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Author:

Serbian Association of Employers CEFE Serbia

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Serbian Association of Employers

Stevana Markovića 8 11080 Zemun phone: 011/3160-248

fax: 011/2610-988

e-mail: info@poslodavci.org.rs

www.poslodavci.rs

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Foreword

"On one side, all the ministers of finances are interested in foreign investors, in increased production and creation of new jobs by the wealthy entrepreneurs – and on the other side, something makes them draw the last dime from the pockets of the same entrepreneurs."

Ephraim Kishon

Book for Taxpayers

It is certain that every tax indirectly reduces the economic strength of the tax payer and, thus, changes the modalities of his behavior in economy. It is also certain that the state of the public finances determines the level and quality of public needs of citizens, and of the stability of state's functions. A way out are, for preserving tax payer and state's function, the tax incentive policy and the rational state administration.

The principle of modesty, i.e. prudent tax burden, is one of the key guides for a successful tax policy. In its absence, the consequence is lack of will to work and of development of the tax payers. Arbitrary introduction of the taxes and parafiscal burdens results in narrowing, and not widening, of the tax base – it stimulates the illegal flows in economy and tax evasion.

This research and the Serbian Association of Employers warns that 499 fiscal and parafiscal burdens leads to closing down of SMEs and obstruction of entrepreneurial initiative in Serbia.

One of the greatest thinkers of the 20th century, Joseph Schumpeter, points out that the political structure of one nation would be deeply shaken if many of small companies, whose owners and also those who depend on them – workers, represent electorate – representative class of democratic societies, would be hindered in their development, or eliminated. It is one more reason why the developed countries support the development of small companies, because they believe that a certain nation's basis, upon which the private property and free entrepreneurship rest, is endangered when its most vital and most important layer disappears from "the moral horizon of the people".

Prof dr Slavenko Grgurević

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Acronyms

GDP – Gross Domestic Product

CEFE – Competency-based Economies through the Formation of Enterprises

EU – European Union

GCI - Global Competitiveness Index

ILO – International Labour Organization

SME – Small and Medium-Size Enterprises

NALED – National Alliance for Local Economic Development

VAT – Value Added Tax

SBA - Small Business Act

SAE – Serbian Association of Employers

USAID – United States Agency for International Development

Executive Summary

Study analyzes primary and secondary data on parafiscal burden in Serbia, through desktop research of relevant legislation and research on position of employers and employers' organizations on this issue. More than 140 laws were analyzed, and 499 parafiscal burdens have been identified. Analysis of primary and secondary data resulted in several key findings. This study clearly identifies necessity to introduce system in the field of parafiscal burdens, to set clear criteria that identify parafiscal burdens' payers as well as when obligation is effective, and finally, to

create clear criteria in setting the price of services delivered by government. Finally, transparent and clear system of reporting about spending of collected parafiscal burdens should be introduced, especially when they represent revenues of government organizations or public companies. Bearing in mind fiscal consolidation in Serbia, proposed solutions are fiscally neutral. Most of the employers are of the opinion that amount and lack of clear system of parafiscal burdens are the important obstacle in growth and development of their companies.

Recommendations

Survey of employers' positions, i.e. survey of the existing parafiscal burdens, indicates the necessity of comprehensive and systematic reform of the laws and bylaws which regulate the parafiscal burdens. The strongest arguments were those relating to reforms which would represent repealing of multiple parafiscal burdens, similar parafiscal burdens of different levels of authority, i.e. parafiscal burdens which lack the clear connection between the price sought by the authorities or independent regulatory bodies for their services and value of the service itself. Desired results can be achieved only through a systematic approach, while partial repeal of certain parafiscal burdens can have limited positive consequences for SMEs, but in the short to medium term it would lead to introduction of new parafiscal burdens, changes in interpretation of coverage of parafiscal burdens, i.e. changes of amounts sought for certain services of the state authorities and independent regulatory bodies.

Surveys conducted by the credible international organizations such as the World Bank, the International Monetary Fund, as well as surveys conducted by the domestic organizations, indicate, as a rule, that the degree of taxation in Serbia is excessive, with the exception of the income tax, i.e. that the total tax and non-tax burden on companies and individuals is above the optimal level. High tax rates do not result in maximization of the total consolidated budget revenues of the Republic of Serbia on all the levels of authority, but practically result in significant decrease of revenues from collected taxes due to companies' escape to informal sector, i.e. due to refrain of companies and individuals from investing, or even due to disinvesting. Paradoxically, entrepreneurs in Serbia point out that the profit tax is low, but it is very difficult to make profit.

It was often underlined by the entrepreneurs, during the meetings organized by the Serbian Association of Employers, that the mentioned problems were something that made running their businesses difficult and brought additional costs. It is important to emphasize that the parafiscal burdens are only one part of the examples that do not contribute to predictability of tax system exactly due to existence of high number of burdens.

On the basis of:

- (1) detailed analysis of legislation that determines the level of costs of doing business in Serbia
- (2) analysis of positions of companies and entrepreneurs on parafiscal burdens in Serbia
- (3) analysis of surveys conducted by the other employers' associations
- (4) analysis of studies, recommendations and experiences of international organizations and domestic institutes of economy, faculties and consulting companies

conducted by the Serbian Association of Employers, the following problems that the entrepreneurs in Serbia are faced with when it comes to costs of doing business related to implementation of laws in Serbia are identified as the basic ones:

- (1) Non-existence of order/system within parafiscal burdens in Serbia
- (2) Non-existence of clear connection between the rendered service and the price that is charged for the service, which is particularly evident when using arbitrary keys for determining price - discrimination of prices for services offered by the communal companies and public companies, which results in prices that are three times higher for companies than for private persons
- (3) Unpredictability and lack of transparency of system of parafiscal burdens in Serbia.

The following measures are the key ones and there is a chance for them to be implemented in the short or medium term:

(1) Introduction of system in the field of parafiscal burdens in Serbia

A serious approach to this problem would mean analysis of purposefulness of each of these burdens and introduction of those burdens which are purposeful to the system of public finances, so the collected funds would be really used for fulfillment of the legitimate objectives.

It is necessary to introduce system to parafiscal burdens because it is necessary to change the present situation, which involves reading "forest of regulation" in order to get to an answer to a simple

question about which burdens are paid for certain business activity.

Key measures in this area include:

- Bringing order to the system of parafiscal burdens through repealing double and multiple burdens (Republic, Province, municipalities, independent bodies)
- (2) Arranging income system of local self-governments and give them back incomes from taxes which belong to them by nature
- (3) Establishing clear connection between the value of the rendered service and the price charged for it, particularly when it comes to use of arbitrary keys for determining prices and elimination of discrimination of prices for services offered by the public communal companies and public companies which results in prices that are three times higher for companies than for natural persons

The basic problem is that the services offered by the state on all the levels do not correspond to the value that is charged for them. There are different forms of this bad practice such as usage if arbitrary keys for pricing which are at the expense of the companies, discrimination of prices for legal entities, charging for services that do not have clear justification, i.e. charging for services offered by the state that are not delivered on time and with satisfactory quality.

Key measures in this area include:

- (1) Charging for services of the public companies and public communal companies based on real service, and not on keys that punish companies (three times higher price for legal entities). Public companies and public communal companies should change the methodology of calculating rates and use the keys that approximately correspond to the value of service in exceptional cases, i.e. to use clear ways of measuring offered services that are quantitive and easy verifiable and to make prices for legal and private persons equal.
- (2) Harmonizing amount of fees and price of offered service. Fees cannot be seen primarily as sources of income for the state, but as charging for the services rendered by the state. It is necessary to develop clear guidance for determining price of services of all state bodies and to

- include representatives of employers in this process.
- (3) Eliminating parafiscal burdens, for which no service is received, nor value, and adjusting their names to their real nature.
- (4) Reassessing parafiscal burdens that represent big costs for companies, and for which the relevant institutions have a lot of problems to deliver the service in time (documents which require work of more ministries and bodies).

(3) Predictability and transparency of system of parafiscal burdens in Serbia.

Different forms of burdens are introduced by a large number of laws and bylaws. From the aspect of predictability of tax and therefore of business environment, it is extremely important that any changes, including increase/introduction of parafiscal burdens, are transparent and leave enough time for entrepreneurs to get informed about them and adjust their business operations.

Key measures in this area include:

- (1) Changing of laws and bylaws in order to ensure predictability and transparency of non-tax burdens. It is necessary to make sure that the whole process in this field is public and conceivable and that no changes can be adopted without participation of employers' organizations.
- (2) Creating standards for measuring performance of those who render services related to parafiscals. Beside process that involves reduction of fees for services offered by the state in order to establish equivalence of benefits, it is necessary to introduce standards for quality of services that define time of service, content included by service and standards of quality related to the service.
- (3) Making a system of reporting to citizens about the way of spending funds collected from parafiscals (where they are source income and not paid to the budget). All institutions that collect parafiscals that are their source income should develop system of reporting to the public about the way of spending funds collected in that way, as a part of wider and comprehensive system of reporting to citizens about spending budget by the budget users.

1. Introduction and methodology

1.1 Aims of the study

The aim of this study is to identify, through the primary and the secondary research, the areas within the legislation of the Republic of Serbia that represent the biggest obstacles for doing business in Serbia and to use the findings of the two research segments for development of the comprehensive proposals for changes of the laws and by-laws. The methodology of this research is based on the ILO's toolkit for Enabling Environment for Sustainable Enterprise (EESE).

The parafiscal burdens include fees, taxes, charges, compensations, payments and other costs that the public institutions impose on economy, and thus create unfair financial and administrative burdens for economy, while the entrepreneurs do not get, in return, any rights or services from the public institutions or get a service of a value significantly lower than the price demanded by the public institutions. Beside the parafiscal burdens there are also fiscal (tax) burdens that include taxes such as profit tax, value added tax, property tax and similar forms of taxation.

This study consists of:

- 1. The secondary research (desk research) about the findings and the recommendations of the credible institutions concerning the parafiscal burdens, as well as about the recommendations on optimal level of taxation of wages, profit and other forms of taxation of companies and entrepreneurs, such as the World Bank, NALED, World Economic Forum, International Monetary Fund, International Labor Organization, The Organization for Economic Co-operation and Development, Heritage Foundation and others, including the comparison between Serbia and the other countries in the region, as well as the overview of what the government has done during the period 2012 - 2014. Within the secondary research, it was identified 499 parafiscal burdens that were classified by the legal source, user of the burden, payer and amount of burden.
- The primary research conducted through the direct interviews with the general directors, sector managers and company owners. It includes the questionnaire designing and sampling, on the

basis of which the positions of employers on issues covered by this study were identified. This part includes analysis of the research results and giving recommendations based on the results.

1.2. Sampling and sample stratification

The structure of the sample is determined through the double criss-cross stratification:

- I) Regional stratification was achieved by dividing the territory of the Republic of Serbia into 4 regional stratums Vojvodina, Belgrade, West Serbia and Sumadija, and East and South Serbia. The number of companies in each of the regional stratums is determined based on the size of contribution of each of the regions to the gross domestic product of Serbia in 2011.
- II) Within the total sample stratification according to company size was introduced, dividing companies to big, small and micro companies in accordance with the criteria followed by the Serbian Tax Administration in 2013 for the annual financial reports from 2012. All the three groups of the companies were pondered in accordance with their contribution to the total gross domestic product. The further correction of the ponders was done due to higher presence of informal employment within the micro and small companies' sector.
- III) The sample includes the gender perspective.

The final regional representation is as follows:

Vojvodina - planned 27% or 68 companies (interval 65-71), surveyed 70 companies;

Belgrade - planned 39,5% or 99 companies (interval 96-102), surveyed 101 companies;

West-Sumadija - planned 19% or 47 companies (interval 45-49), surveyed 45 companies;

East - South - planned 14,5% or 36 companies (interval 34-38), surveyed 34 companies.

The final representation of **companies by size** after the correction is as follows:

Micro companies – planned 51,2% or 128 companies (interval 123-133), surveyed 133 companies;

Small companies – planned 32,8% or 82 companies (interval 78-86), surveyed 35 companies;

Medium-size companies – planned 16% or 40 companies (interval 29-35), surveyed 35 companies

5% Derogations are allowed (trust interval 2σ) by categories (the reason why the intervals are here given), because the criterion of structure of companies by size must also be met, which is difficult to fit in with 100% accuracy, when two stratifications of 250 companies' sample, i.e. of 250 really sampled companies, intersect at the same level.

The questionnaire followed the sectoral structure, with positive increase of the companies from the sectors with specific parafiscal burdens, in order to get as credible data as possible about the specific sectoral burdens. The sample included 18% of the companies that are managed/owned by the women, which is bigger from the total percentage of the companies run by the women in Serbia.

1.3. Design of the questionnaire

The research was conducted on the basis of the questionnaire containing closed and half-opened questions that cover the key areas concerning the parafiscal burdens. The questionnaire covered the areas which were identified as the key ones in previous researches of the relevant international and domestic organizations, including the data received from the Serbian Association of Employers. CEFE Serbia has produced a longer list of 600 questions which was during the process of consultations with the Serbian Association of Employers reduced to 34 key questions.

After harmonization of the list of questions with the Serbian Association of Employers, the preliminary list of the companies was made in accordance with the criteria of stratification which included the list of 400 companies that were doing business in 2012.

1.4. Surveying process

After the preliminary list was made, the surveying process started and the well trained researchers of CEFE Serbia were involved in it. Each company was informed about the surveying process by phone and e-mail, the exact date of the interview was scheduled and the person which would provide the answers was identified. The interviewees were primarily the company owners.

During the surveying process, the project manager of CEFE Serbia has conducted a control by calling 15% of the companies, which confirmed the validity of surveying by CEFE Serbia researchers.

1.5. Research results

The results are given as percentages for the sake of easier interpretation, except in those cases where such form of presentation leads to wrong conclusions (questions with 2 and more answers). Here are presented only companies which answered the question, while the comments include information on how many companies really answered. This was done because a company was required to have certain position on some of the previous questions, or in some cases the questions were not applicable for certain types of the companies, or a company did not want or did not know the answer.

2. Secondary research

The European Union has put the importance of SMEs at the top of list of priorities of the Lisbon strategy of growth and jobs in 2005 through usage of partnership approach in creating policies relevant for SME sector. The role of SME sector was recognized and acknowledged at the highest political level, and in June 2008 the Small Business Act (SBA) or Law on small enterprises was adopted. This Law is implemented by all Member States of the EU, and as such it is an important document of the EU. Symbolic name "Act" that was given to this initiative is also an expression of the political will to officially acknowledge the key role of the SMEs in the EU's economy and to establish, for the first time, a comprehensive political frame for EU and Member States through 10 principles that will guide the design and implementation of legislation and policies at the level of EU and Member States.

The basic motto of SBA is "Think Small First". Since 2008, when SBA was officially adopted, significant progress was made in reduction of bureaucratic procedures, expenses by implementation of good practices in SME sector. In chapter 4 of SBA, of critical importance for creation of added value on the EU level, by which equal conditions are created for SME sector, 10 key principles are defined:

- Create an environment legal preconditions in which entrepreneurs, family businesses, micro and small companies can thrive and entrepreneurship is rewarded
- 2. Ensure that honest entrepreneurs who have faced bankruptcy quickly get to a new opportunity for new business "second chance"
- Design rules and procedures, bring laws in accordance with SME sector
- Make public administration responsive to SMEs' needs and procedures simple.
- Make easier SMEs' participation in public procurement and better possibilities for State Aid for SMEs
- Make easier SMEs' access to financial institutions and develop a legal and business environment supportive to payments in commercial transactions within limit of 30 days
- 7. Help SMEs to benefit more from the opportunities offered by the Single Market of the EU
- 8. Promote all skills and all forms of innovation for SMEs with examples of good practice

- 9. Enable SMEs to turn all environmental challenges into business opportunities
- 10. Support SMEs to benefit from the growth of the EU market, as well as to expand their businesses to other markets

Annual assessment of progress within the field of SBA points out that the principle "Think Small First" is still not completely adopted in Serbia, considering that SMEs in Serbia still have considerable problems when it comes to access to finances, attitude of the state administration towards companies and promotion of skills and innovation for SME sector. Also, in the fields such as the second chance and turning of environmental challenges into business opportunities there are numerous challenges that have not yet been solved. Similarly, Serbia still has not solved the issue of SBA in an institutional manner, considering that it did not appoint SME Envoy, a person who would be responsible for monitoring SBA implementation in Serbia. Moreover, the position within the public administration in Serbia which is de facto position of SME Envoy, including 2014, was the position of Head of Department within ministry responsible for economy¹, which is not practice in Member States. Reasons for such development most probably lie in orientation of economic policies towards attracting foreign direct investments, primarily big companies. Also, another focus of economic policy is solving the problems within companies in restructuring process, i.e. money-losing companies owned by the state. Additional problem for implementation of SBA in Serbia, beside the stated ones, represent also permanent staff changes in ministries that are key ones for SBA implementation. As a result, in 2014 the Republic of Serbia did not have a strategy dealing with development of SMEs.

2.1. Parafiscal burdens – general indicators and regional comparisons

Researching parafiscal burdens is a methodological challenge due to their heterogeneity, abundance and differences in coverage, by sectors as well as by

Due to relatively frequent changes of number of ministries and their competences in Serbia, it is practice name ministries in strategic documents not by names but by their respective responsibilities.

type or size of company. There are no comparative studies on the regional level, or studies that have addressed this topic in larger scale, which could be used as input. Therefore, the desktop research is based on three columns:

- 1. Identification of parafiscal burdens in Serbia through analysis of laws and bylaws
- Usage of existing databases of the credible international organizations that include indicators that indicate quality of the business environment within the field of taxation
- Usage of indicators that indicate significant discretionary burdens and fees that are similar or represent parafiscal burdens

The first index that gives comparable indicators is the Global Competitiveness Index – GCI of the World Economic Forum, which gives a deeper insight through a number of indicators and subindicators². According to GCI for 2014/1015, Serbia is ranked 94th, out of 144 countries that have been covered by this Index in 2014/2015. In this analysis, subindicators 1.8 Useless state costs, 1.9 Regulation cost and 1.12 Transparency in the law-making.

Comparative interpretation of subindicator 1.8 indicates the degree of useless state costs, i.e. those costs where there is no clear value for economy and citizens. The lower is the value of this index, the higher is the participation of useless costs. Within the region, Montenegro and Macedonia stand out as countries that have made considerable progress in reforms, while Serbia, Croatia and Greece are countries with a large share of useless costs. Rates that are a little bit higher than 2 are low rates, because in regulated and functional states the average value of this indicator is around 4. (Chart 2.1).

Chart 2.2 gives comparative statistics for regulation costs. These costs are by their nature the essence of parafiscal burdens, but are somewhat wider category because they indicate implicit taxation and effects of pushing companies out from market by limiting competition. It is noticeable for this indicator also that Montenegro and Macedonia made more progress with rates above 3,5, while Serbia together with Croatia, but also with Hungary and Greece, remains in the group of countries with rate just above 2. This indicator also indicates strong burdens and laws that are source of costs for companies in Serbia.

Table 2.1 – Subindicators GCI related to parafiscal burdens

	1.8 Useless state costs	1.9 Regulation cost	1.12 Transparency in the law-making
Serbia	2,2	2,2	3,6
Croatia	2,2	2,2	3,3
Montenegro	3,4	3,6	4,4
Macedonia	3,8	4,0	4,6
Greece	2,2	2,4	3,4
Hungary	2,6	2,6	3,4

Source: Global Competitiveness Index 2014-2015, World Economic forum (http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2014-15.pdf)

Comparative interpretation of indexes is given within the three following charts³.

Chart 2.3⁴ gives overview of transparency indicator. Macedonia and Montenegro are the most successful also in this indicator, but the difference between them and the other countries is less, as the consequence of better performances of Serbia, Hungary, Greece and Croatia. This indicator implies that the legislative process in Serbia is formally regulated during the preparation of EU candidacy, but there is additional space for improvement.

Indicators and subindicators can have values from 1 to 7, where 1 is the lowest and 7 is the highest rating, i.e. the countries with the highest rating are more competitive in the light of analyzed subindicator or indicator.

When it comes to indicator "useless state costs", higher rate means bigger competitiveness, i.e. less useless state costs. In another words, Macedonia, which has the highest rate, has the least useless state costs. It is the same situation at chart 2.2 where the higher rate means lower cost of regulation. Unlike charts 2.1 and 2.2, chart 2.3 uses higher rates for higher level of transparency in the law-making.

⁴ When it comes to indicator of transparency, the higher rate means greater transparency.

Chart 2.1 - 1.8 Useless state costs

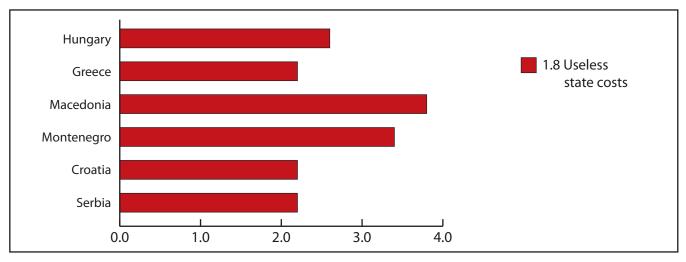


Chart 2.2 - 1.9 Regulation cost

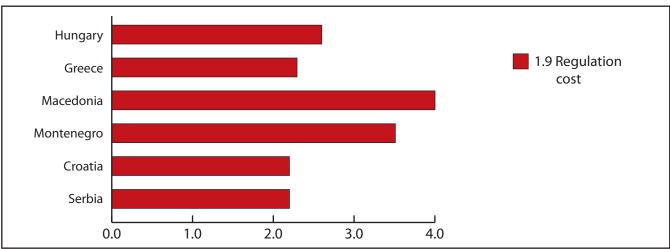
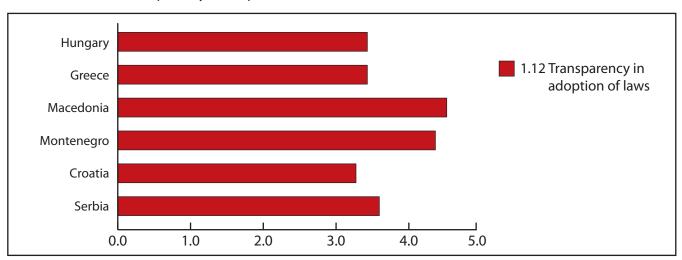
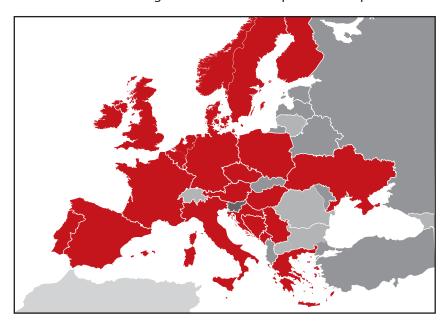


Chart 2.3 - 1.12 Transparency in adoption of laws



Picture 1 – Level of government consumption in Europe



Source: Index of Economic Freedom 2013, Heritage Foundations, Washington D.C. 2013, http://www.heritage.org/index/

Picture 1 gives overview of the state "cost efficiency", i.e. indicator of "state consumption". High level of state consumption, as a rule, means that such country cannot expect high growth rates of GDP. Countries with the state consumption over 45% of GDP, for example, almost never have high GDP growth rates (growth rates over 5%)⁵, except in cases of countries with abundant natural resources. Picrure 1 indicates that Serbia belongs to a group of European countries with the highest state consumption (dark red on the map), i.e. to a group of countries where the high GDP growth rates are the least likely. A particular problem

for Serbia is the fact that low GDP growth rates are not the same problem in a country that is relatively poor (such as Serbia) and in countries that have already achieved high level of standard (majority of EU countries). With the present level of the state consumption, the chances for Serbia to decrease gap between life standard and GDP per capita compared to the EU countries are extremely small (Tabela 2.2.).

Table 2.2 gives an overview of higher rate of VAT and profit tax in selected countries of the region. Analysis' starting point is an assumption that these

Table 2.2 – Comparative overview of profit tax and VAT higher rate

State	Profit tax	Higher rate of VAT
Albania	10%	20%
Bosnia and Herzegovina	10%	17%
Bulgaria	10%	20%
Montenegro	9%	17%
Greece	26%- 33%	23%
Croatia	20%	25%
Hungary	10–19%	27%
Macedonia	10%	18%
Romania	16%	24%
Slovenia	17%	22%
Serbia	15%	20%
Turkey	20%	18%

Source: Eurostat - ec.europa.eu/eurostat

⁵ With growth rate of 5% it takes 14,5 years to double GDP. With growth rate of 2% this period is

³⁶ years, while with growth rate of 7% it is 10 years, for example

two taxes are indicators of the visible tax burden (income tax) and attraction of changing tax burden by entering the informal economy in unregulated countries (VAT rate). Following charts (2.4 and 2.5) give the comparative overview.

All the countries of the region, except Turkey and Greece, have low profit tax rates, from 16% or lower,

and none of them has managed, thanks to such a policy, to achieve significant growth rates, i.e. significant inflow of foreign direct investments / significant domestic investments. This shows that the profit tax is just a final step and that it is of a crucial importance whether the system enables companies to create profit. Low profit tax rates speak in favor of the thesis that there is no motivation to reduce the profit by

Chart 2.4 - Profit tax

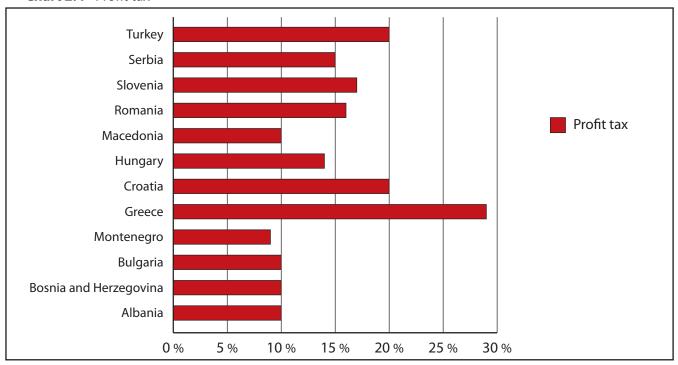
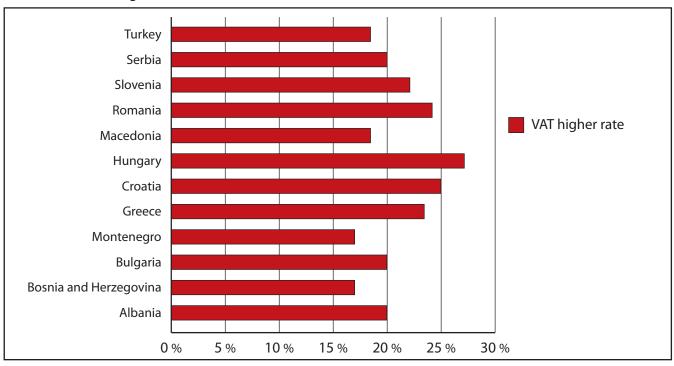


Chart 2.5 - VAT higher rate



accounting or to move it to the next years, as well as that the motive for offshore profit shifting is weak, at least when considering profit tax. Low profit tax and relatively low performances of economies within the region point out existence of the problems which do not originate from direct taxation of the business results (Chart 2.5).

An assumption is that in the relatively unregulated states, the high higher VAT rate⁶ is the indicator of attractiveness of entering the grey economy⁷. It is not a key initiator by itself, but if it is on a high level, it additionally stimulates the companies which have problems due to implicit taxation or unreasonable regulations, to strengthen their decision. It is not possible to make clear conclusions when it comes to effect of VAT level on attraction of entering the informal economy. This chart also implicitly points out that the main problem lies in parafiscal burdens.

2.2. Parafiscal burdens – direct indicators in Serbia

The field of parafiscal burdens is significantly more analyzed in Serbia than in countries of the region. At this moment Serbia has significantly more detailed analysis in this field than the countries such as Croatia and Bosnia and Herzegovina where the pilot studies or more detailed studies were conducted. In some countries of the region there were even no attempts to analyze parafiscal burdens in a systematic way. In this part the data collected by the similar organizations, in the first instance NALED and Business Enabling Project (USAID), are analyzed.

Chart 2.6. gives an overview of the total amount of parafiscal burdens, broken down to the most significant kinds of parafiscal burdens, which are collected in Serbia on annual level. The chart shows the data for 2013. As it can be seen on the chart, parafiscal burdens are predominantly related to two categories: (1) construction land and other real estate, and (2) court

6 There are two VAT rates: higher rate which is used for majority of goods and services and lower rate which is most often used for basic foodstuffs and other goods and services which the state considers to be of the key importance.

A company operating in a relatively unregulated country which enters the grey economy becomes more competitive because it can offer its products and services by prices lower than those of its competitors who operate "regularly" because it can reduce its prices for the amount of VAT, i.e. to earn more by selling at the same price as the "regular" competition.

and republic administrative taxes. Any reform requires significant work in these fields, particularly when it comes to real estates. The following important groups are (3) burdens related to environment and different kinds of rents for using natural resources and (4) burdens related to using motor vehicles.

Bearing in mind the structure of burdens that are divided among the Republic and municipalities and cities in ratio⁸ 60:40, i.e. differences among burdens paid by different companies, it is methodologically impossible to develop indicators that would establish in a right way a degree of burdening on higher levels of aggregation, for example on sectoral level or according to the company size. Also, if the burdens would be examined by locations, this heterogeneity would be additionally increased. Additional limitation is the changes of laws that regulate the issue of city construction land and communal taxes, which make the series of data from this field partly unusable.

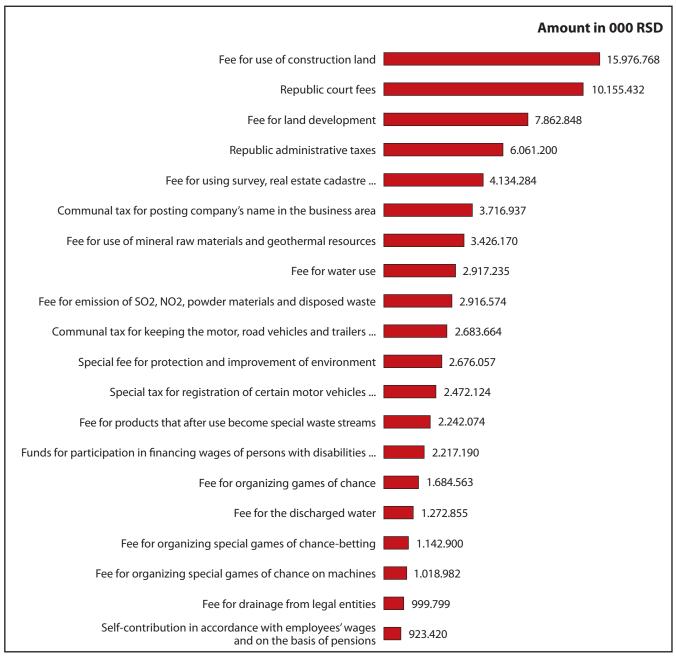
In previous analysis of parafiscal burdens there were attempts9 in this direction, which represented analysis of parafiscal burdens on the lower levels of aggregation where the sector in which company operates, location and company size were taken into consideration. Such analysis gave a lot of illustrative data, but it faced an outstanding heterogeneity of regulations, as well as of coverage, and it was more an illustration that a basis for further sectoral or other analysis. Also, a study that was conducted on that occasion analyzed and tested 77 burdens. Even though such analysis are devoid of subjectivity, they themselves do not represent the best indicators of the fields where the reforms are needed, due to exceptional differences of parafiscal burdens in municipalities, differences that are consequences of binding parafiscal burdens for turnover or even for some keys that are even less related to scope of services rendered to a company by the state bodies, i.e. to differences between sectors. Therefore the survey of entrepreneurs is identified as a key recommendation for methodology, from the point of analysis of parafiscal burdens, as well as from the point of lobbying.

Surveys of entrepreneurs enable better indicative planning of reforms because they clearly identify the

Group of authors (2014) Non-tax and parafiscal burdens in Serbia, NALED: Belgrade

Group of authors (2012) System of non-tax and parafiscal forms in the Republic of Serbia, USAID and NALED: Belgrade

Chart 2.6 – The biggest parafiscal burdens in Serbia



Source: www.naled-serbia.org

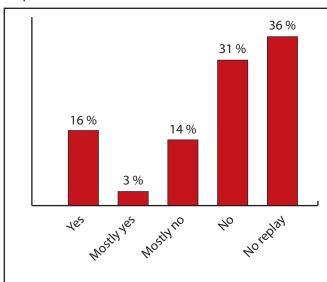
sources of entrepreneurs' dissatisfaction, i.e. where the majority of the problems that they are facing lie. After the general survey which identifies the sources of dissatisfaction, it is easier to come, through directly targeted survey, to a much clearer picture about what reforms are necessary, rather than through basing the whole analysis on statistical data. Such approach is better for lobbying process as well, because it brings more importance for decision makers who, by the nature of things, strive for re-election by taking into consideration the positions of entrepreneurs pushed

forward as the key ones. Analysis of laws without the positions of entrepreneurs is possible only after the surveys, which identify the sources of dissatisfaction, are conducted, i.e. after the detailed survey which is related to certain aspects, in order to come to evaluation of costs of changes of laws, i.e. their affects on the budget. An approach which would follow the opposite logic faces the problems of selection of priorities and even more with the problems of such measures' effects on economy, as well as on the decision makers themselves.

3. Research of positions of companies in Serbia about key issues related to parafiscal burdens

3.1. Results of the primary research

Chart 3.1 – Has there been reduction of the total parafiscal burdens since 2012?



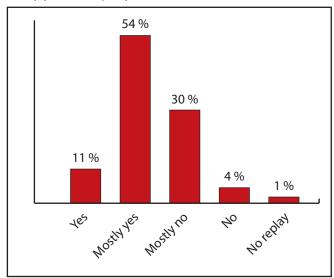
Perception of the companies in Serbia is dominated by a position that there was no reduction of parafiscal burdens, and only 14% of companies claim without reserves that there was reduction. Such perception is in accordance with the policy of fiscal neutrality during changes in fiscal burdens during period 2012/2013. Long-term interest of economy is to reduce parafiscal burdens, and until fiscal consolidation is finished the second best solution is to bring order into this field.

Only 11% of companies is completely sure what their obligations towards the state are, while 65% believes that they know or mostly know the answer to this question. This question gives a strong argument for introduction of a clear system of parafiscal burdens, which would be understandable, transparent and agreed upon between different levels of authority (Chart 3.2).

Creation of new parafiscal burdens and non-usage of public databases

Changes of the Law on Public Notaries, by which 30% of fees for notaries are paid to the budget, a new parafiscal burden is introduced in Serbia, considering that the parafiscal burdens

Chart 3.2 – Are you completely sure which parafiscal burdens must be paid by your company?



are taxes and fees for which no counter service is received from the state or that service does not match the amount paid.

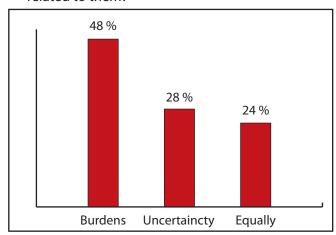
Ministry of Justice concluded that the rewards of the public notaries are inappropriately high and instead to insist on their reduction, it decided that this "extra amount" is to be redirected to the budget. The said change of the Law is contrary to the Law on Budget System that provides that the amount of fees must suit the real costs of rendering the service.

Further objection to the notary system in Serbia can be raised because the Ministry of Justice did not recognize the right place of public notaries within the system of e-government. Instead of notaries having access to electronic databases, for example cadastre or Agency for Business Registers, the citizens and companies are required to deliver printed certificates from these institutions.

In this way the procedure of verification became by far more complicated and expensive than it was in the previous verification system, solely because of an outdated system of public notaries.

18

Chart 3.3 – What is bigger problem for you: amount of burdens or uncertainty related to them?



The biggest part of companies considers that the obligations coming from parafiscal burdens are a bigger problem than just uncertainty that comes from unregulated system in this field. This question is biased to a certain degree because the perception of big companies is different (for them burdens are not equally of most importance) and they were not included in the sample due to the nature of research. The most indicative is the fact that 52% of companies have problems due to uncertainty that follows the existing "system" of parafiscal burdens.

"All accounting software have automatic posting; many companies report to owners monthly, and regulations are changed during the year which makes the yearly report impossible to make."

Question No 4 is a test for question No. 3 and the results are coherent. Around $\frac{3}{4}$ of interviewees considers that the amount of parafiscal burdens is a problem for their doing business. This question once again confirms the thesis that the long-term goal is to reduce amount of parafiscal burdens, while the short-term goal is to bring order into the system of parafiscal burdens.

Beside the amount of burdens, companies point out also the waist of time as a significant problem. This is particularly indicative when it comes to small companies whose owner is often also its manager, so he is losing significant amount of time for activities related to the state services linked with parafiscal burdens. By improving the system into one that would require less time from SMEs and entrepreneurs, significant savings could be made for companies, without reduction of budgetary inflows.

Chart 3.4 – Is amount of parafiscal burdens problem for your doing business?

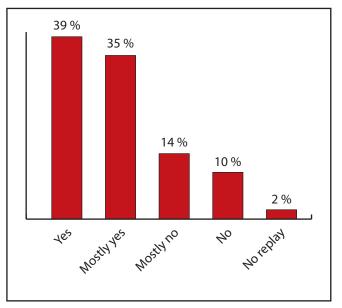
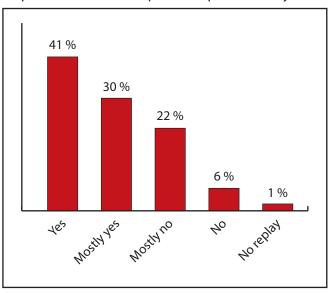
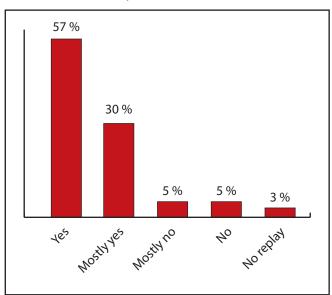


Chart 3.5 – Does the time lost in dealing with parafiscal burdens represent a problem for you?



"I started my company in 1990, as a young man. I worked a lot, my company grew, and I bought two more companies during the privatization procedure. 70% of my time I spent on dealing with the administration, and 30% on work in company. What would have been if I had worked all the time? Every now and then I had to go to municipality to get some paper... Now someone else does it for me, but every time I come to company someone is missing. Where is he/she – in municipality!

Chart 3.6 – Do you agree with the statement that the profit tax in Serbia is low, but it is difficult to make profit?



Question No. 6 is essentially a test of perception of economic policy based on the low profit tax rate as a factor of attractiveness of some investing destination. 87% of entrepreneurs in Serbia confirm that the profit tax rate is low, but by the time the payment becomes due, the state makes creation of profit extremely difficult by its measures of economic policy. This question points out that primarily there should be removing of causes that make creation of profit difficult.

"I can share only what I have earned, when I pay all the bills. Once the state starts to care about the healthy part of economy, the one which can pay, and decides to care about it, then we shall have new jobs."

Question No. 7 is about the principle of equality of companies in the eyes of law. Two thirds of the companies consider that not all companies are always equal in front of the law, while only 16% of companies consider that all of them all equally treated. This question also gives clear argument for demand to have order brought into parafiscal burdens.

According to research conducted by NALED, companies in Serbia pay at this moment almost three times more than physical persons for the same service, through unfair keys for determining prices and discrimination of legal persons. This is the case with garbage collection, water supply, but also with the other communal services. Strict insisting on the ba-

Chart 3.7 – Is there uniformity in treating parafiscal burdens' payers?

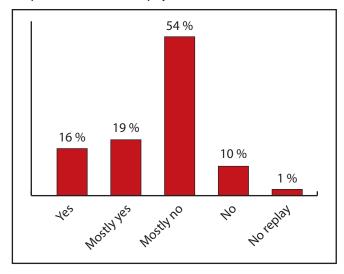
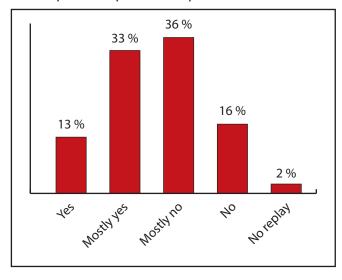


Chart 3.8 – Do you consider that the keys for determining prices of services rendered by public companies to private companies are unfair?



sic Constitution principles of equality, when it comes to services rendered by the state or the state owned companies, is the basic recommendation.

Discretionary and discriminatory keys

Company X from Mladenovac¹⁰ monthly pays even 150.000 RSD for garbage collection to "City Sanitation", even though its workers do not feel even half of the container. This, and similar companies are forced to pay enormously high amounts for garbage collection, because in Belgrade the calculation is based on area of business premises, instead on quantity of garbage.

¹⁰ Belgrade municipality.

643 small, medium-size and big companies operate in Belgrade, which make minimum quantity of waste or turn waste into secondary raw materials. However, these companies have to pay special price for legal entities, so their monthly bills are over 100.000 RSD.

Belgrade "City Sanitation" sticks to outdated regulations, according to which the price of garbage collection is formed according to the size of building. In all EU countries this service is charged according to the quantity of collected garbage.

In that way, the company X from Mladenovac has to pay 1.500 Euro monthly for its premises 20.000 m2 big, even though it takes all its waste to another factory in Stara Pazova¹¹. The same problem has a company Y from Borca¹² that recycles 95% of its waste, but still has to pay 3.600 Euro monthly.

The responsible company claims that the huge investments are necessary for change of calculation system. In order to introduce calculation based on quantity of garbage, they believe that they should be equipped with expensive machines that would register quantity of garbage and that the new way of calculation could significantly increase the costs for households as well, which cannot recycle their own garbage. It is interesting that they did not start form an idea to introduce a new system, as a start, for companies that do not create waste, and that are enormously charged for non-existing services. The amount collected from these companies over just one month would be sufficient to pay one year's cost of manual measurement of garbage made by all the companies that complaint about this service.

Question No. 9 is a control for question No. 8 and it points out that around one half of companies believes that the methods of charging for services rendered by the public companies are also unfair and that they, consequently, represent significant burden. Both questions are somewhat biased towards smaller number of companies which would be unsatisfied, because such system of charging reflects in a particularly negative way on big companies.

Chart 3.9 – Does the practice that private companies pay higher amounts for services rendered by public companies represent significant burden for your company?

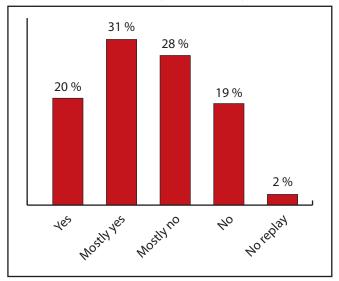
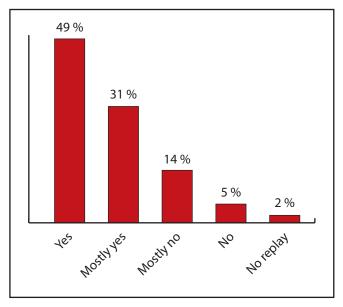


Chart 3.10 – Do you consider that the penalties provided for in many laws are draconic?



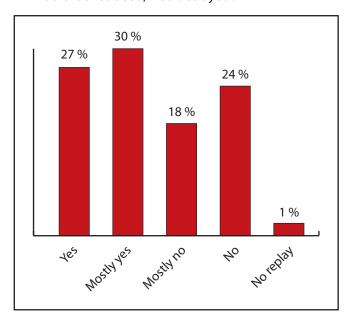
Draconian penalties are one of the safest ways to have the companies that located their activities within the informal sector remain in it. Draconian penalties also represent overlooking the basic causes of informal economy. 4/5 of interviewees consider that the penalties do not correspond to the damages arising from the breach. Draconian penalties are one of the most dangerous demagogic postulates of operationalization of economic policies and they are particularly counterproductive in conditions of flourishing informal economy. The practice in Serbia is to punish legal persons with fines even 20 times bigger than those for physical persons for the same violation.

¹¹ City in Serbia.

¹² Belgrade municipality.

Certain company had a certificate issued by the Agency for Business Registers, but without a date. A fine amounting 400.000 RSD was charged, even though the document without the date stamp was public information issued by the state body.

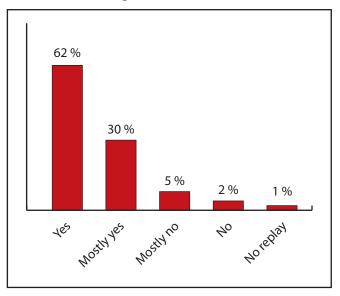
Chart 3.11 – Do you consider that the promise given in 2012, that parafiscal burdens would be reduced, was betrayed?



Question No. 11 points out that 57% of companies believe that repealing of parafiscal burdens in 2012 and 2013 were insincere or only partially sincere. Causes of dissatisfaction were changes incurred after repealing parafiscal burdens for certain groups of companies, by which the coverage of exemption from parafiscal burdens was reduced. For this reason it is recommended to have the measures fiscally neutral.

62% of companies stated that they would be ready to pay to the state the similar amount of money, but through a more understandable and simple system. The ramified system of charging for different types of services through various parafiscals creates a perception about a predatory state, so bringing order to the system and introduction of a simpler way of collection by the state institutions would be much better accepted by companies. It is particularly important to stress counter productivity of the incomes of state bodies, which are motivated to charge for their services as monopolists.

Chart 3.12 – Would it be better to reduce number of parafiscal burdens, and simultaneously to have less number of taxes and parafiscal burdens with higher rates?



Variability of number of parafiscal burdens

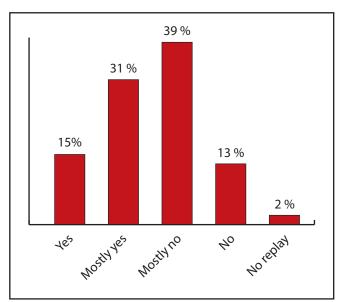
Even though the government's orientation was to reduce the number of parafiscal burdens during period after the first reduction 2012-2013, some new parafiscal burdens were introduced.

- Compensation for stimulation of privileged producers of electricity
- Fee for a regular contribution of members of the Investor Protection Fund
- Annual fee for the electronic certificate
- Fee for the use of the coast
- Fee for adherence to the wharf or pier
- Fee for harbor navigation signals
- Fee for the use of road rail infrastructure
- Fee for operational use port or dock
- Compensation for the establishment of mandatory commodity reserves

The procedures that involve payment of more parafiscal burdens for one service rendered by the state are particularly worrying:

To certify compliance with the sanitary conditions in 2014, it was necessary to pay three republic administrative fees, court fees for certification and the fee for the costs of the proceedings. A total of five taxes for one service.

Chart 3.13 – Do the parafiscal burdens represent a barrier for the opening business in your sector?



46% of the surveyed companies believe that the parafiscal burdens represent an obstacle for starting a business. Even though this question was not followed by a demand for a precise stating of the exact way in which this happens, and which would probably reduce the percentage of the companies that see this as a significant obstacle, the answer is indicative because it connects the parafiscal burdens with the reduced possibility for competition on the market.

64% of the companies consider the existing system that regulates the field of parafiscal burdens to be poorly organized. One of the basic characteristics of a good system is that it changes slowly, through procedures that clearly define steps and give the companies enough time to learn about changes. The question gives a clear indication that the both assumptions are not met and that the companies' insecurity is largely linked to unclear system of determining amount and kind of the parafiscal burden.

Question No. 15 points out that the entrepreneurs expect that the reforms in this field will continue. The reason for optimism is that the reforms in this segment can be introduced in a way that will not endanger public finances but bring savings for companies. Also, this segment of reforms is perceived among the representatives of the authorities as the least risky and potentially useful in maximization of their own interests.

Chart 3.14 – Do you consider that parafiscal burdens change in a fast and elusive way for companies?

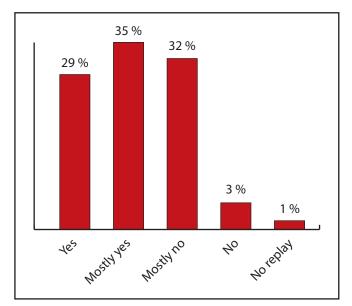
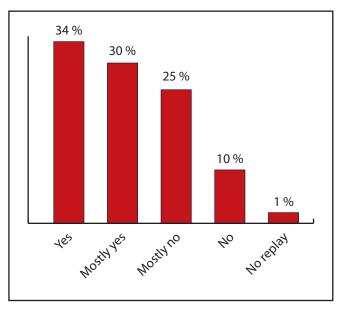
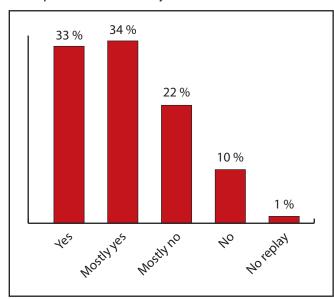


Chart 3.15 – Do you expect reforms in the field of parafiscal burdens?



67% of the interviewees consider that there is arbitrariness in implementation of the parafiscal burdens, which is consistent with the previous question about the equality of treatment of the legal persons. Arbitrariness is a consequence of poorly defined by-laws that leave high level of autonomy in their implementation, i.e. slow and inefficient procedures for complaints by the companies.

Chart 3.16 – Are the parafiscal burdens implemented arbitrary?



High fees for posting company's name and big increase of fees

Owners of companies in the city of Novi Pazar point out that the fees for posting company's name are sky-high and that these cannot be covered even by the most successful doing business. The fee for posting company's name in Novi Pazar is among the highest in Serbia. For example, the headquarters in Belgrade annually pay for posting company's name 150.000 RSD, and for branch office in Novi Pazar they must pay even up to 480.000 RSD. For the same type of branch office in other cities they pay 20.000 – 30.000 RSD.

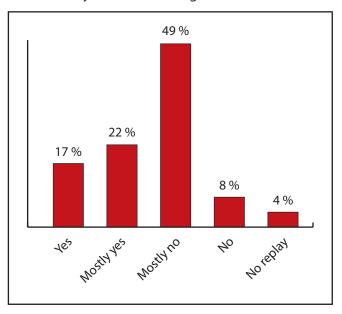
Owners of companies point out that this is a completely arbitrary burden for filling the city budget and that the enormous amounts of fees and taxes forced many companies to close their business and leave many workers without a job. The companies are on purpose categorized to a higher and "more rich" rank so the city could charge them more.

A company that is categorized in Belgrade as a "small company", in Novi Pazar is categorized as "medium-size" or "big" just to be charged for more money over the simple table with the company's name. Formula used for calculation of this fee is an average salary in Novi Pazar increased

2 to 10 times, combined with the location of company, size of company, type of activity and amount of turnover. For small companies this creates insurmountable problems.

On the other side, there are cases where the owners of the private companies and stores protested, outraged by the fact that the communal tax in 2013 was even 13 times bigger than in 2012. This happened in the city of Lajkovac.

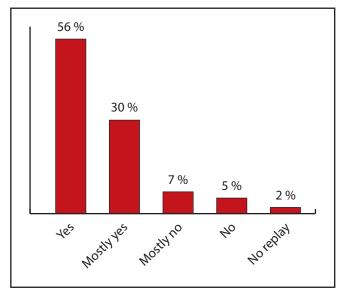
Chart 3.17 – Do the parafiscal burdens dissuade you from investing?



Question No. 17 is a strong test of influence of the parafiscal burdens on company's doing business. As expected, slightly smaller number of companies considers that the parafiscal burdens are a substantial obstacle, so these dissuade 17% of companies from investing, while 22% of surveyed companies are partially dissuaded. On the other hand, a significant part of companies is not exposed to the parafiscal burdens that can be major means of dissuasion from investing.

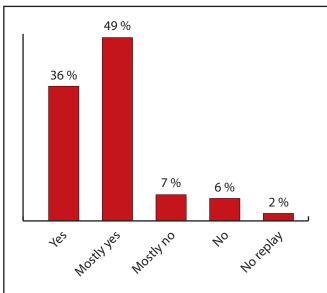
Question No. 18 deals with the perception of the essence of the parafiscal burdens, which are payments by companies for services rendered by the state. 86% of the interviewees do not see the parafiscal burdens as payment for a service, but as a differently put fee, since they believe that the parafiscal burdens are mostly non-consistent with the value of the rendered service. The question does not make the difference between the cases when the value of the service is per-

Chart 3.18 – Do you consider the parafiscal burdens to be consistent with the value of rendered services?



ceived as lower and when the value of the service is perceived as higher than the parafiscal burden, but the other questions from the questionnaire clearly point out that the case where the state renders a service of a higher value than the one that is charged, is rare.

Chart 3.19 – Do you often find in practice the required services related to parafiscal burdens to be completely unnecessary?

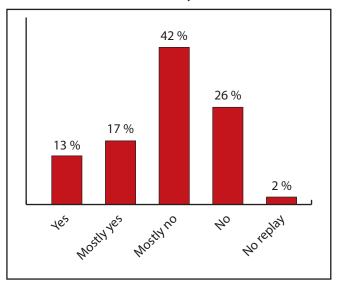


Question No. 19 continues to test perception of nature of services rendered by the state bodies, this time through prism of purposefulness. 85% of interviewees considers that it happens quite often that they are required to have some document that do not need for their business activities and whose purpose they cannot clearly see. Here it is necessary to repeal the point-

less burdens (such as evacuation plan in case of fire for rooms with one exit only), i.e. to inform companies why they should pay for some parafiscal burden.

"Fire inspection asks for evacuation plan for a shed at the periphery of the company's backyard, which is just about to fall down, so we locked it in order to prevent anybody from entering. I am also not allowed to tear it down because the company was bought in privatization procedure, and I still cannot wrap up the paperwork with the state."

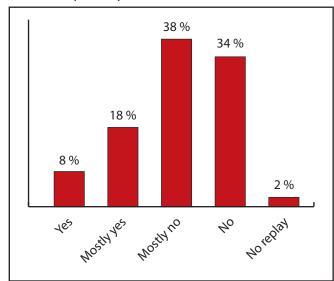
Chart 3.20 – Is there a vertical consistency in parafiscal burdens (different levels of authority)?



The problem of inconsistency of the central and local authorities, i.e. the constant overspill from one to another level that is helped by small source revenues of municipalities, encourages emission of parafiscal burdens on the local level. In order to eliminate this problem, the municipalities should have their constant sources of revenues that will not be denied by ad hoc decisions of the central authorities.

"62-65% of tax on worker's wage is a parafiscal burden for me, considering that there are 700.000 undeclared workers. Evasion is 60% in Serbia, and the state provides tailwinds for tax evaders because it does not deal with them. Informal economy is used for enriching and we actually have thousands of tycoons, not just the big ones, and those are exactly entrepreneurs who do not pay taxes."

Chart 3.21 – Do you consider that the type and amount of parafiscal burdens are a result of transparent processes?



Question No. 21 is about degree of publicity in introduction of parafiscal burdens, as well as about decision about its amount. 72% of the surveyed companies considers that the processes are either not transparent or not transparent enough, which is one of the worst results when it comes to the transparency of public administration in Serbia. It is not necessary to invest any funds in order to improve transparency, and improving this field can start immediately.

"All burdens in economy are not just reallocated, but also increased. Law on Accounting adopted in 2013 will cost economy 255 million Euro annually, turning it into a sort of parafiscal burden. Micro and small companies are not even aware of what is ahead of them. Three charts of accounts are being used at the moment – one is demanded by Agency for Business Registers, the other ones – totally different – by the other state bodies."

Question No. 22 is about the companies' perception of the system of parafiscal burdens in Serbia, when it comes to the state's ability to even control that system. Due to permanent fight of the central authorities and municipalities over the fiscal revenues, along with the high propensity of agencies and regulatory bodies to determine amount of fees in a way that puts these fees above the value of rendered service, there is a perception of companies that the whole system develops spontaneously, or even organic, instead through processes that are typical for decisions made by this segment of the public administration. Even

Chart 3.22 – Do you believe that there is a control of parafiscal burdens by the Republic at all?

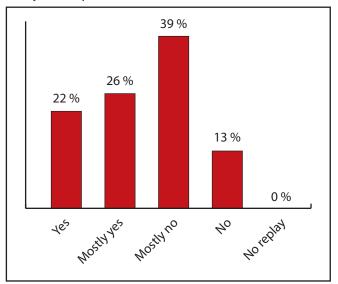
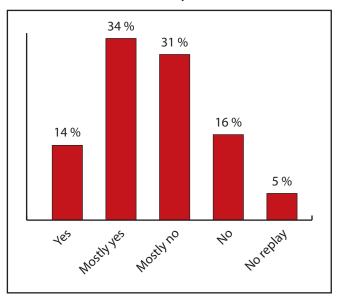


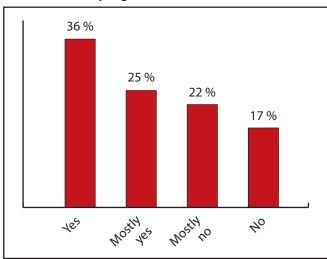
Chart 3.23 – Do the parafiscal burdens look to you like a legalized racket, when it comes to source incomes of public companies or lower levels of authority?



52% of companies have the impression that there is no control over the system of parafiscal burdens.

Question No. 23 is a strong form that tests the previous questions about the character of system of parafiscal burdens. 48% of companies consider that the system of parafiscal burdens is a legalized racket to a greater or lesser extent. Strong form of this question points out to companies that are sure that the system has a high degree of arbitrariness and that the fees do not correspond to rendered services, which are quite often unnecessary for companies or do not have a clear purpose.

Chart 3.24 – Do you believe that the parafiscal burdens in the field of water usage are unrealistically high?



Set of question 24-28 gives an overview of companies' perception of the certain groups of parafiscal burdens that are identified as "lavish" for the state. 61% of companies that responded to this question consider that the burdens related to water usage are unrealistically high.

Record fees for the use of the water resources

Fee that is paid in Serbia by the produces that draw mineral and natural water for bottling is the highest one in the region and it reached almost a level of 12 Euro per 1m3, as much as is paid by producers of the "Evian", a world-wide known brand of water.

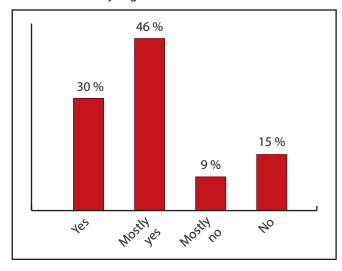
Unlike the producers that do business on the Serbian market and pay fee in amount of 1,35 RSD per 1l, i.e. 11 Euro per 1m3, which is five to eight percent of the product's price, the water producers in Croatia are obliged to pay a fee in amount of 4 Euro per 1m3, in Slovenia 2 Euro, and in some EU states there is no fee for using water. Over the last ten years, the fee was increase for even 1.300%.

Predictable and stable business environment is of extreme importance for all producers. The big burden, especially during the last decade, was not withstood by small bottling plants that were the motors of development in small com-

munities. There used to be 40 bottling plants in Serbia, and today there are only 22.

It is necessary that the state harmonizes fees for drawing water with the laws of the European Union and to regulate this field as soon as possible by the law on compensation for the use of the natural resources and mineral resources. This document would also make precise criteria for determining and calculating the amount of the fee.

Chart 3.25 – Do you believe that the parafiscal burdens in the field of forests are unrealistically high?



Parafiscal burdens in the field of forests are unrealistically high for 76% of companies. In this field there is a synergy of couple of factors, and primarily of a specific status of "Srbijasume" ¹⁴ and "Vojvodinasume" ¹⁵ in practice, as well as of years of existence of fees in this field where it was impossible to make connection between a fee and any service.

In construction sector 67% of companies considers there are unrealistically high fees, and this segment is marked in all analysis as one of the most problematic ones in Serbia (time necessary for obtaining construction permit and similar). The nature of the problem does not consist only of the amount of the fee, but also of validity, extensiveness of the system, expertise of service providers, and absence of the sufficient level of transparency.

¹⁴ Public company for forest management

¹⁵ Public company of the Province of Vojvodina for forest management

Chart 3.26 – Do you believe that the parafiscal burdens in the field of construction are unrealistically high?

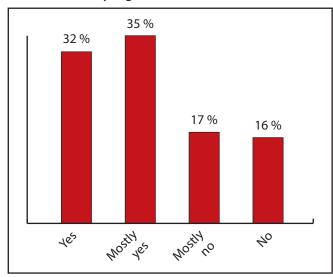
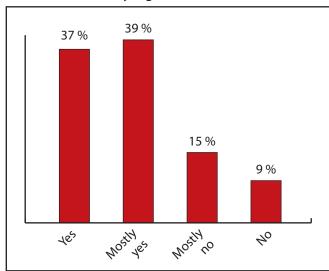


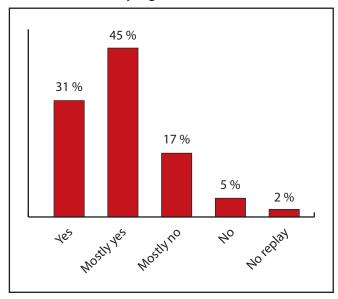
Chart 3.27 – Do you believe that the parafiscal burdens in the field of environmental protection are unrealistically high?



Parafiscal burdens in the field of environment protection are unrealistically high for 76% of companies. In this field it is of a key importance to present to companies in a clear way the parafiscal burdens that are consequence of adoption of the EU legislation and to separate these fees from those that are presented as care for environment while they have no practical influence on environment protection.

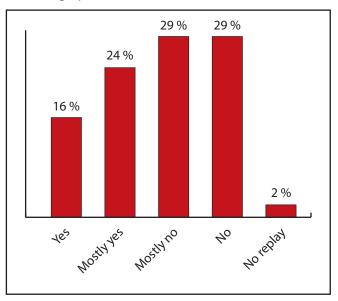
Question No. 28 gives an overview of the companies' position on parafiscal burdens in their sector. In this case, 76% of companies perceive the parafiscal burdens as unrealistically high, i.e. they consider that they do not get an adequate value for their money. 34 of unsatisfied companies clearly speaks in favor of

Chart 3.28 – Do you believe that the parafiscal burdens in your sector are unrealistically high?



increasing value for the rendered service, if it's already impossible to significantly decrease the revenues of state, i.e. of the public companies and of the independent regulatory bodies.

Chart 3.29 – Are you satisfied with the speed with which you get services charged through parafiscal burdens?

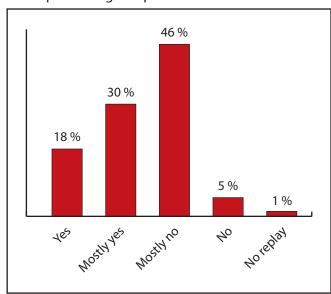


Question No. 29 closely relies on questions related to the process of rendering services itself, with the focus on the time needed to have a service delivered. One of the basic comments of the companies is that they waste time for fulfilling administrative procedures, i.e. that even when they submit all the necessary documentation they have to wait for an unrea-

sonably long time for deciding upon their request. 58% of companies are unsatisfied.

"I am a director of a successful production company that employs 350 workers and we are proud of our profit of 2,1 million Eur. Last year we had 20 inspections, but we are much more troubled by the import of equipment – the customs officers do not know how to charge import duties, so our commodities stay uncleared for long time while our deadlines approach."

Chart 3.30 – Do you consider the licensing processes in Serbia to be a mechanism for preventing competition?



Question No. 30 considers particularly the issue of licensing in Serbia. 48% of companies consider that licensing prevents competition, and that is not a purpose of this process, but prevention of illegal competition.

"Licensing should be based only on professionalism, and certainly not on the law, because quite often the certain companies or individuals are privileged in advance."

Question No. 31 tackles the issue of the e-government in Serbia, i.e. of the slowness when it comes to its introduction, as well as to often overlap of e-government and classical government based on papers. Companies are unsatisfied with the fact that they

should be couriers of the public administration, i.e. to enclose documents, receipts and confirmations for data available in public databases or data that can be obtained by reading a chip

Chart 3.31 – Do you consider that the certificates, which you are demanded to deliver, are necessary in the time of e-government?

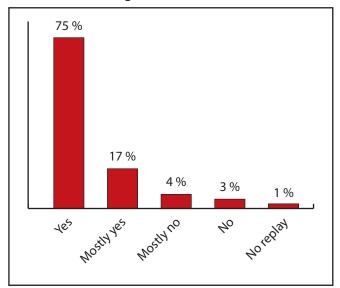
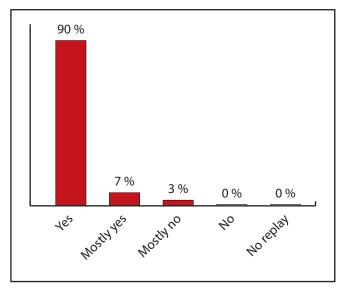
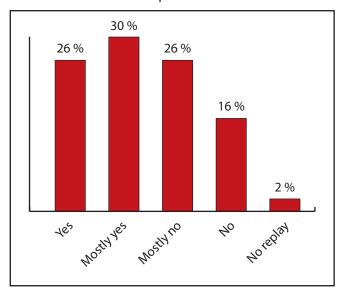


Chart 3.32 – Do you consider that the certificates of entering the registry are unnecessary for the institutions with electronic databases?



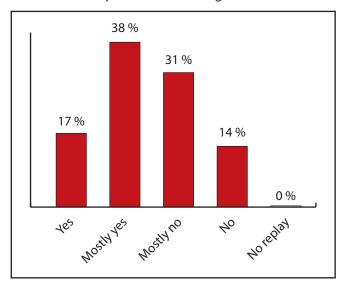
Question No. 32 tackles the very issue of certificate on registration in the register. 90% of companies consider that such certificates do not have any sense and that the bodies of public administration should use the databases only. A particular problem in this field are outdated provisions of certain laws, but also absence of initiative to have them changed in a comprehensive manner.

Chart 3.33 – Are the parafiscal burdens associated with corruption??



Question No. 33 connects corruption as one of the biggest problems in doing business with the parafiscal burdens. As expected, where there is a perception of arbitrariness of the state bodies, there is also a perception of corruption. 56% of companies connect the parafiscal burdens with the corruption.

Chart 3.34 – Do you consider the persons in charge for services related to parafiscal burdens are professional enough?



Question No. 34 is an estimate of work of those who provide services related to the parafiscal burdens. 55% of the interviewees consider that the service providers are professional enough, while 45% considers that they are not. In this field, it would be best to develop as precise procedures as possible, but also performance appraisal for the service providers.

Discretionary character of lump sum taxation

Every year, in the same period, small and medium size companies in Serbia face the same challenge, only the counties and business activities change. What is common to all of them is that small and medium-sized enterprises are collateral damage of attempts to collect as much money as possible for the public consumption, swiftly and by a very discretionary regulation known as the Regulation on the lump sum taxation.

The Regulation itself is unregulated, and it is in open conflict with the economic development priorities of Serbia. It should define the rules for determining burdens for entrepreneurs that pay lump sum taxes, but in reality these rules are just enumerated, insufficiently defined by terminology and content, with plenty of room for guessing. The spans for the tax officials to increase or reduce the tax base in accordance with their own, i.e. personal, judgment are spectacularly wide. An SME can get a tax decision with amount two times bigger than the previous year, while the Regulation remains inviolated, a complaint brings no results and a company is completely helpless.

Each job in Serbia is formally of great importance. To this end, there used to exist, and still exist, various employment and self-employment incentives, with more or less success, more or less meaning. At the same time, the Regulation has its own policy of a different direction to follow. For every employed worker, an entrepreneur faces a 10% increase of base for calculation of lump sum taxes and contributions.

The Regulation also has completely strange provisions that provide that the base for calculation of taxes and contributions can be increased up to 300% on the basis of the business reputation. It is a high penalty for honesty towards customers/clients and business integrity built up over years.

At the moment of delivery of the decision for the current year, SMEs are obliged to pay retroactively, starting from January of a particular business year and for each month, the difference between the amount they paid and the newly proscribed monthly amount. Since they are not psychic and they did not count in that cost, they did not make it part of calculation for their products' and services' prices during the past months, they do not have that amount in a reserve, and until they owe money to the state they cannot certify health cards for themselves and their families, they cannot obtain certification about taxes being paid that they might need in order to apply for some help from the state or a credit.

If they previously used some incentives for self-employment, and the time came for them to prove to the National Employment Service that they properly spent the money and fulfilled the obligation to operate and regularly pay taxes, they cannot do it because they suddenly got into debt, without their fault. Interest rates for due taxes and contributions are extremely high, and blocking the debtor's account, particularly when it comes to micro and small companies, is a real danger even when the debt is not really big. An entrepreneur whose business account is once blocked looses the right to participate in large number of tenders and competitions which demand certificate that proves that you were not blocked during the previous business year. For certain business activities, which highly depend on such tenders, a blockage is a death sentence. The whole situation arises from the fact that the tax decisions are delivered to lump sum tax payers in June, July, and sometimes even in September, while decisions apply retroactively since the beginning of the year.

In case an entrepreneur files a separate complaint about the decision of the Tax Administration, the reply of this institution shortly states that through a careful analysis of the decision, and based on a complaint, it has been found that the decision was issued in accordance with the Law and the said Regulation. Almost any decision would be in accordance with the said Regulation.

3.2. The employers' recommendations (internal stakeholders)

Beside empirical research of primary and secondary data, the validation workshop was held for the purpose of testing the validity of recommendations. The internal key stakeholders of the Serbian Association of Employers participated in the workshop using the opportunity to state their positions about the findings of the study, recommendations given in the study and to discuss, above all, about the feasibility of recommendations. The workshop was mostly aimed to analysis of feasibility of recommendations and their possible corrections.

A summary conclusion is that employers in the present institutional environment, and with the given limits that are consequence of the poor economic environment, must direct their efforts towards those proposals that will encounter the green light from relevant state bodies. Therefore, beside the initial stating that the employers in Serbia have many problems, some of which are more urgent and deeper than the problems that were considered in this study, the agreement was reached that there should be focus on recommendations given in this study.

More far-reaching conclusion is that employers' organizations, before coming out with any proposal, must make an analysis of the relevant environments, relevant external stakeholders and that the recommendations and policies that will be part of the public agenda must have a high degree of likelihood for success. On the other hand, questions and adequate recommendations that are the key ones for employers, and for which the chances to be adopted at a particular moment are little, should be part of the long-term efforts and long-term activities with the relevant external stakeholders.

Employers underline that the Government of the Republic of Serbia, when taking a course of reforms, imposed the need to amend and adopt numerous laws and, consequently, bylaws. When proposing laws, the explanation of every law includes a special chapter, the needed financial resources for implementation of the law. This chapter includes only the budgetary funds, but the problem is that it does not evaluate their effect and financial obligations that are new to the legal entities, i.e. the employers.

As a rule, for literal implementation of the laws, and bylaws as well, an employer must engage most often irrecoverable funds, through engaging and training staff, obtaining certificates, confirmations and similar, for the purpose of meeting conditions for doing business – licenses and similar. For these burdens, which are necessary if an employer intends to continue do-

ing business in accordance with the regulation, he must engage his own funds which are most often not planned. Therefore, one of the proposals aimed at relieving a legal person is to have the parafiscal burdens reviewed and taken into consideration by the proposer of regulation.

This means that every law that entered the procedure, prior to adoption, should be followed by analysis of the fiscal obligations for legal persons by which the law will be implemented. It would result in a discussion about the purposefulness of the law, but it would also enable employers to plan those costs and include them in cost of their products and services in timely manner, so they could continue with doing business, but also be competitive on the market.

An interest to duly implement the valid regulation certainly exists among employers, considering that they are in permanent activities that must bring certain income, out of which further investments, tax obligations, wages and other material costs will be paid for. At the end of this sequence an employer makes profit if it is possible, and for which he is particularly interested, but he has an obligation to continuously and constantly take care, since the beginning of doing business until the cessation of the legal person.

Starting from the said, it is undeniable that an employer's, and through him also the owner's, interest to act in accordance with the regulation is the biggest, but only in case when, by the implementation of regulation, the purpose of doing business can be achieved, i.e. making profit. If the costs related to doing business are not in a proportion with the real possibilities, if there is no continuity in operating within the same scope, en employer tries to replace it by investing into operating itself, as well as into preserving the core value of the legal person, movable and immovable assets, up to the limits of endurance. This ultimately leads to the negative score in doing business over the longer period of time, and thus, to economic downturn.

The non-participation of employers in the phase of drafting regulation, i.e. public discussion, is not only lack of interest, but also inability to additionally commit to certain issues. Therefore, once a certain law or bylaw is adopted or even worse when it starts to be implemented, employers face the problems in implementation of the part related to engaging additional funds for meeting the conditions set by the regulation.

Unburdening the economy, set as a goal by the authorities' pillars, was only decorative so far, while the reality was totally different. This is best documented by the number of closed legal persons, or more precisely by the number of insolvent companies.

These examples point out the need to pay special attention to this issue. Every law or bylaw must be examined before adoption, not only from the aspect of spending the budget as it has been done until now, but above all from the aspect of the possibilities of legal persons to see the interest in their implementation and, as a consequence, to see the economic interest through improvement of own business, as well as increase of own competitiveness on the already distorted market.

In this sense, the SMEs' complaints are numerous:

- Regulation related to book-keeping introduced cumbersome apportioning that has no practical purpose: balance sheet had around 40 positions until 2010 and now it has 137; profit and loss had 29, than 34, and according to the new Rule 92; after some criticism of the Rule it has 97 positions. In parallel, according to the international book-keeping standards a balance sheet has 30 positions, while profit and loss has 33.
- When it comes to taxation of company's property, every company should be allowed to assess its property; at the moment, only 0,15% of the companies are allowed. What happens in practice is that the premises such as a shed, attic or basement are also taxed as business premises.
- E-business is still burdened with many problems – bad organization and non-compliance with the procedures, office and in-field controls last long, deadlines are not respected.
- Representatives of SMEs producers point out that the decrease of profit tax is a marketing for the foreign investors, while the domestic ones are being neglected. Also, small tax does not mean a lot if the state makes the profit making an impossible mission, by its parafiscal charges.
- The next problem is administration half of employees within a company is engaged with the state bodies, instead with market, consumers, new technologies, etc.
- High burdens and lack of transparency are also problem for continuity in doing business and opening of the new SMEs. There is an opinion that it is better, for example, to have high level

- of VAT, but without sudden increases during the business year. When opening a company, one thinks about the costs, but if he is not aware of what awaits him in advance, it is a big problem. This considerably influences also creation of new jobs and the general remark is that a moratorium on new burdens must be introduced.
- When it comes to bigger companies that fight for existence, operate in Serbia, make the profit and pay tax in Serbia, do not have headquarters in off-shore zones, they should also be preserved and not only declaratively supported.

SME sector is unique when it comes to the issue of determining the tax amount: it is necessary to determine only the real needs, as well as objective possibilities of the participants in the economic life, as those who fill the budget. Expenses that burden the legal persons and employers are, above all, non-tax payments, i.e. the parafiscal burdens that most often are not revenue of the budget of the Republic of Serbia.

The employers point out that, for the purpose of promotion of the SME sector, it is necessary to achieve the complete agreement about the realization of the adopted regulation, and particularly of:

- Government of the Republic of Serbia in proposing the regulation that will not require additional engaging of funds by the legal persons
- National Assembly of the Republic of Serbia

 to demand, prior to adoption of a new law, a separate analysis of the economic burden on the legal and natural persons, i.e. the economy as a whole, caused by its implementation
- 3. **Employers** who will actively participate in preparation of the regulation and its adoption, and particularly in its implementation from the aspect of economic justification and profitability to completely adjust their businesses to the newly adopted laws and the European standards.

4. Impact assessment

During the process of making this study, a series of consultations with the relevant organizations that protect the interests of employers in the Republic of Serbia took place, and the following results were achieved:

- It was agreed that these organizations coordinate their activities for the purpose of creating a synergy of positions towards the decision makers
- It was agreed that each organization focuses on activities where it has the strongest competencies so the division of work would maximize effects
- 3. Mutual consultations should be made when drafting positions, policies and other similar documents in order to find the best solutions and take advantage of available information.

During the preparation of the study certain activities were planned aimed at:

- 1. Presentation of the study and its key conclusions to the key relevant ministries
- 2. Presentation of the study to the working groups for changes and amendments of the laws that are source of the problems in the field of the parafiscal burdens
- 3. Presentation of the study to the key creators of the public opinion.

During the presentation of the study on a validation workshop, the representatives of the Ministry of Economy that are members of the Working Group for Fight Against the Informal Economy expressed their interest to use this study as one of the key documents in envisaging their activities. Upon finalization of the study, it will be used as an empiric basis and source of strategic recommendations for the Working Group for Fight Against the Informal Economy, and it will be presented to the relevant ministry, i.e. the Minister of Economy.

Serbian Association of Employers will present this study at a special event to which the representatives of the leading printed and electronic media in Serbia will be invited. In accordance with the best practices of dissemination of the research findings, the activities that follow will include:

- Customized meetings with the selected media representatives during separate events where the key points that the employers insist on, as well as the importance of their realization for employers, workers and the state, will be enlightened
- Regular meetings with the key stakeholders where the selection of findings will be presented and common interests of employers and certain stakeholders underlined
- Development and promotion of the specific tools for promotion that are based on the study, which have the biggest potential for public presenting because they point to the major weaknesses of the system that provide no vested rights for any of the key stakeholders. The tools that will be used are effective visual, audio and multimedia materials that point out how much we, as a society, loose due to unregulated field of the parafiscal burdens. The costs of the lost opportunities, pictured by the things that Serbia is missing roads, kindergartens, schools, population that migrates from Serbia and similar will be taken as the basic unit of measurement.

After the promotion activities, the impact results will be measured through two indicators:

- 1. Number of articles, meetings and other relevant open and closed events
- 2. Number of laws and bylaws that are changed or whose change is in the pipeline, and which were targeted in this study.

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- 2. International Labour Organization http://www.ilo.org/global/statistics-and-databases/lang--en/index.
- 3. International Monetary Fund http://www.imf.org/external/data.htm
- 4. OECD http://www.oecd.org/statistics/
- 5. Statistical Office of the Republic of Serbia www.stat.gov.rs

Notes	

he profit tax is low, but <i>making profit is difficult</i>				