

THE STRUCTURE OF REVENUES IN THE REPUBLIC OF NORTH MACEDONIA: A COMPARATIVE ANALYSIS BEFORE AND DURING COVID -19

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Abstract

This study has presented the realization of the public revenues in the State Budget, before and during the COVID-19 pandemic making economic analyses in five-year period according to the structure, types, and realization of the revenues. In 2020 many economies in the world, including the strongest, were affected by the health crisis created by COVID-19 pandemic. The restrictive measures to prevent the spread of the coronavirus in the country have affected some of the activities within the service sector, such as trade, transport and tourism, and other branches. As a result of all of this, the domestic economy faced one of the deepest recessions so far, i.e., a decline in economic activity in general and with that decline of public revenues in 2020.

Keywords: revenues, budget, direct taxes, VAT, PIT, customs duties, excise duties, social insurance contributions

1. Introduction

North Macedonia experienced a major economic recession in 2020. The output dropped by 4.5%, which is somewhat less than the projected in autumn 2020, partially due to the government support measures, as well as the monetary and regulatory easing. After a steep drop in output in the period April - June, the annual decline was lower in the second half of the year, as containment measures were lifted, and foreign demand strengthened. Remittances recovered slightly towards the end of the year, bolstering household spending power. Investment picked up during the summer, as public works surged temporarily. External trade suffered from the containment measures in trading-partner economies, which accounts for over half of the country's exports, and through the temporary breakdown of automotive supply chains³³. Overall, net exports contributed to growth.

Total public revenues in the Budget of the Republic of North Macedonia accounted for 29.6% of GDP in 2019, while public revenues in the EU stood at 41.1 % of GDP, being among the lowest in Europe. Public revenues in the central government Budget comprise the following: personal income tax, profit tax, value-added tax, contributions, customs duties, excise duties, fees, revenues of public enterprises and institutions, public loans, and financial donations. Leaving aside the capital revenues, donations, and other non-tax revenues, taxes and contributions accounted for

³³ Germany

87.7% of the total revenues in the Budget of the Republic of North Macedonia, while the tax revenues alone accounted for 56.45% of the 2019 Budget. Tax revenues and contributions accounted for 25.95% of GDP, while tax revenues accounted for 16.7% of GDP. Tax revenues in the Budget of the Republic of North Macedonia, increased by the property taxes as tax revenues of local government units, accounted for 17.2%³⁴ of GDP.

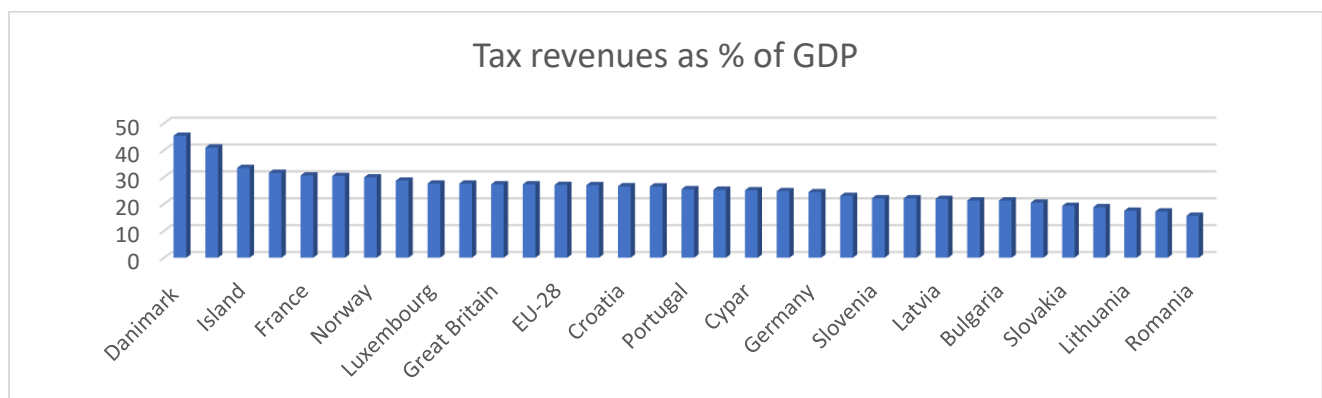
As for the execution of the 2020 Budget of the Republic of North Macedonia, the revenue performance was generally within the projections, whereby in 2020, revenues were collected in the total amount of Denar 189.8 million, accounting for 96.7% of the 2020 projected revenues. Taxes and contribution collection accounted for 99.5% of the projections throughout the year, indicating solid forecasting amid unpredictable circumstances. Budget revenue collection significantly improved in December when taxes and contributions were collected in the amount of Denar 18 million, being higher by 4.3% compared to December last year. Thereby, in December, tax revenues, whereby VAT, profit tax, and personal income tax accounted for the most thereof, amounted to Denar 10.9 million or by 2% higher compared to last year, when Denar 10.7 million was collected on this basis. It is worth noting that by stabilizing the pandemic situation, as well as implementing measures and strategies aimed at accelerated growth, our economy can grow faster, also ensuring better revenue collection in the state budget.

Expectations for this year are that the developments related to the COVID-19 pandemic will be stabilized, thus contributing to the economic recovery. Strategies and measures to be further undertaken will be primarily focused on ensuring a fair, efficient, transparent, and modern tax system based on modern digital technologies and innovations in taxation. The goal thereby is achieving accelerated, inclusive, and sustainable economic growth, by taking into account the respective activities and priorities, the main priority of which is greater efficiency and effectiveness of the tax system, thus leading to improved revenue collection.

The most important types of taxes and contributions are the following:

- > Direct taxes;
- > Value Added Tax;
- > Excise duties;
- > Customs duties;
- > Mandatory social insurance contributions;

Chart 1. Tax revenues (as% of GDP)



³⁴Total tax revenues, including the property tax, account for 17.2% of GDP.

Source: Eurostat (2020)

The objective of the research

The research is aimed at analyzing the public revenue collection in the state budget over 5- year period before and during the COVID-19 crisis. We carry out economic analyses for 5- year period according to the structure, the types, and the performance, which we use to improve fiscal consolidation, hand in hand with the economic recovery. Public finances are expected to improve over the forecast horizon.

This study was conducted based upon an inclusive review of the related literature aimed at developing the research objectives, thus addressing the practical aspects and the structure, types, and performance according to the planned state budget. The used data are annually published in the budget publications covering the 5- year period (2015-2020).

Statistical Method-The analytical approach was used, and the financial ratios were calculated for the tax revenues using an Excel software program, to explain and analyze the overview aspects of revenues, as well as their structure and performance, according to the projected published budget over the 5- year period (2015-2020).

2. Types of taxes and contributions

2.1.1 Direct taxes

The existing Macedonian tax system, as regards direct taxes, is characterized with proportional and equal taxation of personal income and profit – both at 10% tax rate (except for the PIT tax rate as regards income based on games of chance, which is taxed with 15% PIT tax rate). The system of equal and proportional PIT and profit tax (commonly known as “flat tax”) was introduced on 1st January 2007 for the first time, with a tax rate of 12%, which was further reduced to 10%, starting 1st January 2008. Before 2006, the tax rate on profit at legal entities was proportional accounting for 15%, while the personal income tax rates were progressively applied, accounting for 15%, 18%, and 24%, respectively.

Starting 1st January 2019, PIT progressive taxation was applied.³⁵ *Two tax rates apply on labor income: a 10% tax rate on annual income up to Denar 1,080,000 and a higher tax rate of 18% on the amount exceeding the threshold of Denar 1,080,000 (tax base). Capital income is taxed with a proportional tax of 15%.* The profit taxation system has remained unchanged: a single proportional tax rate of 10% is applied at profit tax (PT), which pertains to legal entities. This reform was introduced, the main purpose of which was mitigating the unequal distribution of income and reducing income inequality. Furthermore, in 2019, PIT was divided into two segments for the first time: (1) PIT on labor and (2) PIT on capital.

Direct taxes accounted for 14.8% of the total budget revenue in 2019 (4.4% of GDP), out of which PIT accounted for 9.2% of the total budget revenues (2.7% of GDP³⁶), while the share of profit tax in total budget revenues was 5.7% (1.7% of GDP³⁷).

The effective profit tax rate in 2018 was 5.1%, while is estimated effective PIT tax rate in 2019 was 5.49%.

³⁵ "Personal Income" is renamed in "personal income tax"

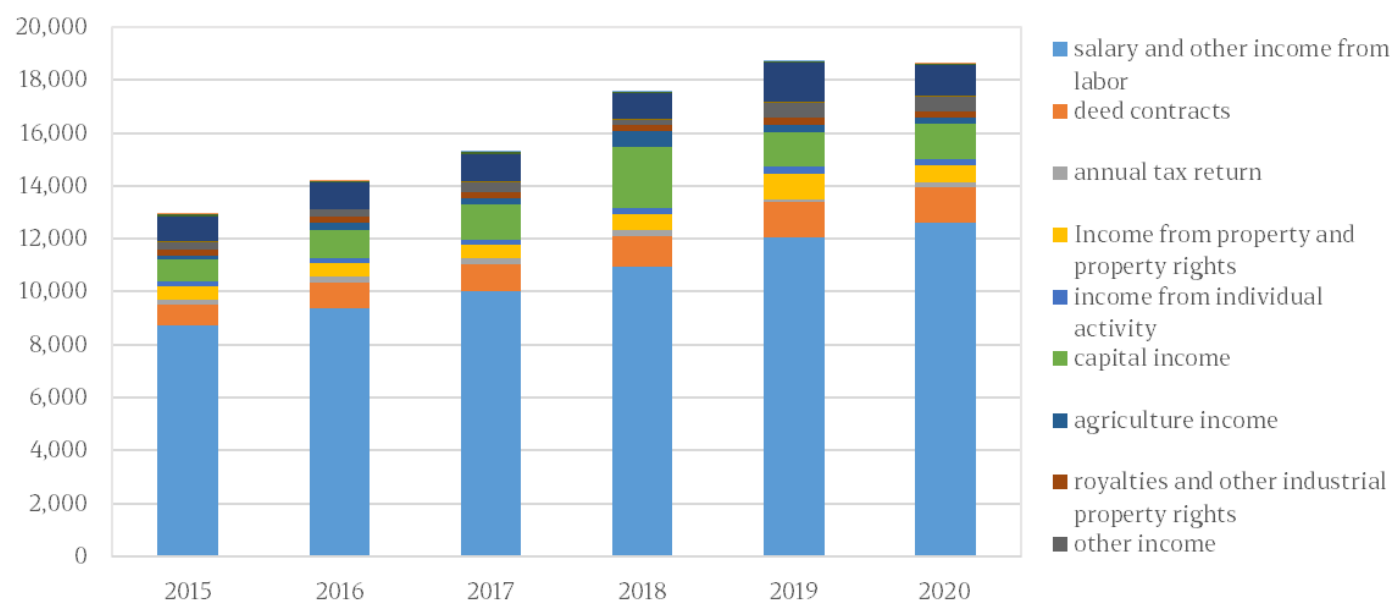
³⁶ Data on GDP are previous data

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Out of the total revenues projected in the 2020 Budget of the Republic of North Macedonia based on personal **income tax** in the amount of 18,700 million Denar, revenues in the amount of 18,625 million Denar were collected in the period January - December 2020, or **99.6% of the projected revenues**.

Revenues based on **personal income tax** in the period January - December 2020 were lower by 0.4% compared to the projected ones in the amount of 18,700 million Denar being lower by 0.4% compared to the revenue performance in the same period in 2019, when 18,706 million Denar were collected on this basis.

Chart 2. Personal income tax 2015-2020



Source: State statistics

2.1.2. Profit Tax

Profit Tax Law regulates the manner of taxation of the profit arising from the income statement, i.e., the so-called profit of the company. Profit tax is also called corporate income tax, i.e., tax by which companies' profit is taxed. The Law additionally regulates the rate upon which the profit tax is calculated, taxpayers subject to paying profit tax, tax base to calculate profit tax, deadlines to pay profit tax, as well as other issues of relevance to determining and paying profit tax.

General, i.e., basic provisions of the Law regulate the tax rate accounting for 10%, the taxpayers subject to profit tax, i.e., a taxpayer can be a legal entity, resident of the Republic of North Macedonia, generating profit based on performing an activity in the country and abroad. Resident, in terms of the Profit Tax Law, is an entity established or headquartered on the territory of the Republic of North Macedonia.

Furthermore, the Law covers provisions on the special tax treatment for non-profit organizations, organizations operating according to the law on associations and foundations, public enterprises, budget users and similar. All previously mentioned entities are taxed with the tax on total income of 1%, but only for the portion of the income generated from performing business activity, i.e., the tax base does not include income generated from activities of non-profit nature. Initial provisions

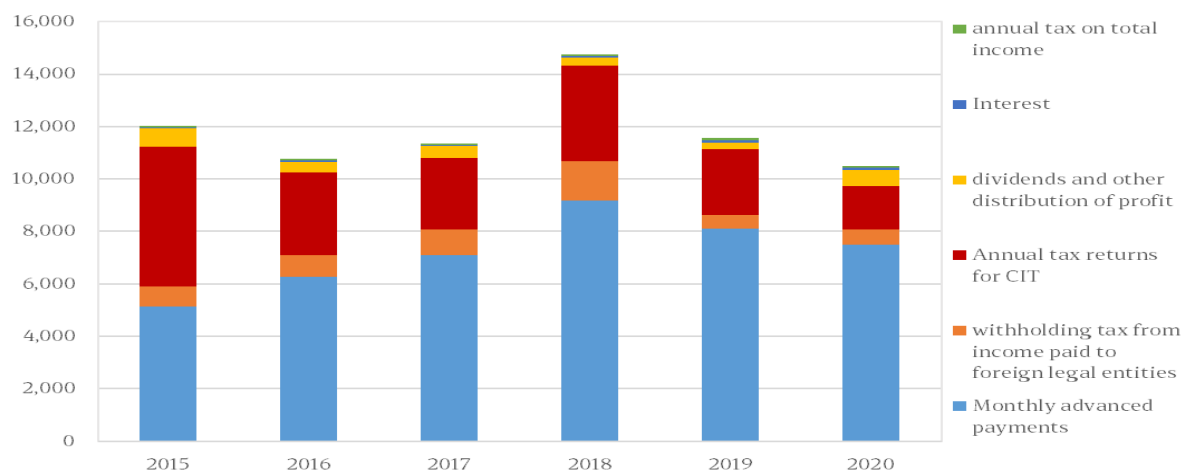
of the Law also define the terms related to permanent establishment, i.e., for which activities and under which conditions, the legal entities will obtain the permanent establishment status.

Tax base to calculate profit tax is created from the difference between the total revenues and the total expenditures set according to the international accounting's standards, and to obtain the final tax base, it is increased for the unrecognized expenditures for tax purposes and decreased up to the stipulated tax exemptions according to the law.

Out of the total revenues projected in the **2020** Budget of the Republic of North Macedonia based on **profit tax** in the amount of 10,600 million Denar, revenues in the amount of Denar 10,497 million were collected in the period January - December 2020, or **99.0% of the projected revenues**.

Revenues generated based on **profit tax** in the period **January - December 2020** in the amount of 10,497 million Denar were lower by 1.0% compared to the projected 10,600 million Denar, as well as lower by 9.2% to the revenues generated in the same period in 2019, when were collected 10,555 million Denar.

Chart 3. Profit tax structure in the period January - December 2015 - 2020



Source: State Statistic

2.1.3. Value Added Tax

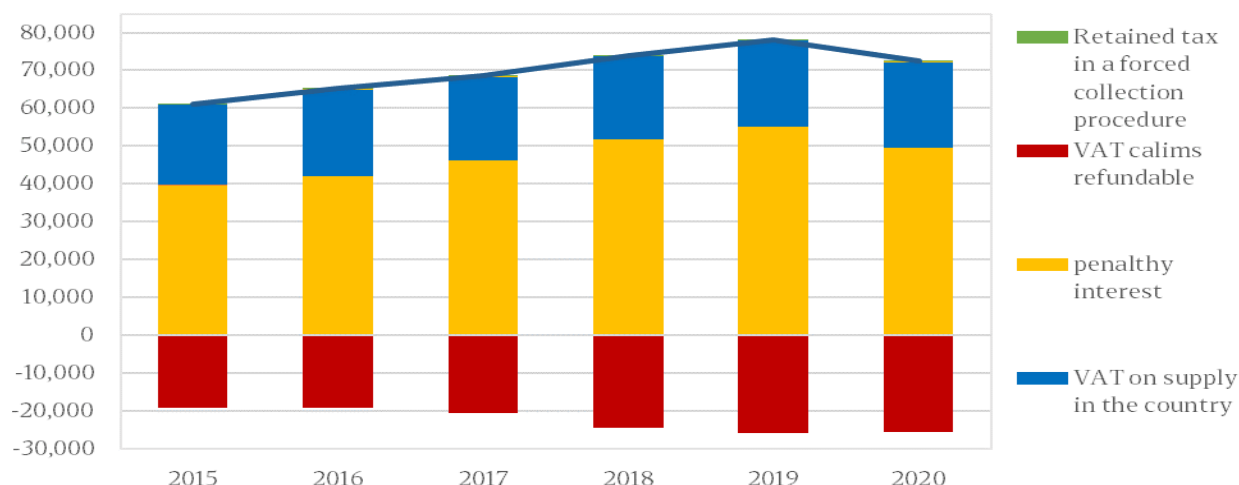
Value Added Tax is one of the taxes that contributes the most to total public revenues, accounting for 25.5% of the total budget revenues in 2019 (7.6% of GDP) and 45.2% of the total tax revenues in the Budget of the Republic of North Macedonia. VAT general tax rate is 18%, while the two preferential tax rates applied are 10% and 5%. VAT Law was first adopted on April 1, 2000, replacing the then sales tax.

Out of the total tax revenues projected in the **2020** Budget of the Republic of North Macedonia based on **Value Added Tax** in the amount of Denar 48,000 million, revenues in the amount of 46,893 million Denar were collected in the period January - December 2020, or **97.8% of the projected tax revenues**.

Total VAT revenues generated in the period **January - December 2020** in the amount of Denar 46,893 million were lower by 2.2% in relation to the projected amount of 48,000 million Denar,

decreasing by 9.9% in relation to the revenues generated in the same period in 2019, when were collected 52,058 million Denar.

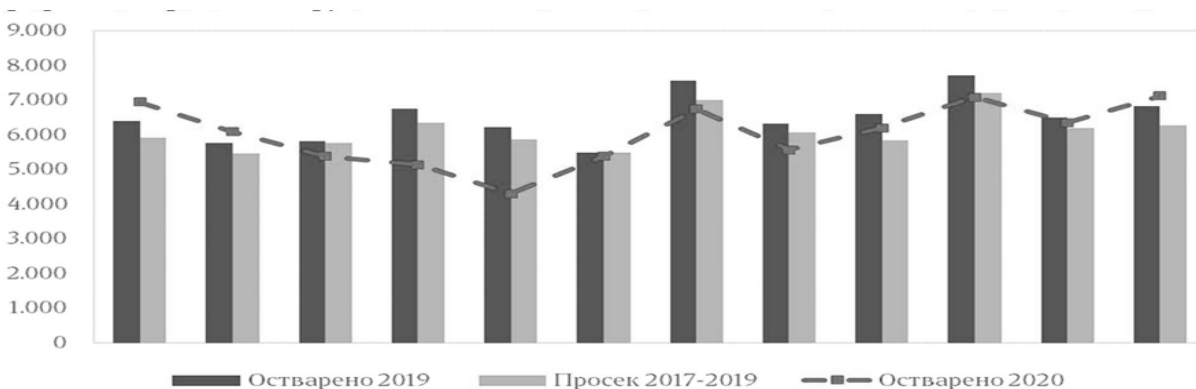
Chart 4. Value added tax structure in the period January - December 2015 - 2020



Source: State statistic

The chart below shows revenues collected based on gross VAT to the actual revenue performance in the period of January - December 2017 - 2020, i.e., the revenue performance in December was around the average in the previous years.

Chart 5. Gross VAT revenues



Source: State statistic

2.1.4. Excise duties

According to the new Law on Excise Duties, which applies to start January 1, 2020, excise goods are the following:

- alcohol and alcoholic beverages;
- tobacco products, and
- energy products and electricity.

Excise duty paid on excise goods is prescribed in absolute amount per unit measure (specific excise duty), while as regards tobacco products, it is paid as a combination of specific and proportional excise duty (excise duty in percentage amount).

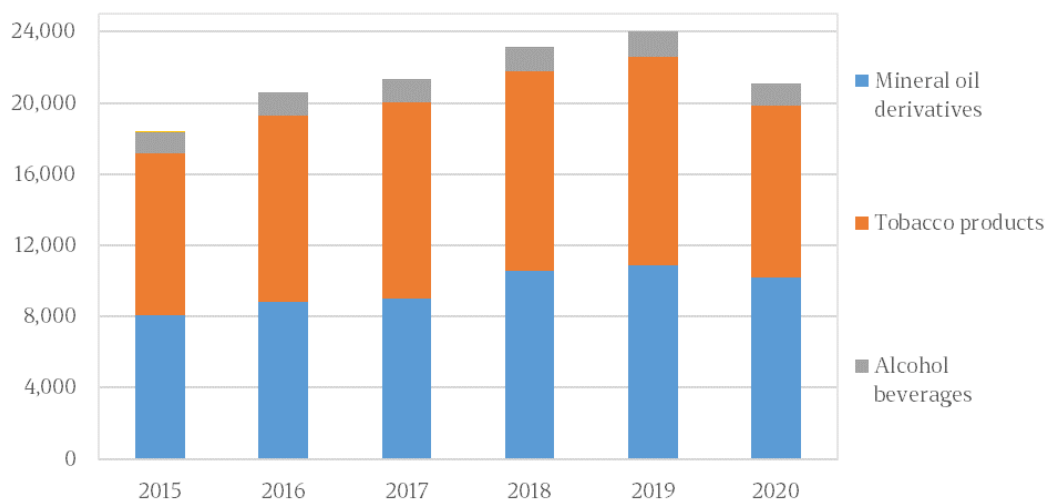
Excise duty on a gross basis accounted for a total of 14.6% of the total revenues in 2019 (4.3% of GDP³⁸ in 2019). 51.4% of total excise duty was based on mineral oils, 40.1% based on tobacco products, 6.2% based on alcohol and beer, while the remaining portion of 2.3% was based on passenger vehicles, which were regulated under the Law on Excise Duties until 2020.

By applying the new Law on Excise Duties starting January 1, 2020, passenger vehicles are no longer subject to excise duty, but they are rather regulated under the new Law on Motor Vehicles Tax, which started to apply from 1st January 2020. Law on Motor Vehicles Tax regulates the tax on motor vehicles and, in addition to ad valorem, it includes an ecological component aimed at raising the ecological awareness of the citizens and contributing to the reduction of environmental pollution.

Total collected revenues based on **excise duties** (Core Budget, PDIF, MoH and PESR) in the **period January - December 2020** amounted 26,085 million Denar, being a 12.4% decrease of the revenues collected based on excise duties compared to the same period in 2019.

Total collected revenues based on **excise duties** in the Republic of North Macedonia in the period January - December 2020, amounted to 26,085 million Denar, 21,115 million Denar out of which were collected in the Core Budget, while the remaining amount of 4,970 million Denar were the revenues collected based on excise duties which, according to the legal regulations, are set aside for the Ministry of Health, the Pension and Disability Insurance Fund and the Public Enterprise for State Roads.

Chart 6. Gross excise duty tax structure in the period January - December 2015 - 2020

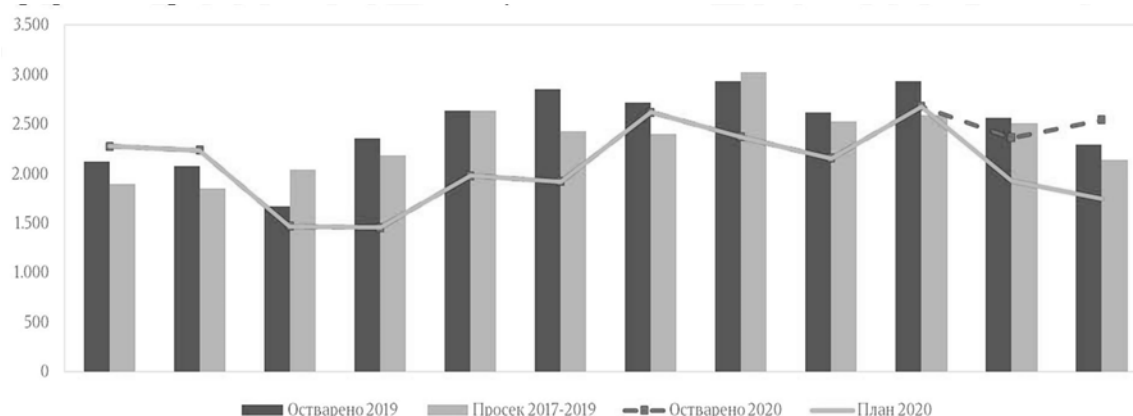


Source: State statistic

³⁸ Data on GDP are previous data

The chart below shows revenues collected based on excise duties (Core Budget, PDIF, MoH and PESR) to the projections and the actual revenue performance in the period January - December 2020, i.e., they show higher performance in December compared to the projections.

Chart 7. Excise revenues



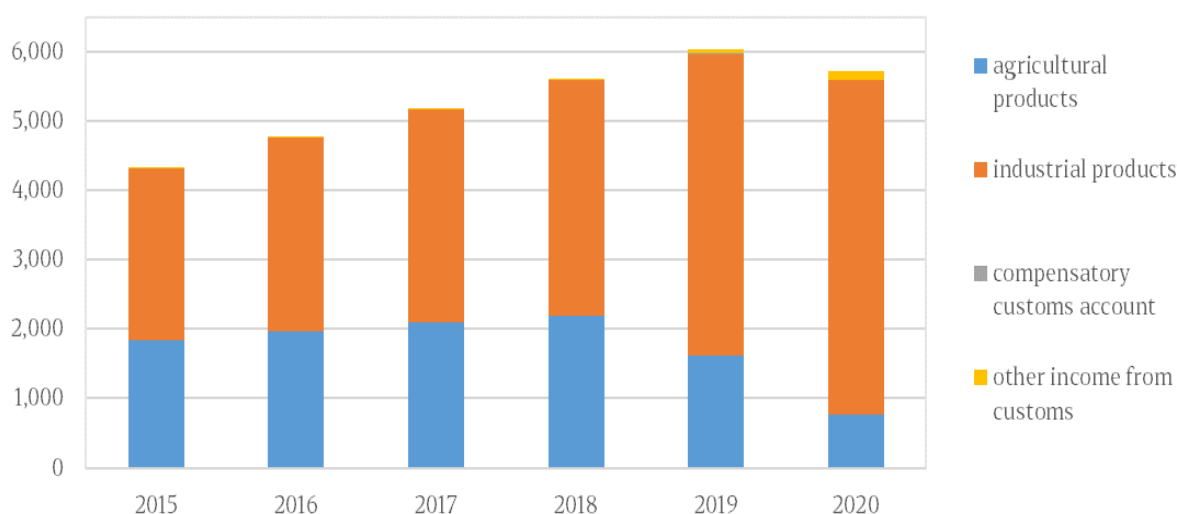
Source: State statistic

2.1.5. Customs duties

Customs rates are relatively low in the Republic of North Macedonia due to the high level of trade liberalization. In 2019, they accounted for 3% of the total budget revenues (0.9% of GDP).

Out of the total revenues projected in the **2020** Budget of the Republic of North Macedonia based on import duties (customs duties) in the amount of 5,500 million Denar, revenues in the amount of 5,734 million Denar were collected in the period January - December **2020**, or 104.3% of the projected annual revenues.

Chart 8. Import duties (customs duties) structure in the period January - December 2015 - 2020



Source: State statistic

2.1.6. Mandatory Social Insurance Contributions

Mandatory social insurance contributions are the largest source of public revenues, accounting for 30.5% of the total revenues in 2019. Mandatory social insurance contributions account for 9.0% of GDP.

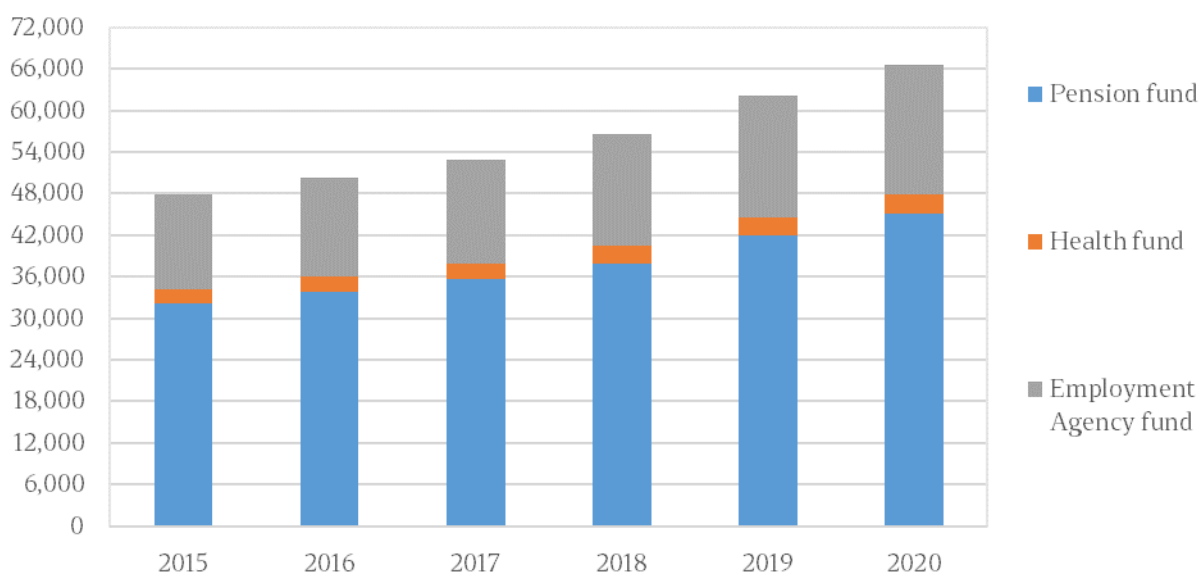
They are calculated on gross wages of insured persons, being revenues for the respective social funds that finance the current and the future rights of the insured persons - rights to health care, right to a pension, or unemployment benefits

Starting January 1, 2020, total mandatory social insurance contributions account for 28% of the gross wage (18.8% for pension insurance, 7.5% for health insurance, 1.2% for unemployment insurance, and 0.5% for additional health insurance). They are capped at 16 average gross wages, meaning that if someone earns more than this amount, his/her base for calculating the contributions would still be 16 average gross wages.

Out of the total tax revenues projected in the 2020 Budget of the Republic of North Macedonia based on social contributions (PDIF, EARNM, and HIF) in the amount of 65,053 million Denar, revenues in the amount of 66,566 million Denar were collected in the period January - December 2020, or 102.3% of the projected revenues.

Total revenues generated in the period January – December 2020 in the amount of 66,566 million Denar were higher than 2.3% in relation to the projected amount, increasing by 7.1% in relation to the revenues generated in the same period in 2019, when were collected 62,169 million Denar.

Chart 9. Social contributions structure in the period January - December 2015 - 2020



Source: State statistic

3. Conclusions and results

Expectations for this year are that the developments related to the COVID-19 pandemic will be stabilized, thus contributing to the economic recovery. Strategies and measures to be further undertaken will aim at supporting the acceleration of economic growth. This will provide for better public revenue collection. As for the execution of the 2020 Budget of the Republic of North

Macedonia, the revenue performance was generally within the projections, in 2020, revenues were collected in the total amount of Denar 189.8 million, accounting for 96.7% of the 2020 projected revenues. Taxes and contribution collection accounted for 99.5% of the projections throughout the year, indicating solid forecasting amid unpredictable circumstances. The budget revenue collection significantly improved in December when taxes and contributions were collected in the amount of Denar 18 million, being higher by 4.3% compared to December last year. Thereby, in December, tax revenues, whereby VAT, profit tax, and personal income tax accounted for the most thereof, amounted to Denar 10.9 million or by 2% higher compared to last year, when Denar 10.7 million was collected on this basis. In the period January - December 2020, tax revenues and social contributions were collected in the amount of Denar 175,914 million, which is lower by 2.8% or by Denar 5,054 million in absolute terms, compared to the revenues collected in the same period last year. Tax revenues collected in the amount of Denar 109,348 million were lower by 8.0% or by Denar 9,452 million in absolute terms, compared to the revenues collected in the same period last year.

As for the total structure of collected tax revenues, the share of the respective taxes is as follows: Value Added Tax – 42.9%, excise duties – 23.9%; PIT – 17.0%; profit tax - 9.6%; import duties – 5.2%; tax on motor vehicles – 0.9% and other tax revenues – 0.5%. The decline of revenues in the period January - December 2020, compared to the same period last year, was observed at:

- PIT by 0.4%;
- Profit tax by 9.2%;
- VAT by 9.9%;
- Excise duties by 12.4%;
- Import duties by 5.0% and
- Other tax revenues by 24.3%.

It is worth mentioning that by having the pandemic situation stabilized, as well as by implementing measures and strategies aimed at accelerated growth, our economy could grow faster, thus also providing for better revenue collection in the state budget. Total public revenues in the Budget of the Republic of North Macedonia accounted for 29.6% of GDP in 2019, however, there is a huge space for improvement in the form of taking measures, aimed at lowering the tax arrears, reducing the informal economy, as well as increasing the tax revenues and contributions as a percentage of GDP under the tax system reform. By taking into account the economic and social consequences of the crisis, the new policies should be geared towards building back a better future, by having a more inclusive, sustainable, resilient, and digitalized economy in place.

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