Global Scientific JOURNALS

GSJ: Volume 10, Issue 1, January 2022, Online: ISSN 2320-9186
www.globalscientificjournal.com

CHARACTERISTICS OF THE TAX AND MONETARY POLICY OF EU COUNTRIES AND THE IMPACT ON SMALL AND MEDIUM BUSINESSES (SMEs)

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Abstract

To understand the importance of elaborating on this topic, first of all, the role of small economy in modern, developed and underdeveloped economies is reviewed, based on the representation of SMEs, their contribution to the creation of GDP, the solution of unemployment problems and promoting overall economic and social development. The impact of fiscal policy is further analyzed, as shown below. In doing so, the effects of taxes and other fiscal obligations are analyzed, paying particular attention to tax incentives, which have a general application to all economic entities, regardless of their size, and then especially the measures envisaged as specific to SMEs in the EU, and then analyze the rich system instrument and specific fiscal measures for the functioning of SMEs in the US.

In addition to fiscal policy, systemic and monetary policies are analyzed as solutions, legal framework, lending opportunities and securing financial resources from non-bank sources, which are important for small business development. The main focus, however, is the empirical analysis of the economic and financial situation of small and medium-sized businesses (enterprises) in the EU and in the Republic of Northern Macedonia. The analysis is based on the assessment of legal solutions and reforms implemented in the tax system, as well as changes in tax policy, verified in the years after independence. The analysis also takes into account the volume of fiscal and tax liabilities paid, contributions and other obligations, the size of enterprises to assess the impact of the fiscal and monetary factor on the development of small and medium-sized businesses.

Key words: Fiscal policy, SME, Eu regulation

Introduction

Effective coordination of fiscal policy and monetary policy with other parts of economic policy has a significant impact on the development of small and medium enterprises. Fiscal easing measures, such as taxes, fees and contributions, enable faster development and overcoming the consequences of the crisis, as well as greater attention to the development of these companies, especially their financial stability in the Republic of Macedonia.

Without such fiscal policy measures, there may be an increase in financial instability in the operation of these companies, which leads to unemployment, high interest rates on loans, high inflation and negative consequences on economic development. However, while the creators of these fiscal measures and laws are trying to lower tax rates and coordinate their policies, their efforts will not be effective if fiscal policies are not sustainable. Our interest in this issue is constant, primarily due to the daily confrontation with these problems (which at this time become a general challenge), especially with the emergence of the crisis in the European Union and the constraints of countries in transition, as and the Republic of Macedonia through fiscal policy and through interventions through budget expenditures to implement measures to encourage small and medium enterprises. As a result, a growing number of economics and policy experts are pushing for tax, contribution and tariff reductions, which would facilitate the development of small and medium enterprises. Effective coordination of these policies by the Government, among other things, contributes to increasing the liquidity of enterprises.

Impact on the development of small and medium enterprises, in addition to fiscal policy (and depending on the exchange rate regime), there is also pressure from the overestimation of the national currency exchange rate. The overvalued exchange rate leads to increased attractiveness of foreign products, which in these conditions are more competitive in the domestic market. In such conditions domestic production companies face a great challenge. However, the starting point of the problems in terms of competition and the foundations of long-term growth in transition countries is the acceptance of the concept of development, which, in turn, is a dominant position in shaping the economic systems of the nineties.the twentieth century. This package is called the Washington Consensus. It is a package of policy measures, including the liberalization of trade and competition, the privatization of public enterprises and the provision of a stable macroeconomic environment. Such an attitude is strongly challenged by the countries of Southeast Asia, which in forty recent years have a completely different recipe to provide the basis for long-term growth.

Many countries around the world have begun to actively implement formal fiscal rules, but it must be borne in mind that the implementation of credible rules must be tailored to the specific conditions of the country, which equally encompass the structural political economy. Fiscal

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authorities usually are proponents of this type of rule, which may increase the fiscal authorities' resistance to pressure for higher public spending and lower fiscal consolidation. Rules, which usually focus on deficit and public debt targets, should be included in a medium-term fiscal framework based on the assumptions of balanced macroeconomic development. of the Maastricht Treaty. From the aspect of fiscal policy, the creators of this policy determine their directions for achieving them, as well as the instruments by which those goals are achieved, respecting the principles of fiscal management: a) transparency in terms of objectives, implementation. fiscal policy and publication of public accounts; b) the stability of the fiscal policy-making process; c) the impact of fiscal policy on the efficiency of the economy; d) responsibility for and management of public finances; g) efficiency of fiscal policy modeling and implementation; f) justice and fairness (equality), including generations. The goals and objectives of fiscal policy are related to the growth of general property in the country as a basic goal of any modern society. This property is protected only by the measures envisaged in relation to the environment, which leads to economic stability, political and social development. So when it comes to fiscal policy, keep in mind:

1) meeting public needs through a sound public funding system;

2) realization of full employment;

3) increasing the economic growth rate;

4) maintaining price stability;

5) balance of payments stability;

6) improving working conditions, and the workforce, and technological advancement;

7) promotion of savings and savings;

8) investment promotion;

9) increasing the competitiveness of local products and services;

10) increase the quality of education and health services.

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The main focus of the paper is the practical analysis of the economic and financial situation of small and medium businesses (enterprises) in the Republic of Macedonia, especially in the Tetovo region, as well as the impact of the tax system on the development of small enterprises and medium businesses. in that area, based on the duties and taxes and contributions paid over the years and their impact on the development of these enterprises. The analysis will be based on the laws on tax system reforms, adopted in recent years and their impact on small and medium-

sized businesses in the Tetovo region, with a specific analysis in the period 2006-2010 and some basic econometric models that will explain the numerous empirical analyzes of the effects of the coordination of fiscal policy and the measures taken, which are in function of the development of small and medium business.

1.1.Monetary and fiscal policy in the European Monetary Union (UME).

According to the Treaty on European Union, signed in Maastricht on February 7, 1992, the European Union undertook the goal of creating a European Economic and Monetary Union (UME) which would include a single currency - the euro and a single monetary policy. Today, the euro is the official currency of 17 European countries with more than 330 million citizens and is an anchor for stability in Europe. The main elements in this process were the stable convergence in economic performance and the close coordination of the economic goals of the member states, listed in a certain time frame. [1]Approaching low inflation rates and a sound fiscal position were the two most important criteria that countries had to meet to join the monetary union. [2] The UME draft is based on the key economic paradigms of the 1980s and 1990s, which stipulate that economic agents always formulate their expectations rationally and that financial markets are efficient most of the time. The UME policy coordination framework is based on the following binding principle: The European Central Bank (ECB) is responsible for a single monetary policy, while other economic policies are implemented by member states on an ancillary basis, respecting the rules and procedures of defined by the Maastricht Treaty and the Stability and Growth Pact (SGP)[3].

At Union level, political coordination has been strengthened in recent years by the Broad economic policy guidelines and the Excessive deficit procedure, while the European Monetary Institute has laid the foundations for the European Banking System (European System of Central Banks - ESCB). Each of the central banks participating in the system will have two main tasks: a) through its Governor to contribute to the political decisions of the Governing Council of the European Central Bank; and b) implement decisions taken within its own state. For the latter, it is necessary to harmonize the requirements for a common monetary policy with the principle of "subsidiarity". [4]Whose goal is to achieve the highest possible degree of decentralization at the operational level?

[1] Importance and effectiveness of national fiscal frameworks in the EU, ECB Monthly Bulletin
[2] February 2013, pp.74-75.
[3] http://www.imf.org/external/np/exr/facts/emu.htm
[4] http://europa.eu/legislation_summaries/institutional_affairs/treaties/treaties_maastricht_en.htm

Namely, with the Masticht agreement, the Community went beyond its initial economic goal, namely the creation of a common market, and its political ambitions came to the fore. In this context, the Maastricht Treaty addresses five main objectives: (1) strengthening the democratic legitimacy of institutions; (2) improving their efficiency; (3) the establishment of economic and monetary union; (4) the development of the social dimension of the Community; and [5]establishing a common foreign and security policy.

Under this agreement, the EMU economic policy consists of three components: Member States must (a) ensure the coordination of their economic policies, (b) ensure multilateral oversight of this coordination, and (c) adhere to fiscal and budgetary discipline. . The agreement provides for the formation of a single currency and the establishment of the European Central Bank (ECB) on 1 January 1999.

The political tasks and institutional arrangements of the EMU emphasize the importance of economic and monetary stability as a precondition for the normal functioning of the monetary union. The main objective of the ECB is to maintain price stability in the Eurozone as a whole, while maintaining economic stability at the national level is part of fiscal and structural policies.

The European Union (EU) Fiscal Framework seeks to combine discipline and flexibility through two requirements: first, the budget position must be "near equilibrium or in surplus" in the medium term, as required by the Stability and Growth Pact, and second, The Maastricht Treaty requires the general government deficit to remain below 3% of GDP on an annual basis, except in exceptional circumstances. The two requirements complement each other by adhering to the "near equilibrium" requirement, restoring flexibility in the implementation of national fiscal policies and providing the necessary room for maneuver in times of cyclical instability, while the deficit limit ensures discipline and stability of public finances. . . The following text will give a brief overview of the structure of monetary and fiscal policy in the UME in accordance with the Maastricht Treaty and the Stability and Growth Pact, their goals and strategies, as well as their overall structure.

1.2 Coordination of fiscal policies. The European Monetary Union (UME) is unique: it is the currency area of sovereign countries that maintain a high degree of fiscal autonomy and the only monetary authority that directs the monetary policy of the entire Eurozone. The need to coordinate individual fiscal policies in monetary union stems from the fact that the fiscal policies of individual member states can have a significant impact not only on their economies, but also on the stability of the Eurozone as a whole[6].

[5] Given this structure, the key question is whether the agreed coordination procedures and fiscal policy guidelines

[6] Anne Brunila (2002): "Fiscal Policy: Coordination, Discipline and Stabilization", Bank of Finland, Document prepared for the meeting of the European Commission Economic Analysis Group, 16 April 2002

According to the theoretical approach, expansionary fiscal policy in one country has an impact on the economies of other member countries through the three main transmission channels between several countries with a fixed exchange rate between countries and full capital mobility:

Positive effects of trade overcrowding

Fiscal expansion stimulates domestic activity, creating pressure for exchange rate appreciation and rising interest rates. In a currency union, the exchange rate between countries is fixed and the interest rate level is set at Union level. Thus, the volume of money circulating in the domestic market increases, causing a further increase in domestic production. The increase in domestic production leads to an increase in imports, and consequently to an increase in the income of trading partners.

Negative effects of the spread of interest rates

The initial increase in domestic interest rates as a result of fiscal expansion attracts capital inflows from other countries into the domestic economy and thus puts increasing pressure on member countries' interest rates throughout the Eurozone. The final balance of Union interest rates can be reached at a higher level than before the shock. This channel of interest rates can have the opposite effect on external and domestic production.

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Effects of real exchange rate spread

The euro fluctuates against the currencies of the rest of the world. If fiscal expansion in a large EMU member country causes the real euro exchange rate to appreciate, the expansionary effects will be stifled as a result of the deteriorating trade balance.

Ignoring these pervasive effects can lead to ineffective policy outcomes, and consequently the need for fiscal policy coordination. Theoretically, the effects of budget spills could be unclear, mainly because they depend on the magnitude of the direct trade effects, the impact on common interest rates and the exchange rate. Although empirical evidence of the extent of the spread is insufficient, the negative impact of the considerable fiscal slowness of some individual countries, transmitted through common interest rates and the exchange rate, may be significant for other countries participating in monetary union. Reflecting on these grounds, the reason for policy coordination in the Monetary Union is reiterated in the Luxembourg Resolution on Economic Policy Coordination of December 1997 as follows:

• As national economic developments have an impact on the inflation outlook in the Eurozone, they will also have an impact on monetary conditions in that area. This is the main

reason why access to the single currency will require closer Community oversight and economic policy coordination.

In the field of policy coordination, the Resolution also emphasizes the principle of subsidiarity of the Treaty:

• Improved policy coordination should adhere to the principle of subsidiarity of the Treaty and respect the prerogatives of national governments in defining their structural and budgetary policies, which are subject to the provisions of the Treaty and the Stability and Growth Pact.

In economic theory, policy coordination is usually understood as a common adjustment of policy parameters (Bryant, 1995). The EMU fiscal framework relies on implicit policy coordination, which means limiting national policies through rules and procedures, rather than explicitly coordinating discretionary measures in the form of joint decision-making. Supranational fiscal rules, such as PSR,

Considered effective in preventing political unrest (deficit bias, moral hazard, "free rider"), which can lead to negative financial market overcrowding and undermine the credibility of the common monetary policy. (see Buiter, Corsetti and Roubini 1993, Beetsmand Uhlig, 1999) Thus supranational rules can function as a binding methodology within monetary union.

PSR fiscal restrictions have been violated in recent years. Informal coordination through peer pressure or economic policy recommendations from the Commission at EU level has resulted in insufficient prevention of unhealthy policies and correction of undisciplined countries. Thus, without real fiscal rules, some countries still tend to respond to economic crises with unplanned monetary and fiscal measures. Moving away from PSR settings, without adequate rules set inadequately, contributes to fiscal consolidation in the EMU being highly discretionary and unpredictable. Within this uncertain institutional scenario, non-cooperative policy games begin to unfold with the expected ineffective policy outcomes: greater output and inflation variability, higher interest rates, and lower credibility of political actors and institutional policymakers[7].

2. Types of tax measures and incentives for SMEs

2.1. Defining SMEs and large enterprises

The definition and classification of companies in the European Union is done with EU Recommendation no. 2003/361 according to three criteria:

- maximum number of employees,
- total annual turnover and
- total assets, including share capital.

[7] Pedro Schwartz and Juan Castañeda (2008): "Monetary and Fiscal Policy under the EMU: Do We Need More Coordination in Times of Economic Trouble?", Report to the Committee on Economic and Monetary Affairs (European Parliament), preparatory to the Dialogue Monetary with the European Central Bank ", 13 th June, 2008, p.4

Table 1: Classification of companies in the EU

Enterprise category	Number of employees	Total annual turnover (milion euro)	Total assets, including share capital (milion euro)
Micro	≤ 10	≤ 2	≤ 2
Small	≤ 50	≤ 10	≤ 10
Medium	≤ 250	≤ 50	≤ 43
Big	> 250	> 50	> 43

In terms of total annual turnover and total capital, enterprises must meet a condition to be classified in the relevant category.

Table 2: Number of enterprises, number of employees, gross value added and participation of SMEs in the European Union, 2012

	Total Enterprisse **in 2014 ***	Total Enterprisse **in 2012**	**% SME**	**Total Employers**	**% SME**	**total gross value added ****	**% SME**
BE 28	/	22,346,729	99.8	133,767,348	67.0	6,184,825	57,5 ***
Belgium	593,421	566,066	99.8	2,718,355	70.1	189,086	62.2
Bulgary	319,856	312608	99.8	1.872.997	75.5	18246	62.3
Chech Republic	995,754	1,007,441	99.9	3,521,520	69.8	84,142	56.0
Denmark	212,740	213,358	99.7	1,602,105	65.0	119,936	62.5
Germany	2,497,694	2,189,737	99.5	26,401,395	62.5	1,385,501	53.3
Estony	64,040	58,408	99.7	393.545	78.1	9338	74.9
Irland	146,741 ****	/	/	/	/	/	/
Grecce	700,166	726,581	99.9	2,198,986	86.5	54703	72.8
Espain	2,377,191	2,385,077	99.9	10,923,323	73.9	434,156	63.0
France	3,188,138	2,882,419	/	15,495,621	/	890,597	/
Croacia	147,337	148.573	99.7	1.002.905	68.3	19.115	54.8
Italy	3,715,164	3,825,458	/	14,715,132	/	646,476	/
Cipro	46.938	46,139	99.9	224,915	/	7864	/
Lituania	176611	141,893	99.8	835,630	76.2	12,155	68.5
Letonia	100,491	91,939	99.8	573.580	78.8	9269	69.2
Luxemburg	31,385	29265	99.5	242.533	68.3	19250	70.7
Hungary	514,537	528.519	/	2,430,681	/	46,497	/
Malta	26,193	26796	99.8	119,224	79.3	3548	74.9
Holand	1,054,562	862697	99.8	5,359,446	66.7	310,022	62.9

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Austry	321,661	308,411	99.7	2,671,477	68.0	164,976	60.5
Polony	1,549,326	1,519,904	99.8	8,326,839	68.9	171627	50.1
Portugaly	781,823	793,235	99.9	2,942,895	/	66,360	/
Rumany	455,852	425,731	99.6	3,837,868	66.4	48,432	/
Slovenian	130,088	119644	99.8	574,479	72.3	17,140	62.8
Slovaky	400683	398,392	99.9	1,417,228	69.7	32,922	60.5
Finland	229,248	226,373	99.7	1,457,599	63.0	86,957	59.6
Suedy	673.218	661,822	99.8	3,025,006	65.4	210,859	58.5
GB	1841715	1,703,562	99.7	17,784,620	53.0	1,037,293	50.9
Norvegy	286,253	278,899	99.8	1,510,838	67.6	230,661	58.6
Macedonia	**53,749 *******	There is no data					

Source, Report to the Committee on Economic and Monetary Affairs (European Parliament), preparatory to the "Monetary Dialogue with the European Central Bank", 13 Th June, 2008, p.4[8]

Conclusion

Taxation is the basis of national sovereignty. Revenue from taxes, taxes and other contributions provide governments with the money and resources they need to survive and function effectively. In addition, the tax legislation reflects the basic guidelines of the various member states of the European Union (EU) in important areas of public spending such as education, health and the pension system. They have an impact on private consumption and savings and set the financial and production framework for business activities as well as environmental protection and issues. For all these reasons, the authority to collect taxes and contributions and to set tax rates and contribution rates is left to the governments of the EU Member States.

The European Union has no direct jurisdiction over the collection of taxes or the setting of tax rates. The amounts of taxes to be paid or collected are determined by the EU Member State for and in the territory in which it has sovereignty and tax authority. The EU's role is to oversee the tax rules of the Member States and bring them into line with certain Union policies in this area, such as:

- Encouraging economic growth and job creation,

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[8] ***** The table has been prepared according to the data for 2012, while the section "Total enterprises for 2014" has been added as the last year for which Eurostat currently has data on the number of companies.***

***** Gross value added - the value expressed in currency, on the volume of products and services created, reduced by the costs of all inputs and raw materials that directly contributed to that production.***

****** The gross value added of SMEs is 3,556,274 billion euros***

****** Evaluation.***

******* Data for Macedonia have been added for comparison, especially with smaller EU member states.***

- Ensuring the free movement of goods, services and capital throughout the Union (within the single market),
- Ensuring that business enterprises in one country do not have unfair competitive advantages in other Member States,
- Ensuring that tax conditions do not discriminate against consumers, employees and businesses from other countries.

So the EU does not set and does not collect taxes. This is done only at the level of each member state. The EU budget is "filled" only by so-called "own resources". They include contributions from each Member State, customs revenue and a very small portion of value added tax (VAT). Member States decide together on the maximum types and amounts of those "own resources".

Tax regimes across Europe vary considerably and range from very low overall tax burden (e.g. Ireland, Estonia, Bulgaria) to countries where the overall tax burden is relatively high (e.g. Italy, Germany, Finland). Italy, Germany, Finland and Belgium apply some of the highest fiscal burden within the union.

Only five countries (France, Greece, Bulgaria, England and the Netherlands) seem to favor small, medium and micro enterprises in terms of the current tax burden compared to large enterprises.

The study of activities shows that although there does not appear to be a particularly large difference between SMEs and large enterprises in the commercial sector, the size of the enterprise creates a significant difference in the construction, hospitality and hospitality industries and in the manufacturing sectors. .

The analysis of structural ratios shows that, on average, firms in Estonia, Ireland and Finland are characterized by high liquidity ratios and low debt ratios, while firms in Croatia and Italy have low liquidity ratios and high debt ratios in their capital structure. .

In terms of the relationship between structural rates and taxes, analysis of the impact of depreciation on the tax burden shows that companies in Italy, Belgium and Finland are better able to reduce their tax base.

It can be concluded that unclear treatment of SMEs can not be placed in different countries, where there are different tax burdens from country to country, as well as between SMEs and large enterprises.

Incentives for SMEs and separately for research and development are limited to individual companies that meet certain eligibility thresholds. It starts from EU Recommendation no. 2003/361 on the classification of certain incentive measures and their availability for large, medium, small and micro enterprises.

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