

ANALYSIS OF PERFORMANCE TO DIRECT TAXES IN THE TAX SYSTEM OF THE REPUBLIC OF SERBIA

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Abstract. *Direct taxes are a very important group of taxes revenues. They refer to the personality of the taxpayer and directly affect its economic strength. They are a stable and plentiful source of public revenues. In order to assess their role in the tax system in Serbia, it is necessary to observe the goals which can be achieved by their implementation. The intention of the legislator is to provide resources to achieve fiscal and other goals. Determining the performance of direct taxes in the tax system in Serbia can be based on the criteria of equity, efficiency and yield.*

The aim of this study is to measure the performance of direct taxes in the tax system in Serbia, in order to make more appropriate conclusions about their role and importance in the provision of the budget. In this way, we will point to the need for reform of direct taxes in the tax system of our country and the need to decrease the importance of indirect or consumption tax.

Key Words: *direct tax, equity, efficiency, yield, public revenues.*

INTRODUCTION

Tax pluralism, i.e. the existence of a large number of tax forms, is the main characteristic of modern tax systems. However, some of these taxes have large importance, role and participation in the tax revenues, so these are the basic tax forms, while others are property tax. The most important tax forms include: sales tax (VAT), personal income tax, corporate income tax, excise, duties and property taxes. These taxes can be classified as direct and indirect taxes. Direct taxes are charged to taxpayers and cannot be evaded, while indirect taxes are not charged to a third party rather than the individual taxpayer. John Stuart Mill was an English economist who defined direct and indirect taxes: "The direct tax is one which is demanded from a person who wants to pay for it. Indirect taxes are those which are demanded from a person who charged them from another person." [10] There are many definitions of direct taxes. Some of them claim that direct taxes qualify by the fact that the taxpayer and the

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tax destinater are the same person. Others assume that they are taxes that the taxpayer paid directly to tax authorities and relate to persons and to corporations.

The coverage of direct and indirect taxes varies from country to country [Đurović-Todorović, Đorđević, 2011a, p.26]. In most countries, direct taxes include: personal income tax, corporate income tax and property tax. However, in some countries it is different. Thus, for example, in Switzerland inheritance tax is a direct tax; in the Eastern European countries VAT paid by state-owned companies was included in the group of direct taxes, while in the U.S. gift tax is a direct tax.

A positive feature of direct taxes is that they are a stable and plentiful source of government revenue. Also, they relate to individual taxpayers and satisfy the principle of fairness in taxation. However, their implementation and payment causes the decrease of the economic potential of the taxpayer, and there is resistance to taxation and tax evasion. In the end, they are very complex and complicated to administer.

The abundance of this group of tax forms is very heterogeneous and varies from country to country. In OECD countries, the average is forty percent, while in Serbia, and most of the under-developed countries, this share is two times less [Đurović-Todorović, Đorđević, 2011b, p.109].

The data show that Denmark has the largest share of direct taxes in GDP (30%), followed by Sweden (19.7%), the UK (15.7%) and Belgium (15.3%). Eastern European countries and Serbia have the least share (6.1%). The reason for the low yield of direct taxes in Serbia is the low economic power of the taxpayer and the necessity of the reform of direct taxes.

In the first part of the paper, the criteria for measuring the performance of direct tax will be discussed. The other parts relate to measuring the performance of direct tax in Serbia in relation to fairness, efficiency, and yield. The last part of the paper is the conclusion.

1. CRITERIA FOR MEASURING THE PERFORMANCE OF DIRECT TAXES

To review the role and importance of a tax form in the tax system, it is necessary to consider the goals that can be achieved by its implementation. The intention of the legislature during the introduction of direct taxes in the tax system in Serbia was to achieve fiscal and non-fiscal goals. These are taxes that directly burden the citizens and companies depending on their economic viability. They provide significant funds for the state, but also for achieving various non-fiscal goals (social and economic). Direct taxes satisfy the principle of fairness, efficiency, and yield.

The use of *personal income tax* in the tax system in Serbia has not given the expected results. That was the reason for its constant questioning and challenging. It is believed that even today, this tax does not realize the goals as expected. The main cause is the current taxation system. A mixed system of income tax means schedular taxation of individual income and annual taxation of total income for persons who earn income in excess of the statutory. This system has a number of disadvantages and, as such, cannot realize the needs of a modern state. Therefore, it is necessary to perform the evaluation of the existing system of taxation, in order to determine the direction of further changes.

The system of *corporate taxation* is quite harmonized with the corporate income tax systems in developed economies. First of all, this system was created by model-tax profit in the European Union. In the case of personal income tax there is not one model of

taxation for all member states in the EU, but there are several tax systems with numerous modalities. Corporate income tax in Serbia charged corporations. They pay tax based on the tax balance. Tax authorities make a decision on the amount of tax. The tax is paid at the rate of 15%, although for many years it was 10% and that was one of the lowest corporate tax rates in Europe. The aim was to attract foreign investment and put less burden on the economy by tax levies. In the system of corporate taxation in Serbia there are many deductions and exemptions, but it is necessary to increase their number in order to balance regional development.

Property tax belongs to the group of direct taxes, but some types of this tax have characteristics closer to indirect taxes. Thus, for example, property tax in the statics burdens the property owners directly, but the property transfer tax is an indirect tax and it is usually paid by the buyer. In the case of inheritance tax and gift tax in various jurisdictions there are different tax treatments. The property tax system in Serbia has many disadvantages, such as insufficient yield, progressiveness, non-compliance with the principle of fairness, the basis for taxation is determined by the actual market value of the property, poor tax collection, etc.

Determining the performance of direct taxes in the tax system in Serbia can be based on various criteria, some of the most important are:

- 1 fairness,
- 2 efficiency, and
- 3 yield.

The principle of justice requires that all citizens of a country should pay taxes in proportion to their ability. Under the principle of fairness of taxation, the principle of universality and the principle of uniformity can be extracted. The principle of universality of tax liability means that the tax should be paid by all citizens, except for the poor. Because of that, modern tax laws provide a number of exemptions for these groups. Uniformity in taxation is the second part of the idea of fairness and it applies to taxation which is done according to the economic strength of the taxpayer. In modern financial theory the prevalent view is that the uniformity in taxation can be achieved by adopting a progressive tax rate, if those who have greater economic power pay not only absolutely but also relatively higher amounts of taxes.

The theoretical basis of the principle of fairness in taxation is made on the principle of utility and the principle of ability to pay taxes. According to the principle of utility, the fair tax is that one that provides to each taxpayer as much as they paid in taxes. In practice, it is impossible to benefit directly because the costs that the taxpayer has, have no direct compensation. Given that taxes are used to meet general social needs, there is compensation, but it is expressed in an indirect way. Respecting the second principle, the fair tax is the tax in which each taxpayer participates in the total income of the state in proportion to his economic strength.

In accordance with the principle of ability to pay taxes, the request for horizontal and vertical fairness in taxation can be formulated. *Horizontal equity* means that taxpayers with the same ability to pay should be treated the same. This means that those who earn the same income during the year, regardless of the source of origin of that income, pay (absolute and relative) the same amount of tax. *Vertical equity* means that taxpayers with different ability to pay should be treated differently. This means that those who earn a higher income level for the year pay a higher amount of tax.

Proportional income taxation distorts the vertical equity, because those who realize higher levels of income are taxed at the same rate as those who have lower levels of income. The vertical equity in taxation is achieved by applying progressive tax rates. The progressive taxation may be direct or indirect. The direct progression represents a way of taxation in which the law prescribes progressive tax rates for a given level of income. Indirect progression is reflected in the progressive effective, not in the statutory income tax rate, which is achieved through various tax incentives and exemptions.

Efficiency means the efficient allocation of resources, and cost efficiency in tax collection. It is a typical economic criterion of taxation which is realized by those taxes that have the least possible impact on the economic decisions of businesses. The direct taxes reduce disposable income, and they cause effects on the behavior of economic entities.

If all taxpayers were equal and if the same tax treatment applied at all of them, a flat tax would be the only efficient tax as any other would create various distortions. Tax is without distortions if there is nothing that an individual or company can do to change their tax liability. Distortions are associated with attempts by individuals or firms to reduce their tax liability. In this context, the direct taxes belong to the group of distorting taxes. Taxes with distortions affect economic decisions and spoil efficient choice. They can affect the choice between present and future consumption, the choice between leisure and work and, in accordance with this, the income effect and the substitution effect may be considered. Among economists, the prevailing view is that direct taxes should be as allocatively neutral as possible.

As for the efficiency costs of tax collection, this criterion will be met by minimizing the cost of direct taxes. This refers to the cost of public administration, as well as the costs incurred by taxpayers when paying taxes. The general rule is that the more complicated the tax form, the higher the application costs. The tax form is more complicated if a larger number of tax rates and higher tax benefits and exemptions are applied within it. Tax authorities require certain funds to perform and they cannot be expected to collect tax revenue with no costs at all. It is desirable to achieve the lowest possible cost, but it certainly should not be the key criteria for the introduction of the tax.

Administrative costs cannot be avoided, because the tax procedure involves the engagement of people and equipment, as well as certain material costs, but they can be minimized. In many modern countries it is estimated that the taxpayers' cost are larger than the cost of public administration. This refers to the costs incurred based on the tax book keeping, filing tax returns and other documents, payment of tax advisors, etc.

Direct taxes cannot fully satisfy any of the above mentioned aspects of efficiency. First, they are distorting and cause inefficient allocation of resources. Also, when it comes to minimizing costs, it is very difficult to reduce the cost of public administration or costs incurred by taxpayers when paying taxes. As for the first reduction, the tax authorities may impose certain internal and external measures [Popović, 1997, p. 313]. Internal measures refer to the various procedures to improve the organization of tax administration, and staff training with the use of information technology. Also, ceding specific tasks to private companies, the tax administration reduces the cost of performing those tasks. External measures are related to the simplification of tax rules that usually cause the growth of administrative costs. However, as the costs would be enormous if all of the data were checked, the tax administration checks only a random sample and thus reduces costs.

Yield of direct taxes as a criterion for assessing their performance relates to the total amount of income that their application realized. Due emphasis on the importance of this

criteria, its share of total tax revenues, as well as its share of GDP, is often observed. It depends on macroeconomic factors, the basic parameters of the tax and the collection rate [Arsić et al, 2010, p. 46].

The most important macroeconomic factors affecting the yield of direct taxes are the employment rate, the volume of production, the value of the property, the savings, the movement of the price of capital and assets, etc. The yield of direct taxation crucially depends on tax parameters such as: tax rate, the level and intensity of tax progression, the amount of non-taxable income, the value of property subject to taxation, the business results of enterprises, the number and extent of tax exemptions, etc. Financial capacity does not depend directly on the tax system which is applied. The same level of yield can be achieved by any system of taxation, by choosing appropriate tax parameters. Finally, the yield of direct taxes depends on the level of collection which is determined by the performance of the tax administration and the level of tax moral. Based on this, one criterion can be extracted for measuring the performance of direct taxes, which manifests itself through the opportunities for tax evasion.

The principle of abundance can be met by direct taxation, given that significant funds for the budget can be collected through these tax forms. Direct taxes exist as a group of basic tax forms in all tax systems of modern countries, and according to that we can talk about their abundance. In developed economies, the economic power of taxpayers is at a high level, and a large amount of revenue can be collected through direct taxes. However, in less developed economies, the importance of direct taxes, in terms of yield, decreases.

2. MEASURING THE PERFORMANCE OF DIRECT TAXES IN SERBIA IN RELATION TO EQUITY

Direct taxes may be considered fair if they burden taxpayers progressively and if the tax authority is concerned about the personal characteristics of the taxpayer and his economic power. However, fairness is a very questionable concept and it can be measured by comparing the statutory and effective tax rates.

Table 1 Legal and effective rates of personal income tax in Serbia in 2013

| Types of income | Legal rates (%) | Authorized expenses / deductions | Effective rates (%) |
|--|-----------------|-------------------------------------|------------------------|
| Income from real estate | 20 | 20% | 16 |
| Other income | 20 | 20% | 16 |
| Capital income | 15 | / | 15 |
| Capital gains | 15 | / | 15 |
| Income from copyright, rights related to copyright and industrial rights | 20 | 34% 43% 50% | 13.2 11.4 10 |
| Income from agriculture and forestry | 10 | / | 10 |
| Income from self-employment | 10 | / | 10 |
| Salaries | 10 | 11,000 dinars | 7.98 |

Source: Law on Personal Income Tax Law, Official Gazette of the Republic of Serbia

If we look at the personal income tax in Serbia in terms of fairness, we have to compare the legal tax rates and the actual tax rates. Table 1 shows this comparison.

As can be seen from the table, four different statutory rates are applied on eight types of income, which range from 10% to 20%. The number of effective tax rate is slightly higher. Effective tax rates are either equal to legal rates, if there are no deductions and exemptions, or they are usually lower than the statutory tax rate. Effective tax rates are the true indicator of the real tax burden.

The current income tax system in Serbia significantly violates the principle of horizontal equity. Differentiated modes of taxing income from different sources, namely primarily different statutory tax rates and sets of reliefs and exemptions, result in different effective tax rates on personal income tax.

As the horizontal equity is achieved only when the effective tax rate on all forms of income is equal, a large number of effective tax rates and their range indicate the absence of horizontal equity in taxation. This means that the current system of income tax in Serbia taxes two persons with similar economic power by significantly different tax burden, depending on the structure of their income. Since the revenues from all sources are taxed proportionately, the assumptions of vertical equity in taxation are not provided. There is a slight indirect wage progression in taxation only in earnings, due to the non-taxable amount.

Because of the schedular components of personal income tax in Serbia, a degree of vertical equity is negligible. In order to provide the specific degree of vertical equity, a corrective element in the form of annual personal income tax at progressive rates was introduced. It is estimated that the effect of annual personal income tax on vertical equity in taxation is very limited, mainly due to the relatively high tax-free amount (the triple average annual salary paid in Serbia in the year that taxation is done for). Also, the high set limit above which higher tax rates are applied (six times the average annual salary paid in Serbia in the year that taxation is done for) further mitigates the effects of annual personal income tax on vertical equity. This is supported by the fact that in 2011 only about 20.199 people, which is about 1% of all taxpayers, filed the tax return of the annual personal income tax [9].

We will see that the principle of fairness is not satisfied if we look at the corporate income tax in Serbia and make a comparison with the EU countries.

If we analyze the data in table 2, we can see that in the majority of EU countries the effective tax rate is lower than the prescribed rate. However, the differences among the member countries are lower if you compare real rates that when it is done with a nominal tax rates. Otherwise, the tendency to reduce differences between the statutory and effective tax rates over time can also be seen from this table. The difference between these two rates is the largest in Belgium (33.99 to 4.8%), France (33.33 to 8.2%) and Denmark (25 to 7.4%). Such a large difference in prescribed and effective tax rates suggests that the corporate income taxes of these countries present a number of tax incentives and exemptions, which resulted in a decrease in the effective tax rate.

As for Serbia, the corporate tax rate was 10% until 2013 and then it changed to 15%. This rate is still one of the lowest in Europe, and it is lower than the rates that apply in most countries of the region. With the retained system of the investment tax credit, which reduces the tax liability up to one-third, the effective tax rate in Serbia of 10% is still among the lowest ones in Europe. However, the increase in the tax rate to 15% does not reduce the tax competitiveness of our country [12].

Table 2 The difference between the statutory and effective tax rate of corporate tax in Serbia and selected EU countries in 2013 (in %)

| State | Legal rates | Effective rates | State | Legal rates | Effective rates |
|---------------|-------------|-----------------|--------------------|-------------|-----------------|
| Great Britain | 28 | 23.2 | Ireland | 24 | 11.9 |
| Germany | 30-33 | 22.9 | Romania | 16 | 10.4 |
| Italy | 31.4 | 22.8 | Serbia | 15 | 10 |
| Netherlands | 20-25 | 20.9 | Cyprus | 10 | 9.4 |
| Spain | 30 | 20.9 | France | 33.33 | 8.2 |
| Poland | 19 | 17.7 | Estonia | 21 | 8 |
| Hungary | 10/19 | 16.7 | The Czech Republic | 19 | 7.4 |
| Sweden | 26.3 | 16.4 | Denmark | 25 | 7.4 |
| Finland | 26 | 15.9 | Slovakia | 19 | 7 |
| Austria | 25 | 15.7 | Latvia | 15 | 6.5 |
| Portugal | 12.5/25 | 14.99 | Belgium | 33.99 | 4.8 |
| Slovenia | 20 | 14.8 | Bulgaria | 10 | 4.6 |

Source: www.worldwide-tax.com, www.iiea.com/blogosphere/effective-eu-corporate-tax-rates (11.4.2013)

The property tax system in Serbia has the differentiation in tax rates and various tax exemptions and we can say that it is an unfair system.

3. MEASURING THE PERFORMANCE OF DIRECT TAXES IN SERBIA IN RELATION TO EFFICIENCY

The analysis of the effectiveness of direct taxes involves the analysis of the two components of efficiency:

- The impact of direct taxes on the efficient allocation and
- Efficiency from the standpoint of minimizing the cost of collecting the tax.

The first aspect of efficiency, which refers to the impact of direct taxes on the efficient allocation, is disrupted due to the fact that these taxes are distorting. Applying direct taxes affects directly the economic strength of the taxpayers, which in turn encourages their distorting behavior. What will be the level of the distortion depends on the tax burden that taxpayers suffer because of the introduction of the tax.

The table below shows the fiscal burden of GDP direct taxes.

Table 3 Share of direct taxes to GDP in Serbia, 2008-2012.

| Years | GDP (in million RSD) | Direct taxes (in million RSD) | Direct taxes (in %) |
|-------|-------------------------|----------------------------------|------------------------|
| 2008 | 2,661.4 | 111,665.5 | 4.19 |
| 2009 | 2,720.1 | 122,460-6 | 4.50 |
| 2010 | 2,881.9 | 106,786-6 | 3.70 |
| 2011 | 3,175.0 | 128,149.6 | 4.03 |
| 2012 | 3,267.1 | 109,130.7 | 2.99 |

Source: Public Finance Bulletin, January 2013, The Ministry of finance of the Republic of Serbia, available at: <http://www.mfin.gov.rs/UserFiles/File/bilten%20javne%20finansije/bilten-201301.pdf>, calculations performed by author

The fiscal burden of GDP direct taxes has reduced since 2009. In 2012 it was 2.9%. This fact is encouraging, given that it is every country's interest to burden its economy and citizens as less as possible by fiscal tax, which will result in reducing distortion.

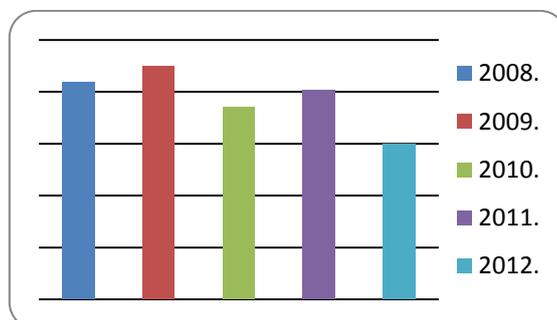


Fig. 1 Share of direct taxes to GDP in Serbia, 2008-2012

Source: Public Finance Bulletin, January 2013, The Ministry of finance of the Republic of Serbia, available at: <http://www.mfin.gov.rs/UserFiles/File/bilten%20javne%20finansije/bilten-201301.pdf>, calculations performed by author

One of the proposals to reduce the fiscal burden is the reduction of contributions for compulsory social insurance, while the average tax burden on wages remains the same or increases slightly. The decrease in revenue from social security funds would compensate for the larger transfers from the national budget. The reduction of the fiscal burden on labor would affect favorably the demand for labor, which would ultimately contribute to increasing employment and investment, and reducing undeclared work [Arsić et al, 2010, p.22-37].

Although the total fiscal burden on labor in Serbia is somewhat higher than the average in Central and Eastern Europe, its impact on the international competitiveness of the country is neutral. The following table shows the fiscal burden to 100 RSD of net earnings in the neighboring countries.

Table 4 Fiscal burden earnings in selected countries in 2010

| States | Fiscal burden of salaries |
|--------------------|---------------------------|
| The Czech Republic | 68.1 |
| Slovakia | 55.3 |
| Poland | 71.2 |
| Greece | 58.0 |
| Bulgaria | 47.8 |
| Slovenia | 69.2 |
| Spain | 55.3 |
| Portugal | 48.4 |
| Serbia | 63.6 |

Source: M Arsic., Altiparmakov N., Randelović S., Buđić A., Vasiljević D., Levitas, T., (2010), Poreska politika u Srbiji-pogled unapred, Segra USAID project, Beograd, str. 35.

Another aspect of observing efficiency refers to minimizing the cost of tax collection. Expenses for staff in tax administration are a part of the total administrative costs. On the basis of the following views it can be seen that the salaries of employees in public administration account for a significant portion of the total budget expenditures, and that they have been increasing over time, but their share in total expenditure has declined from 24% to 18.5%, which is likely to result in improvement of tax administration.

Table 5 Share of expenses for employees in public administration in total expenditures in Serbia, 2008-2012

| Years | Total expenses (in millions RSD) | Expenditures of public administration | |
|-------|-------------------------------------|---------------------------------------|-------|
| | | in millions RSD | in % |
| 2008 | 740.826,3 | 180.382,1 | 24.35 |
| 2009 | 890.612,3 | 184.157,0 | 20.68 |
| 2010 | 1.058.635,4 | 190.383,0 | 17.98 |
| 2011 | 1.167.835,4 | 215.076,9 | 18.42 |
| 2012 | 1.288.922,6 | 238.671,6 | 18.56 |

Source: Public Finance Bulletin, January 2013, The Ministry of finance of the Republic of Serbia, available at: <http://www.mfin.gov.rs/UserFiles/File/bilten%20javne%20finansije/bilten-201301.pdf>, calculations performed by author

The latest tendencies in the work of tax administration are: increase of the autonomy in the work of tax administration, privatization of certain functions (introduction of the partial lease), making adequate strategy with priorities, increasing the tax culture, continuous staff training and the creation of high-quality IT support at work [2].

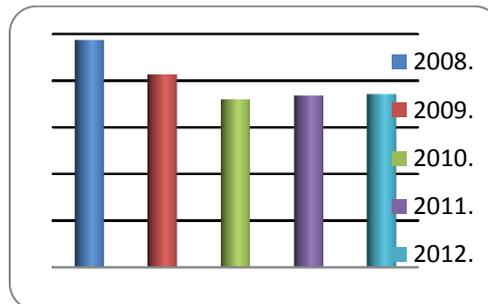


Fig. 2 Share of expenses for employees in the public administration in total expenditures in Serbia, 2008-2012 (in %)

Source: Public Finance Bulletin, January 2013, The Ministry of finance of the Republic of Serbia, available at: <http://www.mfin.gov.rs/UserFiles/File/bilten%20javne%20finansije/bilten-201301.pdf>, calculations performed by author

With fiscal reform in 90s of the twentieth century, the tax administration reform has started. The Republican tax administration was formed in the form of the Board for public revenue. Management had difficulty functioning due to the lack of information system of automatic data processing. At that time, a number of tax laws have been passed and it has led to even more difficult work of the Board and reduction in public revenue.

The reforms that followed did not change significantly the earlier basic concept of the tax administration. They have only aimed to increase the level of the tax administration's efficiency.

One of the main goals of the fiscal reform in 2001 was to highlight the reorganization of tax administration in accordance with the tax administrations of the countries with developed market economies. It may be noted that the tax administration since then has experienced many changes in terms of organization, which is an effort in the direction of its introduction into series of tax administrations of modern states.

To achieve fairness and efficiency at the same time is almost impossible, because these are conflicting criteria. Tax authorities will have to sacrifice efficiency for greater fairness and vice versa. The conflict between efficiency and equity is as old as taxation.

This conflict can be resolved in various ways. One of them is the choice of the tax rate, or the number and amount of the tax rate, as well as the decision whether the rates should be proportional or progressive [Rosen, 2005, p.182].

4. MEASURING THE PERFORMANCE OF DIRECT TAXES IN SERBIA IN RELATION TO YIELD

If we analyze the yield of direct taxes in Serbia, we will see that they collect a much smaller amount of funds for the budget than it is the case in developed market economies.

The yield of *personal income tax* in Serbia is relatively low. The share of personal income tax in total tax revenues in Serbia is around 11.5%, although it has reduced in the last few years, so that in 2012 it was 5.6%.

Table 6 Share of personal income tax in total tax revenue, 2007-2012
(in mil. RSD and in%)

| Years | Total revenues (in million RSD) | Revenues of personal income tax | |
|-------|------------------------------------|---------------------------------|------|
| | | In million RSD | In % |
| 2007 | 581,841.5 | 61,409.5 | 10.5 |
| 2008 | 639,600.3 | 72,000.0 | 11.3 |
| 2009 | 698,756.2 | 81,321.2 | 11.6 |
| 2010 | 655,971.0 | 76,019.0 | 11.6 |
| 2011 | 726,400.0 | 79,100.0 | 10.9 |
| 2012 | 750,100.0 | 42,300.0 | 5.6 |

Source: Data from the Budget of the Republic of Serbia for 2007-2012;
calculations performed by author

Such a small share of the personal income tax in the total tax revenue of our country indicates a dominant share of indirect taxes (VAT, excise and customs), which is characteristic of underdeveloped countries. This state of public finances was also caused by many other factors, such as government regulation, political conditions, the economic environment, etc.

The share of personal income tax in total tax revenue in Serbia was 5.6% in the last year, and it is significantly less than the European and world average. Not only is it a lack of plentiful source of revenue for the State, but with such an income tax, it may be difficult to achieve other, non-fiscal goals. We almost cannot talk about reduction of the regressive effect as a result of the application of indirect taxes.

The taxes of income from work have a dominant share in the total revenue from the personal income, which is around 90%, while the capital gains account for only about 10%. The wage tax makes up for about 80% of the total individual income tax, although in the last year it was reduced to 55%, as can be seen from the following review.

A small yield of personal income tax is the result of adverse effects of macroeconomic factors, the amount of the tax rate and degree of recovery.

Regarding macroeconomic factors that affect restrictively revenue growth of personal income tax, it is a low employment rate. A small number of employees reduces the number of taxpayers, just as the low income adversely affects the yield of personal income tax over a low tax base, which often does not exceed the tax-free minimum.

Low revenue yield of the personal income tax is a consequence of the tax rate. The average effective and top statutory tax rate on personal income in Serbia are low compared to other countries. The average effective tax rate is 12.45%, which is significantly lower than in the EU, while the top statutory tax rate on personal income in Serbia is 20%.

The low level of the collection of personal income tax, also negatively affects his bounty. The number of annual tax returns for income tax is negligible, only 1% of all taxpayers. The reason for this is that in Serbia penalties for failure to file tax returns are sufficiently low, and a large number of taxpayers choose to pay the fine, rather than a high amount of tax. In addition to the low level of the collection is the fact that in our country there are still a number of activities taking place outside the legal flows.

The corporate income tax has existed in Serbia since January 1992 and it is considered a basic tax form. By abundance, it is located just behind the consumption tax and the personal income tax.

Table 7 Share of corporate income tax in total tax revenue, 2007-2012
(in mil. RSD and in%)

| Year | total tax revenue (in mil. RSD) | Corporate income tax | |
|------|------------------------------------|----------------------|------|
| | | in mil. RSD | In % |
| 2007 | 581,841.5 | 27,297.2 | 4.6 |
| 2008 | 639,600.3 | 34,024.4 | 5.3 |
| 2009 | 698,756.2 | 44,306.9 | 6.3 |
| 2010 | 655,971.0 | 21,971.0 | 3.3 |
| 2011 | 726,400.0 | 35,000.0 | 4.8 |
| 2012 | 750,100.0 | 39,400.0 | 5.2 |

Source: Data from the Budget of the Republic of Serbia for the period 2007-2012;
calculations performed by author

Unlike in developed countries where the share of this tax in the structure of tax revenues is 9.3%, in our country this percentage is much lower. What is disturbing is the fact that the revenues from the corporate income tax in Serbia have decreased from 6.3 % in 2009 to 3.3 % in 2010. This decrease is a result of poor performance of many companies, which is manifested as a result of adverse economic conditions in the country and the impact of the economic crisis, whose negative effects can be felt around the world. In the last two years, these revenues are showing some growth, so they were 5.2% in 2012.

The share of *property taxes* in total revenue budget is much lower than in OECD countries. Tax liability of the property tax is relatively small, and this fact is good for the

owners of the most valuable assets. If you look at the chart below, we can see that revenue from property taxes in the period 2007-2010 did not exceed 1.5%, while it amounted to only 0.5% of total tax revenue in 2008. Revenues from this tax are starting to grow and account for almost 2% in 2011 and 2012.

Table 8 The share of property taxes in total tax revenue, 2007-2012
(in mil. RSD and in %)

| Year | Total tax revenue (in mil. RSD) | Property taxes | |
|------|------------------------------------|----------------|------|
| | | in mil. RSD | In % |
| 2007 | 581,841.5 | 6,745.1 | 1.15 |
| 2008 | 639,600.3 | 2,945.7 | 0.46 |
| 2009 | 698,756.2 | 6,845.8 | 0.97 |
| 2010 | 655,971.0 | 9,641.0 | 1.46 |
| 2011 | 726,400.0 | 14,049.6 | 1.93 |
| 2012 | 750,100.0 | 13,900.7 | 1.85 |

Source: Data from the Budget of the Republic of Serbia 2007-2012; calculations performed by author

The property tax base is greatest in the richest parts of the country and the collection of taxes is a way in which the local governments provide the missing funds. Also, it is possible to transfer resources from rich to poor municipalities, which would favorably affect the financing system of cities and municipalities.

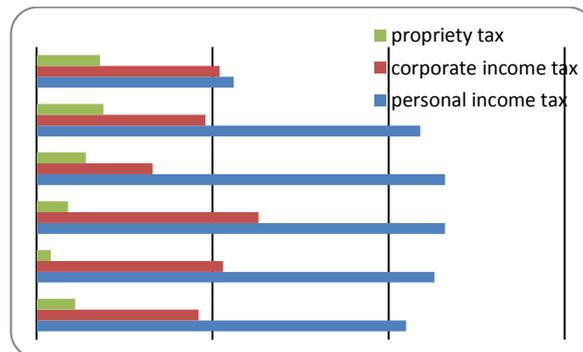


Fig. 3 The share of direct taxes in total tax revenue, 2007-2012

Source: Data from the Budget of the Republic of Serbia for 2007-2012; calculations performed by author

Property tax was one of the most neglected forms of taxation in Serbia until a few years ago. Propriety tax is 5% of total revenues of cities and municipalities. It has become the source of local government revenue since 2007. By that time, the property tax had a character of the assigned revenue.

CONCLUSION

Based on previous research, we have shown that measuring the performance of direct taxes in Serbia is possible through the analysis of the criteria of equity, efficiency and yield.

The principle of vertical equity of the tax system in Serbia is disrupted by proportional taxation, because persons who earn higher levels of income are taxed at the same rate as persons who have lower levels of income. The current system of personal income tax violates the principle of horizontal equity. Differentiated modes of taxing income from different sources, i.e. different statutory tax rate and the number of deductions and exemptions result in different effective rates. Also, the system of corporate taxation in Serbia does not satisfy the principle of fairness in taxation, as the effective tax rate is lower than statutory. The property tax system in Serbia has the differentiation in tax rates and various tax exemptions and we can say that it is an unfair system.

Regarding the principle of effectiveness, direct taxes in our country cannot satisfy any of the aspects of efficiency. First, they are distorting and cause inefficient allocation of resources. Also, it is very difficult to reduce the cost of public administration or the cost of taxpayers.

Finally, the principle of abundance in taxation is not satisfied, since the direct taxes, in underdeveloped countries, collected a very low level of income. This is confirmed by the example of our country, because these tax forms provide less than 15% of total tax revenue. This shows that the tax system in Serbia is very regressive.

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ANALIZA PERFORMANSI DIREKTNIH POREZA U PORESKOM SISTEMU SRBIJE

Direktni porezi predstavljaju veoma važnu grupu poreskih prihoda. Njihova glavna karakteristika je to što se odnose na ličnost poreskog obveznika i direktno pogađaju njegovu ekonomsku snagu. Oni predstavljaju stabilan i izdašan izvor prihoda budžeta jedne države. U cilju sagledavanja njihove uloge u poreskom sistemu Srbije, neophodno je posmatrati koji se ciljevi njihovom primenom mogu ostvariti. Namera zakonodavca je obezbeđenje sredstava za ostvarenje fiskalnih i vanfiskalnih ciljeva. Određivanje performansi direktnih poreza u poreskom sistemu Srbije može se izvršiti na osnovu kriterijuma pravičnosti, efikasnosti i izdašnosti.

Cilj ovog rada je merenje performansi direktnih poreza u poreskom sistemu Srbije, radi donošenja što adekvatnijih zaključaka o njihovoj ulozi i značaju u obezbeđenju sredstava budžeta. Na taj način ukazaće se na potrebu reforme direktnih poreza u poreskom sistemu naše zemlje i na neophodnost smanjenja značaja indirektnih, odnosno poreza na potrošnju.

Ključne reči: direktni porezi, pravičnost, efikasnost, izdašnost, javni prihodi.