

**Daša Belkovicsová, Denisa Repková**

University of Economics in Bratislava

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## TENDENCIES IN THE DEVELOPMENT OF TAX ADMINISTRATION IN SLOVAKIA<sup>1</sup>

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**Summary:** Current trends in fiscal and tax policies lie in the increasing importance of indirect taxes, simplifying tax systems to expand the tax while reducing tax rates, in the elimination of distorting effects of taxes base and duties, in the fight against tax evasion, in reducing the administrative burden on the tax and duties, as well as in mergers in tax and customs administration. Significant changes have occurred in the area of income taxation. The highest tax rate of personal income decreased on average from 67% in the 80 of the XX<sup>th</sup> century to 43% in the beginning of the XXI<sup>st</sup> century. The tax rate of corporation tax has fallen from an average of 45% to 28%. The decreased tax rates were made with the current expansion of tax base and introducing new taxes. The positive impact on economic performance is reducing the progressivity of the tax system.

**Keywords:** revenue bodies, tax, tax administration, taxpayers.

### 1. Introduction

Ensuring effective tax collection, tax administration and protection of economic interests of the state are one of the multiple objectives of every fiscal policy. Tax policy on the one hand aims to create a tax system, i.e. to set different direct and indirect taxes which are used for financing public expenditure. On the other hand, the object of tax policy is creating a tax system that will also provide objectives set by the state economic policy. The tax system is thus a broader concept that includes institutional support of tax administration, respectively the revenue bodies who collect the taxes. They should be cost-effective and efficient in terms of tax collection.

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## 2. Tax Administration in Slovakia

Tax administration includes the registration of taxpayers, their search, verification of documents necessary to properly and fully determine the tax, tax procedures, tax control, recording taxes and prepayments, including the settlement of tax overpayments and tax arrears, tax execution procedures and other activities of the tax and other authorities. The tax administration which is included here is the way the tax treats the rights and duties of taxpayers and other persons.

Tax administration represents a system of tax administration bodies and institutions, i.e. administrators of the taxes in the tax system who guarantee taxes: respectively activities relating to finding the right tax, security tax payments and other activities related to the efficient and effective tax collection.

Tax administration should be seen not only from national perspective, but international one, in the perspective of mutual cooperation among countries. It means there are certain areas of tax administration which transcend national borders and require international cooperation. They can rely on international assistance for the recovery of certain financial assets or on international assistance and cooperation in tax administration.

International assistance for the recovery of certain financial claims relates to providing, receiving and requesting it. There are the following forms of assistance:

- the exchange of information needed for recovery,
- the delivery of documents related to the recovery of debts,
- the recovery of a claim,
- ensuring the claims and other transactions relating to the recovery of debts.

International assistance for recovery is provided on a reciprocal basis between the competent authority of one state and the competent authority of another state. Mutual international assistance for recovery is given either to a member of the European Union on the basis of special legislation, or to any state under international treaty. It depends on the European Union member state or non-member state of the European Union, i.e. a contracting state. There are also various types of claims.

International assistance and cooperation in tax administration represents provision, receiving and requesting information exchanges and associated mutual cooperation or other mutual assistance in order to ensure the correct levying taxes and paying taxes. Information is provided between the competent authority of one state and the competent authority of the other state on request and only if there have been exhausted all available sources of data that could be used to obtain the requested information in one country. The information that is provided or received periodically without prior request could be arranged for these groups.

International assistance and cooperation in the administration of tax refers among others to income tax, tax on property, inheritance, donation, transfer of property, taxes provided in the contracting state in which taxes have the same or similar nature as taxes listed above.

Tax administration covers the processes of tax and customs administration. This is the main organization that provides revenue to the state budget. Tax administration in Slovakia works for authorities, customs authorities and municipalities. Customs administration fulfills tasks in the area of indirect taxes.

**Tax authorities are:**

- The Tax Directorate of the Slovak Republic,
- tax offices,
- Tax Office for Selected Taxpayers.

**Custom authorities are:**

- The Customs Directorate of the Slovak Republic,
- customs offices,
- Customs Criminal Office.

**Table 1.** Tax authorities in Slovakia

Tax authority	Tax	Budget determination
Tax office	Tax on personal income* Corporate income tax Value added tax (VAT) Road tax	State budget, regional and local budget State budget State budget Regional budget
Custom office	Excise duty VAT	State budget State budget
Municipality	Local taxes (property tax and other direct taxes)	Local budget

\* Tax on personal income is a proportionate tax, i.e. revenue is distributed among various levels of government – the biggest part of the budget goes to municipalities, then to the regional budget and the rest is the reserve of state budget.

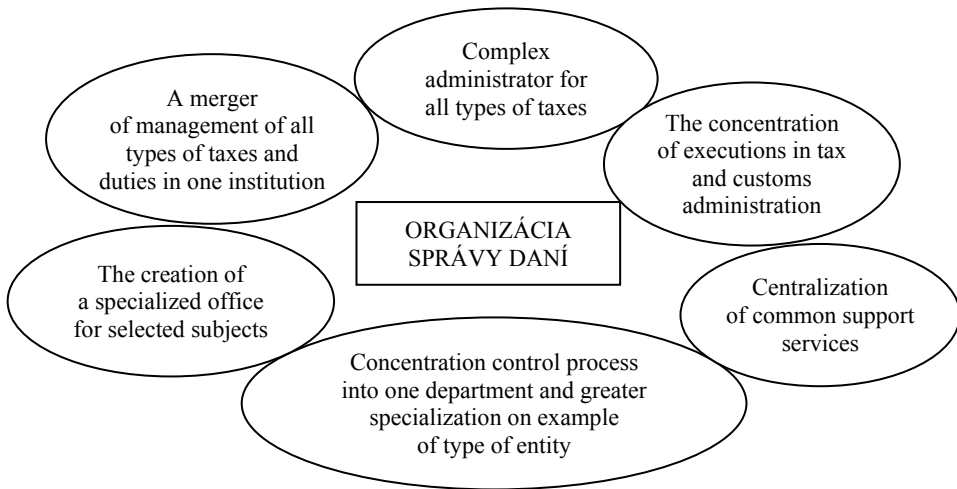
Source: own elaboration.

### 3. Unification of tax and customs administration in Slovakia

Performance of tax administration depends on the environment, which manages the tax system of the country. Countries differ in culture, political and legislative environment and institutional ensurance of tax administration. Tax administration in most OECD countries is performed by tax authorities and institutions which manage all taxes in the tax system of direct and indirect taxes. Recently, however, there is the increasing trend towards integrated collection and tax administration together with levies. One of common features of tax authorities of several countries is that tax authorities are beginning to carry out the activities not related to taxes, such as customs or social insurance. This trend reflects the rationalization of tax and contribution administration as well as it increases the use of the tax system to ensure the social field. For tax administration it represents a considerable challenge in terms

of realizing payroll tax reform, focusing on changing the administration of taxes and levies in the direction of unification and simplification of their choice. Reforms should be based on system needs to be changed because of the increasing complexity of tax systems and the globalization of business.

In general it can be stated that there was a shift from tax collection by tax type to the one based on functional or taxpayer segment criteria. Tax administration based on the type of taxes is not effective because there is the duplication of functions and increased burden of taxpayers in terms of communication with multiple tax administrations by type of tax. It is so despite finding that most countries use the organizational structure of tax administration which is based on a combination of several criteria.



**Figure 1.** The combination of tax administration organization by function and by type of entity

Source: own elaboration based on OECD. 2009: *Tax administration in OECD and Selected Non-OECD Countries., Comparative information Series*, (2008).

The organizational structure of tax administrations in the world is the result of organizational reform whose main objectives are to increase the efficiency and effectiveness of tax administration, create specialized units such as specialized agencies for taxpayers, create a national call centre for taxpayers, data processing centers and so on.

Slovakian revenue officials indicated that in May 2008 their government had approved a proposal for institutional reform known as Concept of Reform of Tax and Customs Administration with Outlining Unification of the Collection of Taxes, Customs and Insurance Premiums. As part of this proposal, which will be phased over a number of years and be subject to a detailed feasibility study, there would be a shift

in responsibility for the collection of social insurance contributions to the new body from existing social insurance bodies.

Changes should be implemented in stages in several steps in two phases: UNITAS I. and UNITAS II.

The first phase includes the merger of tax and customs administration and a new system of management and organization of state revenue collection through the so-called Financial Administration of the Slovak Republic. The tax and customs administrations will be merged at the level of the Tax Directorate of the Slovak and the Customs Directorate of the Slovak Republic, which will be combined into one budgetary organization named the Financial Directorate of the Slovak Republic, and also at the level of the tax and customs offices which will be reduced in number to eight financial offices in the capitals of the higher territorial units and to two specialized offices. On January 1, 2012 there will be created 8 tax offices at regional level and there will remain Tax Office for Selected Taxpayers. It will set up 8 customs offices and there will remain Customs Criminal Office. The merger of tax and customs offices will take place on January 1, 2013, i.e. there will be 10 financial offices at regional level, tax administration departments of local stations and tax office for close cooperation with taxpayers. Tax Office for Selected Taxpayers will change to the Financial Office for Selected Payers covering the whole territory of Slovakia. There will also be a Financial Criminal Authority at the Financial Office level which will be established by extending the agenda of the Customs Criminal Bureau to include the so-called tax criminal offences. Financial Office branches will be established at the local level.

**Table 2.** A merger of tax and customs administration in Slovakia

Tax administration + customs administration	=	Financial administration
01.01. 2012		
Tax Directorate + Customs Directorate	=	Financial Directorate
Tax Offices	=	8 Tax Offices + Tax Office for Selected Taxpayers
Customs Offices	=	8 Customs Offices + Customs Criminal Bureau
01.01. 2013		
Tax Directorate + Customs Directorate	=	Financial Directorate
Tax Offices + Customs Offices	=	Financial Offices
Tax Office for Selected Taxpayers	=	Financial Office for Selected Payers
Customs Criminal Bureau	=	Financial Criminal Authority

Source: own elaboration.

In UNITAS II phase, in which it will be necessary to adopt the Tax, Customs Duties and Insurance Contributions Collection Unification Concept, the Ministry of Finance assumes that several areas will be resolved. The first area is the proposal to combine the collection of all contributions, namely pension, sickness and accident

insurance premiums, as well as unemployment insurance, Solidarity Reserve Fund and Guarantee Fund contributions, contributions to the old-age pension saving scheme and health insurance premiums, to one point of collection. The amounts of the premiums are outside the remit of this proposal.

These changes will result in cost savings, reductions in administrative burdens of tax and customs agenda, a more comprehensive overview of development in public finances, the reduction in tax and customs evasion, bureaucracy and increasing the efficiency of work as well as the availability of tax and customs administration.

## Literature

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## TENDENCJE W ROZWOJU ADMINISTRACJI PODATKOWEJ W SŁOWACJI

**Streszczenie:** Obecne trendy w polityce fiskalnej i podatkowej sprowadzają się do rosnącego znaczenia podatków pośrednich, do upraszczania systemów podatkowych, tak by rozszerzyć obowiązek podatkowy przy jednoczesnym obniżaniu stawek, do eliminacji zakłóceń wywołanych przez podatki i cła, do walki z unikaniem opodatkowania, do obniżenia rozmiarów administracji podatkowej oraz do łączenia urzędów skarbowych i celnych. Znaczące zmiany zachodzą także w zakresie opodatkowania dochodów. Najwyższa stawka dla dochodów osobistych zmniejszyła się z 67% w latach 80. XX wieku do 43% na początku wieku XXI. Stawka podatków od osób prawnych spadła ze średnio 45 do 28%. Obniżka stawek dokonywała się jednocześnie z rozszerzeniem podstawy opodatkowania i z wprowadzaniem nowych podatków. Pozytywny wpływ na działalność gospodarczą miało obniżenie stopnia progresywności podatków.

**Słowa kluczowe:** organy skarbowe, podatki, administracja podatkowa, podatnicy.