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THEORETICAL AND PRACTICAL ASPECTS OF VALUE ADDED TAX IN THE REPUBLIC OF MACEDONIA

Abstract

The meaning of taxes for the state and the state budget has never lost its importance despite many political and socio-economic changes that have occurred throughout history since the beginning of taxation. Taxes in a state play a very important role in its existence and operation, whereby the phenomenon itself is an important research topic. National tax systems and tax policies of countries covering a range of taxes and other revenues that fill the state budget are a necessary element of the process of existence, growth and progress of the state. Undoubtedly, scholars and practitioners are unanimous about the importance of sales tax or value added tax as an invaluable element of the process of the circular movement of income tax and charging the public treasury.

Macedonia has a well-developed system and tax policy on VAT which includes primary and secondary legislation, relevant professional institutions and mechanism that facilitates its recovery, which reduces the possibility of tax evasion. Republic of Macedonia has had successful tax reforms in terms of value added tax on its way to European integration, and has implemented a model that is fully compatible with the pattern of VAT in the European Union. Macedonia has a policy of lower tax rate of VAT compared to rates in surrounding countries, making it a favorable

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country for foreign investments. In the remaining part of this work there is a more detailed elaboration on the basic features of VAT in the country as a suitable basis for further comparison with VAT in the surrounding countries and the European Union.

Keywords: tax system, tax policy, tax, value-added tax rate, Republic of Macedonia

JEL classification: H; H2

Introduction

Taxes are a historical category that has frequently changed across all socio-economic formations, in almost all periods. The contents of taxes have changed in parallel with changes in the political, socio-economic and other relations. However, the importance of taxes for the state and the state budget has never lost its validity, and today many of the modern state financial theorists use the term "tax state". Taxes are no longer seen as a classic vehicle with the state's goal to provide funds to cover public spending; they have some broader economic and social functions in national economies.

In the modern world, VAT is the most widespread form of general consumption taxes. That kind of tax expands in developing countries and countries in transition. The share of value added tax in today's systems can be explained by its advantage over other forms of sales taxation. Value Added Tax - VAT[1] is not a new type of tax, but net sales tax at all phases. The consumption tax is charged at each stage of the busy cycle, so it affects the value at that stage which is added by the taxpayer. Crossing from stage to stage, goods are always taxed with the value that is added so that excludes previously paid taxes. The added value is that value which the manufacturer, a person who provides a service, a retailer and wholesaler of raw materials add to the inputs (idle) before they sell the improved or new product or perform a service[2].

After independence, the Republic of Macedonia was faced with the challenge to build its own economic system as well as introduce its

[1] Value Added Tax - VAT, Impo'т sur la Valeur Ajoutе'е - IVA

[2] Arsovski D., Nenovski T., Smiljkovski I. (2012), "*Javni finansii*" [*Public finances]*, Ohrid: Faculty of Tourism, University St. Kliment Ohridski. p. 105

own fiscal system, based on the principles of market economy, private property and economic independence of the entities. The major reform of the taxation system of the Republic of Macedonia is considered the introduction of Value Added Tax in 2000 as a replacement for the previous sales tax on products and services. This in Macedonia was an important step ahead in the process of European integration as a prerequisite for majority of reforms by the European Union.

Today, the Republic of Macedonia has a tax system that is fully compliant with the taxation model system of the European Union and its Member States, which is especially true for the VAT system.

1. Theoretical aspects of the fundamentals of value added tax in the Republic of Macedonia

In the tax and fiscal system of Macedonia especially important place is reserved for the value added tax, which as a replacement of the sales tax on products and services entered into force in 2000. Value Added Tax (VAT) is the most important tax in the tax system of the Republic of Macedonia from the group of indirect taxes, i.e. the taxes which are calculated and levied on the turnover of goods and services. Value Added Tax is a consumption tax which is calculated and payable at all stages of production and trade, and the whole service sector, unless otherwise prescribed by law. The basic principles on which VAT rests are:[3]

- VAT is net tax charged at all phases. Subject to tax is only the value added at all stages, from supply of goods and services, through the manufacturer or service agent, to the final consumer ,actually the final user;
- Regardless of the number of phases, i.e. the number of participants in trade, the final price of the product determines the amount of tax. All participants in the chain "are cleaned" from the previous tax, but the entire burden falls on the final consumer, because this tax is called a general consumption tax;
- In general, all procurement activities carried out by taxpayers are subject to taxation. If purchases are made by registered taxpayers, there is always the VAT.

[3] Arsovski D., Nenovski T., Smiljkovski I. (2012), "*Javni finansii*" *[Public finances*], Ohrid: Faculty of Tourism, University St. Kliment Ohridski, p. 234

- In the Law on Value Added Tax the obligatory expression of particular value in the invoice is emphasized. This separate expression of tax is due to the need for easier and simpler recording and controlling taxes, mostly because of the need for its proper and accurate calculation;

The invoice or bill is a fundamental document in the VAT system. The nature of this tax requires that no one keeps the bill in a drawer because it brings benefits in the form of reduced tax payments. This means that the invoice is not issued light-heartedly, because the issued invoice or bill creates an obligation to pay VAT, which is difficult to avoid.

Value added tax as a tax on general consumption is extremely important in the broadest framework for budgeting and functioning of the state. Although legal entities appear as payers of this tax when trading with goods and services, this tax does not burden them, but the income is borne by the final consumer. As sales tax at all stages, VAT is charged at each stage of the busy cycle and affects the value at one stage which is added by the taxpayer.

2. Tax rates of VAT and VAT revenues in the Republic of Macedonia

The Republic of Macedonia in terms of rates of value added tax introduced model of two rates that include general and preferential tax rate[4].

With the introduction of value added tax in 2000 as a replacement of the then general sales tax, the general rate sales tax on products (goods) and services decreased from 25% to 19%, and any subsequent amendments to the VAT Act from 2003, that rate additionally declined to 18% and a preferential tax rate of 5%. The application and the amount of these rates are in accordance with the rates applicable in the EU, pursuant to the Sixth Directive, which prescribes general rate not lower than 15% and preferential rates not lower than 5%. However, Member States apply a general rate ranging from 15% to 27% and reduced preferential rate ranging from 5% to 15%. From the member states of the EU, Cyprus has

[4] Atanasovski, Zh. (2004), *"Javni finansii" [Public finances*], Skopje: Faculty of Economy, University Ss Cyril and Methodius.p. 114

the lowest rate of 15% and while Hungary has the highest of 27%, followed by the Scandinavian countries Sweden and Denmark with 25% rate.[5]

The general tax rate of 18% applies to all turnover and imports, except for the turnover and imports taxed with preferential tax rate. Preferential tax rate of 5% is applied to turnover and import of shortlisted goods and services, and imports of goods that are extremely important for the living standards of the population. In the current socio-economic conditions the existence of this reduced rate is quite justified, because should it be revoked, it would increase the price range of vital goods and services, thus reducing the already low living standard and encouraging and strengthening of social tensions. With the amendments to the Law on Value Added Tax of 2011, the rates were decreased, i.e. preferential tax rate of VAT was introduced in the field of construction, hotel keeping and food industry[6].

Official statistics of the Public Revenue Office in the capacity of institution responsible for supervision and control of VAT, for this purpose used sufficiently reliable indicators for identifying the conditions of payment of value added tax in the country for five years (2008-2012).

Table 1: Revenues from value-added tax

Year	*million MKDenars
2008	36,174
2009	35,178
2010	37,694
2011	42,223
2012	38,468

Source: *http://ujp.gov.mk/mk/naplata/category/453,http://ujp.gov.mk/mk/naplata/category/634, http://ujp.gov.mk/mk/naplata/category/777,http://ujp.gov.mk/mk/naplata/category/850, http://ujp.gov.mk/mk/naplata/category/937.*

[5]http://ec.europa.eu/taxation_customs/taxation/vat/how_vat_works/rates/index_en.htm
[6] Amendments and supplements to VAT Law, Official Gazette of RM, no. 135/11

For the specified period, there are increased revenues from the value added tax from year to year, with significant growth statistics recorded in 2010 compared to 2009, and in 2011 compared to 2012. The increase in revenue in this respect is the result of enhanced fiscal surveillance by the authorities, and the tax increase awareness in the country in the past several years. Especially when it comes to value added tax, the introduction of the obligation for registration of cash payments and cash registers turnover of goods and services are recorded significantly better in terms of application and payment of value added tax.

3. Comparative analysis of VAT in some European countries

Amid the global economic crisis many governments around the world decided to supplement the lack of necessary funds in their budgets with tax increases. On the contrary of these practices, the tax policy in Macedonia remained the same, which means that despite the crisis in our country, taxes did not change. Macedonia lowered the tax rates at the beginning of 2008 and they have remained intact to this day, during a period in which most of the far wealthier European countries raised their tax rates. Macedonia has the lowest taxes in comparison with the member states of the European Union and the neighboring countries, and is one of the few states that does not plan to raise taxes in the midst of an economic crisis in the Eurozone. There are similar tax rates in Albania, Serbia and Bulgaria, but still they are either higher or planned to be increased by a certain percentage.

Table 2: Tax rates of VAT in the region (in %)

Country	Tax rates
Macedonia	18
Bulgaria	20
Albania	20
Serbia	20
Croatia	25
Slovenia	20
Greece	23

Source: http://grid.mk/86432988/947574/

The VAT rate in Bulgaria and Albania in 2009 was 20%, and at the end of 2012, Serbia increased the VAT from 18% to 20%. Croatia increased the VAT rate by 2 percent and reached 25% in March, 2012, and the rate of VAT in Greece in 2011 was 23%. VAT in Slovenia remained the same at 20%[7].

Low taxes are one of the highlights of our country for attracting foreign investments.

Foreign investors, as one of the key factors they decide to invest in Macedonia among others, cite low taxes. As for the EU, although the earlier Directives regarding the amount of VAT tax rates were fully within the competence of Member States, the Sixth Directive includes provisions partially governing the VAT amount. First it was decided that from 1 January 2006 to 31 December 2010 the standard rate must not be lower than 15%, which later in 2007 changed "from 1 January 2011 to 31 December 2015 the standard rate must be less than 15%. States may apply one or two reduced rates. The list of goods which are taxed at a reduced rate are given in the Annex to the Sixth Directive (foodstuffs, water, drugs, medical equipment, books, newspapers, utilities, etc.) and should not be lower than 5%.

Today the following is applied:[8]:

- Application of minimum general rate must not be lower than 15%;
- Application of goods and services listed in Annex X of Directive 2006/112/EC at a reduced rate which shall not be less than 5%;
- Ability to apply lowest rate (super reduced rate), which is lower than 5% for the goods and services within Annex X;
- Ability to apply the so-called zero rate;
- Ability to apply the parking rate (transition rate) for goods and services not listed in Annex X, which is lower than 12%.

The geographic rate, which is reduced general rate, is applied by some countries to encourage economic activities in specific areas, such as tourist regions, islands, free trade zones, etc. In order to deal with the debt crisis, the conservative government of Spain in the second half of 2012 decided to cash additional ten billion by increasing the tax rate of value added tax. From 1 September 2012 the new VAT rate came into

[7][http://grid.mk/read/news/86432988/947574/vo-srbija-od-deneska-ddv-zgolemeno-na-20-otsto] (Nov, 2013)

[8][http://ec.europa.eu/taxation_customs/taxation/vat/how_vat_works/rates/index_en.htm]

force, which rose from 18% to 21%[9]. This measure was part of the Spanish government saving's package which increased the prices of products and in turn reduced the purchasing power of the citizens of this "European" country.

Increased taxes happened in almost all European countries. Italy, which was hit hard by the debt crisis in September 2012 raised VAT by one percent to 21%, and had a plan for another increase of 23%, which should come into force in January 2013. The Netherlands decided to increase VAT by 2%, to 21%, which should come into force by the end of 2013. Spain recently approved increase in VAT by 3% to 21%. Low VAT rate of 8% has Switzerland, which in 2011 raised this rate by 1.4%. France is preparing a plan to raise VAT. Lower rate of VAT than Macedonia have only Cyprus (17%) and Norway (15%), which in July 2009 raised the rate for 2% or 1%.[10]

Conclusion

Taxes have never lost their importance for the state and no tax is seen as a classic vehicle to cover public expenditure, but as the foundation for keeping healthy and solid fiscal, economic and social policies in the economy.

Macedonia has a well-developed tax system and policy particularly with regard to VAT which is covered by the appropriate primary and secondary legislation, the relevant professional institutions and mechanism that facilitates its recovery and reduces the possibility of tax evasion.

Republic of Macedonia implemented successful tax reforms regarding value added tax, and the implemented VAT model is fully compatible with the VAT model in the European Union.

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[http://ec.europa.eu/taxation_customs/taxation/vat/how_vat_works/rates/index_en.htm]

[10]European Union - Tax policy p.50 These include several groups of products and services such as: food, pharmaceuticals, medical equipment, transportation of passengers, supplying water, books, newspapers, services in the field of culture, social services, health and dental services. Super low rate applied France (2.1%), Greece (4%), Ireland (4.4%), Italy (4%) , Luxembourg (3%), Spain (4%) and Poland (%). Zero rate applies, for example, for the purchase of food, supply of pharmaceutical products, supplying assistance to disabled persons and so on. A Metodijev.

Comparative analysis shows that Macedonia has a policy of lower tax rate of VAT compared to rates in surrounding countries, making it a favorable country for foreign investments.

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