

Let's talk about...

REFORM OF LUMP-SUM TAXATION SYSTEM

Lump-sum tax entrepreneurs are those who chose, and were approved by Tax Administration, not to engage in any bookkeeping but pay the same amount of taxes and contributions each month, regardless of whether they had any turnover and its amount. There are currently ca. 110,000 entrepreneurs in Serbia in the lump-sum taxation system. This is more than 30% of all businesses – entrepreneurs and companies. Observing the fields of work, lump-sum taxation is most frequent among taxi drivers (12,458), legal affairs (10,028), hairdressers (7,436), programmers (6,820) consultants (5,357).

Slightly less than a half of all entrepreneurs work in the lump-sum taxation system, while the rest opted for the regime of bookkeeping, i.e. for registering their personal earnings; nevertheless, a higher amount of public revenues (taxes and contributions) is generated from lump-sum tax entrepreneurs than from those in other taxation regimes.

WHY DIALOGUE?

The current lump-sum taxation system burdens both entrepreneurs and tax officials with unnecessary administration, while being unpredictable in terms of costs of doing business and leaving room for abuse:

- When starting a business, entrepreneurs do not know whether they will be granted the „lump-sum“ status, nor the amount of taxes and contributions they will need to pay, as this is decided only after registration, so, they cannot estimate whether starting a business even pays off.
- Tax decisions indicating the liabilities to be paid are issued with several months of delay, given that Tax Administration needs to wait for information about the average salaries from the National Statistics Office in order to determine the tax base, and then apply the criteria to finalize the decisions. Once the decisions arrive, the deadline for settling all liabilities is only 15 days.
- Procedures performed by lump-sum entrepreneurs are unnecessarily complex and often pointless. Though the 2016 reform states that tax application should be filed through Business Registers Agency when registering a business, entrepreneurs are still obliged to visit a Tax Administration for this issue. Further on, the issuing of a certificate on paid taxes, often needed by entrepreneurs, lasts up to 15 days although the information is available online.

Youth entrepreneurship

With a rate surpassing 30%, youth unemployment in Serbia is among the highest in Europe. At the same time, only ca. 7% of young people have a status of employer or running a family business. This situation, among other things, is associated with the difficulties related to entrepreneurship system in Serbia.



- The lump-sum taxation status is at times misused so as to avoid high taxes and contributions applied to employees under a work agreement. On the other hand, financial liabilities imposed to lump-sum entrepreneurs are higher than the individuals whose occasional work earns them 100 or 200 euros a month are able to pay.
- The Tax Administration invests extensive resources to perform individual analysis for each of the 110,000 lump-sum entrepreneurs and prepare the tax decision. Additionally, the criteria for determining the amount of lump-sum tax are highly complex and often depend on subjective assessment.

DIALOGUE GOALS

The public-private dialogue should carefully consider the improvements of the lump-sum taxation system, such as:

- The introduction of electronic exchange of data among state institutions and automatization of procedures performed by Tax Administration (approving the lump-sum taxation status, calculating the tax liabilities, submitting the tax decisions and certificates on the status of tax liabilities) so as to improve the system's efficiency and predictability.
- The improvement of rules for awarding lump-sum taxation status and the criteria for determining the amount of tax liabilities, so as to reduce the motivation to hide factual employment relations through entrepreneurship status, while enabling individuals earning less than minimum salary to operate legally.

The ultimate goal of these improvements is to encourage entrepreneurship and legal work, reduce administrative burden to the state and businesses, and improve the collection of public revenues.

Dialogue initiated by: The Association for Development of Entrepreneurship

The Association for Development of Entrepreneurship is a non-profit organization established in 2013 in Niš by entrepreneurs and individuals seeking to start their own businesses, in cooperation with non-government organization ENECA and with the support of the Ministry of Economy. The Association brings together more than 200 members, with the aim of developing entrepreneurship, stimulating entrepreneurial spirit and developing a better business environment. Along with educational programs for building the skills and knowledge for starting a business and mentoring for young entrepreneurs, the association maintains active dialogue and communication with the local government and line institutions. By engaging in the European Convent on policy planning for entrepreneurship development, and cooperating with other business associations, the organization nurtures the culture of dialogue, advocating the interests of entrepreneurs in Serbia, as the driving force of economic development.

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