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## SELECTED CATEGORIES OF LEVIES AND THEIR IMPACT ON ECONOMIC RESULTS OF SMALL AND MEDIUM-SIZED ENTERPRISES

*The main objective of this paper is to ascertain the impact of changes in individual levies on final financial performance of SMEs. Levies are one of the most frequently stated barriers in entrepreneurship. Levies create a significant part of entrepreneurs' costs and affect the amount of net salaries. Changes in legislative standards on levies (health, pension or unemployment insurance etc.) are related to mechanisms and methods of their calculation, which ultimately affect SME's costs and their economic results.*

*Keywords:* levy; legislative changes; economic results; small and medium-sized enterprises; minimum wage; overage wage.

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## Катаріна Хавернікова, Пауліна Сровналікова ВИБРАНІ КАТЕГОРІЇ ЗБОРІВ ТА ЇХ ВПЛИВ НА ЕКОНОМІЧНІ ПОКАЗНИКИ МАЛОГО ТА СЕРЕДНЬОГО БІЗНЕСУ

*У статті оцінено вплив змін в індивідуальних зборах на остаточні фінансові результати малого та середнього бізнесу. Збори розглянуто як бар'єри підприємництву, що формують суттєву частку підприємницьких видатків та відповідно впливають на рівень зарплат. Розглянуто законодавчі зміни відносно зборів (оздоровчого, пенсійного, з безробіття тощо), а також механізми та методи їх розрахунку, описано їх вплив на видатки МСБ та його економічні результати.*

*Ключові слова:* збір; законодавчі зміни; економічні результати; малий та середній бізнес; мінімальна оплата праці; середня заробітна плата.

*Табл. 3. Літ. 15.*

## Катарина Хаверникова, Паулина Сровналикова ИЗБРАННЫЕ КАТЕГОРИИ СБОРОВ И ИХ ВЛИЯНИЕ НА ЭКОНОМИЧЕСКИЕ ПОКАЗАТЕЛИ МАЛОГО И СРЕДНЕГО БИЗНЕСА

*В статье оценено влияние изменений в индивидуальных сборах на окончательные финансовые результаты малого и среднего бизнеса. Сборы рассматриваются как барьеры в предпринимательстве, формирующие существенную часть предпринимательских расходов, соответственно влияющие на уровень зарплат. Рассмотрены законодательные изменения относительно сборов (оздоровительного, пенсионного, по безработице и т.д.), а также механизмы и методы их расчёта, описано их влияние на расходы МСБ и его экономические результаты.*

*Ключевые слова:* сбор; законодательные изменения; экономические результаты; малый и средний бизнес; минимальная оплата труда; средняя заработная плата.

**Introduction.** According to most economists and entrepreneurs, the current level of levies and their burden in Slovak Republic is one of the key factors affecting the quality of business environment and one of the biggest challenges on the way to long-term economic growth of the country.

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Tax and levies burden for businesses is currently high. These burdens occur not only due to tax rates and levies, but also due to being influenced by other factors such as the way of the tax base detection for calculating tax liability or fee. The levy burden on business varies by the purpose and levy's rate as well as economic externalities, which follow them. Regarding the economic consequences of levies, the basic structure involves tax, respectively insurance character of levies' liability. Until recently the relation between the value of paid levies and the value of utilization of these funds in any of the types of levies has not existed. Levies were predominantly fiscal. It has been actually a hidden tax, which significantly increased the overall tax burden with all the resulting negatives. Reduction of levies burden is currently considered by entrepreneurs as the highest priority.

Slovak Republic has achieved great progress in this area, because due to realized reforms, part of mandatory levies changed its fiscal nature to the insurance nature. It applies to the levies that are payed into the system of pension insurance. Both pillars of pension system (paying of levies is mandatory) were changed on insurance, respectively saving. Despite these changes, the actual level of levies burden is perceived by great part of entrepreneurs as a problem, because its mandatory character was preserved.

**Problem statement and research objectives.** Business environment is the basis for long-term development of business activities, a sustained increase in competitiveness and standards of living (Kral'ova, 2015). Quality of business environment is influenced by many factors. The important one is the level of levies burden. High level of contribution burden within levies in case of small and medium-sized enterprises (SMEs) are very sensitive to changes in business environment which after a certain time are always reflected in quantitative characteristics of this sector. SMEs are currently a frequently discussed object for experts as well as for general public. The topic of levies reduction is not new. The necessity of their reduction has been in the focus of entrepreneurs and politicians at least from the second half of the 1990s. Reduction of levies is an important part of clean business environment creation for SMEs (PAS, 2004; Ivanova et al., 2014; Koisoava, 2015).

In this article we consider two groups of levies and their contribution (Table 1):

1) payroll transfers to social-insurance funds of Social Insurance Agency, divided into: sickness insurance contribution, contribution on pension insurance, contribution on invalidity pension, unemployment insurance contribution, guarantee fund etc.;

2) payroll transfers to health insurance companies.

The paper is mainly focused on SMEs due to the fact, that they are the main creators of jobs, both in Slovakia and the European Union overall. SMEs are very sensitive to changes in business environment which after a certain time are always reflected in quantitative characteristics of this sector (Hudakova et al., 2015). Microenterprises are the main part of Slovak SMEs, and a big part is local family business. SMEs had in 2014 more than 53% share of added value and 72% share in employment (Subertova and Meszarosova, 2015). Improvement of business conditions for SMEs is therefore crucial for job-creating and unemployment reduction (Subertova, 2012).

The negative long-term perceptions of levies burden level for SMEs and overall businesses have persisted. According to A. Pilkova et al. (2014), the results of the

Global Entrepreneurship Monitor in 2013 suggest that Slovak Republic is delayed in such areas as: business financing, government policies and business support programs, transfer of science and research results, commercial infrastructure, as well as culture and social norms in relation to business. The burden of taxes and levies for businesses is currently high. It comes not only from to the tax rates and levies, but also due to other factors such as the way of tax base detection for calculating tax liability or fee. As an example we can mention the amendment to the income tax law No. 595/2003 Coll., introduction of tax licenses and amendment of depreciation groups, where wider range of expenditures was ruled out by gradual modification. These expenditures are tax non-deductible, despite the fact that they are used for ensuring incomes, or alternatively they oblige on validation of expenditures on payment condition. Consequences of such legislative changes to some extent affect the economic results of SMEs due to their relatively higher administrative burden.

*Table 1. Rates of mandatory insurance in Slovak Republic (2015), %, authors' compilation*

Categories of levies	Employee	Employer	Total
<b>Health insurance in total</b>	4	10	<b>14</b>
<b>Social insurance in total</b>	9.4	25.2	<b>34.6</b>
- sickness insurance	1.4	1.4	<b>2.8</b>
- pension insurance	4	14	<b>18</b>
- disabilities insurance	3	3	<b>6</b>
- unemployment insurance	1	1	<b>2</b>
- fund of guarantee insurance	0	0.25	<b>0.25</b>
- reserve fund	0	4.75	<b>4.75</b>
- accident insurance	0	0.8	<b>0.80</b>
<b>Levies in total</b>	<b>13.4</b>	<b>35.2</b>	<b>48.6</b>

The main objective of this paper is to evaluate how the implemented changes in the selected categories of levies (health insurance, pension insurance, sickness insurance, disabilities insurance, and unemployment insurance) have affected the final economic results of SMEs and future development of entrepreneurial entities during the period of 2010–2015.

To achieve the objective:

- we will describe the contribution burden in the selected categories of levies for businesses and their legislative changes in Slovak Republic during the period 2010–2015;

- based on the results of Statistical Office of Slovak Republic we will calculate the level of expense items of burden from salaries that affected economic results of enterprises (also 2010–2015).

- we ascertain how the annual increase in the minimum wage affects the amount of costs for businesses and thus, their economic results.

To achieve the above objective and the stated tasks we have used the theoretical analysis of levies burden nature of business entities, the comparison of relevant data, statistical finding of effectiveness and economic appropriateness of levies.

The novelty of this paper consists in identifying the causes of problems in business environment due to the level of levies burden and the areas for further research. The paper is part of the research project VEGA 1/0918/16.

**Expected results.** The levy obligation of business varies not only by the purpose and levy rates, as well as economic externalities resulting from them. Regarding the economic consequences of levies, the basic apportionment relates to the taxable insurance character of levies liability. Given that recently, in neither type of contributions, there was any minimal relationship between the value of paid levy and the amount of spending from these funds, contributions had mostly taxable character. It was a hidden tax, which significantly increased the overall tax burden with all the resulting negatives. In this area, however, Slovakia has made great progress when part of compulsory contributions due to the tax reform, have changed their taxable character towards the insurance character. That concerns mainly the levies into the pension insurance. Despite this change, the current level of levies burden is perceived by a large part of the business sector as a problem because it remains to be compulsory. A significant proportion of contributions still represents those items that retain tax purposes.

**The main legislative changes.** Analysis of legislative acts is a common research tool in many works where the research question is directed at the identification of basic elements of the analyzed problem. In the period from 2010 to 2015, legislative changes in contribution burden within levies of SMEs were made. These changes have affected more or less the cost items of SMEs and consequently their economic results (economic profits) (Babcak, 2015). In 2010 the National council of Slovak Republic approved the amended law No. 461/2003 Coll. on social insurance which came in effect as of 1st January of 2011. This is the first step towards unifying the collection of taxes, duties and levies. For this purpose, new definitions of the basic concepts are introduced (e.g., employee, employer, assessed base and all other related concepts). At the same time as a new the personal scope of social insurance, beginning and the end of social insurance are defined, the so that these basic concepts and principles are compatible with the act on income tax. The amended law as of 1st January 2011 widens the group of employees who are obliged to pay social security contributions. In 2012 the amended law on social and health insurance was also approved. This amendment significantly affected contribution burdens on entrepreneurial subjects. By the end of 2012, the levies for accident insurance contribution and guarantee insurance contribution were paid from the agreement on work performance. Since 1st January 2013 legislative changes came into force for the cases of contribution burdens for employees working by the agreements on work performance. Since 1st January 2013 employers working on such agreement are considered as the employees with sickness insurance, pension insurance, unemployment insurance and health insurance, except students and pension recipients, disability pensioners and beneficiaries of pension for the years of service, who reached the pension age. This means that they pay levies as well as employees under full-time employment. The contribution burden within levies is influenced by repeated legislative changes concerning minimum wage increase and the degrees of jobs intensity. Currently, the minimum salary amounts to 380 EUR per month (minimum wage claim, year 2015) (Matlovicova, 2014). Since January 2015, the amendment to Act No. 580/2004 on health insurance established a tax as a deductible item in health levies for employees

with low income. This has reduced the assessment base for calculation of deductible items. The tax deductible item reduces the assessment base of employees and employers paying health insurance contribution.

***The level of expense items of burden from salaries affecting the economic results of enterprises.*** The contribution burden in the selected categories of levies for SMEs and the increasing minimum wage claim finally affect the economic results of SMEs. In practice, this means that businesses have lower profits. This will be reflected in the fact that financial means saved by businesses at lower level of levies could be used for research and development, investments, which further influence their economic growth. The effective fulfilment of increasing needs of the contemporary society requires finding a rational way to connect resources of fundamentally different sectors and taking use of their advantages. L. Mura and J. Bulleca (2012) confirmed this affirmation and stated that "enterprise is financing its process of obtaining capital, which enterprise manages and executes in its own business activity, the size and structure of capital is determined by the funds, in which capital is concentrated". Financial system is the heart of each economy. The current period is characterized by large fluctuations and competition at financial markets that affect also the insurance market. Turbulent changes record all areas of economic and social life of the society. As we can see, the topic of levies burden affects many economic and social areas.

The inter-annual growth of levies cost items calculated (% , number) from average wages (per year) is presented in Table 2. These items have influenced the economic results of enterprises.

We examined how the inter-annual increase of minimum wage and average wage affect enterprises' costs in Slovak Republic.

As a model company, we chose the medium-sized enterprise, which employs 250 people of which 30% of employees have the salary at the average level, it means 75 people and 40% out 250 employees have the minimum wage.

We can follow the inter-annual increasing of average wages (Table 2). Over the period (2010–2015) the average wages increased and the cost items increased by 15.75%, it means by 165,075 EUR. This amount represents significant costs for SMEs employers, which they had to use for wages and levies of their employees from their profit.

In Table 3 we show how during the observed period the minimum wage and its monthly and annual level increased every year. We compared the annual increase of minimum wage with the employer's contribution; this means labor costs per one employee by minimum wage claim with the number of employees and we calculated how the inter-annual labor costs and the levies of insurance increased in the observed period. We compared the inter-annual growth of minimum wage with the levies of employers, or labor cost at minimum wage claim of employees in the same company.

As we can see in Table 3 the increasing minimum wage led to increasing inter-annual amount of costs for enterprises. This affected the final economic profit of enterprise (40% of employees working for minimum wage/salary). The cost item of enterprise is 117,300 EUR over the period 2010–2015, it means that we can follow the increase of cost items in case of minimum wages by 23.49%. The total costs over the period 2010–2015 for the enterprises that employ on gross wages (30%) and minimum wages (40%) are 117,300 EUR.

**Table 2. Quantification of growth in expense items of enterprises affected by increased average wage, authors' calculations based on the data from the Statistical office of Slovak Republic**

Year	2010	2011	2012	2013	2014	2015
Average gross yearly wage of employees and employers' contribution (35.2%) per 1 employees (labour cost)	11768	12105	12544	13121	13568	13969
Number of employees during the observed period	(75) 30%	(75) 30%	(75) 30%	(75) 30%	(75) 30%	(75) 30%
Calculated amount per year per 30% of employees, EUR	882600	907875	940800	984075	1017600	1047675
<b>Inter-annual increase of costs for the employer</b>		<b>2011/2010</b>	<b>2012/2011</b>	<b>2013/2012</b>	<b>2014/2013</b>	<b>2015/2014</b>
Inter-annual differences, EUR		25275	32925	43275	33525	30075
Inter-annual differences, %		2.78	3.50	4.39	3.29	2.87
Total amount of costs over the examined period, EUR						<b>165075</b>

**Table 3. Quantification of growth in expense items of enterprises affected by increasing minimum wage, authors' calculations based on the data from the Statistical office of Slovak Republic**

Year	2010	2011	2012	2013	2014	2015	2016
Minimum monthly wage (EUR)	307.70	317	327	337.70	352	380	405
Minimum annual wage (EUR)	3692.40	3804	3924	4052.40	4224	4560	4860
Minimum monthly wage and employers' contribution (35.2%) per 1 employees, EUR	4992.12	5143	5305.25	5478.84	5710.85	6165.12	6570.72
Number of employees	100	100	100	100	100	100	100
Calculated amount in total, EUR	499212	514300	530525	547884	571085	616512	657072
Inter-annual differences, EUR		15088	16225	17359	23201	45427	40560
Inter-annual differences, %		2.93	3.06	3.17	4.06	7.37	6.17
Total amount of costs (in EUR) over the examined period							<b>157860</b>

As follows from Table 3, by increasing the minimum wage we can see the growing inter-annual costs of enterprises by 40% of working employees in company for a minimum wage which also had impact on its final financial results. We include the calculation of minimum wage for 2016, which is already approved and is valid now. We calculated the cost item of the company under the same level of employees. During the period 2010–2016, the costs of the company had an increasing character. They are growing by 24.02% in total what interprets as 157,860 EUR.

We can conclude that during the observed period (2010–2016) 30% of the employees performing their work for the average wage and 40% of the employees performing their work for the minimum wage represented 70% of all the employees of the company under study, inter-annually the cost increased by 39.77% (322,935 EUR). The calculated data shows that this cost issue is an important part of total costs, which takes substantial financial resources from company's profit. The analysis shows that the levies' burden for SMEs and increasing either the minimum wage claim, or the average wage finally affects the economic results of SMEs and is also high. It means that enterprises have lower profits.

Currently, the dynamically developing market environment often demonstrates high uncertainty, small and medium businesses are led to the need to use all the knowledge to increase their productivity. As more and more SMEs are now struggling to survive due to immense pressure created by both globalization and competition from giant multinational firms, it is important to discern the competitive edge of small entities in alternative ways. The ability of SMEs to grow highly depends on their potential to invest money into their development. These investments need capital and therefore access to both internal or external financial sources. Many authors agree that SMEs have restricted access to external financing. Thus financial resources saved by enterprises in case of lower levies can be used for research and development and investments and that would finally influence their overall economic growth and employment.

**Conclusion.** Despite the diversity of views and priorities of public discussion's actors, reducing levies for SMEs is often mentioned as a beneficial and priority action. As follows from the conducted analysis and other studies, Slovak Republic has achieved great progress in the area of levies. During the observed period we can follow two important areas that influenced the economic profits of small and medium sized entrepreneurs in Slovak Republic.

The first area is focused on important legislative changes (2010–2015) and their impact on levies. They have affected the cost items of SMEs and consequently their economic results (profits). The level of levies over the period have not been changed (levies are not reduced). The next issue is the level of minimum wage that was changed with its impact on the degrees of work's difficulty (on minimum wage claims of employees). The costs of employers over the period have increased. The situation was worsened by introducing of levies for the agreements on work performance. If the costs due to levies do not grow, SMEs can finance their further development, their creation of new jobs, purchase of new technologies etc. which would have a positive impact on growth and employment. The contribution burden of levies in Slovak Republic is 48.6%. The tax wedge for employees in 2015 in comparison with 2013 was unchanged. Slovakia has made great progress in the field of levies burden. A significant proportion

of contributions still represent those items that are retained for tax purposes. Despite this fact, huge part of Slovak business environment sees levies as a problem.

The second area is represented by other aspects affecting SMEs results. We consider that this area is presented by a handicap in comparison with foreign investors and large enterprises which have various benefits, economic motives and tax incentives for their business activities and for jobs creation. All these factors impact on business environment and life quality, because the quality of life is understood as broad and interdisciplinary in nature, whereby it includes elements from many areas, not excluding business environment.

Despite some positive results, the unanswered questions remain in the context how these changes in contribution burden in the selected categories of levies will affect Slovak Republic both in short, as well as long term. The following areas are important for the next discussions on levies' burden:

- the quality of business environment;
- the indicators of Slovak economy competitiveness;
- economic results of manufacturing;
- the employment rate;
- social and psychological factors of business (motivation of entrepreneurs, acceptance of changes in levies, respect of legal standards and acts, finding legitimate and illegitimate ways to reduce levies) etc.

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