THE ROLE OF THE TAX SYSTEM IN PROMOTING ENTREPRENEURSHIP

Ivana Leveska
University "St. Kliment Ohridski" – Bitola, Faculty of Law – Kichevo, North Macedonia,
ivanaleveskaaa123@gmail.com
ORCID ID: 0009-0001-6771-3297
ElizabetaTosheva
University "St. KlimentOhridski" – Bitola, Faculty of Law – Kichevo, North Macedonia,
elizabeta.tosheva@uklo.edu.mk
ORCID ID: 0000-0003-2984-8542

Abstract: This paper examines the relationship between tax policy and entrepreneurial activity in the Republic of North Macedonia, with a particular focus on the role of the tax system in supporting private sector development. Special attention is given to the importance of the Technological Industrial Development Zones (TIDZs) as instruments for attracting investment and increasing public revenues.
The research employed a comparative approach and an analysis of secondary empirical data for the period 2024–2025. The study was based on the triangulation of data from official national and international sources, enabling a comprehensive assessment of the impact of fiscal policy on entrepreneurship.
The findings indicate that fiscal policy contributes to economic growth, while the strongest effects are observed among large investors and companies operating within the TIDZs. Based on the findings, the paper offers recommendations for further improving fiscal policy and strengthening the entrepreneurial environment in North Macedonia.
Keywords: tax system, TIDZ, flat tax, public revenues, GDP, fiscal policy

1. INTRODUCTION

Taxation policy is an integral component influencing entrepreneurship and the development of the private sector. It has been found that the tax rate influences not only the economic activities but also the motivation of entrepreneurs to engage in entrepreneurship .Designing of the tax rates, exemptions, and administrative process can motivate or inhibit economic activity.
Speaking of the taxation policy in North Macedonia, one can note that the introduction of the flat tax rate (10%) makes the investment process predictable and easy. In this case, there will be fewer administrative procedures and encouragement to legalize the economic activity. At the same time, the lack of revenue diversification and small proportion of non-tax revenue requires new measures.
In the European Union, progressive systems with multi-level rates prevail. The goal of such systems is to ensure an equitable allocation of the tax burden, while adding to the complexity of administration and providing additional possibilities for tax evasion. In Western Balkan countries (Serbian, Albanian, Bulgarian), unification or flat rates of taxes are used to gain more competitive advantage and attract investments, although the risk of a narrow fiscal base exists.
It is important to analyze the role of the tax system in creating favorable conditions for entrepreneurship.

2. METHODOLOGY

Comparative Analysis
The comparison was made between the tax system of North Macedonia and the systems in the European Union and Western Balkans, where similarities and differences in their influence on entrepreneurship were explored (Ortiz-Ospina&Roser, 2016).
Fiscal Instruments An analysis of the flat tax, progressive rates, and tax benefits was performed to determine their influence on the private sector .
Data Sources Secondary data were used: data from the Ministry of Finance, State Statistical Office, OECD Corporate Tax Statistics (2025/2026), ETPS 2025, final account of TIDZ for 2025, and budgets of Serbia, Albania, Greece, and Bulgaria.
MethodsQuantitative Analysis – growth rates, contribution to GDP, and effects of taxes were determined.
Qualitative Analysis – institutions including TIDZ, tax benefits, and administrative procedures were analyzed in terms of their influence on entrepreneurship (Celestin et al., 2025; Kinderman& Krueger, 2026; Stojkov et al., 2008).

3. RESULTS AND DISCUSSIONS

Table 1. Structure and dynamics of public revenues in the Budget of the Republic of Macedonia (2024–2025)

Category	North Macedonia2024 (million)	Share 2024 (%)	North Macedonia2025 (million)	Share 2025 (%)	Difference (million)	Serbia (million)2025	Albania (million)2025	Greece (million)2025	Bulgaria(million) 2025
Tax revenues	€2,896	57.4%	€3,286)	56.3%	+€390	€16,957	€7,122	€71,909	€38,150
Contributions	€1,642	32.6%	€1,905	32.6%	+€263	–	€1,699	€51	€3,933
Non-tax revenues	€331	6.6 %	€428	7.3 %	+€97	€2,782	€258	€2,918	€187
Capital revenues	€52	1.0 %	€57	1.0 %	+€5	–	–	–	–
Donations	€122	2.4 %	€159	2.7 %	+€37	€303	€190	€7,524	€321
Total revenues	€5,043	–	€5,835	–	+€792	€20,042	€7,570	€77,065	€44,591

Source: Ministry of Finance (MF), Serbia: Law on the Budget of the Republic of Serbia for 2025 (Parliament of Serbia Albania: Ministry of Finance and Economy – Consoliomia Execution of the State Budget 2025, Bulgaria: Ministry of Finance – Consolidated Fiscal Program 2025)

The revenue structure in North Macedonia for 2024–2025 shows a growth of **15.7%**, with **tax revenues** remaining the main source (56.3%) and ensuring fiscal stability – a factor crucial for predictability and security among entrepreneurs. **Contributions** increased by approximately €263 million, reflecting labor market activity and the continuity of social funds, which creates a favorable climate for new business initiatives.

Although **non-tax revenues** (+€97 million) and**donations** (+€37 million) have limited shares, their growth indicates gradual diversification and opportunities for innovative projects and grants. **Capital revenues** (+€5 million) remain marginal, leaving private initiative as the main driver of investments.

The overall increase of**€792 million** strengthens fiscal stability and fosters a better environment for **entrepreneurship**, startups, and business expansion. However, comparison with neighboring countries reveals a significantly smaller revenue base: North Macedonia (€5.8 billion) versus Serbia (€20 billion), Albania (€7.6 billion), Greece (€77 billion), and Bulgaria (€44.6 billion).

The revenue structure in North Macedonia (€5.8 billion) is significantly smaller than that in Serbia (€20 billion), Albania (€7.6 billion), Greece (€77 billion), and Bulgaria (€44.6 billion). Thus, there is an urgent need for diversifying the revenue sources. According to Ortiz-Ospina and Roser , the available long-run data shows that in the process of development, countries have increased the levels of taxation, while at the same time changing the patterns of taxation, mainly by providing an increasing emphasis on broader tax bases. For North Macedonia, this implies that strengthening non-tax revenues, enhancing institutional capacity, and fostering innovative financing mechanisms are essential steps toward building a more robust and competitive economy.

Table 2: GDP and Components by Expenditure Method – Annual Growth Rates (%) and Contributions to GDP Growth (p.p.)

Category	Q1 2025	Q2 2025	Q3 2025	Q1–Q3 2025	Q1 2025 (p.p.)	Q2 2025 (p.p.)	Q3 2025 (p.p.)	Q1–Q3 2025 (p.p.)
Gross Domestic Product	2.9	3.5	3.8	3.4				
Final Consumption	3.2	3.2	1.8	2.7	2.7	2.7	1.5	2.3
– Private	2.6	3.1	0.9	2.1	1.8	2.1	0.6	1.5
– Public	5.7	3.5	5.7	5.0	0.9	0.6	0.8	0.8
Gross Investments	9.2	5.4	30.6	14.0	2.8	1.6	7.6	3.9
Export of Goods and Services	2.8	8.5	3.4	4.9	1.9	5.4	2.1	3.2
Import of Goods and Services	5.7	8.1	9.9	7.9	4.7	6.3	6.9	6.0
Net Export					-2.8	-0.8	-4.8	-2.9
Residual					0.2	0.1	-0.5	0.1

Source: State Statistical Office (GDP Release for Q2 2025) and calculations by the Ministry of Finance

Economic growth in terms of GDP grew stably at the rate of 3.4% for the first three quarters of 2025 (up from 2.9% in Q1 to 3.8% in Q3), forming a favorable economic situation. This economic situation was vital for entrepreneurs at that moment, since it provided confidence in their decision-making process and business expansion.
Final consumption reflects a slowdown, particularly of private consumption, thus decreasing the role of households' demand in growing economy and the necessity of innovation for entrepreneurs.Public consumption is stable, thus providing the continuity of government's policy, while gross investments become the major growth factor (+30.6% in Q3), offering a chance for start-ups, expansion, and capital accumulation.Though there is moderate growth of exports, the accelerated imports form a negative effect on net exports (–2.9 p.p.).

Table 3: Sectoral Growth and Contribution to GDP (Q3 2025)

Sector	Real Growth (%)	Contribution to Growth (p.p.)
Construction	21.0%	1.3
Services Sector	2.9%	1.6
Agriculture	4.0%	0.3
Manufacturing Industry	2.5%	0.4
Net Product Taxes	4.5%	0.6

Source: Quarterly Economic Report, Ministry of Finance (2025)

Construction witnessed an exponential growth of +21%, making its contribution of 1.3 percentage points. It was facilitated by the low-rise construction that increased by +58.5% as part of strategic infrastructure projects (Corridors 8 and 10d). Service sector witnessed steady growth of +2.9%, thus, adding 1.6 percentage points.
Agricultural and manufacturing sectors added modestly to growth dynamics with their contributions of +4.0% and +2.5%. Their share in growth amounted to 0.3 and 0.4 percentage points correspondingly. Product taxes were increased by +4.5%, which added 0.6 percentage points to growth dynamics.

Table 4: Fiscal Contribution and Tax Policies – TIDZ (2025)

Indicator / Source	Value / Highlight
Tax Base after Reduction	82,939,011 MKD
Paid Profit Tax	8,293,901 MKD

Source: Final Account of TIDZ 2025

According to the data provided in the Final Account of TIDZ in 2025, the economic entity had a lower tax base in the amount of 82,939,011 MKD and paid profit tax in the sum of 8,293,901 MKD. Thus, the result can be considered a sign of the business maturity of enterprises operating in the industrial zones.

Table 5: Comparative Analysis of Fiscal Policy – EU and Western Balkans

Indicator	**North Macedonia**	**Europe (ETPS 2025 – Avg.)**	**Serbia**	**Albania**	**Greece**	**Bulgaria**
Corporate Tax	10% flat	21.5% average	15%	15% (standard), 0–5% for small/specific industries	22%	10%
Personal Income Tax	10% flat	Top marginal ~42.8% average	10–15% progressive	13–23% progressive	9–44% progressive	10% flat

Source: Organisation for Economic Co-operation and Development – OECD Corporate Tax Statistics (2025/2026), European Tax Policy Scorecard (ETPS 2025), Public Revenue Office. (2025). *Taxation in North Macedonia*., RS iCalculator. (2025). *Income tax brackets Serbia*., PwC Albania. (2025). *Tax summary Albania*., KPMG Greece. (2025). *Tax guide Greece*.,Deloitte Bulgaria. (2025). *Tax highlights Bulgaria*

The European Union examples are different from those in the Western Balkans. The countries with the lowest corporate taxes (10%) are North Macedonia and Bulgaria, increasing their competitiveness, but reducing revenue diversification. Comparative analysis of fiscal policy demonstrates that there is an evident duality between the Western Balkan countries and the European Union. For instance, North Macedonia and Bulgaria have a flat tax rate of 10% for corporations and also a personal income tax rate of 10%. This type of tax system is especially beneficial for entrepreneurship because of its simplicity. However, it has one weakness that consists in the insufficient diversification of fiscal revenues. The simple structure is an advantage of the flat tax rate, as it helps taxpayers avoid complexity in tax calculations .

The same applies to Serbia and Albania, where unified taxes are used with rates of 15%. At the same time, these countries use some kinds of incentives for certain industries. Such a tax system gives entrepreneurs the chance to earn money from targeted industries; however, they should be prepared to monitor all regulations and industrial policies.

4. CONCLUSION

Researching such components as public revenues, GDP, sector dynamics, TIDZ model and comparing with countries from the EU and Western Balkans reveals all the aspects of the economic and fiscal condition of North Macedonia. In 2025, there was an increase of 15.7% in the budget, where revenues dominated (56.3%) and contributions were stable (32.6%). Other revenues and donations are minor, however, are growing. The level of revenues of Macedonia is still lower than in neighboring countries.

The average growth rate was 3.4%, and it was due to investments (+30.6% in Q3), private consumption weakened, public expenditures remained constant and net exports influenced negatively (–2.9 p.p.) because of the dependency on imports. Construction (+21%) was the most dynamic sector due to infrastructure projects, while services (+2.9%) provided the stability of growth. There were moderate contributions of agriculture (+4.0%) and industry (+2.5%), and net product taxes (+4.5%).

Payment of taxes from profits worth 8,293,901 MKD on 82,939,011 MKD base indicates that businesses have matured within TIDZ, showing how TIDZ functions as fiscal stabilization policy. The countries with lowest tax rates for corporations are Macedonia and Bulgaria at 10%, Serbia and Albania at 15%, whereas Greece uses a progressive approach, where there is 22% corporate and 44% personal tax. EU systems have wide bases and complexity with more room for evasion.

It has been found that entrepreneurial motivations have a close link with economic development as the rates of taxes determine the level of business start-ups. These findings corroborate the assertions made by Bruce et al. (2020) and Rusu&Dornean (2023), stressing that fiscal policy is one of the main drivers of entrepreneurship and innovation. In sum, in 2025 Macedonia is experiencing structural transformation through investments and constructions, a narrow but stable fiscal policy and successful implementation of TIDZ.

RECOMMENDATIONS

Provide incentives and institutional support aimed at balanced development of economy, taking into account deduction opportunities and fiscal facilities .

Make use of regional development efforts to promote entrepreneurship in the region. The research conducted by Celestin et al. (2025) proves that decreased taxes have positive influence on business creation and small businesses' performance. Alignment with EU tax requirements has to be gradual, keeping the country competitive due to low taxes and simple system .

North Macedonia should maintain its low corporate tax rate (10%) as a competitive advantage, while simultaneously introducing **complementary policies** – digitalization of tax administration, simplification of compliance procedures, and improved access to business credit. These measures will increase the effectiveness of tax incentives, encourage formalization, and strengthen the sustainability of small businesses. Strong negative correlation (–0.98) between tax rates and entrepreneurial activity; a 1% reduction leads to a 0.45% increase in startup formation and a 0.38% rise in small business revenue growth.Tax incentives are most effective when combined with simplified compliance and access to credit.

Strengthening the TIDZ model, expanding the zones and stimulating export-oriented companies to increase fiscal contribution.

REFERENCES

Bruce, D. (2000). *Effects of the United States Tax System on Transitions into Self-Employment.* Labour Economics. Retrieved from http://dx.doi.org/10.1016/S0927-5371(00)00013-0

Celestin, M., Namusonge, G., Vinayakan, K., & Sangwa, S. (2025). *The Influence of Tax Policy on Entrepreneurship and Small Business Growth: Do Lower Taxes Encourage Startups?* International Journal of Current Research and Modern Education, Retrieved from https://zenodo.org/records/15059140

Deloitte Bulgaria. (2025). *Tax Highlights Bulgaria*. Sofia: Deloitte. Retrieved from https://www2.deloitte.com/bg

Kinderman, F., & Krueger, D. (2026). *Entrepreneurship and top marginal tax rates.*Journal of Public Economics, Retrieved from. https://doi.org/10.1016/j.jpubeco.2026.104122

KPMG Greece. (2025). *Tax Guide Greece*. Athens: KPMG. Retrieved from https://home.kpmg/gr

Ministry of Finance of the Republic of North Macedonia. (2025). *Final Account of TIDZ 2025*. Skopje: MoF. Retrieved from https://fez.gov.mk/wp-content/uploads/2025/02/Завршна-сметка-787.pdf

Ministry of Finance. (2024). *Budget of the Republic of North Macedonia for 2024*. Skopje: MoF. Retrieved from https://portal.mdt.gov.mk/post-body-files/Budzet-Finansii-File-Gnjm.pdf

Ministry of Finance. (2025). *Budget of the Republic of North Macedonia for 2025*. Skopje: MoF. Retrieved from https://portal.mdt.gov.mk/post-body-files/budzet-finansii-file-7j6Y.pdf

Ministry of Finance and Economy of Albania. (2025). *Fiscal Indicators – Consolidated Budget 2025*. Tirana: MoFE. Retrieved from https://financa.gov.al/wp-content/uploads/2025/05/Treguesit-fiskale-perfundimtar-04-2025-publikimi.pdf

Ministry of Economy and Finance of Greece. (2025). *Budget 2025 – Net Revenue and Surplus*. Athens: MoEF. Retrieved from https://athens-times.com/budget-2025-e77-065b-in-net-revenue-e100m-surplus/

Ministry of Finance of Bulgaria. (2025). *Consolidated Fiscal Program 2025*. Sofia: MoF. Retrieved from https://www.minfin.bg/en/news/13247

OECD. (2025/2026). *Global Minimum Tax – Corporate Tax Statistics*. Paris: OECD Publishing. Retrieved from https://www.oecd.org/en/topics/global-minimum-tax.html

Ortiz-Ospina, E., &Roser, M. (2016). *Taxation.* Published online at OurWorldInData.org. Retrieved from https://ourworldindata.org/taxation

Parliament of Serbia. (2025). *Law on the Budget of the Republic of Serbia for 2025*. Belgrade: Parliament of Serbia. Retrieved from https://www.parlament.gov.rs/upload/archive/files/cir/pdf/zakoni/14_saziv/2640-24%20Budzet2025.pdf

Public Revenue Office. (2024). *Official Annual Report of the Public Revenue Office (2024)*. Skopje: PRO. Retrieved from https://www.ujp.gov.mk/files/attachment/0000/1609/ISSN_1857-7121__________________2024_08-266_1____12.01.2026.pdf

Public Revenue Office. (2025). *Taxation in North Macedonia*. Skopje: PRO. Retrieved from https://www.mondaq.com

PwC Albania. (2025). *Tax Summary Albania*. Tirana: PwC. Retrieved from https://www.pwc.com/al

Rusu, V. D., & Dornean, A. (2023). *Do Tax Rates Matter for Entrepreneurial Motivations?* Scientific Annals of Economics and Business, https://saeb.feaa.uaic.ro/index.php/saeb/article/view/1935/313

RS iCalculator. (2025). *Income Tax Brackets Serbia*. Belgrade: RS iCalculator. Retrieved from https://www.icalculator.info

State Statistical Office. (2025). *Gross Domestic Product, Third Quarter of 2025*. Skopje: SSO. Retrieved from https://www.stat.mk/mk/stat/економија-и-финансии/bruto-domashen-proizvod/bruto-domashen-proizvod-trimesechni-podatofi/бруто-домашен-производ-трето-тримесечје-од-2025-година/

State Statistical Office. (2025). *MAKSTAT Database*. Skopje: SSO. Retrieved from https://makstat.stat.gov.mk/PXWeb/pxweb/mk/MakStat/

State Statistical Office. (2025). *GDP Release – Q2 2025*. Skopje: SSO.

Stojkov, A., Nikolov, M., & Smilevski, B. (2008). *Flat Tax Policy Assessment in Macedonia.*Center for Economic Analyses (CEA), Final Version, September 2008, Skopje. Retrieved from https://cea.org.mk/documents/proekti/CEA%20Final%20fiscal%20report_final.pdf

Tax Foundation. (2025). *European Tax Rankings 2025*. Washington, DC: Tax Foundation. Retrieved from https://taxfoundation.org/research/all/eu/2025-european-tax-rankings/

Tax Foundation. (2025). *Corporate and Personal Income Tax Rates in the EU*. Washington, DC: Tax Foundation. Retrieved from https://taxfoundation.org