



The Role and Importance of Principles of Taxation in Creating a (Solid) Tax System

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Abstract: *Since the early 18th century, theory and practice have sought universal principles for a “solid” tax system. These principles help assess existing tax policies and review proposed innovations. Taxes are not just fees for living in a society; they shape the civilization citizens want to live in. The state’s decisions on taxation profoundly affect the economy, resource allocation, and public satisfaction. This research examines key tax principles necessary for any good tax policy, focusing on how taxes support economic growth and other specific fiscal and para-fiscal goals. The analysis also explores the role and importance of a solid tax system. Using the Republic of Srpska’s tax system as a case study, the paper assesses distortions in its current tax system. The author concludes that while no universal tax principles are ideal for all countries and times, certain principles lead to a solid tax system in any country.*

1. INTRODUCTION

“The art of taxation consists in so plucking the goose as to obtain the largest possible amount of feathers with the smallest possible amount of hissing”

Louis XIV’s Finance minister, Jean-Baptiste Colbert

Despite numerous efforts, a universally accepted definition of taxes applicable across all socio-economic systems has not been established. Still, certain key features distinguish taxes from other charges, such as their compulsory and monetary nature, the lack of direct return (*quid pro quo*), and their derivativeness. Broadly speaking, a tax system includes all tax forms and public revenues collected to meet both fiscal and non-fiscal goals, while in a narrower sense, it refers only to the collection of taxes themselves.

Tax systems vary significantly due to historical, economic, social, and political factors, such as economic development, population size, education level, and international affiliations, making it difficult to find two identical systems. Nevertheless, a solid tax system should satisfy basic principles: equity, certainty, neutrality, simplicity, adequacy, convenience, transparency, and administrative efficiency.

Taxation is central to fiscal policy, providing the funds needed for public services and development. Tax principles guide how taxes should be levied to ensure fairness, effectiveness, and economic stability. These principles help maintain public trust and support inclusive growth.

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This paper, following the introduction, consists of two main parts. The first outlines the fundamental principles of taxation and explains their significance in shaping a sound tax system. The second examines the tax system of the Republic of Srpska through the lens of these principles, assessing whether it meets them and identifying areas of distortion. Using dogmatic and historical-legal methods, alongside a review of legal literature, the paper aims to determine which principles are essential for effective tax policy and how their application can support national development. It also evaluates whether aspects of the current RS tax system cause imbalances and offers suggestions for improvement.

2. PRINCIPLE OF TAXATION

Although the theory and practice of principles of taxation can be traced back to the time of the Sumerians (around 4000 BCE), and was also discussed by the famous Chinese philosopher Confucius, the significance and role of taxation principles in creating any sound tax system, which still apply today with certain adjustments, have remained largely unchanged since the time of Adam Smith, that is, since 1776 (Smith, 1776, p. 676). At that time, Smith established four fundamental principles of taxation, which are still considered today as the “canons of taxation”, “the golden principles”, and/or the “main canons of taxation”. Smith’s four principles, namely fairness, certainty, convenience, and efficiency, have proven their validity over time, so they can be summarized by contemporary economists as three key requirements, i.e., equality, efficiency, and applicability. Of course, with time, these requirements have evolved, causing the principles of taxation to acquire various meanings and, as a result, transform into principles of fiscal policy, economic policy, as well as social and political principles.

However, many theorists and practitioners believe that Adolf Wagner, at the end of the 19th century, provided the most comprehensive systematization of tax principles, grouping them into four categories, namely: Financial (Adequacy and Elasticity), Economic (Proper selection of Tax Sources and Assessment of Effects), Social Justice (Universality and Fairness), and Financial-Technical Principles (Legality, Convenience, and Minimal costs). Almost all modern tax systems are based on this last classification of tax principles by Wagner.

Regardless of the previously mentioned principles, and regardless the fact the principle of legality that is not within the “mentioned golden principles”, it is essential to emphasize that the basic legal framework for every tax, and consequently for the tax system and taxation in general, must, above all, entail taxation in accordance with the rule of law, i.e., in accordance with the constitution and positive legal regulations (Tipke & Lang, 2018, p. 94). The fundamentals of this framework are that (1) a tax can be levied only if a statute lawfully enacted so provides, (2) a tax must be applied impartially, and (3) revenue raised by a tax can be used only for lawful public purposes, not for the prince's private ends (Thuronyi, 2003, p. 21).

However, before moving on to a more detailed explanation of some specific tax principles that will be discussed later in this paper, it is important to highlight that the demands placed on taxes by certain tax principles are not always in harmony with the demands set by other tax principles.

Moreover, these demands are often in conflict. For example, socio-political and/or economic principles are frequently in collision with financial principles, especially the principle of adequacy, which in practice leads to the incomplete realization of one or more of the principles in real life.

For this reason, tax policy makers must take into account the priority of individual principles, as well as their role in taxation. The prevailing view among practitioners and theorists, for centuries

now, is that the principle of adequacy (sufficiency), i.e., financial principles, must have precedence. Given that it is not possible to fully analyze all the tax principles in this paper, the author will provide an overview of some of them.

2.1. The Principle of Fairness and the Principle of Equity

The demand for fair taxation is a fundamental normative principle that is set before the creators of tax policy. Although, as mentioned in the paper, both Smith and Wagner identified the principle of fairness as one of the basic principles of taxation, its implementation in modern tax systems remains one of the most challenging to this day. The challenge (or rather, the problem) arises from theoretical disagreements regarding the definition of the concepts of justice and fairness, which stem from the philosophy of ethics. Namely, the principle of fairness can also be seen as a bridge between two systems of social norms, namely: law and morality. According to the German professor of Tax Law Klaus Vogel “the meaning of fairness, unlike efficiency, cannot be defined; it can only be explained or paraphrased. Moreover, fairness is an interpretative concept. In other words, discovering what fairness requires in a specific situation involves an element of creativity” (Vogel, 1990, p. 152).

The Fairness principle in tax collection highlights the need for equal treatment of all taxpayers in similar circumstances. This principle incorporates aspects of justice, ensuring that all decisions and policies are made in the best interest of every taxpayer, as well as customers, suppliers, shareholders, investors, and the wider community. The core idea of fairness, or equality, requires that actions be taken with consideration for the interests of others, grounded in the principle of equity.

Further, fairness means that individuals or businesses in a similar or the same position should bear comparable tax burdens. Similarly, a fair tax system could be defined as one in which taxation is based on the economic capacity of taxpayers.

It can be said, a tax system is fair if it encompasses the principle of horizontal and vertical equity. The first one signifies the requirement that taxpayers with the same economic strength pay the same amount of tax. However, it should be emphasized that this principle, although incorporated into nearly all modern constitutions, is very difficult to fully implement. This is because tax policy is not based solely on one principle, but rather on multiple types of arguments that condition a selective tax policy, which leads to differentiated tax treatment of certain incomes. The second requirement, or the principle of vertical equity, represents the demand that taxpayers with greater economic strength should pay higher amounts of tax. In other words, taxpayers with different economic capacities should pay different amounts of tax, thus ensuring that the tax burden is equitable for all taxpayers. On the other hand, how much higher a tax amount should be paid is the subject of long-standing and frequent debates, which have ultimately led to the application of different (progressive) tax rates, as well as tax deductions and exemptions. In line with the equity principle, the tax creditor (the state and/or any of its public legal entities) must adjust tax collection based on the taxpayer's income and capacity, ensuring that taxes are levied in a fair and non-discriminatory manner. This implies that every taxpayer should be taxed proportionately to their economic capacity. So, the equity principle can, or could be achieved through a progressive tax system, where tax rates increase with higher income. It also emphasizes the importance of treating all taxpayers fairly and preventing tax evasion.

Finally, but no least, it is important to mention when assessing the principle of equity, it is essential to consider the full spectrum of taxes a taxpayer is subject to, rather than focusing on just one type of tax.

2.2. The Principle of Neutrality (Principle of Economic Growth and Efficiency)

The principle of tax neutrality can be defined as a tax system that does not affect the business decisions of taxpayers. Some authors, such as Nobel laureate Stiglitz (Stiglitz, 2004, pp. 466-471), view this principle as a principle of economic growth and efficiency.

Taxes that are not neutral, i.e., distortive taxes, can significantly affect the economic decisions of taxpayers, both legal entities and individuals. In the case of introducing distortive taxes, it is expected that legal entities will move their capital and headquarters to countries and/or regions with more favorable tax policies, or invest in sectors with more favorable tax treatment. Individuals will be forced either to work more or replace more heavily taxed products and/or services with other products. Also, distortive taxes, i.e., their effect on the economic behavior of taxpayers, produce negative consequences for the efficiency of resource allocation. However, apart from head taxes, there are no non-distortive taxes, i.e., taxes that do not change the behavior of the taxpayer in the market. Considering that modern states, through taxation, aim to achieve a range of non-fiscal goals in addition to fiscal ones, and that we often witness the active role of these states in addressing market imperfections, the deviation from neutrality in taxation in certain situations is unavoidable, or even desirable in some cases. Economists' views on the importance of the principle of tax neutrality are highly divided.

Some theoreticians and practitioners believe that neutrality is a characteristic of only a theoretical or ideal tax system (Rothbard, 1981, pp. 519-563). According to some authors, ideal (neutral) tax systems serve as benchmarks for comparing real systems, with any deviation from neutrality measured by tax expenditures or used to assess fairness—both vertical and horizontal equity. Others argue that tax neutrality has become a myth, as it is unachievable within modern public choice theory. A third group contends that deviations from neutrality should be judged by their consequences—such as increased compliance costs, higher tax administration budgets, and broader impacts of a more complex system. They emphasize that any disruption of neutrality must be justified by valid objectives, like promoting social or demographic goals, or supporting R&D and education.

Countries should align their tax systems as closely as possible with theoretical neutrality, as its violation can lead to global fiscal and economic consequences. While minimizing the tax law's influence on decision-making is important, taxation's primary function remains raising revenue—not shaping personal or business choices.

The principle of economic growth and efficiency is closely tied to neutrality, as distortionary tax rules can undermine productivity. A tax structure should maintain neutrality between different business types, avoiding discrimination against certain models. Although all taxes create distortions, effective policy minimizes their impact while supporting goals like growth, capital formation, and competitiveness. Rules should not disadvantage resident firms or distort capital and labor flows in favor of specific industries, as such effects harm overall economic performance.

2.3. The Principles of Certainty, Simplicity and Flexibility

The Principle of Certainty requires tax rules to be clear and easy to understand, allowing taxpayers to know their position. These rules must specify how the tax amount is determined, when it is due, and how payment is/should be made. A straightforward tax system helps individuals and businesses to understand their obligations and entitlements, leading to better decision-making and alignment with policy objectives. Certainty about tax liabilities is crucial, as ambiguity can confuse. The system should clearly outline what is taxable (the tax base) and the applicable tax rates.

Taxpayers should be able to determine their tax obligations with reasonable certainty, particularly when transactions are easy to identify and value. This certainty helps ensure compliance and fosters respect for the tax system, which is achieved through clear laws and accessible guidance.

Conversely, complexity in tax rules can encourage aggressive tax planning, potentially resulting in economic inefficiencies. The principle of certainty is intertwined with simplicity—complex rules undermine both. Simple tax laws improve compliance, reduce errors, and help taxpayers understand the consequences of their transactions.

Moreover, a well-structured tax system should provide predictability, stability, and reliability, enabling the government to accurately determine when and how much tax revenue will be collected. It must also be adaptable and responsive to evolving needs, technological progress, and business developments. A flexible tax system is essential for addressing the government's ongoing revenue requirements while adjusting to changing circumstances. Regular evaluations of the system are important to ensure it aligns with the jurisdiction's objectives, accommodates new business models, and generates sufficient revenue. To meet government spending needs, tax revenues must be stable and predictable. A diversified tax mix ensures stability, as different taxes react differently to economic fluctuations. For instance, during an economic downturn, income tax revenues may fall, but other taxes that are less affected by unemployment can help maintain overall revenue stability.

Tax systems must remain adaptable to technological and commercial changes, ensuring they stay relevant as circumstances evolve. While the system's core features should be resilient to changing policies, it must remain flexible enough to respond to future developments that may be hard to foresee.

2.4. The Principle of Nonretroactivity

An essential principle that contributes to a fair tax system—ensuring predictability, fairness, and trust—is the principle of non-retroactivity. It requires that tax laws apply only to future periods, protecting taxpayers from unexpected obligations and supporting the rule of law. In essence, this principle means that tax liabilities should not arise from actions taken under a different legal framework. It reflects the broader legal maxim *lex prospicit, non respicit*, and the rule *lex retro non agit*—the law does not operate retroactively (Popović & Ilić Popov, 2015, p. 6).

Non-retroactivity promotes legal certainty, enabling individuals and businesses to make informed decisions based on existing law without fear of future retroactive penalties. Conversely, the retroactive application of tax laws, especially those that increase obligations, can damage public trust and legal security. Retroactive taxation may unfairly penalize those who acted in good faith and deter investment due to legal uncertainty. As Özgüven notes, legal certainty exists to protect individual security, and the non-retroactivity principle serves this purpose by ensuring people can foresee and adapt to legal obligations (Özgüven, 2006, p. 232).

By respecting non-retroactivity, tax authorities reinforce transparency and build public confidence in the fairness of the system. The principle's violation, especially in fiscal matters, can be particularly harmful in democratic societies where the predictability of tax obligations is key to voluntary compliance.

In legal theory, retroactivity is categorized as true retroactivity and imperfect (quasi) retroactivity. True retroactivity applies a new tax rule to events that have already occurred or concluded, such as applying a law enacted in 2024 to taxable events from 2022. This type of retroactivity, especially

when it increases the tax burden, is typically considered unlawful and should be annulled—unless it benefits taxpayers by reducing their obligations. However, in extraordinary circumstances (e.g., economic crises, inflation control, rectifying income inequalities, or deficit reduction), true retroactivity may be temporarily justified to tax unjust gains.

Imperfect retroactivity, by contrast, concerns legal changes applied to ongoing or incomplete tax matters—e.g., a law passed before the tax period ends or before final tax liability is determined. This is not considered unlawful since it affects processes still underway. For example, a tax law enacted on November 30, 2024, and applied from January 1, 2025, to a tax period still open, falls under imperfect retroactivity (Pehlivan, 2014, p. 41).

While non-retroactivity is a foundational legal and fiscal safeguard, exceptions do exist, particularly for issues concerning public order or morality. Nevertheless, to preserve legal certainty and protect taxpayer rights, retroactive laws—especially those increasing burdens—should be rare and carefully justified.

2.5. Convenience of payment

This principle holds that taxes should be imposed at a time or in a manner that is most convenient for the taxpayer. In other words, taxes should be levied in a way that minimizes inconvenience for the taxpayer. The Principle of Convenience emphasizes the need to structure taxes in a way that makes compliance easy and without undue hardship. It requires that paying taxes be convenient, with convenience referring not only to the time and manner of payment, but also to the associated dynamics, administrative procedures, and costs incurred by the taxpayer.

One common payment mechanism is withholding, where income tax is deducted monthly from salaried individuals. This system ensures taxes are paid regularly and on time, with minimal effort from the employee. Withholding taxes not only simplify the payment process for taxpayers but also reduce the risk of non-compliance, as the taxes are deducted directly from income before the taxpayer has the chance to redirect or use the funds. On the other hand, consumption taxes such as VAT should be collected at the point of purchase, allowing the taxpayer to decide whether to buy the goods and pay the tax at the time of the transaction.

The use of secure technology also plays a crucial role in enhancing the convenience of payment. In today's digital age, many countries have implemented online systems that allow individuals and businesses to file tax returns, make payments, and access relevant information at their convenience. These digital platforms not only save taxpayers time and effort by eliminating the need to visit tax offices or deal with complex paperwork but also reduce administrative costs for tax authorities. By enabling taxpayers to manage their obligations digitally, governments can improve compliance rates and minimize errors in tax filings.

Additionally, flexibility in payment schedules is an important aspect of this principle. Taxpayers should be offered reasonable options regarding when and how they can fulfill their tax obligations. For instance, some countries allow businesses to pay taxes in installments or defer payments depending on their cash flow. This flexibility, along with clear communication and transparency, can foster a positive relationship between taxpayers and the government.

When applied effectively, the convenience of payment principle contributes to higher compliance rates, lower administrative costs, and an overall more efficient tax system.

3. TAX SYSTEM OF THE REPUBLIC OF SRPSKA IN LIGHT OF PRINCIPLES OF TAXATION

After 2006, i.e. after the transfer of responsibilities for indirect taxation to state-level institutions in 2006, the tax systems of both entities in Bosnia and Herzegovina—the Republic of Srpska (RS) and the Federation of BiH—were restructured to focus primarily on direct taxation. These systems now consist of direct taxes, property taxes, some minor taxes (such as those on the use, possession, and wearing of goods), and various contributions and fees governed by entity-specific regulations.

The centuries-old legal principle *nullum tributum sine lege*, meaning taxation must be based on law (the principle of legality), is incorporated into the Constitution of the RS. Article 63 specifically proclaims the principles of universality and fairness/equity in taxation. Universality entails that all individuals with legal or economic ties to the RS fall under its tax jurisdiction. Fairness, meanwhile, requires that taxes be levied according to the taxpayer's economic capacity. Universality also forms a prerequisite for the application of the fairness principle and is thus essential for a just tax system.

A deeper analysis of the RS Constitution reveals two additional tax principles: sufficiency and elasticity. Article 62 connects public revenues and expenditures within the budgeting process, implying that public revenues must be adequate to meet public needs (sufficiency), and that the tax system must be responsive to changes in expenditure levels (elasticity). Furthermore, Article 68 confirms the RS's authority to regulate and ensure the operation of its tax system. However, given the multilevel governmental structure of RS, fiscal sovereignty is both centralized and shared with local self-government units, as per the RS Constitution and the Law on Local Self-Government (Milošević et al., 2018, pp. 233-239).

The Constitution also mandates that laws and regulations be publicly accessible and legally consistent. Article 108 requires conformity of all legal acts with the Constitution and applicable laws. Article 109 guarantees the principle of publicness, demanding that legal acts be published in official gazettes. Article 110 limits retroactivity in taxation, allowing it only if explicitly provided by law and justified by public interest.

Given that constitutions are drafted in abstract terms, the RS tax procedure is concretely regulated by the Law on Tax Procedure of the RS, implemented by the Tax Administration of the Republic of Srpska (TARS). This law governs only the special part of administrative procedure related to taxation, thus qualifying as a *lex specialis* compared to the Law on General Administrative Procedure (Vasiljević Poljašević, 2018, pp. 482-483), which applies only when tax-specific provisions are absent.

Since TARS manages only direct taxes, this analysis focuses on Personal Income Tax (PIT) and Corporate Income Tax (CIT), examining their compliance with the principles of a good tax system.

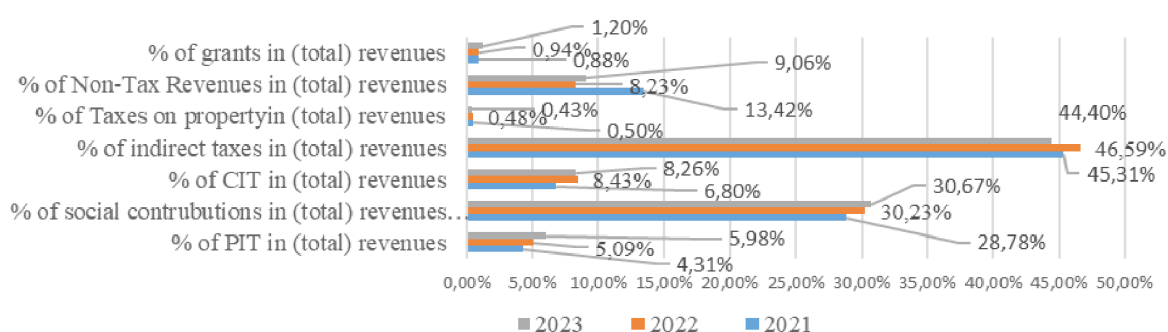


Chart 1. Structure of collected public revenues in the RS for the period 2021 to 2023

Source: Own illustration

The above chart shows the structure of collected public revenues in the Republic of Srpska (RS) for the period 2021–2023. It is evident that the most significant portion of public revenues under the jurisdiction of the Tax Administration of the Republic of Srpska (TARS) derives from personal income tax (PIT) and corporate income tax (CIT), accounting for 4.31%–5.98% and 6.85%–8.26% of total revenue, respectively. Due to their fiscal weight and jurisdictional importance, this section will focus on the application of tax principles in the implementation of PIT and CIT, particularly regarding their neutrality and fairness, and whether these taxes target those most able to pay.

The tax year for both PIT and CIT aligns with the calendar year. A PIT taxpayer is considered a resident if their residence, center of vital interests, or business is in RS, or if they spend at least 183 days in the RS within a tax year. This framework indicates that PIT in RS is based on individual, not joint, taxation. Residents are taxed on their worldwide income, while non-residents are taxed solely on income sourced within RS.

The PIT base is determined as gross taxable income reduced by applicable deductions. These include interest on a first and only housing loan, allowances for dependent family members, and voluntary pension contributions up to specified limits. PIT rates are generally flat and low but vary by income source, legal form, and registration status. Employment income is taxed at 8%, registered entrepreneurs and professionals at 10%, and non-registered professionals at 13%. Small entrepreneurs with a turnover below BAM 100,000 are taxed at 2% on gross revenue. Capital income is taxed at 13%, although some exemptions apply—dividends to residents and interest on savings are tax-exempt.

The tax system incorporates several deductions aimed at increasing fairness, including a personal deduction of BAM 12,000 annually, plus BAM 1,800 per dependent, along with additional deductions for voluntary social security and life insurance premiums (up to BAM 1,200 each per year). While such provisions promote horizontal equity—ensuring taxpayers with equal income levels bear a similar burden—the system falls short of achieving vertical equity. The unequal taxation of different income types incentivizes individuals and businesses to adjust economic activity or legal form purely for tax purposes, thus violating neutrality and efficiency principles.

Moreover, while the PIT system incorporates social policy instruments—such as allowances for children, housing support, and parental leave benefits—these are not equally accessible. Families without dependents, for example, cannot benefit from family-related deductions, resulting in higher marginal tax rates and unequal treatment. Consequently, the PIT framework fails to fully meet standards of fairness or neutrality. The erosion of core tax principles is further evident in the use of preferential regimes and exemptions, which create tax expenditures and deviations from flat-rate neutrality. As a result, the effective tax wedge varies significantly based on legal structure, sector, and income type.

Importantly, many non-neutralities do not stem from the tax system itself, but rather from its interaction with social security rules and labor legislation—such as the Labor Code or entrepreneurship laws. These overlaps create inconsistencies and opportunities for arbitrage that compromise the integrity of the tax system. Although recent digital reforms (e.g., pre-filled tax forms and online filing) have simplified administration, the PIT system remains complex in practice, often requiring taxpayers to engage professional assistance for compliance.

In the case of CIT, the taxpayer is any legal entity registered in the RS or with effective management located in the RS. Non-residents are taxed only on RS-sourced income, including income

from permanent or temporary establishments. The standard CIT rate is a proportional 10%, which is relatively low in regional terms. However, tax incentives—such as deductions for investment in equipment and facilities—allow for reductions in taxable income. These incentives function as policy tools to stimulate investment but result in effective tax rate differences across firms. Consequently, businesses not utilizing these incentives face a relatively higher tax burden.

This variation undermines neutrality and creates room for tax planning and minimization strategies, particularly for well-informed taxpayers. While the number of CIT taxpayers is relatively small, simplifying administration and enforcement, the tax itself remains substantively complex. This complexity stems from the treatment of deductible and non-deductible expenses, varied exemptions, and sector-specific provisions. Furthermore, CIT affects business behavior, particularly investment decisions, and thus cannot be regarded as fully neutral.

Overall, both PIT and CIT in RS serve as essential revenue sources, yet fall short of fully satisfying fundamental tax principles. Although administrative modernization has improved efficiency, the tax system remains fragmented and marked by significant non-neutralities, equity concerns, and distortive effects. Ongoing reform would be necessary to align these taxes more closely with the principles of neutrality, fairness, simplicity, and efficiency.

4. CONCLUSION

Taxation principles provide a foundation for designing and evaluating tax systems, setting expectations for how public revenue should be collected and managed. These principles, such as fairness, neutrality, certainty, simplicity, efficiency, and adequacy, serve as benchmarks for measuring the quality of tax policies. However, their practical application depends on the legal, social, and economic context in which taxation occurs. No single principle can be universally prioritized; instead, tax systems must strive for a balanced and adaptable framework that responds to shifting priorities and fiscal challenges. A flexible tax system is vital for securing public resources, fostering growth, redistributing wealth, and maintaining social cohesion, all while encouraging voluntary compliance and minimizing distortions. A well-designed tax policy, grounded in economic reasoning and consistent legal norms, can contribute to a more just, stable, and prosperous society.

The Constitution of the Republic of Srpska acknowledges key tax principles, while the Law on the Tax System provides a binding framework for their implementation at all government levels. This legal structure aims to ensure that tax legislation reflects not only declarative commitments but also enforceable standards that guide the adoption, modification, and repeal of tax obligations. However, the actual application of these principles, especially in the Personal Income Tax (PIT) and Corporate Income Tax (CIT), often reveals deviations and inconsistencies that challenge the system's fairness and coherence.

In the case of PIT, the use of different tax rates and classifications for various income sources leads to fragmentation and significant differences in effective tax burdens. This undermines neutrality and fairness, both horizontally and vertically. Numerous deductions, exemptions, and special regimes (e.g., for small entrepreneurs, investors, or certain income types) further complicate the system, making it less transparent and less equitable. Although PIT supports broader policy goals such as family support and housing, the system's complexity and inconsistencies suggest a need for reform. This could include expanding the definition of employment income to close loopholes, limiting the scope of "other income," excluding independent professionals from simplified regimes, and introducing a clear legal framework for the taxation of gifts.

CIT, though based on a proportional rate of 10%, also departs from neutrality due to various tax incentives and deductions. These measures lower the effective tax rate for some businesses and create room for tax planning, which undermines equity and horizontal fairness. Despite recent efforts to simplify administration, the system remains complex due to numerous rules on deductibility and reporting. CIT is easier to manage administratively than PIT, given the smaller number of taxpayers, but it still requires significant expertise in application and compliance.

Finally, it can be said that, although the RS tax system is not always equitable and neutral due to the different tax rates and tax exemptions available in the RS tax laws, the tax system, as generally required, is largely compatible with the majority of tax principles.

Through empirical research on different PIT and CIT in RS, this paper aims to contribute to the literature on the application of tax principles in tax law and their importance for the growth and development of the country. The conclusions of this analysis can be further used by researchers and practitioners who address the ongoing need to refine the taxation system in accordance with the requirements of tax principles, and the results could be considered universally applicable in any country.

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