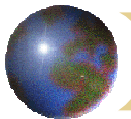


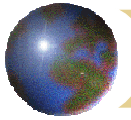
The Flat Tax: Why It Works and Why It Is Spreading Around the World

Brussels, Belgium, May 27, 2008



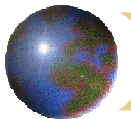
What is Good Tax Policy?

- Tax Income at one low rate, ideally no more than 20 percent.
- Define the tax base correctly, taxing Income only one time.
- Tax all income alike, since neutrality ensures economic criteria rather than tax provisions determine resource allocation.
- Tax only income earned inside national borders, the common-sense notion of territorial taxation.



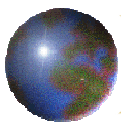
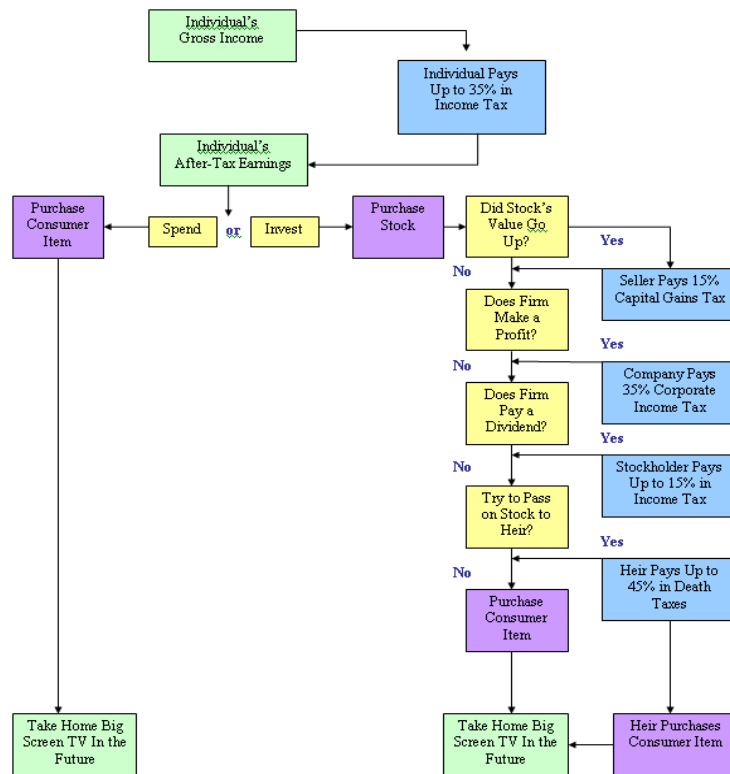
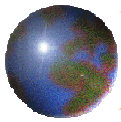
Why Have a Low Tax Rate?

- ⊕ The marginal tax rate – the burden on the next increment of income – must be kept low.
- ⊕ A low marginal tax rate rewards productive behavior. People will work more, save more, and invest more.
- ⊕ Incentives to hide, shelter, under-report income are lower when the marginal tax rate is reasonable.
- ⊕ Research indicates that the marginal tax rate should be no higher than 20 percent.



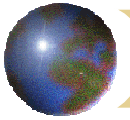
Why Tax Income Only One Time?

- ⊕ Many nations impose multiple layers of tax on income that is saved and invested.
- ⊕ This is the wrong definition of the tax base.
- ⊕ Taxes on interest, dividends, capital gains, and inheritances are examples of the discriminatory treatment of capital.
- ⊕ This is a self-destructive policy since it harms the activity – capital formation – that all economic theories agree is necessary for economic growth and rising living standards.



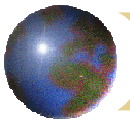
Getting Rid of Loopholes

- ⊕ Special provisions in a tax code are economically inefficient because they lure people into decisions that only make sense for tax reasons.
- ⊕ Exemptions, deductions, credits, and other preferences create opportunities for corruption.
- ⊕ High tax rates and double taxation increase incentives for taxpayers to seek loopholes. Low rates make special provisions less attractive.



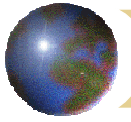
The Principle of Territorial Taxation

- ⊕ Governments should only tax economic activity inside national borders.
- ⊕ This protects against double taxation.
- ⊕ This promotes international comity.
- ⊕ This permits tax competition.
- ⊕ Most nations have territorial taxation for labor income and corporate income, but many countries seek to impose worldwide taxation on capital income because of double taxation.

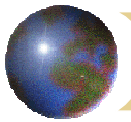
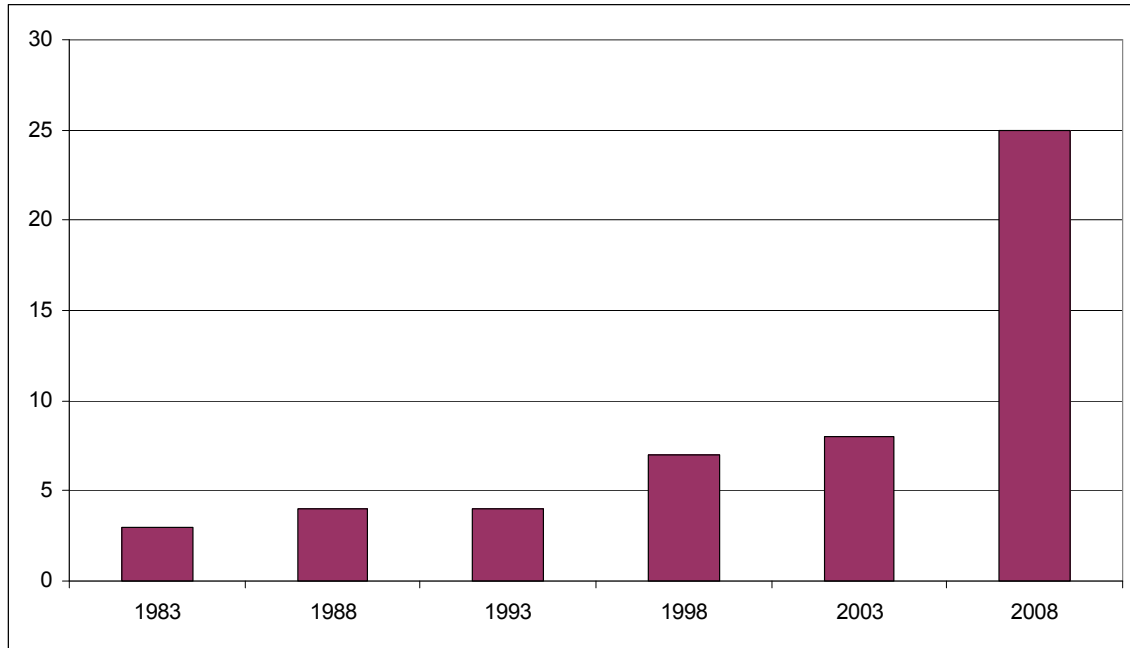


The Flat Tax is the Answer

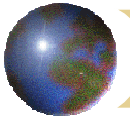
- ⊕ A low tax rate.
- ⊕ No double taxation of income that is saved and invested.
- ⊕ Neutrality, meaning no special preferences or special penalties.
- ⊕ Territorial, so taxpayers can compete on a level playing field.
- ⊕ Simplicity – two postcards.



Growing List of Flat Tax Nations

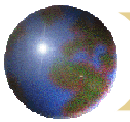


Jersey	1940	20 percent
Hong Kong	1947	16 percent
Guernsey	1960	20 percent
Jamaica	1986	25 percent
Estonia	1994	22 percent
Latvia	1995	25 percent
Lithuania	1996	27 percent
Russia	2001	13 percent
Slovakia	2004	19 percent
Ukraine	2004	15 percent
Iraq	2004	15 percent
Romania	2005	16 percent
Georgia	2005	12 percent
Trinidad & Tobago	2006	25 percent
Pridnestrovie	2006	10 percent
Iceland	2007	35.7 percent
Mongolia	2007	10 percent
Kyrgyzstan	2007	10 percent
Kazakhstan	2007	10 percent
Macedonia	2007	12 percent
Montenegro	2007	15 percent
Albania	2007	10 percent
Czech Republic	2008	15 percent
Bulgaria	2008	10 percent
Mauritius	2008	15 percent



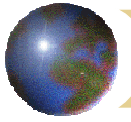
A Word of Caution

- ⊕ No flat tax system fully satisfies the theoretical ideal of one tax rate, no double taxation, and no loopholes.
- ⊕ Some jurisdictions, such as Hong Kong, Estonia, Iceland, Georgia, and Slovakia, have remarkably good systems.
- ⊕ Others are less impressive, and others are too obscure to make meaningful assessments.

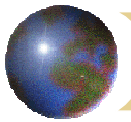
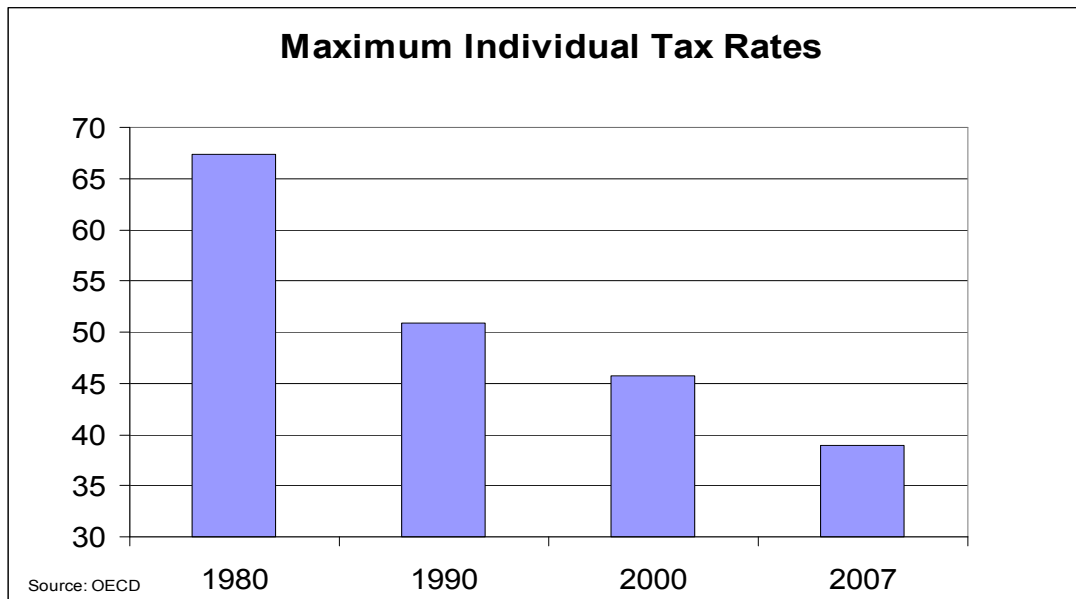


World is Moving the Right Direction

- ⊕ There are now 25 nations with flat tax systems.
- ⊕ But this is just a symptom of how tax policy is improving.
- ⊕ The top personal tax rate in the developed world has dropped from more than 67 percent to about 41 percent.
- ⊕ The average corporate rate has fallen by more than 20 percentage points.
- ⊕ Around the globe, we are seeing lower tax rates and less double taxation of saving and investment.

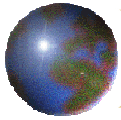


Global Progress on Tax Rates



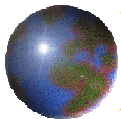
Falling Corporate Tax Rates

- Average corporate tax rate in 1980 = 48 percent.
- Average corporate tax rate in 1990 = 42 percent.
- Average corporate tax rate in 2000 = 34 percent.
- Average corporate tax rate today = 28 percent.
- America is now an outlier on corporate tax.

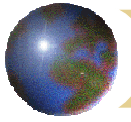


Benefits of Tax Reform

- ⊕ Liberty
- ⊕ Simplicity
- ⊕ Prosperity
- ⊕ Competitiveness
- ⊕ Opportunity
- ⊕ Equality
- ⊕ Privacy
- ⊕ Enforcement



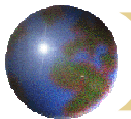
Form 1 ARMEY-SHELBY FLAT TAX FORM 1999			
Your first name and initial	Last name	Your Social Security number	
Present home address		Spouse's Social Security number	
City, Town or Post Office Box, State and ZIP Code		Your occupation	
		Spouse's occupation	
1. Wages, Salary, and Pensions		1	
2. Personal Allowance		2(a)	
a. \$23,200 for married filing jointly		2(b)	
b. \$11,600 for single		2(c)	
c. \$14,850 for single head of household		3	
3. Number of dependents, not including spouse		4	
4. Personal allowances for dependents (line 3 multiplied by \$5,300) ..		5	
5. Total personal allowances (line 2 plus line 4)		6	
6. Taxable wages (line 1 less line 5, if positive, otherwise zero)		7	
7. Tax (17 percent of line 6)		8	
8. Tax already paid		9	
9. Tax due (line 7 less line 8, if positive)		10	
10. Refund due (line 8 less line 7, if positive)			



The Hillary Clinton Flat Tax

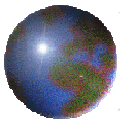
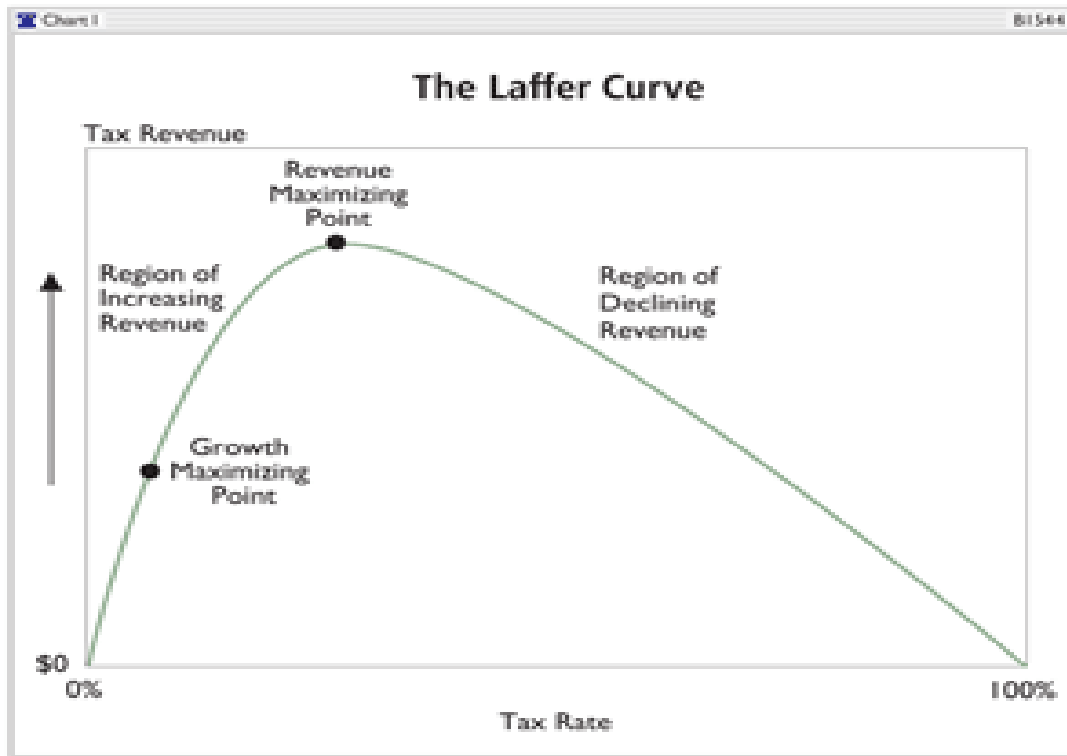
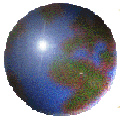


What did you make last year?	
Send it in	



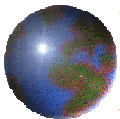
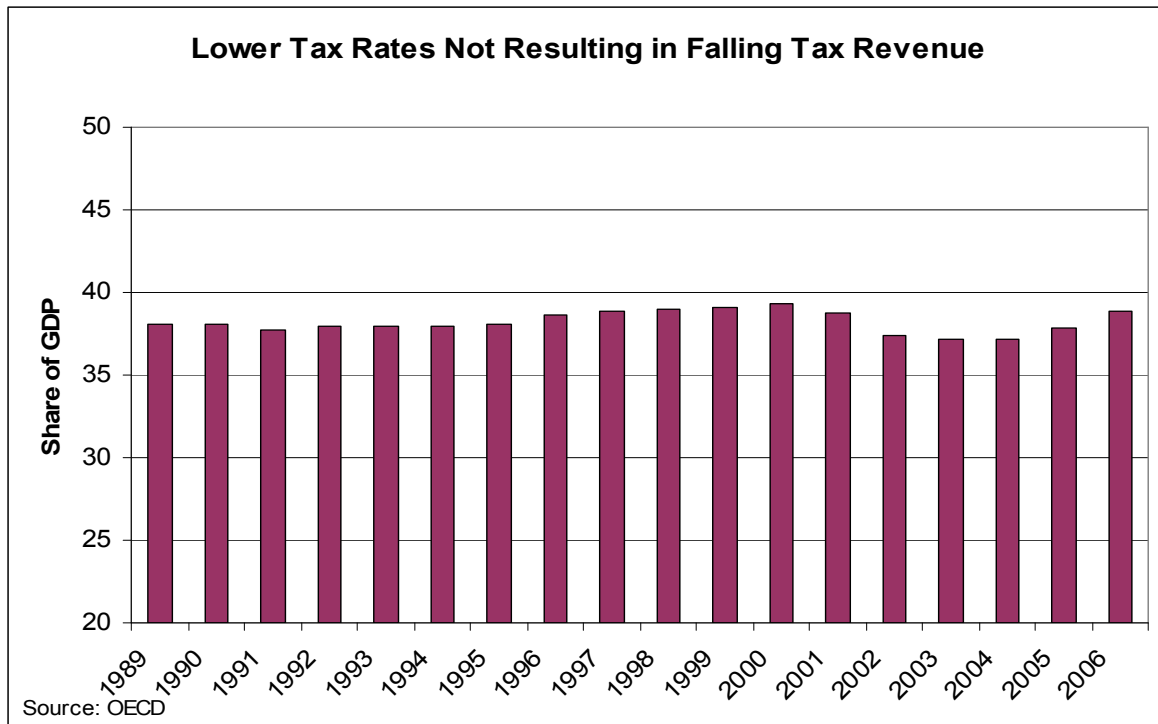
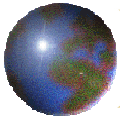
The Laffer Curve

- ⊕ High tax rates reduce incentives to engage in productive behavior, meaning less work, saving, investment, and entrepreneurship.
- ⊕ This means less taxable income.
- ⊕ To determine the impact of a tax policy change on tax revenue, which effect dominates: The rate change or the change in taxable income.
- ⊕ Revenue maximization should not be the goal of fiscal policy.



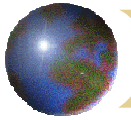
The Laffer Curve

- ⊕ A strong Laffer Curve effect occurs when the impact on taxable income is large enough to fully offset the rate change.
- ⊕ Examples include capital gains rate reductions in the U.S., Irish corporate rate reductions, and Russia's 13 percent flat tax.
- ⊕ Long-run impact
- ⊕ An ordinary Laffer Curve effect occurs when the impact on taxable income is not large enough to offset the rate change.



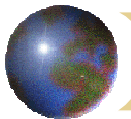
Responding to Critics

- ⊕ Opponents of tax reform argue that high tax burdens on saving, investment, and assets prevent an “unfair” concentration of wealth.
- ⊕ No evidence for this hypothesis.
- ⊕ These policies diminish economic growth and capital formation, and this primarily hurts lower-income people.
- ⊕ Opponents fail to realize that the goal is upward mobility and economic expansion, not simply new ways to divide an existing pie.



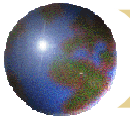
Growth, Not Redistribution

- ⊕ Compassion is not defined by seizing and spending someone else's money.
- ⊕ It is far more compassionate to create a society that gives people the opportunity to get a good job that pays a good wage.
- ⊕ In the U.S., there is dramatic income mobility as many rich people lose wealth and many poor people climb out of poverty.
- ⊕ Winston Churchill defined socialism as the equal sharing of the misery.

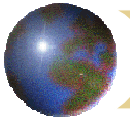
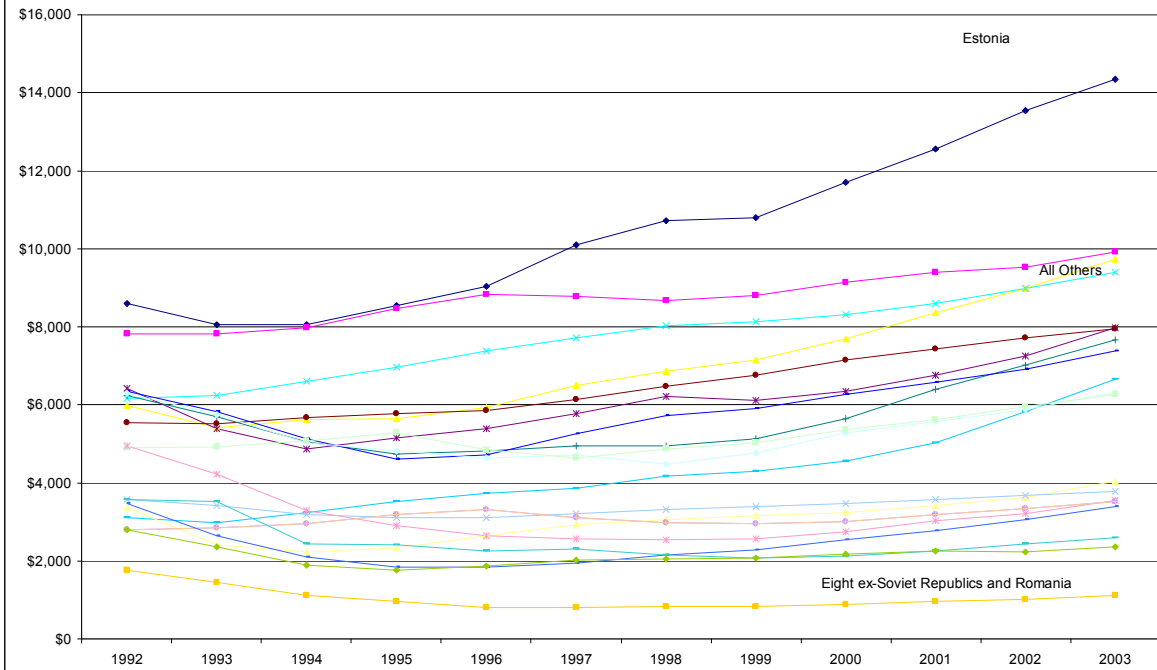


Learning from other Nations

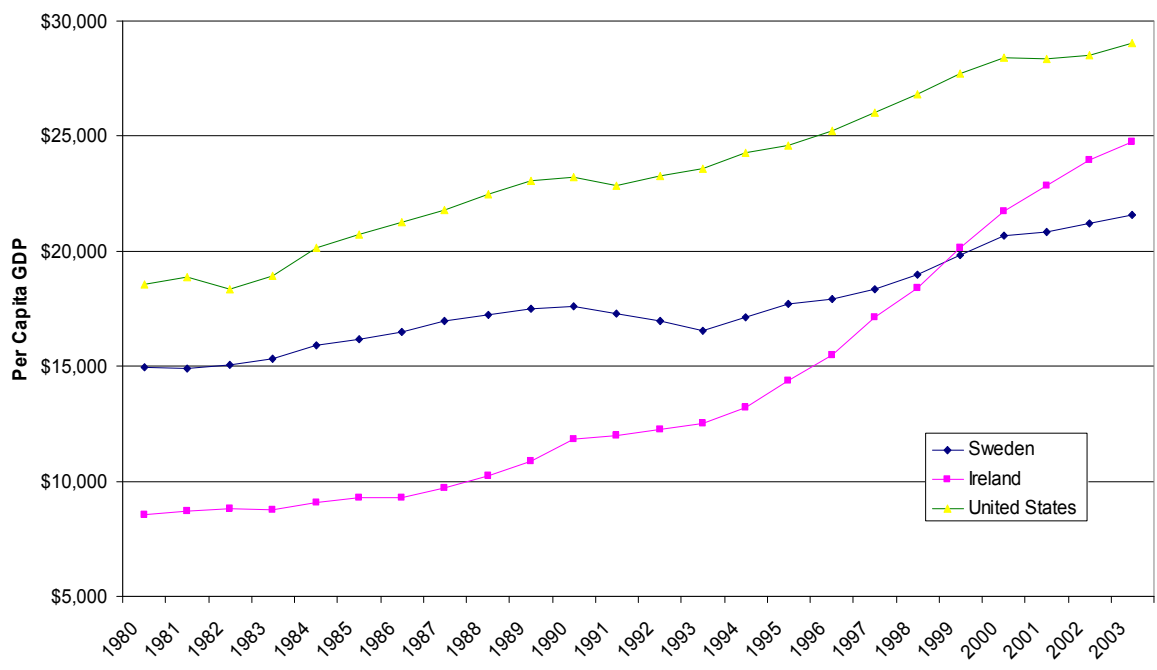
- ⊕ Why do some countries become economic superstars?
- ⊕ Good institutions – such as rule of law and property rights – are a necessary condition.
- ⊕ Economic liberalization is a trigger for faster growth.
- ⊕ Well designed tax reforms often play a key role.

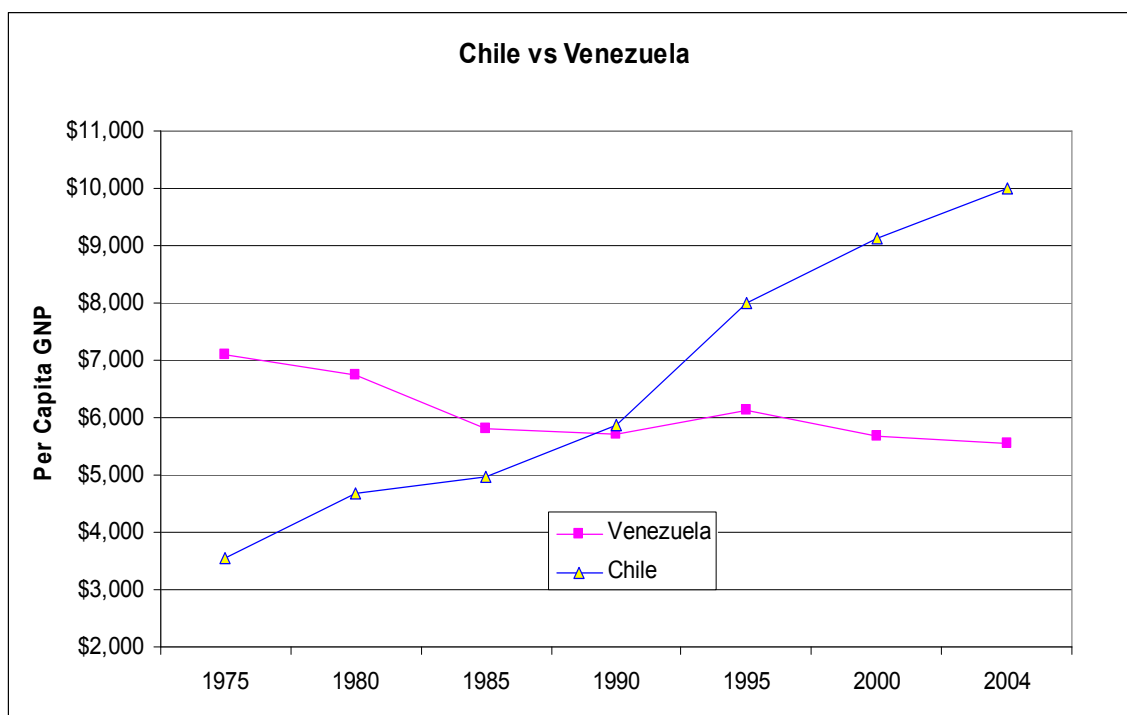
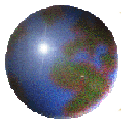
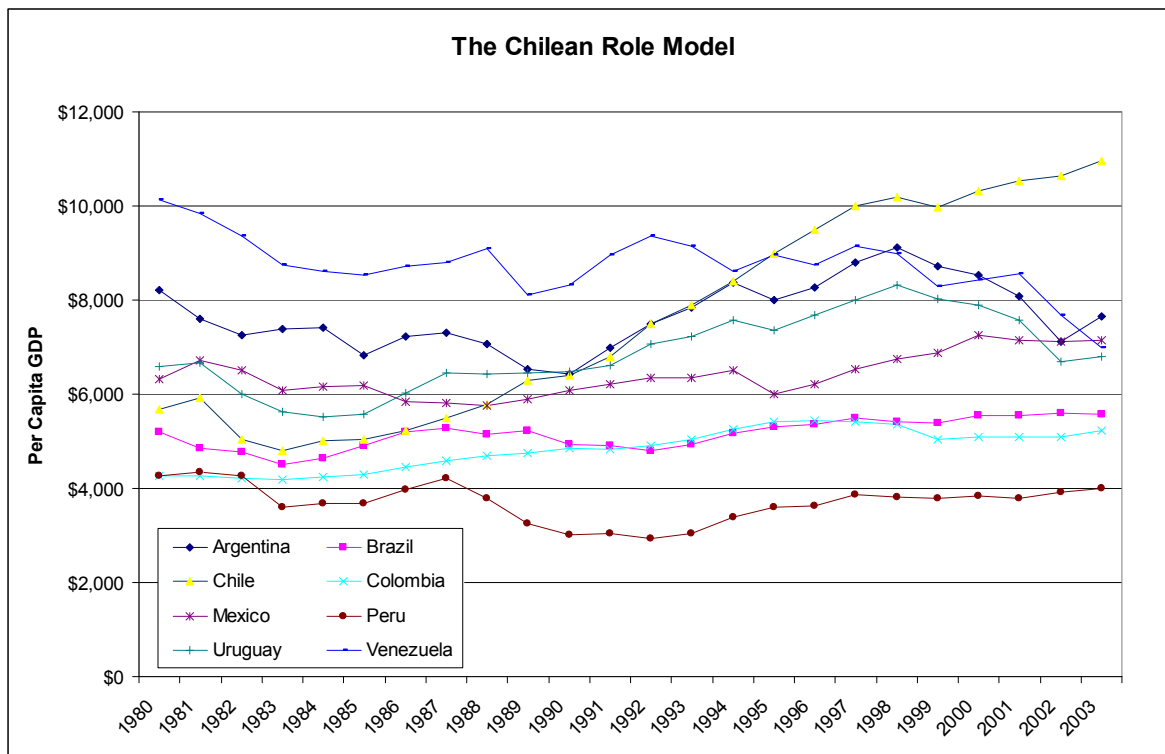
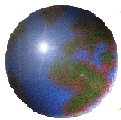


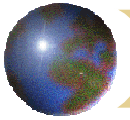
Per Capita GDP in Former Communist Nations



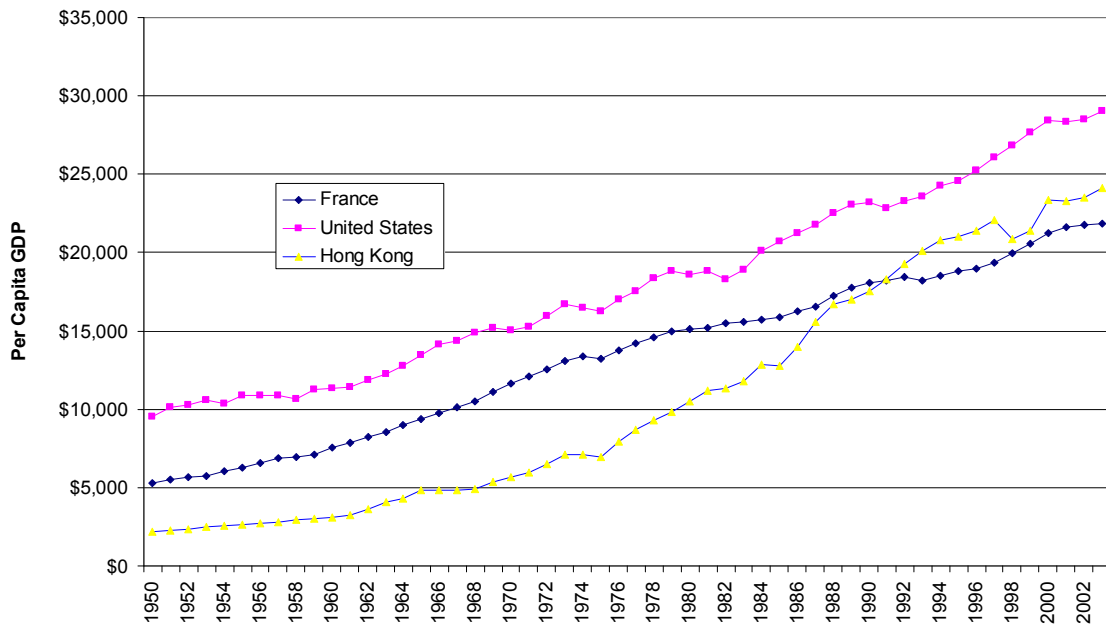
The Irish Miracle



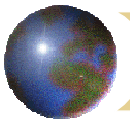




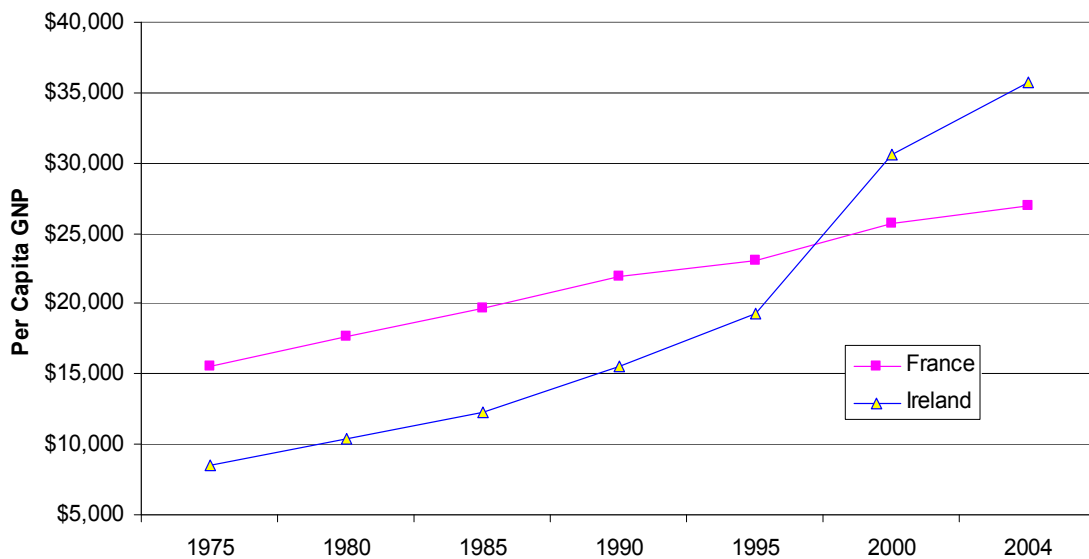
Hong Kong's Impressive Growth

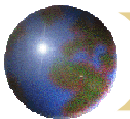
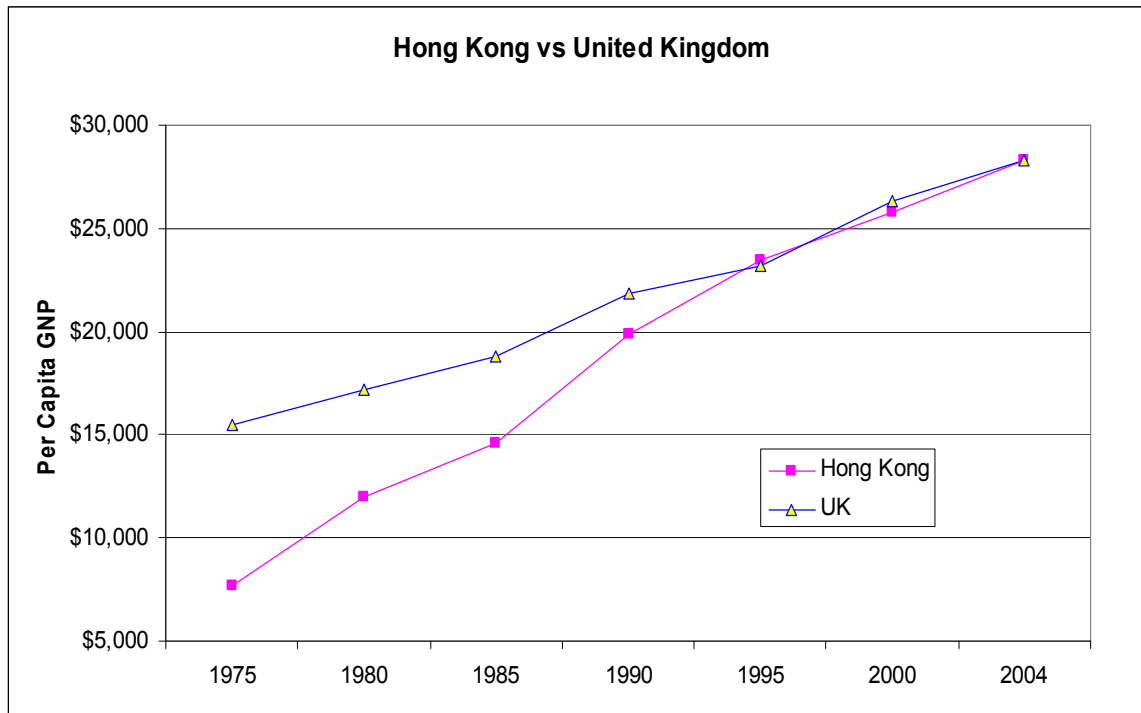
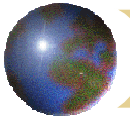


Source: Maddison, OECD



Ireland vs France





Conclusion

- ⊕ The world is a laboratory showing the benefits of small government and sound institutions.
- ⊕ The flat tax is an example of pro-growth reforms.
- ⊕ No nation has repealed the flat tax, notwithstanding IMF prediction.
- ⊕ The list of flat tax nations will continue to expand because of tax competition.