

SPOTLIGHT ON:

Reform of the System of Quasi-Fiscal Charges for the Improvement of Business Conditions in Serbia

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Over the last decade, significant reforms of the tax system in Serbia have been implemented, which made the most important tax instruments consistent to the best tax practices in the world. Tax rates on the most important tax instruments are low, the base is wide, and the exceptions and exemptions moderate. Despite this, the assessments of the tax system in Serbia of the business community and international organisations dealing with estimates of business conditions are quite negative. One of the important reasons is the non-transparent system of quasi-fiscal charges, whose changes are also unpredictable¹. Application of a complicated system of quasi-fiscal charges is expensive for taxpayers, and the unpredictability of their changes generates business risks. The main parameters of quasi-fiscal charges are often inadequate and arbitrarily determined resulting in violation of the principles of economic efficiency and equity. Therefore reforms of quasi-fiscal charges that would go toward their simplification and better compliance with the principles of efficiency and equity represent an important prerequisite for the improvement of business environment in Serbia. The proposed reforms of the system of quasi-fiscal charges by the Government represent a significant step towards improving the business environment, because it abolishes many unjustifiable charges, defines the legal procedures for introduction of duties in the future, includes all charges in the budget, etc. However, the main weakness of the proposed reforms is that they are not revenue neutral - they increase the fiscal deficit by around RSD 10 billion, which further hinders sustainable fiscal consolidation. A possible solution is to simultaneously implement measures that would lead to an increase in revenue from property taxes, or to increase the corporate income tax rate to 15%.

Introduction

Tax system in Serbia, defined in a broader sense, is characterised by the existence of numerous quasi-fiscal charges at all state levels. The system of quasi-fiscal charges is non-transparent, while its changes are unpredictable, and basic parameters of duties (base, rate, tax payer, etc.) in some cases are arbitrarily defined. Many of the duties are not included in the consolidated Treasury account, so the final number of duties is uncertain, as well as their total revenue. According to the research of NALED, there are close to 400 quasi-fiscal charges in Serbia, that bring a revenue of 2% of GDP to the government, but it is certain that the number of duties and their revenue yield are greater. The changes of quasi-fiscal charges are often unpredictable, and the decisions about it are sometimes made outside the law and the regular parliamentary procedure, which reduces the transparency of the public revenue system. The unpredictability and non-transparency of the quasi-fiscal charges brings uncertainty into the operations of business entities in Serbia – business entities are not sure which taxes they need to pay, nor when will their tax duties change. Aside from that, the basic parameters of quasi-fiscal charges are often inadequately defined, causing distortion in business operations of companies and entrepreneurs.

The amount of duty is sometimes not proportionate to the economic power of the taxpayer, the value of the service, the amount of natural resources used by the taxpayer or the damage it causes to the environment, so in those cases we speak of quasi-fiscal charges.

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*** In the domestic public, the term quasi-fiscal charges usually involves a whole set of non-tax duties imposed by government at all levels, where the amount of duty is greater than the value of the counter-charge or counter-service. However, problems in the public revenue system in Serbia are not only caused by quasi-fiscal, but also a number of fiscal duties, of non-tax character (their number is too large, they are inadequately parameterised, etc.). Since the focus of this paper is on the reform of the entire set of non-tax revenue, not just quasi-fiscal charges, it would be correct to use the term non-tax duties, but because of the frequent use of this term in the public, we will use the term quasi-fiscal charges.

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Non-transparent and unstable system of quasi-fiscal charges, with complicated administrative procedures of public revenue are some of the main reasons why Serbia, based on the characteristics of the tax system, is poorly ranked on international competitiveness lists, published by the World Economic Forum and the World Bank. Additional confusion, especially with foreign investors, was created by inadequate classification of duties, and so some of the classic taxes were labelled as charges or fees. Another problem is that some of the fees and charges were set at a significantly higher level than is appropriate to the nature of these instruments, so they often contain a significant if not dominant tax component. In addition, similar quasi-fiscal charges are often introduced (same basis, same taxpayer), which reduces the transparency of the tax system and increases the cost of its implementation. The above shortcomings have entirely cancelled out the positive effects of low tax rates applied in the basic taxes (income tax, VAT).

Therefore, the reform of the system of quasi-fiscal charges represents one of the most important steps toward improvement of business conditions in Serbia. The aim of this reform is to create a simpler and more transparent tax system, whose changes would be relatively rare and predictable. Such a tax system would create lower costs for the taxpayers both in terms of minimizing the excess burden of the tax, and in terms of the compliance costs. The tax system would be fairer, because the tax liability would be better aligned with the economic power of taxpayers, while the fees and charges would more accurately reflect the benefits that companies or citizens would receive from the state, or the damage that their activities are causing to the environment.

In addition, the reform of the system of quasi-fiscal charges should support the fiscal consolidation, which primarily means that the net result of these reforms should be revenue-neutral. In doing so, revenue neutrality can be achieved by compensating for the lost revenue from abolishing certain quasi-fiscal charges or their reduction through increasing the revenue yield from general taxes, such as property taxes. Revenue neutrality of the reform of the system of quasi-fiscal charges could also be achieved by introducing a local corporate income tax of up to 3%. The introduction of a 3% local corporate income tax would also compensate for the lost revenue from company signboard fees, but also for the losses that would be incurred by the abolition or reduction of other local duties.

In addition to the analysis of the current situation and its causes, the purpose of this paper is to systematically define the basic principles of operation of the system of non-tax and quasi-fiscal charges, which should provide a framework for defining concrete measures to reform the existing system of quasi-fiscal charges. Given that some steps towards the reform of the system of quasi-fiscal charges have already been taken by the Government, this paper will analyse their adequacy. Although certain government measures have been announced and partially implemented at the time of the completion of this paper, the importance of the principles defined in this study lies in the fact that they will continue to present a framework for transparent, efficient and fair functioning of the quasi-fiscal charges, and as such should be taken into account in the implementation of further measures which would lead to changes in the functioning of the quasi-fiscal charges in Serbia.

1. Condition and trends

Institutional units of various levels of government (state and local self-government), public agencies, regulatory authorities, departments, administrations, funds and others can be financed by two broad groups of sources of income – tax and non-tax. Tax forms are the dominant part of the budget revenues of the central government and local self-government, while non-tax forms may be imposed by public agencies, regulatory agencies, authorities, and government funds, when they are part of “own-source revenues”. The Law on Budget System defines the non-tax revenues as a type of public revenue which the state collects through mandatory payments of business or physical entities, with an obligation of rendering special services to such entities (fees, taxes, permits, licenses, payments, and other allocations of funds on various grounds) including fines and penalties. However, despite such a definition of non-tax forms, certain payments can be observed that do not fit in the above definition, but are formally included in the group of non-tax revenue. These are the so-called quasi-fiscal charges, and they include those forms of payment that to some extent apply a financial and/or administrative burden on businesses, and for which they either receive no right, goods or services or they get rights, goods or services whose objective value is significantly lower than the relevant tax payment amount.² Classification of revenue can be made on the basis of their economic characteristics (Table 1).

² NALED (2012), Sooner or Later – System of Non-Tax and Para-fiscal Forms in the Republic of Serbia, Working paper, Belgrade. The study was done by a team of local and foreign experts gathered around the National Alliance for Local Economic Development (NALED), with the support of USAID Business Enabling Project (USAID BEP).

Taxes include a broad group of revenues where the amount paid is not directly associated with any particular service provided by any level of government. Unlike them, the non-tax revenues (user fees, fees for public services, regulatory fees, specialist fees, etc.) constitute voluntary or mandatory charges that are associated with specific benefits that the individual who pays them receives through the consumption of certain goods and public service. User fees are used for payment of goods or services for which the user receives direct benefit in the value of the amount paid. They are most often associated with the amount of goods or services that the user acquires. Fees for the provision of public services are being introduced in order to compensate for the cost of using public resources or social costs that a user imposes on others through his activities, through the price he pays for the use of those resources or for conducting such activities (this group includes Pigovian taxes, whose aim is to neutralise the negative externalities). Unlike user fees, fees for public services are not directly related to the amount of goods or services that the user acquires, but the user's share in the cost should on average be in accordance with the rights exercised. Regulatory fees (fees for the administration and supervision) are introduced in order to pay for the costs incurred by the state due to processing of various applications and requests of the applicant, or to pay for the inspection and control of the user's activities. In addition to these groups, there are also specialised fees paid on the property, in order to reduce the direct increase in property value caused by the investment. Permits, licenses and other fees could also be introduced, as well as duties that have a mixed character of two or more different groups of public revenues.

Table 1. Classification of public revenues and their basic characteristics

Classification	Example	Basic characteristics
Tax revenues	Income tax, Consumption tax, Excise, Property tax, etc.	Introduced in order to realise revenue for any function of the state. No relation between tax burden and benefit for individual taxpayer.
Non-tax revenues User fees	Consumption of water, electricity, Connection charges, irrigation charges, etc.	Introduced in order to pay for the provision of goods or services that are of direct benefit to the taxpayer. User fees have to be equally distributed between same groups of taxpayers and types of services.
Public service fees	Various utility services (garbage disposal, sewage system, etc.)	The aim is to compensate for the social cost that the user imposes on others through his activity or spending of public resources. User's share in programmes of removing negative externalities cannot exceed the cost he imposes with his activities. User fees have to be equally distributed between same groups of taxpayers and types of services.
Regulatory fees	Construction permits, professional licensing, etc.	Introduced for coverage of costs that the state incurs from processing user's various applications and requests or to pay for the inspections and controls of user's activities. Regulatory fees cannot exceed the stated costs of administration and control.
Specialised fees	Land usage fee, etc.	Introduced in order to reduce direct increase of property value that occurs due to the investment. Must not exceed the increase in property value that occurs due to investments.

Source: Spitzer (2002), "Taxes vs. Fees: A Curious Confusion", *Gonzaga Law Review*, Vol. 38, Issue 2.

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A particular problem which reduces the transparency of the tax system in Serbia, and often leads to confusion especially among the foreign investors, is a terminological confusion present in the tax regulations. Some classic taxes are treated as fees in some regulations, as is the case with the land usage fee, which represents a typical property tax, or with company signboard fee which is also a classic tax and not a fee. Also, in many cases in which the user receives a particular service from the state authority, the value of the tax is determined at the level far higher than the cost of providing services, so in this case it could be said that this type of tax is a combination of fees and classic taxes. In the case of certain duties, such as court fees, the tax component dominates, and it could be argued that it is more of a tax than a fee.

There are over 370 different types of non-tax duties in Serbia, about half of which (179) are quasi-fiscal charges (as mentioned above, all non-tax revenue will be marked in this paper as quasi-fiscal charges³). Such a large number of duties, as well as the fact that they can be introduced by central government, local self-governments, independent agencies, regulatory authorities, departments, administrations, funds, etc. without or with little direct control from the Ministry of Finance, represents an important indicator of the urgent need to implement the reform of non-tax revenue system⁴. However, some duties have legitimate purposes and need to exist in a certain form and with minor changes – some of them need to be increased or decreased, and for others the method of calculation needs to be changed. On the other hand, there are taxes that need to be abolished, because they do not meet the basic conditions for their existence⁵ (absence of purpose – what is trying to be achieved with certain duties, as well as the absence of a clear idea on what the realised revenues are supposed to finance), but it is crucial that such revenues be replaced with some other forms (at the local level, property tax is particularly suitable) in order to achieve a revenue-neutral reform. Even though there is a large number of non-tax duties, individual taxpayer pays a significantly smaller number of duties (around several dozen). So for example, environmental taxes are paid only by the polluters, while there are also a lot of charges that are paid on voluntary basis for services for which they are intended.

Table 2. Revenue yield and scope of quasi-fiscal charges at various institutional levels of the government

	Republic	Autonomous province	Cities	Municipalities	Other	Consolidated
Quasi-fiscal charges in bn RSD	29.9	1.9	27.9	12.6	1	73
Number of quasi-fiscal charges	57	15	27	28	5	76
% of quasi-fiscal charges in total quasi-fiscal revenue	40.8	2.6	38.1	17.2	1.35	100
% quasi-fiscal charges in the budget	4	4.1	22.9	16.8	2.7	5.6
quasi-fiscal charges in % of GDP	0.94	0.06	0.88	0.4	0.03	2.31

Source: Author's calculations based on the data from the Treasury Department of the Ministry of Finance

Based on the available data on 2011 revenues from 76 quasi-fiscal charges, their revenue yield and volume by state levels were calculated (Table 2). We can see that, even though the largest number of quasi-fiscal charges is collected at the state level (57, where revenues from 27 of them are shared with the units of local self-government), their revenue yield (around RSD 30 bn or 4% of the state budget) is not the biggest. The largest revenues from these types of charges are realised by the units of local self-government (RSD 42.4 bn), primarily by the cities (RSD 27.9 bn, 22.9% of the budget), followed by the municipalities (RSD 12.6 bn, 16.8% of the budget) and finally by the Autonomous Province of Vojvodina (RSD 1.9 bn, 4.1% of the budget).

In addition to 76 quasi-fiscal charges, the data from the Treasury Department includes 29 other non-tax duties, which mostly represent the source of the state's revenue. Total revenue of non-tax duties for the state (105 different

³ A more precise definition of quasi-fiscal charges, non-tax revenues, etc. can be found in NALED (2012)

⁴ Absence of transparency in introducing certain charges and marginalised role of the Ministry of Finance in controlling this process in which line ministries, agencies, departments and administrations have been given the freedom to create the volume and basic elements of non-tax duties, presents an additional reason for the necessity of this reform.

⁵ Certain quasi-fiscal charges can be classified in this group, because they already have all significant characteristics of a tax, and they can be subsequently replaced by a less distorting type of tax.

taxes) amounted to RSD 46.6 bn in 2011 and they are almost equal to the total of other tax revenues and part of the non-tax revenues (fines and part of the revenue of public enterprises is excluded) that appear in the Law on the Budget. When we add to this the non-tax revenue of the local self-government units (RSD 44.3 bn RSD, out of which RSD 28.9 bn are revenues of the cities, RSD 13.5 bn of the municipalities and RSD 1.9 bn of AP Vojvodina) and other public institutions (RSD 15.4 bn, out of which the largest part are revenues of the public enterprise “Roads of Serbia”) we get a total revenue from non-tax duties at all levels of the state in the amount of around RSD 106 bn or 3.3% of GDP. We can see that the largest part of non-tax revenues is relatively equally distributed between the state’s budget and local self-government units, and that these revenues have seen growth in the past few years. Since the non-tax revenues make a significantly larger part of the budget of local self-governments than that of the state, their growth at local level is more pronounced. Thus, local governments had the highest nominal growth in non-tax revenue in the period 2009–2011, which amounted to 38% (real growth of 17%), while the nominal growth of the state’s non-tax revenue in the same period was 13% (real decrease of 4%).

Regulatory costs for drivers

Over the last few years, adoption of binding regulations has been especially common, and the result has been a significant increase in the cost for drivers. These measures include the regulation to drive with all four winter tires during winter, to buy new first aid kits, and others, as well as the latest regulation that increases the cost of passing the driver’s exam from EUR 200–300 to about EUR 850. The cost of EUR 850 for getting a driver’s licence is double the amount of the average salary in Serbia, which is the equivalent of driver’s exam in Germany costing EUR 4,000 (whereas the real cost of Drivers Ed in Germany is about EUR 1,800).

Proponents of these regulations justify them by saying their application increases the traffic safety, which may be true if we were to estimate the isolated effect of these measures. However, what is lacking in the justification analysis is the cost-benefit part of the analysis. Ignoring the cost, any measure that contributes to road safety would be justified, regardless of the cost. However, consistent application of such a logic would lead to absurd conclusions, such as for example that we should allow only the use of safest cars and prohibit the traffic on all unsafe roads, etc.

Cause and effect of the current system of quasi-fiscal charges

The existence of a large number of duties increases the tax compliance costs for taxpayers, which is an important indicator of its inadequacy. Inadequate parametrisation of fiscal duties, as well as the high compliance costs of the tax system, particularly affect entrepreneurs, micro and small enterprises. High fiscal duties of lump-sum character (as is the case with company signboard fee), increase the costs of micro and small enterprises, which sometimes leads to their transition into the grey zone or to their closure.

Inadequate parametrisation of quasi-fiscal charges leads to significant changes in relative prices, which creates high excess burden of taxation, relative to the one that would be achieved by applying the general tax. In this way the tax system in a broader sense has negative impact on economic efficiency. Besides that, the arbitrariness in determining some quasi-fiscal charges violates the horizontal equity of taxpayers, which means that taxpayers with the same economic power pay a different amount of duties (e.g. in the case of company signboard fee). The obligation of payment of certain fees by users who do not benefit from a particular service or harm the environment is a way of introducing a hidden tax, where the tax parameters are set in such a way that they create distortions. Thus, for example, gross revenues is used as the basis for calculating certain fees which means that immaterial costs are being taxed, and not only the added value. In this way, companies that have the same gross revenues pay the same taxes, even though their economic power measured by operating revenue or profit can vary significantly.

General reasons for excessive and uncontrolled proliferation of quasi-fiscal charges in Serbia are: the intention of the executive authorities at all levels of government to use the introduction of quasi-fiscal charges in order to avoid parliamentary control of spending, absence of clear legal framework that would define the procedure for introducing new charges and low general taxes compared to expenditures. Aside from these general reasons, the growth of quasi-fiscal duties on the local level was a response to a decreased transfer from the central budget, starting in 2009.

Intention of the executive government to reduce/avoid parliamentary scrutiny of spending is present in all countries of the world, and it can be argued that there is some kind of ongoing strategic game between the government and the parliament, where the government is trying to reduce parliamentary control, while parliament is trying to expand and strengthen it. Although this is a common phenomenon in the world, its dimensions in Serbia since 2003 have become worrisome. The existence of permanent motives of the executive government to reduce/avoid parliamentary scrutiny of public spending indicates that the measures preventing it cannot only be once-off measures (abolishing unnecessary taxes), but systematic, in the sense of improving legal restrictions that would more clearly define the restrictions, strengthen the control and corrective role of the Ministry of Finance (e.g. in the case of inadequately high burden on taxpayer, inadequate parametrisation, etc.). This just shows that even if the system of quasi-fiscal charges would for a while be put in order, in several years some new taxes would surface. Something similar happened in Serbia in the period 2001-2003 when almost all taxes were included in the budget, only to immediately after start a process of introducing new taxes that were collected outside the budget, and some even outside the consolidated account of the Treasury. The introduction of such taxes is almost always accompanied by appropriate campaigns claiming that it is a specific duty and it is important that it be outside the budget so as not to be used for other purposes and the like. Attempts to introduce extra-budgetary duties will certainly be present in the future as well, so system restrictions are required in order to minimize it. Introducing new quasi-fiscal charges or changing the number of existing ones without modification of the law⁶ can easily increase the level of revenue, while expenses from thus realised revenue can be spent by state agencies, public enterprises and similar institutions outside the parliamentary control.

The absence of appropriate regulations that would clearly define the procedure of introducing taxes, has encouraged budgets and off-budget institutions at the state level to introduce numerous duties which were inappropriately high, their base inadequate, and taxpayers arbitrarily defined. It is paradoxical that the funds collected from quasi-fiscal charges were sometimes inappropriately spent, allowed by the absence of parliamentary control, even though avoiding the improper spending was one of the main arguments why these duties should remain outside the budget.

The third important reason for the growth of quasi-fiscal charges is the systemic (structural) gap between the low basic taxes (VAT, personal income tax, corporate income tax, property tax, excise tax on cigarettes and alcoholic beverages) and generous public spending. This policy has resulted in high fiscal deficit, which is why all levels of government tried to introduce various quasi-fiscal charges in order to provide additional funds to finance public spending and reduce the budget deficit.

Finally, one important reason for the introduction of new duties and inappropriate increase of existing ones at the local level is a significant reduction in transfers to local communities from the state budget, starting from 2009. By increasing the existing and introducing new taxes, the local communities have partially offset the decline in transfers, but at the same time, by introducing distorting taxes they have made the business conditions worse. One of those duties, which is particularly notorious, is the company signboard fee which some local communities have increased inappropriately, where the increase from one taxpayer to another was pretty arbitrary.

3. Reform of the system of quasi-fiscal charges – principles and recommendations

The existence of a large number of non-tax and quasi-fiscal charges and their heterogeneity precludes the application of a uniform approach to their reforms. In this sense, their almost complete elimination or linear reduction are considered inadequate, since some of these duties should actually exist in the given amount, others should exist, but in a differently defined way, or in a lower amount, while some specific duties should be eliminated all together either by abolishing or merging them with other duties. Given the nature of this issue, it is necessary to define the basic objectives of such a reform, which would constitute a general framework for modification and/or elimination of certain types of these duties.

It is necessary to note that any reform of the system of non-tax and quasi-fiscal charges should be revenue-neutral, i.e. they should not lead to a reduction in total consolidated public revenue, because that would imply further increase of the already high fiscal deficit. Naturally, revenue neutrality can also be achieved by compensating for the reduction of revenue caused by the abolition or reduction of certain taxes, by increasing revenues from general taxes (e.g. property tax) or by introducing a local tax on business in the form of corporate income tax, e.g. at the rate of 3%.

⁶ Inadequate legal framework leaves a large space for using various sectoral laws, by-laws, local decrees, decisions of agencies' or public enterprises' steering committees to introduce various taxes, which can hardly be controlled from the aspect of the entire system (NALED 2012).

Starting from the relevant theoretical framework and experience of developed countries, there can be defined three main groups of objectives/principles of non-tax system reform and quasi-fiscal charges in Serbia:

- **Economic efficiency** – Redefinition of the system of non-tax and quasi-fiscal charges in a way that would minimize the excess burden of taxation and reduce the compliance and administration costs (due to the reduction of number of taxes), which would lead to a reduction in distortionary effects of these taxes on the economic behaviour of enterprises and citizens. In this regard, it is necessary to set up the system so that there is a smaller number of duties that would have a relatively wide scope and low rates, and the mechanism of their payment would be such that implementation costs would be as low as possible.
- **Equity and moderation** – Defining the parameters of duties should be based on the purpose of their introduction, so as to ensure sufficient resources for achieving this goal, while keeping them proportionate to the economic strength of the people who pay these duties.
- **Transparency and predictability** – In addition to the fiscal burden, often an important quality parameter of investment-business environment is also the degree of predictability of the fiscal burden. In this regard, it is essential that all duties (i.e. their basic elements) be governed solely by the law, which would prevent their frequent and rapid change, outside the parliamentary procedures. In addition, it is necessary that the revenues realised by the government on this basis be recorded on the consolidated Treasury account and be reported as part of the state budget, and then allocate funds from that budget for specific purposes. This would improve the transparency of the whole system and reduce the incentives and opportunities for frequent and unjustified adjustments to the rates of certain taxes.

In light of these objectives, i.e. principles of the reform of quasi-fiscal charges in Serbia, it is possible to define concrete proposals of necessary reforms in this area, which can be divided into two groups: i) structural, and ii) systemic and procedural reforms.

3.1 Structural reforms

The objective of structural reforms of non-tax and quasi-fiscal charges in Serbia is to create a system of duties that would make the uncertainty, risks and associated costs lower, and the distribution of burden more equitable and economically efficient. This way the same amount of total public revenue would be collected with less excess burden, lower compliance and administration costs, and with less negative effects on investment and business conditions in the country.

Given the large number of these duties, the aim of this paper is not to elaborate on individual solutions for each type of quasi-fiscal charges, but to define principles that would provide a precise framework for their reform. Consequently, structural measures aimed at improving the equity and efficiency of non-tax and quasi-fiscal charges in Serbia can be grouped into four areas.

a) Replacement of distorting and inequitable charges by appropriate taxes

In conditions of reduced inflow of transfers since 2009, a large number of local governments in Serbia has introduced new and significantly increased some of the existing taxes, some of which were introduced in a manner and an amount that discourages entrepreneurship. A significant increase and a regressive nature of the company signboard fee is often mentioned as an example of distortion and inequity in the system of public revenues in Serbia, especially because this is a moderately important source of public revenue (in 2011, revenues of local governments from this fee amounted to RSD 5 bn). This is a fee that in its economic essence represents a tax, because the company by its pure existence becomes obligated to pay it, and it gets no direct counter-service from the local self-government unit. Normatively speaking, the amount of fees is assessed by local public revenue offices, based on the relevant circumstances of the business entity (type of business, size of business premises, equipment, location and so on). However, in practice, this fee is usually of a lump-sum character and is not directly related to the real economic power of the taxpayer, which is why it is considered extremely inequitable and an important limiting factor in the development of shops and small businesses. In addition, there are numerous other local duties, which are essentially taxes, but are charged in some other, non-tax form, creating equal or greater distortionary effects. Therefore, in order to reduce risks and costs of investments and doing business at the local level, it is necessary to replace existing, numerous duties with a lower number of clearly defined taxes.

Comparative practice indicates various possibilities regarding the introduction of a relatively generous local tax that would make up for the revenues of the existing large number of different local tax, non-tax and quasi-fiscal charges.

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One possibility is the introduction of local tax on corporate gross revenues, which would be relatively easy, but also unfair (because they do not take into account the costs arising from the realisation of revenue), and there would also be a problem of spillover revenue to large and developed municipalities where most of the companies are headquartered. An alternative option could be the introduction of local surtax on earnings. In that case, the problem of loss of revenue by developing municipalities would not be so significant, but the introduction of such a tax/surtax would be inefficient due to the increased fiscal burden on labor, which is already relatively high in Serbia.

The third possible option, based on the practice in Germany that has been around for many decades, would be the introduction of a local corporate income tax, that would be paid on the same taxable income as the central corporate income tax, without the possibility of using tax relief, whereby the distribution of revenue from this tax among the municipalities would be done in proportion to the number of employees. Thus the company would calculate its obligation for local income tax, then that revenue would be shared among municipalities and cities in proportion to the distribution of the number of employees of that company by local self-governments in Serbia. Starting from the value of taxable profit of enterprises in Serbia for 2011, it is estimated that in order to match the revenue of company signboard fees, it would be enough to introduce a local income tax at a rate of about 1%. If within such a reform the goal was the abolition of not only the fees for putting up company signs, but also of other local taxes, this could be achieved by increasing the rate of local income tax according to the principle of 1 percentage point of income tax per about RSD 5 bn of lost revenue on other grounds. It is estimated that the rate of local corporate income tax should not exceed 3% (which would be the upper limit of allowable rate under which the municipalities would be able to adjust their local corporate income tax rates), so that together with the existing central corporate income tax rate of 10% (and even with the announced rate of 12%), cumulative corporate income tax rate in Serbia would not exceed 15%. It would still be lower than in most countries in the region, and considerably lower than the average of EU member states (where corporate income tax rate is on average 24.5%), and hence the distorting effects (in terms of impact on the inflow of capital, entrepreneurship, etc.) would not be great. In the case of introducing this tax, it should be ensured that the system of its administration be set up in a way that would minimize the cost (time and resources) of its application (e.g. electronic submission of tax returns, e-payment of taxes, etc.).

Aside from this, comparative tax practice shows that the mining royalty (fee for use of mineral resources), of which one-half of the revenue goes to local governments in Serbia, is among the lowest in Europe, and so it would be justified from the perspective of economic efficiency and equity to consider its increase (particularly in energy resources). Given that the existing mining royalty in Serbia is relatively low, it is estimated that its increase would not significantly affect the interest of foreign companies for exploitation, which means that the loss in efficiency would be relatively small, and at the same time it would provide a space for the abolition or reduction of some others distorting taxes.

Although the entire reform of the tax system (tax, non-tax and quasi-fiscal charges) should be revenue-neutral, it is probably necessary to increase the revenue yield of a certain number of (appropriately parametrised) duties in order to compensate for the revenue losses from the abolition of highly distorting taxes or their merging with some other duties. In this sense, it is estimated that a moderate space for increasing the revenue yield of low-distorting taxes exists in the domain of property tax, which could be achieved by broadening the scope of this tax (by including entities that are in the process of legalisation, etc.), by realistic assessment of the market value of the tax base, and by transitioning to the concept of market value for taxation of property owned by legal entities. It is estimated that the growth of revenue from property taxes based on these measures could be greater than the lost revenue from the land usage fee that would be integrated into the property tax, which would be desirable and cost effective.

b) Merging related taxes

The existence of a significant number of taxes aimed at similar applications often creates confusion in taxpayers as to which of these taxes they are required to pay, as well as an impression of multiple taxation, which creates resistance to the regular settlement of these obligations. In addition, the cost of fulfilling these obligations becomes higher (time and material resources spent on the reporting of these duties, their payment and administration). Therefore, merging related duties is a major step toward reducing the number of non-tax and quasi-fiscal charges, as well as simplifying the system of public revenues. Thus, for example, it is considered that there is no objective need for an annual fee on motor vehicles separate from the tax on the use of motor vehicles, and that in this case it would be proper to consolidate the two duties by including the fee for motor vehicles into the tax on the use of motor vehicles, because it is a duty of general type, which does not offer a direct counter-fee or service.

In a similar way, it would be necessary to integrate the land usage fee into property taxes, because there is no economic justification for having two essentially very similar forms of public revenues on the same tax base.

c) Adequate parametrisation of taxes

As previously stated, one of the main risks of the current system of non-tax and quasi-fiscal charges in Serbia is the lack of predictability in terms of their number, and especially their rate. So with some duties (e.g. company signboard fee) in the period 2008–2011 in some municipalities, the amount of this fee for certain groups of taxpayers has dramatically increased (even multiple times), which hinders a reliable business planning at the company level. It is therefore essential that in most cases the law prescribes a maximum amount of certain duties, where local self-government units or various extra-budgetary funds (depending on the type of duty) would have the right to determine themselves the amount of duty, but within the given limits. Besides, it is possible to condition the increase of duties by the prior approval of the Ministry of Finance. This would contribute to the harmonisation of business conditions in the whole country, and the risks related to business operations would be reduced.

Also, in order to improve economic efficiency and achieve (not just fiscal) objectives of introducing a specific duty, in particular and often significant cases, it would be necessary to change its basic parameters. Thus, for example, in the case of fees for mineral resources, it would be efficient to replace the *ad valorem* fee (expressed as a % of company's revenue) with a fee in a fixed absolute amount per unit of quantity of a certain mineral. In this way, companies would not be "punished" for achieving a better sales price for its products on the market, but rather the fee would lead to the identification of an efficient amount of extracted raw materials, which is actually the purpose of the fee.

Of the total number of non-tax and quasi-fiscal charges in Serbia, a significant portion is related to different environmental taxes. The aim of introducing environmental taxes can be purely fiscal (revenue collection) and/or corrective, related to discouraging activities that generate pollution. In this sense, there is significant room for improving the effectiveness of fiscal duties through consolidation of related duties and, where possible, the affirmation of the principle of introducing environmental tax per unit of pollution, not some other unit (production volume, operating income, etc.), because only such a method of determining the tax base can lead to socially and cost effective outcomes. Thus, for example, in addition to the fee for the use of forests and forest land, which is paid as a percentage of the market value of harvested timber, an obligation to pay compensation for the protection and utilisation of forest functions has been introduced in Serbia, which is calculated as a percentage of total revenues of the company (0.025%). Since the last fee has the character of an environmental tax and not a fee, it would be reasonable to either calculate its rate per unit of pollution/forest utilisation, or to integrate it in the fee for the use of forests and forest lands or to completely abolish it.

d) Compliance of taxes with their economic purpose

Due to the need to provide funds for financing public expenditure, in recent years there has been a common practice of increasing certain taxes above the levels of economic justification, and changing the purpose of these funds, which *de facto* gives fees and charges a character of a tax. In this regard, in order to reduce costs and risks of doing business and improving the predictability and transparency of the system of public revenue, it is necessary to make changes in certain types of duties, whose aim would be their consistent alignment with the economic purpose of these duties.

Thus, the existing policy of court fees (e.g. verification of contracts fee, etc.) associates the rate of fees with the value of the contract, which is why these fees are often considered additional taxes (e.g. VAT or transfer tax is paid on the sale of property, but the court fee for the verification of the contract is sometimes only slightly lower than the tax). Consequently, it is necessary to change the method of determining the rate of these fees so that it reflects the costs borne by the judicial authority for the provision of a particular service. Given that such a change would lead to a reduction in court revenues, it would be necessary to secure additional funds from the budget, collected through general taxation. Therefore, it is necessary to make this adjustment gradually and within a broader reform of the system of public revenues in order to avoid deterioration in the operating conditions of the courts in Serbia.

3.2 Systemic and procedural reforms

It is possible to improve the predictability and regulation of the business environment without the direct reduction/re-parametrisation of duties themselves, assuming an adequate procedure be put in place for their introduction, implementation, administration/collection, which would make the costs and risks of doing business minimal and predictable. In this respect, there are several basic recommendations of a systemic and procedural nature, whose

implementation would significantly improve the predictability and transparency of the system of non-tax quasi-fiscal charges in Serbia.

a) Promotion of the rule that only law can be the basis for introduction of taxes

The costs of application, administration, payment and collection of fiscal charges grow with the increase of their number and complexity of the procedure for their determination. Consequently, it is essential that the introduction of all non-tax and quasi-fiscal charges be regulated by law (if possible - one law, so that companies could avoid the risk of not settling their liabilities due to the lack of information that a specific duty has been introduced or changed). For some specific duties it is justified that their rates be determined by other levels of the government (e.g. local self-governments, agencies, etc.). In order to reduce the risk of excessive and unwarranted increase of certain taxes, it is necessary to prescribe that in order to change the rate of duties that are not limited by law, the prior approval of the Ministry of Finance is required. Thus, if a local self-government unit (which does not have the right to legislate) wants to introduce a new levy or increase an existing one above the current legal limit, it would have to obtain the approval of the Ministry of Finance. Ministry of Finance, in the event of consent, would then propose the changes and amendments to the relevant law to the Serbian Assembly. This would affirm the principle of parity of jurisdiction and responsibilities of the Ministry of Finance for governing the policy of public revenues and expenditures in the state.

b) Introduction of the gross budget principle

One of the main reasons that the extra-budgetary institutions were incited to unrealistically increase the quasi-fiscal charges is that thus generated revenues were almost entirely at their disposal, beyond the control of the Ministry of Finance. Those funds were usually spent on increasing wages, which lead to situation that employees on the same positions (e.g. driver), but in different state institutions have considerably different earnings. In order to reduce the possibility of irrational use of resources, *de facto* realised from the monopoly created by the state (e.g. the high revenues of the Budget Fund for Forests has not been achieved on the basis of its successful market recognition, but on the basis on the government giving them exclusive rights to collect forest fees), it is necessary for the revenues of extra-budgetary institutions to be recorded on the consolidated Treasury account and that most of it be paid to the state budget, from where they would then be distributed to relevant programmes.

It would be justified to exclude from this rule cases where government institutions realise revenues from providing services on the market, competing their private counterparts (e.g. revenue generated by faculties from the sale of books or provision of educational services), because this would motivate the institutions to improve the quality of their services.

c) Clear distinction between fees, charges and taxes and definition of general rules for determining their rates

The first step in the regulation of non-tax and quasi-fiscal charges refers to clearly distinguishing between fees, charges and taxes, since in Serbia all duties are often referred to by one name (e.g. charge), even though by their economic purpose they represent a different type of public revenue⁷. Precise differentiation by types of duties is necessary as a prerequisite for defining the general rules for determining their rate, which are not the same for taxes, charges and fines.

Fees represent a public revenue, which is paid for a particular service of the government body (e.g. verification of contracts, issuance of certificates, etc.). Accordingly, the rate of fees should be consistent with the costs associated with that service (time and material resources spent by the relevant institution for the provision of a particular service). This would avoid the situation of two entities paying different rates for the same service, which makes the system inequitable.

Charges represent the kind of public revenue that is paid for the use of certain resources (e.g. natural resources). The principle of equity would imply that their rate is determined in proportion to the damage inflicted by the particular taxpayer's activity to a particular resource, i.e. in proportion to the expenses necessary for its restoration or repairing of the caused damages. Determination of the charge in this way affirms the "user pays" principle or "polluter pays" principle. Otherwise, the introduction of the obligation of payment of lump-sum fee charges for all enterprises and/or citizens, makes the system inequitable and distortionary (e.g. forest charge is paid both by a law firm that emits minimal pollution and a chemical company that has a significant impact on the forests in its environment). Although

⁷ Some duties are of mixed character, but since most of them can be classified in one of the mentioned types of public revenues, the paper will from now on focus on those types of duties.

this principle of determining the rate of charges is clear and economically justifiable, its application in practice may be faced with some difficulties. Thus, the land development charge raises the question of whether it should be equal to the marginal costs of entrance of an additional user or to the average total cost of his entry. Application of the principle of marginal costs would mean that the highest charges would be paid by the first users (e.g. first houses built in a particular neighbourhood) due to high fixed costs, while subsequent users would pay less, which would be unfair. Therefore, in this case an approach based on the average total cost (total cost of utility infrastructure divided by the projected number of residential or commercial units in a particular area, weighted by the characteristics of the units, such as surface area, etc.) would be considered more equitable. However, in the case of other charges some different approaches should also be considered.

All other fiscal duties, for which there is no direct counter-service or counter-charge, fall under taxes. The equity principle in taxation would involve cutting them in proportion to taxpayer's economic strength (consumption, assets, income/profits).

d) The availability of a comprehensive review of public revenue

In order to improve the transparency of the system and reduce the cost and risk of doing business, it would be necessary to create a unique electronic review of all taxes and other non-tax and quasi-fiscal charges imposed at the national level, and their basic parameters (who pays, for what, how much, and what are the special rules and exemptions). This type of database, that would be regularly updated, could be made available to the public on the website of the Ministry of Finance and Tax Administration (in Serbian and English) and as such would significantly reduce the risks and costs that companies have on determining and settling their obligations. This would reduce the risk of companies missing the information on the introduction/abolishment or change of certain duties, and would also reduce the administrative costs (e.g. hiring consultants) that the company incurs in order to determine its obligations.

e) Availability of comparative reviews of local duties

In addition to restrictions imposed by the Ministry of Finance or the law, the deterrent factor from the policy of excessive quasi-fiscal charges at the local level could be the pressure from the local public, which could occur if residents and businesses had information about the relative rates of fiscal and quasi-fiscal charges in their area compared to other municipalities and cities. This could be achieved by introducing an obligation for the local authorities to show a list of all local fiscal and quasi-fiscal charges and their parameters in a unique form prescribed by the Ministry of Finance on their website, both in Serbian and English. This would enable the Ministry of Finance to create a single database on their website with parallel overview of local duties across all municipalities, or at least a page with links to databases of all individual municipalities.

f) Promotion of a mandatory public debate in relation to the introduction of or changes to certain duties

In case of planning the introduction or changes to certain non-tax or quasi-fiscal charges, it is necessary to submit a draft amendments to the public and organise a series of round table debates between the representatives of the Ministry of Finance, the interested government institutions, business associations, auditing and consulting companies, and other interested parties, where various options would be analysed for the possible improvement of the proposals under consideration. This way of including the very taxpayers and the public in the process of introducing/changing certain duties would reduce their resistance to paying these duties and it would increase the rate of collection, while the taxpayers would have ample time to include additional costs of these duties in their business plans.

g) Complete computerisation of the payment process of quasi-fiscal charges

For those non-tax and quasi-fiscal charges that would continue to exist after this reform, it should be ensured that the procedures for reporting tax obligations/registration of taxpayers, providing tax calculations to taxpayers and their payment, as well as for accessing the state of obligations should be completely computerised, i.e. conducted online in order to make the cost of implementation and collection as low as possible.

4. Evaluation of government proposals for the abolition of restrictions and quasi-fiscal charges

Reform of quasi-fiscal charges is an important step in the development of public finances in Serbia. According to the government proposal, there is a plan for abolishing more than 100 quasi-fiscal charges, legal regulation of the procedures for introducing them, the increase of authority of the Ministry of Finance in determining local duties, etc. The number of quasi-fiscal charges in Serbia is being reduced by about $\frac{1}{4}$ which will significantly reduce the cost of implementation of the system of public revenue. Reform of quasi-fiscal charges is closely associated with the reactivation of the gross budget principle, according to which all revenues of government institutions need to pass through the budget.

Yet it is estimated that as a result of the relatively rapid reform of the complex system of quasi-fiscal charges, some duties have been abolished that should actually exist. Thus, for example, it has been concluded that the utility fee for keeping catering and entertainment facilities on the water – these facilities pollute the water, thereby causing damage to other citizens (fishermen, swimmers, and they increase the cost of water cleaning). Instead of abolishing such duties, it would have been more appropriate if their parameters were improved, in the sense of reducing the level of duties, and more adequately determine its base and taxpayer. In addition, some of the distortive duties, such as the company signboard fee, should be replaced by economically more desirable duties, rather than just abolishing them and thereby increasing the deficit of local budgets and consolidated government budgets.

Improving the tax system in a broader sense should not be a one-time action, which would consist of the abolition of some duties, but a continuous activity that would improve the structure of the tax system, improve the parametrisation of individual duties, increase the transparency of the tax system, and others. Also, aside from quasi-fiscal charges, the government activity should be focused on reducing regulatory costs that the state imposes through its regulations on its citizens and economy. Previously we mentioned regulations that unnecessarily increase the costs for drivers, but such costs are imposed on businesses as well through the obligation of submitting various reports to the government, and through long, expensive and sometimes unnecessary procedures for obtaining permits, licenses, certificates, etc.

In the context of the analysis of proposed government measures aimed at regulation of the quasi-fiscal charges, an issue of their fiscal implications arises, as well as the question of the possibility of improving business conditions, without losing public revenues or increasing the fiscal deficit.

4.1 Fiscal effects of abolishing quasi-fiscal charges

According to the Ministry of Finance, the abolishing of quasi-fiscal charges will yield savings for the businesses and the citizens of about RSD 10 bn, of which savings at the local level will amount to about RSD 5.5 bn⁸. Therefore, the important question is how is the reduction of state revenue going to affect the state budget and local communities, and thus the consolidated fiscal deficit as well. If appropriate corrective measures for taxes and/or expenditures are not taken, reduction of revenue from quasi-fiscal charges will affect the increase of the consolidated deficit by about RSD 10 bn. Of this amount, the revenue of local communities would drop by about RSD 5.5 billion, while the state revenue would drop by around RSD 4 billion. In doing so, the reduction of quasi-fiscal charges across local communities would be uneven. According to statements of the representatives of some of the smaller local governments, which should be taken with a grain of salt, they stand to lose up to 30% of revenue just with the abolition of company signboard fee.

In the years when a strong fiscal consolidation is needed, which requires rapidly reducing the fiscal deficit, its possible increase due to the reform of quasi-fiscal charges would be unsustainable. Therefore, it is important to complement the elimination of some quasi-fiscal charges by increasing revenues from general taxes, in order to avoid the increase of fiscal deficit. In the case of local communities, the improvement includes widening taxable property, and the harmonisation of the property tax base with market value could generate additional revenues. However, if that is not enough, the possibility of introducing a local corporate income tax could be considered, which would be maximum 3% or increasing the state corporate tax to 15%, with the aim of increasing transfers to local communities.

When it comes to local communities who lost a large percentage of their revenue due to abolishing company signboard fee, it is necessary to bear in mind that this was a bad tax that generated large revenues for their budgets, but it

⁸ Fiscal Council produced a similar estimate, according to which local communities lose RSD 5-6 bn due to abolishing quasi-fiscal charges.

also hindered the opening of new enterprises and businesses. In some cases, high company signboard fee served as a replacement for some other taxes (e.g. local tax on the use of natural resources), so in such cases a tax should be introduced or the existing one increased. In that case, taxpayers would only be companies that use these resources, instead of all companies. If the local communities cannot compensate for revenues from company signboard fees with other taxes, then it is necessary to increase transfers to them from the state. It would not constitute a heavy burden on the state budget, because it is mostly the case of small communities that have small budgets.

From the standpoint of fiscal consolidation, lost revenues of local communities from abolishing quasi-fiscal charges should not be compensated by higher revenue from the wage tax, as these revenues should be used for the transfer of new responsibilities from the state to the local level.

4.2 Is it possible for the state to receive the same revenues, while putting businesses in a better position?

Reform of the system of quasi-fiscal charges should not be observed only from the standpoint of its impact on public finances, but also from the point of impact on economic efficiency. From the standpoint of economic efficiency, it is good if taxes are reduced or if the distorting and complicated taxes are replaced with less distorting and simpler ones⁹. From the standpoint of economic efficiency, it is desirable that the complicated tax system, which consists of a number of arbitrarily defined duties, be substituted by a simpler system, consisting of a smaller number of general taxes. Frequent and unpredictable changes in tax regulations bring uncertainty in the activities of business entities, which has its equivalent in the increase of certain costs.

In the abolition or reduction of any taxes, the benefits of the businesses are greater than the loss of revenue by the state¹⁰. This difference is especially great when high taxes, complicated taxes or taxes that are de-stimulating the entrepreneurship are being abolished or reduced. Such taxes distort relative prices, and the costs of their use are high. The difference is still not that great, and it is possible that consumers might benefit from it as well and not just the businesses. In the abolition of highly distorting taxes, the benefits to the companies exceed the reduction in tax revenues for the state by 20–30%. In addition, by simplifying the tax system and individual taxes, the tax compliance costs are reduced as well by as much as 10%¹¹. This means that if the state lost a total of RSD 10 bn in tax revenues, the total benefits for the businesses and consumers can amount to RSD 13–15 bn. So, the elimination of certain taxes would bring more benefits to the businesses and consumers than it would bring losses to the state, but the difference is modest. Also, the benefit to the businesses and the consumers is long-term only if the state simultaneously reduces the public spending, which means that the fiscal deficit would not be growing – otherwise, in the future businesses and citizens would end up paying through higher taxes what they saved now, plus interest.

However, an important question from the standpoint of fiscal consolidation is whether the tax reform can improve the economic position of businesses and citizens, while at the same time having the state realise the same revenues, i.e. without increasing its deficit. The position of both businesses and individuals would improve if the distorting taxes, such as company signboard fee, would be replaced by less distorting taxes such as property or corporate income tax. Of course, the net profit of the businesses and the consumers in this case would be lower than in the case of the abolition of taxes, and it would stem out of the reduction of costs of administering taxes and the reduction of negative impact of taxation on economic efficiency. This means that, by replacing the bad taxes with better ones, businesses and citizens can be put in a more favourable position, without the state reducing its revenues.

In this regard, it is estimated that the proposed government measures will contribute to the improvement of business conditions through the reduction in risks/uncertainty and costs (duties and their applications). However, the quasi-fiscal charges reform is just one of many measures whose implementation is necessary to reduce the costs and risks of doing business in Serbia. In this regard, it is necessary to implement systemic reforms in other, more significant segments, such as improvement of legal safety, increase in the efficiency of public administration, reduction in corruption, reduction of regulatory costs, establishment of financial discipline, improvement of infrastructure, and others. For the improvement of business environment it is important to maintain macroeconomic stability in Serbia, which is still very fragile, and to adopt a credible fiscal consolidation programme that would be supported by the IMF and whose realisation would contribute to improving the country's credit rating.

⁹ The argumentation becomes more complicated if we take into consideration the way of spending taxes as well – in that case, it is possible that the reduction of taxes, that leads to the reduction of some important government function, can actually reduce the wellbeing of the state.

¹⁰ See the previous footnote.

¹¹ In the case of abolishing taxes, compliance costs are reduced to zero, while in the case of merging several taxes, compliance costs can be reduced by several times.

Reform of the System of Quasi-Fiscal Charges for the Improvement of Business Conditions in Serbia

Based on this, it is estimated that the reform of the system of quasi-fiscal charges, with certain adjustments that would prevent the increase of the fiscal deficit, may have a positive impact on the economic efficiency. A positive effect would be achieved by replacing a complicated and non-transparent system of duties with revenue-neutral, but simpler system whose changes would be predictable. This means that through revenue-neutral tax reform, the state can remain in the same position, while putting the businesses and citizens in a slightly better position. Similar gains in efficiency could be achieved by a revenue-neutral tax reform that would increase the VAT, while reducing the social security contributions¹².

Conclusion

Reform of the system of quasi-fiscal charges is an important condition for improving the business environment in Serbia. The goal of the reform should be simpler and more predictable system of public revenue, which would be superior to the current one from the standpoint of economic efficiency and equity. Reforms would be implemented through abolition of unjustified duties, consolidation of related duties, and replacement of distorting and inequitable taxes with other taxes. From the point of transparency, it is important that the duties in tax regulations are adequately marked and classified, so as to avoid creating confusion about their nature. The second part of the reforms would refer to improving the parametrisation of duties whose application is justified, and that would include aligning taxes with the economic power of taxpayers, fees with the costs of providing government services, and charges with the benefits that the user gets or damages that he creates. An important part of the reform is the establishment of systemic restrictions, in order to avoid developing again after a few years a distorting and inequitable system of quasi-fiscal charges. In this context it is important to consistently re-apply the gross budget principle, as well as introduce all fiscal and quasi-fiscal charges through the laws. It is also necessary that the Ministry of Finance gets a key role in creating all duties at the national level, and to strengthen its supervisory role at the local level.

From the standpoint of fiscal policy, it is important to ensure that the reform of quasi-fiscal charges together with the related reform of general taxes (corporate income tax, property tax), be revenue neutral, so as not to further increase the fiscal deficit. Reforms of quasi-fiscal charges should support the improvement of business conditions in Serbia, as well as the fiscal consolidation programme. The reforms of the system of quasi-fiscal charges proposed by the government represent a significant step towards improving the business environment, as it abolishes a number of unjustifiable duties, defines the legal procedures for the introduction of duties in the future, includes all taxes in the budget, etc. Still the main weakness of the proposed reforms is that they are not revenue neutral - they increase the fiscal deficit by around RSD 10 billion, which further hinders sustainable fiscal consolidation. A possible solution to this problem lies in the increase of revenue from property taxes or increase of corporate income tax rates to 15%.

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¹² See: Arsić et al. (2010), OECD (2010)

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