SPOTLIGHT ON:

The Effects of EU Accession on Serbia's Tax Policy

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Introductory Remarks

Unlike the customs policy, which is uniform at the EU level and under the jurisdiction of EU and not Member States, and unlike the monetary policy, which is (at the level of European monetary union) uniform, the Member States have kept their primary sovereignty in tax policies, so taxes can still be introduced exclusively by the laws adopted by Member States. However, in order to ensure the functioning of the European Single Market and affirm the four basic freedoms (free movement of goods, service, people and capital), to ensure full equality of the citizens and companies from all Member States, and to prevent damaging tax competition, steps have been taken in the previous decades to harmonise tax policies across Member States. Accordingly, the Treaty on the Functioning of the European Union (TFEU) gave a general mandate to the European Commission to implement activities toward realising the abovementioned goals by adopting relevant directives at the level of EU. Therefore, when it comes to tax issues regulated by EU directives, the Member States are obligated to align their national tax legislation with the relevant directives. In cases when the national policy deviates from the EU directives, the European Commission has the right to start legal proceedings against the Member State, and if the case is not resolved between the European Commission and the Member State, it can be brought before the European Court of Justice.

In harmonising taxes at the EU level, significant progress has been made in the last decades in consumption tax (indirect tax), by adopting adequate directives that regulate important elements of VAT and excise tax. However, in taxes on factors of production (direct tax), the degree of harmonisation is significantly lower and it comes down to applying rules with the aim of preventing discrimination and removing double taxation on corporate income tax. When it comes to income tax and property tax, Member States retain almost full sovereignty with a limitation that their rules of taxation cannot put the citizens and legal entities from other Member States in an unequal position. In addition, the harmonisation of taxation in EU includes also administrative and technical issues on the exchange of information, coordination of activities, etc.

Accession to the EU implies harmonisation of legislation, i.e. harmonising the rules of functioning of economic, legal and social institutions with those of the EU. Those rules are functionally divided in 35 negotiating chapters, out of which, Chapter 16 deals with issues of taxation. According to the framework plan for accession negotiations, Serbia is expected to open Chapter 16 in 2018, and by the close of this chapter, it is expected to fully align its tax legislation with the rules defined by the EU regulations. Consequently, this review identifies and analyses the changes that Serbia will be obliged to implement in tax policy in the coming period, in order to fully comply with the EU rules.

2. Harmonisation of Consumption Tax

2.1 Value Added Tax

Creation of the common market of the European Economic Community (EEC) in 1960s, followed by the European Single Market in 1990s, required harmonising the taxation system of the EU in a way that would allow smooth implementation of the four basic freedoms. The idea of a common fiscal space in EEC was abandoned at the very beginning out of political reasons and was replaced by the application of principles of fiscal neutrality, which included eliminating the effects of a tax system on trade between the Member States, as well as establishing an equal treatment of companies from all Member States. Application of this principle started with the abolishing of customs duties on trade between EEC Member States, which was completed in 1969, and beginning the adjustment of consumption tax. This implied a transition from a gross one-phase retail sales tax to a net all-inclusive sales tax (Value Added Tax). At the end of 1960s and beginning of 1970s, First and Second VAT Directive of the EEC were adopted

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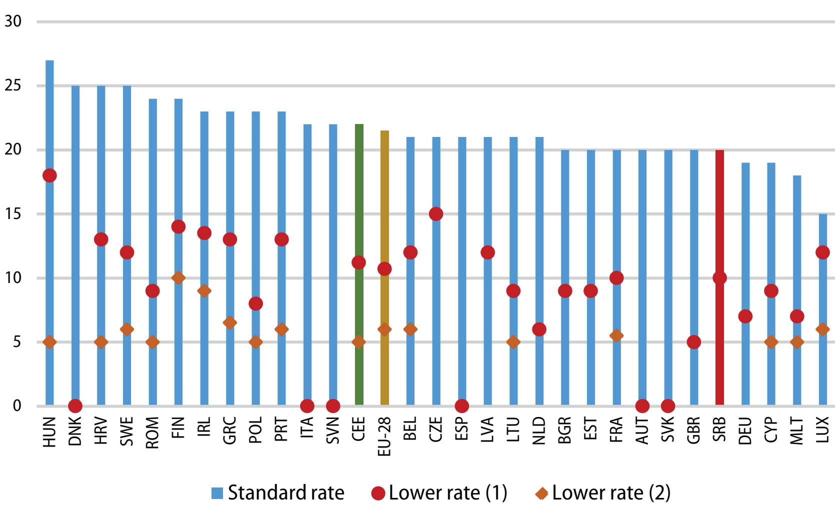
(67/227 and 67/228), marking the beginning of the harmonisation process of general consumption tax by prescribing obligations of introducing Value Added Tax and regulating certain issues (taxation of retail sales, tax reliefs, etc.). However, some important distortions for trade remained, since there were certain cases of double taxation or even no taxation at all. After that, in 1977, the Sixth VAT Directive of the EEC (77/388) was adopted, which regulated in detail the issue of defining tax transactions, place of taxation, tax rates, tax reliefs, etc. with the aim of removing tax barriers for the functioning of the four basic freedoms. The significance of the harmonisation of the consumption tax for the functioning of the Single Market is also reflected in the fact that this issue is regulated by the EU Founder's Treaty, where (in Article 93), the European Council is given a mandate to carry out activities on harmonisation of regulations in the domain of taxation of consumption (VAT, excises and other consumption taxes), through the adoption of directives necessary for the establishment and functioning of the Single Market. Since its adoption, taxation has been amended several times and in 2006 the Directive on the Common VAT System in the European Union (2006/112) was adopted, which replaced the previous directives, with the previously defined principles and characteristics largely kept.

The objective of harmonisation of VAT in the EU, which is generally defined as a requirement for removing barriers for the smooth functioning of the Single Market, has substantially shaped the basic characteristics of the harmonised VAT system in the EU. In this respect, the European VAT model has several basic characteristics: broad definition of the subject of taxation, the application of the consumption VAT type, the application of the uniform rules of taxation of international trade, and the application of harmonised rules regarding tax rates. Broad definition of the subject of taxation implies that the turnover of all goods (and services) are considered taxable, unless explicitly stated that they are exempt. According to EU VAT Directives, the turnover of certain types of services and goods is exempted from paying VAT without the right to deduction of the previous tax, including: cultural, health and educational services, financial intermediation services (services in the field of banking and insurance), used immovable property, etc. In recent years, the issue of taxation of financial transactions has been re-opened, but so far no agreement has been reached between Member States. The application of the consumption VAT type implies that VAT is paid for the sale of fixed assets, but that the purchaser who is a taxpayer and who uses these funds for performing business activities is generally entitled to recognise the VAT included in the purchase price of the fixed asset as a pre-paid tax. The application of the uniform rules for the taxation of international trade aims to eliminate the risk of double taxation of transactions between Member States, as well as the risk of their non-taxation. The principle of destination is affirmed by the transitional rule defined by the EU directives, which implies that the goods turnover is taxed in a country where it will be finally used. This de facto implies the exemption of exports from VAT, and payment of VAT on the import of goods. For services turnover, either the destination principle or the origin principle is applied, depending on the type of service. The application of harmonised framework rules regarding tax rates implies that the EU VAT Directive prescribes the possibility of applying a general tax rate and up to two reduced VAT rates. In order to discourage harmful tax competition, EU directives define lower limits for VAT rates, so that the general VAT rate cannot be lower than 15%, and special rates cannot be lower than 5%. Based on Graph 1, it is concluded that despite harmonisation, the variation in the level of VAT rate in the EU remains relatively high, although the coefficient of VAT variation is lower than in the rate of other taxes, in which the harmonisation had not been carried out.

Graph 1. VAT Rates in Europe



Source: Arsic and Randjelovic (2017)

The application of the credit method for the calculation of tax liabilities means that the tax liability is calculated as the difference between the amount of the exit VAT included in the sales price of the taxpayer and the input VAT included in the purchase price of the input. EU directives stipulate on what basis the input VAT can be recognised as a deduction, and for which purchases that right does not apply. The application of the destination principle in the taxation of international trade, as well as the possibility of using a number of exemptions (e.g. for exports), and the right to tax refund, opens the space for the creation of artificial structures for the purpose of tax evasion (so-called tax carousels). In order to reduce room for abuse, a VAT Exchange Information System (VIES) has been established at the EU level, which is used for the electronic exchange of VAT data between Member States. In addition, there is also MOSS (Mini One Stop Shop), an information system for the exchange of data between Member States regarding electronic services.

In 2005, Serbia introduced VAT, based on the European VAT model, which replaced the sales tax in retail. Consequently, the basic structure of the VAT system of Serbia is based on the principles defined by the EU directives, and therefore, in the process of EU accession, no radical changes will be needed in the way of functioning of the VAT system of Serbia, but it will be necessary to make several parametric changes. Namely, a number of elements of the Serbian VAT system are not fully in line with the EU rules, and therefore, in the coming period, in the process of EU accession, it will be necessary to eliminate these deviations. It will therefore be necessary for the rules of taxation of transactions between Member States, as well as the rules regarding the method of defining the taxpayer, the place where the tax liability is created, etc. to fully comply with EU directives.

Although both the general and reduced VAT rate in Serbia (20% and 10%) are in line with EU directives, on the list of goods whose turnover can be taxed at a reduced rate in Serbia, there are some goods for which the EU directives do not provide a possibility of being taxed at a lower rate. Therefore, during the accession process, it will be necessary to remove those goods from the list of goods taxed at a reduced rate, which will de facto imply an increase in the VAT rate on the turnover of these goods from 10% to 20%. This refers to goods such as natural gas, heating, and the first real estate turnover. In addition, in the part relating to tax exemptions, it will be necessary to remove exemptions from the taxation of imports of equipment for the disabled, baby food and equipment, as well as for the purchase of the first apartment, the turnover in river traffic, as well as the exemptions for religious communities. In addition, it will also be necessary to abolish VAT exemption for the supply of goods and services to customers in the Free Zones, for goods and services used in the Free Zone for final consumption, and not as an intermediate good. In the forthcoming period, further harmonisation of the VAT refund rules will be necessary for non-resident customers in Serbia, since this regime is not being practiced. The Law on VAT in Serbia stipulates that legal entities and entrepreneurs whose annual turnover does not exceed 8 million dinars (about 66 thousand euros) cannot be in the VAT system, while according to EU directives this limit is significantly lower (up to 5 thousand euros). This means that in the coming period it will be necessary to lower the limit for VAT registration, so that at the moment of joining the EU, this limit will have been harmonised with the EU rules. This, as well as some of the aforementioned expected changes, will increase the mandate and scope of the Tax Administration's work, so in parallel with the harmonisation of regulations, it will be necessary to work on organisational, personnel and financial improvement of the Tax Administration's capacities. In addition, in order to fully align with the EU system, full integration of Serbia into the electronic system of exchange of VAT data between Member States (VIES and MOSS) will be necessary.

2.2 Excise Tax

Revenues from excise tax in Serbia amount to 5-6% of GDP, i.e. about 15% of tax revenues, which puts Serbia in a group of European countries where the relative balance of importance of excises is very high (only Hungary and Italy have a greater relative importance to the balance). In the last 15 years, revenues from excise duties have been almost doubled in the excise tax revenue structure, with excises on oil derivatives (over 50%) and excise taxes on tobacco products (over a third of revenues), while all other excises account for about one tenth of the revenue. The large importance of excise taxes to the balance sheet in Serbia is due to the wide coverage, the widespread use of some excise products (e.g. tobacco products), which makes the consumption of excise products in relation to GDP high, as well as the level of tax rates. Considering the great importance of excises to the balance sheet, the adjustment of the tax policy that is expected in the process of harmonising tax policy with the EU rules, could also have significant fiscal effects.

Although selective consumption taxes by the mid-1980s in Europe had a greater importance for the balance sheet than general consumption tax, the harmonisation of selective taxes, i.e. excise tax in the EU was intensified only in the early 1990s, almost twenty years after the beginning of the harmonisation of the general consumption tax. Harmonisation of the excise system in the EU is also carried out with the aim of creating the conditions for the undisturbed functioning of the Single Market.

Table 1. Base and Minimal Excise Rates in EU

		Base	Rate
Alcoholic drinks	Beer	EUR/hl/°alcohol	1,87
	Wine	EUR/hl	0
	Other low-alcohol beverages	EUR/hl	4
	High alcohol beverages (>22%)	EUR/lit/°alcohol	2,2(40°); 2,48(45°); 2,5(45,4°); 5,28(96°)
Tobacco products	Cigarettes	% WAP	60%
		EUR/1000 pieces	90
	Cigars and Cigarillos	EUR/pieces	12
	Tobacco	% WAP	20%-46%
		EUR/kg	22-54
Energenti	Leaded petrol	EUR/1000 lit	412
	Unleaded petrol	EUR/1000 lit	359
	Diesel	EUR/1000 lit	330
	Kerosene	EUR/1000 lit	330
	Gas oil	EUR/1000 kg	15
	LPG	EUR/kg	125
	Natural gas	EUR/GJ	0,15-2,6
	Coal and coke	EUR/GJ	0,15-0,3
	Electricity	EUR/MWh	0,5-1

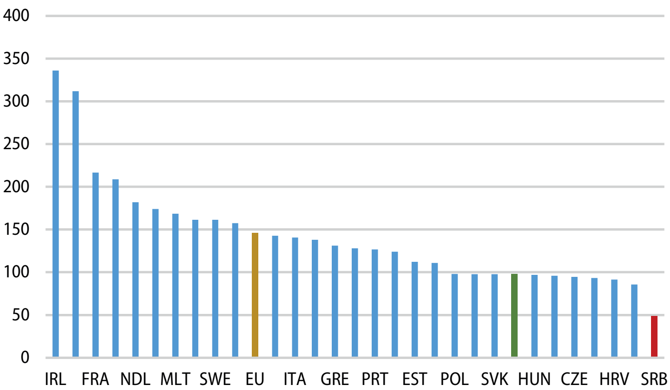
Source: European Commission (2016); Arsic and Randjelovic (2017)

The general mandate for harmonisation of excise duties is given in the Treaty on the Functioning of the EU (Articles 113, 191 and 192), based on which this issue is more closely regulated through three groups of directives: i) horizontal directives - which regulate the general framework for production, storage trade and control of excise products in the EU, as well as the time when the tax liability was created (the moment of leaving the excise warehouse); ii) Structural directives - which define the subject of excise taxation, the set of goods to which the Member States are obliged to introduce excise duties (alcoholic products, tobacco products and energy products); iii) Directives on the harmonisation of excise rates, which prescribe the minimum excise rates to be observed by Member States wehn prescribing excise rates on their territories.

Thus, EU directives require Member States to levy excise duties on alcoholic products (all alcoholic beverages), tobacco products (cigarettes, cigars, cigarillos and cut tobacco) and energy products (gasoline, kerosene, gas oils, liquefied petroleum gas, natural gas, coal, coke and electricity). In addition, Member States have the right to impose excise on the sale of other goods, in accordance with their objectives and priorities. As with VAT, EU directives have set minimum excise rates, while Member States reserve the right to introduce excise taxes at a higher rate than the minimum.

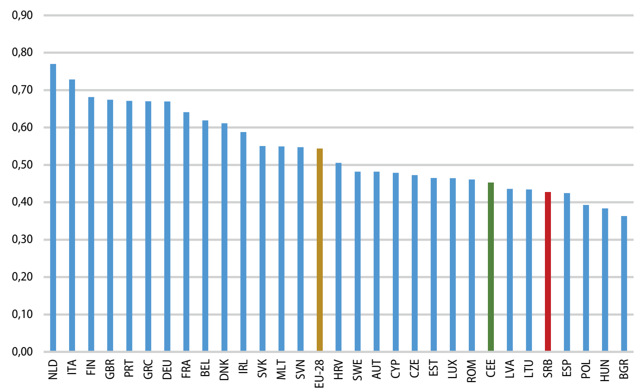
Harmonization of excise duties at the EU level has reduced the variations of excise rates between Member States, but the variations are still significant, as can be seen in the case of two of the two most important groups of excise products - cigarettes and gasoline.

Graph 2. Effective excise rates on cigarettes (EUR/1000 cigarettes)



Source: European Commission and author’s calculations

Graph 3. Excise rates on unleaded fuel (EUR per litre)



Source: European Commission; Arsic and Randjelovic (2017)

The excise system in Serbia was established in 2001 by adopting the Law on Excise Tax, which regulates the issue of basic elements - subjects of taxation, taxpayers, rates, and tax reliefs. However, since then, the excise system has undergone numerous parametric reforms. Now, excise taxes in Serbia are taxed by four groups of goods - alcoholic beverages, tobacco products, energy products, and coffee, which indicates that the subject of taxation in Serbia is largely aligned with EU horizontal and structural directives. The deviation in relation to the EU directives also exists in the domain of excise on energy products, since there is no excise on natural gas, coal and coke in Serbia, although it is mandatory according to the EU directives to introduce these excise duties. On the other hand, in certain segments, the coverage of excises in Serbia is slightly broader than the mandatory coverage defined by EU directives, which primarily concerns excise taxes on coffee, liquid for electronic cigarettes and biofuels.

The rates of excise duties in Serbia are for the most part in line with the EU directives, but in certain segments, where this is not the case, it will be necessary in the process of EU integrations to make certain corrections regarding in the manner of expressing the excise rate (for alcoholic beverages and electricity), as well as in terms of their amount (on cigarettes).

Table 2. Effective Excise Rates in Serbia and Effective Minimum Excise Rates in EU

		Base	Serbia	EU min	Southeatern Europe
Alcoholic drinks	Beer	EUR/hl/°alcohol	0,19	0,09	0,19
	Wine	EUR/hl	0	0	0,28
	Other low-alcohol beverages	EUR/hl	0,17	0,45	0,92
	High alcohol beverages (>22%)	EUR/lit/°alcohol	0,99-2,51	2,2-5,28	
Tobacco products	Cigarettes	EUR/1000 pieces	48.5	90	72,1
	Cigars and Cigarillos	EUR/1000 pieces	180	12	
	Tobacco	EUR/kg	31,7	22-54	
	Liquid for electronic cigarettes	EUR/ml	0,03	-	0,14
Energenti	Leaded petrol	EUR/1000 lit	447,15	412	
	Unleaded petrol	EUR/1000 lit	406	359	404,47
	Diesel	EUR/1000 lit	446	330	392
	Kerosene	EUR/1000 lit	413,17	330	
	Gas oil	EUR/1000 kg	446	15	
	Biofuels	EUR/1000 lit	422,52	-	
	LPG	EUR/1000 kg	173,25	125	119,4
	Natural gas	EUR/GJ	-	0,15-2,6	
	Coal and coke	EUR/GJ	-	0,15-0,3	
	Electricity	EUR/GJ	4	0-1	0,5
Coffee	Non-rosated coffe	EUR/kg	0,69	-	0,4
	Roasted coffee	EUR/kg	0,86	-	
	Coffee shells and membranes	EUR/kg	0,94	-	
	Extracts, essences and concentrates	EUR/kg	1,29	-	

Source: European Commission (2016); Arsic and Randjelovic (2017)

Even though Serbia's excise system is comparable to the European one, a number of changes will be needed in the accession process, in order to achieve full harmonisation. Regarding the excise on energy products, until the moment of joining the EU, Serbia will be obliged to introduce excises on the remaining energy products defined by the EU directives (natural gas, coal and coke), and to replace the ad valorem excise on electricity with a specific excise. In terms of excise taxes on tobacco products, it will be necessary to make a significant increase in excise taxes on cigarettes, which in Serbia, in absolute terms (EUR / 1000 cigarettes) are almost half the minimum collective excise tax defined by EU rules (Graph 2). Thus, EU directives stipulate that aggregate (specific and ad valorem) excise must be at least EUR 90 per 1,000 cigarettes, while in Serbia it amounts to about 48.5 euros per 1,000 cigarettes. In the excise tax on alcoholic beverages, it will be necessary to change the way excise tax is expressed, so that the excise tax rate depends on the percentage of alcohol content in the drink, and not on the type of beverage, since the existing excise

2 The first group of Southeast European countries include Serbia's neighbouring countries (Bosnia and Herzegovina, Bulgaria, Montenegro, FYR Macedonia, Hungary, Croatia and Romania), since those countries are relevant for the analysis of incentives for cross-border tax arbitration.

system is stricter on imported than domestic alcoholic beverages. Also, it will be necessary to introduce homemade alcoholic beverages into the excise system, where EU directives prescribe the possibility of applying lower rates of excise taxes on alcoholic beverages produced by small producers. Although EU directives do not prescribe mandatory charge of excise taxes on coffee, if the excise on coffee continues to be charged in Serbia, it will be necessary to make a certain parametric change, in order to prevent discrimination of import in relation to domestic turnover.

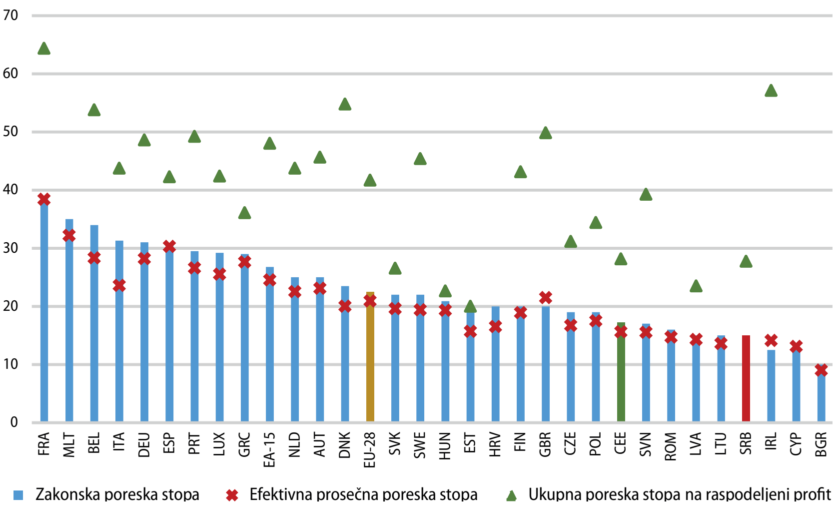
Regarding the exemption, Serbia will be obliged to adjust the amount of alcoholic beverages that can be brought into the country without excise (according to EU rules, it is 1 litre of spirits or 2 litres of beverages with a lower alcoholic content), while the value limit for the entry of other excise goods (except alcoholic beverages and cigarettes) will have to be raised from 100 euros to up to 430 euros. In addition, these limits apply only to third-country travellers and not EU Member States. In order to improve the control of excise goods flows, Serbia will also be required to join the European Excise Movement and Control System.

3. Harmonisation of Taxes on Factors of Production

The degree of harmonisation of taxes on factors of production (so-called direct taxes) at the EU level is significantly lower than the degree of harmonisation of consumption tax, since it is estimated that taxes on factors of production do not directly affect the functioning of the Single Market and the realisation of the four basic freedoms. Therefore, the harmonisation of taxes on the factors of production is directed primarily toward the elimination of discrimination in the tax treatment of taxpayers from different Member States and the prevention of harmful tax competition. Consequently, the harmonisation of direct taxes relates mainly to corporate income tax, while in the case of income tax and property tax, Member States have full freedom in conducting their tax policy, with the restriction that this should not lead to unequal treatment of taxpayers from various Member States.

Attempts to harmonise the tax on profits in the EU have been made for more than half a century. Thus, in the Neymark report published in 1962, it was recommended to harmonise the rules for calculating the tax base, while subsequent proposals, from the 1970s, recommended the establishment of a corridor for the movement of corporate income tax rates ranging from 45% to 55%, with the introduction of a partial imputation system in order to eliminate double taxation. It has also been suggested to harmonise the tax rate on the deduction of the dividend that the dependent company pays to the parent company outside the EU at a rate of 25%. However, due to the unwillingness of states to limit tax sovereignty in this domain, these initiatives ended in failure. In the early 1990s, the European Commission launched a new corporate income tax harmonisation initiative, which had three basic elements: removing barriers to investment flows between Member States, imposing a minimum profit tax rate of 30%, and introducing unique rules for determining tax base. This initiative was partly successful because it resulted in the adoption of three directives that uniquely regulate the issue of tax treatment of cross-border capital flows within the EU - the Directive on the parent company and the subsidiary company, the Taxation and Authorisation Directives, and the Tax Reform Taxation Directive, as well as one convention (the Arbitration Convention). At the beginning of the 2000s, a working group was formed to draft proposals for establishing a common, consolidated tax base for profit tax in the EU, which implies that the tax base is set at the level of the whole EU, under unified rules, and then distributed according to a certain key to the Member States, which tax their share of the tax base. However, in this respect, consensus has not been reached so far, and there has been no significant step forward in the harmonisation of tax rates, so the variation in income tax rates in Europe is significantly higher than the variation in consumption tax rates.

Graph 4. Profit Tax Rates in Europe



Source: Arsic and Randjelovic (2017)

The Mergers Directive 90/4347EEC aims to remove fiscal obstacles to cross-border status changes and reorganisations (mergers, divisions, transfers of assets and exchanges of shares) involving companies from different Member States. This directive provides for the possibility of deferral of capital gains tax liability that may arise at the time of the transfer of assets or shares within the status change, provided that the receiver continues with business operations and continues to disclose assets at its tax value. *Parent-Subsidiary Directive*, 90/434/EEC, 2003/123/EC, aims to prevent an inequitable tax treatment of cooperation between companies from different Member States in relation to cooperation between companies from the same Member State, and to eliminate double taxation within the EU. In particular, this Directive includes: i) profits distributed by a subsidiary in one member state to its parent company in another member state will be exempt from withholding tax provided that the parent company holds at least 10% of the subsidiary, ii) elimination of double taxation of dividends received by a parent company located in one Member State from its subsidiary located in another by having the dividend received from a company in another Member State in the country of residence of the recipient of the dividend, exempt from the tax base or by recognising the tax paid on profit, from which the dividend was distributed, as a tax credit in relation to the tax liability of the parent company (imputation system).[3] *Interest-Royalty Directive, 2003/49/EC*, prescribes the elimination of tax on deduction (in the payer's country), on interest and royalties paid by a company from one Member State to a related company in another Member State in order to encourage more efficient allocation of capital within the Single Market.

In addition to the directives that incorporate the merits of profit taxation issues, there are also a number of regulations at the EU level that regulate procedural issues with the aim of eliminating double taxation and preventing harmful tax competition, such as the Arbitration Convention and Corporate Taxation Guidelines. The Arbitration Convention defines the steps and procedures for resolving disputes on transfer pricing, and States Parties undertake to comply with an arbitration decision in specific cases, which contributes to the improvement of legal security and predictability of the business environment within the Single Market.[4] *The Code of Conduct of Business Taxation* expresses an intention to remove the elements of the tax system that have the traits of harmful tax competition, as well as an intention to refrain from introducing such measures in the future, such as: deviation from the general level of tax burden in certain cases, granting tax privileges only to non-residents, as well as business activities that are not directly related to the domestic economy, granting of tax benefits even in cases where there is no real economic activity, permitting deviations from the OECD rules for determining profits in multinational companies, and lack of transparency.[5] Also, when it comes to transfer pricing, the *OECD Transfer Pricing Guidelines* apply.

The policy of European countries in the area of suppression of tax evasion opportunities by using transfer pricing is based on the application of rules and principles defined in the *OECD Transfer Pricing Guidelines*. In 2006, the *Manual for the Preparation of Pricing Documents* was adopted at the EU level, which specifies the content of the documentation that proves the amount of reported transactions with related entities. The corporate income tax system in Serbia is regulated by the Law on Corporate Income Tax, adopted in 2001, which was subsequently partially amended several times. The basic elements of corporate income tax in Serbia are defined in a manner that is conceptually comparable with taxation systems in other European countries. However, with respect to full harmonisation with the EU acquis in the field of direct taxes, further changes will need to be made in the forthcoming period, primarily in removing the double taxation of revenues between Serbia and other EU Member States. Thus, in accordance with the Parent-Subsidiary Directive, it will be necessary to eliminate the double taxation of dividends received from one of the EU Member States (using the tax credit method or exemption from taxation in Serbia), as well as dividends paid to a company from a Member State (by the method of exempting such dividend from taxation in Serbia). Pursuant to the Interest-Royalty Directive, it will be necessary to prescribe exemption from the taxation of interest and royalties paid by a legal entity from Serbia to a legal entity, a recipient from an EU Member State. In addition, some tax relief will have to be revised, such as the exemption from the taxation of citizens' income, from interest on securities issued by the Republic of Serbia, so that this relief applies equally to securities issued by other Member States, in order to ensure equal tax treatment. Also, it will be necessary to make appropriate changes to the regulations in order to comply with the provisions of the Merger Directive on deferral of tax liability in the event of status changes and the establishment of the rules for changing the seat of European companies. By the EU accession date, Serbia will also be obliged to join the Arbitration Convention on transfer pricing issues, to legally regulate the procedure for the application of arbitration committee decisions, and to develop appropriate rules regarding the calculation of the "out of reach" prices. In addition, in the process of and after joining the EU, the European Commission will monitor whether Serbia's behaviour in terms of taxation policy is in line with the principle of refraining from harmful tax competition, as defined by the *Corporate Taxation Guidelines*.

3 Arsic and Randjelovic (2017)
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4. Administrative and Technical Cooperation and Integration into European Tax Information Exchange Systems

In addition to harmonising the rules of taxation with EU regulations, in the process of accession, Serbia will need to integrate into European tax information exchange systems, especially in terms of VAT and excise taxes, such as the VAT Information Exchange System, Excise Movement and Control System, System for Exchange of Excise Data, Central Information System on Excise Duties, etc. In addition, Serbia will also be obligated to apply the provisions of the Administrative Cooperation Directive, as well as the provisions of other directives governing the issue of data exchange between national tax administrations, and to join the OECD and Council of Europe Convention on Mutual Administrative Assistance in Tax Matters. Joining the European information systems for exchange of tax data and mutual assistance systems in tax matters will certainly be preceded by powerful strengthening of the administrative and technical capacities of the Tax Administration and other bodies, primarily with regard to building comprehensive and reliable information systems compatible with the information systems of EU Member States, which will be partly financed from the EU pre-accession funds. Integration into European information and cooperation systems will facilitate the control of cross-border transactions and reduce the possibility of tax evasion in such transactions. The lack of effective cooperation in terms of tax data exchange and harmful tax competition can be the basis for the EU to place certain jurisdiction into a group of non-cooperative tax jurisdictions ("tax havens"), and according to the European Commission's latest decision, there are 17 of them. Because Serbia has not signed the OECD and the Council of Europe Convention on Mutual Administrative Cooperation in Tax Matters, which has been signed by 115 countries so far, it is considered that the level of transparency of tax data is not at a satisfactory level, which is one of the criteria on the basis of which a country is classified on the list of "tax regimes". Signing of this Convention will improve the efficiency of international cooperation in the exchange of tax information during the negotiation of Chapter 16 and will reduce the risk of placing a country on the list of "tax havens".

5. Concluding Remarks

Although Serbia is yet to open the negotiation Chapter 16 - Taxation, it is estimated that the existing tax system in Serbia is already to a considerable extent aligned with the EU rules, since the general structure of basic tax forms, where there are harmonised rules at the EU level (VAT, excise and, to a lesser extent, profit tax) in Serbia is comparable to the corresponding rules in the EU. Nevertheless, in the process of accession, until the closing of the negotiation chapter, and then accession to the EU, a number of parametric changes in the tax system of Serbia will have to be carried out. In the VAT domain, the key changes will be to shorten the list of goods to which the reduced tax rate applies (natural gas, heating, first real estate purchase), and the abolition of some tax credits (VAT on baby food and equipment, VAT on the purchase of the first apartment, relief for religious communities, etc.), as well as the reduction of the VAT registration fee. In terms of excise duties, the scope of excise taxes on energy products, the introduction of excise taxes on natural gas, coal and coke, will need to be expanded to change the way of expressing excise taxes on electricity (transition to ad valorem rate), as well as excise on alcoholic beverages, homemade beverages (with major producers), and significantly increase the rate of excise on cigarettes. Regarding taxes on factors of production, a greater number of technical harmonisations will need to be carried out in order to eliminate double taxation within the EU and to eliminate the inequitable treatment of taxpayers from different Member States. In addition to the material, a number of administrative and technical adjustments will have to be made in the coming period, primarily in order to build capacity for full integration of Serbia into European tax data exchange systems.

Chapter 16 negotiations will mostly revolve around agreeing on the dynamics of harmonisation of certain segments of the tax system with the EU rules. As a rule, all amendments to the tax regulations, which refer to the harmonisation of Serbia's tax system with EU rules, need to be adopted, i.e. to be incorporated into domestic legislation, until the closing of Chapter 16, although there is a possibility to agree to start applying some of these changes from the date of Serbia's accession to the EU. In addition, the experience of the countries that joined the EU in 2004 and 2007 show that there is a possibility that on some issues, which are considered relevant for a particular country, a transition period can be agreed upon after EU accession, during which the old rules would apply, i.e. adjustments made. For example, Hungary has managed to agree with the European Commission that the transfer of natural gas into a basket of goods taxed at a standard rate is made one year after its accession to the EU. Also, during the negotiations, it is possible to agree minor deviations from the general rule in matters where the European directives have given this possibility (e.g. Bulgaria agreed with the European Commission that the rate of excise on homemade brandy be 50% lower than the standard rate).

Considering the nature of the deviations of the existing taxation rules in Serbia from the directives, most of the harmonisation implies an expansion of the tax base, abolition of some tax reliefs, increase of individual rates, etc., which could be a positive effect on the revenue, i.e. it could imply a growth of tax revenues. In this context, since the total tax burden in Serbia (measured by the share of tax revenues in GDP) in the European and regional dimensions is already moderate, the additional fiscal room that will arise from compliance with EU rules could also be the opportunity to lower some other taxes, in cases where this is not restricted by EU rules (e.g. in the case of labour tax). However, this option should be considered only when the tax system changes are clearly defined in order to harmonise with EU directives, and after the fiscal effects of these changes are assessed.

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