Tax by Design in Slovakia

Ľudovít Ódor

www.rozpocťovarada.sk
„The hardest thing in the world to understand is the income tax.“

(Albert Einstein)

„The nation should have a tax system that looks like someone designed it on purpose.“

(William Simon)
Outline

• Tax (and benefits) by design in Slovakia: the experiment in 2003-2004 – lessons after 10 years
• The impact of the Great Recession on tax systems
• Is the Mirrlees Review universal? Do middle income countries need different recommendations?
• Evidence-based policy – the case of Slovakia
Main principles of the 2003-2004 reform:
- shift weight from direct to indirect taxes
- maximize excise taxes first
- the same single marginal tax rate for PIT and CIT at 19%
- broaden the base as much as possible
- no double taxation of income where possible
- single VAT rate at 19%
- tax credit per child
- activity-based social benefits, significant decrease of METR for some groups
Personal Income Tax
Corporate Income Tax
Value Added Tax
Lessons

• Important macroeconomic effects; better incentives; „marketing“ effects; no significant distributional impacts (WB study)

• No substantial policy reversals: reduced rate VAT only for 4.5% of products; PIT marginal rate is still 19% for 94% of taxpayers; CIT increase only modest and has been partially reversed recently

• Despite intense political fights, much of the reform survived the last ten years
Taxes in Crisis Times

• Creative revenue operations and the „Sutton effect“
• Financial sector taxes
• Is it really about taxing rents?
• Transaction taxes are again among alternatives
• Focus on tax expenditures
• Wealth taxes
MIRRLEES IN CEE: POINTS OF DEPARTURE

- Tax avoidance
- FDI related growth models
- Lower "Laffer" rates, less wealth and lower employment rates: much more emphasis should be devoted to interactions between taxes and benefits
- Inspiration from Mirrlees: congestion taxes, environmental taxes, taxes on excess returns
VAT GAP

VAT gap - 2011 (% of GDP)
Effectivity of Labour Taxation
Tax Structure

VAT gap, elimination of tax expenditures, changes to the pension system and special taxes
Models and Policy

• Evidence-based policy is still important in Slovakia. Partly because of path dependency.
• Important institutional framework. Two guardians and damage controllers: IFP and the CBR
• Politics is still more about symbols than substance in the area of taxes.
• CBR’s toolbox: detailed tax forecasting models, microsimulations, standard macro models (ECM and DSGE)
Conclusion

• Tax and Benefits by Design is highly relevant to CEE countries
• One should however take into account specificities of the region and the impact of the Great Recession
• Improve the institutional structure to strengthen the role of evidence in policymaking
Thank you for Your attention!