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Comparative overview of legal solutions of certain elements of Corporate Profit Tax in several countries in the region

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FOREWORD

Taxes are the most important instrument for the collection of public revenues in all modern states. Tax on profit of legal entities is an integral part of the tax systems of most modern states and the basic form of taxation of companies.

"One of the earliest interpretations on tax on profit of legal entities, which is still prevalent, states that it represents a tax on income from capital gain in the joint stock sector. When the salaries are paid and other inputs are gathered which may be deducted from taxes, what remains is the profit, i. e. income from capital gain. "[1]

"Corporate profit tax first appeared in its previous forms in the late nineteenth century but more intensively in a greater number of countries during and after World War I. Corporate income tax is one of the most important forms of public income, although there is no revenue yield, such as personal income tax or general turnover tax. However, it has a very strong development and stabilizing function. It is a complex tax form, suitable and readily used for the realisation of numerous extra-fiscal objectives of taxation, especially micro and macroeconomic objectives of taxation."[2]

Depending on the manner of regulation of relations between corporate profit tax and personal income tax, there are two concepts of corporate profit taxation, specifically: Classical Tax System and Integrated Taxation System, complete or partial, at the level of shareholders or at the level of companies. The Classical system of coporate profit tax does not provide for the integration of corporate profit tax and personal income tax. Dividends are liable to taxes twice, primarily, as a portion of the total amount of corporate profit which is liable to corporate profit tax, and once they're in shareholders' possession, they are liable to personal income tax, while the undistributed corporate profit is only liable to corporate profit tax. This leads to a phenomenon known in the tax literature as economic double taxation. However, in modern taxation systems, the concept of tax integration is commonly used. Tax integration mechanisms involve a set of measures and procedures undertaken at the company level, respectively at the level of shareholders aimed at eliminating double taxation of distributed profit.[3]

Concerning European Union, policy on taxation of the profit of companies was introduced on 23 October 2001, within the frameworks of the European Commission Communication COM/2001/ 582[4], and was confirmed on 24 November 2003 by the follow-up European Commission Communication COM (2003) 726[5]. In addition, on 16 March 2011, the European Commission proposed a common system for calculating the tax base of businesses operating in the EU. Common Consolidated Corporate Tax Base – CCCBT[6] represents a set of rules

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[1] Joseph E. Stiglitz, *Economics of the public sector*, Second Edition, Beograd, 2008, page 660

[2] Marko Radičević, Božidar Raičević*, Javne finansije, teorija i praksa*, Data Status, Beograd, 2008, page 131

[3] *Ibid* pages 131-132

[4] COM (2001) 582: Communication from the Commission to the Council, the European Parliament and the Economic and Social Committee - Towards an Internal Market without tax obstacles - A strategy for providing companies with a consolidated corporate tax base for their EU-wide activities http://eur-lex.europa.eu/procedure/EN/168921 (a ccessed on May 14, 2015)

[5] COM (2003) 726: Communication from the Commission to the Council, the European Parliament and the European Economic and Social Committee - An Internal Market without company tax obstacles: achievements, ongoing initiatives and remaining challenges http://eur-lex.europa.eu/procedure/EN/187013 (Accessed on May 14, 2015)

[6] Proposal for a Council Directive on a Common Consolidated Corporate Tax Base (CCCTB) http://ec.europa.eu/taxation_customs/resources/documents/taxation/company_tax/common_tax_base/com_2011_121_en.pdf (accessed on May 14, 2015)

available to businesses operating in the EU for the calculation of the tax base. Specifically, in accordance with the aforementioned system, on the occasion of calculation of taxed profit, businesses must abide by only one EU system, rather than by the different rules of each member state where they conduct their business.

Montenegro, Federation of Bosnia and Herzegovina, Croatia and Serbia provide for the profit tax in their systems. Tax on profit of legal entities, previously known as corporate profit tax, was introduced in Serbia in 1992. Croatia introduced corporate profit tax during the first phase of tax reform, which started in 1994, and remained in force until the end of 2000, when significant changes were introduced.[7] Federation of Bosnia and Herzegovina started implementation of tax on profit of legal entities in 1997, while Montenegro introduced tax on profit of legal entities in 2001 and started its implementation on 1 January 2002.

In order to prepare a comparative overview related to corporate profit tax, the Research Centre gathered, systematised and presented data involving profit tax, respectively subject taxation, taxpayers, tax exemptions, tax rate and base, tax holidays and reliefs, as well as tax offences and fines in **Montenegro, Federation of Bosnia and Herzegovina, Croatia and Serbia.**

The complete document in Montenegrin language can be found at:
http://www.skupstina.me/images/dokumenti/biblioteka-i-istrazivanje/2015/10.pdf

[7] Pero Jurković, *Javne financije*, Masmedia, Zagreb, page 311