

Policy Study No. 26

EXPLORATORY ANALYSIS OF THE PARAFISCAL CHARGES FOR THE SMALL AND MEDIUM-SIZED ENTERPRISES IN THE REPUBLIC OF NORTH MACEDONIA

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1. INTRODUCTION

It has been widely established that productivity sets the framework in which development takes place and the living standard of the citizens improves. The productivity itself is a result of multiple factors, both of macroeconomic and microeconomic nature, which make the environment better and more feasible, or more difficult for doing business. The macroeconomic factors are those defined by the state, mostly through the implementation of the economic policies, but also by the political situation and the legislative framework. Actions taken by the authorities at the local level are also in that context, and they impose a legislative corpus as well, which affects doing business at the local level. The microeconomic factors are inherent to the firms themselves – technology, machinery and equipment, human capital, management practices, and the like.

The legislation, within the framework of these macroeconomic factors, is very important, although an often neglected factor. For example, in the tax sphere, the authorities, the economists and the general debate often focus on the general tax policy, manifested through the taxes on profit, labor and expenditure. Such is the case with the Republic of North Macedonia, which, observed in a comparative framework, has a solid tax legislation and low tax burden. Especially the tax on profit, which is only 10 percent – and in the past zero percent for the reinvested profit – is an especially alleviating factor in doing business. Generally, the project called “Regulatory guillotine” has also made a positive impact onto the business, which had been conducted with varying tempo starting from 2010 and contributed to the lowering of various administrative bottlenecks and obstacles, which hindered doing business. These reforms contributed that on multiple occasions the country was ranked in the top 10 reformers in the world according to “Doing Business” by the World Bank. However, there was also criticism in the domestic community of experts that the legislative framework, although possibly well established, its implementation is accompanied with series of problems and political compromise.

Despite the solid tax environment for doing business in North Macedonia, companies often complain that many other charges of non-tax nature – which here we refer to as parafiscal charges – are often imposed without a clear objective and meaning (European Commission, 2018). In several reports created by the international financial institutions and the European Union, parafiscal charges are often mentioned, although relatively peripherally. For example, the mentioned report from 2018 (p. 49) says: “Development of the private sector is impeded by the large informal sector, an often unpredictable regulatory environment, the absence of systematic law enforcement, business inspections conducted for unclear reasons, non-transparent parafiscal fees”. Similarly, a debate in the public discourse is often raised, mostly generated by the chambers of commerce, about the size and the effect from the burden that arises from a series of non-tax charges towards the state.

However, despite the relative importance of the question of the parafiscal charges, it has not been raised yet in a consistent and systematic way. Recently (2018), a qualitative study about the parafiscal charges was conducted, but only in two sectors: food processing industry and construction sector and it provides preliminary findings for the scope, the lack of clarity and the burden coming from the parafiscal charges, but it is relevant only for these two sectors. In 2017, the Ministry of Information Society and Administration (MISA) started an activity for

creating a register of public services.

The goal of this study is to do an exploratory analysis of the scope and the burden of parafiscal charges for the small and medium-sized enterprises in the Republic of North Macedonia. It has an exploratory character, mainly because it is the first of this kind and it should provide a general overview of the condition and could be used as a starting point for more in-depth data collection and analysis.

The study is organized as follows. Section 2 gives a definition of the parafiscal charges in light of the absence of unification of the definition in the literature. Section 3 provides a comparative overview for the parafiscal charges in the Western Balkan countries, to the extent to which information is available for them. Section 4 turns to the applied methodology and data. Section 5 analyses the parafiscal charges in North Macedonia, through the corpus of the data obtained. Section 6 concludes and gives recommendations for the policymakers.



2. DEFINITION OF PARAFISCAL CHARGES

The state funds its functions through the tax system. Taxes represent a fiscal policy instrument – which is why they are called fiscal charges – which are used to collect a percentage from the income, wealth, profit or spending of the economic agents - taxpayers in the state budget, by which the so-called public revenues are provided. Then, with the funds collected from the taxes, various public expenditures are funded, regarding the state functions, such as the police and the army, and with the state programs, such as, for example, social protection, education, health protection etc. Usually, a significant portion of the functions provided by the state can have an exclusively public character, i.e. they cannot be provided by the private sector (such as, for example, the national security) because it is a public and common national good. Therefore, taxpayers pay taxes in order to fund the public and common national goods as a whole, i.e. for the paid tax funds they do not receive a direct service from the state. However, although the payers receive only an indirect service from the state for the collected taxes, paying taxes is still compulsory.

In the general budget of the state, besides the tax revenues, so-called non-tax revenues are also collected. Generally speaking, these are all other revenues that are obtained in a way different than taxation of the income, wealth, profit or spending of the economic agents (Mourre and Reut, 2017). In the broadest sense of the word, non-tax revenues are collected from any type of administrative charges and fees, payment of charges for issuing licenses and permits, payment for the use of public goods and services, fines and penalties, concessions, revenue from selling state property, collected donations etc.

Some of the non-tax charges are imposed onto the companies and the citizens without at the same time transferring any rights to them or are regarding services provided by the state or the local self-government, but they charge a multiple times higher price than the value of the service. A typical example is the business name display fee (firmarina), which each company pays to the municipality, without at the same time acquiring a certain right or benefit on that basis. Another example is a tourist agency which should provide, and pay for an operating license to the competent state body (usually, the Ministry in charge of tourism), the price of which is multiple times higher than the expense made by the administration for issuing the license. Such charges, in the broadest sense of the word, are called parafiscal charges (PFC).

Therefore, parafiscal charges are part of the non-tax charges towards the state and the local self-government, which fulfil one of these two conditions:

- They do not transfer a right to the payer, although they do not represent a tax, and they do not provide any service, or
- They transfer some right or provide some service to the payer, the price of which exceeds the value of the service multiple times.

In that sense, the parafiscal charges can be compulsory and voluntary. The business name display fee has to be paid, given that it also plays a similar role as a fiscal charge. However, it is not compulsory to pay for the municipal service for using a public area for the summer terrace of the restaurant, if the service is not being used. The parafiscal charges can be fixed or variable. Fixed means that they do not change, regardless of the scope; for example, if the

restaurant obtained a permit for a certain activity, then the charge for the permit remains the same, regardless of how many guests it has. Alternatively, the charge can vary with the scope of the service. For example, the charge for a construction permit can vary depending on the size of the construction object.

It should be noted that the literature is not unanimous regarding the definition of parafiscal charges. In one part of the literature, towards which the practice from the European Union leads, the parafiscal charges are charged by sectoral agencies as a percent from the production of the companies in a certain sector or industry, and the collected funds are used for creating a better business environment for that specific industry (European Commission, 2019). Most common are the examples from the agriculture sector, in which such a sectoral agency, with the funds collected in this way, enables control of the production, distribution and marketing of the agricultural product and guarantees minimum buying price (i.e. it will come up as a buyer in the last instance when the market price would fall below the minimum price). See some examples at Empson (1998).

In another part of the literature, only the charges of the companies towards non-state institutions, i.e. chambers and guilds, are considered parafiscal charges. This concept can be close to the one of the EU, given that in many cases instead of sectoral agencies, there are chambers, clusters and associations (which are usually non-profit private organizations), which do the function of the sectoral agencies, which, however, are usually established by the state. Nonetheless, such associations can also provide a service prescribed by law (most often, to issue some kind of license or a work permit).

Given the objective of this study and the initial idea of its initiator (the Ministry of Economy of the Republic of North Macedonia), we hereby take a stance according to which we consider all the non-tax charges towards the central and the local government as parafiscal charges, as well as towards non-state institutions, which provide some kind of service to the small and medium-sized enterprises prescribed by law (chambers, associations, guilds), and which can be classified into one of the two aforementioned categories, i.e. which do not provide any (indirect) right or service in return, or do provide a right or a service, the price of which is significantly higher than the expense for its implementation.

However, such defining can impose a practical lack of clarity in differentiating the services which provide an appropriate “value for money” (which, according to the definition above would be only a non-tax, but not a parafiscal charge) from the services which are highly charged, but do not have such a high internal value (i.e., whose expense for delivery is significantly lower and which would be a parafiscal charge in the most exact sense of the word). Because of that, in the analysis that follows we are guided by the following principles:

1. In the identification and the analysis of the catalogue of non-tax charges, which is managed by the Ministry of Information Society and Administration, we rely upon the best judgement of the competent institutions and bodies in order to differentiate a parafiscal charge from the rest of the non-tax charges, and

2. In the collection of qualitative information (through interviews and a survey), we are guided from a clear explanation (to the respondents) of the difference between a parafiscal and another non-tax charge at the beginning of the interview itself or the survey.

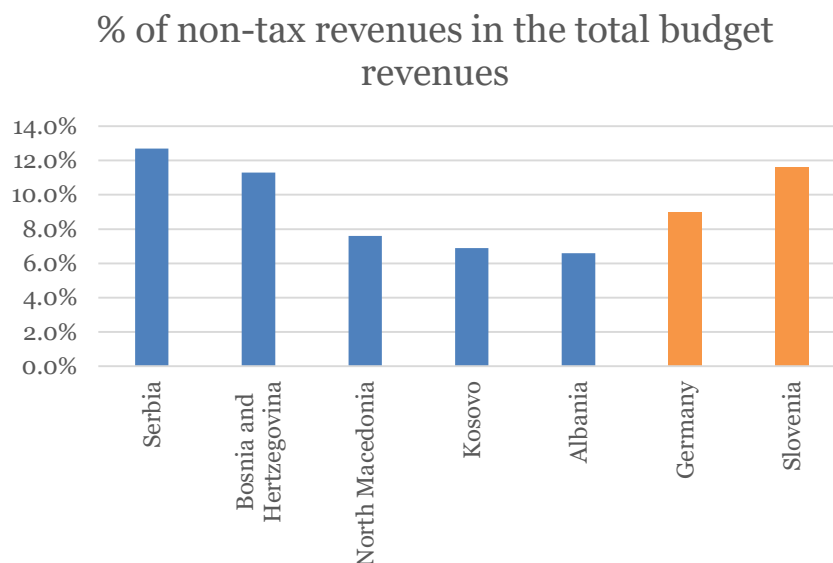
3. COMPARATIVE OVERVIEW FOR THE WESTERN BALKAN COUNTRIES

The research of the scope and the effects from the parafiscal charges in the Western Balkan countries is in the initial phase: the existing analyses are limited in their scope and they mostly do not include the parafiscal charges as a whole due to the impossibility to register all the existing charges in one step. The situation is not different when it comes to the overview of



several aggregate indicators for the parafiscal charges either. The starting point in the analysis of the parafiscal charges is, of course, the overview of the non-tax burden, which can be drawn in the form of data from the state budget. However, as we mentioned earlier, not all non-tax charges are at the same time parafiscal charges. Figure 1 represents the non-tax revenues as a portion of the total revenues of the general government in the Western Balkan countries (with the exception of Montenegro, for which there is no comparative data). For comparison, data is provided for two EU countries – Germany and Slovenia. The comparison with the EU does not have the goal of exhaustiveness, but is meant to serve only as an illustration. The figure shows that the highest non-tax charges of 12.7 percent from the total budget revenues are found in the region of Serbia, whereas Albania has the lowest, 6.6 percent. North Macedonia is positioned in the middle with 7.6 percent. But all of these rates are not significantly different, and in part they are even smaller than the scope of the non-tax revenues in Germany and in Slovenia.

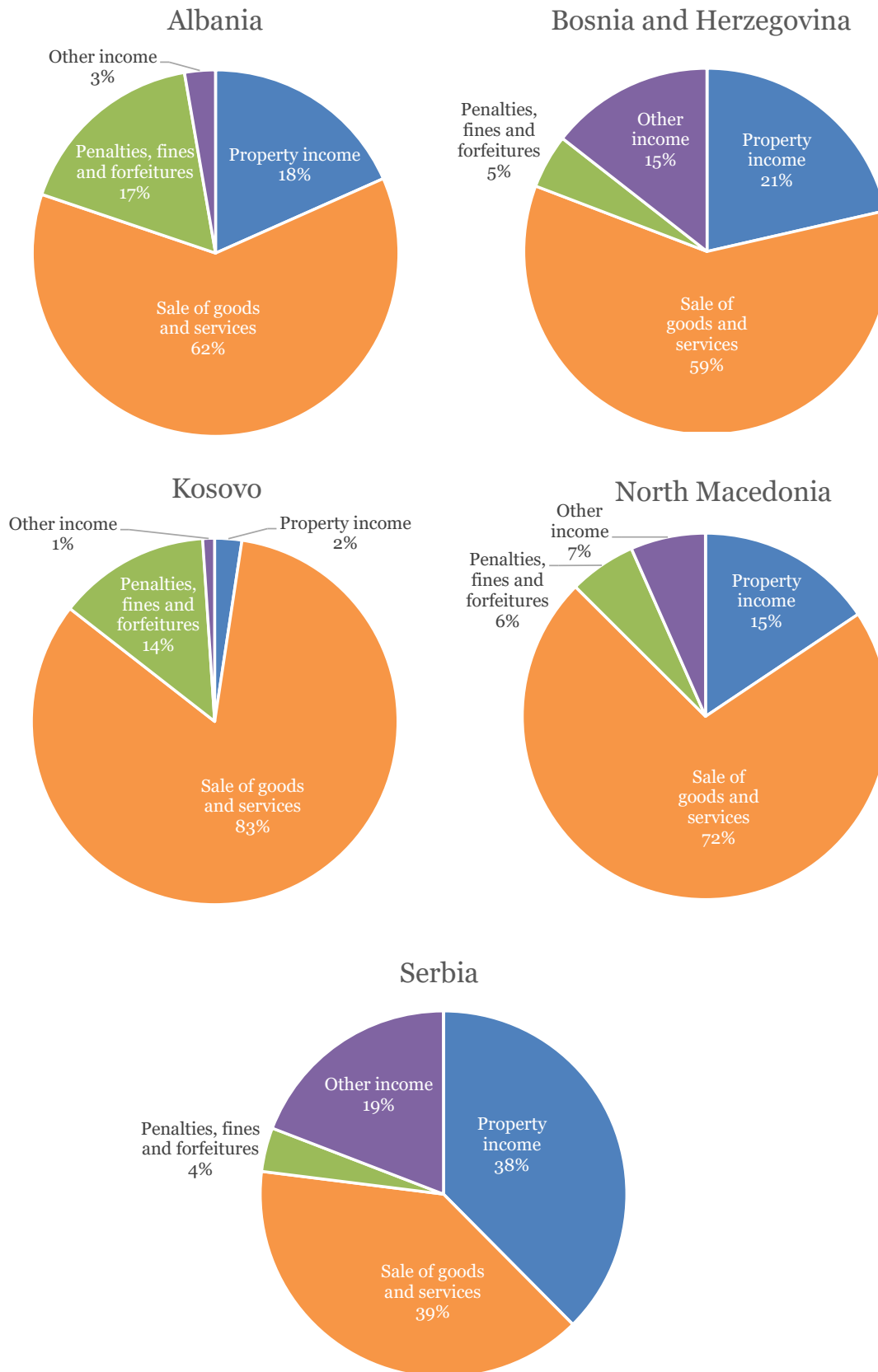
Figure 1: Non-tax charges



Source: State financial statistics of the IMF. Last year available (2017 or 2018).

Figure 2 represents the structure of the non-tax revenues in the five countries of the Western Balkans. In all of them, the revenues from selling goods and services by the central and the local government are predominant, which raises the question about the appropriateness of their price/value suitable (refer to section 5.2). The second category is the property income, with the exception of Kosovo, and the third category according to the significance are the fines, penalties and the forfeitures, whose participation ranges from high 17 percent in Albania, to low 4 percent in Serbia.

Figure 2: Structure of the non-tax charges



Source: State financial statistics of the IMF. Last year available (2017 or 2018, Serbia is an exception, for which the last data available is for 2012).

Other indicators which can be of use in the comparative analysis of the parafiscal charges are several sub-indicators from the global competitiveness reports by the World Economic Forum. Three sub-indicators can be more closely or further related with the parafiscal charges: the burden from the government legislation, the efficiency of the legal framework in coping with the legislations and the adjustability of the legal framework to the digital business models. In particular, the first indicator most specifically reflects the parafiscal charges. Their values for 2018 for five countries of the Western Balkans (there is no data available for Kosovo) are represented in **table 1**.

The burden that arises from the legislation (e.g. permits, regulations, notification) is the smallest in Albania, and the biggest in Bosnia and Herzegovina. North Macedonia has a burden which is significantly higher than the one in Albania, and similar with the one in Serbia. Regarding this burden, Montenegro performs relatively well.

Bosnia and Herzegovina has the worst characteristics regarding the other two indicators as well, which include the efficiency in coping with the legislative requirements and the breakthrough of the electronic services. North Macedonia is ranked as a second country from behind in the Western Balkans, and the countries with the best results are Albania and Montenegro.

Table 1: Indicators related to the parafiscal charges

Indicator from the Global Competitiveness Report 2018	Question and scale	Albania	Bosnia and Herzegovina	Kosovo	North Macedonia	Serbia	Montenegro
Burden from the government legislation	How difficult it is to meet the requirements of the public administration (e.g. permits, legislations, notification)? [1 = very difficult; 7 = not difficult at all]	4.9	2.2	NA	2.9	2.8	3.9
Efficiency of the legal framework in coping with the legislations	How easy it is for the private enterprises to cope with the government activities and/or legislations through the legal system? [1 = very difficult; 7 = very easy]	2.6	1.8	NA	2.2	2.9	3.6
Adjustability of the legal framework to digital business models	How fast the legal framework gets adjusted to the digital business models (e.g. e-commerce, sharing economy, fintech etc.)? [1 = not fast at all; 7 = very fast]	3.7	2.4	NA	3.0	3.6	3.6

Source: Global Competitiveness Report 2018, World Economic Forum

The analysis of the parafiscal charges faces little information not only regarding the data available, but also regarding previous analyses and reports for this subject matter. According to the best awareness of the authors of this analysis, in Albania there are no analyses published for the parafiscal charges, which can correspond with the relatively favorable situation in Albania regarding the parafiscal charges, evident from table 1 and from figure 1. There is no analysis of the parafiscal charges for Kosovo either, which, however, can be connected with the busyness of the policymakers with other economic and political issues, which most often do not represent an important topic in the rest of the Western Balkan countries. The parafiscal charges are mentioned in the progress reports for the Western Balkan countries, prepared by the European Union. Two synthetic reports, for 2018 and for 2019, mention the parafiscal charges, but only in Serbia and in North Macedonia, regarding their scope, cost price and unpredictability of the legislation from which they arise, mostly stating limited progress in coping with them and their rationalization for providing a better business environment.

Regarding the analysis of the parafiscal charges, Serbia has done the most, which can correspond with the fact that, in that regard, it performs the worst among the Western Balkan countries (table 1 and figure 1). Two more significant analyses of the parafiscal charges are made: the first by USAID and the National Alliance for Local Economic Development (NALED) in 2011, and the second by the Serbian Association of Employers in 2015.

The USAID/NALED study (2011) identifies 370 non-tax charges for the business in Serbia (pointing out that it is not an overall number), out of which 179 charges are identified as parafiscal, i.e. the business did not receive anything in return or did receive a service, the value of which is significantly lower than the price paid. According to the research, the central government is responsible for three quarters of all charges. The burden from the charges for which the study identifies treasury bills is 730 million euros, which is around 570 euros per employee in the private sector in Serbia. The central government collected one half from this amount. The research concludes that the parafiscal charges in Serbia have grown in numbers after the global financial crisis. Moreover, the parafiscal charges are, mostly, hindering the market entry for a business, and the charges for the current operations (a business that already has market presence) are of lower importance. Further, the insufficient clarity of the procedures for setting the prices of the parafiscal charges has been found as a significant issue, as well as fixing the prices to the turnover, instead of the companies' profit.

The second Serbian study, the Serbian Association of Employers (2015) analyses a wider range of data for the parafiscal charges in Serbia. This study identifies 499 parafiscal charges determined by 170 laws. Based on the secondary analysis, the study concludes that the main parafiscal charges in Serbia are in two categories: construction site and other real estate, and court and republic administrative fees. The main contribution of the study is in collecting primary data from the business – a field survey – for their conclusions and perceptions regarding the parafiscal charges, for a sample of 254 companies. Seventy-four percent of the enterprises responded that the parafiscal charges are an obstacle for doing business, whereas 46 percent that they are an obstacle for starting a business. Forty-six percent responded that the method of determining the prices of the parafiscal charges is unfair, whereas a high 77 percent responded that they are conducted arbitrarily. However, 86 percent responded that the parafiscal charges are consistent with the value of the service provided. The findings from the field analysis clearly indicate that the parafiscal charges in Serbia are a significant problem for the business and that an efficient system has to be established, which will set clear

criteria for identifying the payers of the parafiscal charges, define the moment when a charge is effectuated and create clear criteria for setting the prices.

According to these findings, Serbia created a registry of all the non-tax and parafiscal charges. One thousand and twenty-five non-tax charges are identified, which include 660 fees, 121 service payments and 241 other various forms of charges. Two hundred and seventy of them are not registered through the Ministry of Finance, whereas those that are, generate a total income of 1.3 billion USD.

In Bosnia and Herzegovina, a comprehensive analysis of the parafiscal charges was conducted in the north-east region by the Independent Office for Development (2013). However, the complete analysis is not available, but only a leaflet, from which it can be concluded that the analysis was conducted at the different administrative levels in the country and it was found that each level has its own parafiscal charges. The study finds that the parafiscal charges at the level of the local self-government are prescribed by the laws for the higher levels of governance and are defined with the decisions of the city/municipal council. The most important group of parafiscal charges related to the business operations of the firms are the administrative fees, the communal fees and the resolutions regarding the use of a construction site. Within the framework of the analysis, more than 1,000 individual charges were identified.

The Montenegrin Employers Federation (MEF, 2017) conducted an analysis of the parafiscal charges in Montenegro, in collaboration with the International Labour Organization. More than 1,500 parafiscal burdens were identified in the country at the national level and, on average, an additional 200 at the local level. MEF conducted a research among 300 employers in three regions of Montenegro and surveys and interviews with 23 local self-government units. The findings from the research are the following: 85 percent from the business entities believe that the parafiscal fees are large in the country; there are big differences between the parafiscal fees charged by the local self-government units; almost 80 percent believe that the parafiscal charges with the included procedures can affect the enterprises to decide to operate in the non-formal sector; starting a business implies especially high costs; and 94 percent from the respondents believe that it is necessary to create a register of parafiscal fees and to start working on their reform. Therefore, the normative analysis of the parafiscal charges concludes that there is a seemingly “confusing” situation in most of the segments of these charges, which range from a huge number of charges, uncontrolled and disharmonized introduction, managing different level of laws and by-laws, uncertainties regarding the concept of parafiscality, their overlap with similar phenomena etc.

A study was conducted in North Macedonia (Garvanlieva-Andonova et al. 2018), which deals with estimating the parafiscal burden, completely focusing on two sectors: the food-processing industry and the construction sector. In general, the study shows that some of the non-tax and parafiscal charges are big, unpredictable and not clearly defined. The study finds that one company from the food-processing industry has an average yearly expense of 260,599 denars, whereas the companies from the construction sector of 959,755 denars for the non-tax and parafiscal charges. However, it is necessary to indicate that a significant part of these costs are indirect, i.e. opportunity costs, which arise from the lost gain from the day-to-day business operations due to the waiting time in the administrative procedures. In the next section, the study conducts a survey with 54 companies from the food-processing industry and with 56 companies from the construction sector. None of the companies in both

sectors reported that it is significantly burdened with parafiscal charges, whether those are charges at the national/central level, the local level or, perhaps, at the level of guilds. Most of the companies agreed that the value they get with the parafiscal charges is not proportional to the price paid. The companies from the food-processing industry, which mentioned charges for which they believe they receive a non-proportional service for the funds paid, point out the sanitary and other examinations and tariffs or, perhaps, the communal fees charged at the local level. However, almost one half of the surveyed companies from the food-processing industry and 29 percent from the construction sector agreed that they spend significant resources in finances and in time in order to respond to the requirements of the legislation in the sector. The main recommendations of the study are in the direction of providing a register of all parafiscal charges and their lowering and rationalization based on a conducted analysis. According to the study, such approach will have double effect, on one hand, improving the business environment and lowering the financial and other charges, and on the other hand, lowering the administrative costs for the state apparatus.

The analysis of the Economic Chamber of Macedonia (2018) made a comparison of the revenues in the central budget of the non-tax and parafiscal charges in 2008, 2013 and in 2016. The analysis identified newly introduced non-tax charges which burden the business classifying them into the following groups: non-tax charges (accounts for own revenues - AOR), administrative fees and fines, other administrative fees and other non-tax revenues. In addition, the charges based on other taxes are treated as parafiscal charges and they include the revenues made from taxes on specific services, such as the communal fees and compensation, compensation and fees for the permits for doing an activity and the fees for motor vehicles. It was identified that during the period from 2008 to 2016, 41 new non-tax charges and 18 new charges based on other taxes were introduced. From 2008 up to 2016, the parafiscal charges classified as non-tax revenues have increased for 1.2 billion denars reaching a cost for the companies of 15.5 billion denars. Furthermore, the analysis made an estimation of the parafiscal charges of five companies from different sectors. The recommendations are in the direction of easier control of the parafiscal charges, through establishing a system of all public revenues, a register of non-tax charges, analyzing the justification of the charges and equalizing the size of the charges for the same and for similar types of administrative or other services. An overview of more important parafiscal charges with recommendations for their rationalization was also made by the Macedonian Chambers of Commerce (2019).

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4.METHODOLOGY AND DATA

The methodology of this study consists of four segments:

- Review of existing analyses, studies and reports on the subject matter (to the extent to which they exist);
- Analysis of the database for PFC available to the MISA. The analysis includes public services verified by the institutions or publicly published at the portal. Further filtering of these services was made according to several parameters: to be related to legal entities, not to be related to services for taxes and for tax-based rights and to have the characteristics of parafiscal charges. Handled in that way, 377 services having characteristics of parafiscal

charges were identified, which are subject to analysis.

- Collecting data through several in-depth interviews with stakeholders (chambers, clusters, tax consulting firms).

- Collecting data through an internet SMEs survey with an exploratory character, i.e. which does not have the goal of providing a wide scope or representativeness. One hundred and twenty-four companies responded to the survey, out of which 73 representatives of micro and small companies, 27 representatives of medium-sized and 24 large companies. These companies operate in 29 municipalities in the country. These parameters provided sufficient heterogeneity of the respondents for the aggregate indicators from the survey to be considered as appropriate.

5. ANALYSIS OF THE PARAFISCAL CHARGES

This section analyses the quantitative and qualitative data, regarding the:

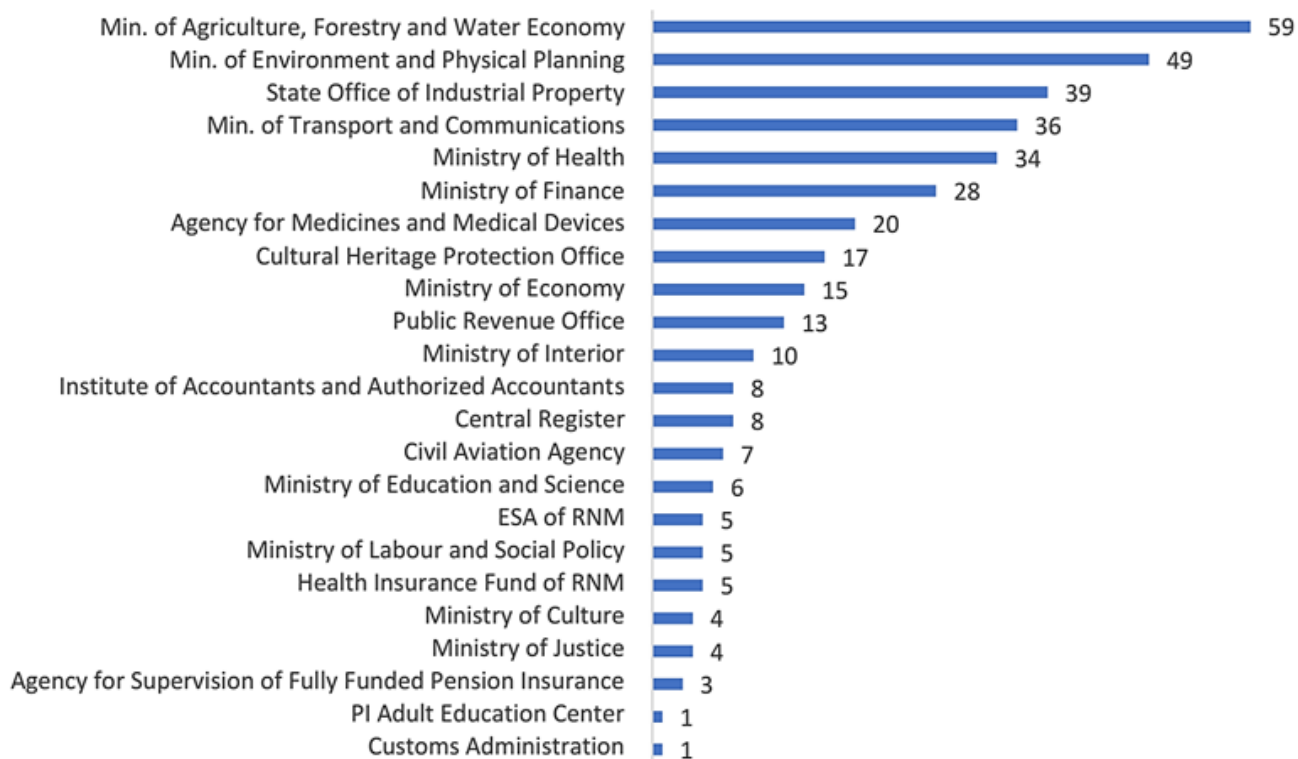
- Competent bodies for the various PFC and their structure;
- Companies' parafiscal exposure, by sector and by size;
- Cost price and method of calculation of the PFC;
- Different aspects of the parafiscal burden;
- Companies' parafiscal burden towards the central and the local government.

5.1. Overview of the parafiscal charges by competent body, structure and companies' exposure by sector and by size

In the catalogue of public services at the Ministry of Information Society and Administration at least 377 public services are identified¹, having characteristics of parafiscal charges, verified by the institutions or officially published. In **figure 3**, the competent bodies are ranked according to the number of PFC. The Ministry of Agriculture, Forestry and Water Economy has the most PFC, 59, while the Customs Administration of North Macedonia and the Public Institution Adult Education Center Skopje, have the lowest number of PFC. This result is also confirmed by the interlocutor from one of the largest chambers of commerce in the country, *in the agriculture, the Food and Veterinary Agency, you cannot get one document without compensation, so here you have elaborates, various acknowledgements...*

¹In the catalogue of public services there are at least 1,500 more public services identified which are not verified by the institutions nor publicly published, and which can increase the number of parafiscal charges and competent bodies.

Figure 3: Parafiscal charges by competent body



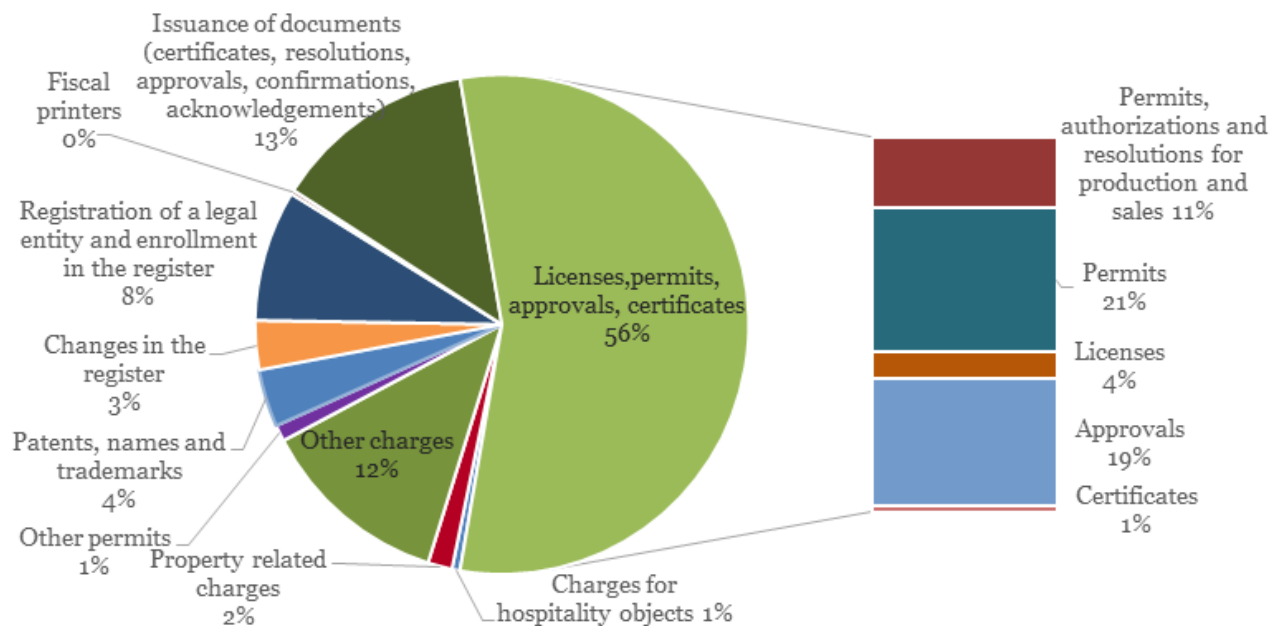
Source: *Catalogue of public services, MISA*

The list of public services which have characteristics of parafiscal charges is wide and includes various charges regarding permits, licenses, certificates, approvals, authorizations; issuing various documents such as certificate, resolution, confirmation, acknowledgement; special permits and authorizations regarding only production and sales; charges related to the registration of a legal entity and change in the register, business name display fee, patents, names and trademarks and other charges for permits and for acquiring certain rights. Frequently, charges with similar characteristics are named differently, depending on the competent body. Such broadness and variety of the PFC additionally increases the burden for the legal entities to keep track of them. The experts add that the PFC are not enough known and understood, and they locate the reason in the absence of a centralized approach for their monitoring, and of a mechanism for their coordination: *there is no centralization, that is why they cannot be counted. According to them, centralized control and coordination is a solution to increase the efficiency: to create a register divided by institutions, to centralize the register and then, in this context, it can be handed over to an agency, it doesn't have to be the [Public Revenue, n.b.] Office, it can be an Agency for parafiscal charges.*

Figure 4 makes an overview of the PFC structure, classified in several main categories. Fifty-six percent of the total identified PFC are in regard to charges for licenses, permits, certificates and approvals. Most of them are in regard to permits and approvals for doing a certain activity or occupation, conducting a service, trade, export and import and production and sales of certain crops. Issuing documents by the institutions is the second significant category in the structure of PFC with participation of 13 percent in the total number of charges. This category includes services for obtaining documents needed for further activities such as applying for tenders, loans, submitting proof in front of the state bodies, and the like.

The number of charges for registering a legal entity, enrollment and change in the register participates with 11 percent in the total number of PFC. Lower participation is found with the charges for patents, names and trademarks (four percent), charges regarding property (two percent) and other permits (one percent).

Figure 4: Structure of the parafiscal charges, by type of charge

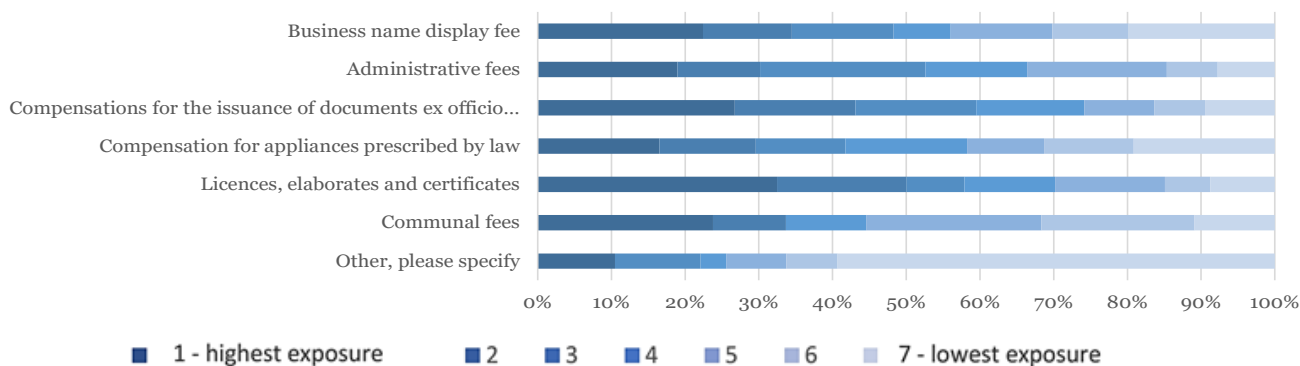


Source: Catalogue of public services, MISA

Such structure is in accordance with companies' perception of the exposure to various types of PFC², ranking from 1 – biggest exposure, to 7 – smallest exposure, represented in figure 5. One half of the companies ranked it with 1 and with 2, i.e. with the biggest exposure the compensation for licenses, elaborates and for certificates. The compensation for issuing documents ex officio is the next highest ranked category (43 percent) regarding the exposure. Whereas, the exposure to other charges, such as the compensation for appliances prescribed by law (fiscal printers, fire extinguishers and the like), administrative fees, business name display fee and communal fees is predominantly moderate. The chambers for commerce only confirm this result. To the question which type of PFC are the biggest burden for the companies, they confirm: *The administrative charges and those charges, compensation, which are required for permits, licenses, approval to do the activity.*

²The classification of PFC in the survey is more aggregated than the classification of data in MISA, but the key categories are found in both of the groups of data and comparative analysis is possible.

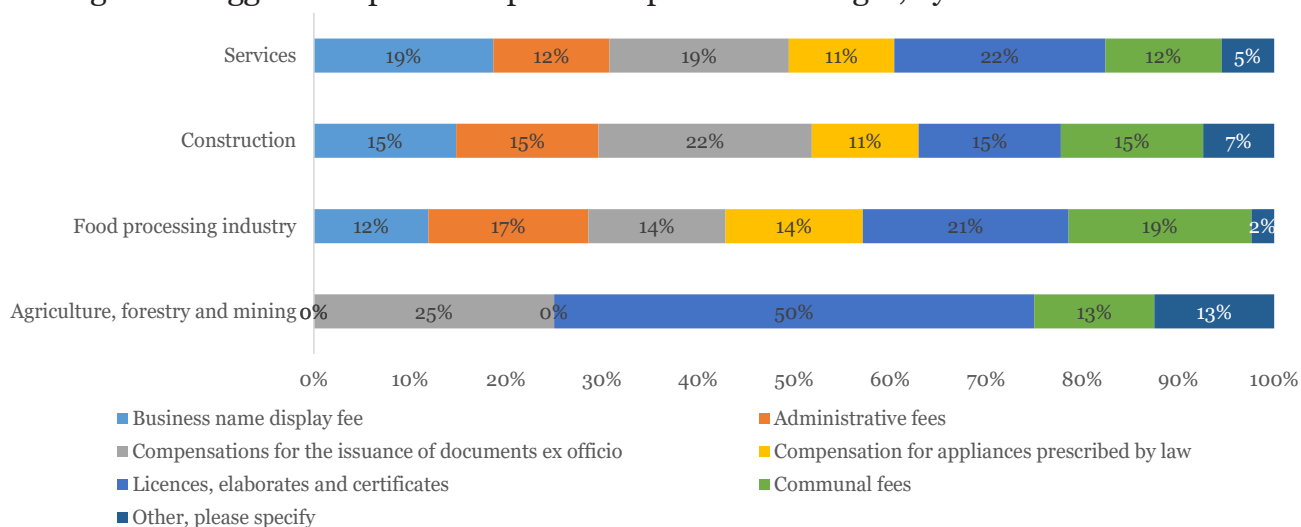
Figure 5: Companies' exposure to parafiscal charges, total



Source: Parafiscal charges survey, 2019

However, there are differences in the exposure to different types of PFC depending on the sector and the size of the legal entity. Figure 6 analyses the companies' perception of the biggest exposure to PFC from various types according to the sector from which they originate, and figure 7 according to the size of the entity. The companies from the agriculture, forestry and mining sector have the biggest exposure to compensation for licenses, elaborates and for certificates; one half of the companies in this sector believe that these PFC are the biggest burden for them, which is more than double compared to the other sectors. This perception can be due to the type of public services for which the Ministry of Agriculture, Forestry and Water Economy is in charge, where 60 percent of the total services are in regard to various permits, authorizations and resolutions for production and for sales. The services sector is characterized with the business name display fee being perceived as the second-ranked type of PFC with the biggest exposure (19 percent), unlike the other sectors, where the exposure to the business name display fee is not the highest ranked. In the construction sector, 22 percent of the companies stated that they have the biggest exposure to the compensation for issuing documents ex officio, and lower, but with almost equal importance to the other categories of PFC.

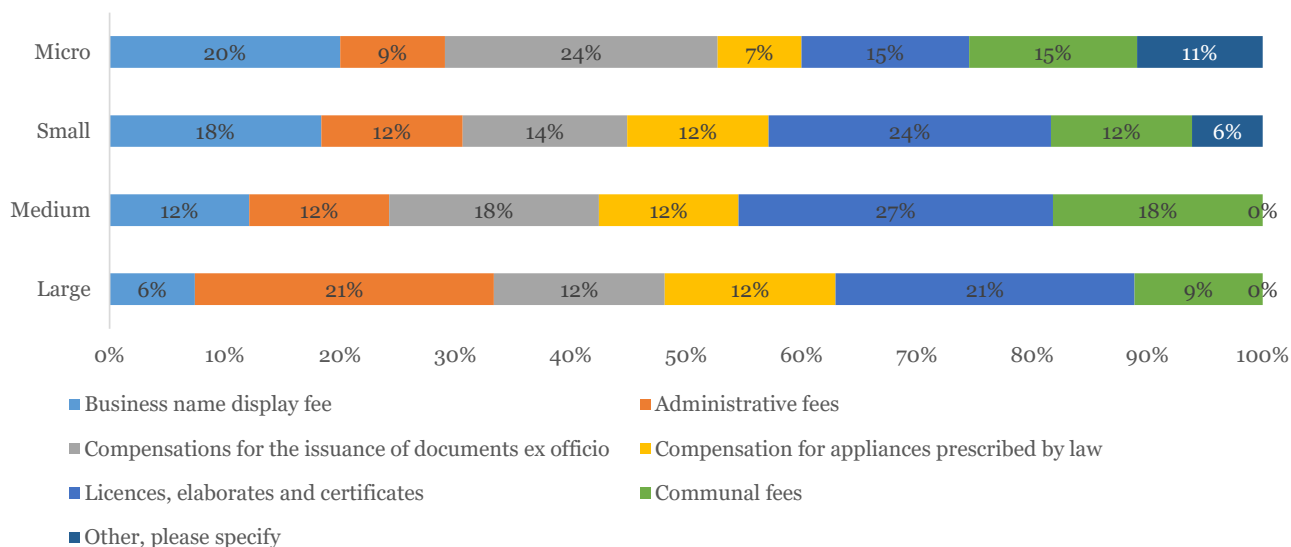
Figure 6: Biggest companies' exposure to parafiscal charges, by sector



Source: Parafiscal charges survey, 2019

Depending on the company size³, the biggest exposure to different types of charges is perceived differently. A common characteristic for all types of PFC is that there is an evident gradation of the perception of the exposure regarding the company size. Thus, the exposure to the compensation for business name display fee and for communal fees is the biggest with the micro companies, and the perception for the biggest exposure gets lower following the size of the company. In contrast, the administrative fees and the compensation for licenses, elaborates and for certificates, are most strongly felt by the large companies, and the least by the micro companies. This gradation can have several potential explanations: i) some PFC are dimensioned corresponding to the company size, ii) several of the liabilities for licenses, elaborates and for certificates can be in regard to activities which are done mostly by larger companies and iii) to a certain extent because of the meaning of a certain PFC compared to the total charges to which the company is exposed (e.g. the charges for issuing documents ex officio represent the largest burden for the micro companies due to the more frequent need for such type of services compared to others, but also due to the lower administrative capacity compared to the larger companies). The experts add that the gradation is also because some of the licenses and the approvals are in regard to an individual: *some licenses and confirmations that we apply for all the time are per person, so if you have three people in the firm it is three times more than if you are one.*

Figure 7: Biggest companies' exposure to parafiscal charges by size of the legal entity



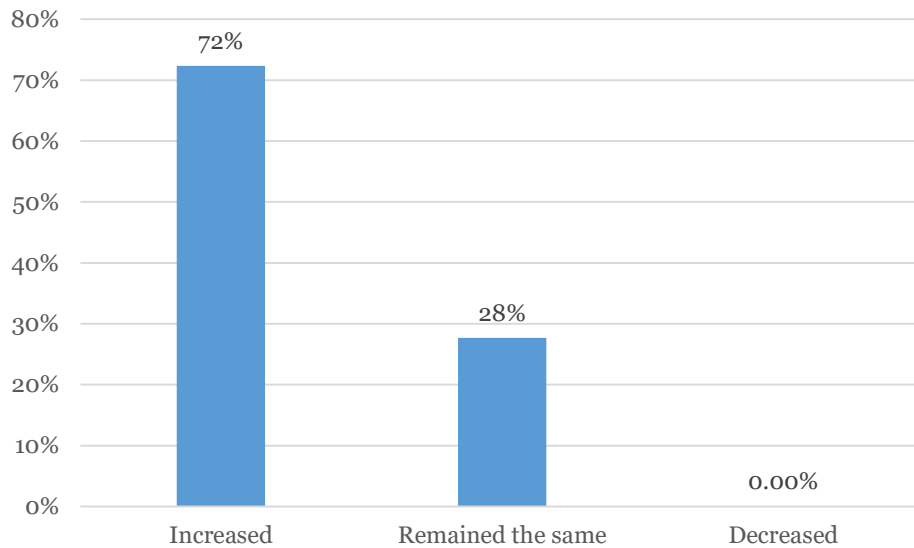
Source: Parafiscal charges survey, 2019

Besides the momentary parafiscal burden of the companies, the trend of being burdened with them is significant as well. Seventy-two percent of the companies believe that the PFC increased compared to 2010, 28 percent believe that they remained unchanged, and no company believes that they are lower (figure 8). The same point of view is shared by the chambers and the experts as well: *they increase in continuity, but not drastically and that is why, perhaps, not so much attention is paid to them, when they would increase drastically and they would be in the public eye and, perhaps, people would react to them more.* Those that work for decades in the field point out that this trend is not only present in the last decade, rather it has been persisting for some time: I am in this job and with companies from 1989. There is no year when something was lowered. The interlocutors explain that the change is mostly in

³The classification of the size of the legal entity is made in accordance with the Law on Trade Companies.

introducing new and higher charges, whereas with the already introduced, the price is almost left unchanged. They point out that it is a form of funding the budget beneficiaries: *These charges have multiplied so much, both where they should have and where they shouldn't have... and that type has already been so perfected that it is not called charges centralized in the budget, but a form of own revenues for those budget beneficiaries.*

Figure 8: Comparison of the parafiscal charges with 2010



Source: Parafiscal charges survey, 2019



5.2. Cost price and method of calculation of the parafiscal charges

The cost price of PFC is one of the parameters for estimating the companies' parafiscal burden. However, the price of the service is determined in the register of public services in only one half of the identified PFC. In the other half, the price should be additionally determined. Figure 9 makes an overview of the price of PFC, the lowest, the highest and an average price of the services in the given category of PFC. The cost price has a wide range, from 50 denars to 18 million denars. Besides the big price differences, there are significant differences according to the type of services as well.

The PFC can be classified in three price categories: i) PFC that are numerous, but with a relatively low price; ii) PFC that are less in number, but with a moderately high price; and iii) PFC that are numerous and with a high price. Fifty percent of the total number of PFC with a determined price are part of the first price category and are, mostly, about issuing documents and permits. The issuance of various documents, acknowledgements, resolutions, approval, charges for hospitality objects and property, have an average price of 633 denars. In the same category, with a higher price are the charges for permits and similar charges with an average price of 6,740 denars. However, the representatives of the chambers add that although the individual cost is low, in total, the cost is high: *In order to apply for anything you need to collect various documents (that there is no prohibition for doing the activity or a violation sanction, you have bankruptcy, you have liquidation, then a prohibition for a director, then a prohibition for a founder, where there are several categories, then from the PRO that taxes are paid) and now they, perhaps, on their own cost 100 to 200 denars, however when you collect them in one procedure, those costs at the end are not so minor.*

The PFC for issuing confirmations (mostly regarding airport services) are found in the second price category, participating with only three percent from the total number of PFC with a determined price and a relatively high price, 46,006 denars on average. The third category is consisted of charges for licenses and for approvals, which at the same time are numerous (they comprise 30 percent of the total charges with a determined price) and have a high average price of 102,409 denars for approvals and 1,722,162 denars for licenses. However, in this category, the biggest impact on the average price is made by several public services related with licenses for arranging games of chance and approval for doing the activity of trading with precursors.

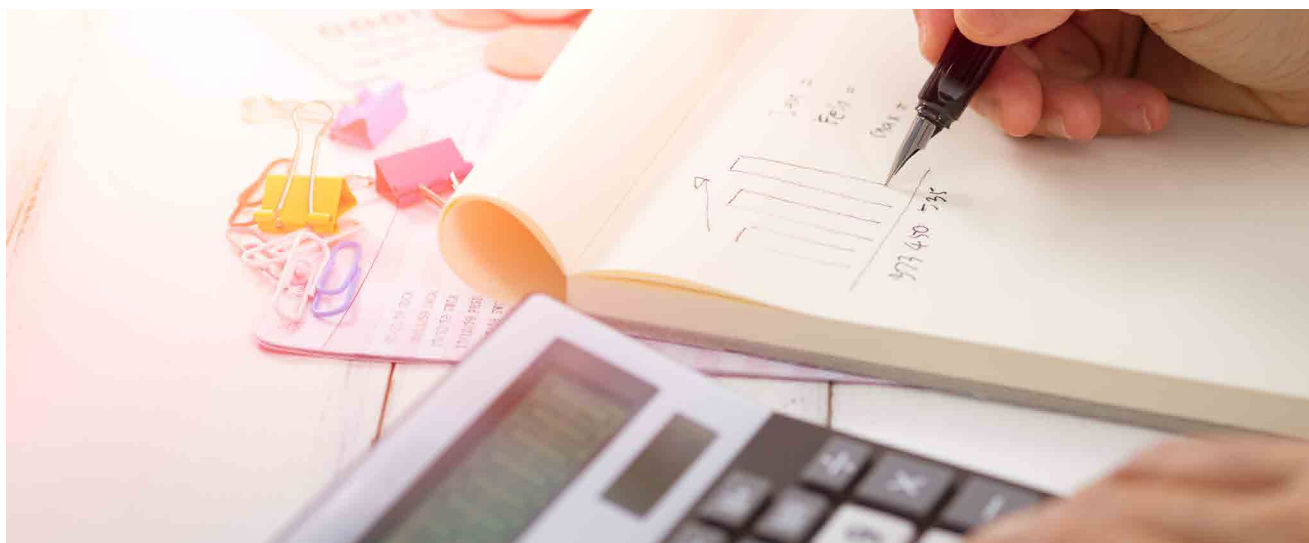
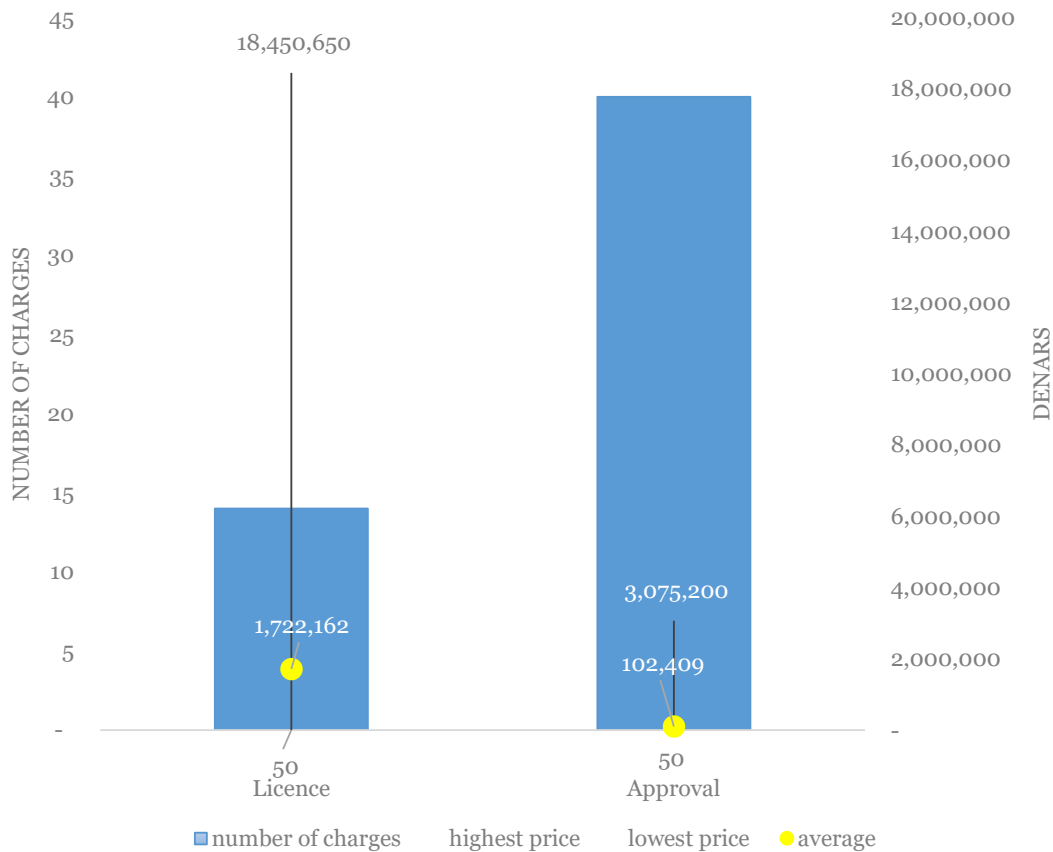
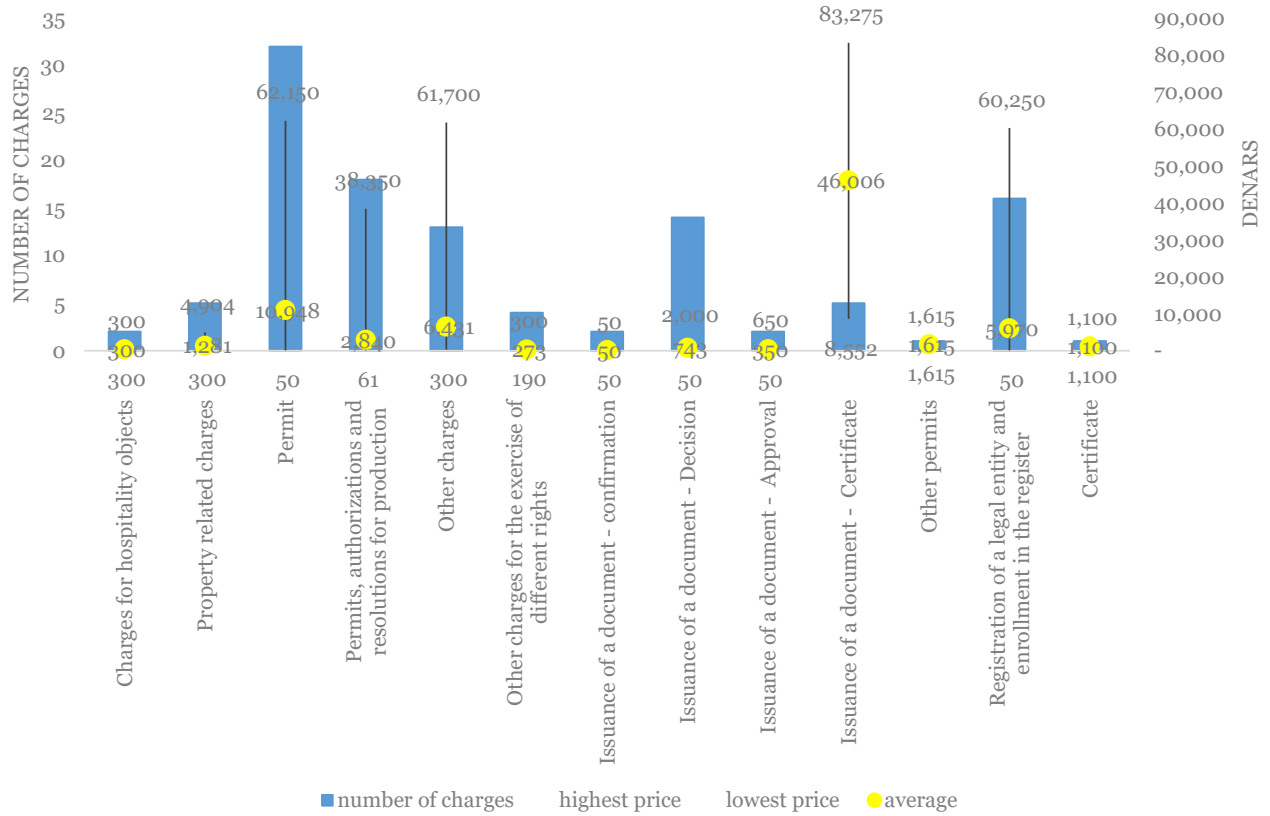


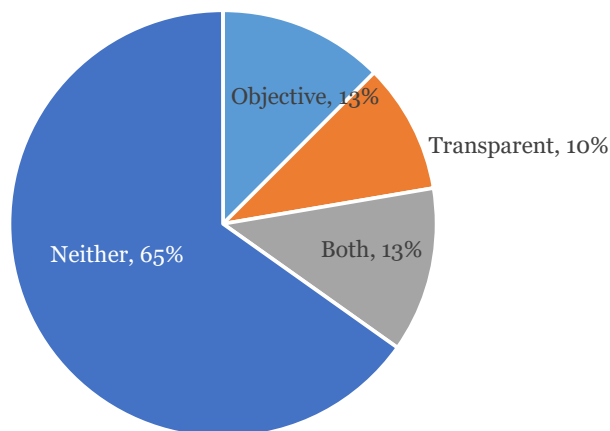
Figure 9: Cost price of the parafiscal charges, by type



Source: Catalogue of public services, MISA

The height of the price, although not determined for all public services, exists as an indicator, but not the method by which the price is set. Figure 10 represents the companies' perception for the method by which the price of PFC is set. Only one third of the companies believe that the price is set in a transparent way, in an objective way, or both at the same time. However, the companies which believe that the method of setting the price is neither transparent nor objective, are predominant (65 percent).

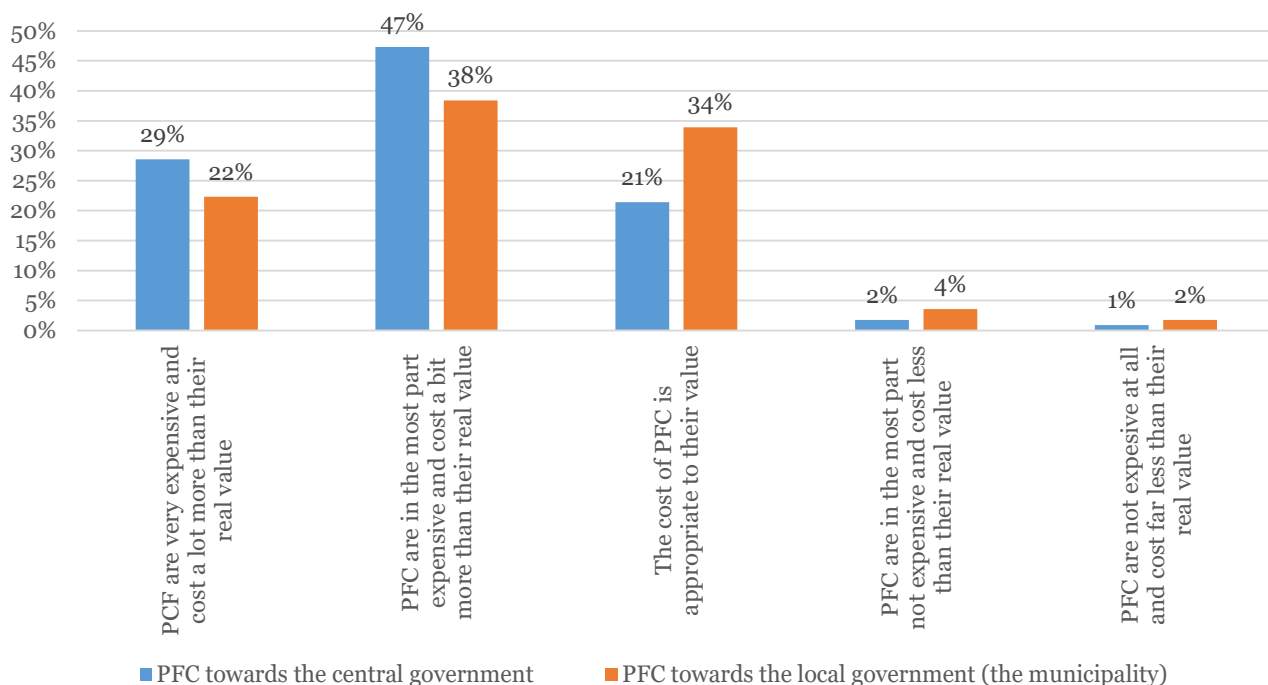
Figure 10: Perception for the method of determining the price



Source: *Parafiscal charges survey, 2019*

In addition, two thirds of the companies believe that the PFC are very expensive or in the most part expensive and cost more than their real value (figure 11). However, the perception is that the services obtained at the central level are more expensive and cost more than the internal value, compared to the services obtained at the local level.

Figure 11: Perception for the price in comparison with the value obtained, central and local government



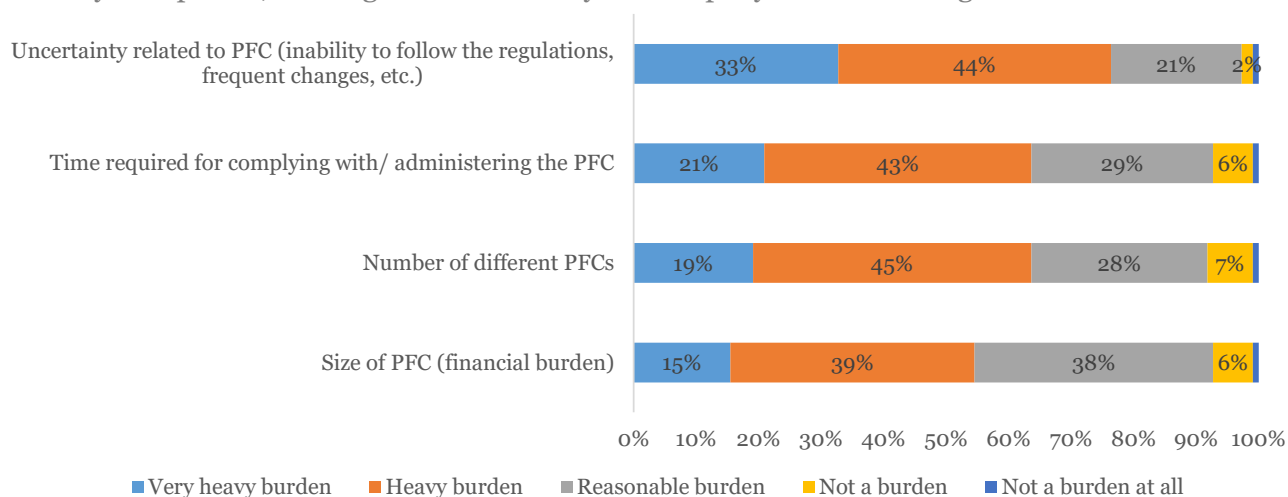
Source: *Parafiscal charges survey, 2019*

5.3. Different aspects of the parafiscal burden

Besides the financial burden, the PFC cause a need for additionally employed resources for administering, keeping track of the changes and for correction of potential errors when applying and using the service. Therefore, the burden of the companies can be analyzed from different aspects. Figure 12 represents the perception of the companies for the different aspects of the burden that the PFC cause. The results show that the financial burden is relatively small compared to the uncertainty, the time required for complying with the PFC and the numerosity of PFC. This result is not surprising, given that there are at least 377 identified PFC, mostly with similar names, under different laws and different competent bodies.

Figure 12: Different aspects of the parafiscal burden

In your opinion, how big of a burden for your company is the following:

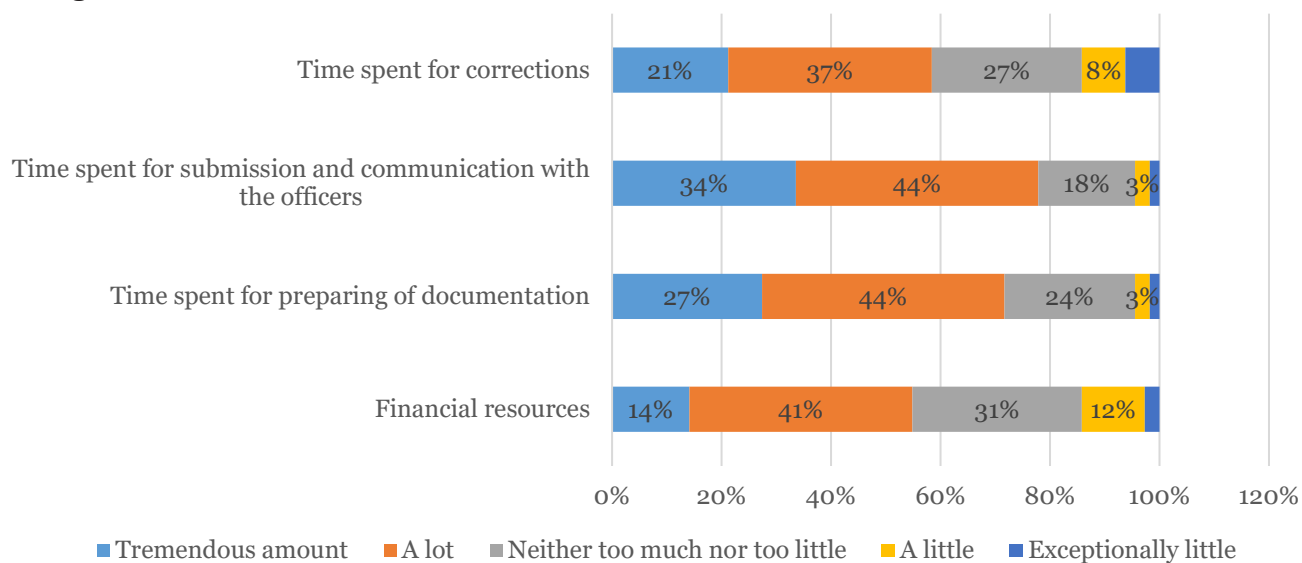


Source: Parafiscal charges survey, 2019

The chambers confirm: *the scope is, definitely, a bigger problem and, practically, they explain for the non-financial burden from the PFC: for example, those related with permits, with approvals, those are at least on a yearly basis, first you prepare an application to apply, then time passes while you beg to get it, and then it takes time to pay for and receive the permits, so the period is not five days, in some institutions it even lasts two or three months.*

The resources spent for managing the liabilities that arise from the PFC are represented on figure 13. One third of the companies stated that they spent “a tremendous amount” of time for submitting and for communication with the officers and for preparing the documentation, and an additional 44 percent from the companies spent “a lot” on these resources. Only 14 percent stated that they spent “a tremendous amount” of financial resources. Although the directly spent financial resources for PFC are less than the time spent for their administering, indirectly, the administering represents a burden for additional human resources and, therefore, financial resources. From the chambers they state: *Mostly, the companies put one of their employees in charge of administering and issuing this documentation. Besides the cost for parafiscal charges, a cost is incurred for new employees as well.*

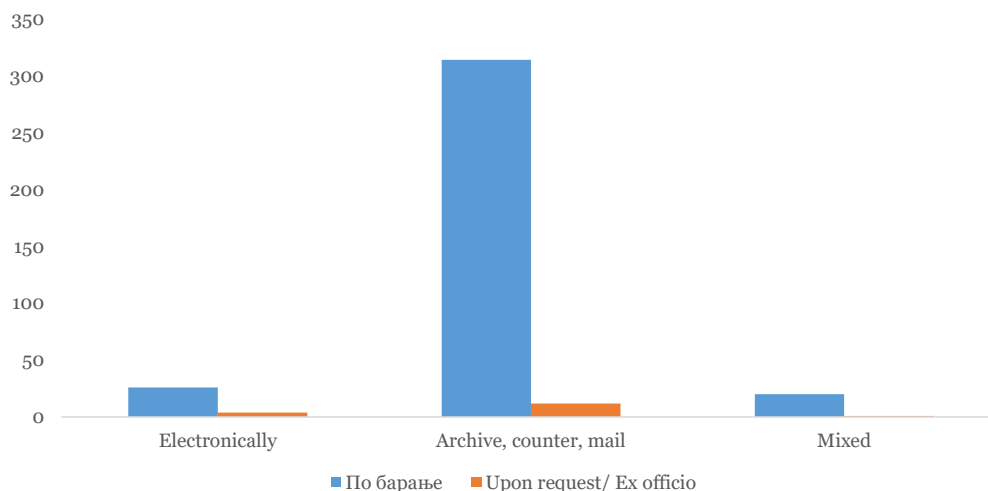
Figure 13: Resources spent for administering the liabilities that arise from the parafiscal charges



Source: Parafiscal charges survey, 2019

Such results are not surprising, given that 86 percent of the requests are submitted at the archive, the counter or by mail. That leads to additional time spent for copying, collecting and processing the request. Also, for less than five percent of the PFC, the procedure for providing the service is initiated ex officio, although the digitalization of the processing allows for increasing the efficiency and lowering the time spent for administrating. Digitalization is one of the solutions for increasing the efficiency from the point of view of the chambers as well, which point out: *to modernize the procedures and the services; the institutions themselves will be faster and more efficient if they are digitalized, and the companies will save resources from the aspect of time, human resources, and then financial costs. The benefits will multiply if in some way the charges are eliminated or electronized.*

Figure 14: Place of submitting the request and way of initiating the service

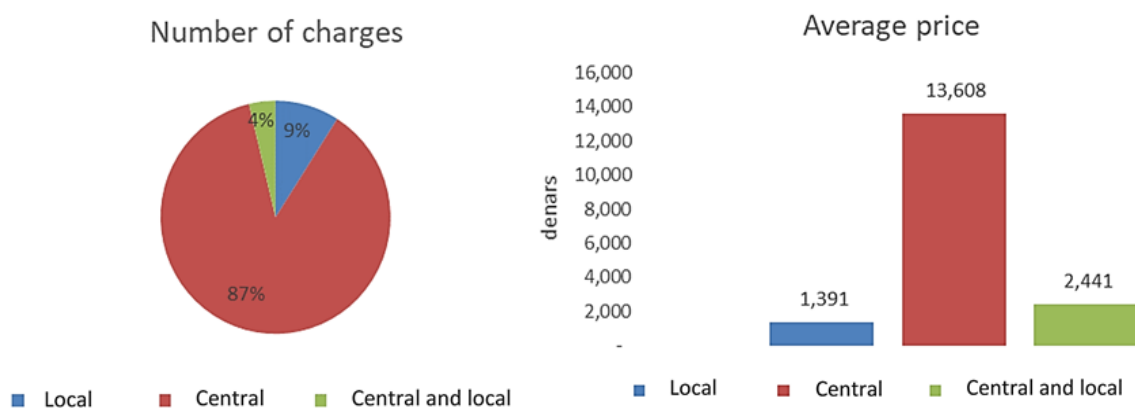


Source: Catalogue of public services, MISA

5.4. Companies' parafiscal burden towards the central and the local government

The parafiscal charges can represent a liability towards the central or the local government and, in rare cases, towards both. Depending on the number and the price of PFC, the burden can be different. Figure 15 makes a comparison of the average cost and the numerosity of PFC at the central and the local level. The differences are big according to both of the parameters. The average cost price at the central level is 10 times higher than the one at the local level, which, mainly, is due to the concentration of the public services from the third price category (numerous and with a high price) at the central level, such as licenses, approvals and permits. The structure according to the number is also similar: 87 percent of the PFC are towards the central government. However, the number at the local level is, probably, underestimated, and therefore more careful interpretation of the conclusions is needed. This is, mainly, due to the lack of information at the local level, which, in turn, represents one of the key challenges for coordination, management and monitoring of the PFC.

Figure 15: Price and numerosity of parafiscal charges at the central and the local level

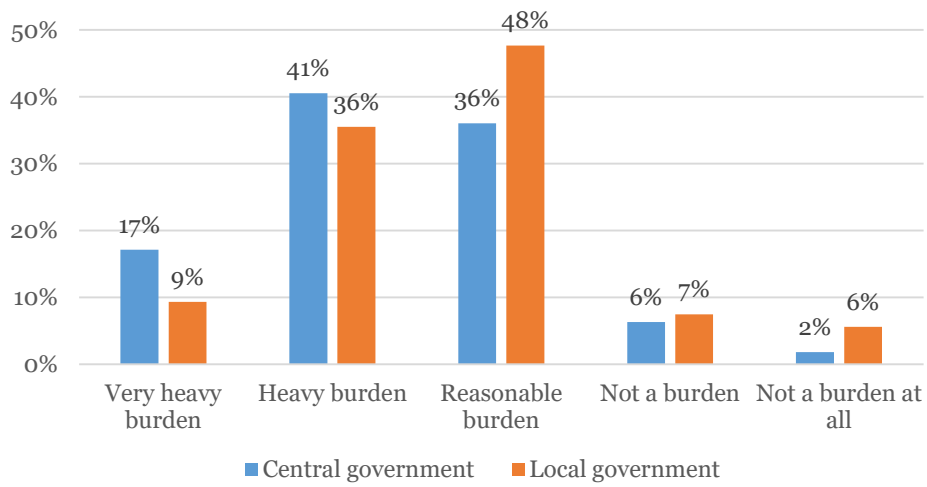


Source: *Catalogue of public services, MISA.*

Note: *The services with extreme values are excluded from the calculation.*

As expected, the parafiscal burden towards the central government is predominantly perceived as very large or large (figure 16). For 58 percent of the companies, the burden towards the central government is perceived as very large or large, compared to the burden towards the local government, which is predominantly perceived as reasonable (48 percent of the companies). Only for two percent (towards the central government), i.e. six percent (towards the local government) the parafiscal burden is not a burden for the companies at all.

Figure 16: Parafiscal burden towards the central and the local government



Source: Parafiscal charges survey, 2019



6. CONCLUSIONS AND RECOMMENDATIONS

The state funds its functions through the tax system. Taxes represent a fiscal policy instrument used to collect a certain percentage from the income, wealth, profit or the expenditure of the economic agents - taxpayers in the state budget – by which the so-called public revenues are provided. Besides the tax sources of funding, the state is also funded through non-tax charges. Some of the non-tax charges are imposed onto the firms and the citizens without at the same time transferring a right to them or are regarding services provided by the state or the local self-government, but they charge a multiple times higher price than the value of the service. These charges, in the broadest sense of the word, are called **parafiscal charges (PFC)**.

In this study, the parafiscal charges are defined as part of the non-tax charges towards the state and the local self-government, which fulfil one of these two conditions:

- They do not transfer any right to the payer, although they do not represent a tax, and they do not provide any service, or
- They transfer a right to the payer or provide a service, the price of which exceeds the value of the service multiple times.

The analysis of the parafiscal charges is faced with little information not only regarding the data available, but also regarding previous analyses and reports on this subject matter. Therefore, the objective of this study is to do an exploratory analysis of the scope and the parafiscal burden for the small and medium-sized enterprises in the Republic of North Macedonia. It has an exploratory character, mainly because it is the first of this kind and it should provide a general overview of the condition and a starting point for more in-depth data collection and analysis. This analysis includes combined methods of data collection and their processing: review of existing analyses, studies and reports; analysis of the database for PFC available to MISA; data collected through several in-depth interviews with stakeholders (chambers, clusters, tax consulting firms); and data collected through a survey of 124 companies.

The analysis includes an overview of the parafiscal charges from several aspects:

- Competent bodies for the various PFC and their structure;
- Companies' exposure by sector and by size;
- Cost price and method of calculation of the parafiscal charges;
- Different aspects of the parafiscal burden;
- Companies' parafiscal burden towards the central and the local government.

In the catalogue of public services at the Ministry of Information Society and Administration at least 377 public services are identified, having characteristics of parafiscal charges, verified by the institutions or officially published. The catalogue of public services is a solid base for identifying a potential list of parafiscal charges. However, this register is not comprehensive and sufficient in order to be treated as a register for parafiscal charges. That is expected, given that its purpose and function have a larger scope.

The list of public services having characteristics of parafiscal charges is wide. Such broadness and diversity additionally increase the burden of keeping track of the parafiscal charges by the legal entities. Fifty-six percent of the total identified parafiscal charges are regarding charges for licenses, permits, certificates and for approvals. The documents issuance by the institutions is the second category according to the importance in the structure of the parafiscal charges, participating with 13 percent. Such structure is in accordance with the perception of the companies for exposure to various types of parafiscal charges. For one half of the companies, the biggest burden is the compensation for licenses, elaborates and for certificates. The compensation for issuing documents ex officio is the next highest-ranked category regarding the exposure (43 percent). The Ministry of Agriculture, Forestry and Water Economy, as a competent body, collects the most parafiscal charges, 59.

Depending on the size of the company, there is a different perception about which types of charges inflict the biggest exposure. A common characteristic for all types of parafiscal charges is that there is an evident gradation of the perception of the exposure with the company size. The exposure to a compensation for the business name display fee and for communal fees is the biggest with micro companies. In contrast, the administrative fees and the compensation for licenses, elaborates and for certificates, are most strongly felt by the large companies. Seventy-two percent of the companies believe that the parafiscal charges increased compared to 2010.

The cost price of the parafiscal charges has a wide range, from 50 denars to 18 million denars. Sixty-five percent of the companies believe that the method of calculating the price is neither transparent nor objective. The results show that the financial burden is relatively small compared to the uncertainty, the time needed for complying and the number of parafiscal charges. Seventy-seven percent from the companies stated that they spent a lot or a tremendous amount of time for submitting and for communicating with the officers and for preparing the documentation. These results are in accordance with the fact that 86 percent from the requests are submitted at the archive, the counter or by mail, as well as the fact that for less than five percent from the PFC, the procedure for providing the service is initiated ex officio. The companies believe that the parafiscal burden is bigger towards the central government, although the coverage of the PFC at the local level could be insufficient.

The following recommendations arise from this analysis:

- The list of services which have characteristics of parafiscal charges to be upgraded with additional information for certain public services (price where it is missing, sector or activity that is affected);
- The primarily identified list of parafiscal charges to become a register of parafiscal charges, verified by the competent bodies and institutions;
- To approach a detailed data collection for parafiscal charges for each municipality separately (i.e., the potential register to be disaggregated at the municipal level as well);
- To lower the parafiscal charges by merging similar services (including unification of the names) and eliminating outdated and inapplicable services;
- To unify the prices of the services. A service obtained from a different competent body, but having the same characteristics and purpose to have the same price;

- To explain the method of determining the price, in order to avoid arbitrary imposition of prices. With a general rule to set the gradation of the price of certain parafiscal charges depending on the company size and location (e.g. business name display fee, communal taxes);
- To establish a centralized coordination and control of the parafiscal charges, managed by one body, after the register is fully created, in accordance with the previously given recommendations;
- To increase the efficiency and to lower the time spent for administering these charges, through digitalization of the submissions and the issuance (especially of documents);
- To increase the efficiency through providing documents by different institutions ex officio.

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Policy Study No. 26

EXPLORATORY ANALYSIS OF THE PARAFISCAL CHARGES FOR THE SMALL AND MEDIUM-SIZED ENTERPRISES IN THE REPUBLIC OF NORTH MACEDONIA