

THE TAX POLICY AND ITS IMPACT ON LABOUR MARKET IN SLOVAKIA

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Abstract: The global financial crisis has manifest unfavorably also in Slovakia namely in economic growth decline and in the increase unemployment. The labor market is depressed by excess labor supply over labor demand. Under the impression of global crisis the Slovak republic, as well as the other states, takes in arrangements for reduction its impacts on economy and on entrepreneurs and citizens. Received measures of labor market policy against crisis should affect labor demand, i.e. willingness to employ and incentive to find a job. Tax policy measures against crisis should support low consumption through lowering tax burden of income and improvement business environment.

JEL classification: H22, H24, H30

Key words: tax policy, labor market, unemployment, tax stabilization function, employment policy, employee premium

Introduction

Taxes, tax policy and its measures may significantly influence the macroeconomic and microeconomic decisions in economy. Pattern and measures of tax policy we can deduce from applying economic policy. Aims of state economic policy are specified too broadly and they focus on effectiveness strengthening of market mechanism, on reduction of income and property inequality as well as strengthening of internal and external stability of state.

Many countries have implemented the tax reforms of tax systems at the end of 20th century till today in area of revenue tax. One of aims of these reforms was to create environment that support the incentive to work and incentive to employ. It appears from this that tax policy affect the main economic agent of labor market and would help to increase employment and economic growth, especially during the global crisis.

The stabilization function of taxes

Taxes have different functions [6]. The most important function, from article point of view, is stabilization function of taxes. Generally stabilization function is related with idea trend in 1930s – Keynesian theory. Keynesian economists point out active role of state⁴ as well as stabilization function of public finance linked with

⁴ State stabilizes output over the business cycle, primarily increase aggregate demand. The emphasis is put on employment policy that should guarantee the jobs, wages, source of income and thereby demand and assumption of equilibrium.

cyclically balance budget.

Entry of Slovak republic to European monetary union has changed the state activities in active fiscal policy. Built - in stabilizers and discrete measures is coming in on front. They are able to affect demand side of economy, counteract the stagnation and unemployment. Taxes play an important role. They contribute for reduction of business cycle fluctuations and in the long-term they affect favorable economic growth.

Progressive income tax, as built – in stabilizers, in swing period causes the higher taxation of high income level whereby demand of private sector does not rise in proportion to GDP [5]. Taxable income declines in recession but aggregate demand for goods, primarily low-income groups, soars faster. There is delimited effect of this stabilizer in economy by implementation the proportional tax rate in the Slovak republic. Moreover this proportional tax rate could act as stability factor.

Stability taxes are those [2] which are elastic in respect of GDP. Stabilization function of every tax depends on two factors:

- 1) Relationship between elasticity of tax and tax base.
- 2) Relationship between elasticity of tax base and GDP.

Discrete measures could be focused on changes in the tax rates or changes in expenditures structure of budget as well as in amount of individual items of budget. By discrete measures state can regulate incomes that have impact on effective demand. Higher effective demand has motivative impact on business sphere and investments. Utilization of shown measures is conditional by stability of public finance.

The global economic crisis has incurred decrease demand for goods and services and decrease economic growth. From point of view Keynesian theory to stimulate economic growth is effective to use public expenditures at the expense of tax decreasing – consumption more rises at employment growth of low-income groups than at tax burden decline because of assumption that higher income groups more save after tax burden decline then really consume. Lower income groups consume all disposal income.

The impact of global crisis on labor market in Slovakia

The current evolution of world economy is characterized by rapid progressing globalization of trading exchange which from economic point of view is linked with global market growth and qualitative new global customer [1]. The global market growth and remaining economy cohesion of many countries have manifest unfavorably in global crisis. The global crisis covers the economy as whole but also the individual economic agents.

The first indications of crisis in European Union have real appeared already in 2007 and 2008. Despite of that, member states have not paid sufficient attention to its indications. There were reached the financial problems in bank sector and the global economy of states has begun decelerate.

Rise in labor supply is consequence of the return unemployed people from abroad⁵ and at once and firing by reason of economy measures companies.

⁵ In 2008, the Employment agency, social affairs and family registered 6 609 applicants for a job who had the last job in abroad. Thence 45 % applicants for a job were registered in October to December 2008. The most of applicants for a job have come back in professions helped and unskilled employees, technical and skilled manufacturers, elaborators and repairmen and machine attendance. According to education there were skilled in field of, with basic education,

Reduction in demand of labor has shown in decline of job vacancies. Multinational corporations in Slovakia receive measures against consequences of crises which are following:

- Restructuring of company,
- Remove of operations into better locality within the frame of cost reduction,
- Investing in new technology,
- Use of cheaper components and material.

Financial Policy Institute under the Ministry of Finance of the Slovak Republic worked out actual macroeconomic forecast [8] that comes to shining economic growth slowdown in 2009. Despite it Slovak economy will grow the quickest rate in European Union. Employment growth will change into decrease about 0.4 per cent in 2009. Prognosis of unemployment rate has risen but after 2009 there is expected return to trend of unemployment.

The unemployment decreased from 18.8 per cent to 11.1 per cent in 2000 - 2007 in Slovakia. Even though the problems of labor market on the present are: unemployment of low-skill persons, long-term unemployment, rigidity of labor market and high tax and social security burden of labor. It is insufficient an efficiency of educational system and weak adaptation to requirements of labor market. The skills workers are more productive, creative, exerting the new technology, adaptive, more simply receive new skills and have bigger survey about overall economic and trade conditions. Educated people are less advised of state financial support [9].

Registered unemployment in Slovakia increased from 7.51 per cent in October to 8.39 per cent in December 2008, in January 2009 was 9 per cent. There were created more than 15 000 jobs by active policy of labor market in 2008. Despite of unemployment growth at the end of 2008 there was employment growth in compare with the same period of the 2007. The employment rose about 2.2 per cent [12]. During the crisis the new jobs have to create according to regional requirements and employers requirements on skills [3].

Taking into account that consequences of crisis on labor market are related to entrepreneurs oriented on export, it would convenient make measures focused on certain problem area and would not implement general measures.

Table no. 1 Measure on reducing incidence of global crisis on labor market

Suggested measures in general	
<i>Slovakia</i>	
Expenditures side of budget	Economy measure at the side of public expenditures, paying employee's and employer's social security contributions, employee subsidy at creation new job, simplification of foundation the social business
Revenue side of budget	Reduction of tax rate, tax and social security holiday for beginning self-employed person, increase tax allowance
<i>The Czech Republic</i>	
Revenue side	VAT reduction, selectively VAT reduction of recycle goods,

with upper secondary education. The firing is not related to marked number of large employers but bigger number of smaller employers who trade with investors, large employers, carriers etc. (MPSVR SR, 2009).

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of budget	strengthening credit restrictions of Czech export bank, tax-relief and reduction of employers social security contributions, improvement accessibility to loans
<i>Hungary</i>	
Revenue side of budget	Reduction of individual income tax, reduction of employers social security contributions, cancellation of additional 4 per cent tax towards entrepreneurs and citizen with high incomes, VAT growth, implementation the property tax for wealthy people, cancellation chosen tax-relief, reduction of social expenditures
<i>Poland</i>	
Expenditures side of budget	Economy measure at the side of public expenditures not at the expense of retired pay and public health, increase of security at credit market, support of investment

Source: own elaboration

Revenue side of budget measures should give to economy necessary impulse that should express by reduction consequences of global financial crisis but should express by temporary deficit increase of public finance. The measures appear to be favorable for rising of foreign demand and for holding of production also by means of raising of domestic demand. Disadvantage of these measures is their time delay, i.e. do not express immediately.

The Government of Slovakia has implemented following measures through revenue side of budget primarily through tax policy:

- Measures in tax area to support the employees with low and average income.
- Measures in tax area to support the small and medium entrepreneurs.
- Lowering administrative burden of entrepreneurs.

Expenditures side of budget measures presents interrogating impulse for economy. It concerned expansionary macroeconomic policy that work countercyclical. To reduce unemployment growth it should help active policy of labor market and employment services because they influence supply of labor and labor demand. The government of Slovakia has implemented following chosen measures to reduction unemployment growth through expenditures side of budget:

- Active labor market policy and employment services that influence labor supply and labor demand.
- Saving measures not at the expense of health and retirement.
- Support the motivation at search and receiving for a job.
- Subsidy of employer's social security contribution if he preserves job also in case of operation problems and provides refund of wages in an amount of 60 per cent to employee. The subsidy is provided during 60 days in 2009.
- Creating and holding social business.
- Intensify the inter-regional work mobility (increase the subsidy on job movement extramural or outside region of permanent address).
- Support manufacturers and sellers of domestic agriculture products.
- Create the better conditions for self-employed gainful activities etc.

The global crisis and its impact on tax policy

Not only member states but also the European Union as a whole has become to talk about „European stimulate packet“, that could start the economy of individual states. Individual member states do not have the same opinion on uniform practices of European Union. Neither uniform practices in area of taxes did not find favorable response.

For example the European Union has proposed full-area reduction in basic rate of VAT to a bottom level (i.e. 15 per cent), which is specified by European Union Directive⁶. This proposal was not acceptable in many member states primarily by reason of public finance stability.

There are ideas that should reduce proportional tax rate for natural person and legal entities from 19 per cent to 16 per cent. This change could apply for all groups of people and for entrepreneurs whereby would decrease the tax burden and support the economic growth. By mentioned above would improve the business environment and competitiveness of economy at obtaining foreign investments. These measures should have longer-range character.

Government of Slovakia has adopted the measures on reduction the global crisis impacts. Measures are focused on lowering tax burden and simplification the business environment.

The third packet of measures includes the specific measures that are focused on low income groups – natural persons who have the greatest propensity to consume. These persons have income around minimum wage (the minimum wage is 295.43 € in 2009) and they do not pay tax on wages. The lowering the tax burden of these persons was made by rising tax allowance and utilizing employee premium that stimulates in the long term employed persons.

The chosen tax arrangements of Slovak government to reduce consequences of global crisis

The Government of Slovakia received measures in area of taxes to reduction consequences of global crisis on period of two years. Measures are related to period of taxation 2009 and 2010 [4].

Tax allowance with respect to the taxable party

Tax allowance educe from the living wages for tax purposes valid 1st January given year. Living wages is in an amount 178.92 € at 1. 1. 2009 and will not change during the period of taxation for tax purposes. The measure against crisis consists in rising the multiple that is changed from 19.2 multiple to 22.5 multiple of living wages. Annual amount of tax allowance has changed from 3 435.27 € to 4 025.70 €.

Table no. 2 Tax allowance with respect to the taxable party

	Before changing	After changing (since 1. 1. 2009)
Living wages multiple	19.2	22.5
Amount of tax allowance with respect to the taxable party	3 435.27 €	4 025.70 €

Source: own elaboration

Increase of the tax allowance will positive influence primarily on disposal income people with lower incomes. On the contrary, people with higher incomes experience smaller size of this change or they will not experience this change at all.

Table no. 3 Impact of an increase of tax allowance on net wage (in €/month)

Gross wage	295,50	315,34	331,94	497,91	1374,23	1560,11	1659,7	1719,44	1991,64	over 2955
Net wage - increase	15,10	11,82	9,33	9,33	9,33	6,24	2,09	- 0,50	- 0,50	0

Source: Ministry of Finance of the Slovak Republic (www.finance.gov.sk) and own elaboration

The modification of tax base decline in applying tax allowance

To the benefit of taxable party there is a change of reduction in limit for application tax allowance. The limit for application of tax allowance is declined from 100 times the living wages to 86 times living wages valid to 1st January given year.

Table no. 4 Reduction in limit for application tax allowance in 2009 at living wages 178.92 €

	Per year	Per month
100 times the living wages	17 892 €	1 491 €
86 times the living wages	15 387,12 €	1 282,26 €

Source: own elaboration

The full amount of tax allowance can use only tax-payer whose yearly tax base is equal or lower than 86 times the living wages (i. e. up 15 387.12 €). Progressiveness of taxation remains at tax-payers who have the tax base before application tax allowance higher than given limit of the living wages. At these tax-payers there is wind-down of tax allowance or there is no application of tax allowance.

The tax base limit by which begin reduction of tax allowance decreases from 1 491 € to 1 282 € in 2009.

The employee premium

Employee premium is focused on lowering tax burden of people with low income as well as employment support.⁷ Employee premium is subsidy or cash transfer from government. It increases the net income of employer at annual tax account. It is given only for employers who receive earned income during minimal 6 months. The earned income should be in an amount of 6 times the minimum wage. Employee premium declines with wage increase.

The employee premium could use in the top amount those employees who after applying new alterations have zero tax liability (wage from 148 € to 295 €).

The employee premium linearly decreases with an increase of income. Employee premium pays only to a limit by which starts pays tax in new (adjusted) system (from 388 €).

⁶ Directive No. 92/77/EHS on the common VAT system.

⁷ Employee premium will use at the end of taxation period, for the first time in 2009 at tax return which will register in March 2010.

Table no. 5 Employee premium in 2009

Wage in €	Employee premium/month/€	Employee premium/year/€
Wage by the middle of minimum wage (up 147, 75) ⁸	0	0
Wage from the middle of minimum wage to minimum wage (147,75-295,50)	15.09	181.08
From minimum wage, i.e. from 295,50 to 331	9.33	111.96
Wage from 331 to 388 ⁹	9.33 to 0	111.96 to 0
Wage from 388 and more ¹⁰	0	0

Source: *The Ministry of Finance of the Slovak Republic (www.finance.gov.sk) and own elaboration*

It stands to reason that noted above tax measures mean cut in revenues of state budget as well as of local budgets. Self-government will be able to move resources from capital investments as well as resources from previous years on common working in period of temporary tax measures. They do not have to keep balanced budget.

The additional chosen measures are focused on simplification business – e.g. simplification of evidence declaration drives motor vehicles for entrepreneurs – they will be able to apply 80 per cent from spending for fuelling to tax purposes. A small entrepreneur with sale up to 170 000 € do not have to conduct accounting but he has to have simplified tax evidence. Self-employed person is able to use simplified evidence if he does not employ any employees. Increase limit for amortization of individual types of property. The limit for tangible property is changed from 996 Euro to 1 700 Euro and limit for intangible property is changed from 1 660 Euro to 2 400 Euro. By shortening time for tax return at VAT from 60 days to 30 days entrepreneurs could faster receive resources.

Conclusion

The consistent decreasing of unemployment in Slovakia in 2000 - 2007 has stopped in consequence of global crisis. The most problem of labor market on the present is the increasing of unemployment. The government of Slovakia has taken the measures against crisis in area of labor market policy as well as in area of tax policy. These measures are focused on income support of employers and improvement the business environment.

Measures on reduction in public expenditures cause a concern of individual Ministry primarily of ministers. Reduction of expenditures could cause additional muffling of production and creating of unemployed persons. These measures should have been consistent with creating of favorable conditions for business environment.

⁸ These employees do not entitle to payout employee premium and do not have any tax liability.

⁹ Employee premium is in amount of 9.33 € to zero. Employees derive profit from tax allowance that can not be applied and they receive so called negative income tax.

¹⁰ Income increase is only by reason of increase tax allowance (what is approximately 9.33 € per month). These employees do not receive employee premium.

Each member state of the European Union takes their “packet of measures” on elimination of global crisis impacts. It is important that each state inclusive Slovakia looks for the effective measures on support demand not only in tax area. Worsening situation leads to limiting of consumption and to rise of savings. For example in Slovakia willingness of people to save has several fold increased in compare with previous year. It appears from this that even without increased of unemployment and despite of several positive tax incentives as well as another state measures may come to reduction of peoples’ expenditures.

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