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# Collected and Uncollected Taxes in Croatia and in the European Union

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*In the last few years, uncollected taxes have been much on the rise in Croatia and need to be incorporated into analyses for the sake of a more precise comparison with taxes in the EU. In addition, Croatia has a considerable deficit and a high public debt, and thus peremptorily needs fiscal consolidation. Government expenditures are currently hard to reduce, while revenue is fairly uncertain. Although the conclusion of negotiations with the EU is expected, along with big investment projects and a good tourist season, the country is still faced with considerable unemployment and illiquidity. Accordingly it might happen that the government revenues cannot be collected in line with expectations. For this reason the Ministry of Finance of the Republic of Croatia ought to devote particular attention to collecting government revenues, including uncollected taxes, as effectively as possible.*

The objective of this paper is, on the basis of the most recent IMF figures, to compare the total tax burden in Croatia and in the EU in the 2000-2009 period, to analyse similarities and differences in the tax structures of Croatia and the EU, and to present the amount of uncollected taxes in Croatia.

## 1. THE TOTAL TAX BURDEN

According to available statistics, the total tax burden in Croatia, that is, the share of all taxes and social security contributions in the GDP, was from 2000 to 2009 a little lower than the EU-27 average, and a bit higher than the EU-12 average (Graph 1).<sup>1</sup> This comparison is however not

<sup>1</sup> EU-12 consists of Cyprus, Bulgaria, Czech Republic, Estonia, Latvia, Lithuania, Hungary, Poland, Romania, Slovakia and Malta; EU-27 means all the members of the EU.

accurate, for in Croatia taxes are recognized at the moment of payment (cash basis), while in most EU countries they are recognized when they occur regardless if they have actually been paid (accrual basis).<sup>2</sup> This means that uncollected taxes are not shown in Croatian figures, but are shown in EU statistics; accordingly, the total tax burden in Croatia would be higher than presented at graph 1 if taxes were presented in the same way as in the EU.

## 2. THE TAX STRUCTURE

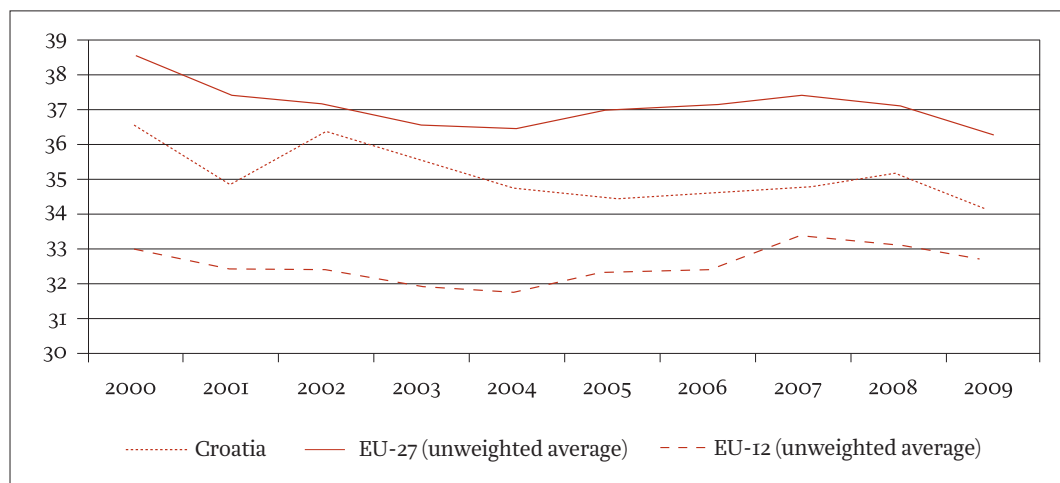
An important element of a comparison of taxes in the EU and in Croatia is the structure of taxation (what a given kind of tax amounts to in total tax revenue). The structure of total tax revenue in Croatia is considerably different from that of the EU-27 average, and a little less so from the EU-12 average (Graph 2). Social security contributions dominate everywhere, but in Croatia and the EU-12 the taxation of consumption is featured more strongly (mainly with VAT), while in the EU-27 personal income tax is to the fore.

It is important to remark that in the 2000-2009 period the percentage of revenue from consumption taxes (VAT, excise taxes and other consumption taxes) in total tax revenues of consolidated general government rose in the EU-27, but fell in Croatia (Graph 3).

<sup>2</sup> In EU countries, only in Bulgaria, Czech Republic and Slovenia are taxes and contributions shown according to the cash principle (IMF, 2011).

### Graph 1

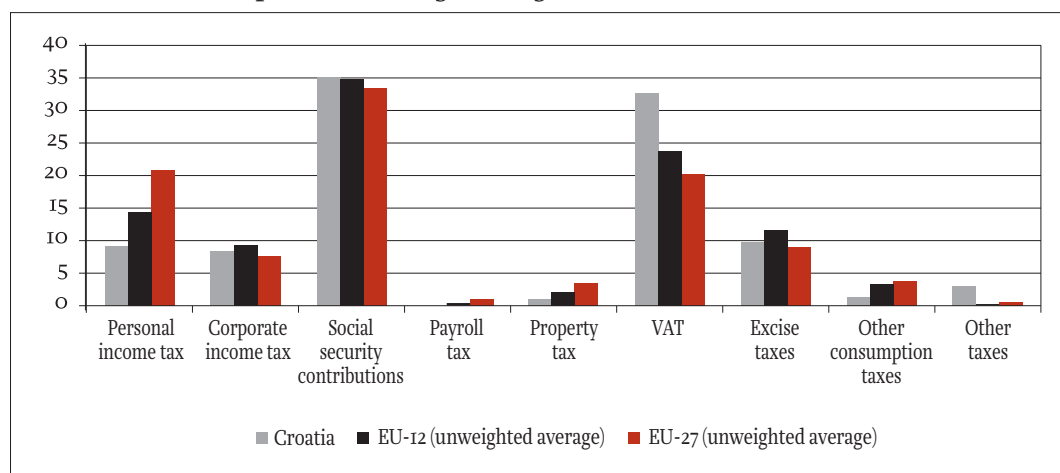
Total taxes and social security contributions of consolidated general government (as % of GDP, current prices)



Source: IMF, 2011, data processed by author

### Graph 2

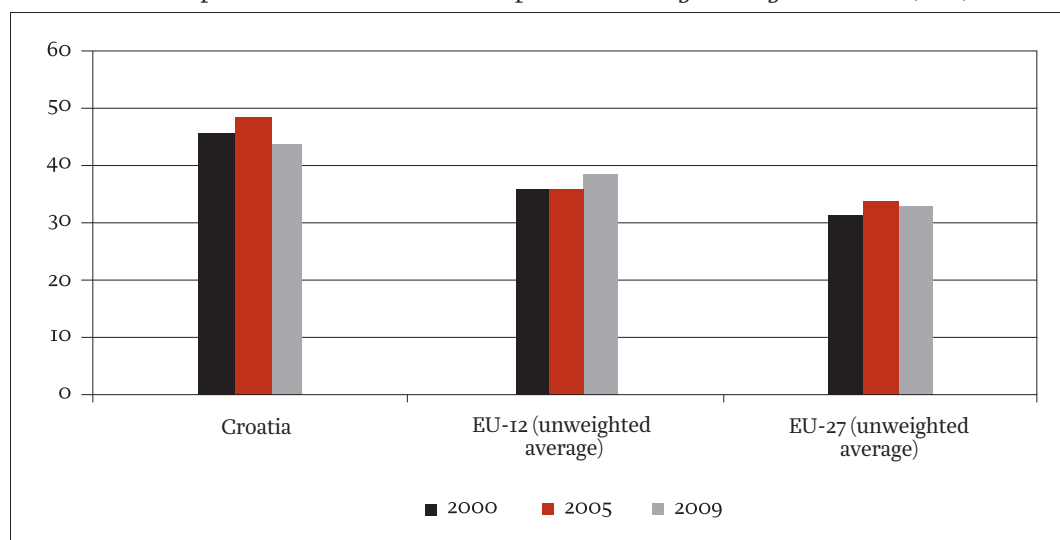
Total tax revenues of consolidated general government, 2009 (in %)



Source: IMF, 2011, data processed by author

### Graph 3

Taxes on consumption in total tax revenues of consolidated general government (in %)



Source: IMF, 2011, data processed by author

### 3. UNCOLLECTED TAXES

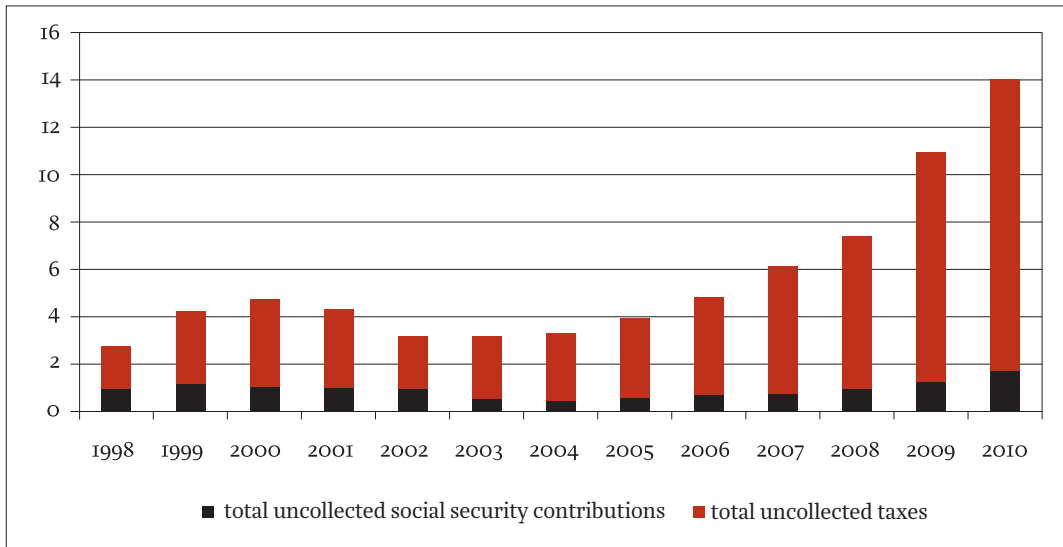
According to available figures, the total (cumulative) uncollected taxes<sup>3</sup> in Croatia 2010 came to about 12 billion kuna, and total uncollected social security contributions to about 2 billion kuna (Graph 4). This is about 13% of the total taxes and social security contributions actually collected in 2010. Since according to the General Tax Law (Art. 96), the absolute deadline for the statute of limitations on the assessment of tax liability and accrued interest and the collection of them is six years from the date when

the limitation period began to run, it is likely that some of the uncollected taxes and social security contributions shown will have to be written off. In the EU countries, also only those taxes and social security contributions realistically held to be collectable are shown.

According to the available cumulative amounts of uncollected taxes and social security contributions (Graph 4), it is possible to calculate the annual changes of uncollected taxes and social security contributions (Graph 5).

**Graph 4**

*Cumulative uncollected taxes and social security contributions in Croatia (in billion kuna)*

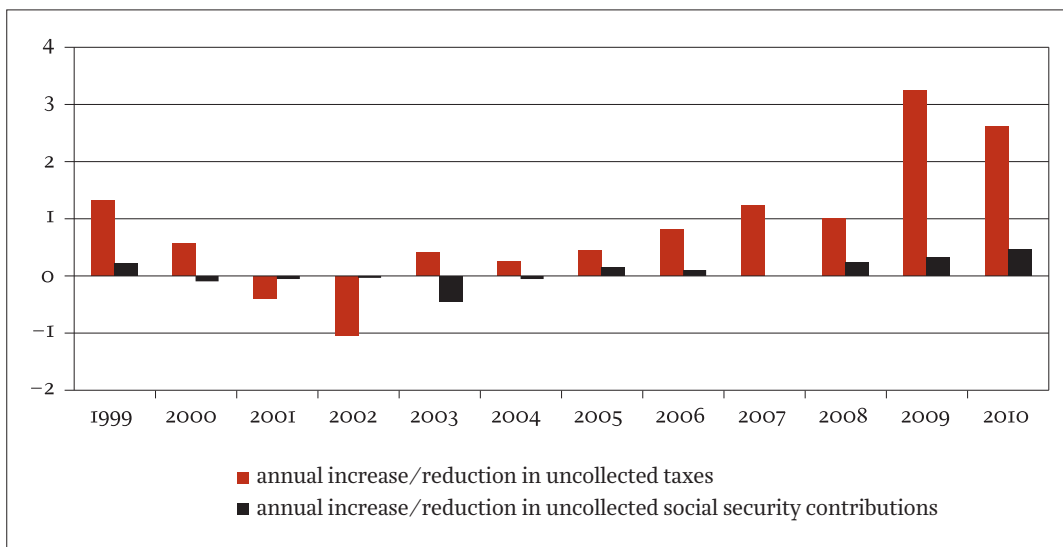


Data for each year are shown as of December 31.

Source: FINA, 2011, data processed by author

**Graph 5**

*Annual increase/reduction in uncollected taxes and social security contributions in Croatia (in billion kuna)*



Source: FINA, 2011, data processed by author

<sup>3</sup> Here only uncollected taxes and contributions concerning which the Tax Administration has started execution procedures are shown, not those concerning which no procedures are under way.

Uncollected taxes and social security contributions rose sharply in 2009 and 2010 (each year by more than 3 billion kuna).

From this point of view, the passing of the *Act on the special measure for collecting the tax debt brought about by the economic crisis* is praiseworthy. In this, certain taxpayers that cannot at the moment pay their taxes are enabled to reschedule their tax debt. However, the criteria according to which the Ministry of Finance will enable one taxpayer to reschedule, but will withhold this ability from another are not entirely clear. How will the Ministry of Finance be able to determine whether the debt that is postponed is the result of the crisis? The Act writes that rescheduling is possible if the debt was incurred up to December 31, 2010, but not from which date up to that period. For this reason this criterion and some other criteria should be worked out in more details and then made public. Also, for the sake of improved collection of budget revenues, the Ministry of Finance should as soon as possible investigate other cases in which tax is not paid (cases not brought about by the crisis); it should determine who has not paid taxes and social security contributions, and why not; and with all available resources attempt to reduce and collect these debts, as well as prevent new such debts arising.

## CONCLUSION

A comparison of taxes in Croatia and the EU has shown the following:

- From 2000 to 2009 the total tax burden in Croatia was a little lower than the EU-27 but a little higher than the EU-12 average. However, the figures for Croatia do not, and figures for the EU do, include uncollected taxes and social security contributions.
- If data concerning uncollected taxes and social security contributions, that can realistically be expected to be collected were included, the total tax burden in Croatia would be greater than presented at graph 1. It is possible that even the tax structure might appear a little bit different.
- In Croatia the emphasis is on consumption taxation, which is the trend in the EU-12 as well.
- The Ministry of Finance should publish more detailed information about uncollected taxes and social security contributions (show individual uncollected amounts

for each kind of tax and social security contribution and make public which uncollected taxes and social security contributions have fallen under the statute of limitations, and then write them off).

- The Ministry of Finance should pay more attention to collecting government revenues as effectively as possible (including uncollected taxes and social security contributions) in order to control and attempt to reduce the public debt and government deficit.
- It is a good thing that the *Act on the special measure for collecting the tax debt brought about by the economic crisis* has been passed, enabling certain taxpayers to reschedule payment of their tax debt. It is essential, however, to work out in more details and make public the criteria according to which the Ministry of Finance will make its decisions about rescheduling.
- Ministry of Finance should investigate other cases of uncollected taxes, i.e. those not caused by the crisis; determine who has not paid taxes and social security contributions, and why not; try to reduce and collect those debts, and prevent the occurrence of new debts of this kind.

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