TAX ON ASSETS AS A FACTOR OF INCREASING ECONOMIC ACTIVITIES

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Abstract

In this paper authors are presenting idea of an Asset Tax as a new category of state fiscal income as well as instrument for better allocation of wealth and increase of economic activity. Authors explain concept of Asset tax from social, ethical and economic aspect. In current legislative there are Laws that treat taxation of property, profit and investments. In particular, in this paper the authors discuss the tax on fixed assets and its scope, and taxes on working capital and its scope and effect of the introduction of such a tax on the acceleration of economic activity and economic development. However, the authors argue that taxation of all the assets, especially those unused, should be considered with the aim of the reinforcement of economic activity.

Key words: Asset Tax, Taxation, Economic Activity, Wealth Distribution.

1. Introduction

In this paper authors discuss an uncommon tax in today’s tax systems for which might contribute to more balanced wealth distribution and state income. This tax authors name as Asset Tax. Asset tax is a percentage of total value of assets of a business from the balance sheet and it would be similar to the property tax, but it would cover not just a land and buildings but also equipment and other assets.

V Contact: splojovic@uninp.edu.rs. The authors declare that they have no relevant or material financial interests that relate to the research described in this paper. Also, the authors declare that the submitted paper is their original work and that, upon publication, nothing contained in it will not constitute an infringement of any copyright. Paper received 14.02.2016. Approved 18.04.2016.
All taxes, except property tax, are calculated according to the income statements. The authors advocate for the tax that is calculated on the items from the balance sheet.

2. A Methodological Framework

The focus of this paper is taxation of property for businesses and entrepreneurs in a new way that would in addition to real-estate include equipment and capital as subjects to taxation.

Goal of this paper is to show justification of this tax and to explain this fiscal instrument from different aspects. To reach this goal, authors have taken the following tasks:

- Investigate social justification for the Asset tax
- Examine ethical grounds of the Asset tax
- Examine economic justification of the Asset tax
- Compare the current method of taxation with the proposed model.

The authors of the study started with the following basic hypothesis: Asset tax is the fiscal instrument that would improve the redistribution of resources in society and accelerate economic activities.

In addition to these basic hypotheses, the authors raise the following hypotheses:

- There is a sociological justification for the adoption of the Asset Tax
- There are sound ethical grounds for the Asset Tax
- There is economic justification for the Asset Tax

The verification of the initial hypothesis authors performed using scientific and research methods. They used the method of analysis of existing literature on the subject, then method of analogy and the method of synthesis in drawing conclusions.

They start the research by analysing current legislative that regulates the field of taxation as well as the comments of current tax laws and studies about their efficiency.

3. Current Regulations in Relation to The Proposed Model

The issue of taxation of property of individuals and businesses in Serbia is regulated by the Law on:

1. Property Tax (Zakon o porezu na imovinu ("Sl. glasnik RS", br. 26/01, "Sl. list SRJ", br. 42/02 - odluka SUS i "Sl. glasnik RS", br. 80/02, 80/02 - dr. zakon, 135/04, 61/07, 5/09, 101/10, 24/11, 78/11, 57/12 - odluka US i 47/13)
2. Law on Personal Income Tax (Zakon o porezu na dohodak građana ("Službeni glasnik RS" br. 24/01, 80/02 - dr. zakon, 80/02, 135/04, 62/06, 65/06 - ispravka, 31/09, 44/09, 18/10, 50/11, 91/11 - US, 93/12, 114/12 - US, 47/13, 48/13 - ispravka, 108/13, 57/14 ),

This Law treats buildings and land, or real estates as basis for taxation, but not the equipment or cash in the current accounts or provision.

The property tax rate for taxpayers who are keeping the financial books is 0.40%.

In particular, as it is written in the law: (Službeni glasnik RS», br. 26/01, 45/02, US, Sl. List SPJ Br 42/02 US, Sl. Glasnik br. 80/02, Dr. Zakon 80/02, 135/04, 61/07, 5/09, 101/10, 24/11, 78/11, 57/12 – odluka US, 47/13, 68/14 Dr. Zakon)

The basis of property tax on real property, except agricultural and forest land, the taxpayer does not keep books in accordance with the regulations of the Republic of Serbia, the value of real estate at 31 December of the year preceding the year for which it is determined and paid property taxes, if the law stipulates otherwise.

The amount of the value of the property shall be determined by the local authority responsible for the establishment, collection and control of revenues of the local government units (hereinafter referred to as the local authority), except that it is, except for land, at the end of each calendar compared with the year in which it carried out the construction, and the last reconstruction of the building, reduced by depreciation at the rate of 1% proportional method, a maximum of 40%.

For immovable property of the taxpayer built or acquired during the year, which is determined and paid property taxes, tax base is the value of the corresponding real estate at 15 December of the year preceding the year for which the tax is assessed on asset, determined in accordance with this law.

Property tax rate amounts:

1) the rights to immovable property of the taxpayer who keeps books - to 0.4%
2) the right to land in the taxpayer who does not keep books - to 0.30%
3) the rights to real estate of a taxpayer who does not keep books, except on the land:

<table>
<thead>
<tr>
<th>Tax Base</th>
<th>Payable taxes</th>
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</thead>
<tbody>
<tr>
<td>(1) up to 10 million RSD</td>
<td>Up to 0.40%</td>
</tr>
<tr>
<td>(2) from 10 to 25 million RSD</td>
<td>Income from sub-paragraph (1) to + 0.6% on the amount exceeding 10 million RSD</td>
</tr>
<tr>
<td>(3) 25 to 50 million RSD</td>
<td>Income from sub-paragraph (2) + 1.0% on the amount exceeding 25 million RSD</td>
</tr>
<tr>
<td>(4) over 50,000,000 RSD</td>
<td>Income from sub-paragraph (3) + 2.0% on the amount exceeding 50 million RSD</td>
</tr>
</tbody>
</table>
In taxation practice in Serbia, but also in the practice of developed economies the following applies:

"One of the basic postulates when designing a successful tax system is the principle that every penny should be taxed once and only once. Multiple taxation of the same money is an indication of inefficient system, while the possibility that the money is not taxed on any stage suggests a potentially poorly designed tax system”. (Altiparmakov, 2010)

Savings are also treated by the current Laws and are subject to taxation only in the part of receiving interests or capital gains. (Arsić, M. et al., 2012)

However, the authors of this paper suggest another principle by which tax laws should be developed: That every penny that is not in use should be taxed, every year.

4. Sociological Justification of the Asset Tax

Jean Jacques Rousseau in his work Social Contract says that as a rule, an individual should have only that amount of land which is able to process. This is not actually the property of the individual but it is given to him to use and he needs to pay to the community for use of the resources. On this basis, the items one earned are also not his/her property but are the property of the community to which he/she has come through his/her activities and claim the right to use them during his/her life in that community.

Based on the positive legislation an individual becomes independent from 18 to 21 years depending on the state and carries out its economic activity until the retirement which in most countries is after 60 to 65 years of age. This means that average working life is around 40 years. In that period individuals works and earns his wealth. If we look this from the aspect of the social contract the society provided environment and conditions for the individual to work and earn his/her living. He/she gained this opportunity according to the social contract which is based on reciprocity of giving and taking, so he/she should return the just amount the society of what he gained. If the society gives the individual to earn his wealth in 40 years, that wealth is part of the social contract were society guarantees an individual condition in which he can earn his wealth and the individual should in return give back to the society an adequate amount. (Becirovic et al. 2010)

As an individual is collecting wealth in the period of 40 years (on average) it would be appropriate to annually give back to the society 1/40 of what he/she currently possesses so that in an average work life an individual can fulfil his obligation to the society entirely. The society on the other hand would use these resources to compensate to those individuals to whom society failed to provide these conditions to work and earn.

This tax should not be confused with other types of taxes since it is essentially different from the taxes that are currently paid which are related to revenues or profits. None of these taxes do not cover the assets of the businesses. The Asset tax is not a substitute to the existing taxes but
a new category of taxation and redistribution of social wealth that has not been taxed before. (Becirovic et al. 2012)

According to the above said we can conclude that in this way there is no double taxation which is socially and ethically unjustifiable.

5. Ethical Basis for the Asset Tax

There are many issues regarding taxation related to ethics. Here we will only focus on helping or giving support to those in need by those that have taken that obligation.

If we look the statement that Asset tax should be paid by the businesses that earn using the resources and conditions provided by the society than we also need to emphasize that they earn their wealth by collecting their revenue from other members of the society.

The value in the accounts of the businesses or in their assets comes from other members of the society that the businesses have provided with products or services. However, according to the social contract each member of the society has its role in the society which he/she needs to fulfil in order for society to function. The key question is: if we, as members of the society, have our roles and functions that society has given us, on what basis we collect our wealth by fulfilling these roles. If the businesses are earning wealth by fulfilling some function for other members of the society, then it should pay “rent” to the society for using the business environment and conditions. (Plojovic et al. 2011)

The next question is how much that “rent” for the use of the resources, business environment and conditions should be? When we discussed the social justification of the Asset Tax we defined the rate according to the average duration of working life of an individual. The similar situation is with the businesses, but it demands explanation.

The businesses are organizations founded by individuals, or other companies which are in the end founded by individuals with the same average working life of 40 years. Although many companies work for several centuries this cannot be used as an argument since during this period structure of the ownership of the company changed over that period were each generation could use the resources and conditions provided by the society during their working life that is 40 years in average.

The public companies also should not be an exception since their “owner” is the society were again the average working life is 40 years, and for each year of work they should pay the “rent” for use of the wealth that society has enabled them to use.

Earning wealth on expense of other members of the society breaks the social contract on which society is constituted on and it represents unequal distribution of work, obligation and rewards which needs to be corrected with this solution.
6. Economic Justification of the Asset Tax

One of the basic indicators for quality of business is engagement of resources. If we manage to decrease the resources needed for successful completion of certain work than they increase the quality of business processes.

Profit should not be the only reason for existence of businesses, but rather doing certain functions in the society. (Plojovic et al 2011)

One of those functions is more efficient use of resources like Just-in-time production. The society needs to motivate businesses to do their work in line with this principle. This would in the end lead that businesses would try not to leave any of their resources unused. Capital that is in use trend to multiply and capital that is static trend to lose its value. The society must have an objective to motivate businesses to work with less resources for fulfilling their social function. As one of the best tools to achieve this objective is Asset tax.

If we look at the society as a system than we can say that in this way those parts of the society that unjustifiably stack and do not use social resources. Everyone that stores and do not use resources prevents making of new added value from the use of those resources that might be created if the society gave those resources to someone else to use in an efficient business activity.

7. Conclusion

Asset tax, as we have defined it, is a new category of taxation. This taxation the society ensures more just distribution of wealth, on one hand, and increases effectiveness of the economic system on the other.

Authors did not cover techniques and models for collection of this tax, but focused on presenting the concept that can contribute to increase in economic activity to wither scientific community.

Authors emphasize that there is justification for the Asset tax as a new fiscal instrument with the objective for more just wealth distribution and increased cash flow. The initial hypothesis has been verified to be true.

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8. Zakon o porezu na dohodak građana (“Službeni glasnik RS” br. 24/01, 80/02 - dr. zakon, 80/02, 135/04, 62/06, 65/06 - ispravka, 31/09, 44/09, 18/10, 50/11, 91/11 - US, 93/12, 114/12 - US, 47/13, 48/13 - ispravka, 108/13, 57/14 )
