

**EXECUTIVE
BOARD
MEETING**

SM/22/22
Correction 1

February 10, 2022

To: Members of the Executive Board
From: The Secretary
Subject: **Republic of North Macedonia—Selected Issues**

Board Action:

The attached correction to SM/22/22 (1/31/22) has been provided by the staff:

**Factual Errors Not
Affecting the
Presentation of Staff's
Analysis or Views:**

Page 4

Questions:

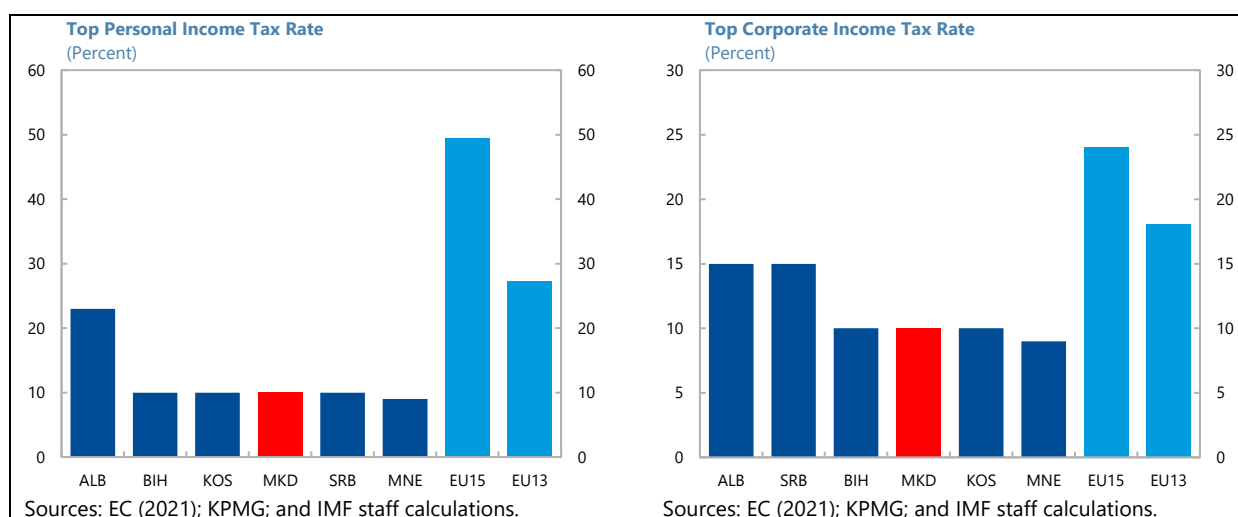
Ms. Barkbu, EUR (ext. 38138)
Mr. Mangov, EUR (ext. 36583)
Mr. Gade, EUR (ext. 30240)

2. Recognizing the urgency, the authorities have taken to the task. The government adopted a comprehensive strategy in December 2020.⁴ The strategy sets out reform priorities to tackle identified challenges including those summarized above. The top objectives include improving tax fairness, strengthening revenue collection, increasing tax transparency and quality of taxpayer services, and introducing environmental taxation. Annual Action Plans will determine the specific measures to be implemented and the sequencing of reforms.

B. Tax Policy

3. North Macedonia has long pursued an internationally competitive tax regime.

Favorable income taxation has been at the core of this strategy, designed to attract foreign investment to the country. Both corporate and personal income are taxed at 10 percent, among the lowest rates in the region and well below EU levels. A progressive personal income tax was introduced in 2019, but the reform was suspended the following year, until 2023. The system also provides generous tax holidays. For example, investors located in multiple special development zones and their employees are exempt from corporate and personal income tax (for a period of up to 10 years), ~~property tax~~, as well as import duties, value added, and other taxes on non-end customer transactions.



4. The system therefore relies disproportionately on indirect taxation, though preferential treatments have proliferated over time. In 2019, indirect taxes accounted for about three-quarters of tax revenue (excluding social contributions), against less than half on average in EU countries. Value added tax (VAT) alone represented 40 percent, the cornerstone of North Macedonia's tax system. However, a combination of preferential treatments (reduced rates and exemptions) along with a significant compliance gap have weakened VAT revenue, which has been

⁴ See Government of the Republic of North Macedonia (2020).