TAX SYSTEMS IN WEST BALKANS COUNTRIES[1] – BETWEEN SIMPLICITY AND EFFICIENCY.

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Abstract

There are two main features characterized every tax system: simplicity and efficiency. These features converge not necessarily with each other. The simplicity of a tax system is related and implies the simplicity of tax calculation. In other site this characteristic is a very important element regarding tax collection and also affects the transparency among different economics activities. But how much these system are efficient?

The efficiency of a fiscal system is related particularly with the characteristic of a tax as an instrument for implementation of different economic policies, incitement of economic development, achievement of particular structural changes, etc.

In this framework the paper aims to perform a comparative analyze of fiscal systems for different West Balkans Countries. The main objective of the paper is to analyze how much the tax systems of these countries reflect the simplicity and transparency, and in the other site, how much those serve as a mechanism of economic development. In this approach the paper effort to explain, if the tax systems are considerate only as an instrument of budget revenue collection, or these system have considerate also as an incentives targeted economic development of these countries.

Keywords: Tax System, simplicity, efficiency.

JEL codes: H20; H21; H22

Introduction

This study aims to develop a comparative analysis among fiscal systems of West Balkan Countries. In addition to this introduction the paper deals four main topics. In the first section is displayed the dynamics of tax income in the various Balkan Countries. The aim of this section is to show the weight of fiscal system on the structure of the budget incomes of these countries. The second section deals with direct taxes: personal income taxes, and the profit taxes (corporate income taxes), aiming to shows the systems that have chosen diffrenet countries, and whether they are based on progressive tax or the flat tax. In the third section are analyse the indirect taxes, focused on value added tax; this section treats the level of consumption tax as well as the differentiations made in different countries. The

[1] In West Balkan Countries in this paper are included: Albania, Bosnia & Herzegovina, Croatia, Kosovo, Macedonia, Monte Negro and Serbia.

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fourth section give a general competitive analysis of the tax systems for separate countries, intending to reflect the policies being applied in Balkans Countries, both in the aspect of simplification of fiscal system and also of their efficiency. The study ends with the conclusions and references.

1. The dynamics of fiscal incomes and their structure in West Balkan Countries.

The political changes in West Balkan Countries were accompanied with a lot of important institutional changes closely linked with the new system based on market economy. One of the most important changes was the one of fiscal reform. The dynamic of this reform has been determinate by the dynamics of the economic democratic changes and their opening toward the market economy. Nowadays the fiscal systems in West Balkan Countries have already been consolidated and they constitute one of the main pillars of the functions of these economies. Although being very fundamental, the fiscal reforms were carried out in a relatively short period of time. Despite of their problems and continuous corrections, the fiscal systems operate in conformity with the objections and principles of a fiscal system in a market economy. In this point, it is to underline that the tax revenues actually constitute the main source of the budget revenues of West Balkan Countries.

On the other hand, these achievements enable today to analyze fiscal systems in Western Balkan Countries in a more qualitative way. The fiscal system in all those countries has actually been seen mainly in the function of its most important objective: the realizing of budget revenues. Thus the setting up of these systems is based mainly on the fight against fiscal evasion, aiming at the extension of the tax payers. Beyond this important objective, we think that fiscal systems should be considerate in the view of their efficiency as well.

As far as the efficiency is concerned it has a broader meaning. In a certain point of view it is related to the known economic principle on the "temporary neutrality" of tax. In other point of view, the efficiency of a system can take into consideration the fact how the fiscal system serves as an instrument to incite and realize certain economic policies. In fact none of fiscal system is totally "neutral" because each system has exemptions for special cases which aim to stimulate an activity or another.

Today all West Balkan Countries have set up a fiscal system similar to the one of the European Developed Countries. Actually these systems base on the three main kinds of taxes like: personal income tax (PIT), corporate income tax (CIT) and value added tax (VAT)

The table 1 presents both the budgetary incomes and fiscal ones in proportion to the GDP of West Balkan Countries.

Table1: Budget revenue in GDP - 2008[2] (%)

	Albania	Bosnia & Herzegovina	Croatia	Kosovo	Macedonia	Monte Negro	Serbia
Total budget revenue	24.3%	25.1%	33.7%	24.2%	36.4%	41.8%	18.4%
1. Tax Revenue	18.1%	14.1%	20.3%	20.7%	21.3%	28.9%	17.1%
2. Non - tax revenue and contribuition	6.2%	11.0%	13.5%	3.5%	15.1%	12.9%	1.3%

Source: Budget 2008 from respective countries, World Bank estimation of GDP, and author's calculations.

The budget revenue fluctuates according to the countries from 18,4% of GDP (Serbia) to 41,8% (Monte Negro). The weight of tax revenue is between 14,1% of GDP for Bosnia and Herzegovina and 28,9% for Monte Negro, while other countries have nearly the same fiscal burden, which fluctuates between 17-20% of GDP. For all the above mentioned countries the budgetary revenue constitute nearly 27,7% of their GDP. This percentage shows the declining tendency of the budget revenue in proportion with the GDP of these countries, which in the years 1991-1995 has been about 36,8% and in the period 1999-2002 was about 34,6%[3].

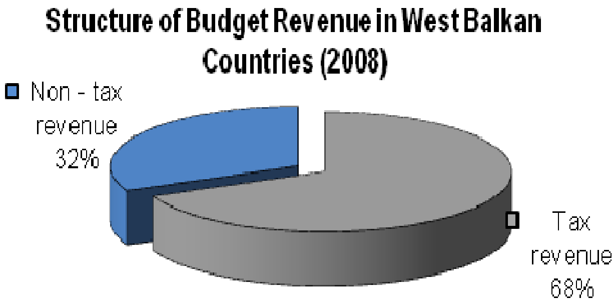
In general, the revenue taxes for the region constitute about 18,9% of GDP while the ones from other sources were 8,8% or respectively 68% and 32% of the totally budget revenue (graph 1).

In comparison with the previous periods of time there has been raised the part of the income taxes. If we would include the incomes from the social contribution in the part of revenue tax, in 2008 this part for Balkan Countries constituted about 93,4% of the budget revenue, while the revenue from other sources constituted only 6,6%. In the period 1999-2002 these parts constituted 86,2% and 13,8%respectively[4]. These data compared to the previous periods of the time in one side indicate the relative decline of the weight of the public sector in the economy and on the other side it indicates the role of the fiscal system within the public sector.

[2] "Non tax revenue and contribution" includ also social contribution.

[3] Grabowski, M. dhe Tomalak, M – "Tax System Reforms in the Countries of Central Europe and the Commonwealth of Independent States" – Special Study, pg. 260. In this paper in West Balkan Countries are included only Albania, Croatia, Macedonia, Bulgaria and Romenia.

[4] Grabowski, M. dhe Tomalak, M – "Tax System Reforms in the Countries of Central Europe and the Commonwealth of Independent States" – Special Study, pg. 263. Here social contribution are included in tax revenue.



Graph 1

The analysis of the tax structure among different countries is important as well. The budgets of these countries do not have a standard presentation, a thing which makes difficult the accuracy of comparative data. However the analysis of the countries might be presented in the following table (table 2):

Table 2: Direct and Indirect tax in Tax Revenue - 2008[5] (%)

	Albania	Bosnia & Herzegovina	Croatia	Kosovo	Macedonia	Monte Negro	Serbia
Tax Revenue - total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
1. Direct tax	14.5%	11.1%	17.6%	NA	21.1%	19.7%	18.8%
2. Indirect tax	65.5%	75.7%	78.3%	NA	74.1%	63.2%	69.0%
3. Other tax	20.0%	13.2%	4.1%	NA	4.8%	17.1%	12.1%

Source: Budget 2008 from respective countries, World Bank estimation of GDP, and author's calculations.

The indirect taxes (63,2% - 78,3%) constitute the heaviest weight from the tax revenues. In Bosnia and Herzegovina the direct taxes constitute 11,1% and in Macedonia about 21,1%. In these percentages, beside the high rates of indirect taxes, influences the fact that indirect taxes on production can be simply management, so the informality here is smaller. On the contrary the lower percentage of direct taxes shows the informality of respective countries.

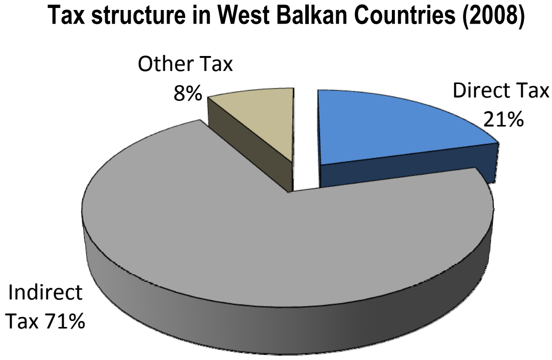
The data of the structure of direct and indirect taxes, for all countries together, are presented on the graph 2.

The indirect taxes (for example VAT) are considered to be taxes on consumption because they weigh down on the final consumer through goods prices. The high weight of these taxes generally shows that the West Balkan Countries implemented fiscal systems that are based on consumption.

The structure of direct taxes shows that various countries have different structures (table 3). Thus for both, Albania and Macedonia, the tax revenue towards personal income tax are almost the same with corporate income tax. While for Monte Negro and

[5] Data for Kosova are missing.

Serbia the personal income tax constitute the heights weight respectively 64,1% and 68,1%. In Croatia the corporate income tax revenue is very high 86,2%. The later is linked with the high rates that Croatia keeps on applying on corporate income tax 20%, in comparison with 9%-10% being applied in other countries.



Graph 2

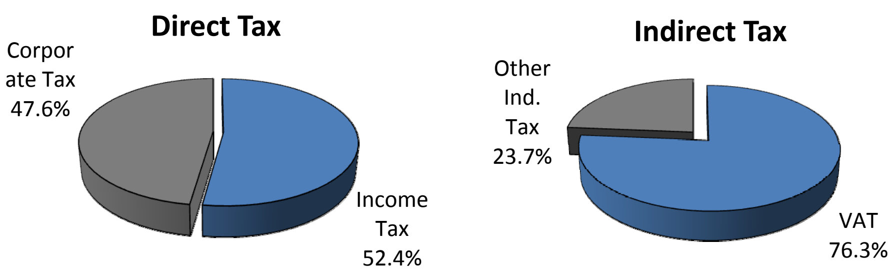
Table 3: Structure of direct and indirect tax - 2008 (%)

	Albania	Bosnia & Herzegovina	Croatia	Kosovo	Macedonia	Monte Negro	Serbia
Direct tax	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
1. Income tax	53.0%	NA	13.8%	NA	49.7%	64.1%	68.1%
2. Corporate tax	47.0%	NA	86.2%	NA	50.3%	35.9%	31.9%
Indirect tax	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
1. VAT	72.2%	NA	75.8%	NA	61.6%	78.5%	75.0%
2. Other indirect tax	27.8%	NA	24.2%	NA	38.4%	21.5%	25.0%

Source: Budget 2008 from respective countries, World Bank estimation of GDP, and author's calculations.

As far as the indirect taxes are concerned the data show that the main tax is that of VAT.

For all countries together, the structure of direct and indirect taxes is presented on graph 3.



Graph 3

In general the budget revenue in percentage toward GDP for West Balkan Countries is presented on table 4. It strikes the eye the lower weight of the personal income tax and that of corporate income tax: about 1,9-2,0% of GDP. At the same time by VAT, percentages is about 10,2% of GDP. On this table "non tax revenue" constitute about 8,8% of GDP. In fact in this category are also included the revenues from social contribution, which constitute about 79% of non tax revenue, or differently about 7% of GDP. All these data show that the tax revenue is realized from those taxes that can be collected and managed easily.

Table 4: Budget and Tax revenue in relation to GDP- 2008 (%)

	Albania	Bosnia & Herzegovina	Croatia	Kosovo	Macedonia	Monte Negro	Serbia	Total
Total budget revenue	24.3%	25.1%	33.7%	24.2%	36.4%	41.8%	18.4%	27.7%
A. Tax Revenue	18.1%	14.1%	20.3%	20.7%	21.3%	28.9%	17.1%	18.9%
1 Direct tax	2.6%	1.6%	3.6%	NA	4.5%	5.7%	3.2%	3.9%
1.1 Income tax	1.4%	NA	0.5%	NA	2.2%	3.6%	2.2%	2.0%
1.2 Corporate tax	1.2%	NA	3.1%	NA	2.3%	2.0%	1.0%	1.9%
2. Indirect tax	11.9%	10.7%	15.9%	NA	15.8%	18.3%	11.8%	13.4%
2.1 VAT	8.6%	NA	12.0%	NA	9.7%	14.3%	8.9%	10.2%
2.2Other indirect tax	3.3%	NA	3.8%	NA	6.1%	3.9%	3.0%	3.2%
3. Other tax	3.6%	1.9%	0.8%	NA	1.0%	4.9%	2.1%	1.6%
B. Non - tax revenue and contribuition	6.2%	11.0%	13.5%	3.5%	15.1%	12.9%	1.3%	8.8%

Source: Budget 2008 from respective countries, World Bank estimation of GDP, and author's calculations

2. Direct taxes: progressive and flat tax.

In the ration between simplicity of fiscal system and that of economic incitement, the first question to be analyzed is that whether this system is a progressive tax system or a system it is based on the flat tax.

The progressive systems are characterized by the increase of tax rates with the raise of income level. These systems aim to provide a more social level in the revenue distribution because the individuals with higher incomes are charged with a higher fiscal rate.

The systems based on the flat tax are characterized by the same tax rate, in spite of the level incomes. In this way these systems better serve both the simplicity and neutrality of the tax. Above all the flat tax systems are considerate to be more stimulating for the economic growth. In the progressive tax system, the increase of tax percentage with the raise income level in fact penalizes more saving than consumption. Thus, theatrically these taxes influence more negatively on the stimulation of the increase of incomes of subjects or individuals, because the more goods they realize the more taxes they are charged with. Starting with this it is accepted the fact that with the same level of governmental expenses, the progressive tax will have a more negative effect on the economic growth than the flat tax. The idea is: it is important not only the income tax level, but also the structure of their collection. Thus for years in Europe has been recommended, among others, the transition from progressive tax to the flat tax, in order to incite economic growth.

The main criticism toward the flat tax is the fact that this tax compared to the progressive one makes a softer distribution of the tax burden between the groups with higher and lower incomes, favoring in this way relatively the individuals with lower incomes. However, the economic analysis being broken down for years in countries where this tax is in force, indicates that the above mentioned phenomenon is gradually accompanied with the gradual income growth even for the groups of population with lower incomes. This occurs because the application of this tax for some years makes possible that its positive effect on the economic growth increases in general with lower incomes to the ones with higher incomes.

Most of the East European Countries have passed into flat tax in the last 10-15 years. Estonia was the first country in Europe which put into practice the flat tax of 26% both for the personal income and that of corporations. Later that system was followed by two other regional countries like Leetonia and Lithuania. The Russian case was very meaningful, where the flat tax was applied towards the personal income in a low considerable level, 13%. The tax income was doubled within three years considering this reform as one of the most positive one.

The fiscal system of West Balkan Countries in the aspect of progressive or not are presented in table 5:

The discussing on the progressivity of the tax or no to is more related to the personal income tax. In fact it is seen that corporate tax is the same. The differentiation of this tax has to do more with the incentives for separate activity.

Table 5: Direct Tax rate in West Balkan Countries (%)

	Albania	Bosnia & Herzegovina	Croatia	Kosovo	Macedonia	Monte Negro	Serbia
Income tax rate	10%	10%	15% - 45%	4%-8%-10%	10%	9%-15%	10%-12%-15%
Corporate tax rate	10%	10%	20%	10%	10%	9%	10%

Source: Fiscal package in respective Countries 2010.

Personal Income Tax

Considering personal income tax, four countries like Albania, Bosnia and Herzegovina, Macedonia, and Monte Negro apply the flat tax. This tax for Albania has been applied since 2007 by replacing progressive tax which went up to 30%. At the same time Macedonia has passed into flat tax since 2007. Monte Negro applies the flat tax 9%, from 12% in 2009. But here it is applied also the surtax on personal incomes which is paid by historical cities, respectively 13% and 15%.

Two other countries, Croatia and Serbia, apply progressive tax. This tax is more characteristic for Croatia by escalating from 15% to 45%. In Serbia the basic rate is 10%, but the self-employed pay 12% and the individuals with incomes higher as six times than the approved average salary, pay 15% of their personal income.

Hence, a general characteristic of West Balkan Countries, with the exemption of Croatia and to some extend of Serbia, is the setting of the systems the flat tax.

The flat tax in West Balkan Countries has almost been the same for all kinds of personal incomes[6]. From its nature, as is emphasize above, the flat tax is considered like a tax which stimulates the saving and investment. But in fact for the Balkans Countries it hasn't been the main aim of implementing this tax. This tax has been used mare because of its simple calculation and administration.

Considering the personal tax income and if we compare the results of the flat tax with those of progressive tax, typical is the case of Croatia. As it is mentioned above this is the only country which used income progressive tax. Table 4 indicates that incomes from this tax are only 0,5%, which is at the same time the lowest percentage in the analyzed countries.

Corporate tax.

The corporate tax (profit tax) is one of the most important one among the direct taxes. From this tax are realized about 47,6% of direct tax revenue, or 1,9% GDP for all Balkans Countries. Croatia has the highest rate tax 20%, and the revenue from this tax in comparison with GDP for is higher than other countries 3,1% (table 4). The comparative corporate tax analysis is important to see what stimulating policies use different countries for the inciting of separate economic activities.

Which are some of these policies which have been applied by different Balkans Countries?

- Albania stimulates small business. If the annual income of a company is between 2-8 million AL (about 14-57 thousand Euro), then the company pays so called "simple profit tax". While if the turnover is less than 2 million AL, then business taxed in the same way as the personal income.
- Bosnia and Herzegovina through the corporate tax aims to incite both imports and exports in the country. Thus, the companies which reach 30% of their turnover from export are excluded from profit tax for that year. At the same time the companies which can invest for 5 years in succession 20 million BAM (nearly 1 million Euro) are excluded from profit tax for 5 years starting from the first investment year, (the investment in this year should be at least 4 million BAM).
- Croatia stimulated investment and employment. This depending on the size of investment and the number of workers, the firms can reduce profit tax from 10% to 0%. At the same time it is stimulated the scientific work for research and development (R&D), in this case the company has the right to reduce from profit tax the twofold of expenses made for R&D.
- Macedonia stimulates investments in the free market areas, "Technological Industrial Development Zone (TIDZs)". Concerning the profit tax, companies which exercise their activities in these areas, are excluded from profit tax in a period of three years.

[6] The mainly exemption are concerning with rent's incomes.

- Monte Negro aims to encourage development in less developed areas. So the new companies in these areas excluded from the profit tax for a period of three years.
- Serbia intends to incite development in less development areas. Thus the new companies are excluded from the profit tax for 10 years of time, if they make an investment of about 6 million Euros and employ not less than 100 people. At the same time companies are also excluded from the tax in the case of investments for exploitation of certain natural resources (for 5 years), as well as investment in no developed areas (in this case they are excluded for 2 years).

3. Indirect taxes: Value Added Tax.

Which are some of the main characteristics of fiscal systems of West Balkan Countries considering the aspect of indirect taxes and especially that of value added tax (VAT)? Which tax facilities are applying and what economic policies intend to achieve these systems?

Indirect tax on products and services play the most important role in the budget revenue of West Balkan Countries, they constitute on average 13,4% of GDP (table 4) where the VAT constitutes the greatest part with 10,2%. Table 6 presents standard tax rate of VAT for the West Balkan Countries:

Table 6: Value Added Tax in West Balkan Countries (%)

Value Added Tax	Albania	Bosnia & Herzegovina	Croatia	Kosovo	Macedonia	Montenegro	Serbia
Standard norm	20%	17%	22%	16%	18%	17%	18%
Preferential norm	NA	NA	10%	NA	5%	7%	8%

Source: Fiscal package in respective Countries 2010.

The value added tax is considerate as a consumption tax because it is paid by the final consumer. Its advantage is a good way of administration, a thing which is explained also by the revenue levels being provided by this tax. In the point of stimulated of economics policies, the question related with escalation of the tax, whether that should be in the same level, or differentiated. View on this angel, VAT in the same level is theoretically criticized by considering it as a regressive tax because all the consumers pay the same tax rate. Thus individuals with lower incomes will relatively higher taxes than the individual with higher incomes. On the other side, the VAT with a level means the preserving of neutrality from the tax would not influence in the allocation of resources in supplementary way.

What kind of taxes applies different countries and what kind of exemptions do they predict?

- In Albania the tax rate is 20%. Except for the know cases like for exports, international transport and financial services, the legal exceptions are very limited. Such legal exceptions are for instance the ones that are related to medicines, books, magazines, newspapers; the research and exploitation of hydrocarbures. For some goods there are implemented special schemes of VAT payment, for example for the import of machineries and equipments, farmer's compensation, etc. As it is seen from table 6 tax rate (20%) is one of the heights of the region.

- Bosnia and Herzegovina applies the tax 17%. The exceptions from the tax payment, besides the known cases, are the ones for health services, social security's and sport and educational services. Special payment schemes are applied for the farmer's activities, touristic agencies, works of art, etc.
- Croatia applies standard rate 22%. A reduced rate of 10% is used for touristic services and respective agencies as well as the magazines and periodical newspapers. On the other side for the goods of the first need like bread, milk and a certain part of educative publications and some health services, the tax level is 0%.
- Kosovo applies the tax standard rate 22%. The exceptions from the tax (despite of general cases) are the ones of health goods and those of services in public education.
- Macedonia has the standard rate 18%. While the most preferable rate is 5% and it is applied in a wide range of products where the most important are: food products, various publications, agricultural machineries, pharmaceutical products and health services, machineries and programs that are related with automates processes.
- Monte Negro applies the standard rate 17% and the preferable one of 7%. The preferable rate is applies for food products like bread, milk, oil and sugar as well as the medicines, including the veterinary ones and for the health services.
- Serbia applies the standard rates 18% and the preferable one of 8%. The preferable rate is used for goods and services of the first need and some food products like: fruits, vegetables, educational text books, medicines, personal computers, newspapers, etc.

In general, we can say that three countries like Albania, Bosnia and Herzegovina and Kosovo apply a unique rate of VAT. While other countries like Croatia, Macedonia and Serbia use two levels, the standard and the preferable rates. The preferable rates mainly intend to provide lower prices for the necessary goods of the primary needs, to help the strata of population with lower incomes. At the same time all the countries expel from the tax, medicines, periodic press and different publications.

Concerning the VAT, it is important the analysis of limit of registration of the subjects which should be included in the business that is submitted to this tax (table 7). Albania, Kosovo and Serbia have the highest level of VAT registration. Probably this is the reason of the lower percentage of the revenues from this tax in proportion to the GDP of these countries (table 4).

Table 7: Registration for Value Added Tax

	Albania	Bosnia & Herzegovina	Croatia	Kosovo	Macedonia	Monte Negro	Serbia
Turnover / Year (EURO)	57,225	NA	11,660	50,000	21,138	18,000	40,000

Source: Fiscal package in respective Countries 2010.

4. Comparison among countries: the simplicity and the efficiency of fiscal systems.

Firstly I would like to present shortly the evaluation of west Balkan Regions concerning the weight of taxes in economic activity of these countries. In fact this evaluation is based on the report s of World Bank "Doing business – 2010" for West Balkan Region. In these reports, the indicator which is related to the content of this paper is the one of the percentage of the total tax revenue, concerning profit of the firms[7] (table 7).

Table 7: Total tax rate (% profit)

		Albania	Bosnia & Herzegovina	Croatia	Kosovo	Macedonia	Monte Negro	Serbia
Total tax rate (% profit)	2009	50.5	44.1	32.5	28.3	18.4	31.8	34.0
	2010	44.9	27.1	32.5	28.3	16.4	28.9	34.0
Rank	2009	145	155	33	49	28	139	126
	2010	138	128	39	50	26	145	137

Source: "Doing Business 2010" for respective Countries,- World Bank

From the table can underlined some features: First, Albania and Serbia have the highest tax percentages in proportion to the profit, while the lowest one is for Macedonia. Thus, while in Albania, tax payment is about 44% of the profit, in Macedonia this percentage is about 16,4%.

Secondly, some countries like Bosnia and Herzegovina, Albania, Macedonia and Monte Negro have decreased the tax load toward business in 2010, compared to 2009.

Third, many of the countries like Monte Negro, Albania, Serbia and Bosnia and Herzegovina, occupy a low place in the general order of 183 countries, concerning tax payment (according to three criteria taken in the study) –graph 3.

Probably the data cannot be used to compare the countries with each other, but nevertheless they indicate that the percentage of firms which think that the tax rate is the main constrain for their business in West Balkan Countries, (except for Bosnia and Herzegovina), is smaller than the percentage of all 121countries taken together in the study 36%, and it is absolutely lower than that of West and Eastern Central Europe, 40%[8].

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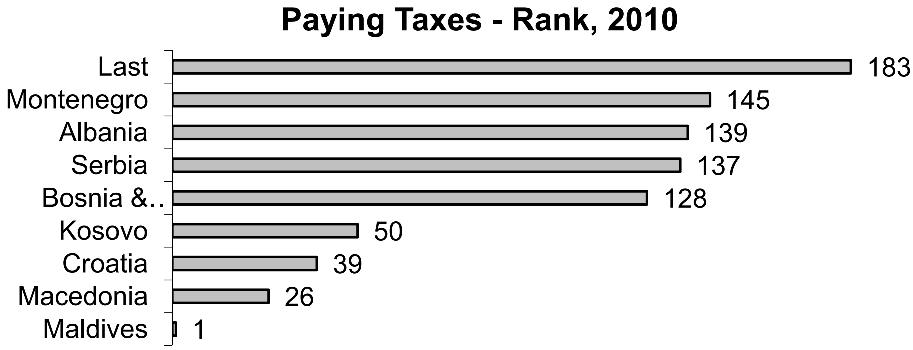
[7] The rank is determinate taking in consideration also two other factors: number of tax payments per year and the hours for payment of the tax, spent from firm in the year.

[8] In the Enterprise Surveys, West Balkan Countries are included in Eastern Europe & Central Asia Region.



Graph 3

Table 8: Valuation of tax rate as major constraint (%)

	Albania	Bosnia & Herzegov	Croatia	Kosovo	Macedonia	Monte Negro	Serbia	Region	All Countries
% of Firms Identifying Tax Rates as Major Constraint	28.8	37.8	34.4	12.0	26.6	7.6	28.4	40.0	36.4

Source: Enterprise Surveys performed by World Bank and International Finance Corporation (IFC)

Beyond this general conclusion, we can pass to the comparison of fiscal system of the countries. Here we can base on three taxes, which we dealt with, PIT, CIT and VAT.

The level of these taxes according to the different countries is presented in issues 2 and 3 and the above in the table 7, is given the evaluation of fiscal weight towards the respective business. In this point of view, we will try to make an evaluation that how these taxes are related to the simplicity of their application, and on the other side, how efficient they are, which means what interference do they bring in the efficient allocation of economic resources. It should be underline that both these characteristics depend on the nature of the each tax.

Personal income tax (PIT). As criteria of the tax simplicity it would serve, whether the tax would be progressive or flat tax. As it was indicated above, a flat tax is simpler in administration. The criteria of efficiency can be seen in two aspects: first, how would the tax serve to the social aspect and secondly how the tax would support the economic growth. In social aspect, a progressive tax rate would be more positive (point A in table 9). While in aspect of economic growth, the progressive taxes favor more the consumption, and the regressive ones favor more the saving and investments, that is economic growth (point B in table 9).

Corporate income tax (CIT). Here as criteria for the simplicity of administration it would be taken if the tax rate would be the same or not with the tax rate of personal income tax. While as criteria of efficiency would be taken, first, tax level (point A in table 9) and second, how many exceptions are allowed for separate activities (point B in table 9). The tax level, if it is low or high, means how do the tax interferers not in the market mechanism for the efficient allocation of resources. The lower the tax level, exp. under 10%, the more efficient is considerate the tax. On other side, the exception and differentiations in tax application for various activities, although they distort the market mechanism they are instruments for application of certain economic policies. In this point of view, the tax rate differentiations to the corporate can be considered positive.

Value Added Tax (VAT). The simplicity here would be linked with the rate differentiation, so a tax with the same level (rate), would be easier to be administrated.

While the efficiency could be seen in two aspects: first, in the social aspect as tax of same level would favor the consumption of the products of primary needs, would be considered more efficient (point A in table 9). Second, even here the tax level would determine its efficiency. For example a lower level under 18% would normally incite the consumption, so the production, as well (point B in table 9).

Starting from these criteria, even the tax treatment in issue 3 and 4according to various countries, there has been an evaluation which should be made for the West Balkans Countries concerning the simplicity and efficiency of be signed (+), if the tax meets the above mentioned criteria, and (-) if it does not meet these criteria.

Table 9: Simplicity and Efficiency

	Simplicity			Efficiency					
	Personal Income Tax (PIT)	Corporate Income Tax (CIT)	Value Added Tax (VAT)	Personal Income Tax (PIT)		Personal Income Tax (CIT)		Personal Income Tax (VAT)	
				A	B	A	B	A	B
Albania	+	+	+	-	+	+	-	-	-
Bosnia & Herzegovina	+	+	+	-	+	+	+	-	+
Croatia	-	-	+	+	-	-	+	+	-
Kosovo	-	-	+	+	-	+	+	-	+
Macedonia	+	+	-	-	+	+	+	+	-
Montenegro	+	+	+	-	+	+	+	+	+
Serbia	-	-	-	+	-	+	+	+	-

It is necessary to point out that the evaluation remains subjective, because the fulfillment of a certain criteria might be in different levels and can't be separated with (-) or (+). In this aspect the evaluation can be made only for one kind of tax and for a certain criteria and it would be meaningless to be made for all taxes criteria taken together.

Conclusions

- 20 years after democratically changes, the fiscal system in West Balkan Countries is stabilized and based on three main taxes: personal income tax, corporate tax and value added tax. Tax revenue provides about 93.4% of budget revenue, or 17.1% of GDP.
- The main tax revenues are collected from indirect tax, and particularly from VAT. For all countries in West Balkans, indirect taxes provide about 69.0% of total tax revenue, where VAT takes about 75.0%, or 10.2% of GDP. Direct tax revenue provides only 2.0% of GDP, which means difficulties of administration of these kinds of taxes.
- Most of the countries: Albania, Bosnia & Herzegovina, Macedonia, and Monte Negro, used a flat rate of personal income. That system offer more simplicity and neutrality of the tax. Above all, the flat tax systems are considered more stimulating of saving and economic growth. The flat tax of these countries is 10%, except Monte Negro with 9%.
- Regarding corporate tax, except Croatia (20%), all the other countries applying a low standard rate 10%, (Monte Negro even 9%), which is the same as a flat rate of personal income. In this concern, the fiscal system in these countries becomes more transparent and simple to administrate. Whatever, the revenue from this tax is in the low level and take average only 1.9% of GDP, (Croatia 3.1%).
- Different countries applying a different incentives regarding corporate tax. Most of them intend to stimulate new investment, employment and exports. It is also to underline that, as more as corporate tax provide exemptions and incentives, as more the system becomes a instrument to support different economic policy, but in the mean time the system loss its neutrality and simplicity.
- Value Added Tax is a main tax, concerning tax revenue. As a consumption tax, VAT has a significant impact in social aspect in the taxation in general. In this point of view, most of the countries, as Croatia, Macedonia, Monte Negro and Serbia, applying different VAT tax rates, which take in consideration particularly needs for foods, health and education. On the other point, VAT with a single rate, as for example Albania preserves the neutrality of the tax, means it would not be influenced in the allocation of economic resources.
- The impact of VAT in tax system in general, depends not only from the level of tax rate, but also from the limit of business registration in the VAT system. As example, Albania has the high VAT tax rate (20%, without a preferential rate), but the limit for registration in VAT system is also too high (about 57.225 Euro), therefore for this country the percentage of VAT to GDP is one of the lowest of the region (8.6%). On the other side, Monte Negro has a low rate of VAT (standard 17%), but limit of registration is also low (about 18.000 Euro); in this country VAT revenue takes about 14.3% of GDP.

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