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FISCAL RESPONSES TO THE COVID-19 PANDEMIC THROUGH REDESIGNING OF CORPORATE INCOME TAX IN THE REPUBLIC OF SERBIA

ФИСКАЛНИ ОДГОВОРИ НА ПАНДЕМИЈУ COVID-19 КРОЗ РЕДИЗАЈНИРАЊЕ ПОРЕЗА НА ДОБИТ ПРЕДУЗЕЋА У РЕПУБЛИЦИ СРБИЈИ

Summary: *Corporate income tax (CIT) is a fundamental tool of the fiscal system due to its sensitivity to economic cycles and the impact it can have on the economic decisions of enterprises. Although the justification of corporate income tax has been called into question in the current academic literature, it is one of the tax forms that can be used to stabilize and develop the economy, especially after the crisis. For this reason, this paper provides an analysis of corporate income tax in Serbia. The paper will focus on reduced CIT rates and tax incentives. Our work aims to contribute to the literature in two aspects. The first is to provide evidence that it is necessary to carry out parametric reform of corporate income tax. Another is providing additional literature on the COVID-19 crisis to form the basis for further economic research.*
Keywords: *corporate income tax, corporate tax incentives, Serbia, COVID-19*
JEL classification*:H2, K34*

Резиме: *Порез на добит предузећа је основни алат фискалног система због своје осетљивости на економска кретања и утицаја који може имати на економске одлуке предузећа. Иако је његова оправданост доведена у питање у оквиру актуелне литературе, порез на добит предузећа представља један од пореских облика којим се може деловати на стабилизацију и развој економије, посебно након кризе. Из тог разлога, овај рад пружа анализу пореза на добит предузећа у Србији. Рад ће се фокусирати на снижене пореске стопе и пореске подстицаје. Циљ нашег рада је да дамо допринос литератури са два аспекта. Први је пружање доказа да је неопходно спровести параметарску реформу пореза на добит предузећа. Други аспект је пружање додатних извора литературе о кризи ЦОВИД-19, који ће дати основу за даља економска истраживања.*
Кључне ријечи: *порез на добит предузећа, порески подстицаји, Србија, COVID-19*
ЈЕЛ класификација: ***H2, K34***

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1. INTRODUCTION

December 2019 was marked by a virus known as 2019-nCoV, affecting China, Hubei Province and Wuhan City (Li, et al. 2020). „The current outbreak of the novel coronavirus SARS-CoV-2 (coronavirus disease 2019; previously 2019-nCoV), epi-centred in Hubei Province of the People's Republic of China, has spread to many other countries" (Velavan and Mayer 2020, 278). The infection has posed a significant threat to international health and the economy (Zhang and Liu 2020, 479). According to some scientists, „the outbreak of COVID-19 met Spring Festival, during which most Chinese families chose to go back hometown for family reunion" (Jin et al. 2020). However, the Chinese government has taken prompt actions, such as shutting down Wuhan's Huanan Seafood Market on January 1, 2020; building a 1,000-bed hospital in 10 days; and putting cities on lockdown" (Maffioli 2020, 1). To save the economy, the government of Zhuhai „established a series of measures and policies to support the many mid-minor enterprises during such a long – term termination of business, including labour subsidies, scientific research input, loan discounts, tax relief, etc" (Jin et al. 2020a).

"Apart from being a global health concern, COVID-19 has major consequences on the world economy and experts have predicted that COVID-19 will lower global Gross Domestic Product (GDP)

growth by one-half a percentage point for 2020 (from 2.9 to 2.4 per cent)" (Gupta et al. 2020). Implicitly, the rate of GDP decline will depend on the pandemic scenario. According to Lee et al. (2004), despite the catastrophic consequences of the infection, the impact of pandemics has been considerably under-researched in economics. Bearing in mind that the SARS outbreak has had a major impact on the Peoples Republic of China, COVID-19 threatens another blow to the economy. If we take a closer look at the previous similar pandemic occurring in China in 2002 and 2003 we can only speculate the consequences that we are about to face in the future. Namely, when the virus was at its most virulent stage from November 2002 to July 2003, it had a direct impact on economic activity (Lee and McKibbin 2012). The SARS outbreak discouraged the international economy. SARS delayed impacts on FDI and exports in China and discouraged international business travel (Hanna and Huang 2004). But, COVID-19 had a more fundamental and long-lasting influence on possible economic reforms in the countries that have been affected by this virus. "As discussed in the October 2020 Fiscal Monitor, sovereign debt to GDP in advanced economies is projected to rise by 20 percentage points to about 125 per cent of GDP by the end of 2021" (IMF Economics Outlook, October 2020). The economies of many countries have found themselves in a high imbalance, as most countries' incomes have fallen dramatically. On the other hand, expenditures on wages, taxes and others remained at the same level. One possible scenario is a significant increase in unemployment rates and insolvency of the domestic economy. Serbia reduced its GDP growth rate from 4% to -1.1% in 2020. The countries with the highest negative population reflections are China, Italy and America, but the situation in other countries is also very worrying.

Economic consequences are inevitable in most countries. The first measure implemented by most central banks of countries affected by the pandemic was monetary policy. Most Central banks in large countries have begun to cut interest rates to stimulate lending. Since this standard monetary policy measure did not produce satisfactory results, the European Central Bank and the FED have activated programs providing large amounts of money for the world economy. Therefore, most countries have embarked on tax reforms. The discrepancy in the implementation of tax policy measures between countries is determined by the degree to which the pandemic affected the country and by the sources a country can use to overcome its consequences. Regarding the situation in Serbia, the National Bank of Serbia reduced interest rates at the beginning of the crisis, but the decrease has had no significant impact on the growth of lending activity. Another measure that relaxed companies' costs was the suspension of loan servicing for the next three months. Initially, this measure seemed promising for both the citizens and the economy. However, due to the pandemic spread, many businesses had to close their production and cease operations. In addition to monetary policy, Serbia also acted in the area of fiscal policy. On March 28th 2020, Serbia announced the implementation of measures to confront the invisible enemy, including tax measures. Serbia has allocated 5.1 billion euros (11% of GDP) to fight the pandemic. 1.3 billion euros have been earmarked for the implementation of tax measures. Economists in Serbia believe that the negative effects of the pandemic on the Serbian economy could be diminished if temporary tax incentives were introduced for some sectors. Negative effects on the economy would be mitigated if taxes on salaries and contributions, income taxes, property taxes and other taxes were delayed. The most vulnerable sectors in the economy are catering, transport, small and medium-sized enterprises, etc. If we focused on helping only these sectors, there would be no distortion of balance, since the pandemic did not hit all parts of the economy equally. Tax exemptions and deferrals may not increase, but employment rates should be kept from fluctuating much from the rate observed before the outbreak in Serbia. The additional problem for Serbia is the outbreak in the countries which are the chief distributors for domestic industry, China and Italy. The pandemic in China has threatened numerous businesses in Serbia since it imports large amounts of goods from China. „On the positive side, China is starting to bring the coronavirus outbreak under control" (Kujis 2020).

Since the ongoing pandemic has numerous unknown outcomes, we cannot know whether the allocated funds will be sufficient for the Serbian economic recovery. Our work aims to contribute to the literature in two aspects. The first is to provide evidence that it is necessary to carry out parametric reform of CIT. Although the justification of corporate income tax has been called into question in the current academic literature, corporate income tax is one of the tax forms that can stabilize and develop the economy, especially after the crisis. For this reason, it is necessary to examine which corporate tax incentives are effective in achieving this goal. Another aspect is providing additional literature on COVID-19 that will form the basis for further economic research. In this paper, we propose tax

measures to address the effects of the COVID-19 crisis. The paper is arranged in sections. Section 2 provides a brief background on the corporate income tax and corporate income tax incentives. Section 3 describes the empirical strategy and data Section 4 is the conclusion.

2. LITERATURE REVIEW: CAN CIT STIMULATE ECONOMIC ACTIVITY AFTER CORONAVIRUS?

Although introduced as a separate tax form called federal income tax in 1913 in the United States and then in Germany in 1920, corporate income tax has been propulsively imposed as a tax form in numerous countries. At the same time, tax revenues, as well as tax rates, begin to increase. The introduction of corporate income tax continued after World War II, with tax rates increasing, to over 50% (Arsić and Ranđelović 2017 101). Since the early 1980s, tax reforms have led to a significant decrease in corporate tax rates.

Although corporate income tax figures in the tax systems of most countries in the world, there are still debates about the justification of its existence. Perhaps the most common argument raised in the literature is that corporations represent an artificial legal entity, whose assets, income, and liabilities are separate from the assets, income, and liabilities of its owners. Given that income tax is linked to the income of individuals, this argument is based on the fact that income taxes cannot, in principle, burden a business (Rosen and Gayer 2009; Atkinson and Stiglitz 2015; Myles 1995). However, despite discussions of its existence, this tax form is, according to some authors, the most significant in the tax systems of most modern states (Đurović Todorović, Đordjević and Ristić 2019, 156). Although it does not have a high collection capacity, this tax form has a pronounced stabilization and development component. Corporate income tax can have a powerful impact on economic growth and development. „Corporate tax is a fundamental tool of the fiscal system due to its sensitivity to the economic cycle, and the influence that it can have on the economic decisions of enterprises" (Delgado, Fernandez-Rodriguez and Martinez-Arias 2014, 487). Income tax can act on:

- *relative prices;*
- *costs of tax administration of taxpayers;*
- *investment in research and development;*
- *investments in innovation;*
- *capital flow* (Arsić and Ranđelović 2017a).

„The outbreak of coronavirus named COVID-19 has disrupted the Chinese economy and is spreading globally"(McKibbin and Fernando 2020, 1). However, previous researchers have focused on long-term demographic consequences of COVID-19, but there are no answers about economic consequences yet. Additionally, there are some important lessons for policymakers. „Transparency is vital, especially when dealing with uncertainty (Grant, 2003). The outbreak of COVID-19 has reinforced the idea that an essential role of government in an uncertain world is to manage risk, establish processes for responding appropriately to unforeseen events, and coordinate policy responses and information sharing globally.

Many countries in the world offer various incentives in the hope of attracting investors and fostering economic growth. Nevertheless, there is evidence to question the effectiveness of the tax incentives of some tax forms. Governments often make decisions to correct the unfavourable business environment applying this instrument. Also, driven by tax competition and fearing that investors could choose neighbouring countries with more convenient conditions, governments apply either increasing tax incentives or lowering tax rates (the "race to the bottom" phenomenon) (Arsić and Randjelović 2017b; Djurović Todorović et al. 2019). It also launched the "corporate income tax rate-revenue paradox". Namely "some countries have seen their ratio of corporate tax revenue to gross domestic product increase despite reductions in their corporate tax rates" (Ohno, et al. 2015, 333). However, inefficient tax incentives cannot be the offset for the unfavourable business environment and can reduce the revenue of states in the destructive race to the bottom. That is why it is extremely important to conduct their analysis in detail, especially in the periods when efforts are invested into finding a solution to the economic crisis and when they can play an essential role in stimulating economic activity and economic growth. One of the most significant tax forms used as an instrument of active fiscal policy in every country is the corporate income tax. For this purpose, tax incentives and reliefs are used as some of their essential elements. "Corporate Tax is a fundamental tool of the fiscal system

due to its high collection capacity, its sensitivity to the economic cycle, and the influence that it can have on economic decisions of enterprises" (Delgado et al. 2014a, p. 487). However, the dilemma of whether corporate tax incentives are effective has been the subject of much economic research.

Fujii and Huffman (2008) focused their research on the impact of fiscal incentives on Mexican companies. They analyzed how tax incentives can affect national companies and concluded that tax incentives in Mexico were not very well determined. Azhar and Sharif (1975) analysed fiscal incentives and concluded that developing countries employed a variety of fiscal incentives to attract resources. In Pakistan, during the period from 1959 to 1972, a tax holiday scheme (introduced in Pakistan in April 1959), was used to increase the overall level of investment in the industrial sector and to encourage industry to position itself in the less developed regions of the country. Mintz (1990) explained that "governments of developing countries commonly adopt tax holidays to encourage investment" and investigate tax incentives provided by corporate income tax and its importance. "Investment promotion is an important objective of tax policy in developing and industrial countries alike" (Shah, 1995). Shah (1995) concluded that governments are active in this question, but little information is available to policymakers in developing countries on how effective in achieving their objectives these measures are. Holland and Vann (1998) found that developing and transition countries introduce incentives for varying reasons. Sometimes, the incentives are intended to offset disadvantages that investors may face, such as the lack of infrastructure, complicated and antiquated laws, weak administration in the tax area. Graham and Smith (1999) concluded that averagely, the "tax function is convex". Using the simulation methods, they investigate convexity induced by tax-code provisions. They examined how uncertainty about future taxable income interacts with major provisions of the tax code, using data from COMPUSTAT. Some of their findings are: „-among firms facing a convex tax function, the average tax savings from a five per cent reduction in volatility are 5 per cent of the tax liability base; the distribution of potential tax savings is quite skewed. That means if firms facing convex tax functions those could save over $2,000,000 annually if they reduce the volatility of taxable income by five per cent; the asymmetric treatment of profits and losses drives much of the observed convexity"(Graham and Smith 1999).

Zee et al. (2002) claim that „the use of tax incentives is widespread even though the available empirical evidence on the cost-effectiveness of such incentives in stimulating investment is highly inconclusive" (Zee et al. 2002, 1947). Their paper discusses the objectives, assesses the comparative merits and the transparency of implementing tax incentives. Klemm and Parys (2009) investigated if incentives are used as a tool of tax competition and how effective they are in attracting investment. They analyzed a dataset of tax incentives in over 40 Latin American, Caribbean and African countries from 1985 to 2004, using panel data. They found evidence that lower CIT rates and longer tax holidays are effective in attracting FDI in Latin America and the Caribbean but not in Africa. Šimović and Žaja (2010) investigated the tax incentives presence within the scope of CIT in Western Balkan countries. For their research, they divided Western Balkan countries' tax incentives into three groups: tax rates; tax holidays, exceptions and similar incentives; other investment incentives holding an emphasis on tax allowances, tax credits, accelerated depreciation and tax loss transference (Šimović and Žaja 2010a, 111). Mauda and Saidu (2019) examined the effect of tax incentives on the financial performance of listed consumer goods companies in Nigeria. Their study investigated seven companies in the period 2000-2017. The study used Pearson's correlation and multiple regressions. They recommended that tax authorities should consider means of introducing more incentives for investors to critical sectors. Suárez Serrato and Zidar (2018) investigated if CIT depends on tax rates, base rules and credits. They found that tax base rules and credits better explain the variation in state corporate tax revenues than tax rates do. China has a very high investment rate, and a significant amount of research has been conveyed to understanding this phenomenon. According to Lv et al. (2020), early studies identified several notable contributions, including the attractive return on investment, high saving rate in the economy, the expansion of non-state sectors and high expectation and investment confidence. Recent studies have emphasized the importance of Chinese political and fiscal institutions, which successfully foster powerful incentives for local governments (Lv et al. 2020; Gordon and Li 2011; Xiong 2018; Xu 2011). The results of Lv et al. (2020) show that „local fiscal incentives significantly shape policy choices and local economic performance" (Lv et al. 2020). Gordon and Li (2011) explored an alternative source of incentives. Their paper examines the incentives proposed by local Chinese officials. They emphasized that „the Chinese economy has benefited dramatically from the decentralization of decision-making to individual firms and workers"

(Gordon and Li 2011a). They also concluded that the economic incentives must be designed appropriately. Šimović and Bratić (2009) analyzed several corporate income tax incentives and economic growth in Croatia using the multiple regression method. Their analysis detected a minor but positive and significant relationship between corporate income tax and economic growth in Croatia, which confirmed the hypothesis that tax incentives limit the efficiency in stimulating the economic activity in Croatia. In the Republic of Serbia, in December 2012, the Government adopted several amendments to the Law on Corporate Income Tax to increase the balance sheet income of this tax form and the efficiency of its implementation. Kovač (2003) pointed out that the efficiency of tax incentives in the corporate income tax field in attracting foreign direct investment comes to light only when a favourable investment climate is created.

In order to find ways to address the problems caused by the consequences of the COVID-19 pandemic, we also considered the effectiveness of introducing temporary tax incentives in the area of corporate income tax. Temporary tax incentives relate to a limited period, and their importance is reflected in the fact that they can positively contribute to the future success of a particular company, especially in times of crisis and post-crisis periods (Broadway and Shah 1995).

3. ASSESSMENT OF THE DEVELOPMENT FUNCTION OF CORPORATE INCOME TAX IN SERBIA

The direct adverse impact of COVID-19 on tax revenues can be substantial in the short run worldwide (Megersa 2020). These revenue impacts will take a variety of channels. The slow-down in economic activity and unemployment will shrink or defer income tax mobilisation and social security payments, leading to lower CIT. CIT revenues may also stay low for some time as any losses emanating in 2020 will generally be carried forward and applied against future income. Resource prices have declined dramatically in recent months, which will reduce excise and royalty revenues for resource-rich countries and result in lower revenues from CIT (OECD, 2020). On the other hand, „CIT can be much more responsive to sudden changes in GDP"(Megersa 2020a). Because of such circumstances, it is necessary to encourage development and provide CIT revenues.

Table 1 demonstrates the direction and strength of the correlation between CIT and economic growth (proxy by gross domestic product per capita) at the level of the EU member states and Serbia, for the period 2007-2020. The predictive power of an independent variable is determined by R2.

Table 1. Regression results

Country	Austria	Belgium	Bulgaria	Croatia	Cyprus	Czech Republic	Denmark
R^2	.772	.017	.006	.653	.038	.550	.709
B_1	.449	.452	.182	1.823	4.499	.911	.768
Sig.	(.000)**	(.701)	(.815)	(.003)	(.567)	(.009)	(.001)
Country	Estonia	Finland	France	Germany	Greece	Hungary	Ireland
R^2	.696	.892	.805	.822	.645	.281	.896
B_1	11.352	1.003	.058	.105	1.427	.517	3.807
Sig.	(.001)	(.000)**	(.000)**	(.000)**	(.003)	(.093)	(.000)**
Country	Italy	Latvia	Lithuania	Luxembourg	Malta	Netherlands	Poland
R^2	.679	.211	.105	.002	.979	.835	.002
B_1	.162	2.965	2.174	-.202	14.509	.175	-.055
Sig.	(.002)	(.155)	(.332)	(.896)	(.000)**	(.000)**	(.889)
Country	Portugal	Romania	Slovakia	Slovenia	Spain	Sweden	United Kingdom
R^2	.451	.230	.702	.561	.432	.814	.633
B_1	.546	.569	1.468	.2865	.070	.793	.095
Sig.	(.024)	(.136)	(.016)	(.008)	(.000)**	(.000)**	(.003)
Country							Serbia
R^2							.826
B_1							1.102
Sig.							(.000)**

Dependent variable: GDP per capita

**p<.001 (2-tailed).

Source: Own calculations based on data from European Commission and Ministry of Finance, Bulletin of public finances, 2020, SPSS output.

In every regression equation, the R-squared is high, which means that CIT, or corporate income tax revenue as a percentage of GDP, explains a large part of the variation in the GDP per capita. Table 1 shows the positive reflections of the CIT on economic growth. Only a negative correlation is present in Luxembourg (-.202) and Poland (-.055), but it is not statistically significant. Based on the results of the regression analyses, it can be concluded that there is a notable difference in the influence of the CIT on economic growth among countries. The highest correlation can be observed in Austria, Croatia, Denmark, Estonia, Finland, France, Germany, Ireland, Greece, Italy, Malta, Netherlands, Slovakia, Sweden, United Kingdom and Serbia.

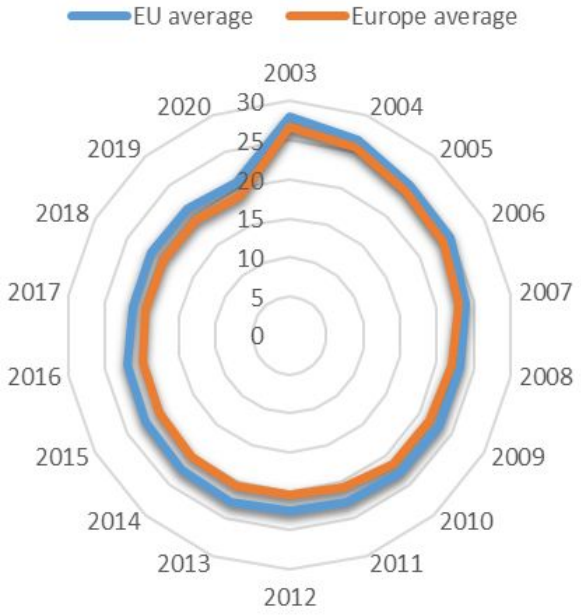
Based on the estimated values of the beta coefficients for an independent variable, a statistically significant correlation between CIT and economic growth exists in Austria, Finland, France, Germany, Ireland, Malta, Netherlands, Spain, Sweden, Serbia, at the significance level of 1% ($p<.001$). A positive correlation exists between CIT and economic growth based on Pearson's coefficient, at the level of statistical significance of 5% ($p<0.05$) in Croatia, Denmark, Estonia, Greece, Italy, Portugal, Slovenia, United Kingdom. The beta coefficient (B1) has its highest absolute value on the example of Estonia, Malta and Ireland, which means that, in the case of these countries, the independent variable contributes most to explaining the dependent variable ($p<0.05$).

Based on the results shown in Table 1, statistical significance was recorded in only twenty-one countries. Bearing in mind that the positive correlation is more prevalent, we can conclude that the increase in the share of corporate income tax in gross domestic products leads to economic growth in the above countries.

How much CIT contributed to the prediction of each country's income tax is shown in Table 1. We can conclude that CIT is not a predictor for whole countries with significant impact. This model is explained most by the example of Malta F [(97.9) =97.9, $p<0.001$)] and Ireland [F (89.6) =89.6, $p<0.001$)]. In Malta, the model explains 97.7% of the total variance, while in Ireland, that percentage is 89.6%.

Although the governments of the analyzed countries are aware of this significant impact in the last decades, several corporate tax reforms have been implemented in most countries. These corporate income tax reforms were mainly marked by a reduction in the statutory tax rate and a simultaneous increase in the tax base, to simplify taxes, maintain revenues and decrease the gap between the statutory tax rate and the effective tax rate. The last two decades have seen considerable reform to corporate income taxes in major industrialized countries. Statutory rates have fallen from an average of 35% in the early 1990s to 23,7% by the end of the 1990s, and the drop continues. The situation is similar in the European Union countries, where are average statutory rates of 27,9% in the early 2003s, have fallen to 21,4% in the 2020s.

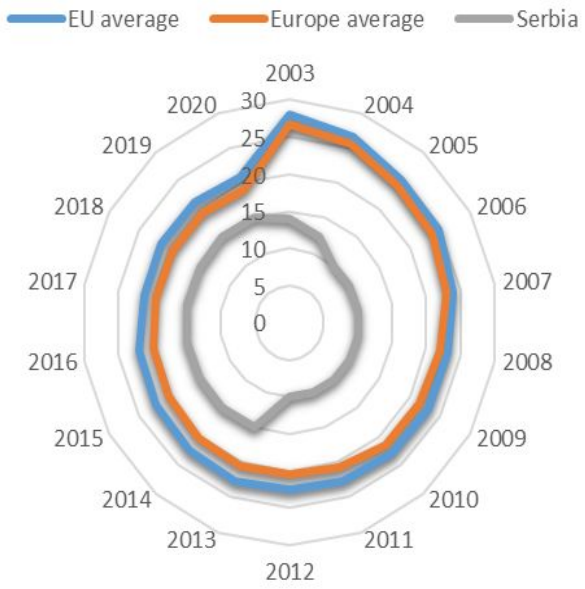
Figure 1. Variation in average corporate tax rates in EU and Europe (in %), 2003-2020



Source: European Commission, 2020.

Today, very few tax jurisdictions impose a CIT at statutory rates greater than 35 per cent. A plurality of countries requires a rate between 20 and 30 per cent. Average corporate tax rates continue to fall across Europe and European Union. Today, the Serbian statutory corporate tax rate is closer to the EU's average. By cutting their corporate tax rates, EU countries look for potential benefits of attracting business investment and a more competitive tax environment (Tax Foundation 2018). However, tax revenues from corporations have not gone down. This situation, referred to as the tax rate - revenue puzzle or the CIT paradox, has been the topic of previous academic investigations (Nicodeme et al. 2018). This phenomenon, labelled by (Albi 2010) as "the paradox of collection" was initially explained by pointing to the fact that recent fiscal reforms have comprised two measures with opposing effects - the reduction of tax rates and increases in the tax base.

Figure 2. Variation in corporate tax rates in EU, Europe and Serbia (in %), 2003-2020



Source: European Commission 2020.

"Temporary reductions in tax rates are one of the options that are available to revenue authorities to ease the economic burden on taxpayers of the COVID-19 crisis. However, the reduction of tax rates will require both revenue authorities and taxpayers to make changes to their systems, thereby increasing administrative and compliance costs"(ATAF 2020).

Another solution for mitigating the consequences of COVID-19 in Serbia can be improving CIT incentives. In Serbia, tax relief measures in mitigating the COVID-19 pandemic consequences have been applied, but CIT incentives parametrization can also be a good measure. A large number of different tax incentives are implemented within various tax forms in the world today. In the scope of CIT, the various purposes of their implementation may include the stimulation of economic growth, the development of underdeveloped areas and providing incentives to some categories of the companies. Also, CIT incentives are equally used in developing and developed countries (Šimović and Žaja 2010b). The statutory CIT rate does not necessarily capture the tax burden on new investment, but the effective tax rate could be a better measure of the tax burden. Therefore, some authors find supporting evidence that CIT incentives positively associated with the level of investment (Lv, Liu and Li 2020). Accordingly, we can conclude that CIT incentives also use as the instrument of tax competition.

When it comes to potential tax incentives available to companies in Serbia, they are becoming scarce. Given that the data on the types and amounts of tax incentives that are reported in the tax returns for advance payment of corporate income tax is not transparent, the data included in the analysis is of great importance. Data on corporate income tax are taken from the Public Finance Bulletin of the Republic of Serbia. The research involves tax incentives analysis in the CIT area for the 2007-2020 period in the Republic of Serbia. Remember that some tax incentives were not applied during the observed period, which is why their systematization was given according to the period of application. The survey includes the following tax incentives:

Table 2. Tax incentives in the field of corporate income tax in the Republic of Serbia, 2007-2020

No.	*Article of the Law*	*Description*	*Period of application*
1.	Article 45 (a1)	Tax exemption in case of concession investment from payment of income tax on the income from the subject of concession	2007-2012
2	Article 46 (a2)	Tax exemption of legal entities for vocational training, vocational rehabilitation and employment of disabled persons	2007-2020
3.	Article 47 (a3)	Amount of deduction for profits made in a newly established business unit in underdeveloped areas	2007-2012
4.	Article 48 (a4)	Reduction of accrued income tax on taxpayers who make investments in fixed assets owned by them	2007-2013
5.	Article 48a (a5)	Reduction of the calculated tax on the realized profit of a taxpayer who makes investments in fixed assets in their own property mainly performing one of the activities mentioned in Article 48a	2007-2012
6.	Article 49 (a6)	The amount of the deduction for the employment of full-time workers	2007-2010
7.	Article 50 (a7)	Tax exemption for investing in fixed assets in the amount of more than 600 million or one billion dinars and additional permanent employment of at least 100 persons	Abolished in 2004
8.	Article 50a (a8)	Tax exemption for investing in fixed assets in the amount of more than 600/800 million or one billion dinars and additional permanent employment of at least 100 persons	2007-2020
9.	Article 50b (a9)	Tax Exemption for Profits Made by a Taxpayer Engaged in an Underdeveloped Area	2010-2012
10.	Article 51 (a10)	Deduction of tax on the amount of income tax paid by operating in another country	2007-2020
11.	Article 52 (a11)	Deduction of income tax paid by a non-resident branch in another country on dividend income and withholding tax on dividends paid	2007-2020
12.	Impairment under the provisions of the Law on Corporate Income Tax (Official Gazette of the RS, No. 43/94, ..., 54/99) and the Law on Corporate Income Tax (Official Gazette of the RS, No. 25 / 01, .., 43/03) (a12)	- tax incentive for a newly established legal entity established in underdeveloped areas and free zones - tax incentive for a foreign taxpayer - a tax incentive for newly employed full-time workers	2007-2009
12.	Article 53a (a13)	Reduction of accrued tax by the amount of withholding tax paid by its non-resident branch in another country on interest, royalties, fees on the lease of real estate and movable property, and dividends that do not qualify for the application of Article 52.	2010-2020

Source: Službeni glasnik RS 2001

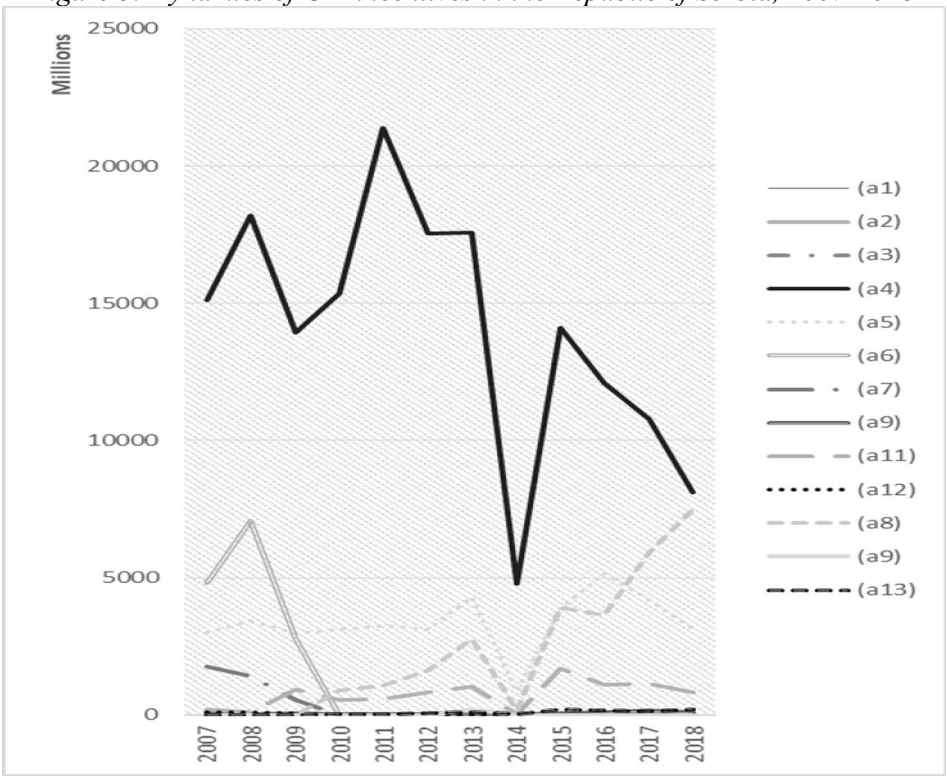
Note: Prepared by Authors based on Corporate Income Tax Act and data obtained from the Ministry of Finance - Tax Administration of the Republic of Serbia

Table 2 shows tax incentives in the corporate income tax field in the Republic of Serbia in the 2007-2020 period. Serbia implements a relatively large number of CIT incentives. CIT in Serbia is one of the most significant tax forms in the Serbian tax system. According to its generosity, it is behind the value-added tax, excise and personal income tax. As such, this tax form has a pronounced development component. He has been imposed the role of the implementer of numerous macroeconomic policy development goals. There is a close correspondence between CIT tax incentives and economic activity. CIT incentives offered to countries have long been regarded as having significant implications for business performance. Tax Incentives have affected investors'

choice of competing policies regarding capital. When looking at the share of corporate income tax revenues in the gross domestic product in the Republic of Serbia, it can be seen that there is a tendency to increase the corporate income tax share in gross domestic product. Taxpayers are provided with tax incentives to stimulate economic growth, alleviate regional and sectoral disparities in the economy, encourage employment, and improve the environmental situation and the like. In addition, tax incentives can also contribute to the improvement of international competition. With the corporate income tax, it is also possible to attract foreign investments. With this in mind, their structure is crucial, especially in crisis and post-crisis periods.The efficiency of the CIT incentives is difficult to determine, because tax incentives are closely related to reduced CIT rates. However, because of their important in stimulating economic activity CIT incentives will be analyzed. Literature most commonly classifies tax incentives in the scope of CIT into the following groups:

- *reduced CIT rates;*
- *tax holidays and various;*
- *investment incentives in the broader sense, which imply incentives like accelerated depreciation, investment allowances and investment tax credits* (Šimović and Žaja 2010c, 111).

Figure 3. Dynamics of CIT incentives in the Republic of Serbia, 2007-2018



Source: Službeni glasnik RS 2001
Note: Prepared by Authors based on Corporate Income Tax Act and data obtained from the Ministry of Finance - Tax Administration of the Republic of Serbia

There are significant tax reliefs and exemptions in the CIT system in Serbia. Their goal is to encourage direct investments, accelerate the development of underdeveloped areas and increase employment. Serbia provides the following types of tax incentives:

- tax exemptions and
- investment incentives.

The most frequently used CIT incentives in Serbia are the reduction of accrued income tax on taxpayers who make investments in fixed assets owned by them. In recent years, there has been an increase in tax exemptions for investing in fixed assets in more than 800 million or one billion dinars and additional permanent employment of at least 100 persons. Tax exemptions are one of the most commonly used general incentives used in Serbia. In addition to tax exemptions, Serbia also grants

investment incentives (a12), but a significant trend of their decline has been observed in recent years because this Article abolished in 2009 (Figure 3). Having in mind the current crisis COVID -19 and the measures taken by Serbia, the reforms of all tax forms are inevitable. The latest amendments to the Law on Corporate Income Tax have radically redesigned CIT incentives in Serbia, thus the number of them reducing to a minimum. The goal of abolishing many tax incentives and exemptions was to achieve numerous positive effects. First of all, the corporate tax system has been significantly simplified, and administration costs have been reduced because, in the case of a large number of tax incentives, significant resources are spent on training tax authorities to administer them. The profit taxation system has thus become allocatively more neutral and fairer. However, the effectiveness of CIT incentives needs to be assessed in more detail. The crisis shows that rare events like pandemics hit businesses irrespective of their financial health or their contributions to the tax systems. This exceptional situation requires rethinking the CIT incentives system in Serbia to solve the development and loss of CIT revenue problem.

5. CONCLUSION

The COVID-19 outbreak has reinforced the idea that an essential role of government in an uncertain environment is to manage risk, establish processes for responding appropriately to unforeseen events, and coordinate policy responses and information sharing globally.

We have developed several facts. The first one is statutory tax rates fell over the 2003-2020 period. The second is tax base broadening during this period. The competitiveness of corporate income tax is expressed everywhere in the world. As a result of competitiveness, corporate income tax is subject to frequent reforms. Countries tend to attract foreign investors, thereby reducing tax rates and broadening the tax base. Based on the findings, the study recommended that the tax authorities in analyzed countries strengthen the tax administration system as tax revenue proved to be a vital source of government revenue for sustainable development. CIT in Serbia is one of the most significant tax forms in the Serbian tax system. According to its generosity, it is behind the value-added tax, excise and personal income tax. As such, this tax form has a pronounced development component. It has the role of the implementer of numerous macroeconomic policy development goals. Tax competition in the domain of corporate income tax stimulates the economic development of countries, and it could be accepted as an option in incenting economic growth and development, to the extent to which it may be deemed not to be harmful. The reduction of tax rates, as the most significant effect of tax competition in corporate income tax, can have a special significance for the operations of foreign investors, and that is why they have special attention. Policymakers also need to define rules for recognizing expenditures and revenues. Tax incentives can be a relevant element in the fight against a pandemic, given the importance of corporate income tax and its stabilization and development component.

Based on the analysis, we have concluded that one of the options for overcoming the consequences caused by the COVID-19 pandemic is implementing parametric corporate tax reforms. The reforms implemented should also contribute to an increase in public revenues. The research provides the basis for further study and contributes to the fight against the effects of the Covid-19 pandemic.

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