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Local Tax Policy in the Function of Development of Municipalities in Serbia

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Abstract

The state and local communities must have an active tax policy to contribute to the achievement of their economic and social objectives, whereby they have to find an adequate measure as not to jeopardize the economic and market principles and a favorable economic environment. In conducting the tax policy, priority should be given to built-in incentive instruments in relation to the "ad hoc" measures of tax competition. The practice of giving subsidies and tax incentives in the near past in Serbia has not yielded satisfactory results: extremely high rate of unemployment, low level of GDP per capita, high indebtedness and foreign trade deficit. Because of this, the local government in the coming period must have a much more active role in managing local tax policy in order to stop the negative economic trends and standards of their population. We argue that the highest degree of efficiency is achieved, if the fiscal policy measures are in correlation with economic and structural policies and have a strong synergetic effect.

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Keywords: tax policy; local economic development; competitiveness; tax competition.

1. Introduction

Sustainable economic development implies reducing irrational and unproductive expenditure while increasing investment spending in order to stimulate growth and employment, with social protection of the most vulnerable layers of the population. The key role in this have fiscal policy and structural reforms with the defined measures in the short, medium and long term about which there is agreement of the participants of social dialogue (Government,

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employers, trade unions) and the wider professional community. Tax policy should contribute to remove the key macroeconomic imbalances of the Serbian economy - high unemployment rate and high foreign trade deficit while at the same time not jeopardizing the international competitiveness of companies and a favorable economic environment. Tax policy of Serbia in the forthcoming period should provide long-term sustainable development of the economy that will be based on increasing exports and investments, and decreasing the unemployment rate and the foreign trade deficit. (Janeba, & Osterloh, 2013) proposed a new theoretical model of tax competition at the local level. Their model predicts – contrary to earlier findings for competition between countries or regions – that capital tax of large jurisdictions fall more strongly with increasing interregional competition and may eventually lead to smaller taxes than in small jurisdictions. The effects of tax policy must result in increasing the international competitiveness of the economy while maintaining a favorable economic environment, primarily to attract domestic and foreign direct investment. Improving the tax system is a continuous process due to the fact that modern business processes lead to the creation of new issues related to taxation. Necessary reforms must be carried out both at the state and at the local level. (Ojede, & Yamarik, 2012) examined the impact of different taxes on state economic growth. They used data from 48 states in the US within a pooled mean group to estimate short-run and long-run coefficients. Their findings were that sales and property taxes have a long-run effect on growth. Study of (*Dennis C. et al. 2011)* finds that the effective state and local tax rate of income households as a percentage of the effective state and local tax rate of income households is significantly influenced by whether a state has a multirate income tax, right-to-work laws, the liberalism of a state's electorate, the average tax burden in a state and past tax policy.

Local tax policy should be adequate, with a predictable amount of tax and incentive for activities that are dominant in the local economic structure. When formulating local tax policy also to be borne in mind is the effect of other factors on local economic development such as financial support to enterprises, training and retraining, development of local infrastructure, incentives for innovation and development and other. Priority should be given to those measures of fiscal policy that contain automatically built incentive instruments because they reduce investment uncertainty, decrease the time of investment planning, reduce possibilities for corruption and influence the reduction of administrative costs.

2. The structure of the tax system

The tax is the most important part of public revenues in modern states and with it state provides funds to finance public expenditures (Bozidar, 2008). The tax is an instrument of public revenue by which the state, including lower forms of political territorial organization, forcibly takes cash assets from the entities under its tax authority, with no immediate favor, in order to cover its financial needs and achieving other, mainly economic and social objectives. (Popović, & Popov, 1995). The tax system of a country makes the totality of all forms of public revenues and taxes and is used to cover the costs of general social importance. The tax system is based on the concept of equality and the concept of efficiency. The concept of equality should provide the answer to the question: whether the tax is fair? The concept of efficiency gives the answer to the question what is the amount of tax an individual must pay that it would be better for him with tax than without it. State and/or local government should choose the development of the tax system that serves the broad needs of society in an efficient and equitable manner. The portfolio taxes (Stallmann, & Jonson, 2011), similar to the portfolio of investments, enables balancing the negative aspects of a tax with the positive aspects of another tax. The choice of the taxation system for state and local revenues is a process of compromise between the following desirable features:

- administrative simplicity – that tax is easily collected and administered,
- competitiveness - whether tax encourages companies and individuals to leave the local government or limits its ability to attract business?
- efficiency - whether the tax affects the efficient allocation of resources and consumer choices?
- revenue adequacy - whether tax revenues enable the state to meet the needs of its citizens?
- equity – whether it is tax fair?

The structure of the tax system shows that taxes are present in the tax system and the extent of their significance. There are several factors that determine the structure of the tax system of which the most important are: the level of development of the economy, the degree of marketability of the economy, the education level of the population, labor force structure, manner of social security financing, in particular of the pension system, the structure of the