Chapter 10
Taxation System in Slovakia: National Featues and Prospects of Integration

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ABSTRACT

A common European area without any internal borders between the EU Member States creates greater risks in terms of tax evasion and avoidance by economic entities. Increasing tax burden during the financial and economic crisis led to an increase in tax evasion as a result of changes in the behavior of taxpayers. This chapter deals with the current problems of taxation in Slovakia in the context of effective tax collection and tax evasion prevention. The aim of the chapter is to assess the development of corporate income tax, excise tax on alcoholic beverages, and value added tax, which are considered to be the most risky ones in terms of tax evasion.

INTRODUCTION

Slovak tax system is a young one. A new tax system of the independent Slovak Republic introduced back in 1993 had many features similar with Danish tax system. The main task of the tax policy of that time was providing the sufficient volume of tax revenues in the course of transition from the centrally planned economy to the market one. The difficulty of this task was emphasized by the fact that new taxes were demanded in the period of significant changes in the structure of both revenues and expenses. The first tax reform in the early years of Slovak independence had its impact on all areas of economic policy at the macro and micro levels since the related changes in the tax policy influenced the fiscal and the social dimensions as well as general economic one. The first phase of the tax reform in Slovak Republic started in 1991. The year 1992 can be considered as the second phase of the tax reform already, because

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the first tax act was adopted. It led to determination of the separate types of taxes, which form the new tax system of Slovak Republic, e.i., there was already a division between direct and indirect taxes.

In June 2003 Slovak government approved the document titled "The Concept of the Tax Reform in the Slovak Republic in 2004-2006". The purpose of the tax reform was to eliminate the deficiencies of the already functioning tax system. The tax reform was part of the broader reform programme, which also included the reform of public finance, social and pension reforms, labour market reform, healthcare sector reform and also reform of public administration. There was a significant drop in the rate of the corporate income tax to 19% which was applied to natural persons in the same amount as VAT. However, this decrease of the tax rate was accompanied by the significant increase of tax revenues.

The tax system often tends to become some sort of a vicious circle. Due to the presence of various tax benefits, tax rates must be maintained at a level high enough to cover the required expenses. High tax rates usually stimulate tax avoidance behavior among population as well as businesses. It reduces the tax base and creates the pressure on further increase of tax rates (Jackson & Brown, 2003). We can state that it is not possible to copy the tax system of another country while introducing own tax system, the philosophy of own tax policy of a particular state must be always unique. Introduction of own tax system also means some sort of compromise between the current trends of taxes on the international scale on the one hand and specificity of a country on the other.

Tax system is a dynamically developing organism, with its own internal and external impacts. Implementation of tax policy means practical application of tax instruments for influencing economic and social processes in the society. Effectiveness of each tax collection can be assessed from several standpoints. In the times when tax revenues are decreasing it is necessary to search for new possibilities of obtaining additional budget revenues. Changes in tax policy have a significant impact on the development of fiscal policy as well as on the formation of pension and social policies. They also influence the structure of population incomes and the character of consumption in a country.

A significant external factor which has its strong impact on the tax system of Slovak Republic is the international cooperation of tax administrations. The most important effects from the international exchange of information in this field are prevention of tax evasive behavior and additional support for voluntary compliance with tax obligations. A well functioning and effective system of the international exchange of information on taxation creates extra pressure on the individuals that tend to demonstrate tax evasive behavior. Secondly, there is an additional financial effect since international cooperation in the field of tax compliance is able to provide additional budget inflows into Slovak Republic, and since 2004 such additional inflows have actually grown manifold. Cooperation of Slovak tax authorities with their Dutch and Danish colleagues has proved to be quite effective in terms of measurable financial results for Slovak Republic. Experience of European counterparts has been used in Slovakia as the basis for the creation of own risk management model and better control under specific conditions of Slovak economy.

PURPOSE, OBJECTIVES AND HYPOTHESES OF THE STUDY

The purpose of this study is to highlight the current development problems of the taxation system in Slovak Republic, e.i., those problems that are directly related to effective collection of the selected taxes and elimination of tax evasion. The monitored period is the period from the time of Slovak Republic accession to the European Union back in 2004 until the end of 2016.

The objectives of the study are as follows:

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