Taxes Report

Tax Policy

Sustainable Governance Indicators 2016

SGI Sustainable Governance Indicators

BertelsmannStiftung

Indicator

Tax Policy

Question

To what extent does taxation policy realize goals of equity, competitiveness and the generation of sufficient public revenues?

41 OECD and EU countries are sorted according to their performance on a scale from 10 (best) to 1 (lowest). This scale is tied to four qualitative evaluation levels.

10-9 = Taxation policy fully achieves the objectives.

8-6 = Taxation policy largely achieves the objectives.

5-3 = Taxation policy partially achieves the objectives.

2-1 = Taxation policy does not achieve the objectives at all.

Finland

Score 9

In Finland, the state, municipalities, the Evangelic Lutheran Church and the Orthodox Church have the power to levy taxes. Taxation policies are largely effective. The state taxes individual incomes at rates falling on a progressive scale between 6.5% and 31.75% (2015). Municipal taxes range from 16.25% to 21.75%, depending on the municipal authority. In 2015, the average overall personal income-tax rate was 51.50%; it averaged 53.10% over the 1995 – 2014, falling from an all-time high of 62.20% in 1995. Generally speaking, demands for vertical equity are largely satisfied. However, this is less true for horizontal equity. The corporate income-tax rate was lowered in January 2014 from 24.5% to 20%, and adjustments in recent years have made Finland's taxation system less complex and more transparent. Finland performs well in regards to structural-balance and redistributional effects, and overall taxation policies generate sufficient government revenue. Taxes are generally high in Finland because the country has expensive health care and social-security systems, and also operates an efficient but costly education system. In comparison to most other countries, Finland enjoys a unique situation in which the public understands that taxation is necessary in order to secure the overall social welfare. In recent polls, 96% of respondents agreed that taxation is an important means of maintaining the welfare state, and 75% agreed that they had received sufficient benefits from their tax payments.

Citation:
https://www.vero.fi/fi-FI/Syventavat_veroohjeet/Henkiloasiakkaan_tuloverotus/Valtion_tuloveroasteikko_2015%2835390%29 for 2015 income tax schedule;
Tim Begany, "Countries with the Highest Taxes", http://www.investopedia.com/
http://www.tradingeconomics.com/finland/personal-income-tax

Norway

Score 9

Norway imposes a comparatively heavy tax burden on income and consumption (VAT). Corporate taxation is in contrast moderate in comparison to other countries. The tax code aims to be equitable in the taxation of different types of capital, although residential capital remains taxed at a significantly lower rate than other forms. In general the tax code is simple and equitable, tax collection is effective, the income tax is moderately progressive and tax compliance is high. Most of the tax collection is done electronically, with limited transaction costs, and the tax system offers limited scope for strategic tax planning.

A large share of the country's tax revenues is spent on personal transfers in the context of the welfare state. This contributes to making Norway a low-inequality society, and also enables significant investment in infrastructure and the provision of public goods; however, the efficiency of these expenditures is often low.

Switzerland

Score 9

The Swiss tax ratio is significantly below the OECD average, and tax rates, particularly for business, are moderate. Taxation policies are competitive and generate sufficient public revenues. Fiscal federalism (the responsibility of the municipalities, the cantons and the federation to cover their expenses with their own revenue) and Swiss citizens' right to decide on fiscal legislation have led to a lean state with relatively low levels of public-sector employment so far. Nonetheless, it is important to note that due to the principle of federalism, tax rates can differ substantially between regions, as individual cantons and local communities have the power to set regional tax levels.

However, it should be noted that Switzerland's apparently small government revenue as a percent of GDP can be attributed in part to the way in which the statistics are calculated. Contributions to the occupational pension system (the so-called second pillar) and the health insurance program – which are non-state organizations – are excluded from government revenue calculations. The share of government revenue as a percent of GDP would be about 10 percentage points higher if contributions to these two programs were included. This would bring Switzerland up to the OECD average in terms of public revenue.

Tax policy does not impede competitiveness. Switzerland ranks at or near the top of competitiveness indexes, and given its low level of taxation is highly attractive for corporate and personal taxpayers both domestically and internationally.

Tax policy has contributed to an excellent balance between revenues and expenditures. Switzerland has a very low public debt (35% of GDP in 2014) and a positive financial balance – that is, the government's revenues exceed government spending.

The country's tax policy has come under pressure from the OECD and European Union because of the ability to treat national and international firms differently on the cantonal level. The federal government has responded to these pressures, introducing a reform of corporate-taxation policy. This reform has progressed substantially in 2015 and will prohibit Swiss cantons from taxing the profits of national and international firms differently (so-called ring fencing).

Denmark

Score 8

The extensive welfare state is funded through a tax burden equal to nearly 50% of GDP, which is among the highest within the OECD. The tax structure differs from most countries in that direct income and indirect (VAT) taxation serve as the predominant taxes, while social security contributions play a modest role.

Large and small tax reforms have been implemented over the years following an international trend of broadening tax bases and reducing marginal tax rates (implying less progression). Decreasing income tax rates have, to a great extent, been financed by broadening the tax base, especially by reducing the taxable value of negative capital income (the majority of house owners have negative capital income because of mortgage interest payments). In 2004, an earned income tax was introduced to strengthen work incentives. Environmental taxes have also been increasingly used.

An important issue in policy design is tax competition. This has led to reduction of some excise taxes to reduce "border" trade. Corporate tax rates have also been reduced from 50% in 1986 to a planned 22% in 2016 (a recent reform reduced it from 25%), although the tax base has been broadened.

A recurrent issue in tax debates has been the role of the so-called tax freeze introduced by the previous government and, which, among other things, has implied a freeze of property taxes (the taxation of the user value of owner-occupied housing based on the current value of the house). This tax freeze was a contributing factor to the house price boom prior to the financial crisis. There is at present no political support to change this, although the Economic Council has argued for a "normalization" of this tax. The valuation principle underlying this tax has been criticized and a new system is being planned.

The Løkke Rasmussen government (since June 2015) plans a tax and burden freeze. It intends to reduce taxes for the lowest income brackets and reduce the cost of doing business in Denmark.

Citation:
Andersen, T.M., H. Linderoth, Niels Westergaard-Nielsen og Valdemar Smith, The Danish Economy, DJØF.

De Økonomiske Råd, Dansk Økonomi. Autumn 2011. (www.dors.dk)

"Danish Government Unveils Plan to Help Economy Exit Crisis," http://www.bloomberg.com/news/print/2014-05-07/denmark-set-to-unveil-growth-plan-to-drag-economy-out-of-crisis.html (Accessed 16 October 2014)

Lithuania

Score 8

In Lithuania's tax system, a significant share of government revenue is generated from indirect taxes, while environmental and property taxes are relatively low. However, there is significant tax evasion. Moreover, according to the European Commission, the VAT gap (as a percentage of theoretical VAT liability) is significantly higher than the EU average. The Commission has thus recommended implementing policies improving tax compliance and broadening the tax base.

In terms of horizontal equity, there are mismatches between various groups of economic actors with similar tax-paying abilities. Labor is taxed somewhat more heavily than is capital, while specific societal groups such as farmers benefit from tax exemptions. Previous governments have reduced the number of exemptions given to various professions and economic activities with regard to personal-income tax, social-security contributions and VAT. Social-security contributions are high, exceeding 30% of wages, and while there are ceilings on payments from the social-security fund (pensions), there are no ceilings on contributions to it. As of 1 January 2012, the tax base was broadened through a new tax on individuals owning residential real estate valued above €290,000, with a 1% rate on the value above this amount. In 2015, the value at which property tax must be paid was lowered to €220,000, while the rate was reduced to 0.5%.

In terms of vertical equity, the Lithuanian tax system to a certain extent imposes a higher tax burden on those with a greater ability to pay taxes, insofar as large companies pay larger sums than do small companies, but there is a flat income-tax rate of 15%. However, an element of progressivity is introduced through the use of an untaxed income threshold currently fixed at around €1,633 per year, thus favoring those receiving lower wages. The government recently proposed increasing this amount in such a way as to increase the progressivity of the income tax system.

In terms of revenue sufficiency, despite the fact that a process of fiscal consolidation has occurred on the expenditure side, some gap between tax revenues and government expenditure remains. Social-security contributions are a particular concern, as this gap has led to significant indebtedness within the State Social Security Fund. While the increase in economic activity in the post-crisis period is expected to generate more government revenue, some observers have proposed the creation of additional tax-revenue sources in order to make Lithuania's fiscal position more sustainable. The country also has scope for making its taxation system less distortive and more growth-friendly. The current government has set a goal of reducing the tax burden on labor, which would increase the competitiveness of the economy. Despite the recent review of the tax system, no specific reform measures have been adopted with the exception of the decrease of the real-estate-tax threshold and parallel rate reduction. Social-security contributions came into effect for the special category of small enterprises that for several years were excluded from this responsibility under a policy intended to foster entrepreneurship and reduce the tax burden on new business activities. An improvement in VAT and excise-tax collection was noted by analysts in 2015, and attributed partly to improvements in tax administration, and partly to the reduction in the incidence of fuel and tobacco-product smuggling from Russia's Kaliningrad region and Belarus due to a general decline in trade with Russia.

Citation:
COMMISSION STAFF WORKING DOCUMENT, country report Lithuania 2015: http://ec.europa.eu/europe2020/pdf/csr2015/cr2015_lithuania_en.pdf.
Tax Reforms in EU Member States 2015: Tax policy challenges
for economic growth and fiscal sustainability, September 2015, http://ec.europa.eu/economy_finance/publications/eeip/pdf/ip008_en.pdf.

New Zealand

Score 8

Taxation policy has successfully continued to promote competitiveness and the generation of sufficient public revenues. Regarding equity, governments have followed a policy of equal treatment of tax types, including income earned outside New Zealand, but at relatively low rates. The National-led government reduced rates across the board in 2010, but at the same time increased the goods and services (GST) tax from 12.5% to 15%. Most services and products sold in New Zealand incur this rate of tax (with exceptions for financial services). The government has postponed plans for a new round of tax reductions in the face of its "zero budget" priority policy, with the goal of bringing the economy back into surplus. While it has resisted pressure from some media outlets, opposition parties and other sources to introduce a stamp duty and/or capital-gains tax on residential investment properties, in 2015 it was forced to respond to the property boom in Auckland by imposing a tax on investors who sold their residential properties (other than the family home) within two years of purchase.

Citation:
Salmond, Rob. 2011. The New New Zealand Tax System: New Zealand Taxes in Comparative Perspective. Wellington: Institute of Policy Studies.
Elliffe, Craig, 2014. Time to Examine the Sacred Cow of Capital Gains Tax. New Zealand Herald. 11 July 2014 (http://www.nzherald.co.nz/brand-insight/news/article.cfm?c_id=1503637&objectid=11290494).

Sweden

Score 8

In terms of horizontal equity, this aspect of tax policy has improved over the last several years. The tax system has been reformed and simplified with fewer deductible items, which in turn has broadened the overall tax base. Combined with a less progressive tax rate and an overall reduction in taxes, horizontal equity has improved.

Vertical equity has significantly decreased, however. Studies show that differences between different socioeconomic strata has increased over the past decade in most OECD countries, but more rapidly in Sweden. Current tax policy penalizes those who do not work, regardless of the reason for not being part of the workforce. Thus, for instance, retirees have not been able to make deductions that the employed are allowed to make (this arrangement, however, is currently under review). This policy has served to incentivize people who are outside the workforce to seek jobs.

The government managed to balance public budgets quite successfully during the financially turbulent years after 2008. Declining taxes were accompanied with spending cuts and privatization. Hence, the tax revenue has been sufficient so far, with the loss in revenue balanced by spending reductions. More recently budget deficits have increased somewhat, so much so that the surplus goal has not been attained for the last couple of fiscal years.

Tax policy is less of a factor in national competitiveness today than it was 10 to 15 years ago when economists pointed to the high-income tax levels as a major impediment to the competitiveness of Swedish businesses. The first budget of the red-green government, however, signals a return – however modest – to a philosophy of higher levels of taxation and public spending, rather than incentives, as the engine of the domestic economy. Swedish tax levels are still largely on par with those of its main competitors – in fact, taxation of business is low from a comparative perspective.

Citation:
OECD (2015), In It Together: Why Less Inequality Benefits All (Paris: OECD).

Kvist, Jon et al. (eds.) (2012), Changing Inequalities. The Nordic Countries and New Challenges (Bristol: Policy Press).

Mehrtens, Philip (2014), Staatsschulden und Staatstätigkeit. Zur Transformation der politischen Ökonomie Schwedens (Frankfurt/New York: Campus).

Bulgaria

Score 7

Bulgaria’s government revenues are a mix of direct taxes, indirect taxes and social security contributions. The direct taxes, both personal and corporate, are a relatively small component of the tax revenues, and are based on a strategy of having very low rates which are uniformly spread over a very broad tax base with very limited exemptions. The system of indirect taxes is centered on a VAT with a flat rate of 20% for all products except tourist packages. The other important component of the indirect tax revenues is the excises. Here Bulgaria follows the requirements of the European Union, imposing rates at the low end of what is set out in its membership obligations. Social security contributions are directed mostly toward pension and health insurance. This system has a regressive component, since there is a legal maximal monthly income above which there is no obligation to pay contributions.

With its low rates and uniform and broad tax base, Bulgaria's tax system fully achieves the objective of horizontal equity and creates relatively good conditions for improving competitiveness, though this is limited to some extent by red tape and a highly bureaucratic tax administration. At the same time, the flat income tax and the low direct-tax burden limit the extent of vertical equity. After sagging value-added and excise-tax revenues in 2013-2014, 2015 brought a marked increase in the collection of these taxes which has contributed to a stabilization of public finances.

Canada

Score 7

Canada has seen a substantial rise in income inequality over the past few decades. Mirroring trends in the United States and other Western economies, the share of total income going to the top 1% of earners has increased dramatically since 1980. Moreover, there has been a technology- and trade-driven polarization of labor demand, with the earnings of male workers stagnating.

The income tax system is reasonably progressive and continues to be useful in equalizing after-tax incomes in the lower income brackets, but Canada's top income-tax bracket is well below that in similar nations (notably the United States). Some experts have argued that the multitude of overlapping tax expenditures benefit high income individuals at the expense of low income households. According to the Conference Board of Canada, there are now almost 200 tax breaks for federal income tax payers resulting in an estimated CAD 100 billion of foregone tax revenue annually. In 2015, the federal government introduced the "Family Income Tax Cut," a parental income splitting measure, which was widely condemned for targeting the narrow one-income earner household constituency and its likely negative effect on female labor force participation. According to a Parliamentary Budget Office report, the measure will benefit only a small subset of households (2 million middle and high income households) at an estimated cost of CAD 2.2 billion. A recent report uncovered a widespread practice by high-paid professionals to evade taxes by funneling their incomes through private companies, in order to shift income to their lower-earning spouses and adult children. The report estimates forgone tax revenues of about CAD 500 million.

The taxation of dividends has been adjusted to ensure there is no double taxation at both the corporate and individual level. In terms of tax competitiveness, Canada fares well. Statutory corporate-tax rates at the federal level and within the provinces have been reduced significantly in recent years. The marginal effective tax rate on investment has fallen, and is now the lowest among G7 countries and below the OECD average. Capital taxes have been largely eliminated.

Canada scores high in terms of the generation of sufficient public revenues. Much of the credit for Canada's sound financial situation goes to the Conservative government's former finance minister Jim Flaherty, who received universal acclaim for his handling of the 2008 to 2009 crisis, and for moving toward a balanced budget after the structural deficit created by the Conservative's 2% reduction in the goods-and-services tax in 2006.

Citation:
The Conference Board of Canada, "Reinventing the Canadian Tax System: The Case for Comprehensive Tax Reform". March 23, 2012.
Parliamentary Budget Officer of Canada, "The Family Tax Cut". April 2015, retrieved from http://www.pbo-dpb.gc.ca/web/default/files/files/files/Family_Tax_Cut_EN.pdf
Michael Wolfson, "Professionals and Private Corporations", May 2015. University of Ottawa working paper.

Chile

Score 7

Chile has a moderately complex tax system. A tax reform passed in September 2014 raised the corporate-income tax rate from 20% to 25% – 27% (since companies may choose between two tax regimes) and eliminated a tax credit (Fondo de Utilidades Tributarias, FUT). This latter measure expanded the base for taxes on capital income. Thus, companies now have to pay taxes not only on distributed profits, but also on profit retained for future investments. These changes are expected to increase overall equity within the system, according to a World Bank study commissioned by the Chilean Ministry of Finance. However, the short- and long-term effects have yet to be fully evident, as a portion of the reform package will not take effect until 2017 (e.g., elimination of the FUT tax credit).

The more ambitious aspects of Bachelet's tax-reform initiative, seeking to increase revenues, reduce tax evasion and avoidance, promote company investments and private savings, and make the fiscal system more equitable could not be advanced yet.

The highest marginal rate for personal-income taxes is 40%. This implies that high-income wage earners have a high tax burden compared to low-income earners in general, and to high-income non-wage earners in particular. Few exemptions are applied to corporate and income taxes, reflecting a relatively high level of horizontal equity within each income-tax category. High-income non-wage earners can legally avoid high income taxes through incorporation. The value-added tax (VAT) is high and flat, with few exemptions, which argues in favor of allocative efficiency and horizontal equity. There is certainly tax avoidance in Chile, probably at higher levels than the OECD average due to the prevalence of informality. Yet efforts to ensure tax compliance have generally been successful. Moreover, Chile probably has one of the most efficient computer-based tax-payment systems in the world.

The government's tax and non-tax revenue is sufficient to pay for government expenditure, at least at current spending levels. Additional revenue stemming from newly introduced fiscal changes is slated to finance reform within the education system. By and large, Chile has been successful in generating sufficient public revenue. There are flaws in the efficiency of tax spending, but in general the national budget corresponds to the claims of different sectoral ministries. However, most of the tax income generated by corporate and personal taxpayers is based on VAT, and therefore has a very regressive effect. The fiscal reform is expected to make improvements in this regard. Nevertheless, the tax system promotes vertical equity through redistribution at only a relatively low level in comparison to other OECD member states.

Expenditures for education and social security are far too low compared to other countries in the region and to the demands of the lower middle class and the poorer population. Tax policy fails to produce equity with regard to tax burden, as bigger companies and economic elites pay relatively low tax rates. This supports Chile's relatively strong international competitiveness, especially for services and products of comparatively low sophistication. Thus, in general terms, Chile's tax system contributes to the country's competitiveness with respect to world-trade and investment flows. On the other hand, taxation policy does not foster innovation or increase productivity, and thus endangers competitiveness in the long run.

The only reasonable way to assess whether Chile's tax system and actual revenue collection is sufficient to finance a welfare state equivalent to 50% of GDP is to ask whether Chile's ratio of government expenditure to GDP – at its current level of per capita income – is within the empirical cross-country range suggested by Wagner's law, which predicts that the development of an industrial economy will be accompanied by an increased share of public expenditure in GDP. This is the case.

Citation:
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http://www.latercera.com/noticia/negocios/2015/10/655-649927-9-banco-mundial-73-de-la-recaudacion-de-la–reforma-tributaria-provendra-del-01-de.shtml

http://radio.uchile.cl/2014/09/09/lo-bueno-lo-malo-y-lo-escandaloso-de-la-reforma-tributaria

http://www.reformatributaria.gob.cl/principales-modificaciones.html

http://www.sii.cl/pagina/valores/global/igc2015.htm

Economist Intelligent Unit, Country Report CHILE, Generated on November 24th 2014.

Luis Eduardo Escobar, "Michelle Bachelet en busca de la transformación de Chile," in: Nueva Sociedad, Nr. 252. Julio-agosto 2014, 4-14.

http://www.reformatributaria.gob.cl/#objetivos

Germany

Score 7

In recent years, German tax policy lost steam. This was caused by macroeconomic as well as political factors. On the one hand, severe structural challenges and sovereign debt crises in other European countries favored Germany as a business location, signaling that there was no need to overhaul the tax system for competitive reasons. Furthermore, buoyant tax revenues indicated that there was no need to raise tax revenues further. According to the Ministry of Finance, between 2010 and 2014, total tax revenues have risen by almost 20% from €531 billion to €644 billion, which enabled the ministry to achieve its aim of balancing the budget in 2014. In addition, the soaring labor market created significant surpluses in the social security system. As a consequence, the reform vigor of the previous decade gave way to a complacent uncertainty regarding the future direction of tax policy. The guiding principle of today is "steady as you go." Legislative changes to taxation have largely been limited to areas that the Federal Constitutional Court had ruled were unconstitutional, such as inheritance tax and privileges for corporate wealth.

With respect to some major indicators, Germany is performing well at the moment. Earnings-related direct taxation and social security contributions are lower than, or have at least held constant with, previous levels. Indirect taxes, such as value-added taxes, are above the OECD average. As part of a 2008 corporate tax reform, direct and earnings-related tax rates on businesses were cut and therefore fell relative to personal income taxes. The high marginal tax rate continues to be a key challenge. As a consequence of high income tax rates and high social security contributions, the marginal tax rate for middle-income earners in Germany is substantially above the OECD average. According to OECD data, the marginal tax rate for the average German worker is 39.9%. Of this, income tax accounted for 19 percentage points and social security contributions accounted for 20.9 percentage points. In contrast, the average marginal tax rate across the OECD was 15.1 percentage points lower than in Germany with income tax accounting for 4.2 fewer percentage points and social security contributions 10.9 fewer percentage points (cf. OECD, Income tax and social security contributions). The OECD reports that this unfavorable situation has persisted for a decade, particularly harming the integration of single parents into the labor market (OECD, Taxing Wages) and creating substantial work disincentives for a household's second earner. Furthermore, the complexity of the German tax system imposes high compliance costs on households and firms.

In spite of good overall performance of the tax system, there is room for improvement beyond the key challenge of excessively high marginal tax rates. Following a ruling by the Constitutional Court, forthcoming legislation will remove the inheritance tax exception for family-owned corporate wealth. Germany's inefficient municipal tax system requires much needed reform. Moreover, despite perennial discussions envisaging a tackling of bracket creep, there is no effective regulation for a systematic dissolution of the problem in sight. However, a one-off measure is taking effect in 2016 through an adjustment of the income tax schedule, which compensates taxpayers for the bracket creep effect of approximately two years.

In summary, German tax policy performs well in terms of revenue generation. However, the system generates excessive work disincentives, the redistributive capacity of the tax system has decreased as indirect taxes have taken a larger role, and – as a consequence of inflationary bracket creep – the progressivity of the income tax structure has declined. The relative competitiveness of Germany's tax system has continuously deteriorated since its last corporate tax reform in 2008 (Spengel and Bräutigam, 2015), but this has not as yet undermined the relative attractiveness of its business environment.

Citation:
Bundesfinanzministerium:
www.bundesfinanzministerium.de/Content/DE/Standardartikel/Themen/Steuern/Steuerschaetzungen_und_Steuereinnahmen/Steuereinnahmen/entwicklung-der-steuereinnahmen.html

Destatis (2014): Pressemitteilung Nr. 109 vom 21.03.2014. Online: https://www.destatis.de/DE/PresseService/Presse/Pressemitteilungen/2014/03/PD14_109_71137.html (last checked on 12/11/2014).

OECD (2013): Income tax and social security contributions. Online: http://www.oecd.org/tax/tax-policy/tax-database.htm#ssc (last checked on 12/11/2014).

Spengel, Christoph und Rainer Bräutigam (2015), Steuerpolitik in Deutschland – eine Halbzeitbilanz der aktuellen Legislaturperiode im Kontext europäischer Entwicklungen, Ubg - Die Unternehmensbesteuerung 8, 113-121.

Ireland

Score 7

The goal of fiscal consolidation has had to be given a high priority in formulating tax policy over the recent years. The burden of direct taxation was increased after the country's financial collapse and a new local property tax was introduced in 2012.

In view of the rapid improvement of the country's fiscal situation, and the prospect of a general election within five months, it was hardly surprising that the 2016 budget contained no tax increases (apart from a rise in the excise on tobacco products) as well as a significant reduction in the Universal Social Charge, which is levied in addition to income tax. Incomes over €70,000 will not benefit from this change, which further increases the progressiveness of this levy. After the budget reforms are implemented, it is estimated that the top 1% of income earners will pay 21% of all income tax, while the bottom 76% of income earners will pay only 20% of the total. The new local property tax is steeply progressive with respect to property values.

The openness of the economy and relative ease of cross-border shopping and smuggling dictate that the main indirect taxation rates be aligned fairly closely with those in the United Kingdom.

The indirect tax system is less progressive than the income tax and property tax systems, and weigh relatively heavily on those in the lowest deciles of the income distribution. This is due, to a significant extent, to the heavy excise taxes on alcohol and tobacco products, expenditure on which looms relatively large in poorer households' budgets, as well as to the larger proportion of income saved by those on higher incomes.

Ireland has long relied on a low corporate tax rate as an instrument to attract foreign direct investment (FDI). This policy has been highly successful and is supported across the political spectrum. However, it has attracted an increasing volume of hostile comment from critics in foreign jurisdictions who assert that some features of the way Ireland taxes corporations constitute "unfair" competition and encourage profit shifting by multinational corporations. The OECD published a detailed report on this topic in October 2015. In an initial response to this report, Budget 2016 introduced a requirement that multinationals with Irish parent companies must file country-by-country reports on their income, activities and taxes beginning 1 January 2016. This information may ultimately be confidentially shared with foreign tax authorities.

In October 2015, the European Commission delivered long-awaited judgments ruling that the tax deals between the Netherlands and Starbucks as well as Luxembourg and Fiat constituted illegal state aid. The Irish authorities are anxiously awaiting a judgment in a case on Ireland's tax treatment of Apple.

Citation:
Budget 2016 contains an annex that discusses the progressiveness of the Irish tax and welfare system in some detail:
http://www.budget.gov.ie/Budgets/2016/Documents/Budget%20Book%202016%20-%20full%20document.pdf
The conclusion is reached that "it is evident that, compared to other countries, the Irish tax and welfare system contributes substantially to the redistribution of income and a reduction in market income inequality. The income tax system is more progressive relative to comparator countries with the tax burden from income tax and USC falling in large part on households with the highest incomes."
See also Donal De Buitléir,
http://www.publicpolicy.ie/wp-content/uploads/Budget-2013-Progressivity-of-Irish-Income-Tax-System1.pdf
and
Michael Collins
http://www.nerinstitute.net/research/total-tax-estimates-for-ireland/
For a review of how the burden of the adjustment during the period of 'austerity' was distrbited by income class see John FitzGerald,
https://www.esri.ie/UserFiles/publications/RN20140204.pdf
The OECD report on Base Erosion and Profit Shifting is available here
http://www.oecd.org/tax/beps-reports.htm

Italy

Score 7

The Italian tax system continues to be stressed by the need to sustain the combined burden of high public expenditures and payment of interests on the very high public debt accumulated over the past decades. It is also defined by its inability to significantly reduce the very high levels of tax evasion or the size of the black economy. As a result, levels of fiscal pressure have increased over the years, and the tax burden is far from equitable. Fiscal pressure is very high on those households or companies that do regularly pay taxes, and is paradoxically very low for all those who can and do evade taxation (e.g. many businesses and large numbers of independent contractors and self-employed professionals). Families with children have very limited exemptions. Labor and business are also heavily taxed, which results in fewer new businesses and job opportunities. Italian tax policy provides limited incentives and no compelling reason to declare revenues. The monitoring of and fight against tax evasion within this system are insufficient and far from successful. One of the biggest problems is that the system results in significant competitive distortions that benefit non-compliant earners.

Since its first year in office, the Renzi government has introduced a number of new fiscal measures to reform the tax system. The government's fiscal policies have benefitted from a sharp decline in the interest rates paid on government debt. A tax credit for people in the lowest income brackets was introduced in 2014 and has been reaffirmed for 2015. Meanwhile, the tax on financial assets was increased marginally, while income and corporation taxes were reduced. The stabilization of these measures has had a modest beneficial effect on the fiscal system, but more needs to be done. The antiquated land register is yet to be reformed, despite repeated promises. As such, inequities in the property tax system continue to persist.

The Renzi government has introduced an on-line system for submitting income tax declarations, the so-called 730 precompilato. The system replaces the old paper forms for the majority of income tax payers and has made it possible to double-check tax returns. The shift to electronic invoices within public administration also increases the effectiveness of fiscal oversight.

Overall, the Italian tax system is able to generate a sufficient amount of resources, but is still in need of a deeper reform to increase horizontal equity, reduce obstacles to competitiveness, and facilitate foreign direct investment.

Latvia

Score 7

Overall Latvia has one of the lowest rates of tax in the EU. However, more than in many other EU countries, the burden of tax falls disproportionately on wage earners and, in particular, low income groups, as a result of its flat rate of tax. With the aim of minimizing the tax burden for low income groups, legislation introduced during the economic and financial crises, reduced the tax rate for micro-enterprises. However, in November 2013, the parliament voted to gradually reverse this reduction, with rate of tax for micro-enterprises increased from 9% to 15% by 2017. Meanwhile, some tax policies have sought to increase the burden on the wealthy. Such policies have included the introduction of a tax on dividends or an increase in property tax. In 2012, the government reduced the rate of personal income tax for 2013 by one percentage point to 24%, followed by further reductions to 23% in 2015. In addition, tax allowances for dependents were increased in 2014 and 2015.

In 2011, the Law on Declaration of Property and Undeclared Income of Private Persons was passed. By requiring all individuals to file asset declarations in 2012, the policy aimed to combat tackle tax avoidance, prevent the development of a shadow economy and improve anti-corruption measures. While tax collection has improved, no data is available on how these declarations may have contributed to this improvement.

Latvia's corporate tax rate of 15% is one of the lowest in the EU, which contributes to attractiveness for inward investment into the economy.

Economic recovery, structural reforms, improvements in tax collection and a reduction in the overall share of the informal economy have enabled the government to exceed its target for reducing the budget deficit. In 2011 and 2012, the budget deficit was equal to 3.6% and 1.2% of GDP, respectively. In 2013, the budget deficit was reduced to 1.0%, exceeding the target of 1.4%. In 2014 the deficit stood at 1.4%.

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Malta

Score 7

Malta's income tax system ensures that a portion of income is non-taxable for all three tax categories (€9,100 for single individuals, €12,700 for married individuals and €10,500 for parents). Parents also receive a tax rebate on school fees, cultural activities and creative education. No sales or inheritance tax is levied on a person's primary residence. Other measures that contribute to greater equity include the extension of the favorable 15% income tax rate enjoyed by pensioners working part-time in the private sector to pensioners working part-time in the public sector. In addition, there has been an annual increase in the income ceiling for those paying the 35% tax rate.

However, the burden of taxation falls mainly on people in fixed and registered employment. Malta's informal economy is equivalent to 25% of GDP and its tax evasion controls are ineffective. Significant mitigating measures include the revision of penalties on VAT, interest rates applied to over due taxes, VAT registration for all commercial activity and the introduction of the Investment Registration Scheme to record undeclared assets. Moreover, Malta has signed the Multilateral Agreement on The Automatic Exchange of Tax Information with the aim of obtaining more information in relation to undeclared assets.

With a corporate taxation rate of 35%, Malta has one of the highest tax rates applicable to companies in the EU. However, as a result of the full imputation system and the tax incentives provided to companies registered in Malta, the actual tax rate is estimated to be between 5% and 10%. Moreover, the Maltese tax policy does not include additional taxes on dividends paid to shareholders, apart from the fact that they are entitled to tax credits.

Fiscal incentives enhance the competitiveness of various economic sectors and attract foreign direct investment. Special tax incentives are also available for industrial research and development projects, experimental development and the registration of intellectual property.

During the review period, the government introduced several measures to promote competitiveness in high value-added knowledge economic sectors. For example, the government offered high-skilled economic migrants a personal income tax rate of 15% and introduced a tax credit for companies developing educational video games. Enterprises with a maximum of ten employees and self-employed workers are entitled to a 45% tax credit on eligible expenses, which is increased to 65% if the company or person is located in Gozo. Micro-enterprises form the core of the economy.

The 2015 budget contained an increase in indirect taxes, an extension of the free child-care service, a removal of taxes on ecologically sustainable goods, and reductions in the income tax and property-sale tax, an increase in pensions for around 12,000 pensioners, and new child-care centers in three localities.

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Netherlands

Score 7

Taxation policy in the Netherlands addresses the trade-off between equity and competitiveness reasonably well. There is horizontal equity in that the taxes levied do not discriminate between different societal groups – especially men and women.

The system is fully individualized. The Netherlands has a progressive system of income taxation which contributes to vertical equity. In general, income tax rates range between 30% and 52%. Personal-income taxes are also levied on businesses that are not subject to the corporate-tax system. The tax system includes only a limited set of deductions; however, one of these, for interest payments on mortgages, is widely considered to be overgenerous and a contributor to the highly level of household debt. Furthermore, there are a number of subsidies that depend on taxable income. The most substantial are subsidies for child care, health care and renting a house. There is a separate tax for wealth.

The Dutch state is taking a number of measures designed to ease budget pressures, including a gradual decrease in allowable mortgage-interest deductions, a decrease in health care and housing-rent subsidies, and a gradual increase of the pension-eligibility age to 67.

Under strong pressure from opposition parties that support but are not a part of the governing coalition, the Rutte II cabinet intended to further simplify the tax system. However, after the political parties that agreed to the tax system (which included both government and opposition parties) gained additional seats in elections for the upper legislative house, this plan was put on hold until after the next elections. Due to the considerable increase in local governments' implementation responsibilities, a possible shift from national to local taxes has been added to the tax-reform agenda.

Corporate income tax for foreign companies – an aspect of the trade-off between horizontal equity and competitiveness – has also come under political scrutiny. An extensive treaty network that encompasses 90 tax treaties aims at protecting foreign companies from paying too much tax, effectively making the Netherlands a tax haven. Under pressure from the OECD to stop or mitigate treaty shopping and transfer pricing, the Dutch government will gradually have to change these corporate-tax laws for foreign companies.

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South Korea

Score 7

The South Korean tax system is fairly effective in generating sufficient public revenues without weakening the competitive position of the national economy. South Korea has one of the lowest tax rates in the OECD. Although taxes on businesses are relatively high, compared to personal income taxes, they do reduce overall competitiveness. The corporate tax rate is relatively low, compared to the OECD average. Tax instruments are used to nurture foreign direct investment, research and design, and human resource development. Its main weakness, however, is equity.

Compared to other OECD countries, the tax burden in South Korea is very low. As of 2013, tax revenues totaled about 24% of GDP.

Tax revenue has been growing slowly, but is likely to increase in the future because social-security contributions have increased relatively quickly since the middle of 1990, and are expected to continue to do so. Nevertheless, income-tax rates are relatively low, and there are many exemptions. In 2011, the rate of tax exemption was a very high 36.1%. As a result, income tax revenues as a proportion of overall GDP are very low, at only 3.6% compared to an OECD average of 8.4%. The strong reliance on value-added tax gives the tax system an inequitable, regressive nature, and lessens its ability to improve equity. Major reasons for the weak income-tax base include the relatively high number of self-employed individuals, the low levels of income tax paid by this group, and the sizable income-tax deduction for wages and salaries.
On 6 August 2014, the Finance Ministry announced proposals for a reform of the tax system. A new corporate accumulated-earnings tax was proposed for excess cash accumulated by large corporations whose equity capital exceeds KRW 50 billion (about $49 million) and corporations that are members of an enterprise group with restrictions on mutual investment. The new tax is designed to encourage corporations to distribute profits as dividends to shareholders and reinvest cash both in employees' salaries and wages and investment rather than accumulating and holding reserves. However, many experts say the new tax system cannot extract more tax from large businesses due to existing tax exemptions and incentives for the large chaebols (corporate groups). Small and medium-sized enterprises (SMEs) are exempt from this new tax regime. In September 2014 the government unveiled plans to raise residence taxes and taxes on commercial vehicles and tobacco products. The proposed tax increases put a heavier burden on low-income earners and will make distribution of tax responsibility more inequitable. At the same time, the government has decided to postpone taxation of religious groups for two years. Another very controversial step was the reduction of the tax on expensive consumption products such as cars that was announced in August 2015, and which would primarily benefit well-off consumers.

Following an international trend, South Korea has signed tax treaties, such as the 2012 bilateral treaty with Switzerland, to gain access to the information of suspected tax dodgers. Taxes on problematic consumption items such as energy or cigarettes remain relatively low (despite a tax hike on cigarettes in 2015). The government has to date failed even to discuss an ecological tax reform.

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United Kingdom

Score 7

The United Kingdom has a progressive income-tax system. The balance between direct and indirect taxes is reasonably fair, as measured in terms of horizontal equity. The system is, however, very complex. In relation to vertical equity, there are too many opportunities for tax avoidance, with the results bordering on evasion for the rich. Property taxes are high and have been increased for purchases of high value houses, but labor taxes are low compared with many other EU countries. The financial crisis and the ensuing economic downturn sharply reduced tax revenue with the squeeze on wages contributed to a lower yield from income tax. However, overall tax revenue has started to rise again and is projected to be sufficient to match planned public spending over the course of the current parliament.

Citation:
World Economic Forum 2012: The Global Competitiveness Report 2012-2013.

Australia

Score 6

At a broad level, the tax system achieves a reasonably high degree of horizontal equity, with income generally taxed at the same rate irrespective of the source of the income. The main exception arises in respect of capital-gains taxation, where the family home is exempt from taxation and a 50% discount is applied to capital gains on other assets held at least one year. The rationale for the discount is that it provides a substitute for inflation adjustments. The income-tax system is moderately progressive, and the only significant change in income-tax rates over the review period was a 2 percentage-point increase in the top marginal income-tax rate, to apply only in the 2014 – 2015 and 2015 – 2016 tax years.

The main weakness of the tax system is that it is pro-cyclical, which is particularly problematic given Australia’s dependence on cyclical commodities. Specifically, both the Labor and coalition governments have failed to create a future fund in order to prepare for the end of the resources boom.

Concerning efficiency, in 2008 the Labor government established a committee to review Australia’s tax and transfer system and make recommendations to improve its functioning. The committee found that, in broad terms, the tax system functions well and does not unduly impede economic growth. Nonetheless, a number of inefficient and inequitable aspects of the existing tax system were identified, and the committee recommended 138 changes. Few of the recommendations have been adopted to date, but the coalition government released a discussion paper in 2015 outlining tax-reform issues that would be considered, and a process of community consultation is currently underway.

With regard to sufficient inflow of tax revenue, for several decades the federal government has on average raised sufficient revenue from taxation to meet expenditure commitments. However, as outlined in detail in "sustainable budgets," concerns have heightened in the review period that the federal government faces a structural deficit that will require difficult fiscal decisions in the near future, most likely involving a combination of reductions in spending and tax increases. Moreover, there is a long-standing concern about the fiscal sustainability of state and territory governments, which have very limited capacities for raising revenue. Growth in health and education expenditure demands on the states and territories in particular have outpaced revenue growth.

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Belgium

Score 6

Belgium's tax structure is not equitable, as it puts too much pressure on wages (alongside Italy, Belgium has the highest effective tax rate on labor in the OECD). This policy produces strong incentives to avoid or evade taxation. On the other hand, capital is only moderately taxed, thanks to tax loopholes available both for personal-income and corporate taxpayers. With each income source (labor, capital, corporate), horizontal and vertical equity are guaranteed on paper, but differential treatment between income sources undermine this principle. Nevertheless, low levels of inequality place Belgium among the most equitable countries (with the caveat that this is measured inequality; since some sources of income do not need to be declared, it is hard to obtain accurate data).

The present government being more right-wing than the typical Belgian coalition, it is placing more emphasis than was previously the case on capping social-security costs. The opposition and the trade unions have accused it of dismantling the existing social safety net, which is an exaggeration. But one should indeed expect an erosion of the provision of public goods and services and an increase in inequality and poverty in the future, hopefully associated with gains in competitiveness and a progressively shrinking public debt. This is an important objective due to the unfunded nature of future pension expenditures.

Cyprus

Score 6

Cyprus’ tax system is comparatively uncomplicated, both with respect to individual provisions and structure. The floor for taxable individual income is €19,501, with tax rates gradually increasing to 35% for sums above €60,000. The value-added tax (VAT) rate rose from 17% to 18% in 2013, and to 19% in 2014; a special levy on salaries has been implemented, and a real-property tax was imposed in 2013. Interest income for bank deposits has been taxed at a rate of 30% since April 2013. Some tax deductions and benefits are provided, alleviating the weight of taxation. In 2015, limited changes were made in areas including property-transfer fees and capital-gains taxation. Principles of equity are negatively affected by continued tax evasion and avoidance. A reform of services and tax-collection mechanisms is in progress, with the aim of increasing the efficiency of collection. Salaried employees pay proportionally higher sums for income tax than do the self-employed and liberal professionals.

Benefits provided to businesses have over time made Cyprus very attractive to international companies. These include deductions for equipment and a corporate tax of 12.5% on profits since 2013, which remains the lowest in the European Union. Bilateral treaties also avoid double taxation.

Tax equity is to some extent achieved through the progressive increase in individual income-tax rates from 20% to 35%. However, the favorable flat rate for companies can lead to distortions, where liberal professionals can benefit by creating their own company, thus paying only 12.5% on their corporate profits. In addition, the flat rate for businesses means that highly profitable companies do not pay a higher tax share as individuals do.

Though the tax system appears successful in general terms, addressing institutional and regulatory weaknesses and tackling tax evasion and avoidance in order to create a more efficient tax-collection system would help improve the public’s sense of systemic fairness.

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2. Global Forum, Cyprus Tax Transparency Review Report - Phase 2, 30 October 2015, http://www.oecd.org/tax/transparency/cyprus-supplementary.pdf

Czech Republic

Score 6

The Czech tax system broadly ensures horizontal equity. One exception is the blanket tax allowance given to the self-employed to cover notional expenditure with no checks on what is actually spent. This leads to a lower tax rate on the self-employed rather than employed and an incentive to convert employment contracts into contracts for individual services. A degree of vertical equity is achieved by a tax allowance on personal income taxes and some differences in VAT rates. The Sobotka government has increased the progressiveness of VAT with the introduction of a third rate of 10%, on top of the existing rates of 21% and 15%. The low rate applies only to books and medicines. The government has also reintroduced a tax allowance for working pensioners and introduced tax benefits for families with more than one child and a discount on second and subsequent child living in the same household. Parents can claim a tax deduction in the amount of the documented payment for a child in kindergarten or other preschool facility. The tax system raises the revenue required to maintain a budget deficit of under 3% of GDP, but is not sufficient to finance the level of public investment needed for reaching adequate levels of sustainable economic growth.

Estonia

Score 6

Estonia is internationally known for its simple and transparent tax system. The income tax for individual tax payers is proportional, and corporations only have to pay income tax if their profits are not reinvested. Dividends are not subject to social insurance, and many small enterprises therefore prefer to pay dividends instead of wages. This policy is quite controversial, and dividends are likely to be subject to taxes in the near future.
The Estonian welfare system is financed almost entirely through social-insurance contributions. Although this Bismarckian principle has some advantages, it also has some weaknesses. First, high labor costs may weaken the country's economic position and sometimes lead to labor-relations abuses. Second, social-insurance contributions alone cannot provide sufficient financing for social services given Estonia's shrinking labor force. Pension funds have persistently accumulated debt, and the disability fund is functioning under a condition of long-term financial austerity.

Iceland

Score 6

As a consequence of the 2008 collapse, the previous government introduced a new three-bracket tax system for individuals which came into effect in 2010. On average, income tax rates rose from 2008, despite reductions for the lowest income earners. Capital gains tax rates were also raised from 10% to 15% in 2009 and to 20% in 2011. In contrast, corporate tax rates remain at their 2008 levels.

Under the IMF-supported rescue program launched in late 2008, total tax revenue was projected to increase from 38% of GDP in 2009 to 44% in 2014, while government expenditure was expected to be reduced from 53% of GDP to 41% over the same period. However, events turned out rather differently. In 2009, while the government budget deficit was expected to equal 14% of GDP, the actual deficit was just 9%. Faced with a less unfavorable fiscal situation than expected, the IMF-supported program aimed to cut government expenditure from 50% of GDP in 2009 to 40% in 2017, while keeping tax revenue at 41% of GDP from 2009 to 2017. This would amount to a fiscal adjustment equivalent to 10% of GDP over an eight year period. This was an ambitious goal given that the adjustment is limited to reducing expenditure and not to increasing tax revenues.

Four reservations are in order. First, Iceland's public debt burden is understated in official statistics because the unfunded public pension obligations not included, which is rare in OECD country data. Second, the ratio of public debt to GDP shot up from 29% in 2007 to 93% in 2010 and remains high at 88% in 2015. This increase has led to interest payments on public debt becoming the second-largest single public expenditure item. Third, while the previous government increased fishing fees significantly and budgeted further increases, the new government has reduced fishing fees significantly, against IMF recommendations. Last, many public institutions are in a dire financial situation for several years, including the State University Hospital and the State Broadcasting Corporation (RÚV).

Under the current center-right government, in office since 2013, public expenditure and tax policy has been reversed once again from a progressive stance to a regressive one.

Citation:
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Israel

Score 6

Until recently, Israel followed a consistent policy of low income tax and small government. Accordingly, it initiated cuts on direct taxes for individuals and companies and reduced public spending. In 2011 and 2012 Israel's direct tax burdens for companies and individuals were among the OECD's lowest with the top income tax rate lowered from 47% in 2008 to 45% in 2010, and the corporate tax rate lowered from 27% in 2008 to 25% in 2010. The former minister of finance, Yair Lapid, who was elected on a pro-middle class ticket, continued this tax policy in the 2015 budget debates: Despite pressures to raise the income tax rate in order to finance the $6 billion operation "protective edge" in Gaza, Lapid refused to do so. Instead, he preferred that a third of the cost to be carried by a universal budget cut in all ministries. Current plans to expand the tax base seek revenues through efforts to counter tax evasion and aggressive avoidance strategies and by canceling existing tax exemptions that do not profit low-income workers.

Israel taxation policy is somewhat regressive. It includes elevating indirect taxes such as VAT, which is distributed equally on all products. Furthermore, although the direct income tax is progressively structured, and a large portion of the population earns too little to pay any income tax at all, the system creates a curve so that middle-income individuals pay more tax than high-income individuals. Thus, the current system lacks a certain degree of vertical equality. This apparent distortion is an intentional economic strategy meant to induce growth by reducing the tax burden associated with investments and companies. While controversial, it is not necessarily unfair as such.

Israel's taxation system is not entirely characterized by horizontal equity. One example is that, unlike other OECD countries, parental tax reductions are provided to mothers but not to fathers. Like most other countries, Israel utilizes its tax system as a political instrument. For instance, it offers tax reductions to veterans. This approach was exhibited in a law proposed in the previous Knesset that aimed to assist first time home buyers and young families by offering a VAT exemption on the purchase and substantial advantage offered to veterans. Since Israeli Arabs, ultra-orthodox men, new immigrants and others do not serve this could be construed as an unequal tax policy. However, supporters of such laws argue that soldiers lose income while serving, and deserve special assistance. From this standpoint, the tax reduction serves as a restorative tool.

In most instances the Israeli tax system has a valid rationale for tax reductions that appear to violate the principles of horizontal or vertical equality. Due to Israel's commitment to OECD guidelines and the influence of its powerful central bank, it seems likely that the state will continue to manage a responsible tax policy. Even if spending will have to be reduced further than is advisable, it is likely that the system will continue to operate sufficiently.

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Japan

Score 6

Generally speaking, Japan has a modern and reasonably fair tax system that in the past allowed its corporate sector to thrive.

In terms of competitiveness, the current 35% corporate-tax rate is clearly too high in international comparison. According to reform plans announced in June 2014, the government wants to cut the top marginal rate to less than 30% over several years, beginning in FY 2015. While the measure may lead to a significant increase in growth rates, skeptics within the Ministry of Finance point to the certainty of negative short-term effects on the budget deficit. In late 2014, the ruling LDP reiterated its intention to cut rates beginning in 2015, with somewhat lower decreases specified this time.

While the effective corporate-tax rate was 32.11% in fiscal 2015, the Ministry of Finance is said to be considering revoking some tax breaks to ease the pressure on the fiscal situation.

The fact that authorities are following up on their initial promise to lower corporate taxation rates despite the fiscal tension can be regarded as a positive signal. It should be noted, however, that only around 30% of Japanese firms actually pay corporate tax, with the rest exempted due to poor performance.

Raising the remarkably low consumption tax has been seen as an important mechanism in easing budgetary stresses, particularly given the huge public debt. The government raised the consumption tax rate from 5% to 8% in April 2014, and plans to raise it further to 10% in April 2017. Yet even if this step is taken, the increase appears to be too small to counter the country’s revenue shortfall entirely.

In contrast to the corporate-tax reform agenda, the debate over the value-added tax has frequently been influenced by political factors. The rise to 10% was scheduled to take place earlier, but was postponed for electoral reasons. In late 2015, Abe was said to be considering a reduction in the general rate for specific goods such as daily necessities, which would contradict the logic of fiscal consolidation, but would please his New Komeito coalition partner.

The country’s tax system achieves a reasonable amount of redistribution. However, compared to self-employed professionals, farmers and small businessmen, salaried employees can take advantage of far fewer tax deductions.

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Luxembourg

Score 6

During the last two years, Luxembourg has struggled with new EU and OECD tax regulations that have made it difficult to maintain its former, largely secret advantageous tax deals for companies. However, after a series of delaying tactics, the country accepted the new international transparency rules, seeking to avoid greater damage to Luxembourg's role as a financial center, and to the state budget as a whole.

In 2013, the OECD delivered a set of recommendations for reforming favorable tax policies and against fiscal misapplication by tackling so-called base erosion and profit shifting (BEPS) activities, which enable companies to avoid taxation by seeking low- or no-tax environment. The leak of documents detailing hundreds of Luxembourg's secret tax rulings (LuxLeaks) in late 2014 threw Luxembourg into the international news. Through these documents, it became clear that multinational companies had negotiated vastly lower tax rates in Luxembourg (less than 2% instead of an international average of 29.22%) than they would receive elsewhere. In October 2015, the European Commission issued a precedent-setting ruling that Luxembourg had granted selective tax advantages to Fiat Finance Europe. In fact most global players in the country had negotiated positions that exempted them from corporate-income taxes (21%), municipal business taxes (6.75%), a 7% special contribution, and net wealth taxes (0.5%).

Luxembourg is hardly Europe's only state offering offshore tax advantages, but it has been a leader in exploiting this form of tax-driven incentives. The scandal came at an inopportune time, as Luxembourg took over the presidency of the EU Council during the Commission's investigation into the issue. European Commission President Jean-Claude Juncker, Luxembourg's former prime minister, came under tremendous pressure as a result.

Marking a turning point, the European Commission has requested that national tax authorities harmonize their taxation systems, and has mounted further investigations into advantageous tax rulings that might be deemed illegal state aid. The investigation has now expanded to include many EU countries, with worldwide calls for the creation of common rules and the closure of tax loopholes intensifying. However, Luxembourg has played a leading role in offering tax advantages. Its tax deals so far include more than 50,000 companies (though only 340 were named in the leaked PricewaterhouseCoopers "Luxleaks" documents) that have sought to reduce global tax bills by channeling profits through Luxembourg. Oddly, Fiat Finance Europe's landmark conviction is in some degree beneficial to Luxembourg, as the penalty payment (€20 million ¬– €30 million) goes to the state treasury. The effects of these proceedings and ongoing audits under the new rules will have a major impact on state revenues over the long term. The European Union and the OECD are working to address harmful tax competition by harmonizing taxation systems in Europe. After being listed as a tax haven in 2013, the Global Forum removed Luxembourg from its blacklist in October 2015.

Previously, the EU Commission imposed new e-commerce rules that undermined Luxembourg’s previously business-friendly e-commerce VAT regime. This led to a decline in revenues of approximately €650 million in 2015. To improve public finances, Luxembourg has implemented new tax rates. The reduced tax rate was increased from 6% to 8%, the parking-tax rate (applied principally to fuel products) increased from 12% to 14%, and the general VAT rose from 15% to 17%. Nevertheless, Luxembourg continues to have the lowest VAT rate in Europe. Taking into account the impact of the higher VAT and low interest rates, the inflation rate will increase only slightly.

Important milestones included the announcement of a major tax reform in 2014, seeking to improve coherency in the individual- and corporate-tax systems. The government has also implemented restructuring measures seeking to increase the country’s economic attractiveness to foreign investors. Furthermore, in 2015, VAT declarations were simplified by the introduction of an electronic information system (eVAT). Additionally, Luxembourg introduced a VAT-free-zone regime (Freeport, at Luxembourg airport) in September 2014. The number of employees in the financial sector has remained unchanged in recent years, at roughly 40,000.

As the company has sought niches, Luxembourg’s financial center has already become the most important locus of the so-called Renminbi trade (RMB). Luxembourg’s global fund-management industry is the second most important location for investment funds worldwide after the United States. In August 2015, the Luxembourg investment-fund industry was home to €3,423 trillion in net assets, with 3,891 funds (and 14,063 fund units). That represents a strong overall growth of 15.23% compared to the same month of the previous year. Specialized investment funds (SIF) represented about 11% of total assets, or €348 billion, in December 2014. Responsible investment funds account for €130 billion; with a market share of 30%, Luxembourg occupies a leading position in Europe in terms of responsible investment fund management.

A PriceWaterhouseCoopers (PWC) 2015 business report ranked Luxembourg favorably. The total tax rate (TTC) after deductions and exemptions, at 20.2% (2014: 20.7%), is the second-lowest (behind Croatia) among European and European Free Trade Association countries. Luxembourg’s taxation system is still attractive for businesses, with only some 20% of companies actually paying business tax. In general, property taxes accounted for 1.3 % of GDP in 2012 and represent 3.3 % of tax revenue. At 0.1% of GDP, recurrent property taxes form the lowest GDP share in the EU-28 aside from Malta and Croatia.

Luxembourg has the highest capital-tax-to-GDP ratio in the EU-28. A total of 27.5% of total taxation in 2012 was related to taxes on capital. This shows the size and systemic importance of the financial sector in Luxembourg.
To maintain the competitiveness of the financial sector, the government has decided not to introduce a tax on financial transactions (the Tobin tax). Luxembourg is known for easy access to government bodies and competitive tax burdens, as it has sought to maintain an attractive tax environment.

From 2008 to 2014, Luxembourg's consolidated public debt rose from 14.4% to 23.6% of GDP. The government's provision of guarantees for Luxembourg banks, amounting to a total of more than €2.5 billion, strongly affected public finances. The consolidated public deficit amounted to 1.7% of GDP in 2013, decreasing less than expected given that GDP growth in Luxembourg was stronger than in most other European countries. The small country's main concern is the challenge of predicting how the economic crisis will play out in other EU countries.

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http://www.reuters.com/article/art-luxembourg-idUSL6N0RI3CI20140917

Poland

Score 6

Poland’s tax system is characterized by a personal-income tax with two rates: 18% up to an income of PLN 85,528 and 32% for those who are above this level. Moreover, the system features a corporate-income tax of 19%, a relatively high standard VAT rate and high social-insurance contributions. Compared to other East-Central European countries, the corporate tax burden and the extent of red tape associated with the taxation of enterprises have been relatively high. Tax reform has not featured very prominently on the agendas of the Tusk and Kopacz governments. The single most important measure adopted by the second Tusk government was a reform of VAT administration that aimed at reducing the administrative burden on enterprises and the extent of tax evasion in January 2014. Under the Kopacz government, a new Tax Administration Act was adopted in July 2015 which reduces the fragmentation of the tax administration, assigns more tax administration staff to inspection and enforcement, and reduces the number of documents required by tax payers.

Citation:
IMF 2015: Republic of Poland - Tax Assistance Report: Tax Administration - Modernization Challenges and Strategic Priorities. IMF Country Report No. 15/112, Washington, D.C.

Slovakia

Score 6

The introduction of a flat-tax regime in 2004 played a major role in establishing Slovakia’s erstwhile reputation as a model reformer and an attractive location for investment. Whereas the first Fico government left the flat-tax regime almost untouched despite earlier criticism, the second Fico government in 2012 reintroduced a progressive income tax and increased the corporate-income tax, thereby increasing vertical equity to the detriment of competitiveness. In the period under review, tax reform did not feature very prominently. As part of its so-called “second social package,” unveiled at a Smer-SD party conference in May, the government in October 2015 reduced the VAT rate on freshwater fish (not frozen), fresh bread, milk and butter from 20% to 10% as of January 2016. In July 2015, the government had already presented an update of the government’s 2012 strategy to fight tax fraud, which includes 30 additional measures for improving a relatively inefficient tax collection system.

Austria

Score 5

Austrian tax policy is characterized by a significant bias, as the source of tax revenue is overwhelmingly skewed toward the personal income of the working population. As employees and self-employed individuals pay the maximum tax rate beginning at a level of income considered to be only middle class, and the country has virtually no property taxation and no inheritance taxes, the system of taxation as a whole is unbalanced.

The Austrian tax system - compared to transfers - has a rather minimal redistribution effect. As the maximum income tax rate is today paid by a significant and increasing proportion of income-tax payers, the tax system seems to be less responsible for any redistributive effect than are the welfare system and other direct transfers designed to reduce inequality and improve the living standards of the poor.

According to the most recent OECD data for the 2012-14 period, the tax burden for economically rather weak actors such as single parents with two children has continued to increase.

The tax system and its supposed imbalances have become a controversial political issue. Politically conservative actors have sought to reduce the income tax generally, while politically leftist and economically more interventionist actors are promoting a shift from the income tax to greater reliance on property and inheritance taxation.

Taxation has become a hot-button issue within the grand (Social Democratic Party of Austria, SPÖ - Austrian People's Party, ÖVP) coalition cabinet. The social democrats – in alliance with the unions – favor a significant shift away from the burden employees have to bear. The conservatives as the party of "fiscal discipline" are very skeptical of any changes as long as the budget cannot be balanced, and are generally against any form of property or inheritance taxes.

Spain

Score 5

Spain collects less in taxes relative to wealth than do most other European countries Tax revenue totaled 38.6% of GDP in 2015, as compared to an EU average 45.2%. By the close of the review period, the governing center-right Popular Party (PP) government had passed four tax-reform packages since assuming power in late 2011. The two first very controversial reforms were implemented in 2012, when there was a clear risk of Spain's public debt becoming unsustainable; these involved tax increases (primarily in the VAT, but also in the direct income tax). The third reform package was passed in 2014, and in contrast consisted of generous tax cuts. Finally, Spain amended the personal-income-tax system in 2015, retroactively modifying personal-income-tax rates. According to Spain's finance minister, the recent tax cuts are compatible with the goal of reducing the public deficit, as it is assumed that the economic-stimulation effect will counterbalance reductions in some tax rates.

Tax policy only partially achieves the objectives of equity, competitiveness and sufficiency in Spain. The country's currently high levels of public deficit and debt (see "Budgets" section) highlight the deeply unbalanced relationship between public revenues and spending. Although this may be attributed to the crisis that shook the country from 2008 to 2013, previous budget surpluses (from 2005 to 2007) were largely derived from the real-estate boom, and vanished once the bubble burst. Nevertheless, expenditures continued to grow. Tax policy is more difficult to assess with regard to equity and competitiveness. Vertical equity exists in principle (with strongly progressive income taxes and different VAT rates on products and services), but horizontal equity suffers due to 1) corporate-tax engineering, 2) the prevalence of fraud (which is much easier for companies and professionals to commit than for medium- and low-income taxpayers) and 3) the scope of the underground economy, from which the state does not collect taxes at all. Finally, recent increases in indirect taxation may have rendered the tax system less competitive.

Decisions concerning tax policy in recent years have been strongly influenced by the economic crisis and short-term considerations, including elections, without a comprehensive underlying logic driving the process. Although the Spanish tax-collection agency (AEAT) is generally efficient, it has limited resources (its staffing ratio is just 0.61 employee per 1,000 inhabitants, the second-lowest such ratio in the EU after Italy). A more radical reform of the taxation agency, which would expand its human, ICT and financial resources, is clearly needed.

Citation:
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Turkey

Score 5

General government revenue increased from 37.8% of GDP in 2012 to 40% of GDP in 2013, falling to 39.1% of GDP in 2014. In 2012, taxes accounted for 53.2% of government revenue. This share increased slightly to 53.5% in 2013, and then decreased to 52.5% in 2014. As a result, tax revenue totaled 20.2% of GDP in 2012, 21.4% of GDP in 2013, and 20.5% of GDP in 2014.

The taxation system can be divided into three categories: direct taxes such as the individual-income tax and corporate-income tax; indirect taxes such as the value added tax (VAT), the banking and insurance-transaction tax, the special consumption tax, and the telecommunications tax; and other government revenues drawn from factor incomes, social funds and privatization revenues. In 2014, individual-income tax rates varied from 15% to 35%. The standard corporate tax rate is 20%, while capital gains are usually treated as regular income and taxed accordingly.

Biased toward indirect taxes, Turkey's taxation system does not take into consideration horizontal or vertical equity. This gives the government more flexibility to react to changes in Turkey's highly dynamic and volatile economy but, at the same time, decreases fiscal stability and political credibility, particularly concerning the special consumption tax. In 2012, 66.6% of total tax revenues were derived from indirect taxes. This share increased in 2013 to 69.1%, and decreased to 67.2% in 2014.

Citation:
World Bank, 'Turkey in Transition: Time for a Fiscal Policy Pivot?', Turkey Public Finance Review, Report No. 85104-TR (May 20, 2014)

United States

Score 5

The U.S. tax system does not produce enough revenue to eliminate the deficit, tax policy is highly responsive to special interests (resulting in extreme complexity and differing treatment of different categories of income) and the redistributive effect of the tax system is very low. The tax system has performed poorly with respect to equity, both horizontally and vertically. Certain industries, such as the oil industry, receive special benefits worth billions of dollars. Additionally, certain kinds of consumption are favored; for example, a mortgage-interest tax deduction favors homeowners over renters. Many high-income earners pay an effective tax rate that, after deductions, is lower than the rate for middle-class earners. The United States derives a large share of revenue from corporate taxes, a fact that has encouraged some firms to move operations abroad. Despite these shortcomings, the U.S. tax system performs well with respect to competitiveness, since the overall tax burden ranks near the bottom of the OECD rankings.

In the 2012 year-end negotiations to prevent the so-called fiscal-cliff tax increases and spending cuts, Congress and the president agreed on limited increases in revenues. Increased revenues came mainly from raising the top rate to 39.6%. Still, with increased revenues expected from the economic recovery, the Congressional Budget Office estimated that the budget deficit would decline to 2.5% of GDP in 2015, down from 8.7% in 2011. Despite 60% public support for a major overhaul of the tax code, tax reform has not been on the political agenda in 2015.

Croatia

Score 4

In Croatia, the share of tax revenues in GDP is low compared to other EU countries. This is partly due to a high degree of tax evasion and an inefficient tax administration. While Croatia has a progressive personal-income tax, the redistributive effects of the tax system are limited by the fact that the tax system relies strongly on VAT and social-insurance contributions, which each account for about a third of all tax revenues. In contrast, the personal-income tax generates only 9% of total tax revenues, as does the corporation tax. Property tax, which generates only 1% of total tax revenue, is a very underdeveloped form of taxation in Croatia. The amount of tax reliefs, exemptions and incentives in the Croatian profit tax system has been growing year after year. The main aim is to engage in international tax competition to attract foreign investment by reducing the effective rate of profit tax set at 20%. However, allowing tax reliefs reduces the tax revenue available to finance public expenditure, and also increases the administrative costs of tax collection. The various reliefs and exemptions are moreover distortionary and reduce the efficiency of the tax system as a whole.

During its first years in office, the Milanović government tried to shift the tax burden from social-insurance contributions to consumption taxes. No substantial changes in the tax system were made in 2013 and 2014. Because of opposition by the Croatian People's Party (HNS), a major coalition partner, the government has not expanded the property tax. The government reduced the income tax in 2015, with the view of increasing disposable income and thus boosting the personal consumption of the middle class. However, this move has drastically deprived local governments of revenues, which has led to an increase in prices for communal services in several local governments.

France

Score 4

Taxes and social contributions amount to 48% of GDP, one of the highest levels in the OECD. This is the consequence of extraordinarily generous political and budgetary commitments, which have led to continuously rising taxes. Nonetheless, tax revenues do not cover costs, as public spending is exceptionally high by western standards (57% of GDP in 2014).

A narrow income-tax base and a wide range of fiscal exemptions have resulted in an opaque, confusing and inequitable tax system. A small number of people actually pay income tax (13 million) and 90% of the total tax collected is paid by 10% of the taxpayers. To alleviate the burden on this taxpaying minority, many loopholes have been created with the additional purpose of directing exemptions toward targeted sectors (housing, small companies, overseas territories). Hollande, who at the time of his election, committed to drastically reduce these "fiscal niches," has eliminated some but considerably increased others, such as one favoring the productive sector (the 2016 draft budget still foresees €83 billion in exemptions). The defects of the system have been further exacerbated by a reduction in the number of income-tax payers, shifting the burden partly onto very wealthy families and mainly onto the middle class.

Corporate tax and other levies are too high in international comparison, a clear handicap for the competitiveness of French companies, despite measures reducing corporate burdens by €30 billion.

The entire tax system requires an overhaul, but the political cost would be such that most governments have instead preferred a policy of constant and somewhat incoherent minor adjustments, rather than thoughtful, long-term reform. This has been true for the Sarkozy administration (2007-2012) as well as for the Hollande administration. The Socialist government increased value-added tax, eliminated loopholes, increased income taxes, introduced additional levies on companies' profits and adopted a "super tax" on the wealthiest individuals (75% marginal tax rate on incomes over €1 million), a highly ideological measure which soon had to be diluted, did not produce notable revenue and was subsequently cancelled in 2015. All this provoked tax revolts, tax evasion and, together with the lack of growth, reduced state revenue.

The rather dramatic situation faced by French companies forced the government to adopt a plan for rescuing them by lowering taxes and levies. The rather cumbersome and complex system initially put in place was simplified in 2014. According to an impact study, it will reduce the fiscal burden on companies by €32.5 billion for the period 2015-2017, which represents an increased profit rate of 2% of sales. This provides greater maneuverability for companies, but has not yet induced increases in investment, innovation or competitiveness.

After having added 1.3 million taxpayers to the tax roll in 2014, the 2015 budget exempted from income tax nearly 1.8 million taxpayers. In 2016 – the last year before the next presidential and parliamentary elections – it is expected that 3 million taxpayers will pay less taxes or be exempted.

In summary, the Socialist Party-led government's policies reflect the pursuit of short-term political, or clientelistic, aims with a preference for taxing rather than saving. A recent example of this policy inconsistency was the government's 8 October 2014 announcement that it would abandon plans to implement the so-called ecotax when faced with protesting trucking companies. Hollande also announced that there would be no new taxes up to 2017, but a number of technical tricks and adjustments have bypassed this commitment.

Citation:
Natixis Flash économie: France - Pacte de responsbilité et de responsabilité: les branches qui gagnent. Nr. 379, 18 May 2015.

Greece

Score 4

Improving tax revenue administration has been a key emphasis of the Troika overseeing the Greek bailout as well as a major policy priority of the coalition government of Syriza and ANEL which came to power in January 2015. Until the end of 2014, the bailout memorandums detailed very specific changes required of Greece and the Troika reports had identified improvements. In 2015, political instability has hampered the collection of taxes. It is telling that the deadline for submitting tax declarations for income incurred in 2014 was repeatedly changed and finally Greek households were allowed to submit declarations until the end of August 2015. In 2015, the Syriza-ANEL government twice reshuffled the cabinet, including ministers of the state's finances and tax collection. Even so, in contrast to its predecessors, the new government upgraded the fight against tax evasion by establishing a new anti-corruption minister post, who focuses on tax evasion.

According to Greece's adjustment program, raising government revenue should have been effected through a combination of tax increases and privatizations, but the Syriza-ANEL coalition government has been hostile to any privatizations. It has thus preferred to increase taxes and broaden the tax base. At the same time, the government does not want to impose personal income taxes on income earners below the €12,000 annual income threshold. This may prove problematic as more than half of all taxpayers (3.5 out of 6 million) declare an annual income below this threshold. Obviously, a large share of personal income goes unrecorded.

During the tourist season, income raised in small and very small businesses remains undeclared. The same holds true for income raised in the liberal professions (e.g., engineers, lawyers, medical doctors and dentists as well as craftsmen, plumbers, electricians and computer technicians).

Frequent changes in tax legislation and government indecisiveness have not helped either. Tax revenue still derives primarily from indirect taxes, such as taxes on the use of oil products (gasoline, heating oil) and VAT. In 2015, the VAT on restaurant and coffee shop consumption was raised to 23% (up from a 2013/2014 level of 13%). In the autumn of 2015, the government was still debating whether to increase VAT on tuition fees for private schools and private tutoring as well as whether to increase the tax paid on income derived from renting private property. So long as such tax policy issues are constantly under revision, the business environment of Greece will not stabilize and progress will not be achieved in improving horizontal or vertical equity.

Mexico

Score 4

Tax policy, tax reform and the insufficiency of tax collection have been on the political agenda in Mexico for at least the past fifty years. During this long period there has been little progress either in collecting more tax revenue or making the tax system more equitable. While some taxes are collected at state and municipal levels, where the pattern is slightly more mixed, the most important tax collector is the federal government. A new tax-reform law was passed under President Peña Nieto, taking effect on 1 January 2014. While well targeted and effective within its limited scope, the reform was rather modest given the task that Mexico faces. The government believes the new law will increase the national government's tax revenues by around 2.5% of GDP. However, according to observers, Mexican tax collection is between six and eight percentage points of GDP short of where it should be given its current stage of development. One reason for low levels of tax collection is the large share of the economy taken up by the informal sector, which is notoriously tax resistant. Another factor is that most Mexicans distrust their government and do not think that money paid in taxation will be spent wisely, so they manage to evade paying tax. Additionally, the market-reforming economists who have been running Mexico over the past 30 years have not prioritized raising revenue, putting comparatively more emphasis on controlling government spending in order to decrease the size of the government. Furthermore, many also feel that as an oil-exporting country, Mexico can earn a significant amount of public revenue by taxing oil income. However, Mexico's exportable oil surplus has declined due to falling production, a collapse in global oil prices and an increase in domestic oil consumption.

On the positive side, the low level of taxation has at least been helpful for Mexico's international competitiveness. Non-oil tax revenues are not oppressively high and do not present a barrier to enterprise. There is not enough tax being collected to damage competition. Public revenues are barely sufficient to provide the resources necessary to tackle the challenge of social fragmentation effectively. But Mexico has the option of increasing public-sector prices, such as gasoline prices, if this were necessary for macroeconomic stability.

Portugal

Score 4

The 2015 – 2016 Global Competitiveness Index (GCI) ranked Portugal at 38th place out of 140 countries analyzed, with a score of 4.52. This marks a deterioration, albeit a negligible one, vis-à-vis the previous GCI, in which Portugal scored 4.54 and ranked 36th out of 144 countries analyzed. However, it does contrast with the substantial improvement in Portugal's score and ranking in recent years noted in previous SGI reports. Again, this is consistent with the assessment made elsewhere in this report of a stabilization of reform coming due to the political conditions in a pre-election year and weaker external pressure on the government in the post-bailout period.

The review period was indeed marked by little change, the exception being a reduction on corporate-income tax of 2 percentage points, continuing a policy initiated in 2014. The World Bank highlighted this progress in its Doing Business 2016 Report, noting that "Portugal made paying taxes less costly by both lowering the corporate-income tax rate and increasing the allowable amount of the loss carried forward." However, the impact of this change on Portugal's score in the report's "Paying Taxes" category was slight – an improvement from a score of 77.84 in the previous report to 78.54 in the most recent one – and Portugal retained its ranking of 65th place in this area.

The very high levels of taxation on income and consumption noted in the previous SGI report have remained even after the end of the bailout period. The budget for

2015 used tax receipts extensively to reach its goal of a 2.7% deficit, with at least half of the consolidation in 2015 projected as coming from the revenue side, including the use of a host of new “green taxes.”

Portugal also showed the OECD’s highest rate of increase between 2000 and 2014 on personal-income taxes and related contributions, at 3.9%. The tax on salaries and worker’s contributions to social security increased from 37.3% to 41.2% during this period.

Tax policy continues to falls well short of the goal of horizontal and vertical equity. While the government has adopted measures to combat tax avoidance, the problem is far from being eradicated with regard to the personal-income tax. Moreover, at the corporate level, the effective tax rate often remains lower for comparatively more profitable companies than for their less-well-off peers. Finally, the considerable dependence of public finances on indirect taxation – notably on the value-added tax – falls to satisfy the vertical-equity criterion.

Citation:
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The World Bank, Doing Business 2015: Going Beyond Efficiency, Washington, DC: 2014, p. 162.

World Bank Group, “Ease of Doing Business in Portugal – Paying Taxes,” available online at: http://www.doingbusiness.org/data/exploreeconomies/portugal#paying-taxes

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Romania

Score 4

After some haggling between the government and the president, the Ponta government adopted a major tax reform in 2015. The amendment of the fiscal code cut the standard VAT rate from 24% to 20% from January 2016 and further to 19% from January 2017. It also reduced the dividend tax from 16% to 5% and eliminated the special construction tax and the extra excise duty on fuel, both of which are to go into effect as of 2017. These changes have reduced the strong and socially regressive reliance of the Romanian tax system on indirect taxes and have thereby increased vertical equity. The tax cuts’ negative effects on revenues have been compensated for by strong economic growth and a marked improvement in tax collection. However, Romania’s relatively low fiscal income (among the EU’s lowest) means public services and infrastructure are underfinanced.

Slovenia

Score 4

Slovenia's tax system was overhauled in the 2004 – 2008 term, and has changed only gradually since then. Tax revenues have been relatively high in relation to GDP, but have not been sufficient to prevent the emergence of high budget deficits. Tax revenues stem from a broad range of taxes, with a high percentage of about 40% of all tax revenues coming from social insurance contributions. A progressive income tax with tax rates of 16%, 27%, 41% and, since 2013, 50% provides for some vertical equity. As the thresholds are set rather low, however, the majority of middle-income class citizens fall into the second highest category. The tax burden for enterprises is below the EU average, but higher than in most other East-Central European countries. Moreover, tax procedures for companies are complex. The Cerar government has refrained from reversing the tax increases adopted by its predecessor in the wake of the fiscal crisis and has postponed the reform of the property tax, a first version of which had been annulled by the Constitutional Court in early 2014. It has announced a comprehensive review of the tax system, with a view to abolishing inefficient tax allowance and to shifting the tax burden away from labor taxes.

Citation:
IMF, 2016: Republic of Slovenia: The 2013 Property Tax Act: Evaluation of Its Design and the Employed Mass Evaluation System. IMF Country Report No. 16/53, Washington, D.C. (https://www.imf.org/external/pubs/ft/scr/2016/cr1653.pdf).

Hungary

Score 3

Hungary's tax system has become less equitable under the Orbán governments, as the tax burden has shifted from direct to indirect taxes. Moreover, social insurance contributions have remained high. The taxation of corporate income has been characterized by a high degree of differentiation and frequent changes. The extension of sector-specific taxes continued in 2015. The introduction of steeply progressive rates in the food inspection fee and the introduction of a tax on tobacco manufacturers and distributors led to conflicts with the European Commission. In response to the latter, the Hungarian government abolished the progressive design of the advertisement tax as of July 2015. The high and growing size of the shadow economy point to weaknesses in tax administration. In October 2015, state control over the tax authority NAV grew, raising fear about the political abuse of the authority's database.

Citation:
Eurostat (2015a) How satisfied are people with their lives in the EU, 19 March 2015, http://ec.europa.eu/eurostat/documents/2995521/6750366/3-19032015-CP-EN.pdf/bbf302b1-597d-4bf0-96c4-9876e49b5b9d

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