TAX COMPETITION AS GLOBAL AND REGIONAL PHENOMENON

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ABSTRACT

Globalization and the great mobility of capital, followed by a partial influence of internal factors directly contributed to the transformation of the economic system in the world. Among others, significant changes included the fiscal system, in which, the fiscal authorities seek to tax, financial and other incentives build competitiveness. The lack of national borders and the establishment of world market contributed to the greater mobility of factors of production. International companies that do business across borders have become the holder of the world economy and development. Their mobility is significantly increased due to the elimination of barriers between states. Tax competition exists in situations where the state, in the creation of their tax policy seeks to reduce the tax burden (either by lowering the tax rate, approving new tax relief or abolition of some existing taxes), all with the aim to encourage productive entry of natural resources in their respective markets or to prevent their outflow. It implies strategy that the government of a country used to the appropriate privilege tax measures to attract foreign direct investment. Provide a favorable environment and better conditions than the competition, be advantageous in at least one factor, an advantage and fight for foreign direct investment, presents guidance on the existence of tax competition.

Key words: Tax competition, incentives, fiscal system

INTRODUCTION

Tax competition is a competition between states (jurisdictions) to attract capital (investors) tax instruments, special tax incentives. Given that occurs in various forms and causes numerous positive and negative effects, is increasingly attracting the attention of experts and the general public. Tax competition is primarily related to direct taxes (income tax, tax on personal income and property taxes). If for doing the same job, there are other environments that will do anything to set objective a step higher, and that will enable us to achieve more, we come to the consideration of the simplest phenomenon of tax competition. Allow a favorable environment, provide better conditions than the competition, will be better in at least one factor, an advantage and fight for foreign direct investment, the only guideline the existence of tax competition.

CONCEPTS OF TAX COMPETITION

Tax competition, as competition in the broad sense, can best be explained by the desires and needs of both individuals and companies to achieve the higher earnings on their income, both personal as well as the company's revenue. (Keen & Konrad, 2011) Under the greatest satisfaction of individuals and companies involves the pursuit of the smaller levies jurisdiction or state in which individuals and companies engaged in activities. Competitiveness incurred at the time when individuals and companies get choices. If we look at the conditions where competition does not exist, we come to market conditions where the supply or lack of bidders who are able to determine market requirements, define rates, and other factors that favor them, and not to individuals or companies.

Both forms of competition, economic and tax, can through its own advantages found justification in the global economy. When it comes to the form of tax competition, the last decades have seen the efforts of relevant bodies of the European Union to achieve harmonization of the tax systems of the Member States, in order to provide a greater level of neutrality and fairness of the single internal market of the Union. However, the specifics of the national tax system, the level of economic development of each country, but also the political and budgetary reasons make it difficult to establish a harmonized tax system, and lead to tax competition between countries, especially in terms of the amount of the effective tax burden. Despite the possible adverse effects of harmful tax competition, tax competition at the same time promoting economic growth. The finance literature is almost universally accepted view that high tax rates hinder economic growth and development. Tax competition could be accepted as an option, ensuring the interoperability of different national tax systems, to the extent that it can be considered that it is not harmful. Move factors of capital and labor from countries with high tax burdens in countries with low tax burden allows countries (which reduced income tax rates, payroll tax, etc.) tax reform, which is said to provide faster and more efficient economic progress and growth. (Heady, Johansson, Arnold, Brys, & Vartia, 2009) Out the opinions in the literature that entrepreneurs who operate with high productivity in terms of tax competition, receive incentives to continue their activities in those countries that lower taxes "reward" entrepreneurship and hard work. Such freedom of choice in which to conduct business activity, ultimately, maximizes the overall economic wealth, and basically all that is more favorable tax environment. Also, tax competition promotes fiscal responsibility by limiting the increase of the state administration. The largest part of the budget expenditure is financed from tax revenues, and thus understandable that states that, on the one hand, lower taxes, on the other hand, control and reduce public spending in order to create a balance between revenues collected and expenditures to be financed. In this sense, this kind of competition contributes to the rationalization of public spending. In public financial literature reviews that can meet the goal of tax competition is that the tax burden is reduced to zero tax rate, but to ensure the efficient use of tax revenues. Its aim is actually to attract, through attractive tax regimes, more mobile factors of production such as capital and skilled and professional workforce. Companies are even willing to accept higher taxes if the state provides a better infrastructure and better provision of other public services.

THE EFFECTS OF TAX COMPETITION

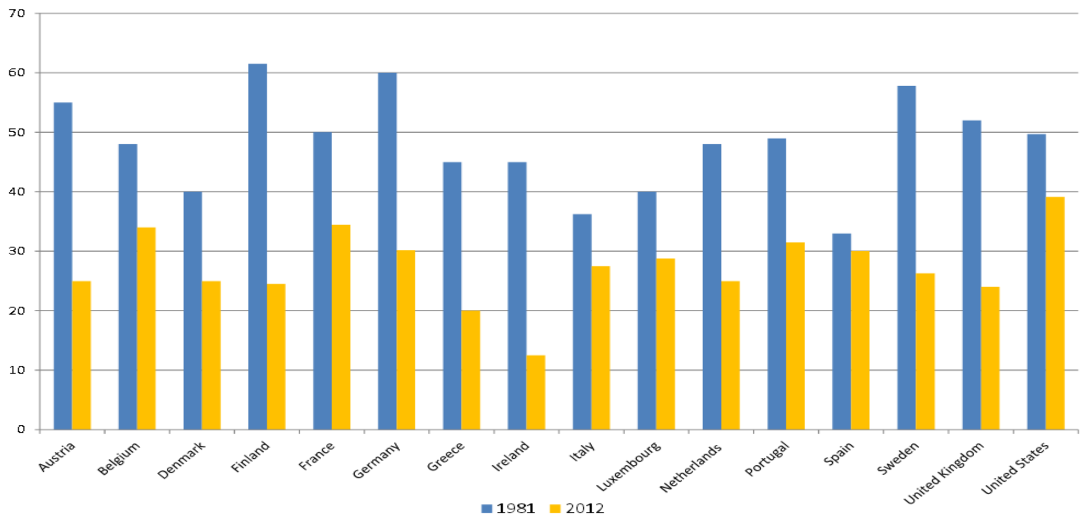
Due to the process of globalization for many countries is difficult to maintain high taxes, because today the taxpayers to easily transfer their activities and operations in areas with lower taxes. This phenomenon is known as tax competition. The competition encourages states to make their tax systems more attractive to investors, which carries with it certain effects. (Marjanović, Radojević, & Dragaš, 2013) Analysis of the effects of tax competition between countries has shown that it leads to changes in the relative tax burden factors of labor and capital. However, the effects of tax competition will be different in different countries, and even contradictory, since they depend on the initial level and structure of taxation in these countries. The effects of intense tax competition also depend on whether the taxation policies of passive and reciprocal measures react to tax competition. The effects of tax competition can be positive and negative. Among the positive effects of tax competition include control of power, innovation, incentives and more. The negative effects are manifested through a so-called unfair tax competition, which leads to undesirable and perverse consequences. These effects are reflected in tax evasion, distortion of the financial and investment flows, undermining the integrity and fairness of the tax system and so on.

Tax competition does not favor countries that have higher tax rates, where such countries are usually advocates and opponents of tax harmonization "tax havens". It is not rare that both capital and labor, and the labor force seeking refuge precisely in these countries and regions that offer them better conditions in which to achieve the ¬ greater benefit. Capital and labor to seek such an environment that rewards the creation of a large profit in the private sector. In contrast to tax competition is tax harmonization, which is very important in explaining the phenomenon and the necessity of tax competition. The tax harmonization implies the equalization of tax rates between countries or within close region. It is necessary to distinguish between two types of tax harmonization, namely: explicit and implicit tax harmonization. Explicit tax harmonization means the same or similar tax rates in all countries, that does not favor any movement of capital or labor because they were on the side of the tax burden still where they conduct their business. On the other hand, the implicit tax rate harmonization implies equally taxing its citizens wherever they are and wherever economise. Thus, neither the form of tax harmonization does not support the movement of capital and labor, as the home country have information about fecundation capital and salary of their companies in third countries, thereby limiting their freedom, and avoiding taxation at higher rates, thereby again restricting the movement, i.e. mobility of capital and labor. The other extreme is to create a uniform system of tax collection within the European Union, where the collection of taxes in the whole of Europe was in charge of Brussels, as the seat of the European Commission and in that situation the country would lose its fiscal sovereignty.

The effects of intense tax competition, among other things, depend on whether the tax policies of the country or passive reciprocal measures react to tax competition. In the first phase of operation of tax competition, it is necessary that there is a country or region "pioneer" in the lower tax rates for example. income tax, while the second stage is to the point that other countries and/or regions to accompany tax reductions in a way that they themselves lower tax rates that have previously been effective. This is the simplest way to explain the functioning of tax competition.

In fact, as the taxpayers' interests, which is reflected in the reduction of the tax burden, the basic measure that tax policy of a country is introduced with the aim of attracting foreign investment is lowering the tax rate on corporate profit. This is one of the main effects of tax competition between countries, and how taxation is based on the principle of equality, it is expected that the reduced tax rate enabled an investor to be offered to other investors, resulting in lowering of tax rates in the tax system on corporate profit. (Marjanović, Radojević, & Dragaš, 2013)

Figure 1: The evolution of tax rates on corporate income in EU-15 and the U.S.



Source: (OECD, 2013)

The evolution of tax rates on corporate income in the comparative in 1981. year and 2012th year, for example the EU-15 and the United States is shown in Figure 1. There were distinct differences; the most obvious example is Ireland, which has experienced the greatest reduction in tax rates on corporate income. Consequently caused a kind of "boom" among other European countries are following the example of Ireland, reduce their tax rate on company profits. Once the highest level of tax in France today is at a level that is slightly above the average for the EU-15 and the U.S., but it is far from the biggest tax rates that were once present. In addition, we can see that the United States suffered at least a reduction in tax rates in the same time period.

HARMFUL TAX COMPETITION

Fiscal policy is an element of the sovereignty of each state and is based on the collection of taxes by which financed public spending and redistribute income. It's clear that the loss of fiscal sovereignty is a cornerstone in the implementation of fiscal harmonization pursued by the EU institutions. In addition to tax competition, the creation of a common market with free movement of capital, goods and services came to the fore and unfair tax competition. (Stojanović, 2009) For companies it is extremely important to locate a market that will offer the most favorable tax conditions. Harmonization of indirect taxes is made in the European Union, while the Member States given the option of direct taxation. This is exactly what has led to unfair taxation in the area of corporate tax, given that there are no laws governing the issue of competition. All this leads to unfair tax competition between companies in different countries.

With the increasing globalization of economic activities and the "crossing" borders by capital, labor and services, the state began to each other "competing" to be on their territory to attract more business entities, and hence investment. (Stojanović, 2009) Every country is trying to offer better conditions for conducting economic activities, with the greatest attention is paid to the tax conditions and tax treatment of the company. This is reflected in the expansion of the base of the corporation tax, while reducing tax rates that are approaching zero or even disappears completely. This behavior leads to a state erosion of the tax base, as well as the highly "unfair" tax environment in comparison with the terms of entities in the neighboring countries. That is why it was necessary to take appropriate measures to prevent adverse effects caused by the existence of unfair tax competition.

Because of the many problems it causes, especially since the establishment of the single market of the European Union, the last decade of the twentieth century was marked by a lot of effort to resolve, i.e. eliminating and reducing the harmful consequence of unfair tax competition. (Stojanović, 2009) Given the existence of a common market in the European Union and a number of multinational companies, and individuals, who carry out their business in at least two EU countries, the problem of harmful tax competition is particularly acute.

Initially, the problem of harmful tax competition observed in terms of low tax rates, broad tax base and tax havens, and required the most appropriate measures to mitigate the effects of harmful tax practices. Today, most of the attention paid to the issue of exchange of information (providing certain information and cooperation with the tax authorities in different countries, the improvement of multiple assistance in connection with the renewal of the tax requirements), then the rules on the prevention of abuse of rights (tax jurisdictions use their authority to allow certain tax exemptions taxpayers or to allow them to avoid their tax obligations) as a common consolidated corporate tax base (objective of the European Union common market to become the most competitive economic market in the world, which would consequently lead to attracting large numbers of foreign investments). Consolidation common corporate tax base is the only way to eliminate the tax restrictions have companies that operate in several Member States.

CONCLUSION

Tax competition is a phenomenon related to the approval of various tax benefits, primarily in the tax system to income tax in order to attract foreign investors on their territory. Specifically, tax competition is a process used by countries to attract foreign investors under its tax jurisdiction by offering them lower tax burden. As is generally known that taxpayers seeking to lower their tax liability to the lowest possible level, they have an interest to take advantage of tax breaks that are in the process of tax competition between states provide. On the other hand, the public functions are all extensive and require more and more resources for financing, and the interest of the state to raise as much money through taxation. Therefore, they introduce higher tax rates, reduce benefits, expanding the tax base and so on. There is a conflict of interest of the state, on the one hand to attract more investments (lower tax burden), on the other hand to collect as many resources to finance the public functions (higher tax burden).

In the process of tax competition comes to punishing tax authorities that are wasteful act, such as legal and natural persons migrate to countries with lower tax burdens. States with lower tax burdens attract foreign investors and thus are rewarded. From the above it draws a conclusion about the necessity of formulating and pursuing an optimal tax policy from the standpoint of economic growth. To explore the link that exists between the inflow of investments and design of the tax system, specifically the system of tax on corporate profit, raises the question of efficient use of tax incentives to attract investors.

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