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## Reform of financial administration in the Slovak Republic: reviews of participants

### Abstract

The reform of the tax system in Slovakia is part of a complex reform of taxes and levies in the Slovak Republic. The tax reform was supposed to contribute to public finance improvement, but its progress is slowed by many problems and non-acceptance in the professional circles. The objective of the analysis is to contribute to the enrichment of knowledge of the tax system reform in the Slovak Republic from the point of its perception and evaluation by the main players affected i.e. business entities and authorities of financial administration. The study represents the first analysis of the reform of the tax system in the Slovak Republic which is based on information obtained from business entities and employees of Financial Administration.

The tax reform began in 2008, while its first phase was completed in 2013. The study is focused on the analysis of this stage of the reform. Suspension of the tax reform in 2013 can be considered as good opportunity to contribute to the professional discussion about continuation of tax reform. The study aims to provide an analysis of the tax reform first phase on the basis of data obtained from business subjects and Financial Administration offices. The data obtained by means of questionnaires from respondents are analyzed and processed by using mathematical and statistical methods on the level of descriptive statistics. Factors that describe six indicators of tax system evaluation have been extracted on the basis of the conducted factor analysis. The verified structure of the tax system evaluation presented in the research is a new view on the examined topic in the Slovak Republic. The study brings interesting findings, which can be considered as a precondition for successful continuation of the tax reform. In particular, the low readiness of the business sector and, surprisingly, employees of the Financial Administration are the factors that negatively affect the implementation of tax reforms.

Authors of the study prove a need for changes in the management of Financial Administration, including changes in the system of tax audits, with an analysis of selected statistical data of the Financial Administration for 2005-2013. Article presents actual view on the current state of the tax system in the Slovak Republic.

**Keywords:** Financial Administration; Perception of the Reform; Tax System

**JEL Classification:** E62; H79

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### Податкова реформа Словаччини з погляду її головних учасників

#### Анотація

Частиною комплексного реформування публічних фінансів у Словацькій Республіці є реформа податкової системи країни. Податкова реформа, як передбачалося, повинна була зробити внесок у вдосконалення фінансового адміністрування, проте її просування супроводжується багатьма проблемами й неприйняттям у професійному середовищі. Мета цієї статті полягає в тому, щоб проаналізувати сприйняття й оцінки здійсненої реформи податкової системи Словаччини головними гравцями, на яких вона впливає, тобто підприємцями та керівництвом Податкової адміністрації. В основу першого у своєму роді дослідження покладено інформацію, отриману в результаті проведеного анкетного опитування представників бізнесу та Податкової адміністрації, яку було проаналізовано й узагальнено із залученням методів описової статистики.

Податкова реформа Словаччини почалася в 2008 році. Її першу стадію було завершено в 2013 році. Дане дослідження зосереджене на аналізі цієї стадії реформи. Отримані результати сприятимуть обговоренню заходів подальшого податкового реформування для успішного продовження податкової реформи.

Авторами, зокрема, виявлено низьку готовність як ділового сектора, так і службовців податкової адміністрації, до впровадження податкової реформи на практиці.

На основі відібраних статистичних даних про діяльність Податкової адміністрації за 2005–2013 рр. представлено поточний стан податкової системи Словацької Республіки, а також обґрунтовано потребу в змінах в управлінні Податкової адміністрації, включаючи сюди систему податкового аудиту.

**Ключові слова:** податкова адміністрація; фінансове адміністрування; реформа; податкова система.

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**Налоговая реформа в Словакии с точки зрения её основных участников**

Аннотация. Частью комплексного реформирования публичных финансов в Словацкой Республике является реформа налоговой системы страны. Налоговая реформа, как предполагалось, должна была внести вклад в усовершенствование финансового администрирования, однако ее продвижение сопровождается многими проблемами и неприятием в профессиональной среде. Цель данной статьи состоит в том, чтобы проанализировать восприятие и оценку осуществленной реформы налоговой системы Словакии теми её основными участниками, к которым она имеет непосредственное отношение, то есть предпринимателями и руководством Налоговой администрации. В основе первого в своем роде исследования лежит информация, полученная в результате анкетного опроса представителей бизнеса и Налоговой администрации, проанализированная и обработанная при помощи методов описательной статистики.

Налоговая реформа Словакии началась в 2008 году. Её первая стадия была завершена в 2013 году. Данное исследование сосредоточено на анализе этой стадии реформы. Полученные результаты будут способствовать обсуждению мероприятий по дальнейшему реформированию налоговой системы для успешного продолжения налоговой реформы.

Авторами, в частности, выявлена низкая готовность как делового сектора, так и служащих налоговой администрации, к внедрению налоговой реформы на практике.

На основе отобранных статистических данных касательно деятельности Налоговой администрации в 2005–2013 гг., представлено текущее состояние налоговой системы Словацкой Республики, а также обосновано потребность в изменении деятельности Налоговой администрации, включая систему налогового аудита.

**Ключевые слова:** Налоговая администрация; финансовое администрирование; реформа; налоговая система.

**Introduction and Brief Literature Review**

The Slovak tax system is undergoing major changes and ending the stage of public administration reform which has been changing the territorial administration and public institutions from the period of the Slovakia's economic transformation. A smaller part of the tax system reform processes has already taken place; its major part is still the subject of professional and political discussions, however. The currently undergoing reform of the tax system may be seen as the biggest change in the area of public incomes management in recent 10 years<sup>1</sup>. Major part of professional circles and politicians agree on the need to unify the collection of taxes, levies and custom duties.

The reason behind the public finance reform was partial completion of the reforms of public administration [9]. One of the causes included the high deficit of public finance and the state budget deficit. Among major causes we also see a lack of transparency in the tax collection, tax leakage and unfavourable index of tax misery. This issue is very topical in many European countries and the EU bodies work on it [4, 5]. Arnold, J. M. et al. (2011) [1] warned about the need to change the tax policy including the reform. Even the neighbouring V4 countries with similar development of public finance from the time of transformation have not avoided the public finance and tax system reform. For instance, Piotrowska-Marczak (2013) [10] speaking about the Polish reform of public finance says that the necessity to reform the system of public finance follows the changing conditions in which they exist. It is necessary to know the conditions and to describe and consider the level of their impact. Currently we can see that these are mainly the factors activating the public finance reform in the 21<sup>st</sup> century. According to Gora (2008) [6], at public finance reforming it is important to reduce the number of public administration workers, as they do not produce any market value and decide about the structure of expenses (within the framework of bureaucratisation principles). The necessity of the reform in the Czech Republic is described by Botman and Tuladhar (2008) [2] linking it to the pension system reform, mainly due to the low GDP growth. Dalsgaard (2008) [3] calls the necessary reform the «Tax and Welfare Reform» and follows the analysis of prior years and proposes a model of a new way for public finance. The strategic intensions relate mainly to changes in the tax system, long-term sustainability of public finance and financial administration improvement.

Similar were the reasons for Slovakia. The Strategy of the Development of the Financial Administration of the Slovak

Republic (2013) [8] states that in the period of major macroeconomic changes, when the individual EU countries including the Slovak Republic fight against the consequences of the economic crisis the consolidation of public resources and ensuring of economic growth of these countries represents an exceptionally difficult duty. The financial administration plays a key role in ensuring the public resources of the Slovak Republic and its duty and obligation is ensuring public resources as effectively as possible from the point of incomes and also from the point of operating expenses needed for running the organisation. In Slovakia, the reform is called UNITAS. As indicated by Suhanyiova and Suhanyi (2012) [11], the benefits of the UNITAS reform are expected in two levels. The first one represents benefits for the tax payers;

- reducing the administrative load of the tax and customs matters;
- time savings at administration and improving the availability of services;
- improving the user-friendliness thanks to the financial administration electronicisation;
- savings on costs of banking transaction fees, postal fees and travel expenses;
- improved availability of financial resources.

The second level represents the benefits for the public administration:

- lowering the tax leakages;
- lowering of administrative expenses (reducing the staff by 20% with the saving of about 75 million Euros);
- lowering the operating expenses (savings on postal fees of 2 million Euros, savings on expenses on services, savings on property of 70 million Euros);
- lowering the expenses on consumption material, energy, maintenance, travelling expenses, etc.;
- more effective receivables offsetting and enforcement of arrears.

The current domestic and foreign professional and scientific resources available strengthen our belief in high topicality or even urgency of reforms relating to tax systems and financial administration in many countries of the world.

**Materials and the methods**

Up to the present, in professional and scientific work we have not encountered texts mapping the tax reforms and financial administration reforms perception from the viewpoint of the players involved, i.e. those who are not the authors of the

<sup>1</sup> In April 2003, the Government approved the Strategy of the Reform of Public Finance Management. It includes reforms on the incomes side of the budget – tax reform; on the expense side of the budget – reform of pension system, health care, education financing reform. The Ministry of Finance of the Slovak Republic has obtained a loan from the World Bank to finance the professional assistance and training to support institutional capacities for the needs of budget preparation, expenses management and financial management of the Government's powers.

reform, but represent the public administration staff or entrepreneurs as recipients of the reform itself on a daily basis subsequently. Following the above, it was necessary to find how the individual participants of the reform see its importance, individual tools, course and results. We chose the questionnaire-based method for two groups of players: representatives of business entities (i.e. owners, managers, executives, economists, chief accountants) and Financial Administration authorities (i.e. tax administrators, tax controllers and tax distrainers). The objective of the subsequent analysis of the data obtained was to contribute to the enrichment of knowledge in the context of perception and evaluation of the tax system reform in the Slovak Republic by business entities and financial administration's authorities, but also to define indicators of the evaluation of the tax system reform in the Slovak Republic; analyse and define the opinion differences of the examined entities and analyse the links and differences based on selected features of the business entities and financial administration's authorities. The data obtained from business entities and Financial Administration authorities were then processed and analysed by using mathematical and statistical methods at the level of descriptive statistics (frequency analysis, median, arithmetic average, dispersion, standard deviation) and inductive statistics (the Kruskal-Wallis test, the Mann-Whitney U test, the chi-square, the Spearman's correlation). We also used Factor analysis and Cronbach's alpha in the analysis.

**Results and discussion**

We see the identification of the indicators of perception and evaluation of the tax and financial and administrative issue based on the preferences of individual entities proposed by the experts in the field to be very important. When processing the data obtained by the factor analysis (principal component and varimax rotation method) six factors were extracted based on the respondents' responses describing various indicators of the tax system evaluation. The high score in a specific factor represents its positive evaluation and the low score relates to its negative evaluation. We named and characterised the factors as follows:

- financial administration reform;
- reorganisation;
- unified collection (of taxes, customs duties and levies);
- equal tax;
- digitalisation;
- tax legislation.

As a result of factor analysis there were six factors described, which explain 57% variations. The percentage of variation explained on the basis of the extracted factors is generally acceptable in social sciences being relevant to the presented research (Table 1).

The factors extracted could be quite unambiguously characterised and described in terms of their content. On the contrary, the other factors could not be defined meaningfully in terms of the content in the final stage. The justification of the stated factors structure is also supported by the calculated values of Cronbach's alpha representing a high level of reliability of items within the individual factors and the results of the Scree plot method (Figure 1) for individual factors:

- financial administration reform (0.920);
- reorganisation (0.865);
- equal tax (0.806);
- unified collection (of taxes, customs duties and levies) (0.749);
- digitalisation (0.733);
- tax legislation (0.625).

The value of Cronbach's alpha for the factor of tax legislation is the lowest from the ones included, but from the point of social sciences it represents the bottom reliability limit. Extracting the factor is mainly based on the specific content definition. The suitability and correctness of factors extracting is also confirmed by the found values of inter-correlation coefficients.

The description and meaning of extracted factors analyses resulting from the transformation of 35 indicators

Tab. 1: Survey of the most significant factors of the perception of the tax reform and their values

	F1 Financial administra- tion reform	F2 Reorgani- sation	F3 Unified collection	F4 Equal tax	F5 Digitali- sation	F6 Tax legislation
<b>Eigenvalue «Own value»</b>	7.491	3.608	3.124	2.266	1.899	1.575
<b>% of Variation</b>	21.4	10.3	8.9	6.5	5.4	4.5

Source: Own processing (2014) based on data received from the survey realised by the Authors

will contribute to a better understanding of reform processes perception in the sphere of taxes administration.

**Factor 1: Financial administration reform.** The factor of «financial administration reform» is evaluated negatively by the Financial Administration employees. This result is caused by several problems following the reform. These may include repeated reform reviews by new political elites. The reform has been launched without providing the employees of the Financial Administration with the possibility to get actively involved in its creation or commenting process. The timing and organisation of the reform are also evaluated negatively by the Financial Administration employees. The reason may be found in several responses provided by the respondents to free i.e. open questions. They point to the fact that the quantity of actually productive workers has not increased after the reform. On the contrary, the representatives of business entities evaluate this indicator as slightly positive, because the representatives of business entities were perceiving and accepting the necessity of the financial administration reform for long.

**Factor 2: Reorganisation.** The second step of the first stage of the financial administration reform UNITAS is the financial administration's reorganisation. Within the financial administration's reorganisation the number of tax authorities reduced is significant, because the branches and contact points that remained in the original seats fulfil only some of the duties. The reorganisation significantly affected mainly the tax control staff because for many of them the place of work performance changed due to the reorganisation. From 1 January 2012, in the Slovak Republic there are eight tax authorities in the seats of individual regions with the branches or contact points in other cities. On the other hand, the reformed branches and contact points ensure a major part of the administrative work related to the tax administration in the seats of the original points, which improved the service availability for businesses.

**Factor 3: Unified collection (of taxes, customs duties and levies).** Almost 25 years of experience in collecting taxes, customs duties and levies in the Slovak Republic have unified the professional public regarding the necessity to make major system changes represented by the UNITAS reforms programme. One of the objectives is also unifying the collection of taxes, customs duties and insurance levies. Both groups of respondents see the positive aspects of such selection, which is also

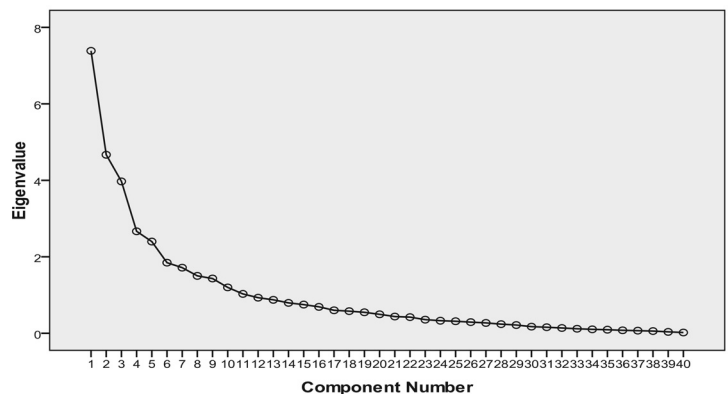


Fig. 1: Identification of factors of perception of the tax reform by Principal Component method with Varimax rotation

Source: Own processing (2014) based on data received from the survey realised by the Authors

proved by the positive evaluation of indicators and reflected in the positive result of the given factor. The result is caused by the fact that if this method of collection is implemented, the communication of representatives of business entities with the state administration will be simpler, which is seen by businesses as a support for business and removal of institutional barriers.

**Factor 4: Equal tax.** In 2003, a big tax reform took place in the Slovak Republic, within the framework of which an equal tax was implemented. The system of equal tax significantly influenced the business environment. In 2013, this tax was cancelled by an amendment to the Act on income tax. The tax reform which also resulted in the implementation of the so-called equal tax also brought the cancellation of many exceptions from tax laws, which simplified the tax administration, control and collection. We consider that slightly negative evaluation by the respondents from the group of business entities is mainly linked to the accompanying feature of the equal tax, which as we believe is mainly a significant increase in the value added tax. After several years after the equal tax implementation it is clear that the VAT increase has brought many economic problems in certain branches of economy (e.g. tourism, where the VAT increase contributed to the loss of competitiveness compared to the neighbouring countries).

**Factor 5: Digitalisation.** With the effort to improve the tax collection effectiveness, to simplify the communication between representatives of business entities and the tax administration and to lower the administrative burdens related to the tax collection, digitalisation processes are necessary at present. Digitalisation contributes to more effective taxes administration at the side of both the Government and business entities. The implementation was not managed duly in technical and organisational terms, which was reflected in less positive evaluation among the employees of financial administration.

**Factor 6: Tax legislation.** The tax legislation in the Slovak Republic is not sufficiently stable yet, as many tax laws are amended every year. Both groups of respondents see the tax legislation as an important and essential part of the tax system, whereas its quality and instability adversely influence the whole tax system. The result is the proof that the Slovak tax legislation is subject to frequent changes causing problems both to the tax administration and majority of business entities, which results in insufficient tax collection.

When analysing the evaluation of individual factors of the tax system perception we found the lowest value i.e. maximum negative evaluation with the evaluation of the factor «reorganisation» and the maximum value i.e. maximum positive evaluation with the evaluation of the factors «unified collection» and «tax legislation». In total, negatively assessed factors were the «financial administration reform» and «reorganisation»; neutrally assessed factors were «equal tax» and «digitalisation»; positively assessed factors by respondents were «unified collection» and «tax legislation». Statistical analysis of the results with the use of non-parametric Friedman test for dependent selections confirmed statistically significant differences in the evaluation of individual factors of tax system perception (Figure 2).

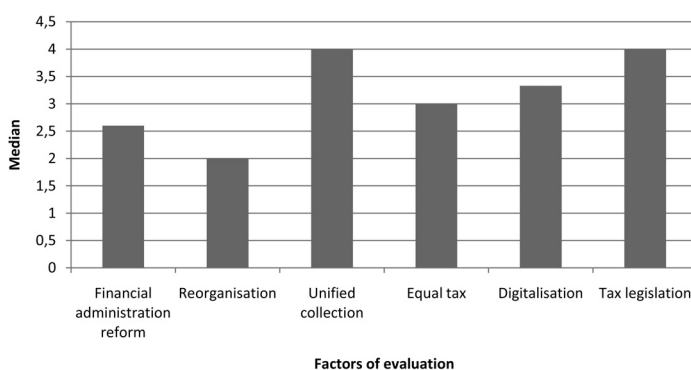


Fig. 2: Evaluation of individual extracted factors of tax system perception  
Source: Own processing (2014) based on data received from the survey realised by the Authors

The proposed structure of six factors of the tax system perception and its basic validation parameters confirm the meaningfulness of the proposed way of development, preparation and implementation of multidimensional methodology for the factors identification.

### Conclusion

Taking into consideration professional discussion and practical experience relevant to the new structure of Financial Administration it is necessary to realise that management in charge should prepare professional standpoint on critical comments including the solution of emerging issues. We see education about the need and importance of the tax reform to be of key importance because current provision of public values, low tax collection, lack of collection transparency and demographic situation do not give sufficient presumptions for permanent sustainability of a certain level of welfare in the Slovak Republic. Strong politicization of the issue of reform processes in financial administration and taxes structure presents permanent disagreements (starting with the equal tax and ending with the collection method). In the end, the experience from similarly targeted reform processes in the V4 countries, Europe and the rest of the world point to proper understanding of the trends set by the Slovak Republic.

As we have already stated, the effectiveness of tax system is conditioned by several causes. Some scientific disciplines may contribute to its improvement. It may also be improved by various activities. The feedback from players affected by the tax system is one of the possibilities to obtain priceless information that can be used to improve the tax system effectiveness. Feedback about the tax system reform in the Slovak Republic from entities to which the reform relates directly has a special benefit. The results achieved have provided the professional discussion about the tax system reform continuation with several suggestions that we consider appropriate in the subsequent reform processes.

We see the negative evaluation of the factor or tax offices reorganisation by both groups of respondents (whereas the respondents from the financial administration evaluate this reorganisation more negatively than the respondents from business entities) to be an important signal of the disagreement of both groups with the reorganisation processes performed in this way. We see the negative evaluation of the factor of the financial administration reform by the respondents from the financial administration as a serious risk of endangering the successful completion of the reform. The positive evaluation of the factor of financial administration digitalisation by both groups of respondents in spite of major problems in the application as well as the positive evaluation of the factor of unified collection may be evaluated as a major signal for the tax system reform management to continue reforms in the Slovak Republic.

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