destroyed in every aspect, capital investments were of great importance for the recovery of the local economy. Failure to pay taxes reduces the capacity of the Government of Kosovo to distribute revenues effectively to

the social strata and to make investments for the benefit of the community. This creates unfair advantages for unstable enterprises and pushes them to take illegal actions. About 9% of business taxpayers consider tax evasion as a means of survival. According to Kosovo Human Development Report (United Nations Development Programme, 2013), as a result of poor implementation of anti-corruption and tax evasion policies, Kosovo is experiencing relatively low trust in public institutions.

Table 2. Index of economic freedom in Western Balkan countries

Western Balkans	Fiscal health	Tax burden	Government spending
Bosnia and Herzegovina	97	83	49.3
Kosovo	94	92.6	76
Montenegro	23.4	85	32
North Macedonia	87	91	71
Albania	86	85	74
Serbia	94	83	49.7

Source: Jusufi and Gashi-Sadiku (2020).

It is estimated that tax evasion in Kosovo society leads to reduced revenues in the state budget, reduced revenues for social and health insurance encourages illegal work, reduces the quality of goods and services, especially when this is significant. The tax system and policy established by the United Nations Mission in Kosovo in 1999 had only purely fiscal purposes and not social purposes. The tax system and policy had only fiscal functions with very high share of indirect border taxes in total tax revenues (Peci, 2009).

Fiscal evasion in Kosovo is estimated at 30%, which has a negative impact on Kosovo’s budget and overall social and economic development. Kosovo institutions have not done enough to create genuine policies that would prevent the increase of tax evasion to this extent. This means the process from policies on business registration to their supervision, tax administration by competent authorities, etc. Indirect taxes show a higher degree of non-transparency than direct ones or a higher degree of tax evasion.

2.2. Relationship between tax evasion and some economic indicator

Alm and Martinez-Vazquez (2003) define fiscal evasion (tax evasion) as illegal and intentional actions taken by certain individuals and firms in order to reduce tax liabilities by law. Mirrlees (1971) is among the first researchers to investigate the issue of tax evasion in economics and law. According to him, there are several factors that are very important in elaborating the effects of tax evasion and economic crime on a country’s economy. So, he dealt only with the theoretical definition of this issue as well as the analysis of factors affecting tax evasion in a given country.

After that, Allingham and Sandmo (1972) also studied tax evasion as a criminal offense. The peculiarity of these authors was that they tried to study tax evasion from an empirical point of view. They even formulated a model called the “tax evasion model” using the economic crime approach. Slemrod (2007), Dzhumashev and Gahramanov (2009), and Blackburn and Powell (2011) take a similar approach to studying the impact of tax

evasion on a country's macroeconomic indicators. They used stochastic growth models to analyze the impact of tax evasion on macroeconomic indicators. According to their findings tax evasion varies from situation to situation. The impact of this phenomenon varies from one economic cycle to another. So, these authors use more perfect econometric models compared to previous authors.

Also, Nawaz (2010), Avnimelech, Zelekha, and Sharabi (2014), and Belitski, Chowdhury, and Desai (2016) in their research concluded that economic crime and corruption negatively affect the economy of a country, specifically in the collection of government taxes. In short, tax evasion is an indicator of corruption, and crime is high in the country. The high level of tax evasion damages a country's economy by enabling economic crime to flourish. The rise of economic crime as a serious criminal offense causes social inequality and consequently low economic well-being. So, these authors studied corruption, economic crime, and tax evasion and their effects on overall well-being. They provided generalized evidence that these indicators reduce the well-being of the population and inhibit socio-economic development.

Wrede (1995) came to the conclusion that tax evasion has a negative impact on socio-economic development because the loss of tax revenues leads to lower levels of public good and lower revenues and savings. Lin and Yang (2001) in their research provided evidence that for individuals with logarithmic preferences, economic growth increases as a result of tax evasion. So, the essence of the research of these authors was that from the individual point of view tax evasion is to the benefit of certain individuals, but in the collective aspect of course this phenomenon aggravates the well-being and overall development of the population of the countries.

Chen (2003) founds that economic growth and socio-economic development is reduced by tax evasion. This author analyzed the impact of this phenomenon not only on economic growth but also on the overall socio-economic development of countries. Célimène, Dufrenot, Mophou, and N'Guérékata (2016) studied the impact of corruption and tax evasion as economic crimes on government spending. Their results showed that a low sentence rate increases the probability of economic crime, and concretely can increase the level of fiscal exemption in a country. These authors analyzed preventive measures against tax evasion. In addition to noting the negative effect that tax evasion has on the economies of developing countries, they insisted on drastic measures to be taken to minimize tax evasion.

The authors argue that tax evasion in the private sector is not necessarily always seen as negative. They draw important conclusions arguing that in countries where public spending productivity is low, tax evasion and economic corruption may contribute to private capital development. Productivity simply shifts to the private sector. But this argument when treated from the point of view of developing countries does not stand much because, in developing countries such as Kosovo, Albania, and North Macedonia, the private sector is based on the use of employees, the use of their

capital simply does not value employees and their work. Simply treating employees is still not at the right level.

Levaggi and Menoncin (2015) in their research concluded that the level of tax evasion is not affected by insecurity in a country. The government of the given country should not increase uncertainty in fiscal parameters. So uncertainty is not a determining factor of tax evasion in a country. Along with insecurity, factors such as the mentality of society, ethics, morals, social values, and beliefs are of great importance. De Pinho Carvalho (2019) claimed that tax evasion can be beneficial to a country's economy if the revenues of that country's government are used for an unproductive good. The overall effect also depends on the implementation parameters for the issue.

Doerrenberg and Peichl (2013) argued that the structure of a given country's tax policy greatly influences tax evasion. A tax policy structure that is appropriate influences tax morale to be stronger, while the opposite influences tax evasion to be attractive to businesses in a given country. Darnihamedani, Block, Hessels, and Simonyan (2018) and Aidis, Estrin, and Mickiewicz (2012) in their research on the impact of corruption and economic crime on the economy of a country did not find any direct impact of corruption and tax evasion on the economy of the country. According to them, the low productive base is the main factor of economic backwardness and not an economic crime or tax evasion.

Khyareh (2019) researched the relationship between corruption or economic crime, tax evasion, and entrepreneurial activities. The results show that tax evasion has a negative impact on economic growth and entrepreneurial activities. While tax evasion is a criminal offense in most countries of the globe, then the penalties should be heavy on businesses or individuals who commit such a crime. This author is quite harsh in his assessments and findings because according to him, entrepreneurial activities, development, and economic growth are extremely affected by economic crime and tax evasion.

Ellis and Fender (2006) researched the impact of corruption and economic crime on a country's economic development. The authors used Ramsey's growth model. According to them, the taxes collected by the government of a country can be misused for other purposes. This represents economic crime or criminal offense. So, tax misuse is more serious and worse than tax evasion.

Grasmick and Scott (1982) studied the social and moral aspects of tax evasion and according to them character belief and ethics greatly influence the involvement of individuals in tax evasion. In a post-traumatic society emerging from war, raising individuals' awareness of tax evasion can be a bit difficult because foreign rule has created a slavery mentality in that society. Gächter (2007) results showed that the perception of individuals towards other individuals who may be involved in tax evasion greatly influences them to be involved in tax evasion. In Kosovo, after 1999, some businesses have followed such a practice.

Artavanis, Morse, and Tsoutsoura (2012) investigated the phenomenon of economic crime and tax evasion in Greece. Their results show that tax

evasion is the most widespread phenomenon among professionals in industrial fields that power in the Greek economy as well as greater representation in Greek society. So the areas that have a reputation in the Greek economy are distinguished by a higher level of tax evasion than the areas with a lower reputation. This is evidence that all economic sectors, regardless of income, are involved in tax evasion. Barr and Serra (2010), in their research, include students from different countries of the world. Their results found that students coming from countries where the level of corruption and economic crime is high are more likely to be involved in bribery. Slemrod and Yitzhaki (1987) studied the relationship between the increase of resources dedicated to the implementation of taxes with the increase of expected revenues achieved through this process. The larger the resource dedicated to tax implementation, the greater the expected revenue. Similar results have been achieved by Cerqueti and Coppier (2009).

According to Varvarigos (2017), the economies of different countries differ in the initial extent of tax evasion. Therefore, this can lead economies to different development paths. If the initial dimensions are low their economic development will be greater and vice versa if the initial dimensions of tax evasion are high then the economic development will be low. Hofstede (1980) in his research on tax evasion, focused on variables such as the degree of equality, individualism, avoiding insecurity, and masculinity of a country. In those countries where the level of social and economic inequality is high, the tax system is unequal and legally weak in protecting the poor. The high-income difference between these countries can be further increased by such a tax system. People, therefore, tend to perceive the tax system as dishonest and seek to avoid tax revenue. This is especially true for the countries of the Western Balkans, where social inequality is quite high.

Surrey and McDaniel (1985) have also studied individualization and its impact on tax evasion. According to them, in countries with low individualism, value standards differ between different social groups. The tax system in these countries is unequal and violates the principle of solvency because tax laws apply to people in different ways. The tax burden is unfairly distributed among society. Richardson (2008) stated that in countries with high uncertainty avoidance, there is a low tolerance for uncertainty. The tax system in these countries is likely to be complex because there is a need for many laws and regulations to reduce uncertainty. People consider the tax system complex and avoid taxes, thus focusing on economic crime.

Clemente, Lirio, and Aransiola (2021) through the results achieved concluded that tax evasion is directly related to the tax burden and the cost of control in a country. Nevertheless, the effect of penalties on tax evasion is unclear. They provided evidence that in developing and underdeveloped countries there are shortcomings in their tax system. This situation creates opportunities for high tax evasion. So, he sees the problem in the tax system of a certain country. All this theoretical evidence shows that fiscal evasion as a criminal act exists in almost all countries of the globe, but it is more pronounced

in those countries where the tax system is not sufficiently developed, there is a lack of strong and credible institutions, there is a lack of readiness of institutions to combat this phenomenon, as well as the mentality of society, is such that tax evasion is treated as salvation from economic sinking.

Regarding the measurement of the phenomenon of tax evasion, Madžarević-Šujster (2002) claimed that there are direct and indirect measures of tax evasion. Usually, the problem of tax evasion is assessed through a detailed control of tax returns and this is a direct method of assessing tax evasion. However, tax evasion can also be assessed through macroeconomic aggregates and tax bases. This represents the indirect method of assessing tax evasion. The first method is quite a costly method, which provides information on the structure of evasion for only one calendar year. Simply this method does not provide proper estimates for time trends.

Causes of tax evasion and economic crime can be summarized in several factors, the most important of which are the high level of taxes or tax burden, manner or efficiency of organizing the tax service, compliance costs, fines for attempted tax evasion, and the general collective awareness regarding the payment of taxes. Also, a very significant factor is the structure of public spending of a certain government combined with the quality of public services provided by this government.

According to some authors (Martinez-Vazquez & McNab, 2000; Gërxhani, 2004a; Meriküll & Staehr, 2008; Torgler, 2012) tax evasion is more pronounced in former communist countries, because tax evasion is seen as an important motive to earn more. This has to do with the fact that individuals in former communist bloc countries do not have a tradition of paying taxes. Also characteristic of these countries is the so-called "institutional vacuum". While there were no strong institutions after the fall of the communist system, this encouraged many individuals to engage in tax evasion. This further deepened social inequality where some individuals very quickly became rich while many others remained at the same level of social development.

Formal tax-related institutions play a very important role in society's perception of tax evasion. Individuals who think that the government provides public services equally to all social strata are less negatively affected by tax evasion. This is supported by evidence from authors, such as Cummings, Martinez-Vazquez, McKee, and Torgler (2009), Easter (2002), Friedman, Johnson, Kaufmann, and Zoido-Lobaton (2000), Gërxhani (2004b), Hanousek and Palda (2004), Schneider and Enste (2000), Torgler (2005). This is especially true for developing countries such as those in the Western Balkans. Ferrer-i-Carbonell and Gërxhani (2016) show that the social norms and experiences related to the communist legacy still matter, as the older generation seems to experience the relationship between tax evasion and well-being differently than the younger generation.

2.3. Weak penalties, tax rates, the tax authority

Regarding the impact of weak penalties on tax evasion, Modugu and Omoye (2014) have achieved interesting results. In addition to the existing

penalties and fines, whether they are weak or even strong, even greater efforts should be made to strengthen the legality of the penalties, so that the penalties serve as a deterrent to others who aim to innovate in criminality and tax evasion. So weak sentences are a significant indicator of increasing criminality and fiscal evasion. Only when punishments are strengthened, always relying on strong legal bases, will the level of economic criminality and fiscal evasion decrease.

Górecki and Letki (2021) claim that subjective norms influence the punishments for fiscal evasion, so regardless of whether the punishments or penalties are weak or strong, tax payers respect the subjective norms too much. Therefore, it does not mean that weak penalties always push taxpayers to undertake criminal actions such as tax evasion. Meanwhile, Omodero (2019) claims that tax incentives and tax morality affect tax evasion more than weak punishments, so weak punishments are one of the reasons that taxpayers undertake criminal actions and practice tax evasion, but these are not the main causes of the increase in the level of fiscal evasion in a certain place.

The lack of tax incentives and the lack of tax morale affect the level of tax evasion more than weak penalties. Similar results have been achieved by Van Rooij (2016), Bahadur (2018), Folayan and Adeniyi (2018). Lisi and Pugno (2011) claimed that in cases where penalties are severe, tax evasion and economic crime are at a low level, so entrepreneurs will be more careful in fulfilling their obligations to the government. According to them, only severe penalties make businesses aware of tax evasion as a criminal offense.

According to Duarte and Barros (2018), the activities of fiscal evasion are closely related to the advantages offered by different countries specifically with the tax rates. High tax rates influence tax evasion. Fisman and Wei (2004) researched the impact of the tax rate on tax evasion and according to them, the tax evasion gap has a negative relationship with the tax rates of various products. An example of this is the latest situation in the world, where the consequences of the COVID-19 pandemic and the Russian military attack on Ukraine, have led to an increase in the level of government taxes in Kosovo, for reasons of security and survival.

Similar results have been achieved by Epaphra (2015), who proves through empirical evidence that high levels of taxes affect the increase in the level of fiscal evasion, especially in developing countries because in these countries there is a lack of a genuine institutional structure and organization that would fight high fiscal evasion. This issue has been analyzed and studied by authors such as Chiarini, Marzano, and Schneider (2013), Slemrod (2019), Mengistu, Molla, and Mascagni (2022), Alstadsæter, Johannesen, Le Guern Herry, and Zucman (2022), and have achieved similar and universal results where the high level of taxes (tax rates) affects the increase in the level of fiscal evasion.

Hartl, Hofmann, Gangl, Hartner-Tiefenthaler, and Kirchler (2015) in their empirical research regarding the impact of the tax authority on the decline of fiscal evasion, have reached the conclusion that taxpayers base their tax decisions on some determinants such as the rate of

fine and the probability of control. Their empirical evidence on the relationship between these determinants and tax evasion is inconsistent and even according to them taxpayers may rely more on their beliefs about the power of the tax authority. The power of the tax authority can influence the convictions of taxpayers, and when these convictions are strong against the tax authority, then economic criminality and tax evasion will be reduced.

Abdixhiku et al. (2018) in their research on fiscal evasion in countries in transition, have reached the conclusion that institutional factors and tax rates are important in explaining fiscal evasion. High levels of corruption, slower reforms, and high tax rates significantly reduce the amount of taxes paid in transition economies. The macroeconomic environment affects tax evasion, especially on the part of businesses. The inconsistent business environment and social norms affect the level of tax evasion.

Different research such as those of Saxunova and Szarkova (2018), Alstadsæter, Johannesen, and Zucman, (2019), Qorraj and Jusufi (2019), Ma, Jiang, and Xiao (2021), Vitols (2021) have found theoretical and empirical evidence that there is a strong significant relationship between the tax authority and fiscal evasion. Not only is the legal basis of the tax authority sufficient to prevent fiscal evasion, but also the strategies, the promotion of this criminal phenomenon, the methods, and the tools used to reduce fiscal evasion. As long as these factors exist from the tax authority, there will naturally be a strong connection between tax evasion and the tax authority in a given country. Based on the theoretical evidence related to these variables, the hypotheses of this paper will also be presented:

H1: There is a significant relationship between weak penalties and tax evasion in Kosovo.

H2: There is a significant relationship between tax rates and tax evasion in Kosovo.

H3: There is a significant relationship between tax authorities and fiscal evasion in Kosovo.

3. RESEARCH METHODOLOGY

In order to achieve the empirical results, 200 Kosovo taxpayers were interviewed. Stratified sampling was used because the population consists of two groups: manufacturing business organizations and service business organizations. The questionnaire consists of 15 questions and these taxpayers were interviewed in the 7 largest cities of Kosovo: Prishtina, Mitrovica, Peja, Prizren, Ferizaj, Gjilan, and Gjakova. Almost 80% of the economic activity is concentrated in these cities. The authors of this paper interviewed these taxpayers and the aim was to obtain information and data related to fiscal evasion in Kosovo. The self-administration method was used by the authors of this paper in the distribution of questionnaires to the respondents or taxpayers of these Kosovo cities. These taxpayers are owners or even financial managers of 200 Kosovar business organizations from the manufacturing and service sectors. Regarding demographic data, 100 organizations are from the manufacturing sector, while another 100 organizations are from the service sector. Other demographic data of the respondents are presented in the table below.

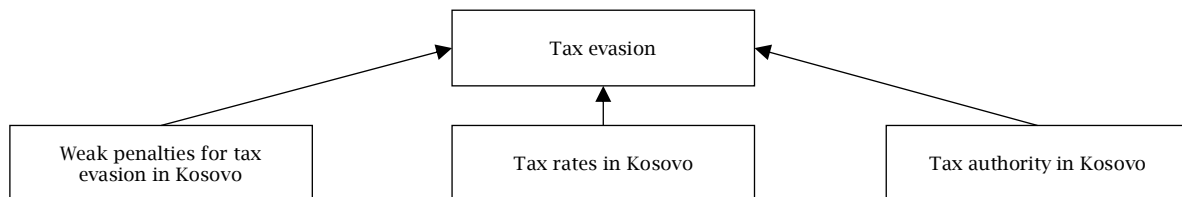
Table 3. Demographic data of respondents

<i>Education level</i>	<i>F</i>	<i>%</i>
Bachelor	67	33.5
Master	129	64.5
PhD	4	2
<i>Position in firm</i>	<i>F</i>	<i>%</i>
CEO	115	57.5
Production manager	85	42.5
<i>Type of firms</i>	<i>F</i>	<i>%</i>
Micro	7	3.5
SMEs	171	85.5
Large	22	11
<i>Business experience</i>	<i>F</i>	<i>%</i>
0-5 years	5	37.5
6-10 years	85	42.5
Over 10 years	113	56.5
<i>Regions</i>	<i>F</i>	<i>%</i>
Prishtina	103	51.5
Mitrovica	6	3
Peja	27	13.5
Prizren	19	9.5
Ferizaj	22	11
Gjilan	15	7.5
Gjakova	8	4

Source: Authors' elaboration.

The questions are composed of 5-point Likert scale. The design of the questions is based on the research or work of Ameyaw et al. (2015). The Likert scale ranking started from (1) — Strongly disagree, (2) — Disagree, (3) — Neutral, (4) — Agree, and (5) — Strongly agree. Meanwhile, descriptive

statistics, as well as linear regression, were used to derive statistical results that confirm or reject the hypotheses presented in this paper. The framework of this research can be figuratively presented in this way:

Figure 2. Research framework of this paper

Source: Authors' elaboration.

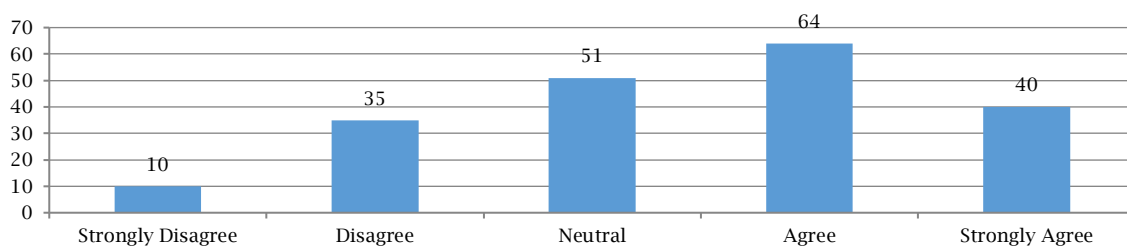
Weak penalties for tax evasion in Kosovo, tax rates in Kosovo, and tax authority in Kosovo represent the variables of this research and through them, the impact of fiscal evasion on the socio-economic development of Kosovo will be analyzed. It should be emphasized that SPSS Statistical Program was used to derive the statistical results. Meanwhile, the research was carried out during the period of June-July 2022.

4. RESULTS

First, descriptive statistics will be presented for the variables that constitute the essence of this

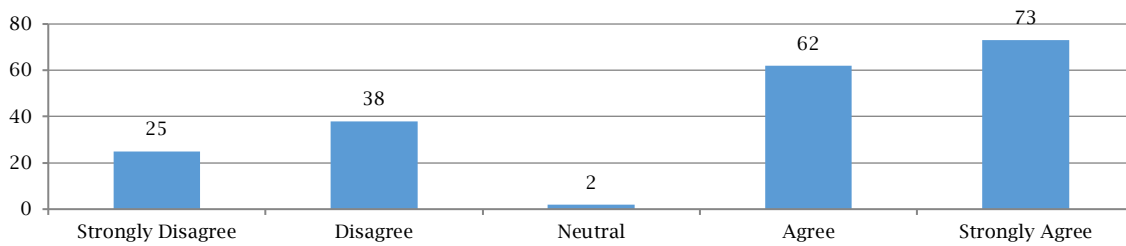
research. Taxpayers have been asked the question of whether weak penalties affect fiscal evasion in Kosovo. Sixty-four (64) of them have declared that "yes" or have agreed that weak punishments (penalties) affect tax evasion in Kosovo. Forty (40) of them declared that they strongly agree that weak punishments affect the growth of fiscal evasion, 51 were neutral, 35 respondents disagreed, and 10 respondents strongly disagreed.

The next question has to do with the impact of the level of taxes on the increase in criminality or fiscal evasion in Kosovo.

Figure 3. Taxpayers' responses to penalties for tax evasion

Source: Authors' elaboration.

Figure 4. The level of taxes and their impact on fiscal evasion

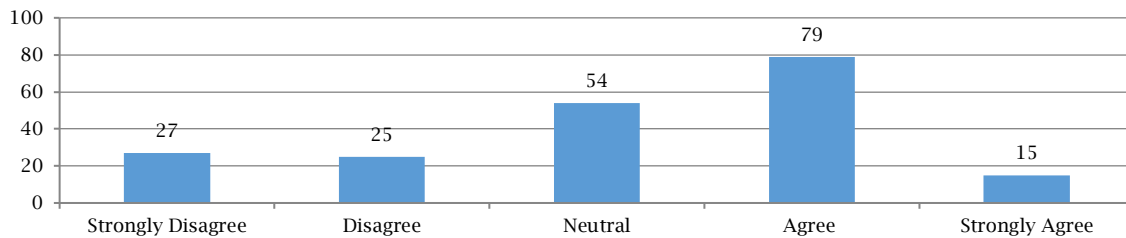


Source: Authors' elaboration.

The level of taxation is a very sensitive issue that is believed to have a major impact on tax evasion. The answers given by the respondents are as follows: 25 strongly disagree, 38 disagree, 2 neutral, 62 agree, 73 strongly disagree.

The next question concerns the authority of the tax administration of Kosovo. Specifically, with the relationship between the tax administration and Kosovar taxpayers, and how much this relationship affects fiscal evasion in Kosovo.

Figure 5. The relationship between the tax administration and Kosovar taxpayers and the impact of this connection on tax evasion



Source: Authors' elaboration.

Seventy-nine (79) of Kosovar taxpayers have agreed that the relationship between taxpayers and the tax administration of Kosovo as the main tax authority specifically affects fiscal evasion. Fifteen (15) Kosovar taxpayers strongly agree, 54 are neutral, 25 disagree, meanwhile, 27 taxpayers strongly disagree with the impact of the relationship

between the tax administration and taxpayers on fiscal evasion in Kosovo.

The results from the multiple linear regression will be presented below. The following table presents a model summary. Predictors are weak penalties for tax evasion in Kosovo, tax rates in Kosovo, and tax authority in Kosovo.

Table 4. Model summary

Model	R	R-square	Adjusted R-square	Standard error of the estimate
1	0.860	0.712	0.707	0.496

Source: Authors' elaboration.

An R-square value of 0.712 indicates that the independent variables weak penalties for tax evasion in Kosovo, tax rates in Kosovo, and the tax authority in Kosovo, describe 71.2% of the variability of the dependent variable which is the socio-economic development of Kosovo. An R-value of 0.860 indicates that there is a positive correlation between

the independent variables and the dependent variable. Even this value shows that this correlation is quite strong. This shows that the independent variables related to fiscal evasion have a strong impact on the socio-economic development of Kosovo. Below is the ANOVA of the regression model.

Table 5. ANOVA of the regression model

Model	Sum of squares	Mean square	F	Significance
Regression	131.709	43.508	158.682	0.000
Residual	41.098	0.269	-	-
Total	172.807	-	-	-

Source: Authors' elaboration.

The ANOVA value shows that the independent variables are significant for the dependent variable.

The following table presents the value of the multiple linear regression coefficients.

Table 6. Regression coefficients

Model	Unstandardized coefficients		Standardized coefficients beta	t	Significance
	B	Standard error			
Constant	0.164	0.119	-	1.309	0.148
Weak penalties for tax evasion in Kosovo	0.029	0.061	0.026	0.392	0.620
Tax rates in Kosovo	0.799	0.068	0.718	11.9	0.000
Tax authority in Kosovo	0.060	0.089	0.056	0.697	0.384

Source: Authors' elaboration.

From the statistics of this table, it can be understood that only the tax level variable is significant, that is, the high level of taxes represents a major problem for all Kosovar firms or taxpayers,

so this level of taxes tends to increase fiscal evasion in Kosovo. Meanwhile, the other two variables do not present significance. Based on this, the econometric equation can be presented as follows:

$$Y = 0.164 + 0.799 \quad (1)$$

An improvement in the level of taxes of 0.799 will have a positive impact on one unit on the socio-economic development of Kosovo. Therefore, based on this evidence, it can be affirmed that there is

a positive relationship between fiscal evasion in Kosovo and socio-economic development. Therefore, based on this empirical evidence, the hypotheses of this paper can be presented as follows in Table 7.

Table 7. Analysis of the research hypotheses

Hypotheses	Supported/Not supported
H1: There is significant relationship between weak penalties and tax evasion in Kosovo.	Not supported
H2: There is significant relationship between tax rates and tax evasion in Kosovo.	Supported
H3: There is significant relationship between tax authorities and fiscal evasion in Kosovo.	Not supported

Source: Authors' elaboration.

Based on the empirical evidence of linear regression, only the second hypothesis (H2) is supported, while the first and third hypotheses (H1 and H3) are not supported. Similar results have been achieved by Olawunmi and Ayinla (2007), Fuest and Riedel (2009), and Ameyaw et al. (2015).

5. DISCUSSION

This paper provided theoretical and empirical evidence related to tax evasion as a major economic problem for developing countries, focusing on this evidence of the impact of this phenomenon on the level of socio-economic development of Kosovo. In the literature review section, evidence was provided on the factors affecting tax evasion, the impact of tax evasion on economic indicators and economic well-being, the impact of social norms, ethics, insecurity, the morale of a society in tax evasion, etc.

Theoretical evidence proves that there are a number of factors that influence tax evasion, and even this varies from period to period and from situation to situation. Also, from the literature review, it is understood that tax evasion negatively affects the economic growth and socio-economic development of developing countries. In addition to negatively affecting this phenomenon in economic development, it also negatively affects the entrepreneurial activities of developing countries. The authors have even suggested that there should be drastic penalties for individuals or corporations who are engaged in tax evasion activities.

Also, social norms, morals, insecurity, and ethics, have a great impact on individuals or society as a whole, specifically on their perceptions of tax evasion. In societies, or in countries where these are strong, the level of tax evasion is low. From the literature review, it is understood that tax evasion is present in all economic sectors. Even theoretical evidence shows that in those sectors that

are considered developed, modern and attractive, tax evasion may be quite widespread. The papers of some authors provide theoretical evidence that tax evasion from all developing countries is most prevalent in the former countries of the socialist bloc, or in the former countries with communist heritage. Immediately after the fall of communism, very weak institutions were created in these countries which did not provide enough security, welfare, and other services. It was therefore convenient for certain individuals or corporations to engage in tax evasion.

In the second section, evidence was provided regarding the impact of tax evasion on the socio-economic development of Kosovo. Kosovo's budget depends a lot on the taxes collected. As long as Kosovo institutions can not collect taxes and fill their budget, they can not perform their functions. In this case, tax evasion causes very complex problems for a country like Kosovo, which since the late eighties is facing an unstable economy, declining welfare, increasing social cases, etc. The difference between social strata is quite large in Kosovo, social inequality inhibits economic development and is a barrier to increasing government trust in the people.

Today in Kosovo the paradigm of abuse of power for clan interests is quite widespread among the population. Add to this the phenomenon of tax evasion, which has a huge impact on destroying the trust of the population in government institutions. Taking as a study sample the case of Kosovo, where the paper provides data that can be used by researchers in various fields such as sociologists, economists, financiers, lawyers, etc.

Fiscal evasion in the case of Kosovo, in addition to damaging the state budget, causes above all great damage to the trust and reputation of the state and state institutions in the social strata. Therefore, through the theoretical and empirical evidence provided, it has been observed that the increase

in the level of tax evasion greatly affects the destruction of public confidence in Kosovo institutions. Many Kosovars are disappointed with the level of economic development of the country, the high level of corruption and economic crime, and if we add to this tax evasion, then the distrust of the population in public institutions will increase even more.

In the section of findings, it can be affirmed that there is a positive relationship between the socio-economic development of Kosovo and fiscal evasion, that is, with the reduction of fiscal evasion, the socio-economic development of this country also increases. Even the results of the linear regression prove that the high level of taxes affects fiscal evasion, so businesses consider the high level of taxes as an indicator of their direction in fiscal evasion. So, the level of taxes in Kosovo must be reasonable and in accordance with the allowed rates so that the level of fiscal evasion decreases.

Therefore, these data can be formulated in the definition and formulation of many sociological, economic, fiscal, business, and legal assertions or theories related to tax evasion and its effects in developing or undeveloped countries. Kosovo is a country that has economic and social characteristics similar to other countries in the Western Balkans, so the findings can easily be applied to neighboring countries.

6. CONCLUSION

The conclusions that can be drawn from this paper can be summarized in some key points or recommendations, the implementation of which would reduce the level of tax evasion not only in Kosovo but also in other Western Balkan countries, such as Albania, North Macedonia, Serbia, etc.

The highest tax authority in Kosovo is the Tax Administration of Kosovo. This institution is under the Ministry of Finance. The Tax Administration of Kosovo should cooperate closely with all other institutions which deal with tax evasion and economic crime. A strategy must be formulated which fights tax evasion to the maximum. In the literature, it was emphasized that Kosovo still does not have a strategy to combat tax evasion. Therefore, such a strategy is much needed to eradicate this phenomenon. So, despite the fact that in our econometric findings, the relationship between taxpayers and the tax administration of Kosovo was not significant, this administration is still of particular importance in the fight against fiscal evasion and economic criminality.

As in any other developing country in Kosovo, fiscal policy is of particular importance because it aims to achieve a higher level of socio-economic development and attract foreign direct investment. The constituent elements of this policy should be formulated in such a way that in addition to preventing tax evasion they would also ensure economic development and social equality. Kosovo governments in recent years have created several fiscal packages aimed at supporting businesses, especially exporting as well as supporting the poor

in Kosovo society. The main element of this strategy or policy should be the reduction of the level of taxes, in particular, this is important in times of economic crises, such as the post-pandemic period of COVID-19 and various disturbances at the global level which have influenced the increase in inflation in Kosovo, and they have completely impoverished the Kosovar consumer.

Business-related policies need to be reviewed, and simply supervising businesses needs to be stricter. So, the importance of supervising organizations should not be overlooked. The weak penalties in our findings were not significant, but the observation of firms is important for the control of fiscal evasion as a criminal phenomenon. Nepotism in Kosovar society is very widespread. There is evidence that due to the corruption of various officials of the tax administration, businesses escape penalties for fiscal evasion. Any form of nepotism and corruption in the tax administration must be fought and completely rooted out so that the level of fiscal evasion falls to a minimum. Even in the reports of the European Commission for Kosovar institutions, the fight against nepotism and corruption in state institutions such as customs, tax administration, municipalities, etc., is required.

The Government of Kosovo should conduct marketing campaigns related to raising awareness of the population and firms about the negative effects of tax evasion on the economy and society. The level of trust of society and firms towards the government should also increase. Only when this is achieved, then the level of tax evasion will be drastically reduced. So, without the awareness of the Kosovar society that the state of Kosovo is not strengthened by increasing the level of fiscal evasion, these negative phenomena cannot be rooted out.

The most important conclusion based on empirical evidence is that the high level of taxes affects tax evasion more than the relationship between taxpayers and the tax administration of Kosovo, as well as weak punishments for taxpayers who undertake criminal activities such as tax evasion. So, this is where the importance of this paper lies because while the few papers that have dealt with fiscal evasion, have been of a theoretical nature, this paper is among the rare papers that provide econometric evidence regarding the phenomenon of fiscal evasion in Kosovo's business organizations specifically, their perceptions of this criminal activity which inhibits the socio-economic development of Kosovo.

The main limitation of this paper is that in the future it would be better to enrich the research by conducting a comparative study between the countries of the Western Balkans and developed countries regarding the perspective of taxpayers regarding fiscal or tax evasion. Therefore, due to the time and cost of the research, this paper has been limited only to the case of Kosovo and has not been able to analyze the perceptions of businesses of other countries of the Western Balkans, such as Albania, Serbia, Bosnia and Herzegovina, North Macedonia, and Montenegro.

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