



ADRIATIC INSTITUTE
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The Flat Tax Spreading in Eastern Europe

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Natasha Srdoc
President and Co-Founder
Adriatic Institute for Public Policy

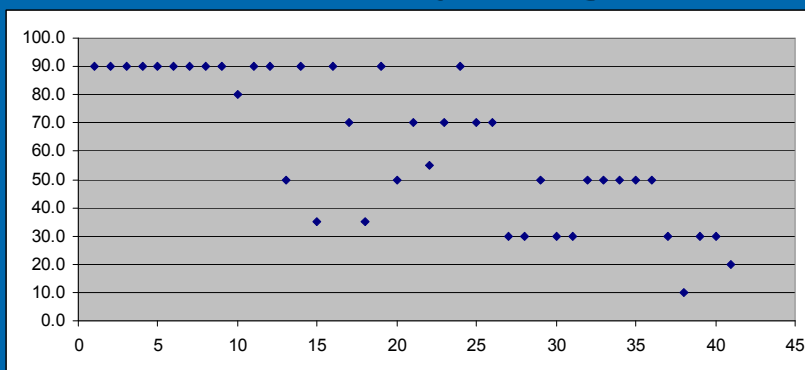
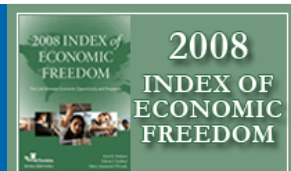
Tax Policy - Role

- Tax policy - central role in achieving high rates of economic growth.
- Tax policy can not be used to conduct social policy.
- Purpose of tax policy - raise taxes in the simple, fair, least-expensive, most effective, most efficient, non-distortive and non-discriminatory way.
- Flat tax - low, fair, unique tax rate, which taxes income once (avoiding double taxation) and as close as possible to the source, attracts FDI and boosts economic growth.

Challenges in Eastern Europe

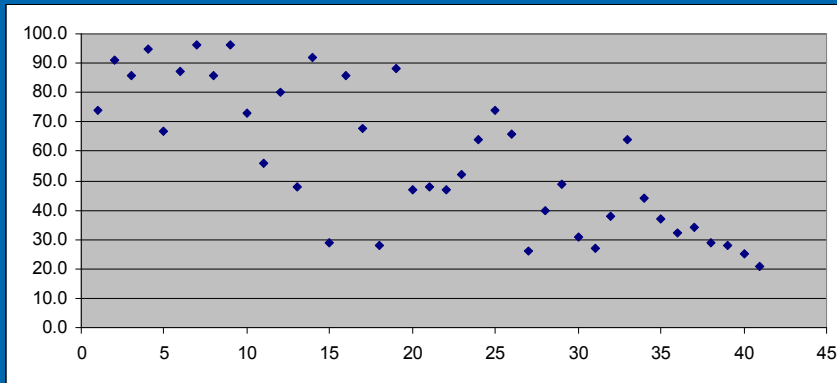
- Not upholding the rule of law
- Low protection of property rights
- Widespread corruption
- Substantial levels of informal market activities
- Heavy regulation imposed on free enterprises, resulting in greater government corruption, and randomly applied regulation

Property Rights



- 90%** - Ireland, Switzerland, UK, Denmark, **Estonia**, Netherlands, Iceland, Luxembourg, Finland, Cyprus, Germany, Sweden, Austria, Norway, Malta
- 80%** - Belgium,
- 70%** - Spain, **Czech Republic**, Hungary, France, Portugal,
- 55%** - **Latvia**
- 50%** - **Lithuania, Slovakia**, Italy, Turkey, Slovenia, Greece, Poland
- 35%** - Armenia, **Georgia**,
- 30%** - **Albania, Bulgaria, Romania, Macedonia**, Croatia, **Ukraine, Russia**
- 20%** - Belarus
- 10%** - Bosnia and Herzegovina

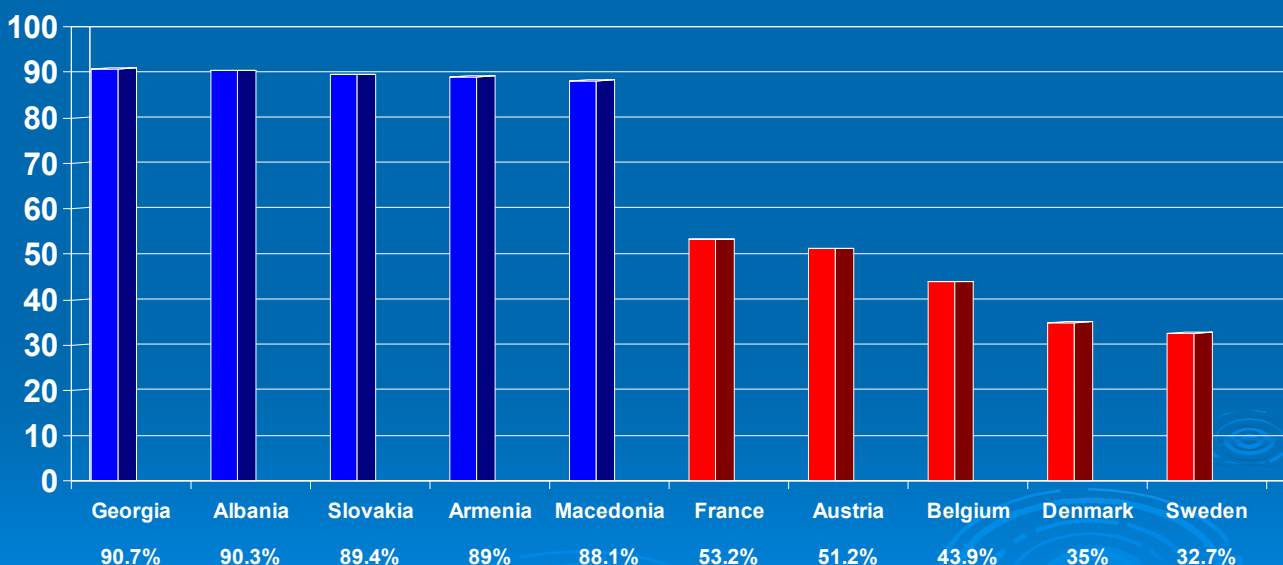
Freedom from Corruption



- 80-100%** Iceland (96%), Finland (96%), Denmark (95%), Sweden (92%)
Switzerland (91%), Norway (88%), Netherlands (87%), U.K.(86%),
Luxembourg (86%), Austria (86%), Germany (80%)
- 70-80%** Ireland (74%), France (74%), Belgium (73%)
- 60-70%** Spain (68%), **Estonia** (67%), Portugal (66%), Malta (64%), Slovenia (64%)
- 50-60%** Cyprus (56%), Hungary (52%)
- 40-50%** Italy (49%), **Lithuania (48%), Czech Republic (48%), Slovak Republic (47%), Latvia (47%),** Greece (44%), **Bulgaria (40%)**
- 30-40%** Turkey (38%), Poland (37%), Croatia (34%), Moldova (32%), **Romania (31%)**
- 20-30%** Armenia (29%), B&H (29%), **Georgia (28%), Ukraine (28%), Macedonia (27%), Albania (26%), Russia (25%),** Belarus (21%)



Fiscal Freedom



Flat Tax in Eastern Europe

- Reform which has its own set of rules
- Unequivocal interpretation
- Built-in anti-corruptive mechanism
- Does not directly relate to rule of law and protection of property rights
- Flat tax became a generator of economic growth
- Opportunity to catch-up with Western Europe

Results

- Russia – increased tax compliance – in four years, by 2005, tax revenues increased by 150%
- Romania – one year after adoption – 160,000 new registered jobs
- Every country – no exception – achieved same or higher tax revenue in just 1 year
- Every country achieved sustainable higher economic growth – Estonia (10-12%), Slovakia (7%), Russia (7%)
- Irreversibility – no one flat tax country reversed to the progressive taxation

Adopting the Flat Tax

Govt. perspective

STRENGTHS

- Simplicity
- Efficiency – smaller resources
- Effectiveness - collection
- Competitiveness

OPPORTUNITIES

- Attract FDI
- Increase overall investment & saving
- Higher employment
- Increase compliance
- Higher economic growth
- Increase tax revenue
- Re-election

WEAKNESSES

- Increased accountability
- No meddling with taxes
- Redundant bureaucracies
- Built-in anti-corruptive mechanism

THREATS

- Trade unions rhetoric - opposition
- Tax authorities – becoming redundant (IRS)
- Businesses enjoying preferential treatment
- Tax lobbying organizations and individuals earning of the complicated tax code.