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What is the cost of customs compliance in Croatia?

Compliance with customs regulations results in certain costs for customs payers.

In the simplest terms, customs compliance costs are all costs born by customs payers in order to comply with the customs regulations and the Customs Administration requirements.

Customs compliance costs can be divided into labour costs (of persons engaged in customs compliance), non-labour costs (such as the costs of customs forms and declarations, workshops and technical literature) and psychological costs of customs payers. The latter can be defined as concern, nervousness and fear caused by customs compliance.

Research results

The purpose of the Institute of Public Finance was to quantify the costs of customs compliance for importers (small businesses and legal entities) in Croatia in 2001 and determine the basic characteristics of these costs.

By using the face-to-face interview method¹ it has been established that customs compliance costs are high in both absolute and relative terms. In 2001, total costs of customs compliance of Croatian importers (legal entities and small businesses) reached almost HRK 1 billion, i.e. 0.6% of GDP or 31% of total customs revenues in Croatia.

Unfortunately, no international research on the costs of customs compliance could be found for comparison purposes. However, as the Public Finance Institute research also covered the compliance costs related to all other types of taxes in Croatia in the period 2001/2002, it is possible, subject to certain restrictions, to compare these results with the research results for customs duties. It is worth mentioning, though, that the interviews concerning customs compliance costs were only conducted with importers (small businesses and legal entities), while the research on all other types of taxes included citizens and business entities. Moreover, the research on customs and excise duties related to 2001, while the research on all other taxes covered the last six months of 2001 and the first half of 2002.

¹ The full text of this research has been published in the journal *Carinski vjesnik*, No. 13 (1), 2004, pp 3-31.

Table 1 Tax compliance costs in Croatia in the period 2001/2002

	Tax compliance costs as a share of GDP (%)	Compliance costs as a share of total revenues from individual types of tax (%)
VAT	0,81	6,0
Customs duties (2001)	0,60	31,0
Payroll tax*	0,48	4,0
Tax on small business	0,25	96,0
Profit tax	0,23	12,0
Excise duties (2001)	0,03	0,3**
Personal income tax (tax return)	0,03	0,9
Total	2,43	—

* Tax and surtax on employment income, contributions from and on wages, as well as tax and surtax on temporary self-employment income (fees, etc.).

** Most excise duties participate with less than 0.5%, with the exception of excise duties on non-alcoholic drinks (1.6%), coffee (2.9%) and luxury items (3.5%).

Source: Helena Blažić, *Troškovi oporezivanja u Hrvatskoj: troškovi poreznih obveznika i troškovi poreznih vlasti, Financijska teorija i praksa*, 28 (3), 2004.

Table 1 shows that VAT compliance costs and customs compliance costs accounted for the largest shares in GDP. The share of total annual VAT compliance costs for citizens and business entities in GDP was as large as 0.8%, while the customs compliance costs for importers (small businesses and legal entities) accounted for slightly less than 0.6% of GDP.

The share of compliance costs of other taxes in GDP was significantly smaller².

Which taxes are most inefficient?

The efficiency of a tax is measured by the share of its compliance costs in the total revenues from this tax. According to Table 1, the most inefficient tax is the Tax on small business. This means that the amount spent on a small business's tax compliance is almost equal (96%) to the amount paid for the tax. More specifically, a small business which pays one kuna tax pays another 96 lipas for the tax compliance. The next most inefficient are customs duties, as customs duty payers to pay an extra 30 lipas for compliance costs per kuna of customs duty.

The question now is why are customs compliance costs so high? The interviewed importers offered the following reasons for that.

Table 2 What is the most complicated and time-consuming aspect of customs compliance for the importers?

	Percent
Customs laws and regulations are changed too often	40
Decrees are ambiguous or illogical and their implementation depends on how they are interpreted	18
Problems connected with customs personnel	12
Customs procedure is too long	2
Other	8
Does not know/No answer	18
Total	100

The most complicated and time-consuming aspects of customs compliance, as cited by the interviewed persons, were frequent changes in customs laws and regulations (40%). The second on the list was the problem of ambiguous or illogical texts of decrees, whose implementation depended on their interpretation (nearly 20%). A relatively large number of interviewed persons (over 10%) mentioned problems with the customs personnel as the most time-consuming aspect of their customs compliance.

It needs emphasising that the efficiency or inefficiency of a tax depends not only on the amount of

² For more details about the research results, see the journal "Financijska teorija i praksa", No. 28 (3), 2004 and the website: http://www.ijf.hr/financijska_praksa/2004/3.htm

compliance costs related to that tax and the problems connected with the compliance, but also on the amount of revenues collected. The efficiency of a tax is measured by the share of the compliance costs in the total revenues from that tax. The amount of revenues collected is strongly influenced by tax rates, tax exemption, tax evasion, etc. It should therefore be mentioned that Croatia's membership in the World Trade Organisation and the new Customs Act introduced in 2002 contributed to the fall in customs revenues and, consequently, to the inefficiency of customs duties.

Besides measuring the customs compliance costs, this research also proved their **regressiveness**. This means that as the value of imports rise, the customs compliance costs per import unit fall. In other words, the larger the imports the lower the customs compliance costs per import unit.

Conclusions and recommendations

As the research has shown that customs compliance costs are high, we give the following recommendations and suggest measures for their reduction:

- Customs regulations should be simplified.
- Once adopted, regulations should not be changed frequently.
- The information on customs laws and regulations, as well as on the procedure and practice of the Customs Administration, should be more easily available to all participants in the customs procedure. This could be particularly achieved by improving the Customs Administration's website.

- Decisions, interpretations and rulings related to customs disputes should be publicly disclosed.
- A customs information technology system should be developed, which would be compatible with the corresponding systems in EU Member States in terms of hardware, software and telecommunication facilities. Such a system should be based on the automatic customs data system (ASYCUDA) developed by UNCTAD which is accepted worldwide.
- Customs control frameworks should be continuously developed and improved (by making control more selective).
- Technical equipment and staffing at customs offices should be improved in order to avoid long waiting times of vehicles and cargo at frontier crossings.
- The number of customs offices with inspection departments (veterinary and market inspections, etc.) should be increased.
- Customs houses should have modern equipment for agricultural product inspection, as required by the EU.
- The number of highly specialised and qualified customs employees and authorised customs dispatchers should be increased.

Finally, what do we recommend to customs duty payers? In order to reduce their customs compliance costs they should use the advantages of the simplified customs clearance procedure and advanced communication facilities (for example, they should file their customs declarations online via the Internet).