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ANALYSIS OF CORPOTARE INCOME TAX IN SERBIA IN THE PERIOD OF TIME FROM 2003 TO 2009 YEAR

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***Abstract*—**In the last two decades Serbia had two reforms of tax system. The first reform was carried out nineties of the last century and provided a good basis for the Serbian tax system, while reform made after 2000 year, related to tax rates, tax exemptions, deductions, elimination of the sales tax and introduction of value added tax... The reform of the tax system also related to income tax. The tax rate has been changed three times and introduced various tax exemptions... However, revenues from the income tax were insignificant. So that the revenue in the budget of the Republic of Serbia according to this form of tax accounted by 2% in 2003 year and 4% in 2009 year. Macroeconomic policy objectives depend on the income tax. For this reason, in many countries, special intention is paid to tax incentives: incentives that reduce taxes (tax credits, based on old investment and new employment) and incentives that affect the tax base (incentives delaying tax liability and those that reduce tax liability).

***Keywords*—**

I. INTRODUCTION

IN the history of the tax system, whenever it's talked about the corporate income tax, in practice always appeared opposite opinions of known world experts who have analysed this form of taxation in their countries. Frequently asked questions were: Do the companies have to pay this form of tax?, Who is the one who is actually paying a corporate income tax? Most economists believe that this tax form in the end bear the ultimate consumer and the employees, not the owner of the company, respectively, the company does not bear the burden of this tax form.

As in the tax systems of the countries in the world, as well as in our country, in terms of the corporate imcome tax we cannot evade the category of group taxation. There is a group of companies under our laws if we have our parent company and its subsidiaries that are headquartered in our territory and which have either direct or indirect control of at least 75% of the shares. They have a right to tax consolidation, which implies continuity, and once established must be applied at least for five years.

Law on Corporate Income Tax in Serbia is applied by the end of 1996 year, and previously this tax form was called the corporal income tax. Like our other tax laws and this one made a seies of changes in 2001, 2002, another law in 2002 and changes to the same in 2003 and 2004, which is not at all commendable for a country. So many changes talk about the weaknesses of the tax policy in our country.

We distinguish the social entity and the social capital. Characteristics for social entity are: unlimited liability, profit is distributed according to each member's participation, it's attributed to his income and is taxed by individual income tax, and characteristics of social capital (society with limited accountability, limited partnership, joint stock company) are: the personal element, the right of share in profits or bear losses in proportion to the level of investment. Income taxpayer of the company is a legal entity established as a joint stock company, company with limited liability, partnership, limited partnership, a public company.

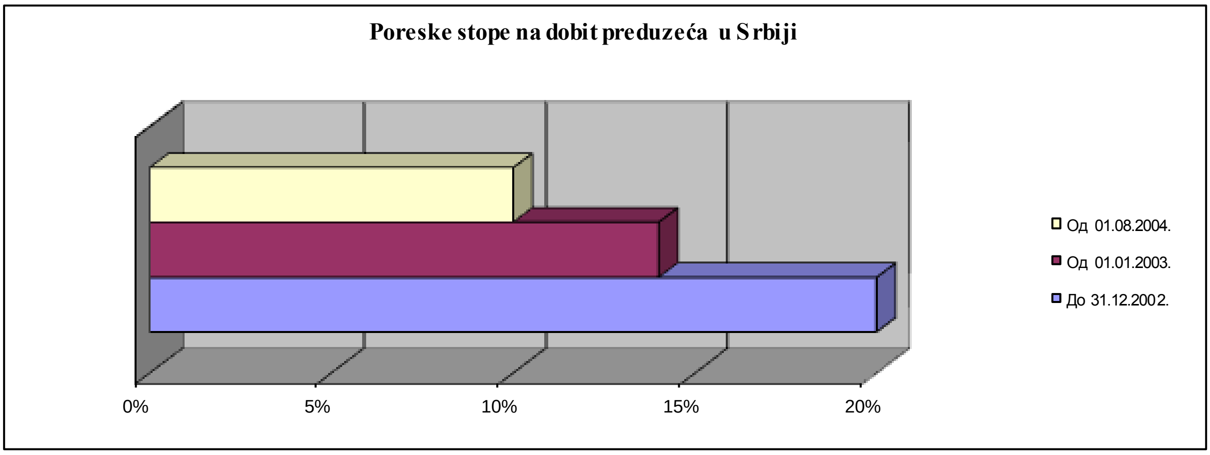
II. HEIGHT OF TAX RATE

The base for the corporate income tax presents the taxable income of taxpayers, which is defined in the tax account, adjusting the taxpayer’s gain reported in the balance of success.

The tax rate is proportional and its movement is given in the following table.

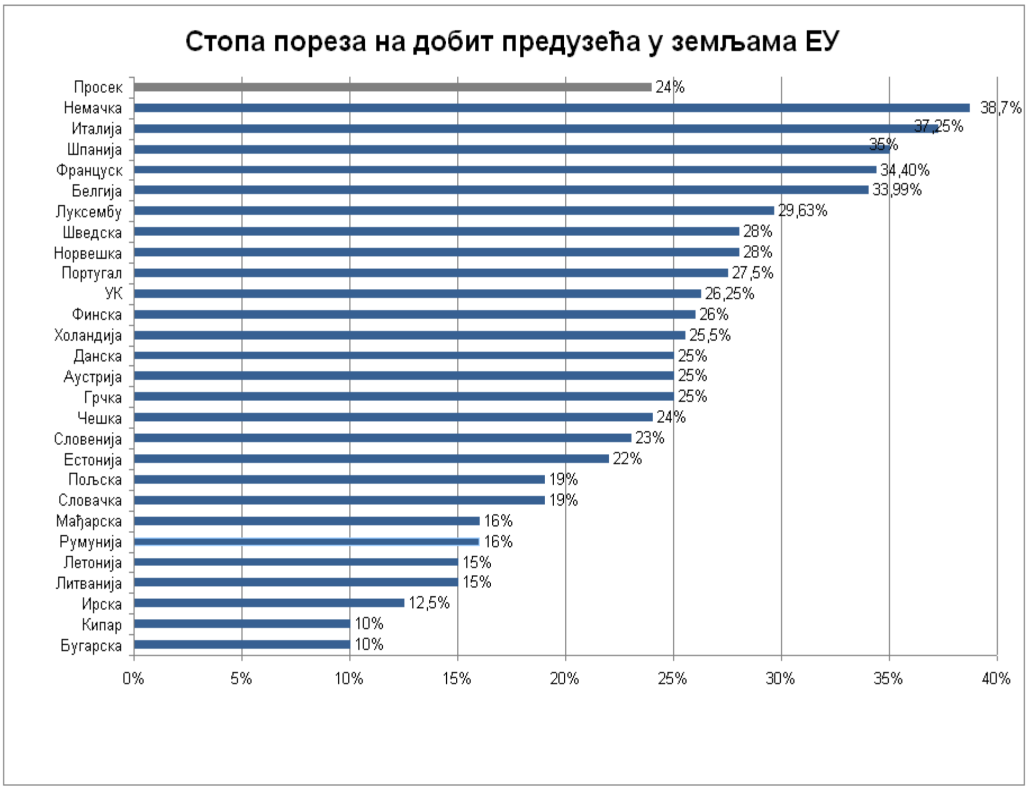
Tabela 1. Poreske stope u Srbiji [4]

Until 31.12.2002.	From 01.01.2003.	From 01.08.2004.
20%	14%	10%



Graph 1. Tax rates of the corporate income tax in Serbia [4]

The tax rate was between 20% and 14%, to 10%. Serbia acquires the status of the most attractive tax areas, with the lowest rate in the region. The fact is that the goal was to reduce the rates in order to attract the foreign investments, but in any case it does not justify such a low tax rate and there have not been large investments. However, even this low rate of the corporate income tax it has not attracted foreign investors at an extent that was expected. Increase or decrease in rates has no effect in the practice, so long as no action is taken at macro and micro plan, invest in manufacturing, primarily in growth of industrial production, which leads to increased profit of companies operating in our country. In other countries tax rate on income tax ranges from 10% to 38,7%.



Graph 2. Rates of corpotare income tax in the countries of the European Union [10]

The highest income tax rates have Germany, Italy, Spain, France, Belgium, etc. The lowest income tax rates are in Cyprus and Bulgaria.

III. TAX EXEMPTIONS AND RELIEF

Tax incentives are instruments of fiscal policy with which the taxpayers, in order to stimulate certain activities, are recognize the right to full exemption from tax liability in a given period, or the liability is reduced, in accordance with defined criteria. The tax credit is implemented only for investment in fixed assets. Taxpayers with foreign invested capital have the same treatment in terms of the tax credit for investments as well as other taxpayers. But there can be a loss of the tax credit right in case of alienation of fixed assets within three years from the date of acquisition. The tax credit is 80 percent of the investment made in that year, but with no restrictions on the tax calculated in the same year, as well as in the next 10 years, if the taxpayer is registered in any of the activities mentioned in this article . In exercising the tax credits are not recognize investments in passengers cars, except for taxi and car rental services, driver training and transportation of patients, then it does not recognize the right of investment in furniture, appliances, carpets, works of art and other decorative objects and works of art for decoration of office premises.

Employment of new employees – since half of 2001, the taxpayer who has employed full-time new employees, had the right to reduction of the calculated tax in the amount of 40% of gross wages paid to such new employees, provided that in the period of 12 months prior to employment and two years after employment if the number of employees have not been reduced. Since 2003 year, it's foreseen to reduce the calculated tax for the company that hires new workers for indefinite period, to be equal to 100 percent of gross salaries paid to newly hired workers, increased for belonging public revenues paid at the expense of employer. New tax invstments which have been introduced since 2003 year that could be exercised by the taxpayer under the following conditions are :

- In conformity to Article 50a, a taxpayer who, according to regulations with which is regulated the encouragement of investments in the economy of the Republic of Serbia, invests in his/her fixed assets, or on whose fixed assets other person invests more than 600 million dinars, if that funds are used in the registered business in the Republic and during the investment period additionally employs at least 100 full-time persons, shall be exempt from corporate income tax payment for a period of ten years in proportion to that investment. Tax exemption or relief is defined in proportion to the investment. Tax relief lasts for ten years and is implemented when the above mentioned conditions are met, since the first year in which the taxable gain is achieved.
- In compliance to Article 50b, a taxpayer who, according to regulations with which is regulated the encouragement of investments in the economy of the Republic, performs an activity in the area of special interest for the Republic, shall be exempted from corporate income tax payment for a period of five years, if he/she meets the requirements prescribed in this article.

The taxpayer loses the right to tax exemption and is obliged to pay the unpaid tax if: terminates the business, no longer use or alienate the fixed assets (rather than invest in new fixed assets the market value of the alienated assets), reduce the number of employees under the statutory number.

Table 2. Summary of tax relief of the corporate income tax in 2008th year. [1]

Types of reliefs	Amount
Investments in fixed assets	15.637.239.499
New employees	7.148.926.273
Investments in fixed assets in spec. activities	3.470.860.846
Large investments	1.636.789.088
Employment of disabled persons	26.619.257
Total expenditure	27.920.434.913

Based on the data presented in the table leads to the following conclusions: out of nine various tax reliefs in practice are used five of them, or government revenues are reduced by almost 28 billion dinars, which is about 1% of gross domestic product. And these figures show in favour to thesis that the tax reliefs foreseen by law on corporate income tax should not exist. Also the assertion is incorrect that the reliefs for new employees affect to taxpayers to registrate workers because we usually have in practice about 600000 unregistered persons yet who for various reasons work with employers.

IV. Self-taxation

Self-taxation was introduced in 2004 year, which in practice means that the taxpayer calculates the tax on his/her own, which determines in the tax return submitted to tax office until 10 March of the current year. When it's concerned to a taxpayer who begins with activity, tax return is filed within 15 days from the date of enrollment in register of the competent authorities. In this report, the taxpayer provides an assessment of revenue, expense and profit for that year . New deadline for filing tax returns for taxpayers to whom during the year expires the right to tax exemption is 15 days from the date of expiry of that deadline. The taxpayer is required that in the tax return calculate tax income for taxable period for which the tax return is filed. During the year the income tax is paid in monthly installments, that the taxpayer determines himself/herself, respectively is not waiting for the decision of the tax authorities as it was before. The taxpayer determines the amount of advanced payment based on the tax return for the previous year and data relevant to determine the amount of advanced payment for the current year. Advance payments are to be paid by 15 of the month for the previous month. Payment in accordance with the tax declaration is made by the first day of the next month from the day of submission of such application. Until the beginning of the advance payment in accordance with the tax return, the amount of the advance payment is corresponding to monthly installments in the last month of the previous billing period. The taxpayer has the possibility and obligation that, if during the year there are important changes that significantly affect to the amount of advance payment, to submit the tax return with the tax balance sheet, in which shows the relevant data for the change of the advanc payment and calculate its amount, but not later than 30 days after the expiration of the period for which the tax balance sheet is made. Advance payment in accordance with the tax return may begin on the first day of the following month compared to the month in which the application was filed .

Amendments and supplements of Law passed in 2004 year predicted the following solutions :

- taxpayers who acquire the rights to tax incentives under this law, can not be put at a disadvantage position due to subsequent amendments to the law and other regulations;
- the taxpayer is enabled to use a new tax incentives (80% of investment in fixed assets in certain manufacturing activities referred to in Article 48a), if committed after the entry into force of the Act or from the first August 2004;
- a taxpayer may with the filing of tax return and tax balance in the system of self-taxation require the change of monthly advance payment based on the right of tax incentives or other justified reasons;
- a taxpayer who, prior to the effective date of this Act acquired the right and started using the Tax Relief according to Article 49 of the current law, continues to use the benefits until the expiration of its use under the conditions that were laid down by the provisions of this article;

Bearing in mind that the self-taxation was introduced in 2004 year, on one hand, and also a remarkable low level of tax culture, on the other hand, the question is: Are the reported data accurate in tax documents submitted by the taxpayers to the relevant subsidiary of the Tax Administration with the actual situation? The first review conducted by the Tax administration shall check the mathematical accuracy of the data reported in tax balance, balance of success, income tax application and statistical annex. Or whether the data are properly transferred from the balance of situation and balance of success to the tax balance and from the tax balance to the application of the profit tax. The Tax Administration issue a decision-making in the start and end of the liquidation process of the company. Practice has shown the following: easily open businesses by the taxpayers, when submitting the aforementioned documents from year to year are recorded the increase in loss, insufficant number of control of the tax officials of the disclosed data in the tax returns, abuse of self-taxation by taxpayers.

V. Overview of the allocated public revenues from corporate income tax on the territory of Serbia in the period of time since 2004 by 2009 years.

In the following table is given a comparative overview of the allocated public revenues on the territory of Serbia since 2004 year by 2009 year.

Table 3. Comparative overview of the allocated public revenues on the territory of Serbia since 2004 year by 2009 year. [1]

	TYPE OF REVENUE	**01.01.-31.12.**	
		2004.	**2005.**
	Corporate income tax	6.923.566	10.311.893
		01.01.-31.12.	
		2005.	**2006.**
	Corporate income tax	10.311.893	18.314.197
		01.01.-31.12.	
		2006.	**2007.**
	Corporate income tax	14.785.602	25.616.760
	Other income taxes	3.528.593	4.098.330
		01.01.-31.12.	
		2007.	**2008.**
	Corporate income tax	25.616.760	32.087.923
	Other income taxes	4.098.330	6.973.298
		01.01.-31.12.2009.	
		2008.	**2009.**
	Corporate income tax	32.087.923	24.697.622
	Other income taxes	6.973.298	6.603.419

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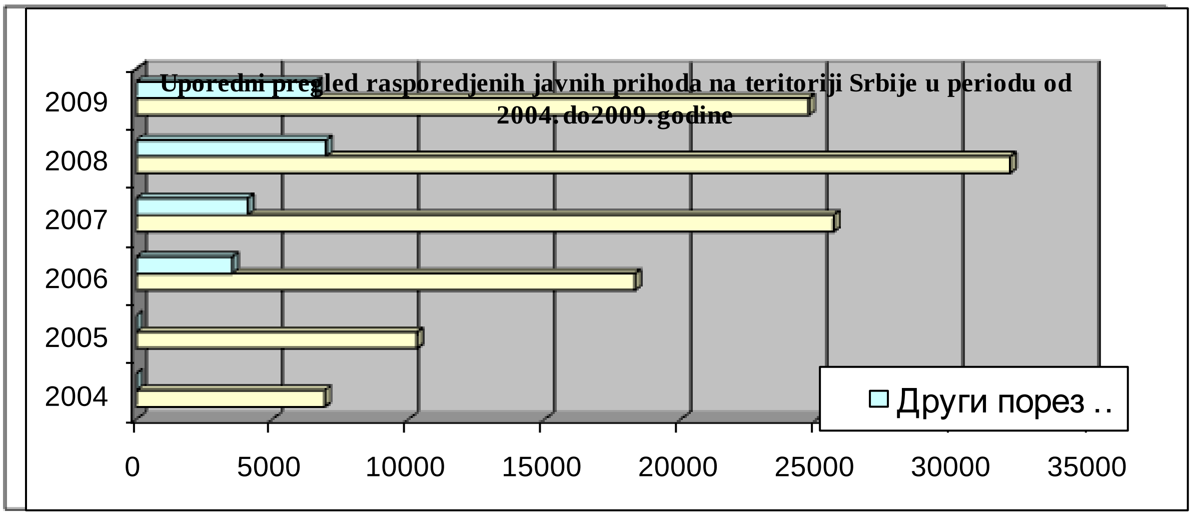
Index 2005th to 2004 year was 148,9., 2006th to 2005 year was 177,6., 2007th to 2006 year was 173,3 for the corporate income tax, and 116,1 for other income taxes. 2008th to 2007 year index was 125,3 for corporate income tax, 170,1 for other income taxes. Index 2009th to 2008 year was 77,0 for the corporate income tax, and 94, 7 for other income taxes.



Graph 3. Graphical display of the allocated revenues from profit tax in the period of time since 2004 year to 2009 year. [1]

The attached chart shows decline in participation of the budget income tax 2009th year compared to 2008 year in the amount of 30%. If we compare the allocated revenues from the profit tax 2009th compared to 2004year shows an increase of 357%.

VI. Conclusion

It is indispensable for the state to undertake a series of measures at the macro and micro plan, in order to create a favourable business environment, attract foreign investors, the growth of industrial production. Also to reduce the shadow economy whose share in GDP (gross domestic product) was 36% in 2009 year, and the most realistic and difficult work of small and medium enterprises in Serbia and thus affects the profits of the same at the end of the calendar year.

Measures which ought to be taken, which would result in increase in the number of enterprises are: abolish existing facilities and introduce the same for the newly established companies, non-payment of income tax in the first three years of business exercising, reduce extremely high penalties for various violations, tax administration to increase the number of controls in order to assess the accuracy of reported profit or loss, because the fact indicates that in recent years there is a trend of growing number of so-called losers, or perform a number of daily control of accuracy data reported in the tax returns, the tax administration with other authorized inspections to carry out a series of actions verifying the work of unregistered workers, or find a way to reduce undeclared work force and try to bring them within the legal framework.

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