



# Analysis on Tax Justice Serbia

## CREDITS

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This document has been produced as a part of the project “CSOs as equal partners in the monitoring of public finance“, which started beginning of 2016 and is implemented by a consortium of 10 organizations from 7 countries and will last for four years.

The aim of the project is to improve the transparency and accountability of policy and decision making in the area of public finances through strengthening the role and voice of NGOs in monitoring the institutions that operate in the area of public finances. In this way, the project will strengthen CSO knowledge of public finance and IFIs and improve CSO capacities for monitoring. Additionally, it will help advocate for transparency, accountability and effectiveness from public institutions in public finance. Moreover, this project will build know-how in advocating for sustainability, transparency and accountability of public finance and IFIs. This project will also increase networking and cooperation of CSOs on monitoring of public finance at regional and EU level. Lastly, it will increase the understanding of the media and wider public of the challenges in public finance and the impacts of IFIs.

Key project activities are research and monitoring, advocacy, capacity building and transfer of knowledge/practices and networking in the field of the 4 specific topics: public debt, public-private partnerships, tax justice and public infrastructure.

More information about the project can be found on <http://wings-of-hope.ba/balkan-monitoring-public-finance/> and on the Facebook Page Balkan Monitoring Public Finances

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## INTRODUCTION

In first six months of 2017 Serbian tax authorities have increased tax collection to level of 570bRSD (4,75bEUR) which is increase y-o-y for about 27bRSD which is about 310mEUR more than in same period previous year. This number is product of increased activity of tax authorities and increased economically activity in country. Biggest increase is recorded in tax on profit amounting incredible 52% y-o-y that is product of increased economically activity that is consequence of significant increase of number of business “legal persons”.

Such significant number is showing that apart of improved economically climate also increased controls of shadow economy are bearing fruits and that significant number of SME are actually brought to the light. In last few years more than 33000 new companies and individual entrepreneurs have established business. In same time due to increased activity of tax authority VAT collection increased for about 50mEUR while increase in taxes on individual income and property is increased for about 9,5% and social contributions have increased for about 8,1% thus clearly showing that shadow economy and so called “black” work are in sharp decline.<sup>1</sup>

However and very important in 9400 controls of tax authority about 30% of cases had significant violations that have brought about 70,8 EUR of additionally VAT charged thus showing that level of shadow economy is still high and that as researches from previous years are showing level of shadow economy in Serbia is in level of at least 20-30%.

As such these results could be admitted as direct consequence of long term dedication of government of Serbia to increase fiscal responsibility of all the subjects of Serbian economy as it is formulated in “Fiscal strategy for period 2016-2018”: “The fiscal policy priorities will be: further strengthening of the tax discipline, increased efficiency of tax collection, and combating the shadow economy. The objective is to establish a simulative tax policy which shall encourage the economy and employment, as well as a zero-tolerance policy for the violation of law, crime and corruption, through reformed institutions of the system. This will simultaneously ensure the improvement of general conditions for economic activities, equal business opportunities and reduction of the total fiscal deficit.”<sup>2</sup>

<sup>1</sup> <http://www.ekapija.com/news/1817648/za-sest-meseci-2017-poreska-uprava-naplatila-570-milijardi-dinara-redovnim-kontrolama-do-dodatnih-prihoda>

<sup>2</sup> <http://www.mfin.gov.rs/UserFiles/File/dokumenti/2016/FS%20za%202016%20EN.pdf> , page 3



Despite obvious growth of overall and average personal GDP and despite obvious increase in overall income of state of Serbia, social and demographically situation in Serbia do not at all provides for optimism. Especially concern is strong highlight of national authorities and International macro economically advisors (IMF, WB, EU) that consider level of spending on the social cohesion as the one that it is exceeding sustainable limits. In same time we see that serious percentages of GDP are being spent on to the investments that are destined to “produce” even more negative pressure on national GDP- here we especially speak about large infrastructural investments that are destined to lock in Serbia in to increasing environmentally pollution, increased reliance on fossil fuels that will increase need for fossil fuel subsidies, moreover that will need even more state aid for provision of import of technology, services, most expensive capital, remediation of pollution, destroyed hundreds of square kilometers of territory of Serbia etc. In that sense double or multiple spending for same “product” is just not the choice for Serbia (Capex in coal mining imported financial resource, imported technology and services for both mining and burning of coal, pollution remediation, subsidy for not competitive energy produced from it, increased health account, lost working days due to pollution for thousands of citizens, reduced expected life time). Such accounting approach should be taken in every single sector of economy including agriculture, transport, mining, energy production, water management etc. In same time Serbia is providing enormous tax breaks, holidays, subsidies and other fiscal supports for the import industries and moreover to the industries operating according to special treatment and under not disclosed and not transparent special contracts that are directly damaging Serbian tax income and overall budgetary stability and increase of economy. As it is possible to see from data we have provided in this paper income from corporate taxes, customs are actually significantly dropping down as direct consequence of liberalized taxation policy in Serbia while in same time Serbian companies are actually in disadvantaged position. In same time companies that are legally avoiding paying taxes in Serbia are actually competition to Serbian companies that do not have such easy entrance in to foreign markets.

| Column1   | 2003     | 2004     | 2005     | 2006     | 2007     | 2008     | 2009      |
|---|----------|----------|----------|----------|----------|----------|-----------|
| <b>GDP mEUR</b>                                 | 18 738,0 | 19 966,6 | 21 103,3 | 24 434,6 | 29 451,6 | 33 704,5 | 30 654,7  |
| <b>GDP per capita kEUR</b>                      | 2 505    | 2 675    | 2 836    | 3 297    | 3 990    | 4 586    | 4 187     |
| <b>Consolidated public income %of GDP</b>       | -        | -        | 43,2     | 44,1     | 44,5     | 43,5     | 41,7      |
| <b>Consolidated public spending as % of GDP</b> | -        | -        | 42,0     | 45,6     | 46,4     | 46,1     | 46,1      |
| <b>Consolidated deficit/Sufficit</b>            | -        | -        | 1,2      | -1,5     | -1,9     | -2,6     | -4,4      |
| <b>FDI, in mEUR</b>                             | 1 194,5  | 773,8    | 1 250,4  | 3 322,6  | 2 528,2  | 2 485,7  | 2 067,8   |
| Column1   | 2010     | 2011     | 2012     | 2013     | 2014     | 2015     | 2016      |
| <b>GDP mEUR</b>                                 | 29 766,3 | 33 423,8 | 31 683,1 | 34.262,9 | 33 318,6 | 33 491,0 | 34.115,2* |
| <b>GDP per capita kEUR</b>                      | 4 082    | 4 619    | 4 400    | 4.781    | 4 672    | 4 720    | 4.821*    |
| <b>Consolidated public income %of GDP</b>       | 41,7     | 40,0     | 41,1     | 39,7     | 41,5     | 41,9     | 43,9      |
| <b>Consolidated public spending as % of GDP</b> | 46,3     | 44,8     | 47,9     | 45,1     | 48,1     | 45,6     | 45,2      |
| <b>Consolidated deficit/Sufficit</b>            | -4,6     | -4,8     | -6,8     | -5,5     | -6,6     | -3,7     | -1,3      |
| <b>FDI, in mEUR</b>                             | 1 133,4  | 3 319,6  | 752,8    | 1 298,1  | 1 236,3  | 1 803,8  | 1 860,9   |

## 1. SERBIAN TAX SYSTEM

**Serbian constitution defines tax** (article 91 of constitution of Serbia) as Resources which are used for the purpose of funding competences of the Republic of Serbia, autonomous provinces and local self-government units shall be provided from taxes and other revenues, stipulated by the Law. Obligation of paying taxes and other dues shall be general and based on economic power of taxpayers.<sup>3</sup> Beside this constitutionally basis other laws are more in general detailing different tax, property tax, corporate tax, customs, excises, non-tax income, administration taxes, taxes for public property and other forms of local and national “taxes”.

Tax Administration of Serbia, as a state body which conducts the collection of tax budget revenues, implements a total of 17 laws, among which some of the key include *Law on Budgetary System* and the *Law on Tax Procedure and Tax Administration*. The list further includes the *Law on Fiscal Cash Registers*, *Law on Personal Income Tax*, *Law on Value Added Tax*, *Law on Excise Duties*, *Law on Corporate Profit Tax*, the *Law on Property Tax*, *Law on Compulsory Social Insurance*, *Law on the suspension and the write-off of debt in respect of contributions for compulsory social insurance*, *Law on Non-life Insurance Premium Tax*, *Law on Taxes on Use, Possession and Carrying of Goods*, *Law on the Central Registry of Compulsory Social Insurance*, *Law on Games*, *Law on the Foreign Exchange*, *Law on the Inspection Control*.

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At the end of 2016 the Serbian Parliament adopted changes to Serbian tax laws, introducing a number of important changes in the area of VAT, excise duties and general tax procedures. Amendments to the laws governing these areas were adopted at the very end of 2016 – on the 28<sup>th</sup> of December 2016.

According to reliable assessments “The total tax burden in Serbia is moderate (as measured by the ratio of tax revenue to GDP) and close to the averages of other Central and Eastern European countries.”<sup>4</sup> Subjective perception of Citizens is that tax burden is rather large. In same time there is large number of local and non- tax payments that are considered as tax and for that reason significant portion of citizens is putting effort to avoid different tax and non- tax payments. As statistics of tax income is showing large portions of economically activity are actually happening within the so called informal or shadow economically zone. Citizens as especially problem see tax on the property since it is actually

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<sup>3</sup> <https://www.ilo.org/dyn/natlex/docs/ELECTRONIC/74694/119555/F838981147/SRB74694%20Eng.pdf> ,

<sup>4</sup> [http://www.bep.rs/images/gallery/2013\\_03\\_20/the-shadow-economy-in-serbia-study.pdf](http://www.bep.rs/images/gallery/2013_03_20/the-shadow-economy-in-serbia-study.pdf), page 28

not reflecting real market prices of the properties thus leading to the situation where citizens do consider to have right to try to avoid other taxes.

Specially problem are labor income tax and socially contributions that are being avoided in massive manner from the side of private and public companies thus exposing citizens in large numbers to the situation of un certainty with regards to the future health care, pension and other rights. These payments are also connected to the work of workers in the grey zone which is mostly organized from the side of employers who do actually hide enormous amounts of financial resources from the taxes, social and pension contributions and also they are damaging significant cluster of Serbian workers that are not protected and also that do not receive fully payment and are exposed to excessively hard conditions of work.

Apart of national Tax system, Local authorities have right according to Law on financing of local communities <sup>5</sup> to decide about the type and level of local taxes and other forms of incomes. These taxes are named “Original income of local communities”. In article 6 of this law it is regulated that local communities can tax: 1) Property tax and property absolute rights transfer 2) local administrative taxes, 3) local communal taxes, 4) residence taxes, 5) tax for use of public goods in accordance with national law, 6) concession tax, 7) other taxes in line with laws, 8) incomes from penalties that are ruled in cases of non-criminal violations that are prescribed in local communities, 9) Income from leasing of immovable property of local communities, 10) selling of services of public companies and other users of budget, 11) income from interest of budget of local community, 12) Income from donations of local communities, 13) Income from voluntary donations for local infrastructure.

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<sup>5</sup> [http://www.paragraf.rs/propisi/zakon\\_o\\_finansiranju\\_lokalne\\_samouprave.html](http://www.paragraf.rs/propisi/zakon_o_finansiranju_lokalne_samouprave.html)





Tax income<sup>6</sup> on national level is growing every year since 2008 as graph shows

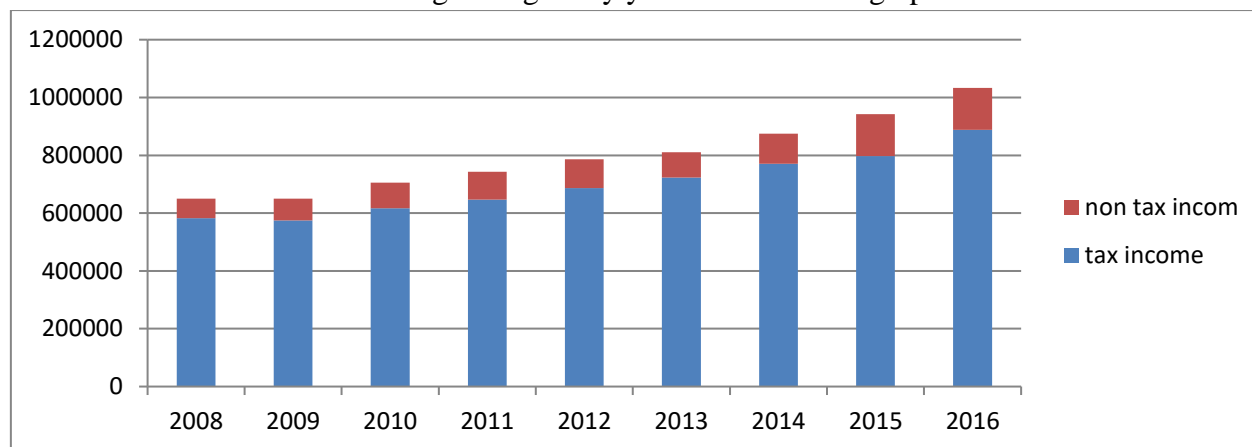


Table 1 and Graph 1: Tax and Non tax income in Serbia from 2008-2016 in million RSD

|                      | 2008   | 2009   | 2010   | 2011   | 2012   | 2013   | 2014   | 2015   | 2016   |
|----------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| <b>tax income</b>    | 582893 | 574644 | 616607 | 646597 | 686828 | 723389 | 770958 | 797169 | 887981 |
| <b>non tax incom</b> | 67635  | 75395  | 88947  | 96222  | 99288  | 87338  | 103668 | 145204 | 145376 |

<sup>6</sup> <http://www.mfin.gov.rs/pages/article.php?id=10870>

## 2. VALUE ADDED TAX RATE<sup>7</sup>

The taxable base for VAT is the fee for products and services sold, including customs duties, excise taxes paid, transportation and insurance costs or any other cost relating to the sale of goods and services. Tax liability arises on the first day that any of the following events occur: a) The sale of goods and services; b) The collection of a fee, if the fee or a part of the fee has been collected prior to the sale of goods and services; c) On the date of the establishment of customs duties (in case of imported goods). The VAT is payable at each stage of the turnover of goods and services, as well as on the import of goods. The taxable base is the price of sold products and services. The tax rates prescribed by the VAT Law are as follows:

- **The standard VAT rate – 20%** (applicable for most taxable supplies);
- **The lower VAT rate – 10%** (applicable for basic food goods, fruits, frozen fruits, eatable oils, fish, eggs, meat, cereals, sunflower, oil reep, medicines including those for animals daily newspapers, communal services, accommodation in hotels, heat for heating, transportation of passengers and their baggaes etc.).<sup>8</sup>

In addition, a **0% tax rate** is applicable in two cases:

- With the right for the deduction of input VAT – export of goods, international air transport, especially with regards to the import of raw and other materials in to the custom free zones, also for works and other interventions on products that are imported to additional processing and that are being exported;
- Without the right of deduction of input VAT – trading with shares and securities, insurance and reinsurance, the lease of apartments and business premises, moreover services on airplanes, air transportation etc. financial, banking and insurance services, supplies of land, as well as renting of land, operations involving securities, shares, postal orders and stamps at their face value in Serbia; the supply of buildings, except first transfer of buildings; public interest activities (e.g. medical services, social, child and youth welfare services), etc

<sup>7</sup> <http://www.poreskauprava.gov.rs/pravna-lica/pdv/zakon/202/zakon-o-porezu-na-dodatu-vrednost.html> , article 23

<sup>8</sup> Ibidem article 23

### **3. PERSONAL INCOME TAX**

Residents of Serbia are subject to personal income tax on their worldwide income. Non-residents are subject to income tax on their income from Serbian sources under the same rules as residents. Personal income tax is levied on each type of income separately at flat rates (10%, 15% or 20%), depending on the type of taxable income (employment income, income from capital, capital gains, etc.). Salary tax rate amounts to 10%. Salary tax should be calculated, paid and withheld by employer. In addition, a resident individual (for worldwide income) or a non-resident individual (only for income from Serbian sources) whose income in a calendar year exceeds a certain threshold prescribed by the Law pays annual tax. Taxable amount is net income that exceeds the threshold, decreased for certain deductions. Tax rate for annual income tax is progressive and amounts to 10% or 15%, depending on generated income.

#### **3.1. Annual Income Tax**

For non-Serbian citizens, the annual income is taxed if exceeding the amount of 5 times the average annual salary in Serbia. The tax rate is 10% for the annual income below the amount of 8 times the average annual salary, and 15% for the annual income above the amount of 8 times average annual salary. The taxable income is further reduced by 40% of the average annual salary for the taxpayer and by 15% of an average annual salary for each dependent member of the family. The total amount of deductions cannot exceed 50% of the taxable income.

## 4. OBLIGATORY SOCIAL SECURITY<sup>9</sup>

The obligatory social security insurance in Serbia are including: pension and disability insurance, health insurance and unemployment insurance. The base for accounting obligatory social security contributions is gross income (net, personal income tax and social security contributions on behalf of an individual) generated by the insured individual such as: income from employment, income from honorary contracts, etc. legislation provides a maximum base for obligatory social security contributions as a five time average salary in Serbia. If income generated by the insured individual exceeds the maximum base, obligatory social security contributions should be paid on the maximum base. The surplus amount is subject only to personal income tax. In case of employment income, mandatory social security contributions are payable on behalf of employee and on behalf of employer. They should be calculated and withheld by the employer.

### 4.1. Property Tax

The rate of property tax depends whether the taxpayer maintains business accounts. For taxpayers maintaining business accounts, the rate is 0.40%. For taxpayers who do not maintain business accounts, the rate is progressive and depends on the tax base. Legally, the property tax applies to immovable property where an individual has rights of ownership, usufruct, residence, utilization, a long term lease holding (for a period longer than 1 year), and utilization of city building land with an area of more than 10 acres. In this case, immovable properties are considered to be residential and commercial buildings, office space, garages, buildings, and recreational space.

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Tax rate on transfer of **ownership rights** is as follows:

- A 5% tax rate is applied to transfer of ownership rights of real estate and other taxable property,
- Except for the transfer of rights over agricultural, forest land and used motor vehicles where it is set at the rate of 2.5%.

Tax rate on transfer of **absolute rights** are proportional and are as follows:

- For transfer of shares in legal entity and stocks and bonds: 0.3%;

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<sup>9</sup> <http://ras.gov.rs/podrska-investitorima/zasto-srbija/konkurentni-operativni-troskovi>

- For transfer of other absolute rights: 5%.<sup>10</sup>

## 4.2. Corporate Profit Tax Rate<sup>11</sup>

Corporate profit tax rate in Serbia is set at **15%**. The tax base is the taxable profit shown in the tax balance sheet. Non-residents are taxed only based on their income generated in Serbia. Capital gains are recognized for the purpose of corporate income tax assessment. Capital gains are generated by the sale or transfer of real estate, rights related to industrial property, as well as shares, stocks, securities and certain bonds. In addition, the **withholding tax** is calculated and paid at the rate of **20%** on various forms of income (dividends, shares in profits, royalties, interest income, capital gains, lease payments for real estate and other assets) by a non-resident.

About 5% of the revenue side of the state budget comes from the collection of excise duties. This is a special tax rate, for taxation of petroleum products, biofuels, bio-liquids, tobacco products, alcohol beverages, coffee, liquid filling of electronic cigarettes and end-user electricity consumption. VAT and excise duties revenues, together with contribution from compulsory social insurance, represent the key revenues of the Serbian state budget.

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## 4.3. Amendments to the excise Tax law

Changes introduced in excise taxes concern primarily cigarettes and coffee. Excise taxes on cigarettes have been increased with an explanation that they should be harmonized with the excise rates in the EU. Currently, the excise tax on cigarettes in Serbia is EUR 54 per 1000 cigarettes, while minimal excise duties in the EU is EUR 90 per 1000 cigarettes. Minimal amount of excises will be published twice a year, on the 15<sup>th</sup> of February and the 31<sup>st</sup> of July each year.

The obligation to pay excise tax on coffee will now include entities involved in the processing, roasting, packaging and other activities carried out for the purpose of coffee production, and not only the importation of coffee, as was the case before. At the same time, the amendments introduced a "mini VAT" system for calculating the excise tax due: each participant in the production chain will have the right to reduce the excise due, proportionate to the amount of excise duties paid to the previous participant in the chain.

<sup>10</sup> <http://www.belgradenet.com/business/taxes.html>

<sup>11</sup> <http://ras.gov.rs/podrska-investitorima/zasto-srbija/konkurentni-operativni-troskovi>

## **5. TAX EVASION- LEGAL AND NOT LEGAL**

### **5.1. Tax policy= investment policy?**

Tax policy is actually the one that is providing signals for the economy (as productive expression of social life) what are strategically directions in which sovereign will of nation wants to direct its economically development. In that sense especially concern of tax policy is to achieve such level of support for the preferred economically activities (structures) that will enable availability of products and services on the scale and with consequences that will not endanger social ,environmentally and economically conditions while providing satisfying of social and individual needs. In same time this policy has obligation to redistribute naturally and socially produced values in such way to achieve equal and not impeded development of all the citizens according to their capabilities and needs.

Due to not equal distribution of necessary resources and also due to not equal advancement of the technologies, methodologies and structures needed for fulfilling such civilizational needs historically painfully achieved naturally step of economy is to develop export- import relationships (both in country and outside country) with other human communities on equal bases. In such process and due to historically proven failure of economically system based on fiscal profit (as measure of value of different productive human structures) to fulfill needs of all the members of human society, society needs to intervene by championing (supporting, subsidizing) such economically activities that will increase human capacity of its members, fulfill in most efficient way their needs and increase structure of productive power of society.

## 6. RACE TO BOTTOM

Despite need to have such equitable and positive tax policy that would benefit all the citizens, Serbia is since 2000 and its strategically decision to transform in to capitalist economy heavily involved in to so called race to bottom. As we already have shown there is number of different forms in which state of Serbia provides preferential status to different forms of companies in both tax free zones, according to not transparent and not available contracts, using different tax break schemes especially to the foreign corporations. In same time Serbia is providing number of different subsidies and tax holidays and moreover it is providing infrastructure for free for number of foreign investors. Despite routinely provided argument that these companies are biggest net payers to the Serbian budget, as we can see from the statistics provided it is not actually truth. Most flagrant is the case of customs that is showing sharp drop due to preferential status that significant number of countries have with Serbia.

it is impossible to expect that the EU creditors and Serbian government would ever want to financially and logistically support the revitalization of the real, productive sector in Serbia and thus push its exports.<sup>12</sup> Furthermore, it is highly unlikely that foreign creditors would invest in small and middle-sized business, which could have potential to satisfy domestic demand for consumer goods. Obviously, the development of an export-led economy doesn't meet the needs of the government's political strategy at present, nor the needs of the majority of foreign investors and especially domestic importers lobby do not want to have strengthened domestic economy.

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**So called “customs free zones”** are one of main ways how the foreign investors successfully avoid tax and customs spending in Serbia. There is complex system of legalized tax dodging using this mechanism. That is one of main tools of Serbia to attract FDI. “Customs free zones” are spread in whole territory of Serbia, with more and more developed system of tax and customs avoidance and even more different other forms of avoiding different fees. There are multiple illicit benefits provided to the so called foreign investors in the customs free zones: (1) exemption from value-added tax (VAT) on entry of goods into a free zone ( thus transforming tax free zone in to extraterritorial zone, even though it is located in Serbian territory and workers are mostly citizens of Serbia, (1b ) providing transportation and so called “forwarding” services and other services in connection with the import of goods; (2) exemption from VAT on goods between two users of a free zone (3) exemption from VAT on goods and services in a customs free zone;; (4) VAT free energy for manufacturers that are producing in the “customs free zones” (5) The release of individual tax burdens for foreign direct investment. In addition, within free zones companies enjoy exemption from customs duties and other import duties for goods intended for

<sup>12</sup> [www.rosalux.rs/sites/default/files/publications/6\\_Radenkovic\\_engl\\_web.pdf](http://www.rosalux.rs/sites/default/files/publications/6_Radenkovic_engl_web.pdf), page 55

the performance of activities and the construction of facilities in the free-zone (materials, equipment, construction materials). Yet another benefit is that in free economic zones, companies enjoy so-called ‘internal customs clearing’. This implies a customs system available twenty-four hours a day (even during weekends), the import of reproduction materials and raw materials inside the factory premises as well as their export from the factory premises. Users of free zones have the following logistics services made available at preferential prices: transportation, handling, loading, shipping services, agency services, insurance and reinsurance, banking transactions etc. However, the most important benefits are financial ones. This implies the free flow of capital, profits and dividends, along with funds available from the budget of the Republic of Serbia for financing investment projects in the manufacturing and service sectors.<sup>13</sup>

Tax “free zones” are located in 14 Serbian municipalities, and establishment of the new ones is already announced. According to data for 2014, 262 user-companies operate in “free zone” regime – out of which 164 domestic and 98 foreign ones. Tax free zones are established with the goal to attract new business and also to provide employment of the domestic population. Despite such preferable status significant part of companies that are operating in these zones are actually companies that have operated also before establishment of the zones. Among the founders of “free zones” one can find companies that have already operated in the territory of the Republic of Serbia which clearly shows that zones are not used just to attract new investors.

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Stranger is however the situation domestic companies in significant numbers can also operate within tax free zones. Following that logic it is questionable why than state of Serbia do not provide to all the Serbian companies such status. Especially if the main goal of tax free zones is to support export activities. We all do know that according to capitalist creed of our time best business is export business and also that all the companies actually prefer export.... than it is obvious that all the companies should get such status since all of them are actually desperately working to achieve export.

Looking at the structure of economically activity in the free zones it is obvious that those are mostly services and only small number of companies is actually productive ones. Most of the companies are engaged in service activity, and just 47 of them in production, and only 31 are in foreign ownership, while 16 in domestic. The total number of employees in companies operating within the “free zones” is

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<sup>13</sup> According to Ivan Radenković “Foreign Direct Investments, in Serbia”, page 55





19,255 which constitutes somewhere around 1.13% of the total number of employees in the whole country.<sup>14</sup>

**There is number of cases connected to the tax free zone** where we see strong counter productivity of such business model for tax system and overall economy of Serbia. For instance, famous shoe maker Geox have received 11,250,000 euros and to the town itself granted 100 million dinars for arranging land in the “free zone, moreover it have received around 11 hectares of land for free, and was exempt from paying building land development fee and sign board fee. Besides, a traffic road of 200 meters was built, connecting the location of “Geox” with Bunuševac’s road.<sup>15</sup> In Serbian “free zones” wages are proverbially low<sup>16</sup> Companies investing in Serbia actually just relocate some production unit from highly industrialized mother-state to the country offering them as cheap as possible business conditions. Parallel to this relocation, however, transfer of standards of protection of workers’ rights does not occur too.<sup>17</sup>

**Beside tax avoidance (legalized) in tax free zones, there is serious problem of corporations that are receiving enormous tax holidays,** subsidy, free or cheap energy, custom free or minimal custom tariffs, infrastructure for free, protected right to exploit labor, subsidies per every open (cheap, labor intensive, mostly low qualified labor) like notorious “Fiat automotive” in Serbia. As it is well documented contract of government of Serbia with Fiat is secret. Fiat have received different schemes of support including tax brakes, tax holiday, guaranteed low salaries for workers, and subsidy of 10000EUR per labor place.<sup>18</sup> According to calculations Fiat have received about 400mEUR from state of Serbia, it is actually importing all the parts for the notorious Fiat500 car therefore none of parts are being produced in Serbia. It is highly possible that Fiat is not actually paying customs for the parts of the car that is being assembled in Serbia. Furthermore, since such imports are happening practically income from export of car is significantly reduced. And it is comes out in the end that Serbian budget is actually being damaged than filled with income from this company. In the end we should not forget that after years of silence just days ago in June and July of 2017 strike erupted in Fiat Serbia where workers have demanded that their salary should be increased from 38000RSD to 50000 BRUTTO which is about 310EUR to about 4000 EUR. If we see how much Serbia actually invests in Fiat once would as would it be more profitable if state gives such subsidies to citizens than to foreign and obviously malicious company. On the list of

<sup>14</sup> [http://www.rosalux.rs/sites/default/files/publications/Corporate\\_Imperialism.pdf](http://www.rosalux.rs/sites/default/files/publications/Corporate_Imperialism.pdf), page 11

<sup>15</sup> [http://www.rosalux.rs/sites/default/files/publications/Corporate\\_Imperialism.pdf](http://www.rosalux.rs/sites/default/files/publications/Corporate_Imperialism.pdf) page 18

<sup>16</sup> They are even called “slavery zones”.

<sup>17</sup> Ibidem 18,19

<sup>18</sup> <https://insajder.net/sr/sajt/tema/959/>

the largest Serbian exporters, one finds Fiat car exports in 2013 amount to 1.36 billion euros imported raw materials and intermediary goods worth 928.7 million euros, which means that its net exports (the difference between exports and imports) amounted to 436 million euros. Fiat also engage subcontractors and automotive parts factories operating in Serbia which are also large importers. If we bear in mind the fact that all these goods are sold to Fiat in the form of automotive parts, Fiat's net exports would fall to only 263.5 million.<sup>19</sup> Therefore if we take in to consideration all the investments, all the damages done to workforce and also significant tax brakes etc that are still provided it is very hard to find any financial reason for support of Fiat.

### High profile tax evasion cases, perception of taxes in Serbia

Serious and detailed researches about perception of taxes in Serbia are missing. Despite importance of this topic and despite number of famous cases of tax avoidance there was no actually interest to research what citizens think about the tax system in Serbia. Citizens that are exposed to systematic pressure from both government and private businesses to submit to the harsh socio- economically conditions and systemic violation of their social and human rights in number of instances are not able to put pressure on to the government to improve labor conditions, social protection system, health system etc. Such desperate perception of situation in Serbia is best provable by extreme outflow of citizens from Serbia in desperate attempt to get to the some perspective in global west. Citizens practically have accepted such situation that some people are more equal than others in front of law, and especially tax law. It is notorious that Serbian tax authorities are able to harshly punish small companies, citizens for minimal delay in payment of social services, communal services or tax payments, BUT in same time we are witnessing protracted and never ending cases of tax dodging, tax avoidance, publicly known enormous tax debts BUT WITHOUT real consequence that would show to the citizens that law is actually enforced.

Constant public and systematic complaints of business sector and IFIs that pensions are large, that social spending is unbearable, that taxes are big, that labor taxes are large, that basic salary is big while in same time we witness enormous disproportion of wealth and income between few tents of thousands of people and other 60-80% of population exposed to risk of poverty or loss of job we could never expect that tax system could be considered as just. Simply we do not see any distributive drive behind tax sistem and massive ideologically push of corporate and IFIs sectors will never be able to change reality of unjust system by

There is number of companies owned by famous business people in Serbia that are owing to Serbia hundreds of millions of RSD in taxes. Just days ago first significant tax dodging business man was

<sup>19</sup> [www.rosalux.rs/sites/default/files/publications/6\\_Radenkovic\\_engl\\_web.pdf](http://www.rosalux.rs/sites/default/files/publications/6_Radenkovic_engl_web.pdf), page 51-53

sentenced to 5 years in prison due his organized attempt to avoid paying taxes<sup>20</sup>. These “taikuns” are using all the arsenal of modern tax dodging schemes using off shore companies, oversizing of costs for transfers of goods, services for the connected companies, fictive investments in companies, enormous dividends (that are practically without taxes) instead of salaries<sup>21</sup>. Apart of this case there is number of significant businessman who are large tax debt and that are successfully negotiating their debt.<sup>22</sup> Such cases are strongly supporting common opinion of citizens that there are differences in front of law for small and large violators and that tax laws are actually fully enforced on regular citizens while big companies, and owners of large business have protection from the tax discipline. In such way tax discipline is undermined and it is impossible to expect that it will ever be established unless all of the citizens are equal in front of law.

### 6.1. Shadow economy in Serbia<sup>23</sup>

The shadow economy is one of the greatest challenges facing the Serbian economy; its consequences are manifest in tax evasion, market distortion, unfair competition, and inefficient resource allocation, moreover shadow labor is in such raise that it seems like no measures was ever taken to combat violation of tax, labor and number of other laws related to the shadow economy. In first 6 months labor inspectorate have conducted more than 12400 inspections and have found more than 6300 workers working “on black”. It is for more than 30% more than in 2016 and for more than 1600 workers more than in 2015 in same period. In same time from those inspections it became clear that most of these workers have being working in services and construction. Such statistics is just paradigmatic. It is very important to highlight that in Serbia inspectorate are active in so called campaigns and also very importantly it is well known that inspectorate is suffering from over stretched capacity, lack of inspectors. Beside that it is well known that due to enormous un employment significant numbers of workers are practically allies of violating employers. Very significant characteristics of first six months in Serbia is that Inspectors actually have caught more than 220 employers that do not have registered business but are employing people without contracts and without registration of those. There is no detailed record about number of injuries and fatalities occurring during last years in situation of illegal work.

<sup>20</sup> <http://www.blic.rs/vesti/hronika/miroslav-miskovic-osuden-na-pet-godina-zatvora-i-osam-miliona-dinara-zbog-utaje/917563k>

<sup>21</sup> <http://www.blic.rs/vesti/ekonomija/male-tajne-velikih-tajkuna-kako-domaci-biznismeni-legalno-izbegavaju-porez-u-srbiji/3bqy0sj>

<sup>22</sup> <http://www.kurir.rs/vesti/biznis/1886117/poreska-uprava-ovo-su-5-najvecih-poreskih-duznika-u-srbiji>

<sup>23</sup> [http://www.bep.rs/images/gallery/2013\\_03\\_20/the-shadow-economy-in-serbia-study.pdf](http://www.bep.rs/images/gallery/2013_03_20/the-shadow-economy-in-serbia-study.pdf)

Such situation is additionally complicated with so called “new liberal law on labor” that have put at the hard of its reform only reduction of unemployment without consideration about decent work and moreover about how to protect citizens of Serbia.

Serbian shadow work is characterized by massive numbers of workers working a) without contracts or b) with contracts but that are being registered for minimal salary and difference to real salary are receiving “on the hands” without official record. Especially problem are workers that even in public companies are working without health insurance, working constantly over hours. Massive reserve army of workers is actually main achievement of neo liberal model introduced and maximized in Serbia since 2000 that have produced perfect condition to provide massive leverage of foreign and domestic corporations that practically black mail whole country and whole class of under privileged, exploited, not protected, left alone more than 70-80% of citizens of Serbia that are fighting the fight on life and death to find and if possible keep jobs. Thus it is not strange that after introduction of new even more liberal (liberation of whom and for what, would someone ask) Labor law even bigger exodus of suppressed classes is happening towards global West/North.

There is number of causes that are according to promoters of neo liberal economically agenda main causes for shadow economy in Serbia: a) **fiscal reasons**, high fiscal burden on labour; complicated and costly tax procedures; complicated and opaque tax system; poorly organised, under-staffed, and under-equipped tax administration; poor quality of public services; and high tolerance for the shadow economy b) **labor policy reasons**, high fiscal burden on labor for lower wage earners; a social security system that virtually prevents people in formal employment from being entitled to social welfare benefits and other transfers; high minimum wage; and certain regulations governing statutory employment protection, working hours, unemployment benefits, and the pension system) different other institutional and economic factors. No one is actually mentioning morale and interest of employers to exploit every possible situation to labor in Serbia. In that sense it is rather obscure to invent whole science that is approving that employers have somehow right to violate all the laws since they are very sensitive, investors are expecting even more freedom to maximize their profits. Such on to the head turned moral stance is actually main cause of systemic failure of state and overall society to combat shadow economy in all of its emanations.



## 7. TAX INCOMES IN SERBIA

As **table 2** shows Tax income is significantly increasing over the years. In same time relatively in percentage of GDP over the years most important income of budget remains VAT (both domestic and import) and also contributions for social services and pensions. (as especially highlighted in **table 3**)<sup>24</sup>

| Year                              | 2010           | 2011           | 2012           | 2013           | 2014           | 2015           | 2016           |
|-----------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| I Public income with donations    | 1 278<br>434,7 | 1 362<br>641,1 | 1 472<br>118,2 | 1 538<br>053,8 | 1 620<br>752,1 | 1 694<br>831,1 | 1 842<br>651,8 |
| 1. Current income                 | 1 271<br>045,0 | 1 359<br>994,7 | 1 469<br>173,0 | 1 534<br>984,4 | 1 611<br>811,8 | 1 687<br>613,7 | 1 833<br>248,6 |
| <b>1.1. Tax income</b>            | 1 111<br>492,3 | 1 191<br>078,9 | 1 292<br>564,4 | 1 366<br>595,4 | 1 439<br>037,2 | 1 463<br>590,1 | 1 585<br>766,9 |
| Tax on citizens income            | 139<br>051,5   | 150<br>824,4   | 165<br>261,6   | 156<br>084,8   | 146<br>484,4   | 146<br>775,3   | 155 065,4      |
| Tax on salaries                   | 106<br>653,9   | 116<br>598,9   | 125<br>799,5   | 116<br>315,0   | 107<br>944,9   | 108<br>930,3   | 113 011,3      |
| Other taxes on the income         | 32 397,6       | 34 225,5       | 39<br>462,1    | 39 769,8       | 38<br>539,5    | 37 845,1       | 42 054,1       |
| Tax on profit                     | 32 593,0       | 37 806,0       | 54<br>779,8    | 60 665,4       | 72<br>743,7    | 62 668,1       | 80 414,5       |
| Value added tax                   | 319<br>369,4   | 342<br>445,7   | 367<br>471,8   | 380<br>624,3   | 409<br>564,2   | 416<br>056,2   | 453 502,6      |
| Domestic VAT                      | 109<br>087,4   | 113<br>430,7   | 114<br>548,3   | 110<br>141,4   | 111<br>453,8   | 97 286,6       | 112 648,4      |
| Import VAT                        | 207<br>649,9   | 226<br>367,9   | 250<br>453,2   | 267<br>844,9   | 295<br>501,1   | 315<br>923,6   | 337 899,0      |
| Other taxes on goods and services | 2 632,1        | 2 647,1        | 2<br>470,3     | 2 638,1        | 2 609,3        | 2 846,0        | 2 955,2        |
| Excise                            | 152<br>166,6   | 170<br>949,1   | 181<br>097,4   | 204<br>761,0   | 212<br>473,5   | 235<br>780,7   | 265 605,9      |
| Excise on oil products            | 80 375,8       | 89 048,5       | 90<br>702,5    | 107<br>176,2   | 121<br>331,5   | 127<br>371,0   | 143 933,4      |
| excise on tobacco products        | 60 770,6       | 69 185,8       | 76<br>423,8    | 83 752,3       | 77<br>569,0    | 90 268,6       | 91 766,5       |

<sup>24</sup> Both tables according to data of Ministry of finance of Serbia



|                       |              |              |              |              |              |              |           |
|-----------------------|--------------|--------------|--------------|--------------|--------------|--------------|-----------|
| other<br>excise       | 11 020,1     | 12 714,8     | 13<br>971,0  | 13 832,4     | 13<br>573,0  | 18 141,1     | 29 906,0  |
| customs               | 44 285,5     | 38 804,7     | 35<br>782,8  | 32 504,3     | 31<br>025,8  | 33 320,9     | 36 426,7  |
| other tax<br>income   | 45 979,6     | 43 542,7     | 42<br>605,2  | 43 459,3     | 57<br>313,2  | 63 294,3     | 67 262,5  |
| Contributions         | 378<br>046,8 | 406<br>706,4 | 445<br>565,7 | 488<br>496,3 | 509<br>432,5 | 505<br>694,6 | 527 489,3 |
| 1.2.Non tax<br>income | 159<br>552,8 | 168<br>915,7 | 176<br>608,6 | 168<br>389,0 | 172<br>774,7 | 224<br>023,6 | 247 481,7 |
| 2. Donations          | 7 389,6      | 2 646,4      | 2<br>945,2   | 3 069,5      | 8 940,3      | 7 217,4      | 9 403,2   |

| Income as % of GDP per<br>fiscal year        | 2010        | 2011        | 2012        | 2013        | 2014        | 2015        | 2016        |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| I Public income with<br>donations            | <b>41,7</b> | <b>40,0</b> | <b>41,1</b> | <b>39,7</b> | <b>41,5</b> | <b>41,9</b> | <b>43,8</b> |
| <b>1. Current income</b>                     | 41,4        | 39,9        | 41,0        | 39,6        | 41,2        | 41,7        | 43,6        |
| <b>1.1.Tax income</b>                        | 36,2        | 35,0        | 36,1        | 35,3        | 36,8        | 36,2        | 37,7        |
| <b>Tax on citizens<br/>income</b>            | 4,5         | 4,4         | 4,6         | 4,0         | 3,7         | 3,6         | 3,7         |
| <i>Tax on salaries</i>                       | 3,5         | 3,4         | 3,5         | 3,0         | 2,8         | 2,7         | 2,7         |
| <i>Other taxes on the<br/>income</i>         | 1,1         | 1,0         | 1,1         | 1,0         | 1,0         | 0,9         | 1,0         |
| <b>Tax on profit</b>                         | 1,1         | 1,1         | 1,5         | 1,6         | 1,9         | 1,5         | 1,9         |
| <b>Value added tax</b>                       | 10,4        | 10,0        | 10,3        | 9,8         | 10,5        | 10,3        | 10,8        |
| <i>Domestic VAT</i>                          | 3,6         | 3,3         | 3,2         | 2,8         | 2,9         | 2,4         | 2,7         |
| <i>Import VAT</i>                            | 6,8         | 6,6         | 7,0         | 6,9         | 7,6         | 7,8         | 8,0         |
| <i>Other taxes on<br/>goods and services</i> | 0,1         | 0,1         | 0,1         | 0,1         | 0,1         | 0,1         | 0,1         |
| <b>Excise</b>                                | 5,0         | 5,0         | 5,1         | 5,3         | 5,4         | 5,8         | 6,3         |
| <i>Excise on oil<br/>products</i>            | 2,6         | 2,6         | 2,5         | 2,8         | 3,1         | 3,2         | 3,4         |
| <i>excise on tobacco<br/>products</i>        | 2,0         | 2,0         | 2,1         | 2,2         | 2,0         | 2,2         | 2,2         |
| <i>other excise</i>                          | 0,4         | 0,4         | 0,4         | 0,4         | 0,3         | 0,4         | 0,7         |



|                           |      |      |      |      |      |      |      |
|---------------------------|------|------|------|------|------|------|------|
| <b>customs</b>            | 1,4  | 1,1  | 1,0  | 0,8  | 0,8  | 0,8  | 0,9  |
| <b>other tax income</b>   | 1,5  | 1,3  | 1,2  | 1,1  | 1,5  | 1,6  | 1,6  |
| <b>Contributions</b>      | 12,3 | 11,9 | 12,4 | 12,6 | 13,0 | 12,5 | 12,5 |
| <b>1.2.Non tax income</b> | 5,2  | 5,0  | 4,9  | 4,3  | 4,4  | 5,5  | 5,9  |
| <b>2. Donations</b>       | 0,2  | 0,1  | 0,1  | 0,1  | 0,2  | 0,2  | 0,2  |

## 8. PROGRESSIVE TAXATION

Tax on salaries is regulated by Law on tax of income of citizens. Until May 2013 it was proportionally taxed with tax rate of 12% while basis was brutto income of employee. There was also non-taxable part of salary that was 8766, 00 RSD. After changes of law in May 2013 tax was reduced to 10% while non- taxable basis was increased to 11000. Tax is payable in the moment of origin of salary. Additionally, tax is foreseen for persons who have net income bigger than limit. Nontaxable part for annual tax on income is triple brutto average salary in Serbia. All the income above that limit is taxed at flat 10% rate. While net income bigger than 6 time brutto salary in Serbia is taxable at rate of 15%. Social contribution in Serbia is Pension contribution, health insurance and insurance for unemployment. Since 2013 rate for pension is increased to level of 24% brutto salary (11% payable by employer and 13% by employee). Compulsory health insurance is 12,3% and tax for case of unemployment is 1,5% (0,75% employee and 0,75% employer).

Effective burden on salary is 64,3% of net salary, 46,2% of brutto salary, 39,2% of overall cost of labor.<sup>25</sup> According to same study Serbia does not have high burden on salaries compared to the EU. Despite hard macro economically situation and deflationary policy that does not support economically growth Serbia isn't increasing burden on salaries.<sup>26</sup> Serbia is however on the bottom of list of countries with progressive system of taxation of salaries.<sup>27</sup> By introduction of progressive taxation Serbia could reduce burden on lower salaries while it would not jeopardize fiscal position on macro level.<sup>28</sup> Explanation for low level of progressivity of taxation is lack of morale of employers that are officially reporting much lower salaries than those really payed thus law maker actually wanted to prevent tax evasion on the level of lowest salaries in Serbia. That is among main reasons for dissatisfaction of citizens with the low income and also for the perception of unjust system of taxation in Serbia. Overall conclusion of research is that salaries are not more burdened than in EU BUT low salaries are much more taxed than in compared countries.<sup>29</sup>

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[http://uzmiracun.rs/images/publikacije/NALED\\_Sistem%20oporezivanja%20rada%20i%20moguci%20pravci%20njegove%20reform.pdf](http://uzmiracun.rs/images/publikacije/NALED_Sistem%20oporezivanja%20rada%20i%20moguci%20pravci%20njegove%20reform.pdf) , p 6-9

<sup>26</sup> Ibidem, page 13

<sup>27</sup> Ibidem page 17

<sup>28</sup> Ibidem, page 17

<sup>29</sup> Ibidem , page 21



## CONCLUSIONS AND RECOMMENDATIONS

- Abolishing system of tax free zones
- Introducing strong measures against tax evaders from corporate sector.
- Strengthening progressive taxation
- Stopping race to bottom with tax breaks, tax subsidies, tax holidays
- Stopping subsidy for labor places for foreign corporations that are not supporting increase value of labor force
- Reconsidering system of taxes for green technologies necessary for interventions in environment protection, RES, green transportation, organic food (strong supportive mechanisms to establish transfer of technologies)
- In line with such sustainable investment policy subsidizing domestic businesses that redistribute utilization of RES, support development of
- Reporting environmentally damages as tax cost and charging to polluters...including abolishing constantly violating legal persons.
- Serbia must take adequate measures to secure collection of dodged taxes in order to decrease public debt and budgetary deficit and to increase reach and quality of social services: proactive measures should be decentralization a redistribution of energy, agriculture as pointed in previous points
- Transparent, inclusive, carbon neutral, low resource, energy efficient, low import technologies and structures should be established as only reasonable way of spending tax money
- on several occasions, Serbian citizens have collected money for children with severe health problems, due to lack of state money for this purpose and weak quality health services in Serbia system should be in place to prioritize tax money to such purposes.

## REFERENCES