

Lessons from the Mirrlees Review - remarks

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A decorative graphic consisting of several horizontal lines of varying lengths and colors (teal, light blue, white) extending from the right side of the slide towards the center.

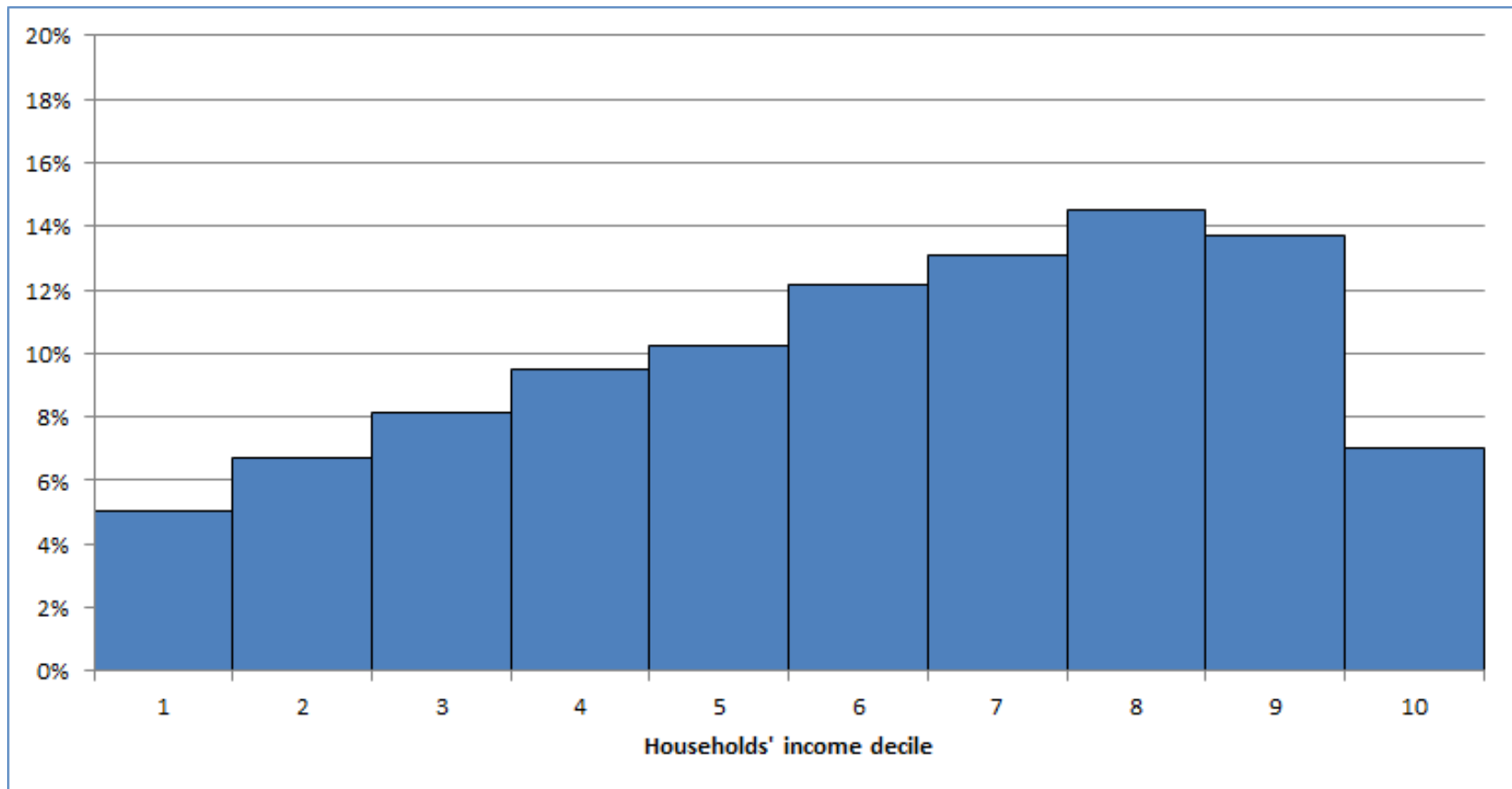
Relevant issues

- **Mirrlees Review – Tax by Design**
 - Very coherent, detailed programme
 - Based on empirical findings
 - But for a different environment
- **Lessons from the Mirrlees Review**
 - Identifies the most important differences
 - Informal economy
 - nothing is more distortive than tax evasion
 - „Missing middle” – dual economy
 - Different elasticity of tax base – even in case of capital
 - traded vs. non-traded sector, tax evasion at smaller firms

Principles of the review

- See the system as a whole
 - Very important
 - Dilemmas may materialize in conflicts between taxes (e.g. progressive PIT vs. regressive SSC)
 - Organizational questions may play a role
- Neutrality
 - May conflict with differentiation by elasticity
 - an important dilemma in practice
 - played an increased role during the crisis
- Progressivity
 - Even income taxes may target poorly...

Recipients of employment tax credit by households' equivalent income



Flat tax

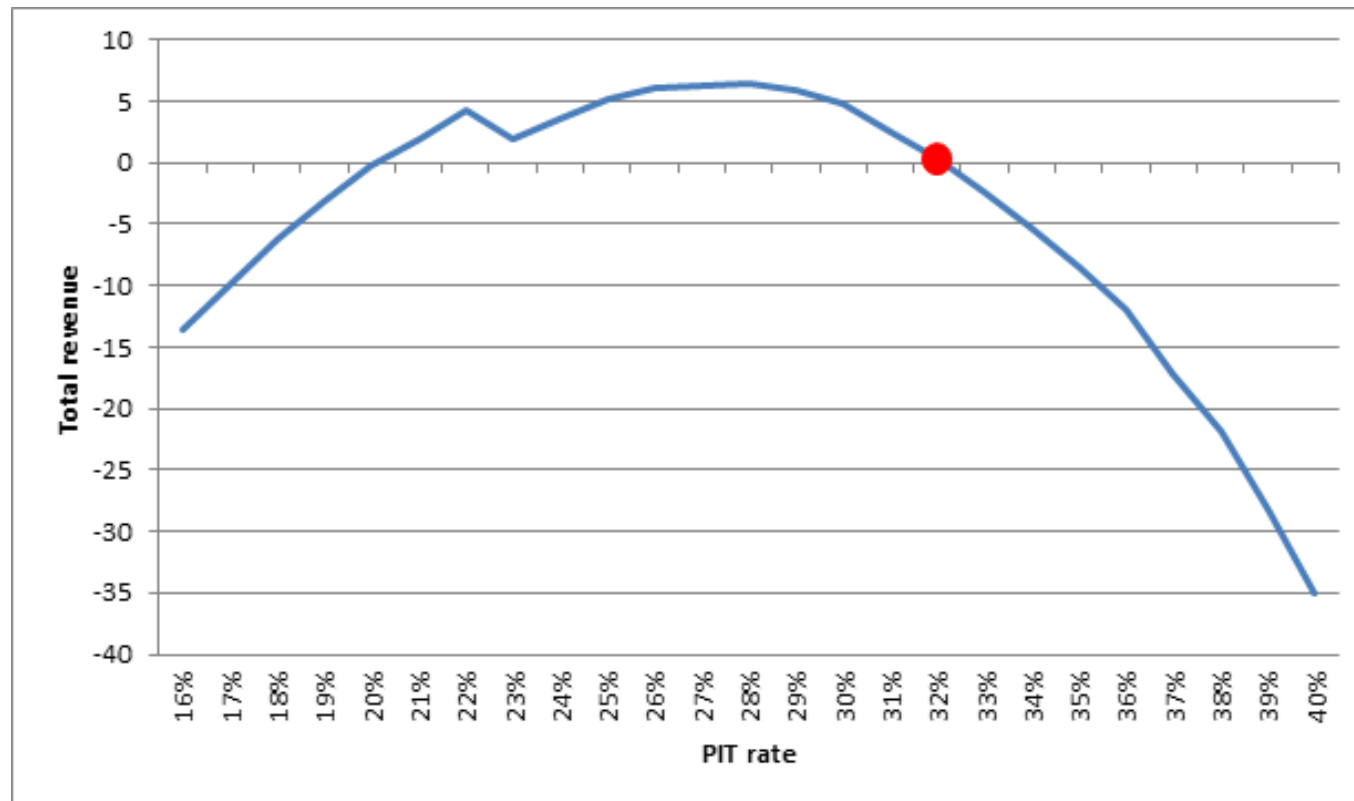
- Empirical findings
 - elasticity on the intensive margin – top PIT rate around (or even above) the revenue-maximizing rate? →
 - many low-income individuals living in middle-income or rich households
 - underreporting of earnings (50% of minimum wage earners or even more) →
 - groups with high extensive elasticity identified (unskilled, young, old workers, mothers of childbearing age)
- Policy answer
 - flat PIT and SSC
 - general employment tax credit abolished
 - broad targeted incentives for high-elasticity groups (tagging) →

ACE or cash-flow tax?

- We prefer the cash-flow approach
 - simplicity
 - no disincentives for risk-taking
- Small business tax (KIVA)
 - cash-flow base
 - employers' profit and payroll tax rate equalized
 - eligible, preferential for the majority
- Experiences
 - learning costs hinder the transition
 - hard to explain and compare with the existing system

Thank you!

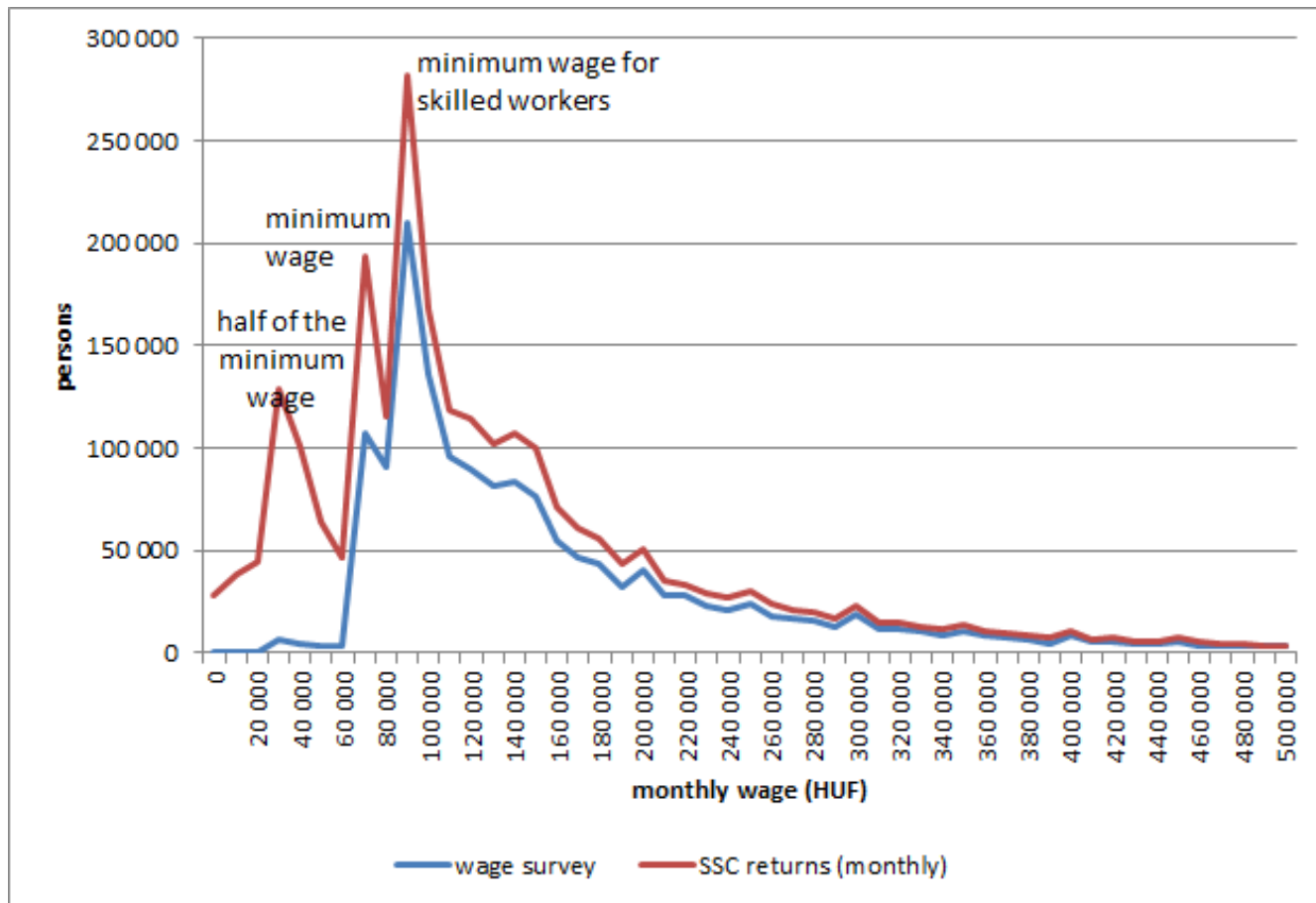
Long-term Laffer curve for the top PIT rate



Own estimation based on the model of Benczúr-Kátay-Kiss (2012)



Wage distribution, wage survey vs. monthly SSC returns (2010)



Recipients of tax allowances by households' equivalent income

