

***The Role of Public Revenue Office
in the EU Accession Process of Republic of Macedonia:
are the Ongoing Reforms in Line with the Challenges Ahead?***

Introductory note. In view of the role of taxation as one of the key elements for successful global economic reforms, the task of designing a new tax system and reforming the tax administration gained high priority on Government's agenda of post-independence Republic of Macedonia.¹ The main objectives of the tax reform of 1993 were to create a modern tax system, consistent with an open market economy, to be: (a) efficient in ensuring stable and optimal amount of public revenue for financing the supply of public goods; (b) internationally comparable and competitive; (c) simple for application and "difficult" for evasion; and (d) flexible, in terms of immediate reaction to changing economic conditions. These objectives were to be achieved through wide implementation of the *neutrality principle* in the domain of taxation, to the contrary of the former tax system, which relied heavily upon built-in non-neutrality's, and followed, rather unsuccessfully, the philosophy of fiscal *interventionism*.

The first phase of the tax reform, which encompassed personal income taxes and taxes on company profits, property taxation and initial reforming of consumption taxes, has been practically completed. The main taxes, now, applicable in the Republic of Macedonia are: personal income tax, profit tax, property taxes, V.A.T and excises.² The enactment of the draft Law on Value Added Tax has been postponed on several occasions, taking into consideration the understandable concern and uneasiness of the business community and the general population over the possible regressively of the VAT system in its practical implementation. Finally, VAT become effective as of year 2000.

*Taxes are a good or an evil depending upon their purpose and accomplishment.*³ Even the best tax laws shall have minor effects if the PRO is has inadequate institutional capacity, is under substantial influence by certain stakeholders including powerful business and/or political players. Bad position of the employees and low wages as well as lack of transparent and effective internal procedures against

¹ Taxation has been recognized as one of the biggest problems foreign investors had to deal with when investing in former SFRY. This was largely due to: 1) the high degree of decentralization along with poor coordination of tax policies at federal level, and to 2) the impact of "bargaining economy" concept on the profile of former system of "social" and state revenues. The latter has resulted in a model of taxation which has been recognized as highly distortive and inefficient, unstable and non-transparent.

² This paper is concerned only with explicit taxes that are part of the formal tax system. It does not contemplate quasi-taxes, or implicit taxes, which also impose significant financial burden on businesses as well as on individuals.

³ P. Studensky: Chapters in Public Finance, NY 1935

misconduct can be strong incentive for improper if not corruptive behavior.

The objective of this article is to analyze the scope and the dynamics of the ongoing reforms of the Public Revenue Office (further in the text PRO) of Macedonia in the context of the EU accession process. We shall examine the adequacy of the legal framework that regulates PRO, the institutional capacity of the organization in terms of efficiency in the process of collection of taxes and other fiscal revenue; the main issues of the reforms over the past several years; the results so far accomplished with assistance of foreign institutions and governments; the strategy for the future actions and priorities, as well as the EU delegation perception and evaluation of the mentioned issues spelled out in the annual reports on the progress of Macedonia as candidate country.

Macedonian PRO is beyond doubt a very efficient young government institution (operates fully since 1994) that along with several other administrative bodies has been on the front run of reforming the entire government structure in line with the principles of the Macedonian Constitution (1991) and the newly enacted laws adopted in sovereign independent Macedonia. As noted above, reforming the old tax system which was inconsistent with an open market economy and democratic political system in RM was of high priority, and was substantially completed by the end of 1993 when several major tax laws have been adopted in Parliament. One of these laws enabled the establishment of a specialized state agency responsible for implementing the reformed tax legislation having a crucial role in insuring sufficient and constant flow of public revenue in the state budget.

PRO: legal status, organization and management. PRO was created by the Law on Public Revenue Office and is operational since January of 1994.⁴ In the beginning, it was something of a successor of the former State revenue office thus taking over its entire personal in addition to the staff of the so-called Office of Social Accounting coming from its inspection unit. The governing law on PRO today was enacted in 2005 with subsequent amendments in 2008 and in 2009. The Law presents major piece of legislation and legal framework that regulates all relevant issues concerning the status of PRO, the scope of authority, internal organizational structure, the relevant procedures and management, as well as the powers and responsibilities regarding collection of taxes, maintaining data base of various information and protection of personal data of taxpayers, internal audit, inspections, investigations etc. The second major legislative source relevant for the operation of the PRO is the Law on Tax Procedure enacted in 2006.⁵ The Law represents a code of all procedural rules being put together in a single statute, thus derogating all previous rules scattered in various tax laws, with regard to determination and collection of taxes. Only the collection of local taxes (taxation of property) is regulated by different provisions.

⁴ Law on Public Revenue Office, Off. Gazette of RM, N. 80/93

⁵ Law on Tax Procedure, Off. Gazette of RM, N. 13/06, 88/08, 159/08, 105/09 and 133/09

PRO is a public administration organ with legal personality status, which operates within the Ministry of Finance. It employs about 13.000 staff (the end of 2009). PRO is run by Director appointed for a 4 year term by Executive Power/ the Government of RM. The Director may be revoked under conditions proscribed in the Law⁶. One may conclude that the organization is partially independent, since apart from the fact that it is a legal person and its staff has status of tax officials different from the general status of government officials, it is very closely tied to government: firstly, through the appointment and removal of the Director and secondly, the fact that it is situated within the structure of the MF. The internationally praised recommendations in this regard coming from the Basic World Tax Code and Commentary⁷ however strongly argue that the tax administrator of the tax service be nonpolitical, career orientated, efficient, fair and honest. Also tax administrator, cit: *"is given the rank of Minister not for the purpose of drawing this officer into the political life of the government, but rather to provide the necessary rank and standing to make it possible for the Tax Administrator to be a stalwart champion (and defender) of a blue ribbon, career oriented Tax Service"*.⁸ The year 2009 marked a period of radical changes in the organizational structure of the PRO, thus enabling that the operations were conducted on three different levels: the amendments to the Law on UJP enabled that one level is the General Department, the Department for large tax payers; secondly, five regional departments and on local level 72 units within the regional departments were established in all local communities. It operates as highly centralized administration within the entire territory of Macedonia and carries out its functions upon the principle of functionality,

Powers and responsibilities. PRO is responsible for implementation of the tax policy, determination and collection of taxes and social security contributions from employees and similar fiscal levies. It secures finances for timely and efficient fulfillment of government policies; gives assistance to taxpayers; conducts surveillance of the entire tax system thus proposing changes for its improvement; is engaged in international cooperation with peer organizations; is engaged in giving legal assistance regarding cross-border tax cases to similar offices in other jurisdictions. But, first and for most PRO is in charge of collecting the following taxes and related levies: personal income tax; profit tax; value added tax; mandatory social contributions and other levies if proscribed by law. Article 6 of the Law on PRO spells out in detail the numerous powers and responsibilities of the Macedonian PRO. Apart from the previously mentioned it is worth noting that inspections aimed at combating tax evasion and tax fraud are one of the core functions of the office, especially given the relatively substantial portion of gray-economy in Macedonia in the overall economy. PRO is in charge of calculating and refunding excess taxes to tax payers, most notably to businesses and companies concerning the tax credit mechanism of our value

⁶ Art. 9 of the Law on PRO

⁷ Ward M. Hussey and Donald C. Lubick, *Tax Analyst* Arlington, Virginia, 1992

⁸ Ward M. Hussey and Donald C. Lubick, *Basic World Tax Code and Commentary*, *Tax Analyst* Arlington, Virginia, 1992, p. 244

added tax. In addition PRO carries on usual duties such as monitoring the implementation of bilateral agreements for double taxation of income and capital (so far 39 such agreements have been executed between Macedonia and third countries, mainly from the European continent- 24 of which with EU member states); permanent education of the staff, cooperation with universities teaching tax law courses, interpretation of certain provisions in governing tax laws, preparing annual and other reports on its operations to ensure transparency and public accountability.

It is evident that the office is centralizing and widening its powers in terms of collection of fiscal and quasi-fiscal levies, the last, radio and TV fee, creating heated public debate and dissatisfaction. Namely, with cable TV etc. majority of viewers are reluctant to pay extra duty for the national TV channels. This duty became mandatory by law and its collection is a responsibility of PRO, of course with legal power for non-voluntary execution of the debts from the bank accounts of the debtors.

Strategic priorities. The general mission of the Macedonian PRO is to secure high quality services for the tax payers, by simplifying the procedures for payment of taxes as well as efficient and fair collection of taxes and other public revenues. For the purpose of achieving these goals, PRO has been engaged in permanent improvement of its administrative capacity; implementation of modern technologies, elevating the qualitative standards in the procedures, thus coming closer to the standards and practices of the EU member-countries. The modernization process has been in place for the past 5 years with its final objective to create an institution that can present a role model for the entire public sector in RM. During the last two years the project *Modernization of PRO* has been financially supported by Dutch Government and carried out by IMF and the Ministry of Finance of Holland. As a result of a successful implementation of the project its duration has been extended for one year (end of 2010), the focus being on designing electronic connections with small and medium sized companies; strategy for improved procedure of non-voluntary collection of taxes; introducing a bonuses for the staff as a permanent incentive for high performance; establishing a Tax Academy etc.

We now present a brief overview of the concrete measures undertaken by the organization since 2006 until today. Namely, in 2006 major restructuring of the General Department of PRO has occurred with substantial changes at regional and local levels, based on the principles of functional organization, as well as the forming of Department for large tax-payers. The General Department was organized in separate departments by function and for assistance, while the internal controls and audit, and the department of complaints and legal services are under direct authority of the PRO Director. For the purpose of combating tax evasion and tax fraud various actions were put in place: program for electronic tax services (ETS); program for merit based treatment of the staff concerning the careers and advancement and program for improved collection of taxes. The system for ETS was available in the Department of large taxpayers, thus enabling them to file the tax returns by electronic means. The crucial program regarding increased collection of taxes was

implemented by establishing electronic connection between PRO and the Central Register of RM, who is in charge of the one-stop registration of companies and other business entities. This system gave PRO a much more active role, by issuing/giving each newly founded company a Uniform Tax Number (UTN) to all registered entities (mainly legal persons), thus enabling quick identification of every single taxpayer for various purposes within the procedures regulated by the Law on Tax Procedure (2006). By the end of that year a major tax cut was enacted by Macedonian government, by replacing the existing progressive rates of income taxation with one proportional low tax rate for individuals and for companies – the so called flat-tax system.⁹

The process of modernization of PRO in 2007 was focused on measures aimed at improving the global institutional capacity of the organization. Further in the text we point out few of the most important activities:

A Strategy for taxing small and medium sized companies was completed and a Pilot project for its implementation began at the Regional Department in the town of Stip which continued over the following year. Structural measures for reforming the system of inspections and new supervision strategy were designed supported by IT tools to ensure timely detection of various risks at certain taxes as well as impartial approach towards various taxpayers. The communication with the public was greatly improved by redesigning the web site of PRO (all relevant data on our tax system; a list of ratified Bilateral agreements on double taxation of income and on capital of interest for cross-border activities etc., were placed on the new by-lingual site); numerous publications and brochures were disseminated for the purpose of increasing public awareness and increased discipline regarding payment of taxes. As a result of the abovementioned and other structural changes in 2007, the collection of public revenue by PRO in that year was above the planned numbers, which lead to two rebalances of the central budget.

In 2008 several major steps were taken in the course of the ongoing modernization process of PRO: 1) integrated collection of personal income tax and the social security contribution which simplified the manner of taxing wages all in one tax return and by one transaction, thus saving time and money for the employers; 2) next reform event that begun in 2008 and was fully implemented in the fallowing year was granting legal powers to PRO to conduct and issue fines and other charges for violations of governing tax laws and secondary regulations, such as failure to file a timely returns, under the amended Law on Tax Procedure, empowering PRO to independently carry out such procedures and take appropriate disciplinary measures. Next priority was detecting unregistered persons and companies engaged in taxable activities, but in fact operating in the so called grey economy. Special program was designed aimed at detection, education and inclusion of such entities into the legal system of the country. In this context a brochure was published under the title *“How to protect ourselves and how to act against the grey economy”*. Few new

⁹ For more details of Tax Reform 2006 see in: Pendovska, Vesna, Dzafce, Sejdefa, Flat tax: the case of Republic of Macedonia, Praven zivot, Kopaonik, 2009

programs were launched, such as the promotion of the Golden Card, awarded to the most disciplined taxpayers, who may serve as examples of high integrity and awareness of timely payment of taxes as a tribute to the state for providing its citizens with necessary *public goods*. During 2008 a new program was designed called “The Characteristics of the Tax-payers”, that provided complete data base for each taxpayer, thus facilitating easy detection of risks associated with particular taxpayers. Further, all preparations for the new PRO Contact-center for the benefit of taxpayers were completed, so this important unit was operational in the beginning of 2009. Most notably, this same year marks an important step forward in the modernization process of PRO. Namely, based on amendments of the Law on PRO the staff acquired special status distinct from those of the rest of the public administration – legally named *tax officials*. The new legislation secured greater independence and autonomy of the PRO, and better status and better criteria for rewarding the staff based upon merit and performance. Code of Ethics has been adopted promoting the principles of competence, professionalism and legality in the usual operations of the *tax officials*, adjoined with standards of high responsibility.

That year Macedonian PRO was included in the program **FISCALIS 2013** of the European Commission, where all EU member-states are participants along with the countries with candidate status. The benefit of this program is learning from the more advanced countries and participation in numerous projects, with subsequent implementation of novelties in our tax administration. The technical instrument **TAIEX** provided expertise in the field of tax accounting to our PRO, along with the tax services of Serbia, Croatia and Turkey.

The Contact center was fully operational with free phone numbers for getting information and in particular for reporting corrupt and unlawful conduct by tax officials.

One fact in the successful modernization process remains undisputable: the international support and assistance by IMF; the Office for customs and Fiscal Assistance of the EU (EU CAFAO MAK); the Ministry of Finance of Holland and cooperation with the Intra-European Organization of Tax Administrations (IOTA).

The driving force for the entire success of our PRO is the new, modern integrated information system donated by the Italian government under the monitoring of UNDP. The software improved the tax information system, crucial for efficient collection of integrated personal income tax and social security contributions; electronic filing of tax returns for small and medium sized companies, and most notably enabled PRO to be electronically connected to all relevant institutions, such as, the MF (treasury department, customs office of RM Public pension fund, Public health fund and with the Office for combating Money-Laundering and financing terrorism. This is a huge step forward in terms of providing information for each taxpayer having Tax Identification Number for all of his liabilities regarding not only taxes but other financial activities.

Evaluation of Macedonian PRO in the Progress Reports of the European Commission. The EU Commission issues regular annual reports for candidate countries, such as for R. Macedonia. It is useful to see how others look at us. When one analyzes the reports for the

time period 2006-2009 one may draw some relevant and significant conclusions. Thus, for 2006 the conclusion states that: "Improvement has been accomplished in harmonization of tax legislation in general. But, major efforts are necessary for further harmonization of the legislation aimed at more efficient implementation of the laws, as well as increasing the administrative capacity regarding the collection of taxes. In 2007 the assessment states that certain progress was accomplished in the field of administrative cooperation and mutual assistance. For example, a new bilateral agreement between RM and Germany on income tax and taxes on capital was ratified as well as double taxation agreements with United Kingdom and Letonia were ratified as well. The operational capacity and computerization of PRO have been improved. The capacity of PRO for determining and collecting taxes was also improved. The more efficient collection of direct taxes (PIT and PT) resulted in 17% increase in 2007 in comparison with 2006. PRO adopted strategy for increase in filed tax returns, more efficient collection of taxes, operational plan for collection of back taxes and an incentives plan for voluntary payment of taxes due. In conclusion, it is stated that the segment of indirect taxation (VAT, excises) the approximation of the legislation is positive, which cannot be said about the segment of direct taxation, where the percentage of collection of income/profit taxes is below EU average. The report clearly states that progress in increasing the administrative capacity of PRO has been achieved. The final observation however is that further efforts must be undertaken for securing efficient implementation and enforcement of the legislation.

The EC Report issued in 2008 clearly states that good progress has been accomplished concerning the administrative capacity of PRO, but without significant progress in legislative harmonization. Tax collection has become more efficient which is evident from the statistical data on taxes collected, but efforts are needed for more efficient enforcement of the tax legislation particularly with regard to curbing the sector of informal/gray economy. There are good results in the fight against corruption that have to continue. In brief, generally, this has been a successful year for PRO, marked by great increase in timely filed tax returns, positive public campaign for voluntary payment of taxes and substantial increase of tax revenue. Further, in Chapter 33 *Financial and Budgetary* issues it is clearly stated that the PRO has improved the surveillance and inspections activities. EC points out that further improvement in implementing effective instruments against fraud concerning customs duties and Value Added Tax is of crucial importance for the financial interests of the European Union.

The Report issued in 2009 stresses that good progress has been achieved in the part of the operational capacity and computerization of the PRO. PRO has improved the capacity of implementing and enforcing tax laws as well as for combating tax fraud. All major reorganizational measures have been assessed positively. The inspection procedures have been conducted more rigorously and tax refund has been more successful. Last year, however EC concludes that limited progress in the segment of taxation has been achieved. No progress of the indirect and direct tax legislation with regard to harmonization to the *acquis* has been made. The new provisions of the

Profit Tax Law are not in line with EU legislation (only dividends paid to non-resident legal persons and to individuals shall be subject of with-holding tax. Such provision is perceived as discriminatory for non-resident companies as shareholders, questioning the future transposition of the *Council Directive 90/435/EEC on the Common System of Taxation Applicable in the Case of Parent Companies and Subsidiaries of Different Member States* in Macedonian national legislation. As for the PRO moderate progress has been made particularly, regarding services for taxpayers and increased efficiency of external controls and inspections. The capacity of the staff for tax fraud investigations remains weak and calls for use of appropriate IT system. The Code of Conduct for taxing business organizations is still not operational.

Moderate progress has been accomplished regarding the operational capacity and computerization. Since 1 January 2010 collection of excises has been transferred from OPR to the Office for Customs.

PRO adopted a Strategic plan 2010-2012¹⁰, that contains the basic development components which are to be accomplished in the period 2010 – 2012. The document spells out the priority objectives and the concrete measures to be taken for the implementation of the plan. This is to be achieved through, cit: professional conduct of the tax officials and adequate financial resources shall fulfill the mission and the vision of the institution. The strategic priorities represent foundations for building a modern tax service with high standing and integrity in the eyes of the taxpayers, by the domestic and international community – trust in the professionalism, efficiency, transparency and service oriented policies.”¹¹. According to the Strategic Plan there are six major programs to be focused on in this time period. (1) Improving the administrative capacities remains on the top of the agenda and shall continue with focus on individuals as taxpayers and legal persons engaged in various economic activities. Further improvement of the treatment of large tax payers is also envisaged by increased number of companies falling in this category, and in order to meet the goal that 55% of total tax revenue be attributed to the operations of the Department of Large Taxpayers, the system of centralized processing of tax returns is planned to be improved, and electronic archives and electronic management of document is to be introduced and few others. (2) Second program deals with further development of new powers that PRO gets by legislative changes. For example, the power to collect the social security contributions along with the personal income tax as a relatively new function requires redesigned internal procedures, new software adjusted for integrated collection, and training of the staff for this new procedure. This program I view as significant due to the fact that the revenue collected from physical persons in on a constant rise, in number of taxpayers and in value of revenue attributed to this category. (3) The third program is securing increased level of tax revenue. This is planned to be accomplished by the following actions: completion of the information data bases for the taxpayers, designing

¹⁰ Strategic plan 2010-2012 (Strategic Priorities of Public Revenue Office for 2010-2012), Public Revenue Office, Skopje, 2010

¹¹ See Ibid, p.2

tools for appropriate responses to unfavorable economic conditions, decreased tax revenue and increased volume of tax liabilities and debts, identification of unregistered taxpayers and their inclusion in the legal tax system of the country (by close cooperation with other administrative bodies such as the Market Inspectorate and the Ministry of Interior). In addition, PRO plans to focus on increased efficiency of external controls as one of the core functions with major role of the Tax Inspectorate. Further measures of this program involve collection of back taxes, creation of a specialized unit dealing with seized properties in the procedures of collection of taxes by force, and finally introduction of Integrated automated system for continuous communication of taxpayers with the PRO and for automated transfer of data on the fiscal system installed in the fiscal registers situated in the premises of the taxpayers, in form of daily financial report. (4) The next program is named *better services for the taxpayers*. It encompasses three major components: ongoing process of raising taxpayer's awareness concerning their social role and responsibility in global society, assistance to taxpayers aimed at constant increase of voluntary and lawful fulfillment of their tax liabilities, and continuous upgrading of electronic services. (5) The development of human resources is the fifth program of the Strategic Plan. PRO plans to accomplish this program through employing additional staff of young, educated and motivated individuals, improving the working conditions in the premises as well as the overall working conditions. Second tool is permanent training and education of the staff along with incentives for high performance and ethical conduct. As mentioned earlier there are plans for founding a Tax Academy, initially for training tax officials of PRO, with ambitions that it may grow to a Regional Tax Academy.

(6) Improving the international cooperation is the final program of the package. Non-the-less, it appears very important in view of the accession process of Macedonia to the European Union. PRO shall be monitoring and implementing the Double Taxation Treaties entered between Macedonia and third countries and shall participate in mutual assistance with foreign tax services in the procedures of prevention and detection of tax fraud and illegal financial activities. For successful exchange of information on Value Added Tax within the EU system called VIES, in proscribed manner, a new department is needed. Office for communication on exchange of VAT information presents a challenge because it will be organized from bottom, requiring space, IT systems and specially trained staff for efficient operations. Cooperation with international institutions and organizations is a priority, especially with the Intra-European Organization of Tax Administrations. The core element of the international cooperation are the activities regarding close and growing communication with tax services of EU member countries on bilateral bases, mutual assistance in fighting against criminal cross-border activities. Concerning the Euro-integration process of Macedonia, underway are several important projects that PRO is a participant. These are: NPAA Program, filing monthly reports to the Sector for European Matters and the EC Office in Macedonia on the progress in implementation of the NPAA Program, implementation of IPA (programming, implementation, monitoring and evaluation),

implementation of FISCALIS Program (on bases of annual plan), organizing a workshop, creating PRO profile within TACTIK FISCALIS, preparations for subcommittees within the Committee for association and stabilization, communication and coordination of activities within the DG Taxud.

Although PRO adopted the Strategic Plan 2010 - 2012 it seems that detailed actions and other measures are still not in place. Decentralization of services for taxpayers continued and the number of taxpayers has risen to a total of 192,832. The number of large taxpayers in charge of the Department for large taxpayers also rose from 175 to 235 companies. The controls policy as well as processing of tax returns for VAT have also been centralized. Intensified efforts for tax collection resulted in substantial rise of collected revenue (around 50%).

Challenges Facing the Public Revenue Office.

In accord with the rules with the project for technical assistance by the IMF and the Dutch Agency for International Business and Cooperation for the time period 9 August 2010 to 8 August 2011, Macedonian Public Revenue Office is expected to focus on fulfilling the following objectives:

- ✓ To strengthen the function of “external control” by adopting new and innovative methods of while conducting controls, computer techniques for big corporations, modern systems for risk-assessment;
- ✓ To design more efficient methods for collection of back taxes, possibly through by reorganization program of human resources, new strategies and tools for tax collection, formation of Center for safekeeping and auctioning seized properties coming from collection by notice and by force.
- ✓ To continue the specialization of activities regarding different categories of taxpayers, with emphasis on micro businesses;
- ✓ To improve the administrative efficiency by automatic audit and processing of tax returns;
- ✓ To further improve the procedures for integrated collection of personal income tax and social security contribution from the working force;
- ✓ To implement new policies regarding management of human resources (introducing bonuses for high performance of some tax officials);
- ✓ To improve the training capacity of The Public Revenue Office by life-long learning (possibly by forming a Regional Tax Academy).

The final goal of this project and its successful implementation is expected to create a number of potential benefits for Macedonian taxpayers, such as lowering the costs of assessing and paying of taxes through more efficient procedures designed on behalf of PRO, electronic services for taxpayers and higher level of professionalism of the tax officials. On the other hand, the improved public perception of tax services, more efficient collection of taxes and similar charges that finance the central budget, higher productivity of the tax officials represent major benefits, because of which PRO

and Macedonian government shall carry on with the implementation of this project.

General assessment implies that the project for structural reforms of the Macedonian tax system and the tax administration has been accomplished. PRO underwent major reorganization, new laws have been adopted and a Department for large taxpayers has been put in place. These activities have contributed to the fact that today the Public Revenue Office became an efficient European type of an institution. Over the past few years the ongoing reforms of the tax system and administration contributed to the fact that Macedonia become regional leader in this field. Macedonian experts have even been invited for counseling and expertise to several EU member-countries.

Conclusive remarks: It is a well established fact that tax administrations play a crucial role for successful implementation of tax reforms. Macedonian Public Revenue Office during the transition period of the country in the early 90es, gained such task, namely to carry on the reform of the old, archaic tax system inherited from the socialist era of former SFRY by implementing the new tax legislation package adopted in 1993. The main objective of this legislation was to design a modern tax system, comparable to similar ones in western democracies, transparent and neutral, simple for administering and difficult for evasion, and primarily efficient in terms of sufficient fiscal revenue collection. Macedonian tax administration does not have long history and tradition. To the contrary, unlike tax services of developed industrialized countries, it was fully operational since 1994. The first several years of operation were marked by overall weak capacities in every aspect: human resources inherited from pre-existing public administration services lacking the understanding of the entirely new tax laws enacted by the reforms, poor IT systems, organizational issues etc. This resulted in difficulties in collecting the newly introduced capital gain tax, or in efficient collection of the annual personal income tax, etc. The situation started to change as a result of the modernization process which is in place during the past 5 years. The driving force of the reforms of the Macedonian Public Revenue Office has been the international factor: technical assistance provided by the European Union and the International Monetary Fund, supported by strong resolve of Macedonian government to create a modern and efficient tax service having capacity to perform its important functions especially two: collection of taxes and other fiscal levies and combating tax fraud and tax evasion. In relatively short time period, one today sees a completely “recreated” public institution that is recognized as leader in the region of Western Balkans. It seems fair to say that the modernization process of PRO is the key factor for the increase of public revenue in Macedonia, which is even more significant considering the low tax rates of personal income tax and of profit tax that are only 10%. Macedonia, as candidate country for accession to the EU has no time to rest. The overall reforms of the public administration and the judiciary must continue at even more dynamic pace. The success of the modernization of the Public Revenue Office so far should not mean that the job has been completed. It should only serve as an encouragement for future efforts and results under the European Commission’s *eyes wide open*.

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