



## Tax Abuses as an Ethical Issue

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### Abstract

*This paper analyses tax abuses in the Federation of Bosnia and Herzegovina (FBiH), focusing on the shadow economy and undeclared work. The research aimed to identify the most widespread forms of tax evasion and the sectors in which they are most prevalent, as well as to examine the role of the Code of Ethics in combating these negative phenomena. The research findings show that the construction, hospitality, retail, and service sectors are the most affected by the shadow economy and undeclared work. The lack of consistent application of the Code of Ethics and legal regulations further contributes to the proliferation of these practices and undermines economic development and social stability. Recommended measures to combat tax evasion include strengthening monitoring and control, consistently applying the law, educating and raising public awareness, and promoting formal employment.*

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*Through the combined efforts of all relevant stakeholders - authorities, regulators, employers, employees, and civil society - significant progress can be made in reducing the shadow economy and undeclared work, promoting fair business practices, and achieving sustainable economic development.*

**Keywords:** *tax abuses, ethics, business practices, Federation of Bosnia and Herzegovina.*

## 1. Introduction

Tax avoidance, as well as tax evasion, is known to be a universal and pervasive phenomenon in all societies (Kang, 2016). The research results show that the shadow economy is a global problem in FBiH and the world due to high unemployment (through undeclared work or undeclared income). A shadow economy exists in any country and varies in size and form of existence (Buszko, 2018). The means available in practice to combat the shadow economy and undeclared work vary, but it is usually proposed to combine stimulating measures and punitive measures. The FBiH tax administration and the Federal tax inspectorates are essential allies in tackling the problems of the shadow economy and undeclared work, which are among the most significant tax abuses. However, due to their limited resources, they often cannot eliminate all societal tax abuses. For this reason, it is necessary to work on preventing abuses by updating the application of the Code of Ethics as a framework for the professional behaviour of individuals with the aim of protecting and strengthening professional discipline. The Code enables the importance of professional values to be understood so that decisions can be made in the profession's best interests. The absence of ethics and public accountability leads to increased corruption and abuse, undermining the foundations of a peaceful, prosperous, and just society. Therefore, strengthening the application of the Code of Ethics in public administration is one of the most essential prerequisites for democratic development.

This article addresses the issue of tax abuse, the shadow economy and undeclared work in FBiH, and the role of the Code of Ethics in combating these phenomena. The aim is to examine how ethics can contribute to preventing tax abuse and the shadow economy and present possible solutions to address these issues adequately. Thus, the first objective of this article is to highlight or raise awareness of the importance of ethics so that it can be used to prevent abuse and suppress and punish tax abuse, especially in the shadow economy and undeclared work. The study aims to identify and examine all the factors that influence the application of the Code of Ethics in business, as well as the motives that influence the emergence of the

shadow economy and undeclared work and how this is reflected in the tax system, its characteristics, rights, and obligations within the system and the consequences for society.

Empirical research is based on a qualitative analysis using interviews with tax inspectors in the FBiH. This technique is best suited to studying attitudes and values, as it allows the collection of more extensive data than any other survey method and, in this case, concerns a subject and data about which the interviewees have sufficient knowledge and professional experience. The interviewees are tax inspectors whose task is to monitor the implementation of legal regulations by companies in direct taxes and other public revenues. Since the sample includes respondents with higher education and longer professional experience as tax inspectors, it can be assumed that they understand the topic and can provide relevant information and recommendations necessary to identify the research subject and achieve the research objectives. The rest of the paper is divided into five sections. In section 2, we give an overview of the literature, and in section 3, the methodology and data sources are described. The empirical results and discussion are presented in section 4, while the conclusion follows in section 5.

## **2. Literature review**

In today's dynamic business world, a company's overall success, which includes ethical practices, sustainable strategies and stakeholder satisfaction, is critical to a company's long-term viability. Prioritizing these elements goes beyond profitability and builds trust, loyalty and a positive reputation, leading to sustainable growth and societal benefit (Lassoued, 2024). In modern societies, taxes are the essential funding source for public goods, and taxation is usually the most effective economic instrument for promoting socially desirable activities and/or reducing inequality in income distribution (Kang, 2016). The widespread prevalence of corruption and its adverse effects on institutional efficiency, the functioning of the economic market, and political stability have contributed to this phenomenon becoming a current research topic in various social sciences (Čudan et al., 2023). Corruption or abuse leads to inefficiency and ineffectiveness of local and regional authorities in performing their duties, as decisions are not made in the interest of society but in the interest of the decision-makers and their associates. Abuse poses a significant threat to sustainable development as it leads to increasing poverty and inequality. Tax avoiders, i.e., companies with relatively low cash effective tax rates, bear significantly greater tax uncertainty than companies with higher cash effective tax rates

(Dyrend et al., 2018). Measures to reduce aggressive tax avoidance are increasingly being taken or discussed in many countries worldwide (Malik et al., 2018).

It is almost impossible to determine the damage that corruption causes to economic growth and public finances because this phenomenon fundamentally threatens the economy and society in the long term and leads to stagnation, an imbalance in public finances, a loss of competitiveness, a fall in tax revenues and an increase in poverty (Čudan et al., 2023). According to the European Commission, the VAT compliance gap is the estimated difference between the potential VAT revenue from full compliance and the amount collected by the tax authorities. In 2022, the total VAT compliance gap in the EU amounted to €89.3 billion, i.e., 7% of the VAT Total Tax Liability (VTTL) in relative terms. Compared to 2021, the gap increases by €13.3 billion and 0.4 percentage points (of VTTL). The shadow economy is under continuous development and amounts to 50 % of the GDP in some countries (Buszko, 2018). Therefore, the theoretical literature studying tax avoidance has used a cost-of-avoidance approach, in which taxpayers can reduce their taxable income at the cost of finding suitable avoidance opportunities (Malik et al., 2018). Unemployment, government spending, bank loans and inflation are positively related to the shadow economy, while GDP per capita has a negative impact on the shadow economy (Tran, 2021). There is a gap between the very high estimates of the size of the shadow economy and the low government revenues generated by tax controls and regulatory measures. According to Viren (2015), the explanation for this seems to lie in the small size of companies in the shadow economy, the poor economic performance of the companies, the legal forms of the companies and foreign ownership.

Corporate tax avoidance has attracted a great deal of public attention, especially since the global financial crisis in 2008 (Oats & Tuck, 2019). Classifying and perceiving the different behavioural responses to taxation is crucial not only for academic researchers and policymakers but also for ordinary taxpayers whose tax behaviour is embedded in the social structure and influenced by social representations (Kang, 2016). There is a connection between national culture and the shadow economy. According to Buszko (2018), national culture affects economic activity, and as a result, a specific economic model can be created. A good example is the Nordic economic model, where the national culture supports the economy and reduces the size of the shadow economy. Furthermore, prior research suggests a relation between religiosity and risk aversion. Boone et al. (2013) conclude that religiosity is an essential factor in tax avoidance, and their results suggest that corporations headquartered (as well as individual resident taxpayers) in more religious counties are associated with less aggressive (i.e., less risky) tax avoidance. Social and ethical factors significantly affect tax fraud and corporate

social responsibility (CSR) related behaviours. The study by Amelio et al. (2024) provides new insights into the impact of CSR on the tax behaviour of companies. It confirms a significant influence of driving non-financial factors on tax fraud and CSR-related behaviours. At the same time, CSR has a strong moderating effect on illegal and unethical tax practices. Almutairi and Abdelazim (2024) found a significant positive correlation between CSR activities and a higher level of tax avoidance, suggesting that companies that engage in CSR are more likely to engage in tax avoidance.

Research into the heterogeneity of tax avoidance practices in family businesses increasingly recognizes the critical role of chief executive officers (CEOs) in setting the ethical tone and shaping companies' tax strategies (Cirillo et al. 2025). This study shows that moral values strongly determine strategic tax decisions. A comprehensive understanding of tax avoidance in family businesses enables policymakers to improve and update tax policies and regulations. Combating tax evasion can be an effective way of raising more tax revenue from the wealthy, increasing the progressivity of the tax system and ultimately reducing inequality (Alstadsæter et al., 2021). The relationship between corporate tax incidence and corporate tax avoidance depends on the elasticity of labour supply, the productivity of capital relative to labour, and the tax deductibility of labour and capital (Dyreng et al., 2022). They find that firms whose shareholders bear a lower share of the economic burden of corporate taxes avoid less tax and suggest that maximizing after-tax profits can lead to less tax avoidance if shareholders do not bear the full corporate tax burden. Amara et al. (2025) examine the moderating role of female audit committee chairs on the relationship between audit quality and corporate tax avoidance, and the results emphasize the critical role of audit quality in reducing corporate tax avoidance. In addition, the female chair of the audit committee reinforces the negative relationship between audit quality and tax avoidance.

### **3. Research Methodology and Data Sources**

The methodology used in this paper is qualitative research with the application of descriptive statistics. The semi-structured interview method, a research method commonly used in the social sciences and based on a pre-prepared outline, was used to collect the data required for this study. This method made it possible to ask additional questions flexibly and adapt the interview to the participants' specific answers.

During the planning and execution of the research, all steps were carefully documented, including the research protocol, participant selection, and data analysis, to ensure the credibility of the results (Buljan, 2021).

The interviewees were authorized officials of the FBiH Tax Administration, who control the small and micro enterprises category in FBiH, and who encountered illegal work through inspections. The following table shows the profile of interviewees who are tax inspectors in FBiH.

*Table 1: Profile of respondents*

No	Code	Years of work experience	Age	Sex
1	001	8	42	M
2	002	2	48	F
3	003	2	38	F
4	004	6	40	F
5	005	12	48	M
6	006	5	40	F
7	007	7	47	F
8	008	3	42	F
9	009	7	46	M
10	010	15	56	F

*Source: Author's analysis*

During the research synchronous communication is used, and in case it was prevented, asynchronous communication and a one-time interview.

When preparing the interviews, the framework questions were determined that are systematically asked during the interview. Although there was possibility to ask additional questions, this was rarely necessary due to the expertise of the respondents. The semi-structured interview was chosen because of its flexibility and the fact that the respondents trusted the interviewer, which enabled more open communication. To stay on topic and avoid an informal conversation, direct questions were asked to collect relevant data. The interview transcripts were used to analyse the responses, focusing on the key research questions that are defined

before the interview. These questions related to the analysis and identification of the most common fraud techniques in financial statements, especially those affecting corporate income tax.

The research findings emerged from the interviews conducted on the following topics:

- The most common forms and sectors of tax abuse occur in the form of the shadow economy and undeclared work;
- The role of the Code of Ethics in the fight against the shadow economy and undeclared work;
- The reasons for the emergence of the shadow economy and undeclared work and the consequences for society;
- The measures that would be most effective in combating tax abuses such as the shadow economy and undeclared work.

Ten questions were asked during the interview. Respondents gave direct and short answers to some of the questions but could not answer specific questions due to the complexity or insufficient knowledge of the topic.

After an interpretative analysis of the collected data, the most important responses were extracted and key observations of the respondents, which are classified and consolidated to present the results of the interviews.

#### **4. Results and Discussion**

This chapter presents the research findings that emerged from the interviews.

##### **4.1. The most common forms and sectors of tax abuse occur in the form of the shadow economy and undeclared work.**

Tax abuse, including the shadow economy and undeclared work, most often takes the form of illegal, undeclared, and unregistered businesses. These abuses manifest themselves in various forms, such as non-payment of taxes, non-declaration of workers, non-registration of traffic, and working without proper authorization.

*"Tax abuses such as the shadow economy and undeclared work occur most frequently in the form of illegal, undeclared, and unregistered business." (010, 56)*

Undeclared or illegal work occurs most frequently in the hospitality, construction, and specific service sectors.

*"During inspections, undeclared work is most frequently detected in sectors such as hospitality and construction, where the number of employees is generally very high." (006, 40)*

The shadow economy is most prevalent in areas with lower tax and gross contribution bases. At the same time, undeclared work is often associated with activities requiring lower skills and training, such as seasonal and freelance work. The high tax burden on wages also encourages this phenomenon, encouraging employers and employees to declare part of their income as illegal to avoid the high costs of formal employment and tax payments.

*"Shadow economy and undeclared work, the so-called informal forms of labour, are most prevalent in sectors with lower-paying jobs that do not require sophisticated skills and high levels of education. Given the current policy of taxing salaries, i.e., the high tax burden on salaries, the employer's cost of employing workers with a lower skill level is relatively high. At the same time, the employee receives a relatively low income, which encourages both parties to put all the agreed remuneration for the work in part into illegal cash flows, which are given the epithet of undeclared work in the shadow economy."(002, 48)*

In short, the shadow economy and undeclared work are significant problems most prevalent in specific industries, particularly hospitality and construction, where these problems take various forms. Without proper monitoring and effective suppression measures, these abuses can have serious consequences for the economy and the smooth functioning of the market.

*"The extent of the shadow economy in Bosnia and Herzegovina is still a major problem. According to the World Bank, Bosnia and Herzegovina ranks 133rd out of 190 countries when it comes to the "ease of paying taxes" criterion. This indicates that the shadow economy is still present and poses a challenge to the formal economy."(002, 48)*

Opinions are divided as to the extent of the shadow economy in recent years. Some sources suggest that the presence of the shadow economy has remained stable. In contrast, others indicate that it has declined recently due to labour shortages and improvements in control and inspection. Based on the available data and experience, the shadow economy still appears to be a significant problem in Bosnia and Herzegovina. Still, there are indications that its size has decreased somewhat, especially in recent years. Overall, the size of the shadow economy continues to fluctuate depending on economic conditions, control measures, and tax reforms. Given the persistent presence of this phenomenon, continued efforts to strengthen surveillance and implement more effective control measures are key to further reducing the shadow economy.

Control of the shadow economy and undeclared work is carried out through various types of controls, including quick, partial, and complete controls. Quick checks (or partial checks) are most commonly used to detect irregularities related to registered taxpayers' non-recording



of turnover and work without authorization. These inspections allow inspectors to check compliance with the law on the spot and detect irregularities in real-time.

*"The control of the shadow economy and undeclared work is usually carried out in the form of partial or quick inspections, during which it is checked at a specific date and time whether the inspected taxpayer has concluded an employment contract with the employees who were carrying out the activity at the time of the inspection and have submitted an application to the Single System for Registration, Control and Collection of Contributions, Control and collection of contributions, whether the employee has the authorization of the competent authority to start the activity, whether he records the turnover obtained through a tax device and whether he submits the prescribed forms with which he reports the calculated contributions to wages."(009,46)*

Although full controls are more extensive, they are rarely explicitly used to detect the shadow economy and undeclared work, as they focus on more general aspects of the business. On the other hand, partial (quick) checks allow for targeting specific aspects of the business related to the creation of the shadow economy, including verifying traffic records and employees' work permits. In addition, ad hoc controls are also used for specific cases and focus on solving problems related to the real economy and undeclared work. These controls allow for a more detailed investigation and resolution of particular cases of irregularities that fall outside the broader scope of regular inspections. These inspections play an important role in combating the shadow economy and undeclared work and ensuring taxpayers comply with legal standards and regulations.

#### **4.2. The role of the Code of Ethics in the fight against the shadow economy and undeclared work**

The lack of a Code of Ethics is closely linked to the ubiquitous shadow economy and undeclared work. Ethics and moral behaviour play a key role in business activities and relationships with legal obligations when taxpayers and regulators do not adequately apply the Code of Ethics, the shadow economy and undeclared work increase.

*"The lack of application of the Code of Ethics, both by taxpayers themselves in their economic activities and by regulators, is closely linked to the pervasiveness of the underground economy and undeclared work."(009, 46)*

*"Yes, the lack of implementation of a Code of Ethics can be significantly linked to the pervasive shadow economy and undeclared work. The Code of Ethics and its implementation*

*play a key role in reducing the shadow economy and undeclared work as they set standards of behaviour and help create accountability. "(003, 38)*

Taxpayers who do not feel morally obliged to fulfil their legal obligations often resort to illegal practices, while monitoring bodies' lack of ethical oversight can exacerbate the situation. Companies that focus on making a quick profit usually ignore ethical standards, contributing to the shadow economy's spread. Applying ethical codes and adhering to them is key to reducing the shadow economy and undeclared work. Setting and applying high ethical standards makes it possible to create a more responsible business environment and improve compliance with the law.

The Code of Ethics plays a key role in the fight against the shadow economy and undeclared work. As a framework for professional and moral behaviour, the Code of Ethics helps to ensure that companies comply with the law and reduce illegal activities. Its application helps to increase transparency and compliance with legal norms and to strengthen the sense of responsibility of companies and employees. Adherence to a Code of Ethics helps reduce the shadow economy by providing guidelines for proper business conduct and raising awareness of the importance of complying with the law.

*"Business compliance with the Code of Ethics plays an important role in the fight against the shadow economy and undeclared work. In the context of business, the Code of Ethics serves as a framework within which we should operate, thus facilitating and improving business under market conditions, all within the framework of legal regulations."(007, 47)*

The role of the Code of Ethics is not limited to business organizations. Regulators, such as tax auditors, should also adhere to high ethical standards to ensure fairness, integrity, and efficiency in their work. Greater awareness of ethical standards and their consistent application can significantly reduce the shadow economy and undeclared work and create a fairer and more transparent business environment. Ultimately, the Code of Ethics helps build a law-abiding culture and promotes responsibility in business.

*"One of the ways to reduce the shadow economy and undeclared work is to respect the norms of the Code of Ethics, to change the awareness of those responsible in companies, but also the awareness of citizens, where they will try to do everything in their power to suppress the spread of the shadow economy to increase the common good and public interest. Entrepreneurs and individuals should develop moral values because they are the foundation of ethics."(007, 47)*

Unethical practices, including the lack of ethical behaviour and weak oversight, allow the shadow economy to spread by circumventing laws and regulations. This may include non-

compliance with ethical codes, inadequate legal regulation, or poor application of existing laws. Research has shown that ethical principles play a key role in combating tax abuse. Including ethical standards in the legal framework can significantly increase the effectiveness of measures to combat the shadow economy and undeclared work. The main conclusions of the research point to the need to raise awareness of ethics in business, both among employers and employees, which would lead to a change in behaviour and better compliance with the law. The importance of stricter monitoring and the introduction of tougher sanctions to reduce the attractiveness of illegal activities was also highlighted, emphasizing education and training as key tools to raise awareness of the harmful effects of tax abuse and promote legitimate business.

#### **4.3. The reasons for the emergence of the grey economy and undeclared work and the consequences for society**

The link between the shadow economy and corruption is profound and complex, with both phenomena reinforcing and exacerbating each other. The shadow economy often arises due to corrupt practices and unethical behaviour, while corruption can facilitate or even encourage activities in the grey zone.

*"Corruption is behaviour that deviates from the formal rules of conduct for public authorities acting for private motives (wealth, power, status). The shadow economy is closely linked to corruption through the indirect actions of public authorities (poor legal regulations that "deliberately" leave room for the shadow economy") and non-compliance with the Code of Ethics by economic entities."(008, 42)*

Corruption in the form of bribery, nepotism, or other unethical practices reduces the efficiency and transparency of institutions, creating favourable conditions for the shadow economy. Corrupt officials or authorities can enable the evasion of legal obligations and taxes, further encouraging work in the grey zone. On the other hand, the shadow economy can also contribute to corruption, as illicit income is often used for bribery or other corrupt practices.

*"Corruption and the shadow economy are serious problems that have a negative impact on the economy and society. Corruption is the abuse of power for personal gain, including bribery, nepotism and other forms of unethical behaviour. Corruption weakens citizens' trust in institutions, makes it difficult to do business and can lead to inefficiency in the public sector. The shadow economy encompasses all economic activities outside official channels, such as undeclared work and tax evasion. High tax burdens, inadequate regulation and weak control can cause this phenomenon. The shadow economy reduces government revenues, which can*

*affect the financing of public services such as health and education. The fight against corruption and the shadow economy requires a comprehensive approach that includes strengthening the legal framework, improving transparency and accountability, and educating citizens on the importance of complying with the law."*(004, 40)

To effectively combat both problems, a comprehensive approach is needed to strengthen the legal framework, improve transparency and accountability, and educate citizens about the importance of complying with the law. The fight against corruption and the shadow economy requires coordinated efforts from all sectors of society to create conditions for legal and ethical business and to reduce the motivation for illegal activities.

Undeclared work has significant negative consequences for the state and workers. First and foremost, undeclared work reduces public revenue because the payment of taxes and duties is avoided, which directly impacts the decrease in GDP and the efficiency of public institutions. This loss of public revenue has an adverse effect on the financing of important services such as health and pension insurance.

*"Undeclared work directly impacts the reduction of public revenue, which threatens the efficiency of public institutions. This lowers the standard of household users, but also that of all citizens."*(001, 42)

Furthermore, workers who are illegally employed have no right to social protection, which exposes them to additional risks in the event of illness, accident, or retirement. The measures taken when undeclared work is detected usually include issuing misdemeanour orders, a temporary ban on doing business, and sealing the premises until the irregularities are eliminated.

*"If, during the inspections, we find that someone is working illegally, measures established by legal acts are taken, such as the issuance of misdemeanour orders, a temporary ban on doing business until the detected irregularities are eliminated, etc. "*(010, 56)

These measures are crucial for suppressing undeclared work and creating legal and transparent businesses. At the same time, by punishing employers who employ workers without employment contracts, the authorities are trying to create more favourable conditions for fair market competition and attract foreign investment. These measures are necessary to create a business climate in which the law and ethical standards are respected, thereby reducing the space for the shadow economy and increasing society's overall stability.

The reasons for the emergence of the shadow economy and undeclared work are varied and complex. One of the most frequently cited reasons is the high tax burden, which is why many employers and employees avoid paying taxes in order to increase their income. In addition, the

complicated administration and complex bureaucratic processes discourage legitimate business. Economic insecurity and poverty also contribute to people seeking informal income opportunities. The high level of corruption and the inefficiency of the inspection bodies enable employers and employees to avoid sanctions for undeclared work. In many cases, the low penalties for violations and the poor legal framework regulating this area do not serve as a deterrent.

*"In my opinion, the reasons for the rise of the shadow economy and undeclared work are the high level of corruption in the state and the low penalties for those involved in the shadow economy and undeclared work."(007,47)*

The lack of trust in state institutions also leads people to doubt the proper use of taxes and prefer acting outside the legal framework. Political instability and economic inefficiency further exacerbate the situation and create a climate in which the shadow economy and undeclared work become standard practice. All these factors together contribute to the spread of this problem, which has far-reaching consequences for the state budget, employees, and the economy as a whole.

#### **4.4 The grey economy and undeclared work are the measures that would yield the most effective results in combating tax abuses.**

Preventive measures to discourage undeclared work are key to reducing the shadow economy and ensuring fair working conditions. While some believe that current measures are not effective enough, a wide range of proposals could help combat this problem. Strengthening inspections and regular checks, introducing stricter penalties, including heavy fines and prison sentences, and increasing education of workers and employers about their rights and obligations are cited as essential steps.

*"The state could take preventive action in suppressing undeclared work by encouraging entrepreneurs, offering incentives for various employment programs and business start-ups. Preventive measures to discourage undeclared work: heavy fines, prison sentences, which could be incorporated into existing laws."(005,48)*

Other preventive measures include promoting legal employment through tax breaks and subsidies and creating opportunities for anonymous reporting of undeclared work. Cooperation with relevant institutions, such as tax authorities and social services, is also highlighted as key to identifying and punishing offenders. Business ethics, particularly in accounting and auditing, can play an important role in preventing the concealment of illegal activities.

*"Preventive measures certainly include the application of Code of Ethics, particularly in the areas of accounting and auditing, which can directly influence the concealment or disclosure of such illegal activities, as well as increased monitoring of the implementation of tax laws."(002,48)*

Many of the proposed measures emphasize the need to adapt existing laws and introduce stricter sanctions to ensure better compliance and reduce undeclared work. The fight against tax abuse, including the shadow economy and undeclared work, requires a combination of rigorous measures to improve the legal framework, reduce the tax burden, and strengthen inspection and control mechanisms. The most effective proposals include increasing fines for administrative offenses, digitizing tax processes (e-fiscalization and e-invoicing), reducing taxes, and simplifying administrative procedures that would encourage entrepreneurs to do business legally. Stronger cooperation between local police and tax authorities, as well as education and awareness-raising about the harmfulness of the shadow economy, are also mentioned as important measures. The introduction of incentives and benefits for legal business could motivate employers and employees to participate in formal economic flows. Ultimately, a comprehensive approach, including the fight against corruption and political stability, is needed to reduce the shadow economy and undeclared work in the long term.

*"It is not just a matter of measures, but a combination of many measures, which include the preventive measures already mentioned, reducing taxes and duties, increasing fines for violations of the law, increasing controls, educating taxpayers, strengthening control bodies (tax administration, etc.) and some kind of incentives and rewards for those who comply with the law."(005, 48)*

One of the most critical steps to improving monitoring and control is to increase the capacity of tax inspections, which includes hiring additional staff, including trained tax inspectors and financial investigation specialists. The use of advanced technologies to monitor business activities can also significantly improve the effectiveness of monitoring. Using software solutions to analyse data and monitor transactions in real time enables faster and more accurate detection of tax abuse. Integrating these technologies into existing databases and information exchange platforms strengthens the ability to control and sanction irregularities. It is crucial to ensure stricter sanctions for violators to achieve the desired results. These include fines and other measures, such as the closure of companies and the criminal prosecution of those responsible. Effective application of the law requires equal treatment of all subjects, regardless of their size or influence.

Transparency in monitoring and sanctioning procedures is also key to ensuring public confidence in the legal system. It is necessary to introduce clear guidelines and regular training for all parties involved to ensure consistent application of the law. Raising awareness of the harmfulness of the shadow economy and undeclared work and promoting the benefits of legitimate business is crucial. Awareness campaigns should inform citizens and employers about the importance of complying with the law and contributing to the tax revenues that fund public services and infrastructure. These campaigns can include workshops, seminars, and media activities that educate people about the risks of illegal activities. Promoting positive examples of legal business can also motivate others. Education should be continuous and adapted to different groups, including young people, entrepreneurs and workers. Creating more favourable conditions for formal employment can be achieved through various support measures, such as tax breaks and subsidies for employers who legally employ workers and pay all contributions. These measures can include tax reductions, more favourable conditions for employers in the first years of business, and subsidies for the employment of young people and the long-term unemployed. Reducing administrative barriers and costs associated with formal employment can further encourage employers to work by the law. This includes simplifying procedures for business registration, employee registration, and tax calculation, as well as providing support through information centres and online platforms.

## **5. Conclusion**

The research conducted within the Federation of Bosnia and Herzegovina (FBiH) aimed to provide a detailed analysis of the prevalence of tax abuse, focusing on the shadow economy and undeclared work. These phenomena pose a serious problem for economic development and the stability of society, as they disturb the market balance and reduce government revenue. Therefore, it was necessary to investigate their main characteristics, incidence, and impact on different sectors and activities.

Research has shown that tax abuse occurs most frequently in sectors such as construction, hospitality, retail and various service industries. These sectors are prone to the occurrence of the shadow economy and undeclared work due to the high turnover of workers, the seasonal nature of jobs, and the often unregulated working conditions. In the construction industry, for example, workers are often hired without formal contracts, thereby avoiding the payment of taxes and duties. The situation is similar in the hospitality industry, where workers are usually registered for a minimum number of working hours while working "illegally" the rest of the



time. In the retail and service sectors, the shadow economy manifests itself through the non-issuance of tax invoices and the non-declaration of sales, which leads to the evasion of tax obligations.

The research has shown that applying the Code of Ethics in the FBiH labour market varies depending on the sector and size of the companies. Larger companies and international organizations tend to have a Code of Ethics and policies in place that promote fair business and responsibility. However, in smaller companies and the informal sector, the use of the Code of Ethics is much weaker. The lack of awareness of the importance of business ethics and the absence of sanctions for breaches of ethical standards are significant obstacles. Improving the education and promotion of business ethics among all participants in the labour market is key to increasing the use of ethical codes.

The analysis revealed that tax abuse in the form of shadow economy and undeclared work is widespread in FBiH. Statistical data and survey results indicate a high level of shadow economic activity, which has a negative impact on government revenues and economic development. Of particular concern is the presence of undeclared work, where a large number of workers are unregistered and lack access to fundamental social rights. The shadow economy not only undermines the tax system but also creates unfair competition for companies operating in accordance with the law.

The investigation has shown that there is no uniform methodology in the FBiH to prevent tax abuse. There are various initiatives and measures implemented by the tax authorities and other relevant institutions, but the lack of coordination and a unified approach reduces the effectiveness of these efforts. Tax inspectors often work according to different regulations and procedures, which makes it difficult to enforce the law consistently. There is a need to develop a unified methodology that encompasses all aspects of combating tax abuse, including strengthening oversight, consistent application of the law, education and support for formal employment.

This analysis has identified several key areas that merit additional research to understand better and improve ethical approaches in the fight against the shadow economy and undeclared work in the Federation of Bosnia and Herzegovina. There is a need to further examine the application of ethical codes in practice and analyse the obstacles and challenges organizations face in implementing these standards while identifying opportunities for improvement. It is also vital to empirically explore the impact of ethical leadership on reducing the shadow economy, analysing specific cases from different sectors to identify factors that facilitate or hinder the successful application of ethical principles. Comparative analysis of international



practices could provide guidance to Bosnia and Herzegovina by comparing the strategies of countries that have successfully reduced the shadow economy. At the same time, research on the effectiveness of existing regulatory measures would allow the identification of potential improvements in their application. Monitoring long-term trends in the shadow economy would provide insight into changes and future challenges, allowing for timely policy adjustments. These recommendations will form the basis for the development of new policies that will strengthen ethical standards and efficiency in the fight against tax abuse and undeclared work.

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## Sažetak

*Ovaj rad analizira porezne zloupotrebe u Federaciji Bosne i Hercegovine (FBiH) s posebnim osvrtom na sivu ekonomiju i rad na crno. Cilj istraživanja je identificirati najraširenije oblike poreznih zloupotreba te sektore u kojima su najzastupljeniji, kao i ispitati ulogu Kodeksa etike u suzbijanju ovih negativnih pojava. Rezultati istraživanja pokazuju da su sektor građevinarstva, ugostiteljstva, trgovine i usluga najviše pogođeni sivom ekonomijom i radom na crno. Nedosljedna primjena Kodeksa etike i zakonskih propisa dodatno doprinosi širenju ovih praksi porezne zloupotrebe te narušavaju gospodarski razvoj i društvenu stabilnost. Preporučene mjere za suzbijanje porezne zloupotrebe su jačanje nadzora i kontrole, dosljedna primjena zakona, edukacija i podizanje svijesti javnosti te promicanje formalnog zapošljavanja. Zajedničkim naporima svih relevantnih dionika – vlasti, regulatora, poslodavaca, zaposlenika i civilnog društva – mogu se postići značajni pomaci u smanjenju sive ekonomije i rada na crno, promicanju poštene poslovne prakse i postizanju održivog gospodarskog razvoja.*

**Ključne riječi:** *porezne zloupotrebe, etika, poslovna praksa, Federacija Bosne i Hercegovine*