

THE ASSESSMENT OF THE IMPACT OF SELECTED TAX SYSTEM ELEMENTS ON CHOOSING A BUSINESS FORM IN SLOVAK REPUBLIC

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Abstract

It is characteristic for economic development the constantly growing state role in economy of all developed countries nowadays. This type of state policy has also negative consequences, growing tax and social burden for tax subjects, bureaucracy, great and disarranged number of legislative, which also come with additional costs. These consequences influence macroeconomic environment and create also heavy burden for business sector. The above mentioned consequences also apply to Slovak Republic. The most sensitive part of economic policy for business environment is total tax and social burden of taxpayers. The quality of the business environment is also significantly influenced by administrative and legislative business rules, which mean additional costs for businesses. The paper focuses on the analysis of this part of business environment, how the selected tax issues affect the business environment and specifically their impact on the decisions of taxpayers in choosing business forms. The first part of the article provides a theoretical framework, which creates the basis for further analysis. It also provides detailed information, which in enables comparison the structure of tax burden of businesses depending on the chosen business form. In the remaining part of the article we have analyzed in detail the development of various business forms in the period 2010-2015.

Key words: tax, tax rate, business forms

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Introduction

One of the most important determinants of state economic development is its human resources. The Slovak Republic is not an exception. The valid legislative of Slovak Republic allows its citizens free choice of the form of their economic activity. The most frequent economic activity except dependent activity (employment according Labor Code and on the base of labor contract) is business and trade activity. Each business subject is obliged after its registration at Trade Register also to register at Financial Directorate of Slovak Republic at Tax Office of local competence.

Process of decision, in general, is the process of the optimal choice from the set of eventual possibilities under existing conditions. Process of potential tax payers decision, which form of economic activity is the most appropriate for them is highly determined of the current law of Slovak Republic. It is also determined by its impact on the economy of the future tax payers. In generally, this specific decision is mostly influenced by next factors:

- social and tax burden,
- costs connected with administrative and law,
- legislative limitations and
- criminal liability.

The first of factors mention above are taxes and social contributions. Taxes are compulsory payments determined by State, which taxpayers have to pay to the State Budget in a specific amount and in predetermined due date [9].

Significant indicator of tax payers' economic activity is its economic result after income tax. The economic result may be profit or the loss. At the time of accounts closing, the economic result is the base for calculating the amount of tax duty (payable income tax and deferred income tax). Net profit for the accounting period presents the crucial source of financing of a business activity. Also the social burden of individual tax payers is closely connected with it. It is an indicator mandatory reported in financial statements prepared in accordance with the legal arrangements of Slovak Republic and the IFRS adopted by the EU [7]. As for the international business corporations the important role is also in the capital connection between parent (holding) and daughters companies (subsidiaries). Not only international corporations but all corporative tax payers have cost connected with administrative and law.

The definition of a merger transaction plays an important role in a well-functioning merger review regimes that seek to be effective, efficient, and transparent [6]. Accounting for the internal capital markets of multinational firms thus helps re-solve the tension between standard theory predicting zero capital taxes and the casual observation that countries tend to employ corporate taxes at fairly high rates [4]. The avoidance of corporation tax is often believed to be a problem primarily with large companies operating simultaneously in many countries [1]. International large companies have some legislative limitation, but the domestic companies have the similar limitations as well. It is one of the most important factors for the decisions of potential tax payers. In the current economic context, which is characterized by a sharp deterioration of public finances, the revenue impact of tax changes is a primary concern of tax authorities [8]. Corporate tax receipts are one of the most volatile

forms of government revenues and tend to move with the business cycle [3]. Income tax has an important role in the process of fulfilling of the state budget of the Slovak Republic [10]. The both rates of those taxes also influence the decisions concerning the form of economic activity.

Understanding the forces behind the downward trend in corporate taxes is crucial for many important policy issues in the EU like the introduction of minimum taxes and tax harmonization in general [2]. According to the Slovak legislation prior to the restructuring the businesses to be transferred should represent independent organizational unit of the Slovak company. The assets and liabilities relating to that part of business should be separable from the books of the company [5].

1 Taxpayers and their relationship to the tax system in Slovak Republic

In the first part the paper focuses on the monitoring and comparison of the tax payers count development. There is the monitoring of the individual tax payers and also the corporate tax payers together and also separately as well in the period 2011 to 2015 in Slovak Republic. Not only form of economic activity but also the tax evidence of tax payers on most types of taxes is documented in this paper. Paper also include the analysis and monitoring of the main factors and reasons of this tax evidence and economic form diversion.

1.1 Methods and data

Methodological approach used in our research is the following:

As for timing, years 2010-2015 are analyzed in this paper. These mathematical and statistical methods were used for analyzing and comparing of the partial indicators in the reporting period:

- Arithmetic Average $\tilde{x} = \frac{\sum_{i=1}^n X_i}{n}$ (1)

X_i ... i -element of the set, n..... number of elements of the set

- Base Index $b_t = \frac{x_t}{x_0}$ (2)

b_t ... base index is the rate of the current year value of the variable to the value of the relevant variables in the base year, X_t ... the value of the variable in the rated year, X_0 ... value of the variable in the base year

- Chain Index $r_t = \frac{x_t}{x_0}$ (3)

r_t ... chain index is the rate of the current year value of the variable to the value of the relevant variables in the previous year, x_t ... the value of the variable in the rated year, x_0 ... value of the variable in the previous year

The analyze and evaluation of different factors which have the significant impact and which influence the tax payers decision are based on questionnaire method and also are based on 20 years practical professional experiences and knowledge from Financial Directorate. Not only the form but also the contents of the questionnaire questions were conceived with the aim of the most exact and precise specification of the factors, which influence the tax payers decision concerning their future economic activity form. Questionnaire questions were conceived on the practical base.

Data analyzed and evaluated in the first part of paper were obtained from the Informational system of Financial Directorate of the Slovak Republic under the condition of the total anonymity of tax payers. Data analyzed and evaluated in the second part of paper were obtained through questionnaire method. Questionnaire method focuses on the equable distribution of the questionnaires between the individual tax payers, corporate tax payers, and also between the registered value added tax payers and the not-registered value added tax payers.

1.2 Results and Discussion

During the period which is analyzed at this paper the number of registered tax payers had increasing trend. In total it was about 349 535 more tax payers in Slovak Republic comparing the year 2015 with the base year 2010. In the percentage it was about 2.31% average year increase in this period. The growth rate of the registered tax payers number has decreasing trend, from 3.03 % in 2010 to 1.16 % in the last year of analyzed period. The table 1 presents data representing all registered tax payers in Slovak Republic regardless their form (individual tax payers or corporate tax payers) and also regardless the reason of their tax evidence.

Tab. 1: Registered Tax Payers in Slovak Republic during 2010-2015

Year	Count of Registered Tax Payers	Y/Y increase of tax payers	Y/Y of tax payers in %
2 010	2 897 305	-	-
2 011	2 985 014	87 709	103,03
2 012	3 079 799	94 785	103,18
2 013	3 157 940	78 141	102,54
2 014	3 209 579	51 639	101,64
2 015	3 246 840	37 261	101,16

Abbreviations: Y/Y – year on year, Source: Information system of Financial Directorate of Slovak Republic

As also the Tab. 2 presents more than 94% of all registered tax payers with the economic activity in Slovak Republic can be defined as the companies with turnover lower than 49 790 euro, or as the individual tax payers which flat expenditures, or tax payers without complete

tax evidence as well. These tax payers are obliged to have only simplified tax evidence and also have the turnover lower than 49 790 euro. These facts were influenced most of by lower, respectively non exist cost connected with tax evidence, individual tax payers, lower tax license, lower probability of the tax audit from the Financial Directorate of Slovak Republic. More than 90% of tax audits were realized or is still realized at value added tax payers.

Tab. 2: Registered VAT Payers in Slovak Republic during 2010-2015

Year	Count of VAT Payers	Y/Y increase of VAT payers in %	Share of VAT Payers on Total number of Tax Payers
2 010	200 437		6,92
2 011	205 180	102,37	6,87
2 012	209 268	101,99	6,79
2 013	206 918	98,88	6,55
2 014	202 359	97,80	6,30
2 015	201 976	99,81	6,22

Abbreviations: Y/Y – year on year, VAT – value added tax, Source: Information system of Financial Directorate of Slovak Republic

During the period which is analyzed at this paper the number of registered value added tax payers had increasing trend. In total it was about 8 831 more registered tax payers in 2012 comparing with the 2010. After the year 2012 the number of registered value added tax payers had decreasing trend, in spite of the growing number of all registered tax payers in generally. The main reasons of this decreasing trend were these factors:

- tax license for the registered value added tax payers is at least 100% more than tax license for the non-registered value added tax payers,
- Financial Directorate of Slovak Republic began actively, as the part of Slovak action Plan to combat tax evasion, cancel the value added tax evidence for tax payers without economic activity or with the activities connected with the tax evasion.

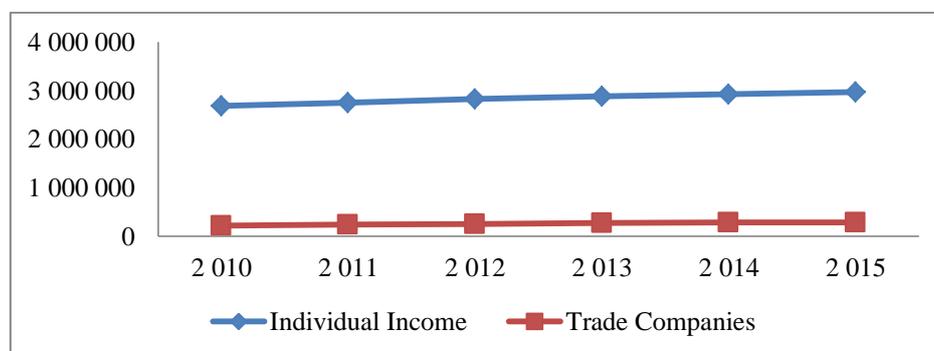
Tab. 3: Registered IIT Tax Payers and Corporate Tax Payers in Slovak Republic during 2010-2015

Year	Count of IIT Payers	Share of IIT on Total Number of Registered Tax Payers	Corporate Tax (CT)	Share of CT on Total Number of Registered Tax Payers
2 010	2 676 557	92,38	220 748	7,62
2 011	2 747 220	92,03	237 794	7,97
2 012	2 823 840	91,69	255 959	8,31
2 013	2 879 037	91,17	278 903	8,83
2 014	2 921 699	91,03	287 880	8,97
2 015	2 961 452	91,21	285 388	8,79

Abbreviations: Y/Y – year on year, VAT – value added tax, IIT – individual income tax, CT – corporate tax
Source: Information system of Financial Directorate of Slovak Republic

More than 90% of all registered tax payers during the period which is analyzed at this paper were individual tax payers. It was about 91.59 % individual tax payers and 8.41% corporate tax payers from all registered tax payers on average during 2010 - 2015. The growing trend of numbers of both tax evidence forms clearly shows also Figure 1. Only the 2015 is the exception of this trend.

Fig. 1: Registered Tax Payers in Slovak Republic during 2010-2015



Source: Information system of Financial Directorate of Slovak Republic

Tax on dependent activities is the tax which employers withhold to its employees from the wages or salaries according the law. Tax payers registered on this type of tax evidence withhold tax to its employees and subsequently repost withhold tax to the Financial Directorate bank account. Table 4 shows tax payers which were also registered at tax on dependent activities. In analyzed period 9.12 % of all tax payers were registered on this type of tax evidence (dependent activity). During the period which is analyzed at this paper the number of dependent activities registered tax payers had decreasing trend. The main reason of this trend was the year on year increasing level of minimum wage, social burden and health insurance payments as well, which are closely connected with minimum wage. In total it was about 18 359 more registered tax payers on depended activities in 2015 comparing with the 2010. It was the decrease about 6,41%.

Tab. 4: Registered DA Tax Payers in Slovak Republic during 2010 -2015

Year	Count of DA Tax Payers	Share of DA Tax Payers
2 010	286 061	9,87
2 011	285 216	9,55
2 012	284 962	9,25
2 013	282 217	8,94
2 014	284 909	8,88
2 015	267 702	8,25

Abbreviations: Y/Y – year on year, DA – dependent activity, Source: Information system of Financial Directorate of Slovak Republic

The lower percentage of all registered tax payers is connected with tax payers registered as withholding tax payers. This is specific tax from all types of taxes. Table 5 shows tax payers which were registered at withholding tax – this taxpayers were obliged to withdraw tax from the Slovak republic area financial and economic sources. Because of the narrowing set of income which has to be taxed by withdraw tax the number of this taxpayers had also decreasing trend.

Tab. 5: Registered WH Tax Payers in Slovak Republic during 2010 -2015

Year	Count of WH Tax Payers	Share of WH Tax Payers
2 010	37 943	1,31
2 011	36 869	1,24
2 012	35 978	1,17
2 013	34 941	1,11
2 014	33 536	1,04
2 015	30 858	0,95

Abbreviations: Y/Y – year on year, WH – Withholding Tax, Source: Information system of Financial Directorate of Slovak Republic

The specific tax which was not the state budget income until 2015 is the motor vehicle tax. This tax was the regional tax in the period 201-2014. Number of tax payers registered on this type of tax evidence had increasing trend. In total it was about 364 954 registered tax payers on motor vehicle tax. It was about 11.77 % of all registered tax payers.

Tab. 6: Registered MV Tax Payers in Slovak Republic during 2010 -2015

Year	Count of MV Tax Payers	Share of MV Tax Payers
2 010	322 295	11,12
2 011	348 638	11,68
2 012	358 468	11,64
2 013	368 573	11,67
2 014	391 607	12,20
2 015	400 148	12,32

Abbreviations: Y/Y – year on year,, MV – Motor Vehicle Tax, Source: Information system of Financial Directorate of Slovak republic

Process of potential tax payers decision, which form of economic activity is the most appropriate for them is highly determined of the current law of the Slovak Republic. It is also determined by its impact on the economy of the future tax payers. In generally, this specific decision of each tax payer was and also is individual. The analyze and evaluation of different factors which have the significant impact and which influence the tax payers decision are based on questionnaire method. Respondents of the analyze were individual tax payers,

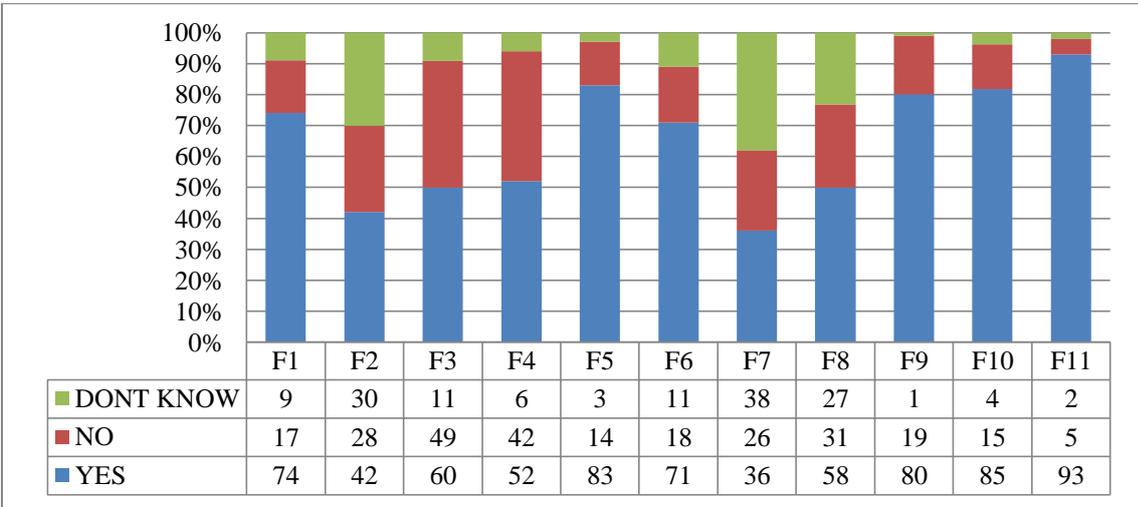
corporate tax payers, value added tax payers and not value added tax payers. The distribution of tax payers was equitable.

Factors, which influence the tax payers decision concerning their future economic activity form and which were included in questionnaire questions are following:

F1	Cost connected with tax and accounting evidence
F2	Cost connected with other legislative (Trade register)
F3	Cost connected with employment of other subject
F4	Tax deduction as a reduction of income that is able to be taxed
F5	VAT – value added tax evidence and registration
F6	Social burden and obliged payments to the health security funds
F7	Tax license
F8	Probability of tax audit
F9	Possibility of lump sum expenses
F10	Criminal liability of individuals
F11	Criminal liability of corporates

As it is showed above process of potential tax payers decision, which form of economic activity is the most appropriate for them is mostly determined by Criminal liability. The second important factor is VAT – value added tax evidence and registration. At individuals tax payers decision very important factor is also the possibility of lump sum expenses. The exact and precise specification of all researched factors are presented in Figure 2.

Fig. 2: Factors of decision of registered tax payers



Source: Own processing

Conclusion

During the period 2010-2015 which is analyzed at this paper the majority of registered tax payers were individual tax payers. During the period the number of tax payers registered as

individuals and also corporative tax payers had increasing trend. The rate of these two basic forms of economic activity has not significant changes.

Process of potential tax payers decision, which form of economic activity is the most appropriate for them is highly determined of the current law of Slovak Republic. It is also determined by its impact on the economy of the future tax payers and individual knowledge and experiences. Significant factor for individual tax payers is the possibility of lump sum expenses and tax allowances, mostly during the initial years of economic activity. This premise and experiences from practical was also confirmed by questionnaire questions research and are presented at this paper.

Authors of the paper came up with the idea try to find the determinants of the decisions of taxpayers in choosing business forms. They gain the data from Financial System of the Slovak Republic and used them in detail for analysis the development of various business forms in the period 2010-2015. The expected causes of this development were compared with the data which were gained through questionnaire method. The results can be a platform for the future discussion concerning legislative changes in tax and business law.

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