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PROFIT (CORPORATE) TAX PARTICIPATION IN THE TAX SYSTEM OF THE REPUBLIC OF NORTH MACEDONIA

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Abstract

Taxes are treated as involuntary payments paid by individuals or entities to the accounts of central or local government bodies and institutions. There are a variety of taxes depending on the legal system, but almost everyone agrees that they remain one of the key sources of filling the country's budget. Taxes on corporate income are extremely complex. When it comes to profit tax, generally it is a tax imposed on the net income of the company. Recently, the European Commission in December 2021 proposed a Directive ensuring a minimum effective tax rate for the global activities of large multinational groups. It includes a common set of rules on how to calculate this effective tax rate, so that it is properly and consistently applied across the European Union (EU). The purpose of this paper is through normative and economic analysis, both empirical and theoretical, to process the official data from Organization for Economic Co-operation and Development (OECD), World Bank (WB) and Public Revenue Office of the Republic of North Macedonia, in order to provide a clear overview of the current state of the foreseen tax rates as well trends of profit tax collection. Research in terms of object is branched in two directions: global and local. In the global aspect, the current situation during the last year (2021) is analyzed, relying on the ranking of the countries based on the highest, i.e. the lowest statutory corporate income tax rates (starting from the reflection of the situation in continents and then across concrete countries). In the local aspect, the research deals with the state of corporate taxes in the Republic of North Macedonia in the period of the previous law (2003-2013) and the period after the adoption of the law in force (2014-2021). To achieve the aforementioned goals, the author has focused on the use of some of the scientific methods, of which the most expressed are: the method of analysis and synthesis, induction and deduction, normative, comparative, historical and empirical method. The analysis of statistical data provides results that argue three existing facts: (1) at a comparative level, the Republic of North Macedonia is part of the group of countries with the lowest corporate tax rate; (2) the collection (payment) of profit tax in recent years proves a serious trend of continuous growth; (3) compared to the two most prominent forms of tax, personal income tax and value added tax, profit tax continues to show serious setbacks based on the collected values of these taxes in denars.

Keywords: *profit tax, income, Republic of North Macedonia*

JEL Codes: *K2*

1. Introduction

A tax is an enforceable "financial charge" that the state makes on an individual, corporation, or other entity "for the support of state operations and programs." The revenue from taxation is generally considered "just" if it is used for one or more of three purposes: (1)

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paying for government and public services; (2) shaping the behavior of citizens; and (3) redistributing resources (Calhoun, 2021, p. 12). As a result, taxation is, "the most important instrument by which the political system puts into practice a conception of economic or distributive justice." Justice is the subject matter of economics to the extent that economics "is concerned with the proper distribution of scarce resources in society," and no aspect of economics or politics affects that distribution more than redistributive taxation (Calhoun, 2021, p. 12).

According to World Bank collecting taxes and fees is a fundamental way for countries to generate public revenues that make it possible to finance investments in human capital, infrastructure, and the provision of services for citizens and businesses. As a result, taxes have a key role to play in making growth sustainable and equitable, especially in the context of the COVID-19 crisis, and through such efforts as "greening" tax systems and fighting tax evasion and avoidance.[2]

The process of capital accumulation plays a central role in the growth of every economy. As a consequence, capital accumulation has been a major focus of economic theory of empirical research throughout the history of modern economic analysis. In recent decades, the rate and form of capital accumulation have been substantially influenced by prevailing systems of taxation (Feldstein, 1983, p.1). Governments all have, to some extent, a commitment to provide services for the population, for example a legal system, defense, health services, as well as infrastructure such as roads. To fund this public expenditure, they must obtain funds; borrowing is a possibility but revenue is most usually obtained through taxation. Taxation is therefore required to finance public spending. It is a system of compulsory levies or exactions imposed for this purpose on a variety of taxpaying subjects, but it may also be imposed for other social and economic objectives (Oats, Miller, & Mulligan, 2017, p. 1). In modern economies taxes are considered to be the most important source of governmental revenue. The most basic function of taxation is to fund government expenditures. Varying justifications and explanations for taxes have been offered throughout history. Early taxes were used to support the ruling classes, raise armies, and build defenses. Often, the authority to tax stemmed from divine or supranational rights. Later justifications have been offered across utilitarian, economic, or moral considerations. Proponents of progressive levels of taxation on high-income earners argue that taxes encourage a more equitable society. Higher taxes on specific products and services, such as tobacco or gasoline, have been justified as a deterrent to consumption. Advocates of public goods theory argue taxes may be necessary in cases in which the private provision of public goods is considered sub-optimal, such as with lighthouses or national defense.[3] The legal regulation of the power of taxation is thus shown as the fundamental transmission belt between the human wealth and freedoms and the care of the general interests and the developmental goals of the Welfare State, which is an evident index of the level of solidarity or individualism in the civil community, and, above all, an epiphenomenon of the fundamental relation between the "rulers" persons and the "ruled" persons. This axiological relation which is established between the collectivist and individual conflicting values, is the basic dialectic of the taxation system, according to which it can be identified the concrete unfolding of sovereignty in the several legal systems (Boria, 2017, p. 4). In this case, it should be mentioned that the condition is the ability to pay. Accomplishing this requires that tax burdens be assigned so that individuals with a higher ability to contribute will pay more. Thus, tax liabilities are to be distributed so as to equalize burdens across taxpayers whose capacities differ (Cordes, Ebel, & Gravelle, 2005, p. 1).

[2]https://www.worldbank.org/en/topic/taxes-and-government-revenue [last accessed on 26.09.2022].
[3]https://www.investopedia.com/terms/t/taxation.asp [last accessed on 21.05.2022].

The power of taxation is so the subject of a legal regulation which is different in several taxing jurisdictions, because of the different constitutional systems and the changing of the axiological balance between the general interest and the individual interest. This diversity finds its clear basis in the legal traditions of the main constitutional systems (Boria, 2017, p. 6). According to World Bank all governments need revenue, but the challenge is to carefully choose not only the level of tax rates but also the tax base. Governments also need to design a tax compliance system that will not discourage taxpayers from participating. When it comes to profit tax payed by companies, the amount of the tax cost for businesses matters for investment and growth. Where taxes are high, businesses are more inclined to opt out of the formal sector.[4] The International Monetary Fund (IMF) has long played an active role in research and advice on international tax issues. In its work with developing country members, it has been advising governments for decades on the design and implementation of effective tax laws, including on fiscal regimes for extractive industries, (model) tax treaties, anti-avoidance measures and other policies to safeguard revenue while maintaining an attractive investment climate. On the analytical side, IMF staff has played an active role in identifying problems and providing solutions (De Mooij, Klemm, & Perry, 2021, p. 4).

The World Bank provides data that prove that many countries are still struggling to collect sufficient revenues to finance their own development. Countries collecting less than 15% of Gross Domestic Product (GDP) in taxes must increase their revenue collection in order to meet basic needs of citizens and businesses. This level of taxation is an important tipping point to make a state viable and put it on a path to growth.[5]

The obligation to pay taxes in the Republic of North Macedonia has been raised to the constitutional level: "Everyone has the duty to pay taxes [...]" (Constitution of the Republic of North Macedonia, 1991). Such a constitutional definition opens the door for the laws to create a broad legal platform that will define in detail the types of tax liabilities and the financial value that citizens must pay. Thus, the Republic of North Macedonia has established a simple tax system characterized by relatively low tax rates, making it one of the most competitive in Europe. The tax system consists of direct taxes (profit tax, personal income tax and property taxes) and indirect taxes (value added tax and excises). The introduction of a flat tax of 10% on income tax and personal income tax has simplified tax administration and stimulated the operation of companies.[6] This is the main reason International Monetary Fund (IMF) considers that North Macedonia has long pursued an internationally competitive tax regime. Favorable income taxation has been at the core of this strategy, designed to attract foreign investment to the country (Selected Issues Paper on the Republic of North Macedonia, 2022, p. 4).

2. Profit tax

Income generally arises from labor effort, be it wages or entrepreneurial activity, and capital return in the form of interest, dividends, or capital gains (De Mooij, Klemm, & Perry, 2021, p. 12). The term income tax refers to a type of tax that governments impose on income generated by businesses and individuals within their jurisdiction. By law, taxpayers must file an income tax return annually to determine their tax obligations. Income taxes can be of two types: individual and profit (corporate) tax. Individual income tax is also referred to as personal income tax. This type of income tax is levied on an individual's wages, salaries, and other types of income. This tax is usually a tax the state imposes. Because of exemptions, deductions, and

[4] https://subnational.doingbusiness.org/en/data/exploretopics/paying-taxes/why-matters [last accessed on 16.05.2022].
[5] https://www.worldbank.org/en/topic/taxes-and-government-revenue [last accessed on 26.09.2022].
[6] https://finance.gov.mk/%d0%b4%d0%b0%d0%bd%d0%be%d1%86%d0%b8-%d0%b8-%d1%86%d0%b0%d1%80%d0%b8%d0%bd%d0%b8-2/ [last accessed on 16.05.2022].

credits, most individuals do not pay taxes on all of their income.[7] Businesses pay income taxes on their earnings (from corporations, partnerships, self-employed contractors, and small businesses). Depending on the business structure, either the corporation, its owners, or shareholders report their business income and then deduct their operating and capital expenses. Generally, the difference between their business income and their operating and capital expenses is considered their taxable business income.[8]

In most countries, a company or corporation is a separate legal entity. This means that it has an existence independent of its ultimate owners, the shareholders. Companies own assets, make profits and incur liabilities in their own right and usually the shareholder has no direct right to those assets or profits. The rights of the shareholder are to have the company managed on their behalf by the directors, and to receive a share of the profits periodically by way of dividend. Treating companies as taxpayers separate from their shareholders allows governments to impose an income tax on them directly (Oats, Miller, & Mulligan, 2017, p. 9). The existence of profit tax is a direct consequence of the emergence of corporate organization, i.e. the organization of economic entities to appear on the market in the form of companies (joint stock companies and limited liability companies). Profit tax as recognized by the legislation of the Republic of North Macedonia is the type of profit that the OECD recognizes as corporate income tax or in comparative legislations as well corporate or corporation tax. Taxes paid by companies remain a key source of government revenues, especially in developing countries, despite the worldwide trend of falling corporate tax rates over the past two decades, according to a new report from the OECD.[9]

Business enterprises are required to pay profit tax, which is levied on their profits made each year – that is, revenue minus the costs of production, including depreciation of capital assets (Moeti, 2014, p. 84). Profit tax is charged on income from trading (i.e. from the sale of goods and services) and investments, minus day-to-day expenses (known as 'current' or 'revenue' expenditure, which includes wages, raw materials and interest payments on borrowing) and various other deductions, notably allowances for investment costs. It is also charged on capital ('chargeable') gains, the profit from selling an asset for more than it cost. If a company makes a loss – its costs exceed its revenue – it can, subject to restrictions, set the loss against profits it makes in other years.[10]

At the most general level with regard to profit tax, the question arises' why tax companies at all, in addition to the existence of personal income tax? Despite the possibility of taxing the distributed profits offered by the classical system, the fact is that the emergence of trade companies has led to the introduction of profit tax, which today in most countries is separated from personal income taxation; during the existence of income tax, arguments for such taxation were sought and presented (Jelčić, Lončarić-Horvat, Šimović, Arbutina, & Mijatović, 2008, pp. 340-341):

- The formal reason for taxing the profits of companies is the fact that companies have the status of a legal entity and are, by analogy with natural persons, obliged to pay on their income.
- In theory, there is the rationale that income tax is the price paid for the limited liability privilege of company owners (joint stock companies and limited liability companies).

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[7] https://www.investopedia.com/terms/i/incometax.asp [last accessed on 08.05.2022].
[8] https://www.investopedia.com/terms/i/incometax.asp [last accessed on 21.05.2022].
[9] https://www.oecd.org/newsroom/corporate-tax-remains-a-key-revenue-source-despite-falling-rates-worldwide.htm [last accessed on 21.05.2022].
[10] https://ifs.org.uk/taxlab/taxes-explained/corporation-tax-explained?gclid=CjwKCAjwjtOTBhAvEiwASG4bCG25iocgMGMU8CxauOQFaCggUjhUcgGq2n_2Ju2QZfIZg5cpNAojnxoCilEQAvD_BwE [last accessed on 16.05.2022].

- Profit tax is considered by some theorists to be paid for the use of public goods (such as infrastructure facilities) used by companies in their operations, the use of which excluding profit tax actually means the burden of operating costs borne by the state, i.e. that infrastructure is financed.

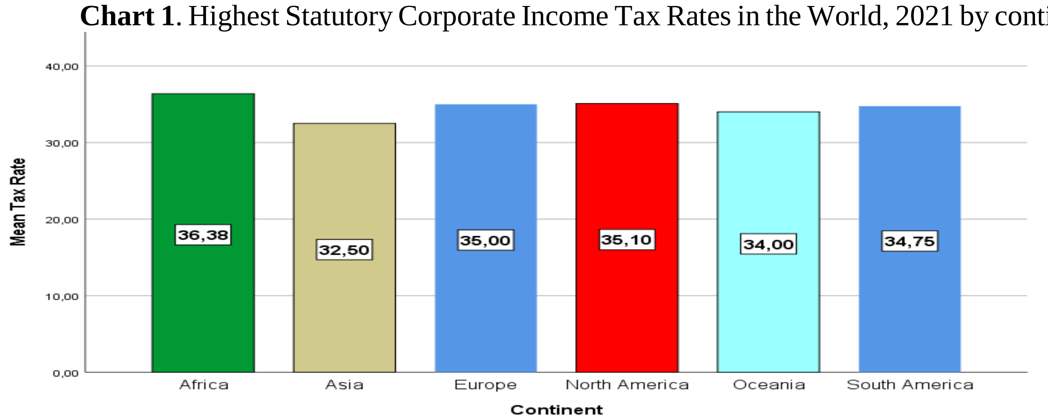
However, the aforementioned theories and arguments have been strongly opposed by highlighting their weaknesses. The reasons given do not satisfy as arguments on which the justification for profit tax can be based. As a result, more convincing arguments have been formulated for the existence of this form of taxation (Jelčić et al., 2008, p. 342):

- Profit tax is an instrument that complements the effects of personal income tax and at the same time prevents tax evasion. Namely, the taxation of distributed profits could be avoided simply by not distributing profits that would be entirely retained in the company and, for example, reinvested. In this way, the value of the property of the owner of the shares or stakes would increase, which would make him capital gains. The taxpayer could postpone their taxation by postponing their payment, i.e. by keeping them in the company, until the moment he deems most appropriate.
- The argument of taxation of retained earnings is the need to tax net profit or economic rent, which is the company's profit defined as "exceeding the amount of profit that the shareholder considers acceptable as a justification for his investment".
- Profit tax ensures the taxation of that part of the distributed profit which, on the basis of their investments, belongs to shareholders or unit-holders who are non-resident taxpayers.
- Profit tax can be used as an effective means of state intervention, i.e. state stabilization and structural policies. Namely, targeted changes in profit taxation may affect the amounts and timing of dividend payments.

3. Overview of the current state of the profit tax rate in the world

The rate of a given tax is extremely important in evaluating its impact. Taxes are usually discussed in terms of their average and marginal rates. The average rate of tax is found by dividing the total tax liability by the amount of the tax base. The marginal rate of tax is the rate the taxpayer will pay on an additional unit of the base (Oats, Miller, & Mulligan, 2017, p. 3). According the statistics presented by Tax Foundation, one hundred and forty of the 225 separate jurisdictions surveyed for the year 2021 have corporate tax rates at or below 25 percent. One hundred and fifteen have tax rates above 20 and at or below 30 percent. The average tax rate among the 225 jurisdictions is 23.54 percent. The United States has the 85th highest corporate tax rate with a combined federal and state statutory rate of 25.77 percent (Bray, S., 2021, p. 4).

Chart 1. Highest Statutory Corporate Income Tax Rates in the World, 2021 by continents

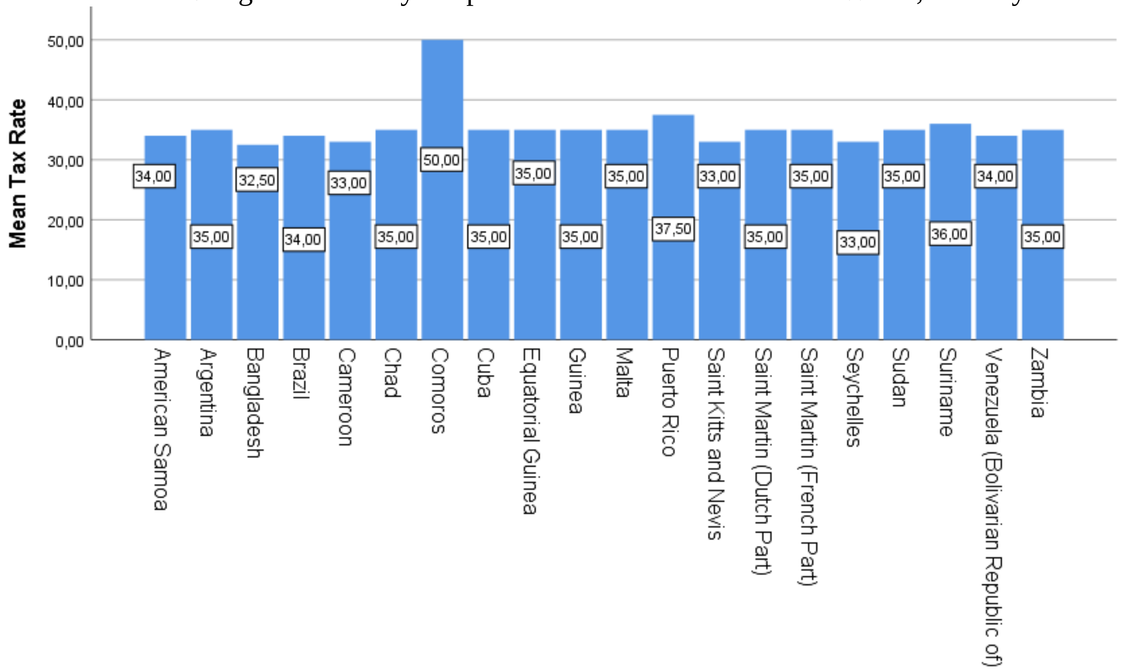


Sources: *Statutory corporate income tax rates are from OECD, "Table II.1. Statutory corporate income tax rate," updated April 2021, https://stats.oecd.org/index.aspx?DataSetCode=Table_II1 [last accessed on 16.05.2022]; KPMG, "Corporate tax rates table, https://home.kpmg/xx/en/home/services/tax/tax-tools-and-resources/tax-rates-online/corporate-tax-rates-table.html [last accessed on 16.05.2022]; Bloomberg Tax, "Country Guides – Corporate Tax Rates," accessed October and November 2021, https://www.bloomberglaw.com/product/tax/toc_view_menu/3380 [last accessed on 16.05.2022]; Tax Foundation, "worldwide-corporate-tax-rates," GitHub, https://github.com/TaxFoundation/worldwide-corporate-tax-rates [last accessed on 16.05.2022]*

The 20 countries with the highest statutory corporate income tax rates span almost every region, albeit unequally. While eight of the top 20 countries are in Africa, Europe, Oceania, and Asia appear only once. Of the remaining jurisdictions, five are in North America, and four are in South America.

On the other end of the spectrum, the 20 countries with the lowest non-zero statutory corporate tax rates all charge rates at or below 12.5 percent. Ten countries have statutory rates of 10 percent, five being small European nations (Andorra, Bosnia and Herzegovina, Bulgaria, Kosovo, and Macedonia). The only three OECD members represented among the bottom 20 countries are Chile, Hungary, and Ireland. Chile temporarily reduced its statutory corporate income tax rate for most businesses due to the pandemic. Hungary reduced its corporate income tax rate from 19 to 9 percent in 2017. Ireland is known for its low 12.5 percent rate, which has been in place since 2003.

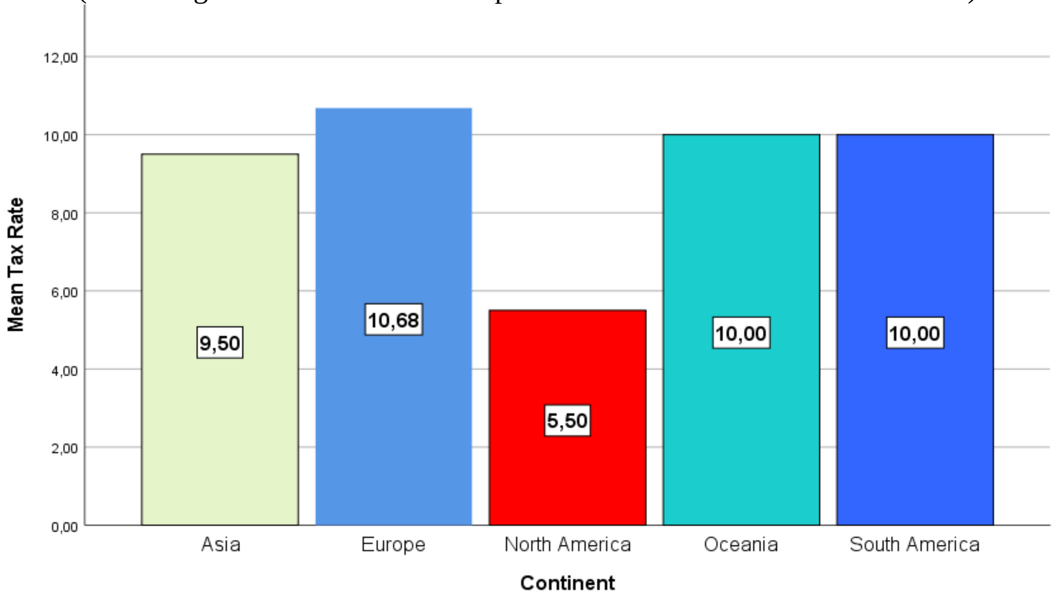
Chart 2. Highest Statutory Corporate Income Tax Rates in the World, 2021 by countries



Sources: OECD, "Table II.1. Statutory corporate income tax rate" https://stats.oecd.org/index.aspx?DataSetCode=Table_II1 [last accessed on 16.05.2022]; KPMG, "Corporate tax rates table, https://home.kpmg/xx/en/home/services/tax/tax-tools-and-resources/tax-rates-online/corporate-tax-rates-table.html [last accessed on 16.05.2022]; Bloomberg Tax, "Country Guides – Corporate Tax Rates," accessed October and November 2021, https://www.bloomberglaw.com/product/tax/toc_view_menu/3380 [last accessed on 16.05.2022]; Tax Foundation, "worldwide-corporate-tax-rates," GitHub, https://github.com/TaxFoundation/worldwide-corporate-tax-rates[last accessed on 16.05.2022]

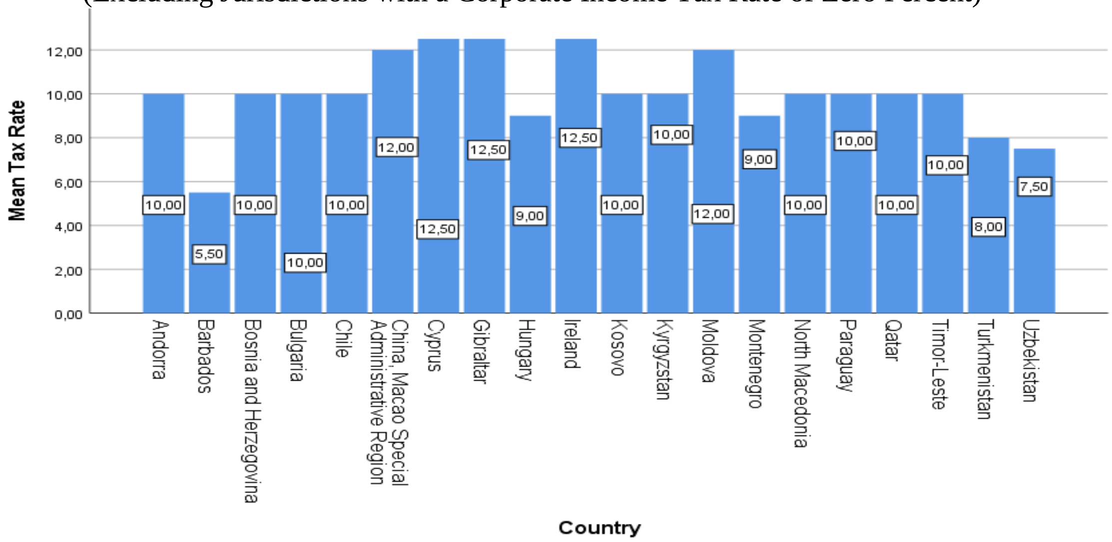
Of the 225 jurisdictions surveyed, 15 currently do not impose a general corporate income tax. Except for the United Arab Emirates, all these jurisdictions are small, island nations. A handful, such as the Cayman Islands and Bermuda, are well-known for their lack of corporate taxes.

Chart 3. Lowest Statutory Corporate Income Tax Rates in the World, 2021 by continents (Excluding Jurisdictions with a Corporate Income Tax Rate of Zero Percent)



Sources: OECD, "Table II.1. Statutory corporate income tax rate" https://stats.oecd.org/index.aspx?DataSetCode=Table_II1 [last accessed on 16.05.2022]; KPMG, "Corporate tax rates table, https://home.kpmg/xx/en/home/services/tax/tax-tools-and-resources/tax-rates-online/corporate-tax-rates-table.html [last accessed on 16.05.2022]; Bloomberg Tax, "Country Guides – Corporate Tax Rates," accessed October and November 2021, https://www.bloomberglaw.com/product/tax/toc_view_menu/3380 [last accessed on 16.05.2022]; Tax Foundation, "worldwide-corporate-tax-rates," GitHub, https://github.com/TaxFoundation/worldwide-corporate-tax-rates [last accessed on 16.05.2022]

Chart 4. Lowest Statutory Corporate Income Tax Rates in the World, 2021 by countries (Excluding Jurisdictions with a Corporate Income Tax Rate of Zero Percent)



Sources: OECD, "Table II.1. Statutory corporate income tax rate" https://stats.oecd.org/index.aspx?DataSetCode=Table_II1 [last accessed on 16.05.2022]; KPMG, "Corporate tax rates table, https://home.kpmg/xx/en/home/services/tax/tax-tools-and-resources/tax-rates-online/corporate-tax-rates-table.html [last accessed on 16.05.2022]; Bloomberg Tax, "Country Guides – Corporate Tax Rates," accessed October and November 2021, https://www.bloomberglaw.com/product/tax/toc_view_menu/3380 [last accessed on 16.05.2022]; Tax Foundation, "worldwide-corporate-tax-rates," GitHub, https://github.com/TaxFoundation/worldwide-corporate-tax-rates [last accessed on 16.05.2022]

It should be noted that Bahrain has no general corporate income tax but has a targeted corporate income tax on oil companies, which can be as high as 46 percent.[11] On the other hand, the United Arab Emirates is a federation of seven separate emirates. Since 1960, each emirate has the discretion to levy up to a 55 percent corporate tax rate on any business. In practice, this tax is mostly levied on foreign banks and petroleum companies.[12]

The mere fact that there is an undisputed worldwide erosion of corporate income tax rates tells us very little about rate convergence One argument in this regard could be that as countries compete to attract FDI (Foreign Direct Investment) from multinational enterprises (MNEs), corporate taxes are racing toward a bottom zero (or a nominal) tax rate, which of course means total convergence at that rate. This argument would originate in the "doomsday" scenario of tax competition, which is most likely to take place in the absence of international cooperation (Avi-Yonah, Sartori, & Marian, 2011, p. 139).

From the three tables analyzed above, we can come to the argued conclusion that in general, larger and more industrialized countries tend to have higher corporate income tax rates compared to smaller and less economically developed countries.

4. Overview of the current state of the profit tax rate in the Republic of North Macedonia

4.1. *Legal platform for profit tax regulation*

Profit tax in the Republic of North Macedonia is regulated by the Law on Profit Tax from 2014. This law is a broad legal platform that regulates the manner of profit taxation, the rate at which the profit tax is calculated, the taxpayers, the tax base for the calculation of the profit tax, the deadlines for the payment of the profit tax, as well as other issues that are important for determining and paying this kind of income tax (Law on Profit Tax, 2014).

The profit tax rate is 10%. Profit payer is a legal entity resident in the Republic of North Macedonia that makes a profit from doing business in the country and abroad. Resident is considered to be every entity that is established or has a seat on the territory of the North Macedonia (Law on Profit Tax, 2014). Non-profit organizations (citizens' associations and foundations as well as their unions and other forms of associations, economic interest community, political parties, religious communities, religious groups, Red Cross of the Republic of North Macedonia, foreign associations, international non-governmental organizations, humanitarian organizations and associations, unions, chambers and other legal entities) are taxed on profit if generate income from performing economic activity within their non-profit activity, if their total annual revenues are higher than one million denars. The basis for calculating the profit tax is the profit that is determined in the tax balance. The basis for calculating the profit tax is determined as the difference between the total income and the total expenses of the taxpayer in amounts determined in accordance with the accounting regulations and accounting standards (Law on Profit Tax, 2014).

However, the legislature provides for cases of tax exemptions. The taxpayer is entitled to tax exemption on the basis of reinvested earnings for investments in tangible assets (real

[11] https://www2.deloitte.com/content/dam/Deloitte/global/Documents/Tax/dttl-tax-bahrainhighlights-2021.pdf [last accessed on 16.05.2022].
[12] https://taxsummaries.pwc.com/quick-charts/corporate-income-tax-cit-rates [last accessed on 16.05.2022].

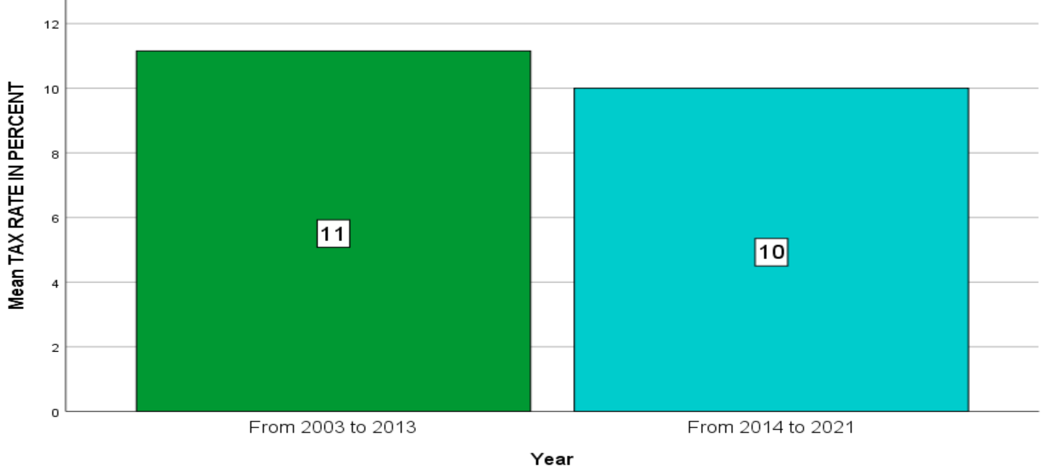
estate, plant and equipment) and intangible assets (computer software and patents) in order to expand the activity of the taxpayer (Law on Profit Tax, 2014). Likewise, the taxpayer who is a user of a technological industrial zone, uses a tax exemption from the profit tax within the state aid, under conditions and procedure determined by the Law on Technological Industrial Development Zones from 2007 (Law on Profit Tax, 2014). Furthermore, the taxpayer who is obliged in accordance with the Law on Registration of Cash Payments (2001) to introduce and use a fiscal system of equipment for registration of cash payments, is deducted the calculated tax for purchased up to ten fiscal devices in the amount of their value. Finally, there is a simplified tax regime for companies. Thus, companies classified as small and micro traders (except companies that provide banking, financial, and insurance services, as well as services in the field of games of chance and entertainment games) are exempt from the obligation to pay profit tax for total income up to 3.000.000 denars. While the companies that during the year realize a total income from 3,000,001 to 6,000,000 denars, are allowed to choose the regime / model of taxation, so that they will have the opportunity to pay tax on total income in the amount of 1%, instead of a profit tax at the rate of 10% as provided by the existing legal solution (Law on Profit Tax, 2014).

4.2. *Profit tax collection*

The analysis of the trend of tax collection in the line of profit tax in the Republic of North Macedonia has been done by dividing it into two stages: that from 2003 to 2013 and from 2014 to the last year 2021. This division is supported in the strong argument because it is about two stages which are characterized by the implementation of two different laws on profit tax. The previous law (Law on Profit Tax, 1993) in its initial version had foreseen the rate of 30%, later reduced with the changes suffered to 15%, while the current law has reduced the tax rate requirement to 10%.

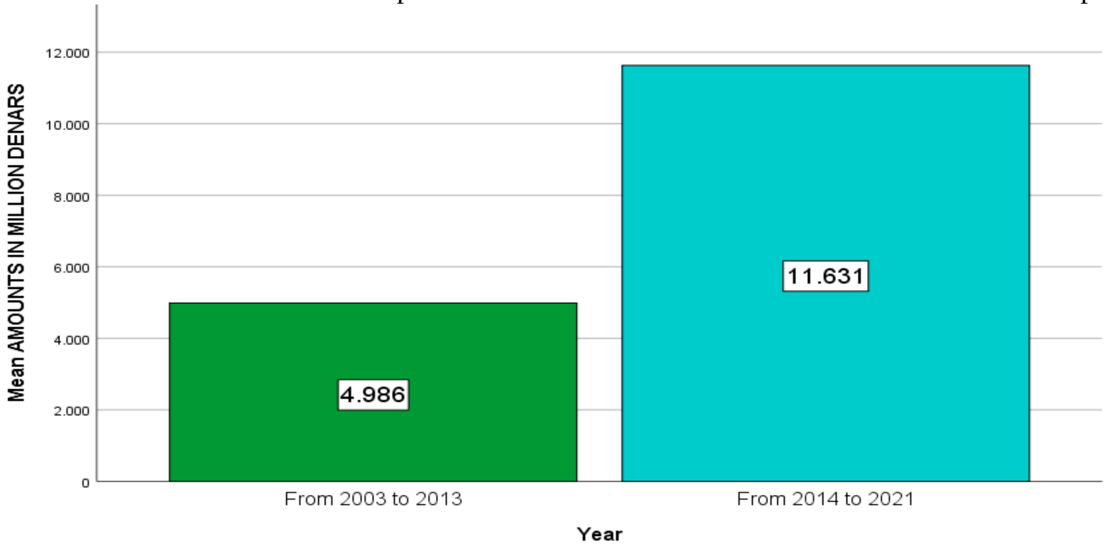
The intervention of the government of the Republic of North Macedonia in terms of payment of taxes is observed in the period of the Covid-19 Pandemic. Taxpayers were exempt from paying the amount of profit tax advances for the months of March, April, May, June and July 2020. Also, income taxpayers who have suffered losses in their operations due to the spread of the COVID-19 virus were exempted from paying the amount of profit tax advances for the months of November and December 2020 and January and February 2021 (Annual Report of the Public Revenue Office, 2021, p. 15).

Chart 5. Average% of profit tax revenues in the Republic of North Macedonia before the adoption of the Law on Profit Tax from 2014 and after its adoption



Source: Public Revenue Office Annual Reports for the period from 2003 to 2021, http://www.ujp.gov.mk/en/statistika/naplata [last accessed on 25.05.2022]

Chart 6. Average amount of millions of denars for profit tax revenues in the North Macedonia before the adoption of the Law on Profit Tax from 2014 and after its adoption



Source: Public Revenue Office Annual Reports for the period from 2003 to 2021, http://www.ujp.gov.mk/en/statistika/naplata [last accessed on 25.05.2022]

Table 1 presents the averages of the profit tax revenues in the Republic of North Macedonia in million denars in the two periods, respectively from 2003-2013 when the former law was in force and from 2014-2021 after the adoption of the law which is still in force today. Relevant data show that the highest average of the range of profit tax revenues has from 2014-2021 with MR = 15.67, in contrast to 2003 -2013 that the average is much lower with a value of MR = 7.38. These data show that profit tax revenues in North Macedonia are much higher after the period of adoption of the new law, i.e. 2014 until 2021. This verification was statistically significant at the rate of $p < 0.01$.

Table 1. Analysis of the comparison of the average ranking of profit tax revenues in the Republic of North Macedonia in million denars from 2003 to 2013 and from 2014 to 2021

	Year	N	Mean Rank	Sum of Ranks	Exact Sig. [2*(1-tailed Sig.)]
AMOUNTS IN MILLION DENARS	From 2003 to 2013	13	7,38	96,00	,001[b]
	From 2014 to 2021	6	15,67	94,00	
	Total	19			

Source: Public Revenue Office Annual Reports for the period from 2003 to 2021, http://www.ujp.gov.mk/en/statistika/naplata [last accessed on 25.05.2022].

Table 2 presents the data on the correlation analysis between the year, value added tax, profit tax and personal income tax, the data show that there is a strong correlation with a positive and statistically significant direction between the year and the tax on gain with $r = 0.78$, $p < 0.01$. This shows that the more the years have passed, the more the profit tax has increased, a very strong and positive relationship exists between the year and the personal income tax with $r = 0.97$, $p < 0.01$. In the respective values it is shown that there is a positive correlation between the value added tax and profit tax with r = 0.77, p <0.01 and between the value added tax and personal income tax with r = 0.98, p <0.01.

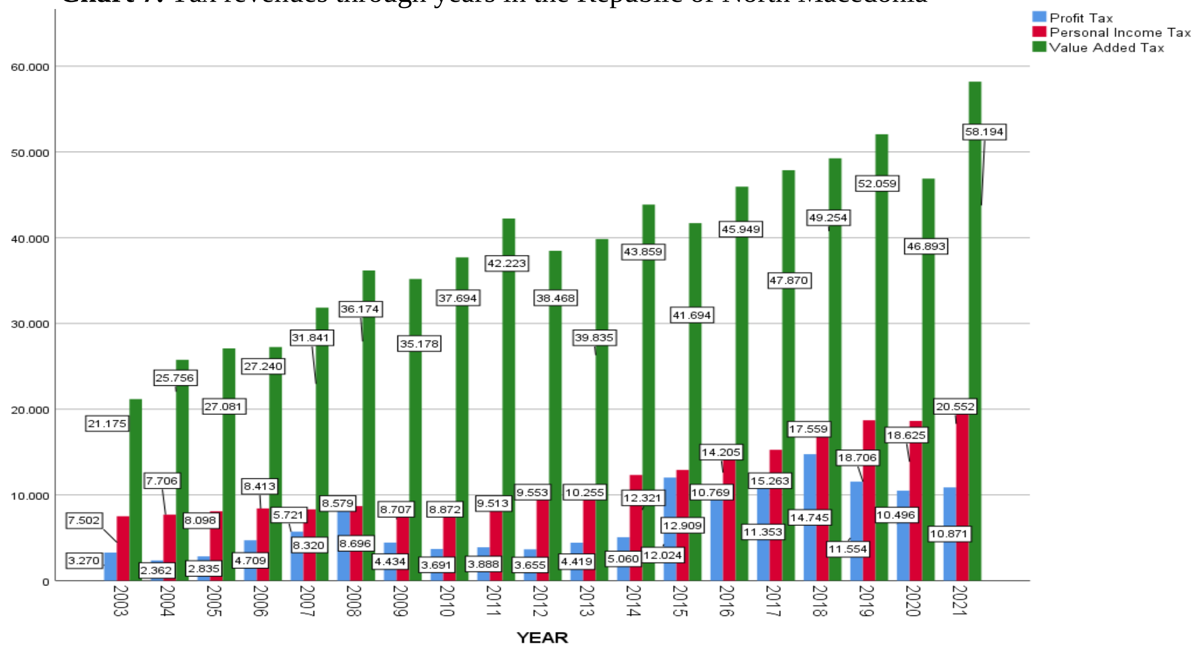
Table 2. Correlative analysis between year, Value Added Tax, Profit Tax, Personal and Income Tax

			Year	Value Added Tax
Spearman's rho	Profit Tax	Correlation Coefficient	,777**	,774**
		Sig. (2-tailed)	,000	,000
		N	19	19
	Personal Income Tax	Correlation Coefficient	,996**	,977**
		Sig. (2-tailed)	,000	,000
		N	19	19

**. Correlation is significant at the 0.01 level (2-tailed).

Source: Public Revenue Office Annual Reports for the period from 2003 to 2021, http://www.ujp.gov.mk/en/statistika/naplata [last accessed on 25.05.2022].

Chart 7. Tax revenues through years in the Republic of North Macedonia



Source: Public Revenue Office Annual Reports for the period from 2003 to 2021, http://www.ujp.gov.mk/en/statistika/naplata [last accessed on 25.05.2022]

5. Modern trends

The development of taxation in recent times can be summarized by the following general statements, although allowance must be made for considerable national differences: The authority of the sovereign to levy taxes in a more or less arbitrary fashion has been lost, and the power to tax now generally resides in parliamentary bodies. The level of most taxes has risen substantially and so has the ratio of tax revenues to the national income. Taxes today are collected in money, not in goods. Tax farming - the collection of taxes by outside contractors - has been abolished, and taxes are instead assessed and collected by civil servants. On the other hand, as a means of overcoming the inefficiencies of government agencies, tax collection has recently been contracted to banks in many less-developed countries. In addition, some countries are outsourcing the administration of customs duties.[13]

[13]https://www.britannica.com/topic/taxation/History-of-taxation [last accessed on 21.05.2022]

At the end of the 20th century the expansion of e-commerce created serious challenges for the administration of value added tax, income taxes, and sales taxes. The problems of tax administration were compounded by the anonymity of buyers and sellers, the possibility of conducting business from offshore tax havens, the fact that tax authorities cannot monitor the flow of digitized products or intellectual property, and the spate of untraceable money flows. Yet, in the last decade of the 20th century, many countries experienced a greater decentralization of government and a consequent devolution of taxing powers to subnational governments. Proponents of decentralization argue that it can contribute to greater fiscal autonomy and responsibility, because it involves states and municipalities in the broader processes of tax policy; merely allowing lower-level governments to share in the tax revenues of central governments does not foster such autonomy.

Although it is difficult to make general distinctions between developed and less-developed countries, it is possible to detect some patterns in their relative reliance on various types of taxes. For example, developed countries usually rely more on individual income taxes and less on corporate income taxes than less-developed countries do. In developing countries, reliance on income taxes, especially on corporate income taxes, generally increases as the level of income rises. In addition, a relatively high percentage of the total tax revenue of industrialized countries comes from domestic consumption taxes, especially the value-added tax (rather than the simpler turnover tax).[14]

The European Commission on 22 December, 2021 has proposed a Directive ensuring a minimum effective tax rate for the global activities of large multinational groups. The proposal delivers on the EU's pledge to move extremely swiftly and be among the first to implement the recent historic global tax reform agreement, which aims to bring fairness, transparency and stability to the international corporate tax framework. The proposal follows closely the international agreement and sets out how the principles of the 15% effective tax rate – agreed by 137 countries – will be applied in practice within the EU. It includes a common set of rules on how to calculate this effective tax rate, so that it is properly and consistently applied across the EU.

The European Commission has justified the proposal with the arguments of the need for such a directive through the official Statement: *"By moving quickly to align with the far-reaching OECD agreement, Europe is playing its full part in creating a fairer global system for corporate taxation. This is particularly important at a time when we need to increase public financing for fair sustainable growth and investment and meet public financing needs too - both for tackling the pandemic's aftermath and driving forward the green and digital transitions. Putting the OECD agreement on minimum effective taxation into EU law will be vital for fighting tax avoidance and evasion while preventing a 'race to the bottom' with unhealthy tax competition between countries. It is a major step forward for our fair taxation agenda. Finally, the directive we are putting forward will ensure that the new 15% minimum effective tax rate for large companies will be applied in a way that is fully compatible with EU law ".*[15]

In order to ensure a fair, efficient, transparent and modern tax system based on modern digital technologies and innovations in taxation, in order to achieve accelerated, inclusive and sustainable economic growth, the Government of the Republic of North Macedonia in December 2020 adopted Tax System Reform Strategy 2021-2025 thus replacing the Tax System Reform Strategy (2020-2023). This Strategy is result of two years of successful cooperation between domestic institutions (primarily the Ministry of Finance, the Public Revenue Office and the Customs Administration) and international development partners. The

[14] https://www.britannica.com/topic/taxation/History-of-taxation [last accessed on 25.05.2022].
[15] https://ec.europa.eu/commission/presscorner/detail/en/IP_21_7028 [last accessed on 25.05.2022].

strategy contains five priorities for the tax policy makers and the bodies that manage the public revenues in the period 2021-2025, together with their key activities, results, responsible entities and key performance indicators (Tax System Reform Strategy, 2020, p. 2).

- Priority 1 – Greater fairness in taxation, in order to ensure that everyone fulfills their social obligation and pays their fair share of the tax.
- Priority 2 - Greater efficiency and effectiveness of the tax system for better revenue collection, through more efficient fight against unregistered activities and tax evasion and strengthened institutional capacity, analysis and adjustment of the tax base, reduction of arrears of tax liabilities and implementation of a real register of owners.
- Priority 3 - Increased tax transparency, which includes improving the exchange of information between tax authorities and other entities, which will be primarily based on electronic services and digitalization of processes.
- Priority 4 - Better quality of services, in a way that simplifies and speeds up procedures and reduces the administrative burden.
- Priority 5 - Introduce environmental ("green") taxation, in order to stimulate taxpayers to reduce their behavior and / or activities that contribute to pollution.

The implementation of the Strategy will consist of the following steps (Tax System Reform Strategy, 2020, p. 3):

- Based on the priorities, measures and activities contained in the Strategy, annual action plans will be prepared which will explain in more detail all the steps for implementation of the activities related to the respective priorities.
- The implementation of the Strategy will be evaluated on the basis of the Performance Evaluation Framework which contains detailed instructions for evaluating each measure.
- Monitoring and reporting on the implementation of the Tax Reform Strategy will be done by the Working Group on the Tax Reform Strategy.

6. Conclusion

The most important purpose of taxation is to raise resources for governments to deliver essential public services. Taxes pay for many of the things that are fundamental to functioning societies around the world, such as health care, schools, and social services. There is a need to ensure that the tax system is fair and equitable. Governments need to balance goals such as increased revenue mobilization, sustainable growth, and reduced compliance costs with ensuring that the tax system is fair and equitable. As such, taxes have proven to be important for four reasons: revenue, redistribution, representation and repricing. Corporate tax is levied on the profits of a company, which receives capital gains and profits. The OECD analysis shows that corporate income tax remains a significant source of tax revenues for governments across the globe. From the research done we can conclude that globally, African countries in total hold the first place with the highest rate of profit tax, while Asian countries with the lowest rate. It should be noted that between these two categories of countries there are also countries with a corporate income tax rate of zero percent. Existing trends prove that developed countries anticipate higher corporate tax rates compared to less developed countries. The Republic of North Macedonia is one of the ten countries within the OECD with the lowest profit tax rate. The results obtained from the research of statistical data argue that the reduction of the profit tax rate in this country from 30% in the early 90s to 10 in recent years has resulted in an increase in the value of income earned from this type of tax. Legal changes and, above all, a change in government strategy have inevitably led to an increase in other types of taxes.

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