

# TAXES LICENSE AND ITS INFLUENCE ON BUSINESS ENVIRONMENT IN SLOVAKIA

## Daňová licencia a jej vplyv na podnikateľské prostredie Slovenska

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### ABSTRACT

A tax license is a tool of the tax policy of the state and a preventive means of tax evasion. This paper deals with aim is to find out how the introduction of the license taxes impact on business and the growth and development of enterprises. In the paper, we use the questionnaire method of research and test certain hypotheses. The goal of paper is to obtain the impacts of the introduction of the obligation to pay the license tax for legal persons and sets out the current attitudes of legal entities for the introduction of tax license.

**Key words: minimum wage, living wage, taxes, business**

### ABSTRAKT

Daňová licencia je nástrojom daňovej politiky štátu a preventívnym prostriedkom daňových únikov. Tento príspevok sa zaoberá vplyvom daňovej licencie na podnikanie a na rast a rozvoj podnikov. V príspevku používame dotazníkovú metódu výskumu a testujeme stanovené hypotézy. Cieľom príspevku je zistenie dopadov zavedenia povinnosti platenia daňovej licencie pre právnické osoby a priblíženie súčasných postojov právnických osôb na zavedenie daňovej licencie.

**Kľúčové slová: minimálna mzda, životné minimum, dane, podnikanie**

### Introduction

Taxes are a major source of revenue for the national budget and taxes are one of the main instruments of state policy. Tax is a compulsory payment of the various subjects, the amount and deadline for payment is established by law. Development of taxes responsibilities was reason of implementation tax license. Tax license means minimum tax that the subjects have to pay. Taxes influence the financial situation of enterprises and also impact on the determination of the optimal financial structure in enterprises [6]. Competitiveness in the actual market environment is considered to be one of the basic requirements and capabilities of businesses. Innovation in

business is a supportive tool for business entities. Changes in tax policy should be innovations for business [9]. Small and medium-sized enterprises need state support tools for their businesses, which is also the tax policy of tax policy. The correct setting of tax instruments can bring enormous benefits to economic operators and the state [11].

## **Literature review**

Business environment in Slovakia is burdened by constant changes in legislation [10]. Taxes harmonization is one priority conditions of business in EU. Haavio and Kotakorpi (2016) [4] analyze personalized regulation in the form of sin licenses to correct the distortion in the consumption of a harmful good when consumers suffer from varying degrees of self-control problems. Bertotti and Modanese (2016) [2] analyzed by Microscopic models describing a whole of economic interactions in a closed society are considered. The presence of a tax system combined with a redistribution process is taken into account, as well as the occurrence of tax evasion. In particular, the existence is postulated, in relation to the level of evasion, of different individual taxpayer behaviors. The effects of the mentioned different behaviors on shape and features of the emerging income distribution profile are investigated qualitatively and quantitatively. Numerical solutions show that the Gini inequality index of the total population increases when the evasion level is higher, but does not depend significantly on the evasion spread. For fixed spread, the relative difference between the average incomes of the worst evaders and honest taxpayers' increases approximately as a quadratic function of the evasion level. The impact of individual taxation and tax competition has an impact on tax harmonization in the EU. Significant impact on the convergence of taxation has tax competition and property taxes [14]. In the economic area of the EU tax harmonization can be as positive harmonization which is the process of convergence of national tax systems in European Union countries through the implementation of legislative instruments. The result is a level playing field in all Member States. According to the Balassa-Samuelson model, the development of real convergence in Central European countries is oriented to encourage foreign investment, along with stimulating innovation and expansion of employment in the domestic business sector, small and medium-sized enterprises [8]. Instrument for tax harmonization is the Common Consolidated Corporate Tax Base (CCCTB) may be introduced in the EU in the framework of enhanced cooperation. Countries that have introduced the system CCCTB can cause an outflow of tax base, which will have an impact on national budgets [13]. Gutma [3] presents detailed description of why the U.S. Taxation of business income needs to be reformed, reducing the corporate tax rate to 15% to achieve a business income tax structure that

enhances the competitiveness of businesses. Ales, Bellofatto, Wang (2017) [1] studied the optimal taxation of top labor incomes. Top income earners are modeled as managers who operate a span of control technology. Managers are heterogeneous across talent, which is both effort-augmenting and total-factor-productivity improving. The latter gives rise to a positive scale-of-operations effect. A tax formula for optimal taxes is derived linking optimal marginal tax rates to preferences and technology parameters. In Slovakia from year 2014 introduce a new provision for all corporate entities - “tax license”. It is minimum tax which they must pay business subjects – corporate entities [7] (Law no 595/2003). Tax license pay corporate entity by conditions: tax liability is lower than the set amount of the tax or license, zero tax liability, tax loss. It will introduce three zones for the payment of tax license.

Table 1: Tax license in Slovakia.

The taxpayer is not subject to value added tax with an annual turnover to 500 000 EUR	480 €
The taxpayer is subject to value added tax with an annual turnover to 500 000 EUR	960 €
The taxpayer with an annual turnover more 500 000 EUR	2880 €

Source : Low of income tax n.595/2003.

The taxpayer whose average number of employees in natural persons with disabilities for the tax period is at least 20% of the average registered number of employees in person under a special regulation, tax license is decreasing to half. License tax is payable for the relevant period within the period for filing tax returns taxpayer does not pay tax license: which was first incurred the obligation to file a tax return for the tax period in which it was generated, in addition to the taxpayer who is the legal successor of a taxpayer dissolved without liquidation, which operates a sheltered workshop or a sheltered workplace under a special regulation. Tax license does not apply and the taxpayer: which it is community land, if only achieves income from an annual turnover not exceeding 10 000 €. Licenses for companies exist in Austria. License for company is equal to 5% of the minimum capital. The license is 500 €. If this condition is paid to Slovak tax license would be 250 €. Tax License in Slovakia mandatory for companies that do not carry out any economic activity disposed of the business environment. This legislative amendment introduced following the example of Western countries is the accelerator dispose of, sell, other similar ways to avoid tax licenses. 2014

register courts have registered 845 applications for annulment of the company through liquidation. For the same period in 2013 recorded the register courts 359 proposals for the dissolution of the company through liquidation. It was the introduction of a tax license reason for the liquidation non-functioning of companies.

**Results and Discussion**

The aim is to find out how the introduction of the license taxes impact on business and the growth and development of enterprises. Detect the impacts of the introduction of the obligation to pay the license tax for legal persons and sets out the current attitudes of legal entities for the introduction of tax license. Income tax for companies has been decreased during years 1994-2016 and in year 2017 will be 21%.

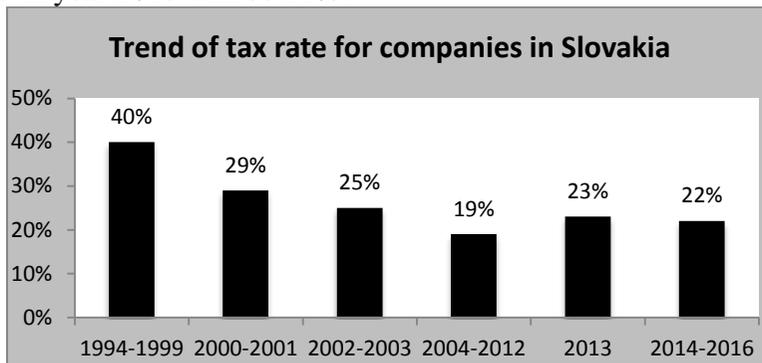


Figure 1: Tax of income for corporate entities.

Source : Low of income tax n.595/2003.

Income tax reductions bring results in the business sector. Companies do not create tax evasion, develop their business, expand production, and invest in assets. The benefits of income tax cuts are also reflected in revenues in the state budget and, at the same time, the stabilization of tax policy implies an incentive for foreign investors. The number of companies increases even though the state has introduced a tax license in 2014. The introduction of the tax license was affected only by small companies that had ceased to exist.



Figure 2: Development of corporate entities in Slovakia.

Source : Low of income tax n.595/2003.

The survey was conducted through a questionnaire, a sample of tax subjects selected during the tax returns for corporate income tax purposes. The subjects of the survey were 50 tax subjects. This research contains 5 hypotheses.

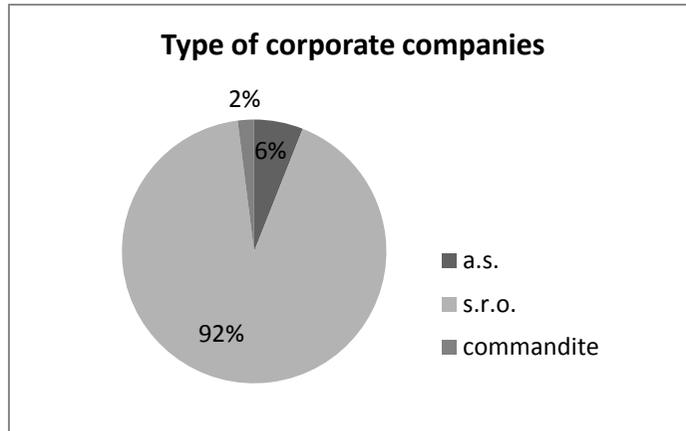


Figure 3: Type of corporate entities in Slovakia in survey.

Source: Own source of survey.

We have established hypotheses that we verified by questionnaire survey.

Hypothesis 1: Less than 50% of taxpayers reported a loss in the reference year. Hypothesis 2: More than 20% of subjects claim that bad financial reasons are the main reason for extending the deadline for filing tax returns for taxpayers. Hypothesis 3: More than 70% of taxpayers make their payments by wire transfer. Hypothesis 4: More than 55% of businesses have different views on the introduction of a tax license. Hypothesis 5: More than 60% of taxpayers expect to streamline and improve tax collection by introducing a tax license. Results of questionnaire survey in Slovakia by following hypothesis are: Less than 50% of taxpayers reported a loss in the reference year. 56% companies achieved loss or zero in monitored period. From the sample of 50 tax subjects addressed to the question of the amount of tax liability in the previous tax period, the answer was the loss of 28 taxpayers (56%). 12 tax respondents replied that their amount in the previous period had a value of up to 500 € (24%). 8 of the respondents chose a range of 501-1000 € (16%). One opted for a height based on turnover ranging from € 10,001 - € 50,000 (2%) and another one € 50,001 - € 100,000 (2%). Verification: test of the statistical hypothesis - research hypothesis is UNCONTINUED  $H_0: p = 0,5$ ; ( $H_1: p \neq 0,5$ ).

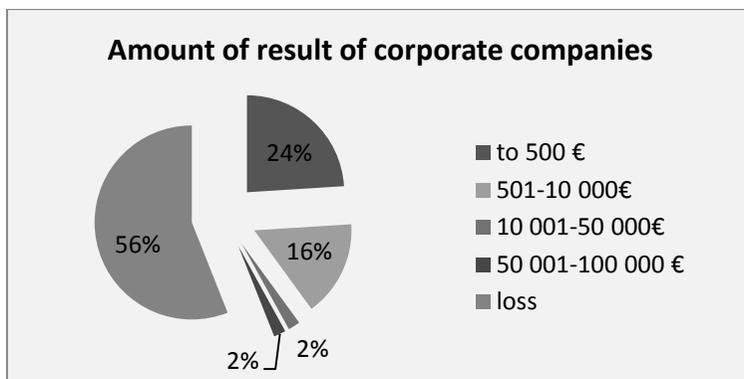


Figure 4: Amount of result of business in Slovakia in survey.

Source: Own source of survey.

More than 20% of subjects claim that bad financial reasons are the main reason for extending the deadline for filing tax returns for taxpayers. 36 % respondents answered those they had financial reasons, 8% of respondents answered that they had income from abroad and 56% of respondents answered that the reason was time. Verification: test of the statistical hypothesis - research hypothesis is CONTINUED,  $H_0: p = 0,2$ ; ( $H_1: p > 0,2$ ).

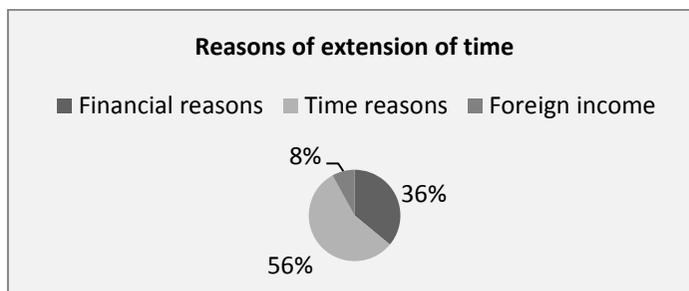


Figure 5: Reasons of extension of time in Slovakia in survey.

Source: Own source of survey.

More than 70% of taxpayers make their payments by wire transfer. From a sample of 50 tax respondents to the question of how they paid tax, 44 tax subjects replied that it was a bank transfer that is 88% of the respondents. 5 responded that it was a cash payment to the TI, which represents 10% and one marked implementation by mail order, representing 2% of the respondents. Verification: test of the statistical hypothesis - research hypothesis is CONTINUED,  $H_0: p = 0,7$ ; ( $H_1: p > 0,7$ ).

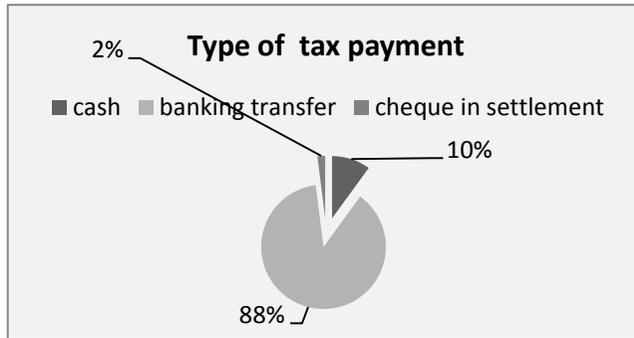


Figure 6: Type of tax payment in Slovakia in survey.  
Source: Own source of survey.

More than 55% of businesses have different views on the introduction of a tax license. The question was: Do you think that introducing a tax license is an appropriate form of increasing income tax collection? Answers were YES 12% (6 companies), NO 18% (9 companies), MORE YES 14% (7 companies), MORE NO 20% (10 companies), CERTAINLY YES/NO 36% (18 companies). Verification: test of the statistical hypothesis - research hypothesis UNCONTINUED, Ho:  $p = 0,55$ ; (H1:  $p_0 \neq 0,55$ )

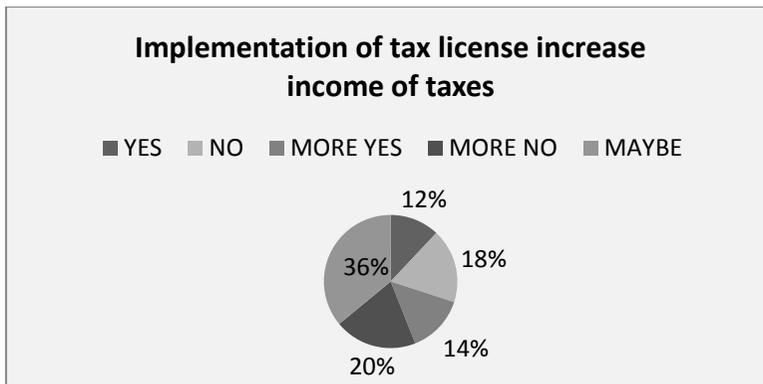


Figure 7: View to increasing of income taxes in Slovakia in survey.  
Source: Own source of survey.

More than 60% of taxpayers expect to streamline and improve tax collection by introducing a tax license. When asked whether they would introduce a tax license, the improvement in tax collection was answered by 50 taxable persons as follows: 22 subjects (44%) think that partially, in part, not; 14 (28%) think they are not; According to 9 (18%) certainly not, and according to 5 (10%) rather yes. None of the tax subjects asked did not think that the introduction of a tax license would certainly bring about an improvement in

tax collection in Slovakia. Verification: test of the statistical hypothesis - research hypothesis is UNCONTINUED,  $H_0: p = 0,60$ ; ( $H_1: p_0 \neq 0,60$ )

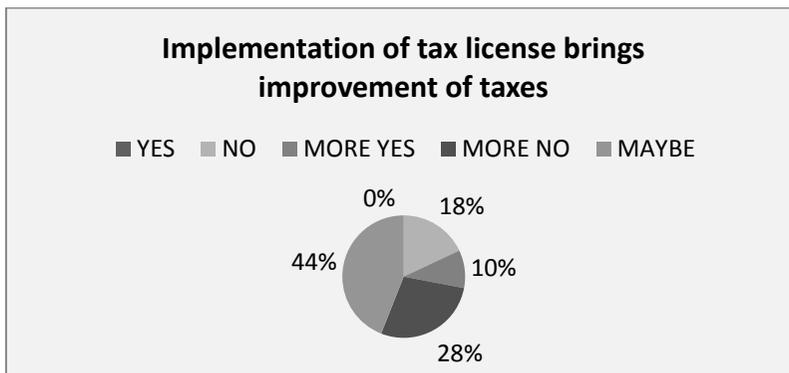


Figure 8: Improvement in income taxes in Slovakia in survey.  
Source: Own source of survey.

Table 2: Results of taxes license survey.

Less than 50% of taxpayers reported a loss in the reference year.	UNCONTINUED $H_0: p = 0,5$ ; ( $H_1: p_0 \neq 0,5$ )
More than 20% of subjects claim that bad financial reasons are the main reason for extending the deadline for filing tax returns for taxpayers.	CONTINUED $H_0: p = 0,2$ ; ( $H_1: p > 0,2$ )
More than 70% of taxpayers make their payments by wire transfer.	CONTINUED $H_0: p = 0,7$ ; ( $H_1: p > 0,7$ )
More than 55% of businesses have different views on the introduction of a tax license.	UNCONTINUED $H_0: p = 0,55$ ; ( $H_1: p_0 \neq 0,55$ )
More than 60% of taxpayers expect to streamline and improve tax collection by introducing a tax license.	UNCONTINUED $H_0: p = 0,60$ ; ( $H_1: p_0 \neq 0,60$ )

## **Conclusion**

In modern economics, taxes are an important economic, social, financial and political tool of government. Taxes the state interferes with the life of society, both directly and indirectly. Every tax has a different meaning, economic and social consequences. Because of this, it is necessary in modern companies to design a tax system so that tax policy and tax practice are in line and the tax fulfills the objectives for which it is introduced. The state has a wide range in achieving its allocation, distribution and stabilization goals tools. An irreplaceable role in this process is played by tax policy and within the tax system. The tax system is a "system of taxes in force at a certain time, on a territory, legislative adjusted and in the real-time practice of taxpaying." The structure of the tax system depends on a number of factors, such as historical development, political-economic orientation, economic system, economic policy, and so on. Taxes are an important part of the business rules and influence the chosen ways of doing business. They are part of economic instruments by means of which the state creates the conditions for the functioning of the market. Tax policy is an appropriate tool, regional policy, because some types of taxes are passed to local budgets in the form of their own taxes and fees. Another task of tax policy is to regulate consumption in a market economy, because through excise duties it can affect the consumption of certain types of goods such as alcohol, Tobacco products and the like. The state should use tax policy to stimulate economic growth and meet societal needs.

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