THE OFFENSE OF AVOIDANCE OF WITHHOLDING TAX IN THE CRIMINAL LEGISLATION OF SERBIA

Review Article

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Miljkan Karličić¹
Attorney at law, Belgrade

Abstract: This paper analyzes the offense of avoidance of withholding tax from the aspect of provisions in the criminal legislation and practical application and explains tax crimes that are subject to the regulation of basic and secondary criminal legislation. On the one hand, the paper explains in detail ratio legis for criminalization under Article 226 of the Criminal Code of the Republic of Serbia and in the context of the relationship between the provisions of the Criminal Code and the Law on Tax Procedure and Tax Administration, and blanket legal norms affecting the application of the provisions governing the structure of the offense of avoidance of withholding tax, on the other. Empirical, comparative-law and interpretation of criminal law methods are used in the paper. The paper presents and analyzes available statistical data on the offense of avoidance of withholding tax from the aspect of the criminal policy of the legislature, courts, public prosecutor’s offices, police and tax police. The paper aims to contribute to the elaboration of this problem from the dogmatic-legal and criminal-political aspects in order to improve the practice of courts, prosecutor’s offices, lawyers, tax police, criminal police, tax inspection, and tax administration. Some issues are illustrated by court decisions.

Keywords: taxes, contributions, withholding tax, payment invoice, failure to pay the calculated amount in the name of withholding tax.

INTRODUCTION

Most countries prescribe tax offences in their basic criminal laws. In some reputable national legislation of European countries, tax offenses are the subject of special criminal legislation. The legislation of the Republic of Serbia has a mixed approach to this issue – it provides for two criminal offenses in the basic criminal code, and four in the tax code. The Criminal Code of the Republic of Serbia provides for two criminal offenses whose object of criminal legal protection is the right to tax: the criminal offenses of tax evasion and avoidance of withholding tax (Krivinci zakon, 2019). Before this section was added to the

¹ Corresponding author: Miljkan Karlučić, Attorney at law, Belgrade. Email: miljkan.karlicic@beoland.com
Criminal Code (Zakon o poreskom postupku i poreskoj administraciji, 2021), the Code clearly provided that all public revenue is deemed as tax. After amendments were introduced to the Criminal Code, the Code adopted the conceptual definition from the previous provision of the Law on Tax Procedure and Tax Administration after a number of paradoxical problems which generally had arisen in court and legal practice concerning the application and interpretation of the concept of tax (considering that the Code did not prescribe that the tax also included other public revenues).

In Serbian law, tax crimes are subject to the regulation of primary and secondary criminal legislation. The Criminal Code is based on the decision that criminal legislation, including criminal law response in terms of ultima ratio, should be reduced to a relatively small number of criminal offenses. The question concerning a relationship between primary and secondary criminal legislation arises in the area of economy which also includes the tax system as an object of criminal law protection (Stojanović, 2006). Criminal offenses against economic interests are contained in Chapter XXII of the Criminal Code, which is in accordance with the domestic legislative tradition. From a comparative legal point of view, it can be seen that the majority of European legislation regulates the main economic offenses by secondary criminal legislation, rather than by a systemic criminal code. In some European codes, so-called economic crimes are classified as crimes against property, and a typical example is the Criminal Code of Switzerland (Swiss Criminal Code, 1937). Out of a total of 29 economic offenses, Article 226 of the Criminal Code provides for two so-called tax crimes: tax evasion and avoidance of withholding tax.

The term withholding tax includes taxes, contributions, fees, rents, reimbursements, self-contributions, etc., including all public revenues earned by the state and provincial governments, local self-government units, cities, municipalities and city municipalities (Bojić, 2011: 87).

**REVIEW OF THE HISTORY OF TAXATION**

The state means taxes (Ekmečić, 2010: 226). Even Plato in his famous work *The Republic* emphasized the importance, reason (logos) of beings, things, taxes and morals for people’s wealth, which could also be applied to a state: “A state arises, as I conceive, out of the needs of mankind; no one is self-sufficing, but all of us have many wants (Plato, 1983: 48), “Presumably when all are engaged in money-making, the men most orderly by nature become, for the most part, richest” (Plato, 1983: 261). Taxes emerge with the birth of civilization. There are often archaeological representations of an ancient Egyptian tax collector, a manager of the pharaoh’s treasury and collector of taxes in kind (Karličić, 2015). Three millennia later, we can find a normative expression of the principles of legality, fairness and justice that is unique in its beauty in Dušan’s Code, which reads as follows: “See thou to it that everything is done in accordance
with law, giving to every man his right." It is an abomination of the god to show partiality... Look upon him who is known to you like him who is unknown to you... and him who is near the King like him who is far from him" (Djurant, 2004: 170).

In the civilizations of the ancient East, taxes were an important source of income for the ruler to finance the court, administration, and army. This was the case in China during the reign of the Han dynasty, ancient Indian states, Persia, Sumer, Egypt. Peasants were often despised and burdened with high taxes.

The Roman Empire, whose citizens, just like the Greeks, called their state res publica (public affair) or just Rimili civitas, which corresponds to the Greek polis, recorded and assessed one's property, in the era of the republic, through two censors from the ranks of magistrate. The reason was tax collection. The Turks, as conquerors and enslavers, brought to the Serbs and other occupied nations a great civilizational asset – census. Specifically, as skilled occupiers, they took over administration and diplomacy from the conquered Byzantium. Tax collection goes hand in hand with the administration, and the condition for that was the census. The first censuses of the enslaved Serbian lands were carried out in 1455 (Macura, 2001), 1468, 1476, 1478, 1489, 1516, 1528, and 1530 in the sandjaks, which are very detailed and reliable (Šćepanović, 1979). The sources of our national history are precious. Based on them, we can see that taxes were paid in kind and money and there was a tax-favored status (Miletić, 2021). The main goal of the administration of the Ottoman Empire was to collect taxes through submission, the maintenance of peace, and cutting people off from public life and keeping them out of power, in the following ways: through the rayah (tax-paying subjects) system for the rural and small urban population and the so-called privileged Vlach system, often in Serbian lands, in which free livestock breeders – Vlachs retained their freedom and some internal princely autonomy, provided they pay taxes. For example, each house paid taxes in kind, in other words, they had to give a ewe with a lamb and a ram on St. George's Day, and every few houses and villages were had to pay taxes collected by the prince, which in the first century and a half were bearable especially for those who retained the privileged Vlach status as a social category of free livestock breeders who were not rayah.

After its revolutionary legislation in 1808 and 1812, Serbia adopted an independent Penal Code in 1860. In this regard, Article 84 of the Law on Direct Taxes of Serbia, provided for the criminal offense of not reporting one's situation to the tax board (Zakon o neposrednom porezu, 1884).

The income tax paid by citizens, natural persons, was introduced into the British tax system in 1798. The tax systems of modern state systems evolve historically and rest on two basic tax forms, the value added tax and before it tax on personal incomes, the global income tax system is typical of modern tax systems in Europe.
The crime of withholding tax is a “modern” offence introduced in our catalog of offenses in 2002. Before being taken from the Criminal Code, it was the subject of secondary criminal legislation – the Law on Tax Procedure and Tax Administration (LTPTA), Article 173. The same law explicitly stipulated that it applies to all public revenues paid by the tax administration. Public revenues include both taxes and public revenues earned by local self-government units in accordance with the extensive term according to the then LTPTA. The extensive concept of tax defined in this way also referred to the criminal offense contained in Article 173 of the same law, which was added to the then Article 229 of the Criminal Code (Stojanović et al., 2018). The LTPTA stipulates that all public revenues are equated with tax in the strict sense, but this does not apply to the Criminal Code. After criminalization in the LTPTA was added to the Criminal Code, the Code prescribed that the subject of the criminal offense of avoidance of withholding tax includes taxes, contributions, and other prescribed duties.

Tax crimes are prescribed by criminal codes in many countries, while some countries, such as Switzerland and France, regulate tax crimes with tax legislation. Austria, the Russian Federation, Hungary and Bulgaria classify tax crimes in the basic criminal laws (Kulić & Milošević, 2011:322). In the countries with “Germanic” legal tradition, with modalities, such as Germany, Austria, and Switzerland, there is an offence of Untreue, as the central criminalization of response to corporate, financial, and tax crime (white-collar crime, corporate crime, fraud and compliance crime, and tax evasion) (Newburn, 2013: 182).

A POSITIVE-LAW ASPECT

According to a similar interpretation, legally, criminologically and criminally, they are classified in the so-called white-collar crime and also constitute a part of economic, financial or corporate crime and procedural forensic rules regarding the detection and proving of criminal offenses apply to them. Unlike the response to other forms of illegal behavior in the case of the Wall Street’s heist, financial and banking crimes were not subject to criminal or penal control (Barak, 2013: 3), while in terms of a connection between the economic and political elite, as a reason for not instituting criminal proceedings, which is a feature of the legal systems of the most developed, richest and most orderly countries, because, for example, none of the largest participants in the biggest financial frauds that led to the collapse of Wall Street in 2008 were subject to criminal or penal control (Barak, 2013: 9). This is similar to the author’s thesis that tax crime is a subtype of economic, financial and corporate crime, which is easy to see when looking at the methodology used to prove crimes, which includes specific methods and modern technical means that are applied through forensic document examination to identify signatures, handwriting, numbers, computers, social networks and digital platforms, which is a common feature and challenge in detecting and proving this category of crimes (Aleksić & Škulić, 2011: 319).
The criminal offense of avoidance of withholding tax was prescribed by the provisions of the LTPTA from 2007 to 2009, which ceased to apply when the Law on Amendments and Additions to the Criminal Code was enacted on September 11, 2009. Article 226 of the Criminal Code of the Republic of Serbia provides for avoidance of withholding tax as a criminal offense, according to the legislation after 2012. Failure to pay withholding tax is a blanket, corporate, non-violent, and financially motivated crime (white-collar crime). The object of protection is the economic regulation and state budget in the broadest sense. The ephemeral tax crime is a crime that was transferred from the secondary criminal legislation in 2009, thereby opening up some questions as to what the ratio legis of the “transfer” is, considering that it is a specific crime described using technical terms such as “the prescribed payment account of public revenues”, and in blanket norms (Pravilnik o načinu utvrđivanja, plaćanja i evidentiranja poreza po odbitku i o sadržini zbirne poreske prijave o obračunatom i plaćenom porezu po odbitku, 2013) “consolidated tax return”, etc., then the issue of interpretation of the term tax, which had a meaning in the context of the application of that law and tax legislation only as a collective term for both contributions and fees. Particularly worthy of attention is the question as to whether legal protection in this case could also be achieved through tax protection, that is, by prescribing this act as a tax offense or perhaps even through economic criminal protection, given that this effective legal fossil from the era of joint work in the second half of the last century still exists. The 2012 Law on Amendments and Additions to the Criminal Code describes this offence more appropriately, in the then Article 229a, by providing for avoidance of other dues. By providing for the basic form of offense of avoidance of withholding tax, the Criminal Code of does not provide for the objective condition of criminalization, therefore the existence of a criminal offense can be excluded by applying the offenses of minor importance, which is not the case with more serious forms of this criminal offense, which, in addition to the fulfillment of the elements of substance in the legal description of the criminal offense, also require conditions of punishment (over one million five hundred thousand dinars, that is, over seven million five hundred thousand dinars).

The perpetrator of the crime is the taxpayer – the responsible person in a tax-paying legal person and a tax-paying entrepreneur who cannot be the taxpayer himself. The responsible person in a tax-paying legal person – a taxpayer and an entrepreneur – a taxpayer, who with intent to avoid payment of taxes and withholding taxes does not pay the amount calculated in the name of taxes and withholding taxes on the prescribed payment account of public revenues or fails to pay other statutory dues, commits the criminal offense of avoidance of withholding tax. The subject (perpetrator) of a criminal offense is a person with personal characteristics, that is, a personal status, and that is a responsible person (Karličić, 2015) in a tax-paying legal person, as well as a tax-paying entrepreneur – a taxpayer.
A taxpayer as a perpetrator of a criminal offense is a responsible person in a legal entity (company, public enterprise, institution, public authority, organization and other proper forms of employers) and entrepreneur. A taxpayer cannot be the perpetrator of this criminal offense, regardless of whether they themselves are, exceptionally, obliged to calculate and pay taxes and withholding taxes (for example, in cases of so-called self-employment, real estate rental tax, etc.).

At the subjective level, intention and direct intention are foreseen, as in the case of tax evasion. The most serious forms of this offense provide for, as the qualifying circumstances of premeditation, amounts exceeding one million five hundred thousand dinars, or seven million five hundred thousand dinars, whose payment is avoided, rather than the objective conditions of criminalization. For the basic form of this offense, the Code provides for imprisonment of up to three years and a fine. For more serious form of this offence, imprisonment of from six months to five years and a fine is prescribed, while for the most serious form of this offense imprisonment of from one to ten years is prescribed.

An act of commission is a missed payment or a failure to pay the calculated tax, and the deed is completed by the payment of only the net amount by the taxpayer.

An act of commission and consequences of the so-called objective injustice (Živanović, 1922: 55) consists in omission, that is, the avoidance of payment of the amount calculated in the name of public revenues fully or partially (taxes in the narrower sense). Therefore, it can be performed both by commission and omission. In practice, a criminal offense will not exist if the taxpayer calculates public revenues and does not pay them, having previously signed an agreement on the postponement or rescheduling of tax debt with the tax administration or the revenue administration of the local self-government unit.

The consequence occurred with the very act of failure to pay the full amount of the calculated taxes and contributions, given that the objective conditions of criminalization as an imperative for the existence of this criminal offense are not provided for in the legal definition. The criminal offense of avoidance of withholding tax is completed if the responsible person in a tax-paying legal person and a tax-paying entrepreneur, that is, a taxpayer, pays the net amount but avoids payment of public revenues in the name of taxes, social security withholding contributions, transfer donations and other revenues, that is, taxable income (Popović, 2017) (tax on income, profit and capital gains, tax on wages and labor force, payroll taxes, reimbursements, fees or other types of payment related to the taxpayer’s income), but avoids to pay the amount calculated in the name of taxes and withholding tax and other statutory dues on the prescribed payment account of public tax revenues.

The term avoidance of withholding tax, that is, the substance of the offense constitutes, as with any criminal offense, a set of mandatory features, the so-called typification of certain forms of criminal wrongs, which constitutes the
substance of the concrete, individual criminal offense, in this case avoidance of withholding tax. For a criminal offense to exist, the factual situation must correspond to the legal description. In other words, the substance of the offense must be realized for any criminal offense to exist. Instead of the substance, one can also talk about the concept of avoidance of withholding tax, given that the term substance serves as a synonym for a special concept of a particular criminal offense. The substance of the offense results from the legal description of the constitutive forms of the offense, that is, objective (act, means, manner of crime commission, personal characteristics, personal relationship or personal status of the perpetrator, the place and time of the commission of the criminal offense) and subjective (intention and negligence) (Stojanović, 2019).

The **object of a crime**, which consists of avoiding the payment of the amount calculated in the name of fiscal obligations (means of execution), is a filed and completed tax return. As a rule, a manner of crime commission is omission – failure or omission to pay the amount, according to which this offense is typical of the so-called crimes of omission.

For the criminal offense of avoidance of withholding tax to exist in terms of culpability, premeditation is required, as well as intent to avoid paying taxes. The **subjective element** (Ristivojević, 2003) is characterized by the tax payer’s intent to avoid payment of withholding tax, mandatory social insurance withholding contributions, health insurance contributions, and unemployment benefits. Therefore, **intent** is required in addition to direct premeditation (Tekešlija, 2009), *which precedes awareness and willfulness*, which constitutes *premeditation* and manifests and therefore verifies itself at the time of the commission of the offense. The term premeditation was used in the Kingdom of Yugoslavia law, which could perhaps encompass the category of intent. In practical application, therefore, it is necessary to prove, in addition to objective elements, the defendant’s premeditation and intent to fully or partially avoid the payment of taxes, contributions or other prescribed dues, although opinions on this matter differ (Presuda Apelacionog suda u Kragujevcu, 2020). In practice, the burden of proving the absence of intent lies with the defendant and it is often dealt with during the main trial (Karličić, 2015: 101).

The offense has one basic and two serious forms. The basic form of the offense is punishable by imprisonment of up to three years and a fine. For the most serious form, if the amount of calculated tax whose payment is avoided exceeds the amount of 1,500,000.00 dinars, the perpetrator shall be punished by imprisonment of from six months to five years and a fine, and for the most serious form, by imprisonment of from one year to ten years, when the amount whose payments is avoided exceeds 7,500,000.00 dinars. Individual amounts of tax liabilities cannot be added together, and whose payment is avoided from different tax periods. Withholding tax for each taxpayer and for each individually paid income is calculated, suspended and paid by the income payer on the prescribed accounts at the time of income payment, in accordance with the regulations valid on the day of income payment.
The application of lenient laws has an interesting consequence in tax criminal law, to which the legal practice of the courts provides an answer. Should the principle from the norm of criminal law be applied in the case of a blanket criminal offense if the Criminal Code was subsequently amended, thus abolishing tax liability. However, if the Criminal Code was to be amended or if the Criminal Code was subsequently amended, thus abolishing tax liability – tax liability is not abolished. The amendment of the criminal code can only result in the decriminalization of a certain type of tax evasion; however, tax liability remains, because it is determined by the blanket tax norm. The most obvious example is the change in the monetary census as an objective condition for criminalization. Thus, when the statutory maximum was raised to one million dinars, everything below that amount was decriminalized, but tax liability remained. A significant novelty in the 2012 Law on Amendments and Additions to the Criminal Code is the removal of the provision in Article 229a, paragraph 4, because it was not in accordance with the general provisions of the Criminal Code, which regulate the security measure of prohibition to exercise one's profession, activity or duties, and which are imposed based on them (Article 85 of the Criminal Code). The provisions of the Criminal Code, unlike some other security measures, do not stipulate that these measures must be prescribed and imposed, as was envisaged in the 2009 Law on Amendments and Additions to the Criminal Code.

THE RELATIONSHIP BETWEEN THE CRIMINAL OFFENSES OF TAX EVASION AND AVOIDANCE OF WITHHOLDING TAX

Substantive criminal law, whose basic rules are contained in the Criminal/Penal Code, establishes the characteristics of punishable actions, and stipulates legal consequences (punishments and security measures), which are associated with the commission of a criminal offense (Škulić, 2019).

In practice, there is often confusion concerning these two criminal offenses, as well as in the views of the highest courts. Specifically, avoidance of withholding tax and tax evasion are often confused, that is, the qualification of tax evasion includes avoidance of withholding tax. Thus, in 2021 the Supreme Court of Cassation stated the following reasons for the judgment: “the court incorrectly applied the provision of the LTPTA, which ceased to apply ... that an individual tax return for withholding tax is submitted ... once a year…” while canceling the judgment on the request for protection of legality due to the incorrect application of the rules on accounting periods ...while not calling into question the erroneous legal qualification pertaining to the offense of tax evasion under Article 225 of the Criminal Code, rather than the offense of avoidance of withholding tax under Article 226 of the Criminal Code (Presuda Vrhovnog kasacionog suda, 2021). We are of the opinion that in this particular case the apparent ideal combination of criminal acts cannot be applied, because
it is not a matter of choosing the substance of criminal acts. The difference between the legal descriptions of these criminal offenses is the lack of an objective condition of criminalization in the case of avoidance of withholding tax in practice therefore, minor offenses may be imposed for small amounts.

On the subjective level, there is a similarity, because intent is required for the existence of both offenses. The perpetrator of tax evasion is also a taxpayer, unlike avoidance of withholding tax. Tax evasion will exist if the tax on public revenue has not been calculated by the responsible person or entrepreneur, that is, if the legal requirements contained in the description of that offense have been met, and not avoidance of withholding tax.

A clear distinction between these two offenses lies in the fact that avoidance of withholding tax exists only if taxes and contributions have been calculated and reported as a fiscal liability, based on true data, whose payment has been avoided. According to a court decision (Presuda Vrhovnog kasacionog suda, 2020), the basic distinction between these two criminal offenses lies in the fact that the criminal offense of avoidance of withholding tax is committed by the income payer, although he or she is not a taxpayer, unlike tax evasion which is committed by a “taxpayer”. This attitude expressed in the judgment rendered by the Supreme Court of Cassation, is subject to criticism and could only be reduced to the fact that this happens as a rule, that is, very often, because the perpetrator of tax evasion does not have to be only a taxpayer, but also “any person” who, with intent to fully or partially avoid the payment of taxes, does at least one of the three alternatively prescribed acts of commission, and that person can also be another person, e.g., director (Presuda Osnovnog suda u Užicama, 2016; Presuda Apelacionog suda u Kragujevcu 2016), bookkeeper, accountant, tax advisor, the responsible person in a tax-paying legal person, business decision maker, or an entrepreneur (Zakon o privrednim društvima, 2021) is a taxpayer who can also be a perpetrator of the offense of avoidance of withholding tax.

Until 2010, the Corporate Profit Tax Law prescribed the obligation for the taxpayer to calculate and pay the profit after being deducted from the capital gain, which the non-resident taxpayer derived from the resident taxpayer (Zakon o porezu na dobit pravnih lica, 2021), and the non-fulfillment of which constitutes the criminal act of tax evasion (Popović, 2017).

The determination of the unpaid amount is not so important nor is it a problem like tax evasion.

Qualifying circumstances, such as some typical aggravating circumstances, which are included in the legal description, represent and are a part of the substance of the criminal offense, that is, additional features that give more serious (qualified) forms of the criminal offense for which more severe penalties are prescribed compared to the basic form. These are amounts exceeding 1,500,000.00 dinars, that is, 7,500,000 dinars.
Avoidance of withholding tax is a minor offense compared to tax evasion, if the severity of penalty is taken into consideration as a criterion. Specifically, the least serious form of tax evasion carries a penalty of 1 year, while the legal minimum of 30 days applies to avoidance of withholding tax (члан 45 КЗ). A more serious form of tax evasion carries a penalty of 1 year and the most serious form of tax evasion carries a penalty of 3 years, while avoidance of withholding tax carries a penalty of 6 months or 1 year.

In practice, a real joinder of offenses is possible, provided that there is not a continued crime as a form of apparent real joinder of these two offenses (while an ideal merger is difficult to imagine) (Živanović, 1922).

**CONCLUSION**

Out of a total of 618 reported cases, 212 persons were convicted for the offense of avoidance of withholding tax over the last ten years in the Republic of Serbia (2011-2021). After the concept of tax was clarified and amended through amendments to the Criminal Code of the Republic of Serbia in 2012, a typical blanket criminal offense against the economy no longer causes major problems in practice when defining what is meant by taxes, if we exclude interference with tax evasion. The offense is suitable for the application of an apparent real joinder – a form of construction of a continued crime, bearing in mind the tax accounting periods whose amounts are not added up outside of those time intervals. Intent, as a condition for the existence of this criminal offense, as in the case of tax evasion, is unthinkable without premeditation,

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whose existence is assumed by directing it to its realization, which is another specificity of the legal description of this criminal offense that is an essential characteristic of the existence of a criminal offense of a subjective nature, which must be proven during the course of the procedure. Within the field of general and individual prevention, there are potentially colossal resources that are in line with the effectiveness of detecting, proving and punishing this criminal offense, which primarily protects existentially the poor social classes, which cannot, for example, exercise the right to health care or pension as a result of benefit payment avoidance. The effectiveness of the detection of the criminal offense and the quality of evidence from the aspect of applying modern financial forensics tools, cross-assessment and financial investigation, give this part the characteristic of modernity and exactness, whereby we must not lose the sight of principles of criminal law, substantive and procedural, for a single moment, bearing in mind potential problems related to proving the perpetrator’s intent. From 2011 to 2021, a total of 618 individuals were reported to have committed the offense of avoidance of withholding tax, while a total of those accused amounted to 376, and the number of persons convicted for this criminal offense in the same period amounted 212. The EU countries did not form a single tax system to reduce abuse in the area of taxation – they opted for tax coordination, that is, the harmonization of their tax systems (Randjelović, 2021: 193). Assessment of the quality of criminal protection of the tax system, and accordingly through criminal law protection by applying the provisions contained in Article 234 of the Criminal Code – the criminal offense of avoidance of withholding tax can also be committed on the basis of its effectiveness, “that is, the ability to stably generate necessary amounts of tax revenue, as well as based on its effects and the dynamics of economic growth” (Randjelovic, 2021: 194). De lege ferenda, perhaps through appropriate changes to court organizational and procedural laws, we should think about the establishment of special tax crime departments, which would result in the effectiveness and efficiency of criminal law protection in the area of fiscal crime.

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