Tax Harmonization or Competition: Croatia and Neighboring Countries

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This paper will briefly consider the theory and recent history of tax harmonization and competition in Europe and the OECD countries. This will be followed by an examination of the current situation in Croatia and neighboring countries. The scope for competition and/or need for harmonization will be explored. Comparison tables of taxes and rates in Croatia, Austria, BiH, Hungary, Slovenia, and Yugoslavia, along with the Czech Republic, Italy, Germany and the US will be included.

Tax Harmonization or Competition: Croatia and Neighboring Countries

1. Introduction

Tax systems vary widely among countries, and in some countries, among lower levels of government as well. Many believe that taxes among neighboring countries or jurisdictions should be harmonized, or at least that the rates should be fairly close, to prevent distortions in the movement of goods, investment, or people. The OECD[1] and the EU both promote tax cooperation. The EU Commission has advocated the harmonization of both direct and indirect taxes, but Member States have been reluctant agree to further harmonization beyond what is currently in place with indirect taxes. On the other hand, tax competition in the form of various tax concessions among countries and lower levels of government to attract new businesses or investments is also common. In the US, a number of States have come to voluntary agreements to harmonize rates or cooperate in other ways, but more do not make any attempt to deal with the effects of differing rates. The Federal government has no role in regulating States' tax policies other than to ensure the free movement of goods, services and people.

There is little doubt that differences in tax systems can affect investment, trade and even the movement of people. However, whether this is a good or bad thing is still being debated. The EU Commission has been working for full harmonization of indirect taxes for years, and the OECD has also become active in fighting what it considers harmful tax competition. Much of the literature has assumed that tax competition is a bad thing that will lead to decreases in tax revenues and therefore the level of public services. However, there are more than efficiency arguments to be made. The issue of sovereignty is also important. The members of the EU Monetary Union have given up individual monetary policy. It seems unlikely that those countries will now give up fiscal policy as well. Countries and lower levels of governments do not willingly give up their right to set tax rates, regardless of possible adverse effects.

[1] The Organization for Economic Cooperation and Development, set up in 1961 and now consisting of 29 countries. Of the countries covered here, Austria, Germany , Italy and the US were original members. The Czech Republic joined in 1995 and Hungary in 1996.

This paper will briefly consider the theoretical discussion on tax competition followed by efforts to harmonize taxes in the EU and steps made to deal with tax competition by OECD countries. The state tax systems in the US serve as a counter-example to some of the EU arguments for increased harmonization. This will be followed by an examination of the current situation in Croatia and neighboring countries; Austria, Bosnia and Herzegovina (BiH), Hungary, Slovenia and Yugoslavia, as well as the Czech Republic, Italy, Germany, and the US for comparison.

2. Theory of tax competition

Vito Tanzi (1996) examined the possible effect of globalization on tax systems. Although he finds no evidence of a decrease in revenues to GDP between 1980-94, which would indicate a lowering of rates due to competition, he discusses a number of possible effects. He looks at the possibility for countries to decrease sales tax rates to attract cross-border shoppers. This is an issue within the EU, where tax revenues for the most part stay where the goods are purchased, but not with sales to people living outside, since non-EU citizens are eligible for VAT refunds. Tanzi feels that there was growing evidence that corporate income tax considerations are important in the location of multinationals. The issues for individual income taxes are both people moving as a result of tax differences and competition for people's savings, since it is now possible to investment outside of one's country. Tanzi concludes that tax competition may decrease revenues, change tax structures and decrease progressivity. The OECD is trying to deal with mobile capital issues with their work on tax havens and potentially harmful tax practices.

The recent literature on the effects of tax competition began by looking at the possible efficiency problems arising from local government competition for capital. Wilson (1999) reviews this literature, and the following is based on his survey. The main argument has been that tax rates will be bid down in an attempt to attract investments or sales in a "race to the bottom". These lower rates will therefore provide insufficient local revenues to provide local services. Since the mid-1980s, there have been continuous extensions of the original investment competition models. However, extensions of the earlier models have not upheld the conclusions. As is always the case in economic modeling, as the models become more complex, so do the conclusions. A recent paper by Keen (2001) finds that preferential tax regimes can sometimes improve welfare. Competition among governments has both good and bad aspects. However, the assumption that tax competition is bad, as some forms may well be, is standard in the EU Commission's policy on tax harmonization. "Such competition between Member States puts downward pressure on the level of tax and contributions which may be damaging if it is not regulated, as it undermines the fairness and overall efficiency of tax systems" (European Commission, 2000). The OECD has promoted cooperation and targeted specific policies, while stating that fair competition is a good thing. The following section covers their attempts to deal with this issue.

3. Harmonization Efforts in the EU and the OECD

Tax harmonization in the EC began with the Original Treaty establishingthe European Community in 1957. Article 90 of the EC Treaty prohibits any tax discrimination that would give an advantage to national products over products from other Member States. Article 93 calls for harmonization of turnover taxes, excise duties and other indirect taxes. Article 269 states the EC budget is to be financed from its own tax sources: agriculture, customs and a percentage of each Member's value added tax (VAT) revenues. Unanimity is required for all changes to tax systems, which has become more of an issue as the level of tax harmonization has increased.

A VAT was introduced in Europe in 1970 with the 1st and 2nd VAT Directives. The 6th VAT Directive (1977) harmonizes VAT systems in all EU countries by ensuring that the same transactions are subject to VAT. The VAT was first organized on the destination principle, meaning that goods are taxed where consumed. Imports are taxed in the same way as domestically produced goods, and exports are subject to a 0% rate so they can enter the importing country untaxed. In 1987, the EC Commission proposed moving to the origin principle, where goods are taxed where they are sold, in order to eliminate border controls. The Commission also suggested target rates of 4-9% for the reduced rate and 14-20% for the standard rate. Member states have been unable to agree on a clearing system for a move to an origin base, or to align rates. The current VAT system is a combination of the two. Crossing a border is no longer a taxable event, and at the retail level, VAT revenues remain in the country where a good is sold, with the exceptions of autos or mail-order goods. However, the destination principle still applies for companies. In 1993 excise taxes were harmonized. The same goods, tobacco, alcohol, and oil products, are taxed, and are subject to minimum rates. There were also further adjustments to the VAT system in 1992 and 1995. The Commission is still aiming for an origin based VAT with equal rates, but Member States have not supported this so far.

In 1996 the Commission proposed a comprehensive strategy in direct taxation policy that would complete the single market and protect tax bases against harmful competition. It was not intended to harmonize all taxes, but a high degree of harmonization in indirect taxes was considered desirable (Taxation and Customs Union: The Taxation Package, 2001). Previous attempts to harmonize corporate tax rates in 1975, rules on carryovers in 1984-5, and tax bases in 1980 all failed. There has been some progress on double taxation.

In December 1997, the Commission proposed a package including a Code of Conduct for business taxation to eliminate harmful business tax regimes, ensure a minimum level of savings taxation, and eliminate source taxes on interest and royalty payments between countries. The Code of Conduct is non-binding, but Member States are to roll back existing measures that conflict with it. A list of measures falling under the Code was published in February 2000 (Taxation and Customs Union: The Taxation Package, 2001). Member States were to either provide information about the investment income of residents of other states or apply a withholding tax of at least 20% (Austria, Belgium and Luxemburg chose this option with a 5 year transition period). Interest and royalty payment withholding was proposed in March 1998, with transitional periods for Greece and Portugal.

In November, 2000, Member states agreed on the essential lines of future treatment of savings income. All harmful business tax measures are to be dismantled by January 2003, and the benefits to run out by the end of 2005, with some flexibility. A compromise was reached on the payment of interest and royalties. Member states agreed to come to a final agreement on the tax package by the end of 2002. The focus of future tax cooperation will be on the uniform application of tax laws, modernization of the VAT system, changing to an origin based VAT, replacing the current VAT refund procedure by allowing traders to deduct VAT paid anywhere in the Community in their state, abolishing the rule that a tax representative must be in every state they trade in, and the creation of single contact points for information. There is still a distinct difference between the views in Brussels and individual countries. “Differences in tax law still are a serious obstacle to a single market. We need uniformity and a comprehensive strategy” (European Commission, 2000).

Partly for historical reasons, there is a very different approach to harmonization among individual states in the US and the EU Commission. This is clear from the large differences in tax rates among states. Some states have no income taxes, and others have no sales taxes. Property tax rates differ widely. Personal and corporate income tax rates vary between 0%-12%. Sales tax rates vary between 0% and 7% at the State level, with another 0%-3.5% added at the local level. Although these differences clearly impact businesses and consumers, it has not hampered the free movement of goods or people. On the other hand, the Commission states "Differences in national tax law remain a serious obstacle to the completion of the single market, as incompatible systems hamper trade and tend to compartmentalize the EU market" (European Commission, 2000).

The OECD's (Organization for Economic Cooperation and Development) Committee for Fiscal Affairs has done extensive work on double taxation treaties. In 1996 the OECD was asked by member countries to develop measures to counter the negative effects of harmful tax competition on investment and financing decisions, as well as to examine possible consequences for individual country's tax bases. The result was the 1998 Report "Harmful Tax Competition: An Emerging Global Issue", and subsequent updates. The 1998 Report listed guidelines for identifying potentially harmful preferential tax regimes, recommendations, included a recommendation to set up a forum to work on these issues, and prepared a list of countries that could be considered tax havens. The OECD's focus is more narrow than the EU's; it deals only with mobile investment in the financial area and services. It does not suggest attempting to harmonize rates or structures and recognizes that fair and transparent competition is a good thing (Hammer and Owens, 2001). However, it is noted that tax havens or harmful preferential tax regimes can decrease effective tax rates and distort both financial and real investment flows, as well as decrease the integrity and fairness of a tax system, change the mix and level of taxes and public spending, and move the tax burden to less mobile businesses and people and increase administration costs.

The 1998 OECD Report focuses on tax havens and preferential tax regimes, not on tax levels. Tax havens are defined as being characterized by low or no corporate taxes, a lack of effective exchange of information, or transparency, and no substantial business activities. Harmful preferential tax regimes are defined as having low or no effective tax rates, ring fencing (preferred firms are isolated from domestic activity, either because domestic capital is not eligible or only foreign entities are eligible), and lack of transparency or exchange of information. There are a number of other possible characteristics listed, such as the abuse of transfer prices, negotiable tax rates, and artificial tax bases, among others. To assess the economic impact of these regimes, the Report considers whether the regime shifts economic activity from other countries rather than encourages new investment, whether the level of economic activity in line with investment levels, or whether the preferential tax regime is the primary reason for the location of a business. Clearly these are difficult judgments to make.

The recommendations for dealing with harmful preferential tax regimes include: countries are to stop adopting new harmful tax measures, to review existing measures, and to remove such measures by the end of 2000, with effect by the end of 2005, to request the OECD Forum to examine other potentially harmful practices, and to both cooperate with the Forum and to work with non-OECD countries through the Forum (1998 Report).

The update on the 1998 OECD Report, "Towards Global Tax Cooperation" (2000), outlines the review processes and the current state of the tax haven and potentially harmful preferential tax regime lists. The 1999 Forum identified 47 potential tax havens, and requested explanations from them. Of the 40 tax havens subsequently identified, 6 have since pledged to eliminated those practices by the end of 2005, and 32 have contacted the OECD for dialogue (Hammer and Owens, 2001). OECD countries have agreed to eliminate tax havens by the end of 2003. The 2000 report lists also countries and potentially harmful preferential regimes. It recognizes the need for further investigation as to which of these are truly harmful, as well as for vigilance against future harmful tax regimes. Its aim is to eliminate all such practices within the OECD by the end of 2005.

None of the countries covered here are on the OECD list of tax havens. However, several are listed as having potentially harmful preferential tax regimes. The definition does not include investment incentives, which most countries have, as long as both foreign and domestic investors are eligible. Hungary is listed for allowing a 100% foreign owned company to be treated as an offshore company and therefore not subject to corporate income tax. Hungary also gives venture capital companies a 100% income credit for 6-7 years. Germany and Italy are listed for international shipping and Germany for headquarters regimes. Italy is also listed for an investment scheme that is noted to be non-operational.

4. Trends in Transition Countries

Changes in former socialist countries in the last 10 years have been more dramatic than the issues dealt with in the European Union and most OECD countries. In most socialist systems, tax rates were the residual. For indirect taxes, retail and wholesale prices were often set centrally so the tax was the difference between the two. Therefore, there were a large number of "rates". The Former Yugoslavia was no exception. BiH and Yugoslavia still have a large number of different types of taxes and rates, although this is changing. Taxes on wages were invisible to taxpayers, who were aware only their net wages. Many former socialist countries have introduced a VAT since the changes in 1989. Hungary was the first in 1988. Many transition economies do not have a global income tax that aggregates different sources of income and taxes the total. BiH, Slovenia and Yugoslavia do not have a global income tax, although Croatia does. Some OECD countries are now moving away from a global income tax by using a flat final withholding tax on certain sources of income. Austria, Hungary, the Czech Republic, and Italy have a flat tax rate for capital gains. In some former Yugoslav countries, there is confusion about calculating taxes and contribution on wages since the old system based calculations on net wages, and some of the successor states use a variation of that. Croatia completed a major overhaul of the tax system in 1994. Profit tax changed to corporate income tax in most of Croatia's neighboring countries. Provisions for interest and dividend income have been added.

5. Croatia and Neighboring Countries

Croatia is a small country with slightly more than 4 million people. Croatia was part of the former Yugoslavia and shares a long border with BiH, and shorter ones with Slovenia and Yugoslavia. Partly as a result of the wars during the last 10 years, people are not very mobile across borders, in spite of speaking related languages. However, trade is increasing again, so these former-Yugoslav countries will be competing for investment as the political situation stabilizes. They will also be competing with Hungary and Austria. Investment decisions are based on more than taxes. Relative wages, education levels, resources, size of markets, rule of law, the legal and regulatory systems and political stability are all important. Since the breakup of Yugoslavia 10 years ago, other issues have been more important. However, as the region stabilizes, relative tax levels will become more important.

The country of Bosnia and Herzegovina (BiH) that was recognized in 1992, but only emerged at the end of 1995 after nearly 4 years of war, is unique. The Dayton Peace Accords set up an extremely decentralized State structure made up of two Entities with their own customs and tax systems. The Entities are the Federation of BiH, with its capital in Sarajevo, and the Serb Republic (Republika Srpska) with its capital in Banja Luka. Only in 2001 has a single border service to collect customs been set up. Yugoslavia is also unique. During much of 1990s, there were tax laws that had been enacted at the Federal level, but that were essentially ignored by both the Serbian and Montenegrin Republic governments. There was a general tax framework law at the Federal level, but the two systems were different. The tables shown here include only Serbia, by far the largest part of the Federal Republic.

Croatia's two northern neighbors are quite different as well. Slovenia has probably made the most economic progress of any of the former Yugoslav Republics, and Hungary has a long history of reform dating from the late 1960's. The New Economic Mechanism of 1968 began a long process of reform, although there were many pauses and periods of backtracking. However, Hungary had introduced a modern tax system in 1988 and limits on private ownership and businesses had in many cases already been abolished. Intensive foreign investment began much earlier in Hungary, with $9 billion by 1994 (see Table 1). The Czech Republic (and Poland) have surpassed Hungary in foreign investment in the last few years, but the total is still higher in Hungary, and the annual amount is stable since 1997 at $1.5 billion. Hungary had a series of tax incentives during this period. However, probably more important was the open attitude towards foreign investment, and lower informal barriers to investment such as bureaucratic red tape. Admittedly, the political instability and wars in former Yugoslavia also made Hungary and the other Central European countries more attractive. Croatia had a total of nearly $3 billion in foreign investment by the end of 2000, which was still greater than Slovenia, and BiH.

5a. Table 2—Taxes as a percent of GDP

Table 2 shows the shares of tax revenues to GDP for Croatia, neighboring countries, and four other countries for comparison. Of the countries shown, Croatia has the highest tax to GDP ration, at 46.6%. Only Slovenia is close with 40.1%. The EU countries shown, Austria, Germany and Italy, are much lower, at 30% or less. BiH figures do not include social insurance funds, so are not directly comparable. The ratio of personal income taxes to GDP is higher in the EU countries shown and the US, at around 10% or more. In Croatia only 6% of GDP comes from personal income taxes, which is again closer to Slovenia, and still greater than in BiH or Yugoslavia (Serbia only in these statistics).

Social contributions as a share of GDP are the lowest in the US, but roughly similar elsewhere at around 12-15% of GDP. They are the highest in the Czech Republic at 17%. The Federation of BiH expenditures on social insurance is similar at 16%, but are much lower in the Serb Republic at 5%. The column for goods and services includes VAT, or sales taxes, and excises. All countries except BiH, Yugoslavia and the US have a VAT system. In the US, sales taxes are levied only at the state and local levels. The Federal government can levy only direct taxes and customs. Croatia has the highest level of tax income from indirect taxes, with the exception of the Federation of BiH, at 20%. Most have 10-15% of GDP collected as indirect taxes. The final tax column, other, includes payroll taxes in Austria and Slovenia. The overall level of taxes to GDP is the highest in Croatia, and probably needs to come down to a level closer to the range of neighboring countries.

5b. Table 3--Personal Income Tax

All withholding taxes are included in the personal income tax table with personal income taxes unless they are levied specifically on companies. Most countries covered in the table tax dividends, interest and sometimes royalty payments at 10-25%. Most have progressive tax rates on all other income. Croatia has among the lower rates with a top rate of 35%. Only the Czech Republic is slightly lower. Austria, Hungary, Slovenia, Germany, Italy and the US all have a top rate of 40-50%. BiH and Yugoslavia differ with flat rates of 9-14% on wage income. Other sources are either subject to progressive rates or each source is taxed at a different flat rate (Federation of BiH). Contribution rates are higher than income tax rates everywhere. Most combined employer and employee contributions are around 35-45% of gross wages. The two outliers are Yugoslavia at 58% and the US at 15%. Croatia is at the lower end at 37%.

5c. Table 4--Corporate Income Tax

The corporate income tax rates shown in Table 4 give only the basic rate. This is far from the entire story, since exemptions and special provisions can make the effective rates quite different. However, just looking at the rates, Croatia, at 20%, is lower than most neighbors with the exception of Hungary at 18%. The Serb Republic in BiH has regressive rates from 20% on the lowest incomes and 10% on the highest. Austria is at 34%, the Federation of BiH and Yugoslavia at 20-30%, and Slovenia at 25%. Rates are similar in the comparison countries: 31% in the Czech Republic, 31-42% in Germany and 15-39% in the US.

5d. Table 5--Value Added Taxes

The VAT has the most impact on trade. In small countries, it is easy to travel to a neighboring country to shop. Most of Croatia's neighbors have introduced a VAT to replace sales and turnover taxes. BiH and Yugoslavia still have sales taxes. Croatia's standard rate of 22% is within the range of neighboring countries: Austria, Slovenia and Italy are lower at 20%, and Hungary is higher at 25%. BiH sales taxes are at 20-24%. These are extremely high rates for a sales tax. Without the self-enforcing need for receipts in a VAT system to receive a refund, high sales tax rates are easier to avoid. Food is subject to the lower or 0% rate in all the countries covered. Only Croatia has no reduced rate, although more goods were added to the 0% rate recently.

6. Concluding Thoughts

The OECD's efforts to identify potentially harmful tax practices, while recognizing individual countries' right to distinct tax structures and rates, make sense. The EU Commission is trying to go further, but is mixing what they would like to see, in terms of increased harmonization and a single tax system, with what is actually necessary for a single market. It is true that if rates are too different, trade and investment can be distorted. However, rates on all types of taxes vary widely by state, but no one would argue that the US is not a single market. More work on bureaucratic obstacles to free movement of goods and services in the EU would probably have more impact, and is also an area that the Commission is looking at. The EU countries which have joined the monetary union have already given up individual monetary policy. It seems unlikely that these governments will also give up independent fiscal policy. It is also not clear that this is necessary for a single market. For Croatia, looking at bureaucratic problems for cross-border trade and investment is important as well. Cooperation with neighboring countries' tax administrations is vital.

Although Croatian tax rates are in line with neighboring countries, total taxes are a much larger part of GDP. This is mostly due to indirect taxes, or VAT and excise taxes. Although there is a great variation in tax rates among the neighboring countries perceived political stability in the region is still having a negative effect on Croatia along with bureaucratic delays and red tape, and the general climate towards foreign investment.

As far as competition for investment is concerned, there may be an issue of giving away the tax base to attract new investment. Clearly many tax jurisdictions feel it is worth having new jobs, or there would not be so much of this type of competition. The evidence on whether this is helpful is unclear at this point. For personal income taxes, there is little evidence in the EU, let alone the former Yugoslavia, that people, apart from a few high profile earners, move to live in a lower tax country. Language differences is one obvious reason for this in Europe.

Croatia shares a very long border with BiH, which due to the war and continuing ethnic problems, does not have a very disciplined tax system. This, along with high sales tax rates and many small border crossings, makes it very difficult for Croatia to control its border. The capital city of Zagreb, with a large part of Croatia's population, lies less than a half hour's drive from the Slovene border, so Slovenia's tax policy also matters to Croatia. Austria and Hungary are only 2 hours away from Zagreb. With a destination based VAT, the issue is more that different rates. As long as shoppers get a refund for purchases in another country, cross-border shopping will be less expensive than in the home country and will continue. At this point, this appears to be mostly one way, with Croatian shoppers going to Slovenia, Austria, and Hungary. With BiH, the issue is more one of increasing cooperation among customs and tax administration officials in the two countries to decrease tax evasion on both sides of the long border. This is in both countries' interest. The destination based VAT issue is harder to solve. In the future, some mixed system like in the EU may be a possibility, with sales taxes for retail sales staying in the country of purchase, but firms continuing on the destination principle. Progress made in solving this issue within the EU will be important for Croatia as well.

Table 1

Foreign Direct Investment, net inflows							
			million US$				
	1990-1994	1995	1996	1997	1998	1999	1990-2000
Croatia	185	83	529	346	854	750	2,747
BiH	--	0	0	504	100	60	664
Hungary	9,010	4,453	1,953	1,653	1,453	1,550	20,072
Slovenia	394	170	178	295	154	210	1,401
Czech Republic	2,284	2,526	1,388	1,275	2,485	3,500	13,458
Source: EBRD, Transitions 1999, p. 79							

Table 2

Tax Revenues as a Percentage of GDP: 1998							
	Total Taxes % GDP	Personal Income Taxes	Corporate Income Taxes	Social contribu-tions	Property	Goods and services	Other
Croatia	46.6	5.8	2.5	13.9		20.4	3.5
Austria	29.2	10.0	2.1	15.1	0.6	12.4	4.0
BiH-Fed.	33.9	4.9	1.7	*		26.4	0.9
BiH-RS	17.1	2.2	0.0	*		14.1	0.8
Hungary	24.8	6.5	2.2	13.9	0.6	15.1	0.3
Slovenia	40.1	6.6	1.2	13.8		14.7	1.4
Yugoslavia	35.0	3.6	0.3	12.4		11.8	7.2
Czech R.	21.4	5.2	3.7	16.9	0.6	11.9	-
Germany	22.0	9.3	1.6	14.9	0.9	10.1	-
Italy	30.1	10.7	3.0	12.5	2.0	11.7	2.6
US	22.1	11.7	2.6	6.9	3.1	4.7	-
*Social contributions were mostly in off-budget funds, combined with transfers from the budget. Expenditures were 16% of GDP in the Federation and 5.4% in the RS.							
Sources: OECD Revenue Statistics 2000, p. 70, Bulletin of the Government Finance 5/2000, Republic of Slovenia, Ministry of Finance, p. 7, Annual Report of the Ministry of Finance, 1999-Republic of Croatia, 2000, pp. 63-4, IMF Staff Country Report 00/77, June 2000, IMF Country Report No. 01/93 p.35.							

Table 3

Personal Income Tax, 2000		
Rates:	Thresholds:	All amounts shown in DEM. Exchange rates as of the end of 2000.
CROATIA		
15%	< 7722	revised January 2001
25%	to 19305	15% or 35% withholding on dividends and interest
35%	> 19305	
Contributions:		Total: 37.2%--18.6% employee and employer
AUSTRIA		
0%	< 7,106	
21%	to 14,213	25% final withholding on dividends and interest
31%	to 42,460	
41%	to 99,495	3% payroll tax at municipal level
50%	> 99,495	
Contributions:		Total: 38.8-39.8%--17.15-17.7% employee, 21.65-22.1% employer
BOSNIA AND HERZEGOVINA: FEDERATION		
10%		flat rate on wage income
30-50%		For other sources of income: varies by type
Contributions:		Total: 45%--32% employee, 13% employer
BOSNIA AND HERZEGOVINA: SERB REPUBLIC		
9%		wage income
0%	to 10,000	other sources of income subject to schedule
15%	to 15,000	rental income 15%
20%	to 25,000	
25%	> 25,000	
Contributions:		Total 44%--22% each employee and employer
HUNGARY		
20%	< 2,916	20%-securities, property sale, rental of land or buildings
30%	to 7,292	35%-excess dividends
40%	> 7,292	20% final withholding on dividends to non-resident accounts, 0% resident
Contributions:		Total: 48.5%--12.5% employee, 36% employer
SLOVENIA		
17%	< 9,558	
35%	to 19,116	25% withholding on dividends for residents
37%	to 28,674	15% final withholding on dividends for nonresidents
40%	to 38,233	25% withholding on interest and royalties for non-residents
45%	to 57,349	
50%	> 57,349	

0-15%		progressive payroll tax
Contributions:		Total: 38%--22.10% employee, 15.9% employer
YUGOSLAVIA (SERBIA)		
14%		flat rate on salaries
20%		on self employment, investment, property rental, and other income
10%	< 14,314	if income > 21,470, subject to these rates: 10-20%
15%	to 28,627	20% withholding on royalties
20%	> 28,627	
Contributions:		Total: 57.97%--26.6% employer and employee. plus 3% municipal, 1.3% housing solidarity, 0.47% chamber of commerce by employer
CZECH REPUBLIC		
15%	< 5,677	25% on profits from investment and pension funds
20%	to 11,354	25% final withholding: royalties
25%	to 17,366	15% final withholding: dividends, interest, supplementary private pensions
32%	> 17,366	
Contributions:		Total: 47.5%--12.5% employee, 35% employer
GERMANY		
0%	to 13,499	single taxpayer—all tax rates include a 5.5% solidarity surcharge
22.9-25%	to 17,495	26.38% withholding: dividends, bonds, participating loan interest
25-51%	to 114,695	31.65% withholding: bank interest
51%	> 114,695	31.65% +5% for anonymous over-the-counter banking
Contributions:		Total: 40.5-42.0%--20.5% employee, 20.5% employer, slightly higher in the 5 new lander
ITALY		
18.5%	< 15152	27% final withholding on bank interest, bond interest < 18 months maturity, dividends to non-residents
25.5%	to 30,303	12.5% final withholding on state bond interest and > 18 months maturity
33.5%	to 60,606	30% withholding on royalties to non-residents
39.5%	to 136,363	regional surcharges: 0.9-1.4%, municipal: 0-0.4%
45.5%	> 136,363	
Contributions:		Total 35-47%--up to 10.2% employee, balance employer
UNITED STATES		
15.0%	< 72,515	for a single taxpayer
28.0%	to 175,557	
31.0%	to 366,307	20% rate for capital gains if held > 12 months (10% for lowest tax bracket)
36.0%	to 796,567	State income tax rates vary between 0%-12% in addition to Federal taxes
39.6%	> 796,567	
Contributions:		Total: 15.30%--7.65% employee and employer
Sources		European Tax Handbook, 2000, Institut za Javnih Financije, 2000, Ministries of Finance, BiH, Ernst and Young, 2001.

Table 4

CORPORATE PROFIT TAX-2000	
	Rates:
CROATIA	20% on worldwide income
AUSTRIA	34% on worldwide income for residents, including capital gains 20% final withholding on royalties for non-resident companies, 0% for residents
BOSNIA AND HERZEGOVINA-FEDERATION	
	30% on income plus taxes on wholesale and retail margins
BOSNIA AND HERZEGOVINA-SERB REPUBLIC	
	20% to100,000 plus taxes on wholesale margins 15% to 300,000 12% to 500,000 10% > 500,000
HUNGARY	18% on worldwide income 18% final withholding on dividends to foreign organizations, 0% for domestic
SLOVENIA	25% on worldwide income
YUGOSLAVIA	
	20-30%
	20% withholding on dividends, interest and royalties
CZECH REPUBLIC	
	31% lowered from 35% in January 2000
GERMANY	42.2% on retained profits, includes 5.5% solidarity surcharge 31.65% on distributed profits, includes 5.5%
ITALY	37% standard rate 19% on portion of income from capital increase from 1996 and newly listed companies (7% in the founding and following 2 years)
UNITED STATES	
	15% < 103,813 25% to 155,719 34% to 207,625 39% to 695,544 34% to 20.763 million 35% to 31.144 million 38% to 38.063 million 35% > 38.064 million additional State level corporate income tax rates: 0%-12%
Sources:	European Tax Handbook, 2000, Institut za Javnih Financije, 2000, Ministries of Finance, BiH, Ernst and Young, 2001.

Table 5

VALUE ADDED TAX-2000	
Rates:	
CROATIA	Introduced 1 January, 1998
22%	standard rate
0%	exports, bread, milk, books, medicines and medical products
Exempt:	housing rental, financial services, some gambling, health, education, religious services, culture
AUSTRIA	
20%	standard rate
16%	duty free zones
10%	foodstuffs, books, newspapers, passenger transport, residential rentals
0%	Exports
Exempt:	transactions subject to real estate transfer tax (without credit)
BOSNIA AND HERCEGOVINA-FEDERATION—sales tax	
24%	standard rate goods and services
12%	Fuel for heating, some food
0%	Foodstuffs
BOSNIA AND HERCEGOVINA-SERB REPUBLIC—sales tax	
20%	standard rate goods—includes 2% tax railroads
10%	standard rate services—includes 2%
10%	other food—includes 2%
0%	bread, milk, edible oil
HUNGARY	Introduced 1988
25%	standard rate
12%	foodstuffs, medicines, medical supplies, some textiles, coal and electricity, many services,
0%	exports, textbooks, some medicines, gas and electricity development, construction
Exempt:	financial services, health care, leasing residential buildings, insurance, education
SLOVENIA	Introduced July 1999
19%	standard rate
8%	foodstuffs, medicines, dwelling construction, hotel accommodation and books
0%	exports
Exempt:	banking, insurance, gambling
YUGOSLAVIA-Serbia—sales tax	
20%	standard rate of 17% plus 3% federal tax
Exempt:	bread, milk, some agricultural products, utilities
	VAT to be introduced in 2003
CZECH REPUBLIC	Introduced January 1993
22%	standard rate
5%	foodstuffs, pharmaceutical products and most services
0%	exports

Exempt:	post, broadcasting, some financial services, health, transfer and lease of land and buildings, education, insurance
GERMANY	
16%	standard rate
7%	food, beverages, pharmaceuticals, newspapers, books, theaters, museums
0%	exports
ITALY	
20%	standard rate
10%	reduced rate
4%	reduced rate
0%	exports, international transport and transport services
Exempt:	financial services, insurance, securities and medical services
UNITED STATES—sales tax	
0-7%	state level only
+ 0-3.5%	additional local level
Sources	European Tax Handbook, 2000, Institut za Javnih Financije, 2000, Ministries of Finance, BiH, Ernst and Young, 2001.

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