

# **An Analytical Framework of Value-Added Tax (VAT) Transfers from Central Government to Local Government in North Macedonia**

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**Abstract:** In North Macedonia, VAT was introduced on April 1, 2000, and constitutes nearly one-third of all tax collections. Although collected nationally, a portion of VAT is redistributed among 80 municipalities and the City of Skopje to fund local services, as mandated by the Law on Financing of Local Self-Government Units (LSGU), which has undergone several amendments since its introduction in 2004.

Current legislation stipulates that 6% of the previous year's VAT collections are transferred to LSGU budgets based on a formula weighted by population size, municipal surface area and number of settlements. The VAT redistribution for 2025 is projected to reach approximately 80 million euros, the highest in 16 years. These transfers are crucial for municipal budgets, with larger municipalities typically receiving higher percentage increases in VAT transfers compared to smaller ones.

The recent population census, indicating a 9.19% decrease in population, poses challenges for municipalities with declining population, potentially reducing their VAT allocations for 2025. This paper examines the impact of the census on VAT redistribution and explores an alternative scenario where the number of active business entities replaces population size in the redistribution formula. The findings are based on simulations and estimations from current legislation, preceding official data which may vary.