Taxes Report

Tax Policy

Sustainable Governance Indicators 2022

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 and municipalities have the power to levy taxes. The Evangelic Lutheran Church and the Orthodox Church are allowed to collect their membership fees through regular taxation. Taxation policies are largely effective. The state taxes individual incomes at rates falling on a progressive scale between 6% (with an annual taxable income of €19,200) and 31.5% (2022). Municipal taxes range from 17% to 23.5%, depending on the municipal authority. In 2022, the average overall personal income tax rate is around 31%. 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 quite well in regards to structural balance and redistributional effects, while overall taxation policies generate steady government revenue, but not enough to prevent state budget and municipal budget deficits. 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 that does not charge tuition. In Finland, the public in general has a favorable attitude toward high levels of 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:
https://www.veronmaksajat.fi/luvut/Tilastot/Tuloverot/Yhteisoverotus/#c7499fa8
https://www.taloustaito.fi/Vero/kenen-verotus-kevenee-kenen-kiristyy-vuonna-2021/#44efd210
https://www.kuntaliitto.fi/talous/verotus/kuntien-veroprosentit/kuntien-tulo-ja-kiinteistoveroprosentit-2022

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. 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.

More recently, 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. In Budget 2021, the government has also committed to introducing a new Digital Services Tax of 3% on revenue from digital services that rely on Canadian users. The tax will apply to large corporations with gross revenues of CAD 750 million or more.

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. The Trudeau administration has also created a new External Advisory Committee on Regulatory Competitiveness in order to reduce the red tape that many businesses claim slows down investment.

Citation:
Government of Canada, A Recovery Plan for Jobs, Growth, and Resilience, 2021, https://www.budget.gc.ca/2021/home-accueil-en.html.

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," 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. An important issue in policy design is tax competition. This has led to the reduction of some excise taxes in order 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.

Environmental taxes have also been increasingly used, and the current debate is on a "green" tax reform that includes a CO2 tax intended to support environmental objectives. There are economic arguments in favor of a uniform CO2 tax, but that conflicts with other objectives in relation to employment and keeping specific sectors from having to carry too large of a burden.

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.
Ekspergruppen for en grøn skattereform, 2022, Grøn skattereform - første delrapport, København.
Danish Economic Councils, The Danish Economy, Various issues. Latest issue: Autumn 2021.

Norway

Score 8

Taxes on individuals, on income and consumption (VAT) are high, whereas taxes on assets and companies are comparatively low, apart from the natural resource extraction sectors, where taxes are extensive. The tax base for the public sector is broad and solid. There is a tradition for political compromises in the making of tax regimes, that aims to provide households and companies a simple and predictable system. Tax collection is conducted primarily electronically, which keeps transaction costs to a minimum. The tax system offers limited scope for strategic tax planning, and tax evasion is generally rare. Distributional regards are integrated into a progressive system of income- and payroll taxes and social security contributions. There are some subsidies for certain peripheral, geographical areas that are intended to promote investments and employment. A large share of the state's tax revenue 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. Corporate taxation is moderate in comparison to other countries. The tax code aims to be equitable in the taxation of different types of economic activities and assets, although residential capital remains taxed at a significantly lower rate than are other forms. As a means to transforming the economy to a more sustainable, green economy, taxes on CO_2 emissions are high and poised to rise further, whereas non-carbon based transport is favored by subsidies.

Sweden

Score 8

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

Vertical equity has significantly decreased, however. Differences between different socioeconomic strata have 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.

Though a broad tax reform has been envisaged for years, it has not taken place yet. A recent report proposed a tax overhaul based on the premise that the last tax reform was 30 years ago, and that incremental changes to tax policy have not had a holistic perspective (Eklund, 2021). Other voices do not consider a full-scale reform to be necessary, claiming that isolated changes, such as a progressive income tax reduction (Skatteverket, 2021), have the same effect (Wikström, 2020).

Tax abatement, mainly for businesses, was used as an instrument to ameliorate the consequences of the pandemic during 2021. The focus in 2020 was on direct economic measures in the form of subsidies and tax payment suspensions, starting in the fall of 2020. In 2021, however, the focus shifted to measures aimed at long-term adaptation, with measures carrying a total price tag of SEK 40 billion (Finanspolitiska rådet, 2021).

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. 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:
Eklund, Klas. (2021). Vårt framtida skattesystem – en ESO rapport med förslag på en genomgripande skattereform. https://eso.expertgrupp.se/wp-content/uploads/2020/11/2020_7-vårt-framtida-skattesystem-webb.pdf

Finanspolitiska rådet. (2021). Svensk finanspolitik: finanspolitiska rådets rapport 2021. https://www.fpr.se/download/18.3e9ba604179f5fc737de1d0/1624285470841/Svensk%20finanspolitik%202021.pdf

Skatteverket. 2021. ”Jobbskatteavdrag.” https://www4.skatteverket.se/rattsligvagledning/2940.html#h-Vem-kan-fa-jobbskatteavdrag

Wikström, Tobias. 2021. ”Svensk Skattepolitik är ett Perspektivfel.” Dagens Industri. 16 November 2020. https://www.di.se/ledare/svensk-skattepolitik-har-ett-perspektivfel/

Switzerland

Score 8

The Swiss tax ratio is significantly below the OECD average, and tax rates, particularly for business, are moderate. Tax burdens are declining (EFD 2022). Taxation policies are competitive and generate sufficient public revenues. 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.

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 a 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.

In 2021, the Swiss government agreed to cooperate with the OECD's Inclusive Framework, which involves implementing the global minimum tax of 15% with regard to major international firms. The Swiss finance minister joined forces with other countries to keep these minimum taxes as low as possible, stating that this tax may be bearable if Switzerland successfully pursues compensatory strategies. Parliament will discuss legislation in 2023 that will be subject to popular vote most likely in 2024 (NZZ 15 October 2021).

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 a far-reaching law in the fall of 2019. This draft law was enacted in December 2019. However, it did not survive a popular vote in 2021. This means that, at the time of writing, a major attempt to use tax policy for environmental purposes has failed. The government proposed a new law in December 2021, substantially watering down the failed CO2 law and renouncing any new attempts to tax on CO2 emissions.

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 (OECD 2019).

A major reform project concerns the abolition of taxes on owner-occupied rental value. For decades, the Homeowners Association sought to eliminate this tax, while retaining as many of the concurrent tax deductions for renovations and debt service as possible. Despite support from some politicians on the political center and right, they failed though. At the time of writing, another reform attempt has been launched. In a complex web of different political forces – cantonal ministries of finance, the political left, craftsmen in the construction sector, banks and insurance companies that issue mortgages, homeowners, and some center-right politicians – the reform may also fail.

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. A major setback for tax policy as environmental policy happened in 2021, when the so-called CO2 law was rejected in a popular vote. Probably even more than in other democracies, tax reforms – which are set separately by municipal, cantonal and federal actors – are very hard to realize, irrespective of whether the policies are in the interest of low- or high-income groups, or in the interest of broadly accepted environmental goals. There is a multitude of decisive actors given that taxes are set separately on the municipal, cantonal and federal level, and given the reform-averse effects of direct democracy.

Citation:
EFD (Eidgenössisches Finanzdepartement) 2022: Medienmitteilung 6. Januar 2022, Bern: EFD.
OECD 2019: OECD Economic Surveys Switzerland, November 2019, Paris: OECD
https://www.bfs.admin.ch/bfs/de/home/statistiken/oeffentliche-verwaltung-finanzen/ausgaben-schulden.html
https://www.efv.admin.ch/efv/de/home/finanzberichterstattung/finanzberichte/staatsrechnung.html

Australia

Score 7

Concerns persist that the federal government faces a structural deficit that will require difficult fiscal decisions in the coming years, 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 massive expenditure measures that were introduced in the wake of the COVID-19 pandemic have only increased the urgency of addressing these problems.

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.

In 2019, 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 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 was fully implemented for companies with an annual turnover of less than AUD 50 million from 1 July 2021.

The tax-to-GDP ratio in Australia remains among the lowest 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 carbon emissions.

Citation:
Australia’s Future Tax System, Report to the Treasurer. Canberra: Commonwealth Government, 2009. Available from http://taxreview.treasury.gov.au/content/Content.aspx?doc=html/pubs_reports.htm.

Australian government ‘Re:think Tax Discussion Paper,’ March 2015: http://bettertax.gov.au/publications/discussion-paper/.

http://www.treasury.gov.au/Policy-Topics/Taxation/Pocket-Guide-to-the-Australian-Tax-System/Pocket-Guide-to-the-Australian-Tax-System/Part-1

Estonia

Score 7

Estonia is internationally recognized for its simple and transparent tax system. Besides the modest income tax (standard rate of 20%), capital is not taxed at all (except very marginal land tax), which violates the principle of horizontal equity. Motor fuel, energy and gas excises – which had increased rapidly in previous periods – were decreased in 2021 (prior to spring 2022) in order to cope with the COVID-19 impact. Environmental taxes were not a policy priority in 2019–2021.

Retained and reinvested profits are exempt from corporate income tax in Estonia, and the country resisted the global corporate tax overhaul under the aegis of the OECD. Estonia long claimed that this agreement will hamper the international competitiveness of small countries, but ultimately chose not to be cast out by the international community.

Internally, there is widespread consensus that the current tax system needs revision due to decreasing tax returns, an aging population, increasing inequality and environmental pressures, but no substantial debates have started yet. The Estonian parliament’s Foresight Centre provided three scenarios for a sustainable tax system, but these were dismissed outright by the minister of finance, Keit Pentus-Rosimannus (Reform Party), who promised to come up with their own suggestions by late 2022. Thus, it is unclear what direction tax debate will take over the coming years.

One of the main challenges comes from the Estonian welfare system, which is financed almost entirely (80%) through social insurance contributions. High labor costs may weaken the country’s economic position and could lead to labor relations abuses. Even more importantly, 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 a long-term financial austerity policy. The future of the social welfare budget has been weakened as a result of the funded pensions reform (2021), which made the previously mandatory second pillar voluntary. The amended law allows people to withdraw their long-term pension savings before the pension age in full and this option was used by about a quarter of insured persons. This populist decision to “free” citizens’ money improved tax revenues in 2021, as the withdrawn funds attracted income tax, but reduced social tax revenues, as individual contributions to the second pillar from people who exited the system ceased.

Citation:
Foresight Center (2021). https://www.riigikogu.ee/en/foresight/future-proof-tax-structure/ (accessed 07.01.2022)

France

Score 7

Taxes and social contributions are in sum higher in France than anywhere else in the OECD except for Denmark (45.4% of GDP 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, after having slightly dropped since 2017, rose sharply from 55.4% (2019) to 61.8% of GDP in 2020 as a result of the pandemic crisis. Taxes have not been increased, but expenditures have grown massively, contributing to an increase in the budget deficit (9.1% in 2020, 8.0% in 2021) and the state debt (114.9% of GDP by mid-2021).

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. Furthermore, 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 aiming to slow the expansion of local expenses. The suppression of the housing tax paid by tenants or owners, another promise of the Macron program in 2017, will take full effect by 2022. 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 the partial abolition of the wealth tax in particular 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. As a response to the pandemic crisis, the Recovery Plan launched in 2020 contained a substantial lowering of the production taxes charged to companies.

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, and flat-rate subsidies were granted to low-income families at the end of 2021 in order to alleviate the burden of rising energy costs.

Citation:
OECD: Revenue Statistics 2021. The Initial Impact of COVID-19 on OECD Tax Revenues, Paris, December 6, 2021 https://www.oecd.org/tax/revenue-statistics-2522770x.htm

Germany

Score 7

Up until the pandemic recession, Germany’s tax system had been able to support dynamic growth in government spending and balanced budgets across all federal layers. According to the Ministry of Finance, between 2010 and 2019, total tax revenues rose by 50%, from €531 billion to €799 billion (Bundesfinanzministerium 2020). This buoyant revenue growth is not just a function of economic growth alone; the ratio of tax revenues to GDP also increased significantly from 21.7% in 2010 to 24.1% in 2019 (Bundesfinanzministerium 2021). With the strong decline of economic activity in 2020 and temporary tax cuts to stabilize the economy during the pandemic crisis, tax revenues declined sharply in 2020, but they are projected to recover quickly and exceed their pre-crisis level in 2022 (Bundesfinanzministerium 2020).

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 to achieve a more equal post-tax situation. Whereas the Gini coefficient is 0.49 for pre-tax market incomes, it is at 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 with respect to the equalization of incomes. Germany taxes inheritances but applies generous provisions for corporate wealth. The country does not have a wealth tax, though the idea has been a subject of heated debate for many years. During the 2021 election campaign, parties on the left proposed introducing wealth taxes (as they had done often before), but the new three-party coalition proved unable to reach agreement on the issue.

Competitiveness: The German tax system lacks international competitiveness and entails substantial work disincentives. The top marginal personal-income-tax rate (47.5%) is comparable to the OECD average (OECD 2022), 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 concludes that this is particularly harmful with regard to the integration of single parents into the labor market and it creates substantial work disincentives for households’ potential second earners (OECD 2021). 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. The position of Germany with regard to effective corporate-tax-rate comparisons has continuously declined over the past decade. Today, there are very few industrial countries left that impose a higher tax burden on their companies (Dutt et al., 2021). Germany has thus lost considerable tax appeal as a destination for foreign direct investment. The country is among the initiators of the emerging new OECD rules on international minimum corporate tax rates, but this project is unlikely to alleviate the lack of German tax competitiveness since the international minimum tax rate will be set far below the German level.

Ecological sustainability: Since the ecological tax reforms of the late 1990s, the German tax system has been equipped with “green” taxes designed to internalize the ecological damage produced by certain polluting activities. The German industry is subject to the European emissions-trading system with its market-based pricing of CO2 emissions. In 2021, Germany took another important step forward by introducing a carbon pricing system for the building and transport sectors. This CO2 emissions tax will increase from its initial fixed price of €25 per allowance (ton of CO2 equivalent) in 2021 to €55 in 2025 (Bundesregierung 2022). The new government aims to stick to this pre-announced price path but intends to set up a social compensation scheme (“Klimageld”) that will help low-income households cope with higher energy prices (Koalitionsvertrag 2021, p. 63).

Citation:
Bundesministerium der Finanzen (2020): Datensammlung zur Steuerpolitik 2020/2021, Dezember 2020.

Bundesministerium der Finanzen (2021): Die wichtigsten Steuern im internationalen Vergleich 2020, Ausgabe 2021, Rechtsstand: 31.12.2020.

Bundesregierung (2022): CO2 hat einen Preis Anreiz für weniger CO2-Emissionen, https://www.bundesregierung.de/breg-de/themen/klimaschutz/weniger-co2-emissionen-1790134 (accessed: 4 January 2022).

Dutt, Verena, Fischer, Leonie, Heinemann, Friedrich, Kraus, Margit und Minkus, Fynn (2021): Länderindex der Stiftung Familienunternehmen, 8. Auflage, München: Stiftung Familienunternehmen.

Koalitionsvertrag (2021): Mehr Fortschritt wagen, Bündnis für Freiheit, Gerechtigkeit und Nachhaltigkeit, Koalitionsvertrag zwischen SPD, Bündnis 90/Die Grünen und FDP.

OECD (2021): Germany, Economic Policy Reforms 2021: Going for Growth, Country Note, April 2021.

OECD (2022): Top statutory personal income tax rate and top marginal tax rates for employees. Online: http://stats.oecd.org/index.aspx?DataSetCode=TABLE_I7 (accessed: 4 January 2022).

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

Ireland

Score 7

The goal of fiscal consolidation has been 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. A carbon tax was first introduced in Ireland in 2010 with an initial imposition of €10 per ton of carbon dioxide. The rate was increased to €20 per ton with effect from 1 May 2014. In the 2020 budget, the rate has been increased to €26 per ton. 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 ton 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 ton.

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, 2021 and 2022 budgets), 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. It remains to be seen, however, whether the OECD agreement will be implemented.

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 has historically fallen disproportionately on wage earners, particularly low-income earners.

To address this issue, tax reforms were first undertaken in 2016 – 2018 to shift the tax burden away from low-income wage earners and increase the tax burden on the wealthy. The work on this has continued since. For example, the 2018 National Tax Policy Guidelines introduced progressive personal income tax rates and an increase of the differentiated nontaxable minimum as well as an increase of the allowance for dependents. An ex post evaluation of these measures indicates mostly positive outcomes. In addition, minimum social contributions were introduced to foster social equality.

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.

Meanwhile, Latvia was ranked 2nd overall in the 2020 and 2021 International Competitiveness Index due to its competitive and neutral corporate tax system, which implicitly allows for unlimited loss carryforwards and carrybacks.

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. An exception to this was introduced in 2021 for the use of peat in stationary technological equipment, as peat is not a renewable energy resource. A 2019 OECD report has recommended that Latvia increase energy taxation by eliminating all exemptions and taxing pollutants at the same rate across different fuels and sectors.

The natural resources tax was increased at several points in 2021, and a statutory rate increase is scheduled for 2023.

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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 accessed: 03.01.2022.

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 accessed: 03.01.2022.

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Lithuania

Score 7

Lithuania has the third-lowest tax-to-GDP ratio in the EU, with tax revenues (including social contributions) at 30% of GDP in 2019 (compared with an EU average of 40%), although this ratio is forecast to increase by 0.7 percentage points by 2022 (highest growth in the EU).

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), although reduced somewhat in recent years, are 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 2018, it was the third-highest in the EU. Potential tax revenues are still influenced by the country’s significant shadow economy, extensive tax avoidance, widespread tax exemptions and low tax morale. 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).

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 were reduced after the 2019 reform (but the personal-income tax was increased). The ceilings for these contributions (reintroduced in 2019) start at a very high level, but are gradually decreased.

Overall, in terms of vertical equity, the tax system’s ability to effect redistribution is relatively small in Lithuania. The 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. Moreover, while for many years, Lithuania had a flat income tax of 15%, it was changed to a progressive system with two brackets – 20% and 32%. A further element of progressivity is introduced through the use of an untaxed income threshold, thus favoring those receiving lower wages.

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 the ruling coalition. The current ruling coalition of conservative and liberal parties, however, has been very cautious with respect to tax reforms, with the reforms outlined in the government program aimed at the removal of remaining tax exemptions. It set up a working group after starting its work, but by late 2021 the working group had stopped its meetings due to disagreements among the coalition partners. In addition, in 2021 the government introduced temporary VAT reductions for the businesses most affected by the COVID-19 pandemic, and in early 2022 used similar measures to soften the sudden increase in heating prices for households resulting from an increase in natural gas prices in Europe.

Many analysts and several international institutions, such as the IMF and the OECD, have for many years been recommending both shifting and expanding the tax burden to somewhat reduce labor taxation and substantially increase property and environmental taxes. Lithuania's tax rates in these areas are among the lowest in the European Union. In 2021, Minister of Environment Gentvilas proposed a revamp to the auto taxes by abolishing the registration tax and introducing an annual one, which would be gradually increased in the coming years. He suggested this as a way of addressing negative externalities and reducing emissions, although the opponents criticized the tax for not targeting the precise externalities and for being regressive. The parliament rejected the proposal in early 2022 amid disagreement among coalition partners and criticism from the opposition.

Citation:
EU Commission, Taxation trends in the European Union 2021, https://op.europa.eu/en/publication-detail/-/publication/d5b94e4e-d4f1-11eb-895a-01aa75ed71a1/language-en
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Luxembourg

Score 7

The regulation and the fiscal policy implemented in Luxembourg from 1960 onward gave rise to a complex but attractive tax environment. Individuals and corporate bodies resident in the Grand Duchy are subject to direct and indirect taxation.

The essential categories of direct taxes include: the personal income tax ("impôt sur le revenue des personnes physiques"), land and property tax ("impôt foncier"), corporate income tax (“impôt sur les revenus des collectivités - IRC”), the withholding tax and the wealth tax (“impôt sur la fortune”). Currently, the personal income tax ranges from 0% to 42%. Property tax, which is an impersonal duty levied by municipalities on all property based in Luxembourg, moves within a range from 0.7% to 1%. The corporate tax, which is debited on gains made by companies during the financial year, is fixed from 15% (taxable income lower than €175,000) to 17% (taxable income higher than € 200,000). An additional charge of 7% (the “solidarity surtax”) is applied as a contribution to the Employment Fund. In Luxembourg City, where the majority of companies are established, the municipal business tax is 6.75%, so that the overall rate on corporate income reaches 24.94%. A withholding tax of 15% is generally collected on dividend payments, even if certain types of income (capital gains, liquidation proceeds) may be legally exempt from taxation. Luxembourg is well known for its favorable taxation system applied to intellectual property rights (80% exemption on royalties and capital gains derived from patents, designs, models, software copyrights, etc.) and securitization vehicles (undertakings for collective investments, private wealth management vehicles, securities on transit funds, etc.).

The indirect taxes include the value added tax (VAT), and registration and transfer duties. The standard VAT rate is 17% (one of the lowest such in Europe), but a range of goods and services considered essential for the population, such as food (14%), books (8%) and newspapers (3%), are subject to reduced rates. Medical and health services, and some financial banking services, are VAT-exempt. Sales of land and buildings, rental leases and donation are subject to registration duties of 6%, and to a transcription tax of 1%.

The government elected in 2018 planned to enact a comprehensive reform of the tax system, aiming to address issues of equity. In particular, the government sought to create a single tax scale regardless of marital status, in order to “guarantee a taxation model that is neutral in terms of people’s way of life.” However, the planned tax reform was put on hold in 2021 due to the coronavirus pandemic.

In order to tackle the negative effects of the pandemic on Luxembourg’s economy, and to further protect taxpayers, on 20 March 2020 the government launched – through the Neistart Lëtzebuerg program – a package of financial measures regarding labor taxation (i.e., postponement of the personal income tax payments for four months, an increase in the deductibility for domestic costs until 31 December 2020, teleworking for cross-border workers from France, Germany and Belgium without their salary being taxed in their country of residence). Due to bilateral agreements that Luxembourg has signed with these countries, remote working was extended until 31 March 2022, and cross-border workers remain eligible for Luxembourg social protection, and can pay income tax exclusively in the Grand Duchy.

The financial and fiscal COVID-19 measures entailed budgetary spending of approximately €2.05 billion (an increase of 21.9% compared with 2019). Capital grants supporting small and medium-sized companies increased by €142.7 million, while investment expenditure rose by €301.8 million. (+26.2% compared with 2019). Social benefits increased by 88.6% recorded in June 2021 in comparison with June 2019 (an increase of €797.6 million.).

Luxembourg's nominal tax rate (24.94%) is well above the European average (19.12%) and above the EU average (20.94%). According to the Word Bank development indicators 2022, the total tax and contribution rate (percentage of profit) in Luxembourg is 20.4%. This is the lowest total tax rate among European and European Free Trade Association (EFTA) countries. Relative to the OECD average which amounted to 33.5% in 2020, the tax structure in Luxembourg is defined by higher revenues from taxes on personal income (€9.68 billion), profits & gains taxes (€5.92 billion), taxes on corporate income & gains (€3.76 billion), social security contributions (€6.84 billion.), and property taxes (€2.41 billion.). According to EUROSTAT, Luxembourg is the European country that collects the least amount of environmental taxes, despite its strong environmental ambitions. In 2020 only 3.5% of Luxembourg's tax revenue were "green" taxes, far behind Slovenia (12.3%), Latvia (10.1%) and the EU average (5.4%). However, the country has been able to improve its behavior thanks to the CO2 tax, which has been effective since January 2021 and will increase in 2022 with the introduction of a CO2 tax on fuel (according to the Integrated National Energy and Climate Plan for 2021-2030).

Among the EU member states, Luxembourg has the highest ratio of capital tax to GDP (12.3%), which reflects the systemic importance of the financial sector in Luxembourg. As stated by the 2021 Global Financial Centers Index, the Grand Duchy is ranked eighth on the worldwide list (dominated by the United States, the United Kingdom and China), but is considered to be most important international financial center in the world (with 60% of international activity), the second-biggest hub for investment funds, the third-largest exporter of financial services, and the global leader in corporate bond issuance and in issuance of green, social and sustainable bonds by foreign companies.

In order to avoid double taxation and to facilitate bilateral foreign investments, the Grand Duchy currently has 85 comprehensive double-taxation treaties signed and in force, two treaties under ratification, and 10 other treaties in negotiation. Most of them follow the OECD model convention on income and capital. Such treaties are a real necessity in Luxembourg because of the number of cross-border workers in the national economy. In 2019, the Grand Duchy also signed the OECD's Multilateral Convention to Implement Tax Treaty Related Measures to prevent Base Erosion and Profit-Shifting (MLI), and has agreed to adopt the minimum standards in the field (principal purpose test, dispute resolution, etc.), as well as certain optional provisions. Luxembourg has been long considered one of the most notable tax havens in the world, alongside other EU countries such as Ireland and the Netherlands. As revealed by LuxLeaks in 2014 and the Panama Papers in 2016, more than 340 large international companies, including Altice, Amazon, Apple, AIG, FedEx, Fidelity, Heinz, IKEA, Kering, LVMH, Pepsi Bottling Group, Pfizer and Staples, established financial subsidiaries and sought beneficial tax deals. In February 2021, the OpenLux investigation carried out by a consortium of media organizations identified alleged shortcomings in the Grand Duchy's anti-money laundering and tax arrangements. In refuting these allegations, the government stressed that Luxembourg had in recent years implemented all the new EU and OECD tax regulations. The Grand Duchy was one of the first countries in Europe to set up a public ultimate beneficial owners registry (UBO) – a completely open and transparent registry accessible without any restrictions to the public. The completeness rate of the register was, at the end of 2020, around 90%. Thus, according to the Luxembourg authorities, the country is fully compliant with and has implemented all applicable EU and international rules and standards with regards to tax transparency and the fight against tax abuse. The Grand Duchy is among the countries that have signed, on 8 October 2021, a historic agreement to ensure fairer taxation of multinational companies. By imposing a minimum tax rate of 15% on multinationals with a turnover of more than €750 million., this agreement aims to ensure total tax revenues amounting to around €129 billion per year, to be shared by the signatories.

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Malta

Score 7

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 have consistently been introduced in Malta's latest budgets. For instance, for the fifth consecutive year, the 2022 budget did not introduce any new taxes. Moreover, tax refund checks will be issued and the part-time tax rate was reduced from 15% to 10%.

The burden of taxation falls mainly on people in fixed and registered employment. A recent study conducted by the Central Bank of Malta indicated that Malta's shadow economy has stabilized over the last decade and now stands close to 21% of GDP. Figures published by the European Central Bank in 2018 had indicated that Malta was among the countries with the highest number of cash transactions in the European Union, a fact that strongly suggests tax evasion. However, tax-evasion controls have since been consolidated. A number of mitigating measures have recently been introduced to consolidate previously introduced actions in this area. Legislation was officially introduced in 2021 to cap cash transactions on high-value items such as property, jewelry and works of art at €10,000. A 2019 European 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 European Union. Government estimates indicate that Malta loses an estimated €120 million to tax evasion every year, principally in VAT and income taxes. However, actual figures could have been closer to €300 million during pre-pandemic periods. It is also calculated that Malta loses up to 4% of its GDP through profit-shifting. The European Union's latest VAT Gap Report indicated that, in 2019, Malta was the EU member state with the highest VAT gap increase and a gap rate that stands at 23.5%.

With a corporate taxation rate of 35%, Malta has one of the highest tax rates applicable to companies in the European Union. 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%. Nevertheless, the G7 in 2021 has agreed to the creation of a minimal corporate global tax rate of 15% for companies generating a turnover of over €750 million. Malta has provisionally signed up to the principle of 15% with reservations over a number of clauses including the €750 million threshold. While the immediate impact would be on 20 companies, the long-term impact is as yet unknown. The government is working on redirecting its focus on small and medium-sized companies, and on working with the European Union on negotiating carve outs and concessions. 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. Moreover, in June 2021, the country introduced the Nomad Residence Permit for digital professionals working remotely and earning a minimum of €2,700 per month.

Fiscal incentives to enhance the competitiveness of various economic sectors and attract foreign direct investment are available. 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 European Union’s Anti-Tax Avoidance Directives, which aim to prevent companies from aggressively exploiting differential tax rates across EU states. Moreover, the country’s recently approved Post-Covid Recovery and Resilience Plan (RRP) pledges to tackle tax avoidance.

Malta made a formal submission of its Recovery and Resilience Plan to the European Commission on 13 July 2021. On 16 September 2021, the Commission gave its green light to the plan. The plan addresses the urgent need to foster a strong recovery, promote sustainability, and better prepare Malta for the challenges and opportunities of the green and digital transitions. To this end, the plan consists of 17 investments and 30 reforms. They will be supported by €316.4 million in grants. 53.8% of the plan will support climate objectives and 25.5% of the plan will foster the digital transition. The reforms address bottlenecks to lasting and sustainable growth through a strengthening of the rule of law and fighting corruption, and tackling challenges related to health and skills. The plan also aims to increase Malta’s gross domestic product by 0.7% to 1.1% by 2026.
As indicated by credit agencies, Malta’s continued growth has ensured sufficient fiscal resources. In small states, the tendency has always been that ecological sustainability is a lower priority. This time around, public opinion has had a marked impact on the issue and better organized NGOs have put the issue firmly on the agenda. The battle between the two – business and public – will not go away, but we have already begun to see the move toward a balance.

Citation:
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New Zealand

Score 7

Compared to other OECD countries, the New Zealand tax system performs relatively poorly in terms of revenue collection. In 2019, New Zealand's tax-to-GDP ratio (32.3%) was significantly lower than the OECD average (33.8%). Not only that, but New Zealand's tax-to-GDP ratio has declined by 1.6 percentage points since 2007 (OECD 2021).

In terms of government revenue structure, two things stand out. Relative to the OECD average, New Zealand relies heavily on personal income tax as well as a goods and services tax (GST) (OECD 2021). While the GST is generally speaking considered a regressive tax (because it falls disproportionately on lower-income people), New Zealand's personal "broad base, low rate" income tax also lacks in progressivity. In short, despite the fact that the Labour administration introduced a new 39% personal tax rate on income above $180,000 in May 2021 (which affects 2% of earners), the New Zealand tax system exhibits weakness in achieving vertical equity and addressing inequality in society.

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 – a recommendation that was echoed by the IMF in 2021 amidst discussions of how to cool down New Zealand's housing market (Coughlan 2021a). However, Prime Minister Jacinda Ardern has to date ignored calls for a capital gains tax, even though the opposition accused her of introducing a "backdoor" capital gains tax by making profits from residential investment property sales taxable in May 2021 (Edmunds 2021).

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 third in terms of “tax competitiveness,” ahead of international financial centers such as Switzerland and Luxembourg (Tax Foundation 2021). In PwC’s 2020 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 ninth out of 189 territories, situating it ahead of all other OECD member countries with the exception of Denmark and Ireland (PwC 2020). The World Bank even ranks New Zealand in first place in its most recent Doing Business Index (World Bank 2020). 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 (OECD n.d.). The tax working group 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) (Tax Working Group 2019).

In 2019, the government announced that the country’s agricultural sector – New Zealand’s largest emitter of greenhouse gases – would have to start paying for emissions beginning in 2025, and that industry would be given time to develop a way to measure and price them. The government said if no credible alternative was put forward, agriculture would be made a part of the ETS (RNZ 2021). In mid-2021, the Clean Car Discount policy was rolled out, which means people buying new electric vehicles can receive a discount of up to almost $9,000. The scheme is funded by fees on polluting cars, commonly referred to as the “ute tax” (Coughlan 2021b).

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South Korea

Score 7

Korea is among the 10 OECD countries with the lowest tax rates. In 2020, tax revenues totaled about 28% of GDP, a marginal increase from 27% of GDP in 2019 and lower than the OECD average of 33.5% of GDP. That said, Korea has steadily been increasing its tax revenues (as a share of GDP).

Korea collects its tax revenues from: taxes on corporate income and gains (31%); social security contributions (28%); goods & services taxes (24%); property taxes (14%); and personal income taxes (0.3%). Korea ranks 26th (out of 37 ranked OECD countries) on the 2021 International Tax Competitiveness Index – a drop from 25th place in 2020, likely reflecting the increase in the top personal dividends tax rate from 40% to 44%. Relative to OECD averages, Korea has higher corporate and property tax rates, and lower tax rates on personal income and goods and services.

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, targeting of taxes and transfers is poor and does not contribute much to the amelioration of social inequalities. Less than 25% of social transfers target the poorest quintile; social transfers only contribute 5% to the total market income of the poorest quintile; and redistributive effects are among the lowest in the OECD. Political calculations have prevented recent governments from lowering the tax exemption rate. Similarly, Korean taxes are not effective in promoting environmental sustainability. With an average effective energy tax rate of 2.3%, Korea ranks 24th among 44 OECD and selected partner countries. It has no (zero) explicit tax rate on carbon; it does not provide tax-based carbon price signals for non-road emissions; and its electricity taxes are among the lowest in the OECD.

Korea is among the top 10 OECD countries with regard to having the most tax treaties in place – making it one of the more attractive tax regimes within the OECD for foreign investors. In 2021, Korea joined 130 countries in signing on to the new global tax plan to tax multinational companies at a minimum rate of 15% regardless of where they are headquartered and where they operate. The global tax plan will have the greatest impact on companies such as Google and Facebook, which have benefited from tax havens and the continued lack of effective tax regulation for digital services. On balance, Korea is likely to benefit from increased tax revenue from such companies, which have significant sales in Korea. While a few of Korea's largest companies may be subject to higher taxes, the impact is not expected to be large since the Korean corporate tax regime already imposes more than 15% tax, and because Korea's tax treaties protect Korean companies from double taxation.

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United Kingdom

Score 7

The United Kingdom has a progressive income-tax system. The balance between direct and indirect taxes is reasonably fair, as measured in terms of horizontal equity. The system is, however, very complex. In relation to vertical equity, there are too many opportunities for tax avoidance, with the results bordering on evasion for the rich, although steps have been taken to clamp down on some of the more egregious avoidance schemes. Property taxes are high and have been increased for purchases of high value houses, but labor taxes are low compared with many 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 rarely been implemented. Since April 2020, the United Kingdom taxes tech companies 2% of the revenue they make from UK users, which is expected to raise around between £400 and £500 million per year.

In September 2021, the government announced that from April 2022 it would increase national insurance contributions (NIC), which is a tax on labor, by 1.25 percentage points to help pay for the NHS and social care. This measure, which is expected to raise £12 billion a year, was politically controversial, as it contradicted a direct manifesto pledge not to raise NIC. The Autumn Budget 2021 resulted in a further net tax rise, amounting to £16.7 billion a year by 2026/27, as tax cuts only partially offset tax increases from the March 2021 budget. Overall, the recent tax rises will raise the tax burden from 33.5% of GDP before the pandemic to 36.2% by 2026/27, the highest since the early 1950s, according to Office for Budget Responsibility projections. In part, this arises from freezing thresholds for the different rates of income, a phenomenon referred to by economists as “fiscal drag.”

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Belgium

Score 6

During the 2010s, the Belgian federal government managed to reduce its deficit from a peak of 4.3% in 2011-12 down to 0.8% in 2018. It crept back to 1.9% in 2019 (an election year) and jumped to 7.2% in 2020 in the wake of the COVID-19 crisis. In its 2021 forecast, the Federal Planning Bureau expects this deficit to remain as high as 5.6% of GDP through 2026, highlighting the need for deep tax and other reforms. The tax wedge on labor is among the OECD’s highest according to the 2021 Taxing Wages report (Tables 3.2 & 3.3). Corporate taxation was reformed in 2017, on Christmas day, with the nominal tax rate reduced to 25% as of 2021 (20% for small companies).

The tax-to-GDP ratio was destabilized by the COVID-19 crisis in ways that are unlikely to reflect future trends. Yet according to the European Commission, it remains true that tax revenues are significantly more concentrated on labor and capital revenue than the EU average. By contrast, the share of revenue provided by indirect taxes is below the EU average. Belgium’s revenues from environmental taxes are slightly above the European average, and are more substantial than in France or Germany, but lower than in the Netherlands, which is Belgium’s closest competitor and typical reference point. Furthermore, Belgium was one of the countries with the highest increases in average effective carbon tax rates in the road sector between 2015 and 2018 (OECD 2019). However, this increase was only due to an increase in average fuel excise tax rate, which itself could raise equity concerns. In terms of export performance, Eurostat data show that Belgian export volumes grew by 38% between 2005 and 2020. This is more than twice the comparable rate in France, but close to 20 percentage points below the German performance, and half that of the Netherlands.

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Bulgaria

Score 6

Bulgaria's tax system boasts features that are essential to tax compliance, such as simplicity, built-in compliance incentives, and motivating higher income levels. A 2019 report on the effective tax rate for multinational firms that was commissioned by the Greens in the European Parliament, found that Bulgaria was the only EU member states in which statutory required taxes are paid.

The tax system works well during recessions, as it allows for relatively flexible countercyclical policies when revenues from corporate taxation declines.

Direct taxes, both personal and corporate, constitute a relatively small component of overall tax revenues but the levels (as a share of GDP) are comparable to average OECD countries. The system relies on low rates, has no nontaxable income threshold, and is applied uniformly over a very broad tax base. Both corporate and personal income taxes use a flat 10% rate.

The country's VAT is at 20%, except for tourist packages. The share of VAT comprising total government revenues fluctuates between 40% to 50%.

Excise duties are the other important source (5-8%) of tax revenues. Bulgaria applies the lowest EU rates; excise duties on alcoholic beverages and tobacco products will very likely be increased.

In terms of efficacy and equity, the system performs relatively well, while challenges remain with adjacent spending allocations, especially in the area of social inclusion and welfare policies.

Since efforts to simplify taxation and undergo a basic consolidation got underway in 1999-2000, and since the proportional tax reforms of 2007-2008 in particular, the budget has registered sizable surpluses, increased transfers to the state pension fund at least twice, and doubled the amount of annual procurement on infrastructure. Fiscal reserves helped the country weather the negative impacts of the 2009-2010 recession, covered lost savings resulting from a major bank bankruptcy (in 2014-2015, equal to 3% of GDP), and make payments on a lost arbitration case (1.2% of GDP to ROSATOM in 2016).

In terms of vertical equity, the picture seems mixed. On the one hand, the system creates incentives to work, and extreme poverty levels (a UN criteria) decreased to below 1% of the population (constituting a near fivefold decrease from 2007 to 2021). On the other hand, social aid and social inclusion budgets are allocated without clear efficacy criteria, welfare benefits are often distributed on a per capita basis, delivering no impact for the disadvantaged in society. For example, a 2021 survey of social aid allocations found that the guaranteed minimum income (GMI) has not been changed since 2009, and if its amount doubles (with no negative impact on budget), GMI will positively affect 4% of the population, reduce the Gini by 2.4 percentage points and will reduce the poverty level (measured by the national poverty line) by 3.4% of the population.

In terms of international competitiveness, the system attracts savings and companies from neighboring jurisdictions under stress (for instance Romania in 2011, Greece 2012-2015 and Turkey after 2016), but issues associated with the rule of law and public procurement remain a major hurdle for larger FDIs.

Since 2007, Bulgaria has spent nearly 3% of its GDP each year on environmental protection. Public investment in water and waste management accounts for nearly half of this. The country performs fairly well on Yale University’s Environmental Performance Index, and has one of the EU’s largest nature protection areas that is managed by public funds.

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Chile

Score 6

Chile has a moderately complex tax system. Since 2014, the corporate-income tax rate has been increased from 20% to a range of between 25% and 27% (companies may choose between two different tax regimes) and a tax credit mechanism has been eliminated (Fondo de Utilidades Tributarias, FUT). This latter measure expanded the base for taxes on capital income.

As a result of the massive protests of October 2019, the government halted the core part of its tax-reform project, which sought to integrate corporate-income and individual-income taxes, and 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 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 strongly 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. Since June 2020, foreign companies that are not domiciled or resident in Chile have been required to pay VAT for services provided within the national territory. This includes digital platform services in particular. Furthermore, the Defensoría del Contribuyente (DEDECON), an agency serving as an intermediary in matters relating to the Chilean Tax Administration (Servicio de Impuestos Internos, SII), was created in November 2021. It is intended to provide advice to SMEs and the most vulnerable taxpayers.

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. However, the social crisis of 2019 and the subsequent COVID-19 pandemic placed significant stress on the national budget. 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. Chile was ranked 27th out of 37 countries in the Tax Foundation's 2021 International Tax Competitiveness Index; in this report, the authors are critical of its worldwide tax system, while most OECD countries have territorial provisions. At the same time, the authors note positively that Chile has the second-lowest tax wedge on labor among OECD countries (7% compared to the OECD average of 34.6%). The country was deemed the region's most competitive country in the World Economic Forum's latest Global Competitiveness Report (2021), ranked 44th out of 64 countries.

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

Strengthening tax collection and processing mechanisms (e.g., auditing), as well as fighting tax evasion and avoidance remain unfulfilled goals.

The present tax system, introduced in 2001, is comparatively uncomplicated, both with respect to individual provisions and structure. Direct and social taxes yield relatively little revenue, because of a high threshold of taxable income offset at €19,500. 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 remains in force.

The COVID-19 crisis highlighted problems, including the high reliance on corporate and value-added taxes on non-sustainable activities, which may not guarantee sufficient financial resources in the long run. The pandemic also affected tax income, which compounded tax collection problems and meant a large proportion of overdue taxes remained uncollected. Clearance of tax declarations faces many-years-long delays.

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. The IMF and the European Commission stress the need for a revised tax system.

Corporate tax will be raised to 15%, but plans to support companies via other measures will maintain the imbalance in tax equity. Broader changes to the tax system have been agreed, including green taxes, and rebates on the basis of the Recovery and Resilience Plan. The latter will benefit climate and environmental policies, which is a problematic area.

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Czechia

Score 6

As the low fiscal deficits before the COVID-19 pandemic show, tax policy in Czech has traditionally ensured the availability of adequate financial resources for spending commitments. The progressiveness of the tax system has been limited by a flat income tax, a strong reliance on the value-added tax (VAT) and high social security contributions. While the statutory corporate income tax rate has been relatively low, enterprises have complained about cumbersome procedures. 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. Adaptations to the tax system to reduce environmental harm were required to join the European Union and were legislated in 2007.

The Babiš government proposed a major income tax reform in 2019. Initially postponed for fiscal reasons, the reform was eventually approved by the Chamber of Deputies at the end of November 2020, at a time of a growing budget deficit due to the pandemic measures. The most hotly debated novelty was a change in the method of calculating personal income tax, which abandoned the so-called super-gross wage (including social insurance contributions in the sum) introduced in 2008 by a government determined to appear to be cutting personal income tax rates to a flat rate of 15%. The abandonment of the super-gross wage has been associated with the transformation of the so-called solidarity surcharge, introduced in 2013, into an explicit second personal income tax rate of 23%. The government justified the reform both as a way of enshrining progressivity and as a measure to foster economic recovery. Critics, including the Fiscal Council (Národní Rozpočtová Rada, ÚNRR), have regarded the tax cuts mainly as a campaign goody ahead of the parliamentary elections in 2021 that will harm the sustainability of public finances. As a matter of fact, revenue from personal income taxes fell by 35.6% in 2021.

Save for the changes to the personal income tax, there were few tax changes in 2020 and 2021. The Babiš government did not adopt the announced changes to the tax code to support a new innovation strategy. Nor did it complete the preparation of a new tax on the use of coal and gas, promised to the European Commission in 2019.

Iceland

Score 6

Taxation, which has in recent years hovered between 42% and 45% of GDP, is unable to fulfill the goals of revenue generation, equity, growth promotion and ecological sustainability. Education (though less so than before), healthcare, welfare provisions and environmental protection all remain underfunded, a long-standing issue. The tax system could be more progressive. In view of the information that came to light in, for example, the Panama Papers, the tax authorities could do more to expose and tax wealth hidden in foreign tax havens. Fishing fees remain far below potential as only 10% of the common property resource rent from fisheries accrues to taxpayers, while 90% accrues to the owners of fishing vessels as documented by Thorláksson (2015), a former director of Internal Revenue. Disadvantaged social groups (e.g., disabled people and pensioners) complain bitterly about being left behind.

As an example of a missed opportunity for generating revenue, and promoting equity, growth and environmental sustainability, the authorities have allocated the right to exploit Icelandic waters close to shore for aquaculture to private, foreign concerns without charge. It appears that the authorities were afraid of charging foreigners for the right to exploit Iceland's natural resources, because it could strengthen the case of those who demand that domestic vessel owners pay more for their rights to exploit Iceland's common property resource.

Citation:
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Israel

Score 6

Israel's taxation policy appears to be quite effective in terms of raising revenues. Over the past five years, Israeli authorities have collected more in tax revenue than had been projected in the government's budget proposals. Nevertheless, tax revenues in Israel are comparatively low and this sets limits on government spending.

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 and for Jewish immigrants, thereby discriminating against Palestinian citizens. At the same time, various tax exemptions have a valid rationale (e.g., assisting working parents and encouraging higher education) and do not 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 had received substantial tax benefits.

The tax system is sporadically used to promote environmental goals, for example, in the context of taxes on energy and cars. The new government has introduced a new tax on disposable plasticware, but this was not part of an overall strategy.

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Italy

Score 6

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 (42.4% in 2019, according to the OECD) 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 generalized shift to electronic invoices and the new VAT payment method have also increased the effectiveness of fiscal oversight.

After limited changes were introduced by the two Conte governments, such as a limited tax reduction (to a 15% rate) for self-employed workers ("partite IVA") with earnings below €65,000 and write-offs for technological investments, the Draghi government has sent to the parliament a proposal for an encompassing fiscal reform. This reform should streamline the jungle of fiscal rules and exemptions. In the meantime, the government has introduced some generalized tax reductions for lower and middle-to-lower income rates. It has also renewed strong fiscal incentives for improving the energy sustainability of buildings.

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

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, the Japanese government began cutting its corporate-tax rate (calculated as the statutory national rate plus the local rate) in 2012. This led to a combined corporate-tax rate decline from 39.5% in 2011 to 29.7% in 2021. 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 2014, increasing it further to 10% in 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.

Citation:
Takeshi Kawakatsu, Soocheol Lee and Sven Rudolph, The Japanese Carbon Tax and the Challenges to Low-Carbon Policy Cooperation in East Asia, Discussion Paper No. E-17-009, Graduate School of Economics, Kyoto University, December 2017, http://www.econ.kyoto-u.ac.jp/dp/papers/e-17-009.pdf

OECD, Japan: Promoting Inclusive Growth for an Ageing Society, Better Policies Series, Paris, April 2018

United Nations, Committee of Experts on International Cooperation in Tax Matters, Eighteenth session
New York, 23-26 April 2019, https://www.un.org/esa/ffd/wp-content/uploads/2019/04/18STM_CRP4-Environmental-tax-issues.pdf

Robin Harding, Japan data point to bigger than expected hit from sales tax rise, Financial Times, 8 October 2019, https://www.ft.com/content/90f19130-e8e2-11e9-a240-3b065ef5fc55

Netherlands

Score 6

Tax revenues have allowed the government to keep the deficit within manageable bounds even when long-term trends are very uncertain because of the pandemic and climate change (see also "Budgets"). Taxes in the Netherlands are complex and far from transparent. Income policy not only works through tax rates and brackets, but also through tax credits and situation-dependent benefits to households, as well as a jungle of exemptions, deductions, tax reductions and referrals. The more visible income taxation apparently respects the progressive carrying capacity principle (draagkrachtbeginsel), but the overall outcome of the system is regressive.

Pre-tax income and benefits have grown more unequal but are successfully tweaked by government tax policy toward a more equal output. The Gini index for net incomes corrected for household size is just under the European average of 0.3, and has remained steady for the last 20 years. The Central Bureau for Statistics (CBS) calculates Gini index scores based solely on data from tax declarations. This neglects data about the lower (flexible workers and workers on temporary labor contracts without insurance coverage or pensions) and higher income brackets (many types of un(der)taxed capital gains like house sales or profits from selling shares). The Gini index score for wealth has for decades fluctuated around a very high 0.8. Since 2015, it has decreased a bit due to the increasing value of homes, as home ownership represents the bulk of ordinary citizens' wealth. But here too there is more inequality than meets the eye as evinced by, for example, the wealth hidden in possessions in foreign countries and family trusts. As many issues in daily life demand private investments – homework guidance, excess insurance risks, access to sports and culture – lower- and middle-income households increasingly lack the private wealth to participate on an equal footing. The crux of the matter is that, since the 1998-2002 Kok II cabinet introduced the "boxes" system, the tax system treats capital and labor very differently, with progressive taxes on labor income, and regressive taxes on share income and income from savings and investments.

One of the manifestations of lenient taxation of wealth and business is the Netherlands' status as a tax haven which allows multinational corporations to siphon off considerable taxation of their profits in their countries of origin. Comparative studies by OESO and Tax Justice Network (TJN) place the country in fourth place worldwide, after the British Virgin Islands, Bermuda and the Cayman Islands, but well before Switzerland and Luxemburg. Only under considerable international pressure is the Dutch government is cooperating with the EU's anti-tax evasion guideline. So far, the government has continued to defend favorable conditions for attracting multinational corporations to locate in the Netherlands through a combination of low corporate taxation, the use of favorable innovation incentives and generous tax deductions for R&I. Another manifestation of favoring capital over labor is the "greening" of the fiscal system. To date, green fiscal instruments (mostly high value-added taxation of end-use polluting by firms and consumption by citizens) treat sustainability gains as added benefits associated with a more stable government income. An estimated 55% of fossil fuel consumption by industry remains untaxed.

A radical and coherent reform effort is needed to make the fiscal system fairer and more sustainable. The coalition agreement of December 2021 announced an intention to simplify the tax system, beginning with abolition of the benefit system that confuses taxpayers with overcomplex rules and forces them to pay hefty recoveries (evidenced traumatically in the childcare benefits affair). Further reforms have been delayed to a distant future, partly to create a less turbulent policy environment for an overburdened tax authority.

Citation:
NRC-H, 5 March 2021, Heilbron, Het belastingstelsel is een wangedrocht

NRC-H, 21 June 2021, Beunderman en Molijn, De grote scheefgroei – 2. Inkomensongeleijkheid, 3. Vermogensongelijkheid

NRC-H, Stellinga, 13 Februry 2021, Belastingen zo krom al seen banaan

Jacobs en Cnossen, Ontwerp voor een beter be;astingstelsel (njb.nl) Ontwerp voor een beter belastingstelsel, onder redactie van Sijbren Cnossen en Bas Jacobs, een uitgave van ESB, vakblad voor economen, 298 p., 2019 op de site van ESB: https://esb.nu

NRC-H., Beunderman, 10 March 2021, Nederland ‘doorsluisland’ op plek vier, na Bermuda

PBL, 17 November, 2017, Huidige fiscale wetgeving ontoereikend in aanpak milieuschade.

Coalitieakkoord 2021-2025, December 15 2021. Omzien naar elkaar, vooruitzien naar de toekomst

Slovakia

Score 6

The introduction of a flat-tax regime in 2004 played a major role in establishing Slovakia’s erstwhile reputation as a model reformer and an attractive location for investment. Whereas the first Fico government left the flat-tax regime almost untouched despite earlier criticism, the second Fico government in 2012 reintroduced a progressive income tax and increased the corporate-income tax, thereby increasing vertical equity to the detriment of competitiveness. in the 2016-2020 term, tax policy 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 thus largely ignored the long-standing calls by the European Commission, the OECD (2022: 35-37) 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.

The first finance minister of the new center-right, Eduard Heger, started to design a tax reform along these lines, announcing a lower tax burden on labor and a higher taxation of property and consumption. The coalition crisis in February 2021 and persistent controversies within the governing coalition delayed the specification of the reform. It wasn’t until November 2021 that the new minister of finance, Igor Matovič, eventually presented the details of the much-awaited reform. This “tax revolution,” with a still unclear implementation schedule, consists of four parts: The first part contains a family package that involves a child allowance increase and an allowance for leisure activities. The second part contains a labor package introducing a flat 19% personal income tax and a combined social insurance contribution rate of 39% paid by employers alone. The third part is a business package that focuses on reducing the corporate income tax from 21% to 19%. Finally, the fourth package entails tax relief measures, also for the self-employed, and reduces the VAT to 10% for restaurants and other hospitality businesses. The implementation of these measures would bring tax relief for employers and employees alike; it would make the Slovak tax system more competitive, but reduce vertical equity and entail revenue losses, at least in the short term.

Citation:
OECD (2022): Economic Survey Slovak Republic. Paris (https://doi.org/10.1787/78ef10f8-en).

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.

Under the Šarec government, changes in tax regulations were 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 cutting income tax rates in the second and third brackets by one to two percentage points, a slight increase in tax deductions, higher capital gains taxes on items that have been owned for less than 20 years, and a higher rate of personal income tax on rental property. In October 2019, the prime minister announced that there would be no property tax implemented until at least 2022, as there was no consensus among the coalition parties on the issue.

The Janša government prepared a mini-tax reform in 2021, which would help economic recovery and relieve taxpayers. The proposed measures include raising the general allowance for dependent family members from €3,500 to €7,500, with a transitional period from 2022 to 2024. The harmonization of allowances and net annual tax bases regarding the personal income tax scale is also being reintroduced. The reform would also bring higher net salaries, as the government is proposing a reduction in the tax rate from 50% to 45% for taxpayers in the highest (fifth) income class. The changes would also relieve the burden on capital income, namely the personal income tax rate on interest earned, while the dividends and capital gains rate would be reduced from 27.5% to 25%, and the rental property rate from 27.5% to 15%. But following strong opposition to the proposal from trade unions and opposition parties, citing fears concerning budgetary balance, the fate of the proposal is unclear.

At almost 37%, the tax-to-GDP ratio is below the EU average, but relatively high from a regional perspective. The post-pandemic fiscal deficit suggests that revenues to finance the budget over the mid-term are questionable.

The progressive income tax provides for vertical equity. The tax burden for enterprises is below the EU average, but higher than in most other Central and

Eastern European countries. Moreover, given the complexity of tax procedures for both individuals and companies, the Janša government proposed a de-bureaucratization act, which would simplify procedures.

Slovenia’s revenue from environmentally relevant taxes remains above the EU average. Environmental taxes made up 3.73% of GDP in 2017 (EU-28 average: 2.4%) and energy taxes made up 3.16% of GDP (EU-28 average: 1.84%). In the same year, the environmental tax amounted to 10.13% of total revenue 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/e ir/pdf/report_si_en.pdf).

OECD Tax Revenue Statistics (2021): Slovenia. Paris (https://www.oecd.org/tax/revenue-statistics-slovenia.pdf).

Spain

Score 6

Spain collects less in taxes relative to wealth than do most other European countries, and produces less redistribution effects in the whole population. Between 2020 and 2019, increases in the tax-to-GDP ratios or stable ratios were observed in 18 EU member states; on a percentage-point basis, the highest increases were recorded by Spain (from 35.4% in 2019 to 37.5 % in 2020), but even this remains low when compared with an EU average of 41.3% in 2020.

In 2020, the government announced a commitment to increase annual tax collections to 42% of GDP. The measures included in the 2020 and 2021 budgets comprised an increase in income-tax rates (for high-income individuals), changes in corporate-tax structures and an increase in tax surcharges on fuel.

In October 2020, the parliament approved two new laws, which created a tax applicable to digital services and the Financial Transactions Tax (Law 4/2020 and Law 5/2020). The digital tax will levy 3% on online advertising, intermediation and sales of data. Spanish entities as well as foreign companies with net revenues exceeding €750 million worldwide and €3 million in Spain, whether or not they are established in the EU, will be subject to this indirect tax. Regarding the Financial Transactions Tax, Spain decided to tax the acquisition of shares in Spanish companies with a market capitalization above €1 billion at a rate of 0.2%. Public revenues will also increase due to other fiscal measures, such as an increase in the VAT rate on sugary drinks (from 10% to 21%). There are also new “green taxes” (e.g., a new tax on single-use plastic) in the 2020 and 2021 budget laws. The government is working on the implementation of new road charges that will come into force in 2024. The favorable tax treatment for private pension plans was reduced in 2021 and 2022.

The Recovery and Resilience Plan (RRP) addresses reforms to the tax system, following the EC recommendation of making taxes more progressive. To this end, a committee of experts for tax reform was set up with a twofold objective: to analyze the tax system and to propose the reforms that should be made. The committee was slated to publish its conclusions in February 2022.

At the regional level, the disparity of tax schemes raises controversy around the benefits faced by the low-taxed region of Madrid. Other regions have accused it of promoting so-called fiscal dumping.

The new taxes and the change in rates have not weakened Spain's position in international tax competition; the tax burden relative to wealth in Spain remains lower than in most EU countries. Moreover, the Financial Transactions Tax (Law 5/2020) goes hand in hand with international efforts regarding this tax, for example with the scope and objectives of the EC's proposals for an EU-wide FTT. The tax rate is still very low, and the relevant legislation includes many exemptions, so there will be not negative effects for Spain's competitive position. In addition, the digital tax goes hand in hand with broader international efforts in the same sphere.
New "green taxes" have been included in the 2020 and 2021 budget laws (one for waste products and another for plastic packaging). These taxes contribute to the promotion of ecological sustainability. In addition, the registration tax on new vehicles increased in 2021. However, the government was unable to pass on a tax to increase the cost of diesel, and total revenues from environmental taxes in 2021 were still well below the EU average.

Citation:
EC (2021), Tax revenue statistics, https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Tax_revenue_statistics&oldid=460966#Tax_revenue-to-GDP_ratio:_Denmark.2C_France_and_Belgium_show_the_highest_ratios

Austria

Score 5

Overall, Austrian tax revenues are sufficient to provide the country with reasonable financial resources.

That said, Austrian tax policy is characterized by a significant bias, as the source of tax revenue is overwhelmingly skewed toward the personal incomes of the working population. As employees and self-employed individuals pay the maximum tax rate beginning at what is widely perceived to be a middle-class level of income, and the country lacks property and inheritance taxes, the system of taxation is unbalanced in terms of equity.

Austria's overall 2021 score for competitiveness performance, according to the IMD database, was just as high as it had been in 2019, though the score for 2020 was the highest in many years. Importantly, Austria's decent overall ranking (19th out of 62 countries for 2020) was in particular due to a high score for infrastructure (ranked 12th in 2021). This underscores the favorable assessment of the first indicator (above).

The steering function of the Austrian tax regime, its ability to incentivize changes in economic behavior to preserve the sustainability of natural resources and environmental quality, has long been notably weak. The ecological-social tax reform passed by the government in October 2021 marked the start of a new era (e.g., with the pricing of CO2). But the effects on smaller incomes and the overall ecological effects excepted remain limited. The newly established CO2 pricing regime has been criticized for being too soft to make a real difference in terms of shaping citizens behavior and many issues remain untouched by the reform (e.g., a lower tax for diesel, which will be abolished in 2022 according to the government). It remains to be seen if the government is willing to make full use of its tax-based steering capacity in ecological terms. In other areas, much remains to be done.

Citation:
https://worldcompetitiveness.imd.org/countryprofile/AT/wcy/#attractiveness

https://orf.at/stories/3231015/

Tax privilege for diesel will fall by 2022:
https://www.tt.com/artikel/30797854/dieselprivileg-in-oesterreich-wird-endgueltig-fallen-gelassen

Croatia

Score 5

At the beginning of 2021, tax reductions in the domain of income and corporate taxes kicked in. Those reductions were described in detail in the Bertelsmann Stiftung's publication "Croatia Report: Sustainable Governance in the Context of the COVID-19 Crisis." The reductions did not interfere in any significant way with the OECD's initiative for a minimum global corporate tax rate. All Croatian businesses that have total revenue less of than €1 million will be able to rely on a competitive tax rate of 10%. Furthermore, the first pillar of the OECD initiative could be a boon for Croatia, since the country will be able to tap into a new revenue stream stemming from the activities of large multinational corporations. Taxes on dividends to foreign shareholders and shareholders that are not natural persons were reduced from 12% to 10%. In spite of the aforementioned tax-reduction agenda, tax revenue as a percentage of GDP still amounted to 37.3% in 2020, the second-highest such rate among EU's post-socialist member states. At the same time, Croatia was the third-poorest EU member state, a fact that invites the introduction of a more competitive tax system to galvanize its economic convergence.

The income tax system is moderately progressive and serves the goal of tax equity. Almost 50% of workers do not pay income tax due to existing exemptions and personal deductions. In that regard, income tax plays a rather limited role in tackling poverty and social exclusion. The only viable solution is to boost the country's relatively low levels of productivity growth as an underlying factor driving higher incomes and living standards, which could in turn broaden the tax base. There is not much room for rebalancing the existing tax structure from income to consumption-based taxes in the light of the fact that Croatia already has the second-highest share of VAT revenue in GDP among the EU member states. Interestingly, Croatia is also among the most efficient EU member states in terms of VAT collection.

Furthermore, there are no property taxes in Croatia, and the country has the second-highest home ownership rate in the EU. Many people possess two or even more living units. Therefore, this type of tax, if introduced properly and at moderate rates, could lead the way in further reducing income taxes, which would be a highly beneficial outcome in light of the fact that Croatia faces a pressing need to retain and/or attract workers. Despite the need to ensure fiscal sustainability, there are limited options for reliance on additional taxes. Hence, carefully controlling state expenses in line with the country's potential growth rate plus expanding the tax base will be of utmost importance.

In 2020, environmental taxes made up 3.28% of GDP compared to the EU-27 average of 2.24%. Gasoline, diesel, fuel oils, natural gas, coal, electricity and carbon dioxide (CO2) are all subject to taxation. Motor vehicle owners pay transport taxes, and there is a "one-off" tax on the import/sale of equipment. There is not much room to expand this category of taxes to help the green transition if policymakers want to ensure economic competitiveness and avoid a drop in living standards. However, there is one type of environmental tax that has not yet been utilized in Croatia at all, namely a landfill tax to improve waste collection and management. Croatia is one of the few EU member states without such a tax in its policy toolkit. Correspondingly, Croatia represents a laggard in waste management.

Poland

Score 5

The PiS government's tax policy has followed a political logic and has sought to favor those groups which PiS considers to be their loyal voters, especially pensioners, households with lower incomes and families. This also applies to the comprehensive, but poorly prepared tax reform that was adopted as a key element of the "Polish Deal" in May 2021 and went into force on 1 January 2022 (Harper 2022; Makowski 2022; Richter 2021).

The adopted measures have included a substantial increase of the tax-free income tax allowance up to PLN 30,000 (€7,000), a reduction in the lower personal income tax rate from 18% to 17% and an increase in the threshold for the higher personal income tax rate of 32% from PLN 85,528 to PLN 120,000. However, the lowering of the income tax burden associated with these measures has been partly compensated for by changes in the treatment of contributions to the health insurance scheme. Before the reform, the bulk of these contributions, which reach 9% of gross income, were deductible from the income tax. From 2022, this will no longer be possible. As a result, the actual personal income tax burden will increase for people who earn more than PLN 13,000 per month.

The new tax treatment of health insurance contributions has also led to a higher tax burden for the self-employed. To limit the additional tax burden, the government has adopted a number of patches that have further increased the already high complexity of the Polish tax system. The same applies to the newly introduced 1% minimum tax on revenues of large enterprises, which is supposed to enter into the health insurance fund but does not include all enterprises. Energy, aviation and mining companies (i.e., sectors in which state-owned enterprises dominate) are exempt.

As the tax reform has been amended frequently, often at short notice, its implementation at the beginning of 2022 has ended in chaos and has turned into a PR disaster for the government (Makowski 2022). Accountants have faced the slog of interpreting shifting rules and the net income of many low-income employees in fact dropped rather than rose in January.

Poland has relatively high environmental taxes, as compared to other EU member states. A fuel tax called an “emission fee” has been used to combat smog. However, only a small proportion of revenue from environmental taxes is used to promote environmentally friendly behavior. Most environmental taxes are energy-related, but energy-intensive industries benefit from exemptions. In 2019, the excise duties on energy were lowered and energy prices administratively controlled, with the state compensating energy producers for potential losses.

Citation:
Harper, J. (2022): Polish populists go progessive on tax, Deutsche Welle, January 31 (https://www.dw.com/en/polish-populists-go-progessive-on-tax/a-60552805).

Makowski, M. (2022): The Polish Deal: how a landmark tax reform has turned into a PR disaster for the government, in: Notes from Poland, January 23 (https://notesfrompoland.com/2022/01/23/the-polish-deal-how-a-landmark-tax-reform-has-turned-into-a-pr-disaster-for-the-government/).

Richter, M.M. (2021): Konsum, Konservatismus und Staats-Kapitalismus - die PiS beschließt die sozio-ökonomische “Polnische Ordnung”, in: Polen-Analysen, Nr. 284, 2-6 (https://www.laender-analysen.de/polen-analysen/284/PolenAnalysen284.pdf).

Portugal

Score 5

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

After a drop of 0.3 percentage points in 2019, the tax burden increased by 0.9 percentage points in 2020, to 37.6%, a new high. This was the second-highest increase in tax-to-GDP ratio across the EU, after Spain. However, it remains below the EU-28 average, albeit above the OECD average.

This historically high level is a result of three 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. The government's 2022 budget proposal sought to reduce income tax levels, but – as noted above – this budget was not approved in parliament.

Second, the Costa government has 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.

Third, in terms of the tax-to-GDP ratio, these generally high levels of taxation were compounded by the pandemic-driven fall in GDP, which lowered nominal GDP.

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. While Portugal's overall tax-to-GDP level in 2020 was below the EU-27 average, the country's VAT-to-GDP ratio was 13.1%, well above the EU average of 10.9%.

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

In 2018, the tax authority initiated a new strategic plan to combat fraud and tax evasion for the 2018 – 2020 period. By 2020, it had implemented 58% of the 95 measures contained in the strategic plan. Noting that execution had been affected by the pandemic, it extended the implementation period by a further two years.

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.

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 (2.8% in 2020) than the EU-28 average (2.4%).

Portugal has a higher ratio of environmental tax revenue to GDP than does the EU-27 as a whole. However, the bulk of this tax revenue derives from taxes on gasoline, which account for some 69.2% of total environmental tax revenue. It falls well below the EU average in terms of taxation income on pollution and resources.

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.

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Eurostat (2021), “Environmental tax statistics,” available online at: https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Environmental_tax_statistics#Environmental_taxes_in_the_EU

Milheiro, J. (2021), “Receitas dos impostos verdes caem 12%,” TSF, available online at: https://www.tsf.pt/portugal/economia/receitas-dos-impostos-verdes-caiem-12-14199437.html

OECD (2022), Tax revenue (indicator). doi: 10.1787/d98b8cf5-en (Accessed on 09 January 2022)

Portuguese Republic (2020), “Relatório De Atividades Desenvolvidas de ‘Combate à Fraude e Evasão Fiscais Aduaneiras 2020’,” available online at: https://www.portugal.gov.pt/download-ficheiros/ficheiro.aspx?v=%3d%3dBQAAAB%2bLCAAAAAAABAAzNLQ0NwEAcXP9iAUAAAA%3d

Turkey

Score 5

The taxation system in Turkey 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 2021, 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 8% and some other products to a 1% tax rate.

Taxes accounted for 81.0% of central government revenue in 2020. Biased toward indirect taxes, Turkey’s taxation system does not take into consideration horizontal or vertical equity, which inhibits competition across classes. Income taxes accounted for 19% of the central government’s total tax revenue while corporate taxes accounted for 12.6% This system reduces fiscal stability and political credibility, particularly given the strong played by the special consumption tax, which accounted for 24.8% of total government revenue in 2020. Finally, there is no apparent incentive structure to promote ecological sustainability.

Citation:
Sözcü. “2020’de neye ne kadar vergi ödedik? Ozan Bingöl 15 soruda anlattı.” January 16, 2021. https://www.sozcu.com.tr/2021/ekonomi/2020de-neye-ne-kadar-vergi-odedik-ozan-bingol-15-soruda-anlatti-6213681/.

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.

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. Although Democrats pledged to repeal Trump's tax reform law, which "was estimated to cost nearly $2 trillion over a decade," in early 2021 the new Biden administration made it clear it only sought "a partial rollback of the law, with their focus on provisions that help corporations and the very rich." (Tankersley, 2021) Months later, in the fall, it became increasingly clear most of the Trump tax reform would remain largely untouched (Zeballos-Roig, 2021).

Citation:
Tankersley, Jim. 2021. "Biden Wants to Raise Taxes, Yet Many Trump Tax Cuts Are Staying," New York Times, April 5. https://www.nytimes.com/2021/01/22/business/economy/biden-trump-tax-law.html

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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 38.8% in 2021 (OECD average: 33.5%).

The redistribution effect achieved through taxation is reasonably good and the share of total taxes in GDP is comparable to that of other EU member states: 39.5% of GDP in Greece as compared to EU average of 40.5% in 2019. However, the structure of Greece's tax revenues is different from the OECD average and remains problematic. The country receives a lower-than-average revenue share from personal-income tax, capital gains and profits, and corporate gains and profits.

The top marginal tax rate on personal income is 44% (down from 45% in 2019) and the corresponding tax rate for business income is 24% (down from 28% under the previous government, which lost power in 2019), while that of sales tax is also 24%. The new government has reduced employees’ and employers’ social security contributions by 14 and 23%, respectively, and reduced the property tax (ENFIA) rate by 22%. It also pledged further reductions for the following years. During the pandemic, it has abolished the “solidarity tax” for the private sector for one year.

Although personal income and business taxes are relatively high, owing to widespread tax evasion and the narrow tax base in the country, direct taxes in 2019 amounted to only 9.9% of the total revenue (EU average in 2018 and 2019: 13.2–13.3%). Notably, the tax-free threshold for income tax is set at 60% of the average pay, nearly three times the EU average. VAT deficit is estimated at 34% due to tax evasion, tax avoidance and ineffectiveness in the tax collection mechanism.

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 2019 (and taxed in 2020), personal and business annual income up to €10,000 was taxed at 9% (and most self-employed persons, and small and very small businesses made sure to declare less than that amount to the tax authorities).

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.

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 has not been implemented as of the end of the review period.

To sum up, the Greek tax system continues to be characterized by relatively high tax rates, which do not result in the anticipated revenue. Greek taxation policy has improved over time and has become more business friendly, but is still subject to unpredictable shifts.

Citation:
Comments on tax system complexity 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 structure of tax revenue is drawn on OECD, https://www.oecd.org/tax/revenue-statistics-greece.pdf
On personal income tax: https://tradingeconomics.com/greece/personal-income-tax-rate#:~:text=Personal%20Income%20Tax%20Rate%20in%20Greece%20is%20expected%20to%20reach,according%20to%20our%20econometric%20models.

On tax main aggregates and direct taxes: https://ec.europa.eu/taxation_customs/taxation-1/economic-analysis-taxation/data-taxation_en

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. These changes have resulted in a small decline in the tax-to-GDP ratio since 2016. The move to a flat income tax combined with the strong reliance on the taxation of consumption has made the Hungarian tax system less redistributive.

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 the complexity of the 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, smacks of favoritism.

During the COVID-19 pandemic, the government has sought to lower labor costs by reducing social insurance contributions. It enacted a two-percentage point cut to employers' social security contributions from 17.5% to 15.5% starting in mid-2020, which will be partly financed by a new levy on the retail sector. In June 2021, the government announced a further cut in employers' social security contributions to 13% as of January 2022, combined with the abolition of the 1.5% vocational training fund contribution. By contrast, the employees' social security contribution rate has been left unchanged at 18.5%. Before the 2022 parliamentary elections, the government introduced hefty tax rebates for families and reduced the tax burden on young people by scrapping personal income taxes up to the average salary for taxpayers under the age of 25.

Taxation has hardly been harmonized with environmental sustainability and/or quality. Although environmental tax revenues in Hungary were slightly higher than the EU average, 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).

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.

Despite some reform measures, 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.
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, López Obrador announced that the government would reduce the fiscal burden on Pemex, the state-owned oil company, which is highly in debt.
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.

During the coronavirus crisis, the Mexican government showed itself unwilling to help companies severely affected by the pandemic by providing tax relief. This set the government apart from most others in the world, and did not strengthen state legitimacy or trust in government during this period of severe crisis.

Citation:
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Romania

Score 4

Ludovic Orban's government (and succeeding PNL governments) amended the Romanian Fiscal Code in December 2020. Corporate taxation has been revised, particularly in regard to foreign direct investment (FDI). Overall corporate income tax, according to the revised Convergence Program of 2020, is set to remain at 16%. The new legislation grants cumulative calculated corporate tax exemptions to firms when taxpayers apply the quarterly corporate tax return/payment and one can allocate said funds from the granted corporate tax exemption to reserves for the following year. The bill on micro-enterprises allows micro-enterprises to recover tax losses in the context of structural operations (e.g., merger, division or split). Tax consolidation has been made possible for corporate income tax, allowing firms to offset the tax profits and tax losses of jointly owned firms – so long as a responsible legal entity calculates, declares and pays corporate income tax for the group. The legislation clarifies that there is no obligation on a Romanian legal entity to retain, declare and pay a dividend tax. Dividend incomes received by micro-enterprises have been made nontaxable for the purposes of taxing the incomes of micro-enterprises.

The government has considered the elimination of the mechanism of VAT payment in installments, according to the acquis communautaire. To support the liquidity of the private sector, the government has reimbursed RON 3.17 billion to firms. Furthermore, in the midst of the COVID-19 pandemic, VAT is no longer required for imports of medicines, PPE, and other medical and sanitary devices.

Romanian residents are taxed at a flat rate of 10% on different types of revenues, including capital gains and interest, except for dividend income, which is taxed at a flat rate of 5%. Individuals may owe social security contributions for certain types of income, including investment income. Non-resident individuals are also subject to tax in Romania for certain Romanian sourced incomes, such as investment income obtained from residents. The building tax ranges from 0.08% to 1.3%, depending on the usage of the building (e.g., residential, non-residential or mixed use) and is levied at a fixed rate per square meter, varying according to the local governments categorization of said property.

Romania’s tax-to-GDP ratio continues to stand at around 26% to 27%. This is well below the EU average of 41% and one of the lowest in the European Union. Moreover, the influence of Romania’s tax schemes has maintained its fiscal deficit, with tax revenues continuing to trail expenditures.

Alongside Romania’s flat tax scheme in both corporate and personal income tax measures, and misguided public expenditure priorities, the pandemic has exposed the vulnerability of Romania’s institutions to adverse shocks, exacerbated existing fiscal pressures, and widened gaps in healthcare, education, employment and social protection. As a result of the pandemic, poverty has increased in 2020, especially among vulnerable communities (e.g., Roma), and this trend will likely continue in 2021, because of the triple-hit taken by the Romanian economy (i.e., the persistence of the pandemic, poor agricultural yields and declining remittances). Low-skilled, temporary, frontline and self-employed workers, women, young people, and small businesses have all been disproportionately impacted by the crisis (e.g., lost salaries, jobs and opportunities). The uprooting of deep-seated inequalities has only been exacerbated by the pandemic, with Romanians in informal sectors and those with fragile incomes (e.g., Roma) continuing to struggle.

While Romania’s environmental taxes amount to around 2.2%, they are well below their EU counterparts. Furthermore, while the country has committed to the targets outlined in the Paris Agreement, energy taxes and a carbon tax have still not been implemented. The “strategic plan regarding climate change for 2016 – 2020” does, however, aim to increase taxes on motor fuels and introduce a tax on air travel.

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