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Comparative analysis of the most significant tax forms in Serbia and selected countries of EU

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Abstract

The subject of this paper is a theoretical and empirical analysis of the tax systems of Serbia and some selected countries of EU. No tax system in the world is the same, and every economy differs in its tax policy and structure. The tax policy of the state can influence several economic segments, such as unemployment, income, company profits, investments, etc. The importance and purpose of quality management of the tax system is increasing today, because through taxes and fiscal policy, each country can influence its own sustainability and stability. The importance of tax forms in the tax structure of a country can be seen from several aspects. One of the aspects is the participation of tax forms in the country's GDP. Another aspect is the share of a certain tax form in total tax revenues. If we look from the point of view of the taxpayers (citizens), then certain tax forms (direct taxes) become more significant, because they concern their standard and affect economic behavior. In this paper, different characteristics of the analyzed tax systems are taken into account. Given that Serbia is a country that, for the last three decades, has gone through various macroeconomic imbalances, the analysis in this paper has shown that it needs fiscal reforms. They are needed primarily in the part of direct taxation (taxation of income and property), because taxes on income and property do not play too large a role in the entire tax system and fiscal policy. The goal of the work is to make recommendations for Serbian fiscal reforms based on the experiences of the analyzed European countries.
Keywords: *tax system, income tax, VAT, property tax, GDP, EU, Serbia*

1. Differences in public income and public expenditure in the analyzed countries

State spending, which refers to national defense, social and health care, infrastructure, education and others, is financed from state public revenues. With the help of public revenues, the state ensures and provides services to citizens, which the private sector cannot fulfill. Tax revenues are defined as revenues from income and profit tax, tax on sales of goods and services (i.e., VAT), tax on property and transfer of property and other types of taxes.

The movement of tax revenues is theoretically described through the Laffer curve (Bakran, 2019), which, on the one hand, tells how the growth of the tax rate contributes to the growth of tax revenues, and on the other hand, how any excess of the optimal tax rate can lead to smaller tax revenues income, because in that case citizens avoid or are unable to pay their tax obligations.

In most states, public expenditures are higher than public revenues, that is, often public revenues cannot meet the needs of the state apparatus. When expenditures are greater than revenues, states usually take on debt or privatize their state assets.
In the continuation of the work, it will be seen how effective the tax systems of Serbia are, and how effective the Benelux countries are, as well as the three countries of Southern Europe.

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According to the data of the Ministry of Finance of the Republic of Serbia and the OECD, we will present the trend of total tax revenues and expenditures in the period from 2010 to 2017.

Table 1. Percentage share of tax revenues in GDP in the period from 2010-2017.

Country	2010	2011	2012	2013	2014	2015	2016	2017
Belgium	42.9	43.5	44.3	45	44.8	44.1	43.3	43.9
Greece	32.3	34.3	36.3	35.9	36.3	36.6	38.9	39.3
Italy	41.7	41.6	43.6	43.8	43.3	43	42.2	41.9
Luxembourg	37.6	37.1	38.4	38.2	37.5	36.2	36.3	37.4
Netherlands	35.7	35.4	35.6	36.1	37	37	38.4	38.7
Spain	31.3	31.2	32.4	33.1	33.9	33.8	33.6	33.9
Serbia	41.2	42.1	43.7	44.1	44.1	43.7	37.2	38.4

Source: Revenue statistics of OECD Member countries 2007- 2017. [online]. Available at: https://www1.compareyourcountry.org/tax-revenues-global/en/0/655+656+657+658/datatable/2005-2017

Table 2. Total state expenditures in the period from 2010-2017.

Country	2010	2011	2012	2013	2014	2015	2016	2017
Belgium	53.9	55.3	56.5	56.1	55.6	53.7	53.1	52.0
Greece	53.0	55.1	56.7	62.8	50.7	54.1	49.9	48.5
Italy	49.9	49.2	50.6	51.0	50.9	49.1	48.8	48.4
Luxembourg	42.0	41.5	41.8	41.2	40.6	40.4	40.0	41.3
Netherlands	47.9	46.8	46.9	45.9	44.7	43.6	42.4	42.2
Spain	46.0	46.2	49.5	46.4	45.3	44.1	42.5	41.3
Serbia	48.7	48.9	49.8	47.7	46.0	44.7	44.5	43.2

Source: Eurostat. [online]. Available at: https://ec.europa.eu/eurostat/databrowser/view/tec00023/default/table?lang=en

These two tables show the analysis of trends in total public revenues (from all forms of taxes) and total public expenditures, which are expressed as % of GDP. The analysis covers the period from 2010 to 2017 and is presented in figures and colors. The dark green color indicates the fields of countries that generate high tax revenues, i.e., the lowest shares of tax revenues in GDP are marked in red. The same applies to the table of state expenditures, where the green color indicates the countries that made the least expenditures, that is, the red and yellow colors represent the countries and years in which the highest state expenditures were made.

If we look at the table of total tax revenues, we can see that Belgium leads in collected tax revenues, while on the other hand, Greece and Spain show that the tax systems of these countries are poorly constructed, inefficient and corrupt. Again, it does not necessarily mean that a low share of income is an indicator of poor governance, until government expenditure is also taken into account.

Table 3. The difference between total tax revenues and government expenditures in the period from 2010-2017

Country	2010	2011	2012	2013	2014	2015	2016	2017	Total
Belgium	-11	-11.8	-12.2	-11.1	-10.8	-9.6	-9.8	-8.1	-84.4
Greece	-20.5	-20.5	20.2	26.8	14.5	16.9	10.1	7.9	136.5
Italy	-8	-7.5	-6.9	-7	-7.4	-7.2	-6.5	6.3	-56.8
Luxembourg	-4.4	-4.4	-3.4	-3	3.1	4.2	3.2	3.9	26.6
Netherlands	-12.2	-11.4	-11.3	-9.8	-7.7	-6.6	-4	-3.5	66.5
Spain	-14.4	-14.6	-16	-12.7	-11.2	-10.1	-9	-7.3	95.3
Serbia	-7.5	-6.8	-6.1	-3.6	-1.9	-1	-7.3	-4.8	-39

In the table above, we see that, although according to the collected tax revenues, which are not the most generous, Luxembourg still has the best relationship between the two variables in the analyzed period, and we arrived at this by subtracting the expenses from the income for each year and using the total sum to get the balance for the entire analyzed period of time. In this table, Serbia also comes to the fore, with a good relationship between income and expenditure, but again with a tendency of falling tax revenues, which can lead to a change in the total sum. The countries of Southern Europe, namely Spain and especially Greece, have confirmed, according to the data from this table, that they were struggling with a major economic crisis and public debt. Nevertheless, according to this analysis, we can determine the progress and effectiveness of the tax reforms that have been implemented, given that these two countries have been reducing the difference in income and expenditure over the years. Italy, Belgium and the Netherlands, according to this analysis, keep their tax systems at a satisfactory constant with the tendency of increasing public revenues and decreasing public expenditures.

2. Comparison of the most significant types of taxes

This part of the paper includes the most basic forms of taxes, as well as a comparison of their tax rates in the analyzed countries. The analysis includes profit tax, income tax and value added tax.

Country	Profit tax	VAT	Income tax
Spain	25	21 (10)	47
Serbia	15	20 (10)	10-15
Netherlands	25	21 (9)	49,5
Luxembourg	24,9	17 (18 and 3)	45
Italy	27,8	22 (5 and 10)	43
Greece	24	24 (6 and 13)	44
Belgium	25	21 (6 and 12)	50

According to the table above, we can see that Europe has, more or less, carried out tax harmonization. We observe this by the profit tax rates, which vary up to 1 percentage point, except in Italy, where the rate is slightly higher. Among the analyzed countries, but not only them, but also in the whole of Europe, and even the world, Serbia stands out significantly, where the maximum rate of profit tax is 15%. Since the average rate of this type of tax in the European Union is around 23%, it ranks Serbia as one of the most attractive countries for investments, and puts it on par with Cyprus, which has only a 2.5% lower rate than Serbia.

As for value added tax, its rate is higher in countries that went through more serious economic crises (Greece, Italy), while Luxembourg has the lowest rate. Serbia has one of the lowest VAT rates in Europe.

The third column shows the relationship of the income tax rate. We notice that the Benelux countries have the highest rates of this tax, the countries of Southern Europe have slightly lower rates, and Serbia has the significantly lowest. Progressive income tax rates apply in Serbia. For taxable income that exceeds the prescribed thresholds, between three and six times the average annual salary, the tax rate is 10%. For net income greater than six times the average annual salary, the tax rate is 15%.

According to all of the above, we conclude that the largest tax burden is represented in labor taxation. The reason for this is that there is still lower labor mobility in Europe, and these countries use this segment of taxation to collect revenues that have been lost due to the pressure of tax harmonization. We also see that Serbia is actually trying to keep its workforce with a low labor tax rate.

3. Conclusion

On the basis of the postulates presented theoretically, as well as on the basis of comparative analysis, conclusions are reached that can have a scientific impact and provide recommendations for future researchers in this field. Tax systems in Europe have been changing dynamically in the last three decades, and a similar process was happening in Serbia. The growth of unemployment, prices, social inequalities, decline in production are some of the negative effects that have followed countries in transition. Those countries that were determined to reach the level of economically developed market economies, through extensive structural reforms managed to get closer to developed market economies, at the same time realizing a dynamic inflow of foreign investments, significant growth in production and living standards. Fiscal policy was key in these reforms. Tax reforms took place differently in each country individually, depending on the historical, social, economic and political specificities and characteristics of each country. Precisely because of these characteristics of each country, there is no single, universal strategy for achieving an optimal tax system. Each country has a unique tax system, with specific tax reforms, tax forms and the relationship between tax revenues and GDP, but a detailed description of each of the tax systems requires a much more extensive work. A comparative analysis of different tax systems enabled a better understanding of the effects of taxes in different jurisdictions. Also, through the understanding of different tax systems, there is greater cross-cultural cooperation, promotion of democratic values, as well as legal harmonization, as in the example of the EU.

Every country, by introducing taxes, tries to find appropriate tax forms whose fiscal effects, that is, randmani, are significant. Fiscal effect (randman) means the degree of fiscality of a duty. In addition to the tax form, the amount and type of tax rate are also very important. It is believed that, if the tax rate is higher, the income is higher, however, this does not always have to be the case. The application of extremely high tax rates can have the opposite effect, because it is known that high rates affect the appearance of taxpayers' resistance to tax obligations. The bottom line is that taxes should be moderate, regardless of whether they are paid from income, income or assets. The total tax burden must not exceed the so-called absolute tax limit (Isailović, 2009). If the absolute tax limit were to be exceeded, there would be no increase in income (quite the opposite) despite the introduction of new taxes or rate increases. It happens in practice that, when the level of the absolute tax limit is exceeded, incomes decrease even though tax rates have increased. The question of reaching the level of the absolute tax limit is of an empirical nature. If the country is richer, it can in practice be at a higher level than in developing countries. But, if the country is in a major economic crisis, then the absolute tax limit drops to a much lower level. This is exactly what tax policy makers have to take into account. The tax system should, on regular occasions, include such tax forms that are able to cover public expenditures with their financial amounts. But if they cannot do that, then some of the elements should be changed (tax rate, tax base, etc.). Sometimes it is not necessary to change the tax and the rate, but the elements in the economy. For example, increased production increases the income tax base, and applying the same rates leads to higher incomes.

Benelux countries, selected countries of Southern Europe and Serbia are analyzed in this paper. In addition to tax harmonization, one can see a lot of diversity. Much more efficient and rich economies are the economies of the Benelux countries, that is, primarily Luxembourg, then Belgium and the Netherlands. This fact is proven by the higher level of exports, as well as the GDP per capita, which in these countries is at a higher level than in Italy, Greece and Spain. In terms of exports, Serbia is between these two groups of countries, while in terms of GDP per capita it is in last place. Insufficient tax control, inefficient Tax Administration, bad judiciary, evasion of the law are factors that affect not only the tax system, but also the entire economy of a country.

Looking at the VAT item, it is approximately the same in all countries with minor differences, except in Luxembourg where it is the lowest at 17%. We see that the country that had the strongest economic crisis also has the highest VAT rate, which is Italy at a rate of 22%.

As far as profit tax and income tax are concerned, Serbia leads in the lowest rates (15%) precisely for the reason of attracting foreign investments and retaining domestic ones, which in recent years has proven to be effective if we take into account the growth of GDP per capita. inhabitants in the last 3 years in our country. The country with the highest corporate tax rate is Italy (27.8%), and the highest income tax rates are Belgium and the Netherlands (50%). We conclude that European countries have, more or less, carried out tax harmonization, and that Serbia is on the right track. Nevertheless, Greece, as one of the main focal points of the economic crisis, had an internal problem of bribery and corruption, which additionally caused even greater consequences for that system. Italy also has a deep-rooted problem of tax evasion in the tax haven of San Marino, and it is assumed that up to 100 billion euros in taxes are evaded annually.

In the end, we can conclude that there is no perfect fiscal system (and no system at all) that other countries could copy completely and apply on their territory. Differences are still present between the north and the south (Benelux and Southern Europe and Serbia), especially in the level of living standards.

The European Union certainly wants to strengthen its community, make it more homogeneous and more resistant to economic shocks and crises, and one of the ways it can be achieved is tax harmonization.

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