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The Role of the State in South East Europe: Fiscal Issues

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This study has been developed in the framework of research networks initiated and monitored by wiiw under the premises of the GDN–SEE partnership.

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The Role of the State in South East Europe—Fiscal Issues

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1. Introduction

This paper addresses the issue of tax policy in South East Europe. It also attempts to put the situation in SE Europe in the broader context of Europe and other countries. It provides a comparison of tax structures and rates for the main taxes in 2000 for all countries in South East Europe, including Albania, Bosnia and Herzegovina (BiH), Bulgaria, Croatia, Hungary, Macedonia, Romania, Slovenia, and Yugoslavia. Current trends in tax policy in the EU and the OECD (Organization for Economic Cooperation and Development[1]) countries are discussed, as well as trends in each country in the region. In the EU, the main issues are currently tax harmonization among member countries, while within OECD countries (of which Hungary is a member), tax competition is the main focus. Tax competition will most likely be a more relevant issue in SE Europe, although harmonization, or at least, coordination of tax policy may be an issue in the future. Cooperation among tax administrations is probably more important now to decrease cross-border tax evasion and smuggling.

The following section contains an overview of current tax trends in OECD countries, efforts at harmonization in the EU and OECD, followed by tax trends in SE European countries. The third section gives a brief background description of each country covered. Section 4 summarizes the current systems by tax. The final section contains some concluding thoughts on the main issues. The tax tables appear at the end of the paper.

2. Tax Trends

OECD Countries

[1] The OECD was set up in 1960 to encourage growth and employment in member countries. It's original members were: Austria, Belgium, Canada, Denmark, France, Germany, Greece, Iceland, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the US. Japan joined in 1963, Finland in 1969, Australia in 1971, New Zealand in 1973, Mexico in 1994, the Czech Republic in 1995, and Hungary and Poland and Korea in 1996.

The ratio of taxes to GDP in OECD countries has been rising since 1965 when the OECD started tracking member tax revenues. It has gone from an average of 26% of GDP in 1965 to 37% in 1998 (OECD Revenue Statistics, 2000[2]). Most of this increase occurred in the 10 years between 1965 and 1975. The tax/GDP ratio in the North American OECD members, Canada, the US and Mexico, increased the least, from an average of 25% in 1965 to only 28% in 1998. In contrast, in European OECD countries, the tax ratio increased from 26% to 40%, while the Asian members, Australia, Japan, and New Zealand increased from 22% to 29%. In the last 10 years, several countries have reversed this trend slightly, with the ratio in Japan and New Zealand decreasing 2.5%, followed by smaller drops in Sweden, the Netherlands, and Ireland. The OECD countries where taxes make up more than 45% of GDP are : Sweden, Denmark, Finland, Belgium, France, and Luxemburg. The group with the lowest proportion of taxes to GDP are: Korea, Japan, Australia, the US, and Turkey with between 20-30%. Mexico has the lowest tax ratio, at 16%.

If we look at each type of tax separately, personal income taxes have continued to be the largest single revenue source, although its share in total taxes is declining. It now accounts for 27% of total taxes, down from 33% in the early 1980's. At the same time, the share of social contributions has increased from 18% in 1965 to 25% in 1998. Therefore, the total share of taxes and contributions on wages and income has stayed nearly the same at just over 50% of total taxes. The proportion of corporate income tax has remained stable at around 8%. This implies a decrease in the corporate tax burden, since corporate profits increased as a share of GDP in this period. The largest change has been the increase in the share of consumption taxes. Their share has increased from 12% to 18% of the total, in spite of the fact that the proportion of excise and import duties fell by half. This is due to the general introduction of the value added tax. The EU introduced the VAT in 1970 and now 28 of the 29 members of the OECD have introduced a VAT. The significant hold out is the US, where there are no consumption taxes at the Federal level. Sales taxes are at the individual state and local levels. In the US, consumption taxes account for only 16% of total taxes, but in Hungary, Iceland, Korea, Mexico, Norway, Poland and Turkey, they are the largest single source of revenue.

Harmonization Efforts in the EU and the OECD

Tax harmonization within the European Community (EC) began with the Original Treaty in 1957. Article 90 of the EC Treaty prohibits any tax discrimination that would give an

[2] The data in the following paragraphs are based on this source.

advantage to national products over products from other Member States. Article 93 calls for harmonization of turnover taxes, excise duties and other indirect taxes. Unanimity is required for any changes to country's tax systems. A VAT was introduced in Europe in 1970 with the 1st and 2nd VAT Directives. The 6th VAT Directive (1977) harmonized VAT systems in all EU countries by ensuring that the same transactions are subject to VAT.

The VAT was first organized on the destination principle, meaning that goods are taxed where consumed. Imports are taxed in the same way as domestically produced goods, and exports are subject to a 0% rate so they can enter the importing country untaxed. In 1987, the EC Commission proposed moving to the origin principle, where goods are taxed where they are sold, in order to eliminate border controls. The Commission also suggested target rates of 4-9% for the reduced rate and 14-20% for the standard rate. Member states have so far been unable to agree on a clearing system necessary for a move to an origin base, or to align rates. The current VAT system is a combination. Goods crossing an intra-EU border are no longer considered a taxable event, and at the retail level, VAT revenues remain in the country where a good is sold, with the exceptions of autos or mail-order goods. However, the destination principle still applies for companies. In 1993 excise taxes were harmonized. The same goods, tobacco, alcohol, and oil products, are taxed, and are subject to minimum rates.

In 1996 the Commission proposed a comprehensive strategy in direct taxation policy that would complete the single market and protect tax bases against harmful competition. It was not intended to harmonize all taxes, but a high degree of harmonization in indirect taxes was considered desirable (Taxation and Customs Union: The Taxation Package, 2001). Previous attempts to harmonize corporate tax rates in 1975, tax bases in 1980, and rules on carryovers in 1984-5 all failed. There has been progress on eliminating double taxation.

In November, 2000, EU member states agreed on the essential lines of future treatment of savings income. All harmful business tax measures are to be dismantled by January 2003, and the benefits are to run out by the end of 2005, with some flexibility. A compromise was reached on the payment of interest and royalties. Member states agreed to come to a final agreement on the tax package by the end of 2002. The focus of future tax cooperation will be on the uniform application of tax laws, modernization of the VAT system, changing to an origin based VAT, replacing the current VAT refund procedure by allowing traders to deduct VAT paid anywhere in the Community in their state, abolishing the rule that a tax representative must be in every state they trade in, and the creation of single contact points for information. There is still a distinct difference between the views in Brussels and in individual countries.

Partly for historical reasons, there is a very different approach to harmonization among individual states in the US. This is clear from the large differences in tax rates among states. Personal and corporate income tax rates vary between 0%-12%, in addition to Federal taxes. Sales tax rates vary between 0% and 7% at the state level, with another 0%-3.5% added at the local level. Although these differences clearly impact businesses and consumers, it has not hampered the free movement of goods or people. On the other hand, the Commission states "Differences in national tax law remain a serious obstacle to the completion of the single market, as incompatible systems hamper trade and tend to compartmentalize the EU market" (European Commission, 2000).

The OECD's focus has been more narrow than the EU's; it deals only with mobile investment in the financial area and services. It does not suggest attempting to harmonize rates or structures and recognizes that fair and trans parent tax competition can be a good thing (Hammer and Owens, 2001). The Committee for Fiscal Affairs has done extensive work on double taxation treaties. A 1998 OECD Report, "Harmful Tax Competition: An Emerging Global Issue", focuses on tax havens and preferential tax regimes, not on tax levels. Tax havens are defined as being characterized by low or no corporate taxes, a lack of effective exchange of information, or transparency, and no substantial business activities. Harmful preferential tax regimes are defined as having low or no effective tax rates, ring fencing (preferred firms are isolated from domestic activity, either because domestic capital is not eligible or only foreign entities are eligible), and lack of transparency or exchange of information. There are a number of other possible characteristics listed, such as the abuse of transfer prices, negotiable tax rates, and artificial tax bases. To assess the economic impact of these regimes, the Report considers whether the regime shifts economic activity from other countries rather than encouraging new investment, whether the level of economic activity in line with investment levels, or whether the preferential tax regime is the primary reason for the location of a business. Clearly these are difficult judgments to make.

The recommendations for dealing with harmful preferential tax regimes include: no new harmful tax measures, the review of existing measures, and removal of such measures by the end of 2000, with effect by the end of 2005.

The update on the 1998 OECD report, "Towards Global Tax Cooperation" (2000), outlines the review processes and lists countries that may be tax havens or have potentially harmful preferential tax regimes. Of the 40 tax havens identified, 6 have since pledged to eliminated those practices by the end of 2005, and 32 have contacted the OECD for dialogue (Hammer and Owens, 2001). OECD countries have agreed to eliminate tax havens by the end of 2003. The 2000 report lists also countries with potentially harmful preferential regimes. It recognizes the need for further investigation as to which of these are truly harmful, as well as for vigilance against future harmful tax regimes. Its aim is to eliminate all such practices within OECD countries by the end of 2005.

None of the countries covered here are on the OECD list of tax havens. However, several are listed as having potentially harmful preferential tax regimes. The definition does not include investment incentives, which most countries have, as long as both foreign and domestic investors are eligible. Hungary is listed for allowing a 100% foreign owned company to be treated as an offshore company and therefore not subject to corporate income tax. Hungary also gives venture capital companies a 100% income credit for 6-7 years. Germany and Italy are listed for international shipping and Germany for headquarters regimes. Italy is also listed for an investment scheme that is noted to be non-operational.

Trends in SE Europe

Changes in the tax systems of the former socialist countries in the last 10 years have obviously been much larger than those in the European Union and most OECD countries. In most socialist systems, tax rates were not based on a percentage of a base, but were the residual. For indirect taxes, retail and wholesale prices were set centrally and the tax was the difference between the two (less the allowed margin). Therefore, there were a large number of "rates". Profit taxes were also usually the residual. Taxes on wages were invisible to taxpayers, who were only aware of their net wages. Hungary and the Former Yugoslavia had freer prices, but still had a large number of different types of taxes and rates. All countries covered have moved towards western norms in their tax systems. BiH and Yugoslavia are probably still the closest to the socialist system, but they too are changing.

Many former socialist countries have introduced a VAT since 1989. Hungary was the first in 1988, closely following Greece in 1987. Romania, Czechoslovakia and Poland followed in 1993, Bulgaria in 1994 and the others later (see Table 6 for introduction dates). Macedonia has the newest VAT, adopted in 2000. Many transition economies do not have a global income tax that aggregates different sources of income and taxes the total. However, some OECD countries are now moving away from a global income tax by using a flat final withholding tax on certain sources of income.

Table 1 shows the shares of tax revenues to GDP in 1998. Of the countries shown, Croatia has the highest tax to GDP ratio, at 46.6%. Only Slovenia is close with 40.1%. The

EU countries shown, Austria, Germany and Italy, are also high, at 40%. Most are around 30% with Macedonia at 25% and Albania and the Serb Republic (part of BiH) at under 20%. BiH figures do not include social insurance funds, so are not directly comparable. The ratio of personal income taxes to GDP is higher in the three EU countries shown, as well as Poland, at around 10% or more. Hungary, Slovakia and Turkey have the highest ration at more than 6%. The Federation of BiH (the other half of BiH, see the paragraph on BiH in the following section), Bulgaria, Croatia, Germany, Macedonia, Romania, Yugoslavia (here Serbia only) are around 4-6%. The lowest are the Serb Republic at 2% and Albania at less than 1%.

Social contributions as a share of GDP are roughly similar at around 12-15% of GDP. They are the highest in the Czech Republic at 17%. The Federation of BiH expenditures on social insurance is similar at 16%, but are much lower in the Serb Republic at 5%. Macedonia and Romania are less than 10%, with Albania and Turkey the lowest at 4% or less. The column for goods and services includes VAT, or sales taxes, and excises. All countries except BiH, and Yugoslavia have a VAT system (the US is now the only OECD country without a VAT). In the US, sales taxes are levied only at the state and local levels. The Federal government can levy only direct taxes and customs. Croatia and the Federation of BiH have the highest level of tax income to GDP from indirect taxes at 20%. Most have 10-15% of GDP collected as indirect taxes. The final tax column, other, includes payroll taxes in Austria and Slovenia.

3. Overview of individual countries

Along with discussions of the tax systems, some background economic data may be helpful. Table 2 gives population and GDP per capita figures for the region in 2000. The population numbers changed from the previous EBRD Transition Report in 1999. Bulgaria, Hungary and Romania are slightly lower, while the figures for BiH are higher due to refugee returns. Yugoslavia's figure is lower by the 2 million inhabitants of Kosovo. Note that the 2000 US/local currency exchange rate effects these figures. Slovenia is shown with the highest per capita GDP at $9,320, followed by Hungary at less than $5,000. Most of the others are in the $1,000-2,000 range. Of course, these averages cannot show income distributions.

Table 3 compares net foreign direct investment (FDI) flows since 1989. Hungary clearly had a large head start with more than $10 billion before 1995. FDI there has since stabilized at $1.5 per year, totaling nearly $20 billion by 2000. The Czech Republic and Poland have now surpassed Hungary after a slower start. Of the others, only Romania has had more than one year of $1 billion in foreign investment. The totals in Albania, BiH, and Macedonia are still less than $1 billion. Clearly wars and instability are responsible for much of this. Tax policy may have also played a role, but other issues such as the rule of law and openness to foreign investment were probably more important.

Albania is one of the poorest countries in Europe. In the early 1990's, GDP fell 40% over three years and again after the catastrophic events following the collapse of the pyramid schemes in late 1996 and 1997. The economy has been steadily improving since, but from a very low base. GDP fell 7% in 1997, but has grown at 7-8% every year since (IMF, 2000, No. 87). Tax revenues as a percentage of GDP fell from 18-19% to 14% in 1997, recovering to 19% in 2000. A VAT was introduced before the meltdown in mid-1996 and has contributed more than one third of revenues since. Elections this year took place reasonably peacefully and the government has played a positive role in regional conflicts. There is hope that Albania can enjoy some stability and continue its long climb out of isolation and into Europe.

Bosnia and Herzegovina (BiH) was recognized in 1992, but only emerged as a single country at the end of 1995 after nearly 4 years of war. The Dayton Peace Accords which ended the war set up an extremely decentralized State structure made up of two Entities with their own customs and tax systems. They also set up the institution of the Office of the High Representative to implement the Accords. The High Representative has been given increasingly more power to implement. The Entities are: the Federation of BiH, with its capital in Sarajevo (also the capital of the country), and the Serb Republic (Republika Srpska) with its capital in Banja Luka. Only in 2001 has a single border service to collect customs been set up. The economy has grown spectacularly after the war at rates greater than 20% per year for three years, then at more than 10%. The RS recovered less quickly, since aid was withheld at first until a more cooperative government was installed. Tax revenues have been uneven, but mostly around 40% of GDP (EBRD, 2001). Work on harmonizing indirect taxes between the Entities has been ongoing for years, and rates are now similar. Current discussions, led by the international community, deal with introducing a VAT at the State or Entity level. Direct taxes differ, (see Tables 4 and 5). Along with Yugoslavia, BiH remains closest to the old Yugoslav system. According to IMF statistics (which differ from EBRD figures), tax revenues as a percentage of GDP have been stable at around 13% of GDP since 1997 in the Federation. In the RS, there has been more variability after a slower start, from 15% in 1997 to over 26% in 1999.

Bulgaria has again stabilized after a financial crisis in 1996-97. The early years of transition were disastrous, with GDP falling 30% in 1991-3. Tax revenues fell throughout the

1990's from 45% of GDP in 1990 to a low of 27.7% in 1996 (IMF, 2001, No. 54). They have remained around 30% since then. After a new government was elected in 1997, a currency board was introduced to stabilize the currency, along with other macro-reforms. The economy has stabilized, and growth is positive but relatively modest at around 2-4%.

Croatia had a shorter war with Yugoslavia after it declared independence in 1991, following Slovenia's declaration. Nearly one third of its territory remained occupied by Yugoslav/Serb troops until 1995. GDP fell during this period, turning positive only in 1994. After President Tudjman's death at the end of 1999, elections brought in a new coalition government led by the Social Democrats, partly due to the slowdown in economic growth, including negative growth in 1999. Reforms have been slower than many would have liked in reforms and undoing some of the legacy of Tudjman's regime. Croatia completed a major overhaul of the tax system in 1994. Revenues are a relatively large share of GDP: 49% in 1995, falling to 47% in 1999 and 2000. The share of indirect taxes is stable and there has been a small drop in direct taxes as a percent of GDP

Greece

Hungary has a long history of reform dating from the late 1960's with the New Economic Mechanism of 1968. Hungary had introduced a modern tax system by 1988 and limits on private ownership and businesses had, in many cases, already been abolished. Hungary had a more difficult transition after 1989 than might have been expected given their previous progress in reform. GDP still fell between 1990-93, and has only remained above 4.5% since 1997. Intensive foreign investment began much earlier in Hungary, which has shown in the relatively good and steady growth since 1997. Revenues in the last part of the 1990's were stable at around 41-43% of GDP. A series of tax incentives were in effect during this period in Hungary, but probably more important for FDI was the open attitude towards foreign investment, and lower informal barriers to investment such as bureaucratic red tape. Admittedly, the political instability and wars in former Yugoslavia also made Hungary and the other Central European countries relatively more attractive.

Macedonia was the only former Yugoslav republic to gain independence without bloodshed. It was considered by some in the West as a model of ethnic tolerance. However, problems remained, as recent history shows. Macedonia was one of the poorest republics, and remains relatively poor, in spite of some progress in reform. The future for Macedonia is unclear. The last 10 years have shown that no one wins from inter-ethnic fighting, but so far neither side seems willing to act on this knowledge. GDP fell throughout the 1990s to 1995 due to Macedonia's proximity to the wars in the region, as well as economic isolation imposed by Greece. Finally in 2000 growth increased to 5%. Unfortunately that seems unlikely to be the case in 2001. Tax revenues have been stable at 32-34% of GDP in the last half of the 1990's. Indirect tax revenues fell slightly from 12% to 11%. Direct taxes have remained around 6% of GDP (IMF, 2000, No. 72).

In Romania, growth fell for four years from 1989, followed by another crisis in 1997-99, when GDP contracted by another 15%. In 2000, the economy grew, but only by 1.5% (Transition, 2001). Total revenues as a percent of GDP fell continuously after 1991 from 42% of GPD to 29% in 1997, after which it recovered to more than 30% (IMF, 2001, No. 16). All taxes followed this downward trend except excises which were introduced in 1993. Only social contributions had regained their pre-1991 levels by 1999. A VAT was also introduced in 1993 and at 6% is lower than the percentage of GDP ratio of the previous sales tax which was 12% of GDP in 1990, in spite of the 19% VAT rate.

Slovenia has made the most economic progress of any of the former Yugoslav Republics. Its war of independence lasted less than a month, and it was then able to turn its attention to growth. GDP began increasing already in 1993 and has been steady at 3-5% since. Its registered GNP per capita is quite high (Table 2) and it is well along in the meeting EU accession criteria. However, some reforms have been slow, although this is easy to overlook given the overall prosperity of the small country.

Yugoslavia today is made up of Serbia and Montenegro, plus one of the former autonomous regions: Vojvodina. Kosovo is under UN and NATO control. Nationalism was used by former communists to stay in power, and was followed by enough citizens to destroy Yugoslavia and much of its economic progress since the second world war. After the fall of Milosevic and the election of the new coalition, many reform minded people are trying to change the economy quickly. However, 10 years of wars, criminality among the elite, the bombing of much of the infrastructure in 1999 and a virtually unreformed socialist economy, indicates that it is going to take a long time even with the best of intentions. In addition, the very structure of the country is still unresolved. Montenegro continues to discuss a referendum to secede and Kosovo is de facto a separate entity. During much of 1990s, tax laws enacted at the Federal level, were essentially ignored by both the Serbian and Montenegrin Republic governments. There was a general tax framework law at the Federal level, and a VAT law was passed in the mid-1990's but never implemented. The two Republics have different laws now. The tables shown here include only Serbia, by far the largest part of the Federal Republic.

Turkey

4. Review by Tax

Table 4 compares personal income taxes and also includes all withholding taxes, unless they are specifically levied on companies. Most of the countries tax dividends, interest and, sometimes, royalty payments at 10-25%, often as a final withholding tax. Most have progressive tax rates on all other income, with the exceptions of both Entities in BiH with flat rates for different sources of income. Albania and Bulgaria use progressive rates, but calculate taxes on difference sources of income separately. Greece, Austria and Germany are the only countries with a 0% bracket, under which no income tax is paid. Note, however, that exemptions and allowances can be used to accomplish the same thing. The lower rates vary widely: from 5% in Albania and Greece to 15-20% in most other countries. Yugoslavia has the lowest top rate at 20%, followed by the RS and Albania at 30%, the Czech Republic at 32% and Hungary and Macedonia at 35%. Austria, Hungary, Slovenia, Germany, Italy all have top rates of 40-50%. BiH and Yugoslavia differ with flat rates of 9-14% on wage income. The thresholds where the lower rate starts are less than DM 1000 in Romania and Bulgaria, around DM 3000 in Albania and Hungary, DM 6000 in the Czech Republic, and around DM 8000 in Austria, Croatia, Macedonia and Turkey. In Slovenia and Greece it is around DM 10,000 and in Italy, Germany and Poland it is closer to DM 15,000.

Contribution rates are higher than income personal tax rates everywhere. Most combined employer and employee contributions are around 35-45% of gross wages as shone in Table 4. The outliers are Hungary at 48.5%, Yugoslavia at 58% and Romania at 60-70%. The US is much lower than European countries, at 15%.

The corporate income tax rates shown in Table 5 give only the basic rate. This is far from the entire story, since exemptions and special provisions can make the effective rates quite different. The former Yugoslav countries are among those with the lowest rates: Macedonia at 15% and Croatia at 20%. Hungary's is also low at 18%. Albania, the Federation of BiH, Turkey, the Czech Republic, and Poland are around 30%. Yugoslavia has 20-30%, Romania 25%. Germany has the highest rates at 42%. The Serb Republic in BiH has regressive rates from 20% on the lowest incomes to 10% on the highest.

VAT and sales tax rates are given in Table 6. Most SE European countries have introduced a VAT to replace sales and turnover taxes. Only the two BiH Entities and

Yugoslavia (both Serbia and Montenegro) still have sales taxes. For most of the countries concerned, the top rate is around 20%. Hungary has the highest rate at 25%, Germany and Turkey have the lowest, at 16% and 17%, respectively. Most countries have a lower rate for food, heating and some other goods. Austria, Bulgaria, Croatia, Hungary and Romania have no lower rate. BiH sales tax rates are 20-24%. These are extremely high rates for a sales tax. Without the self-enforcing need for receipts in a VAT system to receive a refund, high sales tax rates are easier to avoid. Food is subject to the lower or 0% rate in all the countries covered. Most EU countries have eliminated higher rates. Turkey has reduced the number, but still has higher VAT rates on luxury and some cars.

5. Concluding thoughts

The trend in all SE European countries has been to move towards EU norms. A VAT has been introduced in most countries, global income taxes have been introduced, and corporate income tax rates reduced. Both Entities in BiH and Serbia and Montenegro are considering VATs, but in both cases, the level at which a VAT would be implemented has not been resolved.

As modern tax laws are being adopted, the role of tax administration becomes crucial. The structure and training of tax administrations must be changed to reflect the new tax laws.

FDI is driven not only by the tax system, but the general legal system and rule of law, the level of bureaucratic red tape, labor skills and general receptivity of countries toward foreign investment. Many governments seem to feel that changing tax rates or offering incentives will be sufficient to attract large amounts of foreign capital.

Is tax competition an issue for this part of the world? The OECD has tried to reach out to non-member countries to involve them in the dialogue about harmful tax competition. SEE countries are sometimes competing for the same FDI. Although other issues may matter more than tax rates now, taxes still play a part in attracting FDI. It is difficult to sort out tax rates from other issues such as the perceived, and real, political instability in the region. However, other areas that governments can control, such as increased transparency, decreasing corruption, decreasing the overbearing bureaucracy, rule of law, have been addressed everywhere. Simple transparent tax systems will encourage investment more than special schemes.

Cooperation among tax administrations may be more important than rates. Everyone's goal is economic development. However, it is not likely that one small country will be an economic powerhouse without economic relations with its neighbors. Free and open economic relations in the region will be key to development.

Table 1

Tax Revenues as a Percentage of GDP: 1998							
	Total Taxes % GDP	Personal Income Taxes	Corporate Income Taxes	Social contribu-tions	Property	Goods and services	Other
Albania	15.7	0.3	1.1	3.4	0.0	10.1	0.8
BiH-Fed.*	33.9	4.9	1.7	*	-	26.4	0.9
BiH-RS*	17.1	2.2	0.0	*	-	14.1	0.8
Bulgaria	30.8	4.7	3.3	8.0	0.4	12.8	1.7
Croatia	46.6	5.8	2.5	13.9	-	20.4	3.5
Greece**	33.7	4.4	2.1	10.6	1.3	13.7	0.2
Hungary	38.7	6.5	2.2	13.9	0.6	15.1	0.3
Macedonia	25.0	3.9	0.8	9.2	-	11.1	-
Romania	30.1	4.1	3.0	9.1	-	10.0	3.8
Slovenia	40.1	6.6	1.2	13.8	-	14.7	1.4
Turkey	28.7	7.7	1.7	4.1	0.8	10.2	4.1
Yugoslavia	35.0	3.6	0.3	12.4	-	11.8	7.2
Austria	44.4	10.0	2.1	15.1	0.6	12.4	3.1
Czech R.	38.3	5.2	3.7	16.9	0.6	11.9	-
Germany	37.0	9.3	1.6	14.9	0.9	10.1	-
Italy	42.7	10.7	3.0	12.5	2.0	11.7	2.6
Poland	37.9	11.9	2.8	12.2	1.1	13.0	0.3

*Social contributions were mostly in off-budget funds, combined with transfers from the budget. Expenditures were 16% of GDP in the Federation and 5.4% in the RS.
**1997

Sources: OECD Revenue Statistics 2000, pp. 68-80, Bulletin of the Government Finance 5/2000, Republic of Slovenia, Ministry of Finance, p. 7, Annual Report of the Ministry of Finance, 1999-Republic of Croatia, 2000, pp. 63-4, IMF Staff Country Report 00/77, June 2000, IMF Country Report No. 01/93 p.35, IMF Alb, Rom, Bulgaria, Ministry of Finance Bulletin, Republic of Macedonia, 11/2000.

Table 2

Population and GDP per Capita		
	Population 2000	GDP per capita 2000 US$
Albania	3.4	1,195
BiH	4.3	972
Bulgaria	8.1	1,484
Croatia	4.5	4,211
Greece	10.6	13,900
Hungary	10.0	4,734
Macedonia	2.0	1,685
Romania	22.3	1,596
Slovenia	2.0	9,320
Turkey	64.3	2,900
Yugoslavia	8.6	1,225
Sources: UBRD Transition Update, 2001, Greece from World Factbook website, 1999 GDP.		

Table 3

Foreign Direct Investment, net inflows							million US$
	1989 -1995	1996	1997	1998	1999	2000	1990 -2000
Albania	219	97	42	45	51	92	546
BiH	0	0	0	100	90	117	307
Bulgaria	899	138	507	537	806	975	3,307
Croatia	554	482	344	801	1,374	750	4,085
Hungary	11,263	1,987	1,653	1,453	1,414	1,650	19,420
Macedonia	36	12	18	175	27	169	437
Romania	973	415	1,267	2,079	1,070	1,000	6,768
Slovenia	563	188	340	250	144	133	1,534
Yugoslavia	-	740	113	112	50	300	1,015
Czech Republic	3,418	1,276	1,275	3,591	6,234	4,477	21,673
Poland	6,075	2,741	3,041	4,966	6,348	9,299	29,052
Source: EBRD, Transition Report Update, April 2001, p. 22.							

Table 4

Personal Income Tax, 2000		
Rates:	Thresholds:	All amounts in DEM using exchange rates as of the end of 2000
ALBANIA		
0%	< 1,765	tax computed separately for each source of income
5%	to 3,530	
10%	to 5,297	10% flat rate on rental, foreign source income, dividends, interest, royalties
15%	to 8,826	20% final withholding on dividends, interest, royalties to residents
20%	to 14,122	15% final withholding on technical services, construction, artists
25%	to 21,182	
30%	> 21,182	
Contributions:		Total 44.2%--10% employee, 34.2% employer
BOSNIA AND HERZEGOVINA: FEDERATION		
10%		flat rate on wage income
30-50%		For other sources of income: varies by type
Contributions:		Total: 45%--32% employee, 13% employer
BOSNIA AND HERZEGOVINA: SERB REPUBLIC		
9%		wage income
0%	to 10,000	other sources of income subject to schedule
15%	to 15,000	rental income 15%
20%	to 25,000	
25%	> 25,000	
Contributions:		Total 44%--22% each employee and employer
BULGARIA		
0%	to 915	Income and wages taxed separately, same rates
20%	to 1,315	
26%	to 4,347	15% final withholding on dividends, royalties, rental income for non-residents
32%	to 16,013	20% final withholding on interest, lease payments, other income not covered
40%	> 16,013	
Contributions:		Total: 39.7%--7.8% employee, 31.9% employer
CROATIA		
15%	< 7722	revised January 2001
25%	to 19305	15% or 35% withholding on dividends and interest
35%	> 19305	
Contributions:		Total: 37.2%--18.6% employee and employer
GREECE		
0%	< 11,488	
5%	to 15,567	10% final withholding on government bond interest
15%	to 24,901	15% final withholding on bank deposit interest
30%	to 43,542	20% final withholding on some capital gains, other interest
40%	to 93,260	15% withholding on royalties
45%	>93,260	

Contributions:	Total: 43.86-47.31%--15.9-19.35% employee, 43.86-47.31% employer
HUNGARY	
20% < 2,916 30% to 7,292 40% > 7,292 Contributions:	20%-securities, property sale, rental of land or buildings 35%-excess dividends 20% final withholding on dividends to non-resident accounts, 0% resident Total: 48.5%--12.5% employee, 36% employer
MACEDONIA 23% < 7,795	% of monthly average net wages-average for 2000 was 10,214 denars
27% to 19,487	23% withholding on 50% of dividend income
35% > 19,487	50% of long term capital gains considered taxable income
Contributions:	Total: 30.6%
ROMANIA	
18% < 899	global income tax introduced 1/2000
23% to 2,207	5% final withholding on dividends
28% to 3,516	1% final withholding on capital gains, interest
34% to 4,906	15% withholding royalties
40% > 4,906	
Contributions:	Total: 60-70%--13% employee, 47-57% employer, reduced 4-7% if paid on time
SLOVENIA	
17% < 9,558	
35% to 19,116	25% withholding on dividends for residents
37% to 28,674	15% final withholding on dividends for nonresidents
40% to 38,233	25% withholding on interest and royalties for non-residents
45% to 57,349	
50% > 57,349	
0-15%	additional progressive payroll tax
Contributions:	Total: 38%--22.10% employee, 15.9% employer
TURKEY	
20% < 7,783 25% to 19,458	13.2-15.4% final withholding on interest
30% to 38,916	
35% to 97,290	
40% to 194,580	
45% >194,580	
Contributions:	Total: 38.5-46.0%--16% employee, 22.5-30% employer
YUGOSLAVIA (SERBIA)	
14%	flat rate on salaries
20%	flat rate on self employment, investment, property rental, and other income
10% < 14,314	if income > 21,470, subject to these rates: 10-20%
15% to 28,627	20% withholding on royalties
20% > 28,627	
Contributions:	Total: 57.97%--26.6% employer and employee. plus 3% municipal, 1.3% housing solidarity, 0.47% chamber of commerce by employer

AUSTRIA	
0% < 7,106	
21% to 14,213	25% final withholding on dividends and interest
31% to 42,460	
41% to 99,495	3% payroll tax at municipal level
50% > 99,495	
Contributions:	Total: 38.8-39.8%--17.15-17.7% employee, 21.65-22.1% employer
CZECH REPUBLIC	
15% < 5,677	25% on profits from investment and pension funds
20% to 11,354	25% final withholding: royalties
25% to 17,366	15% final withholding: dividends, interest, supplementary private pensions
32% > 17,366	
Contributions:	Total: 47.5%--12.5% employee, 35% employer
GERMANY 0% < 13,499	single taxpayer—all tax rates include a 5.5% solidarity surcharge
22.9-25% to 17,495	26.38% withholding: dividends, bonds, participating loan interest
25-51% to 114,695	31.65% withholding: bank interest
51% > 114,695	31.65% +5% for anonymous over-the-counter banking
Contributions:	Total: 40.5-42.0%--20.5% employee, 20.5% employer, higher in the 5 new lander
ITALY 18.5% < 15152	27% final withholding on bank interest, bond interest < 18 months maturity, dividends to non-residents
25.5% to 30,303	12.5% final withholding on state bond interest and > 18 months maturity
33.5% to 60,606	30% withholding on royalties to non-residents
39.5% to 136,363 45.5% > 136,363	regional surcharges: 0.9-1.4%, municipal: 0-0.4%
Contributions:	Total 35-47%--up to 10.2% employee, balance employer
POLAND	
19% 16,427	
30% to 32,855 40% > 32,855	
Contributions:	Total: 36.67%--17.96% employee, 18.71% employer
Sources	European Tax Handbook, 2000, Institut za Javnih Financije, 2000, Ministries of Finance, BiH, Ernst and Young, 2001.

Table 5

CORPORATE PROFIT TAX-2000	
	Rates:
ALBANIA	30% on worldwide income
BOSNIA AND HERZEGOVINA-FEDERATION	
	30% on income plus taxes on wholesale and retail margins
BOSNIA AND HERZEGOVINA-SERB REPUBLIC	
	20% to100,000 plus taxes on wholesale margins
	15% to 300,000 12% to 500,000
	10% > 500,000
BULGARIA	25% on worldwide income (from 1/2000)
	plus 10% municipal corporate tax
	20% for small businesses except financial institutions
CROATIA	20% on worldwide income
GREECE	40% on worldwide income
	35% if listed on Athens Stock Exchange (except banks, coops, joint ventures)
HUNGARY	18% on worldwide income 20% final withholding on dividends to foreign organizations, 0% for domestic
	3% offshore companies
MACEDONIA	15%
ROMANIA	25% (down from 38% 1/2000)
	50% gambling, casinos
	5% on income from exports if profits deposited in Romanian account in FX 20% on capital gains if state participation
	10% on profits used to increase share capital
	10% final withholding on dividends to companies
SLOVENIA	25% on worldwide income
	15% final withholding on dividends to no-resident corps., 25% resident rate
TURKEY	30% on worldwide income plus 10% surcharge—33% effective
	5.5% final withholding on dividends from public corporations, 16% other (inclusive of 10% surcharge)
YUGOSLAVIA	
	20-30%
	20% withholding on dividends, interest and royalties

Region:	
AUSTRIA	34% on worldwide income, including capital gains 20% final withholding on royalties for non-resident companies, 0% for residents
CZECH REPUBLIC	
	31% on worldwide income (lowered from 35% 1/2000)
	25% for investment and pension funds
GERMANY	42.2% on retained profits, includes 5.5% solidarity surcharge (from 45% in1999) 31.65% on distributed profits, includes 5.5%
ITALY	37% on worldwide income 19% on portion of income from capital increase from 1996
	7% on newly listed companies first 3 years
POLAND	30% on worldwide income (from 34% 1/2000-further reduced to 22% by 2004) 20% withholding on dividends to corporations
Sources:	European Tax Handbook, 2000, Institut za Javnih Financije, 2000, Ministries of Finance, BiH, Ernst and Young, 2001.

Table 6

VALUE ADDED TAX-2000	
Rates:	
ALBANIA	introduced 7/1996
20%	general rate
0%	exports
Exempt:	financial services, lease of land and buildings, post, some non-profit supplies
BOSNIA AND HERCEGOVINA-FEDERATION—sales tax	
24%	standard rate goods and services
12%	Fuel for heating, some food
0%	Foodstuffs
BOSNIA AND HERCEGOVINA-SERB REPUBLIC—sales tax	
20%	standard rate goods—includes 2% tax railroads
10%	standard rate services—includes 2%
10%	other food—includes 2%
0%	bread, milk, edible oil
BULGARIA	introduced 4/1994
20%	standard rate, reduced from 22% 7/1999
0%	exports
Exempt:	land transfer, leas of land or buildings, finance, insurance, educational, health services, non-profit organizations, sale of enterprises, legal services by Bar association, tickets for culture, gambling
CROATIA	introduced 1/1998
22%	standard rate
0%	exports, bread, milk, books, medicines and medical products
Exempt:	housing rental, financial services, some gambling, health, education, religious services, culture
GREECE	introduced 1987
18%	standard rate (in 2 regions, rates are: 13%, 6% and 3%)
8%	fresh food, pharmaceuticals, transportation, electricity, catering, artists, doctor and dentist services
4%	newspapers, periodicals, books and theatre tickets
0%	exports, international transport, shipping transactions
Exempt:	social or cultural services, insurance, finance, banking to EU residents
HUNGARY	introduced 1988
25%	standard rate
12%	foodstuffs, medicines, medical supplies, some textiles, coal and electricity, many services,
0%	exports, textbooks, some medicines, gas and electricity development, construction
Exempt:	financial services, health care, leasing residential buildings, insurance, education
MACEDONIA	introduced 5/2000
19%	standard rate

5%	agricultural products, electricity, transport
0%	exports
Exempt:	banking, insurance and financial services
ROMANIA	introduced 7/1993
19%	standard rate (reduced from 22% 1/2000, 11% reduced rate abolished)
0%	exports, materials and goods imported through free-trade zones
Exempt:	medical, social, educational, cultural services, property rentals, banking and financial services
SLOVENIA	introduced 7/1999
19%	standard rate
8%	foodstuffs, medicines, dwelling construction, hotel accommodation and books
0%	exports
Exempt:	banking, insurance, gambling
TURKEY	
17%	standard rate
8%	food products, natural gas, culture, leasing of vehicles other than cars, private educational services, books
1%	some agricultural products, leasing (except vehicles and luxury items), newspapers and magazines, used cars, sale of residences up to certain size
0%	exports, supply of ships, rail and aircraft, international transport services, oil and gas exploration supplies, machines for investment
25%	luxury items, cable TV, mobile phones, casinos, discotheques, gambling, lottery, cars
40%	sale and lease of certain cars
Exempt:	transfer of businesses, pipeline transportation of crude oil, petroleum, gasoline, unprocessed gold, foreign currency, bonds, stamp supply, banking and insurance transactions if subject to transactions tax, property rentals
YUGOSLAVIA-SERBIA—sales tax	
20%	standard rate of 17% plus 3% federal tax
Exempt:	bread, milk, some agricultural products, utilities VAT to be introduced in 2003
Region:	
AUSTRIA	
20%	standard rate
16%	duty free zones
10%	foodstuffs, books, newspapers, passenger transport, residential rentals
0%	Exports
Exempt:	transactions subject to real estate transfer tax
CZECH REPUBLIC	introduced January 1993
22%	standard rate
5%	foodstuffs, pharmaceutical products and most services
0%	Exports
Exempt:	post, broadcasting, some financial services, health, transfer and lease of land and buildings, education, insurance
GERMANY	
16%	standard rate

7%	food, beverages, pharmaceuticals, newspapers, books, theaters, museums
0%	Exports
ITALY	
<u>20%</u>	<u>standard rate</u>
10%	reduced rate
4%	reduced rate
0%	exports, international transport and transport services
Exempt:	financial services, insurance, securities and medical services
POLAND	introduced 7/1993
<u>22%</u>	<u>standard rate</u>
7%	agricultural and forestry machines, health care equipment, processed food, good for children
0%	exports
Exempt:	basic foodstuffs, agricultural products, some services
Sources:	IBFD, EYPassport, “Worldwide Tax Guide, Macedonia”, 1/2001, BiH, Croatia

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