There are different kinds of gray economy in Bosnia and Herzegovina. The most common and socially most important forms of gray economy, registered by different control bodies and confirmed by the parties involved in gray zone activities are:

a) Goods and services market (illegal imports of goods and services, trade of non-registered domestic and import goods and goods with no origin, fictive goods transport through the country, irregular book-keeping and turnover reporting, unauthorized conduct of goods and services trade, unregistered turnover, tax evasion through fictive contracts and fictive goods deliveries to non-existent companies, hiding profits through transfer prices, etc.)

b) Money transactions (mutual paying of obligations “in cash” with no documentation required by the law, sale for cash with no tax registration and paying of taxes, creating illegal money market outside the business accounts of participants in money transfers – money from daily sales, trade from black market, uncontrolled and unregistered payments in foreign currency in and outside the country, etc.)

c) Credit-monetary system and banking sector (unregistered input/output of foreign money, forming of gray market for foreign currencies, lending outside the banking system – usury, etc.)

d) Labor market and working relations (moonlighting, parallel payroll systems: lower wages in book-keeping to avoid payment obligations and pay the unregistered part in cash, fictive registration of a large number of seasonal workers to avoid payment obligations outside of season, etc.)

e) Construction sector, housing and communal area and real estate market (illegal construction, real estate market speculation – hiding capital profits, renting of residential and business spaces without reporting the income, usurpation of abandoned properties, usurpation of shared spaces in apartment houses, etc.)

f) Other (fictive reporting of bigger costs with the intention to avoid income tax, using state funds in private business and consumption – equipment, materials, vehicles etc., inappropriate income declaration, i.e. declaring under a lower tax category, unregistered expansion and change of business category, different kinds of sponsoring: sports clubs, political parties, religious communities which is not foreseen by regulations, activities of the so-called black economy – prostitution, trafficking in arms and drugs, human trafficking, etc.)
Moonlighting is a very common form of gray economy in Bosnia and Herzegovina. It is most common in low-budget, work intensive sectors – construction, agriculture, catering and household services – where the authorities have limited control. Nowadays, there are more and more such cases in the hi-tech industry, where companies evade taxes due to current regulations that have not been adjusted to new forms of employment. Tax evasion is also present in legal entities as well as in case of private persons.

There are three groups of methods for estimating gray economy: direct (which have the most advantages), indirect and statistical methods. In the past, many studies have been conducted to evaluate the level of gray economy in Bosnia and Herzegovina. Some of these studies have estimated the share of gray economy to be 30–50% of total GDP.

According to the newest estimations, presented by MasterCard and Ernst & Young, in 2014 gray economy in Bosnia and Herzegovina stood at 25% of GDP; this is about 7 billion KM, and 42% of that is food, drinks and cigarettes. Also, it is assumed that around 300,000 people work in gray economy.

There are two key leverages to decrease gray economy: fighting corruption and efficient actions of government institutions.

Government actions against gray economy (or at least reducing to a tolerable level) are classified into three groups of measures:

- stimulating market participants to operate in the formal sector
- compelling market participants to operate in the formal sector
- penalizing those who operate in the gray area of business

All the listed measures remain in the domain of shaping the social, economic and legal system. Through the social system it is necessary to enable different means of two-way communication and cooperation with business subjects and citizens, and exchange efficient and timely information.

The economic system, above all, has to be stimulating for legitimate operation, asset ownership, wealth acquirement and obligatory relations. The legal system has to be functional and efficient with clear and harmonized laws plus clearly defined sanctions and consistent enforcement thereof for the ones that operate in gray economy.

Specific measures for combating gray economy include legislative reforms, lower tax duties, shorter procedures for company registration, better cooperation and data exchange between tax authorities and the banking sector, stronger inter-institutional cooperation, increased volume of non-cash transactions, cooperation with citizens, computerization, etc.
Activities and results of the Tax Administration of the Federation of Bosnia and Herzegovina in combating gray economy and shadow labor market

The Tax Administration of the Federation of Bosnia and Herzegovina is taking great efforts to fight gray economy and shadow labor market through different regulatory and special activities:

- Development and implementation of new and better software solutions
- Introduction of procedures for easier and faster tax reporting
- Timely informing and cooperation with tax-payers
- Introduction of an efficient system for reporting of irregularities
- Education of tax-payers and the Tax Administration staff
- More transparent work of the Tax Administration
- Strengthening of inter-institutional cooperation
- Planning of inspectional supervision and choice of tax-payers based on objective criteria
- Conduct of targeted inspectional supervisions to combat different irregularities
- Higher quality and efficiency in planning the necessary human, material and technical resources in the Tax Administration

By strengthening technical resources and development of information systems, tax-payers are able to access all tax reporting forms and submit them over the internet. There is also a possibility to check social security contributions paid in the web portal.

The public is regularly informed about all activities and results of the Tax Administration of the Federation of Bosnia and Herzegovina, and there are timely public calls and instructions regarding submitting tax forms and calculating and paying taxes and other contributions. Furthermore, the Tax Administration of the Federation of Bosnia and Herzegovina has enabled fast and easy access to report irregularities. Responding to all justified notifications is as fast as possible.

With the help of international institutions, inter-institutional cooperation and data exchange has increased, which certainly contributes to the fight against gray economy.

From November 2015 till August 2017, 10,058 inspectional supervisions have been conducted in the country. The inspectors found 3,551 unregistered employees, 3,090 tax-payers who had not issued fiscal bills, 1,433 facilities doing activities without government approval, and 922 tax-payers without a fiscal device.

Because of these irregularities (employing non-registered workers, working without formal approval and not reporting turnover through a fiscal device) 2,229 facilities
have been sealed and 6,163 offense orders have been issued with the total of 14,534,940 KM in fines.\textsuperscript{5}

As a result of the counter-measures and activities in fight against gray economy, in the first half of 2017 a 11.65\% increase in total collected taxes has been recorded compared to the same period last year.

In addition to the Tax Administration of the Federation of Bosnia and Herzegovina, also other authorities and institutions are taking action against gray economy and achieving success in this area.

To achieve even better results in fight against gray economy in the country, it is necessary for the central and local government authorities to implement efficient and systematic activities through anti-corruption measures, reform and rationalization of the massive administrative apparatus at all levels, stronger regulatory framework, especially laws that regulate the areas most exposed to gray economy, reform of the taxation system, better business environment, tighter inter-institutional cooperation and cooperation with citizens and tax-payers, computerization, and training.

Given the above, it is necessary to involve the international community through different means of support and cooperation. In addition, Euro-Atlantic integrations of Bosnia and Herzegovina could significantly help reduce gray economy.

\textsuperscript{5} \url{http://www.pufbih.ba/v1/novosti/989/porezni-obveznici-u-prvih-est-mjeseci-ove-godine-uplatili-2406315587-km-direktnih-poreza-doprinos-a-taksi-i-naknada}