

Comparative Analysis Paying Taxes Indicator: Evidence from Western Balkans Countries and Turkey

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Abstract

Taxes represent one of the most essential component in contemporary business. Their importance is reflected through stability and predictability which are necessary to international capital inflows. Government should create simple tax system that minimizes the burden of business conditions. The topic is insufficiently researched and there is great space for detailed analysis and interpretation of observed indicator. Guided by this fact, the author's efforts were directed at dealing with this issue and the possibility to reflect efficiency and effectiveness of the tax system in different countries within the considered paying taxes indicator. The aim of paper is paying taxes indicator in the Western Balkans countries and Turkey in period from 2008 to 2015. World Bank calculates this indicator within Doing Business analysis. The paper consists three chapters with the first part deals with the methodology and structure of selected indicator, the second part is focused on tax reforms in selected countries while the third part deals with the results and conclusions which are presented by tables and figures.

Keywords: Taxes, payment, time, total tax rate

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Introduction

Taxes are a crucial element of a country's international competitiveness. In today's globalized economy, they are an important factor for business when investors decide where to invest and how to invest (Pomerlau, Cole, 2015). Therefore, many countries try to define optimal tax level for investment and capital. Taxation is one of the headstone of all political regimes, a point long recognized by Musgrave (1959), Levi (1980) and Schumpeter (1991). Atkinson and Stiglitz (1976) researched the design of tax structure using comparative approach of direct and indirect taxation. Their purpose was to provide and consider the interaction between different kinds of taxation. Lukovic (2015) determines that taxation in an increasingly globalized economy in the world has attracted economist's attention over the last few decades. Pfister (2009) concluded that to achieve an optimal tax policy, it should mobilising domestic resources and broadening the tax base, fighting tax evasion, improving the investment climate for enterprise development and promoting good governance underpinned by effective taxation which manifests the responsibility of governments to citizens. Brugelmann (2012) emphasizes that a modern tax system should enable to revenues finance the public needs as primary objective and smooth the cyclical volatility of economic growth, redistributive improvement of equality and avoid obstacles for economic growth as possible secondary objectives.

There are many studies about tax effect on economic growth (Padovano and Galli, 2001; Holcombe and Lacombe, 2004; Reed, 2008; Barro and Redlick, 2011; Ferde and Dahlby, 2012). They found that reducing corporate income tax 1% raises annual growth by 0.1 to 0.2%. Similarly, Mertens and Ravn (2012) emphasized that a 1 percentage point cut in the average personal income tax rate raises real GDP per capita by 1.4 percent in the first quarter and by up to 1.8 percent after three quarters. Also, a 1 percentage point cut in the average corporate income tax rate raises real GDP per capita by 0.4 percent in the first quarter and by 0.6 percent after one year.

Methodology of paying taxes

The study provides on the tax systems of 189 economies around the world and facilitates comparison, stimulating a discussion between government and business in terms of tax policy and its economic impact (World Bank, 2015). Doing Business determines the taxes and mandatory contributions that a medium size company has to pay in a given year as well as the administrative burden of paying taxes and contributions. They include the corporate income tax, social contributions and labour taxes paid by the employer, property taxes and transfer taxes, dividend tax, capital gains tax, financial transactions tax, vehicle and road taxes, waste collection taxes and other small taxes.

The Paying Taxes sub-indicator - tax payments

This sub-indicator manifests the total number of taxes and contributions paid the method of payment, the frequency of payment and filing. It includes sales tax, value added tax and employee-borne labour taxes which are collected by the company from the consumer or employee on behalf of the tax agencies.

Also, the number of payments takes into account electronic filing, where they are allowed and it's used by the majority of medium-size business, the tax is counted as paid once a year even if filings and payments are more frequent.

The Paying Taxes sub-indicator - time

This sub-indicator measures the time taken to prepare, file and pay mayor types of taxes and contributions such as corporate income tax, value added tax, labour taxes, including payroll taxes and social contributions. Preparation time includes the time to collect all information necessary to compute the tax payable and calculate the amount payable. Filing time includes the time to complete all necessary tax return forms and file the important returns at the tax authority. Finally, payment time considers the hours needed to do the payment online or in person where taxes are paid in person, the time includes delays while waiting.

Table 1 What do the paying taxes indicators measure

Tax payments for a manufacturing company (number per year adjusted for electronic and joint filing and payment)
Total number of taxes and contributions paid, including consumption taxes
Method and frequency of filing and payment
Time required to comply with three major taxes (hours per year)
Collecting information and computing the tax payable
Completing tax return forms, filing with proper agencies
Arranging payment or withholding
Preparing separate mandatory tax accounting books
Total tax rate (% of profit before all taxes)
Profit or corporate income tax
Social contributions and labour tax paid by the employer
Property and property transfer taxes
Dividend, capital gains and financial transactions taxes
Waste collection, vehicle, road and other taxes

Source: www.doingbusiness.org/methodology/paying-taxes

The Paying Taxes sub-indicator - total tax rate

The total tax rate measures the amount of taxes and mandatory contributions borne by the business where the total amount of taxes borne is the sum of all different taxes and contributions payable after accounting for allowable deductions and exemptions. The taxes included can be divided into five categories: profit or corporate income tax, social contributions and labour taxes, property taxes, turnover taxes and other taxes.

Tax reforms in countries in the region

A carefully designed tax system can have a significant positive impact on a country's economy and it can help ensure stable public finances, boost growth and competitiveness and contribute to a fair distribution of income (European Commission, 2015). Between 2014 and 2015, 189 economies worldwide documented 231 business reforms with 71%

reforms aimed at reducing the complexity and cost of complying with business regulation while 29% reforms aimed at strengthening legal institutions.

Table 2 Tax reforms 2008-2012

Country	ALB	BIH	CRO	MAK	MON	SER	TUR
2008	reducing the corporate income tax rate			Introducing electronic filing and payment systems and by reducing the corporate income tax rate			Reducing the tax rates on corporate income and on interest
2009	Reducing the corporate income tax rate	Reducing the corporate income tax rate, exempting profit distributions from taxes and allowing tax losses to be carried forward for 5 years	Made paying taxes easier for companies by encouraging online filing	Reducing the corporate income tax rates			
2010				Clarifying social security payments and reducing employers' social security contribution rates	Reducing the corporate income tax rate and employers' social security contribution rates		
2011	Amending several laws, reducing social security contribution and introducing electronic filing and payment	Simplify labour tax processes, reduce employer contribution rates for social security and abolished its payroll tax	More difficult and costly for companies by introducing a tourist fee	Lowered tax costs for business by requiring that corporate income tax be paid only on distributed profits	Abolishing a tax, reducing the social security contribution rate and merging several returns into a single unified one		

Source: Author based on www.doingbusiness.org/reforms

Bosnia and Herzegovina made paying taxes easier and less costly for companies by reducing the corporate income tax rate, exempting profit distributions from taxes and allowing tax losses to be carried forward for 5 years and simplified labour tax processes,

reduce employer contribution rates for social security and abolished its payroll tax. Macedonia was very intensive in the implementation of tax reforms such as made taxes easier and less costly for companies by introducing electronic filing and payment systems and by reducing the corporate income tax rate, clarifying social security payments and reducing employers' social security contribution rates and enabled clarifying social security payments and reducing employers' social security contribution rates. Serbia and Turkey reduced the tax rates on corporate income and on interest while Serbia did not take reforms in taxation in this observed period.

Table 3 Tax reforms 2012-2015

Country	ALB	BIH	CRO	MAK	MON	SER	TUR
2012							Lowered the social security contribution rate for companies by offering them a 5% rebate
2013	Abolishing the vehicle tax and encouraging electronic filing for taxes	Easing the administrative burden of filing and paying social security contributions by implementing electronic filing and payment systems	Less costly for companies by reducing the health insurance				
2014	Allowing corporate income tax to be paid quarterly	Introducing a penalty for failure to employ the required minimum number of people with disabilities	Introducing a new form of limited liability company with a lower minimum capital requirement and simplified incorporation procedures	Encouraging the use of electronic filing and payment systems for corporate income and value added taxes		More costly for companies by increasing the corporate income tax	
2015	More costly for companies by increasing the corporate income tax rate		Raising the health insurance contribution rate, increasing the Croatian Chamber of Commerce				Increasing employers' social security contribution rate

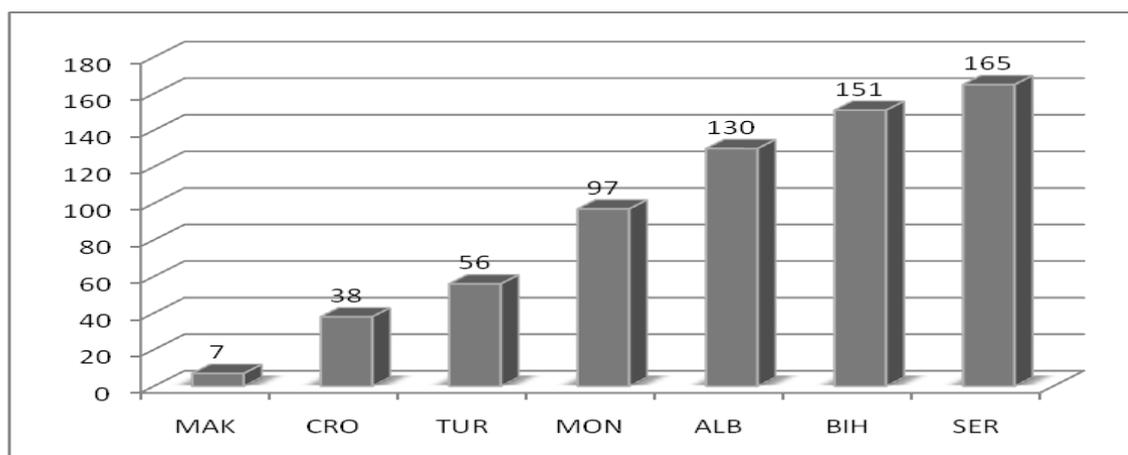
Source: Author based on www.doingbusiness.org/reforms

As we can see, Albania made paying taxes easier for companies by abolishing the vehicle tax and encouraging electronic filing for taxes in 2013. Also two years later, this country enables paying taxes easier by allowing corporate income tax to be paid quarterly,

but on the other hand made paying taxes more costly for companies by increasing the corporate income tax rate. Bosnia and Herzegovina eased the administrative burden of filing and paying social security contributions by implementing electronic filing and payment systems and introduced a penalty for failure to employ the required minimum number of people with disabilities in 2014. Croatia presents country which have had changes in tax system almost every year, so made paying taxes less costly for companies by reducing the health insurance in 2012 and introducing a new form of limited liability company with a lower minimum capital requirement and simplified incorporation procedures. Macedonia did one reform step encouraging the use of electronic filing and payment systems for corporate income and value added taxes while Serbia made one step backwards by increasing the corporate income tax. Finally, in 2015 Turkey have increased employers social security contributions rate although lowered and offered rebate of 5% in 2012.

Results and analysis

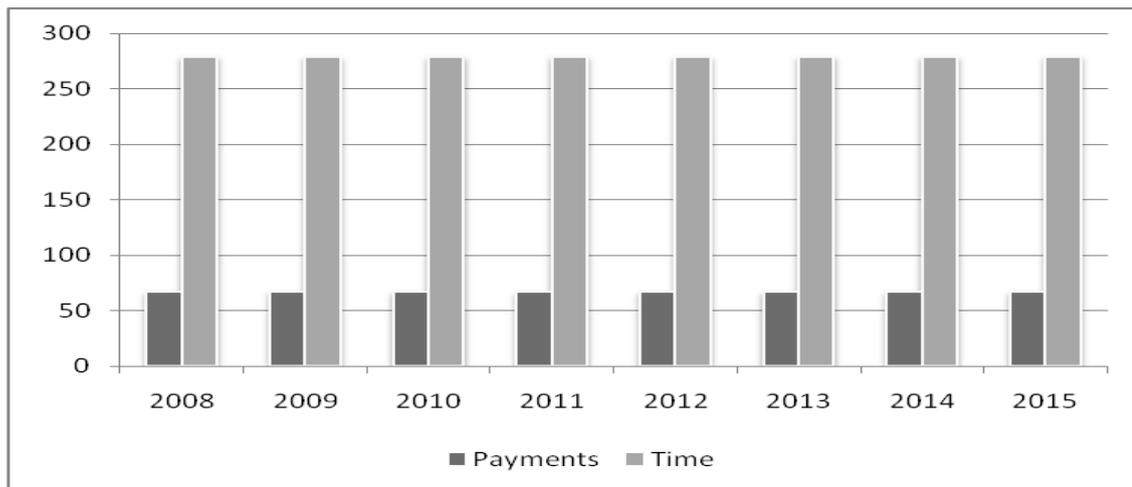
This chapter reflects position of Serbia and other Western Balkans countries including Turkey in period from 2008 to 2015 using indicator payment, time and total tax rate as three main sub-indicators of paying taxes and total position at the end of 2015.



Source: Authors based on www.doingbusiness.org

Figure 1 Paying taxes indicator - Rank of observed countries

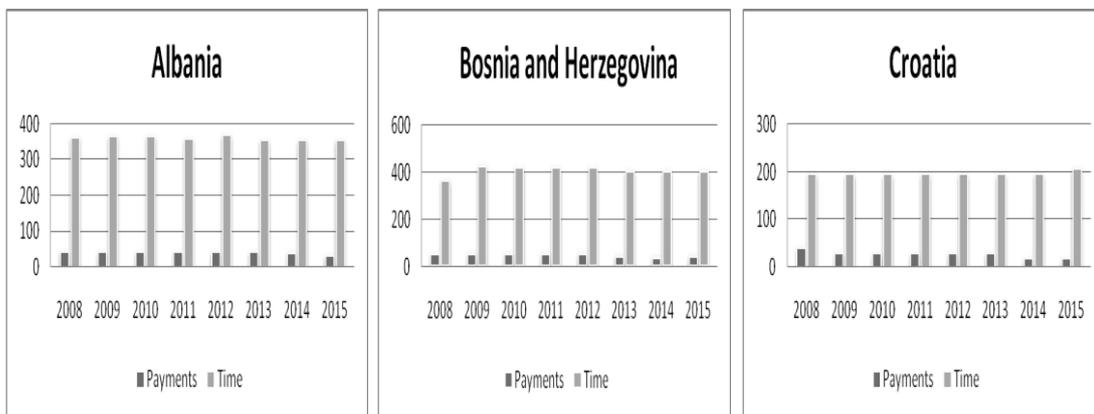
At the end of 2015, Macedonia was best ranked at 7 place in the observed group of countries while Serbia was devastating to 165 place. High position of Macedonia favors this country as attractive location for investment and foreign capital from tax aspects. Croatia, Montenegro and Turkey are the countries in the top 100 while Albania and Bosnia and Herzegovina lower ranked at 130 and 154 places. The encouraging fact and data for our country is progress in 2016 where Serbia improves paying taxes indicator for 22 place.

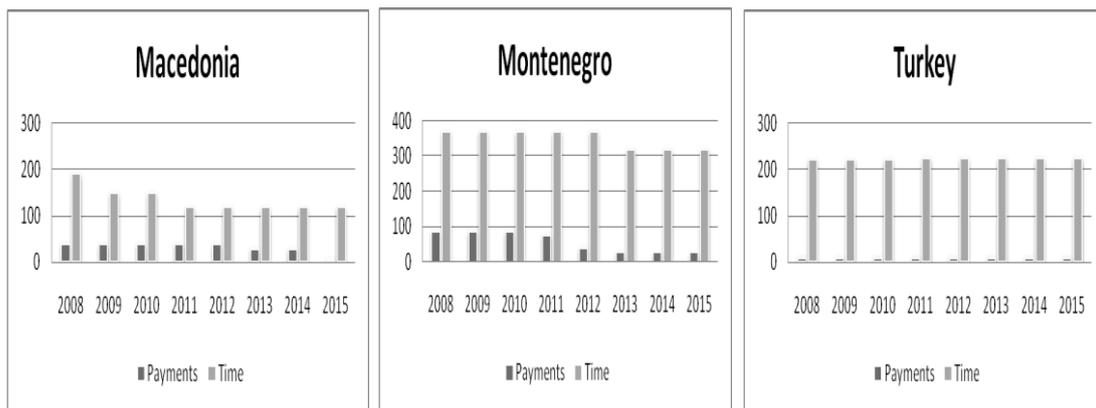


Source: Authors based on www.doingbusiness.org

Figure 2 Tax sub-indicator payment and time - Serbia

Figure 2 shows the sub-indicators procedures and tie of payment in Serbia for the period 2008-2015 year. As one can notice the values of observed indicators are identical which speaks enough about the implementation of reforms in terms of the number of procedures and time required for the settlement of tax liabilities. Thus, the number of annual tax procedures hasn't changed for eight years and was 67 that ranked Serbia fronted with Montenegro in the region. On the other hand, when it comes time to pay taxes, Serbia takes a central position where the number of hours required for the tax settlement and tax payment is 279.





Source: Authors based on www.doingbusiness.org

Figure 3 Tax sub-indicators payment and time – Western Balkan and Turkey

The comparative analysis of the Western Balkans and Turkey reflects similar fluctuation of the number of sub-indicators procedures and time of tax payments which points to the similarity of tax systems and processes in the observed countries. Montenegro made the most progress in terms of the number of procedures where it's able to reduce that number to 28 which is 61 procedure less compared to 2008. It should also be noted the progress of Albania and Croatia where it also came to the abolition of procedure's number while Macedonia is a country with one of the smallest number of procedures in the region with only 7 per year. In Turkey, the number of procedures hasn't changed during observed eight years and amounted to 11 per year.

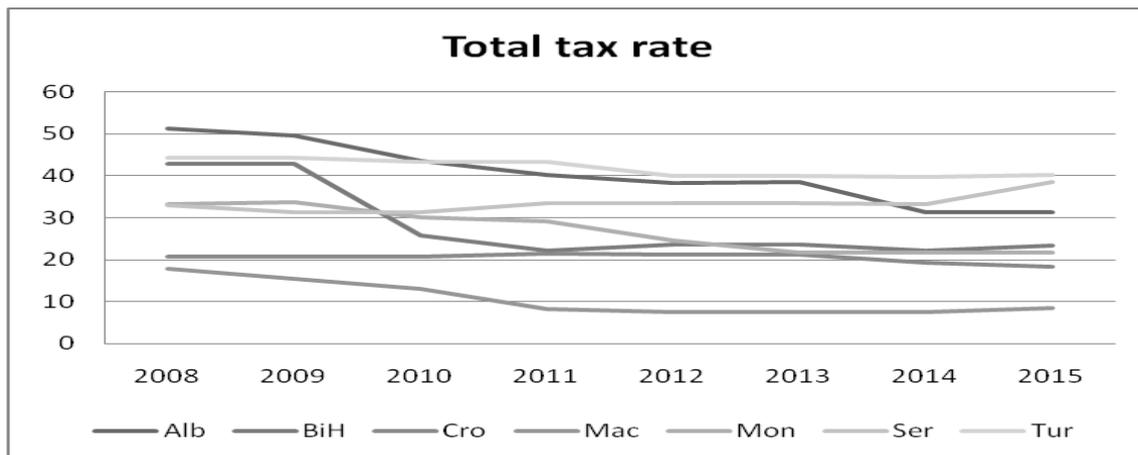
When it comes to the time payment of taxes, Bosnia and Herzegovina is a country where it takes the most hours of collection, execution and settlement of tax liabilities, more than 400 hours per year. Albania and Montenegro presents countries where this indicator is at the level of 320-350 hours and 220-280 hours in Serbia and Turkey. It is necessary to point out that the small number of tax procedures does not mean less time collecting and settling the tax which can be best seen in the case of Croatia and Turkey. If we look at the year 2015, the number of procedures in Croatia has increased by 8 but time is less for paying taxes for 16 hours while in Serbia it takes less time for the tax payments in relation to Bosnia and Herzegovina or even 128 hours.

Table 4 Payments and time - two main tax type CIT and VAT

Country	Corporate income tax (CIT)		Value added tax (VAT)	
	Payments (number)	Time (hours)	Payments (number)	Time (hours)
Albania	5	119	12	144
BiH	12	68	12	271
Croatia	1	58	1	52
Macedonia	1	19	1	44
Montenegro	1	43	12	179
Serbia	12	48	9	70
Turkey	1	49	1	97

Source: Authors based on www.doingbusiness.org

If we look CIT, the number of payments has been reduced to 1 in nearly all countries except Albania where the procedures are 5 while in BiH and Serbia that number 12 which speaks enough about rationalization of the tax system. Macedonia is a country where the fastest way to fulfill tax obligations or taxpayer spends the least time at the settlement of corporate income tax while in Albania this sub-indicator is 119 hours per year. On the other hand, a similar situation is presented in VAT except Bosnia and Herzegovina where it recorded 271 hours per year which is 6 times higher and longer compared to Macedonia as best ranked country in the observed group.



Source: Authors based on www.doingbusiness.org

Figure 4 Tax sub-indicator total tax rate (% of profits)

Looking at the indicator Total tax rate, there is a decreasing trend in all countries except in Serbia where it rose for 5.7% for the whole period. Albania and Bosnia and Herzegovina recorded a decrease for 20% compared to 2008 year while similar trend was recorded in Macedonia and Montenegro where this reduction was slightly above 10% while Croatia and Turkey were below 5%. At the end of 2015, the largest total tax rate is presented in Serbia where it's 38.6% while the lowest rate recorded in Macedonia with only 8.3% which reflects that gap between the highest and lowest overall tax rate as much as 30 percent.

Conclusion

Stability and predictability are crucial for every tax system in globalized economic flows. Each country is trying to design a tax system that will be efficient in terms of time and costs. This paper points out the importance of these two aspects analyzing indicator paying taxes by World Bank. As shown in the empirical part, the tax systems are almost identical in the countries of region and there is a high level of consistency in terms of an observed indicator. There is some difference regarding the number of tax procedures and time for tax, where Macedonia stands out particularly on the basis of two indicators while on the other hand, countries such as Albania, Bosnia and Herzegovina and Montenegro have weaker sub-indicator time or a larger number of hours per year when it comes to the tax settlement liabilities. It's evident that there is a huge space for improvement paying tax indicator in almost all countries which can be achieved through the maximum simplification of tax procedures and eliminating unnecessary barriers and regulations.

This will inevitably contribute to effective and efficient tax system which represents one of the basic factors when making decisions about investment of capital by investors. Nex research could be directed to countries of Eastern and Central Europe in order to obtain clear image and determine the main differences in the tax systems if they are presented from the observed indicator.

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