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TAX POLICY MEASURES IN TIMES OF CRISIS: EMPIRICAL EVIDENCE FROM SOUTH-EASTERN EUROPEAN COUNTRIES

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Abstract.
The 2008 world economic crisis affected the South-Eastern European countries causing increased unemployment, budget deficit and public debt and significantly decreased the economic activity. This crisis and its aftermath have raised new structural policy challenges for these countries, such as reviving economies and restoring strong and sustainable long-term economic growth. In these circumstances SEE policymakers became more proactive stressing the growing attention on national tax policies. Where governments felt that they needed to make an appropriate and rapid decision, they generally turned to tax policy in the first instance. Promptly, every SEE country has moved toward creating growth-friendly tax system. At the same time, the business recovery is widely seen as a driver of economic growth and development in the SEE region and, as a result, corporate tax rates have been reduced and/or new tax incentives (e.g. free zones, profit exemption, flat tax, tax holiday etc.) have been introduced.
The main objective of the paper is to provide an overall review of tax policy measures undertaken by SEE countries in order to help businesses in times of crisis, covering the period from 2008 to 2015. In particular, this paper is aimed to (1) compare experiences and (2) evaluate tax reforms` results in the following SEE countries: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Macedonia, Moldova, Romania, Serbia and Montenegro. The key question is whether tax reforms introduced during past few years have enabled these countries to cope with the recent global economic crisis. The author will focus on a qualitative research through in-depth review of the legal provisions, and through theoretical knowledge and quantitative empirical data will sublimate conclusions and give few policy recommendations.

Key words: economic crisis, business recovery, tax policy, corporate tax rates, tax incentives.

1. Introduction

The 2008 world economic crisis and its aftermath have a severe impact on public finances and countries` long-term growth prospects. The increased public debt, budget deficit, banking crisis and eroded economy have led to increased unemployment, decreased business activity and investment initiatives worldwide. As the consequences of the crisis became more dramatic, policymakers shifted the focus of the debate to reviving economies and consolidating public finances in a way that also fosters strong and sustainable long-term growth. In these circumstances countries became more proactive stressing the growing attention on national tax policies. Soon, the role of tax policy measures in stabilizing the economy and providing stimulus for a prompt recovery was largely recognized. Where governments felt that they needed to make an appropriate and rapid decision, they generally turned to tax policy in the first instance.
In terms of globalization and openness, the world economic and financial crisis spilled over into the South-Eastern European countries[*] (hereafter "the SEE countries") causing deep damage on national

[*] In this paper the scope of SEE countries includes: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Macedonia, Moldova, Romania, Serbia and Montenegro.

economies and distancing them from the "growth and development" agenda. Long-lasting recession has made some serious pressure on the SEE countries and they were all pushed into tax reforms in terms of overcoming the problems with public finances, speeding up the economic growth and achieving faster economic development. On their way to strengthen economic growth, SEE authorities decided to create growth-friendly tax systems. At the same time, the business recovery and initiatives for doing business are widely seen as a driver of economic growth and development in the SEE region and, as a result, corporate tax rates have been reduced and/or new tax incentives (e.g. free zones, profit exemption, flat tax, tax holiday etc.) have been introduced.

Were these correct tax policy measures undertaken in times of crisis, or is there still something that can be done in order to bring the SEE countries back on their "growth" path? Are these tax measures, tax incentives and other fiscal remedies enough to stimulate economic growth, to recover business activity and investment initiative and attract foreign direct investment, or there is something missing in the legal, political and fiscal puzzle, that will provide stable economic development and attract new investments?

The main objective of the paper is to provide answers to these questions, using qualitative research through in-depth review of national legal provisions and empirical data, i.e. to provide an overall review of tax policy measures undertaken by SEE countries in order to help businesses in times of crisis, covering the period from 2008 to 2015. In particular, this paper is aimed to (1) compare experiences and (2) evaluate tax reforms` results from nine SEE countries.

The paper starts with a brief literature review focused on the role of fiscal and tax policy measures in times of crisis, strengths and the weaknesses of these policy measures. Third part explains the tax reforms undertaken in nine SEE countries that resulted with creating growth-friendly tax systems and business-friendly environments. The conclusion follows.

2. The Role of Fiscal and Tax Policy Measures in Times of Crisis: Theoretical Background

Every financial and economic crisis presents a number of critical challenges to governments in their efforts and commitments to create and retain economic development, and to promote sustainable medium and long-term growth. In times of crisis, countries confront with a dramatic decrease of national tax revenues, creating both increased annual budget deficits and public debt. Such recessionary tendencies pose demanding challenges for an appropriate fiscal policy reaction.

The financial crisis reiterated the debate regarding the efficiency of monetary and financial policy during the crisis period and moreover their coordination in order to achieve economic stabilization. For long time economic theory and literature describe the role and efficiency of fiscal policy in stabilizing the economy and general conclusion is that in times of crisis the fiscal policy must be in the very first line and the policymakers need to use fiscal stimulus to help the economy (Pelinescu et al. 2010). The debate regarding the use of fiscal policy during the crisis puts to the fore pertinent questions regarding the efficacy of fiscal stimulus. An increase in government expenditure on goods and services in a close economy would deliver maximum "bang for the buck" if it would not crowd out private sector activities, it would not increase interest rates, and would not raise concerns about the future fiscal and monetary stability of the country and, finally, it would target projects with high social marginal product, and would take place before the onset of the recovery, contributing thereby towards shortening the recession (Aizenman et al. 2011). However, the efficiency of fiscal stimulus mostly depends on the timing when the policymakers decide to use these measures in order to boost the economy (Sachs 2009; Bernanke 2008).

When crisis come and governments face the need to use the use the fiscal policy and choose the right stimulus for economy recovery, they primarily rationalise the tax systems by revenue-neutral reforms to enhance its efficiency and remove distortions harmful to growth. One way country can achieve such effects will be through fiscal devaluation. This implies shifting taxation toward growth enhancing tax bases (away from labour toward consumption, property and environment), broadening tax bases and improving tax governance and the quality of tax administration (Princen et el.2013).

As recovery in business investment is widely seen as critical for restoring economic growth, many countries implement the so-called "tax cut cum base broadening" reform by reducing the corporate income tax rates and broadening of the tax base (Carone et al. 2007). Taylor (2008) points out that increasing taxes in period of crisis generates an increase in the unemployment, and consequently a weaker economy.

Finally, through debates on the role of fiscal and tax policy in stabilizing economy, especially during periods of crisis, it is necessary policymakers to insure that the chosen measures will meet the "3Ts criteria" (that is, fiscal stimulus should be "timely, temporary and targeted") in ensuring the success of the fiscal stimulus program.

3. Tax Policy Reforms in the SEE Countries After the 2008 World Economic Crisis

The economies of the SEE region have been seriously affected by the global recession, in fact more than other regions in the world (Mitra et al., 2010). Economic growth averages had recorded negative values. All SEE countries have experienced growing fiscal deficits and public debt in response to the financial crisis. The decline marks an end to nearly a decade of accelerating growth in household incomes and employment. As expected, the economic crisis led to a decrease in the level of employment. In addition, in 2011 the foreign direct investment inflows in this region were 3 times lower than the year before the crisis hit the world economy (Paul et al. 2012). Despite these common consequences, some countries were more affected than others. Primarily, countries that are EU member states were more affected than the countries that aspire to become member states. Additionally, there are some other factors that caused variations in crisis outcomes, such is: the level of country`s integration into the global economy, differences in the initial structural conditions, differences in the initial institutional conditions etc.

These cross-country differences resulted with implementation of diverse tax policy measures in order to improve the economic performances. Tax policy measures can be considered the main driver. The type of measures adopted differed markedly in nature depending on whether they aimed at raising revenue or cutting taxes (EUROSTAT 2011). Nevertheless, all SEE countries recognized that businesses have positive impact on competition, production efficiency and technological innovations. Enterprises are the key generators of employment and income, and drivers of innovation and growth. Given their importance in all economies, they are essential for economic recovery. As a result, every SEE country decided to "return" on the growth agenda by promoting innovation, encouraging investments, improving the conditions for doing business and position of the firms and attracting foreign direct investments. In order to achieve these goals and to improve further the country`s competitiveness, they have all implemented growth-friendly tax reforms and business-friendly tax environments have been created.

3.1 Albania

Albania has started to implement growth-and-business friendly tax policy since 2007 when the Albanian Parliament adopted the Law on the Establishment and Functioning of Economic Zones. The mail purpose of *free technology and economic development zones* is to encourage domestic and foreign investments that will stimulate country`s economic growth and development. Until now, the government approved the construction of nine economic zones (eight of them have the status of industrial parks and one has the status of free zone), but the majority of these projects have not moved beyond the licensing phase. As a consequence, Albania currently has no operating free zone (Maksimovska-Veljanovski et al. 2015). In order to overcome this situation, in 2015 the Law amendments were approved and some new tax reliefs and additional supporting measures were enacted.

These last law changes introduced *tax holidays* in Albania. Accordingly, developers and users in the zones will be exempt from paying 50% of their corporate income tax for the first five years of their

activity in the zone, buildings in the zone are exempt from immovable property tax for a five-year period and number of business expenditures, such social and health contribution, employee training and scientific and research costs, are considered recognized expenses. Furthermore, in 2015 Albanian government created a free economic zone for functioning period of 35 years which will not be subject to taxes.

Albania went even further than adopting tax measures for improving its tax competition and attracting foreign investors and since 2008 till 2014 flat tax was put in action. From the start of 2008, corporate taxes was reduced from 20 to just 10%. However, in December 2013, the Albanian Parliament has adopted a series of amendments to the existing fiscal legislation as well as introduced new laws in the attempt to support and improve the commercial and business activity in the country. One of the tax amendments provided increase of *corporate tax rate* from 10% to 15% for the financial year 2014 and on.

To strengthen the position of small enterprises in times of increased corporate tax rates, Albania introduced *simplified profit tax regime*. As a result, small businesses with annual turnover ranging between ALL 2m to ALL 8m (approximately EUR 14,290 to EUR 57,150) are subject to the simplified corporate income tax rate of 7.5%. Entities with total turnover below ALL 2m are subject to the simplified income tax at a fixed annual amount of ALL 25,000.

3.2 Bosnia and Herzegovina

In terms of creating "open door tax policy" the Law on Free Trade Zones of Bosnia and Herzegovina allows the establishment of *free trade zones* as part of the customs territory of BiH and, currently, there are four free trade zones. One or more domestic or foreign legal entities registered in BiH may create a free trade zone. The users of free trade zones do not pay taxes and contributions, with the exception of those related to salaries and wages. Investors are free to invest capital in the FTZ, transfer their profit and retransfer capital. Customs and tariffs are not paid on imports into FTZs. The import of equipment for manufacturing within FTZs may be discontinued, however, if the value of goods produced and exported abroad is less than 75 percent of the total value of goods produced in that zone.

Bosnia and Herzegovina offers 100% corporate profit *tax holiday* in the year in which a taxpayer realizes more than 30 percent of total annual revenue through export; 100% corporate profit tax holiday for a five-year period where the taxpayer invests 20 million Bosnian convertible marks (approximately 10 million EUR) in production facilities in the Federation of Bosnia and Herzegovina (approximately EUR2 million must be invested in the first year), and 100% corporate profit tax holiday in a year in which more than 50 percent of the taxpayer's employees are people with disabilities (but only for a year in which more than 50 percent of the total number of employees are disabled persons).

The corporate income in BiH is taxable by *flat tax rate* of 10% since 2008. One of the reasons the government decided to apply tax reforms was to decrease the level of labour tax burden (Kreso et al. 2011).

Despite the general corporate tax rate, a *simplified 2% corporate income tax rate* is applied to small businesses (those with less than nine employees, whose total revenue does not exceed BAM 100,000, not more than 50% of which came from a single client), but only to ones that operate in Republic of Srpska.

BiH allows an *additional state aid* to the companies by tax incentives granted for hiring at least 30 employees for an indefinite period of time, up to the amount of the personal income tax and social contributions payable in respect of those employees.

3.3 Bulgaria

Bulgaria has followed the other SEE countries` experiences and established six duty-*free zones* and they are all managed by joint stock or state-owned companies. The government provided land and

infrastructure for each zone. Foreign individuals and corporations, and Bulgarian companies with one percent or more foreign ownership may operate in a duty-free zone. Thus, foreign-owned firms have equal or better investment opportunities in the zones compared to Bulgarian firms. All forms of legal economic activity are permissible in duty-free zones. Foreign, non-EU goods delivered to the duty free zones for production, storage, processing, or re-export are VAT and duty exempt. Bulgarian goods may also be stored in duty free zones with permission from the customs authorities. With Bulgaria in the EU, the duty-free zones no longer apply tax and duty exemptions to exports from Bulgaria to other EU countries. EU integration has encouraged regional authorities to attract outside investors to spur local economic development. In partnership with the private sector, they provide resources for the development of industrial zones and technological parks, which are different from duty-free zones in a way that they do not provide for any form of preferential tax treatment. There are five industrial zones under construction. The high technology Sofia Tech Park has recently joined efforts with the Bulgarian Academy of Sciences in what is expected to become the incubator for high technology international and local business in Bulgaria. The government has established a National Industrial Zones Company to support the establishment of industrial zones and technological parks and enable a stable FDI inflow.
Different to the Albania and BiH, Bulgarian tax legislature does not recognize any other tax stimulus for business activity. Though, one major advantage is the 10% corporate *flat tax rate* that is applied since 2008. Its adoption was accompanied by many positive expectations, such as: significant decrease of shadow economy, simplicity of tax law, attracting more foreign investments, economic growth acceleration, lower compliance costs etc (Kalcev 2010).

3.4 Croatia

Aimed at strengthening production activities and the use of new technologies, supporting research and development activities and stimulating employment, Croatia has thirteen free zones, ranging from sea port-based and other strategically located zones to geographical criteria. The Ministry of Entrepreneurship is responsible for overseeing the operation of free trade zones. Special tax incentives are offered, although these zones have lost some of their meaning since Croatia joined the EU and its customs area as of 1 July 2013. In 2012, Croatian Government adopted the new Investment Promotion and Development of Investment Climate Act (OG 111/2012, 28/2013). The Act provides the following incentive measures: tax incentives, customs incentives, employment incentives, incentives for education and training, incentives for the capital expenses of investment projects and incentives for labour intensive investment projects (Maksimovska-Veljanovski et al. 2015). Incentive measures can be used by enterprises registered in the Republic of Croatia investing in fixed assets in the minimum amount of: €50,000 and 3 new jobs created for micro enterprises, and €150,000 and 5 new jobs created for small, medium and large enterprises.
Under the Croatian Investment Promotion and Development of Investment Climate Act, depending on the investment amount, size of the enterprise and the number of new jobs that will be created as a result of the investment, the investor can be granted a *tax holiday* i.e. a deduction of corporate income tax of 50% for 5 years, and 75% or 100% for ten years.
In 2012 the Croatian climate for doing business was additionally improved by allowing *non taxation of reinvested profit*. However, since January 1st 2015, when the Amendments to the Profit Tax Act came into effect, tax benefits for reinvested profit can be used only if the taxpayers fulfill more difficult conditions.
On the other hand, alongside with the trend of "flattering" the corporate income tax rates in nearly all SEE countries, Croatia, as an EU member state, can be classified in the group of countries with *low corporate tax rate*. In Croatia, the corporate tax rate, applicable since 2000, is 20%, which is still lower compared to EU-28 average of 22.9% (EUROSTAT 2014).

3.5 Macedonia

Macedonian tax policy measures in post-crisis period have been driven by the desire to improve further the environment for doing business. Thus, the implementation of tax incentives can be seen as a continuation of efforts to improve efficiency in the allocation of real capital, to enhance productivity and promote innovation and investment, to strengthen the competitive position of firms and encourage foreign direct investments.

There are four major designated free trade zones, known as *Technological Industrial Development Zones* (TIDZs) and seven other smaller TIDZs in Macedonia. The Law stipulates that investors are exempt from payment of value added tax and customs duties for goods, raw materials, equipment and machines. The land in the free zones is available under long-term lease for a period up to 99 years at relatively low or even exempts concessionary prices. Investors are, also, exempt from paying utility taxes to the local municipality and fees for land building permits. There is a free connection to natural gas, water and sewage network in the Macedonian TIRZs. Government of Republic of Macedonia may participate in construction costs of the user in the TIDZ up to EUR 500.000 depending on the number of the new employees and investment amount of the user.

Under the Law on Profit Tax, Macedonian *tax holidays* are allowed only in the free zones. The companies are entitled to 10-year profit tax exemption and to 100% reduction of personal income tax for a period of 10 years, so that the effective rate of personal income tax will amount to 0%.

Another tax policy measure that is widely used by the Macedonian enterprises is the *non taxation of reinvested profit*. Macedonian Law on Profit Tax sets a possibility for decreasing the tax base for the amount of profit reinvested for development purposes i.e. investment in tangible assets (property, plant and equipment) and intangible assets (computer software and patents) intended to expand the activity of the taxpayer. However, the taxpayers must maintain ownership over the assets purchased with the reinvested profit for a period of five years.

Positive experiences with the flat tax from economically more advanced post-socialist countries from the Central European Region like Estonia, Lithuania, Latvia, Russia, and Slovak Republic gave strong stimulation for the tax reforms in Macedonia. Their results in attracting FDI, encouraged Macedonian government to accept the *flat tax* system, aiming to stimulate the economic development and growth, improve tax environment for investments and increase tax compliance. The Macedonian system of flat taxation was introduced in 2006 by amending the Law on Personal Income Tax from January 31, 2006 and the Law on Profit Tax also from January 31, 2006. The rate of profit tax of 15% was replaced with 12% in 2007, decreased to 10% in 2008.

Alongside with flat tax system, in 2011 Republic of Macedonia introduced *simplified corporate tax regime* for small and medium enterprises. Under this regime, taxpayers which will realize total income at all bases up to 3 million MKD per year, are exempted from payment of annual tax on total income and those taxpayers whose total income is from 3.000.001 to 6.000.000 MKD per year, are entitled to choose to pay either annual tax on total income of 1% or corporate income tax of 10% (Pendovska et al. 2014).

Lastly, but not the least, in 2014 Macedonian government introduced new form of state aid for opening new firms by giving state subventions for every newly-established company and for every new employee in existing companies as stimulation for entrepreneurship (Neshovska Kjoseva 2015).

3.6 Moldova

The goal of Moldova's economic reforms, as set by the current government soon after taking power in 2009, has been to increase the country's attractiveness to investors, and to ensure a continuous and substantial economic growth. At present, seven *free economic zones* (FEZs), one international free port and one international free airport are registered in Moldova. Foreigners have the same investment opportunities as local entities. FEZ commercial entities enjoy the following advantages: a 50% reduction of the standard corporate profits tax rate on income derived from the exportation outside Moldova of

goods originating in the free-economic zone; 25% reduction of the standard corporate profits tax rate on income other than the income previously described; zero value-added tax; exemption from excises; and protection of residents against any new changes in the law for 10 years. Furthermore, residents investing at least $200 million in the FEZ are protected against new changes in the law for the entire period of operation in the FEZ, but such protection cannot extend beyond 20 years. Additionally, the Moldavian government passed a law creating nine industrial parks in 2008 with the aim of attracting investments in industrial projects. Businesses operating in those parks do not receive any special tax treatment, but typically have access to ready-to-use production facilities, offices and lower office rent fees for 25-30 years. Typically, these are idle premises of former big industrial enterprises. And finally, similar to the FEZs, commercial residents that operate in the free international port enjoy the following advantages: 25 percent exemption from income tax for the first 10 years following the first year when taxable income is reported; 50 percent exemption from tax on income for the remaining years; 50 percent exemption from tax on income from exports; exemption from value-added tax and excises on imports and exports outside Moldova's customs territory; zero valued-added tax on imports from Moldova; and protection of commercial residents against any changes in the law until February 17, 2030.

Moldavian tax law also allows *tax holidays*. Residents of the Moldavian free economic zones benefit from a 3-year i.e. 5-year exemption from corporate profits tax on income derived from the exportation of goods originating in a free-economic zone, beginning with the quarter following the quarter in which investments made in fixed assets or in the development of the free-economic zone infrastructure are at least of USD 1 million i.e. USD 5 million. Furthermore, business entities can benefit from a reduction of taxable income if they increase annually the number of employees. The amount of taxable income subject to reduction is determined by multiplying the prior-year average national annual salary with the increase in the average number of employees on payroll compared with the prior year.

In the past, Moldova taxed the corporate income by tax rate of zero percent. This tax system was introduced in 2008, but, after four years of application, in 2012 it was abolished and replaced with standard *corporate tax rate* of 12% that is still applicable.

Despite this standard corporate tax rate, as Macedonia, Moldova has a *simplified corporate income tax regime* for small and medium business that are not registered as VAT payers and two different tax rates for farmers and individual entrepreneurs. According to this tax regime, the company that will obtain income from operational activities in an amount up to MDL100,000, must apply a 3% tax rate to the operational activity income obtained in the current reporting period, and if the company obtains income from operational activities in an amount from MDL100,000 to MDL600,000 and if it voluntarily registers as a VAT payer, it can choose to be taxed at a 3% tax rate applied to operational activity income obtained in the current reporting period or at the standard corporate income tax rate of 12%. The income tax rate for farmers is 7% and for individual entrepreneurs, the income tax rates are 7% and 18% depending of the annual taxable income.

3.7 Romania

Romania has six *free trade zones*, within which all foreign-owned companies have the same investment opportunities as the domestic ones. According to the Law (Law No. 84/92), the tax incentives are mainly in the area of the custom exemptions and tax exemptions of financial transactions.

Romanian taxpayers can benefit from a *profit tax exemption* for the profits reinvested in certain technological equipment.

Since Romania has a *flat tax rate* of 16% for the profit of the companies. According to the opinion of the authorities who proposed it, this measure represented the structure of a fiscal relaxation, in order to stimulate the economy. After this fiscal measure, the potential expansion of businesses, the increase of direct investments, the reduction of the share of underground economy, a sustainable economic growth,

more jobs, the increase of saving and investments, were considered ingredients of a successful program and were expecting to happen (Balcu 2010).
As in the most SEE countries, Romania also stimulates opening small and medium firms by enforcing an alternative *simplified 3% tax* levied on the income of micro companies in certain situations.

3.8 Serbia

Recent fiscal and structural reforms were implemented by the Serbian Government, which are aimed at creating a less restrictive business environment. Serbia maintains twelve designated *free-trade zones*. Companies that operate in the zones have a number of fiscal benefits, such as: VAT exemption on entry of goods into the free zone, as well as on transport and other services which are directly associated with that entry of goods; exemption from payment of VAT on trade of goods and services in the free zone; exemption from payment of VAT on trade of goods between the users of two free zones; users of free zones who perform production activities in the zone are exempted from paying VAT on energy consumption; exemption from some taxes for foreign direct investments; exemption from payment of customs duties and other import duties for goods intended for carrying out activities and construction of facilities in the free zone (raw materials, equipment, construction materials) and exemption from certain local fees and taxes.
Tax holidays, as tax incentives, are also present in the Serbian tax system. Companies in Serbia are exempt from corporate profit tax for a period of 10 years starting from the first year in which they report taxable profit if: they invest in fixed assets an amount exceeding RSD 1 billion (approximately €9 million), and they hire at least 200 additional full-time employees during the investment period and investors in undeveloped regions are exempt from corporate profit tax over a 5-year period on the following conditions: investment in fixed assets exceeds RSD 8 million, or roughly €70,000, the minimum of 80% of fixed assets are used in the main activity, at least 5 new employees are hired on an indefinite contract throughout the investment period, and 80% or more employees have a residence in the underdeveloped region.
On December 15, 2013, the Serbian Parliament officially adopted the amendments to the Corporate Income Tax Law as a part of the fiscal consolidation measures which aim to decrease the budget deficit by expansion of the tax base, elimination of tax benefits for all or some categories of taxpayers, and by shifting municipal tax revenues to the central government. One of the most important changes was the increase of the *flat corporate income tax rate* from 10% to 15% (Vucenovic, 2013). This change put some pressure on Serbian companies as it made paying taxes more expensive.

3.9 Montenegro

Montenegro started to implement tax policy reforms to improve the tax environment years before the 2008 economic crisis began. The Parliament adopted new a *Free Trade Zone* Law in 2004, and the established Zone officially started working in the next year, 2005. The Port of Bar is currently the only free trade zone in Montenegro. Beside the general competitive advantages of doing business in the Port of Bar, users of the Free Zone enjoy many benefits provided by the Law and other regulations: import free of paying custom duties, custom fees and VAT, storage of goods in the duty free regime for an unlimited period of time, a wide range of possible activities and potential users, low corporate tax, simplified procedures etc.
The corporate income tax legislation of Montenegro provides an 8-year *tax holiday* for legal entities establishing a production activity in an undeveloped municipality, but this incentive is not applicable in the agriculture, transport, shipbuilding, steel and fishery sectors.

The *flat corporate tax rate* of 9% is seen as a main driver of the economic growth and prospective of Montenegro as the country has the lowest tax rate among the SEE countries. The tax rate reductions have had a positive effect on bringing underground economic activity out into the formal economy, where it can be taxed, and improving compliance.

4. Conclusion

The 2008 world economic crisis and its aftermath have a severe impact on public finances and long-term economic prospects in SEE countries. The increased public debt, budget deficit, banking crisis and eroded economy have led to increased unemployment, decreased business activity and investment initiatives. In order to boost economic development in the post-crisis period, there was an urgent need for structural reforms in the region and for measures to increase competitiveness. However, in order to fully exploit the benefits, growth needs to be driven more by investment, productivity and competitiveness. All SEE countries recognized that businesses have positive impact on competition, production efficiency and technological innovations. As a result, every SEE country decided to "return" on the growth agenda by promoting innovation, encouraging investments, improving the conditions for doing business and position of the firms and attracting foreign direct investments. Thus, policymakers concerned with crisis response were concerned with the question how to minimize the impact of the crisis on companies. In order to achieve these goals and to improve further the country`s competitiveness, they have all implemented growth-friendly tax reforms and business-friendly environments have been created.

Measures in tax area to support the small and medium entrepreneurs were undertaken. Many, if not most, of the recent economic stimulus packages announced by SEE governments have included initiatives to support the business revitalization. Most SEE countries introduced new tax incentives, such as free zones, tax holidays, non taxation of reinvested profit, low corporate flat tax rates or simplified corporate income tax regime. Hence, the more general trend since 2009 has, though, been a marked recovery. We compared the SEE country policy responses to the crisis and there are some evident differences between tax policy measures undertaken in the period 2007-2015 due to country-specific factors. This only confirms that country-specific circumstances prior to the crisis were likely important. In this reform process only Republic of Macedonia has implemented every single tax incentive including flat corporate tax rate of 10%. The other SEE countries introduced only some type of tax incentive, while Albania and Serbia implemented diametrically opposite tax policies by increasing the corporate tax rates.

Although SEE countries are slowly leaving behind the crisis`s consequences, it remains an essential challenge to improve business and investment environments, reduce the public debt, budget deficit and unemployment and stimulate the formalization of the informal economy in order to foster growth and development. However, drawing lessons from tax reforms is an extremely ambitious multidisciplinary task since the economic crisis has decisively proven that making markets work and improving the investment or business climate is not simply about economic, but also political, legal and social aspects, made all the more challenging by globalization.

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