

Anicic, Jugoslav; Laketa, Marko; Radovic, Branka; Radovic, Dragan; Laketa, Luka

Article

Tax policy of Serbia in the function of developing the economic system

UTMS Journal of Economics

Provided in Cooperation with:

University of Tourism and Management, Skopje

Suggested Citation: Anicic, Jugoslav; Laketa, Marko; Radovic, Branka; Radovic, Dragan; Laketa, Luka (2012) : Tax policy of Serbia in the function of developing the economic system, UTMS Journal of Economics, ISSN 1857-6982, University of Tourism and Management, Skopje, Vol. 3, Iss. 1, pp. 33-43

This Version is available at:

<https://hdl.handle.net/10419/105338>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.

TAX POLICY OF SERBIA IN THE FUNCTION OF DEVELOPING THE ECONOMIC SYSTEM*

Jugoslav Anicic¹
Marko Laketa
Branka Radovic
Dragan Radovic
Luka Laketa

Abstract:

Global mobility of capital and labour impose the issue of optimal tax structure of all countries. In some countries, direct taxes on income and profits are still dominant, while in other the main source of tax incomes are indirect taxes, primarily value added tax (VAT). Tax system of Serbia is specific for its big burdens for work, and smaller burden of profits and property in relation to EU countries. For long-term sustainable economic growth, among other things, more efficient tax system is required. Tax policy should contribute to elimination of essential macroeconomic imbalances of Serbian economy – high unemployment rate and high foreign trade deficit, without endangering international competitiveness of a company and favourable economic environment.

Keywords: tax system, tax policy, economic system, competitiveness.

JEL classification: H20; R58

INTRODUCTION

Tax system in all countries is a subject of constant theoretical and political examinations, and therefore in majority of countries occasionally comes to significant changes in tax system. In some periods, income taxes are increased in relation to taxes on consumption, and in other periods the opposite policy was carried out. Main initiator of reforms of tax systems in the world, over the last decades, were the changes in economy and changes of relative evaluation of efficiency and fairness. In addition, redesign of tax system is also influenced by numerous other factors such as

* This paper is a part of research on project no. 47007 „Geography of Serbia-National economy” which is funded by Ministry of Science and Technological Development of the Republic of Serbia.

¹ **Jugoslav Anicic**, Ph.D., Assistant Professor; **Marko Laketa**, Ph.D., Assistant Professor, Union University–Nikola Tesla, Faculty of entrepreneurial business, Belgrade; **Branka Radovic**, MSc. *National Employment Service, Belgrade*; **Dragan Radovic**, Ph.D., Assistant Professor, *Alfa University of Belgrade, Faculty of Management, Novi Sad*; **Luka Laketa**, *Vocational high schools for propaganda and public relations-Elit College, Belgrade, Serbia.*

strengthening the international economic integrations, increase of fiscal decentralization, growth of the tax administration capacity etc. the most important change that influenced the changes of tax systems over previous decades is globalization of world economy. With the growth of international trade and capital mobility, high taxes on incomes from work and capital reduce the competitiveness of economy, so for that reason relative significance of these taxes in relation to taxes on consumption is reduced in the previous decades. Value attitudes influence the shaping of tax system through movement of ponders between the principle of efficiency and fairness, over the time. While horizontal and vertical fairness represented key criterion for shaping the tax system during the 1960's and 1970's of the 20th century, in the last two decades greater significance is given to the impact of tax on economic efficiency.

Tax system in Serbia was significantly changed over the last decade, primarily in the sense of harmonization with tax system of European Union, but intensity of changes is rather different in case particular tax forms. The most significant progress is achieved in cases of taxes on consumption, less in case of income tax and the least in case of property tax. Further changes of tax system should support new strategy of growth whose carrier will be the sectors of exchangeable goods and export-oriented companies. Reduction of fiscal burden of work would contribute to the increase of costs competitiveness of economy in international market, and increase of taxes on consumption would make the import more expensive than export. Reduction of fiscal burden of work would have a favourable impact on demand for labour which would contribute to the increase of employment and investments, as well as reduction of grey economy.

In that sense, the purpose of this paper is to point to the possible improvement of legal solutions of particular tax forms (income tax, VAT, tax on labour and property) which would bring positive economic effects, both at the level of enterprise and economy as a whole. The goal of the paper is to point out that it is possible to significantly contribute to the accomplishment of long-term sustainable growth model by tax policy through the increase of exports and investments, reduction of unemployment rate, reduction of public consumption etc. the effects mentioned can be achieved by adequate tax policy without deterioration of economic environment and international competitiveness of a country.

ROLE OF TAXES IN ECONOMIC POLICY

Taxes represent the most significant form of public incomes in contemporary countries. They are an instrument of public incomes by which the state, including lower political-territorial communities, takes the money from subjects under its tax jurisdiction, without a direct contra-service, in order to cover its financial needs and accomplish the other, primarily economic and social goals (Popovic 1997).

Tax systems of contemporary countries are mutually different not only in relation to constituent elements, but also in the aspect of the share of individual tax forms in the structure of public incomes of fiscal character. Differences mentioned occur due to different factors of which the most important are economic level of development, socio-economic regulation (from the aspect of the development level of market economy), flexibility of individual tax forms, level of the openness of economy, labour structure etc.

Tax policy is a part of social and economic policy. It includes harmonized activity of state institutions through the collection of public income on division, exchange, consumption and production in certain national space and time and in accordance with socially acceptable goals and tasks. Measures of tax policy rely on tax system which implies all types of taxes, contributions and other payments that together make public incomes, on one hand, and all types of public expenditures and relevant regulations, on the other hand (Kulic 2004).

Measures of tax policy can generally produce two types of effects: microeconomic and macroeconomic. It is about microeconomic effects when tax policy measures lead to changes of economic and other procedures of legal and physical entities. If measures of tax policy affect the impairment and re-establishment of balance in the market at the level, structure and growth of social product and national wealth, then we are talking about macroeconomic effects of taxation (Raicevic 2003).

Measures of tax policy are applied parallelly with other measures, particularly the measures of monetary-credit policy, along with which they make a specific set of measures of country's economic policy. Measures of tax and monetary policy are mutually complementary by their effect and character, but in practice their mutual harmonization is not at all easy or simple.

Wide range of impacts of tax policy instruments contributes to the fact that three important functions, i.e. goals are implemented by their application and those goals are (Vukadin 1991):

- a) Stabilization,
- b) Allocation and
- c) Redistributive.

Stabilization function of tax policy consists of its effect on achievement and preservation of full employment, i.e. reduction of unemployment, then stable price level and balanced country's balance of payments.

Allocation function of tax policy is reflected in allocation and use of production factors. Simulation of investment activity the state can achieve by lowering tax rates on the profit of enterprises from particular branches, thus leaving its greatest part for investments in extended reproduction. In order to stimulate economic development, it is necessary to encourage accumulation as primary economic category by measures of tax policy, then encourage the investments by economic branches, areas and regions. In order to accomplish these goals and tasks of tax policy, different tax exemptions and tax reliefs are introduced, where those measures need to be coordinated to other measures of economic policy.

Redistributive function of tax policy is achieved by the effect of tax policy instruments by which we achieve the correction of relations from primary distribution. With redistributive function we also accomplish social function, which in contemporary economies has a significant place. By this function, redistribution of national income between different social layers is performed. If tax policy is based on social principles, then its actions are aimed at two directions: to include the income of wealthy citizens by severe progressive rates and to help poor social layers by tax reliefs.

Realization of stabilization, allocation and redistributive function of tax policy stresses that the field of its activity is wide and that it spreads from the sphere of general needs, through the distribution of income and property to effects of stabilization and structural adaptations of economic sector.

Tax is a complex category because it contains economic, financial, social, political and other elements. For that reason, appropriate principles of taxation are set before tax system in relation to collection of financial resources for funding public expenditures. Contemporary tax systems are based on following tax principles:

1. Financial-political tax principles;
2. Economic tax principles;
3. Socio-political principles.

Financial-administrative tax principles that include the principle of tax legality, principle of administrative costs minimalization and principle of tax payment costs minimalization (Kulic 2004).

Tax principles need to reflect and respect objectively given socio-economic, political, social, economic-systemic, material and institutional conditions that define character, place and role of taxes. However, tax principles should not only maintain the practice, but they should also provide a basis for theoretical improvement of practice (Raicevic 2003).

On the other hand, tax system needs to be set in such a way that it maximally prevents evasion of taxes. Causes of evasion are multiple: economic and political situation in a country, ambiguities in legislation, inefficiency of tax administration, high tax burdens, instability of tax rates, state of tax morale etc. consequences of evasion are both unfavourable fiscal effects, as well as repercussions in economic-political and socio-political plan. By their significance, they can be rather serious for national economy, and spreading of this phenomenon initiates the issues of economic justice and equality, economic policy and economic efficiency. Due to tax evasion from the part of individual participants in economic life, tax burden is on legal activities, which is often too high amount for them.

Grey economy has ultimate harmful effect by its achievements, among other things also by the fact that by its functioning out or on the periphery of valid economic system it influences the unreality of overall measures and instruments and it distorts the concepts of economic policy. Of course that period of transition is ideal for its full swing, which we can observe both in Serbia and in direct environment.

TAX POLICY IN TRANSITION PERIOD

There are convincing theoretical explanations and relatively strong empirical confirmations on the impact of tax system on decisions of individuals on savings, consumption, investments, labour supply and demand etc. Besides, in open economy tax system is one of the factors of international competitiveness of economy in goods and capital market. By different tax treatment of different products and activities, tax system also influences the change of relative prices, and thus also the allocation of resources. Tax system also affects the redistribution of incomes. From macroeconomic aspect, tax system affects macroeconomic demand, and it is used as one of the instruments of anti-cyclic policy.

From the standpoint of new strategy of economy's growth, the impact of tax system on investments and employment is relevant, which is achieved through the impact on the price of labour and capital. In addition, tax system affects the economy through the application of tax regulations as well.

Table 1. Chosen macroeconomic indicators in the period 2006–2010

	2006	2007	2008	2009	2010
GDP, (in mil. of EUR)	23.305	28.468	32.668	28.883	28.984
GDP, real growth in %	3,6	5,4	3,8	-3,5	1,0
Export of goods (in mil. of EUR)	6.949	8.686	10.157	8.478	10.070
Import of goods (in mil. of EUR)	11.971	16.016	18.843	13.577	14.838
Budgetary deficit/surplus, %GDP	-1,9	-1,7	-1,7	-3,3	-3,6
Unemployment rate – Survey on RS	20,9	18,1	13,6	16,1	19,2

Indicators of Table 1 (National Bank of Serbia, Sector for monetary analysis and statistics, MFIN, RBS, 2012) point to key macroeconomic issues of Serbian economy and those are high foreign trade deficit, high unemployment rate, growth of budgetary deficit in the period observed as well as drop/stagnation of GDP since 2009. To what extent has the tax policy of the period of transition affected these indicators and which changes of particular taxes should be carried out (along with other measures of economic policy) in order to overcome the existing macroeconomic imbalances?

In Serbia, we apply standard taxation model for enterprise's profit based on difference of total incomes and expenditures of enterprise in income statement that is corrected by tax balance. In transition period, rate of income tax is reduced (from 20% to 14% in 2003, 12,33% in 2004 and 10% in 2005) with simultaneous spreading of the number of tax exemptions. The aim of these changes was to attract foreign direct investments through aggressive tax competition. On the other hand, in developed countries in the last three decades there was also a significant reduction of tax rates. In that way, average rate of income tax in OECD countries is lowered from 47 %, which was the amount in 1981, to 40% in 1994, i.e. to 27,6% in 2007. Besides such reduction of tax rates in OECD countries, there wasn't any reduction of the share of tax incomes in total GDP. This is explained by the fact that lowering of legal tax rates is followed by narrowing a set of tax incomes and growth of total mass of enterprise's profit, i.e. by extending tax basis (Randjelovic 2010).

Table 2. Budgetary receipts in Serbia for the period 2008–2010

	(in 000. 000 din)		
Budgetary receipts	2008	2009	2010
1. Tax incomes	621.751,1	624.235,2	661.964,6
Tax on citizen's income	74.695,4	71.307,9	75.175,3
Tax on enterprise's income	34.968,1	29.494,8	29.891,9
Value added tax	301.619,8	296.861,6	319.268,2
Excises	100.626,7	119.820,1	135.589,4
Customs	64.784,3	48.039,8	44.285,5
Other tax incomes	5.935,4	8.955,8	12.199,6
2. Non-tax income	39.121,4	44.954,5	40.250,8
3. Donations	0,0	4.800,7	5.303,9

Average share of the profit from tax incomes in GDP of Serbia is 2,5 to 3 times lower than in EU countries (Randjelovic 2010). In the same way, according to the data in Table 2 (National Bank of Serbia, Sector for monetary analysis and statistics, 2011), we can see exceptionally low share of income tax in total receipts of the budget in the period 2008–2010. Causes for such a low balance significance of income tax in Serbia are triple: extremely low legal rate of income tax for the enterprise of 10%, rather

widely defined and expressed system of tax incentives that makes the effective rate significantly lower than legal and relatively lower ratio of economy's profit and GDP in Serbia in relation to the economies of EU countries.

Value added tax (VAT) is introduced in tax system of Serbia in 2005 and its share in total tax incomes in 2011 was 51,89% — Table 3 (Law on Amendments to the Law on Budget of the Republic of Serbia for 2011). Serbian VAT system follows European practice and directives of European Union — which define the appearance of VAT obligation based on invoiced rather than charged sales. VAT systems based on invoiced turnover successfully function for many years in European countries, whose economies suffer from the problem of „chronic illiquidity”. It means, real problem that needs to be solved is illiquidity of Serbian economy, rather than organization of the very VAT system. Main generators of illiquidity of Serbian economy are monopolistic structures in retail, cartel position of banking system, insufficient protection of creditors and big debts of a country towards economic subjects.

Table 3. Share of particular types of taxes in total tax incomes for 2011

	(in 000 din)	
	Total	Share in %
Tax incomes	657.845.000	100
1. Tax on citizens' income	71.100.000	10,80
2. Tax on enterprise's income	35.100.000	5,33
3. Value added tax	341.355.000	51,89
4. Excises	161.625.000	24,57
5. Customs	39.765.000	6,04
6. Other tax incomes	8.900.000	1,37

General rate of VAT in Serbia is 18% and it is among the lowest in Europe. Increase of this rate to 20% would have a positive impact on foreign trade balance because VAT is paid on imported and not on exported goods. This would stimulate necessary reindustrialization and production of so-called exchangeable goods, i.e. those that can be exported. On the other hand, this increase of VAT could be compensated by the reduction of fiscal burden of labour, which would contribute to the increase of (price) competitiveness of products from Serbia in global market, as well as the increase of its attractiveness for foreign investments. The highest tax relief would be felt in work-intensive activities (textile industry, leather and footwear industry etc.), which would significantly reduce the acute problem of Serbian economy – high unemployment.

Accelerated globalization in the end of 20th century, international mobility of capital and labour mobility within European Union have pointed out to economic weaknesses of high taxation of labour and capital. From the standpoint of competitiveness and productivity, in conditions of global economy – taxation of consumption is more desirable than taxation of labour and capital. Hence, in the last twenty years we can notice the trend of reducing the taxes on capital and labour in developed countries. This trend is particularly expressed in Western Europe, due to smaller tax burden among new Union members in Eastern Europe (Altiparmakov 2010).

Another important segment that affects fiscal burden of labour in Union members is a manner of funding a system of health protection. Particular members of Union finance public health protection through general tax incomes (Beveridge model), while

particular countries rely on contributions for health insurance (Bismark model). Contributions for health insurance represent a significant fiscal burden of labour, which in conditions of labour mobility affect the competitiveness of member countries. In Serbia, we apply Bismark model of funding the health service. Tax on earnings of 12% and contributions (health, pension and disability insurance and unemployment insurance) represent significant burden for enterprises in Serbia because on 100 dinars of average net earning, 65 dinars of taxes and contributions are paid. By reduction of these receipts from earnings, there would be sufficient space left for increase of the investments required and partially for the increase of earnings (and standards) of employees.

Incomes on property tax in Serbia are by half lower than in OECD countries (Levitas, Vasiljevic, and Bucic 2010). This is a consequence of significant lacks and inconsistencies of legal framework that is regulated by this tax. Amounts of obligations based on property tax are relatively small and as such they suit the owners of the most valuable property. This tax the enterprises pay based on the book value of property that is often underestimated in relation to its market value. On the other hand, bases for taxation of property of population are based on market value of real estate, determined by tax administration. It is justified to ask the question regarding the justification of such legal solutions, particularly having in mind that the most valuable property is mostly acquired through the process of privatization by value reduced, as well as that according to legal solutions there is no obligation of its revalorization, i.e. harmonization with market value. By the correction of this tax form we could create a significant increase of tax incomes which would, on the other hand, provide the reduction of fiscal burden of labour. For example, in USA and Canada, property tax represents more than 3% GDP or 25% of total taxes (OECD 2008). In addition, increase of this tax would influence the reduction of financial dependence of towns and municipalities from central government and it would also be provided for other receipts of local bodies to be reduced (tax on a firm, fee for building land etc.) since they significantly burden the sector of small and medium enterprises and entrepreneurs.

MEASURES FOR TAX POLICY IMPROVEMENT

Due to high structural deficit that Serbia faces with, all the changes of existing tax system should be profit-neutral or to provide additional public incomes. Possible additional loss of tax incomes would almost certainly jeopardize fiscal sustainability and macroeconomic stability of a country. Sustainability of tax reform, which would lead to the reduction of tax incomes in relation to GDP, can be evaluated by its comparison to previously neutral reform. Implementation of profit-neutral tax reform, due to the existence of structural fiscal deficit, requires the reduction of the share of consolidated public consumption in GDP, in the following four to five years, by at least 3 percentage points. If that wouldn't occur — public debt of Serbia would keep moving rapidly towards the unsustainable level (FREN 2010).

Tax policy of Serbia in the following period should contribute to long-term sustainable development that would be based on increase of exports and investments and reduction of the rate of unemployment and foreign trade deficit. Effects of tax policy need to take the increase of international competitiveness of economy as a result, primarily for attracting foreign direct investments. For that reason, changes of

the existing legal solutions in case of certain tax forms are required, primarily in case of income tax, value added tax and taxation of work and capital.

Tax policy needs to be in accordance with other elements of economic policy, or the effects of tax measures will give much poorer results. For the attraction of foreign investments, overall economic environment is decisive, which is illustratively shown by research of UNCTAD on the most attractive countries for investments and height of income tax for the year 2005–2006.

Table 4. The most attractive locations for investments by the selection of MNK and rate of income tax 2005–2006

Answers of multinational companies	Income tax rates 2006.
1. USA (74 %)	40 %
2. Canada (44 %)	36,1%
3. Great Britain (37%)	30%
4. Germany (35%)	38,34%
5. France (26%)	33,33%
6. Spain (20%)	35%
7. Ireland (17%)	12,5%
8. Japan (17%)	40,69%
9. Australia (13%)	30%
10. Italy (11%)	37,25%

As it can be seen from indicators mentioned in Table 4 (UNCTAD, 2005. for answers of MNK, KPMG International, 2006. for the income tax rates), the most attractive locations for business activities of multinational companies are, with an exception of Ireland, countries that have higher income tax rates even in relation to OECD (28,5%) and European Union (25,85) average. Indicators mentioned show that Serbia needs to re-examine its tax solutions in case of enterprise's income tax because legal rate of 10% is among the lowest in Europe, while effective rate is only 5-6%. Result of such a policy is extremely high share of revenues from income tax in relation to GDP in the amount of 1,5% GDP. Taxation of profit in Serbia is in a zone in which benefits from tax reduction (growth of investments and employment) are less than the value of lost tax incomes. By comparing the revenues from income tax to the level of overall and foreign investments, in Serbia and countries of Central and South-eastern Europe, it could be concluded that the improvement of competitive position of a country through income tax reduction is expensive and inefficient.² Numerous shortages in economic system can be compensated by low tax rates. Therefore, it is estimated that with a low rate of income taxes, the elimination of the majority of tax reliefs, with maintaining the existing low income tax rate.

² For example, Croatia has two times higher income tax rate and acquires two times higher share of taxes in relation to GDP, and therefore has higher foreign investments per a citizen than Serbia due to other advantages.

Table 5. Income tax rates and VAT in the countries selected

	VAT rate	Income tax rate
Czech Republic	19	26
Slovakia	19	19
Slovenia	20	25
Romania	19	16
Bulgaria	20	15
Poland	22	19
Croatia	25	20
Srbia	18	10

General rate of VAT in Serbia — Table 5 (Eurostat 2011) is among the lowest in Europe, so its increase 20% would give positive effects on development of economic system, primarily having in mind the exemption of investments and exports from VAT taxation, which would not jeopardize price competitiveness of products in international market. Within this tax form, we should re-examine the privileged tax rate of 8%, primarily for the part of non-existent products that are unjustifiably taxed by this rate. In addition, we need to seriously analyze the threshold for entering the VAT system from current 4 billion dinars to 6 or 7 billion dinars of annual turnover. In this way, the least economic subjects would be protected from the increase of VAT burden, and on the other hand, this measure wouldn't cause the loss of public revenues, because one third of the smallest VAT payers are not significant contributors to tax incomes and they are only an administrative burden for tax authorities (Altiparmakov 2010).

Incomes achieved by increasing general rate of VAT would provide the relief of labour taxation, without causing more significant increase of inflation. It is important to point out that tax evasions are the least in case of VAT due to a relatively simple manner of their discovery and control.

For Serbia, the reduction of fiscal burden of labour it is of exceptional significance which can primarily be achieved by reduction of contributions for social insurance which would be compensated by mentioned increase of general VAT rate, as well as property tax (by taxing market value of property). Reduction of fiscal burden of labour would influence the reduction of illegal work as well as elimination of practice of reporting lower earnings than the ones paid in reality. Reduction of a fiscal burden of labour would influence the reduction of labour costs, and thus also the improvement of international competitiveness of Serbian economy. In addition, reduction of fiscal burden of labour is economically more efficient manner of stimulating the employment in relation to previous practice of granting high subventions for each newly employed worker. By granting the subventions for employing the workers, the state changes relative prices by which it directly affects the allocation of resources which in practice leads to inefficient allocation of resources. In addition, high subventions create a favourable fields for different kinds of frauds and corruption.

The most important elements of reforms of property tax would be the improvement of including the property that is the subject of taxation, harmonization of tax basis with market value of property, replacement of the existing progressive tax rates by proportional tax rate etc.

Simplification of tax regulations and procedures represents an important element of tax reforms. Complicated tax procedures are reason for which Serbia has a relatively modest position according to the characteristics of tax system in international ranking

lists of competitiveness, although tax rates are among the lowest in Europe. Comprehensive reform is not applied, so-called „guillotine of regulations” which would significantly contribute the reduction of costs of business (regulatory costs) and improvement of economic environment in Serbia.

Significantly greater attention needs to be paid to the issue of improving the system of tax payments because overall tolerance grey economy and black market significantly contributes the impairment of entire economy. It is required to provide a full answer to the question: what are the main generators of grey economy in Serbia? Whether grey economy provides a job for Serbian citizens or generates unemployment through the destruction of enterprises that do business by the law?

Whether mass tolerance of grey economy in Serbia is possible without political protection? Whether grey economy is a factor of the purchase of social peace in Serbia?

Evaluations of grey economy in developed countries of European Union move in the interval from 10 to 15% GDP. However, grey economy is by far more present in transitional countries and in Serbia it is about 30% GDP (Arsic, Randjelovic, and Aliparmakov). Significant presence of grey economy makes efficient redistribution of resources more difficult and economic growth more slower – since economic subjects prone to tax evasions represent unfair competitiveness to economy that does business in legal flows. In that way, according to the data of Agency of Business Registers, for the first nine months of 2011, 6.400 enterprises were founded which is by 15% less than in the same period of the previous year. Simultaneously, even 10.800 enterprises were erased from the register, and in the same period of 2010 5.347 enterprises.

Some of basic relative prices in Serbian economy would be changed by measured suggested: relative price of export in relation to import would be increased, relative price of consumption goods in relation to investment goods, relative price of labour would be reduced in relation to the price of other goods.

In order for fiscal burden of labour to positively influence the economic growth, it is necessary that the biggest part of fiscal burden stays in enterprises and to be for investments that will lead to increase of employment in the future. Changes of relative prices that would come from measures suggested would significantly change the economic conditions in Serbia. Changes of economic conditions are designed in such a way to affect the decisions at the level of enterprise, to increase the cost effectiveness if export in relation to import, to encourage the investments in relation to consumption, reduce the labour price and thus encourage the employment. Of course, decisions mentioned also depend on numerous other factors, so it is necessary to change other elements of economic policy as well (exchange rate policy, public expenditures policy, investment environment...) in order for them not to encourage the export, savings, investments and employment. If other policies wouldn't support the new strategy of growth, effects of tax measures would be neutralized by the effect of other policies in opposite direction.

CONCLUSION

It is beyond doubt that Serbia as a candidate for European Union expects significant tax reforms modelled according to the member countries. General tendencies in creation of optimal tax structure of Union members are the reduction of tax burden of capital (from the middle of 1990's) and partial reduction of fiscal burden of earnings (from the year

2000). Reduction of fiscal burden of earnings is particularly expressed in case of new members of Union in Eastern Europe. On the other hand, growth in taxation of consumption (VAT, excises) is obvious in all member countries from 2001 to 2007 (European Commission – Taxation and customs union 2009).

Tax system of Serbia should support new strategy of economic growth in which main driver needs to be the sector of exchangeable goods oriented towards the export. Tax policy needs to provide stable inflow of tax incomes without the deterioration of economic environment and international competitiveness of country. It is certain that observed trends of tax adaptations to contemporary conditions of business in the countries of European Union give real guidelines in leading tax policy in future period.

Economic analysis suggests that the proposed reform would lead to more efficient distribution of resources – production and employment would be stimulated, while consumption and import would be destimulated. Change of tax system would also help in mitigation of greatest macroeconomic imbalance of Serbian economy – high trade deficit, high consumption level and low investment level. By transferring tax burden from the field of highest tax evasions (earnings) to the field where it is the most difficult to perform tax evasions (VAT), the scope of grey economy in Serbia would be automatically reduced and economic subjects that do business in legal flows would be protected from unfair competitiveness from grey economy.

BIBLIOGRAPHY

- Altiparmakov, Nikola. 2010. Poreski sistem u funkciji zapošljavanja i ekonomskog rasta. In *Poreska politika u Srbiji: Pogled unapred*, 22–38. Beograd: USAID Sega projekat.
- Arsic, Milojko, Sasa Randjelovic, and Nikola Altiparmakov. 2010. Mogući pravci reforme poreza na dohodak u Srbiji. In *Poreska politika u Srbiji: Pogled unapred*, 39–61. Beograd: USAID Sega projekat.
- Bloningen, Bruce A., and Ronald B. Davies. 2002. Do Bilateral Tax Treaties Promote Foreign Direct Investment? Working Paper No. 8834. Boston: NBER National Bureau of Economic Research.
- Djukic, Petar. 2011. Poslovanje privrede Srbije u krizi: Porezi, javni sektor i konkurentnost. *Ekonomski vidici* 16 (4): 597–612
- European Commission–Taxation and customs union. 2009. *Taxation Trends in the European Union*. Luxembourg: Office for Official Publications of the European Communities.
- FREN Fond za razvoj ekonomske nauke. 2010. Postkrizni model ekonomskog rasta i razvoja Srbije 2011–2020. Beograd: FREN.
- International Bureau of Fiscal Documentation. 2008. *European tax handbook*. International bureau of fiscal documentation.
- Kulic, Mirko. 2004. *Financijski menadzment*. Beograd: Metatrend-univerzitet primijenjenih nauka.
- Levitas, Tony, Dusan Vasiljevic, and Aleksandar Bucic. Porez na imovinu: Analiza stanja i perspektiva reformi. In *Poreska politika u Srbiji: Pogled unapred*, 95–123. Beograd: USAID Sega projekat.
- Neumayer, Eric. 2007. Do double taxation treaties increase foreign direct investment to developing countries? *Journal of Development Studies* 43 (8): 1501–1519.
- OECD. 2008. *Revenue Statistics 2000–2007*. Paris: OECD.
- Popovic, Dejan. 1997. *Nauka o porezima i poresko pravo*. Beograd: Savremena Administracija.
- Raicevic, B. 2003. *Fiskalna ekonomija*. Beograd: Ekonomski fakultet.
- Randjelovic, Sasa. 2010. Unapredjenje performansi poreskog sistema Srbije kroz reformu poreza na dobit. In *Poreska politika u Srbiji: Pogled unapred*, 75–94. Beograd: USAID Sega projekat.
- Rodic, Jovan. 1990. *Teorija i analiza bilansa*. Beograd: Ekonomika.
- Schwellnus, Cyrille, and Jens Arnold. 2008. Do Corporate Taxes Reduce Productivity and Investment at the Firm Level? Cross-Country Evidence from the Amadeus Datatest. Working Paper No 2008–19. Paris: CEPII Institute for Research on the International Economy
- Vukadin, E. 1991. *Osnovi ekonomske politike*. Beograd: Pravni fakultet.