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Taxes in Croatia and OECD Countries

Mihaela Bronić, PhD

On November 26, 2009 the OECD published its *Revenue Statistics 1965-2008*¹. The basic purpose of this publication, which is issued every year, is to present internationally comparable data on tax structures and tax burdens in OECD countries. We compared these data with data for Croatia. The total tax burden, which is calculated as the share of all taxes and social security contributions in the GDP, was slightly less in 2007 than the average for OECD countries.² Moreover, in 2007 in Croatia, in comparison with OECD countries, lower revenues are collected from corporate income tax, personal income tax, property taxes and other taxes. At the same time, Croatia collected more revenues from VAT, social security contributions and other taxes on consumption (e.g. excise taxes and customs duties).

TOTAL TAX BURDEN Figure 1 clearly shows that in the period from 1965 to 2007 the average tax burden³ in OECD countries increased from 25.5 to 35.8% of the GDP (by 40%). Taking only nineteen EU countries, members of OECD, the average tax burden from 1965 to 2007 rose from 27.6 to 38.8% of the GDP (by 41%). The total tax burden in Croatia was slightly less than the OECD average and fell from 36.8% in 2000 to 35.2% in 2007 (by about 4%).

It is important to point out that in Croatia tax revenues are recognized at the moment of payment (cash basis), and analysed OECD data recognize them when they occur regardless if they have actually been paid (accrual principle). Therefore for a more complete comparison of Croatia and OECD countries it would be necessary to include unpaid taxes and social security contributions for Croatia as well. The total tax burden would then certainly be somewhat larger. It is difficult to say by how much larger since for these calculations precise figures are needed on unpaid taxes and social security contributions for each year. However, it is possible that the total tax burden would be several percentage points greater as a share

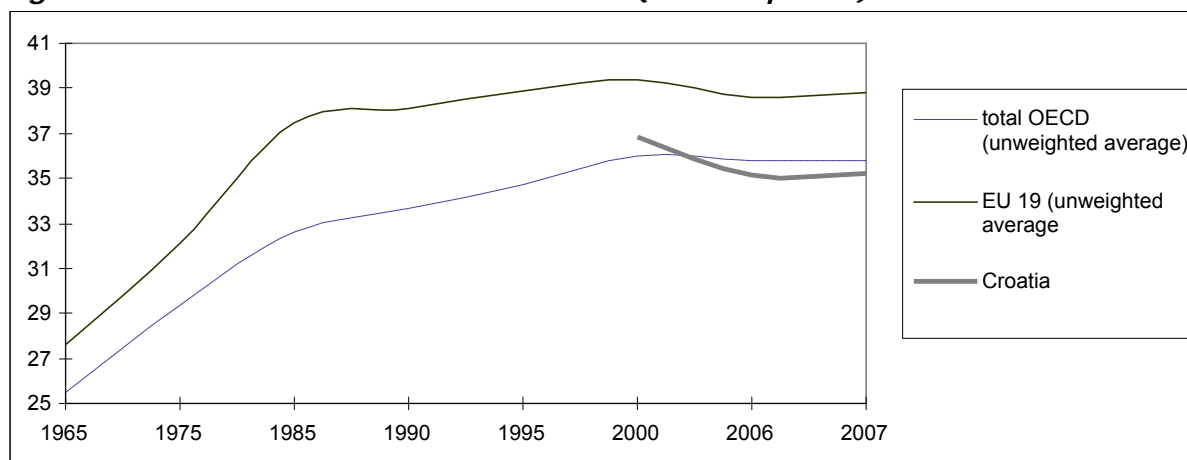
¹ The analysis is based on the publication *OECD, 2009. Revenue statistics 1965 – 2008*. Paris: OECD, published on 26 November 2009. Data was also used from the Internet sites of the Croatian Ministry of Finance (<http://www.mfin.hr>) and the OECD (http://www.oecd.org/home/0,2987,en_2649_201185_1_1_1_1_1_1,00.html).

² The Organization for Economic Cooperation and Development - *OECD* is an international economic organization founded in 1961. The OECD currently consists of 30 member states (Austria, Belgium, Canada, Denmark, France, Germany, Greece, Iceland, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Switzerland, Turkey, the United Kingdom, the United States of America, Japan, Finland, Australia, New Zealand, Mexico, Czech Republic, South Korea, Hungary, Poland and Slovakia).

³ The unweighted average share of total taxes and social security contributions of the general government in the GDP.

in the GDP. For example, according to the figures available from September 2009, the total tax and social security contributions unpaid to the state amounted to 9.5 billion kunas.⁴

Figure 1 Total Tax Revenues as % of GDP (current prices)



For Croatia the data from 2000 is used, and the revised GDP in line with ESA 95 methodology. The EU 19 is: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden, the United Kingdom, Czech Republic, Hungary, Poland and Slovakia.
Source: OECD, 2009. Revenue statistics 1965 – 2008. Paris: OECD and data from Croatian Ministry of Finance

Table 1 Total Tax Revenues as % of GDP

Selected year	OECD	EU 19	Croatia
1965	25.5	27.6	n.d.
1975	29.4	32.1	n.d.
1985	32.6	37.5	n.d.
1990	33.7	38.1	n.d.
1995	34.7	38.9	n.d.
2000	36.0	39.4	36.8
2006	35.8	38.6	35.1
2007	35.8	38.8	35.2

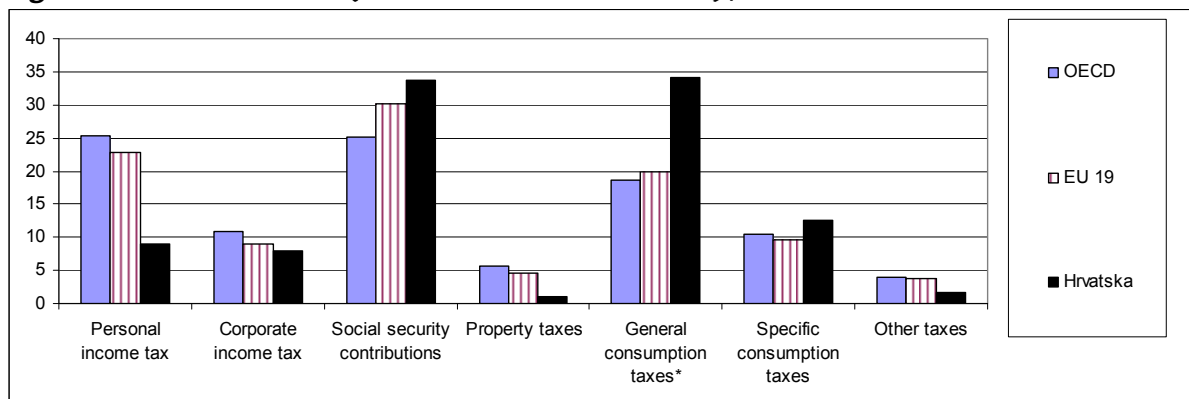
n.d. = no data

Source: as for Figure 1

THE STRUCTURE OF TOTAL TAX REVENUES There were significant differences in 2007 in tax structures between Croatia and the average in OECD countries (Figure 2). In Croatia less revenue was collected from personal income tax (by 64%), corporate income tax (by 27%), property taxes (by 83%), and other taxes. However there was more revenue from VAT (by 79%), social security contributions (by 36%) and specific taxes on consumption (e.g. excise taxes and customs duties). The differences in the tax structure are slightly smaller between Croatia and the nineteen EU member states considered.

⁴ Croatian Chamber of Economy, 2009. Liquidity and Solvency. Available on: (<http://www.hgk.hr/wps/portal!/ut/p/.cmd/cl/.l/hr?legacyWcmClippingUrl=http%3A%2F%2Fhgk.biznet.hr%2Fhgk%2Ftekst3.php%3Fa%3Db%26page%3Dtekst%26id%3D377%26kid%3D352%26skid%3D541>).

Figure 2 Tax structure (% of total tax revenues), 2007



*In most countries VAT has been introduced as a general consumption tax.

Source: as Figure 1

Table 2 Tax structure (% of total tax revenues) 2007

	OECD	EU 19	Croatia
Personal income tax	25	23	9
Corporate income tax	11	9	8
Social security contributions	25	30	34
Property taxes	6	5	1
General consumption tax	19	20	34
Specific consumption taxes	11	10	12
Other taxes	4	4	2
Total tax revenues	100	100	100

For Croatia data are used from 2000 and the revised GDP in line with the ESA 95 methodology.

Source: as for Figure 1

CONCLUSION The total tax burden in 2007 in Croatia was slightly smaller than the average in OECD countries. There were significant differences in the tax structure between Croatia and the countries analyzed. In Croatia the emphasis is on taxation of consumption (VAT and specific taxes – such as excise taxes). It is clear that social security contributions should be reduced as they are too high, but this would require unavoidable reforms of the pension and social insurance systems.

It should be noted that at the moment there are no precise data available to the public on unpaid taxes and social security contributions in Croatia, which, if they were included in our analysis, would make a complete comparison with the OECD data possible, but unfortunately also increase the share of total taxes in the Croatian GDP.