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Abstract

The capacity of a country to collect taxes can significantly impact its economic development, regardless of its economic system and social-political order. Governments carefully consider the amount of tax revenue they need to collect when determining their short- and medium-term fiscal policy goals.

This paper's goal is to examine the problem of estimating Bosnia and Herzegovina's (BiH) tax capacity and to present evidence of the elements that impact tax capacities based on the opinions of tax practitioners in this area through gender analysis. The sample in this study used a simple random sampling method. The results of the research are the formulation of some conclusions regarding the tax capacity and specific factors of social benefits and security regulation and regulation of the shadow economy, therefore, it is necessary to change them in many aspects.

In order to determine which factors have the biggest impact on tax capacity, the article uses both theoretical and empirical analyses. The empirical analysis uses a chi-square proportion test.

Keywords: Tax, Tax Capacity, Gender Analysis.

1. Introduction

Numerous eminent economists and authors have dealt with the research of the tax capacity problem in the professional activities' framework (Tuan Minh Le, Blanca Moreno-Dodson Jeep Rojchaichaninthorn, 2008., Gaspar, V., Jaramillo, L., and Wingender P., 2016. Garg, Goyal & Pal., 2017).

Taxable capacity refers to the predicted taxgross domestic product ratio that can be estimated with the regression, taking into account a country's specific economic, demographic, and institutional features. Tax effort is defined as an index of the ratio between the share of the actual tax collection in gross domestic product and the predicted taxable capacity, Tuan Minh Le and others (2008, p.1).

Tax capacities are influenced by a complex interplay of numerous factors, which can complicate research endeavors and inadvertently lead to the oversight of significant variables.

In the literature, tax capacity denotes the maximum amount of taxes that a government can potentially collect from its citizens and businesses without causing significant negative effects on the economy or discouraging economic activities. Determined by numerous factors, tax capacity is a multifaceted concept that requires a comprehensive examination. Based on the search term "tax capacity" at the specialist academic search engine Google Scholar 3.210.000 articles were found (searched, 27.12.2023).

First of all, we must understand key tax policy principles: What is a tax? What are the main economic activities that governments choose to tax? Modern economies rely significantly on taxes to finance essential government functions and services, a point emphasized by the International Monetary Fund IMF, (2023). As outlined by the IMF, taxation serves as the foundation of contemporary government finance, supplying resources for public services, infrastructure and education investments, and social safety nets. Taxation embodies three key characteristics: it is unrequited, not dependent on receiving a specific benefit in return; it is imposed by the government itself; and it is compulsory, allowing no room for voluntary participation. This compulsory nature distinguishes taxation from other forms of financial contributions. In the context of modern states, taxation supports the provision of a diverse range of public goods and services, which are essential components of sustainable development. Across many nations, taxation remains the primary source of government revenue, underscoring its critical role in funding the public sector.

To determine how to increase tax capacity, the following research questions will be investigated:

- Enhancement of the control system and tax collection
- Elevating the importance of upholding moral standards in paying taxes
- Improving and modifying tax regulations
- Improving the working conditions for the economy
- Social benefits and security regulation
- Regulation of the shadow economy

It is important to note that tax capacity, legal capacity, and public administration capacity are complements. Sustained improvements in tax collection do not occur in a vacuum. Building tax capacity requires investment in legal capacity, and vice versa. This is why we would expect tax, legal, and public administration capacity to be positively correlated with one another, Vitor Gaspar et al, (2016). Tax policy involves balancing competing interests and requires careful consideration. Tax capacity refers to the highest (potential) tax revenue level a country can collect to the extent that its economic, social, institutional, and demographic structure permits. Tax effort, on the other hand, is attributed to unobserved factors. This is defined as ability and willingness of a government to collect revenue from its tax capacity Garg, Goyal & Pal, (2017, p. 2). On the other side, tax revenue estimating is the process of assessing the impact on revenues of tax law changes proposed at the time of the government's budget, or subsequently TADAT, Filed Guide, (2015, p. 136). There are also indirect means through which tax capacity contributes to strengthening state capacity. For example, a simple and fair tax system can support improvements in public finance management and help build credibility among citizens that taxation is necessary to fund reasonably efficient and transparent programs that private markets, left to their own devices, could not deliver, Juan Carlos Benitez and others, (2023. p.

4). Tuan Minh Le and others (2008, p.14), argue that while taxation is always a critical dimension of fiscal policy for all countries, countries at various stages of development and with different initial levels of tax collection and effort should rely on different strategies for tax reforms. Acceptance of the fact by the tax administration that taxpayer control is not always the true or the only way of removing a lack of discipline from a taxpayer and that discipline can be enhanced by some more effective approach where the accent is placed on each case individually "from the base to the top", and in other ways can lead to reduction of tax evasion. Increasing complexity would certainly appear to have a more undesirable effect upon tax compliance, and further research utilising this variable needs to be undertaken Devos, (2014, p. 86).
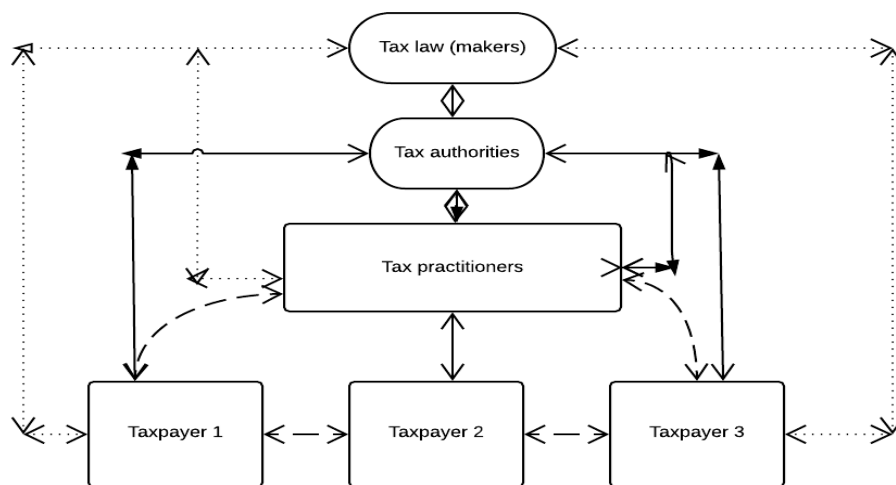

Figure 1. The tax game

To start with, taxpayers may interact with each other by exchanging information about the behaviour of tax authorities, by giving informal advice in tax matters, by cooperating in tax evasion (e.g., by working in the shadow economy) and in many other ways. Their connections are depicted by simple lines. In the same way interactions of taxpayers and tax practitioners' are shown in Fig. 1 since taxpayers may consult the latter for filing tax returns or for professional advice in tax matters. The most important interaction, however, is the contact between taxpayers and tax authorities (indicated in Fig. 1 by bold lines). This interaction is hierarchically structured insofar as the tax authorities can enforce tax laws and punish deviant taxpayers. Therefore the taxpayer and tax authority interaction is at the core of the taxation game. Not surprisingly, it attracted by far the most attention of research in economics as well as in psychology Pickhardt, Prinz, (2013, p. 3).

Garg, Goyal & Pal, (2017, p. 19) showed that, apart from tax base, a number of factors such as the structure of economy, literacy rate, and proportion of economically active population have significant association with tax capacity. Access to forms of revenue other than taxes has also been associated with lower taxation Vitor Gaspar et al, (2016, p. 6).

The control system indeed plays a crucial role in enhancing the quality of work in tax administration. By implementing effective control systems, tax authorities can streamline

processes, ensure compliance with regulations, minimize errors, detect fraud, and improve the overall efficiency and effectiveness of tax administration. Effective control systems can help in standardizing procedures, ensuring accuracy in data collection and reporting, and providing a mechanism for monitoring and evaluating the performance of tax administration staff. This, in turn, can lead to improved taxpayer service, increased voluntary compliance, and the generation of accurate and reliable tax revenues. Tax audit – An examination of taxpayer financial records and dealings to verify amounts reported in tax declarations. Audit types vary in nature, scope, and intensity and include, for example, comprehensive (multiple tax and multiple year) audits, single-issue audits, inspections of books and records, examination of VAT refund claims, and in-depth investigations of suspected tax fraud, TADAT, Filed Guide, (2015, p. 88). The majority of studies which have examined sanctions as a compliance variable have either attempted to manipulate the penalty level in an experimental setting, or have used the actual penalty rates in the particular tax system being investigated, Devos, (2014).

Most, if not all, public institutions are legislated and resourced to contribute to the social and economic well-being of a country. Those institutions must demonstrate that they have indeed used their powers and resources to achieve their goals and objectives responsibly, efficiently, and effectively. Furthermore, taxpayers' perception of tax regulations is influenced by factors such as the transparency and fairness of the tax system, the clarity of tax laws, the ease of compliance, the efficiency of tax administration in processing returns and providing services, and the perceived effectiveness of public sector and public enterprises in utilizing tax revenues for public welfare. Although a substantial level of research has been conducted on tax rates, it is still unclear how this variable impacts upon taxpayer compliance, Devos, (2014).

In countries where the level of tax compliance is low and the efficiency of tax collection is lower. Tax morale can be influenced by educational and gender structure population. Tax morale and culture by fulfilling tax obligations is difficult to measure because it depends from the perception of taxpayers themselves. In the tax literature, the concept of tax morale is frequently not explicitly defined, and operationalization and measurement in empirical work are rather heterogeneous, Kirchler, (2007).

In all countries, there are certain economic activities that are not recorded by the state (the so-called unregulated economy) and sometimes the gray economy can be an official social policy. A high level of the shadow economy has significant economic and social implications. Its adverse consequences comprise, among other things, a reduced tax base, a lower quantity/quality of public goods, more distortions in market competition, the degradation of economic and social institutions, and – through the abovementioned channels – lower economic growth Ernest &Young (2016. p. 70).

In international tax law, the principle of horizontal equity is linked to the prevention of double taxation (elimination of double taxation), on the one hand, and tax avoidance and evasion, on the other hand. The combination of the residence principle and the source principle with unlimited and limited tax liability respectively, as well as appropriate methods to eliminate double taxation, are intended to ensure that tax is paid once, Maria Supera-Markowska (2022, p.56). The problem is that perception based indicators are at risk of reinforcing existing stereotypes or biases that exist in epistemic or other surveyed communities, asdiscussed for example by Cobham (2013).

Tax capacity is also susceptible to external shocks, including the impact of natural disasters and global financial crises. Additionally, it is essential to consider a country's macroeconomic context when addressing these concerns for a comprehensive understanding of its tax capacity. However, in reality, Bosnia and Herzegovina is a middle-income country; the unemployment rate is high compared to the Balkan region, with a large number of employees in the public sector. Furthermore, there is no uniform legal framework for the whole country of BiH to regulate the field of tax policy in form of a specific piece of legislation. The following constitutional acts govern the distribution of competences between different levels of governance in Bosnia and Herzegovina (BiH): the BiH Constitution, the Constitution of the Federation of BiH (FBiH), the Constitution of the Republic of Srpska (RS), and the Statute of the Brcko District (BD) of BiH. In that sense, indirect taxation in BiH is within the competence of BiH institutions (in the entire territory of BiH), whereas the direct taxation in BiH is within the competence of the FBiH (in its territory), of the RS (in its territory), and of the BD (in its territory), Terzic, et al. (2019, p. 44-45).

There is an unexploited potential for increasing tax capacity collection if automated exchange of bulk taxpayer data between the BiH tax administrations is implemented. Bulk data is needed by each administration so that analyses can be performed on basis of comprehensive taxpayer profiles that can lead to the identification of compliance trends and behavioral aspects of taxpayers.

The paper follows this organizational structure: In Section 1, the term tax capacity, its determinants, procedures, and tax policy within the economic-social environment of BiH are presented. Section 2 offers an overview of the sample and empirical data, along with the analysis and presentation of research results on the attitudes of respondents in BiH. The conclusions are drawn in Section 3, wrapping up the findings and implications of the study.

2. Analysis and presentation of research results on attitudes of respondents

This research uses quantitative descriptive research methods. According to Jain and Srivastava (2013), the survey is a way to achieve self-reporting facts about the ideas, behaviour, opinions and assertions characteristic of a particular population. For that reason, the present study is a quantitative research approach in which a cross-sectional process was used to collect data only at one point in time. The data are collected using standard instruments and instruments that will be constructed only for the purposes of this research, as this is an example of the Tax Administration of Sweden (STA), which, via questionnaires, examine the perception of citizens and taxpayers about the outspread of tax evasion. The questions in the surveys are formulated as statements to which the respondent agrees or disagrees, on a five digit scale. There is also an option to respond with" no opinion" (STA, 2014).

In order to achieve the set goal, empirical research will focus on data collection both by taxpayers and tax administration employees. In accordance with the subject the problem of research and the aims of empirical research in the sample on which two research groups or subgroups, male or female, have been investigated are 200 taxpayers (66.7%) and 100 tax inspectors (33.3%), whose attitudes, within further analysis and interpretation of data obtained by primary research, are comparable. The questionnaire's six statements were examined to see which priorities should be removed to increase tax collection.

To make a comparison between subsamples in terms of order priorities in removing obstacles to increasing tax collection, as these are variables measured on the Likert scale (ordinal variables) these results will be checked by a chi-square proportion test, statistical measures often used to describe and summarize a set of data, Minimum, Maximum, Mean (or Average), Median and Standard Deviation. Cross-tabulations and results of chi-square tests for the variable whose modalities are Male/Female and variables related to claims about the most important priorities in removing obstacles to increasing tax collection.
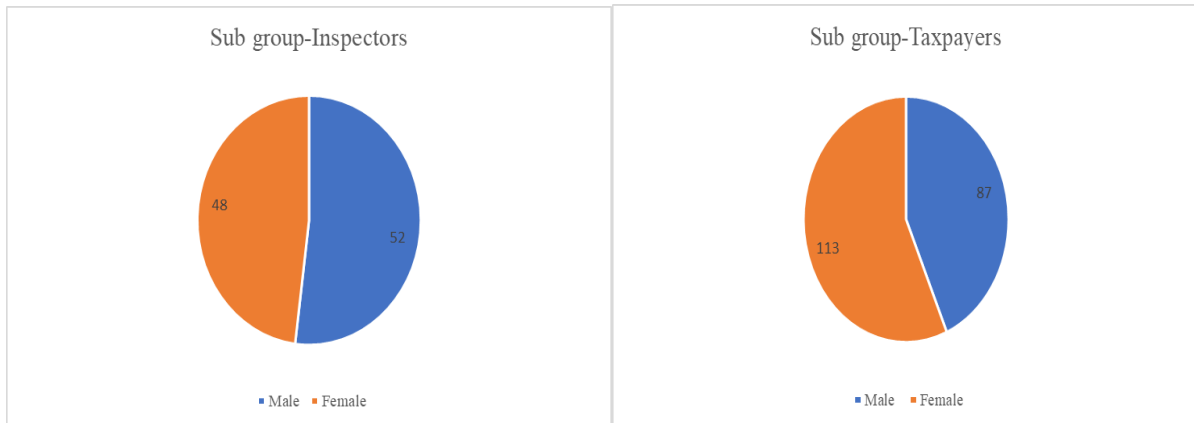

Figure 2. Pie Chart 1. Gender structure of respondents in the subsamples

Source: our elaborations

Figure 2. shows descriptive statistics from distributing questionnaires to 300 respondents. According to the gender structure, respondents in the sample are relatively evenly distributed: 46.3% men and 53.7% women. The gender structure within the subsamples is presented in figure 2. oscillations in relation to the structure of the complete sample exist, but they are small.

Table 1. Enhancement of the control system and tax collection

Sub-samples		1	2	3	4	5	Total
Male	Count	2	14	50	48	25	139
	Expected	1,9	15,8	53,7	39,8	27,8	139,0
Female	Count	2	20	66	38	35	161
	Expected	2,1	18,2	62,3	46,2	32,2	161,0
	Count	4	34	116	86	60	300
	Expected	4	34	116	86	60	300,0

Source: our elaborations. Number of observations = 300

The chi-square statistic yields a value of 3.7564, which initially indicates a notable difference between the expected and observed frequencies in the contingency table, suggesting that the variables under analysis are not independent of each other. However, with a p-value of 0.440 surpassing the standard significance level of 0.05, there is insufficient evidence to ascertain a correlation between the variables. Therefore, the findings do not offer statistically significant support for a relationship between improvements in the control system and tax collection.

The observed deviations between the counts of males and females in the sub-samples are not significant enough to conclude that there is an association. Ultimately, based on these results, it

can be concluded that adjustments to the control system do not appear to have a substantial impact on tax collection, as evidenced by the data and statistical analysis undertaken.

Table 2. Elevating the importance of upholding moral standards in paying taxes

Sub-samples		1	2	3	4	5	Total
Male	Count	6	13	44	51	25	139
	Expected	3,7	14,9	47,3	48,6	24,5	139
Female	Count	2	19	58	54	28	161
	Expected	4,3	17,2	54,7	56,4	28,4	161
	Count	8	32	102	105	53	300
	Expected	8	32,1	102	105	52,9	300

Source: our elaborations. Number of observations = 300

The chi-square statistic has a value of 3.75642, coupled with a p-value of 0.440, indicating that the result is not statistically significant at the conventional threshold of $p<0.05$. The findings suggest that emphasizing moral standards in tax payment does not yield a statistically significant impact on tax payment behaviour. This implies that there is no substantial evidence pointing to a clear link between the emphasis on maintaining moral standards and its influence on tax payment behaviour's. Consequently, from a practical perspective, attributing importance to moral standards in tax payment may not demonstrate a statistically significant association.

Table 3. Improving and modifying tax regulations

Sub-samples		1	2	3	4	5	Total
Male	Count	6	13	44	51	25	139
	Expected	3,7	14,9	47,3	48,6	24,5	139
Female	Count	2	19	58	54	28	161
	Expected	4,3	17,2	54,7	56,4	28,4	161
	Count	8	32	102	105	53	300
	Expected	8	32,1	102	105	52,9	300

Source: our elaborations. Number of observations = 300

The chi-square statistic is 3.7564, and the p-value is 0.440. The result is not significant at $p<0.05$. Based on the results of improving and modifying tax regulations, there is no statistically significant evidence to suggest a connection between enhancing and adjusting tax regulations and the variables studied. The analysis does not provide enough support to conclude that changes in tax regulations are associated with changes in the responses measured. Therefore, it can be concluded that improving and modifying tax regulations do not have a statistically significant impact on the variable.

Table 4. Improving the working conditions for the economy

Sub-samples		1	2	3	4	5	Total
Male	Count	1	16	43	54	25	139
	Expected	1,9	17,6	39,8	51	28,7	139
Female	Count	3	22	43	56	37	161

		1	2	3	4	5	Total
	Expected	2,2	20,3	46,2	59	33,3	161
	Count	4	38	86	110	62	300
	Expected	4,1	37,9	86	110	62	300

Source: our elaborations. Number of observations = 300

The chi-square statistic is 2.7011, and the p-value is 0.609. The result is significant at $p<0.05$. Based on the results, there is no statistically significant evidence supporting a relationship between improving working conditions for the economy and the variables examined. Therefore, it cannot be inferred that improving working conditions for the economy has a statistically significant impact on the variables considered. This finding may have important implications for policy or decision-making related to economic conditions.

Table 5. Social benefits and security regulation

Sub-samples		1	2	3	4	5	Total
Male	Count	3	4	40	55	37	139
	Expected	2,9	8,8	39,4	45,3	42,6	139
Female	Count	3	15	45	43	55	161
	Expected	3,2	10,2	45,6	52,6	49,4	161
	Count	6	19	85	98	92	300
	Expected	6,1	19	85	97,9	92	300

Source: our elaborations. Number of observations = 300

The chi-square statistic reports a value of 10.11009, with a corresponding p-value of 0.039, signifying significance at $p<0.05$. These results provide statistically significant evidence supporting a meaningful relationship between social benefits, security regulation, and tax capacity. Consequently, this finding holds noteworthy implications for policymaking and decision-making concerning social welfare and security regulations, highlighting the importance of considering these factors in tax capacity assessments and related policy decisions.

Table 6. Regulation of the shadow economy

Sub-samples		1	2	3	4	5	Total
Male	Count	4	11	55	47	22	139
	Expected	3,7	15,4	41,8	52,5	25,6	139
Female	Count	4	22	35	66	34	161
	Expected	4,3	17,6	48,3	60,7	30,1	161
	Count	8	33	90	113	56	300
	Expected	8	33	90,1	113,2	55,7	300

Source: our elaborations. Number of observations = 300

The chi-square statistic yields a value of 12.28366, and the corresponding p-value is 0.015, indicating a lack of significance at $p<0.05$. In examining the regulation of the shadow economy, the analysis provides statistically significant evidence supporting a relationship between the regulation of the shadow economy and the variables under scrutiny. This suggests that changes in the regulation of the shadow economy decisively correlate with changes in the

measured responses. It is important to consider the proximity of the p-value to the 0.05 threshold, implying the potential for further investigation and exploration. Further analysis or an expanded sample size may reveal previously undetected nuances or trends in the data, thereby warranting future research.

3. Conclusion

First and foremost, the research has presented sought to explore, the entire analysis of the tax capacity problem in Bosnia and Herzegovina and has shown „hot spots" and the key objectives. This work is an attempt to analyses tax capacity from a poorly illuminated perspective, as particular as the research has provided a basis for quality and critical review of content and the importance of certain factors necessary for understanding the question of tax capacity.

The research findings highlight the potential for further enhancements in economic conditions and social welfare policies. Specifically, the outcomes, while confined to verifying gender affiliation by profession, underscore challenges associated with augmenting tax capacity in tandem with economic conditions and social welfare. Notably, improvements in working conditions within the economy exhibit a statistically significant impact on the variables investigated. Furthermore, the results also present adequate support to affirm the existence of an association between social security regulation, regulation of the shadow economy and tax capacity. These findings carry important implications for policy and decision-making concerning economic conditions, social welfare, and security regulations, signifying the potential for targeted interventions to drive positive change in these domains.

In the nutshell, the research carried out in this work justifies, demonstrates and opens space for new research questions regarding tax capacity. The findings likely highlight the complexities and nuances of tax capacity as a concept, potentially shedding light on factors that influence a country's ability to levy and collect taxes effectively. This may prompt new inquiries into specific aspects of tax capacity such as the impact of economic policies, institutional structures, or demographic shifts on a government's ability to generate revenue through taxation. Future research may use other methods of data collection (e.g., interview or experiment), which might produce different results than this survey. Nonetheless, addressing this issue of tax capacity comprehensively will require a multi-faceted approach involving various stakeholders, including the government, private sector and educational institutions. Furthermore, specific issues that are relevant to tax capacity in Bosnia and Herzegovina have not been assessed in any of the reviewed surveys. This article attempts at closing this gap.

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Appendix

Statistics		1. Enhancement of the control system and tax collection	2. Elevating the importance of upholding moral standards in paying taxes	3. Improving and modifying tax regulations	4. Improving the working conditions for the economy	5. Social benefits and security regulation	6. Regulation of the shadow economy
N	Valid	300	300	300	300	300	300
	Missing	0	0	0	0	0	0
Mean		3,55	3,54	3,63	3,84	3,59	3,05
Median		3,00	4,00	4,00	4,00	4,00	3,00
Std. Deviation		,979	,989	,992	1,000	1,000	,989
Minimum		1	1	1	1	1	1
Maximum		5	5	5	5	5	5