



*Progressive  
Policies*

# Fair taxation: opportunities for systemic changes?

PERC/ FES webinar – 30 September 2022

Séverine PICARD, Head of Progressive Policies

# The ITUC report

## A double objective:

- To review current challenges
- To issue trade union recommendations for progressive tax reform

## Methodology:

- Desktop research
- Exchanges with:
  - KSS and CCM (North Macedonia)
  - CATUS and Nezavisnost (Serbia)
  - Confederation of TU of Rep Srpska (Bosnia & Herzegovina)
  - CTUM and UFTUM (Montenegro)

# Fair Tax Policies In The Western Balkans

Challenges and  
recommendations for  
a trade union agenda



# Structure

1. The labour agenda for fair tax policies
2. Tax policies in the Western Balkans
3. Recommendations for a trade union agenda

# 1. The labour agenda for fair tax policies

# Increased fiscal space, income inequalities and progressive taxation



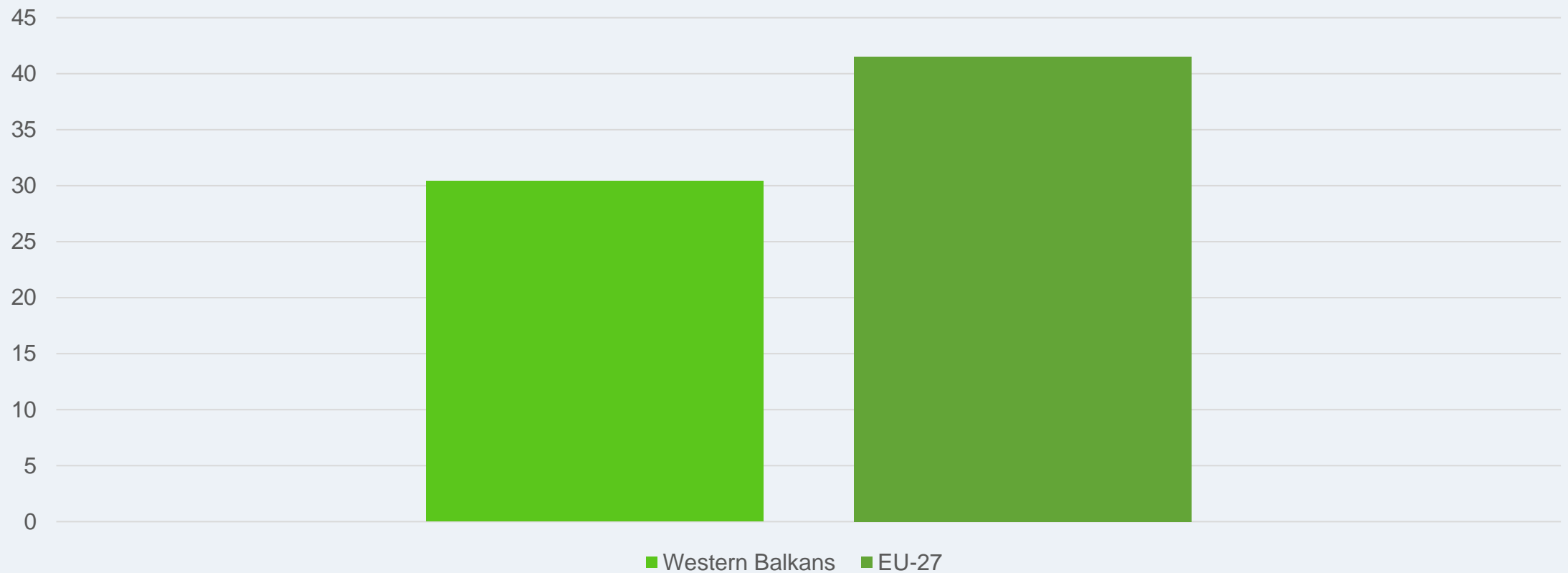
# Union demands: increase taxation of capital

- 25% effective corporate income tax rate
- A new international tax architecture
- Higher taxes on capital and wealth
- Financial Transaction Tax
- Tax transparency

## 2. Tax policies in the Western Balkans

# A comparatively low tax burden

Tax burden in the Western Balkans and EU-27 in 2019, in % of GDP





# Personal income tax: flat taxes and low progressivity

## Top PIT rates in the EU-27:

- 15% (Hungary) – 55% (AT, DK, FR)
- Average: 35%

Country	Rate
Bosnia and Herzegovina	10%
Croatia	Progressive rates at 24% and 36%, depending on income.
Serbia	10% - employment income and business income 15% - income from capital 20% - income from royalties and other income.
Montenegro	9% - gross monthly salary up to the amount equivalent to the average salary in the previous year (EUR 766). 11% - portion of monthly gross salary exceeding the amount above.
Slovenia	16% - income up to EUR 8,021.34 27% - income up to EUR 20,400 34% - income up to EUR 48,000.00 39% - income up to EUR 70,907.20 50% - income exceeding EUR 70,907.20 20% - income from business activities.
North Macedonia	10% Flat rate
Albania	Exempt - employment income up to ALL 30,000 13% - from ALL 30,001 to ALL 150,000 is taxed at a rate of 13% on the amount exceeding ALL 30,000 tax of ALL 15,600 - income exceeding ALL 150,000 + 23% - income in excess of AL 150,000 15% - all other income except dividends (8%).
Kosovo	0% - income between 0 and EUR 960 4% - income between EUR 960.01 and EUR 3,000 8% - income between EUR 3,000.01 and EUR 5,400 10% - income exceeding EUR 5,400.

# High taxation of labour with impact on lower wages

- Relatively large reliance on social security contributions
- Social security contributions more heavily borne by employees than employers
- Heavy burden on minimum wages
- Two thirds of the population bring home poor net wages
- « for over 10 years now, the taxation of labor has been singled out as one of the most problematic institutional features of labor markets in the WB » (World Bank, 2019)

Country	BiH	CRO	SRB	MNG	SLO	MKD	ALB	KOS
From gross salary (employee cost)	FBiH 31% RS 33% BD 30.5 or 32%	20%	19.9%	24%	22.1%	27%	11.2%	5%
On top of gross salary (cost of employer)	FBiH 10.5% RS – BD 0% or 6%	16.5%	17.9%	10.3%	16.1%	0%	16.7%	5%

# Low corporate income tax rates

- CIT rate Western Balkans: 9% - 15%
- Average CIT rate EU-27: 23.5%
- Average OECD: 20% - 25%

# Special Economic Zones

Economy	Total number of zones	Number of active zones <sup>1</sup>	Size(ha)	Number of enterprises	Cumulative zone investment (EUR million)	Number of employees	Total turnover 2015 (EUR million)	Zone exports as % of total exports
Albania	3	0	494 (planned)	0	0	0	0	0
Bosnia and Herzegovina	4	4	79.5	95	n/a	1 700	303	6.4
Former Yugoslav Republic of Macedonia	15	6	893	23	207	6 800	1 475	36.4
Kosovo	3	0	530	0	0	0	0	0
Montenegro	1	1	130	36	5	398	7.6	n/a
Serbia	14	10	1 615	241	2 240	2 2242	2 431	17.6

## Foregone revenues in SEZ – North Macedonia

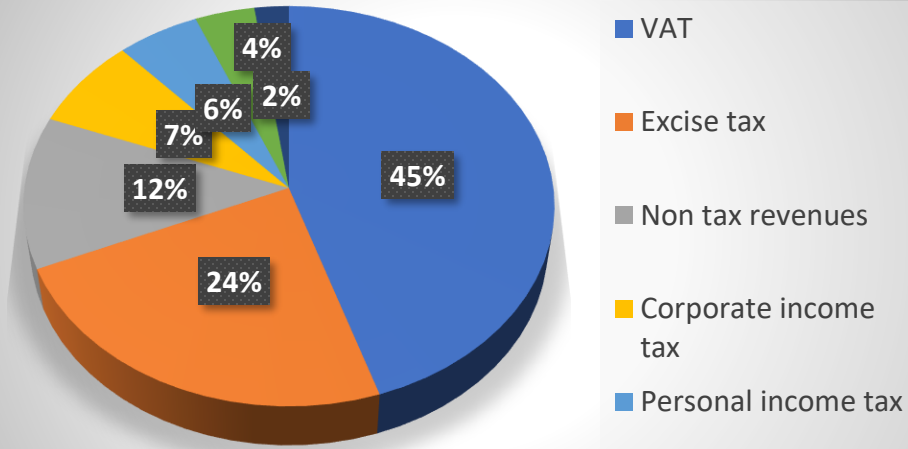
<b>TAX DUTIES</b>		
<b>TAX</b>	<b>RATE IN THE ZONE</b>	<b>RATE OUTSIDE THE ZONE</b>
Corporate Tax	0% up to 10 years	10%
Personal Income Tax	0% up to 10 years	10%
Value Added Tax	0%	18%
Excise Tax	0%	5% - 62%
<b>CUSTOMS DUTIES</b>		
<b>PRODUCTS</b>	<b>RATE IN THE ZONE</b>	<b>RATE OUTSIDE THE ZONE</b>
Equipment, machines and spare parts	0%	5% - 20%

## Estimated revenue losses through corporate tax avoidance

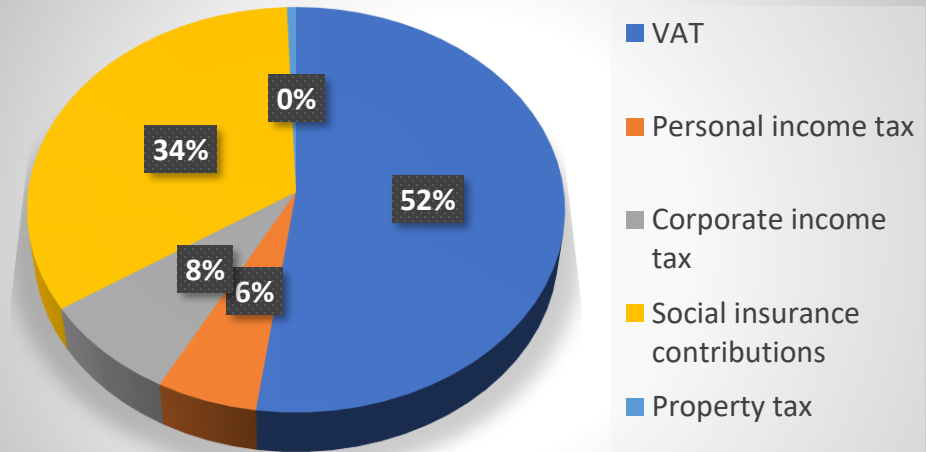
Country	Total annual tax loss (USD million)	Total annual tax loss (% of GDP)	Of which corporate tax abuse (USD million)	Of which offshore wealth (USD million)	Full vaccinations possible (millions)	Full vaccinations possible: Share of population
Serbia	239.6	0.5%	234.8	4.8	13.9	197.4%
Montenegro	17.2	0.4%	16.3	0.9	1.0	161.0%
North Macedonia	38.9	0.3%	37.1	1.8	2.3	108.7%
Bosnia and Herzegovina	27.1	0.1%	25.6	1.5	1.6	46.2%

# Impact: regressivity, risks of poverty and depleted budgets

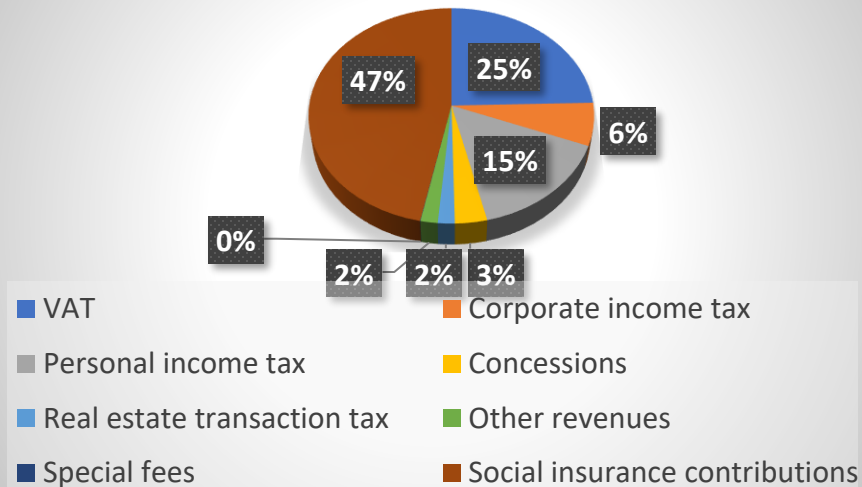
Tax distribution in Serbia, 2022



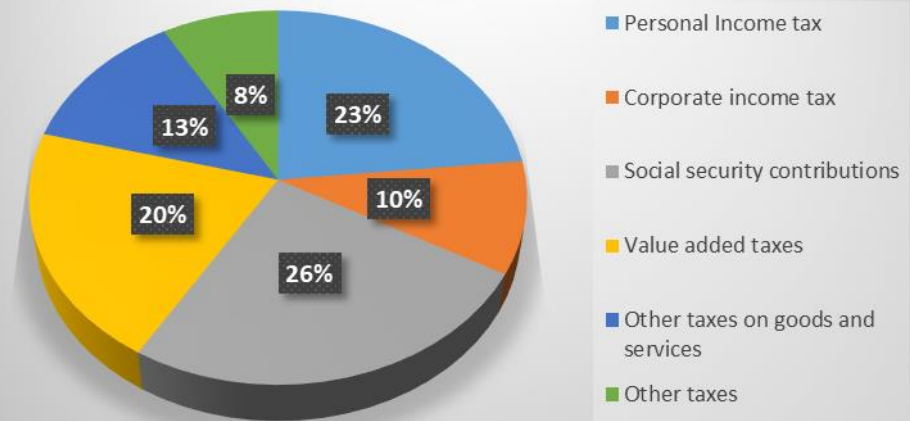
Rep Srpska, 2022



Montenegro, 2022



OECD average



# 3. Recommendations for a trade union agenda



# Increase CIT effective rates

- A global momentum for a minimum top-up tax on undertaxed overseas profits (Pillar 2 of the G20/ OECD agreement)
- Strong incentive on low tax countries to increase effective rates to at least 15%, failing which countries of headquarters will « tax back »

**Global labour calls for a 25% minimum rate**

# Reconsider FDI tax incentives

- Foregone revenues
- Not a decisive element in choice of investment
- Rethink incentives together with greener and more sustainable industrial policy strategies

# Address structural weaknesses in transfer pricing rules

- **Introduce unitary taxation with fair allocation factors**
  - taxing rights should be allocated in proportion to value creation (and not where the MNE is formally declaring corporate profits)
  - employment is an essential element of value creation
- **Copy/ paste the G20/OECD BEPS Action Plan might not be in WB best interest**
  - evaluate revenue impact
  - adjust OECD model rules to domestic considerations

# Enforcement

- Increased capacities for tax administrations
- **Tax transparency:**
  - Public and mandatory country by country reporting (Action 13 BEPS Action Plan, GRI standard 207)
  - Public beneficial ownership registries

# More progressive PIT

- Abandon flat taxes
- Introduce higher top tax brackets
- Increase minimum wage and amount of tax free allowance (Montenegrin « Europe Now » programme)
- Engage a reflection on respective shares of social security and personal income tax

# Conclusions

- **Main recommendations**

- « unshelter » capital income
- increase progressivity

- **Need for a strategic discussion: how to build a base for action?**

- increased public scrutiny
- trade union campaigns
- coordinated trade union agenda
- alliances with global tax justice movement

# Thank you!

[spicard@progressivepolicies.eu](mailto:spicard@progressivepolicies.eu)