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# TAX REVENUES, STATE BUDGET AND PUBLIC DEBT OF SLOVAK REPUBLIC IN RELATION TO EACH OTHER

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**Abstract**
Slovakia is currently one of the countries that generate one of the lowest tax revenues in relation to GDP. On the other hand, subjects pay one of the highest taxes in the form of specific contributions to the social and health system.
The lower tax collection was influenced by a gradual reduction of tax rates, especially in personal income tax and VAT, but mainly declining tax collection, in particular VAT. Collection of taxes, but also effective tax mix support the government's efforts aimed at increasing tax revenues to the state budget as well as eliminating the deficit of public finance and government debt.
Methods of analysis, comparison and graphical methods were used to monitor relations between the state budget and tax revenues of SR.
KEY WORDS: Tax revenues; Balance of the State budget; State budget deficit; Public debt; Direct taxes; Indirect taxes.

## Introduction

Balance of the state budget and public debt is still affected by changes caused by the global crisis and its consequences. In general, it was confirmed that high budget deficits are causing the unsustainable public debt.

In spite of the government's efforts to reduce the deficit and debt measures that reduce the expenditure side of the state budget, tax revenues of the state budget are playing an increasingly important role. Tax revenues, not only in Slovakia but also in the EU Member States, represent the most important source of income.

Despite the fact that usage of the Maastricht criteria and the Stability and Growth Pact has led to a certain recovery of public finances, in the EU has been a slowdown in economic growth, the consequence was the creation of budget deficits. States have created sufficient reserves for a period of recession during the economic boom, there has been a reduction of public revenues.

In order to consolidate public finances and economic recovery, the Slovak government proposed measures to reduce government debt and increased resources serving for financing and covering the state debt. This led to the adoption of a lower VAT rate, higher rates were used for taxation of excisable goods, etc. Tax measures were naturally respected by economic policy of the state, especially with regard to the business environment support policy and employment policy.

The intensity of state interference in the functioning of the economy deal with several representatives of economic science (eg. J.B. Say, Keynes, J.F. et al.). Their views, however, are constantly developing and the measures of countries respond to current economic realities. The absolute efficiency of the government's decisions, however, is hardly foreseeable with respect to the unpredictability of possible economic development of the state, respectively most developed countries and the existence of economic cycles.

## Material and methods

The consolidation of public finance is closely related to the effective tax collection. There are created many tax bases with sufficient reliable information on tax subjects. There are created many tax bases with sufficient reliable information on tax subjects. Key challenges are focused not only on the "rating" of tax subjects, but also on other measures of counties that will be implemented in coordination with the EU. Some of these are mentioned in this article. Also methods of analysis, comparison and graphical methods were used to monitor relations between the state budget and tax revenues of SR.

## Results and Discussion

For the chosen period 2005-2015, total amount of expenditures has exceeded the total amount of revenues in the Slovak state budget. Slovak Republic has reported a budget deficit in this period that had an unstable character.


**Fig. 1.** Revenues, expenditures and the deficit of the state budget in billions EUR (2005– 2015)
(Source: own collaboration of the data, 2014. http://www.finance.gov.sk/Documents/Adresare/FinanceSK/Default.aspx-CatID=4103.htm.)

In terms of a ratio of total revenues and expenditures of a state budget, the most common type of the Slovak state budget is its deficit.

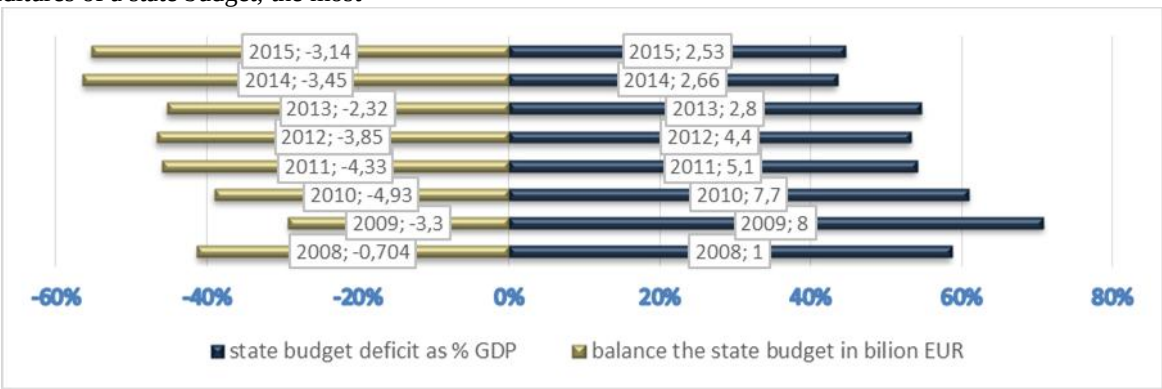


**Fig. 2.** State budget deficit as % GDP and balance the state budget in bilion EUR in SR (2008 – 2015)
(Source: own collaboration of the data http://www.rozpoctovarada.sk/svk/rozpocet)

In the period of the global crisis (except the year 2006), the deficit of the state budget of the Slovak Republic was below the 3% of GDP, which was one of the basic requirements for membership in the European Union. This period is linked with an effort of the Slovak Republic to achieve and fulfill the convergence criteria necessary for accession to the EMU.

We can briefly summarize the development of the budget deficit in SR from year 2008 to the present in the following conclusions:

In 2008, the deficit of the state budget reached the level of 1 % of GDP. The level of revenues was fulfilled up to the level of 98% of a plan. The best collection was achieved in relation to the income tax (this area was fulfilled up to the level of 110%) and expenses were fulfilled to the level of 96%.

The year 2009 represents the year with the highest state budget deficit since 2004. In comparison to the previous year it has increased by 4,6% and has reached the level of 8 % of GDP. Simultaneously, one of convergence criteria was broken (the deficit has exceeded the threshold of 3% of GDP). Following this fact, the European Council has started to apply an excessive deficit procedure towards Slovak republic.

In 2010, the Slovak Republic has failed to fulfil the aim of initiating budgetary consolidation of public finances due to the fact that the deficit has reached the level of 7,7% of GDP. The budget plans that were set on the level of 5% were repeatedly exceeded.

The year 2011 was represented by the growth of the Slovak economy by 3,3%. Due to this fact the Slovak Republic was one of the most fast growing economies within the Eurozone area. In this year, the budget deficit has increased by 5,1% of GDP. This situation was partially reached due to the better tax collection.

In year 2012, the deficit of the state budget was represented by 4,48% of GDP.

In 2013, the government of Slovak Republic has achieved the goal of reducing the government deficit below 3% of GDP to the level of 2,8%. Consequently, the European Commission has stopped to apply the excessive deficit procedure towards Slovakia.

For the year 2014, the deficit was set in amount of 2,66% of GDP, but according to the estimations of the European Commission, the deficit has reached the level of 2,93% of the economy performance. In any case it was kept below the level of 3%.

In 2015, the Slovak government has set its objective in achievement of a deficit of 2,53 % of GDP.

For the following two years, they have even more optimistic view, as there is a forecast for the year 2016 to reach the deficit on the level of 1,43% of GDP. In 2017, there should be the deficit in the level of only 0,39% of GDP. The Slovak government plans to reach the higher level of tax collection that would contribute to the reduction of the deficit.

Growing deficit of the public finance contribute very significantly to the deepening of the public debt of

the relevant country. In the conditions of Slovakia, for the chosen decade, the debt of the public administration did not exceed the level of 60% of GDP – none of the Maastricht criteria has not been exceeded.


**Fig. 3.** Gross public debt of SR as a percentage of GDP, in EUR mld. (2008 – 2015)
(Source: own collaboration of the data http://ec.europa.eu/eurostat/web/government-finance statistics/data/main-tables)

The year 2009, in a comparison with the year 2008, represents the period of a sharper rise of public debt up to the level of 35,6% of GDP. This level is represented by nearly 23 billion EUR. The main factor affecting the increase of the public debt was the financial and economic crisis, that had significantly reflected into the government deficit in the form of lower tax revenues and social contributions, the applied expansionary fiscal policy and an outflow of resources used for financing and covering the state debt. In the following years, there was an increase of government debt up to the level of 54,9 % in 2014.

Public debt of the Slovak Republic from 2012 to the present is located in the sanction zone of 53-55 % of GDP. This means that the government submits to the National Council document concerning proposals for measures to reduce the public debt and to reduce the salaries of members of the government to the level of the previous year.

Despite to the relatively high level of the government debt, Slovak Republic is one of the countries that have relatively low debt and keep the level of their debt below the average level of the debt within the all EU countries and the countries of the Eurozone area. However, one of the negative sides is the rate of the economic growth of a public debt for the last six years. In relation to the performance of the economy, the debt had an increasing tendency by the sixth fastest rate among all EU Member States. A faster rate than in our country was only in countries such as Greece, Ireland, Spain, Portugal and Cyprus.


**Fig. 4.** Debt of the public finance in countries of EU for the year 2014 in %
(Source: own collaboration of the data http://ec.europa.eu/eurostat/web/government-finance statistics/data/main-tables)

In 2014 the tax burden of the Slovak Republic reached the value of 31% of GDP, while the average tax burden of the EU was for that period at 40%. Based on the above it can be concluded that the tax revenues of the Slovak Republic were the fifth lowest in the EU (as % of GDP). Among the V4 countries, in 2014, the highest tax burden was achieved in Hungary (39 % of GDP), followed by Czech Republic (34 % of GDP), Poland (33 % of GDP) and Slovakia (31% of GDP).

The largest and the most important component of the Slovak state budget revenues is represented by the tax revenues. Non-tax revenues have only negligible impact on the state budget revenues (fines, penalties, court fees, administrative fees, etc.). Grants and transfers represent the significant proportions of state budget revenues, especially those that flow from the EU budget. Tax revenues thus represent the most important source of government revenue, which is used to finance public goods and services provided. The

Slovak tax system consists of tax revenues of four fifths of total revenue.

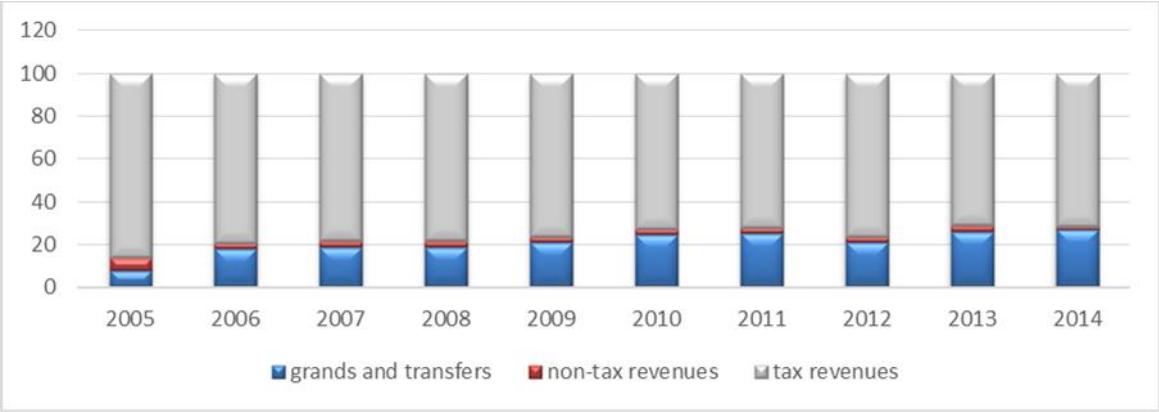


**Fig. 5.** The ratio of tax revenues, non-tax revenues, grants and transfers on the total amount of the state budget revenues in Slovakia (2005 – 2014)
(Source: own collaboration of the data http://www.finance.gov.sk/Documents/Adresare/FinanceSK/Default.aspx-CatID=4104.htm)

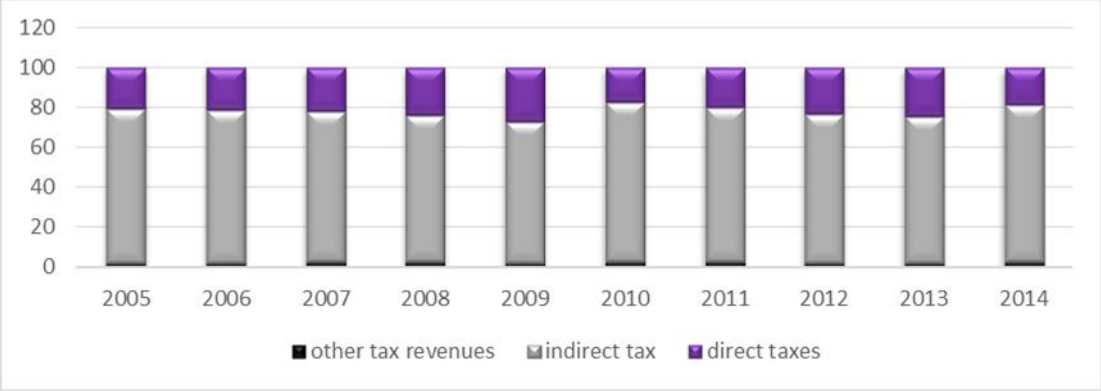


**Fig. 6.** The ratio of direct taxes, indirect taxes and other tax revenues on the total amount of revenues of Slovak state budget (2005 – 2014)
(Source: own collaboration of the data http://www.finance.gov.sk/Documents/Adresare/FinanceSK/Default.aspx-CatID=4104.htm)

The other tax revenues represent only a negligible part of the total state budget revenues (withholding tax, taxes on the international trade and transactions - such as import duties, import additional charges, customs penalties, etc., as well as the fines resulting from the tax audit). In the Slovak Republic, the indirect taxes represent the largest amount of the revenues of the state budget. Their volume is represented by more than 60%.

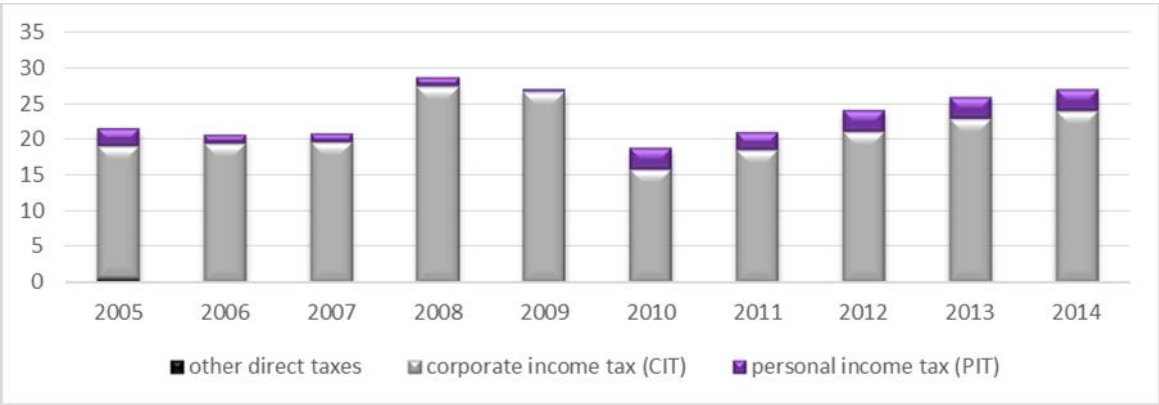


**Fig. 7.** The ratio of direct taxes on the total amount of tax revenues of the Slovak state budget (2005 – 2014)
(Source: own collaboration of the data http://www.finance.gov.sk/Documents/Adresare/FinanceSK/Default.aspx-CatID=4104.htm)

Corporate tax forms the majority of state budget revenues from direct taxes. In the monitoring of the income from the personal income tax to the state budget we must take into account the fact that the tax is proportionate tax in Slovakia and most of its income goes to the budgets of municipalities and higher territorial units. For example, in 2014, the tax revenues were distributed in proportion 67 % (village, town ), 21,9 % (higher territorial units) and 11,1 % (state budget ).

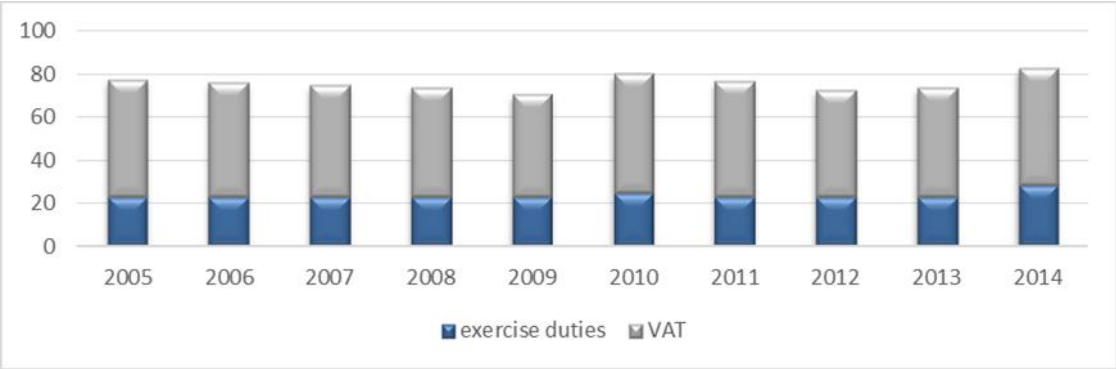


**Fig. 8.** The ratio of indirect taxes on the total amount of tax revenues of the Slovak state budget (2005-2014) (Source: own collaboration of the data http://www.finance.gov.sk/Documents/Adresare/FinanceSK/Default.aspx-CatID=4104.htm)

In the case of indirect taxes, we can see a relatively balanced process of tax revenues. From the excise duties, the largest proportion of the collected tax was represented by the tax income from mineral oil and from tobacco products.

## Conclusions

Despite the fact that during the global crisis SR experienced decreased government revenues and increased spendings, the state keep public debt below the EU average. Slovakia and other EU countries, to consolidate public finances, adopted more than sixty measures, some of which still takes place. It can be concluded that these measures have influenced very significantly the revenue side of the state budget as well as the elimination of the government debt. Despite to this fact, the state still persists in its effort and is still adopting additional measures in the area of taxation aimed to combat tax fraud and tax evasions. Especially, a maximum effort is needed to eliminate VAT tax loopholes which in 2014 amounted to 29,5 % of potential VAT in Slovakia (representing 2,8% of GDP). It should also be noted that the government plans, for the years 2015 and 2016, to increase tax revenues of the state budget with additional almost 900 million euro package as a result of better condition of the economy and increased efforts in detecting tax evasion.

During the chosen period of the last ten years (2004-2013), the most significant government deficit was reached in Ireland in 2010 (32,4%). Conversely, the lowest government deficit for this period was reached within the EU countries in Denmark, Estonia and Latvia. In most cases, these countries have applied the restrictive policy as well as the adjustments in taxation area (increase in rates of VAT and of the rates of certain excise duties, especially on alcohol and tobacco).

In 2013, the compliance of one (from five) convergence criteria – to keep the state budget deficit at the level of 3% of GDP have fulfilled 18 Member States, including the Slovak Republic. This standard did not fulfil 10 EU countries (Slovenia, Greece, France, Ireland, Spain, Croatia, Cyprus, Poland, Portugal and the United Kingdom).

The debt of the public administration in EU countries has started to increase notably since 2009, as a result of the global crisis. Since 2006, Greece is making very bad results in this way. From the mentioned year, the relevant amounts are exceeding the level of 60% of GDP, the total public debt of the public finance is above 100%. In 2013, the mentioned criterion was met in 12 Member States, including the Slovak Republic.

For the respective chosen period in all EU countries the tax revenues represent the most important source of the state budget revenues. The highest share of tax revenues (over 70%) is reported by Denmark, Ireland, Sweden and the United Kingdom. Conversely, the lowest share of tax (less than 50%) is recorded in the Czech Republic, Slovakia and Lithuania. In the structure of total tax revenues of EU countries, the direct tax revenues (65,6%) significantly outweigh revenues derived from the indirect taxes (35,4%). The most significant representation of the indirect taxes from the total amount of the state budget revenues is in a tax system of Lithuania, Bulgaria, Estonia, Croatia, Romania, Poland and Slovakia
(over 60%).

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