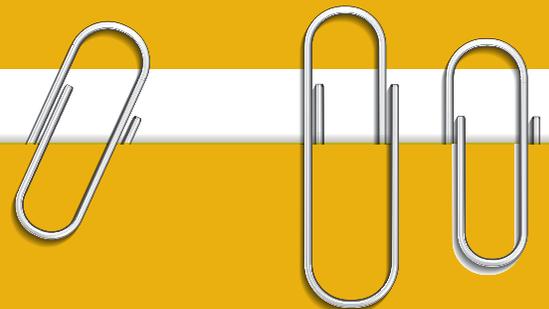




# Tax compliance costs in North Macedonia

*An accountant's perspective*



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Center for Economic Analyses

# Tax compliance costs in North Macedonia

## An accountant's perspective

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## Background

Tax compliance costs are considered to comprise of all the costs that burden businesses for complying with tax regulation, aside from taxes themselves. Companies have expenses regarding processing, calculating and administering taxes and they can be direct and indirect. Direct legal burdens are related to special education of accountants to be able to submit tax reports, tax accountants cost per hour, or software equipment for tax filing. However, tax compliance costs are not limited to tax preparation and reporting. There is also an indirect tax compliance cost to companies. Although indirect tax compliance costs are difficult to be separated between costs for accounting and costs for tax compliance, they are a significant portion of the tax compliance burden, since the accounting and financial reporting activities of companies are in part dependent upon tax reporting, and vice versa.

There is no one unified method for calculating tax compliance costs for legal entities, primarily because the tax compliance costs vary depending on taxes, and on different sizes of businesses, as well as different economic activities. Most studies, albeit few in number, are designed to calculate tax compliance costs for indirect taxes – VAT in particular, whereas a lower number of studies have been addressing costs for complying with other types of taxes as well, mostly personal income taxes and payroll taxes, and company income taxes.<sup>1</sup>

World Bank for example calculates time to prepare and pay taxes. This is the time, in hours per year, it takes to prepare, file, and pay (or withhold) three major types of taxes: the corporate income tax-CIT, the value added or sales tax-VAT, and labour taxes, including payroll taxes and social security contributions<sup>2</sup>.

Our case study for North Macedonia will calculate tax compliance costs on a sample of 83 Macedonian SMEs, from an accountant's perspective as per an accounting company experience that is working in this field for more than 30 years. The tax compliance costs are calculated for micro, small and medium sized entities, and comprise costs that accountant bare for preparation, calculation, filing of taxes and post-filing services, such as audits and investigations from the public revenue office-PRO. All entities included in the sample are micro, small or medium-sized and they all outsource accounting and taxation services in full.

The goal of this study is to calculate the average tax compliance cost for a Macedonian SME to comply with the VAT, payroll taxes and social security contributions and CIT, through calculating the average tax compliance cost of this sample of 83 companies. Of course, that the sample is small and the results should be analysed with care but they are indicative and invite for more thorough analysis.

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<sup>1</sup> Just to mention few: Tran-Nam, et al. (2000). Tax Compliance Costs: Research Methodology and Empirical Evidence from Australia. National Tax Journal or: Buske et al. (2018). Study on tax compliance costs for SMEs. Luxembourg: Publication office of the European Union.

<sup>2</sup> See for example: <https://data.worldbank.org/indicator/IC.TAX.DURS>. For 2020 minimum hours per annum for preparing and paying taxes is calculated for Bahrain of 22.5 hours and maximum of 1,501 hours for Brazil. For North Macedonia it is calculated 119 hours per annum per World Bank methodology.

## Scope

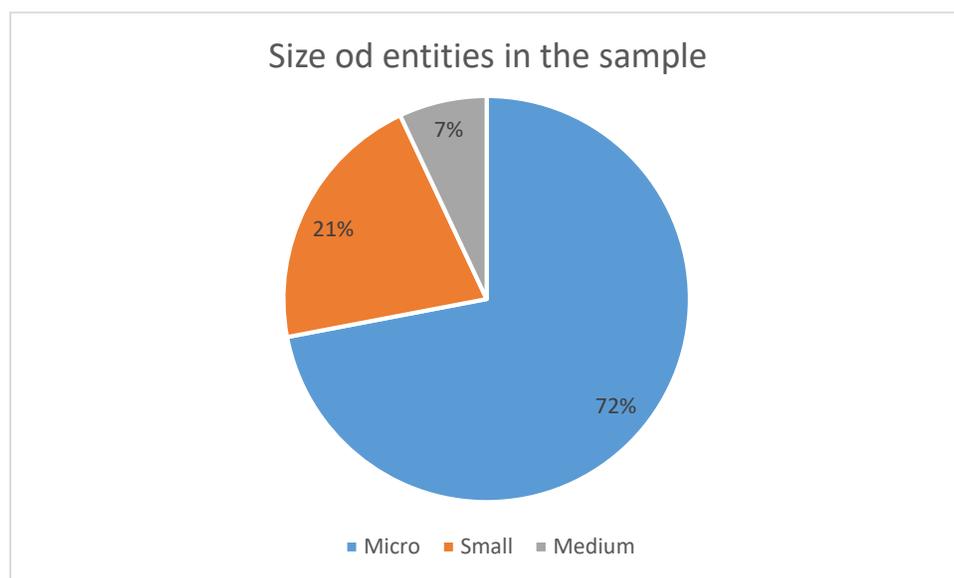
The studied sample comprises of 83 Macedonian micro and SMEs, from various sectors, both profit and non-profit. The following parameters define the scope of the study:

- Size of entities
- Industry sectors
- Timeframe

Three categories regarding size of entities are identified in the study: micro entities, small entities and medium-sized entities. The classification of entities by size is made according to the national classification of entities in the Republic of North Macedonia, with regard to number of employees as the primary parameter, as follows:

- Micro entities: under 10 employees,
- Small entities: between 10 and 49 employees
- Medium-sized entities: between 50 and 250 employees.

Out of the sample, there have been 60 micro entities surveyed, 17 small entities and 6 medium-sized entities.



### *Entities in sample by entity size*

Thus, the sample and the population for North Macedonia is presented in the next table.

Table. Number of micro, SME in North Macedonia and in the sample and structure of employees

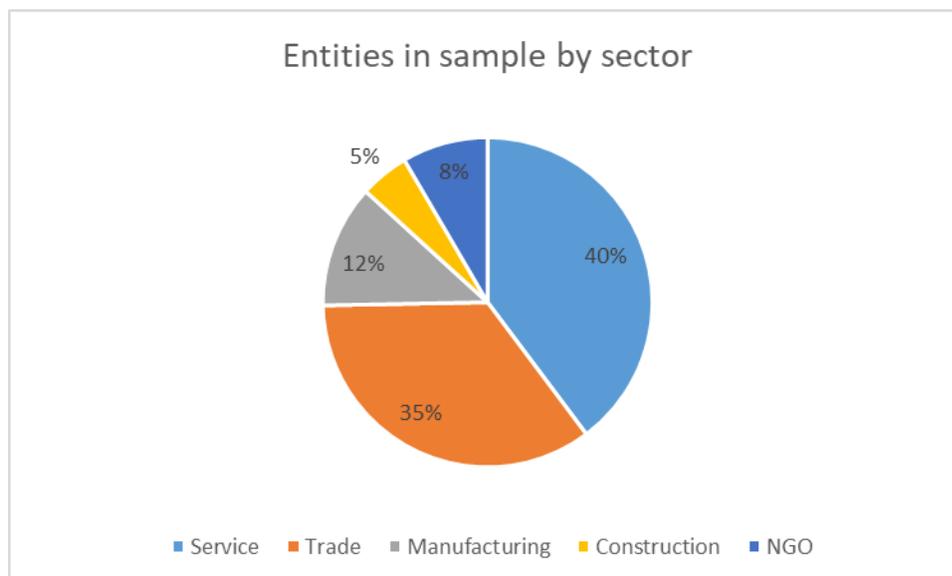
	Population	Sample	Employees in %*
<b>Micro</b>	66,013	60	26
<b>Small</b>	5,405	17	21
<b>Medium</b>	1,410	6	29
<b>Large</b>	233	0	24
<b>Total</b>	73,061	83	100

\*Estimate by the authors. Source: State statistical office-SSO and the database of the accounting company.

According to the economic activity from which entities are coming, the sample comprises:

- Trade companies
- Service companies
- Construction companies
- Manufacturing companies
- Non-profit organizations (NGO)

The sample included 29 trade companies, 10 manufacturing companies, 4 construction companies and 34 service companies. Additionally, 6 of the surveyed entities are NGOs. They are included in the study, since a significant number of taxes are applied to NGOs similarly as to profit entities, which creates a tax compliance cost, and additional burden for operating for NGOs even though considered not for profit sector.



*Entities in sample by industry sector*

Lastly, the study uses data from 2020, as the most recent fully available data on both taxes and financial information on companies. Financial statements and tax returns of all entities included in the study have been used as to calculate the average monthly dataset for companies, as well as the average monthly costs, as reported in 2020.

## Methodology

The methodology comprises two phases. In the first phase we calculate the tax compliance costs for the sample and in the second phase we scale up the costs to all of the population of the business entities in North Macedonia to calculate the size and the impact of the tax compliance costs in North Macedonia.

### First phase – monetizing the tax compliance costs from the sample

The first phase of the methodology consisted of collecting data from surveyed entities and their financial statements and tax reports for the year 2020. The following data was collected via entities' financial statements:

- Gross revenues
- Net revenues
- Profit
- Total assets
- Total taxes paid

Additionally, via tax reports, VAT taxes and payroll taxes were surveyed. VAT and payroll taxes used from tax reports and company income tax (CIT) from the financial statements comprise total taxes paid. Since they are available from annual reports (for the year 2020), a monthly average has been calculated.

**Gross value added** is used in the survey, but as a derived value. Gross value added has been calculated using the information available on companies. It has been calculated as gross revenues minus cost of goods and services purchased from companies.

**The cost of compliance has been divided into two portions: direct cost and indirect cost.** All information on both strands come from the real accountant's costs for the year 2020, divided by average hours per month.

#### **The direct tax compliance costs comprise of:**

- Salaries of tax advisors and accountants working directly on taxation matters
- Costs and expenses for education of tax advisors and accountants working directly on taxation matters

The direct tax compliance cost has been expressed per hour. Through a survey of the staff involved in tax services of the accounting company, actual monthly hours spent have been defined per client, and per tax type: labour taxes, CIT and VAT. The direct tax compliance cost can thus be calculated separately per type of tax, and as a whole, for the entire direct hours spent per company on tax reporting and service.

#### **Indirect tax compliance costs include:**

- Salaries of accountants not directly involved in tax reporting and supporting staff
- Licensing and insurance fees legally required for accounting companies and accounting personnel
- Software costs for specified accounting software
- Cost of equipment
- Transport and communication costs

The indirect costs overlap with costs of accounting and financial reporting activities, since not all accounting costs are incurred with the sole purpose of preparation of tax reports. Although to entities it may appear that all accounting costs are tax compliance costs, taxation is not the only reason for accounting services. Even if entities do not recognize the need for accounting, aside from the tax calculation service, accounting services theoretically are primarily focused on catering the need for business information for entities (managers, shareholders, owners etc.) Therefore, it was inadequate to write-off all indirect costs as only tax compliance costs, so these costs are taken at a rate of 50% of actual indirect costs, since during their creation, they not only serve for taxation purpose, but also for accounting and reporting purposes for the benefit of managerial and shareholder information.

The indirect tax compliance costs are also calculated on an hourly basis, and are assigned according to direct tax hours per entity.

The collected data has been analysed and used in the ratio analysis of tax compliance costs.

## Second phase – scaling up the tax compliance costs and impact calculation

In the second phase we scale up the costs to all of the population of the business entities in North Macedonia to calculate the size and the impact of the tax compliance costs in North Macedonia. We use the CEA Macroabc model that is similar to the Financial Programming of IMF and more advanced than the Reduced Minimum Standard Model (RMSM-X) of the World Bank<sup>3</sup>. We use this CEA Macroabc model to test the impact of the tax compliance costs to the budget deficit and the GDP of Macedonia.

## Tax compliance costs

### Accounting tax compliance costs monetized

#### ATTC depending on the size of the companies

The accounting tax compliance cost (ATCC) has been calculated as an absolute monetary value in Macedonian denars (MKD). In the whole sample of 83 entities, the ATCC has been calculated to be 3,043 MKD monthly per an average entity. The direct tax compliance cost on average is 1,749MKD, whereas the indirect tax compliance cost average amounts to 1,294MKD. In terms of distribution per size of entities, ATCC per month for a micro entity is 1,639 MKD, 4,935MKD per small company, and 13,255 MKD per medium sized business.

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<sup>3</sup> See more: <https://cea.org.mk/documents/forumi/Proceedings%20Paper%20%202007%20MMC%201.pdf>.

In monetary terms, it seems as if the distribution of ATCC is expected, as it is expected that smaller entities would have less burden for tax compliance than larger ones. Additionally, the distribution of hours worked on tax compliance is in line with the size of the entity – micro entities use on average 3 hours per month on tax compliance, small entities 6 hours and medium-sized entities use up the most time on a monthly basis for tax compliance -28 hours. This is expected, as medium-sized entities have more reporting needs and additional time is spent on preparing separate tax reports, having in mind that these entities are obligated to report for all tax categories – payroll, company income tax and VAT. On the other hand, not all micro and small entities have the reporting necessities as do medium-sized entities have: some of the micro and small entities do not have payroll, and they are not all VAT payers, which makes the time for tax compliance lower.

Size of entity	ATTC in absolute value	Hrs/entity
Micro entities	1,639	3
Small entities	4,395	6
Medium entities	13,255	28

*ATTC in absolute value per entity size and average tax compliance hours*

#### Scaling up the ATTC depending on the size of the entities

**If we use these averages to all business entities in North Macedonia the total ATCC are 2.7 billion MKD or more than 400 million Euro per annum or almost 0.4% of the GDP or 1.4% of total budget revenues (see table).**

Table. Tax compliance costs for micro, SME in North Macedonia in MKD

	Entities	ATTC/month/entity	ATTC/month	ATTC/year
<b>Micro</b>	66,013	1,639	108,195,307	1,298,343,684
<b>Small</b>	5,405	4,395	23,754,975	285,059,700
<b>Medium</b>	1,410	13,255	18,689,550	224,274,600
<b>Total</b>	72,828	3,043	221,615,604	2,659,387,248

Source: State statistical office-SSO and the database of the accounting company.

**If we use these averages to all business entities in North Macedonia the total hours per annum are more than 5 million or this is 54,621 working days or this represents annual workforce of 2.481 workers (almost half of the total employees in the administration in municipalities for example).**

Table. Tax compliance costs for micro, SME in North Macedonia in hours-h

	Entities	h/month/entity	h/month	h/year
<b>Micro</b>	66,013	3	198.039	2.376.468
<b>Small</b>	5,405	6	32.430	389.160
<b>Medium</b>	1,410	28	39.480	473.760
<b>Total</b>	72,828	6	436.968	5.243.616

Source: State statistical office-SSO and the database of the accounting company.

### ATTC depending on the business activity of the companies

In terms of sectoral distribution, service companies have an average ATCC of 2,761 MKD per month, trade companies have an average ATCC of 3,407 MKD per month, manufacturing companies 3,133 MKD per month and construction companies 4,459 MKD per month. In absolute value terms, the results appear logical, as usually most tax activities are connected with construction companies, and least time spent on tax-related services is usually in the service sector. Service companies on average require 6 hours per month for tax compliance, trade and manufacturing 7 hour per month, whereas for construction companies the average monthly hour requirement is 9 – and in reality, these companies use up a greater portion of accountants' time for tax compliance. In terms of non-profit entities, the absolute value ATCC is 1,928 MKD, with an average of 4 hours monthly spent for tax compliance.

Sector	ATTC in absolute value	Hrs/entity
Service	2,761	6
Trade	3,407	7
Manufacturing	3,133	7
Construction	4,459	9
NGO	1,928	4

*ATTC in absolute value per sector and average tax compliance hours*

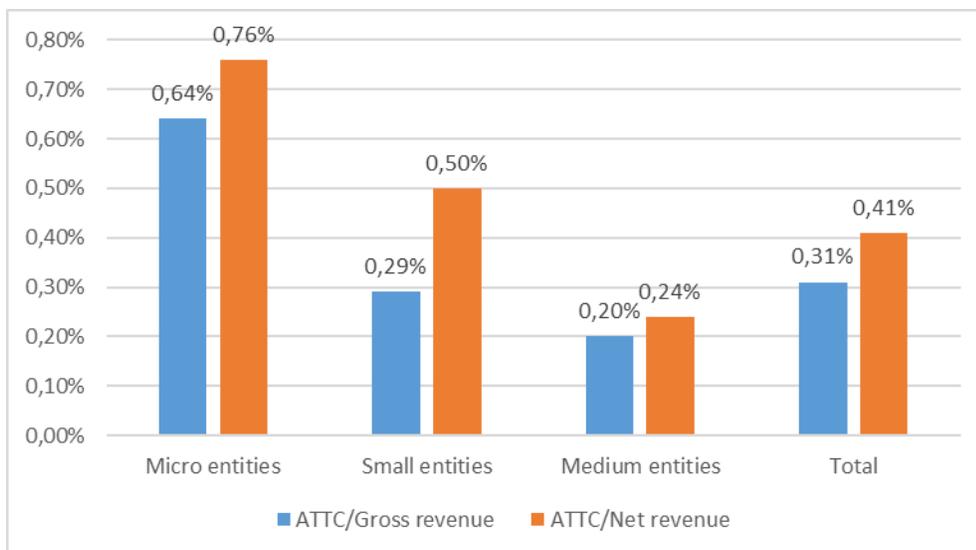
### Ratio analysis of accounting tax compliance costs

Although absolute value analysis gives some perspective as to what are the monthly costs of entities to be tax compliant, it is important to put those values in relation to the companies' results. For that purpose, six categories of entity financial information were outlined: gross revenues, net revenues, profit, total assets, gross value added and total taxes paid. By expressing the ATCC as a ratio of these information, a better image of the actual tax compliance burden can be achieved.

The ratios are calculated on the basis of the averages of the analysed determinants: gross revenue, net revenue, profit, gross value added, total assets and taxes paid, for the whole sample, per entity size and per sector, using the previously calculated average ATCC for all groups of the sample.

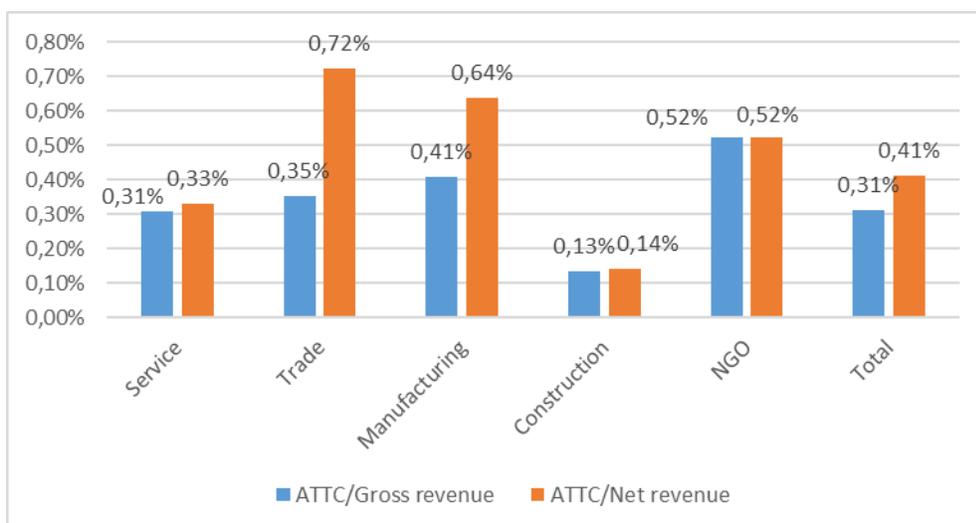
### ATCC per gross and net revenues

In terms of gross and net revenues, the results of the sample were almost identical. The ATCC per gross/net revenue for an average SME is 0.31% and 0.41% respectively. Micro companies report ATCC per gross revenue of 0.64% and ATTC per net revenue of 0.76%. Small companies have a significantly lower ATCC to gross revenue and net revenue ratios – 0.29%% and 0.50% respectively, whereas medium sized companies have even lower ratios – 0.20% and 0.24% respectively.



#### *ATCC per gross and net revenue by size of entity*

In terms of distribution by sectors, service companies report 0.31% (0.33%) of ATCC per gross revenue (net revenue). Trade companies report 0.35% (0.72%) ATCC per gross (net) revenue. Manufacturing companies report 0.41% (0.64%) ATCC per gross (net) revenue and construction companies report ATCC per gross (net) revenue – 0.13% (0.14%). NGOs have the same ratio for both ATCC per gross and net revenue – 0.52%.



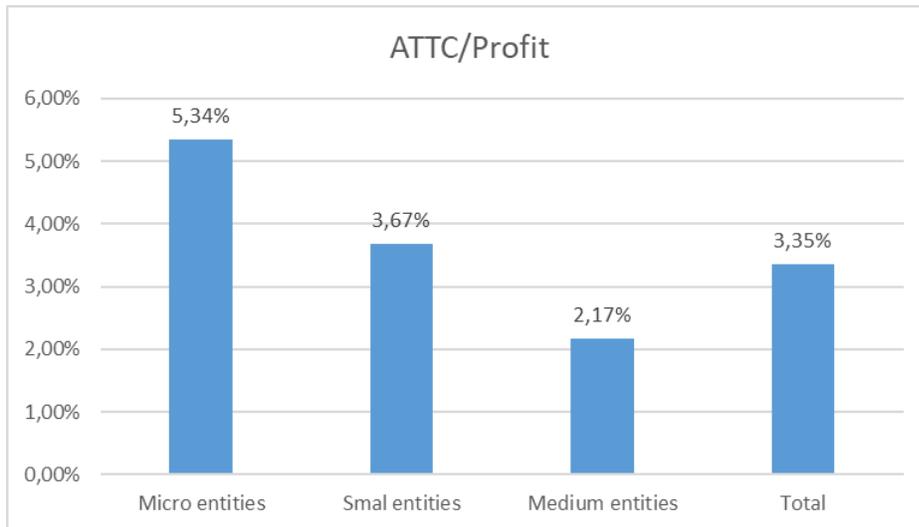
#### *ATCC per gross and net revenue by sector*

#### **ATCC per profit**

The average entity has ATCC/profit ratio of 3.35%, meaning that over 3% of the net profit accounts for tax compliance costs (other than actual taxes paid). In terms of size, micro entities report a ratio of 5.34%, small entities 3.67% and medium-sized entities 2.17%. It has been theoretically argued that indeed smaller companies have higher tax compliance costs in relation to both revenues and profit as opposed to larger

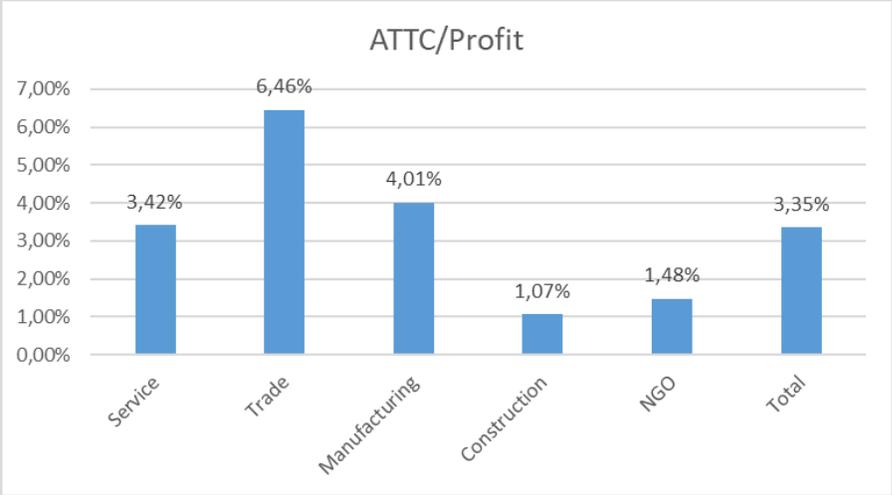
ones – this is mostly because their revenues and profits are much lower than their obligations for preparation, reporting and servicing taxes, and the tax compliance costs are not proportional to both revenues and profit.

In this sense, it can be assumed that the cost of tax compliance for the smallest companies is the biggest burden – micro companies need catering which is very similar in time and costs to small and medium sized companies, whereas their actual activities, revenues, and profits, are much smaller than those of small and medium sized entities.



*ATCC per profit by size of entity*

In terms of sectoral distribution, the ATCC/profit ratio of service companies is 3.42%, whereas the same ratio for trade companies is almost doubled – 6.46%. For manufacturing companies this ratio is 4.01% and for construction companies 1.07%. For NGOs this ratio is 1.48%. It must be noted that since NGOs are non-profit, the term used to calculate “profit” is the excess of revenues over expenses, as reported in the financial statements of surveyed NGOs.

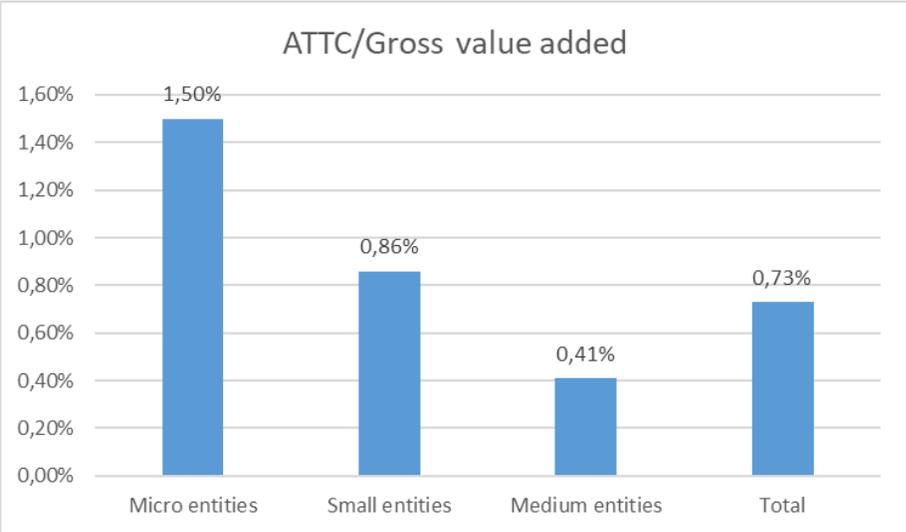


*ATCC per profit by sector*

For service and trade companies, the tax compliance cost in relation of profit is higher because of lower average profits of the sample, but also it is related to the non-proportionally lower direct hours for tax compliance for these sectors as opposed to manufacturing and construction, where more direct hours are used, but a significantly higher profitability is recorder for the latter companies.

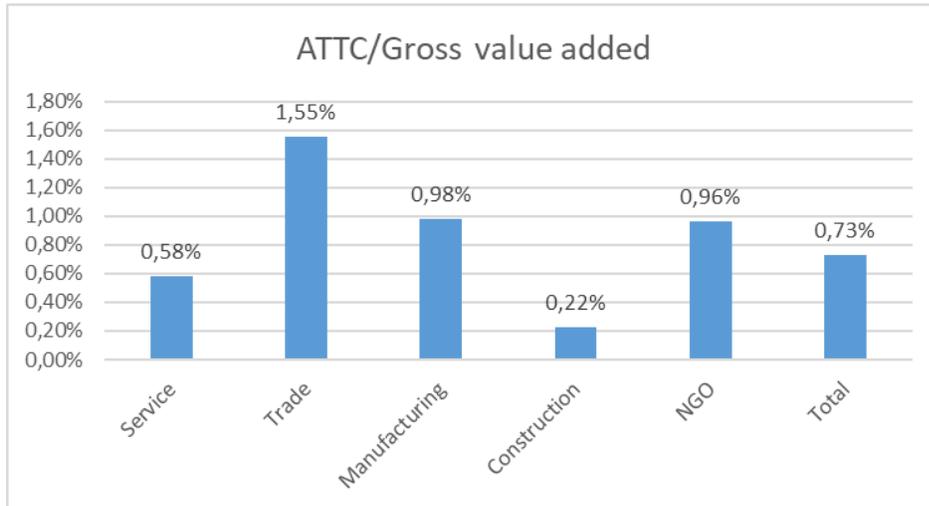
**ATCC per gross value added**

The average ATCC per company in the sample is 0.73%. Again, the values vary across company size and sector significantly. For micro entities, this ratio is 0.27% for small companies 0.86% and 0.41% for medium-sized companies. It is observed that small companies have more costs for tax compliance than medium companies, mostly because they have smaller value added to their revenues, in relation to direct hours used for tax compliance.



### *ATCC per gross value added by size of entity*

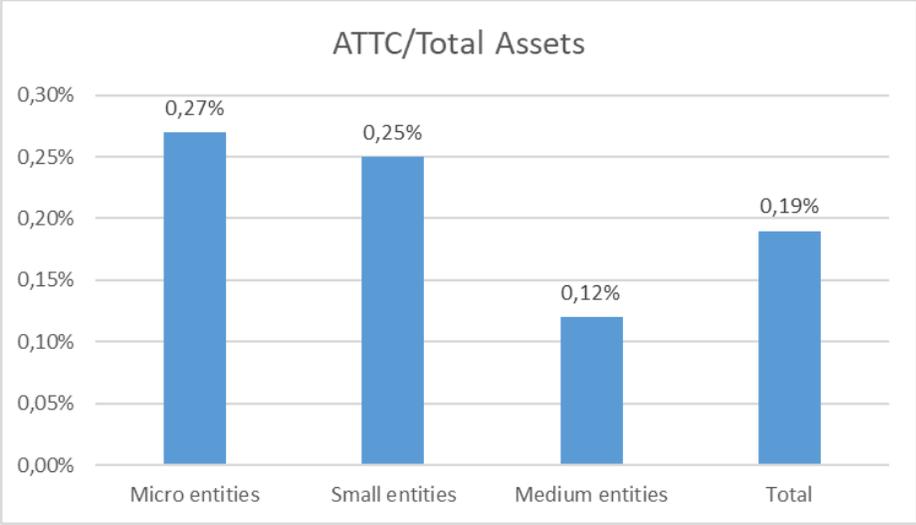
Regarding sectorial distribution, the calculated ATCC/GVA is as follows: 0.58% for service companies, 1.55% for trade companies, 0.98% for manufacturing companies and 0.22% for construction companies. The results are similar to the distribution of the ATCC/profit ratio. The ratio for NGOs is 0.96%.



### *ATCC per gross value added by sector*

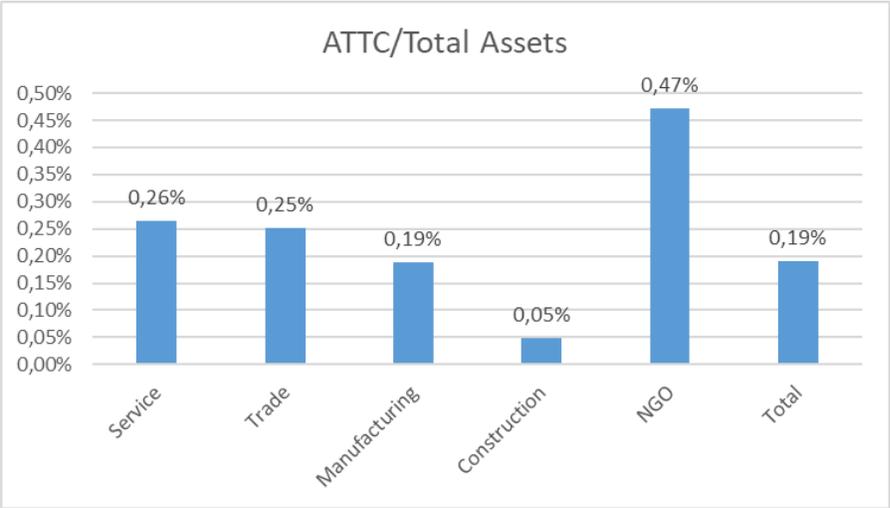
#### **ATCC per total assets**

The calculation of the relation between ATCC and total assets has shown that for an average company of the surveyed sample, tax compliance costs amount to 0.19% of total assets. However, when looking at the ratios per size and sector of entities, the results vary significantly. Micro and small companies have significantly smaller balance sheets and total assets that medium-sized companies, and their respective ratios are much higher. The average ratio for a micro company is 0.27%, and similarly 0.25% for a small company. The ratio for a medium-sized company is 0.12%, which signifies that medium sized companies have a much greater value for total assets, in relation to the actual tax compliance cost.



*ATTC per total assets by size of entity*

In the service sector, this ratio is 0.26%, whereas in the trade sector is similarly 0.25%. In the manufacturing sector the ratio is somewhat lower—0.19%, since manufacturing companies tend to have higher values for total assets. However, the significant difference across sectors can be seen in construction companies, which have high values of total assets (and mostly long-term assets – property, equipment, vehicles), and in relation to tax compliance cost, the ratio is 0.05%. In the analysis of this ratio, NGOs report the higher percentage – tax compliance costs amount to 0.47% of total assets. This is mainly because NGOs have low values of total assets, due to the nature of their work, but this does not affect the tax compliance cost – regardless of the lower total asset value, tax compliance cost is similar to companies with higher asset values.



*ATCC per total assets by sector*

### ATCC per total taxes paid

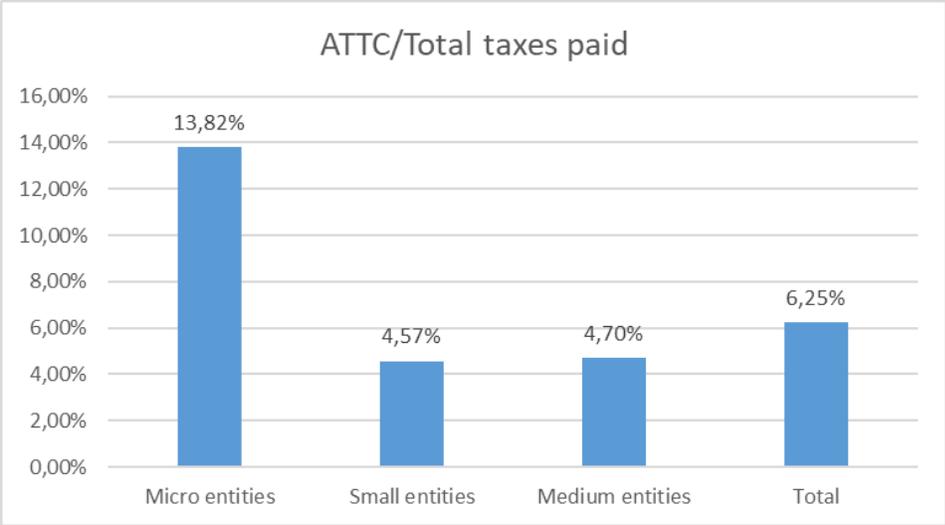
One of the important relations of the tax compliance cost is its relation to total taxes paid by an entity. By this analysis, the “hidden” cost of taxation can be seen, as it may appear that we have lower tax rates, but the tax compliance costs for calculating, reporting and catering to the taxes and taxpayers might be relatively higher. The average ATCC/total taxes paid for an average company of the sample is 6.25%.

**This implies that for every 1 million MKD paid in actual taxes, entities pay additional 62,500MKD for tax compliance – calculation of taxes, reporting and post-reporting services (audits, communication with public revenue office, changes, etc.).**

Micro entities report ATCC/total tax paid ratio of 13.82%, small entities 4.57% and medium entities 4.70%. As it was previously discussed in terms of ATCC and revenues/profit, micro companies have the highest relative tax compliance costs. These companies have low payroll taxes (fewer than 10 employees and usually next-to minimum wages) and some of them are not registered for VAT, which means that the greatest portion of their paid taxes come from company income tax, which is low (and some companies have been tax-exempt)<sup>4</sup>. However, the time required for preparation of taxes for micro companies is not proportionally lower and in some specific cases, it may be the same as for small and medium sized companies. During the research year (2020) there was a number of measures for tax exemption of micro companies, especially those that have not generated profits. However, in order for companies to use these measures, very specific sets of documentations, reports and follow-up calculations needed to be done, which have increased the time spent for tax compliance. Therefore, even when companies were exempt from portions of their taxes, they still incurred tax compliance costs similar to those of companies actually paying taxes.

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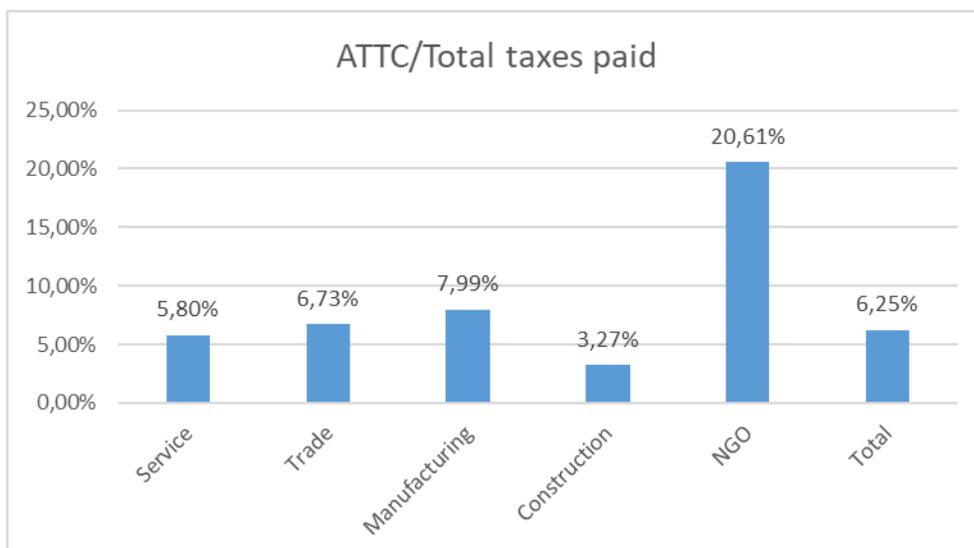
<sup>4</sup> There were a number of tax exemptions during 2020 for micro companies, due to the COVID-19 crisis, as a part of the governmental measures for support of businesses during a pandemic. For micro companies, these included an exemption of company income tax for all entities with gross revenues of less than 5.000.000MKD. Therefore, a number of surveyed micro companies had very few tax liabilities and their total taxes paid are lower than they would have been without the implementation of this measure.



*ATTC per total taxes paid by size of entity*

In terms of sectoral distribution, service sector companies pay 5.78% of total taxes paid for tax compliance costs. In the trade sector, this ratio is 6.73%, in manufacturing 7.99% and in the construction sector 3.27%. The distribution across sectors is in line with the direct hours spent for tax compliance, since manufacturing companies usually have more tax-related compliance costs. When looking at the ratio in the construction sector, tax compliance appears lower, but this is because this is a more heavily taxed sector, and total taxes paid on average is higher than it is across other sectors.

It is interesting to note that NGOs have the highest ratio of ATTC per total taxes paid of 20.61%. NGOs rate of taxes is lower, and for a number of types of revenues NGOs are tax-exempt. Therefore, the NGOs surveyed have very low average total taxes paid value. However, similarly to the comparison of micro companies, the time required to calculate, report and follow-up on taxes is not proportional to the actual taxes paid. Many non-taxable items are often debated with the public revenue office, check-ups are required and often in regarding a specific NGO, the tax compliance costs can be similar to the actual taxes paid. Therefore, tax calculation, preparation and follow-up for NGOs is a significant budget item, in relation to the actual taxes they end up paying.



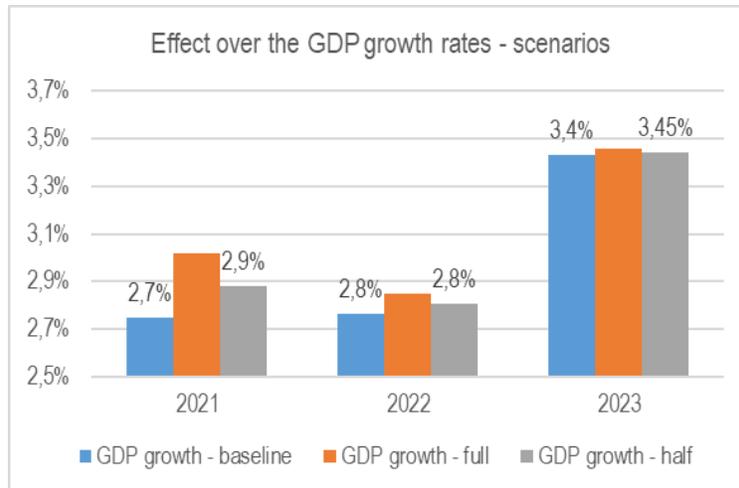
*ATCC per total taxes paid by sector*

## Scaling up tax compliance costs and its impact

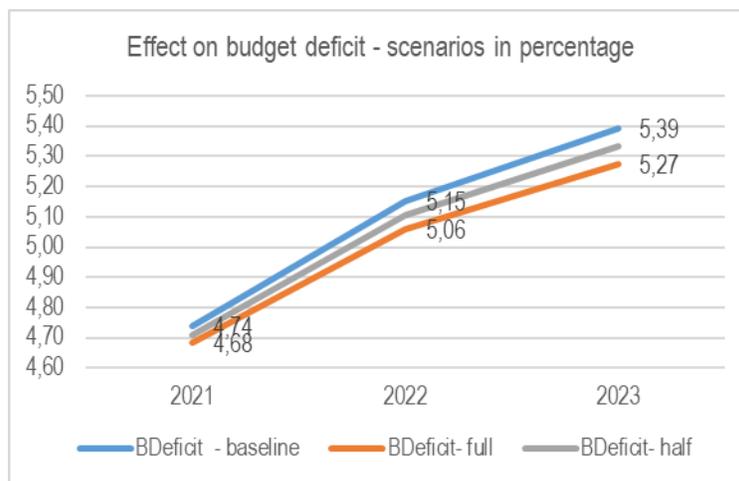
In the second phase we scale up the costs to all of the population of the business entities in North Macedonia to calculate the size and the impact of the tax compliance costs in North Macedonia. We use this CEA Macroabc model to test the impact of the tax compliance costs to the budget deficit and the GDP of Macedonia.

The results from the estimation from the CEA Macroabc model illustrates that reduction in full of tax compliance costs result in estimates of foregone economic growth of 1,752 to 2,617 million MKD annually or 0.12 p.p. of economic growth. For a period of three years the total foregone economic growth is estimated at 6,753 million MKD.

As this assumption for reduction of all tax compliance costs is not possible, we illustrate that a reduction of half of the tax compliance costs result in estimates of foregone economic growth of 876 to 1,297 million MKD annually or 0.06 p.p. of economic growth. For a period of three years the total foregone economic growth is estimated at 3,358 million MKD.



Reduction of tax compliance costs by 50% result in estimates of lower budget deficit by 140 to 346 million MKD annually or around 0.04 p.p. lower budget deficit annually.



## Concluding remarks

The survey of the accounting tax compliance cost of 83 SMEs in the Republic of North Macedonia attempts to illustrate the ATTC for micro and SMEs in value, and as a percentage of revenues, profit, gross value added, total assets and total taxes paid. The results make some significant point on how entities are burdened with costs for being tax compliant, and several points can be observed:

- For every 1 million MKD paid in actual taxes, entities in Macedonia pay additional 62,500MKD for tax compliance (calculation of taxes, reporting and post-reporting services like audits, communication with public revenue office, etc.).

- In terms of ATTC in absolute value, the burden of tax compliance costs is in line with the size of the entity, with smaller entities having less monthly ATTC than larger ones. However, in matching ATTC with different determinants, we find that micro companies are relatively more burdened with tax compliance cost in relation to their financial results. Note that these entities are representing 90% of the total business entities in North Macedonia employing more than ¼ of total employees in North Macedonia.
- Micro companies' tax compliance cost is highest in relation to actual taxes they pay. From the field information of accountants, the reason behind this is that micro companies have the lowest rate of taxes, but the time it takes for their preparation, reporting and follow-up is relatively high. Even micro companies that are exempt from certain types of taxes (VAT, CIT) need to report for the reasons for exemption, implying that they still have tax compliant costs even without paying taxes.
- In terms of sectoral distribution trade companies have higher ATCC in relation to financial results (revenues, gross value added and profits). One of the main reasons is that trade companies observe most hours spent on tax compliance for reporting and especially for follow-up on reports (and are usually mostly targeted by public revenue office audits in the sample surveyed). Additionally, similar tax compliance time is used on construction companies, but their average revenues and profits are much higher than those of trade companies.
- In terms of ATCC per total taxes paid, it appears that in the business sector there is no great variation of the tax compliance cost. However, it was observed that NGOs have an extremely high ratio, which is mainly due to the fact that NGOs are exempt from certain forms of taxes: they pay only a modified, lower form of CIT, usually are not VAT registered (only one VAT registered NGO was surveyed from the sample), and the bulk of total taxes paid comes only from payroll/personal income taxes.
- However, the regulations for NGOs require tax reporting similar to tax reporting for businesses, and the tax compliance burden is higher for them. Additionally, usually regulation (tax, and non-tax related), put NGOs in a specific "risk" group of entities, which require special reporting which leads to more tax compliance costs.
- The total ATCC are estimated around 2.7 billion MKD or more than 400 million Euro per annum or almost 0.4% of the GDP or 1.4% of total budget revenues.
- The total hours per annum are more than 5 million or this is 54,621 working days or this represents annual workforce of 2,481 workers (almost half of the total employees in the administration in municipalities for example).
- The impact of taxes on the economy extends beyond the revenue taken by the government. Reduction in full of tax compliance costs result in estimates of foregone economic growth of 1,752 to 2,617 million MKD annually or 0.12 p.p. of economic growth. For a period of three years the total foregone economic growth is estimated at 6,753 million MKD.
- As this assumption for reduction of all tax compliance costs is not possible, we illustrate that a reduction of half of the tax compliance costs result in estimates of foregone economic growth of 876 to 1,297 million MKD annually or 0.06 p.p. of economic growth. For a period of three years the total foregone economic growth is estimated at 3,358 million MKD.
- Reduction of tax compliance costs by 50% result in estimates of lower budget deficit by 140 to 346 MKD annually or 0.04 p.p. lower budget deficit annually.

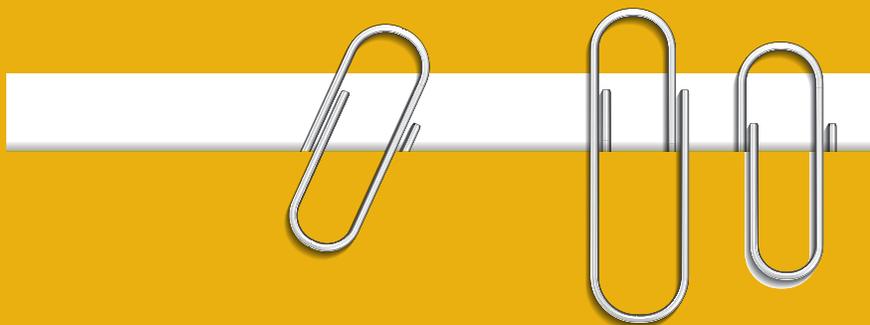
- We do not consider the tax lobbying costs that could be an important part in a more detailed study given that the country follows the policies of attracting businesses by employing tax subsidies and tax breaks.
- Even though North Macedonia is considered a country with a higher tax-reporting compliance rate still, some of revenue gap in unreported taxes might be attributed to complexities in the legislation and the administration of taxes by PRO.
- The tax avoidance coming from high tax compliance costs occurs when individuals or businesses adjust consumption and savings patterns in order to reduce tax burdens. This results in forgone economic transactions—or “deadweight loss”—that would have increased standards of living otherwise.

## Recommendations

- Micro companies represent 90% of all business entities and employ more than 25% of the total employees in the country. They tolerate relatively higher tax compliance costs than other business entities given their size. Even micro companies that are exempt from certain types of taxes (VAT, CIT) need to report for the reasons for exemption, implying that they still have tax compliant costs even without paying taxes. This situation generates economic losses coming from the higher tax compliance costs for micro entities but also higher opportunity costs for PRO from administering micro entities and checking their tax exemption status. It should be investigated how the tax compliance costs for micro entities can be reduced and how the tax exemptions can be streamlined to be more efficient for implementation and monitoring.
- NGO entities have relatively higher ATTC per total taxes paid which once again asks for reforms of the tax treatment of the NGO sector in North Macedonia to ease the tax compliance burden on these entities and to reduce the opportunity costs coming from administering NGO taxes at the PRO.
- Reform must significantly reduce or eliminate exemptions and eventually lower rates. A simplified tax code will yield a more equitable, higher-performance economy with more revenues while reducing economic and accounting tax compliance costs.

# *Tax compliance costs in North Macedonia*

*An accountant's perspective*



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