

## **Three years since implementation of VAT in the Republic of Macedonia**

In the Republic of Macedonia the implementation of VAT started on the 1-st of April 2000.

Today when we look back of almost three years implementacion of VAT we can stress that Republic of Macedonia is a part of the countries with successful implementation of VAT.

It is a good indication for the potential investors, that despite the RM is a small country with small resurses, has potentials to make big steps forward and to create the same condicions or close to those in the countries with developed market economies. That is our best recommendation in the world of business.

### **1. Preparatory activities**

Preparations for implementation of VAT in the RM and preparing of the tax rules incorporated in the text of the Law are good example for a good mixture of the international knowledge and experiance with the one that Macedonia disposed.

Preparing of the text of the Law, decisions, rulebooks and manuals, as well as the forms, were done with a strict supervision and help from the expert group from the Federal Ministry of Finance of the Federal Republic of Germany lead by Mr. August Shlienkamp. Main direction was firm determination that tax rules in the macedonian VAT should be fully based on the Sixth Directive for VAT in EU.

German experts all of their knowledge and experience have focused on the improvement of the text of the Law on VAT, that was previously prepared by the macedonian side, as well as on the preparation of all necessary by-laws (decisions, rulebooks, manuals), forms, and the basic education related to VAT.

Very important contribution in the preparatory period had the Commission for implementation of VAT in the RM, established with the Government's decision

Also, many experts that visited our country have contributed in this period, as well as members of the technical missions of IMF.

Macedonian parliament adopted the Law on VAT on 14<sup>th</sup> of July 1999, and its application started on 1 of April 2000.

Just before the introduction a massive campaign was carried out to inform the publicity with the new tax rules of the VAT.

### **2. BASIC CHARACTERISTICS OF THE MACEDONIAN VAT**

Macedonian VAT have the following characteristics:

Subject to taxation with VAT is:

supply of goods and services in the country with consideration, carried out by the taxpayer within the scope of it's business;

and importation of goods.

### **Taxpayer**

A taxpayer of VAT is a person who permanently or temporarily perform an independent business, irrespective of the purposes and results from such business activity.

Regarding the bracket of registration, every person who performs a supply of goods and services with a total turnover that is more than 1,3 million denars (20.000 USD) in the previous year, is registered for a taxpayer.

Also, the Law allows for registration of persons who have turnover less than the mentioned bracket.

### **TAX BASE**

#### **Tax Base for Supply in the Country**

The tax base for calculating value added tax shall be the total amount of consideration (money, goods, services and other) received, or to be received, for the supply, including taxes (except the Value Added Tax ) excises, contributions and other charges, as well as related costs directly connected to the price of supply of such goods or services.

#### **Tax Base For Importation Of Goods**

The tax base for imported goods shall be the value of the imported goods as determined according to the customs regulations.

The tax base shall include customs duty, taxes (except the value added tax), excises, fees and other import levies and relevant costs.

### **TAX RATES**

The Value Added Tax shall be calculated by applying proportional tax rates on taxable supply of goods and services and imports, such as:

1. The general tax rate of 19% shall be applied to all supply and importation, except for supply and importation taxable with reduced rate and
2. The reduced tax rate of 5%, shall be applied to the following supply and importation of:

Food products for human consumption, except for alcoholic beverages and soft drinks;

❖ Basic agriculture products

❖ Animal feed, mineral and chemical fertilizers, product for plant protection

❖ Water

- ❖ Electrical energy ,coal, fire wood, mazut,gas and heating
- ❖ Drugs (medicaments) , medical materials
- ❖ Detergents and products for body care
- ❖ Publications
- ❖ The first supply of residential building and apartments, made within five years after the constuction
- ❖ Transportation of passengers
- Waste disposal and services for maintaining public sanitation
- ❖ . Services by solicitors, accountants and auditors

## TAX EXEMPTIONS

### Tax Exemptions In the Country

<b>Not Entitled to Tax Credit Deduction</b> (without right for deduction of the previous tax)	<b>Entitled Tax Credit Deduction</b> (with right for deduction of the previous tax)
Supply of residential building and apartments, except the first supply that shall be made within five years after the construction	export of goods abroad
Rental of apartments when used for housing purposes;	Supply of goods to be transported or dispatched from the country to free zones, customs zones;
Postal services	Services related to import, export and transit
Supply of banking and financial services,	Services performed on movable tangible goods supplied or imported in the country for the purpose of such services, and exported.
Insurance and re-insurance services,	Supply of gold and other precious metals for Central Banks

Games of chance and lotteries	. International air transport of passengers
Supply by institutions in the field of culture	Supply, repair, and leasing aircraft used mainly in international commercial air traffic
Services and supply of goods by institutions for social welfare and protection	
Supply by institutions in the field of children and youth protection;	
Educational services	
Services by broadcasting and television stations, except commercial activities;	
International transportation of passengers	
Health and veterinary services	

### **Tax Exemptions on Import**

- ❖ Goods whose supply is exempted from Value Added Tax in the country
- ❖ . Goods falling within the arrangements of goods in transit,; for temporary imported goods and re-exported
- ❖ . Goods imported in free and customs zones
- ❖ Goods imported by foreign diplomatic or consular mission for official use as well as by diplomatic personnel, for personal needs
- ❖ Goods imported by international organizations
- ❖ Goods to be exhibited at fairs and commercial exhibitions that would subsequently be exported;
- ❖ Goods given as gifts by foreign donors to domestic public institutions or to registered domestic humanitarian not-for-profit organizations and non governmental organizations without consideration

❖ . Goods and publications given as gifts to public and scientific institutions,

❖ Goods brought by passengers as their personal luggage when entering in the country

### **TIME WHEN TAX LIABILITY OCCURES**

Tax liability shall occur at the time when goods are supplied, i.e. (that is) at the time when the service is completely delivered.

In case the payment is made prior to the supply, the time when the tax liability occurs shall be the time when the payment is received.

In case of importation of goods, the time when tax liability occurs shall be the day when the liability for paying the customs duty and other import levies

### **TAX DEBTOR**

Tax debtor shall be the taxpayer who performs supply of goods and services in the country for consideration, and the person who imports goods as well;

### **DEDUCTION OF TAX CREDIT**

A tax credit shall be the amount for which the outstanding Value Added Tax amount for the supply made in a given accounting period, respectively tax period, is deducted.

The right to deduction may be realised, if the taxpayer uses supplied or imported goods, respectively services for the purpose of his business activity on the basis of invoice, or customs declaration,

### **Exemption of the Right to Tax Credit Deduction**

The taxpayer shall not be entitled to tax credit deduction in case of:

purchase or importation of goods or used services for supply which is tax exempted:

❖ .purchase, production and importation of bicycles, motor vehicles with less than 4 wheels, vehicles transporting passengers, as well as services related to their use.

Expenditures for representation of the enterprise or its owner

Costs for transportation of people

❖ Supply or import of refrigerators, audio and video devices, carpets, artistic items for the purpose of furnishing his business

premises (OFFICE)

- ❖ Cost for accommodation in hotels or similar facilities or for catering;

### **Accounting period, tax calculation, Submission of the Tax Return, payment and tax refunding**

The Value Added Tax shall be collected during the year as advance payment and at the end of the year final calculation of the tax obligation will be done.

The accounting period, for which the advance payments are calculated and paid shall be one calendar month if taxpayer realize taxable supply over 25 million Denars on a year level, or quarterly if realize taxable supply less then this amount.

The taxpayer submit tax return, and pay declared tax not later then 15 days upon expiration of month i.e.(that is) quarterly.

After (Upon) expiration of calendar year at the end of February taxpayer submits annual tax return, and if there is a difference, the taxpayer shall be liable to pay it not later then 15<sup>th</sup> of March.

The value-added tax on import, shall be paid at the same time when customs duties are paid.

When the amount of the tax credit in a given accounting or tax period is higher than the tax assessed for the supply, the taxpayer such difference may carry forward in the succeeding accounting period as advance payment, or the difference shall be refunded to the taxpayer within 30 days, based on his written claim stated in the tax return.

### **Tax credit deduction for supplied investment goods**

Exemptions of investment goods have a positive influence on investment incentives and modernization and so as a rule they are tax exempted.

VAT law provides for taxpayers that already paid VAT for supplied investment goods to use it as a tax credit.

### **VAT refund to special subjects**

Upon request of taxpayers without headquarters or a branch office in the country, and without performing any supply in the country, the tax he pay in the Republic of Macedonia for purchases, will be refunded .

Not-for-profit organizations shall, upon their request, be entitled to refund the tax for supply of goods and for importation, if the goods are transported abroad and used there for humanitarian, charitable or educational purposes.

If a foreign diplomatic or consular mission purchases goods or services for official purposes shall in the country, upon request, be entitled to refund the Value Added Tax.

Diplomatic personnel shall be entitled to refund the Value Added Tax, when such persons purchases goods or services for personal needs in the country.

The international organizations and their members shall, upon their request, be entitled to Value Added Tax refunding for supply of goods or services according to the conditions and limitations established with the international agreements.

### **Administrative obligations**

. Administrative obligations for taxpayers are usual for this type (kind) of tax. Also in the law are regulations for issuing invoices with its contents, as well as a book-keeping records that taxpayers must provide.

### **3. How was VAT accepted by the taxpayers**

The taxpayers were pleasantly surprised from the good solutions of VAT. Now, they say that the rules of VAT makes them to have more accurate book-keeping records. Their fear was unnecessary. All agree that their administrative obligations are obviously lessen and easy to handle.

### **4. Fiscal effects from the VAT implementation**

In 2000, from the sales taxes there are realised in total of 17.449 million denars out of which 83% are from VAT and only 17% from the tax on the turnover.

The VAT revenues in 2001 are realised in amount 17.132 million denars.

The VAT revenues in 2002 are realised in amount of 20.521 million denars,.

Compared with the previous years, when the tax on turnover was in force, the revenues are significantly increased. This is not a result of the higher tax burden of the taxpayers, but a result of the characteristics of this tax, as a neutral, comprehensive and a best policeman for avoidance of the tax evasion.

Participation of the VAT revenues in GDP is:

- in 2000 - 7,4% (together with the tax on turnover)
- in 2000 - (April-December -8,1% only VAT)
- in 2001 - 7,2%
- in 2002 - 8,6%

Participation of the VAT revenues in the all tax revenues is:

- in 2000 - 34,1%
- in 2001 - 36,0%
- in 2002 - 38%

## **5. Directions for further activities**

We should think about some changes in the Law concerning deregistration of the taxpayers, abolishing the annual tax return, etc.

There is a lot of work for a certain improvements, but we hope that we can do it succesfully as well.

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