TAX POLICIES IN NORTH MACEDONIA - PROGRESSIVE TAX ON INCOME

Valon Ramadani
International Balkan University - Skopje, valon.ramadani@ibu.edu.mk

ABSTRACT

The purpose of this paper is to assess and provide explanation and expected effects of progressive income tax in North Macedonia, based on recent results explained in practical cases. Choosing the best taxation system, by having tax that provides the same percentage for all categories of income and a tax increase progressively to individuals with higher incomes, it remains to be discussed and explain the selected case to clarify the definition of progressive tax. We reconsider rather the optimal progressivity of earnings taxations and whether the income should be taxed at all. The government explained that the goal of income progressive taxation is to incite the economy and make sure a minimum standard of living for every citizen, which in the future will low the health care costs and provide strong force labor, that we critically discuss the academic research and consultation with concerned sides about appropriate implementation on this topic. According to policies, the tax income is paid at a progressive rate of 10% for the earned income up to 1.080.000 MKD per year, and of 18% for the income earned above this threshold. This implies that very high earners will be subject to high tax rates, how this would encourage low income families to work with earning subsidies and is it reasonable to freeze the progressive tax for the next 36-months.

KEYWORDS: Progressive Tax, Tax Policies, Taxation North Macedonia, Economy

INTRODUCTION

A democracy cannot exist as a permanent form of government. It can only exist until the people discover they can vote themselves largess out of the public treasury. From that moment on, the majority always votes for the candidate promising the most benefits from the public treasury, with the result that democracy always collapses over a loose fiscal policy (Alexander Fraser, 2000). In every research or even legislative session there are excellent ideas on how to improve the local or state tax system in North Macedonia. Any recommendations or suggestions for changing the tax rules boosts the discussion how to analyze and select the best proposals. The fundamental intention of any tax changes in system is to raise the level of revenue for the government. Many researchers indicated that tax policy should not be change during the phases when the country has large budget deficits or healthy surpluses. Progressive countries use the term ‘’tax fairness’’ by implementing six tax principles which will give them more attention than they often received in the past.

Influential tax policy principles and the strategies to put each principle in place are by keeping taxes simple, easy to comply with and collect; make taxes visible and transparent; encourage stability and predictability; protect economic competitiveness and base taxes on benefit received. Consequently, most counties serve two dimensions of taxes, horizontal and vertical equity. The government should promote tax fairness, which means to treat the taxpayers with equal ability to pay, this tax perspective is known as horizontal equity. The second principle or perspective named vertical equity, requires a look at progressive and regressive tax system. Taxes are regressive in nature, but progressivity system is principally achieved and imposed through the income tax on individuals. Based on that, there is no measure degree of progressivity, since this principle is accepted then it indicates that the higher the income, the more you pay. The tax system in North Macedonia is based on law on personal tax income, law on compulsory social insurance contributions, law on value added tax and low on profit tax.

The law on personal income regulates the taxation of personal for natural persons, taxpayers for payment of personal income tax, the tax base for calculating personal income tax, tax rates and deadlines for paying the personal income tax. For income from work, income from self-employment, income from copyright and related rights and income from selling agricultural products, the income tax for the all mentioned incomes is payable at progressive rates:

Table 1. Annual basis and the rate tax

Annual tax basis	the rate
Up to 1.080.000 MKD	10%
From 1.080.001	10% + 18% of the share on income above 1.080.000 MKD

North Macedonia had 10% personal income tax which is introduced from 2007, and the purpose was to provide and stimulate friendly appropriate business climate for companies and thus to support new job positions. The political reforms (Oct-Nov 2018) in the country prescribed a threshold for earners whose income will exceed above 1500 euros (approximately 91.000 MKD) per month will be taxers of 18%, also the income tax from capital grew from nominal of 10% to 15%. Based to Gini coefficient measurement, North Macedonia currently has relatively high inequality at 32.6%.

BODY OF PAPER

2.1 Literature Review

The tax system design is a topic that has fascinated economic and financial theorists together with flummoxed policymakers for long time. The literature review will consist a brief overview of how economists think about tax policy and progressive tax. Pirttila and Selin (2010), based on developed countries, characterized the progressive tax system as dual income taxes, lightening that this type of tax was first introduced and implemented in Finland, Denmark, Norway and Sweden, also soon will continue with popularity in Germany and USA. The progressive tax is one of government systems used to rise revenue, but the idea of progressive tax always has been debated. Economists that argue with progressive tax stated that people with higher income can easily afford the higher tax rate, although the opponents prescribe that it directly punishes or penalize high earners for their skills and success. These two controversy talking opponents is the reason the progressive tax to become a very complex conversation or debate.

Investing Answers, economic journal, has elaborated a case of progressive taxation in the United States. In US. the federal income tax is considered as progressive tax and the following table describes the rates of progressive income tax:

Table 2. Income rate and the threshold of income

Progressive income tax – single filers

10%	$0 - $8.350
15%	$8.351 - $33.950
25%	$33.951 - $82.250
28%	$82.251 - $171.550
33%	$171,551 - $372.950
35%	$372.951 +

The example and table explanation will clarify the above table that indirectly states that everyone is taxed in steps. Suppose that Real estate manager earns $100.000 per year and is not taxed 28% of the entire amount. Instead, the person is taxed 10% on the first income of $8.350 earned, 15% for the second portion which is up to $33.950, 25% for the third portion up to $82.250 and 28% for the remain income portion. Based on the tax calculations the total owed in progressive income taxes reaches the amount of $21.720.

Table 3. Calculation of progressive tax

10% x $8.350 = $835
15% x 25.560 = $3.840
25% x $48.300 = $12.075
28% x $17.750 = $4.970

Dallinger (2013) differentiates and concludes that through progressive tax the government redistribution primarily brought improvement and development in the position to lower-middle class and states that the higher-middle income people experienced losses. The redistribution role of taxes in transit compare to developed countries, according to Bird and Zolt (2005) explained that the focus of any tax system is to allocate the government costs in fair and politically was that would be acceptable. Adam Smith (1987, p.33) quoted that it is not very unreasonable that the rich people should contribute to the public expense, not only in proportion to their revenue, but something more in that proportion. Barack Obama as USA president explained that reforming our outdated tax system and broken immigration system directly creates jobs and with claimed taxes building new roads, bridges and create jobs.

The Ex-Minister of Finance, Tevdovski (Nov. 2018), argue that it is morally right those who can afford to pay more in taxes should take those steps. He introduced the progressive taxation with manner that should reduce economic and political inequality. Those citizens that have very little income should be compensated and directly helped by those who earn huge wages or income. Tax policy allows the ministry of finance to collect money from those who have the most and uses by creating happier society. Progressive taxation will be used to fund education, housing assistance, medical services, infrastructure and other governmental programs for those people who really need it.

The newest analysis of the Ministry of Finance indicated that North Macedonia has high inequality rate of 14% and is the highest in Europe. The highest income according to analysis (2016) was around 2.6 million euros and 15 persons achieved income over one million euros, the average personal income was 310 euros per month and the 1% (the richest) had an average income of 4200 euros per month. The Ministry of Finance, among other relevant factors, explained that 775 persons who had over 100.000 euros of income jointly summed the 190 million euros, that is equal to the total income of 210.000 persons with lowest incomes in the country. This directly points out the tax system was in North Macedonia, indicating that the richest 1% in 2016 had the lowest tax burden.

Analysis pointed out that the problem in North Macedonia is the low taxation and flat rate tax is not fair. He stated that the country should tax the highest incomes on a progressive scale and the government cannot tolerate situations in which one person who earn a lot pays the same tax rate with the one with lowest income. Based to ''Doing business'' report, the high inequality is connected and associated with low tax base and therefore small tax collection.

2.2 Explained Practical Case: Progressive tax application

Clarifying the advantages or disadvantages, the ''Prager University'' through animated video had illustrated the situation released from person with better financial conditions from the progressive taxation. In the following section this case shows a hypothetical history of progressive tax application, bringing into attention three sister and we will introduce the case as particularly explained and connected with the progressive policy in North Macedonia.

The three sisters raised under the same life conditions like: possibilities, financial incomes, insurance, equal intellectual level, the three has correctly the same profession, working as call agents and currently are paid at identical wages, approximately 25 euros/ hour.

The three sisters, nevertheless the above similarities, have different life priorities:

Table 4. Case: Life priorities

Life Priorities:
The first sister choose to work 20 hours per week and she married a man who actually did not work
The second sister choose to work 40 hours per week and married a man who has part-time work as manager and was paid 30.000 Euros/year
The third sister was motivated to work 60 hours per week and married a man who worked full-time job and was paid 50.000 Euros/year

Based on these indicators, the first two sisters and their husbands did not save too much during the working period, with aims that they contributed for social security and it was enough for their old ages or senility. Nonetheless, the third couple with other life priorities saved month by month and their savings periodically had invested in different commercial corporation shares.

Related to this way of financial prospects for the three sisters, at the end of each year the incomes of each couple were as the following table:

Table 5. Case: Income each couple/year

Income per year:
For the first sister the incomes were 24.000 euros/year
The second sister achieved 78.000 euros/year
The third sister 122.000 euros/year

After a while, the three couples bought houses at the same village, with no developed infrastructure. After some months living in the village, they determine and ascertained that the living environment around the houses need some elementary investments, including roads, lights, trees and gate to secure the area from any damages. According to building company and architect, all these investments have the cost of 30.000 euros and automatically was released the question how this investment invoice would be divided among three couples.

Table 6. Three Suggestions

Suggestions for the invoice:
The third sister or couple gave a recommendation that the invoice should be divided equally into three parts. As consequence of this suggestions, each of the sisters will pay **10.000 euros**.
The second sister proposed another division formula for the invoice. The formula consists the mutual incomes for the three sisters around **224.000 euros** and the invoice of **30.000 euros** was around **13%** of this amount. Therefore, according to this formula, each of the sister will pay the **13%** of the annual incomes and the invoice in this case should be divided into: Third brother: **15.850 euros** Second brother: **10.150 euros** First brother: **3.150 euros**
The first sister proposed a ''excellent'' idea that was fairer according to her, she said that the third sister to pay **23.000 euros**, the second sister to pay **7000 euros** and she to not pay at all.

2.3 Proposals and Discussion:

Proposal 1: based on the first suggestion, the two other sister objected the recommendation with the fact that the third sister was the richer and therefore she should pay more in this case. Nevertheless, the objected arguments indicated that she was in a superlative financial conditions since she worked more, not like two other sisters, even that they ignored that fact.

Proposal 2 and 3: the two other proposals were objected by the third sister, which was the richest, arguing that she was not understanding why she need to cover almost 80% of the investment for the invoice when all the couples will benefit equally from the same investment.

The proposer, two other sisters, explained that this was the progressive tax system of North Macedonia stated from November 2018 and they should not act differently and based on voted results 2 against 1, it was decided that the appropriate formula based on progressive tax was the third one. As a consequence, after this situation raises the question if this is a fair formula to apply in other investments that they will do or should the third sister or couple not work harder?

CONCLUSION

The objective of the paper is to assess and remark the progressive and higher personal income tax in North Macedonia based on useful case and data relevant to the introduced policy in January 1, 2019. Based on the practical case that indicates the situation ''the progressive tax policy punishes and penalize the rich people'' has a negative side which is not treated mainly from those who defend the progressive taxation philosophy. The government of North Macedonia for the punishing situation uses the expression ''the progressive taxation does not punish the rich but directly helps the poor. Analysis from the Ministry of Finance and the case have opposite manner and justification philosophies of treating the taxation. The situation from the case reflects that the government is not taking into consideration that these rich people are people with ordinary jobs who choose to work harder than others or sometime even to risk more.

Although, the progressive taxation is not negative in integrity, I argue against it to continue implementing in North Macedonia by the government, taking into consideration and imagining the major consequences which will come in Balkan country such as North Macedonia or other region countries. I admit the successful implementation of the progressive taxation in countries like Norway, Switzerland, Finland and United States, with the main fact that their people accept the high taxes with justification what they pay and the pleasant public service that the country provides. I argue against, due to consequences that this policy can bring in North Macedonia by making rich layers of people to hide their incomes, which by law is known as fiscal evasion, also the rich people would not declare the income and automatically would not invest them. On other hand, the investments would significantly decrease that would make disadvantage directly for the middle and poor class of population.

Overall, Finance Minister Mrs. Angelovska expressed the attitude and willingness to return the flat tax and freezing progressive taxation for 36 months which was introduced by her predecessor Tevdovski. The progressive and higher income tax has a negligible effect on better income distribution, measured at less than 1 percentage point improvement in equality. In addition, what will happen after ending the freezing period? Is this a tricky process from the political structure? Insights for the questions will be expressed in the next 4 years.

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