

# WAY OUT OF >>> SHADOW ECONOMY

The implementation of measures and activities from the National Program for Countering Shadow Economy, focused on improving the fiscal system and business supervision, reducing the administrative and para-fiscal burden to businesses and raising awareness, has contributed to better tax collection and fair competition in Serbia. In 2018, surplus in the national budget reached 32.2 billion dinars, due to improved collection of revenues which rose by 89.7 billion dinars. Registered employment increased by 3.3%, and salary taxes and contributions exceeded the planned amounts. VAT revenues were 11.4% higher in gross amount.

## KEY REFORMS AND ACTIVITIES IN 2018

### Improving the inspection oversight

In order to improve the supervision of illegal business operations, 11 laws have been harmonized with the Law on Inspection Oversight. The first phase of developing e-Inspector system has been completed, linking together the Administrative Inspectorate, Sanitary Inspection, Market Inspection and the Labor Inspectorate. A free telephone line for reporting unregistered employment has been opened at the number 0800 300 307. Plea bargains have been introduced for misdemeanors in the jurisdiction of Labor Inspectorate, market and tourism inspections. The Law also introduced *mystery shopper* as a new method of detecting non-registered businesses and failure to issue receipts.

### Simplified procedure for engaging seasonal workers

A reform law on simplified procedure for engaging seasonal workers in agriculture has been adopted, enabling their electronic registration since January 2019 via web portal [www.sezonskiradnici.gov.rs](http://www.sezonskiradnici.gov.rs) and mobile application - the first of its kind in Serbia. The time needed for registration of workers has been reduced from five hours to 10 minutes, while expenses arising from taxes and contributions were cut by one third.

### Tax exemptions for starting a business

Starting from October 2018, the amendments to the Law on Income Tax and Law on Mandatory Contributions for Social Insurance enabled young and unemployed people who start a company or register as entrepreneurs in the personal salary regime to start off without an obligation to pay taxes and contributions during the first year of work, thus saving up to 250,000 dinars. During the first three months, 470 new businesses were launched using this measure.

### Initiated reform of para-fiscal and administrative burden to businesses

The Law on Fees for Use of Public Goods has been adopted, listing 1,037 non-tax charges at one place. National Public Policy Secretariat listed 2,492 administrative procedures and prepared recommendations for simplifying 843.

### Improving the efficiency of Tax Administration

The introduction of electronic certificates on paid taxes will save at least two million euros for citizens and businesses annually. Digitalization of presumptive taxation has been initiated, along with automated creation of more than 300,000 tax decisions for 110,000 entrepreneurs. Thanks to improved risk analysis, 78% of requests for VAT return have been processed on time, which is twice as more than the previous year.

### Strengthening tax culture

National campaign - The Year of Countering Shadow Economy has been successfully realized. The prize game Take a Receipt to Win engaged 41% of Serbia's citizens in the fight against shadow economy (Ipsos, May 2018) who managed to collect and send more than 107 million receipts. The prize game encouraged 35% citizens to take fiscal receipts, and 13% to make card payments. 90% of citizens support countering of shadow economy.

# BUSINESS SURVEY ON SHADOW ECONOMY

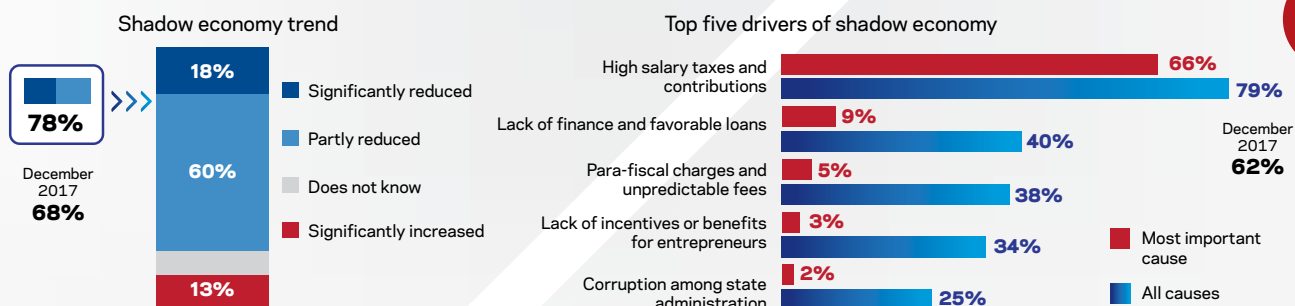
The annual business opinion survey on shadow economy in Serbia was conducted in January 2019 by research company Ipsos on behalf of NALED and German Development Cooperation, on a representative sample of 252 businesses.

## The scope of shadow economy

As seen by businesses, one in five companies (20%) operate in the shadow. More than three quarters of businesses believe the shadow economy has reduced over the previous year, which is significantly higher than in December 2017 (68%). Construction is highlighted as the industry with the biggest share of shadow economy, indicated by a half of businesses (53%), followed by trade (41), hospitality industry (38%), law practices (32%).

## The main drivers of shadow economy

High salary taxes and contributions stand out as the main cause of shadow economy, significantly more prominent than in the previous year, and compared to other drivers (79%). Accordingly, businesses most commonly avoid paying salary taxes and contributions (62%), followed by local and state fees (45%), profit tax (41%) and VAT (32%). When observing entrepreneurs only – they are most likely to highlight VAT as the avoided tax (50%). More than a quarter of businesses point out that salary contributions in their industry are partially paid (19%) or not paid at all (8%).



## Inspection oversight

Even 60% of businesses believe that the new Law on Inspection Oversight has improved the detection of non-registered businesses, which is significantly higher compared to 47% in December 2017. Nearly two thirds (62%) of businesses sees the existing penalty system as an efficient one.

## Supporting the fight against shadow economy

Nearly two thirds of businesses (64%) know that 2017 and 2018 were declared the Years of Countering Shadow Economy, which is significantly higher than in December 2017 (40%). Four out of five businesses find that the shadow zone operations are not justified, while only 3% legitimize the illegal operations. More than three quarters of business representatives believe the state is determined to tackle the shadow zone (78%).

