TAX POLICY AS FACTOR OF MONTENEGRIN COMPETITIVENESS

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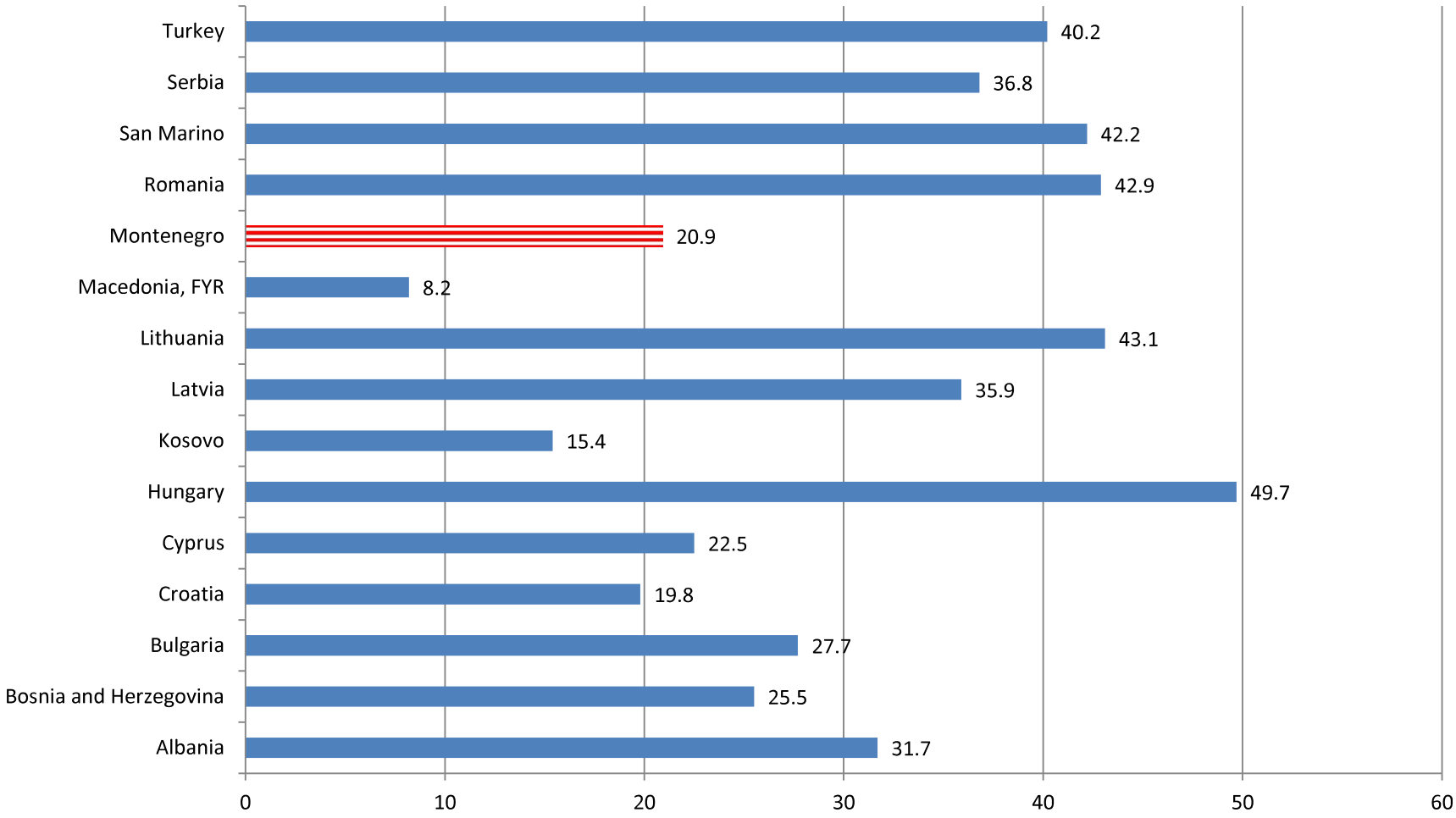
Tax system in Montenegro

- Reform of the tax system started in 2001;
- Same status of domestic and foreign tax payers;
- System based mainly on indirect taxes;
- Favourable tax system with low and flat tax rates on the national level.

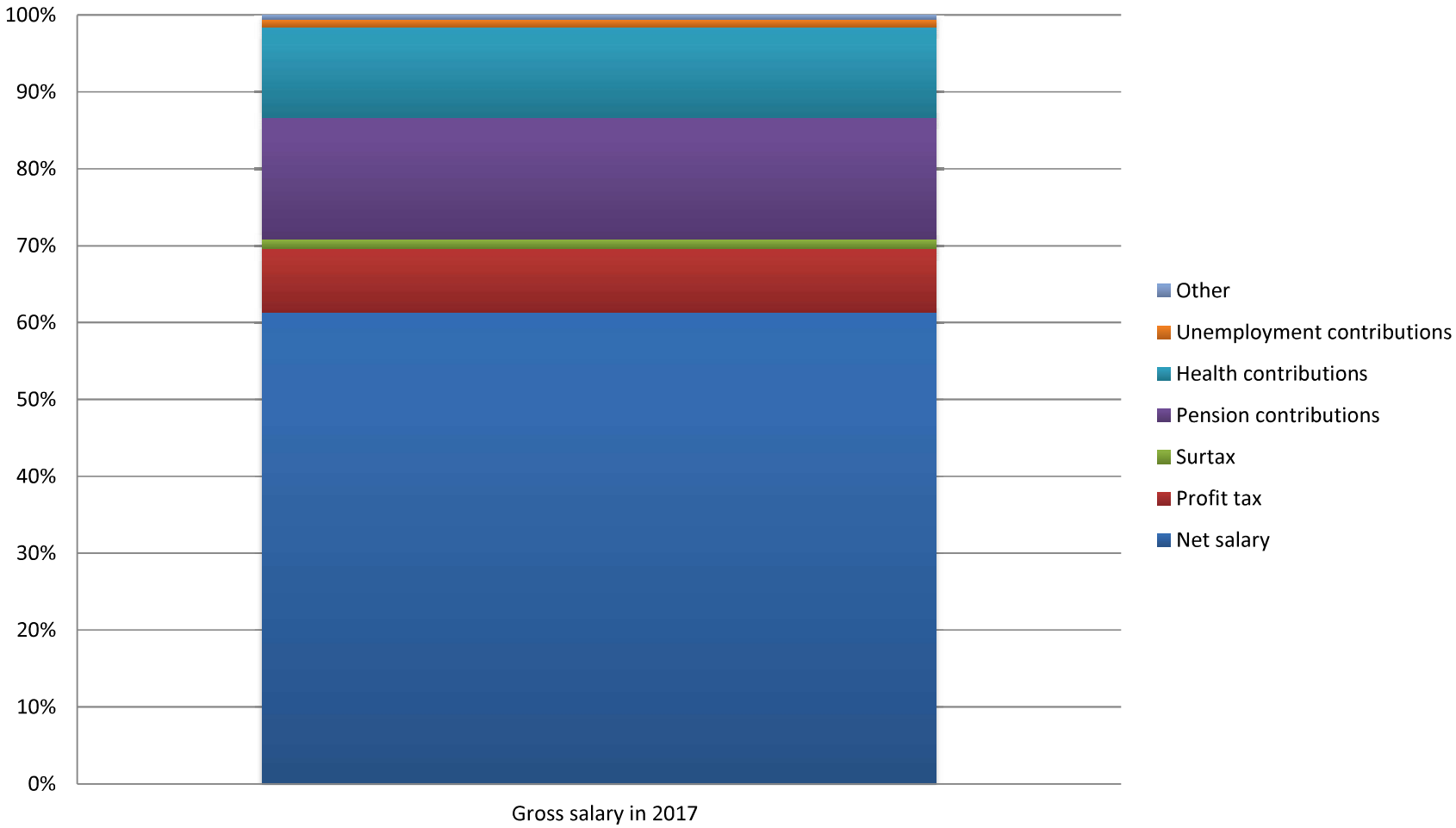
	Montenegro	Bosnia and Herzegovina	Croatia	Serbia	Macedonia
Profit tax	9%	10%	20%	15%	10%
Personal income tax	9%, 15%	10%	12%, 25%, 40%	10%	10%
VAT	19% (21%), 7%, 0%	17%	25%,13%,5%	20 %, 10 %	18%, 5%
Real estate tax	od 0,10% do 1,00%	0,05%-0,5%	Only on houses for vacation	od 0.3 % do 2 %	0,1 - 0,2 %
Real estate turnover tax	3%	On the level of cantons	5%	2.5%	2%-4%

Share of taxes in profit



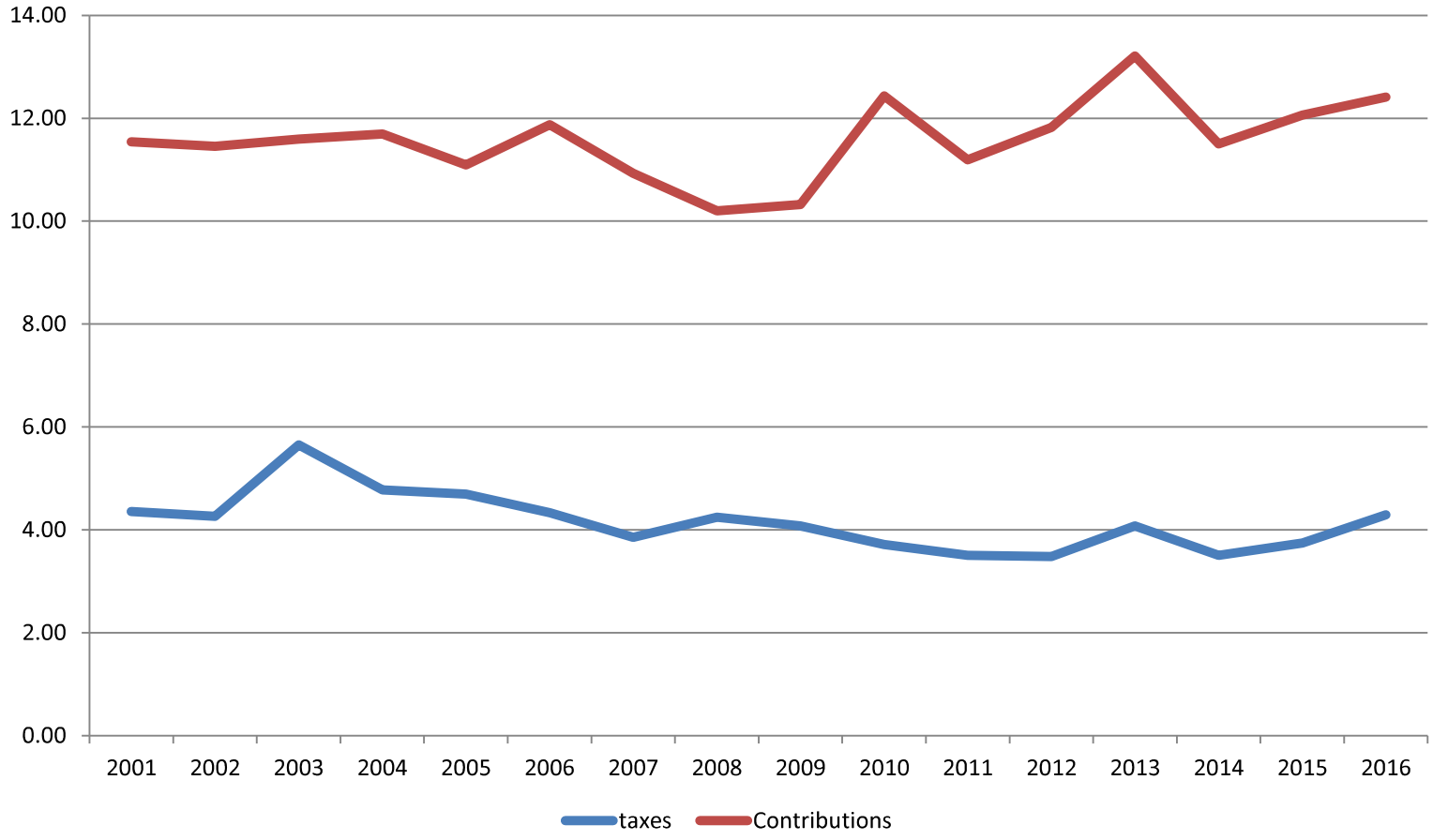
Source: Doing bussines report, 2016

Gross salary structure in Montenegro



Source: ISSP analysis of minimum wage, ISSP and UNDP, 2017

Salary taxes and contributions as % of GDP

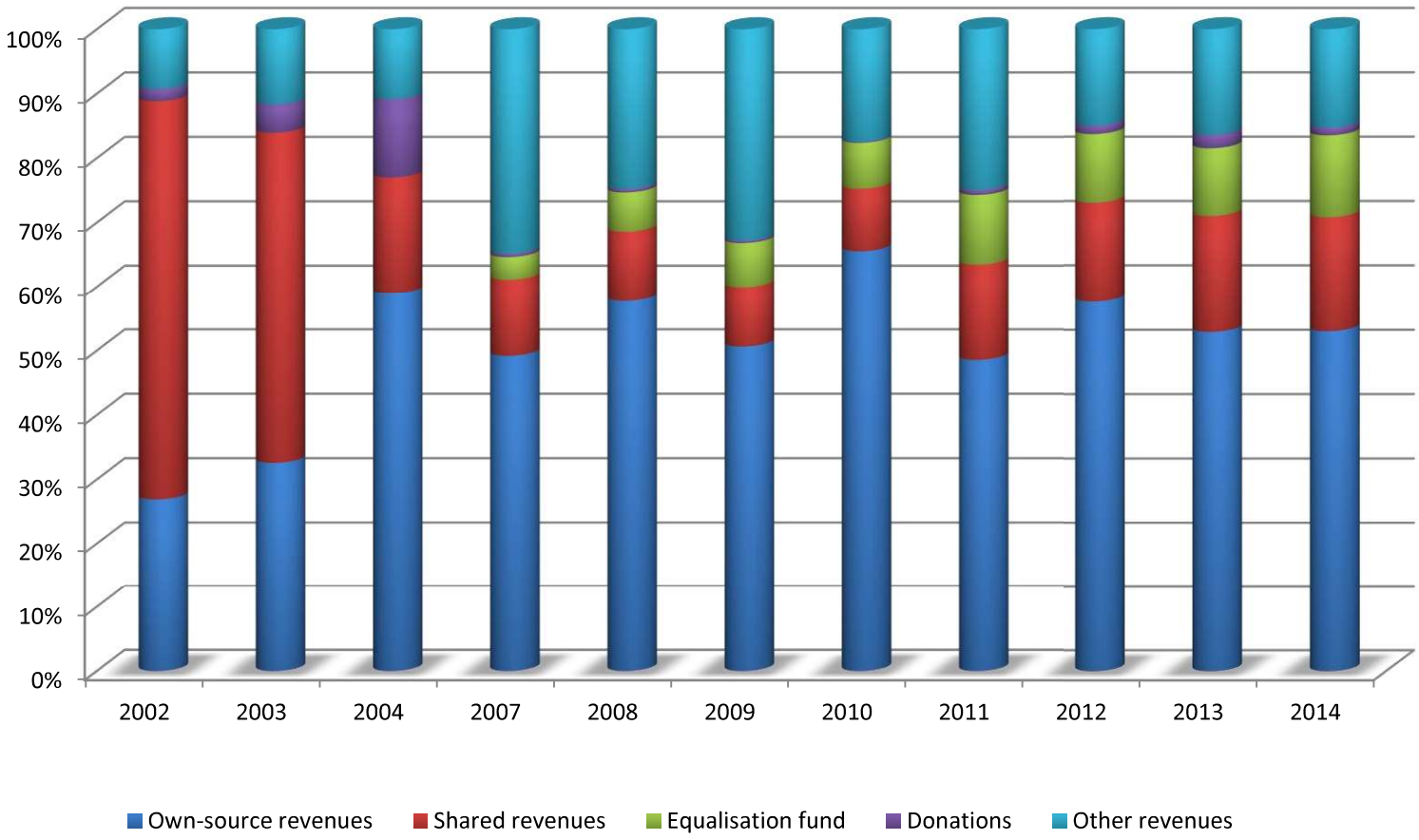


Source: ISSP analysis of minimum tax, ISSP and UNDP, 2017

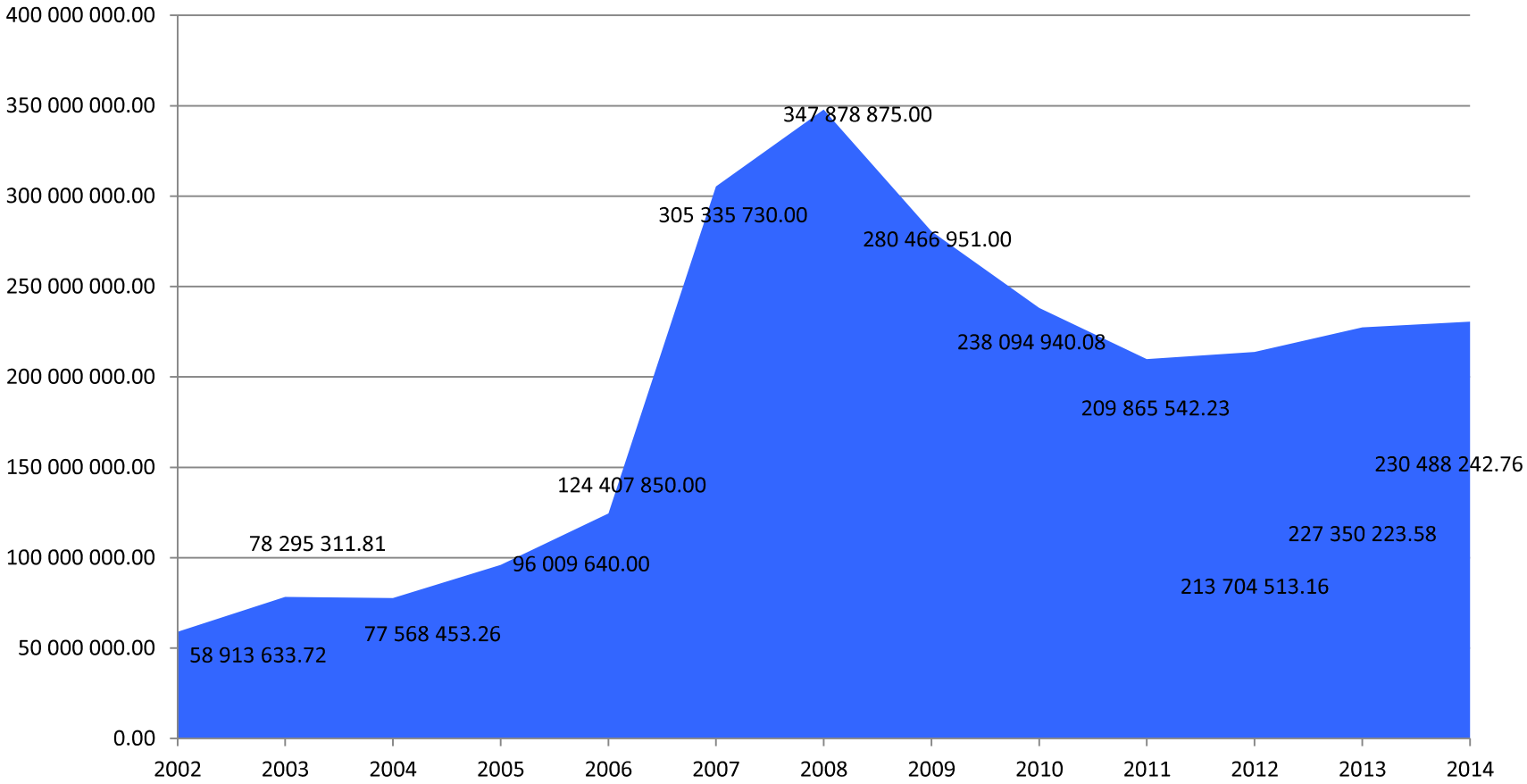
Main features of fiscal decentralisation process in Montenegro

- Two phases of the fiscal decentralisation process in Montenegro;
- In the first phase (2003 -2008), the legislative changes, central government policies and fiscal reform strengthened the role and fiscal autonomy of local governments;
- The second phase was characterised by several legislative changes –in 2008 local revenues were reduced due to the abolition of own-source taxes, while the 2010 changes presented a centralistic step.

Structure of local government revenues 2002-2014



Total local government revenues 2002-2014



Para-fiscal duties on local level

	Share in total costs (per company)
Less then 5 employees	11,28%
5 to 19 employees	8,19%
20 to 99 employees	3,10%
More then 99 employees	5,19%

Source: Analysis of parafiscal duties on local level, Union of Eployeers of Montenegro, 2017

Estimation of the administrative cost of tax legislation

As % of GDP	Type of cost
1,40%	Administrative costs of PIT regulation
2,80%	Administrative costs of VAT regulation
0,10%	Administrative costs of PT regulation
0,10%	Other administrative costs
4,40%	**Total administrative cost of tax regulation**

Source: ISSP analysis of administrative costs, UNDP, 2017

	No of enterprises	No of people employeed	Value added
SMEs	99.9%	82.2%	74.7%
Large	0.1%	17.8%	25.3%

Conclusions

- National tax system with main taxes is only one/smaller part of obligations/costs that companies needs to pay,;
- The competitiveness is affected by high contributions and local fiscal and para -fiscal duties;
- Simplification of administrative procedures also presents a burden and creates significant costs;
- In order to contribute to the competitiveness the government has to consider all aspects of the tax system.;
- The issue of decentralisation in important.

THANK YOU!

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