Tax Justice in Southeast Europe

How to reduce inequalities?

BALKAN MONITORING PUBLIC FINANCES

CSOs as equal partners in monitoring of public finance

"CSOs as equal partners in monitoring of public finance" started in the 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 the transfer of knowledge/practices and networking in the field of the 4 specific topics: public debt, public-private partnerships, tax justice and public infrastructure.

Additional to this analysis, 3 more analysis will be prepared in line with the other 3 topics of the project: public debt, tax justice and public-private partnerships.

This study is accompanied with a policy brief which will be also available in local languages and will provide a short overview of the key policy recommendations and trends.

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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I. Introduction

Taxation is an important part of our lives. Tax policies have a major impact on economy, society and environment, while they also shape our public finances and public services.[1]

Usually, the taxes we pay are used by the government to invest in public infrastructure, health system, education, social support, technology – in short: to provide goods and services for the benefit of the people. Taxes that are used to support these government activities should be seen as a positive good. One cannot like caring for the elderly, establishing justice, providing public education, fighting terrorism, and protecting the environment, while claiming that the taxes that support those things are bad.[2] Yet this is exactly what happens in many countries across the Western Balkan region: both businesses and ordinary citizens perceive taxes as a burden or a cost, for which they receive nothing in return. This is why one of the points of departure of this study is to understand why taxes are perceived as a necessary evil. Another point of departure is to study what can be done to challenge and change this perception. The problem we identify is that, generally speaking, the tax systems have become less redistributive since the mid-1990s, contributing to increasing inequality, instead of decreasing it.[3] The redistributive effect of transfers and progressive taxation could lower inequality. There are excellent examples that confirm this statement; the modern Scandinavian states made important achievements in shaping social welfare systems which, by aiding, benefits and public services, contribute to alleviating poverty and improving equality.

Apart from tax systems becoming less redistributive, we are witnessing a general decline in quality of publicly financed infrastructure and services. This stimulates people, who can afford it, to turn to privately financed alternatives. This in turn makes public facilities and services decline and the wealth-income divide grow further.[4] To change this, we need to challenge the trends in taxation, both in collecting as well as in spending of the taxes.

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1 Taxation Trends in the European Union (2017), Taxation and Customs union, European commission, available at: https://ec.europa.eu/taxation_customs/sites/taxation/files/taxation_trends_report_2017.pdf

2 Douglas J. Amy, Taxes are good, available at: http://www.governmentisgood.com/articles.php?aid=17

3 Dr. Jörg Alt SJ (2015) Tax Justice & Poverty,

4 Ibid.

Each Balkan country has gone, from the start of the transition process in the 90s to the present day, through a process of tax reforms. The paths differ from country to country, but there are certain features that are notable in all or many of the countries. Joining the EU was and is one of the common features of tax reforms in the region, leading to introduction of - at different times - VAT, corporate income tax and personal income tax into the Western Balkan countries' tax systems.

Apart from the aspiration of all the Balkan countries for joining the EU by adopting to the EU rules, there is another common trend that can be distinguished: the trend of reducing tax rates of the PIT, CIT and VAT, with special emphasis on corporate income tax[5] and the shift of the burden of taxation to indirect taxation of consumption rather than wealth.

The Western Balkan countries, like many other countries, have undergone significant reforms over the last two decades which made their tax systems more consumption oriented. These reforms were partly a result of internal changes, but, on the other hand, were also significantly influenced by the globalization process and the increased international mobility of capital. Overall, the main characteristic of tax systems in Western Balkans is the low tax rates on taxes on capital and on labour with the objective to give to the business investment and activities a stimulant for their economic performance.[6] In attempt to further enhance their competitiveness, the Western Balkan countries implement a relatively large number of CIT incentives, such as tax breaks/holidays. This means a huge amount of lost revenues and lost public funds for financing of public services that can be used to improve the wellbeing of the citizens and reduce the poverty.

The shift to indirect taxation has, however, not in and of itself encouraged high growth rates. Lower growth rates have reduced receipts and thus led to lower quality services and regulation. Hence citizens, who in general have had to put up with higher taxes, have not seen any reason to comply with taxation. Hence whilst tax education is important (see next paragraph), it cannot be separated from a system of taxation that is fair, equal and actually contributes to economic growth.

5 Peci, B. (2016) Tax Reforms in Selected Balkan Countries: The Case Study of Kosovo, available at: https://core.ac.uk/download/pdf/143965839.pdf

6 Gjokutaj, E. (2016): Taxation trends in the Western Balkans 2016, Albania, available at: www.altax.al/en/altax-products/product/download/file_id-60

Another common and very important characteristic of the WB countries is the low tax education. The countries in transition have operated in environments where tax payment in the society was not accepted as a citizen's duty; it was rather the avoidance of tax paying that was perceived as a national sport. This is the reason why the tax evasion is still so high.

However, an increasing range of people, civil society organizations, governmental and non-governmental organizations are waking up to the listed problems, which is encouraging.

With this study we wish to contribute to the questioning and re-defining the existing tax practices. The study tries to analyse tax policies and systems, tax regulation and legislation, current tax practices, and key problems in order to propose solutions and advocate for change in the 7 Western Balkan countries that is covers.

The first part of the study looks into perception of taxes in the 7 countries to understand the (de)motivations for paying taxes. The next step is comparing the tax systems of the 7 countries and their national specifics. In the third and fourth part of the study the attention is given to the burning problems of tax dodging and tax competition and different approaches and measures used by the respective countries in the WB region to fight these harmful practices. The fifth section of the study puts forward the benefits of the introduction of progressive taxation as a way to enhance the redistribution in favour of lessening inequality. The sixth part looks at the social services to outline what could be the most visible benefits for the society if tax revenues would be increased. The last part of the study gives the recommendations which involve reforms of the tax systems in order to enable fair taxation and to reduce inequality, followed by proposed measures for stopping the tax dodging and tax competition and creating redistribution that produces additional social services.

The study wishes to contribute to raising the general level of understanding of taxes by the ordinary citizens and raising awareness in order to ask for their rights in asking better public services for the taxes they pay. In this way the study wishes to contribute to a better, more efficient, fair and just taxation which could stimulate all parts of society to carry a tax burden for the common good, but in proportion with their ability.

II. Perception of taxes

Taxes tend to be perceived as a burden: we believe that the tax is something which is due to the state, but we receive little or close to nothing in return. This chapter is aimed at exploring the perception of taxes in the Balkan region. The points of departure were questions, such as: What are the benefits that society receives from taxes? Is tax being a cost to business or is it redistribution? Should businesses pay the same level of taxes (relatively speaking) as individuals?

In the region tax-related opinion surveys are a very recent development. The few surveys undertaken are oriented towards professionals and businesses; however, there is not much evidence that tells us what the general public thinks about tax. This is why the study did not find conclusive information to answer the questions above. Nevertheless, some of the existing studies helped to gain insight into tax perceptions in the region. Yet, it must be stressed that a relevant finding is that better understanding of tax perception in the region is needed to help to set a fairer tax system that could work towards decreasing tax evasion.

The incentive to evade a heavy tax burden is one of the main reasons for the existence of an informal economy; majority of South East Europe (SEE) companies interviewed by World Bank Enterprise Surveys[7] consider tax rates their biggest concern (19.5%). A second explanatory factor is tax morale, linked to trust in institutions and social expectations.[8] The complexity of tax regulations, maladministration and inefficient tax administration would appear to be important factors in low tax morale. A third factor is that the failure of the state to provide adequate public services may lead people to exit the formal economy, emigrate or resort to clientelist networks. The tax burden, tax morale and the quality of public services together shape tax evasion.

In Bosnia and Herzegovina tax rates are less worrying for the companies than it is the case in the region. However, the quality of institutions is by far biggest problem for Bosnian businesses with 31.4% complaining of political instability.[9] The transparency

7 World Bank, Enterprise Surveys Data, more information available at: http://www.enterprisesurveys.org/data

8 Medina, L and Schneider, F. (2017) Shadow Economies all over the World: New Estimates for 162 Countries from 1999 to 2007, available at: http://www.econ.jku.at/members/Schneider/files/publications/2017/JointPaper_LeandroMedina_158countries.pdf

9 Bosnia and Herzegovina - Enterprise Survey 2013 World Bank, European Bank for Reconstruction and Development Report generated on: May 15, 2014, more info available at: http://microdata.worldbank.org/index.php/catalog/1987

of public services, the treatment of citizens in the public sector, the time required for obtaining services or information in the public sector, and the price of public services – all these are graded as poor.

Since 2007 and after, the governments in **Bulgaria** adopted a strategy of lowering taxes with the aim of attracting more foreign direct investments and business stimulation. This eventually led to a tax structure where the direct taxes and the lower than average for the EU health and social securities are compensated by indirect taxes (VAT and excise duties). The term "tax justice" was only first mentioned after 2015 in relation to an NGO-run project on tax justice. In the meantime, in December 2013, Bulgaria adopted legislation restricting offshore companies to have business in the country,[10] however there has been criticism that this provides for very broad definition, for example, on the term "connected persons" and generally on the flexibility that the law gives.[11]

In **Montenegro**, the main goal of tax policy is to create environment favourable for investments and development of business. In addition, fiscal consolidation measures should contribute to increase of tax revenues, decrease of budget deficit and public debt. As the country implemented a series of unsuccessful privatizations, those eventually became serious burden for the budget. The Government therefore introduced new forms of taxes to citizens, but the citizens show very negative attitude towards new taxes, especially those used to cover losses from murky deals of the Government. Also, the frequent changes in the legislation, followed by an increase of different taxes make environment in Montenegro unpredictable.

In Macedonia, the overall assessment, from public opinion survey conducted in 2008 regarding the tax system reform of 2007 (flat and low tax system) showed that the companies have the perception that the overall tax burden has been reduced (with the introduction of the flat tax and other tax policy measures), the perception of unchanged tax burden was mostly shared by the micro businesses and medium-sized companies, agriculture, metal, pharmaceutical and textile industries were the sectors that have accentuated the benefits of recently adopted tax measures. Regarding the main reasons for tax evasion, the respondents answer that political party protection of privileged companies, high labour costs and poor quality of the public

10 Law for the economic and financial relations with entities registered in jurisdictions with preferential tax regimes, the persons connected to them and their real owners), adopted 20/12/2013, published in State Gazetta 1/2014. Available at: http://www.parliament.bg/bg/laws/ID/14623, last checked on 3rd May 2018.

11 Out of the labyrinth of the Law on offshore companies, available at: https://www.capital.bg/biznes/vunshni_analizi/2014/04/13/2280934_iz_labirintite_na_zakona_za_ofshornite_kompanii/. Last checked on 3rd May 2018

services are the main reasons for tax evasion in Macedonia. Most of the companies (61%) emphasized that the introduction of the flat taxes did not boost job creation. On the other side, 32% of the companies answered that they have increased the number of employees by 1% to 20%.[12] Since 2008, there is not any public survey conducted in order to get to know the feeling what people in Macedonia think about the tax system generally but also to see how they perceive the tax burden. However, people are increasingly demand that big companies to pay higher taxes vis-à the small ones and rich people to pay more than the poor ones and assert their right to get higher quality of public services for the money they pay as taxes. Likewise, people are constantly asking from the public institutions to be more transparent in order for people to have higher trust in public institutions. Here lies the very close positive correlations between the higher trust in public institutions and higher tax morale. People in Macedonia still think the tax burden is large.

Serious and detailed researches about perception of taxes in **Serbia** are missing. Citizens are not able to put pressure on to the government to improve labour conditions, social protection system, health system etc. The case of health system shows well the attitude towards taxes in Serbia: more and more people are using private health care due very long waiting lists[13] and there is a high level of corruption in the health system, allowing for misuse of taxpayers' money.[14] It is notorious that Serbian tax authorities are able to harshly punish small companies and individuals for minimal delay in payment of social contributions or taxes, but in same time protracted and never ending cases of corporate tax dodging goes unpunished. There is number of companies owned by famous business people in Serbia that owe a significant amount of taxes. 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.

12 Stojkov, A, Nikolov, M, Smilevski, B. (2008) Flat Tax Policy Assessment in Macedonia. Center of economic analysis, Skopje, available at: https://core.ac.uk/download/pdf/11867265.pdf

13 Citizens' attitudes and satisfaction about public services in primary health care protection - Survey findings available at: http://www.zdravlje.gov.rs/downloads/2017/April/analiza.pdf

14 Fighting coruption in the health care system, available at: https://www.blic.rs/vesti/drustvo/udar-na-korupciju-u-zdravstvu-specijalni-tim-ceslja-zdravstvene-ustanove-a-evo-sta-se/jxtdk06

In **Slovenia**, people feel disadvantaged by having to pay the tax because they do not receive sufficient benefits from the state in comparison with their tax burden. The key elements of having a negative attitude towards taxes are the poor examples set by the public authorities (mainly clientelism), grey economy (the higher the grey economy, the lower the tax morale), the transparency of allocation (the more transparent allocation, the higher the tax morale), control (the greater the control of the tax authority, the higher the morale), the inefficiency of the legal system.[15]

The country analyses show that indeed the key factors, influencing the tax morale in the region are complexity of tax regulations (in spite of flat taxes, the tax regulatory system tends to be complex and perplexing), poor transparency (mainly linked to the governments in the region raising taxes to cover for their failures, such as failed state investments or shady deals by the government), inefficient tax administration, low trust in institutions, existence of an informal economy and failure of the state to provide adequate public services. These aspects need to be tackled in order to build towards a just tax system in the region.

However, the historical context needs to be considered too. While for example in Denmark people are happy to pay tax because they are happy to receive social services by the state, which are paid by the taxes, this would not necessarily happen in the region even if spending on public services would increase. Countries in the region have low taxes and low welfare because of the collapse of socialist systems of government. The economic crisis of the end of 1980s (1000% inflation in 1989 and GDP drop of 10% in 1990) contributed towards whole scale economic and political transformation. The new elites which emerged were persuaded to adopt liberal market systems by international institutions, which is likely one of the reasons why populations in the region seem to resist taxes.

Because defunding public services leads to poorer services and lower public confidence, while higher funding creates the opposite dynamic, it is necessary to provide high quality public services funded by the government. To this end it is necessary to increase tax morality, i.e. raise awareness of the people about the benefits of paying taxes to the state and introduce greater tax discipline in all of the 7 countries.

15 Malogorski, D. 2004. Tax Culture in Slovenia, accessed 20 January 2017 available at: http://dk.fdv.uni-lj.si/dela/Malogorski-Darja.PDF

III. Tax systems in the region

Taxes represent the most important form of public revenue and one of the most important means of redistribution of the national income. In many countries tax revenues are over 40% of GDP[16] and in some countries 50% of the GDP. EU-28 level is 38.7 % of GDP, while in the Western Balkan countries the participation of taxes in GDP is below 30%.

Understanding the current tax system is relevant for analysing where changes can be introduced. This is why the study examined the tax systems of the analysed countries.

When we talk about the structure of the tax revenues, we should also address the current trends in EU and OECD countries. In recent years, due to the need for fiscal consolidation, the EU Member States have a trend of increase in the overall tax burden. This is due to the fact that in many countries, the mix of tax increases and public spending cuts to reduce deficits has fallen slightly more towards tax increases.

Almost all countries in the EU, in response to the economic crisis, increased their VAT rates. As regards labour taxation there was also a tendency for increasing it in almost all countries of the EU. However, the last available report for Tax reforms in EU for 2015 addresses new trends: decreasing tax rates and broadening the tax base in direct taxation, followed by reducing tax exemptions, reducing tax credits, increasing rates for indirect taxation, primarily VAT rates, reducing the tax burden on workers with low incomes in order to increase the working motivation and initiative.[17]

Taxes on (employed) labour income are the largest source of revenue in EU countries, contributing nearly 50 % of all the revenues, followed by consumption taxes at roughly 33 % and then capital taxes at around 20 %.[18] In WB countries the picture is somewhat different: the highest share of taxes in budget revenues are the VAT revenues. The lower shares of direct taxes in the WB countries are counterbalanced either by relatively high proportions of indirect taxes (for example Bulgaria (53.5 %),

16 Tax reforms in EU member states, 2015 Report, Taxation papers, Working paper N.58-2015, Directorate General for Taxation and Customs Union Directorate General for Economic and Financial Affairs, available at: https://ec.europa.eu/taxation_customs/sites/taxation/files/resources/documents/taxation/gen_info/economic_analysis/tax_papers/taxation_paper_58.pdf

17 Ibid.

18 Taxation Trends in the European Union, 2017 Edition, Taxation and Customs union, European commission, available at: https://ec.europa.eu/taxation_customs/sites/taxation/files/taxation_trends_report_2017.pdf

Macedonia (30%) or by relatively large shares of social contributions (for example Macedonia (27%). Also, the contribution of Corporate Income Rate (CIT) in the GDP in all of the analysed WB countries is very low and also the CIT rates in all of the 7 countries are extremely low. Just for comparison, the average CIT rate in EU-28 is 24%. CIT in EU range from more than a 25% of total revenue (the United Kingdom, Luxembourg, Malta, Cyprus and Italy) to less than 10 % (Estonia).[19] By having low CIT rates, the WB region has established its own tax heaven for companies. The low and flat tax rates and tax cuts on corporate and higher earners have shifted the tax burden on ordinary citizens. This has resulted in a disproportionately large tax burden on goods and services when compared with the OECD average. Furthermore, charging the same tax rate on lower and higher earners has encouraged income inequality.

As all of the analysed WB countries have lower share of taxes in GDP than the EU-28 average, there is a room for increasing the taxes, mainly for rich individuals and companies, and at the same time abolishing the tax exemptions and tax credits given to foreign and domestic companies in the 7 analysed countries. There is a general perception that companies and especially the banks in these analysed countries are taxed very little and do not pay a fair amount of taxes. If tax justice is to be achieved, the companies and banks should be taxed more than they are now, at least reaching the level of taxation of the individuals. The era of tax heavens and tax stimulations should finish.

According to the World Bank reports on Western Balkan countries[20] the tax collection is very low, although the tax authorities have capacity to collect it. This leads to tax productivity being below standards. The tax productivity of Value Added Tax (VAT), Corporate Income Tax (CIT) and Personal Income Tax (PIT) could be increased. The highest tax evasion is in the collection of VAT and CIT taxes. The analysed countries have hence significant scope for improving its revenue collection.

Another step, at the personal income taxation level, to achieve tax justice is to introduce a progressive income tax system. Namely, reducing the tax rate on personal income for those people with lower annual income, while proportionally increasing the tax rate on personal income for those who have higher annual income can represent a contribution towards tax justice.

19 Taxation Trends in the European Union, 2017 Edition, Taxation and Customs union, European commission, available at: https://ec.europa.eu/taxation_customs/sites/taxation/files/taxation_trends_report_2017.pdf

20 Western Balkans Regular Economic Report No. 12 (2017), available at: https://openknowledge.worldbank.org/handle/10986/28883

Another point that needs to be sure too, yet it is not the case so far: companies also receive benefits for their taxes. They use roads, energy infrastructure, education and health system for their workers, justice system for stabilizing the operating environment etc. In this aspect it is important that they pay their fair share of tax. The analysed region has significant space for working towards a fair share of corporate taxation.

IV. Tax dodging

Tax dodging is a popular term used by tax justice campaigners and the media to describe situations where tax is being avoided or evaded, or a combination of both. We need to make a difference between tax avoidance and tax evasion. *Basically, tax evasion means breaking the law, while tax avoidance is an attempt to subvert the law. Avoidance is not legitimate; tax avoidance involves bending the rules of the tax system to gain a tax advantage that regulators never intended.*[21] Tax evasion is the illegal practice of not paying taxes, by not reporting income, reporting expenses not legally allowed, or by not paying taxes owed.

Whether it is about tax avoidance or tax evasion, it represents avoidance of paying taxes. Considering that tax revenues are part of the total budget revenues, the tax avoidance and tax evasion both impact the decreasing of the total inflows of the budget, hence decreasing the revenues. Tax dodging costs public budgets dear, often resulting in lower level of public services from which all citizens could benefit. With the aim of finding out how much money the public budgets loose to tax dodging in the Balkans, this chapter researches the dodged taxes and tries to create a clearer picture who the main tax dodgers are.

National analyses of the situation show several characteristics that can describe the regional situation. The presence of tax dodging is a problem and a challenge for all the tax administrations in the region. Although the level of tax dodging in different economies cannot be determined precisely, it can be estimated; yet all the countries in the region are doing a poor, and not entirely disinterested, job in detecting and monitoring tax dodging. Tax dodging is only monitored to a limited extent (e.g. lists of who owes taxes, what is the VAT gap), leaving a large part of the tax dodging scene relatively untouched. In all the countries research of the level of tax dodging can be significantly improved.

International analyses show that tax dodging benefits multinational corporations disproportionately in comparison with small- and medium-sized enterprises. A lot of tax dodging relies on the multinational nature of large business. It involves shifting profits from high tax to low tax countries. If you only operate in one country, this is harder to do. Use of assertive tax planning methods causes that the tax burden is

21 Definition of avoidance provided by the UK Tax authority, more info available here: https://www.gov.uk/guidance/tax-avoidance-an-introduction

not equally carried by the multinational corporations and small- and medium-sized enterprises. The former can benefit from aggressive tax planning through many jurisdictions, whereas the later cannot compete with such practices. This is also valid for the region, where the local businesses cannot operate on a level playing field.

Some of the important factors for fighting illegal tax evasion are the education of the economic entities of the importance of paying taxes and contributions, pursuing measures for timely detection of tax evasion and strong penalty provisions.

In **Bosnia and Herzegovina**, the largest part of tax dodging takes advantage of a legal loophole, which allows that the taxable income for social security paid is at the minimum wage level, although the actual salary is higher. Informal economy opens sufficient space for tax evasion: many employers avoid paying taxes and contributions, and their employees are reported as unemployed so that they can receive minimum social benefits, placing additional strains on public revenues. In 2015, approximately 40 percent of the total work force was unregistered and in the informal economy.[22] Also cash payments are linked to tax evasion in BiH: in 2007 some $200 million in illegal financial outflows left the country, presumably the tip of the unreported iceberg.[23] 95 reports of suspicious financial transactions were received during the first six months of 2015, mainly from the banking sector, totalling 9.5 million BAM. The majority of reports were related to specific elements of tax evasion, followed by fraudulent legal operations and withdrawal of cash from accounts on the basis of fictitious business documents. Some measures against tax dodging are in place: in 2015, BiH made a high-level political commitment to work with the Financial Action Task Force and MONEYVAL; adoption of anti-money laundering legislation, and some of the measures contained in the Reform Agenda, if actually implemented, will also hinder tax evasion by simplifying tax regulations and reporting and remitting procedures for the employer, especially the introduction of an e-payments system; strengthening tax authority enforcement capacities through more efficient and transparent inspections and rigorous penalties; and closing policy loopholes by removing exemptions from tax payment.

22 US Department of State, Bureau Of Economic And Business Affairs. 2015 Investment Climate Statement, accesed May 2017, available at: https://www.state.gov/e/eb/rls/othr/ics/

23 Kar, D. and Freitas, S. 2012. Illicit financial flows from developing countries: 2001-2010, Global Financial Integrity, Washington, available at: https://www.gfintegrity.org/wp-content/uploads/2014/05/Illicit_Financial_Flows_from_Developing_Countries_2001-2010-HighRes.pdf

The tax regime **in Bulgaria** allows for privileges for the biggest corporate players. As a group, the ten biggest companies in Bulgaria received more from the state in terms of tax rebates and offsets than they pay in. The corporate tax laws allow for deduction of losses from the tax base, and there are many companies in Bulgaria that have declared losses for many years. The top ten Bulgarian companies' combined sales amount to roughly 25% of the gross domestic product, and the tax receipts from their business are equal to only 2,3% of the corporate taxes collected for 2015.[24] The big companies are privileged unlike the individuals and small companies, the Ministry of Finances planned 2,8 bln leva (or 1,43 bln euro) income from individuals and only 1,8 bln leva (0,92 bln euro) from corporate tax.

According to the World Bank, there is a perception amidst firms that significant portion of their competitors perform tax evasion. Considering that **Kosovo** is ranked alongside Ethiopia and Tanzania in Transparency International's 2013 Corruptions Perceptions Index, the observation that many given firms' competitors evade taxes is not a surprising finding. However, such findings have large costs to the tax system. The World Bank surveyed nearly a quarter of firms in the Large Taxpayers' Unit (LTU), including some medium sized firms, questioning their perceptions on their competitors' taxpaying behaviour. According to their answers, CIT and domestic VAT evasion from large, formal firms alone cost the government at least 5% of collections annually, and around 12% of PIT collections. The yielded results, moreover, suggest that evasion is responsible for between 15 and 25% of the tax gap, which has been estimated at about 35% of actual collections.[25] For the private sector, the given tax behaviour pose large implications, ranging from extra – and probably unpredictable – costs to doing business, which in turn may arguably hamper investment growth; encouraging firms to perform tax evasion and escape penalties when caught, which in turn contributes in harming economic development; and the practice of evading taxes and remaining unpunished for such behaviour hurts other firms entitled to be more productive and more able to benefit the given sector. To add more to that, tax collection is reduced as a result of some firms performing tax evasion. Such reduction, consequently, should be compensated by higher taxes for firms that are compliant with given tax regulations. Additionally, given firms – which remain in compliance with enforced tax regulations, may be unwilling to pay taxes when their competitors are actually dodging taxes. According to the conducted survey, those

24 ZaZemiata, Glopolis, Demnet, Lapas, IGO & Ekvilib Institute (2017) "Runway Taxes: Who pays taxes in Central and Eastern Europe?", Prague, available at: http://eurodad.org/files/pdf/58d39b90e6546.pdf

25 Republic of Kosovo; Kosovo Public Finance Review; International Bank for Reconstruction and Development/ The World Bank, June 2014, available at: https://openknowledge.worldbank.org/bitstream/handle/10986/20756/ACS93510WP0P130IC00Final0Kosovo0PFR.pdf?sequence=1&isAllowed=y

politically-involved firms are more prone to escape and avoid severe penalties for tax evasion, which arguably points to significant high-level collusion in tax evasion. To avoid a downward spiral into non-compliance, such high-level collusion would require robust mechanisms of enforcement. As such, if we could capture all the taxes (by stopping tax dodging or tax competition), more services could be provided to the citizens by the state. For instance, the revenues collected as a result of tax evasion reduction could benefit the Kosovo's social assistance scheme ("AsistencaSociale"), which remains the only cash social protection program in the country – specifically designed to reduce poverty amongst the working age population. In 2015, the given budget-financed guaranteed minimum income program benefited around 26,000 families, or more specifically 107,000 individuals.[26]

In Montenegro, tax dodging is still very present, in both legal and illegal forms. Overall amount of the uncollected taxes, or the tax debt in Montenegro was over 777 million euros in July 2016,[27] including over 146 million euros of the interest from taxes not paid in a due time. In order to improve this area, the Parliament adopted the Law on Reprogramming of Tax Claims, which gives tax debtor a possibility to pay debt in 60 monthly instalments. Also, presence of grey economy is still significant and it ranges from 23-31% of GDP of Montenegro. State budget is also seriously affected through deliberation of taxes for certain subjects, such Bar-Boljare highways, where the Law on Bar-Boljare Highway allows for avoidance of tax paying in several areas (e.g. contractor and subcontractors do not pay VAT for goods and services intended for construction of highway). The exact amount of tax lost to budget due to this law is not known.

Compared to similar middle-income countries, one can reasonably assume that **Macedonia** should expect at least a similar rate to GDP of tax evasion and fraud (7.9%) or at least 700 million EUR on an annual basis.[28] On the one hand, it negatively affects the competitive position of the companies that pay their taxes vis-a-vis the ones that evade taxes. On the other hand, it affects all citizens, as it undermines the public services, affecting the most vulnerable groups in the society by having fewer resources for social protection and social benefits programs. One of the ways of fighting tax evasion in Macedonia is publishing the black list of debtors by the Public revenue

26 IMF (2016) Kosovo Technical Assistance Report – Enhancing Social protection cash benefitst, (2016), available at: https://www.imf.org/external/pubs/ft/scr/2016/cr16123.pdf

27 Žugić tried to decrease salaries and to increase taxes, available at: http://www.dan.co.me/?nivo=3&rubrika=Ekonomija&clanak=565304&datum=2016-09-21

28 Hunting the Shadows – Tax Evasion Dynamics in Macedonia, Center for research and policy making, Policy Brief Nr. 33, December 2014, available at: http://www.crpm.org.mk/wp-content/uploads/2015/03/PolicyBrief33_ENG.pdf

office every year. The list of debtors for 2015 shows that 3,546 companies and 1,493 citizens failed to pay taxes or contributions, owning about 235 million Euros. As for 2016, the PRO published the total unpaid taxes from companies and citizens are 500 million EUR.[29] This is publicly available data. Another measure the government introduced in 2009 was the reduced rate of social contributions (from 44,9% to 27% at the moment) and changed concept of net salary to gross salary, reducing the possibility for tax evasion. Tackling tax evasion and fraud, being just a part of the policies targeting hidden economic activities, is not just a way to increase government revenues, but also a way to increase the fairness of the tax system, and improve tax acceptance and trust among its citizens and businesses, promote human rights, and enable appropriate protection to the most vulnerable in the Macedonian society.

In **Serbia** one of the main loopholes for tax avoidance is employing workers with minimal salary to pay minimal tax and social contributions, leading to high levels of shadow employment.[30] As mentioned above, it is also problematic that tax authorities are able to harshly punish small companies or citizens, while many larger companies owe Serbia a lot of taxes. In 2017 the first significant tax dodging businessman was sentenced to 5 years in prison due his organized attempt to avoid paying taxes[31], but the judgment is still being challenged.[32] These "taikuns" are using all the arsenal of modern tax dodging schemes using off shore companies, over sizing 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.[33] Apart of this case there is number of significant businessmen who are large tax debtors and that are successfully negotiating their debts.[34] In order to fight tax evasion, the Labour inspectorate has conducted more than 12400 inspections in 2017 and has 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. Very significant characteristics of first six months in 2017 in Serbia is that Inspectors actually

29 List of Debtors No. 9/2017 For Debts realised by 31.05.2017 And unpaid by 31.08.2017, available at: http://ujp.gov.mk/mk/otvoreni_povici/pogledni/343

30 During March an unprecedent number of workers working "on black", available at: https://www.subotica.com/vesti/tokom-marta-otkriven-nezapamcen-broj-radnika-na-crno-id28637.html

31 Miroslav Mišković sentenced to 5 years prison and payment of 8 million dinars for tax avoidance, available at: http://www.blic.rs/vesti/hronika/miroslav-miskovic-osuden-na-pet-godina-zatvora-i-osam-miliona-dinara-zbog-utaje/9l7563k

32 The appeal court abolished the conviction for Mišković, available at: http://rs.n1info.com/a330919/Vesti/Vesti/Apelacioni-sud-ukinuo-osudjujucu-presudu, Trial for Miroslav Mišković continues, available at: http://rs.n1info.com/a380793/Vesti/Nastavljeno-sudjenje-Miroslavu-Miskovicu.html

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

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

have caught more than 220 employers that do not have registered business but are employing people without contracts and without registration of those.

Inquiries about corporate tax dodging in **Slovenia** are so far either very rare or not available at all. Due to non-exploration of the issue, estimates of the extent of tax dodging in Slovenia are highly variable. One estimate suggests about €50-75 billion being lost from Slovenia to tax havens,[35] while one suggests significantly less: 4.5-5.8 billion USD being lost due to tax dodging in Slovenia in the period 2000-2008.[36] The so-called VAT gap is estimated to be about 280 million EUR - 430 million EUR. Further exploration of the amount of taxes lost to the Slovene budget due to tax dodging would be needed in order to get a clearer picture. Slovenia was among the first 31 countries to sign tax co-operation agreement enabling automatic sharing of country-by-country information; it operationalized the commitment through the 2016 amendments of the Tax Procedure Act. The Slovene Law on Corporate Income has been amended to prevent abuse on the taxation of the hybrid financial mechanism ('hybrid loans') and from 2016 onwards, Slovenia has implemented an obligation for taxable persons to report cash turnover only through specific electronic cash registers ('tax cash registers'), providing for traceability of any modifications made and thus enabling a proper audit trail.[37]

In spite of numerous measures to prevent tax dodging, all the countries in the region are still facing a challenge in limiting tax dodging. A key first step is to analyse and monitor the problem better. Another important step is to show a more active engagement in international efforts for eliminating tax dodging; while some measures can be adopted nationally and bring results, many efforts will have to be joined with the efforts of international communities. This is why it is of key importance that the countries in the region start acting a more proactive role in international efforts for closing the loopholes in the global tax avoidance schemes.

35 Kocbek, D. 2014. Tax Oases are not only a problem of Luxembourg, they are also the problem of Slovenia. Accessed 17 November 2016, available at: http://www.mladina.si/162829/davcne-oaze-niso-le-problem-luksemburga-so-tudi-problem-slovenije/

36 Kar, D. and Curcio, K. (2011) Illicit Financial Flows from Developing Countries: 2000-2009. Accessed 14 December 2016, available at: http://www.gfintegrity.org/wp-content/uploads/2011/12/GFI_2010_IFF_Update_Report_FINAL.pdf

37 PWC, Slovenia: Corporate significant developments (2016). Accessed 17 November 2016, available at http://taxsummaries.pwc.com/uk/taxsummaries/wwts.nsf/ID/Slovenia-Corporate-Significant-developments

V. Tax competition / Race to the bottom

To lure investors, mainly foreign ones, the countries are offering different benefits. Tax competition is the process by which countries compete with each other to attract investment from companies by lowering tax rates or providing special exceptions to tax rules. Tax breaks or incentives are the practice of offering companies a reduction in the tax they have to pay or a break from paying any tax at all. The tax competition often leads into a so called 'race to the bottom', where incentives offered to investors are pushing a spiral of lowering tax burdens, which means less revenue for the budget.

One of the key challenges is that the benefits of such tax competitions are not analysed or evaluated, often leading to more costs than benefits for the countries. OECD studies show that tax incentives are not one of the strongest factors influencing the attractiveness for investors, while some even claim that there is no hard evidence that tax incentives or relief lead to increased investments or employment.[38] In fact, a complex set of variables determines the location of investment - not just wage levels, but skills, labour productivity, stability of the political system, predictability of the legal environment, proximity to markets and transport costs, which in turn are related to the nature of the product.[39] The role of development policy cannot be reduced to finding attractive ways for corporations to avoid paying tax. This is a race to the bottom and raises the question of tax justice, of who benefits. Hence it is important to assess whether such practices benefit anyone at all, since they do cause falling revenues for the public budgets. This is why the chapter aims at assessing the costs and benefits of the tax competition measures in the region.

In **Bosnia and Herzegovina,** corporate income tax (CIT), at a flat 10%, is one of the lowest in Europe. Corporations contribute only 3% to total tax and social contributions revenues. There are several other incentives for foreign direct investment, including exemptions from payment of customs duties and customs fees on the import of equipment as part of capital investment. Profits transferred abroad are not taxed

38 Stiglitz, Joseph E. 1988. «Why Financial Structure Matters.» *Journal of Economic Perspectives*, 2 (4): 121-126.

39 James P. Walsh and Jiangyan Yu (2010) Determinants of Foreign Direct Investment: A Sectoral and Institutional Approach available at: https://pdfs.semanticscholar.org/a791/b60d1717fec8801609121c49ccf692c151c8.pdf

in FBiH if they were previously subject to taxation abroad. In RS withholding tax is not payable on repatriated profits which have already been taxed in RS. CIT allows the offsetting of losses against profits over a five-year period. The tax reforms abolish export incentives but exporters will still be excused VAT. Such relief is of questionable domestic benefit given the lack of any overall development policy to stimulate competitive export sectors. The BiH Law on Free Trade Zones allows the establishment of free trade zones as part of the customs territory of BiH. Currently there are four free trade zones: Vogošća, Visoko, Hercegovina-Mostar, and Holc-Lukavac. The free trade zones are fully privately owned, while the Visoko Free Zone is operated under a public-private partnership arrangement. Customs and tariffs are not paid on imports into free trade zones and export goods are exempt from excise. According to the OECD,[40] the free trade zones have not attracted considerable additional new investment. There are no official studies of total incentives in monetary terms or the total revenue lost. All in all, the benefits of tax incentives seem questionable. There is evidence in the case of free trade zones that they have failed to attract investment. We also know from BiH practice that a complex system of incentives creates larger tax distortions and more difficult tax administration. Hence tax incentives should be abolished. The money restored to public finances could be more wisely spent pursuing development projects attractive to both domestic and foreign investors.

In Bulgaria the corporate tax of 10% is lower than that of the 30% average for the EC. However, these low rates for taxes are compensated with the indirect taxes, which amount to 55.3% compared to Europe's average of 34.5%. The income from tax for 2017 amounts to 15,1 billion euros, from which direct tax is 2,9 billion euros and 7,4 indirect tax. According to Eurostat the total income from tax and securities as percentage of the GDP for 2016 amounts to 40% for the EU, while it only amounts to 29.0% for Bulgaria. The income from direct tax for Bulgaria that amounts to 5.4% of the GDP, while for the EU is 13%. Since 2008 a 10% tax is applied on corporate profits in Bulgaria. The big companies are privileged unlike the individuals and small companies, such as compensating VAT. The tax on individual incomes are much higher, and for the 2016 budget, the Ministry of Finances planned 1,43-billion-euro income from individuals (in the Law for taxation on private individuals) and only 0,92 billion euro from corporate tax. There are two basic kinds of tax breaks for companies: for regional development and for carrying out production activities in municipalities where the unemployment rate is 25% higher than the national average. A study investigated the

40 OECD (2017) Tracking Special Economic Zones in the Western Balkans: Objectives, Features and Key Challenges, available at: http://www.oecd.org/south-east-europe/SEZ_WB_2017.pdf

10 largest companies in Bulgaria, six of which are foreign owned; two are Bulgarian state companies, and two Bulgarian private companies. Seven out of them are in the energy field (production and trade with fuels and energy), two are trade companies, and one large-scale metallurgical complex. Four of these companies have declared losses, and for the last 10 years only in 2007 Lukoil has not declared millions of losses. The accumulated losses are equal to 1,78 bln leva. In 2015, the oil refinery did not pay but received income from corporate tax of 21 million leva. It is with no doubt that the tax regime in Bulgaria allows for absurd privileges for the biggest corporate players. [41]

Montenegrin legislative framework prescribes large number of incentives to business, including tax breaks, customs exemption, subsidies, etc. Incentives are mainly given through tax regulations, such as the Law on VAT, Law on Corporate Profit Tax and Law on Personal Income Tax. Newly established legal entities in economically underdeveloped municipalities, which carry out commercial activities, are exempt from profit and income tax for the first eight years, except in the sectors of agricultural products, transport enterprises and shipyards, fishing and steel.[42] Until end of 2017, in case of employment of certain categories, which are at registered within the Employment Agency, employers are exempt from paying contributions for compulsory social insurance and personal income tax. From December 2015 a new Decree on Direct Investment Incentives[43] governs conditions for and method of advancing development by attracting direct investment in the manufacturing or services sectors. This act defines the procedure how financial aid should be disbursed for encouragement of direct investments. Benefits were majorly enjoyed by foreign investors and companies, as well as domestic companies closely related to the Government. One of these examples is Canadian billionaire Peter Munk, who bought "Porto Montenegro" and enjoyed benefits of decreased VAT for services provided in this marina. Former Prime minister's son, who owns the company BB Hydro, also enjoyed benefits of zero VAT rate for supply of goods and services for construction of energy two small hydro power plants.[44] However, there is no comprehensive analysis available as to what the overall costs and benefits of such tax reliefs are. It is estimated that all these measures have severely affected the budget of Montenegro. This especially concerns

41 ZaZemiata, Glopolis, Demnet, Lapas, IGO & Ekvilib Institute (2017) "Runway Taxes: Who pays taxes in Central and Eastern Europe?", Prague, available at: http://eurodad.org/files/pdf/58d39b90e6546.pdf

42 Law on Corporate Profit Tax, article 31, par. 1; Law on Personal Income Tax, article 31, par. 1.

43 Decree on Direct Investment Incentives, Official Gazette of Montenegro no. 80/15, article 1

44 MANS (2016) Porto Montenegro is not a successful story, MANS, Podgorica, accessed 20 May 2016. available on: http://www.mans.co.me/porto-montenegro-nije-uspjesna-prica/.

public debt, which has increased three times over the last decade. World Economic Forum shows that despite all the incentives for investors, Montenegro is still not very favourable for investments. Montenegro takes 82nd place in global competitiveness,[45] the most problematic areas being access to financing, inefficient government bureaucracy, inadequate supply of infrastructure, inadequately educated workforce, corruption and tax rates. Montenegro should seriously consider introducing better and more transparent registers of subjects who did not pay their taxes. These registers should contain information related to uncollected taxes per various sectors. In addition, Montenegro should also improve legislative and institutional framework in order to improve competitiveness and create better environment for foreign and domestic investments.

Compared to the countries in the region, **Kosovo** possesses a simple tax system and relatively low tax rates.[46] Nevertheless, the inefficiency of Tax Administration of Kosovo, TAK, has triggered many businesses to evade taxes, which in turn means lower revenue for the government's coffers, and more importantly, the former has the tendency to hinder competition amidst businesses. As such, by not collecting taxes as required by the given law, encouraging favouritism in businesses related to the powerful authorities, TAK has converted into an institution that is directly influencing the non-loyal and anti-competitive behaviour in Kosovo's market. Encouraging certain businesses to avoid paying taxes makes them in turn more strengthened compared to regular businesses. The lingering institutional and other structural shortcomings related to corruption and the rule of law have put downward pressure on overall competitiveness and productivity growth, restraining the emergence of a more vibrant environment for further development. While countries in the region provide fiscal incentives for new bones, and especially, for new investments, the Kosovo's government still lags on compiling an Administrative Instruction, which enables the newly-created businesses and those conducting new investments, get exempted from tax duties for several years. This, consequently, is one of many issues triggering the lack of foreign investments in Kosovo.

In **Macedonia**, until September 2017 there was no official data on the precise cost-benefit analysis from foreign direct investments (FDI). Thus, in September 2017, the new government made a full analysis of the costs of attracting foreign invest-

45 Schwab, K, (2017) *Global Competitiveness Report 2016-2017,* World Economic Forum, Geneva, 2017. available on: http://www3.weforum.org/docs/GCR2016-2017/05FullReport/TheGlobalCompetitivenessReport2016-2017_FINAL.pdf.

46 IMF (2013) Republic of Kosovo, IMF country report", available at: https://www.imf.org/external/pubs/ft/scr/2013/cr13223.pdf

ment and came up with official data. Also, the new Government gave a commitment that in the future all further agreements with foreign investors will be transparent and publicly announced, which is a crucial step forward compared to the situation with FDI in the past 11 years. Thus, the previous government for period of 10 years, while prime minister was Nikola Gruevski, spent 225 million euros for foreign investors which in turn employed a total of 20,000 people. This sum was spent on 25 foreign companies, for which the country has lost 69 million euros in tax reliefs and customs exemptions. It was noted that there were no negotiating criteria in the agreements with the foreign companies, and all the documents were classified. For some companies the previous government have spent 1,000 euros, for some 11,000 euros. There were no criteria for dividing the money.[47] What is crucial to say is that the actual results of spending huge amounts to attract foreign investment are very weak. Namely, in the period 2007-2016, FDI accounted for 3.6% of GDP, which is lower than the level achieved during the two previous governments. During the previous government from 2002 to 2006, FDIs were on average 3.7% of GDP, and during the government from 1998 to 2002 they accounted for 6.1% of GDP.[48] All the statistics indicate that this policy to attracting foreign investors that implies spending huge amount of state funds needs to be terminated. Namely, the direct benefit for the Macedonian citizens from these policies is significantly lower than the direct costs. The low-tax policy is not enough to attract foreign investors. Namely, Macedonia still has an unstable political situation, a risk of worsening of the security situation, unresolved bilateral issues and problems with neighbours, a high level of corruption, a failure of the judicial system and a very unstable legislative framework.

Serbia is since 2000 heavily involved into the race to bottom. There is number of different forms of providing preferential status to different forms of companies, from tax free zones to providing subsidies and tax holidays. 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, official statistics show this is not the case. The customs free zones are one of main tools of Serbia to attract foreign direct investment. There are multiple benefits provided in the customs free zones: various forms of exemption from VAT, providing transportation and so called “forwarding” services, relief of individual tax burdens, exemption

47 Costs for foreign investments, For 10 years, 225 million euros were spent on 25 companies which employed 20 thousand people, available at: https://www.mkd.mk/makedonija/politika/za-10-godini-potrosheni-se-225-milioni-evra-za-25-kompanii-koi-vrabotile-20

48 Basic economic indicators for Republic of Macedonia, NBRM, more information available at: http://nbrm.mk/osnovni_ekonomski_pokazateli.nspx

from customs duties and other import duties, 'internal customs clearing ', logistics services made available at preferential prices, 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. According to data for 2014, 262 user-companies operate in "free zone" regime – out of which 164 domestic and 98 foreign ones. A significant part of companies that are operating in these zones are actually domestic companies that have operated also before establishment of the zones, hence zones are not used just to attract new investors. Numerous foreign companies have enjoyed the support of Serbia in relocating their operations to Serbia, from shoe maker Geox to Fiat automotive, but often the extent of support remained a secret to the taxpayers whose money was used for the support.

Slovenian tax system offers a variety of tax reliefs: investment in Research & Development (internal R&D activities, including the purchase of R&D equipment or R&D services); investment in equipment and intangible assets; employment; voluntary supplementary pension insurance; donations; and employment and investing in specific regions. Slovenia is using also the lowering of the corporate income tax rate as one of the tools to attract business. In 2006, the corporate income tax rate amounted to 25% and then gradually declined to reach 17% in 2014 and return to 19% in 2017, being still far below the average rate in the EU. Slovenia has one free customs zone in port of Koper, where subjects operating in the zone are not liable for payment of customs duties, nor are they subject to other trade policy measures until goods are released into free circulation. Slovenia also offers land sites designed for greenfield investments that have direct access to well-developed infrastructure, including highways and rail service. Municipalities and the state often subsidize infrastructure and land costs as incentives to increase employment opportunities. In 2015, 15.794.379 EUR were spent from the state budget on stimulating foreign investments and openness of the economy.[49] The effects of the incentives are to some extent studied, but the studies are not public. However, it would be beneficial to have publicly accessible analysis of the results of tax incentives and reliefs in order to have an open debate on how effective those are. As it is a question of giving or not collecting public money, the effectiveness of reliefs and incentives should be publicly discussed; especially as the empirical results do not corroborate significant effects of tax incentives on the increasing of employment. Besides negligible effects on investment, larger tax distortions and more difficult tax administration, absence of any effect on employment is additional argument for abandoning tax incentives at corporate income taxation.

49 Court of Audit. 2016. Proračun 2015. Accessed 14 December 2016, more information available at: http://www.rs-rs.si/rsrs/rsrs.nsf/V/K5FD0A55CF15B1844C1257FF6002A8F88/$file/Plakat_ProracunRS2015.pdf

As the national analyses show, the countries in the region take an active part in the race to the bottom, hoping to bring investments into their territory that would revive economy and create jobs. Often the data on extent of support is not publicly available. In all cases benefits of incentives are either poorly studied (or not publicly available) or not studied at all. Questioning the effects of the race to the bottom has only recently begun: several voices in the region claim that benefits of race to the bottom are dubious at best. Empirical results do not indicate that tax incentives would have positive effects on the increasing of employment, while the effects on investment are negligible. This suggests that abandoning tax incentives at corporate income taxation could be a good move, making the tax system more just. In any case, regular studying of the effects (cost-benefit analysis) of tax incentives and publishing of those could be a starting step in eliminating the race to the bottom.

We can conclude that the relatively low tax burden in Western Balkan countries is actualized through extremely low CIT rates, simplified CIT systems (whereas at the level of overall tax regulatory framework there is a high level of complexity, when it comes to CIT, the regulatory framework is very simple) and various forms of tax deductions and exemptions. In the end, it is clear that the “tax heaven” policy is not enough for attracting foreign investment.

In relation to this, the fiscal measures by which domestic and foreign companies are allowed to have cheaper reinvestment of profit and its use for investment leads to loss of tax revenues. If another tax policy was in place, these lost revenues would actually go into the state budget presenting a possibility for realizing investments funded by the state. Nevertheless, the policy for attracting FDI with tax reliefs and exemptions actually favours foreign investors. The numerous subsidies and incentives given to foreign investors, despite the constitutional provision that foreign investors have the same treatment as domestic investors, mean that foreign investors are in a far better position.

The key steps would be bringing CIT rates to the level of EU average and make a thorough study of costs and benefits of the measures for stimulating FDI.

VI. Progressive taxation

A progressive tax is a tax where the tax rate increases as income increases. Many countries in the studied region have a flat tax rate system or a system with low or moderate progressivity. Studies show that progressive taxation has positive effects on the distribution of tax burden and equality

In a progressive tax system, the taxpayers are divided into categories based on income levels and the higher the income level, the higher the tax rate. Such system has several benefits:

- Income equality - A progressive tax system acts as a tool for redistributing income from the upper income brackets to the lower and middle ones. Those individuals who earn more pay more into the budget. This keeps the income gap from growing wider between the rich and the poor.
- Social justice - A progressive tax allows governments to collect money from those who can afford to pay, and uses it to finance state services that contribute towards social justice. The taxes are used to fund education, medical services, housing assistance, and other welfare programs for people who need support.
- More revenue - A progressive system allows governments to collect more money from higher income earners. These results in more money collected than if everyone paid the same percentage. As a result, the government can provide more programs and services that benefit society.[50]

Progressive tax modernization can and should raise significant revenue to finance job creation and public investments, shrink deficits, and ease pressure elsewhere in the budget. It can moderate recent and persistent trends toward widening income inequality and hyper-concentration of wealth, helping to restore a society of shared prosperity. In spite of critiques of progressive taxation, such as that it punishes hard work or is unfair, progressive taxation is fiscally responsible, economically sensible, and politically viable.[51]

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50 Fieldhouse, A. (2011). In Favor of Progressive Taxation and a Balance Approach to Budgeting, available at: http://www.huffingtonpost.com/andrew-fieldhouse/in-favor-of-progressive-t_b_981868.html

51 Ibid.

In order to achieve more efficient redistribution of income a country has a variety of measures that can be applied. The primary contribution of taxation to reducing income inequality is through its financing of redistributive spending measures. Nevertheless, taxes can also have a direct effect on redistribution. This is particularly the case for income taxes. Here lies the rationally for proposing progressive personal income tax.

In order to make progressive taxation to serve the objective – decreasing income inequalities, the government must commit to the objective. Namely, the public finance policy must be structured in a way that will foster the efficiency of the transfer function of the budget, according to which what is collected from the rich, through specific measures and programs should be channelled to the ones who need support. The policy measures would be social transfers, increasing the non-taxable minimum, exemption of the poorest people from paying taxes, help programs for single mothers and children with special needs, etc.

The Western Balkans region is far from reaping the full benefits of progressive taxation. The short overview of the situation in the studied countries shows that only Slovenia has a progressive system in place when it comes to personal income tax, while the other countries show a low level of progressivity in personal income tax. The VAT in some countries contains elements of progressivity, but much is left to be done. Corporate income taxes are below EU average and moving towards the EU average would be a welcome direction. The tax system is skewed towards indirect and thus regressive taxation.

In **Bosnia and Herzegovina**, the VAT model is regressive and there is no higher rate of VAT on luxury goods. The overall effective personal income tax rate is around 5%, as opposed to the statutory rate of 10%. This means that the effective tax revenue could have been doubled if there had been no policy exemptions. There is moderate progressivity due to the 0% bracket that is formed through significant tax allowances. Taxpayers are on average exempt completely in first two decile income groups and partially in third decile group. The Gini coefficient of inequality is slightly reduced after taxation (by 2.21%). No data on the likely fiscal impact of the reforms towards progressive taxation has been made public, but the authorities claim that only net salaries above 1500 KM a month will end up paying more tax. The expansion of the tax base means that the effective tax burden on the overwhelming majority of tax payers will not be reduced. The tax system is still overwhelmingly one based on indirect taxation which disproportionately affects the least well off, while corporate income tax is not progressive.

In **Bulgaria**, as in most countries in Central and Eastern Europe, advice of the IMF was followed in the beginning of 21st century and the flat rate taxation was introduced. The result was a drastic increase of inequality between different social classes. There is no non-taxable minimum for the lowest income groups, neither there is a differentiated base for VAT for socially valuable products, such as basic food, textbooks for kids and medicaments. A study from 2016 showed that 32.8% of the Bulgarians support the progressive taxation, while 22.8% defend the existing system.[52] Hence the introduction of progressive taxation has an element of political viability, but further societal debate would be needed.

Personal Income Tax in **Kosovo**, moreover, remains progressive, respective to income levels. Yearly income lower than 960 euros are exempted from the given tax; starting from 960 euros and up to 3,000 euros the tax is 4%; from 3,000 euros to 5,400, an 8% tax is imposed; and yearly income over 5,400 euros are subject to a 10% personal income tax, which is the highest applicable rate. This rate is comparable with those of Bosnia and Herzegovina and Macedonia (10%), and Montenegro (9%). It is significantly lower than Serbia (15%) and Albania (23%).[53]

In **Montenegro**, the Ministry of Finance prepared an analysis of effects of progressive taxation of personal income, corporate profit and immovable property in 2013. It concluded that the introduction of progressive taxation of personal income would, in some options, cause slight increase of budgetary revenues, yet surprisingly recommended continuation of existing taxation, with tax rates of 9% for salaries up to 720 EUR and 15% for salaries over 720 EUR. Ministry of Finance concluded that a change in the system of corporate taxation would not significantly affect the budget revenues, but would also have a negative impact on foreign investment goods, as well as competitiveness, security and predictability of tax policy as a fundamental commitment of the tax system of Montenegro.[54] Chamber of Economy of Montenegro also concluded that the introduction of progressive taxation in the Montenegrin tax system would have very limited fiscal effects, while long-term and indirect effects would be negative for both individuals and business entities.[55]

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52 Sabev, D. (2016) 15% of the Bulgarians boycott companies avoiding taxes. available at: https://taxdog.wordpress.com/2016/09/16/tax-research/

53 Tax Administration of Kosovo "Strategic Plan of TAK 2015-2020", available at: http://www.atk-ks.org/wp-content/uploads/2016/01/Plani-Strategjik-2015-2020Eng.pdf

54 Ministry of Finance (2013) Analysis of Effects of Progressive Taxation of Personal Income, Corporate Profit and Immovable Property, Podgorica, p. 50.

55 Bankar.me (2013) Progressive taxation, higher unemployment, Bankar.me, Podgorica, available on: http://www.bankar.me/2013/10/23/progresivno-oporezivanje-veca-nezaposlenost/

Macedonia has a flat personal income tax system and from 01.01.2008 the tax rate is 10%. Before 2008, when the huge tax system reform was implemented, Macedonia had a progressive personal income tax system. This progressive tax system was afterwards abolished by, at that time new Government, with the explanation that this progressive tax system is too complex for both the public and private sector. This was one of the main reasons, provided by that time Government, for abolishing the progressive tax system in Macedonia. The other more important reason, provided by the Government at the time, for introducing flat rate tax system was to attract foreign investors and to put Macedonia into more competitive position. The recent data from the Ministry of Finance points to how unjust the tax system in Macedonia is. Namely, the chart shows that the richest 1% in Macedonia has the lowest tax burden.[56] These are data indicating that the taxes do not play their distributive role in the public finance system in Macedonia.

Serbian income taxation shows some progressiveness. Since February 2018 15000 RSD is limit of non-taxable salary, while all the incomes above 15000 RSD are being taxed at rate of 10%.[57] Effective burden on salary is 64,3% of net salary, 46,2% of bruto salary and 39,2% of overall cost of labour.[58] By introduction of progressive taxation Serbia could reduce burden on lower salaries while it would not jeopardize fiscal position on macro level.[59] Explanation for low level of progressivity of taxation is lack of morale of employers that are officially reporting much lower salaries than those really paid, thus the regulators actually wanted to prevent tax evasion on the level of lowest salaries.

In the field of personal taxes and property taxes **Slovenia** is already familiar with progressive taxation, with the lowest income bracket (up to 8.021,34 EUR) being taxed with 16% rate, while the highest income bracket (over 70.907,20 EUR) is taxed with a 50% rate.[60] Income from capital investments or renting of real-estate is taxed with a flat tax rate of 25%. This is one field where change could be introduced. The current statuary corporate income tax rate is 19%, while the effective tax rate is even lower due to the incentives.[61]

56 Ministry of finance: Macedonia with high rate of income inequality, available at: http://www.akademik.mk/ministerstvo-za-finasii-makedonija-so-visoka-stapka-na-dohodovna-neednakvost/

57 Adjusted new non-taxable amounts as of 1 February 2018, more info available at: https://knjigovodstvosatus.rs/uskladeni-neoporezivi-iznosi/

58 Nacionalna alijansa za lokalni ekonomski razvoj (NALED) Operating tax system and ways of possible reformes, available at: http://uzmiracun.rs/images/publikacije/NALED_Sistem%20oporezivanja%20rada%20i%20moguci%20pravci%20njegove%20reforme.pdf, p 6-9

59 Ibid. page 17

60 Official Gazette. 2015. Uradni list RS, št. 104/2015 z dne 28. 12. 2015. accessed 14 December 2016, available at: https://www.uradni-list.si/glasilo-uradni-list-rs/vsebina/2015-01-4133/pravilnik-o-dolocitvi-olajsav-in-lestvice-za-odmero-dohodnine-za-leto-2016

61 Ministry of Finance (2017) Adopted regulations. accessed 16 February 2017, available at: http://www.mf.gov.si/si/delovna_podrocja/davki_in_carine/sprejeti_predpisi/

Nevertheless, in the recent years several of the transition countries are starting to replace the flat rate system with the progressive tax system. Thus, in 2013 two EU countries - Slovakia and the Czech Republic – despite the only one personal income tax rate they introduce a second (additional) personal income tax. Czech Republic has introduced an additional 7% solidarity tax on the part of the income which four times exceeds the average annual salary. This was introduced as a temporary measure and it is calculated above the rate of 15% so the total is 22%. In Albania in 2014 the personal income tax rate is 10% is replaced with three rates: 10%, 13% and 23%.[62] The authors of the report state that the main reason for the introducing progressive tax system in the mentioned countries is the decision of the leftist governments of correcting the growing inequality.

Regarding progressive taxation two important factors need to be considered. Firstly, when governments tax the rich more heavily and redistribute income to the poor, the poor benefit through public spending by government. Secondly, when the poor are taxed less as compared to the rich, they are able to save or invest in order to improve their livelihood. Therefore, in either way the poor benefits when taxation is used to promote equity.

Finally, social protection and tax policy are usually considered separately, yet they are strongly linked. If poverty and the reduction of inequality are central problems with a priority of the fiscal policy then careful consideration of taxes and transfers is needed and finding the best ways in which they can jointly deliver the best results. Hence, tax policy reforms need to go hand in hand with social policy reforms.

62 Gacov, P, Gockov, G, Petrevski G, Popovski G, Tevdovski, D; Uzunov, V and Filipovski V.(2016) Reforms for tax justice

VII. Expanding the social services

Due to austerity measures and budgetary cuts social services are being reduced, be it in diversity of offered social services or in narrowing the access to them. If by stopping tax dodging or tax competition we could capture all the taxes and channel them to the state budgets more efficiently, more services could be provided to the people by the state. The problem of tax evasion is directly related to the quality of public services given the contributory nature of the social security, health and pension systems.

Looking at the satisfaction with the social services, it is visible that the Western Balkan populations are less satisfied with the level of social services than the EU average: only 32% estimate public services to be good in the Western Balkans, whereas the matching number for EU average is 51%; also 61% estimate the public services to be bad in the Western Balkans, as opposed to the 44% at the EU average level. From all the covered countries, only Slovenia is closer to the EU average when it comes to satisfaction with public services.

Table 1: Opinion on current situation in the provision of public services in EU and Western Balkan countries

	EU28	Western Balkans	Bulgaria	Macedonia	Montenegro	Serbia	Slovenia
Very good	7%	4%	3%	3%	4%	2%	4%
Rather good	44%	28%	24%	31%	29%	22%	48%
Rather bad	33%	42%	39%	31%	41%	47%	37%
Very bad	11%	19%	22%	29%	23%	19%	8%
Don't know	5%	7%	12%	6%	3%	10%	3%
Total 'Good'	51%	32%	27%	34%	33%	24%	52%
Total 'Bad'	44%	61%	61%	60%	64%	66%	45%

Source: EU Open Data Portal[63]

63 More information available at: https://data.europa.eu/euodp/data/dataset/S2142_87_3_STD87_ENG/resource/cdc8a821-c78d-477a-9aa2-f6af354277db

In spite the fact that tax dodging estimates are largely missing, the existing analyses show that all the countries in the region still have a good potential for collecting more tax revenues. From streamlining the shadow economy and eliminating inefficient tax incentives to introducing progressive income taxation and bringing the corporate tax levels to the level of EU average, the Western Balkan region still has ample tools to increase tax revenues.

This would provide a basis for improving the state services. All the researched countries face problems in servicing basic social needs, including pensions and health, often not only due to insufficient amount of collected taxes, but also due to competing priorities, such as paying off debts. Often countries are opening possibilities for commercialization of sectors that provide social services, which leads to even less trust in tax system. Citizens who cannot see that paying taxes provides high quality, affordable and functional public services, are not stimulated to pay taxes.

Although extra public revenues would not necessarily translate into better public services (because of the current state of affairs the public revenues could simply be extracted by the political class), it is a must that Western Balkan countries start thinking how to attract more tax revenues to be able to support quality public services. Such services depend on tax justice, but tax justice must also be linked to a new model of public investment and spending. Tax policy reforms need to go hand in hand with social policy reforms.

At the end, in order to introduce any tax policy reforms, it is necessary to initially implement reforms in many other areas, to build a culture of paying taxes. This is only possible by strengthening the trust of the citizen in the public institutions, and only through responsible spending of their money.

VIII. Recommendations for reforms for fair taxation

The analysis of the 7 Western Balkans countries has discovered that in spite of the many differences in tax policies, the countries do share some basic similarities. The first similarity is that the tax burden is divided unequally among private persons and legal entities, the former carrying relatively the larger share of the tax burden than the later. Namely, the low and flat taxes do not stimulate fair redistribution and tax exemptions for companies and rich individuals means just shifting the tax burden to the less well-off parts of the society. Putting the same tax rates on lower and higher earners has encouraged income inequality. The companies and rich people are able to use the loopholes in the tax laws and in that way to pay less taxes, which means that the ordinary citizen in the end pay relatively more into the system.

In all of the countries VAT has the highest share in tax revenues. This is not a favourable situation because the VAT as an indirect tax is the most regressive one and it burdens the less well-off people most. This is especially true because none of the countries does not implement exemptions from VAT for basic products, that are mostly consumed by the most vulnerable parts of society (some do have reduced VAT rates).

Another similarity for all countries is that companies participate in tax dodging. Coupled with the race to the bottom, in which also many of the countries in the region take part, the tax revenues that could be obtained from businesses are seriously impeded. In order to stop this and to make companies pay more there should be rules on the global and EU level as only in this way we can stop the companies to shift the profits to more favourable tax regimes. An opportunity exists with the European Commission's proposals for a Common Consolidated Corporate Tax Base.[64]

Although the previous sections have looked into details of proposed measures for a fairer tax system, this section wishes to look beyond the specific proposals and outline some framework recommendations in order to facilitate a transition to a just tax system.

64 ZaZemiata, Glopolis, Demnet, Lapas, IGO & Ekvilib Institute (2017) "Runway Taxes: Who pays taxes in Central and Eastern Europe?", Prague, available at: http://eurodad.org/files/pdf/58d39b90e6546.pdf

For local and national governments[65]

Governments of the analysed countries, but also the EU institutions (as some of the countries already are EU member states, while all the others aspire to become ones) must promote progressive tax systems to address the rising inequality both at national and global level. They must close the windows of opportunity for tax dodging and stop the race to the bottom on corporate taxation, which contributes to ever lower corporate tax rates and ever more harmful tax practices that facilitate corporate tax avoidance.

The Western Balkans countries must take the challenge and conduct thorough reforms of their tax systems. The reforms should mainly be directed to reduce income inequalities, make tax systems more just and fairer, increase tax revenues and expand and improve the social services through increasing tax revenues. Working on both sides, the revenues and expenditures, is of crucial importance, as the currently exhausted social service sectors urgently need new public resources to get back to life.

There are several key steps that the governments should take to work towards the described broad objectives and they are outlined below.

Stop the "race to the bottom" with ever diminishing corporate income tax rates and ever-increasing tax incentives, tax subsidies and tax exemptions. Corporate income tax should be increased towards the Eurozone average. A thorough analysis of the costs and benefits of tax exemptions, incentives and subsidies to corporations needs to be done and published in all countries. Such assessment should be done and published annually. Based on the assessment, a plan needs to be elaborated on how to abandon the incentives that bring more costs to the public budgets than benefits to the economy. The assessment should have a special emphasis not only on the number of jobs created, but also on the quality of those jobs and the protection of workers.

Stop tax dodging at national and international level. At national level countries must adopt all possible measures to stop tax dodging. More details on steps to take are listed below, as they are valid also for the international efforts to stop tax dodging.

65 Recommendations are partially based on Eurdoad's Tax Games The race to the bottom http://eurodad.org/files/pdf/1546849-tax-games-the-race-to-the-bottom-1512547011.pdf

The prevailing existing model of flat tax rates should be abandoned and model of a fairer **progressive taxation should be introduced** where it does not exist yet. This applies particularly to the personal income tax and VAT. In most of the countries personal income tax needs to be made more progressive, especially with the introduction of a top tax brackets (of 40% or more). Also, a progressive VAT structure should be implemented with higher rates (of 25% or more) on luxury goods and a minimum rate (of 5% or less) for basic products and services. Also, increasing tax rates and making them progressive for real estate is a must in all of the countries.

Companies that engage in tax dodging should not be allowed to take part in publicly financed activities, be it taking part in public procurement processes, in public infrastructure project or in public-private partnerships. National and EU regulations should be amended to ensure that companies, involved in tax dodging, cannot benefit from activities, financed with public money.

Redirecting taxes from labour to resource use is a must for stimulating more efficient resource use. Most of the countries in the region should assess the potentials for a so-called green tax reform and as far as beneficial start redirecting tax burden from labour to resource use, mainly energy use.

Strengthening capacity of the tax administrations (technical, administrative and institutional) in each of the countries is necessary in order to improve the collection of revenues.

The tax authorities must begin **comprehensive monitoring of the informal economy** and introduce Eurostat/OECD methodology for non-observed economy adjustments to GDP. Regular tax gap assessments should be undertaken and cross-checked with statistical assessments of the size of the informal economy. Policies need to be regularly reviewed according to findings.

Improving parliamentary oversight capacities in properly evaluating budget planning and execution, including the evaluation of fiscal risks, is a crucial step, along with taking further steps towards establishing an independent fiscal body.

Considering commitments of all governments of the 7 analysed countries to infrastructure projects and impromptu increases on wages, pensions, etc., especially within pre-election period, all countries fiscal policy is associated with ad hoc decision making with significant budget impact. What is crucial is that the fiscal frameworks should primarily aim to **discourage and limit ad hoc tax changes**.

Tax regulations and reporting and remitting **procedures should be simplified** for employers, especially by introducing an e-payments system in line with EU regulations and practice.

An important factor for increasing tax revenues is also **improved tax discipline** in the countries. Improving tax discipline requires increasing tax morality, i.e. raising awareness of the people about the benefits of paying taxes to the state.

As improving tax discipline is closely linked to **providing high quality public services** funded by the taxes, improving of the public services is a must step for all the countries. Rather than limiting the access to public services or their commercialization, the countries must turn to increasing tax revenues through stopping tax dodging and race to the bottom in order to be able to support quality public service.

Another crucial step on the expenditure side is **reconsidering the system of subsidies**. As already mentioned, the corporate subsidies of dubious benefit should be abandoned. The same path should be taken for harmful subsidies, such as subsidies for polluting industries. Instead, more public funds should be directed into sustainable technologies and green jobs. Transparent, inclusive, carbon neutral and resource efficient technologies and jobs should be established as the only reasonable way of spending tax money.

The previously listed recommendations are mainly important for the national level. However, the global game in tax dodging can only be tackled at an international level. Better cooperation between the countries is necessary to fight tax dodging. Governments and EU Institutions must allow the public to access the key corporate information necessary to ensure accountability and tax justice. They must also ensure full and effective exchange of information between all the governments. Furthermore, they must support all international decision-making on tax matters being fair and transparent, including the participation of all countries on a truly equal footing, and an intergovernmental decision-making process that allows full access for observers.

The Western Balkan countries should contribute to the international levels through advocating for ambitious and effective solutions as described in the recommendations below.

The governments of the region should work towards establishing fully **publicly accessible registries of the beneficial owners** of companies, trusts and similar legal structures. Governments must ensure that the problems related to secret owner-

ship, as exposed in the Panama Papers, are finally resolved. The governments must make sure to go beyond the minimum requirements of the directive by introducing full public access.

Adopting a full **country by country reporting** for all large multinational corporations is another crucial step. The governments need to ensure that this information is publicly available in an open data format that is machine readable and centralized in a public registry. This reporting should be at least as comprehensive as suggested in the OECD BEPS reporting template, but cover all corporations that meet the EU definition of 'large undertaking'. This reporting should include:

- A global overview of the corporation (or group): The name of each country where it operates and the names of all its subsidiary companies trading in each country of operation.
- The financial performance of the group in every country where it operates, making the distinction between sales within the group and to other companies, including profits, sales, purchases and labour costs.
- The assets i.e. all the property the company owns in that country, its value and cost to maintain.
- The number of employees in each country where it operates.
- Tax information i.e. full details of the amounts owed and actually paid for each specific tax.

The governments should also support a proposal on a **Common Consolidated Corporate Tax Base** (CCCTB) at the EU level that includes the consolidation and apportionment of profits, and avoid introducing new mechanisms that can be abused by multinational corporations to dodge taxes, including large-scale tax deductions.

The spread of existing patent boxes and similar **harmful structures should be stopped** and all such structures removed. Data showing the flow of investments through special purpose entities should be published.

Basic elements of all **advance tax agreements** granted to multinational corporations (including, at a minimum, the name of the corporation to which it is issued, duration of the agreement and the topics covered) should be published.

Tax advisors must be **legally liable for promoting and advising on practices that violate the law**.

It is also important to **adopt effective whistle-blower protection** to protect those who act in the public interest, including those who disclose legal tax avoidance or tax evasion. The protection must include both private and public sector employees.

If **negotiating or renegotiating tax treaties** with developing countries, governments should:

- Conduct and publish a comprehensive impact assessment to analyse the impact on the developing country and ensure that negative impacts are avoided;
- Fully respect source country rights to tax the profits generated by business activities in their countries, and stop reducing withholding tax rates;
- Ensure full transparency around every step of treaty negotiation as well as effective participation by civil society and parliamentarians.

The governments should support the establishment of an **intergovernmental tax body** under the auspices of the UN, with the aim of ensuring that developing countries can participate equally in the global reform of international tax rules. This forum should become the main forum for international cooperation in tax matters and related transparency issues. The tax body should be adequately funded and allow full access to observers, including civil society and parliamentarians. One of the key priorities of the commission should be to negotiate and adopt an international convention on tax cooperation and related transparency.

The governments should also work to **replace or fundamentally reform the EU Code of Conduct Group on Business Taxation** to ensure that EU decision-making on international tax matters becomes fully transparent to the public, and that decision-makers become accountable to their citizens.

Introducing effective **measures against tax evaders** from the corporate sector is a must. Tax authority enforcement capacities should be strengthened through more efficient and transparent inspections and rigorous penalties. Independent monitoring mechanisms need to be developed to oversee the work of tax authorities.

Finally, in order to promote fiscal transparency and sustainability, governments must systematically introduce mechanisms enabling the CSO sector to participate in the monitoring of public finance, from the performance of budget execution to reviews of budget and tax policy. At present such mechanisms are weak and far from transparent. Governments that at present provide mechanisms for CSO oversight must be obliged to demonstrate that CSO feedback has been considered and provide justifications concerning whether or not it has been considered in the framing and execution of policy. More generally this recommendation is based on the premise that greater participation in affairs that directly concern is in itself a public good that will provide reasons for tax compliance in tandem with growing fiscal fairness and efficiency and with improvements in the quality of public services.

For the CSOs sector

A more thorough debate is needed for analysing and questioning the current tax models and it is one of the challenges for the CSOs to tackle. The public debate is often concentrated on more visible taxation, such as consumer and labour tax, however corporate tax debates are not in the public domain, due to lack of information and focus on corporate tax avoidance in the public domain. This is why CSOs should especially focus on opening corporate taxation questions in public spheres.

The CSOs sector must be more active and proactive in claiming a change of the unjust tax systems of the analysed countries. The CSOs should be more proactive in demanding more transparency, especially through public access to collected data and reports from companies.

CSOs should continue to provide proposed alternatives for better tax systems.

Finally, it is one of the important roles of the CSOs to work towards citizens being more informed about the tax system, both on the revenue and the spending side.

This is the prerequisite for citizens to fight for a just tax system and their rights.

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