

2017: THE YEAR IN TAXES

TRACKING TRENDS IN CEE TAX REGIMES

Mazars' fifth annual Central and Eastern European (CEE) tax guide provides an overview of the tax systems and fundamental competitiveness factors in the CEE region. The publication aims to help investors understand the complexities of the individual CEE tax regimes, as well as in comparison to each other. Based on data provided by the Mazars network, the guide covers the tax systems of 19 countries in the CEE region: the Visegrad countries, Greece, Russia, the Ukraine, and the Balkan and Baltic states. This 5th-year anniversary edition also provides an opportunity to review and evaluate the major trends of the past half-decade.

The general tendency in regional tax systems is one of stabilization. The period of drastic structural change is over; crisis taxes have largely been discontinued or integrated into the given tax system. In most countries, the public fiscal balance has improved and consumption is rising, giving governments some room for manoeuvre and opportunities to follow new tax policy directions.

Value-added tax

In every modern tax system, value-added tax (VAT) is one of the most important state budget revenue streams. The proportion of VAT to GDP is around 15% in the region, hitting 20% in some countries, significantly higher than the European Union average. The rules are mostly harmonized, although there are significant differences in rates: in most states, normal VAT is between 19 and 22%, while base VAT is a particularly high 25% in Croatia, and an even higher 27% in Hungary. We have also witnessed diminishing VAT rates, most noticeably in Romania where the normal rate fell from 24% to 19% over the last five years.

We have also seen an increasing number of measures with the clear aim of imposing taxes on transactions that were previously not controlled and taxed, reducing tax fraud, and 'whitening' the shadow economy. Of note here are the strides taken by many states to introduce 'smart' taxation mechanisms, particularly the connecting of cash registers to the central tax system.

Taxes on employment

In parallel with sales and use taxes gaining ground, the proportion of taxes on incomes and employment has decreased somewhat. This is true for corporate income tax and social contributions, but there is room for improvement: the high level of employment-related public charges translates to a regional average total wage cost of nearly 160% of the net wage. It means that the so-called "tax wedge," is a high 37% on average.

Furthermore, it's safe to say that labour is no longer "cheap" in the CEE region. According to Eurostat's 2016 Q4 analysis, in most Visegrad countries and the Baltic states wage costs increased by 5-10% year-on-year, and particularly in jobs requiring the least qualifications.

Corporate income tax

In the CEE region, it is unhelpful to simply compare corporate income tax on the basis of the applicable tax rates, since there is a fundamental difference in the approaches followed in the

individual countries. Indeed, as the guide shows, there is now a 20% disparity between the lowest and the highest rates in CEE, while the average corporate income tax rate in the region is less than 16%. The tax systems covered typically allow losses generated in previous years to be carried forward and used against the positive tax base of subsequent years, but usually for a maximum of five financial years. More than half of the CEE countries impose withholding taxes on capital gains (incomes from interests, dividends and royalties), generally at a rate of 15% although it rises as high as 19-20% in several countries.

Transfer Pricing

Retaining tax revenue is a major driver of fiscal policy formulation in CEE as it is throughout the world. Thus, we have seen transfer price regulations appearing in the tax systems of almost all CEE countries. Also of note in the period covered is the OECD BEPS (Base Erosion and Profit Shifting) action plan, which treats transfer pricing and the related documentation obligation as high-priority areas. The fundamental aim of the “Country-by-Country Reporting” (CBCR) required by OECD is to improve transparency by way of providing local tax authorities with the information necessary for assessing tax risks.