



FISCAS Network:

Enhancing dialogue for higher municipal financial transparency, with focus on parafiscal charges

STUDY ON PARAFISCAL CHARGES AT NATIONAL AND LOCAL LEVEL IN THE REPUBLIC OF NORTH MACEDONIA



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AUTHORS

Aleksandar Stojkov

Iustinianus Primus Law Faculty, Ss. Cyril and Methodius University in Skopje

Irena Nikolovska

Independent Research & Innovative Solutions – IRIS Consulting, Single Member-LLC, Skopje

Blagica Petreski

Finance Think, Economic Research & Policy Institute, Skopje

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1. INTRODUCTION

Despite the low tax burden, many companies in North Macedonia complain about the so-called parafiscal charges (PFCs). Especially vocal are micro, small, and even medium, enterprises indicating that these payments do not consider the size of the company. Often there are overlaps of the same charges at the central and local level. An additional problem is the fact that for some of the charges there is no clear purpose why they are used and what they finance. Most importantly, there is no systematic and transparent system to provide predictability of parafiscal charges and there is no systematic and coordinated approach for their introduction. Even in the process of digital transition from traditional to electronic services, which brings efficiency gains, PFCs remain unchanged.

The list of public services which involve parafiscal charges is wide:

1. various charges regarding permits, licenses, certificates, approvals, authorizations
2. issuing various documents such as certificates, resolutions, confirmations, acknowledgements
3. special permits and authorizations regarding only production and sales
4. charges related to the registration of a legal entity and change in the register, business name display fee, patents, names and trademarks and other charges for permits and for acquiring certain rights.

Frequently, charges with similar characteristics are named differently, depending on the competent body. The broad scope and variety of the PFCs additionally increases the burden for the legal entities to keep track of them.

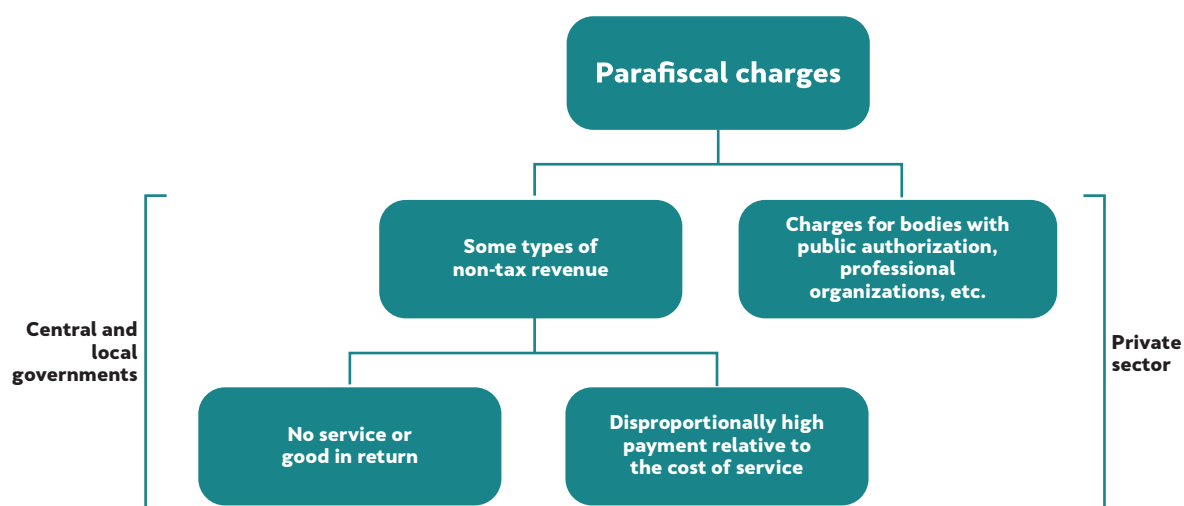
The Macedonian government's aim is to simplify the system of non-tax duties and parafiscal charges at the local and national level, improve their transparency and predictability, and thus contribute to a more favorable business environment. This is also strongly recommended by the European Union, the organizations under the umbrella of the United Nations, and the World Bank Group. The objective of the measure will be achieved through a comprehensive inventory and establishment of the Register of all non-tax and parafiscal charges that exist in the Republic of North Macedonia, then through the preparation of appropriate recommendations for changes and improvements of the legal framework and through promoting and introducing mechanisms to ensure sustainability of the improved system.

2. DEFINITION OF PARAFISCAL CHARGES

The first research step is to define the vague concept of parafiscal charges. Parafiscal charges are often unclearly defined and unpredictably determined. The prefix “para-” is only occasionally used in public finance literature. Its etymology is rooted in the Greek word (“παρά”) meaning “alongside, beyond; altered; contrary; irregular, abnormal”. Therefore, the term “parafiscal” refers to a charge alongside or beyond classical fiscal revenue. Parafiscal charges (PFCs) can be conceptualized as a payment that is either imposed by different levels of governments (central, regional, or local) or by bodies with public authorization and other professional organizations.

Even though there is some overlap between PFCs and non-tax revenues, they are **not identical**. Non-tax payments are various administrative fees, fines, penalties, and forfeits. Numerous non-tax revenue is justified on the grounds of recovering the cost of service by the central or local government. But there is a subset of non-tax revenue that is either detached from the public service or from the costs of its provision. This is also the case with some charges imposed by the bodies with public authorization or non-state professional organizations that are classified as a private sector. Figure 1 conceptualizes PFCs in line with their current status in North Macedonia.

Figure 1. Illustration of parafiscal charges



Source: Authors' conceptualization.

Non-tax and parafiscal charges that should be eliminated - or at least, reduced - are all legally prescribed payments by the businesses (we exclude the citizens from the analysis) to the central or local government or other bodies with public authorization, for which:

- the payer does not receive any service, good or right in return,
- the rendered service, good or right requires disproportionately high payment, or put differently, the real cost for providing the service, the good or the right by the institution/organization is much lower than the payment.

BOX 1. TYPES OF NON-TAX REVENUE

According to the Government Finance Manual (2014), The International Monetary Fund defines non-tax revenues as:

Administrative fees (1422). This item includes fees for compulsory licenses and other administrative fees that are sales of services. Examples are drivers' licenses, passports, court fees, and radio and television licenses when public authorities provide general broadcasting services. For these fees to be considered a sale of a service, the general government unit must exercise some regulatory function. For example, checking the competence or qualifications of the person concerned, checking the efficient and safe functioning of the equipment in question, or carrying out some other form of control that it would otherwise not be obliged to do. If a payment is clearly out of all proportion to the cost of providing the service, then the fee is classified as taxes on use of goods and on permission to use goods or perform activities (1145).

Fines, penalties, and forfeits (143). Fines and penalties are compulsory current transfers imposed on units by courts of law or quasi-judicial bodies for violations of laws or administrative rules. Out-of-court agreements are also included. Forfeits are amounts that were deposited with a general government unit pending a legal or administrative proceeding and that have been transferred to the general government unit as part of the resolution of that proceeding.

According to the OECD revenue statistics, non-tax revenues include:

“Court fees; driving license fees; harbor fees; passport fees; radio and television license fees where public authorities provide the service” (OECD, 2016, p. 323). According to the National Audit Office's Report on the audit of the annual report on the execution of the Croatian State Budget for 2014 (2015), parafiscal charges and non-tax revenue are defined as “...all payments of entrepreneurs to state administration bodies, local government units and other legal entities for which they do not receive any rights, services or goods, or receive a disproportionately small amount compared to how much is paid, and they are regulated by law, regulations and acts proposed by relevant ministries or other authorities” (National Audit Office, 2015, p. 37).

Roller (2009) points out that the group of parafiscal charges includes numerous compulsory charges without the appointment of fiscal charges and should be considered separately from the tax levy in the narrow sense. On the other hand, non-tax revenues represent a non-tax revenue if they are seen as sources of funding. Non-tax revenues, according to Bajo and Jurlina Alibegović (2008), are charged by state administration services, public companies, local government units, associations and chambers of craftsmen. Since local non-tax revenues are earmarked revenues, they can only be used for a predefined purpose. According to Bajo (2007), the central government determines the maximum rate of non-tax revenues that can be determined by the local government units, and Perić (2000) points out that non-tax revenue arising from utility charges should be a corrective mechanism in the sense of relieving taxpayers of the burden of their payments.

Considering the above, it can be concluded that the basic characteristics of non-tax revenues are as follows (Karacic et al., 2017):

1. they are earmarked for specific uses
2. they are linked to specific economic activities
3. the revenue arising from non-tax revenues represent another important source of revenue for local governments (Bajo & Jurlina Alibegović, 2008)
4. they are not paid by all taxpayers, only by members of certain groups that are connected by a common economic and social interest;
5. they have almost the same economic effects as tax collection (Galić, 2016);
6. they are charged according to the established tariffs, price lists of services or regulations (Institute of Public Finance, 2010).

Similar characteristics of parafiscal charges are defined in other studies (Susic et al., 2015) as follows:

1. They do not arise from all holders of the tax liabilities;
2. They are not regulated by the fiscal authorities;
3. They have the character of the earmarked revenues;
4. They represent secondary tax levy;
5. They are paid on the basis of laws and decisions or decisions of the competent authorities;
6. They are payable in the case of use “goods of common interest“;
7. They represent granting the money;
8. They are not included in the budget;
9. They represent the old form of the public revenues;
10. They do not fall under direct regulation by government authorities;
11. They do not have strict time durability.

The narrow definition #1 of parafiscal charges comprises duties, which are not fiscal charges, and which are exclusive revenue of bodies with public authorization (non-state professional organizations), such as chambers and other professional associations (Garvanlieva Andonova et al. 2018). The government is responsible for adopting the legal framework and public authorization of these legal entities that enable their revenue-generating capacity. Since they are not revenues of the general government budget, they qualify for being “parafiscal”. This view is in line with a sector-specific definition used by the European Commission (2016), which defines parafiscal charges as “charges levied by public or private agencies [...] with a view to financing activities for the benefit of the sector as a whole.”¹

Narrow definition #2 of parafiscal charges comprises of administrative fees or charges that violate the fee-for-service principle:

- a. fees without any public goods or services in return, or
- b. fees that are disproportionately high and do not correspond to the cost of service.

This definition accepts the fiscal nature and treats them as categories of non-tax revenue. However, it highlights that either there is no public service in return, or if there is one, then the price of the service will exceed the cost of provision of that service. The empirical difficulty associated with this definition is the lack of estimates for the cost of services.

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¹ https://ec.europa.eu/commission/presscorner/detail/en/IP_86_628

²According to Corthay (2009), parafiscal charges are “taxes” hidden as fees for licenses or similar regulatory instruments. They are usually small but can accumulate to a significant administrative burden for governments and firms.

BOX 2. NON-TAX PAYMENTS AND PARAFISCAL CHARGES WITHOUT PUBLIC SERVICE IN RETURN OR WITH DISPROPORTIONATELY HIGH FEES

The municipalities levy an initial cost of 4,000 denars (~EUR 65) for the display of the name of the business entity (firmarina) and afterwards, 2,000 denars (~EUR 32.5) of recurring annual cost for each business premise. This parafiscal charge at the local level is unmatched by a particular local public service. A small company for sale of automotive parts with three small business premises would pay 10,000 denars (=4,000 + 3 x 2,000) denars or EUR 162.6 in the first two years of its existence for a non-existent local public service.

The entry fees for the gambling sector are EUR 78,750, of which 50% must be paid at the moment of issuance of the license and the remaining 50% in six annual installments of EUR 6,562.5. The costs are prohibitively high for SMEs, preserving the business of games of chance and gambling only for the large enterprises. The same conclusion is valid for the establishment of a casino, which requires a license of ~ EUR 300,000. Moreover, the permission for organizing the games of chance is EUR 1,000 for both sole proprietor and a company.

Broad definition #1 of parafiscal charges comprises of:

- (1) administrative fees or charges that violate the fee-for-service principle
- (2) fees for meeting the requirements of various bodies with public authorization (professional bodies and associations), such as charges for membership or licenses, permits, and approvals.

This definition blends the two narrow definitions into a broad one by focusing on the compulsory character of the charges, regardless of the institutional sector that imposes them (central/local government or bodies with public authorization). The businesses are obliged by a law or a bylaw to pay them for conducting their day-to-day operations.

Broad definition #2 of parafiscal charges would encompass:

- (1) the broad definition #1 and
- (2) regulatory compliance costs (costs to comply with the regulations, such as mandatory investment in the business premises).

For instance, based on the Law on Protection and Rescue, the Directorate for Protection and Rescue adopted Guidance for the Content of the Protocol for Protection of Fires, Explosions and Dangerous Materials, which imposes the obligation to prepare a separate protocol. Specialized consultancy firms prepare these protocols (elaborates) for an average fee of ~EUR 400. This is a compulsory regulatory compliance cost for the businesses. If there is low competition in a specific segment in the private sector (e.g., few consultancy firms for firefighting services), the regulatory compliance costs will be high.

BOX 3. EXAMPLE OF REGULATORY COMPLIANCE COSTS

According to the Law on Protection and Rescue and the relevant bylaws (guidelines), businesses must ensure firefighting protection. While this regulation for public safety is undisputed, the costs of regulatory compliance are very high. Firms must pay for the preparation of a mandatory evacuation plan by a specialized consultancy firm (usually in the amount of 24,000 MKD), for a firefighting equipment (typical device costs 4,500 MKD per unit), six-month regular compulsory service check (800 MKD) and a first-aid kit (340 MKD). The total cost for one small business firm in the first year of operations would be 30,440 MKD ($=24,000+4,500+2 \times 800 + 340$), which is nearly EUR 500.

In a similar fashion, possessing a fiscal registration device at the point of sale is mandatory. No possession “invites” a penalty of 2,000 EUR. The fiscal printer (for printing the payment receipt and confirmation to the customer) is approx. 25,000 MKD (~EUR 406). The annual maintenance for each fiscal printer is 3,000 MKD. For instance, six fiscal printers would require annual maintenance of 18,000 MKD (~EUR 293). The fiscal devices have a limited memory (limited number of transactions) and exceeding the limit would require an additional 3,000 MKD for extending the memory. While the use of fiscal registration devices is a welcomed practice to combat the informal economy, compliance appears to be very costly. It is not surprising therefore that many business owners or shop assistants would rather not issue a fiscal receipt.

Broad definition #3 would encompass all direct and indirect (implicit) business costs, so that in addition to the broad definition #2 It would also include the opportunity costs that arise from the lengthy administrative procedures, involving long waiting times, human resources and materials engaged to comply with the legislation.

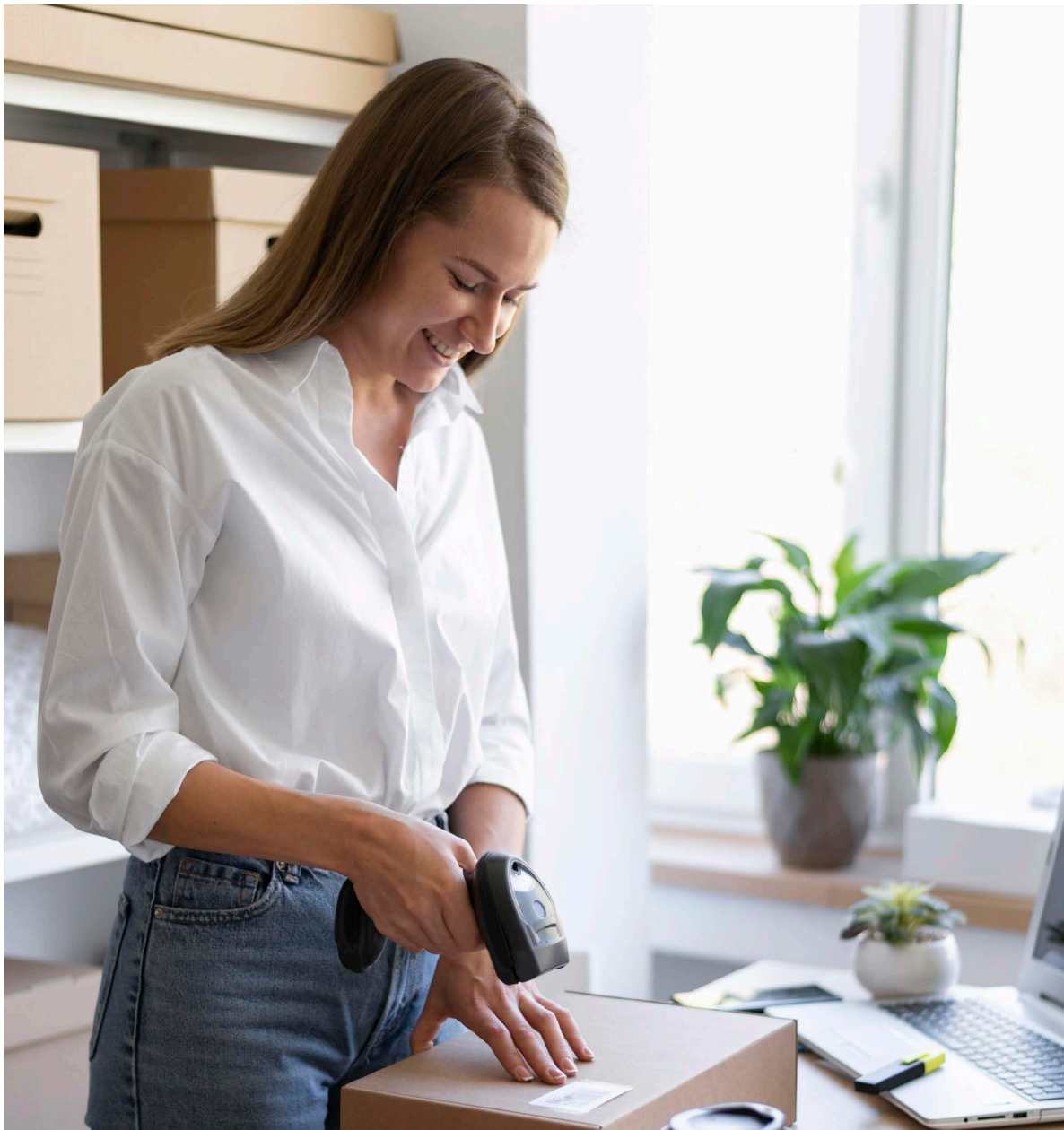
BOX 4. NON-TAX PAYMENTS AND PARAFISCAL CHARGES

Regardless of the conceptual and terminological differences, micro, small and medium-sized businesses are interested in a lower burden of a combination of non-tax revenues and parafiscal charges, as these categories affect their liquidity and profitability. Therefore, our preferred term is “non-tax payments and parafiscal charges” which more accurately captures the financial (non-tax) burden on businesses.

Another important distinction of non-tax payments and parafiscal charges is **the general vs. sector-specific nature**. Some of these payments affect all business entities, whereas others are sector-specific (e.g., permit for organizing air transport or permit for renewal of a traditional medicament).

In sum, a generally accepted definition on parafiscal charges would be that parafiscal charges represent non-tax fees charged by the state and local government (Petreski et al., 2019) and other bodies with public authorization and professional organizations that meet one of the following two conditions:

- These fees do not transfer any right, nor provide any service to the payer, although they are not considered taxes, or
- These fees do transfer some rights or provide a service to the payer, whose price exceeds their value multiple times.



3. METHODOLOGY AND DATA

For the purpose of this study and determining the criteria for identification of parafiscal charges at the national and local level, a research and thorough analysis of the literature, research studies and regional experiences have been implemented.

The methodology of this study encompasses several analyses of:

- aggregate data of selected categories of non-tax revenues
- disaggregated categories of non-tax revenues
- the Registry of fees associated with public services held by the Ministry of Information Society and Administration
- financial statements of several regulatory institutions and bodies with public authorization.
- Collected data through several in-depth interviews with stakeholders (chambers of commerce and tax consulting firms).
- The survey conducted with 150 companies residing in North Macedonia
- Focus groups in 18 municipalities, with business sector

Upon determination of criteria for identification of parafiscal charges at the national and local level, a further research on identification and classification of parafiscal charges at local level in the Republic of North Macedonia has been implemented, in cooperation with competent authorities in 18 municipalities in the Republic of North Macedonia and with employees and entrepreneurs from micro, small, medium-sized and large enterprises with different business activities from 17 municipalities in the Republic of North Macedonia.

Quantitative and qualitative data is gathered via surveys, completed by the municipalities, as well as via in-depth interviews with focus groups consisting of companies' representatives.

In addition, it was established that there are no ethical implications in this research.

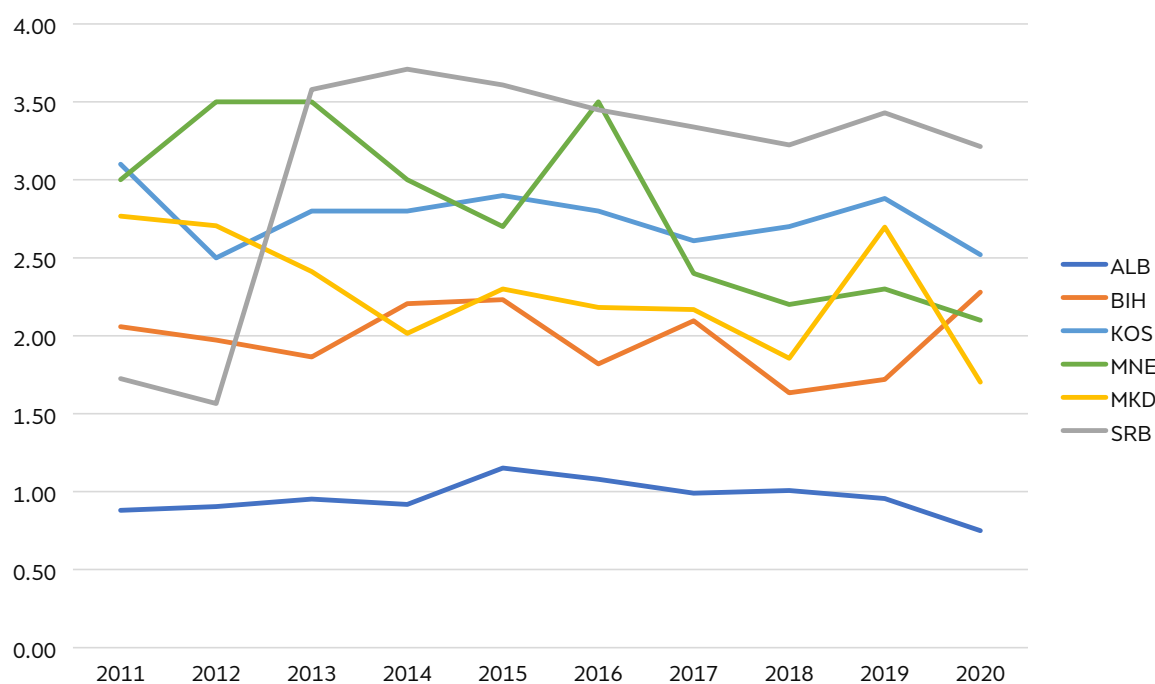
4. ANALYSIS OF THE PARAFISCAL CHARGES AT THE NATIONAL LEVEL

4.1 CONTEXT

The closest proxy from internationally comparable databases would be the size of non-tax revenues in the region of Western Balkans (WB6). Again, we highlight that non-tax categories are not equal to parafiscal charges, but they tend to move in a similar direction.

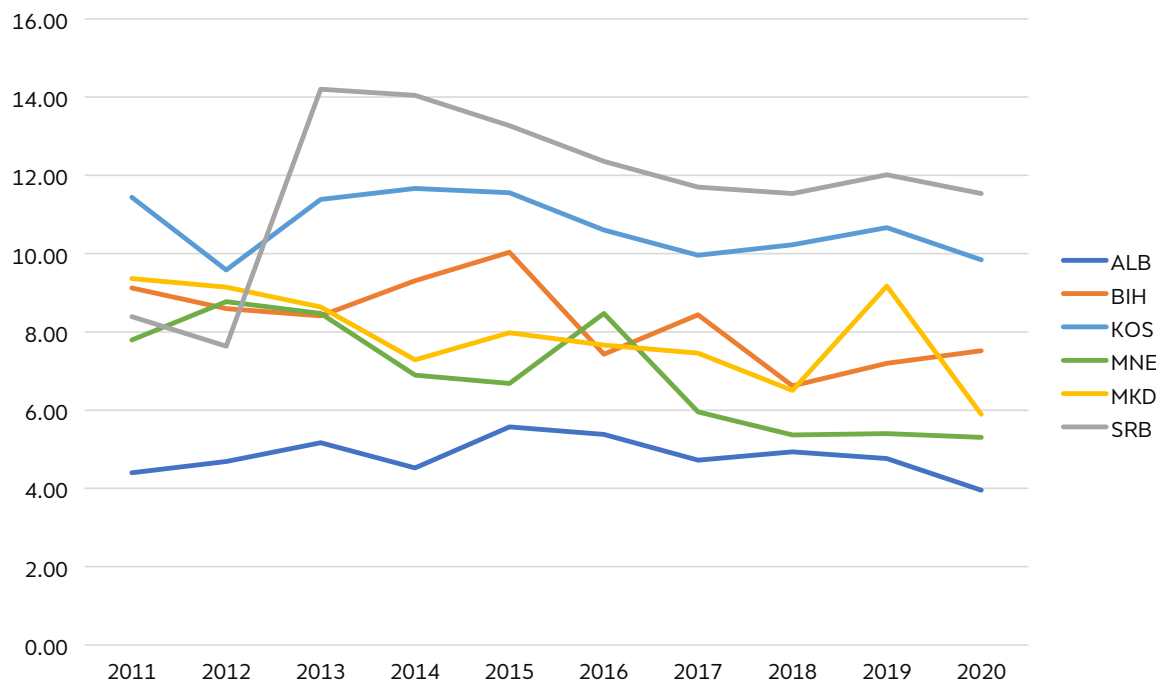
We use a narrow definition of non-tax revenue which excludes the profit of the central bank, dividends from partial state ownership in joint stock companies (e.g., in telecommunication companies), and profits of some state-owned enterprises (if any). Non-tax revenues tend to decrease – albeit with significant fluctuations – in all countries, except for Serbia (Figure 2). They have increased as a share of GDP in 2012 and 2013 and have mildly fallen thereafter. Except for the peak in 2019, non-tax revenues have gradually decreased in North Macedonia. As illustrated in Figure 3, the same conclusion holds when the non-tax revenues are calculated (normalized) with regard to the total revenues of the consolidated central government (central government and extra-budgetary funds).

Figure 2. Selected non-tax revenue (in percent of GDP)



Source: *The International Monetary Fund, Government Finance Statistics (2022)*.

Figure 3. Selected non-tax revenue (in percent of total revenue of the consolidated central government)



Source: *The International Monetary Fund, Government Finance Statistics (2022).*

Several sub-indicators from the global competitiveness reports by the World Economic Forum (2018 and 2020) can also shed light on the burden of parafiscal charges: (1) burden of government regulation; (2) efficiency of legal framework in challenging regulations, and (3) the adjustability of the legal framework to the digital business models.

Table 1. Comparable indicators related to the parafiscal charges.

Indicator	Comparison in the Western Balkans (WB-6)
<p>1.10 Burden of government regulation</p> <p>Response to the survey question “In your country, how burdensome is it for companies to comply with public administration’s requirements (e.g., permits, regulations, reporting)?”</p> <p>[1 = extremely burdensome; 7 = not burdensome at all]</p>	<p>This line chart tracks the perceived burden of government regulation from 2007 to 2019. The y-axis is inverted, with 0 at the top and 150 at the bottom. A dashed grey line represents the Europe & Central Asia median. Five colored lines represent the Western Balkan countries: Albania (orange), Montenegro (pink), Serbia (yellow), Macedonia, FYR (green), and Bosnia and Herzegovina (purple). Most countries show a general upward trend (lower burden) over the period, with a notable dip for Montenegro and Serbia around 2014-2015.</p>
<p>1.08 Efficiency of legal framework in challenging regulations</p> <p>Response to the survey question “In your country, how easy is it for private businesses to challenge government actions and/or regulations through the legal system?”</p> <p>[1 = extremely difficult; 7 = extremely easy]</p>	<p>This line chart tracks the ease of challenging regulations from 2009 to 2017. The y-axis is inverted, with 50 at the top and 100 at the bottom. A dashed grey line represents the Europe & Central Asia median. Five colored lines represent the Western Balkan countries: Albania (orange), Montenegro (pink), Serbia (yellow), Macedonia, FYR (green), and Bosnia and Herzegovina (purple). The data shows significant fluctuations, with Montenegro generally having the highest score (easiest to challenge) and Bosnia and Herzegovina the lowest (most difficult).</p>
<p>Legal framework’s adaptability to digital business models</p> <p>Response to the survey question «In your country, how fast is the legal framework of your country adapting to digital business models (e.g., e-commerce, sharing economy, fintech, etc.)?»</p> <p>[1 = Not fast at all; 7 = Very fast]</p>	<p>This line chart tracks the adaptability of the legal framework to digital business models from 2017 to 2019. The y-axis ranges from 2 to 4. A dashed grey line represents the World median. Five colored lines represent the Western Balkan countries: Albania (orange), Montenegro (pink), Serbia (yellow), Macedonia, FYR (green), and Bosnia and Herzegovina (purple). Albania and Montenegro show the highest adaptability, while Bosnia and Herzegovina shows the lowest. Macedonia, FYR has data points for 2017 and 2018.</p>

Source: Global Competitiveness Report 2018 and 2020, World Economic Forum, November 2022.

To the best of our knowledge, there is no comprehensive database of parafiscal charges in the region of Western Balkans.

In terms of the level of government that imposes them, non-tax revenue and parafiscal charges are primarily levied at the central level (87%), then at the local level (9%) and the remaining 4% are levied at both central and local level (Petreski and Petreski, 2019). A more recent registry of all business complaints in the Union of Chambers of Commerce (*Sojuz na stopanski komori*) with regard to non-tax revenue and parafiscal charges indicate 13 complaints (9.5%) for the fees levied at the local level, and 124 complaints (90.5%) for the fees levied at the central level. Strictly speaking, five complaints refer to high tariffs on imported goods.

4.2. STUDIES FOR THE COUNTRIES OF SOUTH EASTERN EUROPE

The literature on non-payments and parafiscal charges is very scarce and a more recent one. There are only a few studies focused on the universe of parafiscalities in the region of South Eastern Europe.

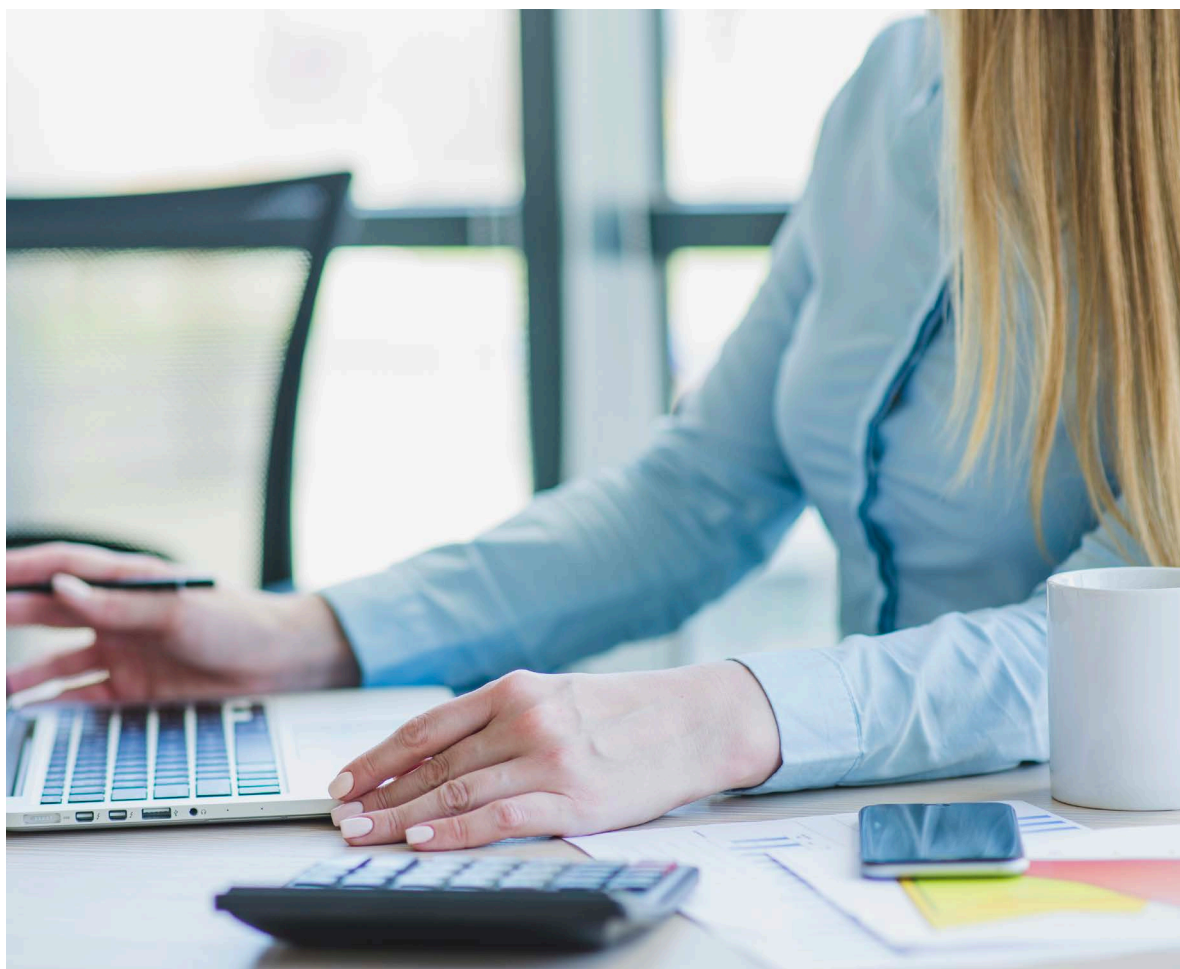
(North) Macedonia. A report by Garvanlieva Andonova et al. (2018) focuses on the combination of non-tax revenues and parafiscal charges and assesses their importance for the food processing industry and the construction sector in North Macedonia. They quantify the impact of this burden and conclude that for some of the mandatory non-tax and parafiscal charges, the public sector does not provide the business entities with any additional right, service or good. In many instances, businesses receive a certain benefit disproportionately lower when compared to the financial burden. Petreski and Petreski (2019) also conducted an exploratory analysis of the parafiscal charges for the small and medium-sized enterprises in North Macedonia. They define parafiscal charges as all the non-tax charges towards the central and the local government, as well as towards non-state institutions, which provide some kind of service to the small and medium-sized enterprises prescribed by law (chambers, associations, guilds), and which can be classified into one of the two aforementioned categories. The additional criteria are that: (1) they do not provide any (indirect) right or service in return, or (2) do provide a right or a service, the price of which is significantly higher than the expense for its implementation.

Serbia. The National Alliance for Local Economic Development (NALED) in Serbia conducted a research showing that 52% of business people in Serbia consider para-fiscal charges to be the second largest burden on business, behind labour costs (labour taxes and social security contributions). It identified five types of para-fiscal charges burdening citizens and businesses: (1) fees whose amounts does not reflect the value of provided service; (2) local fees and charges with general purpose; (3) fees with amount defined by the value of buildings; (4) double fees; and (5) fees charged by public enterprises. The Serbian Association of Employers (2015) conducted similar research on the costs of doing business of SMEs related to the implementation of the regulation in the Republic of Serbia and identified 499 different parafiscal burdens that result from 150 laws. The study accentuates (1) the non-existence of a system in place with regard to

parafiscal burdens in Serbia; (2) no clear connection between the rendered service and the price that is charged for the service, which is particularly evident when using arbitrary determination of the price; and (3) unpredictability and lack of transparency.

Montenegro. ILO-MEF (2017) surveys 300 employers and finds a significant impact of the scope and types of para-fiscal charges on businesses in Montenegro, along with an unclear legal framework governing this issue. The lack of registry of parafiscal burdens facilitates an easy blossoming by various institutions and professional organizations, thereby making the monitoring of the introduction of parafiscalities very difficult. The report also highlights the very rigorous penalty policy. In many cases the lack of knowledge and flexibility (within the legal limits) by state inspectors leads to exercising repressive measures, which adds additional complexity and weight on the financial burden.

Croatia. The Government of Croatia created a new Registry of non-tax payments in 2015. The previous one was established in 2008. From 2013 to 2015, the Government either abolished or significantly reduced many non-tax revenues in amount of approx. EUR 7.3 million. It is very important that the Government imposed in its Economic Reform Programme a minimum of these non-tax revenues to 0.1% of GDP in 2015 and 2016. From an operational perspective, it was accompanied by a Decision for reduction of parafiscal charges and a Committee for Monitoring the Implementation of the reduction of parafiscal charges.



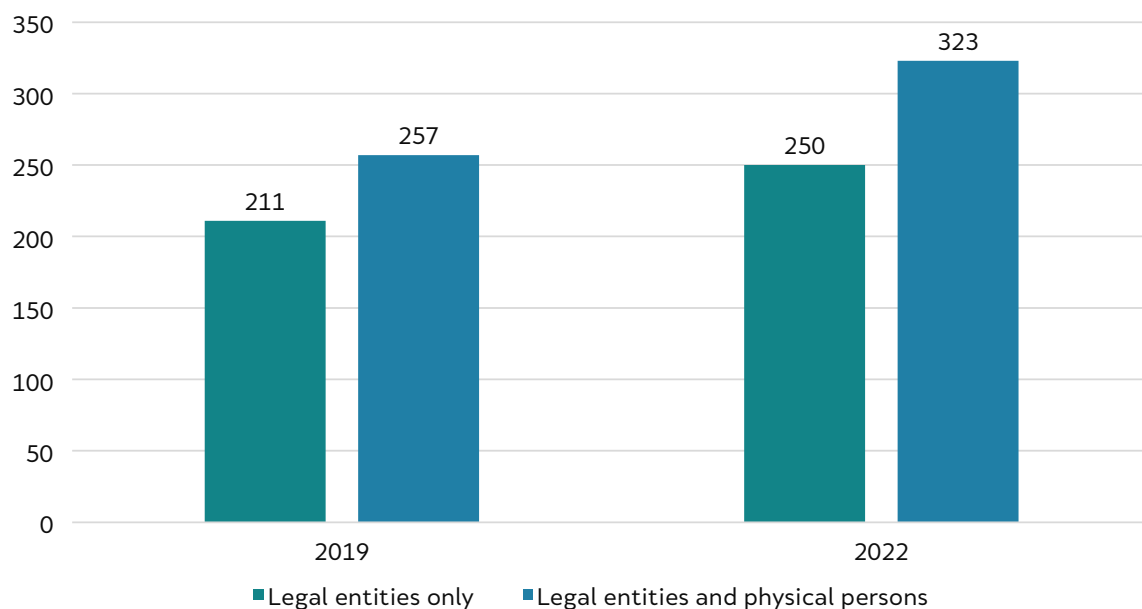
4.3. ANALYSIS OF NON-TAX PAYMENTS AND PARAFISCAL CHARGES

The problem of para-fiscal charges in North Macedonia is well detected and recognized by relevant European institutions. The European Commission (2022, p. 49) in its country’s progress report highlights that “the business environment continued to be impeded by the large size of the informal economy and slow progress in streamlining para-fiscal charges.” Streamlining the array of para-fiscal fees has progressed slowly and this is one of the important obstacles to the existence of a functioning market economy. The European Commission also formulates a policy recommendation to improve the business environment, widen the range of services available for businesses and citizens on the government’s e-portal and streamline para-fiscal charges in line with the established inventory. In the following sub-sections, we provide ample evidence in support of the Commission’s findings.

4.3.1. Expansion and coverage

A precursor analysis conducted by FinanceThink in 2019 identified 468 public services involving non-tax payments or parafiscal charges, of which 211 (equivalent to 45.1%) referred solely to legal entities and 257 services (54.9%) referred to both legal entities and physical persons (Figure 4).

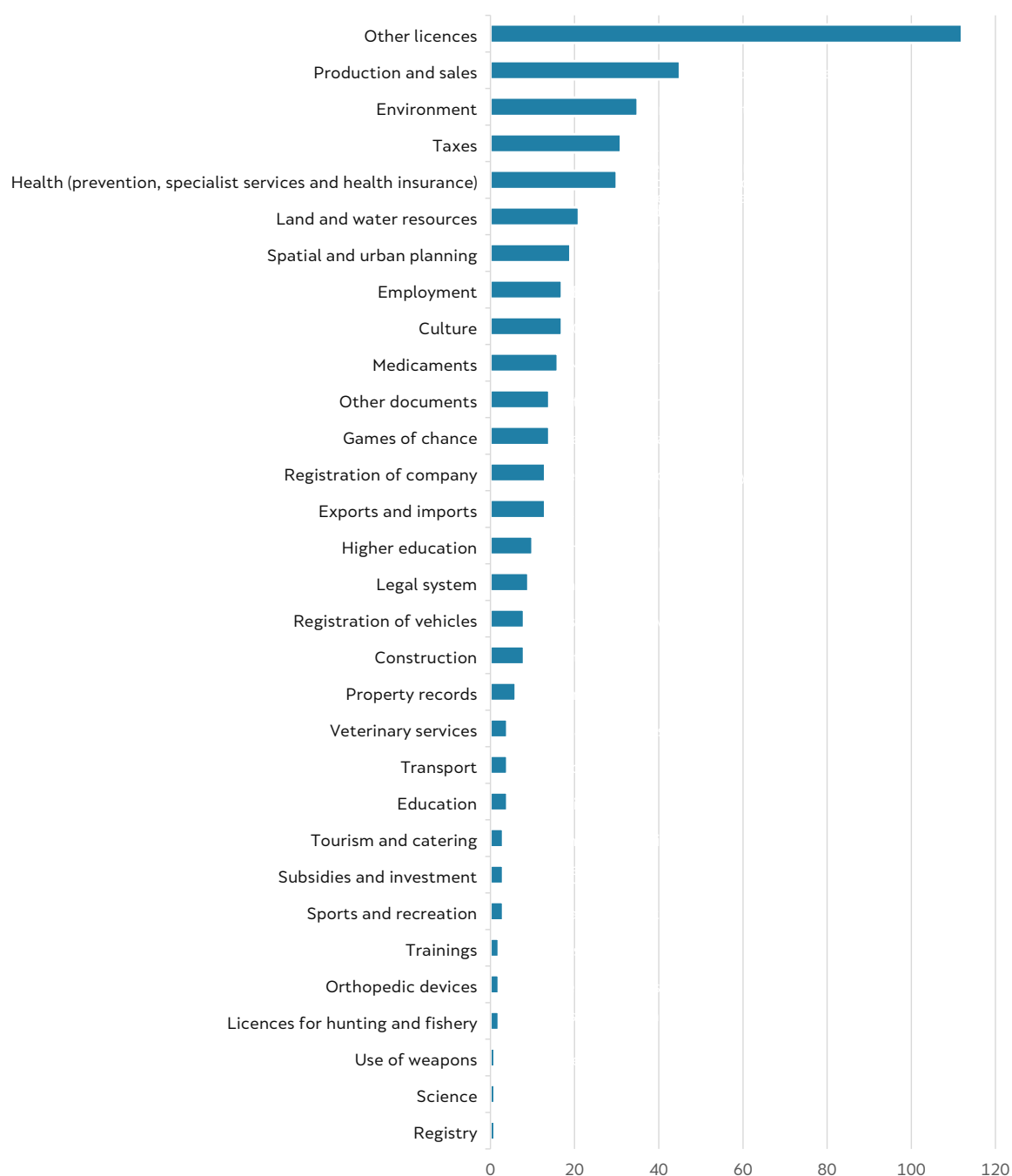
Figure 4. Overview of public services in the registry of the Ministry of Information Society and Administration in 2019 and 2022



Source: Petreski and Petreski (2019) and own calculations.

The number of public services registered by the Ministry of Information Society and Administration (MISA) increased in 2022, both for legal entities only (+39) and for legal entities and physical persons (+66). There is insufficient information to assess whether the increase is due to improved coverage of existing services or new public services being provided (Figure 5).

Figure 5. Areas of public services in 2019



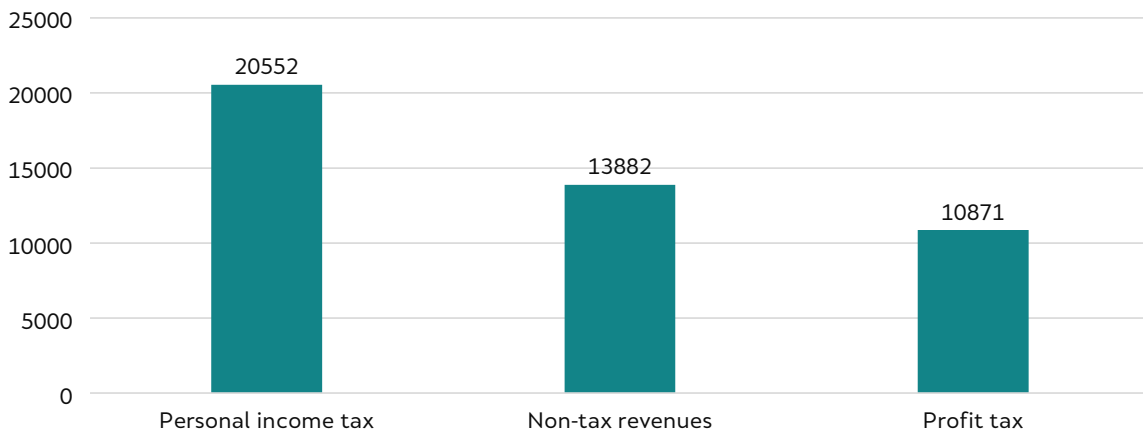
Source: Authors' calculations based on Petreski and Petreski (2019).

The non-tax payments and parafiscal charges are related to provision of public services by various institutions (ministries, agencies, etc.). The study of parafiscal charges is faced with little information not only regarding the data available, but also regarding previous analyses and reports. For this reason, studies have to rely on exploratory analysis of the scope and the parafiscal burden for the micro, small and medium-sized enterprises (MSMEs).

4.3.2. The Big Picture

Non-tax revenue is more important than the profit tax. Non-tax revenues and parafiscal charges generate substantial revenues for the central budget and other bodies with public authorization. In 2021, the revenue from profit tax (corporate income tax) was MKD 10.9 billion (~ EUR 176.8 million), whereas total non-tax revenues were MKD 13.9 billion (~EUR 225.7 million). This simple comparison illustrates the importance of the parafiscalities in the current system of public finance (Figure 6).

Figure 6. Revenues generated by the personal income tax, non-tax revenues and profit tax in 2021 (in million MKD)



Source: Ministry of Finance (November 2022).

Even if profits from all public non-financial corporations are excluded, the fiscal effect of non-tax revenues would still be high and at EUR 225 million.

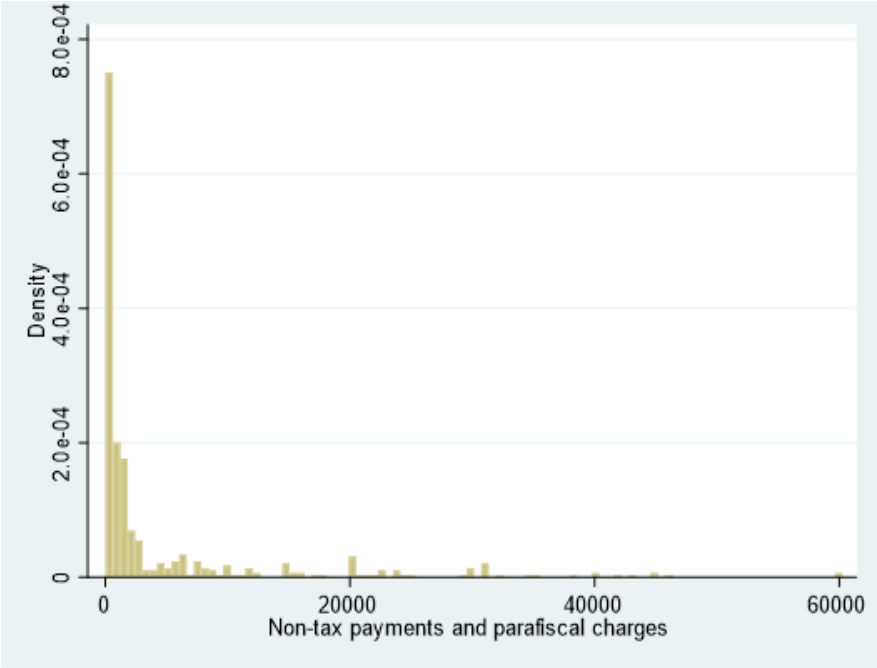
A database encompassing the catalogue of public services held by the Ministry of Information Society and Administration and several tariff lists of bodies with public authorization (Agency for Cadaster and Central Registry) reveals that 95% of the non-tax payments and parafiscal charges are between MKD 50 and MKD 61,700 (~ EUR 0.8 and EUR 1,000). Out of them, 50% are between MKD 50 and MKD 1,000 (~EUR 0.8 and EUR 16).

Table 2. Distribution of non-tax payments (fees) and parafiscal charges in 2022

	Percentiles	Smallest		
1%	50	25		
5%	50	25		
10%	126	40		
25%	300	50		
50%	1000			
		Largest		
75%	6000	3229400		
90%	24850	5201920		
95%	61700	1.85E+07		
99%	2422212	1.11E+09		
			Obs	506
			Sum of Wgt.	506
			Mean	2267504
			Std. dev.	4.94E+07
			Variance	2.44E+15
			Skewness	22.4171
			Kurtosis	503.6823

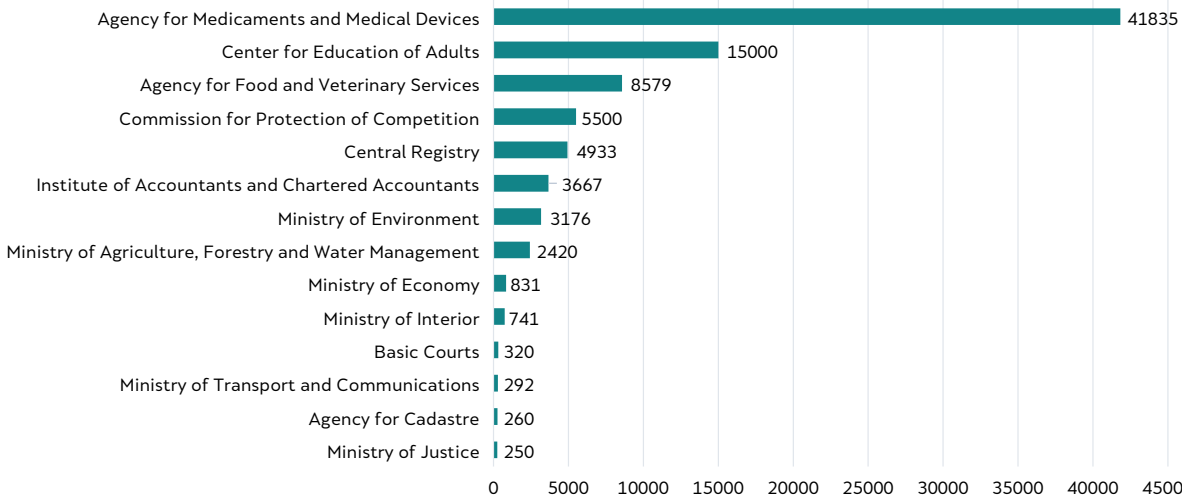
The seemingly small amounts create a large cumulative financial burden, particularly for MSMEs, as some of the services are frequently used. The concentration of these charges across amounts is illustrated in Figure 7.

Figure 7. Distribution of non-tax payments and parafiscal charges by amounts in 2022



In terms of the average amounts of the non-tax payments and parafiscal charges, the highest values are observed for the Ministry of Finance (due to the licenses for the gambling sector and the organizers of games of chance), the Ministry of Health, The Agency for Civil Air Traffic, the Agency for Medicaments and Medical Devices (Figure 8).

Figure 8. Average amounts of non-tax payments and parafiscal charges by institutions (2022)



Note: Only for presentational convenience, we exclude the average amount of the non-tax payments and parafiscal charges by the Agency for Civil Air Traffic (MKD 200,045), the Ministry of Health (MKD 224,375) and the Ministry of Finance (MKD 591,476). Source: Catalogue of Public Services (MISA) and tariff lists of bodies with public authorization (November 2022).

4.3.3. What Does Disaggregated Official Data Tell?

The most detailed disaggregated analysis of non-tax revenues at the six-digit (sub-item) level of the revenue classification uncovers the major non-tax categories with the strongest revenue-generating effect in 2021.

Table 3. Major categories of non-tax revenues in 2021

Type of non-tax revenue by sub-items	In MKD	In EUR	Share in total
Other non-tax revenue	2,412,819,979	39,232,845	18.0
Special fees for organizing games of chance and gambling	1,929,249,253	31,369,907	14.4
Administrative fees	500,439,945	8,137,235	3.7
Revenue from sale of goods and services	409,102,283	6,652,070	3.1
Other government services	403,073,499	6,554,041	3.0
Other educational fees	366,787,199	5,964,019	2.7
Court fees for legal entities	361,867,710	5,884,028	2.7
One-time fees for obtaining permits for use of radiofrequencies via a public bid	309,036,352	5,024,981	2.3
Other supporting activities in education	307,340,575	4,997,408	2.3
Revenue from health protection of animals	239,265,650	3,890,498	1.8
Fee for registering changes in the cadaster of real estate	168,442,561	2,738,903	1.3
Special fee for financing sports	166,062,840	2,700,209	1.2
Special fee for financing health protection	163,777,488	2,663,049	1.2
Other revenue from health services	155,319,153	2,525,515	1.2
Forfeits in criminal law cases and administrative misdemeanor	139,787,815	2,272,973	1.0
Revenue from cadaster services	112,570,902	1,830,421	0.8
Revenues from certificates of medicaments	106,328,163	1,728,913	0.8
Sub-total	8,251,271,367	134,167,014	61.7
Total for non-tax revenue	13,381,626,551	217,587,424	100.0

Source: Ministry of Finance (November 2022).

Most non-tax revenues and parafiscal charges are hidden in sub-items whose title starts with “other” or “special”. For example, other unspecified non-tax revenues generated EUR 39.2 million for the central budget, equivalent to a share of 18% in the total amount of non-tax revenues (Table 2). *Special fees for organizing games of chance and gambling* generated EUR 31.4 million, numerous *administrative fees* additional EUR 8.1 million, *revenue from sale of goods and services* EUR 6.7 million and *other government services* EUR 6.7 million.

The case-by-case analysis also reveals some interesting findings:

- **violation of the fee-for-service principle**

- o The violation of the fee-for-service principle often leads to inconsistent pricing and unexplained differences in the fees levied by different institutions:

- o *Disproportionately high fees:* Some fees are prohibitively high so that they are an entry barrier for micro, small and medium enterprises (MSMEs). They have both a strong fiscal effect for the central budget and a business deterring effect for smaller businesses. Examples include:

- o Licenses for organizing games of chance in a casino (MKD 18,450,650 or ~ EUR 300,000)

- o Licenses for organizing sport gambling (MKD 3,229,400 or EUR 52,511)

- o Listing of the annual income statement and balance sheet (MKD 699 or EUR 11.4)

- o The Decision to be registered in the Registry of individual agricultural producers carries two administrative fees in amount of MKD 250 and MKD 50 and a fee of MKD 1,357 levied by the Central Registry of North Macedonia. The decision to be deleted from the Registry also carries two administrative fees in amount of MKD 250 and MKD 50 and a fee of MKD 1,302.

- o A fee for obtaining the bid (tender) documentation in amount of MKD 3,000 (~EUR 49) for a concession for geological research.

- o *Disproportionately low fees:*

- For the sake of truth, some fees do not reflect the cost of public services. Examples include:

- Disproportionally low fees for accreditation of new universities and new study programmes lead to proliferation of new private providers of tertiary education due to the low entry costs. A fee in the amount of MKD 80,000 (~ EUR 1301) for official accreditation of a new private university and MKD 2,452 (~EUR 40) for accreditation of a new private scientific institution.

- License for establishment of a new school for driving motor cars (MKD 6,050 or ~ EUR 100).

- License for imports of used tyres (MKD 1,050 or ~ EUR 17).

- **General-purpose fees without clear connection to a public service**

- o Some non-tax payments and parafiscal charges refer to fees with a general purpose, without clear connection with the public service being offered.

- o Example: It is not known what the purpose of the announced introduction of a new environmental fee would be in amount of 3.5 denars on every liter of fossil fuels. It will be imposed at the moment of adoption of the Proposed Law on changes and amendments of the Environment Law (in parliamentary procedure) from January 1st, 2024, onwards.³ For instance, the revenue from the environmental fee should be directed to a special environmental fund, which should finance environmentally friendly projects.

- o The Central Registry charges 99 denars for publishing an information for a certain entity on its website.

- **Double fees. Some non-tax payments refer to similar services that are charged separately.**

- o Example: [License for provision of consumer loans](#) (Ministry of Economy) in the amount of MKD 2,000 (~EUR 32.5) is double and unnecessary fee for the providers of consumer loans. These providers - such as the captive financial institutions or financial companies (finansiski drustva) – must reapply and obtain a license to operate by the Ministry of Finance as an issuing authority. This fee is a candidate for elimination as soon as possible.

- **Same fees for different services and for different entities.**

- o Some non-tax payments refer to different services and different entities but are levied identically. Examples:

- o The service of issuing a Decision for performing activities in the area of wholesale trade with veterinary and medical devices for a large veterinary wholesale drugstore has the same fee of MKD 20,400 as for a small veterinary pharmacy.

- o Same fees are applied for the permission for production of medicaments (~EUR 1,000) and permission for production of extracts of cannabis. The medical cannabis system in North Macedonia is different from most European countries, as the country has adopted a Canadian-type open model for cannabis-based products, rather than production under a state monopoly. Since the production of a medicament has a greater alignment with the public health interest, it should be levied with a smaller fee than the fee for production of extracts of the cannabis.

³ The proposed changes envisage an environmental fee, i.e. an increase in the duty for imported petroleum products by 3.5 denars for gasoline with a lead content higher than 0.013 g/l and for aviation gasoline, fuel for diesel engines, extra light fuel oil and fuel oil M1, M2 (fuel oil), as well as an increase of 3.1 denars for unleaded motor gasoline with a lead content of maximum 0.013 g/l as a less polluting petroleum derivative compared to the other fossil fuels.

- **Different fees for the same service**

- o The Central Registry charges different fees for the same service. The costs are borne by business entities depending on their late submission of the annual financial statements. A regular submission by the end of February costs MKD 2,600, but if submitted by March 15th, it will cost MKD 5,100 with an increasing trend for longer delays up to MKD 60,001 for a late submission by the end of the year. A delayed submission is a violation of the Art. 476, item 4 of the Company Law. It should be treated as such, regardless of the length of delay. A higher parafiscal charge should not serve to clear the responsibility for the breach.

- o The Agency for Cadaster charges a parafiscal charge for incorporating in its registry (1) a right on collateral for 0.10% of the value of the collateral for loans up to EUR 1 million; (2) a right on a collateral on an infrastructural object in the amount of 0.10% of the value of the collateral and any changes (including amendments to, or removal from the registry) with 0.05% of the value of the collateral. The nature of the service and the effort by the employees is literally the same, regardless of the value of the collateral. This practice of excessive commercialization should be discontinued and discouraged.

- **Non-transparent fees expressed in a point-based system.**

- o A worrisome practice is the expression of fees in a [point-based system](#), as the one introduced by the Agency for Electronic Communications for calculating the annual fees. While the burden is mainly on large enterprises, there are still some potential entrants from the MSMEs that could enter certain segments of the telecommunications market.

4.3.4. Indirect supporting evidence

Another route to approach parafiscalities is via the income statements of the revenue-collecting institutions and bodies with public authorization.

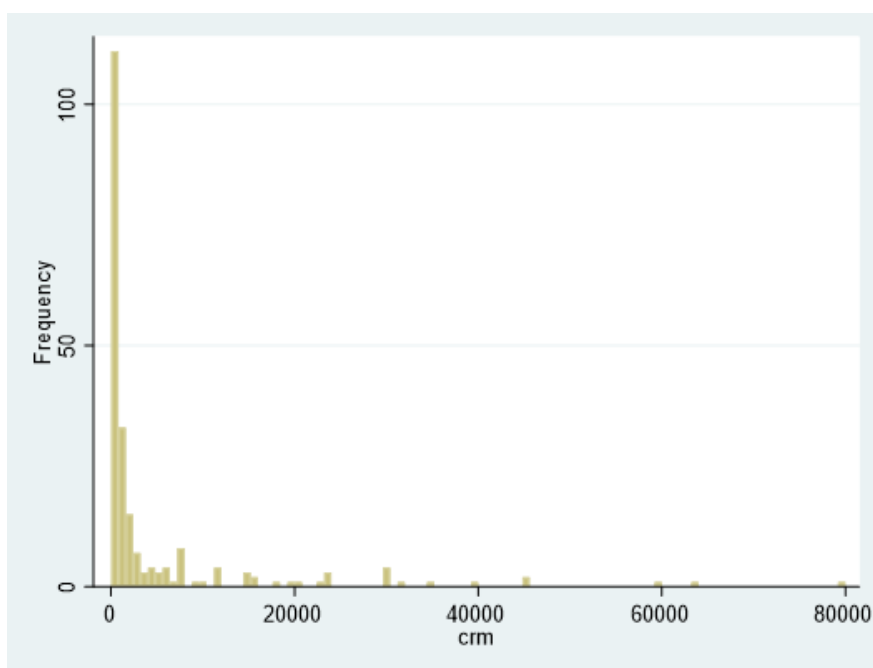
- The **Central Registry of the Republic of North Macedonia** has reported total revenue in amount of MKD 356.9 million (–EUR 5.8 million) and a net after-tax profit of MKD 41.6 million (–EUR 0.67 million) in 2021. The Central Registry is a body with public authorization. It has a catalogue of over 142 basic services, which also have many sub-services or modalities within the broad (generic) service.
- We conducted a descriptive statistical analysis of the total number of 222 services (both broadly defined services and sub-services within a broad category) provided by the Central Registry, as presented in Table 4. When the MKD 4 million service for obtaining the entire dataset is excluded, the average parafiscal charge is MKD 6,700 per service. Most services are overpriced. For instance, 75% of the services are within the interval between MKD 40 and MKD 80,000. Let us recall that the establishment of a new private university carries a parafiscal charge of MKD 80,000 by the Agency for Quality Assurance in Higher Education.

Table 4. Descriptive statistical analysis of the parafiscal charges by the Central Registry

	Percentiles	Smallest		
1%	40	25		
5%	101	25		
10%	126	40		
25%	300	50		
50%	820.5			
		Largest		
75%	4000	80000		
90%	16001	160000		
95%	30001	240,300		
99%	160000	4,000,000		
			Obs	222
			Sum of Wgt.	222
			Mean	24687.93
			Std. dev.	2.69E+05
			Variance	7.23E+10
			Skewness	14.65537
			Kurtosis	217.1147

- Most services carry a parafiscal charge within the interval between MKD 40 and MKD 10,000. We exclude few outlying observations for high-priced fiscal charges (Figure 9).

Figure 9. Frequency of parafiscal charges by amounts



- The Agency for Cadaster is solely financed by own-source revenues from pricing different products (property records certificates, changes of the property ownership history, etc.). In the Proposed 2023 Budget it envisages collection of total revenues in the amount of MKD 434.6 million (~EUR 7.1 million). The Agency announced on November 28th, 2022, that it will increase the cost of its services by 25-30%, due to “the high electricity prices”. This is in contrast with the government’s announcements to streamline and reduce parafiscal charges, especially those indicating overpriced services.
- The Agency for Electronic Communications (AEK) generated revenue in the amount of MKD 601.4 million (~ EUR 9.8 million) with a net after-tax profit of EUR 3.9 million in 2021, notwithstanding the high wage bill.

The revenue-generating capacities of regulatory institutions and bodies with public authorization are well beyond their expenditure needs. The continuous generation of cash surpluses comes at the expense of affected business entities and ultimately, the citizens as their customers.

5. ANALYSIS OF THE PARAFISCAL CHARGES AT LOCAL LEVEL

According to the previously elaborated findings on identifying parafiscal charges in literature and research studies, the criteria for identifying parafiscal charges at local level in the Republic of North Macedonia is determined as follows:

Parafiscal charges represent fees charged by the local government (municipalities) that meet one of the following two conditions:

- 1. The payment of these fees does not transfer any right, or provide any service to the payer, although they are not considered taxes, OR**
- 2. The payment of these fees does transfer a right or provide a service to the payer, but their cost exceeds their value multiple times.**

The identification of parafiscal charges at the level of 18 municipalities with this research can be considered as a successful implementation of a pilot project, which could further be applied in all municipalities in the Republic of North Macedonia. Producing the expected results at a wider local level will help in further identifying (mapping), optimizing, consolidating, and rationalizing the parafiscal charges at the national level in the Republic of North Macedonia.

5.1. IDENTIFIED AND CLASSIFIED PARAFISCAL CHARGES AT THE LOCAL LEVEL

Based on the established criteria, 26 different parafiscal charges have been identified at the local level (table 5), in total 199 for all 18 municipalities in the Republic of North Macedonia, and on average 11 parafiscal charges by municipality.* The main groups of these 26 different parafiscal charges include:

- communal fees (fee for company name display, fee for advertisement in public space, fee for use of public space, fee for use of streets, tourist fee, etc.)
- administrative fees (for issuing documents and for actions of municipal authorities),
- fees for licenses/permits/approvals (license for catering activity, eco-permit, construction permit- compensation for arrangement of construction land),
- educational fees (for certificate, diploma, enrollment, taking exams).

*In 18 municipalities, 408 charges with characteristics of para-fiscal charges were identified, but only 199 were classified as para-fiscal charges based on the defined criteria.

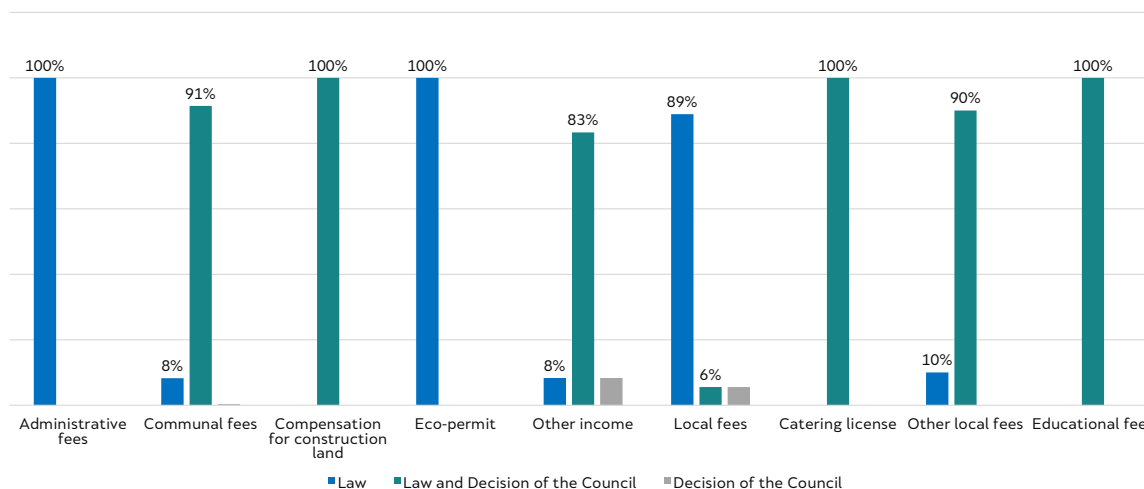
Table 5. Identified parafiscal charges at the local level

Communal fee for displaying a company name, that is, the name of a business premises	Degree and Certificate Fees
Communal fee for the use of streets with passenger and cargo motor vehicles, buses, special vehicles and motorcycles, which is paid when registering the vehicles	Enrollment fees
Compensation for arrangement of construction land (construction permit)	Communal fee for setting up showcases for displaying goods outside the business premises
Administrative fees that are paid for the files and actions with the municipal authorities	Other non-tax income
2% of the collected premiums for motor vehicle insurance (casco) and motor vehicle liability insurance	Examination fee
Communal fee for the use of the space in front of business premises for the performance of an activity	Administrative fees in cash
Communal fee for temporary residence (tourist fee)	Other communal fees
Communal fee for the use of city squares and other space in cities and other settlements, for the purpose of exhibiting objects, organizing exhibitions and entertainment events for the performance of an activity	Other local fees
Communal fees for displaying advertisements, notices and announcements in public places	Other education fees
Compensation paid by the operators of the installations with B-integrated environmental permit of the municipality, i.e. the city of Skopje	Compensation from owners of motor and harness vehicles
Fee for obtaining a license for catering activity in a night bar, cabaret, disco club and open-air disco club	Fees for construction, reconstruction, maintenance and protection of municipal roads
Communal fee for the use of the parking space for motor vehicles	Revenues from tenders
Communal fee for the use of music in public places	Laboratory fees

Source: Survey on Parafiscal Charges completed by the municipalities, 2021

The largest number of parafiscal charges (83%), which include communal fees, educational fees, and the compensation for arrangement of construction land, are prescribed by law and a decision of the council of the municipality, adopted on the basis of the law (Figure 10). Only 1% of the parafiscal charges is prescribed by an internal act - a decision of the council of the municipality, while 16% is prescribed only on the basis of law, for example, the administrative fees, the tourist fee and the eco-permit (a compensation paid by the operators of the installations with B - integrated environmental permit of the municipality, i.e., the City of Skopje).

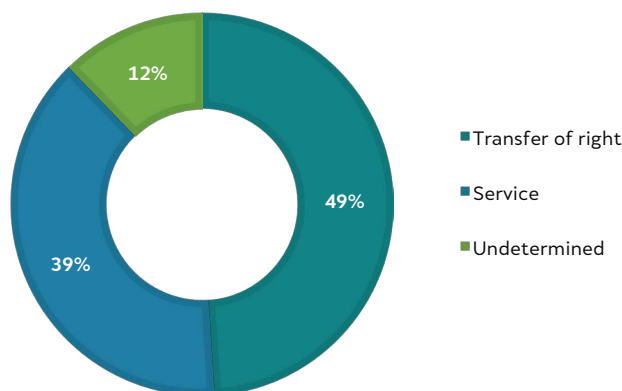
Figure 10. Regulation upon which the parafiscal charge is determined



Source: Survey on Parafiscal Charges completed by the municipalities, 2021

With the payment of 49% of the total amount of parafiscal charges, the payers (natural and legal persons) acquire a certain right granted by the municipality, usually related to the use of public space (communal fees) or the right to work (license for catering activity at night club, cabaret and disco club and construction permit) (Figure 11). Municipalities provide a service to the payers in the case of 39% of collected parafiscal charges (administrative fees and educational fees), for issuing various documents and certificates/diplomas. However, for 12% of collected parafiscal charges, the municipalities provide neither right nor service to the payers, as is the case with the fee in the amount of 2% of the premiums for motor vehicle insurance (casco) and motor vehicle liability insurance or with the eco-permit.

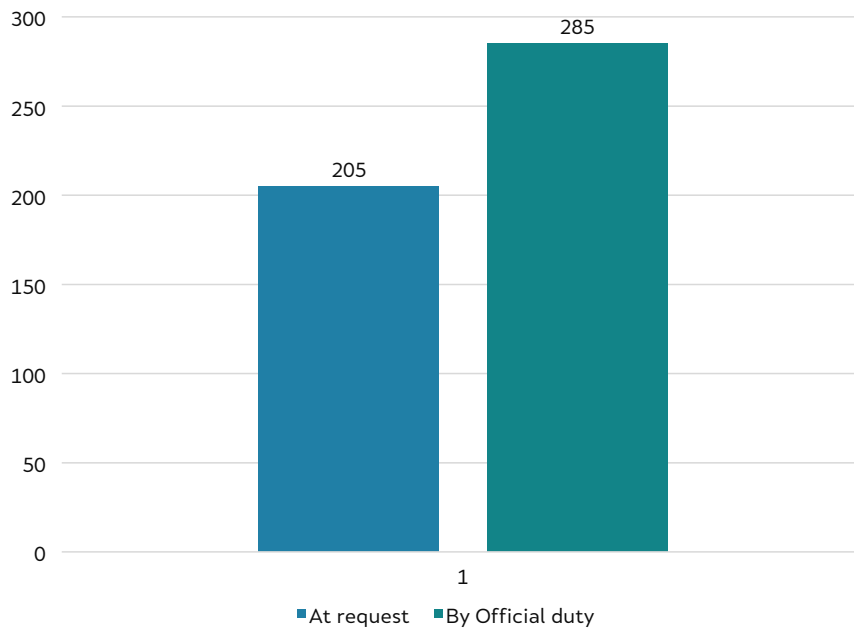
Figure 11. Transfer of right or services provided



Source: Survey on Parafiscal Charges completed by the municipalities, 2021

The payment of parafiscal charges can be initiated at the request of the payers (natural and legal entities), for example, for the administrative fees for providing a certain document or for the fee for acquiring an eco-permit or a license for a night club, cabaret and disco club. But in comparison, for almost 30%, the initiation of parafiscal charges by official duty dominates, for example, with the tourist fee, the fee for company name display, the communal fee for the use of streets, etc. (Figure 12).

Figure 12. Method of initiating a parafiscal charge (submission)



Source: Survey on Parafiscal Charges completed by the municipalities, 2021

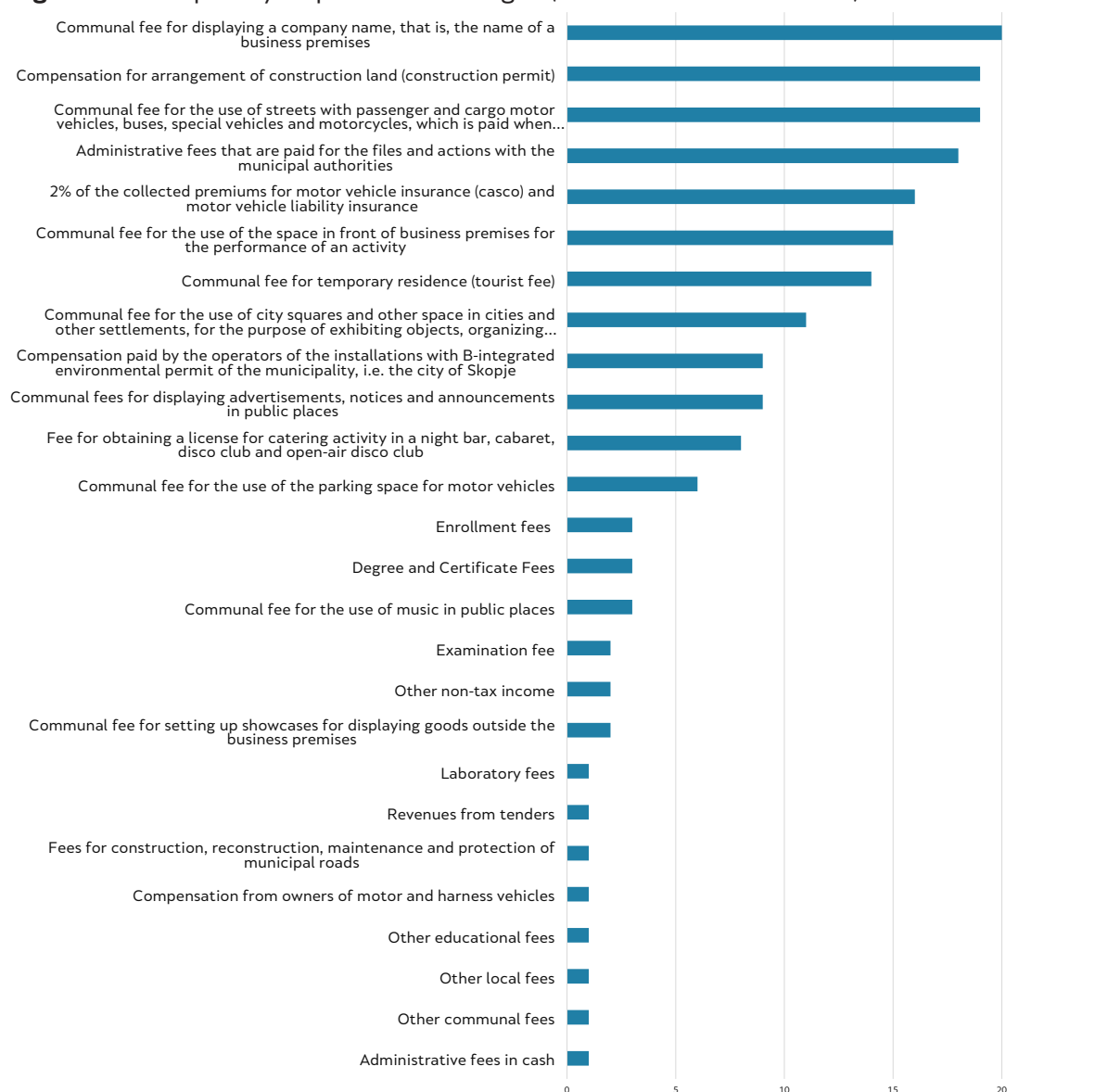


5.2. DIFFERENCES IN PARAFISCAL CHARGES

There are identified 26 different parafiscal charges at the local level, in total 199 for all 18 municipalities, and on average 11 parafiscal charges by municipality. The number of the parafiscal charges at the local level is not significant for companies, as they are burdened more by the frequency of their payment.* Thus, for example, in one and the same administrative procedure, a business entity is forced to repeatedly pay administrative fees for providing various documents from the municipality. Also, during the year, the business entity has to pay the same communal fee several times, which is charged according to the duration of the use of the right/service (for example, for displaying advertisements in public places or for using city squares).

In terms of the representation of certain parafiscal charges, which the payers (natural and legal persons) pay to a greater extent, the following charges stand out the most: communal fee for displaying a company name/name of a business premises, so-called „firmarina“, the compensation for the arrangement of construction land, the fee for the use of streets and the administrative fees (Figure 13). To a lesser extent, educational fees (for certificates, diplomas, enrollments, taking exams) and some other local/communal fees are paid.

Figure 13. Frequency of parafiscal charges (number and size of PFC)



Source: Survey on Parafiscal Charges completed by the municipalities, 2021

*In 18 municipalities, 408 charges with characteristics of para-fiscal charges were identified, but only 199 were classified as para-fiscal charges based on the defined criteria.

The main remark of the payers (legal entities and natural persons, who carry out a registered activity/sole proprietor) in relation to the **fee for company name display** is that the municipality does not provide a counter-service for its collection on an annual level, and in addition, charges this fee from the same payer for each newly established subsidiary (store, etc.). Furthermore, the payers require that the fee for the company name display be determined according to the size and turnover of the entity to achieve greater fairness.

The established problem with the **compensation for arrangement of construction land** is its high price, which is often not appropriate to the attractiveness of the construction site and the infrastructural status of that location. In addition, the municipality's methodology for determining the price of this compensation is not transparent at all for the payers (natural and legal persons, who build).

Furthermore, the payers highlight as a burden the duties of a combined national and local character, for the payment of which they do not receive any direct benefit in return. For example, the **fee for a license to perform a catering activity** in a night bar, cabaret, disco club and disco club in an open space, is prescribed in the legal price range with the Law on the Catering Activity (from 2,500 to 5,000 euros for a cabaret, from 5,000 to 7,000 euros for a night bar, from 7,000 to 10,000 euros for a disco club and disco club in an open space), but the specific price of the license in this price range is determined by a decision of the council of the municipality, i.e. the council of the city of Skopje. The procedure for issuing the license is led by the Ministry of Economy, within which the payer pays half of the license to the account of the municipality (the city of Skopje) as its income, on whose territory catering activities would take place, and pays the other half of the license to the state budget.

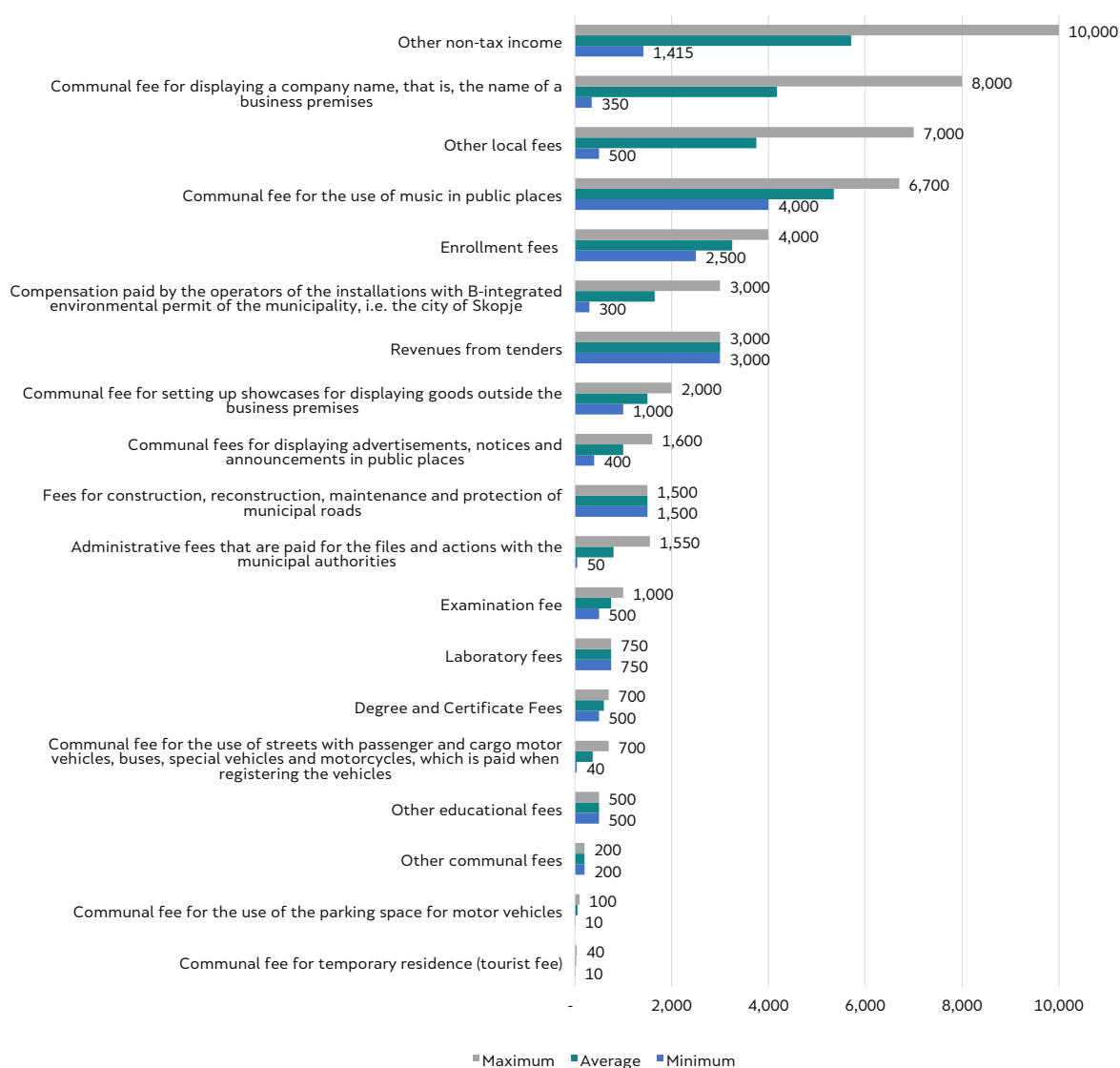


5.3. PRICE COMPARISON

The methodology for forming the price of local parafiscal charges is not always transparent and clearly specified for the payers. In most cases, the council of the municipality determines the price of a certain fee or compensation by decision, but within the prescribed legal range of prices.

Thus, for example, the price of communal fees, as the most common local parafiscal charges (fee for company name display, fee for advertising in public space, fee for using streets, etc.) is prescribed in a legal price range (from/to) with the Tariff, which is an integral part of the Law on Communal Fees, and the council of the municipality by decision specifically determines the price of the fees within this legal range, valid for the payers of that municipality. Given this manner of determining the prices of charges, Figure 14 shows the range of prices per parafiscal charge, that is, their minimum, maximum and average prices.

Figure 14. Price per parafiscal charge - minimum, maximum and average



Source: Survey on Parafiscal Charges completed by the municipalities, 2021; **Note:** The license fee for a night club, cabaret and disco club is excluded from the calculation as an extreme value, as well as the fee for arranging construction land due to the complex way of determining its price and the fee from motor vehicle insurance premiums (casco), which is determined as a percentage of insurance premiums collected.

According to the total price range of parafiscal charges, the analysis determined three groups of parafiscal charges: lowest charges, medium-high charges, and highest charges, as follows.

The group of **lowest parafiscal charges**, whose price ranges from 10 to 1,000 MK denars, includes (from the lowest to the highest fee):

- Tourist fee (communal tax for temporary residence);
- The communal fee for parking;
- Educational fees (exam fees, diploma and certificate fees and others);
- The communal fee for using streets;
- Laboratory fees.

The group of **medium-high parafiscal charges**, whose price ranges from 1,500 to 4,000 MK denars, includes (from the lower to the higher fee):

- Administrative fees;
- Fees for construction and maintenance of public roads;
- The communal fee for advertisements;
- The communal fee for exhibiting goods;
- Revenues from tenders;
- B-integrated environmental permit;
- The educational enrollment fee.

The group of **highest parafiscal charges**, whose price ranges from 4,000 to 10,000 MK denars, includes (from the lowest to the highest fee):

- The communal fee for the use of music in public places;
- Fee for company name display;
- Other non-tax revenues and other local fees (fees for using municipal public roads; for setting up installations, facilities and equipment in the road, protective belt and trunk of municipal roads and streets).

The fee for a license to perform catering activity in a night bar, cabaret, disco club, and open space disco club is not shown in the chart, as an extreme value (the price ranges from 2,500 to 10,000 euros).

The compensation for arrangement of construction land, which is also not shown in the chart due to the complex methodology of its determination, is prescribed by the *Law on Construction Land (related to the Law on Construction)*. Its amount depends on the level of arrangement of the construction land with

communal infrastructure facilities (in various construction zones), which is determined by the municipalities in their Programs. Municipalities determine the price of this compensation depending on the construction zone and the type of building according to square footage, length or unit, by multiplying determined coefficients by m² of the total new usable surface to be built, which is determined as the sum of the net surfaces of the floors in all spaces in the building.

In the chart, the price of compensation from the premiums for motor vehicle insurance (casco) and liability insurance for the use of motor vehicles, which is prescribed by the *Insurance Supervision Law*, is also omitted, as it is determined as a percentage, so that 2% of these insurance premiums collected by insurance companies represent income of the municipality.

5.4. COSTS FOR THE SERVICES PROVIDED

The costs, which the municipalities have for the purpose of providing services, for which they charge parafiscal charges, are not high and are reduced to administrative costs for the preparation of documents (decisions) and costs for their delivery (postage).

The exception to this is the municipality's expenses related to the arrangement of the construction land. By collecting this fee, the municipality provides the payers with unimpeded access to the building site from a public road, installation of water supply, sewerage (fecal and atmospheric) and other installation with connections to the construction site and installation of signaling, so that the costs of the municipality related to this obligation are significant and depend on the arrangement level of land. The amount of costs for the arrangement of construction land according to the type of construction facilities is prescribed in a by-law adopted by the Minister of Transport and Communications on the basis of the Law on Construction Land [*By-Law on the level of arrangement of construction land with communal infrastructure facilities and the method of determination of the amount of costs for the arrangement depending on the level of arrangement* ("Official Gazette of the Republic of Macedonia", number 193/2016)].

5.5. ALLOCATION OF FUNDS

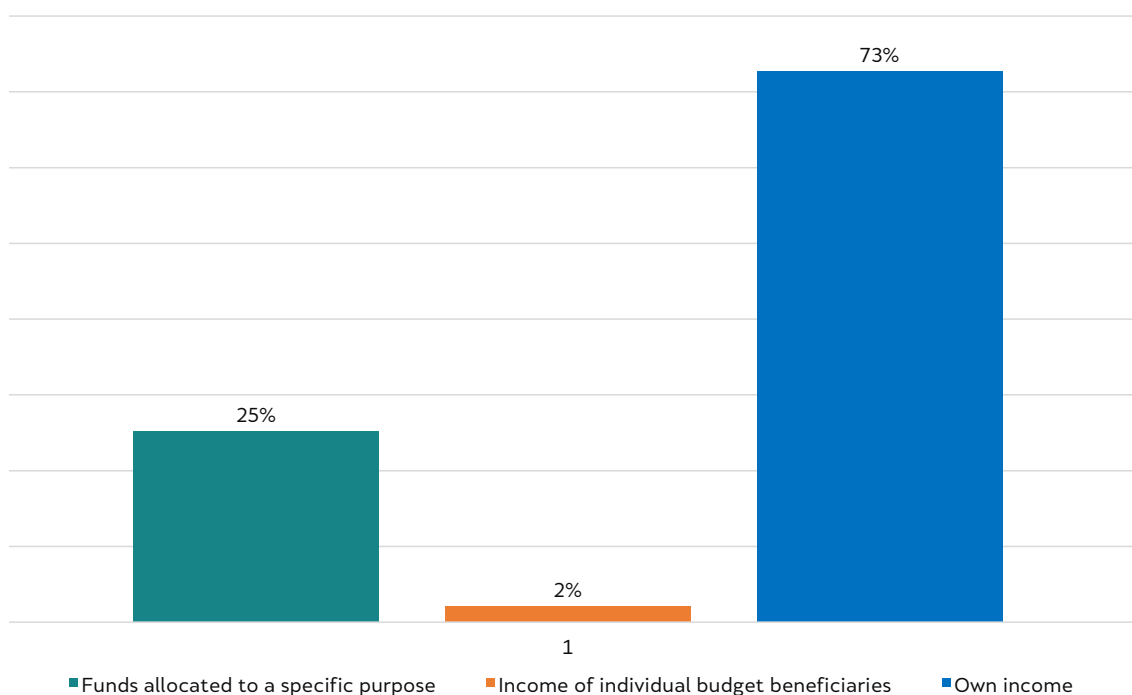
The municipalities' own income represents 73% of the collected parafiscal charges, which the municipality spends for its own needs without a predetermined purpose (Figure 15). These include communal fees (fee for company name display, advertisement display fee, public space use fee, etc.), administrative fees (for issuing various documents), 2% of collected vehicle and auto liability insurance premiums, license for a night club, cabaret and disco club, etc.

On the other hand, only 25% of the collected funds have a specific purpose of spending, such as, for example, the funds collected from the tourist fee, which are intended for general tourist propaganda and information activities and for improving the conditions for the stay of tourists, where they are used according to specially adopted programs by the Government and the council of the munic-

ipality. Furthermore, the allocated funds are also the funds from the compensation charged for the arrangement of construction land, which are used only for the realization of the Program for the arrangement of construction land of the municipality: for the construction of communal infrastructure facilities, for the purpose of unhindered access of the paying builders to the construction site from a public road, for installation of water supply, sewerage (fecal and atmospheric) and other installation with connections to the construction site and for installation of signaling.

A small amount of 2% of the collected parafiscal charges, represents the income of the individual beneficiaries of the funds from the municipal budget, for example, the educational fees for issuing certificates, diplomas, for enrollments and passing exams as income of schools or laboratory fees.

Figure 15. Allocation of funds



Source: Survey on Parafiscal Charges completed by the municipalities, 2021

6. PERCEPTION OF THE PARAFISCAL CHARGES FROM THE BUSINESS SECTOR

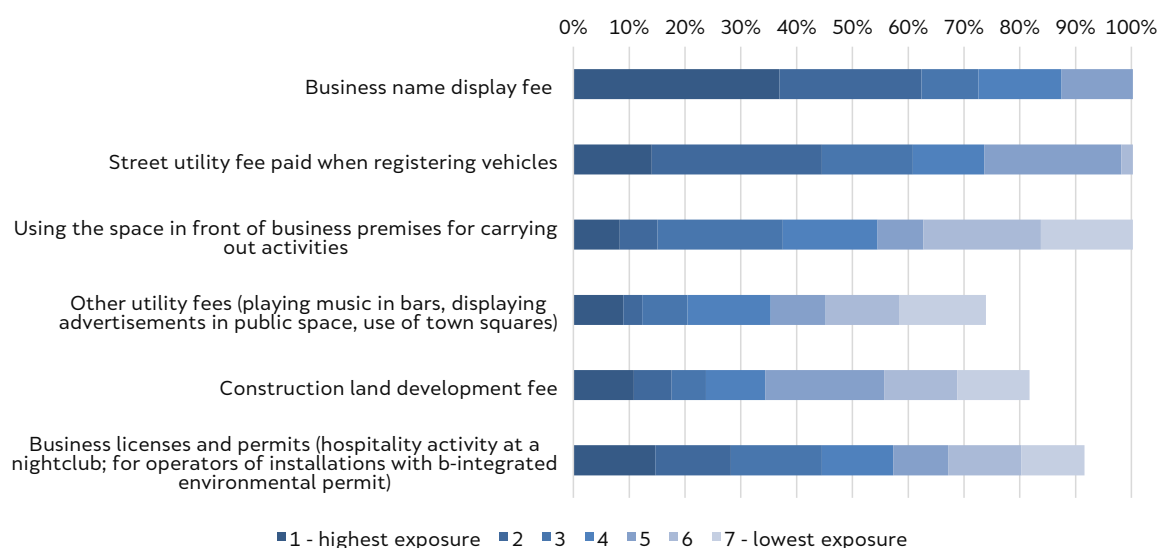
This section analyses the perception of the parafiscal charges from the business sector, in terms of: Companies' exposure to PFC and by size; Cost price and method of calculation of PFC; Different aspects of the PFC burden; Companies' parafiscal burden towards the central and local government; and PFC optimization.

The survey was conducted with companies residing in North Macedonia, through a computer-assisted and telephone-assisted interview between October 1st and December, 2021. We structured the survey to target different exposures from parafiscal charges, in terms of: type, location and different aspects of the PFC burden. The survey targets the small and medium sized companies in North Macedonia. The questionnaire was fully answered by 150 respondents.

6.1 OVERVIEW OF PARAFISCAL CHARGES ACCORDING TO THE COMPANIES' EXPOSURE BY SECTOR AND BY SIZE

Chart 12 gives an overview of the companies' perception about the exposure to local PFC, ranking it from 1 - highest exposure to 7 - lowest exposure. Over half (54 percent) of the companies ranked the business name display fee with 1 and with 2, i.e., with the highest exposure to PFC. Relatively high burden is also placed by the parafiscal charges for street utility fee which is paid when registering vehicles (42 percent) and for certain business licenses and permits (hospitality activity at a nightclub; for operators of installations with b-integrated environmental permit). While exposure to other charges is predominantly moderate.

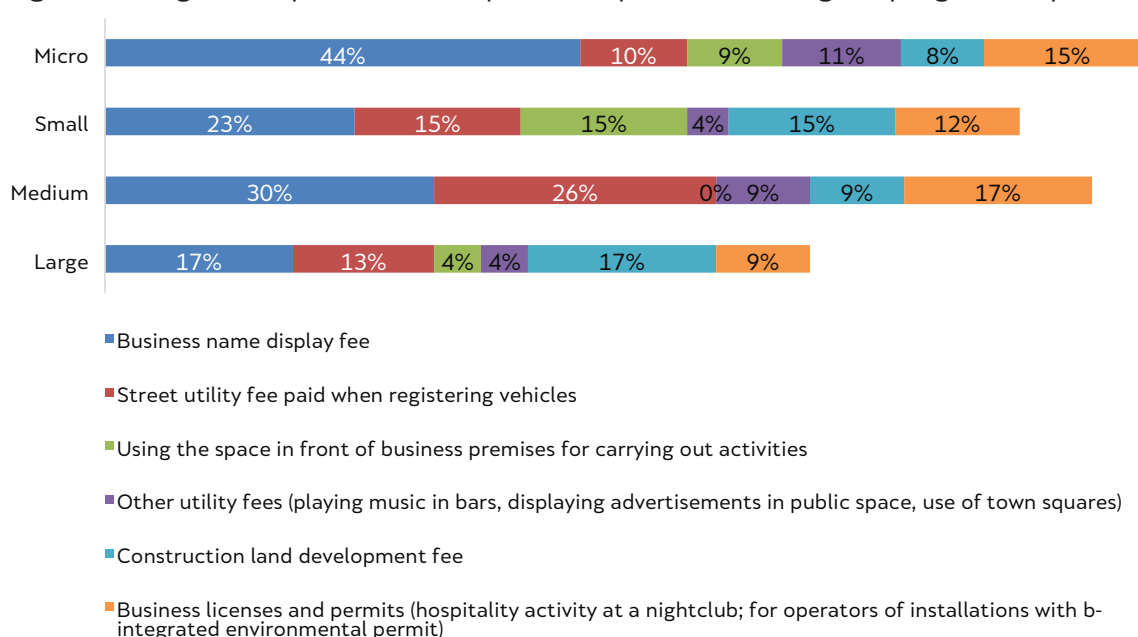
Figure 16: Companies' exposure to parafiscal charges towards the local government, in total



Source: Survey on parafiscal charges, December 2021

However, there are differences in the perception of exposure to a different type of PFC depending on the company's size⁴ (Chart 16). What is characteristic is that the perception of burden differs for different types of charges, depending on the company's size, although with certain charges, the perception may also reflect the representation of the activity. However, with some of the charges there is a certain gradation of the perception of exposure vis-à-vis the company size. Thus, for the business name display fee, the perception of exposure is the highest in micro companies, and lowest in large companies. This may be due to the obligation and method in which the cost of the business name display fee is expressed. This charge is an obligation for all legal entities, and the amount is linear regardless of the revenue size; hence, as cost, micro companies have a greater burden. A similar gradation exists in the street utility fee which is paid when registering vehicles, where the perception of burden increases with the company size, but up to the medium-sized companies, and then decreases in large companies. Most likely, this perception is a reflection of the increase in charges as a result of the increase in the number of vehicles as the size of the company grows, or a potential higher representation of the transport activity among small and medium companies, compared to micro and large companies. Conversely, the construction land development fee is felt most strongly by large companies, and least by micro-companies. But there are also certain categories of parafiscal charges which are higher for a certain type of company size, such as using the space in front of business premises for carrying out activities, where the perception of burden is several times greater for small companies compared to other size companies and is most likely due to activities that are mostly done by small companies. Similar to the parafiscal charges for business licenses and permits (hospitality activity at a nightclub; for operators of installations with b-integrated environmental permit), where the perception of the greatest burden is more prevalent among the medium-sized companies.

Figure 17: Highest exposure of companies to parafiscal charges by legal entity's size

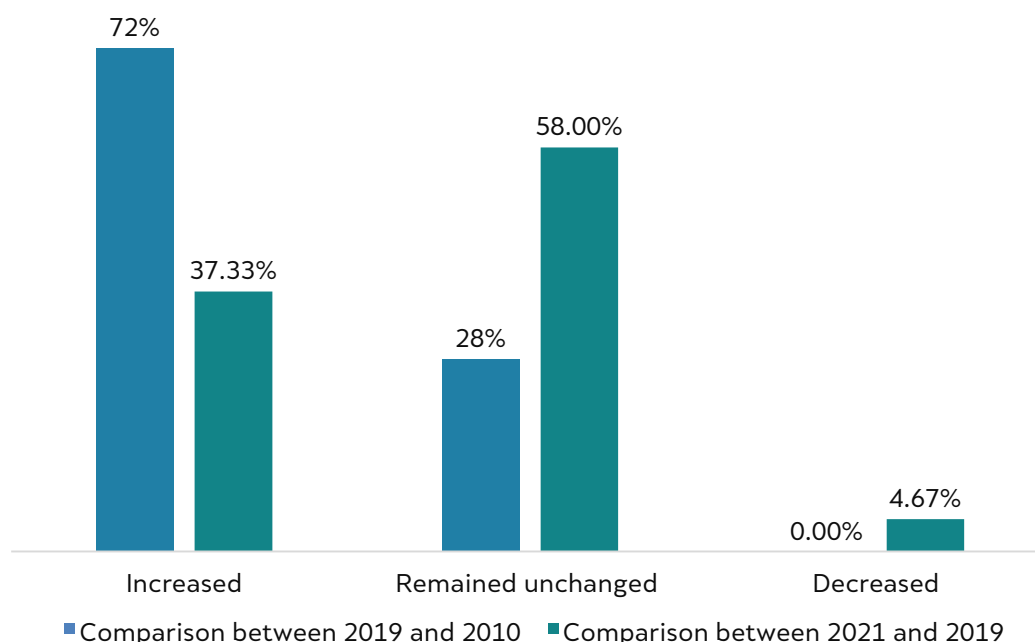


Source: Survey on parafiscal charges, December 2021

⁴ The classification of the size of the legal entity is made in accordance with the Law on Trade Companies.

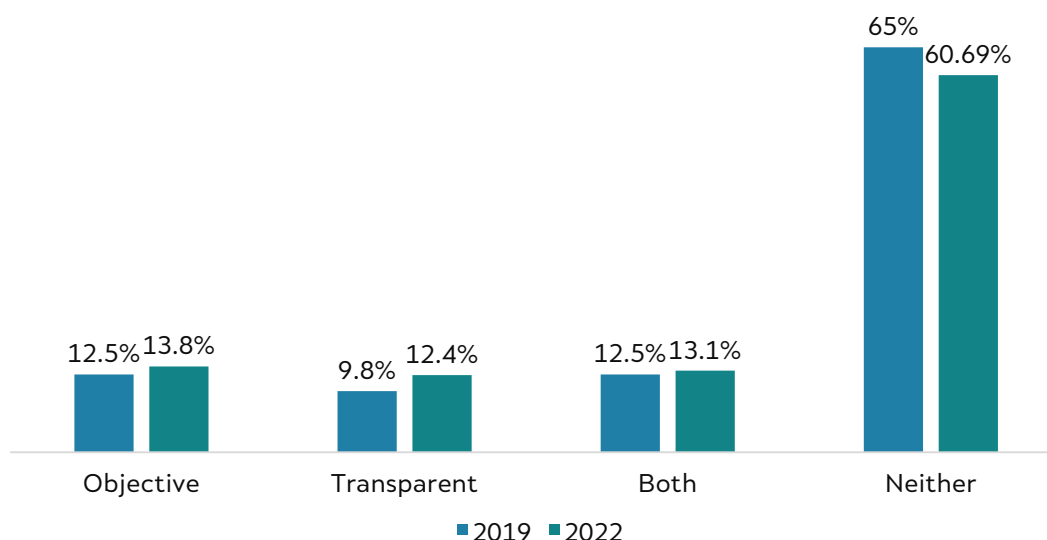
Besides the current PFC burden of companies, the trend of being burdened with them is also significant. Fifty-eight percent of the companies believe that the PFC remained the same compared to 2019, and 37 percent believe that PFC increased (Chart 17). Compared to the perception of companies in 2019 vis-à-vis 2010, when predominantly (72 percent) companies believed that the PFC increased and, at the same time, no company believed that they decreased, these results indicate that the increasing trend stagnates. It reflects the actual situation, where the awareness of the burden of companies with parafiscal charges among institutions has increased, and the introduction of new charges is done more cautiously, but the optimization process has still not commenced to such an extent where the companies would feel that the burden has been reduced. This trend can also be observed from the companies' perception of the way in which the cost of PFC is formed (Chart 18). Furthermore, the predominant share of companies (60 percent) believe that the method of price formation is neither transparent nor objective. But, compared to 2019, there is a slight positive trend towards reducing this percentage for the benefit of the perception of a transparent and objective price formation. This result may be due to several factors, inter alia: i) the commitment to improving the state of PFC (optimization and application of an adequate price formation methodology), expressed through their prioritization in the Programme for Economic Reforms; ii) increasing the activities for greater access to information on PFC, and iii) the public discussion on PFC by all stakeholders (companies, institutions, think tanks and experts) and their greater treatment in the media.

Figure 18: Comparison of parafiscal charges in 2021 vis-à-vis 2019 and 2010



Source: Survey on parafiscal charges, 2019 and December 2021

Figure 19: Perception of the method in which the price is formed in 2019 and 2021



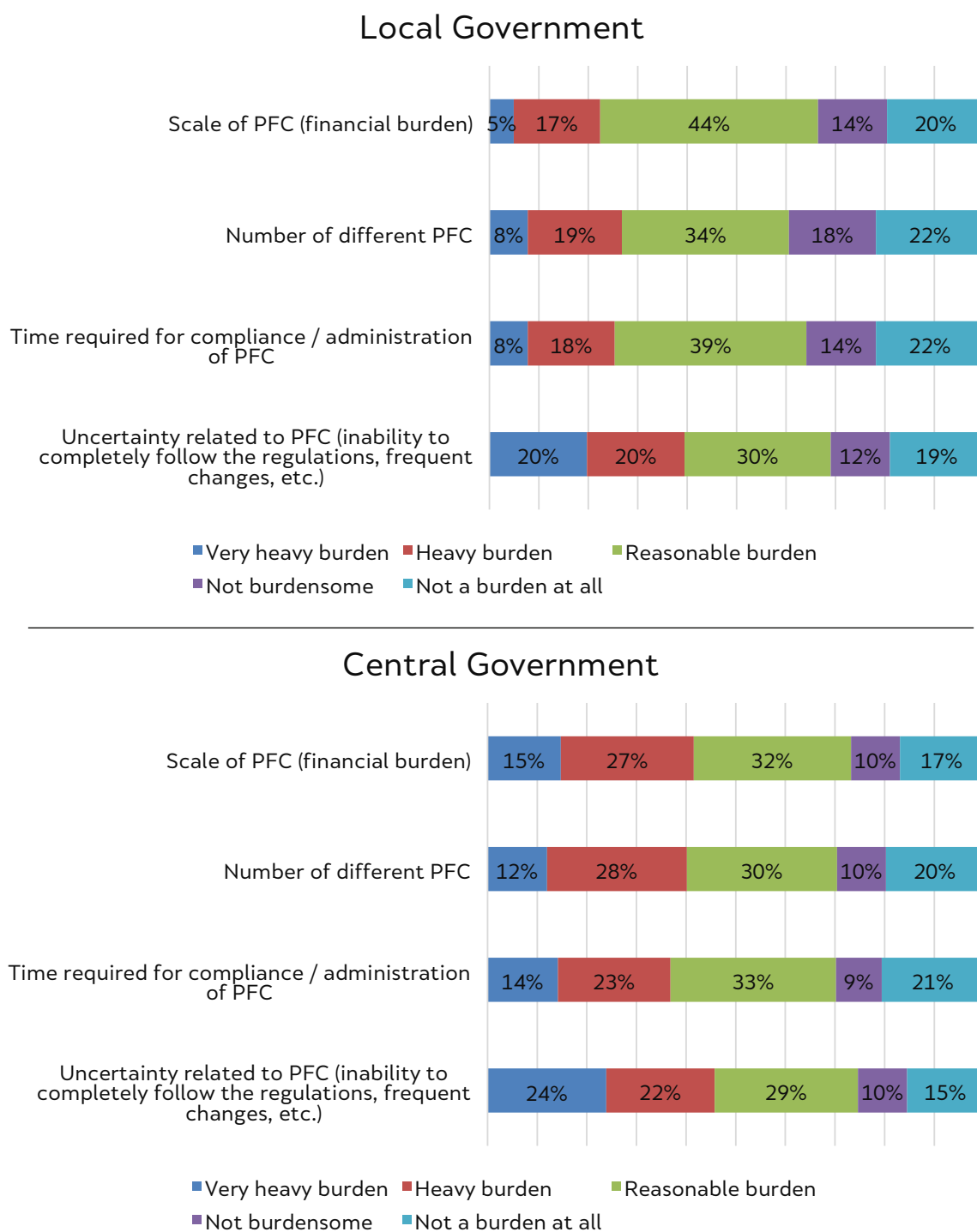
Source: Survey on parafiscal charges, 2019 and December 2021

6.2 DIFFERENT ASPECTS OF THE PARAFISCAL BURDEN

Besides the financial burden, PFC cause a need for additional use of resources for administering, keeping track of the changes and for correction of potential errors when applying and using the service. Therefore, the burden of companies can be analysed from different aspects. Chart 19 represents the perception of companies for the different aspects of the burden caused by the PFC. The results show that there are differences in the perception of burden with local and central parafiscal charges. From every aspect, companies believe that the parafiscal burden towards the central government is much higher compared to the burden towards the local government.

Regarding the various aspects of burden, in parafiscal charges towards the local government, the financial burden is relatively smaller compared to the uncertainty, time required for compliance and multitude of PFC. In comparison to the parafiscal charges towards the central government, where the financial burden is the second most significant burden after the uncertainty related to PFC (inability to completely follow the regulations, frequent changes etc.). Consequently, the resources spent for managing the liabilities arising from PFC, apart from financial resources, also include human resources. Thus, the time for submission and for communication with the officers and for preparation of the documents, are at least equal, and, in the case of resources for PFC towards the local government, even larger than the financial resources spent (Survey on parafiscal charges, 2021). With regard to PFC towards the central government, the financial resources are the most significant resources spent.

Figure 20: Different aspects of the parafiscal burden



Source: Survey on parafiscal charges, December 2021.

6.3 A FORM OF PFC OPTIMIZATION WOULD BOOST THE COMPETITIVENESS OF YOUR COMPANY, PERCEPTION OF THE COMPANIES

The results are beneficial for the potential types of optimization, which may have a different form depending on the type of charges and of the level (local government or central government). Thus, apart from price reduction, optimization can also take the form of price adjustment according to the company size, digitalization of submissions and administering of submissions, merging or increasing the earmarked spending of funds paid for para-fiscal charges.

Table 6 provides an overview of the companies' perception regarding the forms of optimization which would increase their competitiveness, for different types of PFC. According to the companies, the price reduction is the most preferred form of PFC optimization for boosting competitiveness, although there are differences. This perception is most strongly expressed in fees for licenses, permits and certificates towards the central government, where almost half of the companies consider that reducing the price of these fees is the preferred form for boosting competitiveness. Similarly, in the construction land development fee, the price reduction is the more prevalent form compared to the other forms (38 percent). The price adjustment according to the size or type of entity or type of activity or according to the need to use a public service/right, is the most desired form of optimization for the business name display fee (30 percent), in relation to the other forms. This form is also one of the more significant forms of optimization for the business licenses and permits (hospitality activity at a nightclub; for operators of installations with b-integrated environmental permit). The earmarked use of revenues based on PFC is a form of optimization that is appropriate and preferable for the street utility fee paid when registering the vehicles (18 percent), but also for the construction land development fee (15 percent). The preference for improving the service (more efficient administration, electronic submission of applications, etc.) is moderate, for almost all charges, and ranges from 10 percent to 14 percent, which contradicts the burden that companies feel concerning the submission and its administration. Merging with other charges is the least preferred form of optimization.

Table 6: A form of PFC optimization would boost the competitiveness of your company, perception of the companies

	Business name display fee	Street utility fee paid when registering vehicles	Utility fee for using the space in front of the business premises for carrying out activities	Other utility fees (playing music in bars, displaying advertisements in public space, use of town squares)	Construction land development fee	Business licenses and permits (hospitality activity at a nightclub; for operators of installations with b-integrated environmental permit)	Fees for licenses, permits and certificates towards the central government
Price reduction	25%	29%	30%	24%	38%	36%	45%
Price adjustment according to the size or type of entity or type of activity or according to the need to use a public service/right	30%	17%	16%	14%	13%	18%	15%
Merging with other charges on the same or different government level	3%	7%	6%	11%	7%	4%	5%
Service improvement (more efficient administration, electronic submission of applications, etc.)	10%	10%	14%	13%	11%	12%	16%
Revenues received by competent authorities on the basis of PFC to be used in an earmarked manner to improve the services offered	14%	18%	14%	14%	15%	14%	12%
No need for optimization	17%	18%	20%	24%	16%	16%	6%

Source: Survey on parafiscal charges, December 2021

7. CONCLUSIONS AND RECOMMENDATIONS

In the Republic of North Macedonia, despite the low tax burden, there is no systematic and transparent system to ensure the predictability of parafiscal charges and there is no systematic approach to their introduction. There are often overlaps of the same charges at the central and local level, and an additional problem is the fact that for some of the charges there is no clear purpose, what they are used for and what they finance. Businesses complain about the burden of parafiscal charges, especially micro and small companies, which indicate that these payments do not take into account their size and power.

Public sector institutions and numerous bodies with public authorization levy a wide range of non-tax revenue and parafiscal charges. There is no single registry or a comprehensive official data source for the total number of costs borne by the businesses, especially MSMEs. Disaggregated data from the centrally collected non-tax revenues and the income statements of some of the bodies with public authorization serve as a proxy for the huge financial burden.

The burden of parafiscal charges arises from an uncontrolled, spontaneous, and excessive commercialization of public services and public authorizations by various institutions or organizations operating primarily in a monopolistic or oligopolistic setting.

The case-by-case analysis reveals numerous instances of parafiscal charges associated with:

- violation of the fee-for-service principle with a dominant use of disproportionately high fees
- general-purpose fees without clear connection to a public service
- levying of double fees
- same fees for different services and for different entities
- different fees for the same service
- non-transparent fees expressed in a point-based system.

In three years, the number of non-tax payments and parafiscal charges increased by 18.5% for the legal entities only and by 25.7% for the legal entities and physical persons, as evidenced by the catalogue of public services by the Ministry of Information Society and Administration. It has not been specified whether these are new public services, or the increase is due to the improved coverage of existing public sector services. Outside the catalogue, there is a universe of parafiscal charges levied by bodies with public authorization and other professional organizations. A particularly high concentration of seemingly small parafiscal charges has been created by the Central Registry and the Agency for Cadaster funded by self-financing activities.

Sectoral exposures to non-tax payments and parafiscal charges can be massive, and particularly harmful for the micro, small and medium-sized enterprises (MSMEs). This is especially valid for the gambling sector (organizers of games of chance, gambling, which has high entry requirements in terms of exceptionally high fees for licenses).

Several policy relevant recommendations are in order:

- Streamlining the parafiscal charges (“Parafiscal Guillotine”) as a short-run priority.
 - o It is highly advised to streamline and reduce the excessive number of non-tax payments and parafiscal charges.
 - o The Government should establish a Government Taskforce or Inter-Ministerial Working Group with a clear mandate and reasonable deadlines. The mandate would be to thoroughly review and then approve or suggest revisions of the tariff lists of all government institutions and bodies with public authorization. It is recommended that external independent experts participate in this Taskforce to additionally ensure that public interests are safeguarded.
 - o The first tariff lists to be reviewed and reapproved are those from the Central Registry and the Agency for Cadaster, as they are the most frequently used services. An important setback is the recent increase of between 25 and 30% of the services provided by the Agency for Cadaster, justified by the increased electricity costs.
- Establishment of a state registry of fees and parafiscal charges.
 - o The Ministry of Information Society and Administration should upgrade the catalogue to a state registry of non-tax payments and parafiscal charges. Despite the limited coverage of the catalogue, some of the information on prices of the public services is still missing.
 - o The Registry should contain the: (1) law which prescribes the non-tax payment or the parafiscal charge; (2) bylaw (if applicable) which defines more precisely the payment; (3) business entities that are payers of these charges; (4) the basis on which the non-tax revenue/parafiscal charges is levied; (5) percentage or the absolute amount of the payment required; (6) institution or organization that generates this revenue, and (7) relevant ministry.
 - o A parafiscal charge or non-tax payment can be imposed, only if it is included in the Registry by the end of 2023.

- Price determination of non-tax payments and parafiscal charges
 - o Government guidelines and recommendations are needed for all institutions and bodies with public authorization to reduce parafiscal charges and other non-tax payments (mainly administrative fees) by at least 25%. This should be the first step towards more realistic pricing of the provision of services, goods, and rights.
 - o Then, the price determination of services must be reassessed on the basis of a transparent methodology and objective indicators.
 - o The price determination must consider the size of the business entity. One-size-fits-all solutions should be avoided as they disproportionately affect smaller businesses.
 - o Government institutions or bodies with public authorization should ensure that non-tax payments and parafiscal charges do not rise faster than the rate of inflation. Partial indexation every two or three years could make the process of price determination more transparent and ensure predictability.
 - o Upward revisions of the amounts should be enacted at least several months before the start of the fiscal year to strengthen predictability. This will also provide an adjustment period for businesses and contribute to more realistic business plans. Needless to say, downward revisions can have an immediate effect.

- Expanding digital solutions across institutions for more efficient and time-saving provision of public services is desperately needed.
 - o Regulatory compliance requires a lot of resources, time, and effort, especially when conditional upon hard copy submission at the counter.

- As much as possible, institutions should exchange documents and information ex officio. This will save a lot of direct and indirect costs for businesses.

- The disproportionately high fees – especially those referring to entry requirements in a particular sector or market segment - are particularly harmful for MSMEs. The high entry fees discourage new business entrants from the MSMEs' sector and contribute to a favorable regulatory environment for oligopolistic structures in certain sectors.

- The ratchet effect is an economic process that is difficult to reverse once it is underway or has already occurred. There appears to be a clear ratchet effect for most of the parafiscal charges, which easily multiply and whose amounts increase over time.

- Meaningful (not just formal) inclusion and participation of businesses and chambers of commerce is a key ingredient of the successful reform of parafiscal charges. There is a high level of distrust and dissatisfaction among employers – especially within MSMEs - with their involvement. Non-transparency of the decision-making process and regulatory arrogance must be avoided.
- A separate publicly accessible and transparent registry for the non-tax payments and parafiscal charges at the local level should be established either within the Ministry of Local Self-Government or the Ministry of Information Society and Administration.

The criteria for identifying parafiscal charges at the local level in the Republic of North Macedonia, in this study, are determined as follows:

Parafiscal charges represent fees charged by municipalities, which meet one of the following two conditions:

- The payment of these fees does not transfer any right, or provide any service to the payer, although they are not considered taxes, OR
- The payment of these fees does transfer a right or provide a service to the payer, but their cost exceeds their value multiple times.

Upon determining the criteria for identifying the parafiscal charges at the local level, further research was carried out to identify and classify the parafiscal charges at the local level in the Republic of North Macedonia, in cooperation with the competent authorities in 18 municipalities in the Republic of North Macedonia and with employees and entrepreneurs from micro, small, medium-sized and large companies with various business activities from 17 municipalities in the Republic of North Macedonia.

Based on the established criteria, 26 different parafiscal charges have been identified at the local level, in total 199 for all 18 municipalities in the Republic of North Macedonia, and on average 11 parafiscal charges by municipality.* The main groups of these 26 different parafiscal charges include: communal fees, administrative fees, fees for licenses/ permits/approvals and educational fees.

In terms of the representation of certain parafiscal charges, which the payers (natural and legal persons) pay to a greater extent, the following charges stand out the most: communal fee for displaying a company name/name of a business premises, so called «firmarina», the compensation for the arrangement of construction land, the fee for the use of streets and the administrative fees. To a lesser extent, educational fees (for certificates, diplomas, enrollments, taking exams) and some other local/communal fees are paid.

From the analysis at the local level, it was established that by paying 49% of the total number of parafiscal charges, the payers (natural and legal persons) acquire a certain right granted by the municipality, while the municipalities provide service to the payers in the case of 39% of the collected parafiscal charges. The payment of parafiscal charges can be initiated at the request of the payers (natural and legal persons), but, comparatively, for almost 30%, the initiation of parafiscal charges by official duty dominates.

*In 18 municipalities, 408 charges with characteristics of para-fiscal charges were identified, but only 199 were classified as para-fiscal charges based on the defined criteria.

The methodology for forming the price of local parafiscal charges is not always transparent and clearly specified for the payers. In most cases, the council of the municipality determines the price of a certain fee or compensation by decision, but within the prescribed legal range of prices.

Municipalities' own income represents 73% of the collected parafiscal charges, which the municipality spends for its own needs without a predetermined purpose (communal fees). On the other hand, only 25% of the collected funds have a specific purpose of spending, such as, for example, the funds collected from the tourist fee and the funds from the collected compensation for the arrangement of construction land.

The following recommendations emerge from this analysis:

- to implement further detailed data collection and identification of parafiscal charges for all municipalities in the Republic of North Macedonia;
- to rationalize, optimize and consolidate the existing parafiscal charges, by reducing their price or merging certain charges. A reduction in the amount of the fee is recommended for the following fees: 1. fee for displaying a company name, with the possibility of canceling this fee for establishing a branch/store of the same payer; 2. construction permit; 3. fee for using the space in front of the business premises, with the possibility of temporary exemption from payment for the catering terraces during the passive tourist period. Merging certain charges is recommended for the following fees: 1. fee for displaying a company name with the fee for displaying advertisements; 2. the construction permit with other fees at the local or state level;
- to determine the parafiscal charges according to the size and turnover of the companies (for example, the fee for displaying a company name) or according to the location (for example, the compensation for arranging the construction land and the fee for using the space in front of the business premises);
- to increase the counter-services of the municipality for the collected local parafiscal charges (for example, for the collected fee for displaying a company name and the fee for using the space in front of the business premises);
- to increase transparency, especially for the methodology of determining prices of parafiscal charges, and the engagement of the municipality in informing companies about local duties and their other legal obligations;
- to introduce digitization of the administrative process in the municipality, in order to speed it up and facilitate it, for the following fees: fee for displaying a company name, street usage fee, fee for using the space in front of business premises, administrative fees, fee for displaying advertisements, fee for using parking space, fee for displaying goods outside the business premises, fee for using city squares, fee for

using music in public places, compensation from insurance premiums for vehicles, educational fees, laboratory fees, catering activity licenses and B-integrated eco-permit ;

- to establish a comprehensive Register of all parafiscal charges that exist in the Republic of North Macedonia, at the national and local level;
- to improve the efficiency and organization of the municipal administration;
- to ensure productive and constructive mutual cooperation of the municipality and the private sector, by increasing the participation of companies in the decision-making process in the municipality;
- to improve the transparent and purposeful spending of municipal funds for the improvement of living and working conditions at the level of the municipality for the following fees: 1. the compensation for arranging construction land, which will be used specifically for environmental purposes and maintenance of public areas; 2. the fee for the use of streets, which will be used specifically for upgrading and maintaining public green areas; 3. the fee for B-integrated eco-permit, which will be used specifically for environmental purposes; 4. the fee for using a parking space, which will be used specifically for the maintenance of public areas.

The detailed recommendations for each separate municipality and separate charge are published in the individual analytical reports for the municipalities.⁵

⁴ <https://www.financethink.mk/en/analytic-reports/>

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