Taxes Report

Tax Policy

Sustainable Governance Indicators 2020

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SGI Sustainable Governance Indicators

BertelsmannStiftung

Indicator

Tax Policy

Question

How effective is a country’s tax policy in realizing goals of revenue generation, equity, growth promotion and ecological sustainability?

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% and 31.25% (2019). Municipal taxes range from 17% to 22.5%, depending on the municipal authority. In 2019, the average overall personal income-tax rate was 51.6%. 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%, which is less, on average, than in other Nordic countries and EU member states. Adjustments in recent years have made Finland’s taxation system less complex and more transparent. Finland performs well in regards to structural-balance, redistributional effects and overall taxation policies generate sufficient government revenue. There has thus far been no major shift away from the taxation of labor toward environmental taxation; the environmental taxes’ share of tax revenues remains moderate. Taxes are generally high in Finland because the country has expensive healthcare and social security systems, and also operates a costly education system. In Finland, the public in general has a favorable attitude toward high taxation. In a recent poll, 96% of respondents agreed that taxation is an important means of maintaining the welfare state, and 79% agreed that they willingly paid their taxes.

Citation:
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“Tax Rates Finland,” www.nordisketax.net;
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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 ten 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 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.

The country's tax policy has come under scrutiny from the OECD and European Union for treating domestic and some international firms differently on the cantonal level. These international firms have their regional headquarters in Switzerland – employing more than 150,000 and contributing substantially to tax revenue – but do most of their business abroad. Examples includes Accor, Hewlett Packard, Philip Morris, C&A, Google and eBay. In response to the scrutiny, the federal government introduced a reform of corporate-taxation policy. This first reform proposal failed in a popular vote in 2017. A large share of survey respondents attributed its failure to the sense that the reform was biased in favor of large enterprises and "the rich." In 2017, a quid pro quo was agreed to. The tax reductions of the original reform proposal have been largely retained. In order to win the support of politicians on the political left, contributions to the first pillar of the pension system (AHV) will be increased by the same amount as taxes are reduced for firms. These additional resources for the AHV will be generated through increased contributions from the federal state as well as from increased social security contributions from employers and workers. This compensation deal was accepted by popular vote in May 2019.

Another major tax issue with constitutional implications involve tax rates for married couples which, under certain circumstances, may be higher than those of unmarried couples. A popular vote for a reform of this issue in 2017 failed by a narrow margin, possibly as a result of erroneous information provided by the federal government regarding the number of persons affected. An April 2019 ruling by the Federal Supreme Court abrogated the outcome of the 2017 referendum. This marks the first time in Switzerland's history that a popular vote was annulled by the Federal Supreme Court. The fact that specific cantons attract certain companies and wealthy foreigners by offering them preferential tax advantages is another instance of differential treatment in tax policy.

Tax policy has been used as a leverage in environmental policy. Among OECD countries, Switzerland comes closest to aligning its pricing of CO2 emissions with international climate cost benchmarks and is making further improvements in this area. After the first chamber of parliament failed to draft new and efficient CO2 legislation in December 2018, the second chamber drafted in the fall of 2019 a far-reaching law. Given the shift toward green parties in the October 2019 national election, coupled with growing concerns about environmental issues among the center-right parties (with the exception of the right-wing populist SVP) this draft law is likely to be enacted in December 2019 and could survive a potential popular vote.

In its most recent country survey, the OECD suggested reducing direct taxes on low-income individuals as a growth-friendly strategy that would also remove disincentives for second-earners. This could be financed by making greater use of value-added tax, recurrent tax on immovable property and environmental taxes. However, there are considerable doubts as to whether these reforms will find a majority in Switzerland.
In summary, Swiss tax policy provides sufficient financial resources for the country. With minor exceptions, it does not discriminate against economic actors with similar tax-paying abilities, and it strongly promotes the country's competitive position. Tax policy is also increasingly designed to promote ecological sustainability. Should the second chamber's CO2-bill pass and not be revoked by popular vote, this will mark a clear step forward.

Citation:
OECD 2019: OECD Economic Surveys Switzerland, November 2019, Paris: OECD
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Canada

Score 8

Like other Western economies, Canada has seen the share of total income going to the top 1% of earners increase dramatically since 1980. Moreover, the earnings of male workers have stagnated as labor demand has polarized due to changes in technology and trade.

The income-tax system is reasonably progressive and continues to be useful in equalizing after-tax incomes for lower income brackets. According to the Conference Board of Canada, there are now almost 200 tax breaks for federal income-taxpayers, resulting in an estimated CAD 100 billion of foregone tax revenue annually. Some experts have argued that the multitude of overlapping tax expenditures benefit high-income individuals at the expense of low-income households. The 2019 budget introduced a $200,000 cap on stock-option exemptions, a policy move that aligned Canada's treatment of stock options with that of the United States. For individuals with earnings above CAD 200,000 annually, the combined federal/provincial marginal tax rate exceeds 50% in more than half the provinces but is still well below the top income-tax bracket in similar countries and the United States. The 2018 budget introduced the Canada Workers Benefit (CWB) as a refundable tax credit intended to supplement the earnings of low-income workers and improve work incentives for low-income Canadians. The move was welcomed by experts, as the CWB has higher benefits and is more easily accessible than its predecessor, the Working Income Tax Benefit, which was widely considered ineffective.

In 2019, the Multilateral Instrument was introduced through Bill C-82. This instrument, developed by the OECD, is designed to prevent tax-base erosion and profit-shifting by multinational corporations' use of tax havens.

Canada fares well in terms of tax competitiveness. There is no double taxation at the corporate or individual level. 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 G-7 countries, and is below the OECD average. Capital taxes have been largely eliminated. A 2018 U.S. tax cut, which implemented a series of corporate-tax reduction measures, is a concern, as it could trigger a loss of tax revenue and investment. The Trudeau administration did not offer the same tax cuts as the United States, but instead offered more investment into the Strategic Innovation Fund, and created a new External Advisory Committee on Regulatory Competitiveness in order to reduce the red tape that many businesses claim slows down investment.

Citation:
The Conference Board of Canada, "Reinventing the Canadian Tax System: The Case for Comprehensive Tax Reform." March 23, 2012.
Department of Finance, Government of Canada, "Introducing the Canada Workers Benefit." posted at https://www.fin.gc.ca/n18/docs/18-008_5-eng.pdf

Denmark

Score 8

The extensive welfare state is funded through a tax share equivalent to about 50% of GDP. This is among the highest within the OECD, although it should be kept in mind that unlike many other countries, all transfers in Denmark are considered taxable income. 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 largely been offset 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 22% at present, although the tax base has been broadened.

A recurrent issue in tax debates has been the role of the so-called tax freeze introduced in 2001, which, among other things, included a freeze on property taxes (the taxation of the user value of owner-occupied housing based on the current value of the house). This tax freeze contributed to a house price boom prior to the financial crisis. In 2017, a "house-tax" reform was approved, but its implementation has been postponed until 2024. The new tax system is based on a new assessment system for property values and the statutory tax rate will be lowered. A number of transition rules are associated with the reform to ensure that incumbent homeowners do not experience an increase in tax on their property.

Further reductions in labor taxation are often discussed, but political views differed regarding whether they should target low-income or high-income groups (lowering the top marginal tax rate). The current parliamentary situation makes it less likely that the income tax system will be reformed.

Citation:
Andersen, T.M., J. Bentzen, S.E. Hougaard Jensen, V. Smith, and N. Westergaard-Nielsen og, The Danish Economy – In a global perspective, DJØF, 2017.
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Estonia

Score 8

Estonia is internationally recognized for its straightforward and transparent tax system. In 2018, the principle of perfect proportionality in personal income tax was dropped by making the personal tax-free allowance dependent on a tax-payer's level of income. The allowance is more generous for low earners and is gradually removed for high earners. Old-age pension benefits are subject to an additional tax exemption.

The Estonian welfare system is financed almost entirely (80%) through social insurance contributions. This Bismarckian principle has both advantages and weaknesses. First, high labor costs may weaken the country's economic position and can lead to labor relations abuses. Second, social insurance contributions alone cannot provide sufficient financing for social services given an aging population and changing work patterns, which destabilize social tax receipts. The public pension funds have persistently accumulated debt, and the health insurance fund is under long-term financial austerity. Major reforms of both health and old age financing are being discussed.

In contrast to stagnant social taxes, motor fuel and alcohol excises have increased rapidly in 2017 – 2018 to levels well above the EU average, raising concerns about the competitiveness of Estonian enterprises. Estonia lost about €60 million in tax revenues in 2018 due to increased cross-border trade in alcohol and motor fuel. As a result of these developments, the excise on alcohol was lowered by 25% from July 2019. Ecological taxes have not been a policy priority in 2018 and 2019.

Lithuania

Score 8

Lithuania has one of the lowest tax-to-GDP ratios in the EU, with tax revenues (without social contributions) being just 29.5% of GDP in 2017 (compared with an EU average of 39.0%). A significant share of government revenue is generated from indirect taxes, especially the value-added tax (VAT), which remains relatively high at 21% (increased from 18% during the financial crisis a decade ago), while environmental and property taxes are relatively low. Taxes on labor (personal income tax and social security contributions), which combined are above the average tax burden on labor in the EU, have become a barrier to the competitiveness of Lithuanian businesses. Furthermore, there is significant tax evasion. According to the European Commission, the VAT gap (as a percentage of theoretical VAT liability) is significantly higher than the EU average. In its 2019 report, the European Commission recommended improving tax compliance and broadening the tax base to include sources less detrimental to growth, which would in turn allow the government to address income inequality, poverty and social exclusion.

Although Lithuania's 2019 budget was expected to include a small surplus, the IMF warned in November 2019 of several fiscal risks. On the one hand, it noted the risk of revenues failing to keep up with output growth; on the other, it cited risks associated with higher wage bills and social spending, especially with regard to poorly targeted child benefits, which are projected to increase further in 2020 (the year of the parliamentary elections). Potential tax revenues are still influenced by the country's significant shadow economy, extensive tax avoidance, and insufficient structural reforms in the education and healthcare sectors (where budgetary resources are dispersed across many public sector organizations despite the declining population). An improvement in VAT and excise-tax collection has been noted in recent years; this is attributed partially to improvements in tax administration and partially to a reduction in fuel and tobacco-product smuggling from Russia's Kaliningrad region and Belarus (due to the general decline in trade with Russia).

Thus, on the one hand, the tax system's ability to effect redistribution is relatively small in Lithuania. Employees in the education, healthcare, fire-fighting and other sectors, many of whom took part in public demonstrations in autumn 2019, say these sectors are underfunded. On the other hand, the State Audit office and analysts have pointed out that unreformed education and healthcare institutions use budgetary resources inefficiently; for example, there is considerable potential for savings in public procurements, and other opportunities to free up financial resources by improving these institutions rather than by increasing taxes. As noted by the IMF, "in health and education, the upfront wage increases have not been complemented by other critical, but socially sensitive, reform areas. The systems remain oversized at the cost of lower quality, hindering the efforts to boost productivity and competitiveness."

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 capital, while specific groups such as farmers and lawyers benefit from tax exemptions. Previous governments have reduced the number of exemptions provided 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. While there are ceilings on payments from the social security fund (pensions), there are no ceilings on contributions to it. The implementation of the new "social model" reduced social security contributions for employers by 0.5% beginning on 1 July 2017, and will gradually introduce a progressive cap for employers' contributions.

The Ministry of Finance proposed in 2019 to reduce the property value at which the property tax of 0.5% must be paid to €100,000 rather than €220,000, which could have generated an extra €8 million a year for the state budget. However, following parliamentary debate, the threshold value was instead set at €150,000. Newly elected President Gitanas Nausėda announced a package of proposals for the parliament's 2019 autumn session that included increases in taxes on income sources other than regular employment (including self-employment, capital gains and dividends), cuts in the exemptions on diesel-fuel taxes provided to farmers, and delays in planned increases to the thresholds for tax-exempt income. Adoption of these proposals was forecast to generate around €100 million of revenue for the additional old-age pension increases that are part of the president's new welfare-state agenda. However, although the parliament eventually adopted the president's proposal to increase pensions (beginning in mid-2020) and slow down the reduction of the tax burden on low- and medium-wage earners, it watered down most of his tax proposals, instead introducing a tax on vehicles and increasing the tax on financial-institution profits from 15% to 20%. President Nausėda's proposal to reduce tax exemptions for farmers was largely weakened by parliament after public protests by farmers.

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. However, there is a flat income-tax rate of 15%. 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 income-tax threshold will grow more slowly in 2020 than in the previously adopted plan, and is expected to reach €350 per month. In 2018, the Lithuanian parliament adopted changes to the individual income-tax system that took effect in 2019. The main goals of the reform were to ease the overall tax burden on labor, in particular for low- and medium-wage earners, and to make the social security contribution system more transparent (by assigning responsibility for paying social security contributions to employees rather than employers). To compensate employees for this shift in the tax burden, gross salaries were recalculated by 28.9%. Furthermore, ceilings for social security contributions are applied to incomes exceeding a threshold beginning in 2019. Also, a shift from a single personal-income-tax rate (15%) to a progressive income-tax system was implemented. The standard rate of 20% is applied for employment-related income up to the ceiling for social security contributions, while income exceeding that ceiling was made subject to a higher rate (27%). The latter rate was further increased to 32% for the highest income earners with the adoption of the 2020 budget. This increase in progressivity will effectively eliminate the benefits associated with the ceilings on high income earners' social security contributions.

Thus, in terms of equity, there remain a number of exemptions for particular groups and professions in terms of income-tax rates, while the progressivity of income taxes and social contributions has been increased. With regard to the competitiveness of Lithuania's tax environment, tax rates themselves – for example, the standard tax on profits of 15% – are not the primary challenge to businesses. Rather, the frequent changes to the tax code are a greater concern. Changes to tax rules are usually initiated when elections approach or when there are changes in ruling coalition. After it introduced its changes to labor taxes and social security contributions in 2018, the current ruling coalition signed an agreement with the social partners committing itself not to introduce any new legislative changes in this area through the end of its term in 2020. However, following the presidential elections in 2019 and the enlargement of the composition of ruling coalition, new initiatives emerged. Some of these legislative proposals, such as introduction of a new turnover tax on large retailers, were eventually abandoned, but others such as the higher profit-tax rate of 20% on financial institutions were adopted.

Thus, although tax rates for business are relatively competitive, the frequency of tax-code amendments creates uncertainty. In addition, the tax administration system could be further improved. As noted by the IMF, "Lithuania struggles to find the right balance between increasing demands for better public services and a competitive tax environment to attract investment."

The IMF has also recommended that environmental taxes be increased. There has been an ongoing debate on taxing polluting cars in Lithuania, as the country has the EU's lowest taxes on transport. In autumn 2019, a draft bill on this issue was prepared by the government, but was eventually amended in parliament to delete the term "pollution" from the title. The law introduces a tax linked to the vehicle-registration process, and was adopted with the 2020 state budget. The tax varies from €13.5 to €540 depending on the type of vehicle and quantity of emissions produced, and it slated to enter into force in mid-2020. However, it has been criticized for being linked to the registration of the vehicle at the time of purchase, as this might create incentives for current owners of heavily polluting older vehicles to continue using them as long as possible. In addition, vehicles weighing more than 3.5 tons have been exempted from this tax, leading to accusations of additional tax exemptions for farmers. Thus, the excise tax on fuel currently remains the primary tax aimed at reducing pollution (although this also contains exemptions for farmers). The ruling coalition has also reallocated money from climate-change programs to fund wage increases for some public sector professions.

Thus, the current taxation system fails to promote ecological sustainability, at least in terms of taxing emissions.

Citation:
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Norway

Score 8

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 helps keep inequality levels low in the country while making it possible to invest heavily in infrastructure and the provision of public goods. However, the efficiency of these expenditures is sometimes low. The distributional consequences of the taxation system have attracted growing attention as concerns over whether the tax system exacerbates inequalities have grown.

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. A broad tax reform is envisaged for the next few years.

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 so 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.

Taxes are obviously central to budget balance or surplus. The economic boom of the past few years have helped the government balance the budget and reduce the national debt. In 2017, the budget surplus was some SEK 61 billion, roughly equal to €10 billion. During 2018 and 2019, the government has made strong progress in reducing the national debt, which is now quite low.

Taxes are also increasingly used to promote sustainability. This includes taxing energy consumption and CO2 emissions. Exemptions are given to high energy-consuming industries in order to safeguard their international competitiveness.

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 two budgets of the red-green government, however, signal 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:
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Australia

Score 7

Despite some recovery of tax revenue in the review period, concerns persist that the federal government faces a structural deficit that will require difficult fiscal decisions in the near future, most likely involving a combination of spending reductions and tax increases. Moreover, there is long-standing concern over the fiscal sustainability of state and territory governments, which have very limited independent capacities for raising revenue. The increasing need for health and education expenditure by the states and territories has outpaced revenue growth.

The tax system achieves a reasonably high degree of horizontal equity, with income generally taxed at the same rate irrespective of its source. The main exception is 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. A further significant exemption is retirement savings (known as superannuation), which are minimally taxed. These exceptions aside, the income-tax system is moderately progressive. Australia's taxation system redistributes less than other OECD countries, and relatively high remuneration after taxes and social security is a major pull factor in its migration policy.

During the review period, significant changes to the income-tax system were passed by the legislature, although the changes will be implemented over seven years. Beginning in 2024, over 90% of taxpayers will face a top marginal income-tax rate of 30%, which will apply on incomes in the range of AUD 45,000 to AUD 200,000 per annum. The current 32.5% rate, applying to incomes in the range AUD 37,000 – AUD 90,000, and the 37% tax rate, applying to incomes in the range of AUD 90,000 – AUD 180,000, will be eliminated, with the current 45% top rate (currently for incomes over AUD 180,000) to apply to incomes over AUD 200,000. This represents a significant reduction in the progressivity of the income-tax system. The Labor opposition has indicated that it does not support the plan, although it is not clear that they would repeal the legislation should they win office at the next election (likely to be held in 2022).

The government has been frustrated by the Senate in its attempts to reduce the company tax rate from 30% to 25%, and has settled on a phased reduction for companies with annual turnover of less than AUD 50 million. The 25% tax rate will be fully implemented for companies with an annual turnover of less than AUD 50 million from 2021.

Although the tax-to-GDP ratio in Australia has risen in recent years, it remains among the lowest such figure of any OECD economy, and has therefore helped preserve the Australian economy's competitiveness. However, this low level of taxation arguably creates bottlenecks in infrastructure development that have not been sufficiently addressed. Sydney and Melbourne are particularly exposed to infrastructure bottlenecks, although there has been a substantial surge in infrastructure investment in recent years (albeit mostly funded by state governments).

The tax system does very little to promote ecological sustainability. There are some tax offsets or credits intended to encourage rural property owners to improve the sustainability of their land use, but little else of note. There is no taxation of emissions.

Citation:
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Czechia

Score 7

Tax policy ensures the availability of adequate financial resources for spending commitments, but little action is being taken on measures relating to equity, competitiveness or environmental sustainability. The tax burden in Czechia – that is, the ratio of revenues to GDP – was 34.9% in 2017, which was above the OECD average (34.2%), but below the EU average. Labor taxation for employees remains higher than the EU average due to higher social security contributions, a subject of frequent criticism by the business sector. However, this is evidently not a barrier to employment. The largest share of government revenues in Czechia derives from the value-added tax (VAT), with a base rate of 21% and two reduced rates of 15% and 10%, providing an element of progressivity. In 2018 and 2019, the state managed to recover taxes more effectively than in the previous period; as a consequence, total state revenues from taxes (excluding social security contributions) increased by 7% in 2018. The introduction of electronic sales records, despite opposition from many businesses, has contributed to this. A flat income-tax rate still nominally applies, albeit with an income threshold that ensures some degree of progressivity. The Babiš government proposed a major reform of the income tax in 2019, with the aim of enshrining progressivity, but this was postponed until 2021. The introduction of a higher rate on high incomes was also not enforced. Businesses can apply tax deductions to research and development, but have not yet fully exploited this option, due to the ambiguous interpretation of the law by the tax authorities and the complex administrative process. Promised changes to the tax code to support a new innovation strategy have yet to be implemented. The Czech cabinet has promised the

EU Commission that it would work to reduce greenhouse-gas emissions, and in September 2019 started to prepare a tax on the use of coal and gas, but no legal regulation on this issue had been adopted as of the end of the review period. According to the Ministry of the Environment, the introduction of a carbon tax will be left up to a future government.

Citation:
European Commission (2020): Country Report Czechia 2020. SWD(2020) 50s final. Brussels, 17-18 (https://ec.europa.eu/info/sites/info/files/2020-european-semester-country-report-czechia-en.pdf).

France

Score 7

Taxes and social contributions are in sum higher in France than almost anywhere else in the OECD (45.2% of GDP in 2017, 44.3% expected in 2020). This is a consequence of extraordinarily generous political and budgetary commitments that have led to a continuous rise in taxes. Nonetheless, tax revenues do not cover expenses, as public spending is exceptionally high by Western standards. The Macron administration has started to reverse the trend, but the process has been rather slow. Public expenditure has dropped from 55% of GDP in 2017 to an expected 53.8% in 2019, and is forecast to be 53.4% in 2020.

Whereas the lowering or elimination of many charges and taxes has improved companies' competitiveness, the overall tax ratio has remained at a high level similar to that of previous years. The effect on economic growth was felt during the first half of 2018, with a decline in consumption (a major factor driving economic growth in France) prompting the inclusion of further consumption and corporate-investment incentives in the draft 2019 budget (e.g., an elimination of social-welfare contributions on any hours worked beyond 35 per week). However, the tax burden is viewed as penalizing the lower-middle working classes, which led to the Yellow Vest movement in November 2018.

The tax policy initiated by Macron has sought to exert better control of the main drivers of public spending. One tactic, for example, was to sign "contracts" with key local government authorities aimed at slowing the expansion of local expenses, reducing tax exemptions (which have a total estimated cost of €100 billion per year, according to the Ministry of Finance), cutting social expenses and streamlining funding for social housing. This overall policy attracted fierce criticism from opposition parties and the media, and Macron was depicted as favoring the wealthy at the expense of the poor. The low flat tax rate for income on capital and particularly the partial abolition of the wealth tax were perceived as symbolic of Macron's role as a "president of the rich." In fact, the criticism proved off base, as the new taxation system will increase public revenue due to a better evaluation of taxable wealth. However, in order to calm the social revolt, Macron's government was forced to substantially revise its tax policy, reducing taxes and social-system contributions for lower income groups.

The ecological sustainability of taxation also has to be rethought, since the tax increases on fossil-fuel-based energy served as the trigger of the uprising in November 2018. These taxes have been put on hold, with no substitute in sight as of the end of the review period.

Germany

Score 7

German tax policy has lost steam in recent years. This was driven by macroeconomic as well as political factors. On the one hand, 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. Moreover, zero or even negative interest rates on new government bonds and buoyant tax revenues indicated that there was no need to raise tax revenues further. This complacency with regard to tax policy complacency has led to a situation in which the German tax system provides a mixed impression across the four primary dimensions of performance, as noted below.

Provision of sufficient resources: Clearly, the system has been highly successful in recent years with regard to financing dynamic growth in government expenditure while simultaneously balancing budgets across all federal layers. According to the Ministry of Finance, between 2010 and 2019, total tax revenues have risen by more than 25%, from €531 billion to €793.7 billion (Bundesfinanzministerium 2019).

Consideration of equity aspects: Germany is among the OECD countries in which the tax and transfer system is particularly effective in correcting unequal market incomes so as to achieve a more equal post-tax situation. Whereas the Gini coefficient is 0.49 for pre-tax market incomes, it is reduced to 0.29 for disposable incomes by all the redistributive tax and transfer instruments (Sachverständigenrat 2019). Hence, the tax and transfer system performs quite well in terms of redistributive objectives.

Competitiveness: Clearly, the passivity of German tax policy has had a negative impact both on work incentives and the country's competitiveness as an investment location. The top marginal personal-income-tax rate (47.5%) is comparable to the OECD average (47.8%), but the average marginal rate continues to be a key challenge for Germany's competitiveness, as it is 15 percentage points higher than the OECD average. The OECD report concludes that this is particularly harmful with regard to the integration of single parents into the labor market (OECD 2019), while also creating substantial work disincentives for households' potential second earners. Furthermore, the complexity of the German tax system imposes high compliance costs on households and firms. A major further weakness of the German tax system is the eroding competitiveness of corporate taxation. After a decade of passivity, the position of Germany with regard to effective corporate-tax-rate comparisons has continuously declined. The U.S. tax reform of 2018 marks an important further step, as the United States, a former high-tax location, cut corporate-tax rates to well below the German level. The consequence is that there are today very few industrial countries left that impose a higher tax burden on their companies. Germany has thus lost considerable appeal as a destination for foreign direct investment (Heinemann et al. 2018).

Ecological sustainability: Since the ecological tax reforms of the red-green government in 1999, the German tax system has been equipped with "green" taxes designed to internalize the ecological damage produced by certain polluting activities. The most important instruments here are the energy and electricity taxes that increase the price of fuel, heating oil and gas, and electricity consumption. Moreover, the Renewable Energy Act established massive subsidies for investment into renewable energy, which is financed through a surcharge on electricity consumption. Finally, the German industry is subject to the European emissions-trading system with its market-based pricing of CO2 emissions. Together, these tax instruments have significantly increased the prices of (nonrenewable) energy consumption. However, the revenues from ecological taxes total only 1.8% of GDP as compared to the EU average of 2.4% (Umweltbundesamt 2019). The year 2019 saw one important step that could have a long-run impact on the ecological orientation of Germany's tax policy. In the context of the climate package, policymakers elected to integrate traffic and heating into the CO2 pricing system. Although the initially envisaged level for the CO2 price was criticized as too timid (and was substantially increased in the legislative process), this institutional innovation can be seen as a milestone with regard to a more comprehensive and consistent pricing of CO2 emissions.

Several further uncertainties and deficiencies within the German tax system should also be mentioned. For example, Germany's municipal tax system will be confronted with a reform of the housing property tax which must be fully implemented by 2024 so that valuation of property wealth better reflects actual market values. Although there are huge discrepancies in the budgetary performance of German municipalities, they have in aggregate produced budget surpluses over the past couple of years. Despite perennial discussions about the problems of bracket creep, there has been no effective solution to the problem. Finally, the German Council of Economic Experts has criticized the fiscal equalization scheme between states as inefficient and harmful to growth (Sachverständigenrat 2017: 293).

Citation:
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file:///C:/Users/RB96BD~1/AppData/Local/Temp/WEF_TheGlobalCompetitivenessReport2019.pdf

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Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Entwicklung (2019): Den Strukturwandel meistern, Jahresgutachten 19/20, Sachverständigenrat: Wiesbaden.

Umweltbundesamt (2019): https://www.umweltbundesamt.de/daten/umwelt-wirtschaft/umweltbezogene-steuern-gebuehren#textpart-1

Ireland

Score 7

The goal of fiscal consolidation has had to be given a high priority in formulating tax policy over 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, which was steeply progressive with respect to property values.

The 2020 budget produced one significant taxation change with a further move toward increasing the carbon tax. The carbon tax was first introduced in Ireland in 2010 with an initial imposition of €10 per tonne of carbon dioxide. The rate was increased to €20 per tonne with effect from 1 May 2014. In the 2020 budget, the rate has been increased to €26 per tonne. This measure will raise €90 million in 2020 and the money raised will be ring fenced to fund climate action measures. There is cross party parliamentary support to increase the price of carbon from €20 to €80 a tonne by 2030. The recent budgetary change, while small, at least indicates that there is an increasing commitment to meet the objective of a carbon tax of €80 per tonne.

The indirect tax system is less progressive than the income tax and property-tax systems, and weighs relatively heavily on those in the lowest income distribution deciles. This is due, to a significant extent, to the heavy excise taxes on alcohol and tobacco products (once again increased in the 2020 budget), 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 FDI. This policy has been highly successful and is supported across the political spectrum. However, it has increasingly attracted hostile comments from critics in foreign jurisdictions who assert that some features of the way Ireland taxes corporations constitute “unfair” competition and encourages profit-shifting by multinational corporations (MNC). In October 2019, the OECD proposed that countries should be allowed to tax companies in their jurisdictions even if the companies have no physical presence there. Such a change in tax legislation could have significant implications for the activities of MNCs that are based in Ireland for taxation purposes. The OECD has also been consulting on the establishment of a global minimum tax rate, stating that:

“A minimum tax rate on all income reduces the incentive for taxpayers to engage in profit-shifting and establishes a floor for tax competition among jurisdictions.”

Given that Ireland’s 12.5% corporate tax rate is one of the lowest in the OECD, the implications of such a change in the taxation of MNCs could be considerable.

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

Citation:
Tim Callan, Maxime Bercholz, Karina Doorley, Claire Keane, Mark Regan, Michael Savage and John R. Walsh ‘Distributional Impace of Tax and Welfare Policies: Budget 2018. ESRI Quarterly Commentary, Winter 2017.
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 distributed 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

Latvia

Score 7

Overall, Latvia has one of the lowest rates of tax in the European Union. However, more than in many other EU member states, the tax burden falls disproportionately on wage earners, particularly low-income earners. To address this issue, tax reforms were undertaken in 2016 – 2018 to shift the tax burden away from low-income wage earners and increased the tax burden on the wealthy.

However, the reforms have since been evaluated as insufficient by the European Commission and the OECD. Even though personal income tax has become more progressive overall, it has been lowered on average without labor tax measures significantly reducing income inequality or poverty.

For example, the 2017 tax reform only targeted low-income households and not the lowest-income households, who gained little from the reduction of personal income tax. In addition, a reduction of the standard personal income tax rate from 23% to

20% amounted to 0.8% of GDP, of which 60% would go to the richest 30% of taxpayers – who are the main beneficiaries of the recent tax reforms. Further improvements are therefore needed for the Latvian tax system to reach its redistributive potential.

When it comes to ecological sustainability, effective tax rates on CO2 emissions from energy use in transport are low and fully exempt in other sectors, where emissions from fuel use are not taxed at all. This was highlighted by an OECD report (2019), which recommended that Latvia increase energy taxation by eliminating exemptions and taxing pollutants at the same rate across different fuels and sectors. As of 2019, the annual vehicle tax will be based on CO2 emissions, although only for newer cars – a progressive tax model for all cars would improve the overall impact on environment.

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. Since 2013, the budget deficit has been decreasing, dropping to 0.0% of GDP in 2016. It then reached 0.5% of GDP in 2017 and 1% of GDP in 2018. Though, according to the Ministry of Finance, it will remain 0.5% of GDP in 2019. It has also been predicted that, provided constant policy is maintained, the budget deficit will further decrease to be 0.3% of GDP in 2020 and 0.4% of GDP in 2021, before switching to a budget surplus of 0.2% of GDP in 2022.

Citation:
1. Ministry of Finance of the Republic of Latvia (2019), Amendments to the Latvia's Stability Programme for 2019 – 2022, Available at: https://ec.europa.eu/info/sites/info/files/2019-european-semester-stability-programme-latvia-annex_en.pdf, Last assessed: 29.10.2019.

2. OECD (2019), Economic Survery: Latvia, Available at: https://www.oecd.org/economy/surveys/Latvia-2019-OECD-economic-survey-overview.pdf, Last assessed: 29.10.2019.

3. European Comission (2019) Country Report: Latvia, https://ec.europa.eu/info/sites/info/files/file_import/2019-european-semester-country-report-latvia_en.pdf, Last assessed: 29.10.2019.

4. European Comission (2018), The Effect of Taxes & Benefits Reforms on Poverty and Inequality in Latvia, Available at: https://ec.europa.eu/info/sites/info/files/economy-finance/eb039_en_0.pdf, Last assessed: 29.10.2019.

Luxembourg

Score 7

In recent years, Luxembourg has struggled under new EU and OECD tax regulations that make it difficult for the country to maintain its largely secret and 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.

On 20 March 2018, France and Luxembourg signed a new bilateral tax treaty to avoid double taxation and to prevent tax reductions in income taxes. The new

Double Taxation Agreement (DTA) between Luxembourg and France, following the BEPS measures (OECD Action Plan on Profit Reduction and Profit Shifting – BEPS), includes the so-called Principal Purpose Test (PPT), which states that abusive structures are denied the benefits provided for in the agreement. The agreement applies to natural and legal persons resident and taxable in France or Luxembourg. Taxable French companies, such as SCI, may benefit from the agreement, which may result in reduced tax withholding rates. The new agreement is expected to enter into force in 2019, once it has finally been ratified by France and Luxembourg.

In 2016, most global players in the country had negotiated deals that exempted them from corporate income taxes (2017: 19%), municipal business taxes (6.75%), a special contribution (solidarity surtax 7%) and net wealth taxes (0.5%). More than 50,000 companies had negotiated tax deals with the government which allowed them to channel profits through Luxembourg and to reduce their overall tax obligations. The European Union’s penalty payments of Fiat Chrysler, Starbucks and the European headquarters of Amazon (with 1,500 employees, one of the big players in Luxembourg) were unexpectedly beneficial for Luxembourg as the penalty payments (totaling €250 million) benefited the state treasury. Nevertheless, to clarify the principle of legal certainty, Luxembourg appealed to the European Court of Justice against the ruling.

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 OECD are working toward harmonizing the tax systems of EU member states. After being listed as a tax haven in 2013, the Global Forum removed Luxembourg from its blacklist in October 2015.

In 2015, the European Commission implemented new e-commerce rules for the European Union, which state that value added tax is payable in the country in which the services are carried out or the product is sold, effectively undermining Luxembourg’s business-friendly e-commerce VAT regime. To boost public finances, Luxembourg has implemented new tax rates. Several tax rates were increased, including the general VAT (from 15% to 17%). The higher VAT rate and low interest rates will lead to a slight increase in the inflation rate (about 1.7% in 2017). Nevertheless, Luxembourg continues to have the lowest VAT rate in Europe.

Important recent milestones include a major tax reform in 2017, which focused on harmonizing individual (including cross-border worker) taxation with higher allowances (pension plans and building loan contracts) to increase second earners. Furthermore, the government implemented a corporate tax system and a restructuring program to attract more foreign investment. In 2015, the process of declaring VAT was simplified by the introduction of an electronic system. Long outstanding tax arrears were used to consolidate the 2017 budget. Despite losses in e-commerce (€225 million in 2017) and tax reform cuts, the payment of corporate-income-tax arrears and an early 2017 index tranche are compensating for lost tax revenues.

Luxembourg is known for its favorable framework conditions and flexibility in global competition. For example, in 2014 Luxembourg introduced a so-called freeport, a VAT free zone at Luxembourg airport and reduced tax rates by 8% on imports and intra-EU acquisitions of antiques, art and collectibles. In 2016, Bitstamp opened the first EU compliant cryptocurrency exchange in Luxembourg. In addition, Google may open a new €1 billion data center in Luxembourg. The country is also exploring another niche product, so-called asteroid mining, offering a regulatory legal business framework for the purpose. While this may sound very futuristic, Spire Global has already announced plans to open a European headquarters in Luxembourg with 250 employees, with strong support from the Luxembourg Future Fund.

Luxembourg’s financial center (mostly foreign-owned) is the most important locus of the so-called renminbi trade. Luxembourg’s global fund management industry is the second most important location for investment funds worldwide after the United States. In October 2017, the Luxembourg investment fund industry was home to €4,135 trillion in net assets (€3,664 trillion in Oct 2016), with 4,098 funds, including 14,711 fund units. Following a massive slump in the previous year, Luxembourg’s investment funds deposits increased by 9.8% since January 2017. Furthermore, Luxembourg is the European leader for responsible investment fund management. Overall, the number of employees in the financial sector rose from 45,097 in 2016 to 47.411 in June 2017.

PricewaterhouseCoopers’ 2017 business report gave Luxembourg its top ranking. The total tax rate (TTCR) after deductions and exemptions is currently 20.5%. This is the lowest total tax rate among European and European Free Trade Association (EFTA) countries, before Croatia (20.6%) and Cyprus (22.7%). Luxembourg’s taxation system is very attractive for businesses, with only 20% of companies paying business taxes. In 2012, property taxes accounted for 1.3% of GDP and represented 3.3% of tax revenue. Totaling 0.1% of GDP, Luxembourg’s recurrent property-tax revenue is the EU’s third-lowest by GDP share after Malta and Croatia.

Luxembourg has the highest ratio of capital tax to GDP among EU member states. This demonstrates 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 the Tobin tax on financial transactions. Following international standards on tax competition, Luxembourg reduced the corporate tax by 2% to 19% in 2017, with an additional reduction to 18% in 2018. Meanwhile, higher personal-tax allowances and income-tax reductions will benefit middle-class taxpayers.

The government recently announced major tax reforms slated to go into effect in 2021, which will take particular account of environmental, social justice and housing issues.

Citation:
Torslov, Thomas R./Wier, Ludvig S./Zucman, Gabriel: The Missing Profits of Nations. NBER Working Paper 24701. https://gabriel-zucman.eu/files/TWZ2018.pdf. Accessed 7 Dec. 2019.

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"General government gross debt." Eurostat, www.ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&plugin=1&pcode=teina225&language=en. Accessed 20 Oct. 2019.

"Le journaliste au coeur de Luxleaks." Luxemburger Wort, 23 Nov. 2017. https://www.wort.lu/de/business/portrait-le-journaliste-au-coeur-de-luxleaks-5a159fe5c1097cee25b77aef. Accessed 29 Nov. 2019.

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Netherlands

Score 7

Taxation policy in the Netherlands still addresses the trade-off between equity and competitiveness reasonably well. Looking at average income, pre-taxes in the Netherlands have a Gini coefficient of 0.563 (in 2015), after-taxes (and other redistributive measures) it is only 0.295 (in 2015). However, including wealth, the Gini index jumps to 0.92. The Netherlands has a progressive system of income taxation which contributes to vertical equity. In general, income-tax rates range between 30% for lower and 52% for higher income levels. There is a separate tax for wealth. Lower-income groups are affected most significantly by indirect taxes and local taxes. Yet, tax pressure for every income group, from low to high, is allegedly approximately 37%. Yet partly as a result of ad hoc measures to alleviate crisis impacts, the tax system loses credibility because of its increasingly unequal treatment of different groups. For example, between self-employed and employed workers, between entrepreneurs operating as sole traders or private limited companies, between single-parent families and families where both parents earn a living, and between small savers and the very wealthy. There is more inequality than meets the eye. In particular, middle-income families only manage to make ends meet because women are working more; increasing the number of hours worked per household and the female labor participation rate.

It appears that the general political mood definitively switched 2018 – 2019 from a focus on austerity and budget balancing to one on reducing inequality and unsustainability. The Council of State calculated that collective tax burdens on citizens and firms had increased by 2.7% to 39.6% of GDP since 2015, despite the government's plans to reduce taxes. All political parties expressed concerns about the stagnation of middle-class incomes, the high rates of taxes on labor, the excessive size of CEO salaries, tax evasion by multinational corporations, and the lack of fiscal incentives for housing, innovation and sustainable (economic) projects.

Corporate income tax for foreign companies – an aspect of the trade-off between horizontal equity and competitiveness – has also come under more intense political scrutiny. An extensive treaty network that encompasses 90 tax treaties aims at protecting foreign companies from paying too much tax, effectively makes the Netherlands a tax haven, a view that even the OECD and the European Parliament have expressed.

Citation:
WRR, Economic inequality in the Netherlands in 8 figures, 2014 (Rijksoverheid, consulted 23 October 2018)

CBS, Parade van Pen: de vermogensverdeling in 2015, 8 July, 2017 (consulted 23 October 2018)

NRC-Handelsblad, 22 June 2019. Wie verliest dit: de VVD, Rutte, de grote bedrijven of de grootverdieners?

NRC-Handelsblad, 15 April 2019. Raad van State: stijgende lastendruk zorgwekkend

New Zealand

Score 7

Compared to other OECD countries, the New Zealand tax system performs relatively poorly in terms of revenue collection. In 2017, New Zealand's tax-to-GDP ratio (32%) was significantly lower than the OECD average (34.2%). Not only that, but the gap in revenue collection has widened over the last 20 years: while the New Zealand tax-to-GDP ratio has decreased by 0.5 percentage points from 32.5% in 2000, the OECD average has increased by 0.4 percentage points since 2000. Nevertheless, the tax system provides the government with adequate resources to perform its basic functions. In fact, based on prudent government spending policies, New Zealand posted a budget surplus of NZD 7.5 billion in the financial year up to June 2019 (up NZD 2 billion from 2017/18). For the same period, government net debt fell to 19.2% of GDP, down from 19.9%.

In terms of government revenue structure, two things stand out: relative to the OECD average, New Zealand relies heavily on personal income tax (ranked third in comparison with other OECD countries) and value added tax (ranked second). While VAT is, generally speaking, considered a regressive tax (because it falls disproportionately on lower-income people), New Zealand's personal income tax also lacks in progressivity: following a "broad base, low rate" approach, the top tax rate begins to apply at the relatively low level of 1.2 times the average wage. In short, the New Zealand tax system exhibits weakness in achieving vertical equity and addressing inequality in society.

Apart from a “bright line” tax on investors who sell residential properties (other than their family home) within two years of purchase, New Zealand does not have a tax on capital gains. After entering government in 2017, Labour set up a tax working group, with the stated goal of exploring “further improvements in the structure, fairness and balance of the tax system.” The group published its report in February 2019, recommending a broad-based tax on capital gains from rental homes, second homes, business assets, land and shares. However, this proposal was vetoed by Labour’s coalition partner NZ First and never came to fruition.

While New Zealand’s tax system is not particularly effective in reducing social inequality, it is relatively successful in promoting the country’s global competitiveness. Independent assessments have lauded the very lean business environment and the simple policy framework. For example, the conservative Tax Foundation think tank ranks New Zealand second in terms of “tax competitiveness,” ahead of international financial centers such as Switzerland and Luxembourg. In PwC’s 2019 Paying Taxes Index, which attempts to measure how easy it is for companies to discharge its tax obligations in a given jurisdiction, New Zealand was placed tenth out of 189 territories, situating it ahead of all other OECD member countries with the exception of Denmark. The World Bank even ranks New Zealand in first place in its most recent Doing Business Index. According to the World Bank, not only has New Zealand made paying taxes easier by improving the online portal for filing and paying general sales tax, it also has a single procedure that a prospective business need undertake to form, and the process is typically completed in less than a day.

New Zealand has a fairly poor record when it comes to tax policies steering economic activities toward environmental sustainability. As a share of GDP, New Zealand has the 5th lowest environmentally related tax revenue among all OECD countries. In 2014, environmentally related tax revenues were at 1.34% of GDP, compared to 2.0% on average among 34 OECD and partner economies. The tax working group set up by the Labour government in 2017 identified taxes designed to improve environmental outcomes as a key policy focus. Specifically, in its 2019 report, the group recommended that immediate government priorities should include expanding the coverage and rate of the Waste Disposal Levy, strengthening the Emissions Trading Scheme (ETS) and advancing the use of congestion charging. Longer-term measures include a water abstraction and water pollution tax, a natural capital enhancement tax, changes to the existing concessions regime, and a high-level consideration of mechanisms that support Te Ao Māori (a worldview that considers everything living and non-living to be interconnected).

Citation:
OECD, Revenue from environmentally related taxes in New Zealand (https://www.oecd.org/tax/tax-policy/environmental-tax-profile-new-zealand.pdf)
OECD, Revenue Statistics 2018: New Zealand (https://www.oecd.org/newzealand/revenue-statistics-new-zealand.pdf)
PwC, Paying Taxes 2019 (https://www.pwc.com/gx/en/services/tax/publications/paying-taxes-2019.html)
Tax Foundation, International Tax Competitiveness Index 2019 (https://taxfoundation.org/publications/international-tax-competitiveness-index/)

The Treasury, Budget 2019 (https://treasury.govt.nz/publications/budgets/budget-2019)
World Bank, Rankings & Ease of Doing Business Score (https://www.doingbusiness.org/en/rankings)

South Korea

Score 7

Korea has a competitive tax system with relatively low tax rates by international standards. The country's tax system is also fairly effective in generating sufficient public revenues without weakening the national economy's competitive position. South Korea has one of the lowest tax rates in the OECD, with tax revenues totaling about 26.9% of GDP in 2017. In 2018, South Korea's tax revenues increased by 9.3% compared to 2017, giving the government greater scope for public investment. One weakness of the Korean tax system is that the country's tax base is comparably narrow, with nearly half the population (48.5%) paying no income taxes due to the very high exemption rate. In addition, taxes do not contribute to the amelioration of social inequalities, as redistributive effects are among the lowest in the OECD. Political calculations have prevented any recent government from trying to lower the tax exemption rate. Similarly, Korean taxes are not effective in promoting environmental sustainability, as electricity taxes are among the lowest in the OECD. By contrast, fossil-fuel and nuclear energy sources are heavily subsidized.
In March 2019, the European Union removed South Korea from its gray list of "non-cooperative jurisdictions for tax purposes."

Citation:
Korea Times, April 21, 2019, Korea's tax burden soars to record-high in 2018, https://www.koreatimes.co.kr/www/biz/2019/04/488_267520.html
OECD data, https://data.oecd.org/tax/tax-revenue.htm

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 member states. The financial crisis and the ensuing economic downturn sharply reduced tax revenue with the squeeze on wages contributing to a lower yield from income tax. However, overall tax revenue has risen over recent years and was projected to be high enough to continue to narrow the public deficit over the course of the current parliament. A risk factor is, though, that the potential costs of leaving the European Union are still unclear and therefore not calculable yet.

The Autumn Budget 2018 included the introduction of a so-called digital tax, a form of taxation that has been discussed in many countries but has so far hardly been implemented. The United Kingdom will tax tech companies 2% of the revenue they make from UK users. It will come into force in April 2020 and is expected to raise around £400 million per year. Further, the government announced a new tax on the production and import of plastic packaging that contains less than 30% recycled plastic, which is due to come into force in April 2022, to set an incentive for the reduction of plastic waste. However, planned increases in fuel duties have repeatedly been postponed.

Citation:
World Economic Forum 2017: The Global Competitiveness Report 2017-2018.

Belgium

Score 6

The deficit of the Belgian government remains well contained, and dropped from 3.1% of GDP in 2014 to 0.7% in 2018. Long-term sustainability is, however, less obvious. First, because the deficit reductions were partly due to positive conjunctural factors, such as EU economic growth and negative interest rates. Second, because there remain unresolved issues with pension and healthcare entitlements.

Regarding equity and competitiveness, by OECD standards, Belgium's taxes are the third highest in the European Union (European Commission) and its structure is too narrowly concentrated on labor income. The share of revenue coming from indirect taxes is the second lowest in the European Union. Outside excise taxes on fuel, environmental taxation is also extremely limited.

The Council of Europe's June 2019 recommendations remain cautious regarding Belgium's fiscal sustainability. While it sees some of the recent tax reforms as potentially growth enhancing (the drop in the tax rate for firms and for low wage earners, reduced deductibility for company cars, and planned increase in car taxation, among other reforms), it also states that "The composition and efficiency of public spending can be improved in order to create space for more public investment. In spite of a recent decrease, total expenditure as a share of GDP in Belgium remains among the highest in the euro area. […] Given the high level of public expenditure, the outcomes of certain policies and the quality of certain public services raises questions of cost efficiency. Spending reviews and policy evaluations can help Belgium prioritize and improve the efficiency of public expenditure. Furthermore, spending reviews could be used to assess the efficiency of the indirect public support for business Research and Development."

Citation:
https://www.plan.be/admin/uploaded/201906181138450.FOR_MIDTERM_1924_11923_F.pdf
Council of Europe's recommendations: https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1560258016104&uri=CELEX:52019DC0501
European Commission, DG TAX UD (2019) "Taxation Trends in the European Union"
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Bulgaria

Score 6

Bulgaria's government revenues are a mix of direct taxes, indirect taxes and social security contributions. Direct taxes, both personal and corporate, constitute a relatively small component of overall tax revenues, and are based on a strategy of very low rates spread uniformly over a very broad tax base. Both the personal and corporate taxes use a flat 10% rate, with a very limited set of exemptions. The system of indirect taxes is centered on a value-added tax with a flat rate of 20% for all products except tourist packages. Excises are the other important component of indirect tax revenues. Here Bulgaria follows the requirements of the European Union, imposing rates at the low end of what is allowed by its membership obligations. While the tax structure is simple, tax filing is extremely cumbersome for businesses due to extensive red tape and an unfriendly bureaucracy. Moreover, the share of foregone tax revenues is rather high.

Bulgaria has been successful in collecting sufficient revenues to finance public expenditures, with the country posting budget surpluses or small deficits in nearly every one of the last 20 years. At around 30% of GDP, the tax-to-GDP ratio is relatively low.

With its low rates, and uniform and broad tax base, Bulgaria's tax system fully achieves the objective of horizontal equity. The flat income-tax rate and the low direct-tax burden limit the extent of vertical equity. As a result, the difference between income inequality before and after taxes and benefits is rather small.

The low corporate-income tax makes the Bulgarian tax system highly competitive. However, this competitiveness is reduced by the cumbersome nature of tax filing.

Bulgaria has a relatively large share of environmental taxation as a share of total tax revenue. This is mainly due to high energy-consumption levels rather than a strict environmental-tax policy and appropriate level of taxation. Bulgaria is the most energy- and greenhouse-gas-intensive economy in EU, with coal being the main source of energy. The country lacks a clear environmental-tax policy orientation, with the relevant taxes being considered purely as revenue generators rather than as tools to influence incentives for firms and individuals. The implicit tax rate on energy is the second-lowest in EU.

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Chile

Score 6

Chile has a moderately complex tax system. The tax reforms passed in September 2014 and February 2016 raised the corporate income-tax rate from 20% to a range of between 25% and 27% (companies may choose between two different 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 are not fully evident, as a component of the reform package has not yet taken measurable effect (e.g., elimination of the FUT tax credit).

As a result of the massive protests of October 2019, the government halted its tax-reform project. Even before the social crisis, the initiative, which sought to integrate corporate-income and individual-income taxes, had been fiercely criticized by the opposition. Critics argued that the integration of the two forms of tax would have primarily benefited the wealthiest sectors of the population. By contrast, the political and social crisis that emerged at the end of the period gave new impetus to the initiative to tax high-income households, given that the wealthiest 1% of households control 33% of total national income (while the wealthiest 0.1% control 19.5% of total national income).

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) of 19% is the third highest in Latin America (after Uruguay and Argentina) and remains flat. It favors allocative efficiency but has a regressive impact. There is certainly tax evasion 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 reforms within the education and health systems. 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.

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 both compared to other countries in the region and to do justice to the needs of the lower-middle class and the poorer population. Tax policy fails to produce equity with regard to tax burdens, as large companies and economic elites pay relatively low tax rates. This has preserved Chile's relatively strong international competitiveness, especially with regard to services and products of comparatively low sophistication. Although Chile was ranked only 32nd out of 36 countries in the Tax Foundation's 2019 International Tax Competitiveness Index, it was deemed the region's most competitive county in the World Economic Forum's latest Global Competitiveness Report (2019), ranked 33rd out of 141 countries. This latter report highlights the country's stable macroeconomic environment, its competitive and open markets, and strong financial system. 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 Chile's tax system and the amount of revenue needed to finance a welfare state equivalent to 50% of GDP is to check whether Chile's ratio of government expenditure to GDP per capita 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 greater public expenditures as a share of GDP. Chile's expenditures do indeed fall within this range.

Regarding the promotion of ecological sustainability, a green tax (Law 20,780), first introduced in 2014, has provide an essential mechanism. The new levies, the first of their kind in the country, focus on the emission of local (micropollutants (MP), nitrous oxide (NOx) and sulfur dioxide (SO2)) and global (CO2) pollutants from stationary energy sources. After a three-year phase in which the institutional arrangements and procedures were adjusted, the green tax came into force at the beginning of 2017, applying mainly to power plants featuring boilers or turbines with a thermal power rating of at least 50 megawatts. According to a Ministry of Finance analysis, the tax revenue collected in association with these stationary emissions sources was expected to reach approximately $160 million per year by 2018. By implementing these taxes, Chile became the first country in South America and one of the first among developing countries overall to have adopted a price for carbon. Nevertheless, the taxation of important productive sectors such as the mining, forestry, fishing and agriculture industries does not explicitly foster ecological sustainability.

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Cyprus

Score 6

The 2016 merger of the departments handling income and VAT taxes into the Tax Department aimed at strengthening tax collection and processing mechanisms (e.g., auditing) as well as fighting tax evasion and avoidance. These goals remain unfulfilled.

Cyprus’s tax system is comparatively uncomplicated, both with respect to individual provisions and structure. Revenues from direct and social taxes are relatively low as they are affected by a high threshold of taxable income offset at €19,501. This results in a low tax burden on labor and an increased dependency on corporate and value-added taxes. A levy on salaries and a real-property tax imposed in 2013 were terminated in 2017, while a levy of 30% on interest income from bank deposits is in force since April 2013.

There is a high reliance on corporate and value-added taxes from non-diversified, buoyant economic activities. Although the impact on the economy from this income has been highly beneficial, the European Commission doubts its sustainability and warns that it cannot guarantee sufficient financial resources in the long-run. Sufficiency is also affected by tax collection problems, with €2 billion overdue taxes appearing uncollectible and many years delays in the clearance of tax declarations.

Tax equity is to some extent achieved through the progressive increase in individual income-tax rates from 20% to 35%. However, widespread tax evasion and tax avoidance, and a flat rate of 12.5% for companies are negatively affecting equity. They allow aggressive tax planning and benefit liberal professions and highly profitable companies – both pay a lower tax share than the share paid by employees. The Commission continued in 2019 to stress the need for Cyprus to revise tax system structures and tackle factors that enable aggressive tax planning.

While the low rate of corporate tax allows the country to remain competitive, it is unclear whether the benefits linked to this outperform the risks posed for companies, and the negative effects on equity, tax avoidance and tax evasion resulting from aggressive tax planning. It is indicative that Cyprus signed the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit-Shifting with numerous reservations.

After 2017, redistribution and the promotion of ecological sustainability via the tax system have been encouraging. However, there is scope for a redesign of the structure of environmental taxation to improve climate and environmental policies, which are very problematic in Cyprus.

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Iceland

Score 6

Current tax revenues are insufficient for the government to fulfill its goals of revenue generation, equity, growth promotion and ecological sustainability. Education, healthcare, welfare provisions and environmental protection all remain underfunded. The tax system should be more progressive and the tax authorities should do more to tax wealth hidden in foreign tax havens, especially given the information exposed in, for example, the Panama Papers. Fishing fees remain far below potential as only

10% of the common property resource rent from fisheries accrues to the taxpayer while 90% accrues to the owners of fishing vessels. In late 2018, parliament decided to significantly lower fishing fees, while disadvantaged social groups (e.g., disabled people and pensioners) complain bitterly about being left behind.

Frequent changes of government since 2013 have not had a significant affect on tax policy. Tax revenue was stable at 42% of GDP between 2017 and 2018, but is projected to fall below this level in 2019. New labor market agreements could change this if the government, as the single largest employer, uses tax policy as a bargaining chip or if large wage increases trigger a change in tax policy.

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Israel

Score 6

According to the Ministry of the Treasury, Israel’s taxation policy appears to be quite effective. Over the past five years, Israeli authorities have collected more in tax revenue than had been projected in the government’s budget proposals.

Israel’s taxation policy is somewhat regressive. A large share of taxes in Israel are indirect. This includes VAT, which is levied equally on all products. Furthermore, although the direct income tax is progressively structured, and a large portion of the population makes too little money to pay any income tax at all, the system creates a curve that forces middle-income individuals to pay proportionately more tax than high-income individuals. 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 utilizes its tax system as a political instrument. For example, it offers tax reductions to army veterans. However, in most instances, the Israeli tax system has a valid rationale for tax reductions that appear to violate the principle of horizontal or vertical equality. The Encouragement of Capital Investments Law (ECIL) provides tax discounts for factories and businesses that invest in peripheral areas. This is done both to keep Israel’s taxes competitive in the global market and to incentivize the creation of jobs in disenfranchised regions. The ECIL has been criticized in recent years, especially at the end of 2017 following the large layoff of Teva employees – an Israeli pharmaceutical company that received large tax benefits. In addition, the tax reductions and other benefits for army veterans were criticized at the time of their formulation, as most Arab Israelis don’t serve in the Israel Defense Forces (IDF) and such policies would discriminate against them.

The current minister of finance, Moshe Kahlon, is opposed to rising taxes and has cut many taxes while simultaneously spending generously on plans to lower housing and living costs. Notably, his flagship Price for the House-Buyers Program (initiated in 2013) has so far cost the government more than ILS 5 billion. This policy was criticized for being short-sighted by the former governor of the central bank of Israel, Karnit Flug.

In September 2018, Israel signed the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit-Shifting ("Multilateral Instrument," MLI), a multilateral agreement that updates previous bilateral agreements between signatory countries in a way that will make tax evasion harder for global corporations.

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Japan

Score 6

Generally speaking, Japan has a reasonably fair tax system that has helped the government to finance expenditures and allowed the corporate sector to thrive. Following the international trend of declining corporate-tax rates, Japan’s government cut its corporate-tax rate (calculated as the statutory national rate plus the local rate) over several years from 35% to 29.7% in April 2018. The fact that authorities followed up on their initial promise to lower corporate-tax rates despite the country’s tight fiscal situation provides a positive signal. However, only around 30% of Japanese firms actually pay corporate tax, with the remainder exempted due to poor performance.

Increasing the comparatively low consumption-tax rate is an important factor in easing budgetary stress, particularly given the huge public debt and the challenges presented by an aging population. The government raised the consumption-tax rate from 5% to 8% in April 2014, and after several deferrals, increased it further to 10% in October 2019. While this displayed the government’s willingness to tackle difficult issues, the rate change has not significantly improved the country’s fiscal situation.

The OECD has recommended that the country’s energy-related taxes be increased both for environmental and fiscal reasons. Apart from a fairly low “global warming tax,” imposed since late 2012 on the consumption of fossil fuels such as petroleum, natural gas and coal, fostering environmental sustainability does not figure as a prominent consideration in Japan’s tax system.

Japan’s tax system achieves a reasonable amount of redistribution. However, salaried employees benefit from far fewer tax deductions than do self-employed professionals, farmers and small businessmen.

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Malta

Score 6

Malta's income-tax system ensures that a portion of income is nontaxable 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. Moreover, first-time property buyers have been benefiting from a capped duty waiver since 2014, while similar benefits were also extended to second-time buyers at the beginning of 2018. Other measures contributing to greater equity were introduced in the 2020 budget, including a one-time supplementary allowance for all households, reduced tax rates on overtime income, income-tax refunds for all employees, higher pensions and higher tax-free pension ceilings. Like the 2019 budget, the 2020 budget will not be introducing any new taxes. In 2018 Malta's tax burden as a ratio of GDP was the sixth lowest in the EU.

However, the burden of taxation falls mainly on people in fixed and registered employment. Malta's shadow economy is officially equivalent to nearly 25% of GDP, though economists contend that the actual percentage is much higher. Figures published by the European Central Bank in 2018 indicate that Malta is among the countries with the highest number of cash transactions in the EU, a fact that strongly suggests tax evasion. Tax-evasion controls have become more consolidated, but remain relatively ineffective. A number of mitigating measures have recently been introduced to consolidate previously introduced actions in this area. This includes measures in the 2020 budget prohibiting cash transactions exceeding €10,000 for high-value goods such as property. A joint task force that encompasses the Inland Revenue, VAT and Customs departments as well as the Tax Compliance Unit has been established with the aim of facilitating the fight against tax evasion. The recently announced Financial Organized Crime Agency is also intended to help reduce the number of crimes of a financial nature. A recent EU Commission report stated that the offshore holdings of the Maltese stood at €5.2 billion, or nearly 48% of annual GDP, among the highest such rates in the EU. In 2016, Malta lost an estimated €260 million to tax evasion, principally in VAT and income taxes. A 2019 European Commission report stated that the country's VAT gap continues to decrease, and is now well below the EU average of 12.3%.

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 as low as 5%. 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. Special tax incentives are also available for industrial research and development projects and innovation activities conducted by SMEs. Professionals in the gaming, financial services and aviation sectors can pay a flat tax rate of 15% on personal income up to €5 million. The island’s global residency program allows individuals with a certain income to benefit from a flat 15% tax rate. Fiscal incentives enhance the competitiveness of various economic sectors and attract foreign direct investment. Indeed, corporate taxation is regarded as an important source of revenue for the island. However, this has raised concerns about exploitation by companies conducting aggressive tax planning. The Maltese government has transposed the provisions of the EU’s Anti-Tax Avoidance Directives, which aim to prevent companies from aggressively exploiting differential tax rates across EU states.

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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 standard corporate-income tax of 19%, a relatively high standard VAT rate (23%) and high social-insurance contributions. In its first year in government, the PiS government reduced the corporate-income tax rate from 19% to 15% for small taxpayers and taxpayers in their first year of existence and increased the tax-free allowance for personal income tax. In 2018, three new taxes were introduced: a “solidarity tax” for high-income earners, an “exit tax” on companies and wealthy individuals, and a new fuel tax called an “emission fee.” The revenues from the “solidarity tax” are earmarked for financing the Solidarity Fund for Support of Disabled Persons, which was created after protests by disabled people in May 2018 that drew considerable public attention. The revenues from the new fuel tax are targeted as well, and will be used for combating smog. At the same time, the government adopted some changes related to the withholding tax system and the taxation of profits derived from cryptocurrencies. Following the 2019 elections, the PiS government has realized some of its campaign promises. The corporate income tax rate for small businesses and businesses in their first year of existence is to be reduced from 15% to 9%, and the personal income tax is to be scrapped for all Poles under the age of 26 who earn less than PLZ 85,528.

Under the PiS government, the tax-to-GDP ratio has risen. At about 35%, it is below the EU average. Despite the rise in the tax-to-GDP ratio, there is a fiscal deficit.

With just two income tax rates and a relatively high VAT rate, vertical equity is limited. This is partly compensated for by the new solidarity and exit taxes. The abolishment of income tax for young people clearly violates horizontal equality.

Compared to other East-Central European countries, the corporate tax burden, the extent of red tape and the instability of tax provisions have been relatively high. For small domestic enterprises, this is partly balanced by the lower corporate-income tax rate.

Poland collects relatively high environmental taxes, as compared to other EU member states. However, only a small proportion of revenue from environmental taxes is used to promote environmentally friendly behavior. Most environmental taxes are energy-related, but there are exemptions, for instance, for energy-intensive industries. In addition, in 2019, the excise duties on energy were lowered and energy prices administratively controlled, with the state compensating energy producers for potential losses.

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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. Since 2016, tax policy has focused on the fight against tax evasion and improvements in tax collection. In addition, the government adopted a number of minor tax changes, including a lowering of the corporate-income tax rate from 22% to 21%, increases in the caps on social insurance contributions and a temporary doubling of the special levy on businesses in regulated industries (energy, telecoms, public health insurance, etc.). Both the Fico and the Pellegrini governments have thus largely ignored the long-standing calls by the European Commission, the OECD and the IMF to change the tax mix by financing a reduction of the relatively high tax burden on labor through increases in real estate tax, excises or environmental taxes.

While tax revenues have soared on the back of a growing economy, the tax-to-GDP ratio has remained broadly stable. At about 34%, it is below the EU average and close to that of Slovakia's regional peers. The small fiscal deficit suggests that tax revenues are sufficient to finance the budget.

Vertical equity has benefited from the reintroduction of a progressive income tax in 2012. While the share of indirect taxes is low, social insurance contributions, which are relatively unprogressive, account for a relatively high share of revenue.

While the corporate income tax rate is relatively low, the tax wedge on labor is high. Moreover, households lose the dependent spouse allowance when a secondary earner enters the labor market. This represents a financial disincentive that significantly reduces female labor market participation.

Environmental taxes as a whole stood at 2.5% of GDP in 2018. The implicit tax rate on energy stood at 164.3, one of the lowest rates in the European Union, in 2017. While taxes on energy were above the EU average, there is still space to increase taxes on transport (0.3% in 2018; compared to an EU average of 0.5%) and sources of pollution (0.03% in 2018; compared to an EU average 0.08%). Differentiating tax rates according to the carbon content of the energy source and indexing the rates to inflation could also encourage more environmentally conscious behaviors in consumers. Excise duty rates on diesel are significantly lower than those on unleaded petrol, despite diesel having a higher carbon and energy content than unleaded petrol. The tax system also favors the private use of company cars, which counteracts the incentives provided by energy and vehicle taxation to reduce fuel consumption.

Citation:
European Commission (2020): Country Report Slovakia 2020. SWD(2020) 524 final, Brussels, 22-24 (https://ec.europa.eu/info/sites/info/files/file_import/2020-european-semester-c ountry-report-slovakia_en_0.pdf).

Slovenia

Score 6

Slovenia's tax system was overhauled in the 2004 – 2008 term and has changed only gradually since then. Tax revenues stem from a broad range of taxes, with a high percentage of about 40% of all tax revenues stemming from social insurance contributions. A progressive income tax with a handful of different rates provides for some vertical equity. As the thresholds are set rather low, however, the majority of middle class citizens fall into the second- or third-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 both individuals and companies are complex.

The Cerar government had announced comprehensive tax reform for 2016. However, the coalition partners eventually reached common ground on relatively modest changes only, focusing on tax relief for the middle class. Beginning in 2017, the tax burden on personal income, including performance and Christmas bonuses, was reduced, in part by introducing a new tax bracket and by replacing the previous 41% tax rate with two rates of 34% and 39%. Contrary to the original proposition of the Ministry of Finance, the top income tax rate of 50% was retained. In order to compensate for the decline in personal income tax revenue, the corporate income tax rate increased from 17% to 19% in 2017. Business associations have complained that this increase added to an already relatively high tax burden on enterprises. The Cerar government's second minister of finance, Mateja Vraničar Erman, proposed a minor tax reform in 2017, targeting above all taxes paid by small companies, but couldn't find enough support in the government. Consequently, the changes implemented were very minor and more technical in nature.

Under the Šarec government, tax changes have continued to be modest. In February 2019, the prime minister announced that the government would draft a package of measures before the end of the year, and in June 2019, a reform tax package was put up for public debate. The changes proposed are minor and include, for example, cutting income tax rates in the second and third brackets by one to two percent, a slight increase in tax deductions, higher capital gains taxes on items owned less than 20 years, a higher rate of personal income tax on rental property. In October 2019, the prime minister announced that there will be no property tax implemented until at least 2022, as there is no coalition consensus on the issue.

At almost 38%, the tax-to-GDP ratio is below the EU average, but relatively high from a regional perspective. The recent surpluses in the fiscal balance suggest that revenues are sufficient to finance the budget.

The progressive income tax has provided for vertical equity. Recent reforms have aimed at limiting the tax burden of the middle class.

The tax burden for enterprises is below the EU average, but higher than in most other East-Central European countries. Moreover, tax procedures for both individuals and companies are complex.

Slovenia's revenue from environmentally relevant taxes remains above the EU average. Environmental taxes made up to 3.73% of GDP in 2017 (EU-28 average: 2.4%), and energy taxes made up to 3.16% of GDP (EU-28 average: 1.84%). In the same year, the environmental tax amounted to 10.13% of total revenues from taxes and social security contributions (EU-28 average: 5.97%).

Citation:
European Commission (2019): Environmental Implementation Review 2019. Country Report Slovenia. SWD(2019) 131 final. Brussels (https://ec.europa.eu/environment/eir/pdf/report_si_en.pdf).

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 lacks property and inheritance taxes, the system of taxation is unbalanced in terms of equity. The previous government had declared that it would lower the tax burden on labor. However, the ÖVP and FPÖ (the former coalition parties) had also targeted a zero-budget deficit. As tax cuts and a balanced budget are difficult to reconcile even during an economic boom, these ambitious goals proved difficult to pursue simultaneously and no significant innovation was achieved. Moreover, as the coalition imploded after only 18 months, it is not possible to evaluate in a serious way the result of government's ambitions.

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 taxpayers, 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. Taxation is clearly secondary – the Austrian social system relies more on welfare transfers.

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.

According to the OECD, Austria ranked 6 out of 36 OECD countries in terms of the tax-to-GDP ratio in 2018. Relative to the OECD average, the tax structure in Austria is characterized by higher revenues from social security contributions and payroll taxes, and less revenue from taxes on personal income, capital gains, corporate profits and, in particular, property.

For single workers in Austria, the net average tax rate was 32.8% in 2018, compared to an OECD average of 25.5%. Taking into account child-related benefits and tax provisions, the net average tax rate for employed married workers with two children in Austria was reduced to 19.6% in 2018, the 10th highest in the OECD, compared to an average of 14.2% for the OECD. Therefore, a shift in the tax burden away from payroll taxes to taxes on corporate profits, capital gains and property seems possible. Concerning environmental taxes, Austria has a very high tax revenue from petrol taxes. However, 34% of net carbon emissions from energy use face no price signal at all. Therefore, there is still a lot of room for maneuver in the environmental tax system to significantly strengthen price signals for CO2 emissions from energy use.

Croatia

Score 5

Tax reform has been among the top priorities of the Plenković government. Immediately after coming to office in November 2016, it presented a first comprehensive reform package. Drawn up by Minister of Finance Zdravko Marić already under the previous government, it aimed at amending a total of 15 tax acts. The measures adopted that became effective already in 2017, included cuts in the corporate income tax from 20% to 18% (and 12% for small and medium-sized enterprises), the adoption of two rates of personal income tax (36% and 24% instead of 12%, 25% and 40%) combined with an increase of nontaxable income from HRK 2,600 to HRK 3,800, as well as adjustments to VAT and excises. At the same time, the personal income tax has become less progressive. In 2018, the government adopted a second tax reform package that went into effect on 1 January 2019. The package included an additional HRK 1.4 billion in tax reliefs based on reducing the VAT on fresh meat, fish, eggs, fruit, vegetables and diapers from 25% to 13%. However, the planned increase in the threshold for the upper income tax band, which is taxed at 36%, from HRK 17,500 (€2,300) per month to HRK 30,000 (approximately €4,000) per month – which aimed to raise net salaries in the high-technology sector, and in professions like physicians, IT experts and pharmacists in order to prevent "brain drain" – was eventually postponed. In the third tax reform package, the personal allowance (i.e., earned income that is not taxed) threshold was lifted from HRK 3,800 per month to HRK 4,000 per month, starting from 1 January 2020. Furthermore, the revenue threshold for the corporate tax rate of 12% was raised from HRK 3 million per year to HRK 7.5 million per year . Hence, 93% of businesses will pay taxes according to the lower tax rate. Finally, the government decided to exempt workers under the age of 30 from paying the full amount of income tax. At the same time, under pressure from trade unions, which had orchestrated the longest strike in Croatian history, the Plenković government decided to scrap the previously agreed reduction in the general VAT rate from 25% to 24%. The government also gave in to public pressure and postponed the introduction of a real estate tax, despite Finance Minister Marić's tax administration making all the necessary preparations for it long ago.

Since 2016, tax revenues have been sufficient to allow for a small fiscal surplus. However, the tax-to-GDP ratio, while slightly below the EU average, is rather high for a country of Croatia's economic and institutional development. Moreover, the previously announced tax reductions have been sacrificed for a revenue-based consolidation.

Vertical equity has suffered from the recent tax privileges of young income earners. While Croatia has a progressive income tax, the large share of indirect taxes limits the redistributive effects of the tax system. Croatia is the EU member state with the highest share of VAT revenues in GDP.

The standard corporate income tax is higher than in Bulgaria and Hungary, but similar to other East-Central European countries. Small businesses benefit from the lower tax rate. Due to the high social insurance contributions, however, the tax wedge is relatively high. The frequent changes in taxation have increased uncertainty over taxation.

At 3.6% of GDP in 2018, Croatia's revenues from environmental taxes were above the EU average of 2.4%. However, there is scope to improve the use of environmental taxation to better support environment and climate policy objectives. Croatia is one of the few Member States that does not have a landfill tax nor an incineration tax for waste management

Citation:
Blažić, H., Grdinić, M. (eds.) (2018): Tax Policy and Fiscal Consolidation in Croatia. Rijeka: Faculty of Economics and Business.

European Commission (2020): Country Report Croatia 2020. SWD(2020) 501 final. Brussels, 25 (https://ec.europa.eu/info/sites/info/files/2020-european-semester-country-report-croatia-en.pdf).

Portugal

Score 5

The levels of taxation on income and consumption noted in recent SGI reports remained very high during the period under review.

Overall, the tax burden increased to 35.4% of GDP in 2018, a one percentage point increase vis-à-vis the previous year and the highest level since the National Statistics Office (Instituto Nacional de Estatística) began compiling data in 1995. However, it remains below the EU-28 average, albeit above the OECD average. The penultimate citation below summarizes the OECD information.

This historically high level is a result of two factors.

First, while the Costa government has stated its intention to end austerity, it has largely retained the income tax brackets approved in 2013, which generated a massive tax increase (and which boosted the tax burden from 31.8% of GDP in 2012, below the OECD average, to 34.1% of GDP in 2013, above the OECD average). Prior to this change in income tax, the tax burden had only once surpassed 32% (32.3% in 2011). Since 2013, it has never fallen below 34% of GDP.

Second, the Costa government has also sought to maintain budgetary consolidation despite increasing expenditure. To that end, it has resorted to indirect taxation, either maintaining existing high levels on some indirect taxes (e.g., VAT) or increasing the rate on other indirect taxes (e.g., on fuel and cars, particularly in 2016 but also in 2017 and 2018).

Overall, tax policy has failed to achieve horizontal and vertical equity during the period under review.

Fiscal receipts continue to rely excessively on more regressive indirect taxation. Thus, while the share of direct taxation on the overall tax burden in Portugal (29.5%) is below the EU-28 average (34.3%) in 2018, the share of indirect taxation in Portugal (43.5%) is well above the EU average (34%). VAT accounted for more than a quarter of the overall tax burden (25.1%) in 2018, well above the EU average of 18.1%.

Moreover, the overall balance is one in which indirect taxation outweighs direct taxation, in contrast to the EU norm. The considerable dependence of public finances on indirect taxation measures fails to satisfy the vertical-equity criterion.

The tax authority continued to implement measures to combat tax avoidance in 2018 and 2019, and began implementing its new strategic plan to combat fraud and tax evasion for the 2018 – 2020 period. In 2018, it implemented 27% of the 95 measures contained in the strategic plan.

Existing data suggests historically high levels of tax evasion and fraud in Portugal. A paper published in 2018 indicated that over 20% of Portugal's GDP was held offshore in 2007 – more than twice the world average of 9.8% and second only to Greece in the European Union. While its various measures are a step in the right direction, the tax authority appears unable to fully deal with the accumulation of offshored wealth or sophisticated modes of tax evasion. The tax authority's report for 2018 notes very small tax receipts arising from the Swissleaks and Panama Papers cases, despite each of these listing around 100 Portuguese taxpayers.

At the corporate level, it should be noted that taxes on the income or profit of corporations (including taxes on holding gains) is higher in Portugal as a percentage of GDP (3.3% in 2018) than the EU-28 average (2.7%).

Regarding the relationship between taxation and ecological sustainability, there appears to be a lack of available data on this important point.

Citation:
Alstadsæter, A., Johannesen, N., & Zucman, G. (2018). Who owns the wealth in tax havens? Macro evidence and implications for global inequality. Journal of Public Economics, Volume 162, June 2018, Pages 89-100.

Eurostat (2019), "Taxation in 2018: Tax-to-GDP ratio up to 40.3% in EU," available online at: https://ec.europa.eu/eurostat/documents/2995521/10190755/2-30102019-AP-EN.pdf/68739572-f06a-51e4-3a5b-86e660a23376

INE (2019), "Carga fiscal atingiu 35,4% do PIB em 2018," available online at: https://www.ine.pt/xportal/xmain?xpid=INE&xpgid=ine_destaques&DESTAQUESdest_boui=353924442&DESTA

QUESmodo=2&xlang=pt

Portuguese Republic (2019), “Relatório De Atividades Desenvolvidas de ‘Combate à Fraude e Evasão Fiscais Aduaneiras 2018’,” available online at: https://www.portugal.gov.pt/download-ficheiros/ficheiro.aspx?v=e2d8ee56-2f74-426e-9ef3-1ba2a20dfc82

OECD (2019), Tax revenue (indicator). doi: 10.1787/d98b8cf5-en (Accessed on 02 November 2019)

https://rr.sapo.pt/noticia/…/ocde-um-quarto-do-salario-dos-portugueses-vai-para-impo…

https://www.portugal.gov.pt/…/documento?…relatorio…combate…fraude-e-evasao-fis..

Spain

Score 5

Spain collects less in taxes relative to wealth than do most other European countries. The tax-to-GDP ratio in Spain increased from 33.2% in 2000 to 34% in 2019, but it is still low when compared with an EU average of 40%. The former PSOE government announced an increase in annual tax collections to 42% of GDP with a structural impact of an estimated €55.7 billion. The measures included in the 2019 budget comprised an increase in income-tax rates, changes in corporate-tax structures, an increase in tax surcharges on fuel as well as the creation of the Tax on Specific Digital Services and the Financial Transaction Tax. However, the 2019 budget was not adopted. Notwithstanding this fact, treasury revenues rose during 2019 thanks to economic growth, wealth creation and the modernization of revenue-collection mechanisms.

Existing tax policy is difficult to assess with regard to equity and competitiveness. Vertical equity exists in principle, but horizontal equity suffers due to 1) corporate-tax engineering, 2) the prevalence of fraud and 3) the scope of the underground economy.

Turkey

Score 5

While taxes accounted for 85.1% of central government revenue in 2017, this decreased to 82% in 2018. The taxation system can be divided into two categories: direct taxes (e.g., income tax on individuals and corporations) and indirect taxes (e.g., the value added tax, the banking and insurance-transaction tax, the special consumption tax, and the telecommunications tax). In 2018, income tax rates for individuals ranged from 15% to 35%. The standard corporate tax rate was 20%, while capital gains were usually treated as regular income and taxed accordingly. Although the general value added tax rate is 18%, a wide range of products are subject to an 8% and some other products to a 1% tax rate.

Income taxes accounted for 35% of total central government tax revenue, while taxes on property accounted for 2.2%, domestic taxes on goods and services 34.3%, taxes on foreign trade 22.2%, and other taxes 6.3%. 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.

According to the IMF's October 2019 World Economic Outlook Database, general government revenue as a percentage of GDP is expected to decrease from 31.5% in 2018 to 30.2% in 2019, before increasing slightly to 30.5% in 2020 and 2021. On the other hand, general government expenditure as a percentage of GDP is expected to increase from 34.6% in 2018 to 35.6% in 2020 and 2021. As a result, the fiscal deficit as a percentage of GDP, which was 3.1% in 2018, is expected to increase to 4.6% in 2019, 4.7% in 2020 and 5.1% in 2021. Furthermore, the gross debt-to-GDP ratio is expected to decrease from 30.2% in 2018 to 30.1% in 2019, before increasing to 30.8% in 2020 and 31.7% in 2021. However, the fiscal deficit figures given above do not account for fiscal risks arising from public-private partnership (PPP) projects. PPP projects in the transportation, energy and health sectors involve explicit minimum guarantees and components expressed in foreign exchange terms. Since detailed information on all issued guarantees and associated risks, and on the structure and risk composition of the overall PPP portfolio is not available, it is difficult to estimate the expected increases in the fiscal deficit-to-GDP and gross debt-to-GDP ratios. However, guesstimates suggest that the figures are substantial. This highlights the incompatibility of government tax policies with current economic growth trends and the unsustainability of government finances. Finally, there is no apparent incentive structure to promote ecological sustainability.

Citation:
Ministry of the Treasury and Finance (2019) 'Economic Indicators Statistics,' Ankara.EE

United States

Score 5

The U.S. tax system does not produce enough revenue to eliminate the deficit and provide sufficient resources to fulfill major obligations in the long run. Tax policy is highly responsive to special interests and the redistributive effect of the tax system is very low. As a result, the tax system might promote the country's competitive status internationally but faces serious problems in terms of ensuring horizontal and vertical equity. 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.

Congress enacted a sweeping "tax reform" measure in late 2017, which went into effect in January 2018. The Trump administration's ostensible major objectives were to reduce corporate tax rates, reduce rates paid by high-income taxpayers, eliminate the inheritance tax, reduce taxes for middle income taxpayers, and make up for the losses of revenue by eliminating certain credits and deductions.

According to recent numbers issued by the government, tax reform will lead to a loss of $600 billion more in tax revenues, bringing the cut's total costs to $1.6 trillion. Although most people actually paid less in taxes as a result of the cuts, the wealthy benefited much more from much larger cuts. In fact, as reported by Max de Haldevang in Quartz, in 2020, the wealthiest 20% of "taxpayers will save more than double the amount of taxes than the remaining 80% of earners combined."

Citation:
https://qz.com/1769421/trumps-tax-cuts-and-jobs-act-shows-poor-results-after-two-years/

Greece

Score 4

Greece's taxation policy only partially achieves its objectives, though there has been some progress in recent years. Since January 2017, the Independent Public Revenue Authority has become organizationally and functionally independent vis-à-vis the Ministry of Finance. In addition, Greek authorities have repeatedly passed primary and secondary legislation to combat tax evasion. As a consequence, the tax-to-GDP ratio in Greece increased from 36.6% in 2015 to 39.4% in 2017. The redistribution effect achieved through taxation is reasonably good, with Greece ranking in the middle of OECD countries. However, Greece is among the OECD's worst performers regarding the time needed to prepare and pay for taxes, as well as the tax burden for businesses.

The structure of Greece's tax revenues is different from the OECD average. The country receives a relatively higher revenue share from social security contributions, value-added tax, property taxes, and taxes on goods and services, and a lower-than-average revenue share from personal-income tax, capital gains and profits, and corporate gains and profits.

Although income and value-added tax are higher than the EU average as a share of GDP, the total amount of revenue collected is much lower, thanks to widespread tax evasion and a narrow tax base. The gap between the expected revenue from value-added taxes and the actual sum raised was around 30% in 2018. The tax-free threshold for income tax is set at 60% of the average pay, nearly three times the EU average.

Measures to increase taxes are easier to announce than implement. During the tourist season, income earned by small and very small businesses remains largely undeclared, while throughout the year, an unknown share of income in the liberal professions also evades tax authorities' eyes. Thus, engineers, lawyers, medical doctors and dentists, as well as craftsmen, plumbers, electricians and computer technicians typically declare an amount of personal income below the threshold at which personal-income tax would be imposed. For income earned in 2018 (and taxed in 2019), this threshold was €8,366 per year for a single taxpayer without dependents.

Regulations on income and property taxes are altered almost every year. As long as tax regulations are constantly under revision, private investment will not be forthcoming, and the business environment will remain unstable; nor will progress will be achieved in improving horizontal and vertical equity.

Taxation measures and arrears to suppliers of goods and services to the public sector (a practice pursued by various governments since at least the beginning of the economic crisis) have contributed to the country's achievement of a primary budget surplus of 1.1% in 2018 (EU average: -0.6%).

The government is bound to maintain a budget surplus in order to avoid elevating its already very high levels of public debt (182% of GDP in 2018). In 2018, the government kept taxes at relatively high levels so as to be able to distribute revenues to its electoral clientele as the European parliamentary and national elections of 2019 were approaching. These ad hoc state transfers to selected groups have been common among a succession of governments. During the period under review, mechanisms included recruiting government-coalition supporters for public sector jobs, and the distribution of one-off allowances to select groups.

The New Democracy government has announced that Greece will cut its corporate-tax rate from 28% to 24% for fiscal 2019 (the country's corporate-tax rate was previously much higher than rates maintained by its immediate competitors). However, the new government has shown little interest in widening the tax base or combating tax evasion. Instead, like all predecessors, it has set up a tax-amnesty scheme in order to boost revenue.

Greece's revenues from environment-related taxes are high in cross-EU comparison. Environmental taxes accounted for 3.97% of GDP in 2017 (EU-28 average 2.4%) and energy taxes for 3.18% of GDP (EU average 1.84%). However, there are implementation gaps. For example, although the landfill tax has been in place since January 2014, it had not been implemented as of the end of the review period.

To sum up, Greek taxation policy has improved over time, but is still subject to unpredictable shifts and an unwillingness by politicians to widen the tax base.

Citation:
Comments on tax system complexity, the tax burden for businesses and the redistribution effects of Greek taxes are based on the comparative data on OECD countries, available on this SGI platform. Data on the ratio of taxes to GDP an the sources of tax revenue is based on OECD information, https://www.oecd.org/tax/tax-policy/revenue-statistics-highlights-brochure.pdf
Information on Greece's structure of tax revenue is drawn on OECD, https://www.oecd.org/tax/revenue-statistics-greece.pdf
Data on the size of the state budget surplus is drawn on Eurostat, https://ec.europa.eu/eurostat/statistics-explained/index.php/Government_finance_statistics

Hungary

Score 4

Since 2010, successive Orbán governments have transformed the Hungarian tax system. In 2011, the progressive income tax was replaced with a flat tax. In 2012, the standard VAT rate was increased from 25% to 27%, the highest level in the European Union. In 2017, a uniform corporate income tax of 9% replaced a two-tier system with rates of 10% and 19%. Between 2017 and 2018, employers' social security contributions were cut by seven percentage points. In addition, Hungary's recent governments have introduced a panoply of sectoral taxes.

The tax-to-GDP ratio initially rose, but has been declining for some time. It now stands at about 37% of GDP, which is below the EU average, but higher than in most countries in the region. As the recent fiscal deficits show, revenues have not been sufficient to cover spending.

The redistributive effect of the Hungarian tax system is limited. The country has a flat income tax and the tax burden has shifted from direct to indirect taxes.

With the introduction of the lowest corporate income tax rate in the European Union (9%) in 2017, the tax burden especially on larger companies has substantially decreased. However, companies still struggle with frequent changes in taxation and a complex tax regime, including the many sectoral taxes. Moreover, tax policy and tax administration have been instrumentalized to favor oligarchs close to Fidesz and to punish outsiders. The classification of businesses as "reliable," "average" or "risky" by the National Tax and Customs Authority (NAV) combined with the promise of preferences for "reliable" taxpayers, has smacked of favoritism.

Taxation has hardly been harmonized with environmental sustainability and/or quality. Although environmental tax revenues in Hungary were slightly higher than the EU average (6.6% compared to 5.97%), there are still many problems with Hungary's tax structure due to the many exemptions and special taxes (e.g., subsidies for the reorganization of the coal sector).

Citation:
European Commission (2020): Country Report Hungary 2019. SWD(2020) 516 final, Brussels, 20-21 (https://ec.europa.eu/info/sites/info/files/2020-european-semester-country-report-hungary-en.pdf).

Italy

Score 4

The Italian tax system continues to be stressed by the need to sustain the combined burden of high public expenditures and of interests on the huge public debt accumulated in 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 remained very high over the years (42.1% in 2018) 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 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. As the antiquated land register has yet to be reformed despite repeated promises, inequities in the property-tax system continue to persist.

One of most significant measures introduced by recent governments has been the online system for submitting income-tax declarations, the "730 precompilato," which has gained usage year by year. The online system replaces paper forms for the majority of income taxpayers, and makes it easier to double-check tax returns. The shift to electronic invoices within the public administration and the new VAT payment method have also increased the effectiveness of fiscal oversight.

The first Conte government promised a revolutionary flat tax rate (though this was in fact two rates of 15% and 20%). However, faced with budget difficulties and the need to fulfil other priorities, it reduced its promises for 2019 to a more limited tax reduction (to a 15% rate) solely for self-employed workers ("partite IVA") with earnings below €65,000. Except for limited changes with regard to family allowances and write-offs for technological investments, no major reforms have been introduced. The second Conte government has promised to step up the fight against tax evasion and reform (and increase) family benefits, but such promises are not new, and they had not been realized by the close of the review period.

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.

Citation:
http://www.sviluppoeconomico.gov.it/images/stories/documenti/Industria_40%20_conferenza_21_9
http://www.istat.it/it/files/2017/06/CS_-Redistribuzione-reddito-in-Italia_2016.pdf
http://www.cgiamestre.com/wp-content/uploads/2018/08/PF-TASSE-2017-18-1.pdf

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 50 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 may argue that the low level of taxation has been helpful for Mexico’s international competitiveness, increasing taxation is necessary for improving public good provision by the Mexican government.

While some taxes are collected at the state and municipal levels, the most important tax collector is the federal government. A new tax-reform law was passed under President Peña Nieto and took effect on 1 January 2014. While well-targeted and effective within its limited scope, the reform was rather modest given the challenges that Mexico faces. The government expected the new law to increase the national government’s tax revenues by around 2.5% of GDP. According to a new OECD study, the reform did indeed increase tax collection by 3% in 2015 and 2016, thus contributing to a reduction in the borrowing requirements of the public sector.

Nonetheless, according to observers, Mexican tax collection remains between six and eight percentage points of GDP short of where it should be given the country’s current level of development. Tax evasion and tax avoidance in the formal sector is one cause, as is the large size of the informal sector, which is notoriously tax resistant. Most Mexicans distrust their government and do not believe that money paid in taxation will be spent wisely. Additionally, the market-reforming economists who have run Mexico over the past 30 years have not prioritized raising revenue, putting more emphasis on controlling government spending in order to decrease the size of government. It has been asserted that as an oil-exporting country, Mexico should 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. Furthermore, the new president, López Obrador, announced that the government would reduce the fiscal burden on Pemex, the state-owned oil company, which is highly in debt. The plan is to reduce Pemex tax contributions from 65% to 58% in 2020 and to 54% the following year.
Overall, further efforts are needed to better coordinate income tax collection with social security, improve the use of property taxes and broaden the overall tax base.

In his election campaign, the new president promised not to increase taxes in the first three years of his term. Nevertheless, in the fall of 2019, the Finance Minister Arturo Herrera announced a future tax reform, with the main aim of eradicating tax evasion. Some of the proposed measures include an obligation that independent sellers and landlords pay income tax. The president also announced a plan to increase excise taxes on cigarettes and sugary drinks, and new taxes on services delivered by digital platforms.

Citation:
https://tradingeconomics.com/mexico/corporate-tax-rate
https://tradingeconomics.com/mexico/personal-income-tax-rate
https://www.tmf-group.com/en/news-insights/articles/2018/april/mexico-tax-environment/
https://www.latinnews.com/component/k2/item/81747.html?archive=33&Itemid=6&cat_id=819449:mexico-herrera-drops-first-hint-of-tax-increases
https://www.latinnews.com/component/k2/item/81521.html?archive=33&Itemid=6&cat_id=819153:mexico-lopez-obrador-s-first-budget-disappoints

Romania

Score 4

Under the Dăncilă government, tax policy has suffered from hectic and highly selective tax changes. The government has abolished income taxes for employees of public cleaning companies and mineral extraction companies for the next ten years, provided employers are paying salaries of at least RON 3,000 (around €630). It has introduced a new tax on banks, lowered VAT rates for some transport services, created a new registry for non-profit and religious organizations for sponsorship, and stopped the publication of a list of bad debtors. Following the practice of the previous governments, most tax changes have been adopted by emergency ordinances, on short notice, and without proper preparation and consultation.

Romania's tax-to-GDP ratio stands at about 27%. This is the second-lowest value in the EU and compares to an EU average of 39.2%. As the substantial fiscal deficits show, tax revenues have remained behind expenditures.

The impact of the tax system on reducing poverty and income inequality is limited. The Romanian income tax is among the least progressive in the EU, as measured by the difference between the relative tax burdens for low- and high-income earners. Moreover, the share of indirect taxes in overall tax revenues is high.

With a standard rate of 16%, Romania's corporate income tax burden is low. The differential treatment of different economic sectors has ambivalent effects. The frequent changes in taxation and the resulting uncertainty over tax policy have reduced the competitiveness of the system.

Environmental taxation remains at a relatively low level. Environmental taxes amounted to 2.1% of GDP in 2018, below the EU average of 2.4%. Revenues from transport fuel taxes as a share of GDP are among the lowest in the EU. The Dăncilă government lowered the excise duty on motor fuels from 1 January 2020. This will result in lower budgetary revenues and have a negative impact in terms of the climate objectives. Moreover, the government dropped its plans to introduce a pollutants-dependent car registration tax in 2019 and postponed the implementation of a landfill tax.

Citation:
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