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Václav VYBÍHAL[1]

THE TAX SYSTEM OF SLOVAKIA IN THE CONTEXT OF 30 YEARS OF ITS EXISTENCE

Abstract

This paper examines the evaluation of Slovakia's tax system over the 30 years since its inception in 1993, both from the perspective of meeting the criteria and postulates derived from tax theory and through a comparison of the operating mechanisms and tax rates for individual taxes in Slovakia with those in the most developed countries of the European Union and the USA. It also comments on the gradual changes in the tax system that occurred during the observed period. Special attention is given to issues related to meeting the requirements formulated in tax theory for a tax system, especially those requirements focused on tax fairness and efficiency in taxation. In this regard, the question arises as to why the ability-to-pay principle is not consistently applied within the Slovak tax system, unlike in the most developed EU countries and the USA. An integral part of the paper is comparing taxation regimes and applying tax rates, especially for value-added tax, excise duties, and taxes on the income of individuals and legal persons. The author also justifies why it is not appropriate to increase the tax burden on property taxes under the conditions of the Slovak tax system.

Key words: tax system, Slovakia, 30 years of existence

1 INTRODUCTION

The significant anniversary of the introduction of the Slovak tax system leads to reflection on its genesis over the 30 years of its existence and to the comparison of the operating mechanism and tax rates with those of the most economically developed countries of the European Union.

The creation of the Slovak tax system on 1 January 1993 was associated not only with the creation of a new state but primarily with the fulfillment of a strategy for radical economic reform ensuring the transition of Slovakia's

1 Department of Political Sciences and Public Administration, Faculty of Social Sciences, University of Ss. Cyril and Methodius in Trnava, Bučianska 4/A, 917 01 Trnava, Slovakia, vaclav.vybihal@ucm.sk, ORCID iD: https://orcid.org/0000-0002-4498-5134..

national economy to a market-oriented economy. This tax system, compared to previous tax systems, brought significant changes in the tax structure, in defining the tax base, in tax rates, in the circle of taxpayers and taxable persons, in the area of tax exemptions, in the non-taxable portions of the tax base, and tax deductions.

The tax system included not only income taxes for individuals and legal persons but also a completely new indirect value-added tax (VAT), whose operation mechanism was designed in France and applied across the European Union, excise duties with elements of harmonization within the EU, and a system of local taxes, among which property tax played the most significant role in terms of revenue. Slovakia also made itself known by legislating a tax on nuclear facilities as part of local taxes.

Individual tax laws and a wide range of other legal norms form the legal foundation of the new tax system, which has indelibly entered the awareness of taxpayers, taxable persons, tax administrators, and the general public.

From the perspective of budgetary policy goals, it was important to ensure a flexible linkage between state budget revenues and expenditures with the dynamics of the gross domestic product, with the strategic goal of the tax system being the gradual reduction of the tax-to-GDP ratio to a level common in market economy countries.

This goal was achieved, even exceeded, over 30 years. Rates of income tax for individuals and legal persons were reduced, inheritance and gift taxes were abolished, and the tax-to-GDP ratio was gradually reduced to the lowest level within the European Union. This resulted in problems in the balance of the state budget, with an increasing debt burden, and limited redistributive function of the state budget resulting in low pensions and social inequalities. Slovakia became the country within the European Union with the highest rate of value-added tax on food, undoubtedly contributing to a decrease in the standard of living of its inhabitants.

The Slovak tax system could be described as a modern and functional set of direct and indirect taxes, largely conforming to the function of the market mechanism and to some extent compatible with the economic and tax systems of European Union countries, except for the misunderstanding of the basic principle of tax fairness, which significantly creates disparities between the Slovak tax system and the tax systems of advanced European Union countries.

1 REQUIREMENT PLACED ON THE TAX SYSTEM IN TAX THEORY

The tax system encompasses all taxes collected within a given (state) territory (i.e., tax jurisdiction). In developed market economies, there is a significant emphasis on adhering to the requirements that tax theory places on a modern tax system.

While there may not be an ideal and universally accepted model of a tax system, there are certain requirements or principles that the tax system of an economically developed country should possess.

The tax system has evolved under the influence of various factors, especially economic, political, and social ones. Experts around the world agree that what makes a tax system good is of great importance. Economists and social philosophers, since the time of Adam Smith, have proposed what these requirements should be. Smith (1766) described four basic characteristics (under the term tax canons) that a tax system should have and meet. These are fairness, certainty, convenience of payment, and efficiency in the administrative costs of taxation. It can be stated that today's, or modern, tax science builds on these canons.

Musgrave and Musgrave (1991) emphasize that tax revenues must be sufficient within public budget revenues, the distribution of tax burden should be even with an emphasis on the ability-to-pay principle, taxes should be collected in a way that minimizes interference with economic decisions on otherwise efficient markets. The tax system should be simple and understandable, efficient (thus administrative costs should be as low as possible). These authors also highlight the issue of tax incidence about the requirements placed on the tax system.

Stiglitz (1997) mentions that the general criteria for an optimal tax system should include economic efficiency resource allocation efficiency, administrative simplicity, flexibility in the form of rapid response to economic condition changes, political transparency, and fairness (in taxing different population groups with different income levels).

James and Nobes (2002) consider efficiency, motivation, fairness, and macroeconomic flexibility as the fundamental principles of a tax system.

Lipsey, Steiner, Purvis, and Courant (1990) stress that evaluating a tax system requires considering two aspects of taxation: fairness and efficiency. Fairness is evaluated through the ability-to-pay principle and the benefit principle.

In Slovakia, the issue of taxation principles within public finance is addressed by authors Medveď, Nemec, Orviská, Zimková, E. (2005), who analyze taxation principles, especially administrative simplicity, flexibility, political transparency, fairness, and efficiency. They emphasize that the size of administrative costs of taxation is influenced by numerous factors. When evaluating tax flexibility, changes in socio-economic and political conditions must trigger changes in tax rates. In this respect, the speed of response is also important. Considering the demands for fairness and efficiency, it is not possible to achieve a Pareto optimal state in the economy while simultaneously increasing fairness and efficiency to the same extent.

The issue of tax principles and norms is also addressed by Schultzová (2011). The author presents, in particular, the principle of tax affordability, tax fairness, tax legality, and the stimulative principle of taxes. These characteristics should be present in a modern tax system. Tax affordability is examined from various aspects, especially defining general, specific, personal, and territorial affordability. In the case of tax fairness, the principle of fairness is combined with monitoring the tax burden with an emphasis on the benefit principle and the ability-to-pay principle. The principle of legality, also referred to as the principle of legal perfection, cannot be understood solely as the legal regulation of the tax system but should also take into account the stability of tax laws and their application in tax practice. According to the cited author, the stimulative principle of taxes means that the tax system must contain enough elements to stimulate entrepreneurial activities and work efforts. Applying tax principles also involves assessing the degree of tax burden on entities.

Zubaľová (2008) deals with fairness in taxation and its place in the process of distribution and redistribution, and further with the principles of fair taxation. She states that fairness is fundamentally a philosophical and ethical category, but emphasizes that a tax system can be considered fair if it is based on observable, detectable, and measurable indicators. The author thoroughly examines the redistribution of created value and its impact on fairness in taxation. She considers the benefit principle, due to the existence of the public sector, to be outdated, unlike the ability-to-pay principle, which she does not consider outdated. The benefit principle cannot be practically used for several reasons. The author is correct in stating that, from an economic perspective, utility can never be measured between individuals because each utility is subjective, immeasurable, and scientifically incomparable. Based on this statement about its characteristics, there is no way to distribute taxes according to this principle. From the perspective of the ability-to-pay principle, the author emphasizes that tax should be imposed based on what tax burden the individual can bear. In the context of the Czech Republic, the issue of requirements placed on the tax system and tax principles is also addressed by several authors.

Hamerníková et al. (1996) state that tax principles are a requirement for the tax system as a whole because the fiscal instrument is the entire tax system, not just one or several taxes within the system. The principle of fairness is considered the optimal and desirable requirement for creating an optimal tax system. However, defining the criterion of fairness is a problem. The benefit principle, based on the attribute of contributing in taxes an amount equal to the benefit the individual receives from public goods, is not technically or economically applicable in practice. The main basis for modern tax systems today, according to the cited authors, is the ability-to-pay principle in the form of vertical and horizontal tax fairness; it is also necessary to resolve what should be the optimal course and level of tax rates, where the marginal tax rate should end, and how much more one taxpayer should pay compared to another. Other requirements for the tax systems of European Union countries considered by the authors include efficiency, correctness, administrative feasibility, and tax certainty.

Kubátová (2015) states that since the time of Adam Smith, not much has changed in the requirements for a good tax system. The basic requirements expressed in the famous tax canons (fairness, efficiency, legal perfection, transparency) are still recognized today, and current authors differ more in the elaboration of details. The author then presents five criteria for "good taxes", namely efficiency, positive influence on the behavior of economic subjects, fairness, correct impact on macroeconomic aggregates (flexibility), and legal perfection including political transparency.

Široký et al. (2008) state that the notable ancient Greek thinker Aristotle around 300 BC dealt with tax issues, particularly the question of tax fairness and the size of the tax burden on the taxpayer, and preferred taxes imposed according to the ability-to-pay of citizens. The authors further comment on the development of views on the issue of tax principles from the time of Thomas Aquinas to the present. About current tax science, the authors thoroughly explicate the principle of fairness, the principle of efficiency, and the principle of administrative simplicity dependent on political transparency.

Tax theory considers a good tax system to respect certain tax principles, as stated by Peková (2011). According to the cited author, taxes should be fair and correct, thus respecting the taxpayer's ability to pay the tax and respecting the utility from taxation about the consumption of public goods. Furthermore, the tax system should be efficient in a way that taxes do not cause significant distortions in prices and utility and with the lowest possible costs for tax collection and administration. Taxes should be legally perfect and transparent with a certain tax certainty, implying that tax laws should last for a longer time. It appears that among all authors favoring requirements placed on the tax system, tax fairness and efficiency in taxation are decisive. This is because they can be more precisely identified, defined, or even measured. Other principles are very important too, but based on intuition or other considerations, we can infer to what extent they function and how the given requirement for a good or optimal tax system is fulfilled in tax practice. There are publications in the literature that focus, on the one hand, perhaps on one of the requirements placed on the tax system, but in great detail leading to practical measurement. Among them, for example, is a publication in which authors Pudil, Vybíhal, Vítek, and Pavel (2004) deal with the issue of taxation about efficiency. According to the authors, efficiency in taxation can be measured by the level of administrative costs of taxation. The lower these costs, the higher the efficiency in taxation.

According to the cited authors, administrative costs of taxation are de facto costs associated with the collection, management, and control of taxes, thus the costs of the tax system. Costs borne by the public sector are referred to as direct administrative costs, and costs borne by the private sector as indirect administrative costs (in the literature, quite frequently referred to as induced costs of taxation). Administrative costs of taxation can be measured from various perspectives, for example, from a time perspective, from the perspective of impact on the respective economic sector, from the perspective of impact on the respective government level, and from the perspective of the structure of administrative costs of taxation.

Administrative costs of taxation were also measured in the Slovak and Czech Republics. The methodology for measuring administrative costs of taxation is detailed in the already-cited publication by authors Pudil, Vybíhal, Vítek, and Pavel (2004). The results of measuring direct administrative costs of taxation were found by the cited authors in the years 2001 to 2003 on average at the level of 1.29 to 1.43 (the indicator expresses the volume of direct administrative costs per unit of tax revenue). Specific taxes of the tax system, however, differ quite significantly, with the highest costs in 2003 being for the then inheritance tax (165.83) and gift tax (36.62) and for the property tax (0.32), the lowest then for excise taxes (0.33) and for the corporate income tax (0.67). In the case of compliance costs of taxation, these amounted to 5.30% for corporate income taxpayers in 2003, 6.11% for value-added tax, 1.22% for personal income tax, etc.

In the Czech Republic, the methodological aspects of measuring administrative costs of taxation were also thoroughly addressed by Vítková (2002). According to the author, the share of direct administrative costs per unit of tax revenue ranged from 1.51% (1993) to 3.47% (2000) and had a continuously increasing trend in the given time series. When separated by individual taxes, the lowest level of these costs was found for excise taxes (0.54%), corporate income tax (0.93%), value-added tax (0.98%), personal income tax (1.43%), the highest level than for inheritance tax (81.52%), gift tax (48.16%), and property tax (15.93%).

The issue of measuring compliance costs of taxation from both a methodological and practical perspective in the environment of 142 enterprises (legal entities) was addressed by Vybíhal (2004). The lowest level of compliance costs of taxation was found in industrial enterprises (with the size of the enterprise, the efficiency in taxation increased, i.e., compliance costs of taxation decreased), a higher level of induced costs of taxation was found in construction (Vybíhal, 2005) and agriculture (Vybíhal, 2006). In the Slovak Republic, direct administrative costs of taxation were measured by Pompura (2012) and indirect (compliance) costs by Čižmárik (2012).

Pompura (2012) measured the administrative costs of tax administration in the Slovak Republic from 2004 to 2010. During this period, the share of administrative costs about tax revenue ranged from 1.61% to 3.01% and had a slightly decreasing tendency. Significant differences in this indicator were found by the author for individual taxes and also when examining administrative costs of taxation according to individual tax offices. When comparing the level of administrative costs per unit of tax revenue within the EU and OECD, Slovakia belongs to the countries with an above-average level of these costs (only Cyprus and Bulgaria have a higher level of this indicator within Europe).

Čižmárik (2012) dealt with the issue of measuring indirect administrative costs of taxation (compliance costs). In his work, he mainly analyses and comments on the results of research in this area on a global scale. The author also proposed a methodology for researching compliance costs of taxation for the Slovak Republic. To verify it, he used a questionnaire survey and estimated the level of compliance costs of taxation for income tax and value-added tax.

2 THE SLOVAK TAX SYSTEM IN THE CONTEXT OF THE ABILITY-TO-PAY PRINCIPLE

In our opinion, every modern tax system should meet the following requirements:

- Tax fairness;
- Tax efficiency;
- Legal level (quality, perfection);
- Simplicity and comprehensibility;
- Flexibility;
- Proper influencing of the behavior of economic subjects.

Special attention needs to be paid to tax fairness (see further text). Tax efficiency, among other things, primarily means that the administrative costs of taxation should be as low as possible. This issue is addressed by numerous prominent experts worldwide with quite frequent publication activity. In Slovakia, direct administrative costs are above the average of European Union countries, meaning that despite the below-average level of public sector wages in Slovakia, there is an above-standard number of employees at the Slovak tax offices. The level of these costs may also be related to the organization of collection, administration, and control of taxes.

The requirement in terms of legal level with an emphasis on quality, perfection, as well as simplicity, and comprehensibility is an essential prerequisite for proper and effective tax collection. Fulfilling these requirements cannot be precisely measured, but certain indications allow us to infer the level of fulfillment of these requirements.

Flexibility is more of a pious wish, as political representations do not react to the economic development of the state within tax policy either at all or very belatedly. Just as significant world experts (e.g., Hansen, 1964) point out that the state budget should be balanced within one economic cycle, tax policy should adapt to the respective phase of the economic cycle in which it currently finds itself. A similar flexible response of tax policy should occur in periods of unbalanced development of the national economy for extraordinary reasons (e.g., pandemics, war, high inflation, etc.).

The requirement for the proper influencing of the behavior of economic entities primarily means supporting entrepreneurial activities, preferring investment over consumption, and supporting economic activities more friendly to the environment. Every government of an advanced economy must also be able to estimate how economic entities, especially companies and households, will behave after a change in tax rates. In connection with the theoretical conception of tax fairness, as already mentioned, two principles are applied, namely the benefit principle and the ability-to-pay principle.

The benefit principle means that taxes should be paid by those who benefit from public services (e.g., road tax by motor vehicle operators). However, this principle cannot be fully implemented in tax practice, neither technically nor economically, only partially from a fiscal perspective. Individual benefit cannot be precisely measured, it changes throughout an individual's life, and it differs also in terms of the perception of a given matter from the perspective of certain types of public expenditures. It must be taken into account that tax is a legally mandated payment.

The main principle for the modern understanding of tax fairness is the ability-to-pay principle, which implies that every taxpayer should pay tax according to their ability to pay, i.e., their capacity to bear the tax. This principle is adhered to by the vast majority of renowned economists in the world, especially because it fully ensures the redistributive function of taxes and public finance as a whole.

In tax theory, tax fairness is described as horizontal and vertical. Horizontal fairness means that taxpayers with the same ability to pay should pay the same amount of tax. Concerning the trajectory of searching for a criterion, the tax practice is oriented towards finding a criterion for individual objects of taxation. In terms of vertical fairness, a taxpayer with greater ability to pay should pay more (or substantially more) taxes. Progressively structured tax ensures the requirement that taxpayers with a higher ability to pay a higher tax or a higher tax rate is set for them. In this case, the question arises as to how much more one taxpayer should pay compared to another or at what level the marginal tax rate should end. In this context, it is worth recalling the statement by Samuelson and Nordhaus (1989), who, after successfully explaining vertical fairness, state that they cannot imagine that this principle would ever be overlooked in the USA. To fulfill this principle in advanced economies around the world, progressive taxation of incomes has been legislated. All advanced states in Europe, the USA, Australia, and other countries apply progressive taxation for personal income tax, and in some countries, progressive taxation is also applied to corporate income tax about turnover. However, the level of the marginal rate varies also according to different fiscal requirements and political orientations or populism. There are several marginal tax rates or tax brackets (usually 3 to 7). In several countries, in connection with progressive taxation, non-taxable minimums (France, Germany,) or even family coefficients (France) have been introduced.

In Slovakia, the issue of the ability-to-pay principle is not perceived by political representation. Horizontal fairness is observed, as taxpayers with the same ability to pay generally pay the same amount of taxes, but only for income taxes. For local taxes, especially property taxes, this is not the case. These facts also lead to Slovakia belonging to the countries in the European Union with the lowest level of both simple and compound tax-to-GDP ratios. This situation has negative impacts on the state budget and public finances, leading to the formation of low pensions (retirement income) and unnecessary indebtedness in the country. Above-standard incomes of politicians, additionally taxed at a low tax rate (19% or 25%), are an economic and social advantage for them, but not for the majority of the inhabitants of this European Union country. Social welfare is measured not only by the utility of politicians but primarily by the citizens.

3 THE SLOVAK TAX SYSTEM IN THE CONTEXT OF EU TAX HARMONISATION

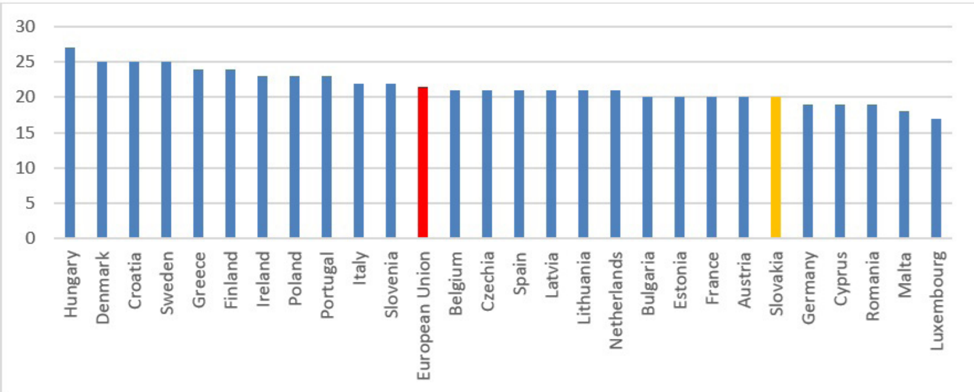
In the spirit of cooperation and integration, the idea of tax harmonization began to resonate within the European Community for easier functioning of the internal market. The original ambitions in this direction were quite large, but eventually, there was a move towards partial harmonization. The first significant step towards tax harmonization was the introduction of the value-added tax system (from 1 January 1973, the system of value-added tax is mandatory for all member states). It is important for the business environment that a uniform tax base for calculating value-added tax is applied in all member states, a comparable mechanism for the operation of this tax is established, and except for minor details, individual member states differ in tax rates, with the European

Union setting minimum tax rates binding for all European Union states, namely 15% for the so-called standard tax rate and 5% for the so-called reduced tax rate.

In terms of tax rates within the European Union, more of an approximation than harmonization of tax rates has been achieved. The standard tax rate ranges from 17% to 27%, averaging 21.5%, thus all member states comply with the established minimum, as does Slovakia (20%), as is evident from Graph 1. Since 2017, the level of standard tax rates in European Union countries has been relatively stabilized.

With reduced rates of value-added tax, the situation is somewhat complicated. Many EU countries still have an exception and did not reach the set minimum level of 5%, such as France, Ireland, Italy, Luxembourg, Spain (before leaving the European Union, also the United Kingdom), and currently Poland, albeit temporarily. Slovakia had a reduced tax rate of 20% for many years, currently, a 10% tax rate roughly corresponds to the European Union average.

Graph 1. Standard tax rate VAT in European Union countries in 2022 (in %)



Source: European Commission (2023).

Table 1. Reduced and Superior Reduced Tax Rates VAT of EU member states in 2022 (%)

Member states EU	Superior Reduced Tax Rates VAT [%]	Reduced Tax Rates VAT [%]	Member states EU	Superior Reduced Tax Rates VAT [%]	Reduced Tax Rates VAT [%]
Austria		10 / 13	Italy	4	5 / 10
Belgium		6 / 12	Latvia		5 / 12
Bulgaria		9	Lithuania		5 / 9
Croatia		5 / 13	Luxembourg	3	8
Cyprus		5 / 9	Malta		5 / 7
Czechia		10 / 15	Netherlands		9
Denmark		0	Poland		5 / 8
Estonia		9	Portugal		6 / 13
Finland		10 / 14	Romania		5 / 9
France	2,1	5,5 / 10	Slovakia		10
Germany		7	Slovenia		5 / 9,5
Greece		6 / 13	Spain	4	10
Hungary		5 / 18	Sweden		6 / 12
Ireland	4,8	9 / 13,5			

Source: European Commission (2023).

From a semantic point of view, tax harmonization involves the approximation and alignment of tax systems and individual taxes based on compliance with common rules and principles. To achieve goals in the tax area, the European Union has instruments, where the basic instrument is legislation. It mainly includes primary law (founding treaties, accession treaties, amending treaties, protocols to treaties, and supplementary agreements), secondary law (regulations, directives, decisions, recommendations, and opinions), and supplementary sources (general principles of law and case law).

Besides the harmonization of value-added tax, the European Union has also introduced the harmonization of excise duties, where these taxes are mandatorily imposed on selected products, namely mineral oils (e.g., petrol, diesel), alcohol (ethanol), beer, wine, and tobacco products. For the cited products, minimum tax rates are set, which Slovakia currently respects.

Within the European Union, the tax-to-GDP ratio indicator is often monitored. The tax-to-GDP ratio represents the ratio of tax revenue to gross domestic product at current prices. Besides this simple tax-to-GDP ratio, the European Union statistics (Eurostat) and OECD countries apply the compound and consolidated tax-to-GDP ratio. The simple tax-to-GDP ratio includes only taxes in the legal sense in the numerator (excluding fees, customs, and social insurance contributions), whereas the compound tax-to-GDP ratio includes fees, customs, and insurance contributions in the calculation methodology. In the area of research and more detailed comparative analyses, the consolidated tax-to-GDP ratio is used to prevent the double counting of revenues (social insurance contributions of public sector employees, contributions to public health insurance).

Picture 1. The calculation of the simple tax-to-GDP ratio is as follows

$$_{S}Q_{T} = \frac{Y_{T}}{GDP} \times 100 \quad [\%]$$

SQT is a simple tax-to-GDP ratio;
YT is the yield from taxes total;
GDP is Gross Domestic Product.

Picture 2. The calculation of the compound tax-to-GDP ratio is as follows

$$_{K}Q_{T} = \frac{Y_{T} + IS + C + D}{GDP} \times 100 \quad [\%]$$

KQT is the compound tax-to-GDP ratio;
YT is the yield from taxes total;
IS is social and health insurance;
C is charged;
D is duty;
GDP is Gross Domestic Product.

Picture 3. The calculation of the consolidated tax-to-GDP ratio is as follows

$$_{C}Q_{T} = \frac{Y_{T} + IS + C + D - S}{GDP} \times 100 \quad [\%]$$

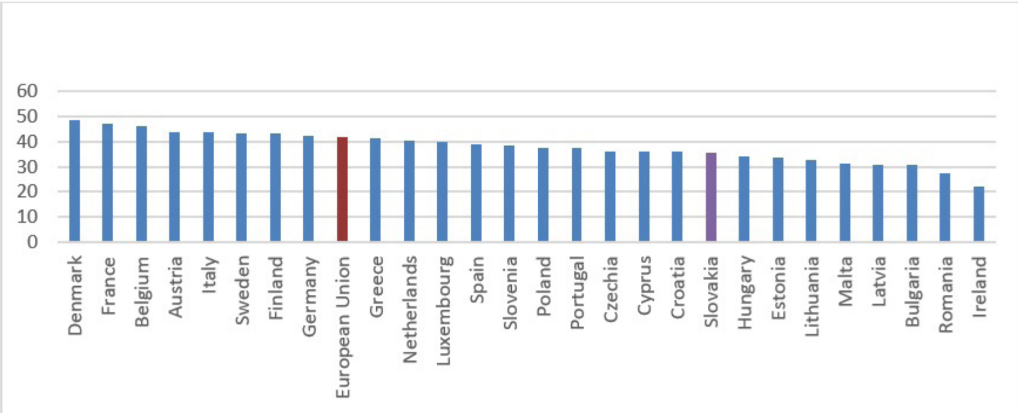
CQT is the consolidated tax-to-GDP ratio;

YT is the yield from taxes total;
IS is social and health insurance;
C is charged;
D is duty;
S is the social insurance of the employees of the public sector.

Slovakia, in terms of the tax-to-GDP ratio, belongs to the countries with the lowest level of this indicator, and a few years ago, it even had the lowest tax-to-GDP ratio (29.5%). This means that only 35.5% of tax revenue including social and health insurance, fees, and customs is collected per unit of gross domestic product. The average level of this indicator was 41.6% within European Union countries, with countries like Denmark, France, Belgium, and Austria approaching the 50% mark. It is interesting that countries with a high level of GNP per capita also have a high tax-to-GDP ratio, leading to significantly more social security in those countries than in Slovakia.

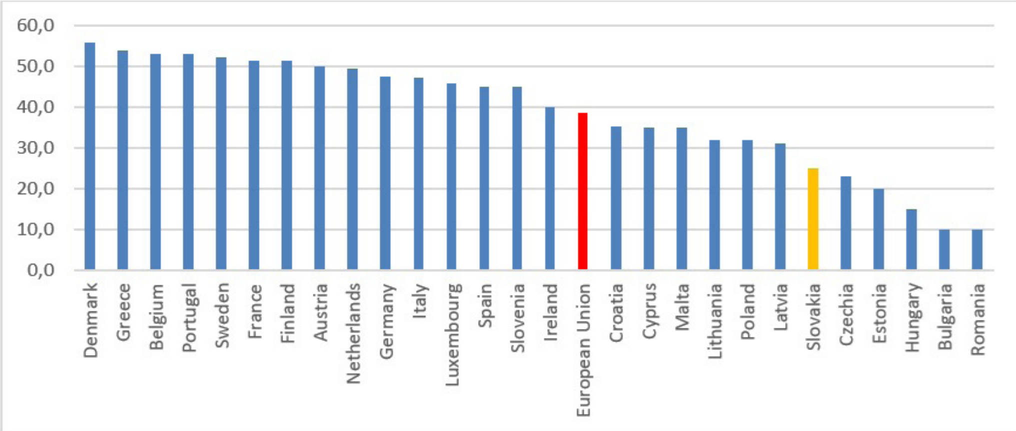
The overall picture of the issue of forming the tax-to-GDP ratio can be explained based on the highest statutory rates of income tax for individuals and corporate income tax.

Graph 2. Compound tax-to-GDP ratio of European Union countries for the year 2021



Source: Eurostat (2023).

Graph 3. Highest statutory income tax rates in European Union countries in 2022

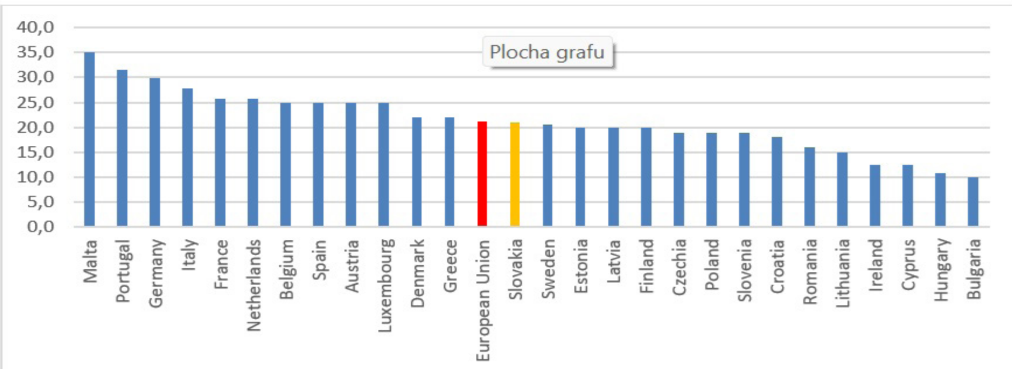


Source: European Commission (2023).

From Graph 3, it is evident that the highest rates of personal income tax exceeded even 50% (Denmark, Greece, Belgium, Portugal, Sweden, France, Finland) with an average in the EU of 38.7%, with Slovakia ranking among the countries with the lowest maximum tax burden (25%). This situation is the result of applying or not applying progressive taxation and the degree of recognition of the ability-to-pay principle by political representations.

Significant differences in the tax burden also exist among European Union countries for corporate income tax. Statutory tax rates for corporate income tax within European Union countries range from 10% to 35% with an average level of 21.2%, which Slovakia also achieves.

Graph 4. Highest statutory corporate income tax rates in European Union countries in 2022



Source: European Commission (2023).

It would be worth considering applying progressive taxation (also in Slovakia) in this tax, as it has proven effective in several countries (for example, France and the USA).The harmonization of income taxes within the European Union has not progressed significantly. The main obstacle to the harmonization of these taxes is the different accounting concepts of the tax base, with countries applying the so-called Bismarck accounting system (Germany, Austria, Hungary, Denmark) differing from other European Union countries in that the de facto accounting economic result only slightly differs from the income tax base, whereas within the so-called Napoleonic accounting system applied in the decisive part of European Union countries, it is necessary to transform the accounting result of operations into the tax base through procedures that are not accounted for but are specified in the relevant tax laws. Additionally, the system of items increasing and decreasing the tax base is significantly different in individual countries. Even with the same tax rate, the effective tax burden on companies in European Union countries can be different (Lacková, 2014). The comparison of the statutory and effective tax rates for corporate income tax is presented in Table 2.From the data in Table 2, it emerges that most countries have an effective tax rate lower than the nominal (statutory) one, with Slovakia being at the average level of the European Union. In terms of dynamics, a generally decreasing trend in corporate income tax rates can be observed.

Table 2. The comparison of the statutory (nominal) and Effective Tax rate for Corporate Income Tax in 2022

EU	Nominal Tax Rate [%]	Effective Tax Rate [%]	Difference	EU	Nominal Tax Rate [%]	Effective Tax Rate [%]	Difference
Malta	35.00	23.30	-11.70	Sweden	20.60	18.70	-1.90
Portugal	31.50	21.40	-10.10	Belgium	25.00	23.10	-1.90
Estonia	20.00	10.20	-9.80	Austria	25.00	23.10	-1.90
Italy	27.81	23.90	-3.91	Slovenia	19.00	17.30	-1.70
Latvia	20.00	16.70	-3.30	Romania	16.00	14.70	-1.30
Croatia	18.00	14.80	-3.20	Germany	29.80	28.80	-1.00
Luxembourg	24.94	21.80	-3.14	Bulgaria	10.00	9.00	-1.00
Finland	19.00	15.90	-3.10	Greece	22.00	21.10	-0.90
Netherlands	25.80	23.20	-2.60	Finland	20.00	19.60	-0.40
European Union	21.22	18.83	-2.40	France	25.80	26.00	0.20
Slovakia	21.00	18.70	-2.30	Hungary	10.80	11.10	0.30
Lithuania	15.00	12.70	-2.30	Cyprus	12.50	13.30	0.80
Denmark	22.00	19.80	-2.20	Ireland	12.50	14.10	1.60
Czechia	19.00	17.00	-2.00	Spain	25.00	29.00	4.00

Source: European Commission (2023).

4 CONCLUSIONS AND DISCUSSION: POSSIBLE FRAGMENTS OF THE TRAJECTORY FOR ALIGNING SLOVAKIA'S TAX SYSTEM WITH THE TAX SYSTEMS OF DEVELOPED COUNTRIES

Tax harmonization within the European Union has its limits. It can be positively assessed that in the area of indirect taxes, successfully managed elements of harmonization in the form of unification of the operating mechanism setting minimum tax rates for value-added tax and identifying products including setting minimum tax rates for excise duties have been achieved.

However, it is necessary to point out the fact that disparities between the rates of individual taxes between rates codified in the Slovak tax system and rates established in economically more advanced European Union states are alarming. Therefore, it is necessary to contemplate this issue and point out potential changes in tax rates that could bring at least partial convergence of tax systems and simultaneously reduce the unprecedented level of annual state budget deficit and overall indebtedness of Slovakia.

It can be stated that the system of local taxes, where the decisive income comes from property taxes, appears relatively stabilized. In this regard, significant changes in tax rates should not be carried out, especially regarding the ability-to-pay principle, whose observance cannot lead to an increase in the tax burden considering the low size of incomes and pensions of Slovak citizens compared to developed states. Property tax income is not even a decisive income for a municipality, as it only constitutes approximately 11% of the total municipal budget revenue on average. However, in the area of local taxes, it would be necessary to legislatively set a minimum level of dog tax and increase the current level of this tax, as unlike properties used for housing or personal needs, in the case of dogs, this is a superfluous need.

A special group of taxes are transfer taxes, where the transfer of property to another entity due to inheritance, donation, or transfer or sale of real estate is taxed. In developed European Union countries, progressive taxation with the highest marginal rates of 40% to 60% is applied for inheritance and gift taxes, in the USA 40%, for the tax on the sale of real estate with a single rate of 1% to 5%. Certainly, it would be worth considering approaching the Western European model also in this respect, but with an exemption for ordinary property used for housing or personal needs, roughly up to EUR 500,000.

In the case of personal income tax, I would suggest introducing a sliding progressive scale, which adorns the tax systems of all developed states in Europe (and the rest of the world). The current taxation suits primarily politicians in Slovakia, who have legislated such taxation of incomes to ensure high net incomes from high incomes taxed at low tax rates.

Considering the possibilities of approaching models and rates of taxation of personal incomes, the sliding progressive taxation scale could look, for example, as follows.

Table 3a. Proposal for a sliding progressive scale of personal income tax (months)

From the tax base from EUR to EUR		Tax
0	1 200	15 %
1 201	2 400	180 EUR + 20 % of the tax base exceeding 1 200 EUR
2 401	3 600	520 EUR + 25 % of the tax base exceeding 2 400 EUR
3 601	4 800	1 020 EUR + 30 % of the tax base exceeding 3 600 EUR
4 801	6 000	1 520 EUR + 35 % of the tax base exceeding 4 800 EUR
6 001 and more		40%

Source: Author's construction.

Table 3b. Proposal for a sliding progressive scale of personal income tax (year)

From the tax base from EUR to EUR		Tax
0	14 400	15%
14 401	28 800	2 160 EUR + 20 % of the tax base exceeding 14 400 EUR
28 801	43 200	6 240 EUR + 25 % of the tax base exceeding 28 800 EUR
43 201	57 600	12 240 EUR + 30 % of the tax base exceeding 43 200 EUR
57 601	72 000	18 240 EUR + 35 % of the tax base exceeding 57 600 EUR
72 001 and more		40%

Source: Author's construction.

In conclusion, it must be stated that tax policy plays a significant role in the process of European unification. Approaching, at least partially, the systems of the most developed countries in the European Union, especially in the area of income tax rates and indirect taxes, would contribute to strengthening European solidarity, bringing favorable impacts on Slovakia's public finances including their functions, strengthening the tax-to-GDP ratio, and also the social area. It is clear that this path is not easy, but it is promising.

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