The global economic crisis and tax implications

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Abstract

- Economic indicators
- State budget revenues and expenditures
- Introduced measures:
  - Revenue side
  - Expenditure side
  - Other measures
  - Tax Administration measures
- Economic recovery program 2010
- Conclusion
Economic indicators

- Decrease of GDP for 5.8% in 2009
- Decrease of industrial production for 9.2% in 2009
- Decrease of export of goods for 20% in 2009
- Increase of unemployment for 21.2% in 2009
- External debt: 98.5% of GDP in 2009 (44.6 billion EUR)
- Internal debt: 35.4% of GDP in 2009 (16.1 billion EUR)
- Budget deficit: 2.9% of GDP in 2009
State budget total revenues and expenditures

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2008</th>
<th>Planned for 2009</th>
<th>Amanding budget 2009</th>
<th>Preliminary 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>I.</td>
<td>II.</td>
</tr>
<tr>
<td>Total revenues</td>
<td>116.076</td>
<td>124.637</td>
<td>116.603</td>
<td>109.824</td>
</tr>
<tr>
<td>Total expenditures</td>
<td>118.583</td>
<td>126.991</td>
<td>121.578</td>
<td>120.798</td>
</tr>
</tbody>
</table>
State budget deficit 2004-2009
(HRK bn)

-9.629
-4.087
-3.758
-2.270
-2.232
-2.508
-12.000
-10.000
-8.000
-6.000
-4.000
-2.000
0
2004 2005 2006 2007 2008 2009

-4.087
-3.758
-2.270
-2.232
-2.508
-9.629
Structure of state budget expenditures 2009

- wages and salaries 26.5%
- goods and services 6.2%
- interest 4.4%
- subsidies 5.7%
- grants 4.7%
- social benefits 47.7%
- other 4.8%
Structure of state budget revenues
2009

taxes 58%
social contributions 36.2%
grants 0.5%
other revenues 5.3%
### Structure of total tax revenues and social contributions

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>Indeks 2:3</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>VAT</strong></td>
<td>41.308.035</td>
<td>37.050.353</td>
<td>89,69</td>
<td>10,31</td>
</tr>
<tr>
<td><strong>CIT</strong></td>
<td>10.564.702</td>
<td>9.439.857</td>
<td>89,35</td>
<td>10,65</td>
</tr>
<tr>
<td><strong>PIT</strong></td>
<td>13.336.047</td>
<td>12.879.058</td>
<td>96,57</td>
<td>3,43</td>
</tr>
<tr>
<td><strong>Special tax on wages, pensions and other income</strong></td>
<td></td>
<td>1.057.408</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Property tax</strong></td>
<td>1.566.331</td>
<td>1.311.077</td>
<td>83,70</td>
<td>16,3</td>
</tr>
<tr>
<td><strong>Social contributions</strong></td>
<td>40.703.483</td>
<td>39.994.738</td>
<td>98,26</td>
<td>1,74</td>
</tr>
<tr>
<td><strong>Excises</strong></td>
<td>8.948.921</td>
<td>8.205.060</td>
<td>91,69</td>
<td>8,31</td>
</tr>
<tr>
<td><strong>Duty</strong></td>
<td>1.900.865</td>
<td>1.702.163</td>
<td>90,55</td>
<td>9,45</td>
</tr>
<tr>
<td><strong>Other taxes</strong></td>
<td>1.917.893</td>
<td>1.801.766</td>
<td>93,94</td>
<td>6,06</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>120.246.284</td>
<td>113.460.488</td>
<td>94,36</td>
<td>5,64</td>
</tr>
</tbody>
</table>
Tax policy measures (revenue side)

- Introduction of special taxes, “crisis tax” (for limited period of 17 months or less):
  1) Special tax on wages, pensions and other income from 1st August 2009
  2) Special tax on receipts from self-employment and other receipts from 1st October 2009

- Tax rates for special taxes (tax base: net income):
  
  3.000-6.000 HRK 2%
  from 6.000 HRK 4%

- Increase of standard VAT rate from 22% to 23% (from 1st August 2009)

- Introduction of 6% fee on revenue from SMS and MMS massages and voice services (mobile telephony operators)

- Increase of excises for cars over 50 000 EUR (amendment of Excises on passengers cars, other motor vehicles, vessels and aircraft)
Expenditure side measures

- Reduction of wages for state officials in the beginning of 2009 (6%)
- Prohibition of employment in public sector
- Lower fee for unemployed people
- Amendment of Social Contribution Act-lower base for calculating social contributions paid by the government (number of independent artists: 1.310)
- Implementation of saving and rationalization measures within public sector in general
Other measures

- State aid for the employers who will cut working week hours from 40 to 32 due to business difficulties (2009)
- Government measures for economic recovery and development (2010)
  
  **Aims:**
  - sustainable growth
  - maintenance of existing and future workforce
  - increase of investment
  - business solvency

  **2 models of financing:**
  A) state co financing of bank credits
  B) partially risk taking of credits by the state

  **Users:**
  - businesses and entrepreneurs with difficulties under certain conditions
Tax Administration measures

- Introducing partial payment of tax debt; according to General Tax Act, paragraph 136 (2009)
- Payment can be postponed and debt can be paid at once or in 10 instalments
Economic recovery program 2010

- Introduced in April 2010 by the Croatian government
- Aim: economic recovery and creating competitive economy in order to achieve high standard and well being
- 5 key goals:
  1) decrease of public sector expenditures (decrease of employees for 5% and other measures)
  2) diverting of budget revenues to justified economic capital investments and targeted social transfers
  3) reducing government interference into economic flows
  4) activation of new investment cycles
  5) speeding up the reforms in the area of judiciary, health and pension insurance and public administration
Economic recovery program 2010-Fiscal Policy

- Special tax on wages, pensions and other income-abolition of 2% rate from 1st July 2010
- Special tax on receipts from self-employment and other receipts-abolition of 4% rate from 1 November 2010
- Drafting plan for reducing of state budget expenditures
- Abolition of income tax relief's except for R&D
- New income tax rates: 12%, 25%, 40%
- Obligation for submitting electronic tax returns
- Introduction of environmental taxes
- Cost benefit analysis of horizontal state aids
- Full appliance of PIN
- Abolition of non tax fees
- Selling government shares in companies (less than 25%)
- Straightening of human resources capacity within TA (tax school)
Conclusion

- Influence of global financial crisis on SEE economies is still present
- Global crisis in Croatia reviled economic weaknesses and inability of quick adjustment to external impacts
- Limitations in effective conducting economic policy due to high external debt and structure of fiscal deficit
- Focus on reducing government spending and speeding up reforms in the field of pension and health insurance, judiciary and public administration
- Precondition for changing the economic situation in Croatia: Changing society values and behaviour of all participants - Government, Public sector, Private sector and People
Thank you for your attention!