

TAXATION

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I. TAX POLICY, ADMINISTRATION AND REVENUE

A. Tax Policy

1. Describe the current and envisaged tax policy of your Government (notably, introduction of new taxes and/or abolition of existing ones).

Existing laws that regulate taxation issues are:

1. Personal Income Tax Law ("Official Gazette of RM" No. 80/93, 3/94, 70/94, 71/96, 28/97, 8/01, 50/01, 52/01, 2/02, 44/02 and 96/04), see [10 Annex 01](#), fully regulates taxation of income of individuals as sum of net income from all sources: income subject to tax, income exempt from taxation, taxpayer, taxable base, tax rate, determination of each separate type of income, determination, calculation and payment of personal income tax, by submission of tax application, tax advance payment, calculation of annual income tax, appeal procedures, re-establishment of procedure, payment of tax as final liability and penalty provisions.
2. The Law on Income Tax ("Official Gazette of RM " No. 80/93, 33/95, 43/95, 71/96, 5/97, 28/98, 11/01, 2/02, 44/02 and 51/03), see [10 Annex 02](#), regulates the taxation of income realized by legal entities, defining: taxpayer, taxable base, expenses that are recognized as expenditure in the tax balance and have influence on the amount of acquired income, tax treatment of capital income, capital profit and loss, tax exemptions and alleviation, avoiding double taxation, assessment and collection of the income tax, tax period and penalty provisions.
3. The Law on Value Added Tax ("Official Gazette of RM " No. 44/99, 59/99, 86/99, 11/00, 8/01, 31/01, 21/03 and 19/04), see [10 Annex 03](#), contains provisions on: subject of taxation (sales of goods and turnover of services), taxpayer, place of goods' and services' turnover, tax base, tax exemptions, tax rates, time of occurrence of tax debt, tax debtor, deduction of previously paid tax, taxation procedure, registration, administrative liabilities, legal protection and penalty provisions.
4. Law on Excises ("Official Gazette of RM" No. 32/01 50/01,52/01 45/02,98/02, 24/03 and 96/04), see [10 Annex 04](#), fully regulates excise paid indirectly or directly for consumption on the territory of the Republic of Macedonia for: mineral oils, alcohol and alcohol beverages and tobacco goods, containing the provisions for taxation, excise privileges, excise exemptions, administrative liabilities, registers, legal protection and penalty provisions.
With the latest amendments of the Law on Excises, the excise duty will be applied to motor vehicles as well.
5. Law on Administrative Fees ("Official Gazette of RM " No.17/93, 20/96, 7/98, 13/01, 24/03, 19/04 and 61/04), see [10 Annex 05](#), fully regulates the payment of administrative taxes for documents and activities in administrative procedures among administrative bodies, as well as among diplomatic and consular offices of the Republic of Macedonia abroad. The Law contains provisions for the taxpayer, occurrence of the liability for tax payment, manner of payment, penalty provisions and amount of according to tariff numbers contained in the tariff for administrative taxes, which is an integral part of the Law.
6. Law on Financing the Local Self-Government Units ("Official Gazette of RM " No. 61/04 and 96/04) regulates the sources of financing the local self-government units and the City of Skopje, which financing is also regulated by the Law on the City of Skopje. The Law regulates the sources of revenue personal income sources, including local taxes, for which the amount

of rates and amount of taxes is prescribed by the municipality council within frameworks regulated by the Law. The municipality realizes income from Value Added Taxes as a subsidy from the Macedonian Budget for financing of municipality competencies regulated by Law, as well as income from personal income tax.

According to the provisions of this Law, municipal taxes include property tax, tax on sale of property, and inheritance and gift tax, which are also regulated by the Law on Property Taxes that was adopted by the Macedonian Parliament, and is to be applied after the 2005 local elections, i.e. after constitution of the municipality councils.

According to the provisions of the same Law, municipal taxes include: utility taxes and part of administrative taxes. These laws were adopted by the Macedonian Parliament, and will be applied after the 2005 local elections, i.e. after the constitution of the municipality councils.

6.1. Law on Property Taxes ("Official Gazette of RM " No. 61/04), see [10 Annex 06](#), regulates the payment of each separate type of property tax, including: object of taxation, tax payer, tax base, tax rates, occurrence of tax liability, tax exemptions and alleviations, and a general provisions for all types of taxes, such as the procedure for assessment and collection of property taxes, procedure and manner of providing the payment of tax debt, i.e. tax liability, appeals' procedure, forced collection, supervision and penalty provisions.

6.2. Law on Utility Taxes ("Official Gazette of RM " No. 61/04), see [10 Annex 07](#), regulates the payment of utility taxes, which are paid for use of certain rights, items or services of local public interest by legal entities and natural persons, which perform activities, and by the citizens. The Law contains provisions on the object of taxation, payer of utility taxes, determination of the amount of utility tax, exemption from payment of utility taxes, assessment and collection of utility tax, supervision and penalty provisions.

6.3. Law on Administrative Fees (amendments to the Law) ("Official Gazette of RM " No. 61/04), contains part of the provisions that regulate the payment of administrative taxes for documents and activities in administrative procedures among municipality bodies and bodies of City of Skopje, for document on start-up activity, document that approves construction conditions, document that approves construction of objects, technical review and issuing of document for putting into operation of building objects.

The part that refers to the future tax policy reads the following:

The existing tax system is in large compatible with the tax systems of EU countries, its fiscal capacity meet the needs of the state budget and part of the local budgets, responding to the market's business conditions. Due to the low taxation rates, it is attractive for foreign investments.

The Law on Value Added Tax is coordinated with EU's Sixth Directive and the Law on Excises is in large harmonized with the EU system Directive for excise and its structural Directives for each type of good that is subject to taxation.

Law on Property Taxes, which is comprised of property tax, tax on sale of property, and inheritance and gift tax is a new Law adopted for the purpose of decentralization in the Republic of Macedonia.

The future tax policy of the Republic of Macedonia continues with the initiated tax system reform for harmonization with the EU Directives. After the successful harmonization of indirect taxes, there is an ongoing process of activities for harmonization with the EU Directives in the field of direct taxation.

The completion of this process is planned for 2005, with the adoption of new laws on direct taxation, such as Law on Income Tax and Personal Income Tax Law.

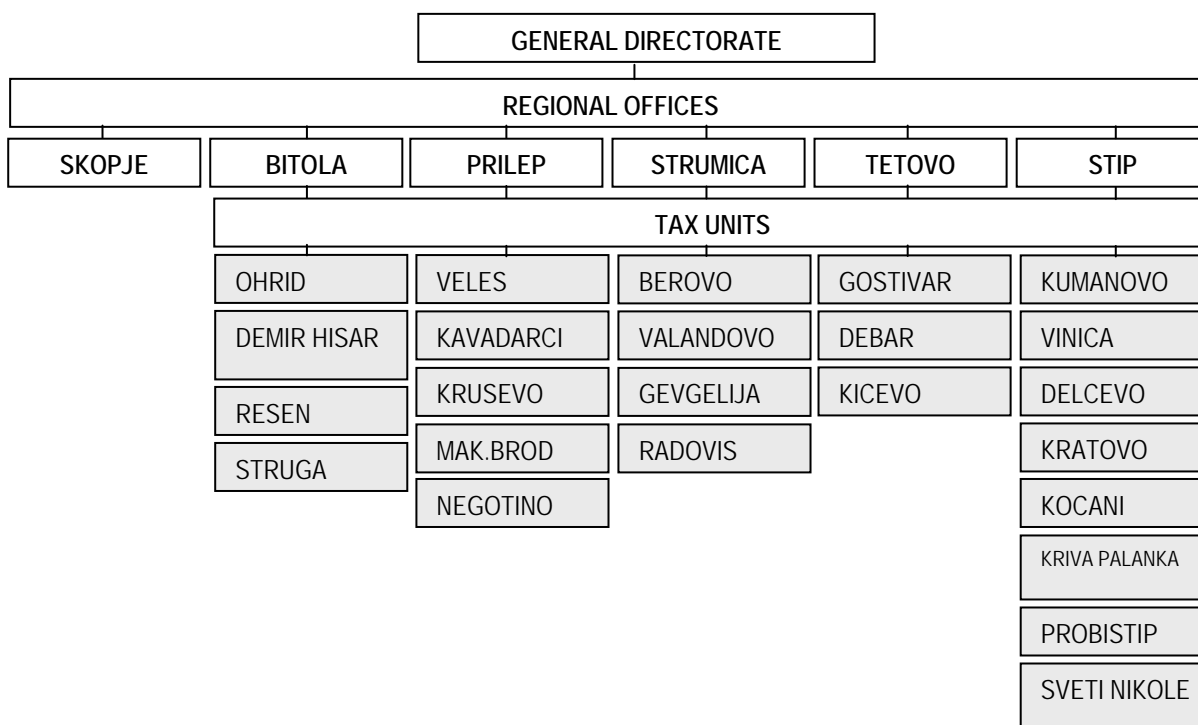
B. General Tax Administration

1. Please provide information on the organisational structure of your administration responsible for taxation, including excise duties.

The Public Revenue Office is a body within the Ministry of Finance, a legal entity, whose basic task is assessment and collection of taxes and other types of public revenues. The Customs Administration is authorized for collection of customs and other import duties (for more details see [25 II 22](#)).

The scope of activities, authorities and organization of the Public Revenue Office, as well as the procedure for assessment and collection of public revenues is regulated by the Law on Assessment and Collection of public revenues ("Official Gazette" No. 13/01, 61/02, 24/03, 77/03 and 19/04).

The Public Revenue Office carries out its activities through the General Directorate, six regional offices, and 24 tax units within the regional offices.



For more details connected with functional structure of the Customs Administration see [10 I B 3](#).

2. Describe the laws governing the tax administration and taxpayers' rights and obligations.

Tax administration, its status and organization, scope of activities, as well as manner of providing means for performing activities are regulated by the Law on Assessment and Collection of Public Revenue ("Official Gazette of RM" No. 13/2001, 61/2002, 24/2003, 77/2003 and 19/2004), see [10 Annex 08](#). The Law regulates the rights and obligations of the tax payer. Namely, the Law regulates the procedure for Assessment and Collection of Public Revenue, and is applied to all types of taxes and other public income regulated by law, except for import taxes, which are charged by the customs administration. If not regulated otherwise by a special law for a certain type of tax, the Law on Assessment and Collection of Public Revenue prescribes the general provisions of the procedure, which determines the rights and obligations of the tax payer (registration of tax payers, tax application, tax evidence, supervision, legal remedies, forced collection of matured debt, possibility for delayed tax payment liabilities, interest payment, return of incorrectly and overpaid tax, outdated, write-off of tax liabilities).

All items not regulated by the Law on Assessment and Collection of Public Revenue are subject to the provisions of the Law on General Administrative Procedure ("Official Gazette of SFRJ" No. 47/1986) and judicial protection for the tax payer is provided by the Law on Administrative Disputes ("Official Gazette of SFRJ" No. 4/1977, 36/1977).

The tax procedures are differently determined in different stages and can occur as tax procedure in assessment of taxes, tax procedure in tax audit and tax procedures in forced collection. The tax procedure in assessment of taxes begins with obligation on from the tax payer to submit a tax return, which is an equivalent to the decision for tax determination. The tax payer, which has determined that the submitted tax return contained errors or incomplete data, should correct them in case when the deadline for determination of the tax for the appropriate accounting period has not expired, or is regulated by the Law. The Public Revenue Office can, by line of duty, submit a tax return on behalf of the tax payer, in special cases (death and registration), if a tax return has not been submitted by the tax payer in a regular manner and in the prescribed deadline.

In cases regulated by law, the Public Revenue Office assessed the tax and other public taxes with a decision for the appropriate accounting period. The tax return, according to which the tax payment is performed, or the decision for tax assessment, has the authority of an executive decision.

Supervision is carried out by tax inspectors, for all applicable cases determined in the Law of Assessment and collection of public revenue. including: examining the correctness and accuracy in the evidence of the registers, working documentation, and other prescribed records of the tax payer, examining the legality and timeliness in calculation and payment of taxes, examining the financial transactions of the tax payer, review of disposable materials and reserves, inventories, raw materials, semi-products, finished products and fixed assets, examining the business and other space for execution of activities of goods' storage, and examining the condition and value of real estate, property and property rights that are subject to taxation. The tax inspector carries out the activities of the supervision independently, determining measures, for which he/she is authorized by Law. By rule, supervision is carried out in the premises of the tax payer, or at premises of an authorized person for evidence of business books, during the working hours of the tax payer. In case when the tax payer disables the supervision and does not provide conditions for its execution, the inspector can ask the tax payer to submit the business books and other documentation, which is significant for tax determination of liabilities, for supervision in the Public Revenue Office.

The inspector prepares minutes describing the activities undertaken under the procedure of tax audit. The tax inspector is obliged to submit one copy of the minutes to the tax payer within an 8-working day deadline from the day of completing the tax audit. The tax payer has the right to submit a complaint to the minutes in an 8-working day deadline from the day of its reception. If the complaint presents new facts and suggests new evidence that would influence the adoption of the decision and undertaking of other measures, the presented facts and the suggested evidence will be assessed, followed by preparing additional minutes.

If the inspector determines that the tax payer has not calculated, has incorrectly calculated, or has not paid the taxes, an appropriate decision will be taken. The decision is enacted within an 8-day deadline from the acceptance of the complaint, i.e. after the expiration of the deadline for submitting a complaint on the minutes.

The tax payer can submit a complaint against the decision to the Minister of Finance. The complaint does not delay the execution of the decision.

An administrative dispute can be initiated in front of the Macedonian Supreme Court against the decision adopted in the appeals' procedure.

Provisions from the Law on General Administrative Procedure are applied in the appeals' procedure and during the adoption of decision, which is carried out by the first-instance and second-instance body.

Considering the fact that the complaint against a decision adopted during the tax procedures has no suspension effect, the Public Revenue Office can postpone the decision's execution upon the tax payer's request, until the adoption of the decision regarding the complaint, but not exceeding 60 days from the day of the submission of the request, and the execution postponement can be approved if the tax payer provides the debt payment. The Law on Assessment and Collection of Public Revenue also regulates the possibility for the Director of the Public Revenue Office, to allow the tax payer to pay the liabilities with delayed payment, or payment in installments upon prior consent from the Minister of Finance if he is not able to pay the tax liabilities at once, while a payment instrument should be provided in advance.

In the case where the tax payer has not paid the tax debt and the interest in the prescribed deadline, the Public Revenue Office carries out forced collection. Before execution of forced collection, the appropriate revenue office is obliged to submit a written warning notice to the tax payer for payment of the tax debt or interest rate in an 8-day deadline from the day of submission the warning notice at the last address, which the tax payer has registered in the Revenue Office. Forced collection of tax debt and interest rate is carried out on the basis of a decision for determination of a forced collection, adopted by the revenue office, where the tax debtor is registered. Subject to forced collection of the tax payer is the entire property (movable and static), income and claims of the tax payer, except for items and income exempted from the forced collection procedures. Forced collection from the property of the tax debtor is comprised of a register with evaluation and sale of the property by way of public auction, except for goods that have expiration dates, where the sale is executed immediately with a direct agreement. Furthermore, by exception, if a subject of forced collection is real estate or other items, the Macedonian Government can hand them over to state bodies without public selling, if they are of necessity for performing of their activities. The procedure of forced collection allows a complaint to be submitted to the Ministry of Finance in an 8-day deadline from the day of submission of the decision, which cannot contain circumstances that refer to determination of the tax debt, and it will not have a suspension effect on the decision's execution.

Forced collection is carried out by an authorized official – tax executor.

For the purpose of paying the tax debt, the public revenue office can adopt a decision for prohibition for use of assets by the tax payer freezing of his/her accounts, salaries and other claims/receivables, while the carrier of the payment operation, the debtor of the tax debtor, i.e. payer of personal income can be ordered to pay the funds for the purpose of the repaying the tax debt. The tax payer can submit a complaint to the Minister of Finance upon this decision in an 8-day deadline from the day of submitting the decision for prohibition of use of the assets on the account.

The law regulates that a 0,05% interest is paid for each day of delay to the tax amount that has not been paid in the prescribed deadline.

The tax payer has the right to return of excessive or incorrectly charged tax, interest and expenses for forced collection, as well as interest calculated to the paid amount at 0,05%. If the request for return is submitted by the tax payer, the deadline for payment of the interest expires after the 30th day from the day of submission the request for tax compensation. Interest is not calculated and paid on excessively paid tax, while offsetting with other taxes can be carried out, or use it as advance payment for a future period.

The right for the assessment and collection, of taxes, interest, expenses for forced collection expires in five years after the end of the calendar year for which the tax was determined. The right of the tax payer for return of irregularly paid amount of the tax, interest and expenses for the procedure also expires in a five - years period after the end of the calendar year. In the case of any interruption of the expiration deadline, a new expiration deadline begins. The final deadline for assessment and collection and return of the tax is 10 years, calculated as of the calendar year in which the tax should have been assessed, collected or returned.

The Public Revenue Office can carry out a write-off of tax liabilities at the end of the year, if the expiration deadline had ended or the liabilities have become non-payable. Such liabilities are the ones of the tax payer that has ceased to exist, and has no legal successors, which can pay the tax debt, and if the amount of expenses for tax payment significantly goes beyond the amount of the non-paid liabilities. The decision for write-off is enacted by the Minister of Finance, upon the proposal of the Public Revenue Office, by the way of a special decision, which is carried out in the tax record.

The due tax amount, which cannot be immediately collected by force, is temporarily written off as currently non-collectible debt. If there is an opportunity for payment of temporarily non-collectible debt, the tax payer is again obliged with the temporarily written off tax, under the condition that the right for collection has not become outdated. Upon the proposal of the Public Revenue Office, the Minister of Finance enacts a decision for temporary write-off of outdated tax.

According to the aforesaid, the rights of the tax payers are:

- right to free information on tax regulations, which produce the tax liabilities for tax payers;
- right to confidentiality of data and information for determination of their tax liabilities, with the exception of submitting certain tax data and information to the Ministry of Finance, Ministry of Interior, Public Prosecutor's Office and judicial bodies, tax office of a foreign country based on international treaty, and to other individuals based on a written consent of the tax payer;
- right of the tax payer to have free access at his/her tax records and data ;
- right to prescribed manner in using tax incentives;
- right of refund of excessive of incorrectly paid tax amount;
- right to legal means in the procedure of determination, control and forced payment of taxes;
- right to judicial protection;
- right to attend at the inspection procedures.

Obligations of the tax payer:

- to submit a tax application for registration, along with reporting of all changes during the registration process;
- to submit a tax return of a prescribed form, within a prescribed deadline and in a legal manner;
- obligation for self-calculation and application of the tax liabilities at self-applied taxes within a legal deadline;
- obligation for tax payment in a manner, deadline and under conditions prescribed by the law;
- obligation for allowing the tax inspection.

For the purpose of enhancing the efficiency in the activities of the Public Revenue Office and its organization into a citizens' service, which would enable the timely payment of matured tax, preparation of regulative on tax procedures (law and bylaws) is ongoing, which should be completed by the end of 2005.

3. Please give a detailed description of the infrastructure of your VAT, excise and direct tax administration, including staff levels and IT systems.

Public Revenue Office is a body within the Ministry of Finance, with capacity of a legal entity, the basic task of which is to carry out the correct application of the tax regulations by the tax payers.

Activities of the Public Revenue Office are carried out at three levels: General Directorate, 6 regional offices and 24 tax units, which establish organisational forms as basic and internal organisational forms within the basic organisational forms.

According to the functional responsibility, the following organisational forms are structured within the general office:

- Sector for affairs directly related to director - 6 executive officers
 - a) Unit of Director's Cabinet

- b) Unit for international cooperation and European integration
- Sector for internal audit – 6 executive officers
 - a) Unit for audit of reconciliation and system of internal control
 - b) Unit for financial audit and audit performance
- Sector for internal audit - 4 executive officers
 - a) Unit for supervision
 - b) Unit for investigations
 - c) Unit for international data exchange
- Sector for taxes - 17 executive officers
 - a) Unit for Value Added Tax
 - b) Unit for Profit Tax
 - c) Unit for supervision
 - d) Unit for special taxation (excise)
 - e) Sub-section on games of chance
 - f) Sub-section for system of registration of cash payments
- Sector for planning, analysis and statistics - 5 executive officers
 - a) Unit for planning and analysis of tax revenue
 - b) Statistics unit
- Sector for tax records and payment - 4 executive officers
 - a) Unit for tax accounting
 - b) Unit for payment and central operations
- Sector for legal affairs - 6 executive officers
 - a) Unit for normative-legal affairs
 - b) Unit for tax procedures
 - c) Unit for human resources' management and education
 - d) Unit for blocked accounts
- Sector for information and communication technology- 10 executive officers
 - a) Unit for design of information system
 - b) Unit for applicative development and implementation of information system
 - c) Unit for computer-communication infrastructure of information system
 - d) Unit for technical support, implementation, maintenance, training and data processing
- Sector for administrative-technical and ancillary affairs - 10 executive officers
 - a) Unit for accounting and material-financial affairs
 - b) Unit for administrative-technical and ancillary affairs -

Activities and tasks in the regional offices are carried out through the following organisational forms:

- Unit for registration and services to tax payers
 - a) Section for registration of tax payers
 - b) Section for registration of fiscal devices
 - c) Section for services to tax payers
- Unit for operation activities
 - a) Section for processing with three sub-sections: Sub-sections for reception, completing and filing in tax applications; sub-section for input of data and sub-section for error correction
 - b) Section for procedures
 - c) Section for tax accounting
 - d) Section for return of VAT and excise of special entities (only in Skopje office)

- e) Section for analysis
 - Unit for tax determination
 - a) Section for determination of personal tax of individuals that performs activities
 - b) Section for determination of personal tax of individuals
 - c) Section for property and communal taxes, which is organized in two sub-sections only in the Skopje office: sub-section for property and communal taxes and sub-section for inheritance and gift tax, and tax on real estate operations and rights.
 - Unit for supervision
 - Unit for forced collection
 - Unit for legal and administration affairs
 - a) Section for legal affairs with sub-section on blocked accounts
 - b) Section for administrative-technical and general affairs
 - Unit for maintenance of information system

Activities and tasks in the tax departments are carried out through the following organisational forms:

1. Section for registration and services to tax payers
2. Section for tax determination
3. Section for legal and administrative-technical and general affairs

The number of executive officers in the regional offices and tax departments of the Public Revenue Office depends on the size of the regional office and the number of tax payers, who belong to that office, while all regional offices have 1178 executive officers, with a total of 1246 people employed in the Public Revenue Office until September 2004. The number of employees in the regional offices, along with the tax departments, is the following: regional office Skopje has a total of 252 employees, regional office Bitola – 225, regional office Prilep – 203, regional office Stip – 205, regional office Strumica – 131, and regional office Tetovo - 162. The General Directorate of the Public Revenue Office employs 68 people.

Tax information system of the Public Revenue Office – TAXIS is comprised of the following sub-systems:

1. System for registration of tax payers and system for special registration of tax payers by types of taxes (registration of VAT goals and excise);
2. System for record keeping of commitments as a result of the laws on special public fees (taxes, fees, contributions) – VAT, profit tax, excise, partially personal salary tax, personal tax on executing activity, personal tax on agricultural activity, property taxes, communal fee, contribution for pension and disability insurance for farmers until 2003;
3. System for records of supervision cases;
4. System for records of fiscal devices

Registration of tax payers, records on taxes of revenue to the Budget of the Republic of Macedonia (except for excise), records on inspection supervision cases and records of fiscal devices are performed in 6 regional offices. Within their structure, they have tax departments, the responsibility which of are local taxes, fees, personal tax of individuals and executors of activities. Records on excise are carried out at a central level, in the General Office of the Public Revenue Office. The General Directorate of the Public Revenue Office carries out automatic downloading of data from other institutions, as well as preparation of data, which the Office exchanges with other institutions.

Computer-communication infrastructure of TAXIS info-system encompasses 31 networking locations (General Directorate, 6 regional offices and 24 tax units). Networking service is IP-VPN, functioning in 29 locations. The providing of this service in the other two locations is in the process of being established.

The total number of production servers is 21, a central server located in the regional office of the Public Revenue Office-Skopje, server in the General Directorate of the Public Revenue Office, 6 servers in the regional offices in Skopje, Bitola, Prilep, Strumica, Tetovo and Stip, and the 13 tax departments in Veles, Vinica, Gevgelija, Gostivar, Kavadarci, Kratovo, Kriva Palanka, Krusevo, Ohrid, Radovis, Resen, Sveti Nikole and Struga. Tax departments Berovo, Valandovo, Debar, Delcevo, Kocani, Kumanovo, Makedonski Brod, Negotino and Probistip work on the production server within the respective regional office. Records under the jurisdiction of Demir Hisar and Kicevo tax departments are carried out at the server within the respective regional office, but they still do not have network access. Data within TAXIS info-system can be accessed from any networking location. The data base server is INFORMIX, while AIX, Digital UNIX and LINUX are the operation systems. Data synchronization is two-directional, from the central server, and is performed on a daily basis.

The basic identification of the tax payer in the database is the personal tax number. Other institutions use this identification too (in execution of payment turnover, it is presented in the customs declarations, in the treasury system).

The database of the Public Revenue Office contains data acquired from other institutions, and has control function of data acquired from the tax payers. They are provided by way of data exchange regulated with the signed protocols on data exchange or on the basis of requests. Such data exchange exists with the following institutions: Customs Administration of the Republic of Macedonia, National Bank of the Republic of Macedonia, Clearing Inter-Banking Systems, Pension Fund and Disability Insurance of Macedonia, Health Insurance Fund, Central Register, Ministry of Interior, State Statistical Office, Employment Agency.

Part of the accounting records in the tax departments, which do not have a production server, are beyond the TAXIS information system, with ongoing activities for inclusion of these records in TAXIS.

Tax information system of the Public Revenue Office – TAXIS is being developed. Namely, certain tax records have already been established, but at the same time, records on certain types of taxes are still not automated, while the already existing applicative solutions involve the necessity for their disposal or replacement with new ones.

For the purpose of service improvement for tax payers, the Office has developed a web site, through which the tax payer can be informed about the laws and by laws in the area of tax policy, to take over forms for reporting of taxes, to acquire basic data on the registration of tax payers-legal persons, and contact the Office via e-mail.

Regarding the information personnel, information support is established at two levels. The Sector for Information and Communication Technology within the General Directorate has 4 units: Unit for design of information system, Unit for applicative development of information system, Unit for computer-communication infrastructure of information system and Unit for technical support, implementation, maintenance, training and data processing. Each regional office includes a unit for maintenance of the information system.

4. Please provide statistics for 2001-2003 on measures against tax evasion. In particular, how much additional tax was claimed by the Tax Office, what proportion of the additional tax was collected, how many tax crimes were investigated by the Police, how many of these were prosecuted, and to how many convictions did they lead? What sentences were imposed?

Several activities were undertaken in the area of tax evasion reduction in the period 2001-2003. In addition to the different forms of informing tax payers, their training and providing of equipment for registration of cash payments, measures on the part of the supervision were also undertaken.

Regarding the relation between the paid incomes by procedure of control and total tax incomes (without customs and import taxes) for the period 2001-2003, the following Review is recommended:

Table: Comparison of paid tax income by control and total paid incomes in the Budget in the period 2001-2003 MKD				
Period	Registered irregularities in control procedure	Paid income by control in Budget (75%+25%)	National tax incomes paid in Budget (without customs duties and import taxes)	Participation of the paid incomes by control in the total paid incomes in the Budget in %
2001	3.055.450.000,00	497.885.000,00	41.327.829.000,00	1,20
2002	2.982.501.000,00	220.008.000,00	47.709.243.000,00	0,46
2003	4.566.221.000,00	549.897.000,00	42.545.359.000,00	1,29
Source: Public Revenue Office and Ministry of Finance Processing: Public Revenue Office				

Participation of total paid income of national taxes based on control, in the amount of the total paid amount in the Budget, excluding the amount of international trade tax (customs and other import taxes and fees), amounted to 1,20% in 2001, 0,46% in 2002, and 1,29% in 2003. The amount of paid taxes based on control does not include the amount of paid VAT during the control (which, due to the manner of payment, is not presented in the paid Budget income), as well as the part of the amount on the basis of offsetting the liabilities of tax due by the state to the same tax payers.

Regarding the investigated crime acts, as well as the number of instigated procedures, the situation is the following:

Table: Number of investigated tax crime acts and instigated procedures in period 2001-2003		
Period	Investigated tax crime acts	Instigated procedures
2001	126	111
2002	91	82
2003	120	109
Total	337	302
Source: Ministry of Interior Processing: Ministry of Interior		

Procedures were not instigated in one part of investigated cases due to lack of elements that a crime act had been perpetrated (35).

Regarding the instigated indictments and pronounced judgments, during the specific period, the following data is available. The data in the given table does not refer to cases, but reported, indicted and convicted adults for crime act "tax evasion".

Table: Number of reported, indicted and convicted adults in period 2001-2003			
Title	Reported adults	Indicted adults	Convicted adults
2001	280	95	68
2002	411	99	74
2003	204	146	114
Total	895	340	256
Source: State Statistical Office Processing: State Statistical Office			

5. Please provide information on corruption in the Tax Office. How are such cases dealt with? Have any cases reached the courts?

For the purpose of preventing corruption, the Public Revenue Office has taken several activities. The Sector for Internal Control was established in 2002, which was developed into a Sector for Internal Audit with the establishment of the new organizational setup in 2004. The Unit on Audit of Harmonization and Systems of Internal Control performs an evaluation of the harmonization in the activities with laws, bylaws and internal acts in force, as well as control in the procedure upon submitted complaints regarding the behaviour and work of tax officials. As a result of the executed controls, three cases of illegal activities were registered, followed by measures undertaken by the Public Revenue Office for determination of disciplinary responsibility for a discipline offence according to the Law on Civil Servants ("Official Gazette of RM" No. 59/00, 112/00, 34/01, 103/01,

43/02, 98/02, 17/03, 40/03, 85/03, 17/04 and 69/04), while the measure “employment termination” was passed in all three cases. Court procedures were instigated for two of these cases, which are still ongoing.

The second measure in the field of preventing corruption in the Public Revenue Office is the introduction of free telephone line 198, which provides the opportunity for citizens to report on corruption of civil servants from the tax administration. Namely, each citizen can call free and anonymous telephone line 198 if he/she is not satisfied with the treatment or service provided by the employees, or he/she has experienced indecent and non-professional behaviour in the realisation of his/her rights and obligations.

The goals of introducing free telephone line 198 are: reporting on abuse in the Public Revenue Office, providing information on tax evasion and non-issuing of fiscal bills.

Furthermore, all employees are obliged to disclose information on their personal assets, as well as the changes that additionally occur.

C. Revenue

1. Please provide a detailed description and relevant statistics of the overall revenue structure (taxes and social contributions) and of its main components (according to OECD revenue classification.)

Total revenues of the Republic of Macedonia for the period 01.01-31.12.2003: 84.087 million MKD or approximately EUR 1.372 million.

Structure of realised revenues in 2003	Total 2003	%
TOTAL REVENUES	84.087	100,00%
Taxes and Contributions	77.055	91,64%
Taxes	49.840	59,27%
Personal Income Tax	7.502	8,92%
Profit Tax	3.271	3,89%
VAT	21.175	25,18%
Excises	11.241	13,37%
Import Duties	6.140	7,30%
Other Taxes	476	0,57%
Tax on Financial Transactions	31	0,04%
Utility Taxes	4	0,00%
Contributions	27.216	32,37%
Pension Insurance Contributions	17.574	20,90%
On Salaries	16.802	19,98%
On Other Income	307	0,36%
Other Income From Private Sector	394	0,47%
From Individual Agricultural Producers	71	0,08%
Unemployment Contributions	1.224	1,46%
On Salaries	1.223	1,45%
On Self Employed	0	0,00%
On Salaries Abroad	1	0,00%
Health Insurance Contributions	8.418	10,01%
Non Tax Revenues	6.331	7,53%
Profit of Public Financial Institutions	1.807	2,15%
National Bank Profit	0	0,00%
Bank Rehabilitation Agency	325	0,39%
Other Property Income	108	0,13%
Interest on Deposits	243	0,29%

Telecom Profit	1.131	1,35%
Administrative Fees and Charges	1.369	1,63%
Fines	169	0,20%
Court Fees	539	0,64%
Administrative Fees	661	0,79%
Health co-payment	485	0,58%
Other Administrative Taxes	370	0,44%
Other Non Tax Revenues	693	0,82%
Proceeds from OTE concession	0	0,00%
Road Fund Fees	1.607	1,91%
Capital Revenues	576	0,69%
Appartments	461	0,55%
Other	94	0,11%
Dividends	21	0,02%
Foreign Donations	1	0,00%
UNHCR	0	0,00%
The Netherlands	0	0,00%
European Commission (Refugees)	0	0,00%
Other	1	0,00%
Revenues from repayment of loans	123	0,15%
Note: Data is not consolidated because it does not include local taxes, for which data are not currently available..		
Source: Sector for Treasury, Ministry of Finance		

2. How much, as a percentage of total State revenue, is generated by VAT, excise duties, taxes on income, profits and capital gains respectively?

Income tax as % of total state revenue in 2003	%
Personal Income Tax	8,92%
Profit Tax	3,89%
VAT	25,18%
Excises	13,37%
Import Duties	7,30%

Note: Income from capital gains are already included in the personal tax and profit income tax and have insignificant participation.

3. Which proportion of your tax due did you receive in 2002:

The structure of collected taxes in the legal timeframe, the collected taxes after the expiration of the legal timeframe, i.e. delay, as well as the non-collected taxes in 2002 is the following:

	% collected by the date	% collected after the date	% not collected at all
VAT	83,05	10,03	6,92
Excise duties	88,93	10,59	0,49
Corporate income tax	71,19	20,70	8,12
Personal income tax	81,30	5,69	13,02
Source: Public Revenue Office; Processing: Public Revenue Office			

Due to the absence of complete records, data on the structure by maturity and non-collected personal income tax and profit tax are estimated.

Non-collected taxes are the ones that are not collected in the appropriate calendar year.

4. What is your estimation of your grey economy and how do you calculate it?

There have been attempts for processing of grey economy in the past period, i.e. certain aspects of such an economy. Namely, in the period July 1996-July 1997, there were activities for preparation of scientific-research project regarding the dimensions of the grey economy in the Republic of Macedonia, while the presentation of the statistical data on the corrections for achievements of GDP comprehensiveness (data for 2000, 2001 and 2002 have been published so far) began in 2003.

Scientific-research project "Dimensions of Grey Economy in the Republic of Macedonia", upon the demand of the former Ministry of Development, was prepared by the working group of scientific and expert workers. However, it is filed as an incomplete project, and was not subject to a review by the Government or by any other state body. The project encompassed activities that were realized beyond the legal regulative and state control. It applied the following methods, followed by acquiring of data on the size of grey economy:

- method of questionnaire use – 36% (1996)
- method of discrepancy – 38% (1994)
- monetary method – 65,90% (1994) and 44,20% (1996)
- impressionist method – 33,30% (1994) and 27,50% (1995)

Furthermore, the project produced the following: first, the presence of grey economy decrease tendency; and secondly, "great grey economy is manifested through the lost potential fiscal revenues. It is considered that if its size is 35% of the GDP, we annually lose approximately USD 200 million less revenue in the budget".

Source: Scientific-research project "Dimensions of Grey Economy in the Republic of Macedonia".

There is no updated relevant research on the dimensions of grey economy in the Republic of Macedonia conducted by domestic researchers, but we are familiar with the results presented in the comparative study on the size of the grey economy in 22 transition countries and 21 OECD countries (Study by Friedrich Schneider, "The Size and Development of the Shadow Economies of 22 Transition and 21 OECD Countries, IZA DP No. 514, June 2002).

The evaluation on the average size of grey economy in the Republic of Macedonia in period 2000/2001, with the application of the so-called DYMIMIC (dynamic multiple indicators and multiple causes) method amounts at 45,10%. One has to take into consideration that the definition on grey economy used by Schneider in his research encompasses the illegal activities and part of the activities within the natural production.

In order to achieve comprehensiveness in the statistical calculation of the GDP, the State Statistical Office undertook activities for adopting appropriate methodological solutions. It was engaged in Eurostat pilot-project "Coverage of National Accounts" (project that included 11 EU candidate countries and the Republic of Macedonia). On the basis of common definitions, and on the basis of joint consultations with Eurostat experts, detailed analyses of the statistical identification of the production activities beyond the range of the standard statistical research were conducted, where each country took into consideration the specifics of its economic and statistical system. Corrections of two types of informal economy were carried out in the GDP calculations:

- Economic coverage (underestimation – unrealistic presentation of financial results);
- Informal sector (non-registered workers, unrealistic presentation of financial results).

The assessments on the achievement of GDP comprehensiveness are conducted on legal entities of the non-financial enterprises sector and household sector.

By way of calculations, it is assessed that the participation of informal economy in GDP at the level of total economy amounts at approximately 14%. The presented data should be seen only as a statistical approach in the measurement of production activities that are not followed in the standard statistical research and surveys, and therefore should not be identified with the usual understanding of grey economy.

There are ongoing activities for identification of informal economy according to the “Manual for Measurement of Informal Economy” by OECD as an obligation of the State Statistical Office of the Republic of Macedonia within the Project for Informal Economy in the Western Balkans countries, which started in 2004, in organisation of Eurostat and OECD.

Source: State Statistical Office “Methods for Achievement of GDP Comprehensiveness of the Republic of Macedonia”, No. 3.8.2.01 and publication of the State Statistical Office “GDP in Republic of Macedonia, 2001”, No. 3.4.3.02 435 and “GDP in Republic of Macedonia, 2002”, No. 3.4.4.02 465.

5. Please explain how your tax control is organised and resourced and how it functions. Furthermore, which is your control strategy for VAT, direct taxation and excise duties? In this context, please highlight which is the authority (or authorities) that are setting the overall control strategy and which are the main features of this strategy.

The tax control in the Public Revenue Office is organized through the Sector for supervision in the Skopje General Directorate, units for supervision in the regional offices, and sectors for supervision in the tax units from the respective regional office. Skopje regional office operates without tax units.

The Sector for supervision has the authority to provide a unified approach in the preparation and execution of tax control with the help of an appropriate methodology, as well as coordinate activities in the regional offices.

The tax control, which includes supervision in the implementation and application of tax regulations by the tax payers is carried out by tax inspectors from the units for supervision in the regional offices. The tax inspectors possess an identification card, and are independent in their activities and undertaking measures, for which they are authorized by law. Tax control begins with the issuing of a control order based on an annual plan for control and operative three-months control plans, along the lines of an established system for control selection. By rule, tax control is carried out in the premises of the tax payer, or at a person authorised for maintenance of its business books within the working hours of the tax payer. If the tax payer cannot enable a supervision, and does not provide conditions for its performance, the inspector can ask the tax payer to submit the business books and other documentation for supervision in the Public Revenue Office. If there is any reasonable trace that the tax payer executes activities in some housing premises, the inspector can perform an inspection of those premises on the basis of an order from an authorised court. The Court authorisation has the role of complying with the privacy right of the tax payer.

The Public Revenue Office in general, but also in the part of supervision, is faced with the problem of having insufficient and inappropriate staff, which needs to be soon dealt with for the purpose of increasing of the level of efficiency and effectiveness. The Public Revenue Office holds a total of 270 tax inspectors, 72 of whom are in the Skopje Regional Office, 46 in Bitola, 47 in Prilep, 48 in Stip, 26 in Strumica, 31 in Tetovo.

There were 100.456 registered tax payers in the Public Revenue Office until 30.06.2004, out of which 40.549 were in Skopje Regional Office, 13.611 in Bitola, 10.356 in Prilep, 8.462 in Strumica, 12.409 in Tetovo, and 15.069 in Stip.

The Public Revenue Office is independent in its authority for establishment of a common strategy for tax control, as well as in the determination of the strategic development goals of the Public Revenue Office .

A Strategic Development Plan has been adopted for the purpose of developing the activities of the Public Revenue Office for the period 2004-2007, which encompasses the tax control development strategy.

Tax control development strategy is comprised of the following: adoption of a legislation on tax procedures, compatible with the EU legislation, encompassing the adoption of a Law on Tax Procedures and subsequent bylaws for its implementation. The Law on Tax Procedures will also regulate the procedure for tax control implementation, which will be based on the following principles: the burden of proof in the tax procedure is carried by the public revenue body – on the facts that speak for existence of tax liabilities, and the tax payer – on facts that act for decrease or annulment of the tax debt, which is different than the current regulation, according to which the Public Revenue Office carries the entire burden of proof; establishment of an efficient system of delivery, which is one of the basic problems in the efficiency of the Public Revenue Office; ensuring legality and equality in taxation; execution of tax control among all tax payers and other persons that possess facts and evidence on taxation, which means ensuring fair and equal treatment of tax payers; providing the control order with a treatment of an administrative act, i.e. the right of the tax payer for an appeal, which does not exist according to the current regulative; tax control is to be carried out with equal attention regarding all essential facts, i.e. the ones that do not favour the tax payer, and the ones in his/her favour; directing the tax control to essential facts, which can increase or decrease the tax base and limiting its duration to the necessary time only; directing the tax control towards the essential matters, so that the tax payer determines the focus of control, and exclusion of areas that are not significant for the taxation; implementation of the evaluation system in case when the inspector cannot check, determine or calculate the tax bases.

For the purpose of improving the tax control, the strategy envisages the activity for establishment of tax payer files, which will not only mitigate control, but will enable permanent communication with the tax payers, as well as updating of accounting records; additional precision of the documentation, which the inspector's file should contain, for the purpose of collecting all documents related to a control by a tax inspector, thus enabling easy and understandable approach; enabling of efficient preparation of tax inspectors for execution of future controls.

In addition to the planning of controls for VAT, direct taxes and excise, other types of controls have also been planned, such as: controls among organizers of games of chance and entertainment, control and application of the Law on Registering Cash Payments, controls of the concession fee, joint controls with the Health Insurance Fund of Macedonia and Pension and Disability Insurance Fund of Macedonia, control of the transformation of the state-owned enterprises, and other types of public levies.

II. INDIRECT TAXATION

A. General

1. Please specify the elements of your VAT and excise legislation which might provide for:
a) a higher level of taxation on imported products than that imposed on similar domestic products (Article 90 Amsterdam Treaty);
b) repayment of tax on exported products which exceeds the internal tax imposed on them (Article 91 Amsterdam Treaty).

a)

The Law on Value Added Tax ("Official Gazette of RM", No. 44/99, 59/99, 86/99, 11/00, 8/01, 31/01, 21/03 and 19/04) does not provide for higher rate for imported goods than the one prescribed for domestic goods.

The Law on Excisess ("Official Gazette of RM", No. 32/01, 50/01, 52/01, 45/02, 98/02, 24/03 and 96/04) does provide for higher rate on imported tobacco goods: cigars, cigarillos and cigarettes. The amount of excise on domestic and imported cigars and cigarillos is levelled on 01.01.2005, while the levelling for cigarettes will occur on 01.01.2007. (The timeframe for harmonization of excise rates is provided in 10_C_II_3).

b)

The right of tax refund for completed export is realised only in the amount of the calculated VAT in the country, and never higher than the one presented in the import documents (invoice, import customs declaration etc).

B. Value Added Tax

1. Please provide a copy of your country's VAT legislation (in one of the official EU languages), including other related legislation, such as administration guidelines, etc.

The following laws in English are enclosed:

1. Law on Value Added Tax ("Official Gazette of RM" No.44/99, 59/99, 86/99, 11/00, 8/01, 31/01, 21/03 and 19/04), see [10 Annex 03](#),
2. Rulebook for Implementation of the Law on Value Added Tax ("Official Gazette of RM" No. 65/99, 17/00, 28/00, 66/00 and 29/03), see [10 Annex 09](#),
3. Rulebook on the Form and Content of the Tax Return for Registration of VAT ("Official Gazette of RM" No. 29/03), see [10 Annex 10](#),
4. Rulebook on the Form and Content of VAT Tax Return ("Official Gazette of RM" No. 29/03), see [10 Annex 11](#),
5. Decision for Determination of Goods and Services that are subject to preferential VAT rate (VAT Decision) – ("Official Gazette of RM" No. 22/03), see [10 Annex 12](#),
6. Rulebook on the Manner of Application of Law on Value Added Tax among Parties Related by Ownership, Organisational or Management criteria, that are allowed or obliged to register as one tax-payer ("Official Gazette of RM" No. 22/04), see [10 Annex 13](#),
7. Guidelines for application of VAT ("Official Gazette of RM" No. 22/04), see [10 Annex 14](#),
8. Rulebook for Implementation of the Exemption from Customs and other taxes, excise and VAT at the Import of Goods, and for Provision of Funds for payment of excise and VAT at the Sale of goods and services within the Country, which are necessary for Carrying out projects financed by foreign Funds ("Official Gazette of RM" No. 54/03 and 58/03), see [10 Annex 15](#),
9. Guidelines on the Manner of implementation of the exemption from customs and other taxes, excise and VAT, at the Import of goods, and on the Provision of Funds for payment of excise and VAT for Sale of good and services in the Country, which are necessary for carrying out projects financed by Foreign Donors' Grants ("Official Gazette of RM" No. 54/03 and 58/03), see [10 Annex 16](#).

2. Please give a detailed description of your current VAT regime particularly in the following areas:

a) taxable persons (i.e. conditions for being subject to tax, ceilings, etc.); liable persons (i.e. who is paying the tax);

i) the response should include the VAT treatment of government bodies and public institutions; non-resident taxable persons, small and medium sized entrepreneurs, liberal professions, non-profit organisations, affiliated enterprises, groups, etc;

- ii) how many VAT taxable persons are there in your country?
- b) scope of taxable transactions (supply of goods, including immovable property, and services, incl. self-supply, private use);
- c) importation (taxation, suspension regimes, exemptions, etc.). How are goods that have been placed under a suspension regime treated in respect of VAT?
- d) exportation (exemptions);
- e) exemptions without credit for input VAT;
- f) place of supply (goods and services);
- g) chargeable event and chargeability of tax;
- h) VAT rates, including the application of zero rates (levels and scope). Are reduced VAT rates set at levels, which would in the normal course of events permit complete deduction of input tax? Are supplies of services liable to a special VAT rate?
- i) scope and procedures (credit/refund of VAT) in respect of the right of deduction. How long on average does it take to refund VAT to traders e.g. in the case of exports? Do you have any limitations to the right of deduction, and if so, which ones?
- j) right to deduct input VAT by a taxable person;
- k) special regimes (small and medium sized enterprises, second-hand goods, works of art, collectors items and antiques, flat-rate scheme for farmers, travel agents, simplification procedures, investment gold, others);
- l) rules governing administration and records, including registration, records, invoices;
- m) assessment and appeals (VAT returns, assessment and collection, procedure for claiming the credit and refund, penalties, appeal procedure, international mutual assistance and recovery of VAT claims);
- n) transitional and temporary measures of the current VAT system;
- o) taxable persons not established within your country (obligations, right to refund of VAT, etc.);
- p) control procedures:
 - i) Is VAT control incorporated with the control of other taxes or is it separate?
 - ii) How many tax officials are involved in VAT control, excluding Customs?
 - iii) What is your experience in the exchange of information for tax purposes?

a)

Tax-payer is a person that permanently or temporarily conducts business, regardless of the goals and results of this business (Article 9, Paragraph 1 of the Law on Value Added Tax, "Official Gazette of RM" No. 44/99, 59/99, 86/99, 11/00, 8/01, 31/01, 21/03 and 19/04), and conducts sales of goods and services in the country for a fee (Article 2, Paragraph 1 of the Law on Value Added Tax).

All tax payers that had generated total sales (except for the turnover exempted from tax without the right for deduction of tax credit) in the previous calendar year in excess of MKD 1.300.000 or that are expected to exceed that level of sales at the start-up of the business, are obliged to proceed to a mandatory registration for VAT purposes (Article 51, Paragraph 1 of the Law on Value Added Tax).

Tax payers with sales not exceeding this amount can voluntarily register for VAT (Article 51, Paragraph 3 of the Law on Value Added Tax), and remain registered for at least 5 calendar years, regardless of the total amount of sales (Article 51, Paragraph 7 of the Law on Value Added Tax).

The tax payer is liable for VAT payment.

i)

Government authorities, bodies of local self-government units and other public legal bodies are not tax payers for the part of their activities, which is limited only to the execution of their public duties (Article 10, Paragraph 1 of the Law on Value Added Tax). They appear as tax payers in cases when they conduct certain business, which according to this law is taxable for other tax payers (Article 10, Paragraph 1 of the Law on Value Added Tax).

Public enterprises are tax payers constantly, while other public-legal bodies are tax payers only if they conduct business that is taxed by VAT.

If non-resident tax payers generate taxable sales in our country, they become tax payers of the Republic of Macedonia, having the same rights and obligations as domestic tax payers.

In a case of generation of sales by a non-resident tax payer, who does not have a seat or a branch office in the Republic of Macedonia, while the place of the turnover, according to our Law on Value Added Tax is in the Republic of Macedonia, the domestic entity i.e. recipient of goods or service beneficiary is liable for payment of VAT, if it is a registered tax payer or a public-legal body.

Law on Value Added Tax does not provide for any special provision for taxation of small and medium sized enterprises. Exception to this are those entities which are below the threshold of mandatory registration for VAT purposes, which are not subject to registration, and which have the possibility for voluntary registration.

Non-for-profit organizations can be VAT tax payers, only if they generate sales that are VAT taxed. The owners of individual businesses are also VAT tax-payers only if they conduct sales which is VAT taxed.

A number of entities may decide to be registered as one tax payer for VAT purposes, if they are related in terms of ownership, organization or management (Article 9-a, Paragraph 1 of Law on Value Added Tax).

If a competent tax authority determines a violation of tax principles or a possibility for their disruption among certain entities, which are tax payers registered for VAT, they will be ordered to get registered as one VAT tax payer (Article 9-a, Paragraph 2 of the Law on Value Added Tax).

ii)

The number of tax payers registered for VAT purposes on 31.12.2003 was 30.763, out of which 2.645 have calculated and paid the tax on a monthly basis, 27.924 on quarterly, and 194 on an annual basis.

b)

The subject of VAT taxation is the sales of goods and services for a fee by the tax payer in the country, within the scope of its business activity (Article 2, Item 1 of the Law on Value Added Tax), including the use of these goods and services for personal needs (personal purposes).

The import of goods is also subject to taxation (Article 2, Item 2 of the Law on Value Added Tax).

Subject of VAT taxation is the property turnover (real estate and land - urban and agricultural).

With the introduction of VAT, the initial sale of apartments and buildings, the construction of which began before 01.04.2000 was VAT exempted until 31.12.2000.

c)

The import of goods is subject to taxation (Article 2, Item 2 of the Law on Value Added Tax).

The tax base for imported goods is the value of the imported good, determined according to customs regulations (Article 21 of the Law on Value Added Tax), including customs, taxes, excise, fees, other import duties, except the VAT, as well as added-on expenses, such as commission fees, packaging, transportation and insurance, which occur until goods reach the first location of their final destination in the country.

For imported goods, VAT is calculated and collected by the competent custom's authority.

In order to ease the VAT payment at import, the law provides for the possibility for using of the right for delayed VAT payment within 15 days after the expiration of the accounting period when the tax debt occurred, by the way of submitting of a bank guarantee (Article 43, Paragraph 9 of the Law on Value Added Tax, and Article 10 of the Rulebook for implementation of the Law on Value Added Tax).

VAT is not payable for imported goods, for which a tax exemption is provided for their sales in the country, as well as other exemptions regulated in Article 27 of the Law on Value Added Tax.

d)

The deliveries of goods that are transported or dispatched abroad by the taxpayer, by the recipient of such goods, or by a third party upon their order, are VAT exempted with a right to a refund of the input tax, if the recipient of goods has headquarters abroad. The delivered goods can be processed or reprocessed prior to exportation by a third party upon an order of the recipient of the goods (Article 24, Paragraph 1, Item 1 of the Law on Value Added Tax).

Supply of goods to be transported or dispatched from the country to the free zones, customs zones or customs warehouses, are VAT exempted, with a right for refund of the input tax (Article 24, Paragraph 1, Item 2 of the Law on Value Added Tax).

International transportation of goods for export, and other services directly related to the exports of such goods are VAT exempted, with a right for refund of the input tax (Article 24, Paragraph 1, Item 3a of the Law on Value Added Tax).

International air transport of passengers is VAT exempted with a right for refund of the input tax (Article 24, Paragraph 1, Item 9 from the Law on Value Added Tax).

e)

The Law on Value Added Tax regulates the following tax exemptions in the country, without right of refund of the input tax (Article 23 of the Law on Value Added Tax):

1. Supply of residential buildings and apartments, in the part where they are used for housing purposes, with the exception of the first turnover, which will be conducted in a 5-year period after the construction;
2. Renting of residential building and apartments, if they are used for housing purposes;
3. Supply of postal and duty stamps at their nominal value, envelops, postcards and other items of postal value on which a postal stamp is affixed, as well as control stamps;
4. Postal services supplied by Macedonian Post Offices;
5. Supply of banking and financial services, such as:
 - a) Supply, including intermediary services, related to foreign currencies, banknotes and coins that serve as a legal means of payment in the country and abroad, with the exception of bank notes and coins that are not used as legal means of payment, or ones that have numismatic value;
 - b) Supply, including intermediary activities, related to shares or stakes in enterprises or associations, bonds and other securities, except for custody and management of securities;
 - c) Social insurance funds' management and special investment funds;
 - d) granting and intermediary activities related to loans, as well as their management by the creditor;
 - e) Supply, including intermediary activities, related to operations with current accounts, deposits, savings' accounts, payments, transfer orders, bills, checks, gyro accounts, credit cards, remittances, with the exception for collection of third party claims; and
 - f) Granting credit guaranties or other types of collateral, intermediary services related thereto, as well as management of credit guaranties by the creditor.
6. Insurance and reinsurance services, including the related services provided by insurance brokers and agents;
7. Games of chance and lotteries, the operation of which is regulated by the Law on Games of Chance and Lotteries;
8. Supply by institutions in the area of culture, for the purpose of creating, publishing and protecting the cultural and artistic artworks, as well as supply for botanical gardens, zoos, archives and documentation centres. The same applies to other tax payers, performing cultural activities upon a provision of an opinion from the Ministry of Culture;
9. Services of radio and TV broadcasting stations, except for commercial businesses;
10. Health services provided by hospitals, clinics, health centers, medical and chemical laboratories for diagnostics, rehabilitation centres and similar institutions;
11. Services and supply of goods by institutions for social welfare and protection, including services to homes for hospitalization, care and treatment of elderly;

12. Services for children and youth protection and supervision, as well as supply of goods related to such services;
13. Services for children and youth protection and accomodation, for the purpose of their upbringing, education or additional education, as well as supply of goods related to such services;
14. Services provided within the scope of professional activity by doctors, dentists and dental technicians, or by other medical professions, which provide medical health protection, as well as supply of dental prosthetics by dentists and dental technicians, except:
 - a) services provided by beauty and massage salons;
 - b) services provided by individuals, applying non-traditional methods of treatment; and
 - c) veterinary services;
15. Transportation services for sick and injured people, with vehicles especially assigned for such purposes;
16. Supply of human blood, mother's milk, human organs, cells and tissues;
17. Educational services:
 - a) education and upbringing of children and youth; and
 - b) services for professional training and retraining, as well as services provided by schools and centres for foreign languages;
18. Services of funeral institutions and crematoriums, as well as supply of goods related to these services;
19. International transportation of passengers; and
20. Supply of goods, exempted from the right of tax credit (Article 23, Paragraph 1, Item 20 of the Law on Value Added Tax).

f)

The place of supply of goods is defined in Article 13 of the Law on Value Added Tax.

A place for supply of goods is considered the be:

- the place where the goods are located at the time of supply, when the goods are not transferred or sent, and in the case when the goods are transferred or sent by the deliverer, recipient or by a third party to the place where the goods are located when the transportation or sending begins.
- the place where the goods are located when the transportation or delivery begins, in the case when the goods are transported or sent by the deliverer, recipient or by a third party;
- the place where the goods are assembled or installed in cases when the goods are assembled or installed by the deliverer or by other person on his/her behalf;
- the place where the goods are received, in case of delivery of electricity, gas, heating or cooling.

The place of supply of goods is defined in Article 14 of the Law on Value Added Tax.

According to the general rule, a place shall be where the supplier of services has a headquarter or branch office where such services are physically supplied. If such a place does not exist, the place of supply shall be the place where the supplier of services has permanent place of living or residence (Article 14, Paragraph 1 of the Law on Value Added Tax).

Exceptions from the general rule for the place of supply of services are envisaged for the following services:

- The route or part of the route, on which the transportation of goods is conducted (Article 14, Paragraph 2, Item 1 of the Law on Value Added Tax);
- the place where the immovable property is located, when referring to a service related to such property, including mediation in the supply of immovable property, property valuation, preparation, construction and supervision of construction activities (Article 14, Paragraph 2, Item 2 of the Law on Value Added Tax);
- The place where the services are physically conducted, such as:
 - a) cultural, artistic, research, educational, sporting, entertainment or similar services, including the services of the service organizers;
 - b) assessment of movable tangible goods, including the provision of an expert opinion for such movable tangible goods;
 - c) works conducted on the movable tangible goods; and

- d) auxiliary transportation services, such as loading, unloading, reloading, storage, or other services normally related to the transportation; and
- the place of supply, where the mediation was conducted, in case of mediation services (Article 14, Paragraph 2, Item 4 of the Law on Value Added Tax).

By exception to the general rule, the place of supply of services shall be one where the recipient of the service has its seat or branch office, or in the absence of such a place, the place of supply is the place where the recipient has permanent residence, in case of the following services (Article 14, Paragraph 3 of the Law on Value Added Tax, where provisions of Paragraph 2, Article 14 are primarily applied before the provisions of Paragraph 3 of Article 14 of the Law on Value Added Tax):

1. Services in the area of marketing and public relations (Article 14, Paragraph 3, Item 1 of the Law on Value Added Tax);
2. Banking and financial services, insurance and reinsurance services, except for renting of safes (Article 14, Paragraph 3, Item 2 of the Law on Value Added Tax);
3. Undertaking an obligation for partial or full refrain from conducting of some activity, or tolerating certain business or situation (Article 14, Paragraph 3, Item 3 of the Law on Value Added Tax);
4. Legal, economic and technical consulting services, especially the ones supplied by notaries, lawyers, auditors, tax advisors, accountants and engineers, as well as other similar services (Article 14, Paragraph 3, Item 4 of the Law on Value Added Tax);
5. Services for electronic data processing and provision of information, including know-how and expertise (Article 14, Paragraph 3, Item 5 of the Law on Value Added Tax);
6. Provision of personnel (Article 14, Paragraph 3, Item 6 of the Law on Value Added Tax);
7. Renting of movable tangible property, other than all types of transportation means (Article 14, Paragraph 3, Item 7 of the Law on Value Added Tax);
8. Telecommunication services (Article 14, Paragraph 3, Item 8 of the Law on Value Added Tax);
9. Transfer and assignment of copyrights, patents, licenses, trade marks and similar rights (Article 14, Paragraph 3, Item 9 of the Law on Value Added Tax);
10. Services of mediation related to the abovementioned services (Article 14, Paragraph 3, Item 10 of the Law on Value Added Tax).

g)

The time of occurrence of the tax liability is determined by the provisions of Article 31 of the Law on Value Added Tax.

The tax liability occurs at the moment when the transfer of goods has been completed, i.e. when the service has been fully delivered (Article 31, Paragraph 1 of the Law on Value Added Tax).

In the case the payment was made prior to the supply, the time occurrence of the tax liability is the moment when the payment has been received, up to the level for the amount of tax received (Article 31, Paragraph 2 of the Law on Value Added Tax).

The tax payer calculates the VAT for the appropriate tax period according to the total sales, if a tax liability occurred during that period, while the calculated tax is decreased for the tax credit that can be deducted according to Articles 33-36 of the Law on Value Added Tax, and which refers to the same taxation period, for which tax is calculated (Article 40, Paragraphs 1 and 2 of the Law on Value Added Tax).

The tax payer shall submit a tax return within 15 days upon expiration of the taxation period, in which the taxpayer calculates the tax, and which is to be paid within the same deadline (Article 41, Paragraph 1, and Article 42, Paragraphs 1 and 2 of the Law on Value Added Tax). If the amount of the previous tax is higher than the calculated tax amount, the tax difference is returned to the tax payer upon his request, which he presents in the tax return. If the tax payer does not present such a request, the tax difference is transferred as an advance payment of tax for the following taxation period (Article 45, Paragraph 1 of the Law on Value Added Tax).

Time of occurrence of tax liability for import of goods is considered to be the following (Article 31, Paragraph 6 of the Law on Value Added Tax):

- The day when the liability for payment of customs and other import levies occurs (or the day of import of goods in the country, in the case of goods that are not subject to customs);
- The moment when the goods, under the arrangement of free zones, customs zones or customs warehouses, or when the goods are in transit or temporarily imported, are released for free circulation.

The competent customs authority calculates and collects the VAT (Article 40, Paragraph 4, and Article 43, Paragraph 6 of the Law on Value Added Tax).

h)

VAT is calculated by the application of tax rates based on the tax base for taxable sales of goods and services and import.

Preferential tax rate of 5% (Article 30 of the Law on Value Added Tax) is applied on the sale in the country and on the import of the following goods:

1. Food products;
2. Potable water from public water supply systems;
3. Publications, such as: books, brochures and similar printed material, newspapers and other periodical publications, children's picture books, drawing and colouring books, as well as cartographic products of any type, except for publications that serve mostly for advertising purposes, along with publications with pornographic content.

The general 18% tax rate is applied to the entire turnover of goods and services in the country and to imports, except for the turnover and import that is taxed under the preferential tax rate (Article 29 of the Law on Value Added Tax).

Nominally, there is no zero tax rate in the Republic of Macedonia, but exports are exempt from taxation with the right for tax credit (Article 24, Paragraph 1, Item 1 of the Law on Value Added Tax – see d). This also applies to the following sales:

- sale of gold and other precious metals to the central banks;
- international air transportation of passengers;
- sale, modification, repair, maintenance, chartering and leasing aircrafts that are mainly used in international commercial air traffic, as well as delivery, rental, repair and maintenance of goods that serve for equipping of the aircraft, such as sale of goods and services related to the direct needs of the aircrafts (Article 24 of the Law on Value Added Tax).

When the preferential tax rate of 5% among certain tax payers is applied to the sales, while the input is generally taxed by 18% rate, the level of preferential tax rate does not fully allow for deduction of the input tax.

Supply of services is not subject to a preferential VAT rate.

i)

The competent tax body returns the surplus tax credit to tax payers that have the right for return of tax difference within 30 days after the day of the request submission (presented in the tax return) (Article 45, Paragraphs 1,2,3 and 4 of the Law on Value Added Tax).

If the tax payer does not present such a request, the difference is transferred as advanced payment of tax for the following taxation period.

The Law does not stipulate any special provisions and deadlines for return of the tax credit for exporters.

Article 35 of the Law on Value Added Tax lists all exemptions from the right for tax credit deduction: expenditures for gifts and entertainment, vehicles transporting passengers, expenses for hotel accommodation, expenses for transportation of persons and procurement of refrigerators, audio and video devices, carpets and artistic items for the purpose of furnishing of business premises.

j)

The right for tax credit deduction is stipulated in Articles 33 and 34 of the Law on Value Added Tax.

As tax credit is considered:

1. VAT for sale provided to the tax payer by other tax payers;
2. VAT for payments that the tax payer made for sale, when such payments are still outstanding; and
3. VAT paid for import of goods.

The right for deduction of tax credit can be exercised:

1. When the tax payer uses the supplied or imported goods, i.e. services for purposes of his/her business activities;
2. On a basis of an invoice issued as per Article 53 of the Law on Value Added Tax, or customs declaration, on which collected tax on import is separately stated, and when such documents are recorded in the accounting books of the taxpayer.

The right of tax credit deduction occurs at the moment when all conditions stipulated in the Law on Value Added Tax have been met.

k)

The Law on Value Added Tax does not include special procedures for taxation of small and medium sized enterprises, fixed collection for farmers, investment gold and simplifying procedures.

The Law on Value Added Tax determines a special procedure for taxation of tour operators (Article 38 of the Law on Value Added Tax).

In case of turnover of second-hand goods, including second-hand motor vehicles, art or collection items and antiquities, the Law on Value Added Tax determines a special tax base, which is the difference between the selling and the purchasing price, if tax is not due to for such supply by the tax payer (Article 19, Paragraph 1, Item 5 of the Law on Value Added Tax).

l)

All tax payers, whose total turnover in the previous calendar year exceeded the mandatory threshold of registration, or whose total turnover is projected to exceed the amount at the beginning of the business, are obliged to register for VAT purposes by submitting a registration form (VAT-01 according to the Rulebook of the form and content of the VAT registration form).

The tax payer is obliged to maintain complete and accurate book-keeping records for the purpose of tax calculation, especially for its supply and previous tax credit, thus to facilitate easy review of records.

The records shall contain data for the individual supply of the tax payer, supply to the tax payer, import of the tax payer, adjustment of the tax base and deductions of the tax credit, tax credit that can be deducted, division of tax credits and amount of tax to be paid. The records are kept on the basis of received and issued invoices, customs documents or other documents, within terms stipulated for tax collection (Article 52 of the Law on Value Added Tax).

The Rulebook for implementation of the Law on Value Added Tax stipulates certain alleviation in regard to records' duties (Article 15, 16, and 17 of Rulebook).

The tax payer shall issue an invoice upon delivery made to other tax payers (Article 53, Paragraph 1 of the Law on Value Added Tax).

The invoice must contain all data as prescribed in Article 53, Paragraph 10 of the Law on Value Added Tax. This invoice is a prerequisite for tax credit deduction (Article 34, Paragraph 1, Item 2 of the Law on Value Added Tax).

The Rulebook for implementation of the Law on Value Added Tax regulates certain alleviation in respect to the obligation for issuing an invoice, as well as the obligation for presentation of certain data in issuing invoices (Article 18-23 of the Rulebook).

Tax payers that made a supply, for which payment is not executed by banks, i.e. payment is in cash, are obliged to introduce and approve a fiscal system of equipment for registration of cash payments, and issue a bill for the supply, according to the Law on registration of cash payments.

m)

The tax payer calculates the VAT for the given tax period according to the total supply made, if there is a tax liability in that period, decreased for the tax credit, which can be deducted according to the law, and which refers to the same taxation period (Article 40, Paragraphs 1,2 of the Law on Value Added Tax).

The tax payer submits a tax return, in a prescribed form, within 15 days after the expiry of the tax period, in which he/she calculates the tax by himself/herself (Article 41 of the Law on Value Added Tax).

The tax payer is obliged to pay the calculated and registered tax for the relevant tax period, within 15 days after the expiry of the tax period (Article 43, Paragraphs 1,2 of the Law on Value Added Tax). Tax period is a calendar month or a calendar quarter if the total turnover in the last calendar year did not exceed an amount of 25 million MKD (approximately Euro 405.000). In respect to the voluntary registered tax payers, which have not overcome the mandatory registration threshold, a calendar year is considered as a tax period (Article 39 of the Law on Value Added Tax).

In case of overdue tax payment upon expiration of deadlines prescribed by the law, the tax payer is liable to pay a 0,05% interest rate for each day of delay (Article 44 of the Law on Value Added Tax).

If the previous tax amount in a given tax period is higher than the tax calculated for the supply, the tax difference is refunded to the tax payer based on his written claim stated in the tax return. If the tax payer fails to submit such a claim, the difference is transferred as advance payment for the following taxation period. The tax difference is refunded within 30 days after the day of the tax return submission. (Article 45 of the Law on Value Added Tax).

The tax payer is entitled to submit an appeal against the decision of a tax authority imposing additional assessment of VAT, as well as against the decision for refusing the right for deduction or payment of the previous tax. credit (Article 58 of the Law on Value Added Tax).

The appeal is submitted to the Ministry of Finance through the relevant tax authority within 15 days after submission of the decision. The appeal does not delay the execution of the decision. .

Also, one can initiate an administrative procedure initiated against the second-instance decision of the Ministry of Finance before the Macedonian Supreme Court within 30 days after the decision is received.

In accordance with the customs regulations, an appeal could be submitted against the customs authority's decision for assessment and payment of tax.

Penalty provisions are encompassed with Articles 59,60 and 60a of the Law on Value Added Tax.

n)

The Law on Value Added Tax does not stipulate any interim or transitional provisions.

o)

Tax payers without headquarters or branch offices in the Republic of Macedonia, and ones that do not conduct any supply within the country, or without outstanding sales tax, shall upon their request, be entitled to refund, the tax credit, that can be deducted, according to Articles 33-36 of the Law on Value Added Tax (Article 46 of the Law on Value Added Tax).

The refunding procedure is stipulated in Article 11 of the Rulebook for application of the Law on Value Added Tax.

Although, the tax return in the Law on Value Added Tax is determined with the existence of reciprocity, Macedonian tax authorities return paid Macedonian VAT to the tax payers from all countries. Our country has decided under the word “reciprocity” to understand assumed i.e. formal reciprocity. This means that the right for deduction of previously calculated tax credit, is being the basic principle of VAT, and is given precedence to the reciprocal regulations among countries. VAT’s founding principle should be implemented regardless whether the supply is received in the country or abroad.

p)

i)
VAT control, which is part of the control of other taxes, is performed by the Public Revenue Office, in compliance with the Law on Assessment and Collection of Public Revenues (“Official Gazette of RM” No. 13/2001, 61/2002, 24/2003, 77/2003 and 19/2004).

ii)

The number of tax inspectors that perform controls was 252 as of 30.06.2004. They perform controls over all types of taxes.

iii)

Up to now there have not been any requests of foreign tax authorities for exchange of information, as well as requests of the Macedonian tax authorities towards foreign tax authorities in regard to VAT.

3. Please provide information regarding rules governing travellers’ allowances on import and export. Is a general tax rate envisaged? How would it be collected?

Import of goods by travellers when entering the country regarded as personal baggage and items of small value (Euro 50 in Denar equivalent), which they import from abroad, or received by Macedonian citizens and foreign citizens, provided these items are not intended for resale in accordance with the customs regulations is tax exempted (Article 27, Paragraph 1, Item 15 of the Law on Value Added Tax, “Official Gazette of RM” No. 44/99, 59/99, 86/99, 11/00, 8/01, 31/01, 21/03 and 19/04).

Sales of goods, which the receiver – foreign citizen exports, is tax exempted (Article 25 of the Law on Value Added Tax) if:

1. The receiver of goods has permanent residence abroad;
2. The goods are imported within 3 months after the issuing of an invoice or account; and
3. The total value of the sales of goods exceeds MKD 15.000 including VAT.

The activities for determination of the procedure for implementation of Article 25 of the Law on Value Added Tax are ongoing.

4. Does your country operate free zones? If yes, please provide the text of the relevant act. Which regime is applied in the free zones for VAT and excise purposes? Are the free zones excluded from the territorial application of VAT and/or excise duties?

There are free zones in the Republic of Macedonia, while the conditions, manner of establishment, activities and ceasing of free economic zones is regulated by the Law on Free Economic Zones (“Official Gazette of RM” No. 59/99, 41/00 and 6/02), see [10 Annex 17](#).

The Law provides certain tax exemptions and relieves, and in light of the Law on Value Added Tax, the beneficiary of the free zone is exempted from payment of (Article 26 from the Law on Free Economic Zones):

- VAT for products turnover in the free zone, except for turnover intended for final consumption;
- VAT on products that are imported in the free zone for production intended for export and for execution of other approved activities in the free zone;
- VAT on services performed in the free zone and directly related with the export of goods and services;

This tax exemption is realized if the beneficiary of the free zone meets the conditions regulated in Article 25 from the Law on Free Economic Zones, which also prescribes the procedure for realization of the exemption.

The turnover and exchange of goods and services among the free zones will be exempted from the VAT (Article 32 of the Law on Free Economic Zones).

In the Law on Value Added Tax, free economic zones are excluded from the territorial application of the law, i.e. if turnover of goods and services is performed in the free zone, the turnover is not subject to VAT taxation (Article 11 of the Law on Value Added Tax, "Official Gazette of RM", No. 44/99, 59/99, 86/99, 11/00, 8/01, 31/01, 21/03 and 19/04). An exception is the turnover intended for final consumption in free zones, which will be considered as turnover realized in the country, and is subject to VAT taxation (Article 12 from the Law on Value Added Tax).

Provisions from the Article 12 of the Law on Value Added Tax are applied due to sale of goods (for example in newsstands or vending machines), selling of food and drinks for the consummation at the spot (for example in cafeterias), sale of fuel or repair of vehicles that are used for personal needs, or needs that do not provide the right for exemption of previous tax, as well as the turnover (for example construction activities) towards public-legal bodies.

The import of goods in the free zones, which according to the special regulations, are not intended for final consumption while they are subject to a special regime, is exempted from VAT (Article 27, Paragraph 1, Item 3 from the Law on Value Added Tax). Also, the services directly related to this import are exempted from VAT (Article 24, Paragraph 1, Item 3(c) of the Law on Value Added Tax). According to the Law on Excises (Official Gazette of the Republic of Macedonia, No. 32/01, 50/01, 52/01, 45/02, 98/02 and 24/03), the free economic zone is not exempted from the excise territory i.e. belongs to the excise territory, and as part of this territory, the provisions of the Law on Excises are applied (Article 1 from the Law on Excises).

Goods - subject to excise, which are under customs supervision in compliance with the customs regulations, in the same time are in a procedure of non-existence of conditions for arising of excise debt (Article 4, Paragraph 2 from the Law on Excises).

Under the terms goods-subject to excise, are recognised goods imported in customs zones, i.e. free economic zones, subject to customs supervision (Article 1, Items 7 and 8 of the Rulebook for implementation of Law on Excises ("Official Gazette of RM" No. 40/01, 72/01, 89/01, 50/02, 86/02, 19/03, 54/03 and 6/04).

As long as, goods subject to excise are under customs supervision, they are in a procedure of non-existence of conditions for arising of excise debt, i.e. are excise exempted.

5. What are your targets for future developments of your VAT legislation (short/long term)? Please specify these in terms of timetables and anticipated problem areas.

Taking into consideration the fact that the Law on Value Added Tax ("Official Gazette of RM" No. 44/99, 59/99, 86/99, 11/00, 8/01, 31/01, 21/03 and 19/04) is mostly harmonised with the European Legislation, as well as that it has been successfully implemented so far, the future development of legislation in this area will be focused on additional harmonization of this taxation system with the European VAT legislation.

To be more specific, changes in the Law on Value Added Tax are envisaged for 2005, but the only objective of these changes will be to remove the deficiencies manifested during the previous 5-years application of the existing laws. The problematic areas are the following: sale of the business enterprise (taking over of enterprises or part of them), sale of mortgage property, additional precising of certain exemptions, without their influence to the tax revenue, additional precising of certain provisions for the NGO sector, as well as other improvements that refer to a more efficient tax administration, as well as terminological issues. Analysis on the effects from the possible introduction of a special farmers' taxation regime will be prepared in 2006.

C. Excise duties

1. Please provide a copy of your country's excise duty legislation (in one of the official EU languages), including other related legislation, such as administration guidelines, etc.

Please find enclosed the Law on Excises and additional regulations related to excise:

1. Law on Excises ("Official Gazette of RM" No. 32/01, 50/01, 52/01, 45/02, 98/02, 24/03 and 96/04), see [10 Annex 04](#),
2. Rulebook on implementation of the Law on Excises ("Official Gazette of RM" No. 40/01, 72/01, 89/01, 50/02, 86/02, 19/03, 54/03 and 6/04), see [10 Annex 18](#),
3. Decision on the manner of securing the collection of customs duties and other public taxes on excises goods ("Official Gazette of RM" No. 64/96 and 35/97), see [10 Annex 19](#).

2. Please give a detailed description of your current excise legislation, particularly in the following areas:

a) Taxable scope (product categories liable to excise duty). The following areas are of special interest:

i) Alcohol and alcohol drinks:

The following are subject to excise on beer:

- Products with tariff number 2203, with alcohol content more than 0.5% volume; and
- Products with tariff number 2206, containing mixture of beer and beverage, and with alcohol content more than 0,5% volume.

The following are subject to sparkling wine excise:

All products with tariff numbers 2204 10, 2204 21 10, 2204 29 10 and 2205, when:

- products bottled with cork strengthened with special supporters or products under dissolved carbon dioxide pressure of 3 bars or more; and
- products with alcohol content more than 1,2% volume, and at most 15% volume, when the alcohol content of the finished product is only result of fermentation.

The following are subject to wine excise:

All products with tariff numbers 2204 and 2205, with the exception of sparkling wines,when:

- the alcohol content is higher than 1,2% volume, and at most 15%, when the alcohol content in the finished product is only result of fermentation; or

- the alcohol content is higher than 15% volume, and at most 18%, if not produced by enrichment and when the alcohol content in the finished product is only result of fermentation.

Besides sparkling wine, wine and beer, the following products are subject to excise tax under the name:

“other sparkling fermented drinks” with tariff marks 2206 00 31 00 and 2206 00 39 00, as well as the products with tariff numbers 2204 10, 2204 21 10, 2204 29 10 and 2205 of the customs nomenclature, that:

- have been bottled with a cork sustained by special supporters, or products under dissolved carbon dioxide pressure of 3 bars or more; and
- have more than 1,2% volume alcohol content, and at most 13% volume; or
- have more than 13% volume alcohol content, and at most 15% volume, when the alcohol content in the finished product is only result of fermentation.

“other non-sparkling fermented drinks” falling under tariff number 2204 and 2205, as well as products with tariff number 2206, with the exception of other sparkling fermented drinks:

- with alcohol content more than 1,2% volume, and at most 10% volume; or
- with alcohol content more than 10% volume, and at most 15% volume, when the alcohol content in the finished product is only result of fermentation.

The following are subject to semi-products excise:

All products falling under the tariff numbers 2204, 2205 and 2206 with alcohol content more than 1,2% volume, and at most 22% volume.

The following are subject to ethyl alcohol excise:

- all products falling under the tariff numbers 2207 and 2208 with alcohol content more than 1,2% volume, even when these products are part of some other product that falls under separate chapter of the customs nomenclature;
- all products with tariff numbers 2204, 2205 and 2206 of the customs nomenclature with alcohol content more than 22% volume; and
- drinkable ethyl alcohol, regardless of whether it contains dissolved products or not.

The procedure for measurement of percentage of alcohol volume is performed according to the regulations for the methods for taking samples and performing chemical and physical analysis of alcohol drinks.

ii) Cigarettes and other tobacco processing:

Tobacco goods subject to excise are:

- Cigars and cigarillos
- Cigarettes
- Smoking tobacco, being:
- Fine chopped hand rolling tobacco
- Other tobacco for smoking.

Cigars and cigarillos are tobacco rolls for smoking with internal wrapping, or internal and external wrapping, which are:

- made exclusively of natural tobacco;
- with external wrapping of natural tobacco; or
- with external wrapping in cigar colour and internal wrapping, both out of homogenised and reconstructed tobacco, when at least 60% of the tobacco pieces inside have width and length

more than 1,75mm, the external wrapping is wrapped in a spiral way, while the cigar has 30% sharpen top regarding the cigar axis; or

- with external wrapping in cigar colour and internal wrapping, both out of homogenised and reconstructed tobacco, if their weight per piece without filter and mouth addition amounts at 2,30g or more, and if at least 60% of the tobacco pieces inside have width and length more than 1,75mm, while the width of their wrapping, in at least one-third of the length of the roll, is 34mm. Weight per piece is the average weight of 1.000 pieces without filter and mouth addition at the time of the excise occurrence.

Cigarettes are:

- tobacco wraps, directly for smoking, and are not cigars or cigarillos;
- tobacco wraps, that in a simple non-industrial process are put in a cigarette paper wrap; and
- tobacco wraps, that in a simple non-industrial process are wrapped in cigarette paper sheets.

Smoking tobacco (fine chopped hand rolling tobacco and other smoking tobacco) is chopped or otherwise chopped up, weaved or plate-pressed tobacco, which can be smoked without further industrial processing. Tobacco scrap is considered as smoking tobacco, when is for smoking or retail sale, and is not included in cigars and cigarillos or cigarettes.

Smoking tobacco is considered fine chopped hand rolling tobacco if 25% of the volume of the tobacco pieces have width less than 1mm. Smoking tobacco is considered as fine chopped tobacco if 25% of the volume of the tobacco pieces have width more than 1mm, and which is sold or intended to be sold for rolling cigarettes.

iii) Mineral oils (petrol, diesel fuels etc) and other energy products (electricity, natural gas, coal):

The following mineral oils are subject to excise duty:

- products with tariff number 2706;
- products with tariff sub-numbers 2707 10, 2707 20, 2707 30, 2707 50, 2707 91 00, 2707 99 11 and 2707 99 19;
- products with tariff number 2709;
- products with tariff number 2710;
- products with tariff number 2711, including chemically pure methane and propane, with the exception with natural gas;
- products with tariff sub-numbers 2712 10, 2712 20, 2712 90 31, 2712 90 33, 2712 90 39, 2712 90 91 and 2712 90 99;
- products with tariff number 2715;
- products with tariff number 2901;
- products with tariff sub-numbers 2902 11, 2902 19, 2902 20, 2902 30, 2902 41 00, 2902 42 00, 2902 43 00 and 2902 44;
- products with tariff sub-numbers 3403 11 00 and 3403 19;
- products with tariff number 3811; and
- products with tariff number 3817.

Also as Mineral oils subject to excise duty are considered all other goods for used as fuel or as additives, which are offered for sale or use, as well as other carbon hydrates, which are for use as heating oil or are offered for sale, with the exception of hard coal, brown coal, peat or other comparable solid carbon hydrates or earth gas. Their use produces an excise duty, which should be paid immediately. These goods are taxed at an excise rate of homogenous mineral oils.

iv) Motor vehicles (excise duties, registration fees, and other taxation):

The following motor vehicles are subject to excise duty:

- with clip engine (except for rotation clip engine) with combustion and the assistance of tariff sub-numbers: 8703 21, 8703 22, 8703 23 and 8703 24 and

- with clip engine with combustion and the assistance of compression (diesel or semi-diesel) from the tariff sub-numbers: 8703 31, 8703 32 and 8703 33.

v) Other categories of products that represent a larger part of exciserevenue:

Other categories of products are not subject to excise duty in the Republic of Macedonia.

b) Establishment of excise duty, i.e. how the excise is calculated (according to volume, weight, ad valorem etc):

Mineral oils:

- motor fuel with tariff marks 2710 00 26 00, 2710 00 27 00, 2710 00 29 00, 2710 00 32 00, 2710 00 34 00, 2710 00 36 00 including:
 - fuel with lead content more than 0,013g/l and kerosene – 1 litre measured at +15C temperature;
 - unleaded fuel with lead content up to 0,013g/l 0 1 litre measured at +15C temperature.
- Gas oil with tariff marks from 2710 00 66 00 to 2710 00 68 00, for use as:
 - fuel – 1 litre measured at +15C temperature;
 - heating fuel – 1 litre measured at +15C temperature.
- Liquid oil gas with tariff marks from 2711 12 11 00 to 2711 19 00 00 and methane with tariff mark 2711 29 00 00 for use as:
 - fuel – 1kg;
 - heating fuel – 1kg.
- kerosene with tariff marks 2710 00 51 00 and 2710 00 55 00, for use as:
 - fuel – 1kg;
 - heating fuel – 1kg.
- stoking oil with tariff marks 2710 00 74 00, 2710 00 76 00, 2710 00 77 00, 2710 00 78 00 - 1kg.
- lubricant oils, hydraulic oils and other mineral oils with tariff marks 2710 00 39 00, 2710 00 87 00, 2710 00 88 00, 2710 00 89 00, 2710 00 92 00 and 2710 00 94 00 – the base is the selling price without VAT, which does not contain excise, while during the import the base is the value of that goods determined according to customs regulations, including customs and other import fees paid during the import.

Alcohol and alcohol drinks:

- beer – litre/alcohol degree, or litre/extract degree;
- sparkling wine – 1 litre;
- wine – 1 litre;
- other sparkling drinks – 1 litre;
- other non-sparkling drinks – 1 litre;
- semi-products – 1 litre pure alcohol;
- ethyl-alcohol – 1 litre pure alcohol, measured at +20C temperature.

Cigarettes and other tobacco processing:

When releasing from excise warehouse into free legal-excise trade, and at import:

- cigars and cigarillos – per piece and % of the retail price;
- cigarettes – per piece and % of the retail price;
- smoking tobacco as fine chopped tobacco – per kilogram and % of the retail price; and
- smoking tobacco as other smoking tobacco – per kilogram and % of retail price.

Motor vehicles

While leaving the excise warehouse into liberal legal-excise turnover and during import of motor vehicles, a specific excise duty is paid depending on the engine volume of the cylinder.

c) Excise exemptions

Excise exemptions for diplomatic and consular representative offices and international organisations:
Goods subject to excise are exempted from excise in the following cases:

- for circulation within the diplomatic and consular missions, on the basis of separate agreements signed with the country-supplier, and on the basis of reciprocity;
- for international organisations, recognised by the host country, as well as their members, according to the conditions determined with the international agreements for establishment of these organisations, or in the agreements for determination of their headquarters; and
- for military forces of the contractual parties of the North Atlantic Treaty, for use and consumption by the forces or their personnel, or for supply of their casinos and canteens.

For turnover on the excise territory, excise exemption is conducted according to procedures and the manner determined in Articles 48 and 49 of the Law on Value Added Tax.

Other excise exemptions:

Goods subject to excise are excise exempted in cases when:

- they are used as test analysis, for necessary production tests or scientific purposes;
- are destroyed under tax supervision;
- denaturalised under tax supervision;
- are used for scientific-research purposes;
- traveller carries them from abroad in his personal baggage, when not of commercial nature; and
- mineral oils and gas kept in standard reservoirs of motor vehicles or airplanes that coming from abroad and are not for future sale, and are exempted from payment of import fees according to customs regulations.

Excise exemptions for mineral oils:

- not used as fuel or for heating, except mineral oils stipulated in Article 29 of this Law;
- used in air traffic, except when used in air traffic for private purposes;
- used in furnaces as an additive to the main fuel-coke within the chemical reduction procedures;
- supplied by the Ministry of Defence and Ministry of Interior for special vehicles used in defence and security;
- mineral oils are exempted from excise when used for production of mineral oils. This exemption does not relate to non-production purposes, including the use of vehicle fuel.
- mineral oils are exempted from excise when imported, when they are used for realisation of projects financed by foreign donors, based on agreements between the Macedonian Government and foreign donors, containing a clause that the donated funds cannot be used for paying taxes.

Excise exemptions for alcohol and alcohol drinks:

- Use for production of vinegar according to tariff number 2209 of the customs nomenclature;
- When fully denaturalised, is put into free legal-excise trade according to the appropriate regulations;
- Use for production of a product not suitable for human taste of the denaturalised alcohol;
- Use for drugs production;
- Use for medical purposes in hospitals, clinics and pharmacies;
- Use for production of aromas for food products and non-alcoholic drinks with alcohol content at the most 1,2% volume; and
- Directly or use as part of semi-products for production of food products, stuffed or in other form. Alcohol content in the praline candies cannot exceed the 8,5 litre limit of pure alcohol per 100kg of the product, and at products other than praline candies – 5 litres of pure alcohol per 100kg of the product.

d) What is the level of duty applied for each product? Is the rate level the same for similar imported products? If not, explain why.

The excise amount is the same for domestic and imported goods (alcohol drinks and mineral oils), except for the tobacco goods. For cigars, cigarillos and smoking tobacco, the excise was levelled on 01.01.2005, while for cigarettes will be levelled on 01.01.2007.

The levelling of the excise of the domestic and imported tobacco goods will result in smaller taxes on the imported tobacco goods, followed by the decrease of their retail price, which could lead to decrease of the demand of the domestic tobacco goods regarding the imports. In order to avoid any potential negative consequences in the domestic tobacco industry with radical levelling of the excise duties, it will be gradually decreased, until its final levelling.

The prescribed excise by products amounts at:

Cigarettes and other tobacco processing

The combined excise duty on tobacco goods from 1.01.2005 amounts to:

- during putting into circulation from the excise warehouse into liberal legal-excise turnover:

- of cigars and cigarillos 1,35 Denars per piece and 0% from the retail price;
- of cigarettes in the context of 0,04 Denars per piece and 33% from the retail price;
- of smoking tobacco as fine chopped tobacco 1.350,00 Denars per kilogram and 0% from the retail price and
- smoking tobacco as another smoking tobacco 1.350,00 Denars per kilogram and 0% from the retail price.

-during import:

- of cigars and cigarillos 1,35 Denars per piece and 0% from the retail price;
- of cigarettes 1,1 per piece and 8% from the retail price;
- of smoking tobacco as fine chopped tobacco 1.350,00 Denars per kilogram and 0% from the retail price and
- of smoking tobacco as another smoking tobacco 1.350,00 per kilogram and 0% from the retail price.

Mineral oils

Specific excise on the following mineral oils is for:

Motor fuel with tariff marks 2710 00 26 00, 2710 00 27 00, 2710 00 29 00, 2710 00 32 00, 2710 00 34 00, 2710 00 36 00:

- fuel with lead content higher than 0,013g/l and kerosene = 24,396 den/lit
- Unleaded petrol with lead content up to 0,013g/l = 21,692 den/lit;

Gas oil with tariff marks from 2710 00 66 00 to 2710 00 68 00, for use as:

- Fuel = 12.121 den/lit
- Heating fuel = 3.136 den/lit

Liquid oil gas with tariff marks from 2711 12 11 00 to 2711 19 00 00 and methane with tariff mark 2711 29 00 00 for use as:

- Fuel = 4.900 den/lit
- Heating fuel = 4.876 den/lit

Kerosene with tariff mark 2710 00 51 00 and 2710 00 55 00, for use as:

- Fuel = 9.000 den/lit
- Heating fuel = 1.800 den/lit

Stoking oil of tariff marks 2710 00 74 00, 2710 00 76 00, 2710 00 77 00, 2710 00 78 00 = 0,100 den/kg.

Lubricants, hydraulic oils and other mineral oils with tariff marks 2710 00 39 00, 2710 00 87 00, 2710 00 88 00, 2710 00 89 00, 2710 00 92 00 and 2710 00 94 00 = 10%.

Alcohol and alcohol drinks

- the excise on beer is 3 denars per litre/ percentage of alcohol or 1,25 denars per litre/extract rate
- the excise for sparkling wine is 0 denars per litre
- the excise for wine is 0 denars per litre
- the excise for other sparkling drinks is 0 denars per litre
- the excise for other non-sparkling drinks is 0 denars per litre
- the excise for semi-products is 300 denars per litre pure alcohol
- the excise for ethyl-alcohol is 300 denars per litre pure alcohol, measured at 20C temperature.

Motor vehicles

The specific excise duty of motor vehicles depending on the cylinder engine volume amounts to:

- cylinder engine volume not exceeding 1.000 cubic centimeters in the amount of 0 Denars for motor vehicles;
- cylinder engine volume exceeding 1000 cubic centimeters, but not exceeding 1500 cubic centimeters in the amount of 15.000 Denars for motor vehicles;
- cylinder engine volume exceeding 1500 cubic centimeters, but not exceeding 2000 cubic centimeters in the amount of 74.000 Denars, and for motor caravan in the amount of 90.000 Denars;
- cylinder engine volume exceeding 2000 cubic centimeters, but not exceeding 2500 cubic centimeters for motor vehicles in the amount of 160.000 Denars, and for motor caravan in the amount of 180.000 Denars;
- cylinder engine volume exceeding 2500 cubic centimeters, but not exceeding 3000 cubic centimeters for motor vehicles in the amount of 330.000 Denars, and for motor caravan in the amount of 360.000 Denars;
- cylinder engine volume exceeding 3000 cubic centimeters in the amount of:
 - 470.000 Denars for motor vehicles, except for motor caravan, with clip combustion engine with the assistance of compression (diesel or semi-diesel),
 - 550.000 Denars for motor vehicles with clip combustion engine with the assistance of compression (diesel or semi-diesel) and for motor vehicles and motor caravan with clip engine (except for rotation clip engine) with combustion engine.

e) Chargeable event and chargeability of the duty.

The excise arises with delivery of goods subject to excise, into consumption in an excise warehouse, or with their exit from the warehouse, except when goods are used in the excise warehouse exempted from excise, or in a new procedure of non-existence of conditions for arising of excise debt. Excise payer is the excise license holder. In cases of illegal release of goods in free excise-legal trade, also excise payer becomes the person who has performed the activity.

If the goods subject to excise are produced out of the procedure of non-existence of conditions for arising of excise debt, the excise arises with the production. The producer is the excise payer. He is obliged to submit an excise return for the goods subject to excise for which an excise is arisen . Excise is paid immediately.

The goods subject to excise located in an excise warehouse at the moment when the excise license expires are treated as released in free excise-legal trade, except if they are not transferred into

another excise warehouse within 10 days from the expiration of the excise license. Excise payer is the excise license holder.

Excise arises for the shortage determined at prescribed or officially conducted stock count, except when losing of goods is determined. Weight loss is treated as losing of goods. Excise payer is the excise license holder.

Excise arises at the moment of exit of goods from the procedure of non-existence of conditions for arising of excise debt when transported during the procedure, except when there is weight loss. The same applies when goods are not delivered to the buyer stipulated in the excise document, except in the cases when they are directly delivered to another entity in the excise territory, which is competent for reception of goods that are subject to excise in a procedure of non-existence of conditions for arising of excise debt, or in cases of proven loss of goods due to unforeseen circumstances or Vice Major. Excise payer is the supplier, or the transporter, customs payer or the good's owner, if some of them provided a guaranty when delivering the goods instead of the supplier. The entity that receives the goods at excise territory will become an excise payer in case it is in his possession before the arising of the excise. The person that illegally appropriates the goods becomes excise payer.

Excise arises on excise-preferential goods, which are used contrary to their purpose. The use contrary to the purpose is determined in cases when the goods subject to excise will be used contrary to the excise-preferential use stipulated in their purpose, or when it can no longer be used for that purpose. The excise does not arise in cases of good's loss due to unforeseen circumstances or Vice Major. Weight loss is treated as losing of goods due to unforeseen circumstances or Vice Major. The person that possesses an approval for excise-preferential use, but uses the goods contrary to its purpose, is the excise payer. The excise payer should submit an excise return, where he would calculate the excise by his own, for the goods subject to excise, for which the excise is arisen,. Excise is paid immediately.

The excise period for which the excise is calculated and paid is one calendar month in which the excise is arisen. The excise payer calculates the excise in the excise period, if excise arisen.

The excise payer is obliged to submit an excise return and pay the excise for each excise period within 15 days after expiration of each calendar month.

The excise on semi-products and ethyl-alcohol is paid by use of control stamps. The Public Revenue Office issues control stamps to the excise license holder or importer. The release of semi-products and ethyl-alcohol into free excise-legal trade on the excise territory is allowed only if these goods are marked with a control stamps. When obtaining control stamps, debt arises for the control stamps in amount of the excise value of the stamps.

In cases when semi-products and ethyl-alcohol are released in free excise-legal trade at an international fair, exhibition or other manifestation, or as samples, the excise payment can be conducted in another manner, except through use of control stamps. The excise should be immediately registered at the competent authority.

The excise on tobacco goods is paid with use of control stamps. The Public Revenue Office issues control stamps to a producer and importer. Release of tobacco goods in free excise-legal trade on the excise territory is allowed only if excise goods are marked with a control stamp. When obtaining the control stamps, debt arises for the control stamps in amount of the excise value of the stamps. Excise value of one control stamp is calculated from the excise for one cigarette, cigar, cigarillos or 1kg of smoking tobacco, and the data on the amount stated at the control stamp.

In cases when tobacco goods are released in free excise-legal free trade at an international fair, exhibition or other manifestation, or as samples, the excise payment can be conducted in another manner, except through use of control stamps. The excise must be immediately registered at the competent authority.

The debt for control stamps is paid in the following deadlines:

- for control stamps obtained until the 15th day of the current month until the 15th day of the following month; and
- for control stamps obtained from the 16th day of the current month until the last day of the following month.

f) Import/export

Import excise arises on the day when the customs debt arises. The person that imports the goods is the import excise payer. According to Article 15, Paragraph 2 of the Law on Excises, when importing excise goods, excise is calculated by the competent customs authority that implements the customs procedure. Excise is paid when paying customs, except in case when excise payment is conducted by use of control stamps.

Tax exempt are imported goods when transported directly to excise warehouse or to a holder of an excise approval, providing that all import duties have been paid.. The customs office certifies the excise document in this case. The good's transport should be accompanied by an excise document. The good's importer-receiver certifies the given sheets of the excise document, and submits two copies to the Public Revenue Office, one of which is returned to the customs authority. The Customs Administration notifies the Public Revenue Office for the non-confirmed excise documents.

Passengers that imports semi-products and ethyl-alcohol, not stipulated in Article 25, Paragraph 1, Item 5 of this Law, including the Macedonian citizens as well as foreign citizens that receive semi-products and ethyl-alcohol from abroad according to the customs regulations, pay excise in another manner except by control stamps. The excise should be registered at the competent customs authority and paid immediately.

Passengers that import tobacco goods from abroad not stipulated in Article 25, Paragraph 1, Item 5 of this law, including the Macedonian citizens as well as the foreign citizens that receive tobacco goods from abroad according to the customs regulations, pay excise in another manner except by control stamps. Excise should be registered at the competent customs authority and paid immediately.

During import customs clearance of goods subject to excise, for which the excise is not paid, i.e. excise goods previously transported in a procedure of non-existence of conditions for arising of excise debt from an excise warehouse to the customs office, an excise document is attached to the export declaration. For goods that have not crossed the customs line after the export customs clearance, and which during the export customs clearance were transported in a procedure of non-existence of conditions for arising of excise debt, the customs office is competent to initiate a procedure for excise collection besides the procedure regulated by the Customs Law.

g) Registered/non-registered traders

All persons intending to conduct production, receive storage and delivery of excise goods from an excise warehouse, in a procedure of non-existence of conditions for arising of excise debt o, should possess an excise license and should be registered at the Public Revenue Office before starting to perform these activities. The Public Revenue Office keeps special records of excise license holders and register of excise approval holders.

All producers of excise goods should possess an excise license.

Traders that import excise goods are not obliged to possess an excise license, but they are excise payers, and the excise arises at the moment of import customs clearance, except for cigarettes and alcohol drinks, for which excise arises with the obtaining of the control stamps.

- h) Do you have a tax warehousing system for some/all product categories subject to excise? If not, what system do you apply:**
- i) to domestic products?**
 - ii) to imports?**
 - iii) how far down the distribution chain does each warehousing system generally reach? Do general warehouses exist to which any importer may consign his products? How is duty financially secured? What physical security is required? How are movements between warehouses and between the frontier and warehouses handled?**

We have excise warehouses for all categories of goods that are subject to excise, regardless whether they are produced in the country or imported.

Excise warehouses can produce, store, receive or delivery goods subject to excise in non-existence of conditions for arising of excise debt.

Persons that want to produce, store, receive or delivery goods subject to excise in the procedure of non-existence of conditions for arising of excise debt should possess an excise license. Excise is not paid for goods subject to excise, located in an excise warehouse or transported in a procedure of non-existence of conditions for arising of excise debt.

Goods subject to excise under customs supervision according to the customs regulations are at the same time considered to be in a procedure of non-existence of conditions for arising of excise debt. Goods subject to excise can be transported when there is non-existence of conditions for arising of excise debt from one to another excise warehouse, or to the excise approval holders within the excise territory.

Goods subject to excise can be delivered from an excise warehouse located at an excise territory in procedure of non-existence of conditions for arising of excise debt. The Public Revenue Office can determine cases, in which the procedure of non-existence of conditions for arising of excise debt when exporting can be replaced with a customs export procedure, if this procedure provides the tax principles.

Goods subject to excise can be transported in a procedure of non-existence of conditions for arising of excise debt after expiration of the customs supervision to an excise warehouse or excise approval holder in excise territory. Excise is paid within 15 days after expiration of each calendar month when the liability arisen. If the tax payer has paid excise several times after expiration of the prescribed deadline, it is considered that the tax principles have been violated. If there are signs of disruption of tax principles, an excise guaranty should be submitted, which under assumption, will arise in a two-month period for goods that will be released from an excise warehouse into free excise-legal trade. Physical presence of an official for daily supervision in the excise warehouses is not foreseen.

If there are signs of disruption of tax principles, the excise license holder of the excise warehouse where the goods are released from, provides a transport guaranty. Upon a request, the competent authority can allow the transporter, customs official or the good's owner to provide instead of the sender a transport guaranty of goods in a procedure of non-existence of conditions for arising of excise debt.

The goods subject to excise that are transported in the procedure of non-existence of conditions for arising of excise debt.

Excise document is the document that accompanies the transport of excise goods, and which proves the movement of excise goods in the procedure of non-existence of conditions for arising of excise debt, or when exporting from excise warehouse in a procedure of non-existence of conditions for arising of excise debt, except otherwise stipulated in this law.

If the movement of excise goods is conducted between excise warehouses of a same excise license holder in a procedure of non-existence of conditions for arising of excise debt, along with the

existence of an economic necessity and non-disruption of tax principles, the Public Revenue Office can approve, upon prior consent of the Minister of Finance, usage of a simplified excise document instead of an excise document.

i) Do you operate other suspension schemes, i.e. tax arrangements applied to the production, processing, holding and movement of products where excise duties are being suspended? Is there a special tax regime with any non-EU countries requiring no excise duty payment or tax stamping?

Excise goods are part of a procedure of non-existence of conditions for arising of excise debt when used for production of other excise goods or processing in an excise warehouse, when stored in excise warehouse, or when transferred from one to another excise warehouse.

Goods subject to excise, when under customs supervision according to the customs regulations, are at the same time considered part of the procedure of non-existence of conditions for arising of excise debt, i.e. the tax debt is postponed while they are in the customs procedure:

- transit;
- customs storage;
- temporary import for refinement
- processing of customs supervision;
- temporary import.

There is special tax regime for tobacco goods with the Republic of Croatia, according to the Free Trade Agreement signed with this state. Excise is paid for tobacco goods produced in Croatia when imported in the Republic of Macedonia in amount calculated for tobacco goods produced in the country.

j) Do you apply special regimes for certain producers, such as farmers, small-size producers etc?

Wine and ethyl-alcohol produced by small-size producers for their own purposes are exempted from specific excise.

Small-size producers are persons with annual production not less than:

- 5hl wine; and
- 2hl ethyl-alcohol.

k) Rules governing administration and records, including registration, invoices.

The Public Revenue Office, upon prior consent of the Minister of Finance, issues excise license and approval for excise preferential use.

Excise license holder is obliged to keep accurate and precise records for purpose of calculation of the arisen excise. The records must contain separate data for:

- produced quantity of excise goods;
- quantity of excise goods in inventory, in production, in warehouses or in other business premises;
- quantity of excise goods for which excise has arisen, and excise has been paid according to the prescribed rates;
- quantity of excise goods for which excise has arisen, but has not been paid;
- quantity of excise goods spent in an excise warehouse; and
- amounts of calculated and paid excise.

Provisions are also applied for excise approval holders.

Excise license holder is obliged to issue an invoice, i.e. another document showing the delivery of excise goods when releasing excise goods into free excise-legal trade.

Invoices and other documents, as well as business records are kept by the excise license holders and excise approval holders for at least 5 years after the expiration of the calendar year to which they refer.

The Public Revenue Office keeps a special register of excise license holders and register of excise approval holders.

I) Assessment and appeals (assessment and collection, procedure for claiming the credit and refund, penalties, appeal procedure, international mutual assistance and recovery of excise claims).

Excise payer calculates the excise in the excise period, if excise has arisen. When importing excise goods, the competent customs authority that implements the customs clearance procedure calculates the excise.

The excise payer is obliged to submit an excise return and pay excise for each excise period within 15 days after expiration of each calendar month.

If the excise license holder has more than one excise warehouse, he/she can submit a joint excise return for all excise warehouses.

In case when the excise license has expired, the submitting of an excise return and excise payment is conducted within 30 days from the day of the validity expiration, except in case of bankruptcy, liquidation or merger.

In case of bankruptcy, liquidation or merger, the submitting of the excise return and excise payment is conducted within 30 days after the completed procedures.

In regard to forced collection of excise and expenses for forced collection, interest, maturity deadlines and the return of incorrectly calculated excise, the provisions of the Law on Assessment and Collection of Public Revenues are appropriately applied.

The tax payer has the right to an appeal to the excise calculation determined by the customs authority.

The excise payer has the right for an appeal against the decision of the Public Revenue Office, which determines the excise on tobacco goods and alcohol drinks. The appeals procedure is conducted according to the Law on Assessment and Collection of Public Revenues and the Law on General Administrative Procedure.

The appeals procedure can be conducted against the decision enacted inspection control. The procedure is conducted according to the Law on Assessment and Collection of Public Revenues and Law on General Administrative Procedure.

For trade on excise territory (within diplomatic and consular missions, to diplomatic and consular mission, for military forces of contractual parties of the North Atlantic Treaty), excise exemption, i.e. return of paid excise is conducted according to procedures and in a manner stipulated in Articles 48 and 49 of the Law on Value Added Tax.

Funds for excise payment for goods turnover in the country, financed by foreign donors for realisation of projects on the basis of agreements between the Macedonian Government and foreign donors, which provide a clause that the donated funds cannot be used for tax payment, are provided from the Macedonian Budget.

Return of over calculated and paid excise is conducted on the basis of a written request submitted by the excise payer.

Upon request, excise is returned for proven taxed, but unused excise goods, which are again delivered in the excise warehouse, destroyed or entirely denaturalised under tax supervision.

m) Control procedures (in particular, what use is made of tax stamps and other fiscal markings, including fiscal markings for mineral oils).

Gas oils with tariff marks from 2710 00 66 00 to 2710 00 68 00 and kerosene with tariff mark 2710 00 55 00, which are used as heating fuels are marked by a prescribed colour and/or other elements.

Marking of mineral oils is conducted exclusively in excise warehouse that possesses a marking license, acquired from the competent authority.

Marking element is consisted of:

- 5gr N-Ethyl 1 – (4-phenylazophenylazo)-naphtyl-2-amin; or
- 6,5gr N-Ethyhexyl-I-(tolyazotolyazo)naphtyl-2-amin; or
- 7,4gr N-Tridecyl-I (tolyazotolyazo)naphtyl-2-amin; or
- mixture from this materials with similar colouring effect and 10gr 2-Furancarbaldehyd(Furfurol) (Marker 1); or
- 5,4gr N-Ethyl-N-[2-(1-isobutoxyethoxy)ethyl]azobenzol-4-amin (Marker 2), equally dissolved in 1.000kg mineral oil.

Excise of semi-products and ethyl-alcohol is paid with the use of control stamps. Excise license holder or importer acquires control stamps. Release of semi-products and ethyl-alcohol in free excise-legal trade on the excise territory is allowed only if these goods are marked with a control stamp. The control stamp should be attached on the appropriate packaging of the alcohol drink, i.e. the bottle, so it is damaged when opening the bottle. When obtaining control stamps, control stamp debt arises in amount of the stamp excise value.

Excise on tobacco goods is paid with the use of control stamps. The producer or importer acquires control stamps. The release of tobacco goods into free excise-legal trade on excise territory is allowed only if the tobacco goods are marked by a control stamp. The control stamp should be attached to the package under cellophane or other type of paper, being visible, and subject to damaging when opening the packaging. The control stamp on original packaging of cigars and cigarillos, which are not wrapped with cellophane or other type of paper, can be attached directly to the packaging. Control stamp debt arises when obtaining the control stamps, in amount of the stamp excise value. Excise value of a control stamp is calculated on the excise of one cigarette, cigar or cigarillos, or 1kg of smoking tobacco, and the data on the amount stated at the control stamp.

Tobacco goods, semi-products and ethyl-alcohol exported in a procedure of non-existence of conditions for arising of excise debt, for which the supplier has not submitted control stamp, are marked with special export stamps.

When importing and exporting goods subject to excise duty, customs authorities have a control role, which consist from review on the existence of appropriate excise documents, certification and following of the clearing of excise documents, as well as review of the existence and appropriate attaching of control stamps. The Customs Administration cooperates with the Public Revenue Office in the organisation of controls.

n) Transitional and temporary measures.

Persons that intended to possess an excise license before this Law was applied on 01.07.2001 were obliged to submit a written request for issuing of an excise license from the Public Revenue Office, two months before this Law was applied.

The persons that intended to possess an excise preferential use approval before the application of this Law were obliged to submit a written request for issuing of an excise preferential use approval to the Public Revenue Office, two months before the application of this Law.

Persons that possessed excise license on the day of the law's application, and who had mineral oils and beer as inventory on June 30, 2001, with excise paid with purchase price, or when importing according to the former Law on Excises (Official Gazette of RM N. 78/93, 70/94, 14/95, 42/95, 71/96, 5/97, 36/97, 7/98, 63/98, 39/99, 43/99, 9/00, 25/00, 11/01), had the right for excise offset.

The amount of excise that could be offset, starting from the day when the Law came into force, i.e. 01.07.2001, was offset with the excise that arisen with their exit from the excise warehouse into free excise-legal trade, or with delivery of goods for consumption in the excise warehouse.

3. What are your targets for future developments in your excise legislation (short/long term)? Please specify these in terms of timetables and anticipated problem areas.

Levelling of excise duty of domestic and imported tobacco goods is one of the basic goals of the future development of excise policy. In order to avoid the negative consequences in the domestic tobacco industry with a radical levelling of excise tax, there will be a gradual decrease until its final levelling on 01.01.2007.

Starting from 01.01.2006, the combined excise duty of tobacco goods will amount to:

- at the moment of the release of goods from excise warehouse to free sale:
 - MKD 1,35 per piece, and 0% of retail price for cigars and cigarillos;
 - MKD 0,07 per piece and 28% of retail price;
 - MKD 1.350,00 per kilogram and 0% of retail price for finely cut smoking tobacco; and
 - MKD 1.350,00 per kilogram and 0% of the retail price for other type of smoking tobacco;
- at the import:
 - MKD 1,35 per piece and 0% of the retail price for cigars and cigarillos;
 - MKD 0,80 per piece and 10% of the retail price for cigarettes;
 - MKD 1.350,00 per kilogram and 0% of retail price for finely cut smoking tobacco; and
 - MKD 1.350,00 per kilogram and 0% of the retail price for other type of smoking tobacco;

Starting from 01.01.2007, the combined excise duty of tobacco goods will amount to:

- MKD 1,35 per piece and 0% of the retail price for cigars and cigarillos;
- MKD 0,10 per piece and 26% of the retail price for cigarettes;
- MKD 1.350,00 per kilogram and 0% of retail price for finely cut smoking tobacco; and
- MKD 1.350,00 per kilogram and 0% of the retail price for other type of smoking tobacco;

III. DIRECT TAXATION

1. Does your legislation allow, for domestic operations of mergers, divisions, transfers of assets and exchange of shares, a deferral of the taxation of capital gains until their actual realisation (i.e. until disposal of the assets to which they relate)?

Capital gains are only regulated by the Income Tax Law and are not considered by any other regulation.

According to the provisions of Article 25 of the Income Tax Law ("Official Gazette of RM" No. 80/93, 33/95, 43/95, 71/96, 5/97, 28/98, 11/01, 2/02, 44/02 and 51/03), capital gains realized by the sale of securities, equipment and real estate are included in the taxable base of the tax payer, and are treated as ordinary current tax income during the taxable period. In this context, Macedonian legislation allows postponed taxation of capital gains realized during the year in a way that they are

considered as income of the taxation period, along with all other revenues realized on any ground by the tax payer's activities. The base for calculation of capital gains and all exemptions are explained in 10_III_2.

Within the tax reforms in the Republic of Macedonia, a draft-version of a new Income Tax Law has been prepared, with the aim of harmonization of the direct taxes with European regulation. This Draft law regulates in more detail the issue of taxation on transfer of assets and the right to participation during reorganizations (mergers, divisions, transfer of assets and exchange of shares).

According to this draft-law, if a legal entity or an individual or a group of individuals provide assets to a legal entity as an exchange for the right of participation into that legal entity, and the individual or the group of individuals that provide the assets become the owner of 50% or more of the rights for participation in the legal entity, immediately after the provision, the following rules are applied:

- providing assets and acquiring rights for participation are not considered taxable transfers;
- the base of each asset that a legal entity acquired is equal to the base or the adjustable base of the asset of the person that provided it;
- the base for the participation rights that the person who provided the assets acquired, is equal to the base or adjustable base of assets that the person provided.

Distribution of assets performed by a legal entity to its participants – individuals, is considered as a taxable transfer of assets according to this law, except if such distribution has been made in case when the legal entity is in the procedure of liquidation and in accordance to the liquidation plan previously submitted to the Public Revenue Office, and distributes the assets to a legal entity owner of the participation rights of the legal entity that is subject to the liquidation. Before the liquidation plan, the following rules are applied:

- distribution of assets is not considered as dividend or taxable transfer;
- return of the participation rights to a legal entity subject of liquidation is not considered a taxable transfer;
- the base of each asset acquired by the participant is equal to the base of such asset of the legal entity subject to liquidation.

2. What are the essential features of your regime for the taxation of the disposal of fixed (long-term) assets of corporations?

a. What kind of exceptions/exemptions do you apply to the taxation of capital gains of corporations?

b. Do the same rules apply within a trade or business of an individual? If not, what are the rules for individuals?

c. What are the applicable rules for individuals in the framework of their portfolio management?

The capital gains from selling of securities, equipment and real estate are included in tax payer's taxable base in amount of 70%. The capital losses from selling of securities can be offset against the capital gains in the same taxable period. If part of the capital loss still appears after the offset, it can be carried forward during the following three years and offset against future capital gains in that period (Articles 26 and 27 from the Profit Tax Law, "Official Gazette of RM " No. 80/93, 33/95, 43/95, 71/96, 5/97, 58/98, 11/01, 2/02 , 44/02 and 51/03).

a)

Capital gains realized from sell of securities are tax exempted until 31.12.2005.

b)

In general, the same rules are applicable in taxation of capital gains realised by individuals. According to the Personal Income Tax Law, which regulates the taxation of capital gains from selling of securities, shares and real estate, the taxable base amounts to 70% of the determined capital gain. The realized capital loss from selling of securities can be offset against capital gains realized in the acceptable taxable period., If the part of the capital loss still appears after the offset it will be

carried forward to the capital gains during the following period of three years. For the purpose of securities' market development, a special provision regulates the tax exemption for capital gains from selling securities for period 06.02.2001 to 01.01.2006.

c)

According to the Article 53, Paragraph 4 of the Personal Income Tax Law, tax is not payable for capital gains from selling of real estate, which is sealed by the tax payer after the expiration of the 3-year period from the day he/she acquired it. Furthermore, if the tax payer invests the funds from the selling of real estate for ensuring of the place for living for him/her or a member of his/her family, then individual is exempted from paying the tax on capital gain.

Special regulations for taxation of capital gains realized from selling of securities depending on the ownership duration (how long the tax payer had kept them in its portfolio) are not applied.

3. Do you apply a special tax regime for business reorganisations?

a. What are the reorganisations covered?

b. How does this special tax regime work?

c. Does this tax regime apply in cross-border situation? If yes, which?

The existing Profit Tax Law ("Official Gazette of RM " No. 80/93, 33/95, 43/95, 71/96, 5/97, 58/98, 11/01, 2/02, 44/02 and 51/03) regulates the right on carry forward the losses by business, financial and non-business transactions to the following three years. This right cannot be used in the case of change of the tax payer's status based on merger, spin-off etc (Article 23, Paragraph 2 of the law).

Tax exemptions on the basis of a foreignownership do not relate to tax payers that were established by merger, acquisition or spin off (Article 33, Paragraph 4). Furthermore, tax exemptions do not relate to newly established entities. A tax payer that undertakes activity for the first time is not considered as one where statutory changes have occurred (merger, acquisition, division), (Article 36, Paragraph 2 of the law).

The new Draft version of the Profit Tax Law, proposes the following:

a) Reorganisation means:

- appending of one or more companies, which transfer all of their assets and financial liabilities to an existing company, in exchange for a 50% or more of the share rights in the receiving company;
- merger of two or more companies, which transfer all of their assets and financial obligations to the company they established in exchange of 50% or more of the share rights in the receiving company;
- acquisition of 50% or more of the share rights into a domestic legal entity, with the only objective of exchanging the share right with a legal entity, which is a party to the reorganisation. The acquisition of control over the entity, in exchange for purely voting interest in the acquired entity.
- acquisition of 50% or more of the assets into a domestic legal entity or an existing business unit in the Republic of Macedonia by a domestic legal entity, with the only objective of exchanging the share right with a legal entity, which is a party in the reorganisation. A substantial acquisition of all entity's assets, in exchange for purely voting interest in the acquired entity.
- division of domestic legal entity into two or more domestic legal entities, regardless of whether the original legal entity continues to exist.

b) With respect to the reorganisation, which does not have a tax evasion as its main objective, the following regulations are applied at the transfer of assets or share rights:

- transfer of assets among legal entities, which are parties to the reorganisation is not considered a taxable transfer.

The value of the entity's asset, which acquired the asset, is equal to the value of the asset of the entity, which transferred the asset;

- the exchange of share rights in a legal entity, which is a party to the reorganisation for share rights in another legal entity, which is a party to the reorganisation, is not considered to be a dividend nor a taxable transfer.

The basis of the share rights acquired by an entity is equal to the basis of the share rights, which the entity is transferring;

- the distribution share rights in the legal entity, which is a party to the reorganisation of an entity that possesses share rights in another legal entity, which is party to the reorganisation, is not considered a dividend.

The basis of share rights, which were possessed before the distribution, is allocated among such share rights and the distributed share rights with respect to the market price of the share rights immediately after the distribution.

- a legal entity, which acquires the assets as a result of reorganisation, shall exercise the accounting method, the depreciation method, and the unused fiscal losses of the legal entity that transferred the assets.

c) The implied regulations (as explained under b), which are applied at the transfer of assets and share rights with respect to reorganisation, refer only to domestic legal entities that are parties to the reorganisation, and therefore they are not applied in cross-border activities, i.e. parties to the reorganisation are not foreign legal entities.

4. Please provide information on the taxation of raising of capital by companies.

According to the existing legislation in the Republic of Macedonia, the increase of company's capital is not taxed under any special law.

According to the Company Law ("Official Gazette of RM" No.28/04), the increase of the companies' share capital can be conducted by: new deposits (issuing of new shares), conditional increase of the companies' capital (with a decision for conditional increase for accomplishment of certain company's objectives), approved capital (when the managing board is empowered to increase the companies' capital to a certain nominal amount according to the company's bylaws, by the way of issuing new shares), and by the company's assets. Increase of the share capital by way of deposits, conditional increase and by approved capital is not taxed. Share capital increased by transformation of retained or current profits, transformation of reserves and profits that was not distributed as dividends also is not subject to taxation., providing that the transformed profits were previously subject to taxation according to the Profit Tax Law.

5. Does your legislation allow for levying withholding taxes on payments (dividend, interest, royalties or rent etc.) to other legal entities (natural persons or corporations) residing in and/or outside your country?

a) What are the main features of the taxation regime on income from capital (personal and corporate)?

b) Are there withholding taxes on income from capital (interest on bank deposits, debt instruments)? Please indicate tax base, tax rates, exemptions, fiscal treatment of residents (on domestic and foreign income) and non-residents, automatic reporting etc.

c) Are turnover taxes or stamp duties applied to securities, credit contracts, insurance contracts, etc.?

According to the Macedonian legislation, in taxation of the incomes of individuals withholding of tax (tax after deduction) is regulated by the Personal Income Tax Law ("Official Gazette of RM" No. 80/93, 70/94, 71/96, 28/97, 8/01, 50/01, 2/02, 44/02 and 96/04). According to Article 75 of the Law, withholding tax is used in payment of personal income (salaries, pensions and other personal income), income from copyrights and industrial property, dividends, interest and, income from property and property rights (lease etc) if the tax payer maintains business records. According to the provisions in Articles 76 and 95 of the Personal Income Tax Law, individual payer conduct the calculation and withholding of tax for each tax payer, and for each separate paid income. The

withholding of tax is calculated and paid according to the tax rates valid at the day of the income payment. For non-residents, tax is calculated with usage of three tax rates (15%, 18% and 24%) and the paid tax is considered as finally paid tax liability. For residents, calculation of withholding tax is paid in advance, by a 15% rate, except for personal income, where during the advance payments tax is calculated with usage of two tax rates of the taxation progression.

The Law on Income Tax ("Official Gazette of RM" No. 80/93, 33/95, 43/95, 71/96, 5/97, 28/98, 11/01, 2/02, 44/02 and 51/03), which taxes legal entities, does not regulate withholding of taxation.

The new draft-Law on Income Tax contains provisions for withholding of tax on income realized by foreign legal entities and entrepreneurs, if not otherwise regulated with agreements for avoiding double taxation. Withholding of tax is prescribed for: dividend income, interest income, income from entertainment and sporting activities organized in the Republic of Macedonia, income from conducting of consulting, management, finances, technical and other type of services, income from rents, income from awards from sporting competitions, income from premiums for insurance or reinsurance in the Republic of Macedonia, income from telecommunication services between the Republic of Macedonia and a foreign country. Exception are transfers on the part of the income of resident business unit in the Republic of Macedonia, to which income tax has been paid according to Macedonian regulations, interest income earned from debt instruments issued by the Macedonian Government, the Macedonian National Bank, banks or other institutions that act as Government representatives, as well as interest income of bank deposits located in the Republic of Macedonia. Withholding of tax according to this Law is calculated at the gross income by rate of 15%, except for interest income, where is prescribed a 5% rate, together with income from rents, with a 10% rate.

a)

Income from Capital realized by individuals is taxed according to the Personal Income Tax Law, through taxation of income realized by dividends, other income realized with participation in the income at legal entities and individuals, and through taxation of interest income (Article 47 of the Law).

Dividends and revenues earned from distribution of income at legal entities and individuals is taxed in advance by a 15% rate, on a base that amounts at 50% of the paid dividend amount (Articles 49 and 79 of the Law). After expiration of the taxation period (calendar year), paid dividends with the same tax base (50% of the paid amount), along with the other realized income, establish the annual taxable income of the tax payer, which is taxed with progressive tax rates of 15%, 18% and 24%. Dividend tax paid in advance is withholding from the final assessed tax liability.

Tax treatment of interest income realized by individuals according to the Personal Income Tax Law is the following:

- interests from public loans, interests from issued bonds by the Republic of Macedonia and local self-government units, and interests of savings deposits, current accounts and deposits are not taxed (Article 6, Items 18, 19 and 20);
- interests from deposited savings and other deposits are not taxed in the period 06.02.2001-01.01.2006 (part of the transitional provisions of the Personal Income Tax Law);
- interests on loans provided to individuals and legal entities, as well as other interests from securities are taxed with withholding of advance payments to the personal income tax by rate of 15%;

Capital tax among legal entities is taxed according to the Law on Income Tax. The income is determined in the tax return (tax balance), being the difference between the total revenues and total expenditures, in amounts determined according to the regulations for accountancy, accounting standards, except for the revenues and expenditures, which are regulated on another manner of determination with this Law (Article 8). Income tax rate amounts at 15%. Capital gains realized by sale of securities, equipment and real estate are included in the tax base, to which the income tax is determined in amount of 70%, and are taxed according to the prescribed rate. The provisions in the Law for taxation of tax capital gains of securities are not applied from 21.02.2001 to 01.01.2006 and

will not be included in the tax base until that date, to which the profit tax is determined. Capital losses from sale of securities can be transferred to future capital gains in the upcoming three years.

b)

Withholding of capital income tax on the basis of interests realized by individuals is conducted according to the Personal Income Tax Law. In compliance with Article 75, Paragraph 1, Item 3 of this Law, advance payments of interest income taxes are calculated and paid by the interest payer, but taking into consideration that public loans interests, interests of issued bonds by the Republic of Macedonia and units of local self-government, and interests of savings accounts, current accounts and deposits are not taxed, while interests of term savings and other deposits will not be taxed until 01.01.2006, the withholding of tax is applied only in payment of loan interests provided to individuals and legal entities, and other securities (Article 47, Items 2,3). Advance payments of withholding of tax are calculated by a 15% rate, and the tax base is the difference between the interest amount and the amount calculated according to the growth rate of retail prices in the given period. The interest payer conducts withholding of tax at the payment day, i.e. day of interest's disposition. The interest income is part of the total annual income of the tax payer, realized from different sources, which is annually taxed with two progressive rates of income tax, while the tax paid in advance is deducted from the determined annual final tax liability.

Interest income realized by tax payers- non-residents is taxed in the same manner and on the same basis as for resident tax payers, except that the calculation of the tax after withholding is conducted with the application of two tax rates, and the retained tax is considered as finally paid tax liability.

According to Article 77 of the Personal Income Tax Law, the income payer subject to tax after deduction is obliged to submit an annual report on conducted payments by tax payer to the public revenue authority, as well as issue a copy of the calculation for withholding of and cumulative data upon the year's expiration, by February 15 the latest, on the fully paid tax advance in previous year.

According to the Law on Income Tax, dividend income earned with participation in another tax payer's capital – Macedonian resident, including the revenues from participation in the income of limited liabilities companies, is not included in the taxable base under the condition they are not taxed at the tax payer that conducts the payment. Income realized by legal entities on the basis of interests from bank deposits and debt instrument interests does not have special taxation treatment, and are taxed through the income tax.

The new draft-Law on Income Tax regulates that the income of dividend realized at another tax payer shall be conducted in the same manner as in the existing law, while interests, all due interest and debt instrument interest income issued or guaranteed by the Macedonian Government, Macedonian National Bank, banks or other financial institutions, which act as agents of the Macedonian Government, will not be subject to taxation.

c)

Macedonian legislation does not regulate a special value tax or fee, loan agreements, insurance agreements etc.

6. How is foreign income, received by resident taxpayers, treated in your country? What kind of system do you apply to prevent double taxation?

Residents of the Republic of Macedonia are obliged to pay income tax for income realized in the state and abroad (Article 7, Paragraph 1 of the Personal Income Tax Law, "Official Gazette of RM" No. 80/93, 09/94, 70/94, 71/96, 28/97, 08/01, 50/01, 52/01, 02/02, 44/02 and 96/04). Income realized by Macedonian residents abroad is taxed according to the procedures and in a manner for taxation of income realized in the state, except if it's not otherwise regulated by international bilateral or multilateral agreements.

Due to taxation of foreign income of resident tax payers, and for the purpose of avoiding double taxation, the principle of recognition paid taxes in another state is applied, but not exceeding the amount resulting from the application of income tax rates in the Republic of Macedonia (Article 13 of the Personal Income Tax Law).

The Law on Income Tax ("Official Gazette of RM" No.80/93, 33/95, 43/95, 71/96, 5/97, 28/98, 11/01, 2/02, 44/02 and 51/03) regulates the right of a tax payer-Macedonian resident on the profit realized abroad, to which he/she had paid tax in another state, for the calculated profit tax in the country to be deduced from the amount of paid tax abroad, but not exceeding the tax amount realized with the appliance of the domestic tax rate (15%). The original legal entity-resident has the right to decrease the calculated tax in the state, up to the tax amount paid by its branch office in another state, only if the branch office's gain is included in the income of the original legal entity. The original legal entity that had held 25% or more shares or participation in a non-resident branch office in a period up to one year, has the right for tax decrease, which should be proved by appropriate documentation and its success balance and tax balance.

7. Please provide a copy (in one of the official EU languages) of your country's legislation on the taxation of income, profits and/or capital gains, including other related legislation, such as regulations concerning investment incentives or administrative guidelines, etc. Please describe the procedures for payment of personal income tax and calculation methods used. How is control carried out?

The following Laws in English are enclosed:

1. Personal Income Tax Law (Official Gazette of RM N. 80/93, 3/94, 70/94, 71/96, 28/97, 8/01, 50/01, 52/01, 2/02, 44/02 and 96/04), see [10 Annex 01](#),
2. Guidelines on the manner of computing and advance payment of personal personal income tax (Official Gazette of RM N. 51/01, 69/01 and 95/04), see [10 Annex 20](#),
3. Law on Income Tax (Official Gazette of RM N. 80/93, 33/95, 43/95, 71/96, 5/97, 28/98, 11/01, 2/02, 44/02 and 51/03), see [10 Annex 02](#),
4. Rulebook on manner of calculation and payment of income tax and prevention of double exemption or double taxation (Official Gazette of RM N. 19/94, 25/94, 13/95, 41/96, 13/97, 92/01, 56/03), see [10 Annex 21](#),
5. Rulebook on the form, content and manner of filling out an advance payment tax return for determination of personal income tax of capital gains (Official Gazette of RM N. 80/93, 3/94, 70/94, 71/96, 28/97, 8/01 and 50/01), see [10 Annex 22](#).

Personal income tax is paid annually at the total net income from all sources, with the exception of the revenues that are tax exempted by law. The public revenue authority determines the annual income tax on the basis of the tax return data, business records and other relevant data, important for determination of the tax liability.

If the tax payer does not submit a tax balance and a tax return in the prescribed deadline, or if business records cannot serve as basis for determination of the tax liability, tax is determined:

- 1) on the basis of official data on the realized revenue and expenses of tax payer's activities possessed by the public revenue authority;
- 2) with comparison of a tax payer from the same or similar area, according to comparison elements such as place of activity, competent qualification, age, equipping with assets, number of employees, assortment of products and services, as well as other circumstances and facts of significance for realization of income;
- 3) on the basis of assessed data by the public revenue authority by conducted recording of the realised volume of work, i.e. turnover;

- 4) on the basis of comparison with average gross salaries of employees at legal entities of the same or similar activity, which activity is conducted under approximately equal conditions; and
- 5) on the basis of an competent finding and opinion of an expert.

In calculation of annual income tax, annual progressive rates of 15% for taxation up to 360,000 MKD, and 18% for taxation exceeding 360.000 MKD to 720.000 MKD and 24% for the part of the profit for taxation, which is above 720.000 MKD are applied.

The tax payer pays the difference between the annual tax amount and the annual advance payment within 30 days from the day of receiving of the decision on the determined annual tax liability.

The calculation and payment of the income tax during the year is conducted in advance. The calculation of the income tax advance payment is determined as:

- advance payment of withholding tax, which means that the income payer (tax debtor) calculates and pays the tax before payment of the income of the individual (tax payer).
- advance payment of tax on the basis of a decision of the public revenue authority.

The public revenue authority keeps records of income tax payers, including significant data for determination of the tax liability.

The calculation and withholding of tax is conducted by the payer (tax debtor) for each separate paid income of individual (tax payer). Determination of the withholding of tax is conducted upon payment of: personal income (salaries, pensions and other personal income), to income of copyrights and rights of industrial property, dividends, interests, and income of property and property rights (rents etc), if the payer of income of property and property rights is a person that keeps business records. Withholding of taxes are calculated and paid according to the official tax rates at the day of payment. Calculation of withholding of tax for non-residents is conducted with the usage of two tax rates of the tax progression (15%,18% and 24%), where the paid tax is considered as finally paid tax liability. For residents, the calculation of withholding of tax is conducted in advance, at a 15% rate, except for personal income, where two tax rates of the tax progression are applied.

Calculation of tax by decision is conducted by the public revenue authority on the basis of tax return data, tax balance, business records and other data that are significant for determination of the tax liability. Determination of the tax by decision is conducted for income of agricultural activities, capital gains and other income, to which tax advance payment is not conducted after deduction.

Calculation of taxes determined by decision of the public revenue authority is carried out in advance, at a 15% rate, except for income from individual and agricultural activities, where two tax rates of the tax progression are applied, and the paid income tax for agricultural activities according to the cadastre income and other income, to which tax advance payment is not paid after deduction, is considered as finally paid tax liability.

Taxes determined with a decision of the public revenue authority are paid:

- 1) agricultural income paid to cadastre income – quarterly in equal instalments;
- 2) income of individual activities – 15th day of each month the latest;
- 3) income of property and property rights – 15th day of each month the latest; and
- 4) capital gains and other income realized on a temporary basis – within 30 days from the day of determination of liability.

If the income tax is not paid in the legally specified deadlines, the tax payer pays a daily interest in amount of 0,05%.

Control of tax calculation and payment

Control of personal income tax calculation and payment is conducted internally and externally with supervision.

Internal control is conducted in the Public Revenue Office, with reception of tax returns and salaries return. The received and completed tax return and salaries return are processed, with verification of the data accuracy and correctness regarding the tax payer and the taxation period, as well as mathematical control on the basis of algorithms.

Implementation and application of tax regulations is conducted according to the Law on assessment and collection of public revenues.

External control with supervision includes: evaluation of the accuracy and correctness of the documentation records and other prescribed records at the tax payer, evaluation of the legality and timeliness of tax calculation and payment, review of financial transactions of the tax payer, check up of business and other premises where the business is performed, evaluation of the situation and value of the real estate, property and property rights that are subject of taxation.

The Public Revenue Office, Pension and Disability Insurance Fund, Health Insurance Fund, and Employment Agency have signed a Protocol for mutual cooperation. One segment of cooperation between the abovementioned institutions is with purpose of combined supervision, with the objective to determine the accuracy, correctness and legality of calculation and payment of personal income tax and salary contributions.

A tax inspector, who possesses an ID card issued by the Ministry of Finance, conducts supervision activities.

The inspector prepares notes for the undertaken activities in the supervision process.

If the supervision determines that the tax payer has not calculated, incorrectly calculated, or has not paid tax and other public fees, a decision will be adopted.

Collection will be conducted by force if the tax payer that does not voluntarily pay tax debts, fines and interests in the legally specified deadline,

8. Do you apply any preferential tax schemes? If so, please provide a detailed description of these schemes (the main purpose of the scheme, the minimum requirements, the tax benefits, if it is time-limited, the kind of beneficiaries, etc.).

Macedonian legislation provides certain exemptions and deductions for tax-payers liable for profit tax and personal income tax.

Tax deduction and exemption according to the Income Tax Law ("Official Gazette of RM" No. 80/93, 33/95, 43/95, 71/96, 5/97, 28/98, 11/01, 2/02, 44/02 and 51/03):

- The tax-payer will pay decreased tax from the one that is calculated, if a foreign entity invest assets in that tax payer, proportionally to the foreign capital participation, and if the foreign capital participation amounts at least 20% of the total invested joint capital. Purchase of shares by a foreign entity is also considered as investment by a foreign entity. Tax exemption also refers to tax payers fully established with foreign capital. The tax exemption refers only to the period of the first 3 years, starting from the year when income is realized, only if the tax payer, which used this relief, operates for at least 3 more years after expiration of the latest year, in which the tax exemption right is used.
- The tax base is decreased for the amount of investments in the property plant and equipment, up to Euro 100.000 denominated in Denars in the current year, except for cars, furniture, carpets, works of art and other decorative items for equipping of administrative premises. If the tax payer does not use the exemption by the end of the current year, he has a right to transfer it in the upcoming years until its full utilization.
- The tax base is decreased up to 30% from the amount of investments in the property plant and equipment, if the investments are exceeding Euro 100.000 denominated in Denar in the current year, except for cars, furniture, carpets, works of art and other decorative items for furnishing of business premises, but not exceeding the rest of the unused part of the investment.

- The tax payer that realises technological modernisation or purchase of assets for environment and nature protection has the right for accelerated depreciation of the fixed assets, but not exceeding 25% over the amount of the depreciation calculated according to one of the prescribed methods for depreciation calculation.
- Tax base is decreased from the tax payer that has conducted investments in areas of economically underdeveloped municipalities and in specific areas (hill-mountain areas, cross border region and compact underdeveloped areas), in amount of the investment, but not exceeding 50% of the base.
- Tax payer that is a beneficiary of a free economic zone is exempted from payment of income tax for a 10-year period from the beginning of his business activities in the free economic zone, under conditions and procedure regulated with the Law on Free Economic Zones.
- Tax base is decreased from a tax payer in amount of assets invested for environment and nature protection, i.e. the amount invested for this purpose is acknowledged 100%.
- Calculated tax is decreased for 50% in the first year when income is effectuated to a tax payer that begins to perform activities for the first time, under the condition that he continues to perform the activity for at least 3 more years from the day of the deduction used. Otherwise, he/ owes the due tax in amount revaluated with the retail prices' growth rate. Tax payer that has experienced statutory changes (merger, acquisition, division, ownership transformation etc) is not considered as tax payer that has started to conduct business for the first time.
- For the purpose of stock exchange development in the Republic of Macedonia, the calculated income tax is decreased for 50%, for an tax payer that is listed on the official stock exchange markets, in the following 3 years from the moment of listing. This tax deduction will be in use until 31.12.2005.
- Calculated tax for purchase of up to 10 fiscal registering devices in the amount of their value will be decreased from the tax payer, who is obliged to introduce and use a valid system of equipment for registration of cash payments in accordance with the Law on Registering Cash Payments.
If the tax payer does not use the tax exemption until the end of the current year, he/she has the right to transfer it into the upcoming period.
- Losses from operations, financial and non-operational transactions can be transferred on the burden of profit in the future accounting periods, but not exceeding 3 years, calculated from the year they had been presented. This right cannot be used in case of statutory change of the tax payer on the basis of merger, acquisition, division, ownership transformation etc.
- Capital gains realized from selling of securities, equipment and real estate are included in the tax base in amount of 70%.
- Capital gains realized from securities will not be subject to taxation until 01.01.2006 for the purpose of contributing to the development of securities' market in the Republic of Macedonia.
- Dividends effectuated with the participation in the another company's capital are tax exempted under the condition that they are taxed at the tax payer, which performs payment applying the general tax rate of the Profit Tax Law.
- Tax payers, that acquired the status of sheltered workshops according to the domestic regulative, within the provisions of the Law for Employment of Disabled Persons published in the "Official Gazette of RM" No. 44/2000 and 16/2004, are not obliged to pay the calculated income tax until they fulfil the conditions regulated by the Law.
- In transfer of the profit part effectuated by a foreign legal entity, profit tax is not paid on the transferred amount.

Tax deduction and exemption according to the Personal Income Tax Law ("Official Gazette of RM" 6p.80/93, 3/94, 70/94, 71/96, 28/97, 8/01, 50/01, 52/01, 2/02, 44/02 and 96/04)

General exemptions:

1. There is a general personal income tax exemption, which is realized by a individual– tax payer in amount of 30.000 MKD of the annual income tax calculations. Personal exemption before the beginning of each year is valorised with the planned growth of employees' net salaries in Macedonia during the given year, regulated by the macroeconomic policy of the Macedonian Government, and published by the Minister of Finance at the beginning of each year.
2. Contributions for pension and disability insurance, health insurance and employment, decrease the tax base, on which the personal income tax is calculated.
3. Capital gain earned by sale of securities, capital share and immovable property is recorded in the tax base in amount of 70% of the difference between the purchase and selling value, and is taxed at a 15% rate. Capital gains realized by sale of securities are tax exempted until 01.01.2006.
4. Dividends paid to natural persons are taxed after deduction at a 15% rate, on a base decreased for 50% of the gross dividends. Lower rate can be determined in accordance with the agreements for double taxation avoidance.
5. Interests on fixed-term savings and other deposits are tax exempted until 01.01.2006, and interests on savings deposits and current accounts sight deposits, public loan interests and interests on bonds issued by the Republic of Macedonia and units of local self-government are fully exempted.
6. Exemption from personal income tax of employees in companies for professional rehabilitation and employment of disabled persons.
7. In calculation of the income tax for revenue of property and property rights, expenditures in amount of 40% are acknowledged, and in determination of the income tax base for property income realised by leasing of housing and business premises, 50% are acknowledged.
8. In determination of the net income from copyrights and rights of industrial ownership, expenditures in range 25%-60% are acknowledged, depending on the type of copyright work.
9. Income tax for profit from games of chance and other game shows is not paid if the individual profit does not exceed the amount of 10.000 MKD.
10. According to the Labour Relations Law and Insurance in Case of Unemployment ("Official Gazette of RM" No. 37/97, 25/00, 101/00, 50/01, 25/03 and 37/04), the employer that provides regular employment to a employee exceeding the number of regular employees is personal income tax exempted for newly-employed persons during a three-year period. An employer that begins to conduct an activity as individual trader or establishes a trade company, as well as a individual that conducts an activity in compliance with the law, has the right for exemption from personal income tax for a 3-year period, if he/she submits proof from the competent registering authority that he/she was not registered for conducting a business before starting to conduct it.

Tax deduction and exemption for individual business owners:

- taxable base of a tax payer is deduced for the amount of investments in equipment, except for passenger vehicles, furniture, carpets, artworks and other decorative items for equipping of administrative premises, for enlargement of one's business, but not exceeding 25% of the taxable base;
- calculated tax for purchase of up to 10 fiscal registering devices in amount of their value is deduced to a tax payer, who is obliged to introduce and use an approved system of equipment for registering cash payments according to the Law on Registering Cash Payments. If the tax payer does not use the tax exemption until the end of the current year, he has the right to transfer it for the upcoming period;
- calculated tax of tax payer, who begins to conduct individual business, is deduced for 50% in the first year. One who has started as an individual business owner is not considered a tax payer:
 - 1) tax payer that has experienced statutory changes (merger, acquisition, division etc);
 - 2) tax payer that has conducted the same or similar business; and
 - 3) tax payer that begins to conduct individual business with acquisition from a certain family member.

If the tax payer ceases to conduct an activity before the expiration of 4 years from the day of deduction use, he/she owes due tax in an amount revaluated with the retail prices' growth rate according to the data of the State Statistical Office.

Relief and exemption for tax payers that conduct agricultural operations:

1. Tax payer in passive areas, whose basic business is agriculture, is tax exempted. The Macedonian Government determines the passive areas.
2. Individual that begins to conduct agricultural business as his/her basic business for the first time is tax exempted for a 5-year period, as well as the person that returns to the village and reactivates as agricultural business owner, when registered as unemployed person.
3. Tax payers with agricultural income, and who pay the tax according to the cadastre income, are not subject to tax from 01.01.2002 until 31.12.2006.
4. Taxable base is deduced from a tax payer- owner of agricultural business, for the amounts of conducted investments in economic buildings and agricultural equipment, not exceeding 30% from the cadastre income.
5. Tax payer that has invested means in melioration is provided with a relief, i.e. 50% tax deduction, and 100% relief for land redistribution in the year of melioration or land distribution.
6. Tax payer is temporarily tax exempted for:
 - unusable land, in the period of 5 years from the beginning of the land preparation; and
 - land that is not used for new vineyards, orchards etc, long-standing nursery plants, for 5 years.

Tax exemption is granted if alternation of the plant's change is registered in the land cadastre.