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Tax policy – selected issues

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Abstract
Purpose of the article is performance of the key principles of the effective tax policy. The conclusions are first of all on the base of inductive-deductive approach to methodology. Scientic aim is the supplying of right way to friendly taxation policy. The productive limits of effective tax policy are following conclusions: State Tax Policy can be considered effective when able to provide for stable tax revenue on a long-term basis and to motivate taxpayers to fulfil their tax obligations on the principle of conviction not the principle of coercion. Optimal tax policy respects the idea „Think globally, act locally (Think big, act small)“. The triangle of negative trend correlation between the corruption – black economy – tax evasions is the pivotal risk. The friendly taxation is the key opportunity.

Key words Tax policy, optimal taxation, friendly taxation.

1. TAX POLICY STARTING POINTS, THE TERM, THE MEANING AND THE AIMS

Tax policy is a very powerful tool of the country´s financial management. Tax policy, which focuses and aims are derived from the economy policy, implemented by a state, (Beňová, et al., 2005) plays an unsubstitutable role as it comes to the states´ economy policy and consolidation of the state revenue. If we are to understand the impact and the interdependency of taxes on the economy as a whole, it is inevitable to perceive the economic activities in a broader sense (Schultzová et al., 2007). Many factors can be named as theoretical starting points in forming and understanding tax policy, following its understanding in a broader or a narrow context. In a broader context it is mainly business policy, economic policy (macro, micro), financial policy, public sector and public finances policy. In a narrow context it is predominantly fiscal policy.

1.1 Fiscal policy

Fiscal, i.e. budgetary policy is the governmental programme that includes purchase of goods and services on one side and expenses on transfer payment on the other side, while at the same time it defines the scope and type of taxes. When monitoring financial management of all the state sector bodies as a whole, we are talking about the public finances that can be subdivided into:

- State budget – centralized money fond generated, divided and used by the central state bodies,
- Territorial budgets – (budgets of territorial units),

- Special funds – generated by the state bodies for specifically pre-defined purposes. E.g. pension and health insurance institutions, unemployment insurance institution, broadcasting institutions, but also different religious and charity associations, commercial, medical and other chambers,
- Other funds – political parties, institutes of sciences, state-own enterprises finances that by its character, within the conditions of a market economy, approximates to the private enterprises financing.

State budget is the basic tool of fiscal policy. In principle, it compares revenue with expenses. Revenue of the state budget form fundamentally taxes. Tax is an obligatory payment, which is transferred into the state budget by the business subject (household, enterprise, company), according to the pre-defined scope and within the due period. In case expenses are higher than revenue a deficit of a state budget is generated which can by secured by loans in two ways:

- Government securities can be sold on the securities market. Households, business sector, financial institutions are purchasing them and by doing it they become owners of the securities and at the same time creditors of the state. Securities sale and purchase is closely connected to the operations on free market.
- Lending money out from other governmental body, e.g. ministry of finance sells out its securities to the central bank on condition that the central bank provides further money.

1.2 Tax policy – the term, the definition and the meaning

The central core of each of the public revenue is the tax revenue. Therefore, it is important to underline and to remind some of the constants of the effective starting points for the effective tax policy, which leads to the stable tax collection which is the base of the secured resources for the healthy public finances. According to Beňová, we can define the tax policy as a set of the governmental measures according to which a government manages tax system in compliance with its economic aims (Beňová et al., 2007).

Tax policy – is a set of procedures, practices and organisational as well as managerial taxation acts. It can be said, that it is a goal-directed organisation and management of the whole tax system in compliance with the government´s economic aims, targets and tasks. Its aims is mostly securing sufficient amount of revenue for the public budgets where a tax system is the implementation tool (Burák, Orihel, 2011). According to Schultzová et al. (2011), the tax policy is connected with using and implementing taxes and their tools, which serve for influencing macroeconomic and microeconomic processes in the economy. In general, it is derived from business policy implementation. For instance, in case of a restrictive business policy, an increase of tax burden arises, and in case of an expansive business policy, a decrease of a tax burden is visible. **The subject – or if you like the aim** of the tax policy is to implement tax rules and measures in a way, so that taxes serve for upholding economic, social and political targets of a government.

Sivák et al. (2007) claims that major part of public revenue is gained by a government throughout taxes, and so the total tax yield is decisive. If we aim for this total tax yield to be as effective as possible, it is inevitable in a tax policy implementation to have in mind especially specification of the particular tax object, including possible exemptions from the tax, determination of the tax base calculation method, adequate segmentation of the tax burden between individual taxpayers, by definition of tax rates, balanced tax structure (relation between direct vs. indirect taxes), correct direction of tax yield etc.

Economists understand the role of taxes not only passively – it means as a source of monetary tool for public budgets, but also as an active impact on taxpayers and the whole economic system. Through pension and substitute effect taxes can considerably influence the taxpayer's economic decisions. An active tax policy is being implemented through direct and indirect taxes. The ground of an active tax

policy is the endeavour of the government to provide advantage to the certain type of activities, or let me say - to the certain type of taxpayers. In direct taxes, the active tax policy can be implemented for instance in the form of lower pension tax application (income tax) on certain type of income. In indirect taxes, the active tax policy can be implemented explicitly by the tax rates change (Zubaľová et al., 2008).

Tax policy relevance: Taxes exist since the time of society organisational form establishment and their progression is connected with the development of a state and consolidation of a monetary administration. Progression of taxes reflects changes in evolution of the whole human being society, changes in opinions on a state functioning, on economy, trade and understanding of the terms justice and welfare (Medveď, Nemec et al., 2011). Globalization of business policy influences also a tax policy that is undergoing different changes as it comes to the coordination (tax harmonisation), as well as the confrontation (tax competition). The tax coordination is the first level of international tax systems approximation, which is the pre-level of tax harmonization. Tax harmonization means approximation and adjustment of national tax systems and individual type of taxes on the basis of common rules implemented in the involved countries (Kubátová, 2000). Tax policy has always been considered as a symbol of the state's national sovereignty. In general terms, this autonomy maintains well preserved in the European Union. Nevertheless, to provide for the successful functioning of the common market, the development of the European integration demands from its actors rather close cooperation in the tax area, whereas in the form of necessary exchange of information, harmonization or at least coordination of tax systems (Široký, 2012).

Optimal tax policy is such that is able to address majority of taxpayers (citizens, entrepreneurs, companies, organisations, individual taxpayers and corporate taxpayers). Not in a form of repression (obligation and sanction), but in the form of confidence (motivation that it pays off to pay taxes). It means, by declaring a clear message that to work and to produce, pays off better, than not to work and to speculate. A tax policy – is considered as being ideal, when it causes the most positive effects and the least negative ones to the country. At the same time, it shall respect the mini-max law, i.e. the yield of tax revenue is much higher, while the costs of administration of taxes are relatively low (for instance the running costs of Tax Administration of the Slovak Republic in 2006 represented the figure of 100 million Euro (approx. 3 billion Slovak crowns - SKK), but its tax revenue represented the figure over 7 billion Euro (approx. 210 billion Slovak crowns- SKK), and in a long-term horizon trend in 2004 – 2008, it secured over 50 billion Slovak crowns - SKK higher revenue, than originally planned in the state budget. The appropriate tax policy is not the one that copies absolutely the schoolbook models and the theory principles, or the one that reproduces a tax system practise of some other state. It is a pragmatic symbiosis and an applicable combination of the theory and the practice, of the domestic experience and the latest trends from abroad. Depending on possibilities and specific features of the domestic economy, according to the principle "think big act small"! **The aims of a tax policy** can be divided into 2 main categories (Schultzová, A. et al., 2011):

1. Subordinated to the aims of a business policy (mainly GDP grows, employment, prices stability, balance of economy).
2. Specific aims of a tax policy (oriented on business companies and citizens).

2. TAX POLICY FROM THE TAX ILLUSION, TAX CULTURE AND PUBLIC CHOICE PERSPECTIVE

Taxes (like public finances) fulfil predominantly 3 functions: to allocate, to distribute and to stabilize. And it is through these functions that a government by a visible hand can influence and regulate the deviations caused by an invisible hand. As due to the tax policy intervention, it influences the conduct of the economic players.

2.1 Tax illusion

The absolute and the relative truth, the utopia and the reality are present even in the economy, where their everlasting antagonisms could be summarized into the observation that it is easier to blabber about economy than to calculate. Also closely connected to this fact is the level of the awareness and the capability of public to understand the effects in tax policy. This phenomenon is closely connected to the so called fiscal (tax) illusion, described by many economists. The core of the tax illusion problem (Medveď, J. et al., 2009) is the assumption that a government can hide from the public eyes the real extent of the public sector – the real amount of taxation. Theory anticipates that citizens judge the governments´ ability according to their tax burden. In such situation a government that plan to further extent its sphere of influence, must seek for such tools and methods of revenue generation that would not be recognized by citizens. Otherwise, such an expansive government confronts itself with a risk, that rationally thinking electors will not give their vote in favour of such government in the next elections, as majority simply refuse further visible rise of a tax burden.

The fiscal illusion, as a broader term to the tax illusion term, also encompasses the other aspect – overestimation of some types of public expenses. It is supposed that on one hand electors are not able to fully "grab" the real extent of their tax burden, on the other hand (reversibly), they overestimate the range of the financial and non-financial contributions provided to them by the government in different forms. The government has subsequently an opportunity to "buy" insufficiently informed electors through different expenses oriented measures. While the costs of the government measures usually split into number of sources – different taxes – out of which they are financed, the results of public expenses are usually well visible and serve as a tool to gain popularity amongst electors. In such an environment, politicians and the bureaucracy realize their programmes with immediate and visible results and do not talk too much about the costs, rather keep silent.

The existence of the high level of the fiscal illusion and of the positive relation to the paternalistic type of a state in the Central European environment in present (transformational years of 1990-2012 for East-European economies, within the transition from the centrally managed economy model in socialism to the market oriented model in capitalism, after the 1989), hampers realization of inevitable public sector reforms and grants the opportunity for the populist type of governments, the popularity of which grows nearly everywhere. The significance of understanding the basis of public finances functioning and a tax system by the citizens grows constantly and it enhances its seriousness.

2.2 Tax culture

Tax culture represents interlinking of real interests on more levels. As per the dominance there is predominantly a state (state taxes), regions (regional taxes – in Slovak Republic for example motor vehicle tax), localities – municipalities and towns (in Slovak Republic for example local taxes with real estate tax dominance), taxpayers (natural and legal persons, organizations, firms, entrepreneurs, traders, self-employed, non-trading citizens and other persons liable to pay taxes) and tax advisors (in Slovak Republic especially Slovak Chamber of Tax Advisors, but also other advisory formations – e.g. Slovak Chamber of Auditors, Slovak Chamber of Certified Accountants, Centre of Accountants of Slovakia,...etc.). A tax policy is being influenced not only by the governments´ interests and the interests of individual levels of administration of taxes (in Slovak Republic Tax Administration and Customs Administration have merged into the Financial Administration as of 1 January 2012 with its regional authorities), but also by the so called tax culture. The tax culture – represents a set of formal and informal legislation (so called common law) and the particular position, approaches, methods, practices, taxation traditions as well as the level of tax discipline in a country.

It is a long-term task to establish an advisable tax culture. For example Slovakia - as compared to the stronger and the older market economies and more developed democracies of the EU and the world, has just passed a very fragile – little over twenty years of experience, with projection of a modern tax culture, in between 1990 – 2013. Such a time frame is not sufficient to be able to declare a complex satisfaction with the level of tax culture in the country. Problems and reserves that dominate on the side of tax administrators can be mentioned - especially a high level of tax evasion (EUR 3 billion annually according to some analysis of the EU and Ministry of Finance of the SR in 2012), huge reserves as it comes to the quality of tax services and at the same time the insufficient level of a tax solidarity and the legal awareness of majority of taxpayers.

The process of identifying oneself with paying fair share of taxes objectively lasts decades. And it can easily be destabilized by any negative signal coming from negative tax allocation. For a taxpayer to believe that paying taxes is meaningful there can be no interruptions and confrontations with frequent asocial societal phenomena and unwanted practices like a high level of corruption, too high level of shadow economy and of politicalization of the dependent tax policy management, which does not contribute to the stability, maximum proficiency and the independent professionalism.

The example of the Slovak Republic 2012 fully confirms the above mentioned. As in the setting of a high level of corruption (66th rank in the worlds list in 2011), and after more than twenty years of a very high level of shadow economy (15% of GDP in 2011), the qualified estimations of some experts (P. Staněk) tent to come close to the figure of EUR 3 billion in 2011 (out of which EUR 2 billion represented value added tax). Failure to fulfil the state budget tax revenue plan in 2012 is just another piece of evidence of the mentioned fact.

Within the last years evolution the tax culture and the discipline as well as the degree of voluntary tax compliance in the Slovak Republic, have changed positively in many aspects, despite numerous problems as seen from the trends perspective. Changes are not over though and in order to strengthen the taxpayers trust in the idea that it pays off to pay taxes in Slovakia, there is a further need of another little and even big steps of corrections.

2.3 Tax policy from the public choice perspective

The public choice theory is a phenomenon being well developed in any available public finances schoolbooks. When talking about tax policy of a state (macro level) or of a taxpayer (micro level), it is necessary to underline the ethics – the moral dimension and the principles as honesty, conscientiousness, fairness, braveness and legitimacy, as it comes to the principle of the public choice.

The basic principle of a market economy is the axiom (paradigm) saying that the central mechanism of its principle is not only the target to gain profit, but also the fact that in order to make the minority constantly rich, it is necessary to make the majority constantly poor. To support this statement by an evidence we can cite the fact that for example in 2007 6% of the world's population owned unbelievable 85 % of the world's wealth (Pauhofová et al., 2007) and this trend of a great difference imbalance has considerably deepened and is still deepening after the huge worlds crisis dated since 2008.

It is an age–old worldwide problem to find an optimal and effective compromise to manage the tax policy in such a way, that it expressly represents a priori the public interests as the decisive majority perspective. It is also interlinked with purely objective facts on the basis of effectiveness and the mini-max law (to collect maximum revenue with minimum of costs). From the system perspective, we do know that there is no a perfect system (mythical perpetuum mobile), only the one that is better, or the one that is no that good. From a theory perspective, a practice can any time encounter the problem of solution optimization in a way, that although in theory (in laboratory – inside) of the ideal conditions

without any obstacles, the principle of best solution out of the best possible solutions works (FBS - First Best Solution), it is otherwise in the practice full of barriers (in the street – outside), where only the best solution out of the really available ones can be expected (SBS - Second Best Solution).

The above is especially true because there is a long-term clear contradictory saying that the more rightful the tax system is (process, framework, policy) in a sense of factoring different legitimate claims and needs of specific groups (for example partly or fully disabled people), the less effective it becomes and vice versa. The more effective the tax system is, the less rightful it is considered to be. This is a downright explanation that supports those tax architects of a state that wisely stand for the opinion that a solid tax act comprises the less possible – or none exemptions at all.

From a tax perspective, there are some other aspects that are related to the public choice principle. For example, there are big differences in opinions on taxation – different in the EU, different in the USA or different in the EU and different in the Slovak Republic. For example, it is ranked the third most serious crime (after a murder and drugs trading) not-to-pay taxes in the USA. While in Germany it is only regarded a delict. Tax sovereignty is also in stake here. For example, it is a question, whether Slovakia as a member state of the European Union allows the Union to interfere moderately, to a certain extent, its own tax policy, or whether it will not allow such interference at all. Whether it will be able to protect its time proved and effective particularity (for example lower taxation on income tax), or whether it will be unreasonably and contra productively forced to start considering it as a tax dumping due to the pressure from different other, especially the big European countries, for their fear of a legitimate tax competition.

3. TAX POLICY IN THE EU – DOMINANT PRIORITIES

The EU tax policy is one of few areas that are for now a subject to the unanimous approval of the Council. In practice it means that all changes and new initiatives must gain an approval of all EU member states – which is incredibly difficult to achieve (as any country can veto the decision of the other countries at any time). The European Commission makes no secret of the fact that this principle is inconvenient and backward-looking and that it significantly hampers, blocks and complicates the effort to achieve a kind of tax coordination. The main aims of the tax initiatives that are topical in present are:

- Improving the common market functioning
- Removing obstacles emerging from a parallel existence of 28 national tax systems
- Increasing the level of competition of the European firms
- Improving cooperation between the national tax administrations
- Fighting the tax fraud that deprive the national state budgets of billions of Euro annually

Globalization and internetization of a trade (e-commerce, electronic trading) makes the taxation from a tax audit perspective significantly harder and complicated. In present an unofficial financial flows start to interfere significantly into the evaluation of financial flows especially through tax heavens and the off shore zones that radically change the domicile of the taxpayers in the context of financial effects and, at the same time, it decrease the relevant power of national governments (Pauhofová et al., 2007).

Tax policy plays a significant role within the internal market. However, the European Union possesses relatively low level of competencies in the area of taxation. Direct taxation is almost completely followed by bilateral treaties and the Treaty establishing the European Community contains some provisions and harmonization of indirect taxation. The integration of the common market in the EU and the efforts to establish a fiscal federalism opened new questions about the future of taxation in Europe. Intensive discussions are taking place as it comes to the reality of the tax competition of the new EU member states (states that entered the EU since 2004 including Slovakia), and a considerable level of nervousness amongst member states cause new attempts of the European Commission for a common

consolidated tax base for firms – i.e. for a harmonization of corporate tax base. Opinions of the Brussels and the member states differ significantly in this field.

If up to now a model of indirect taxes in the EU and a national tax sovereignty in the field of direct taxes dominated, it can be logically expected that the more the model of fiscal federalism is to be deepened and strengthened, the more stronger the regulatory and the directive efforts of the European Union to interfere more significantly into the EU member states direct taxes rates will become.

In general, it can be expected that in the field of taxation the EU will be dealing with the following problems in the nearest future (Schultzová et al., 2011):

- Decreasing income tax rates and obligatory social contribution fees
- Introducing environmental taxes in states (where they are absent in domestic tax systems), or introducing new environmental taxes
- Integrating or unifying the income tax rates
- Efforts towards the unification of the income tax bases
- Preventing tax evasion through the intensive information exchange among member states tax administrations.

CONCLUSION

Rational tax policy functions on a platform of coordination of four main taxation principles, namely: simple and understandable tax system, low tax rates, stable tax acts and perfect tax services. It shall be convincingly motivational. It shall be a tool for a state to strengthen values in a society and to systematically build up a long-term trust towards taxpayers (tax subjects) in a way that it convinces them permanently, that to earn and pay taxes pays off more, than doing the contrary. It means that it is necessary to develop and to support a friendly taxation which is a main opportunity. At the same time, it is also important to systematically suppress the main risk, being it a triangle of dependency between the corruption, shadow economy and tax evasion.

Based on the above mentioned, in our opinion, the following is the fact: if a tax policy is to function successfully on a long-term, it is inevitable that a state provides for the three requirements of the taxpayers:

- First: to convince that taxes collected from the pocket of taxpayers uses in business policy rationally, i.e. manages it accountably without any wasting and uses it mainly for the development, leading to the permanent prosperity, not for the consumption.
- Second: to provide for a long-term low tax rates that are motivational. In income tax such low rates are considered, when it does not increase one fifth, i.e. under the threshold of twenty percent.
- Third: to motivate constantly tax subjects by keeping to the main paradigm of friendly taxation. It means a priori by convincing (coordination, agreement, peace), or a posterior by forcing (confrontation – non-agreement, war). The priority lays down in interlacing economic-psychological dimension. If we get to convince someone – we have gained an ally and a friend, if we get to force someone – we have gained an opponent and an enemy.

Tax policy is a sub-system of the financial policy that is a sub-system of the business policy. It is objectively demanding and complex to manage to provide for all four corners of a magic quadrilateral within it (economic growths, low level of unemployment, monetary balance and low inflation). And that's why in a tax policy, a visible hand of a state shall act cautiously, sensibly and pragmatically in regulating an invisible black hand of the market.

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