TAX ADMINISTRATIVE CHALLENGES OF THE DIGITAL ECONOMY: THE CROATIAN EXPERIENCE

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INTRODUCTION

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THE ECONOMY OF CROATIA

- Official language: Croatian
- Area: 56.594 km²
- GDP per capita (2016): 11.076 EUR

Main capital: Zagreb
Population: 4.1 mil.
Currency: Kuna (HRK)
STRUCTURE OF TAX SYSTEM

NATIONAL TAXES
- Value Added tax
- Corporate Income tax
Special Taxes and Excise duties

COUNTY TAXES
- Inheritance and gifts tax
- The tax on road motor vehicles
  - The tax on vessels
  - The tax on coin operated machines

CITY OR MUNICIPAL TAXES
- Surtax on Income tax
- The Consumption tax
- Tax on Holiday Houses
- Tax on the use of Public land
  - Real Estate Transfer Tax

JOINT TAXES
- Income tax
IMPORTANCE AND CHARACTERISTICS OF DIGITAL ECONOMY

• The Digital Single Market Strategy is built on three main pillars:
• 1. better access for consumers and businesses to online goods and services across Europe;
• 2. creating the right conditions for digital networks and services to flourish and
• 3. maximizing the growth potential of European Digital Economy
IMPORTANCE AND CHARACTERISTICS OF DIGITAL ECONOMY (2)

• From a tax perspective, key features that are relevant in the area of digital economy are:
  • 1. Mobility of intangibles, users and business functions
  • 2. Reliance on data
  • 3. Network effects
  • 4. Use of the multi-sided business model
  • 5. Tendency toward monopoly or oligopoly in certain business models
  • 6. Volatility
IMPORTANCE AND CHARACTERISTICS OF DIGITAL ECONOMY (3)

• digital economy and society index (DESI) – indicator of the current state of digitalisation

• composite index that measures the progress of European Union Member States towards a digital economy and society using relevant indicators of digital performance

• it is structured in five principal dimensions (connectivity, digital skills, use of Internet, integration of digital technology and digital public services), each divided in a set of sub-dimensions (fixed broadband, mobile broadband, speed, basic skills and usage, content, communication, business digitalisation and etc.)
IMPORTANCE AND CHARACTERISTICS OF DIGITAL ECONOMY (4)

- digital public services in Croatia in 2014-2016

- Source: Digital Economy and Society Index, country profile Croatia
IMPORTANCE AND CHARACTERISTICS OF DIGITAL ECONOMY (5)

- eCitizens is a one stop shop portal
- it consists of a central web page (gov.hr) where all web pages of all state administration bodies have been included
- all e-Services of governmental institutions can be found on the platform
- These e-Services include e-registers (birth and marriage); insurance records and health insurance; medical appointments; electronic employment status, tax cards; e-Voters; e-certificates of residence and vehicle ownership, applications of residence online, etc.
E-GOVERNMENT MODEL IN CROATIA

• In 2017, Croatia adopted the **2020 eGovernment Strategy** as the eGovernment and government digitalisation plan and strategic document

• the objective is to achieve interoperable government systems and services to provide eGovernment services and reduce bureaucracy

• complying with European Commission guidelines, various services for citizens and businesses have been developed in order to monitor the development of eGovernment
These services for both citizens and businesses include:

eCitizens

eTax

eHealth

eSchools

ePermit

eTourism
In the area of finance and taxes, obligatory e-services are the following:

1. fiscalization
2. services, submission of forms via the eTax portal, including groups of services/forms such as value added tax, income tax and contributions (JOPPD form), profit tax, consumption tax and lottery and prize draw competitions;
3. eCustoms
4. eExcise
5. submission of the JOPPD form;
E-GOVERNMENT MODEL IN CROATIA (4)

• 6. electronic submission of all the available forms is obligatory for taxpayers classified as medium-sized and large enterprises within the meaning of the Accounting Act

• the objective of this Strategy is also to increase the number of citizens who use aggregated e-services from 31.9 percent in 2014 to 75 percent in 2020, and the number of businesses from 92.7 percent in 2013 to 97 percent in 2020
E-GOVERNMENT MODEL IN CROATIA (5)

• In the European legal framework context, the following directives, regulations and proposals are relevant:
  • Directive 2006/123/EC on services in the internal market
  • Directive 2014/55/EU on electronic invoicing in public procurement
  • Regulation 910/2014 on electronic identification and trust services for electronic transactions in the internal market
E-GOVERNMENT MODEL IN CROATIA (6)

• Directive 2014/24/EU on public procurement
• Directive 2011/24/EU on the application of patients' rights in cross-border healthcare
• Directive 2003/98/EC on the re-use of public sector information, amended by Directive 2013/37/EU and
the legal framework of the eGovernment model in Croatia is regulated by the following legislation:

1. Constitution of the Republic of Croatia (Official Gazette No. 56/90, 135/97, 8/98, 113/00, 124/00, 28/01, 41/01, 55/01, 76/10, 85/10)
2. Act on Personal Identification Number (Official Gazette No. 60/08)
3. Act on Protection of Personal Data (Official Gazette No. 103/03) and
4. Act on Information Security (Official Gazette No. 79/07)
• The Croatian Tax Administration was founded in 1994.
• The primary responsibility of the Croatian Tax Administration is to conduct the following:

  • 1. assessment and collection of taxes and obligatory contributions;
  • 2. review of tax returns, their timely submissions and liability;
  • 3. determination of tax base and tax obligation;
  • 4. tax audit – conducting tax audit and supervision of the calculation of obligatory contributions;
  • 5. enforced collection – conducting enforced collection in order to collect taxes and obligatory contributions.
the Tax Administration offers the following electronic services:
- ePDV – electronic services for filing forms in the value added group of taxes;
- ePD – electronic services for filing forms in the profit tax group;
- eID – electronic services for filing taxes in the income tax group
- ePKK – electronic services for accessing the taxpayer’s tax and accounting card, reviewing form status, accessing received forms and sending requests for electronic operations.
TAX ADMINISTRATION AND SWOT ANALYSIS (3)

SWOT Analysis

STRENGTHS

- Professional information and telecommunication labour force
- Information and communication services are free to use, easily available, well documented and secure
- Lower costs of fulfilling tax liabilities
- Connection with other public authorities and government institutions
SWOT Analysis

WEAKNESSES

- Lack of monitoring of key performance indicators
- Slow development of e-Business, data security problems
- Shortage of ICT regulatory base, underdeveloped information and telecommunication infrastructure in the countryside
- Shortage of public access to the Internet, delays in informatisation in relation to the European Union
TAX ADMINISTRATION AND SWOT ANALYSIS (5)

SWOT Analysis

OPPORTUNITIES

- Lower hardware and software prices
- Simplify tax procedures and reduce costs of taxpayers
- Improvement of compliance risk management system
- Development of Intranet sites, use of e-signature, attract foreign investment
- Broader application of information and telecommunication in the business and public administration sectors
TAX ADMINISTRATION AND SWOT ANALYSIS (6)

SWOT Analysis

THREATS

- Insufficient funds for modernization
- Insufficient number of employees
- Brain drain
- High dependency on external partners for improvement of core business processes
- No reward system for employees, diminishing opportunities to compete in the European and world markets
CONCLUSION

• Advances in new technologies and investment are very well developed in the developed world, but unfortunately Croatia is still lagging behind.
• Recommendations for improvement in terms of challenges include:
  • a quicker response to taxpayer expectations of contemporary e-service;
  • increase of agility and responsiveness in dealing with rapid and unexpected changes;
  • ensure that everyday operations are supported by collaborative platforms and simplify integration needs;
  • reduce the difficulty of transitioning to digital administration methods;
  • develop new capabilities and establish a data-driven and intelligence-led culture
• THANK YOU FOR YOUR ATTENTION!!!

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