

Measuring taxation with indicators that boost sustainable development in west Balkan region

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Abstract

This paper builds on the reform recommendations for fairer taxation in seven countries of the Western Balkan proposed by CSOs in the “Tax Justice in SEE” report. It identifies indicators that can be used to measure taxation and addresses whether the focus should be on growth friendly taxes that EC suggests for member states to implement in their development of tax systems with EU 2020 and whether other criteria beside share of taxes in GDP can be used.

Our research looks into distributional and environmental effects of taxes. For example, the aim of a regressive tax on alcohol or gas (excise duties) is to divert consumers of their excessive use and thus have a positive effect on people’s health or environment or charge them for the damage caused to society or environment (emissions). However such taxation has also a negative distributional effect on lower level income population.

Lastly, the paper reviews the indicators that could measure taxation on regional level, as the newest research on measuring development beyond economic growth shows that the future measurement focus will be at regional and not national levels. The need for regional measurements of Western Balkans’ taxation is also demonstrated by cases of Bosnian workers, who are employed in Slovenia (taxpayers), posted to Germany (generating added value), but using the public social and health services in Bosnia.

Key Words: Sustainable Development, Western Balkans, Indicators, GDP, Tax Justice, Tax Reform, Civil Society

Meritev obdavčitve z indikatorji, ki pospešujejo trajnostni razvoj v zahodni balkanski regiji

Povzetek

Prispevek temelji na priporočilih za reformo za pravičnejšo obdavčitev v sedmih državah Zahodnega Balkana, ki so jih predlagale organizacije civilne družbe v poročilu »Davčno pravosodje v JV Evropi«. Opredeljuje kazalnike, ki jih je mogoče uporabiti za merjenje obdavčitve, in



obravnavajo, ali bi se morali osredotočiti na rasti prijazne davke, ki jih Evropska komisija predlaga državam članicam pri izvajanju davčnih sistemov s strategijo EU 2020 in ali so lahko druga merila poleg deleža davkov v BDP uporabljajo.

Naše raziskave preučujejo distribucijske in okoljske učinke davkov. Na primer, cilj regresivne davka na alkohol ali plin (trošarine) je odvrti potrošnike od njihove prekomerne uporabe in tako pozitivno vplivati na zdravje ljudi ali okolje ali jim zaračunati za škodo, povzročeno druzbi ali okolju (emisije). Toda taka obdavčitev ima tudi negativen distribucijski učinek na prebivalstvo z nižjimi dohodki.

Nazadnje, pregledamo kazalnike, ki bi lahko merili obdavčenje na regionalni ravni, saj najnovjše raziskave o merjenju razvoja izven gospodarske rasti kažejo, da bo prihodnje merjenje osredotočeno na regionalne in ne na nacionalne ravni. Potrebo po regionalnih meritvah obdavčevanja zahodnega Balkana kažejo tudi primeri bosanskih delavcev, ki so zaposleni v Sloveniji (davkoplačevalci), napoteni v Nemčijo (ustvarjajo dodano vrednost), vendar uporabljajo javne socialne in zdravstvene storitve v Bosni.

Ključne besede: trajnostni razvoj, Zahodni Balkan, kazalniki, BDP, davčna pravica, davčna reforma, civilna družba
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1. Selected problem and viewpoints of dealing with

International organizations, such as Organization for economic cooperation and development (OECD), European Commission (EC) and International monetary fund (IMF) are looking for solutions for countries to have growth friendly tax system (Schratzestaller, 2015, 2). For Slovenia, IMF (in document Growth-enhancing tax rebalancing) has proposed the moderate tax system that has following features: Less complex tax legislation, more persons should be taxed, lower contribution for social security insurance (social security services should be paid from integral budget), fewer exceptions for lower VAT rate, higher taxation on property (Kaltneker, 2019).

Similar approach has EC, focusing on growth-friendliness of member states' tax systems, but other indicators measuring distributional and environmental impact are left behind. (Schratzestaller, 2015, 2).

As part of their project, civil society organizations (CSO) reviewed public finance in 7 countries of western Balkans from 2016-2019. They found that these countries have general decline in quality of public services and growth of inequality in property of people. The share of tax in GDP is lower than in EU. Comparing 7 countries with EU average, western Balkan states collect more income from VAT and less from Personal income tax (opposite of EU average). As result the progressive taxation of taxpayers in western Balkan states is low, and the big enterprises (and rich people – tycoons) have a lot of tax reliefs or are not acted tax dodging. Therefore the authors of the report recommended following reforms for fairer taxation: Tax justice must be related with new model of public investments and public spending. Personal income tax should be more progressive. Parliamentary oversight capacities should be improved in direction of proper evaluation of budget planning, including evaluation of risks. Fiscal framework should discourage ad hoc tax changes. Tax discipline should be improved and state subsidies should be regularly analyzed (cost-benefit). (Mijovic Hristovka, Živčič, 2018, 3-37).

There are different proposals for tax reforms and they all put development as a goal high on their agenda. But as international institutions are looking to reform taxation without challenging the economic growth, NGOs are looking to redistribute more among the people of western Balkan countries (providing better public services through more progressive taxation and more equitable distribution of tax burden between enterprises and people). In following article the author identifies indicators that could be used to measure influence of taxation on development.

2. About indicators

After crises of 2008 alternative concepts were developed in order to secure economic, social and environmental sustainability; going “Beyond GDP”, as the 2007 conference of international institutions was titled. However the institutions failed to systematically consider the context of sustainability. EC promoted a shift from direct taxes to consumption taxes (for example taxes on tobacco and alcohol, taxes on polluting activities, taxes on property (also on inheritance)), due to increase of economic growth. While the increase of taxes is generally used to consolidate the national budget, it should not reduce the economic growth. Indicators



introduced by EC therefore focus on economic sustainability. The list of indicators includes also those measuring environmental dimension of sustainability. The EU strategy for 2020 is about smart, inclusive and sustainable growth. The indicators that go with this strategy are employment rates (also employment rates of second earners, of low-skilled and young people for measuring social dimension of sustainability) and greenhouse gas emissions (for measuring environmental sustainability dimension). These indicators cover only some aspects of social and environmental dimensions of sustainability. Social sustainability indicators do not address combating poverty or fair income distribution. (Schratzensaller, 2015, 71).

As per IMF's recommendation, Slovenia should be less generous with social welfare for unemployed and should lower the tax on wages of employed, which should then result in higher employment. (Kaltnekar, 2019). This case demonstrates that the social dimension (welfare for unemployed) is in contradiction with economic dimension (higher employment) in IMF goals. Tax system's economic sustainability is on the top of IMF's agenda.

Economically sustainable tax system aims to generate enough revenues for country's budget to be able to support government's activities. It is actively fighting against illicit financial flows. It reacts to global flows of capital, workforce, services and goods by reducing profit shifting. It values the negative externalities of market activities and then charges the consumer with the costs of reducing the consequences of these negative externalities, aiming to discourage consumption of products that are dangerous to the environment or health. It facilitates production and consumption of merit goods (that create positive externalities, such as health and education). It has low costs of tax collection. (Schratzensaller, 2015, 61).

As we have witnessed in recent demonstrations in France, the citizens protested against lowering the taxes for rich people (taxing president's campaign supports' great wealth was suspended and 3 billion Euros were lost for the budget) and against a proposed addition to the tax burden of the middle class (taxation of gasoline was proposed because EU issued a warning to its member state that it has an unbalanced budget due to this measure. The French president Macron appears not to have understood the basic political grammar of taxation (Nora, 2019, 25).

On the other side, France introduced an act in 2015 public budget reporting. These reports are discussed in a tripartite body, made of parliamentarians, experts, and citizens. Every first Tuesday in October, French government must present indicators of nation's wealth (on material heritage of the nation, also natural (biodiversity) position of France in world and the progress on topics of inequality (inequalities in health care, education...)). (Laurent, 2018, 414).

There are diverse indicators that show the relationship between sustainability and taxation. Overall tax ratio can be easily calculated, and available data is comparable in time and place. But it provides for a limited insight into the sustainability of a tax system. There is no detected impact of overall tax ratio on economic growth, when tax rates are not very high. Good indicators have the following characteristics: 1) can assess sustainability of tax system; 2) reveal the gaps; 3) show the progress through time; 4) can be used for measuring components of tax system (individual taxes, individual dimension of sustainability); 5) can be used for political decisions on sustainable development; 6) can address also the general public. (Schratzensaller, 2015, 63).



Generally they should be comparable (between countries, regions); they should be widely recognized (its interpretation is generally accepted); they should be valid (they measure what they were intended to measure); they should be reliable (we can rely on results of the measurement).

Indicators should measure relations between individual taxes and individual dimensions of sustainability (for example between share of environmental taxes in overall tax incomes and development of greenhouse gas emissions). But the relation of one tax to different dimensions of sustainability can be contradictive. Taxes on alcohol and tobacco consumption can make drinkers and smokers healthier (as they consume less toxic substance) but also poorer (as these taxes are regressive). There is a contradictive impact of capital transfer tax and personal income tax or corporate income tax (negative effect on economic sustainability, positive effect on social sustainability), environmental tax (positive effect on economic sustainability, negative effect on social sustainability). Taxes that have mostly positive impact on sustainability are the environmental taxes, real estate taxes and wealth taxes (Schratzensaller, 2015, 68).

As we have seen in demonstrations in France, governmental lowering of wealth taxes and introduction of higher environmental taxes resulted in demonstrations against the government. However, the corporate income taxes that have less impact on sustainability as the environmental and wealth taxes were also subject of demonstrations. During the demonstration a magazine *OBS* reached out to 40 French enterprises with higher market value and asked them to disclose information on taxes they paid in France. 33 of them did so. The result was a neutralization of the general protest against enterprises and a start of more argued debate on corporate taxation. (Fay, 2019, 36)

As we can see in the Western Balkan region, the problem with posted workers from western Balkan countries is related to taxation and social security system of countries in the region. It can be measured and addressed only on regional level and not in each state separately as the positive effects in one state can produce negative effects in another state in long term. Many enterprises that foreign owners established in Slovenia are operating in Germany, Austria and Belgium. These companies then supply, for example Germany with workers from western Balkan countries, where the unemployment rate is high and the workforce is inexpensive in comparison to workers from Germany (as Slovenian social contributions are lower). This is how the deficit in labor market in Germany is addressed. The company that is established in Slovenia pays taxes and social contributions in Slovenia and not in Germany. The unemployment rate in the country of origin of these workers gets lower. But when looking from the aspect of sustainability, the economic system of western Balkan Region is then more dependent from EU countries (Sket, 2018, 5).

Further more, low social contributions paid in Slovenia make local workers in EU countries less competitive. That is why the European Federation of Building and Woodworkers (EFBWW) submitted a formal complaint against Slovenia to EC for illegal state aid. That is why the international impact of taxation must be addressed.

In OECD countries, 40% of public spending is made on territorial level (city, municipality, local or regional government), of which 70% goes for education, health, social protection and



general public services. Local governments have direct influence on the wellbeing of its population. Measuring wellbeing on local level can help decision makers to choose priorities for public interventions (and also public spending). Territorial level is more agile than national and has capacities to put in practice new indicators and introduce new policies. (Brezzi, 2016, 15)

The regions are back in the center of discussions. Comparison between costs of transport and economy of scale determinates if production will be local. Basic calculation of consumption in an urban economy is a sum of costs of transport and costs of lodgment. (Laurent, 2017, 171). Taxation of transport (due to environmental sustainability) and of wealth on the national level influence the decision on regional production and consumption, so indicators from regions should be used.

3. The findings and conclusions

Tax incomes in EU members present 40 % of GDP. A reform of taxation equals a reform of a society. The increase in the share of taxes in GDP demands tools for measuring influence of tax policies on decisions of enterprises, consumers, employees and employers, as well as lifestyle decisions. (Schratzensaller, 2015, 59).

Taxes have wide influence. In France, the results of ad hoc Macron's tax reform were devastating for political cohesion as people took to the streets to protest the government's actions. In western Balkans the system of taxation favors bigger enterprises and wealthy individuals. At the same time it is regressive in nature (VAT based), and as such disproportionately more impacts the poorer individuals. Experts are looking for indicators to measure social and environmental development that would be useful for tax reforms "beyond GDP".

It is difficult to prepare a holistic assessment of a country using different indicators. How to weigh specific indicators? As some taxes have contradictive influence on different components of sustainability (trade-offs), the indicators for example of relation between environmental taxes and environmental sustainability show a positive impact of environmental taxes on environmental sustainability, but negative impact on social sustainability due to the regressive distribution of some of environmental taxes. There is potential in using qualitative indicators that assess if tax system is perceived as fair, and taxpayers' trust in tax system.

When most budgets are national, the influence of a tax system is regional. Regions can be as western Balkan region, or on other side, many regions are units of one state (as municipalities). The indicators should therefore also be measured on regional levels.

At the same time it is essential that the public is involved in public discussion when it comes to public finance. In France, they use indicators for public reporting on budget. One of characteristics is that the public is able to identify itself with the goals measured through these indicators. The taxation is part of a public discussion on public finance. When taxation is not appropriate, the discussion ends and demonstration starts. When discussion is appropriate e.g. fact based (as for example the public disclosure of paid taxes by the biggest French



enterprises), there is less protests and demonstrations and more exchange of rational arguments. The use of sustainable taxation indicators would help bring societal change, starting at regional level, and facilitate public discussion and democratic decision making.

Slovenia, a EU member is historically connected to the western Balkan region. For the region CSOs suggest that personal income tax should be more progressive but IMF suggestion to Slovenia is to lower the tax on employee wages. The sustainable taxation indicators should be used also to measure taxation's influence on sustainability also when proposing tax reforms in Slovenia. If a tax reform proposal addresses other types of taxes, such as environmental taxes or real estate tax, its influence on production and consumption needs to be measured also through the lenses of sustainability.



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