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ANALYSIS OF DEVELOPMENT OF THE TAX SYSTEM IN SERBIA

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***Abstract*—**Taxes have no voluntary, but mandatory character. Taxation is as old as government. The fact is that most taxpayers, if not all, prefer to reduce their taxes. In the United States, when making decisions about the best methods that would be used in the collection of public revenue, the majority of Member States considered that the characteristics of good tax system, respectively principles of taxation are: efficiency, simplicity of administration, flexibility, political responsibility, fairness. In Serbian tax system, we distinguish the following tax principles: richnesst, elasticity, efficiency, moderate tax burden, choice of tax sources, stability of the tax system, tax legality, flexibility. The main objectives of the tax reform system in our country after 2000 year were: efficient economy; economy above politics; reduction of public expenditures; adaptation to European legislation; increased tax collection. But these have not been realized in practice.

***Keywords*—**

I. Introduction

THE most important role of the state lies in the fact that it has to create the legal framework and legal basis to the tax system. Transition, the functioning of the market economy system, implies a change in the role of government in economic and political terms, and mode of government administration. The transition of society and economy is not possible without a transition of a state and public administration.

The essence of any economic reform is to build new institutions, which should be based on: private property, protection of property rights, open society, freedom of contract, protection of human rights. Building of new institutions imply abolition of the existing ones. If the second does not follow the first, it may increase state administration, conflict between the bodies, reduction of labour efficiency and many other problems.

Building of new institutions should be based on the following criteria:

- efficiency, primarily to the citizens, entrepreneurs, enterprises
- the costs of public institutions that are not an excessive burden to taxpayers
- direct connection between state institutions and citizens
- availability of public data on the work of state institutions
- creation of a professional public administration that would have good working conditions and be well-paid
- solid tax system

So far, we've been witnesses to the establishment of many new institutions, such as the Privatization Agency, the Agency for Business Registers and many others, while on the other hand we had no reduction in public administration, or it was done insufficiently in order to be able to follow the same increase. States should take the following steps:

1. reform the tax system;
2. privatize the public sector;
3. reduce the administration at all levels of government, starting from local to republic;
4. reduce paperwork, along with greater use of information systems;
5. enable development of entrepreneurship in all regions by breaking the existing monopoly;

Taxes have always had a major, if not the only task to provide state the funds, or to „fill up“ the budget and thus ensure the functioning of state, its ministries and budget users. In the last century has not been discussed much on taxes. The term of „tax policy“ implied the most efficient and fastest way to reach the predefined resources in the State Budget. Tax policy plays a primary role, and tax system a secondary, because the instruments and their characteristics (rates, fees, bases, deductions, exemptions) are intended to facilitate the implementation of the objectives of tax policy.

The question is: Are taxpayers more responsive to direct or indirect measures directed by state?

1. In capitalist countries, and in most of them, it turned out that the state through taxes and tax policy (indirectly) easily achieves the desired results, than is the case with direct orders, restrictionsa, prohibitions.
2. In the former socialist countries, as well as in developing countries, it is not the case. They opted for direct routing and thus gave much less importance on a tax policy.
3. In our country, in the postwar period and development of socialism, when the one and five-year

development plans were explicit in their tasks, the tax policy was in the function of their realization. Tax policy and tax system have been marginalized because it is clear that by their strengthening, strengthens the functions of the state and all socio-political communities, and this is contrary to the self-management concept (the withering of the state).

Tax policy is the result of monitoring, controls the instruments of action of the tax system and analysis of achieved tasks (which are the taxes and taxation entrusted by the state). While creating a tax policy, previously must be performed analysis of the effectiveness and ineffectiveness of earlier tax policy of a state. Tax policy must be functional, in front of itself must has clearly defined own objectives, as well as social and state objectives. Tax policy must be in the function of economic policies thus enabling the implementaion of development policy, which is determined in one state. Tax policy must be in a subordinate position in relation to the economoc policy of the state. [1] "If the society has not fully and quite cleraly determined its policies and directions for the development of a certain economic and other activities, if lacking comprehensive vision of economic, social, scientific, cultural, educational, population (demographic) or other policies, it's unrealistic and unjustified to expect that tax policy to be in a function of the realization of that and such a policy. Moreover, tax policy can be successful and effective only if the other assumptions for achieving wider social policy are met, especially if the other assumptions have the same directions, the same tasks and the same goals".

The financial effect of tax policy has always been and will be, no matter to other tax reforms, fundamental, because without that effect there is no implementation function of a state. The state has been only historically expanded and not reduced the scope of its functions, and therefore it requires large financial resources. The state always expects from the tax policy and tax system to ensure continuous flow of its financial resources. It is very difficult to achieve it in practice and hence there is the frequent reforms of the tax system. Rarely any countries try to solve the problem by reducing administration, cutting costs, narrowing its functions, bringing its needs and requests in real financial framework, but resort to be financed through the primary issue of money, internal (banks) and external borrowing (International Monetary Fond).

II. The creation of tax

Even in Bible was recorded: „one-tenth of the crops must be set aside for maintenance of the clergy". It's not recorded whether there have already existed any instruments of enforced collection of such tax forms, nor we possess information whether there even have existed modes and appearances of tax payment evasion by individuals.

In the ancient period, taxes were less important, and the rulers relied on revenue from Crown lands and minings of precious metals, which were located in the ruler's property. The ruler also used the work of obedients for his and state's needs.

In Egypt is mentioned the tax on cooking oil and capitation. In Greece was present the form of customs and capitation on slaves and foreigners. In Rome was a capitation, and later tax on inheritance, customs duty, sales tax (salt, wheat).

In the Middle Ages vassals provided services directly to the lords. They were forced to work and forbidden to leave the property. Taxes was a reality in the Middle Ages. Taxes are spread in the form of capitation, taxes on land, haritage... Part of the taxes are paid in kind, as part of the harvest or livestock. The church acquired a large income through a variety of duties.

Occurrence and increase in many taxes is related to many wars and needs that they bring, respectively in short period of time to increase the revenue of the government. The first income tax was introduced in England in 1799, to finance the war with Napoleon. The first progressive income tax was introduced in Prussia in 1853, than in Britain in 1907, in the United States 1913, in France 1917.

The main characteristics of the modern tax system in the United States, compared to the former, are reflected in the following:

- Individuals will choose in which country to live, and therefore the government that will levy the tax
- There is a choice possibility: if you choose to work less, then you pay less and get less, and if you decide to do more, then you share the earnings with the state.

In the United States there are certain constitutional limitations, regarding the forms of taxes, due to the possibility of abuse in tax collection. Clauses under the Constitution of the United States are:

1. prohibition of the existance of export taxes – agricultural South as export region in the country in fear of the North, which was more inhabited, may be burdened with more state costs.
2. clause if taxes have levied uniform.
3. clause that taxes be in proportin to the number of population of the state (this clause prohibeted the introduction of income tax, until the constitutional amendment by 1913 year, when established by the federal state).

It can be freely said that since there is a state, there is also a need to finance it, and manner was changed over the time.

III. Stages of development of the the system in Serbia

3.1. Period to 1914 year

Serbia was under the rule of the Ottoman Empire for almost five centuries. Since the Turkish Empire was an islamic state, in which Serbs were second-class people, were subjected to violence and exploitation, the Serbian people left the craft and trade centers and retreated to the rugged mountains, dealing mainly on livestock. In the eighteenth century through Serbia took place all trade between Turkey, on one side, and Austria and Central European Countries, on the other. The Serbian economy is rapidly developing. The types of taxes that existed in 1804th year are: people's taxes, district's taxes, revenue from customs duties, income from court fees and fines, the proceeds from the sale of Turkish properties and income from mining.

In Serbia the Turkish tax system was in effect and there were two types of taxes:

• tribute – paid every male person aged from 7 to 80 years in sign of submission.

• Vizier tax – was intended for maintenance of the vizier, his staff, the Army.

Turkey in 1830, recognized Serbia the autonomy in internal affairs and could no longer levy and collect taxes. Serbia had an obligation to pay an annual tribute of 2.300.000 piasters to Turkey. Constitution of the 1835th year prescribed the equality of all citizens and predicts only one type of tax, and that is the personal income tax of six thalers a year for all.

The tax system reform, made in 1884, enacted the following types of taxes: tax on land, tax on buildings, tax return on capital, tax return on shops and occupations, tax return on personal labour, personal income tax and turnover tax.

3.2. Period from 1914 to 1945 year

From 1914 to 1918, there were the following types of direct taxes: tax on land, tax on buildings, tax on the principal interest, rent tax, tax on personality and tax on shop. Kraljevina Srba, Hrvata i Slovenaca formirana je 1918. godine. U primeni je bilo pet poreskih sistema i to: srpski, crnogorski, austrijski, ugarski i turski. Godine 1928. donosi se Zakon o neposrednim porezima, kojim se uspostavlja primena jedinstvenih poreskih propisa na celoj teritoriji Kraljevine.

3.3. Period from 1946 to 1974 year

The Tax Law is adopted in 1946th year. The tax system had two parts: the part that determined the obligations of citizens and cooperatives and the part that determined the obligations of state enterprises. Then follows the introduction of workers' self-management, and thus it implies a change in the tax system and tax policy. The tax base is determined based on assessment of the tax commission. This system is rejected in 1954 year and shall begin to determine the tax base based on the cadastral income.

3.4. Period from 1974 to 1990 year

The characteristic of our federal government was that it consisted of six republics, two autonomous provinces, 530 municipalities and over 8500 self-governing interest communities and funds. According to the Constitution of the Socialist Federal Republic of Yugoslavia from 1974 yeaar is established a social financing system.

The characteristics are [2]:

• Fragmentation, which is reflected in the following subsystems:

o The subsystem of financing general social needs that are satisfied in socio-political communities. Form of public revenue is tax.

o The subsystem of joint financing needs in the sphere of social activities and social protection that are satisfied through self-governing interest communities.

o The subsystem of finacing the collective needs in material production, primarily in the area of economic infrastructure.

• Decentralization (the system of organization of state administration in which certain rights of decision-making and management are transferred to the autonomous, regional and local organs) of the system of financing the social consequences is the concept of the primary financial sovereignty of the republics and autonomous provinces.

According to the Constitution of 1974 year, needs to satisfy the federal level are:

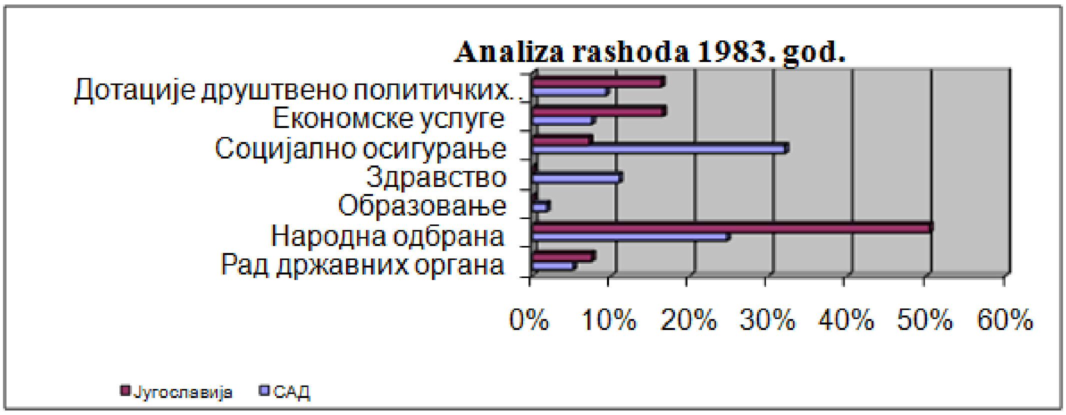
1. national defense;
2. veterans' and disability protection and pensions of military personnel;
3. work of federal agencies, additional funding of social services in underdeveloped republics and provinces;
4. other needs.

In 1986, participation of federal budget funds in the total budgetary resources of all socio-political communities amounted to about 46%, and the federation had about 16% of fiscal resources. Chechoslovakia and USSR is characterized by extremely high centralization of social and economic order. If an analysis carried out between their and Yugoslav system, there would be concluded that the Yugoslavian system is highly decentralized. If we make a comparative analysis of the federal states, between tha United States and Yugoslavia, we'll obtain the following data:

Table 1. Analysis of expenditure in 1983 year [3]

Country	Work of governmant bodies	Natonal defence	Education	Health care	Social insurance	Economic services	Grants to Social and political communities
United States of America	5,19%	24,72%	1,85%	11,04%	32,07%	7,56%	9,37%
Yugoslavia	7,56%	50,44%	//////////	/////////	7,22 %	16,57 %	16,40 %

Graphic 1. Analysis of expenditure 1983. [5]



The bases of unified Yugoslav market are:

1. free movement of production and products factors throughout the whole territory of the Socialist Federal Republic of Yugoslavia
2. unified money, monetary and foreign exchange system
3. unified system of economic relations with abroad,
4. free exercise of activities on the whole territory of the Socialist Federal Republic of Yugoslavia
5. free appearance on the market
6. unified tax system
7. self-governing understanding, social agreement and planning Amendments to the Constitution of the Socialist Federal Republic of Yugoslavia is characterized:

1. base of a unified Yugoslav market is made up by unified bases of tax system and common bases of tax policy
2. federation through the federal agencies regulates the bases of the tax system
3. direct taxes are excluded from the federal jurisdiction

The principles of tax proceedings:

- the principle of legality
- the protecting principle of taxpayers
- the principle of jurisdiction
- the principle of time constraint of the tax regulation process
- the principle of importance of tax-processing operations.

3.5. Period from 1991 to 2000year

In 1991 and 1992, The Republic of Serbia reforms the tax system and passes a series of tax laws. These are: the Law on public revenues and Expenditures, the Tax Law on Property, the Tax Law on the Personal Income of Citizens, the Law on inspection, assessment and payment of public incomes, the Law on Contributions and Social Insurance, the Law on sales tax on goods services, the Law on service for payment turnover and financial supervision.

Reasons to reform in the Republic of Serbia are [13]:

1. abandonment of self-management system in public finances;
2. building of business environment appropriate to developed economies of market orientation, while simultaneously building a tax system that will enable the required objective;
3. enable that the new system provide revenues to a state from real sources , which would ensure fiscal stability and active fiscal policy of the modern state;

4. building of modern structure taxation with a wide range of operations, while unburdening the economy; create

5. introduction of synthetic taxes;

6. building of a modern tax administration, which provides an efficient system taxation, control and prevention of tax evasion;

7. create a new tax culture and increase taxpayers' moral including the entire population.

3.6. Period from 2001to 2009year

Another tax reform system follows in 2001 year. A series of tax laws are passed such as: Law on Amendments and Supplements of the Law on Public Revenues and Expenditures, Law on Excise tax, Law on sales taxes, Law on personal income Tax of Citizens, Law on corporate income tax, Law on Property Tax, Law on Financial Transaction Tax, Law on Income Fund Tax, Law on Tax Procedure and Tax Administrationi. In 2004 some types of taxes are eliminated sych as: sales taxes (general rates, special rates, tobacco products and alcoholic beverages). Value-added tax is introduced in 2005 year. The reasons for its itroduction are manifold:

- it is a form of tax that is most presented in the world
- it is a form of tax that is applied in the European Union
- it is a condition for joining the European Union.

Whether the tax reform is not well implemented in practice tell us the following information:

1. Tax on financial transactions has been implemented in practice for two years, after which is discontinued.

2. Law on Value Added Tax has been passed twice and undergone several amendments and supplements.

3. The laws that were adopted in this period all made amends several times.

4. There was no greater collection of revenue.

5. Costs of taxpayers of the Administaration as direct and Tax management as indirect are not reduced but they have increased.

6. The law on cash registers are applied selectively, or not applicable to all taxpayers.

7. The tax system of Serbia neither is characterized by simplicity in terms of administration, efficiency, flexibility, fairness, nor tax payment based on economic power of taxpayers.

8. High contribution rates (pension and disability insurance, health care and unemployment).

9. The low income tax rate (10%, to 31.12.2002. year was 20%) which has not attracted foreign direct investments.

10. The huge debts on all tax forms which the State via Tax Management or Tax Administration was unable to collect.

Period to 2000 year	**Priod from 2001 to 2009 year**
Mostly state-owned, public property	Mostly public property
Owners of the companies are the workers	Carried out privatization
Rate of corporate income tax	Rate of corporate income tax 10%
Sales tax	Value-added tax, rate 8% and 18% (twice changed)
	The debt at the end of the first quarter of 2009 year based on value-added tax amounted to about 31 billion dinars
	The total number of debtors of VAT was approximately 21500 enterprises, taxpayers
	One of the conditions for obtaining the VAT status of taxpayers was: To 31.12.2007 year greater turnover from 2.000.000 dinars To 01.01.2008 year greater turnover from 4.000.000 dinars
The rates at which contributions are calculated (pensions and disabled insurance 18%, health care 18%, unemployment 1,8%)	The rates at which contributions are calculated (pensions and disabled insurance 22%, health care 12,3%, unemployment 1,5%)

Fig. 1. Display of selected characteristics that speak in favour of the poorly implemented reforms of the tax system.

IV. CONCLUSION

Before reforming the tax system, previously must be carried out a complete analysis of a state budget revenues, expenses), analysis of all types of taxes, tax bases, tax rates. Respectively what is the effect of their application in practice. Whether there are accumulating debts or taxpayers easily settle obligations to the state. How much is the application of all types of taxes in the budget (for example, for 11 months of 2009th year in Serbian budget the non-tax revenues ((taxes, fines, fees)) participated with 11%, while corporate income tax participated with 4%). Thus Serbia taxation system must be characterized by introduction of the comprehensive principle in taxation. Taxpayers must pay tax based on their economic power. Serbia taxation system should be characterized by simplicity in terms of administration (low costs, efficient tax administration, introduction of electronic business), flexibility (laws should not be amended frequently, any amendment of tax legislation should follow the economic justification), the existance of political responsibility (the taxpayers must make clear what they pay and why, what are the revenues, expenditures of the state in which they operate), fairness (that all are equal before the law, pay taxes based on economic power)

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