

Tax Expenditures Report: The case of Republic of North Macedonia

Zoran Gligorov and Jordan Simonov

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Introduction

Estimation of tax expenditures

- First time estimation of tax expenditures
- Strong support of Twinning project “Improving revenue collection and tax and customs policy”
- Revenue forgone approach: estimates the amount by which taxpayers have their tax liabilities reduced as a result of a tax expenditure based on their actual current economic behaviour

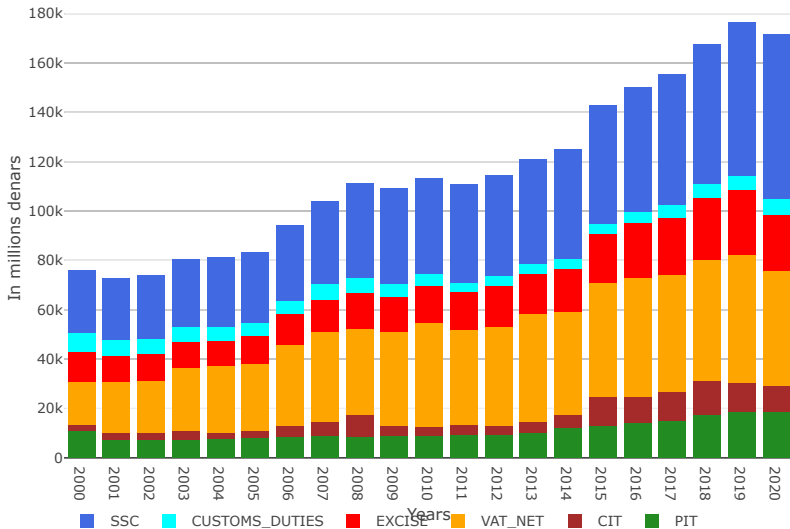
Administrative and statistical data

- Supply and use tables (SUT);
- Micro data on personal income tax, compulsory social security contributions and corporate income tax;
- Administrative data on the release for free circulation of excise goods;
- Recorded duties on import of goods in accordance with the Customs Tariff;
- Data from the report on Household Consumption in the Republic of Macedonia, 2017; and
- Administrative data from Commission for Protection of Competition.

Challenges during preparation

- Defining tax benchmarks;
- Providing the necessary data;
- Enhancing tax modeling capacity and developing micro-simulation models with open-source programming languages such as: Python and R; and
- Developing Tax GAP model based on Supply and Use tables (SUT).

Composition of tax and customs revenues

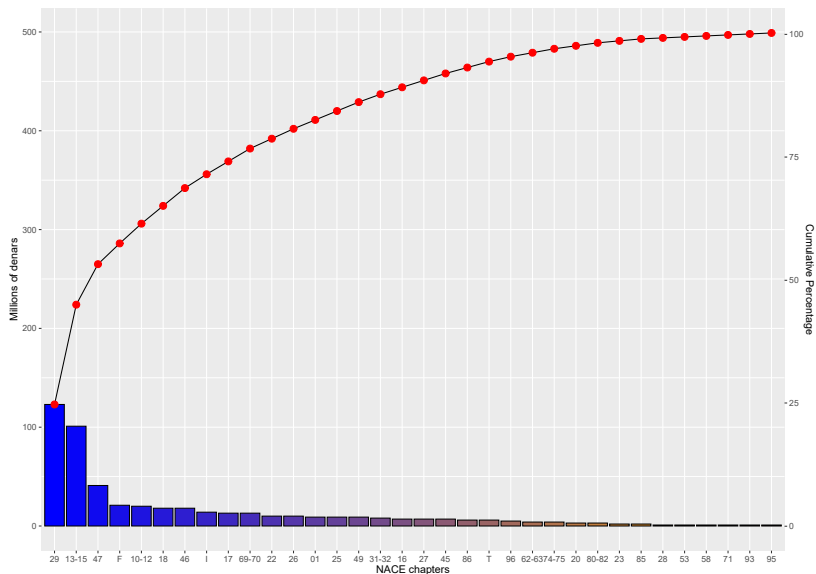


Taxes

Direct taxes

Personal Income Tax

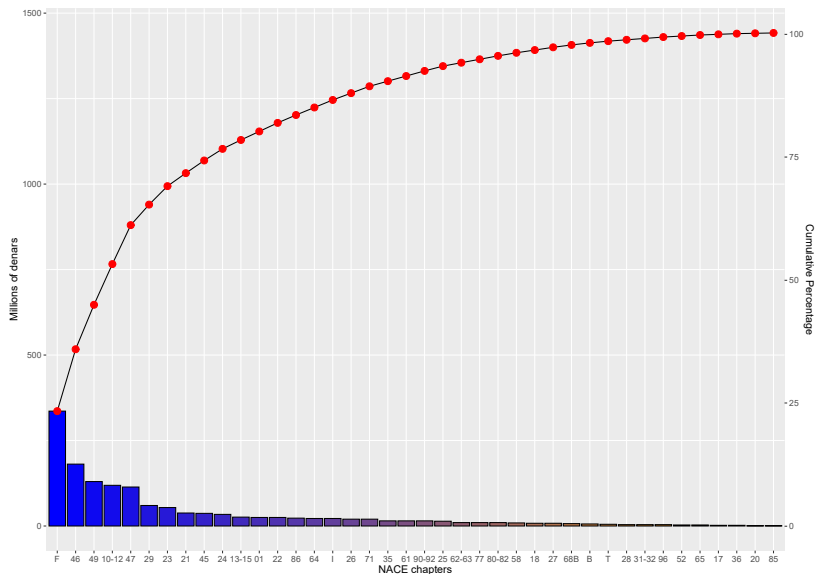
- An employed person with a disability is exempt from paying personal income tax, with share in GDP of 0.02% ;
- Employment of an unemployed person who has been registered as unemployed for more than one year, with share in GDP of 0.03%;
- Exemption from personal income tax on employees' salaries for a period of ten years from the start of business activity in a technological industrial development zone TIDZ/Law on State Aid Control,with share in GDP of 0.03%;



Direct taxes

Corporate income tax

- Reinvested profit, with share in GDP of 0.24 %;
- Putting into operation up to 10 fiscal devices for registration of cash payments, with share in GDP of 0.001 %;
- Technological industrial development zone/Law on State Aid Control,with share in GDP of 0.02 % ;
- Donations in sports,with share in GDP of 0.02 %; and
- Annual tax on total income, with share in GDP of 0.03 %.



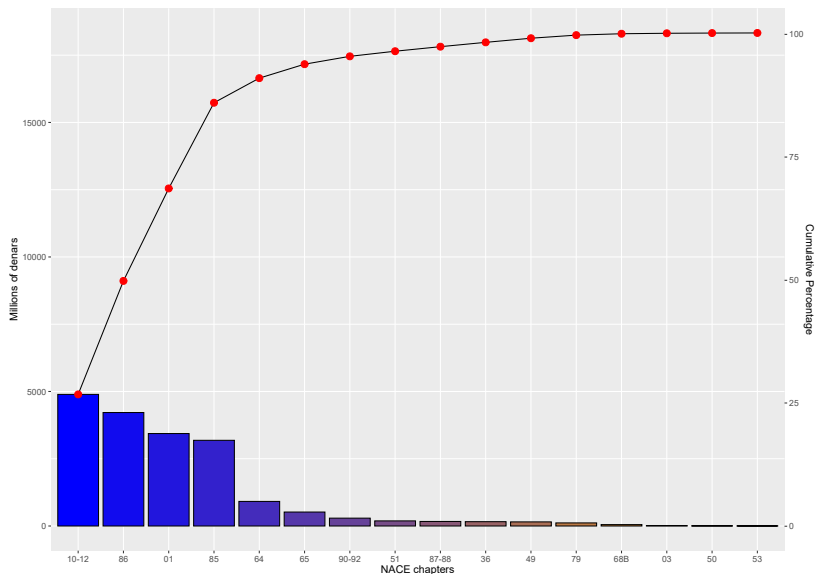
Indirect taxes

Value Added Tax

- Tax exemptions from VAT, with share in GDP of 1.2 % and
- Preferential tax rate, with share in GDP of 1.2 %.

Value Added Tax

- **Tax exemptions from VAT.** These exemptions refer to postal services provided by Macedonian Post; banking and financial transactions; insurance and reinsurance services; healthcare services; educational services that are tax exemptions without the right to deduction of the input tax, personal luggage of passengers arriving from abroad, etc.
- **Preferential tax rate.** Preferential tax rate for certain goods and services. Such goods are: products for human consumption; drinking water; publications; agricultural mechanization; medications and medical equipment; computers; baby products; school supplies; pellets etc. Regarding services, the preferential tax rate is applied for transportation of persons; computer software; accommodation etc.



Indirect taxes

Excise

- Mineral oils (heating fuels), with share in GDP of 0.02 % ;
- Tobacco, with share in GDP of 0.02 % and
- Wine, with share in GDP of 0.02 % ;

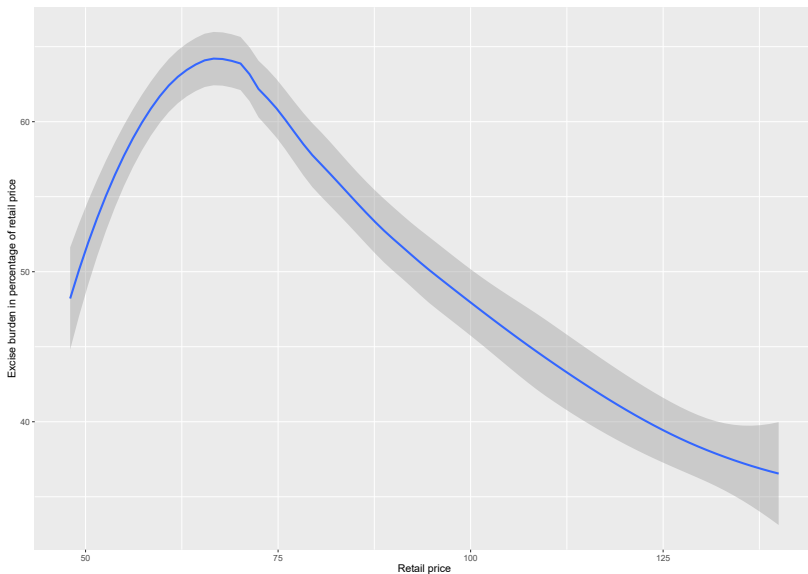
Mineral oils (heating fuels)

In the direction of determining the tax expenditures of mineral oils defined pursuant to the Excise Law from 2017, the main focus we put on the heating fuels and their emission factors CO₂. In the table the emission factors of CO₂ are presented and expressed in '000 in accordance with the defined unit of measurement, i.e. liters or kilograms.

Fuel	Units	Emissions Factor	Specific Excise
Diesel	CO ₂ per 1000 litres	2.68	6.136
Heavy fuel oil	CO ₂ per 1000 litres	2.83	0.1
Kerosene	CO ₂ per 1000 litres	2.54	1.8
LPG	CO ₂ per 1000 Kg	2.98	4.9

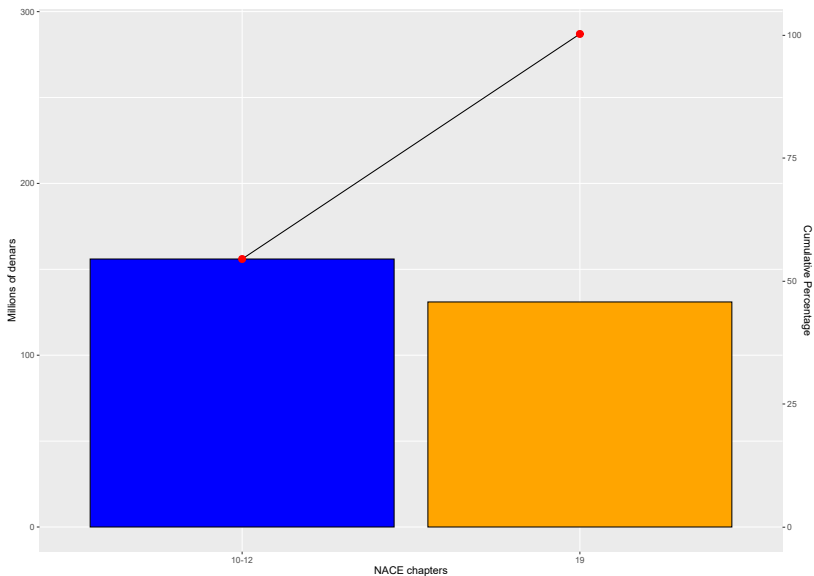
Tobacco

In the direction of determining the benchmark for tobacco, it is very important to firstly determine the contents of the tobacco contained in one cigarette. Pursuant to the data available on the webpage of the European Commission it is considered that one cigarette contains 700 mg tobacco, i.e. 0.7 grams of tobacco. With the objective to determine the ratio of the excise for fine-cut tobacco and the excise of cigarettes, estimation has been made in which the taxation basis is considered to be the amount of tobacco contained in one cigarette. Namely, one cigarette contains 0.7 grams of tobacco which means that one pack of cigarettes contains 14 grams of tobacco, while 1000 cigarettes contain 700 grams of tobacco.



Wines

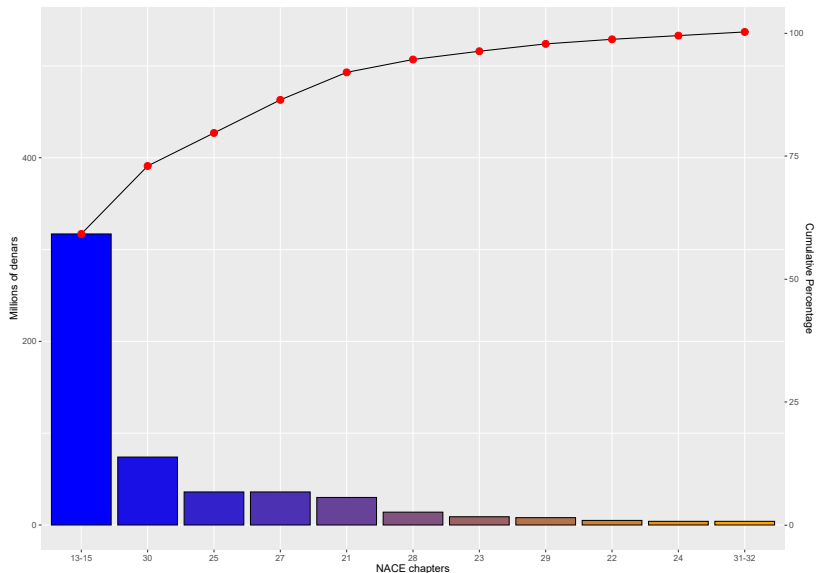
Even though it is an excise good and contains alcohol, the wine unlike strong beverages that are subject to excise amounted to 340 Denars/liter pure alcohol, it has an excise of 0 Denars. The 0-Denar taxation generates tax expenditure and influences the collection of revenues based on excise. In the direction of estimating this tax revenue in cooperation with the State Statistical Office, an estimation of the wine market in the Republic of North Macedonia has been made based on the average amount of wine consumption that in 2017 was 6,3 liters on average per household, or when multiplied by the number of households that is 566 171, an amount of 35 669 hectolitres is obtained. If this consumption is converted in pure alcohol and the specific excise applied to ethyl alcohol/litre pure alcohol is applied to it, then the tax expenditure of this type of excise product share in the GDP would be 0.02%.



Customs duties

Customs duties

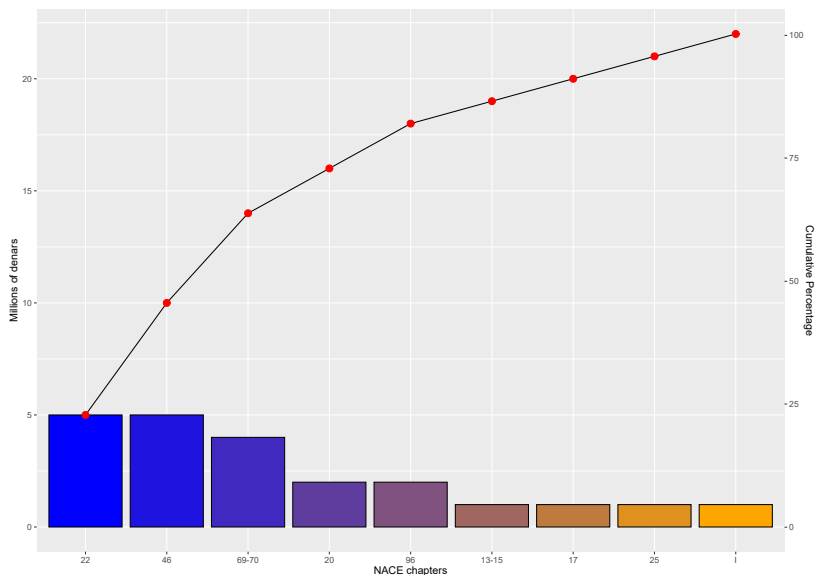
- Goods received as a gift from international donors, as well as imported goods bought with the money assets received as a gift by state authorities, municipalities and the city of Skopje and public legal entities, with share in GDP of 0.02 % ;
- Duty payment relief of goods on the basis of a donation agreement and project financed under the Instrument for Pre-Accession Assistance IPA, with share in GDP of 0.02 % ;
- TIDZ/Law on State Aid Control, with share in GDP of 0.02 % and
- Autonomous measures , with share in GDP of 0.02 %.



SSC

Contributions from the compulsory social insurance

- Employment of an unemployed person who was registered as unemployed for a period longer than one year, with share in GDP of 0.02 % ;
- The employed disabled person for whom disability is confirmed is exempted from paying contributions for compulsory social insurance, with share in GDP of 0.02 % ; and
- 50% mandatory social security contributions. The legal framework for state aid control consists of the Law on state aid control and bylaws for its implementation, with share in GDP of 0.02 % ;



Conclusion

Total tax expenditures

The estimation of the total tax expenditures showed that they are in the amount of MKD 18 460 million, i.e. their share in the total revenues generated from taxes and social contributions is 11.7%, and their share in GDP is 3.0%. Analysed according to their purpose, 44.9% of the tax expenditures have social purpose, while 55.1% have economic purpose.

Type	TEs	Structure
Direct taxes	2 272	12.3
Indirect taxes	15 404	83.4
Social contributions	243	1.3
Customs duties	540	2.9
Total	18 460	100

Structure of Tax expenditures

2017



Thank you for your attention !

Contact details:

- jordan.simonov78@gmail.com
- zoran.gligorov@finance.gov.mk

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Notes

Example of GitHub repository

<https://github.com/jordans78/Estimation-Tax-Expenditures>