

Tax Evasion and the Impact on Economic Growth

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Abstract: The level of taxation is very important for the development of current and future of a country and fiscal policy should always be considered as an important factor in the behavior of participants and their ability to tax evasion and informality. Government fiscal policies can trigger tax increase under pressure, especially in situations such as economic crisis, inflation, unemployment, instability, when the burden of this obligation grows, its effects are considered to take them to tax evasion and informality (Dragomir. et al. 2011). However, these reasons do not relate to all the great presence of this phenomenon in Kosovo, taking into account the recent economic crisis has not reflected in the economy of Kosovo and the Kosovo tax burden is among the lowest in the region, but leading cause of tax evasion and informality can be considered above the corruption of public administration officials including tax and customs officials, insufficient staff for his fighting, weak rule of law, as well as lower fiscal culture for paying taxes. For this reason the scope of this paper will be the theoretical treatment of the informal economy and tax evasion in view of tax avoidance, meaning, characteristics and their effects on the economy and possible recommendations on these viewpoints.

Keywords: tax evasion; informal economy; economic development; tax policy; tax administration

JEL Classification: H26

1. Introduction

As an essential element of modern society, the tax should be defined as primary objective of public authorities to provide the amount of resources required to perform state functions, in support of social issues, compliance and fiscal discipline. In Kosovo, the collection of taxes made by the Tax Administration of Kosovo, organized and distributed in six regions and Kosovo Customs.

Tax has been an important field of politics throughout history and will continue to stay in the decisive role in the future politics of each state because it forms the basis of his income. Although everyone knows that taxes are essential for the government can be assumed that no one likes to pay taxes. For this purpose in recent years with more and more researches are being made to find the reasons and

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methods to reinforce and encourage taxpayers who with dedication and responsibility as citizens to play an important role in the process of collecting taxes. (Torgler & Schaltegger, 2006, p. 2)

There are many factor that can have an impact on tax avoidance such as institutional weaknesses, trust in public institutions, and the informal economy, the fight against tax evasion as one of the primary duties of the Tax Administration should work first inter alia relating to potential corruption in the administration ranks as turn to them as well as an offer made by dishonest taxpayers who strive through the phenomenon of avoidance of tax benefit, namely the presence of this phenomenon and its extent of spread that send course in reducing tax revenue. Kosovo is ranked 43 tax free report “Doing Business Report 2014” by 189 countries (World Bank, 2014).

Desire to inspire society is the first wish of every patriotic citizen. Such a desire is the one to pay the tax. Payment of tax is a civic duty and a contribution imposed by government for funding to enable her to run public services and perform other social responsibilities. (Adebisi & Gbegi, 2013, p. 125)

Although tax evasion and tax avoidance are facing problems every tax system, the Kosovo situation seems unique for the fact that the administration of taxes i.e. tax audit due to tax evasion and tax avoidance are mainly a result of the corruption of government officials and senior non-functioning of the law.

In this paper the issue of informality as a phenomenon which describes all economic activities which take place in secret by the state will be treated together with some of the negative phenomena that encompasses this phenomenon as tax evasion, tax avoidance, informal employment and wage understatement the workers. Problems that cause these phenomena and solving these problems are of great importance in terms of economic and social development. In general these phenomena reduce economic growth because tax avoidance reduces the ability of government to deliver social good for the citizens and thereby generate inequality between those who do evasion and those who pay tax, thereby contributing to the creation the motive for involvement in the evasion of other businesses, and in many cases even the salaries of workers understatement. Informality leads to unfair competition because informal businesses can sell their products and services at the lowest rate with low, because that their obligations are low by tax avoidance; informality reduces the chance of creating jobs in the formal sector, especially in countries where unemployment is high such as Kosovo, because of the fear that they will lose their jobs, the employees accept to work illegally in some cases their will, in many cases their minimal wages and working hours is due to longstanding struggle for survival. Besides causing negative effects on the economic development of the informal employment due to avoidance of income tax and

pension contributions of employees this category, except that in the future no pension benefits and health insurance, in fact in the long term it will raise the social cost for the state.

2. Informal Economy the Concept and Causes

A large part of the literature on informality explains the causes of this phenomenon to distribute not only in developed countries but also in developing countries or transitional. The concept of informality is complex and has sparked deep and controversial debate in academia. After reviewing recent literature that tries to define informality, it brings us to the question of whether this concept of including both activities is it legal and illegal. "Legal" includes unregistered business activities, which when caught can be formalized, but not extinct and bring additional revenue to the budget while, illegal activities include activities that should not exist; as human trafficking or drugs. These activities when are caught, cease to exist and do not bring additional revenue to the budget. (Riinvest Institute, 2013, p. 9)

According to Smith (1994, p. 18), the shadow economy comprises two types of activities, legal and illegal ones, the definition includes "products market goods or services, whether legal or illegal, are not included in the official measure of GDP".

While Friedrich Schneider (2008), defines the shadow economy as "all legal production of goods and services, in order to hide from the public authorities" thus leaving out the illegal economy and production activities of households. Therefore, the literature states that the informal sector is filled with terminological confusion.

The existence of an informal economy over time is explained by a variety of reasons, causes and motives related. Most analysts have agreed that one of the main causes in the development of the informal economy is the economic recession, as a consequence, of a possible stagnation unpleasant economic phenomena can occur such as unemployment, capital depreciation etc.

The main reasons to participate in the informal economy are mentioned in the literature: to avoid taxes; to avoid loss of government benefits; to avoid taxes, if earnings exceed a certain level, then individuals may take all or part of their benefits; a reaction from workers of firms and individuals of labor unions and the impact of international competition. For example, Swaminathan (1991) argues that the main reason to begin exploring in the informal sector in developing countries is associated with problems of poverty and survival needs. Also, in relation to countries in transition, Kaliberda and Kaufmann (1996) specify that the determinant of a growing informal economy fast are as follows: a portion of the low initial capital; a high degree of bureaucratic; corruption; civil war; market and

its mechanisms underdeveloped; low level of economic liberalization; high tax burden; Lack of confidence in government and macroeconomic instability. (Gërkhani, 2004, pp. 269-275)

As we have seen from the literature and the authors who have studied this phenomenon, we see that the illegal informal work identified mainly created to provide a salary (as self-employed or salaried employees) either to survive or to create additional income from salary and this leads us to the question: if the employees take informal jobs because you should or because they want to do this?, i.e. a word that informal work is voluntary or involuntary. According to Kucera and Roncolato (2008) informal employment differs from that of voluntary and involuntary this difference depends on the degree or state development. According to them, in developed countries where social security is great, the Employed may have alternative voluntary informal employment if they want to create additional income to take care lest the state while in developing countries where safety is low or absent for certain categories of people then involuntary informal employment is imposed. A similar conclusion is also given by Bernabe (2002) and Rutkowski (2006), who say the lack of opportunities to find work in the formal market and the need for survival in transition motivates people to work in the gray economy as the call them while in developed countries the informal activities intentionally developed so as to avoid taxation authorities as an opportunity for profit with high or for any other illegal purpose. While, Ruffer and Knight (2007) think that informality as voluntary as well as involuntary it can be applied in the same state and explain them as the growth of informality interpreted as economic failure and informal employment is considered imposed on the individual. In this case the growth of this sector is seen as a sign of economic success and then resolved by informal employment as will opportunities for profit with high (Riinvest Institute, 2013, pp.9-10).

According to a study done during the years 1999 to 2007 in 162 different countries of the world including developing countries and developed ones indicated that the presence of the informal economy as a percentage of gross social production averaged 34% in 1999, while it had a tendency decreases to 31% in 2007. Findings from the study also indicate that the high level of informality was present in the countries of sub-Saharan Africa 38.4%, followed mainly by the transition countries of Europe and central Asia with 36.5%, while in countries OECD high income with 13.5% of GDP. This shows that there are regional disparities in the level of informality. (Schneider, Buehn, Montenegro, 2010, pp. 3-34)

The informality of the labor force in Kosovo under an empirical study done in 2013 by the Riinvest Institute in Kosovo, the results show that on average 37% of the employed labor force is not legally declared.

2.1. Tax Evasion and the Factors that Caused It

The immediate effect and overall perception of tax evasion in many countries is the emphasis on the tax burden. Political and psychological effects arising from adverse reactions to taxpayers because the tax increase when they feel that mandatory fees are too high compared to their income they defer to tax evasion and fraud to be lowered their tax obligations. However, the size of the tax burden should not be viewed strictly as relative values in all countries. It is necessary to take into account the purchasing power of income remaining after tax for the room we encounter the same tax burden, but under different conditions (Dragomir, et al., 2011).

The mentioned factors cannot be considered as a cause of tax evasion in the case of Kosovo, given the fact that Kosovo has the lowest tax rates in the region and has a stable financial situation (but no rate with high poverty and unemployment in the region). This is shown in the IMF report for 2013, stating that Kosovo has shown considerable resistance to external turbulence, reaching one of the highest rates of growth in the Western Balkans during 2007-2012. This comes as a result of limited financial linkages and export to countries in crisis. Curb inflation remained at around 2%, 35% unemployment remains very high even though most of its mirrors informal employment. However tax structure should be adapted to the progress of European integration and the right over the economy towards domestic production taking into account the nature of the economy that relies heavily on imports and transfers, therefore government revenue collected from VAT too, excises and taxes on commercial activity (IMF, 2013 fq.1-5).

Tax harmonization is the main trend of fiscal policy to EU but, after the crisis of 2009 have a new trend for fiscal consolidation to reduce public deficit and liabilities held. Fiscal policy is very important for economic growth. If rates are increased or decreased, have some transmission channels of these measures of fiscal policy on the economy. So, if the government intends to stimulate investment tax rates should be lowered for the public budget this means a decrease. Global indicator which reflects the tax policy is the tax burden as measured by total tax revenue as% of GDP. This report is important because from a macroeconomic perspective reveals the government's success in collecting taxes and also the perception of the tax burden for contributors (Mara, 2012).

There is a big difference between Kosovo and the EU average in relation to the level of this indicator. The level of tax burden is low in Kosovo. The explanation is that tax collection in Kosovo is low even though the burden (rates) is lower taxes. Also, tax evasion is very high because taxpayers tend to hide taxes and do not pay tax in order not to reduce their profits.

A study done by UNDP in Kosovo shows that tax evasion reaches 39% (UNDP, 2012, f.53)

The tax burden weighs on mostly indirect taxes (VAT), about 45% of total taxes in the period 2012 to 2013 are from this tax, meeting and, in previous years to 50%, while the income tax personal gather around 33% of revenues and corporate tax (income tax) collected about 20% of taxes, others (tax on interest, dividends, royalties, rent, lottery winnings and gambling) about 3 % of taxes (Tax Administration of Kosovo, 2014).

While fiscal evasion is estimated to be the largest personal income tax for individuals under biggest filers of tax accounted for contractors, professionals such as lawyer, doctor, accountant, architect and traders at other stores unrealistic declare income, very low in compared with the nature of their businesses and, to their working Employed for wages, which are low in Kosovo, some of them do not declare tax on wages at a piece of under declaring it, in order not to reduce well-being of their already low. In low payment of tax on wages I thought that was influenced among other things by certain government decision only minimum wage to 170.00 € Employed over the age of 35 years old whereas the minimum salary of 130.00 € for the Employed under the age of 35 years old, which because of civil servants' salaries are relatively low in Kosovo have exploited this gap businesses in Kosovo, where a large part of their minimum wage claim for tax purposes for the Employed them even in those cases when they pay higher salaries for Employed them, a large part of their fare despite not declared will of those employees who are interested to pay tax on wages and pension contributions for their future. Pension Scheme in Kosovo is organized in a way that is individual pension accounts, so each gets employed when retiring pension amount which has accumulated (paid) for them. While tax companies hide posing major business expenses through fictitious invoices.

A very important feature of the tax system in many developing countries is the participation of consumption taxes or indirect taxes for reasons of lower administrative costs than their collection compared to the cost of collecting personal income tax and corporate. As documented by Gordon and Li (2009), consumption taxes constitute more than half of total government revenues in poor countries, personal income represent about 30%, whereas corporate income are 13% compared with 33 rates % of indirect revenue, 54% of personal income and corporate 10% those in developed countries. But regardless, the structure of income of a country relevant improvement of tax culture and sense of civic duty through greater budgetary transparency may be a more effective policy to improve tax collection and to promote economic growth. (Agenor & Neanidis, 2013, p. 1)

Table 1. The Tax Burden in Kosovo and in the Region (the Balkans), (2012-2013)

No.	State	Value Added Tax	Tax on Profit	Personal Income Tax	Social Contribution
1	Kosovo	16 %	10 %	4% 8 % 10 %	10 %
2	Macedonia	5 % 18 %	0 %	10 %	27 %
3	Albania	10 % 20 %	0 %	10 %	27.9 %
4	Bulgaria	7 % 20 %	10 %	5% 10%	30.3 %
5	Montenegro	7 % 17 %	9 %	19 %	33.8 %
6	Croatia	5% 10% 25 %	20 %	12% 15 % 40 %	35.2 %
7	Greece	6,6% 13% 23 %	26 %	10% 20% 22% 32% 42%	44.5 %
8	Bosnia Herzegovina.	17 %	10 %	5% 10 %	31 %
9	Serbia	8 % 20 %	15 %	12% 20% 25 %	35.8 %
10	Romania	5 % 9 % 24 %	16 %	16% 50 %	44.2 %
Total		17 %	12 %	15,6 %	27.6 %

Source: www.al-tax.org; www.atk-ks.org.

As seen from table tax burden in Kosovo, is generally lower than the average tax burden in the region. Since, in Kosovo so far applied only a tax rate on value added tax 16%, and it is low compared with higher rates that apply in other countries of the region and is also lower than the average of the region. Profit tax except Macedonia and Albania that is not quite applicable, Montenegro has lower rate than Kosovo for 1 % and rates are equal to Kosovo and Bosnia-Herzegovina Bulgaria, other countries have a higher rate and yet Kosovo has rates lower than the regional average for this type of tax. While terms of the personal income tax and pension contributions Kosovo has low tax rates in the region.

Table 2. The Tax Burden in the European Union Countries (EU)

Value Added Tax (VAT) rates in the EU -27														
Year:	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
%	19.2	19.3	19.5	19.5	19.4	19.5	19.4	19.5	19.4	19.8	20.4	20.7	21.0	21.3
Top Personal Income Tax rates in the EU-27														
Year:	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
%	44.8	43.8	43.0	42.3	41.3	40.0	39.4	39.2	37.9	37.2	37.9	37.6	38.1	38.9
Corporate Income Tax rates in the EU-27														
Year:	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
%	31.9	30.7	29.3	28.3	27.0	25.5	25.3	24.5	24.0	23.9	23.3	23.1	23.0	23.2

Source: Commission Services (European Commission, Eurostat, 2013, pp. 31-38)

As seen from the table above, the value added tax in EU countries in 2013 has increased by 2.1% compared with 2000. The personal income tax has fallen from 5.9%, whereas, Tax Corporate Income has decreased with of 8.4% in 2013 compared with 2000 in the EU countries.

Whereas, if we compare the tax rates applied in EU countries with the Kosovo case we see that the tax burden in the value-added tax in 2013 is 5.3 points lower in Kosovo than the average of the EU countries. Personal income tax in Kosovo in 2013 is 34.5 points lower than the average of the EU tax and corporate income (profit tax) in Kosovo in 2013 is lower than 15.9.pikë the average of the EU countries.

The tax burden in the Balkans in 2012 is 30.3% on average as of BPB. 2013 is 30%, i.e., a reduction of tax burden of 0.3% points (Gjokutaj, pp. 8-10).

In 2011 the tax burden including pension contributions in the 27 member states of the EU was 38.8% of BPB, the Eurozone (EA -17) was 39 .5%, in the United States of America (USA) and 25.2%, Japan 28.7% (European Commission, 2013, p. 21).

Although to indirect taxes (VAT) evasion opportunity to say that it is small because most of his harvest at the border, it still possibility for VAT evasion is evident mainly in domestic sales with VAT, i.e. even though the tax on VAT is an indirect tax and the burden falls on the ultimate consumer is nevertheless taxpayers are inclined to hide it by issuing fictitious invoices.

3. Tax Evasion and Corruption

Taxation is associated with the state in two respects: There is connection between taxation and accountability from the state on one hand and the relationship between the tax and state capacity on the other. To meet these working relationship with citizens to pay more taxes require many state services in return therefore, increase public revenues through taxation normally increase citizens' demand for a government to be responsible and incorruptible also very important is listening sonic the citizens how they perceive taxation and government efforts to increase taxes because raising taxes on one side and government irresponsibility on the other hand push tax contributors increasingly towards tax evasion. So, good governance, increase citizens' trust in public institutions and citizens to respond postpones paying taxes voluntarily and under conditions of poor governance, public income citizens can resist their payment if they believe that the tax system is very illegal and immoral as an arena where there are no rules encouraging them to avoid taxation through various strategies, especially when considering that the

country is in the grip of corruption introduced absorption by public officials. Impunity of public officials who are reduced to pardon influential in the hands of citizens who put their trust in many countries mainly in developing countries instead of being vested in the state that corruption has to be a phenomenon increasing even with tax evasion (Orock & Mbuagbo, 2012, pp. 480-482).

Based on the data (surveys conducted by businesses) Riinvest Institute in Kosovo appears that the major barriers to doing business in Kosovo are: tax evasion and informality that ranked first and second barrier in doing great business is corruption and data comparing 2013 with 2011, it appears that their impact is significantly increased compared to 2011. (the survey found that most businesses have declined in sales by unfair competition, the same found that most of sales realized in the country primarily to household customers while very little is exported and that businesses believe more staff, suppliers and buyers than government institutions and relevant municipality ie (Riinvest Institute, pp. 5-16).

Apart from the limited capacity within the Tax Administration for tax collection time, often ambiguities in the interpretation of the law (which are adapted from other countries) and the assessment of damage causes the tax burden for businesses that end up paying the fine because they have not been better able to calculate their tax liabilities. For more uncertainties in implementation increase the cost in time and money and opportunities for corruption.

According to the UNDP (2014), although corruption remains a phenomenon whereby Kosovo society is concerned, has decreased the percentage of citizens who think that corruption is present scale in various institutions, compared with April 2013. Perceptions of corruption in the Tax Administration of Kosovo, according to this report in April 2013 were of 42.5%, while corruption in April 2014 is of 16.5%.

4. The Culture of Paying Taxes (Tax Morale) in the Context of Fiscal Policy

Paying taxes throughout history has been and will be spent on the crucial role of fiscal policy as it forms the basis of the state to work. Therefore, it is very important to analyze tax morale. It can be assumed that no one likes to pay taxes even though everyone knows that taxes are essential for the government. There are some important tools that help to explain non-compliance or compatibility with taxes. Many researchers have pointed out that tax morale than first seen as internal motivation to pay taxes affected by many factors such as socio-demographic, socioeconomic, national or religious pride of a society; secondly institutional arrangements by which government works as democratic participation rate of

citizens (taxpayers) in government decisions, the degree of decentralization of taxation and the level of institutional trust, the tax administration behavior Thirdly, the effectiveness of the administration and its behavior towards taxpayers and the size of the tax burden are crucial for people to pay tax or not. So, as deemed tax evasion is not only illegal activities but is related to fiscal policy decisions by the government, bringing tax officials and cultural aspects therefore not only the level of law enforcement, but also the level of tax morale is crucial to understand the behavior of citizens and their willingness to pay taxes for tax morality seen tied to economic justification of taxation it is crucial how the government taxes the economy and how the government spends these revenues (Torgler & Schaltegger, 2006, pp. 1- 3).

The government to perform certain functions of its administration, and among other things it needs: Collection of resources from the economy, in order to sufficient and adequate and the distribution and use of these resources responsibly, efficiently and effectively. (OECD, 2004, p. 17)

As pointed Musgrave (1959) that the three requirements of fiscal policy are: revenue collection, their distribution and stabilization of the economy where the first two aspects are of interest to tax morale because the size of the income depends on people's compliance to paying taxes, income distribution also based on the principles of equality, justice and transparent manner positively affects tax payment. (Torgler & Schaltegger, 2006, p. 3)

A study done by Adebisi and Gbegi shows that enlightenment of the citizens to pay taxes and use adequate tax revenue for public goods and services would discourage tax avoidance and tax dodgers, while higher rates of tax avoidance and tax evasion urges that dodgers. The biggest problem faced by the tax systems in each country are the problem of tax evasion and tax avoidance. While fiscal evasion is the intentional violation of the law and deliberately to avoid paying tax which is imposed by law tax jurisdiction, tax avoidance is the way by which the taxpayer actively seeks to reduce or remove entirely the responsibility of its true tax without breaking the law (Adebisi, & Gbegi, 2013).

The first studies related to tax compliance were made in 60 and 70 by German researchers that psychology school tax Cologne. They saw tax morale as an attitude about tax compliance Schmolders (1960). Polls showed that the weight of their taxes is an indicator for the level of tax morale and found that self-employed people have morals with lower taxes than Employed, while Strumpel (1969) emphasized that the treatment of taxpayers with great care helps the cultivation of morality taxes (increasing the level of tax morale) and reduce tax compliance costs. So, as mentioned above socio demographic factors are sensitive site factor affecting tax morale ranging from important variables such as age, gender and

education. In this respect Tittle (1980) argues that the elderly are susceptible to threats of sanctions, so they are less prone to tax eliminated, but also in terms of gender Tittle (1980) shows that women are less inclined to avoid taxes because they are less independent than men, and if this is correct then such a definition does not apply today because women are now more independent than previous generations. Also, the level of education has an impact on morale taxpayers tax because taxpayers know better educated tax laws also are aware of the benefits of the services that the state provides to citizens, also better understand the possible abuses of government and know be critical to how the state uses tax revenue therefore affects the level of education of tax morale. (Torgler & Scholtegger, 2006, pp. 11-17)

Apart from socio demographic factors and socio economic level of tax morale have said that affects trust in government decisions and actions, then the government could promote confidence in the taxpayer if it creates a good reputation. An effective tax system should be feasible in order to provide incentives for taxpayers, they pay taxes, a form of the stimulus would be faith in the government that the resources collected from the payment of taxes will return to providing services to citizens and will not be misused by government officials. Tax affects the economic growth process since if it generates annually increased resources to finance the supply of production inputs provided by the government in the form of public goods such as roads or public education. (Caballe & Panades, 2000)

Also, the willingness to pay more taxes also affects the behavior of the tax authorities to taxpayers. If tax officials behave correctly and justice and fairness and respect for taxpayer services then provide the level of tax morale will increase and decrease together with the cost of collecting taxes, in contrast rude treatment will reduce tax morale while the cost of collecting taxes will increase because businesses need to audit will be great and will be done as a rule in place that would be much less necessary.

Empirical Analysis of the Frey (2003) has shown two important aspects of treatment with respect to taxpayers: first transparency of procedures used by the tax authorities. If the procedures are clear and open communication from state officials, easily understood by the taxpayer, then the willingness to pay taxes is great and secondly in the context of treatment and equal respect taxpayers role mode of treatment between taxpayers honest and dishonest. Treatment of honest taxpayers if they have made small mistakes on the occasion of the handover of their tax statements should not be treated as a criminal offense of intentional tax fraud just as dishonest taxpayers because the tax morale of honest taxpayers would then be damaged. (Torgler & Schaltegger, 2006, p. 21)

Regarding the determinants of tax morale aforementioned respect to the case of Kosovo, the Kosovo Tax Administration has made a series of reforms focusing on improving the quality of services for consumers, transparency and process improvement. Reforms and regulations including tax laws where tax laws applicable in Kosovo are new and most copied from various countries of the world and some of them were in disharmony with economic conditions in Kosovo, as the current tax system is re-established after the war in 1998/1999 and built with the help of international, so for 15 years to what has hitherto system of Kosovo tax laws and guidelines have changed from time to time that has caused great difficulties for taxpayers since that time had time to cope with new regulations and procedures for the settlement of their tax liability. It should be noted that frequent changes to regulations that are now translated into laws have found it difficult even tax officials who all the time had to cope with changes in laws and procedures at the same time also be their enforcer, who in some cases there may also bring uncertainty to taxpayers and at the same time stimulating their nonpayment of taxes. In the past two years has developed an electronic system where taxpayers are obliged to declare their taxes electronically that you thought was a hasty step of the tax authority because not all taxpayers are aware to understand how such a system when consider the complexity of the system and low level of education of a considerable number of people involved in the business. Number of people involved in business in Kosovo is great even though the possibilities of doing business are small and challenging because of government incentives are very limited to say non-existent (they exist only on paper), but people in Kosovo entering to conduct business in the absence of a job because the unemployment rate is calculated very high around 40%. So his way of declaring taxes in the last two years will be cause taxpayers who pushed for fiscal evasion, the impact is huge, especially in the tax declaration salaries of employees who also has been concerned with tax avoidance and fiscal evasion due to low salaries. So the way the tax declaration according bring cost system that applies to taxpayers in Kosovo and pushes them to avoid taxes that simultaneously causes the cost to the tax authority, which should focus on surveillance activities that avoid the tax payers or do not declare all; in auditing taxpayers to determine undeclared tax or avoid, and causes costs in collecting overdue taxes and penalties. Also, tax avoidance and tax evasion in business income in Kosovo is considered to be great when considering data (facts) on the ground that brings undeclared tax as well as additional tax on the occasion of audits (controls) that become these businesses by tax officials. In most cases tax avoidance observed in the value added tax (VAT) or consumption tax otherwise called but the difference here is that their transactions are easy to investigate and determine the tax evaded. So this means that tax evasion and tax avoidance in Kosovo is high and thus the need for additional staff to tax officials as level of tax compliance is low.

Agha and Haughton provided an overview of fiscal evasion of VAT in different countries of Europe and showed that example. In the late 70's 40% of revenues from VAT were uncollected, one-third of businesses have avoided some of the VAT, while the audit report in 1984 in France shows that two thirds of businesses audited had underestimated the value of taxable sales. Overall results show that Agha and Haughton compliance or compliance of taxpayers to pay VAT increase at a lower rate of VAT, they also concluded that a single rate tax with a broad base is ideal for a positive response to taxpayers for payment of VAT (Agha and Haughton, 1996, p. 307).

A single rate of VAT with a broad base is applicable in Kosovo, which is 16% of the value of goods imported and domestic purchases and sales, while 0% is the rate of VAT for export of goods.

5. Conclusions and Recommendations

As discussed previously, tax evasion is a complex phenomenon and largely present in all types of economies, poor, developing and developed. Given its complexity has many obstacles to overcome in order that the phenomenon of tax evasion and the informal economy generally be controlled as well as its consequences on the official economy of Kosovo to be analyzed and it is known that reduced its size to a value high.

Also, it was found that people engage in informal activities for a variety of reasons. These are not reasons in Kosovo due to the high tax burden because they are very low but, are in response to the low level of economic and social development, in response to the actions of the government and its officials, which is immersed in corruption and rule of law is weak, and for a fraction of taxpayers who realize huge profits mainly from service activities tax avoidance is not due to their awareness of tax payment and the failure to successfully adequate techniques for their treatment. Kosovo Government should take effective measures leading to stabilization or reduction of informal economy through incentive-oriented policies in a way that will make the work attractive in the official economy, especially in the creation of jobs, improvement in collection management tax revenues, which will reflect the growth and welfare of the citizens in general. Major problems, faced by Kosovo's tax system is to tax administration tax audit respectively due to tax evasion and tax avoidance, which are mainly due to the high corruption of government officials and non-functioning of the law. Therefore it is recommended that:

- The rule of law to prevail in Kosovo in order to combat negative phenomena including corruption of government officials and then the other occurrences as the informal economy.

- The development of appropriate techniques for handling more closely, not tax payers obligations, in particular in the construction sector, professionals of different profiles and to the private sector Employed.
- Capacity building of human resources in the Division of Risk Management for the aforementioned non-payers.
- Equal treatment of taxpayers.
- The fight against tax evasion should be implemented in such a way that improves competitiveness.

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