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EVALUATION OF THE PRINCIPLE OF TAX FAIRNESS IN THE TAX ON INCOME OF NATURAL PERSONS IN THE REPUBLIC OF NORTH MACEDONIA

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Abstract: *The paper analyzed the development stages in the taxation of the income of natural persons in the Republic of North Macedonia through the prism of their compliance with the theoretical approaches in regulating the matter of income taxation. For this purpose, the initial stage of this research was the review of the impact of frequent amendments to the regulatory framework (relevant legislation) on the realization of the principles of vertical and horizontal justice. In the analysis of the normative-legal framework, the primary focus was the regulation's influence on the realization of the principle of justice in taxation in the legal system of the Republic of North Macedonia (RNM). Additionally, the teleological method was used to identify the level of realization of the goals and functions of the RNM tax system. In that context, the effects of income taxation on the redistributive function were analyzed. The basic hypothesis from which the paper starts is that the frequent changes and modifications in income taxation concepts resulted in violating social-political principles in taxation. The research results indicate an inconsistency in the development of the system of income taxation of natural persons in RNM, which leads to a violation of the vertical and horizontal justice and the redistributive function of the income tax.*

Keywords: *Income Tax; Fairness; Redistributive Function; Reform Cycles; North Macedonia*

INTRODUCTION

Taxing natural persons' income is inherently one of the most intricate forms of taxation, given its intricate layers, collection methods, and diverse objectives. Consequently, its role and significance within countries' tax systems are emphasized, as it encompasses a broad spectrum of functions.

Through the income tax, in addition to the fiscal goal, numerous other goals are achieved, primarily of a social nature, given the high degree of agreement of the financial theory on the possibilities of realizing the principles of tax justice through progressive income taxation (Avi-Yonah 2006, 23-24). The social dimension of the personal income tax is reflected in the principles on which it rests and refers to a set of issues related to the determination of the taxpayer's property, tax base, tax object, and tax rate. Namely, taxes' role and influence in realizing social equality is from a more recent date (Jelačić et al. 2002, 173). In the mid-20th century, influenced by the theory of well-being and the welfare state, social-political principles emerged in taxation, with Adolph Wagner having the most significant impact on their integration. Wagner's principles, namely the universal character of the tax and equality in taxation, are considered fundamental political and social principles. Social-political principles are integrated through the principle of equality of citizens (including the principle of generality in taxation); and the principle of fairness as a standard in taxation (including the principle of taxation according to economic ability and the protection of human dignity and the protection of the family) (Keuschnigg 2005, 119; Kofler and Urnik 2004). Modern legal systems in support of equality have built the doctrine "equality of citizens who are in the same legal situation", which includes equal access to citizens who are in the same legal situation (Bienvenu 2010, 25). As a result of this doctrine, the principle of non-discrimination arises. The set of mentioned principles are integrated within the constitutional norms of modern states, including the Republic of North Macedonia (RNM), as well as within the European Convention on Human Rights (ECHR) through Articles 6, 8, and 14, and Article 1 of Protocol No. 1 (Convention for the Protection of Human Rights and Fundamental Freedoms 1950). Following the concept of a welfare state, the principle of equality includes equality in the redistribution of income, in the sense of equality between members of society, in which there are no differences in legal, political, social, and economic position.

The question of achieving tax justice (fairness) is most directly related to the rule of law because only fair taxes can be in accordance with the goals and functions of the rule of law (Jelačić et al. 2002, 173). The principle of justice within the financial theory by Adam Smith (1776) in "An Inquiry into the Nature and Causes of Wealth of Nations", formulates the four principles in taxation. Among others, Smith defines the principle of equality in taxation, according to which citizens are obliged to participate in meeting the needs of the state in proportion to their income. The states, among other things, realize the distribution function by applying the principle of equality in taxation. Through the taxation system, deducting part of the income from the rich class of citizens, the state tries to improve the social position of the poor classes. In this context, the redistributive justice of the income tax is particularly pronounced. The income tax is one of the tax forms through which a fairer income distribution can be influenced. In addition to justice in the income distribution, through structural characteristics of the income tax, which is taxation according to the taxpayer's economic ability, it contributes to realizing the principles of horizontal and vertical justice in taxation (Hillman 2003, 472). In this regard, the financial theory considers the taxpayer's income as the most reliable indicator of economic strength (Holmes 2001). Consequently, tax justice is reflected through the effort to determine the taxpayer's economic ability precisely because the income tax can be defined as a general tax on economic ability expressed through the realized income (Andel 1992, 288).

RNM's commitment to building an efficient and fair system of personal income taxation can be qualified as a process of frequent changes and additions that make the system uncertain, with pronounced oscillations in the approach to regulation. Namely, in practice, it has been shown that there are serious violations of the concepts of proportionality and progressiveness in the analyzed phases because they are reflected in the dilemma of whether the tax system can achieve the primary goals and principles of taxation, which are also raised at the constitutional level. Namely, statistical data show that RNM is the country with the lowest percentage of income tax participation in total tax revenues (Jovanovic 2019, 125), as well as the data that the country has the greatest inequality in the distribution of income in Europe (Gacov et al. 2016, 53). Inconsistencies in the basic theoretical postulates run through all three reform phases, starting from the principle of taxation according to economic ability, the objective and subjective net principle in determining the tax base, and the principle of income tax progression.

FIRST REFORM PHASE: IN SEARCH OF A FAIR AND EFFICIENT TAX SYSTEM

With the tax reform in 1993, RNM established a new tax system for natural persons' income. Reform efforts in tax policy aim to align the tax system with the modern tax systems of countries with developed economies. The tax reform is qualified as a transitory system of taxation with the remnants of the old system in the part of advance taxation of income with tax collection after deduction from each income, with their deduction from the established annual tax (Pendovska, Maksimovska, Mangova, Poljavich 2013, 285).

Namely, before the reform, the Republic of North Macedonia, like the other Member States of the former Yugoslavia, applied the so-called British model of taxation, which is also a cedular taxation model (Pendovska 2001). The main feature of this model is the duality of taxation: first, the taxpayer's income is taxed individually and analytically, and then, at the end of the year, it is again approached to tax all types of income together in a total amount. In 1993, when reforms in the tax system began, the state abandoned the British model. It adopted the German model. Namely, the German model of income taxation represents a single and comprehensive income tax that rests on a single synthetic income tax based on the income concept, which implies synthesizing the different types of income in the total income of the taxpayer that is taxed with one tax form, one tax rate, without differentiation of the tax burden according to the type of income. The synthetic taxation model is a function of achieving horizontal equality, which implies equal tax treatment of taxpayers with equal income capacity without segmenting income from capital and income from work (Jelačić 1998, 236-239).

The 1993 reform provided progressive tax rates of 23%, 27%, and 35%. The rates were revised in 2001 with their reduction: for income up to MKD 36,000, a rate of 15%, and for income over MKD 36,000, a rate of 18%. In 2005, a third rate of 24% was introduced.

The normative analysis shows that the principle of horizontal justice is integrated with the first reform phase when determining tax liability through the synthetic model. In contrast, the principle of vertical justice is realized through progressive tax rates. The analysis shows the so-called direct progression by establishing more tax lines for which different tax rates are provided. In addition to direct progression, to achieve greater progressivity, the so-called indirect progression through the determination of certain tax relief to determine the amount of the so-called subsistence minimum in the form of an annual tax exemption is presented in Table 1. The net subjective principle is provided through the so-called indirect progression expressed in the form of the annual tax exemption provided for all taxpayers without considering the personal circumstances and circumstances in which the taxpayer finds himself. The inconsistent application of the net subjective principle undermines horizontal justice because it is not based on the individual approach in determining the tax liability through the system of double or family quotas that are present in a comparative sense in many countries (source). On the other hand, the principle of horizontal fairness is not fully satisfied due to the non-taxation of capital income. Consequently, the predicted model violated the principle of neutrality to the detriment of property and property rights taxation.

Table 1: Amount of Tax Rates and Types of Tax Exemptions for Personal Income Tax in the Period from 1993 to 2006 (Source: Author's research)

Period	Amount of Rate	Personal Exemption	Statutory Provision
1994 - 2001	23% for income up to 2 monthly average wages; 27% for income from 2 to 5 monthly average salaries; 35% for income over 5 monthly average salaries.	¼ of the monthly average salary paid in RNM	Personal income tax law, Official Gazette No. 80/93 of 1993
2001 - 2004	15% up to MKD 360,000; 18% over MKD 360,000;	Since 2001 the annual personal exemption of 30,000 MKD (valued with the coefficient of increase of the monthly average achieved in the previous year). Since 2009 the annual personal exemption amounts to 84,000 (it is valorized by the planned increase in wages in the RNM following the government's macroeconomic policy).	Law on Amendments and Addenda to the Law on Personal Income Tax, Official Gazette No. 08/01 of 2001
2005 - 2006	15% up to MKD 360,000; 18% over MKD 360,000 to MKD 720,000; 24% over MKD 720,000;		Law on Amendments and Addenda to the Law on Personal Income Tax from Official Gazette No. 96/04 of 2004. Law on Amendments and Additions to the Law on Personal Income Tax from fig. Journal No. 159/08 of 2008.

SECOND REFORM PHASE: CONCEPT OF JUSTICE THROUGH EQUALIZATION OF "INCOME INEQUALITY"

The second reform phase began in 2006 when proportional taxation of the income of natural persons was introduced through the adoption of the flat tax model. The reform simultaneously included changes in the administrative concept, which resulted in the adoption of the Tax Procedure Law, which strengthened the Public Revenue Authority's role in determining, collecting, and controlling taxes (Dzafche 2021, 245). The flat tax was introduced by amending the existing Personal Income Tax Law in 2005, which until then underwent ten amendments; until its repeal in 2018, it underwent a total of 31 amendments.

In the second reform phase, progressive taxation was abolished, and proportional taxation of individuals' income and the profit of legal entities were approached. Progressive rates were replaced by a flat rate of 12% in 2007, with a reduction to 10% in 2008. The flat tax model introduced in RNM is the proportional model with one tax rate and many non-standard exemptions and reliefs (Pendovska and Dzafce 2009, 125). The introduction of proportional taxation was aimed at creating favorable conditions for attracting foreign investors by making Macedonia the country with the lowest tax rate in Europe (besides Bulgaria and Bosnia and Herzegovina, Romania, and Kosovo); simplification of the system of tax determination and collection; as well as suppression of tax evasion (Smilevski 2018; Stojkov, Nikolov, and Smilevski 2008). The expected effects were to be reflected in the number of tax revenues, the tax discipline, and the concept of "justice and equality," which was promoted under the maxim "everyone with an equal contribution to the realization of public revenues", where the absolute amounts will show the difference that it will go in favor of "justice" (Maksimovska-Stojkova 2019, 143). The flat tax concept is based on the equal treatment of earned income regardless of its size, which in tax theory is contrary to the concept of justice in the tax-legal sense. In addition to violating the principle of vertical justice, the flat tax called into question the redistributive character of the personal income tax. Namely, since independence, RNM has recorded high-income distribution inequality at the European level and is the only country in Europe where the value of the Gini index exceeded 40 with a strong growing trend of increasing inequality of income distribution. (Gacev et al. 2016; World Bank 2015). Data indicate that North Macedonia had a Gini coefficient of about 27% in 1991, drastically increasing to 36% in 1996 (World Inequality Database 2023). After a moderation period, income inequality rose again, with a more moderate trend from 2004 to 2010. The last two measures of income inequality show a downward trend after 2010, from 40.9% to 31.9%, representing a significant decline over eight years (Petrovski 2020, 5). The country's first fiscal data published in 2017 show that 14% of income is concentrated in the hands of the top 1% with the highest income, similar to the global situation with income inequality (Petrovski 2020, 5). Namely, the average income of the top 0.1% is seven times that of the remaining 0.9% of the top 1% and a whopping 34 times that of the 90th percentile (Petrovski 2020, 5).

THIRD REFORM PHASE: "RETURNING" TO "FAIR" TAXATION

In the third reform phase, a new Law on Personal Income Tax was adopted in 2018 to increase budget revenues and greater fairness in taxation. For those reasons, the reform consisted of two basic tendencies: expanding the tax base and introducing a higher tax rate (Jovanovic 2019, 31). Through this reform, progressive taxation was introduced for income from labor, and for income from capital, a single tax rate was maintained but increased from 10 to 15%. Namely, in the implementation of this reform phase, a series of inconsistencies and frequent changes and additions were observed, which are due to the political and economic environment that the state is facing. As a result, the application of the progressive rates was implemented only in 2019, so only after one year of application was the application of the progressive rates postponed, with which the state returned to proportional taxation. The third phase replaced the German with a Romanian type of income tax but in a modified form. Namely, this type of income tax is characterized by the taxation of individual incomes (part of the income) with the application of proportional rates, progressive or with progressive and proportional tax rates. If the limit value is exceeded, the total income is additionally taxed progressively (Jelačić 1998, 236).

In the case of RNM, income from labor (income from work, self-employment, income from the sale of own agricultural products) is taxed progressively. In contrast, income from capital, insurance, games of chance, and other income are taxed proportionally. The inconsistency is observed in the absence of progression in case of exceeding a limit value not provided for by law, which is characteristic of the Romanian income taxation model.

Progressivity applies only with exceeding the threshold value for labor income without considering other incomes that would essentially increase the income value, which could raise the threshold, further opening the dilemma of real progressivity. On the other hand, the theoretical public debates progressivity due to the high legal threshold for transitioning to a higher tax order and applying the higher tax rate. The threshold was set at 90,000 MKD per month, i.e., 1,080,000 MKD per year, corresponding to the highest-income 1% of the population, where regressiveness in taxation has been observed (Jovanovich 2019, 34-35). According to the Government of the RNM projections, 491,000 people should be affected by this reform. About 435,000 will have a reduction in the effective tax rate due to the increase in the tax reduction, and an increase is foreseen for 38,000 people. For the top 1% of the population, the effective tax rate will increase by 4%.

The idea of fair taxation, regulated within the framework of the third reform phase, in today's retrospect, proved to be unfeasible; after only one year of implementation, progressive taxation was postponed for two years, i.e., until 2023, to be completely abolished on 20.12.2022 through amendments to the Personal Income Tax Law. In addition, the rates of 15% that were provided for capital income, insurance income, and other income have been reduced to 10%. A rate of 15% is provided only for gambling income. Interest from deposits is exempted from taxation. The current normative framework in the taxation of the income of natural persons means the return of the flat tax and proportional rates. For those reasons, we will see the empirical analysis through the analysis of the two reform phases because one year of application of progressive taxation does not represent a period in which relevant conclusions can be drawn.

EMPIRICAL ANALYSIS OF THE EFFECTS OF TAX POLICIES IN THE REPUBLIC OF NORTH MACEDONIA

Since the main objective of this paper is an analysis of changes in the concepts of income taxation and changes in the amount and structure of total tax revenues, the analysis will be made in the period from 2005 to 2022, a period in which proportional taxation is applied with the exception in 2005 and 2019. In most of this period, the synthetic model of taxation is in use, except for the period from 2019 to 2022, when the state applied the hybrid model of taxation with the application of a synthetic model for income from work, self-employment, and income from agricultural products and the analytical model for capital income, capital gains, insurance income, gambling, other income which are taxed at a higher but proportional rate. The empirical analysis was based on published aggregate data from the Ministry of Finance, the Administration for Public Revenues, the National Bank of the RNM, and the State Statistics Office.

The analysis will answer the question of the type and nature of progressivity, i.e., proportionality, and the application of the subjective net principle. The analysis aims to comprehend the implications of changes in income tax policy on the structure and magnitude of tax revenues, the level of inequality reduction through redistribution, and the impact of tax policy on GDP levels and the amount of public debt (Vermeer 2022).

Table 2: Comparative Presentation of Tax Rates and Tax Exemptions in the Two Reform Phases (Source: Author's research)

	Personal Income Tax Law (analyzed period: second reform phase 2006-2018)		Personal Income Tax Law (analyzed period: third reform phase 2018-2022)		Law on Amendments and Addenda to the Personal Income Tax Law dated 20.12.2022
Type of Income	Tax Rate	Tax Reduction (Nominal Costs)	Tax Rate	Tax Reduction (Nominal Costs)	Tax Rate
Income from work	10%	From 2001 to 2009, MKD 30,000 annual tax reduction: Since 2009, 84,000 MKD; 50% tax exemption for employees in technological development zones	10% up to MKD 1,080,000 - annually; 18% for income over MKD 1,080,000	Annual tax reduction: 96,000 MKD	10%
Income from independent activity	10%	Up to 30% of investments in working capital; up to 50% of the tax base	10% up to MKD 1,080,000 - annually; 18% for income over MKD 1,080,000	Up to 30% from investments in working capital; up to 50% of the tax base	10%
Royalty income	10%	Nominal charges from 25% to 50%	10% up to 1.080.000 MKD annually; 18% for income above 1.080.000 MKD	Nominal costs from 20% to 50%	10%
Income from the sale of own agricultural products	10%	Nominal costs up to 80%	10% and 18%	Nominal costs up to 80%	10%
Income from industrial property rights	10%	Nominal costs up to 25%	15%	Nominal costs up to 10%	10%
Income from lease and sublease	10%	Nominal costs from 25% to 30%	15%	Nominal costs from 10% to 15%;	10%
Capital Income	10-%	No reduction	15%	No reduction(on interest on deposits for income higher than 15,000)	10%
Capital gains	10%	Nominal costs of 30%	15%	Nominal costs of 10%	10%
Profit from a game of chance	10%	-	15% (for income higher than 5.000 MKD)	-	15%
Income insurance	10%	-	15%	-	10%
Other income	10%	Nominal expenses of 35%	15%	Exemption for used solid waste of 50%	10%

Table 2 presents the number of tax rates in both reform cycles and the types of reductions. The analysis shows that progressivity was observed only in the first reform phase. In the third reform phase, progressivity is only a "makeup" of the commitment to justice in taxation. In 2023, the state "returned" to flat taxation after unsuccessful attempts and postponements of the concept, even though progressivity was supposed to cover only 1% of the population. In this way, horizontal justice is suspended through progressive tax rates to apply the principle of taxation according to economic ability. Regarding the number of tax rates, at the level of Europe, RNM has the lowest tax rates on income tax.

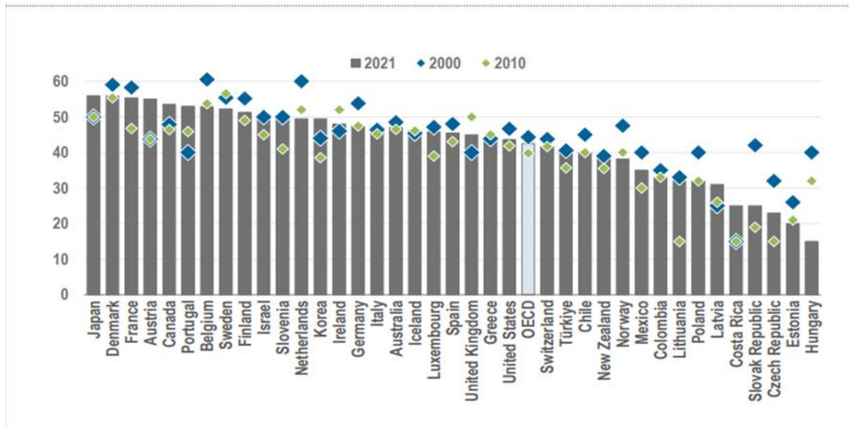


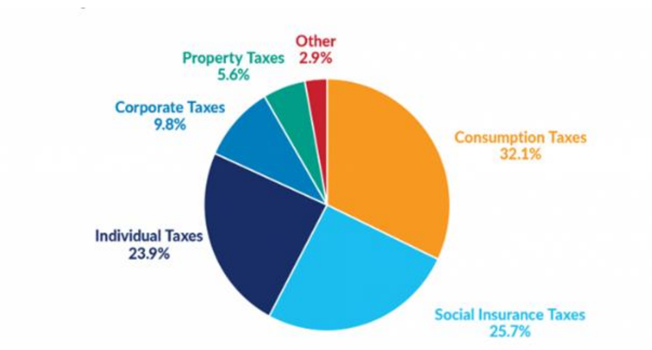
Chart 1: Level of Income Tax Rates of OECD Member States for the Period 2000, 2010, 2021 (Source: OECD 2022)

The analysis shows that the lowest rates are recorded in Hungary and Estonia from the European countries Denmark, Austria, and Belgium, with over 50%. At the EU Member States level, the average income tax rate has decreased in the last six years, from 21.13% in 2017 to 20.30% in 2022 (Eurostat).

Table 3: Amount of Total Tax Revenues, by Types of Taxes and Contributions in the Period from 2005 to 2022 in the RNM (Source: Author's depiction based on the Bulletins of the National Bank of the RNM 2023)

Year	Total Tax Revenues (expressed in millions of MKD)	Personal Income Tax	Profit Tax	VAT	Excise Duties	Contributions
2005	55.681	8.097	2,837	27.082	11.748	28.595
2006	59.575	8.414	4,708	27.239	12.174	30.766
2007	69.515	8.893	5,898	32.962	13.265	33.457
2008	76.559	8.696	8.579	36.173	14.276	38.249
2009	70.754	8.710	4.434	35.173	14.533	38.837
2010	72.938	8,872	3.690	37.694	14.925	38.687
2011	78.206	9,513	3.888	42.224	15.513	39.759
2012	75.619	9,553	3.652	38.469	16.596	40.765
2013	77.478	10,254	4.421	39.835	15.990	42.438
2014	83.845	12,320	5.060	43.860	17.394	44.185
2015	91.357	12,910	12.024	41.694	19.783	47.900
2016	98.457	14,204	10.768	45.949	22.215	50.300
2017	103	15,263	11.353	47.870	23.093	52.890
2018	112.774	17,559	14.745	49.254	25.092	56.538
2019	115.114	18,706	11.555	52.059	26.087	62.166
2020	105.713	18,625	10.497	46.893	22.450	66.564
2021	124.286	20,552	10.871	58.194	25.548	70.627
2022	140.518	23,852	15.776	64.764	25.483	77.619

Table 3 presents the total tax and other tax revenues and contributions for mandatory social insurance from 2005 to 2022. The general conclusion is that the RNM has the lowest level of tax revenues based on income tax and is in fourth place after contributions, VAT, and excise taxes. In contrast to RNM in the OECD Member States, income tax revenue in 2021 is the third most important tax revenue in total tax revenue.



Graph 1: Revenue Statistics - OEDC Countries Comparative Tables, Source for OECD Countries for 2021 (Source: OECD 2021)

Table 4: Percentage Share of Income Tax and Contributions for Mandatory Social Insurance Concerning Total Tax Revenues in the Period from 2005 to 2022 in the RNM (Source: Author's research)

Year	Share of Personal Income Tax in Total Tax Revenues	Share of Mandatory Social Insurance Contributions in Total Tax Revenues	Income From Personal Tax, As A % of Total Budget Revenues	Revenues from Mandatory Social Insurance Contributions As A % of GDP
2005	14,54 %	51,35%	2,6%	9,3%
2006	14,12 %	51,64%	2,5%	9,2%
2007	12,79%	48,12%	2,4%	9,0%
2008	11.35%	50,72%	2,1%	9,2%
2009	12,31 %	54,89%	2,1%	9,4%
2010	12,16%	53,04%	2,0%	8,8%
2011	12.16%	50,83%	2,0%	8,6%
2012	12,63%	53,90%	2,0%	8,7%
2013	13,22%	54,77%	2,0%	8,5%
2014	14,69%	52,69%	2,3%	8,4%
2015	14,13%	52,43 %	2,3%	8,6%
2016	14,42%	51,08%	2,4%	8,4%
2017	14,81%	51,34%	2,5%	8,6%
2018	15,57%	50,13%	2,7%	8,6%
2019	16,24%	54%	2,7%	8,9%
2020	17,61%	62,96%	2,8%	9,9%
2021	16,53%	56,82%	2,9%	9,8%
2022	16,97 %	55,23%		

Table 4 presents revenues from personal income tax as a % of GDP from 2005-2022. It can be observed that there is a decrease in personal tax revenues after the introduction of the flat tax in total tax revenues. The percentage participation in 2005 was 14.54%; in 2007, it decreased to 12.79%, i.e., 11.35% in 2008. A trend of equalization will happen only in 2017. A slight increase was observed from 2018 to 2020, but in 2021 it decreased again by one percentage point. An upward trend was also observed regarding the percentage share of income tax revenues concerning GDP: from 2.6% in 2005 to 2.1% in 2008. The decreasing trend was also observed in the following years from 2008 to 2017; in 2018, the level of 2005 will be reached. An increase of one percentage point is seen in 2021 and 2022 due to increased rates for capital income, insurance, gambling, and other income. The data concludes that the tax reform in 2007 resulted in a decrease in personal tax revenues. The analysis shows no significant changes were observed in 2019 when progressive taxation was applied. In contrast to RNM, the percentage share of personal income tax and social security contributions in total tax revenues at the level of the EU, OECD, and other regions is significantly higher, data presented in Table 5.

Table 5: Percentage Share of Personal Income Tax and Social Security Contributions in Total Tax Revenues by Region for 2018 (Source: OECD 2020)

Region or Group	Personal Income Tax	Social Security Taxes	Number of Countries Covered
OECD	23,9%	26,2%	36
Europe	23,0%	29,7%	27
Asia	15,7%	12,2%	9
North America	13,4%	16,0%	16
Africa	14,8%	6,8%	26
South America	7,1%	18,9%	10
Oceania	25,4%	0,0%	9

The data show that the public debt is constantly increasing regarding the impact of income tax changes on the amount of public debt. It can be observed in Graph 2 that there is a significant deepening of the deficit after the introduction of the "flat tax". Thus, the average deficit in 2002-2006 was 1.1% of GDP, while the average deficit in 2007-2013 was 2.3%, with a pronounced growth trend in 2020. Hence, it could be said that the budget deficit has deepened after the flat tax reform (Gatcev et al. 2016).

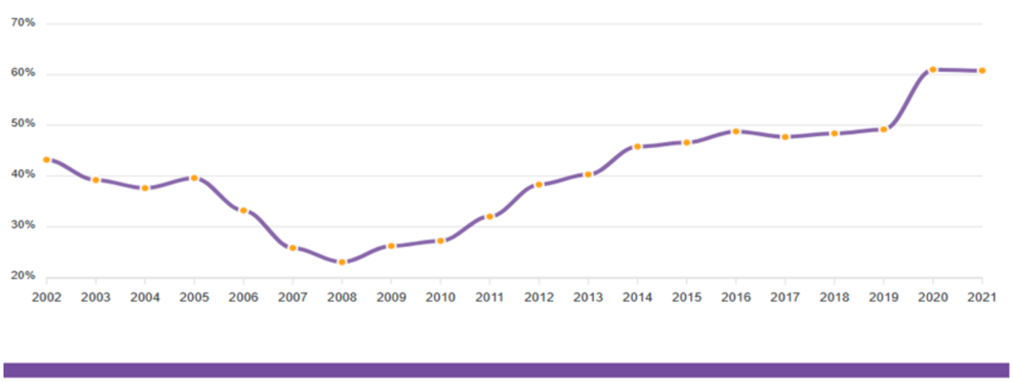


Chart 2: Movement of the Public Debt in the Period from 2002 to 2021 (Source: Ministry of Finance 2023)

CONCLUSION

The analysis of the legal-normative part as well as the results of the empirical analysis of the development stages of the income tax in RNM confirm the hypothesis that the numerous amendments and additions to the normative framework did not contribute to the establishment of the principle of justice, especially in the area of horizontal and vertical justice, as well as the redistributive role of the tax. The introduction of the flat tax led to the violation of the principle of vertical justice. On the other hand, horizontal fairness was violated due to the inconsistent application of the principle of taxation according to the net subjective principle and the broad tax base, especially with the reform of 2018 when the synthetic tax was abandoned. The idea of fair taxation, normatively regulated within the third reform phase, in today's retrospect, proved to be unfeasible; after only one year of implementation, progressive taxation was postponed for two years so that at the end of 2023, the flat tax would be returned. The current normative framework in the taxation of the income of natural persons means the return of the flat tax and proportional rates.

The empirical analysis showed that the changes in the arrangement of the income tax on changes in the amount and structure of the total tax burden in the period from 2005 to 2022 show that the RNM is a state with the lowest percentage of income tax participation in total tax revenues When compared with European countries that are members of the OECD.

Regarding the number of tax rates, at the level of Europe, RNM is among the countries with the lowest tax rates on income tax. On the other hand, income tax revenues, as a % of GDP, show a constant decrease in revenues after the introduction of the flat tax. Regarding the impact of changes in the income tax on the amount of public debt, the data show that the public debt is constantly increasing, with a significant deepening of the deficit after the introduction of the flat tax. Consequently, social justice is violated not only on the revenue side of the budget but also on the expenditure side. Regarding the redistributive role of the income tax, the data show a high level of inequality in the income distribution.

COMPLIANCE WITH ETHICAL STANDARDS

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Statement of Human Rights:
This article does not contain any studies with human participants performed by any authors.

Statement on the Welfare of Animals:
This article does not contain any studies with animals performed by any authors.

Informed Consent:
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