SOME COORDINATES CONCERNING TAXATION IN THE EU CANDIDATE COUNTRIES

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ABSTRACT: *For accession to European Union, tax area is of particular importance, because it recognizes the impact of taxation on economic growth and development, and indirect taxation significantly contributes to the formation of the EU budget resources. Without prejudice to the fiscal sovereignty of Member States, EU tax policy strategy aims establishing a framework that eliminate the tax obstacles that may affect cross-border economic activity, identify the actions on preventing and combating tax evasion, improve collaboration between tax administrations. Without claiming an exhaustive approach, through issues highlighted in this article, we will identify both the similarities and the particularities of taxation from Albania, Macedonia, Montenegro, Serbia and Turkey, and also manner in which taxation of the 5 EU candidate countries meets the requirements on the fiscal coordination and fiscal harmonization from EU tax policy perspective.*

KEY WORDS: *candidate countries, EU tax policy, direct taxation, indirect taxation, fiscal freedom.*

JEL CLASSIFICATION: *H2, H3.*

1. INTRODUCTION

Any European State which respects democratic values of the European Union and is committed to promoting them, may apply for EU membership (Treaty on European Union, 2012), becoming Member State based on respect the political criteria (democracy, public administration reform, rule of law, human rights and the protection of minorities, regional issues and international obligations), the economic criteria **(**the existence of a functioning market economy, the capacity to cope with competitive pressure and market forces within the Union) and the institutional criteria, respectively the ability to assume the obligations of membership (European Commission, 2011).

In this context, presently are 5 candidate countries **(**still negotiating or waiting to start), respectively Albania, The Former Yugoslav Republic of Macedonia,

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Montenegro, Serbia and Turkey, and 2 potential candidates (they were promised the prospect of joining when they are ready), respectively Bosnia and Herzegovina and Kosovo (European Commission, 2015a).

Whereas taxation is one of the 33 negotiating chapters, through this article we will present the general coordinates for taxation from EU candidate countries, in order to highlight how the issues of tax harmonization and tax coordination in terms of EU tax policy are found in these countries.

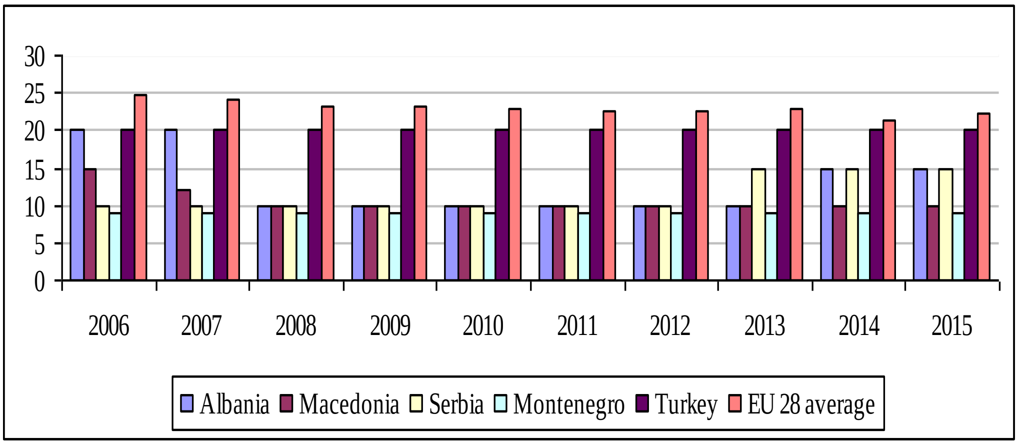
2. DIRECT TAXATION IN EU CANDIDATE COUNTRIES

As the oldest form of taxation, direct taxation is often found in studies and research, and regardless of the subject under analysis (corporate taxation or personal income taxation) is emphasized the relationship between direct taxation and economic growth **(**Macek, 2015). Although it is not easy to achieve the optimum in direct taxation, public policy makers in each country must consider: the impact of direct taxation on capital accumulation and investment (Kersan-Škabić, 2015); the direct link between quality in research and development and corporate taxes (Ernst, Richter şi Riedel, 2014); providing horizontal and vertical equity according to the tax base and tax form (Gordon and Kopczuk, 2014); the behavior of taxpayer towards the taxation regime (Hennighausen and Heinemann, 2014).

From the perspective of direct taxation, EU fiscal policy is based on the fiscal coordination, the acquis referring to aspects of taxing income from savings of individuals and of corporate taxes, being offered directions and actions for preventing and combating tax evasion, based on the principles of the Code of Conduct for Business Taxation (European Commission, 2015b).

As shown in Fig. no. 1, the evolution of top marginal corporate tax rate in EU candidate countries during the period 2006-2015 did not have the same trend as EU 28 average, which decreased by 2.68 percentage points in 2015 compared to 2006. Except Turkey, where top marginal corporate tax rate in 2015 is close to EU 28 average, the other countries have a reduced rate of taxation, respectively 15% in Albania and Serbia, 10% in Macedonia and 9% in Montenegro (KPMG, 2015a).

In Albania, resident companies and authorized individuals are subject to taxation according to the annual turnover. So, applies simplified corporation tax for small businesses, in cases where the annual turnover does not exceed ALL 8,000,000 (EUR 57,000), respectively a tax rate of ALL 25,000 for an annual turnover of up to ALL 2,000,000 and a tax rate of 7.5% (but not less than ALL 25,000) for an annual turnover of between ALL 2,000,001 and ALL 8,000,000. The standard rate of corporation tax of 15% applies to resident companies and authorized individuals which records an annual turnover of more than ALL 8,000,000 (Eurofast, 2015a).



Source: processing author based on data from KPMG

Figure 1. Top marginal corporate tax rate in EU candidate countries

The fiscal measures taken by Macedonia for economic growth are found at the level of company tax. Thus, alongside a lower corporate tax rate of 10%, for attracting investors and reducing unemployment, Macedonia offers companies a number of fiscal incentives such as: exemption from profit tax for a period of ten years of entities operating in technological industrial development zone; reducing the tax base of the profit tax in the case of reinvestment of profits in real estate, installations and equipment, software and patents, on condition that these assets may not be disposed for a period of five years; reducing the tax base of the profit tax with the cost of acquisition for up to ten electronic cash registers (KPMG, 2015d).

Tax incentives for companies are also found in Serbia, where the exemption from profit tax for a period of ten years is granted to companies that invest more than 1 billion RSD (about 10 million EUR) and create over 200 jobs, while fiscal losses are carried forward for five years (KPMG, 2015e).

Even if Turkey practice the highest corporate tax rate (20%) among the EU candidate countries, annual programs and development strategy are focused on encouraging direct investment, being offered fiscal incentives grouped into three categories, namely fiscal incentives for investment, fiscal incentives for export and other fiscal incentives. So, profit tax exemption for entities that operates in the zones of technological development shall be granted until 31 December 2023 and R&D expenses are fully deductible at calculating the profit tax by the end of 2023 (Deloitte, 2014).

The diversity of incomes obtained by individuals (Fujiwara, Souma, Aoyama, Kaizoji and Aoki, 2003), the structure of individual taxpayers and their behavior towards taxes (Christians, 2014), advantages and disadvantages of the flat taxation and the progressive taxation (Candamio and Rodríguez, 2014) ... these are just some of the issues which must be taken into account for a corresponding personal income taxation.

In terms of personal income taxation, in the period 2006-1015, as shown in Tab. no. 1, in Serbia, Montenegro and Turkey was maintained the personal income tax regime, Macedonia has introduced a flat tax since 2007, while Albania has reintroduced progressive system since 2014.

The evolution of top marginal personal income tax rate in the EU candidate countries in comparison with the evolution of the EU 28 average is similar, so in 2015 Turkey reaching a level close to the EU 28 average (respectively 35%), while Montenegro with a rate of 9% practice the lowest level of taxation (KPMG, 2005d).

Table 1. Top marginal personal income tax rate in EU candidate countries (%)

EU candidate countries	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
ALB	20	25	10	10	10	10	10	10	23	23
MKD	24	12	10	10	10	10	10	10	10	10
MNE	9	9	9	9	9	9	9	9	9	9
SRB	10	15	15	15	15	15	15	15	15	15
TUR	35	35	35	35	35	35	35	35	35	35
EU 28 average	39,9	39,32	37,56	37,03	37,3	37,09	37,46	38,37	38,38	37,94

flat rate	progressive rate

Source: processing author based on data from KPMG

For 2015, with the exception of Macedonia (who practice for personal income taxation the flat tax of 10% from 1 January 2008) and Montenegro (who practice for personal income taxation the flat tax of 9%), other EU candidate countries practice progressive system for personal income tax. In Albania, progressive tax system is used to incomes from salaries and assimilated to salaries, with three tax rates (o%, 13% and 23%), while for the other categories of income is used flat tax rate of 15%. Exemption of personal income tax it applies for taxable income from salaries or other compensation arising from employment agreements of up to ALL 30,000 (approx. 217 EUR), while maximum tax rate it applies for taxable income exceeding ALL 130,000 (Eurofast, 2015a). Serbia uses the progressive tax system, with three tranches of income and three tax rates of 0%, 10% and 15%, according to the average gross annual salary, which for 2014 was determined at RSD 737,112 (approx. 6,100 EUR). Thus, it is tax exempt the annual income of up to 3 average gross annual salaries, and is taxed at the maximum rate tax the annual income of more than six average gross annual salaries (Eurofast, 2015b). In Turkey, the progressive tax system uses four tranches of income with four tax rates of 15%, 20%, 27% and 35%, the minimum rate being applied to taxable income up to TRY 12,000 (approx. 3,928 EUR) and the maximum rate for taxable income over TRY 106, 000 (PwC, 2015).

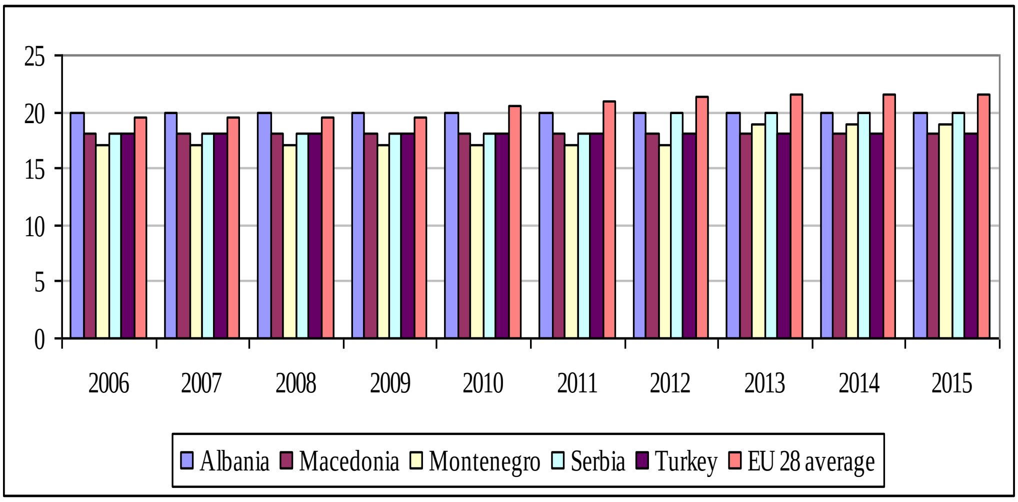
Taking into account that the European Union does not impose specific rules for corporate tax and personal income tax, it is noted that the EU candidate countries apply different tax systems, depending on the specifics of each country and based mainly on fiscal relaxation.

3. INDIRECT TAXATION IN EU CANDIDATE COUNTRIES

Indirect taxation is subject to fiscal harmonization from the EU fiscal policy perspective. In this respect, the EU legislation establishes clear and precise rules to be applied by all Member States for the value added tax and excise duties.

The main piece of EU legislation for the value added tax is Directive 112/2006, by which are established regulations concerning VAT rates, VAT exemptions, invoicing, taxable persons, chargeable event, deductions, VAT return, where to tax, VAT refunds, territorial scope, taxable transactions, persons liable for VAT payment, taxable amount, special schemes, VIES System and VAT Identification numbers. The two basic rules for the VAT tax rates refer to the standard rate for all goods and services, respectively minimum 15%, and reduced rates (one or two) that can be applied only to products and services from the VAT directives, which can not be less than 5% (Directive EC, 2006).

As shown in Fig. no. 2, the EU candidate countries practice a standard VAT rate in accordance with the level imposed by the EU, the countries that proceeded to increase the standard rate in 2006-2015 were Montenegro and Serbia (KPMG, 2015e).



Source: processing author based on data from KPMG

Figure 2. Standard VAT rate in the EU candidate countries (%)

In all five EU candidate countries, alongside the standard VAT rate are applied reduced VAT rates, but there are significant differences regarding the categories of goods and services subject to the reduced rate, namely: Albania practice a reduced VAT rate of 10% for the provision of medicines and medical services (Asllani Ndreka, 2014); Macedonia practice a reduced VAT rate of 5% for food, pharmaceuticals and medical devices, computers, potable water supply, hotel services, etc. (Ernst & Young, 2015); Montenegro practice a reduced VAT rate of 7% for basic foods, medicines for human and veterinary, orthopedic products, schoolbooks, books, newspapers, periodicals, services in hotels, drinking water supply, public transport, funeral services, animal feeds, fertilizers, seeds, etc. (Worldwide (2015); Serbia practice a reduced VAT rate of 10% for food, fertilizers, pesticides, seedlings, school books, newspapers, periodicals, wood for fuel, natural gas delivered to individual producers, medicines and medical devices, hotel accommodation, etc. (Worldwide, 2015); Turkey practice a reduced VAT rate of 8% for food, medical supplies, books, etc. and a super reduced VAT rate of 1% for agricultural products, newspapers, periodicals, certain residential properties, etc. (Avalara VATlive, 2015).

From the perspective of tax harmonization on excise duties, EU legislation provides clearer rules on: categories of products subject to excise duty and application of these taxes; the minimum level of excise duties on alcohol and alcoholic beverages, tobacco, energy products and electricity; regime of exemptions; production, storage and movement of excise goods (European Commission, 2015c).

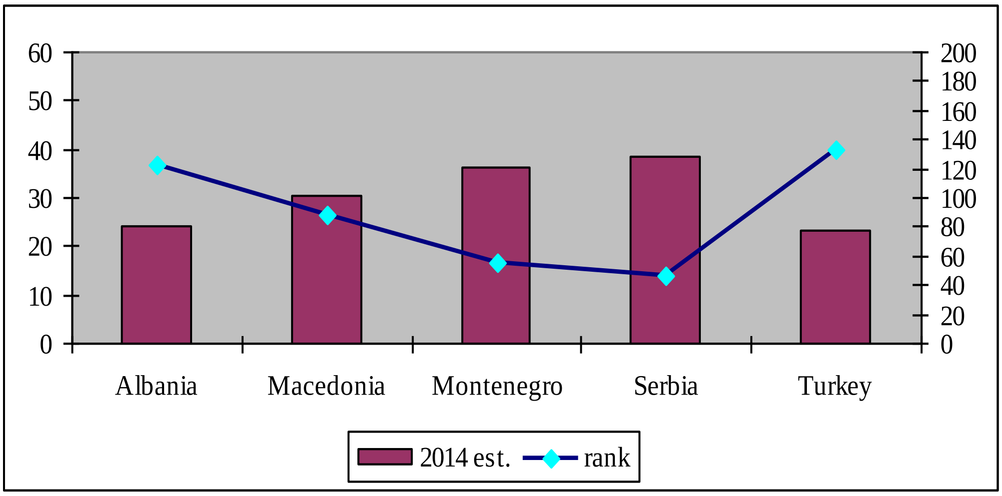
Although in some EU candidate countries has been progress on indirect taxation under EU regulations, there are still issues that are not in line with the acquis. Without enumerate all the changes to be made in the tax legislation of the candidate countries, we mention the following: Albania must review the list of products and services exempted from VAT and must align excises to the minimum level required (European Commission, 2015d); in Macedonia, VAT and excise legislation is only partially aligned, for which reason must be made substantial effort to harmonize national legislation with EU provisions (European Commission, 2012); Turkey must proceed to amendments to legislation relating to VAT for exempt transactions, the special schemes and reduced rates regime, and for excise must eliminate the discrepancies to the acquis, especially for cigarettes and energy products (European Commission, 2015e).

4. FISCAL FREEDOM AND EASE OF PAYING TAXES ACROSS EU COUNTRIES CANDIDATE

The share of taxes in GDP, the maximum corporate tax rate and the maximum personal income tax rate are indicators taken into account for determining the fiscal freedom index, a key component of the index of economic freedom (Heritage Foundation, 2015).

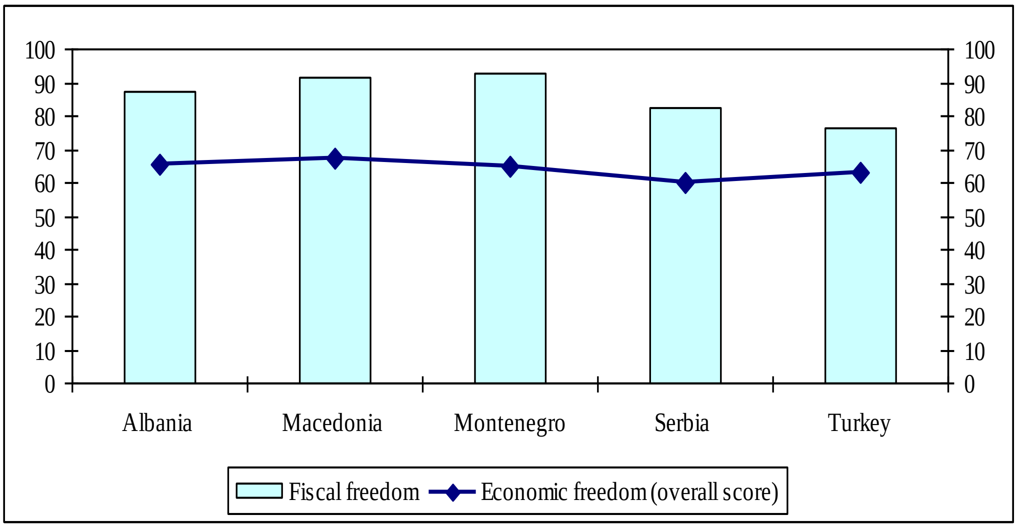
Based on the estimations for the tax burden at 2014 (CIA, 2015) in the world rankings which includes 214 jurisdictions, EU candidate countries occupy very different positions, respectively Serbia 47th position and Turkey position 133, as can be seen from Fig. no. 3.

The 2015 fiscal freedom index (calculated based on the top tax rates on individual incomes; the top tax rates on corporate incomes; the overall amount of tax revenue as a percentage of GDP) places Albania, Macedonia, Montenegro and Serbia in the "free" area and Turkey in the "mostly free" area, while the overall index of economic freedom places all four EU candidate countries in the "moderately free" area (Heritage Foundation, 2015), as can be seen from Fig. no. 4.



Source: CIA, The World Factbook, 2015

Figure 3. Taxes and other revenues records as % of GDP from EU candidate countries



Source: Heritage Foundation, 2015 Index of Economic Freedom

Figure 4. Index of Economic freedom (overall score) and Fiscal freedom from EU candidate countries in 2015

To determine the attractiveness of a fiscal system, often is take into consideration the total tax burden, the number of taxes and the time needed for paying taxes, thus identifying the ease for paying taxes (Doing Business, 2015). The concern of the EU candidate countries to reduce the number of taxes and the time required to pay them is visible through their position in the world rankings on the ease of paying taxes, as seen from Tab. no. 2.

Table 2. Place occupied by the EU candidate countries in the world ranking concerning the ease of paying taxes

EU Candidate countries	2012 (183 economies)	2013 (179 economies)	2014 (189 economies)	2015 (189 economies)
Albania	152	160	146	131
Macedonia	20	24	26	7
Montenegro	114	81	86	98
Serbia	143	149	161	165
Turkey	75	80	71	56

Source: Paying taxes 2012-2015

As can be seen, Macedonia is clear detached from the other EU candidate countries in terms of ease for paying taxes, having regard notably the reduced rate of corporate income tax and personal income tax (10%) and reduced number of taxes (7 respectively). On the opposite side are Serbia, which even if it has a higher tax rate than Turkey, has registered a large number of taxes (67 respectively) and a great time required for payment thereof (279 hours respectively).

5. CONCLUSIONS

The issues presented in this article highlight significant differences concerning the taxation of EU candidate countries. Since taxation is one of the negotiating chapters, the European Commission monitors the progress of each candidate country in terms of harmonizing national tax system with EU requirements. In this regard, according to the latest reports, Albania, Montenegro, Serbia and Turkey are moderately prepared in the taxation field for accession, while Macedonia is limited progress.

We are convinced that the participation of the five candidate countries as an observer to the program Fiscalis 2020 (European Commission (2015f) will significantly lead to improving the functioning of the fiscal systems in these countries, will strengthen the cooperation of these countries with the Member States.

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