

TAX DESIGN IN THE MIDDLE INCOME COUNTRIES: LESSONS FROM THE MIRRLEES REVIEW

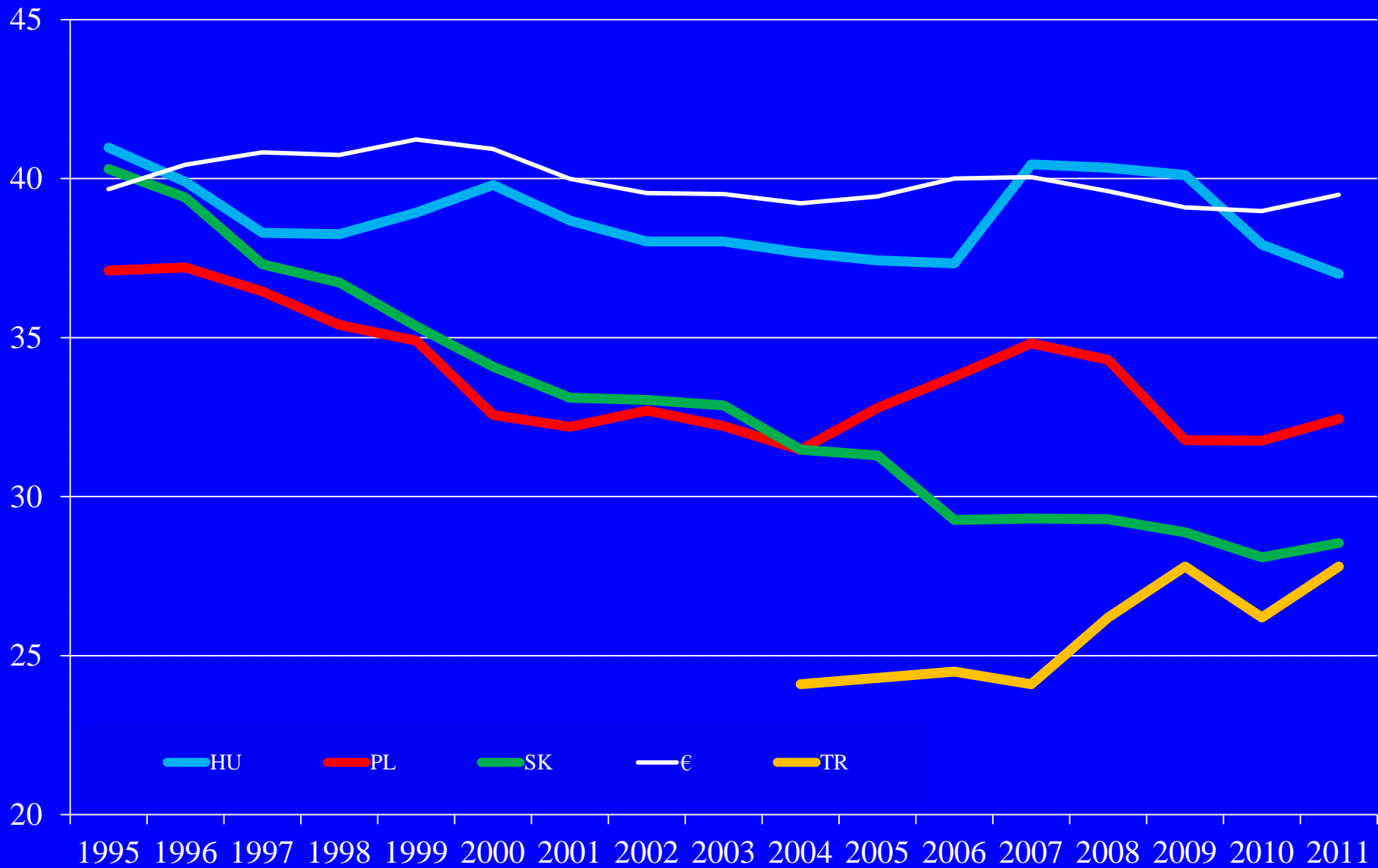
Ex-policymaker's biased commentary from Poland

Jarek Neneman
neneman@uni.lodz.pl

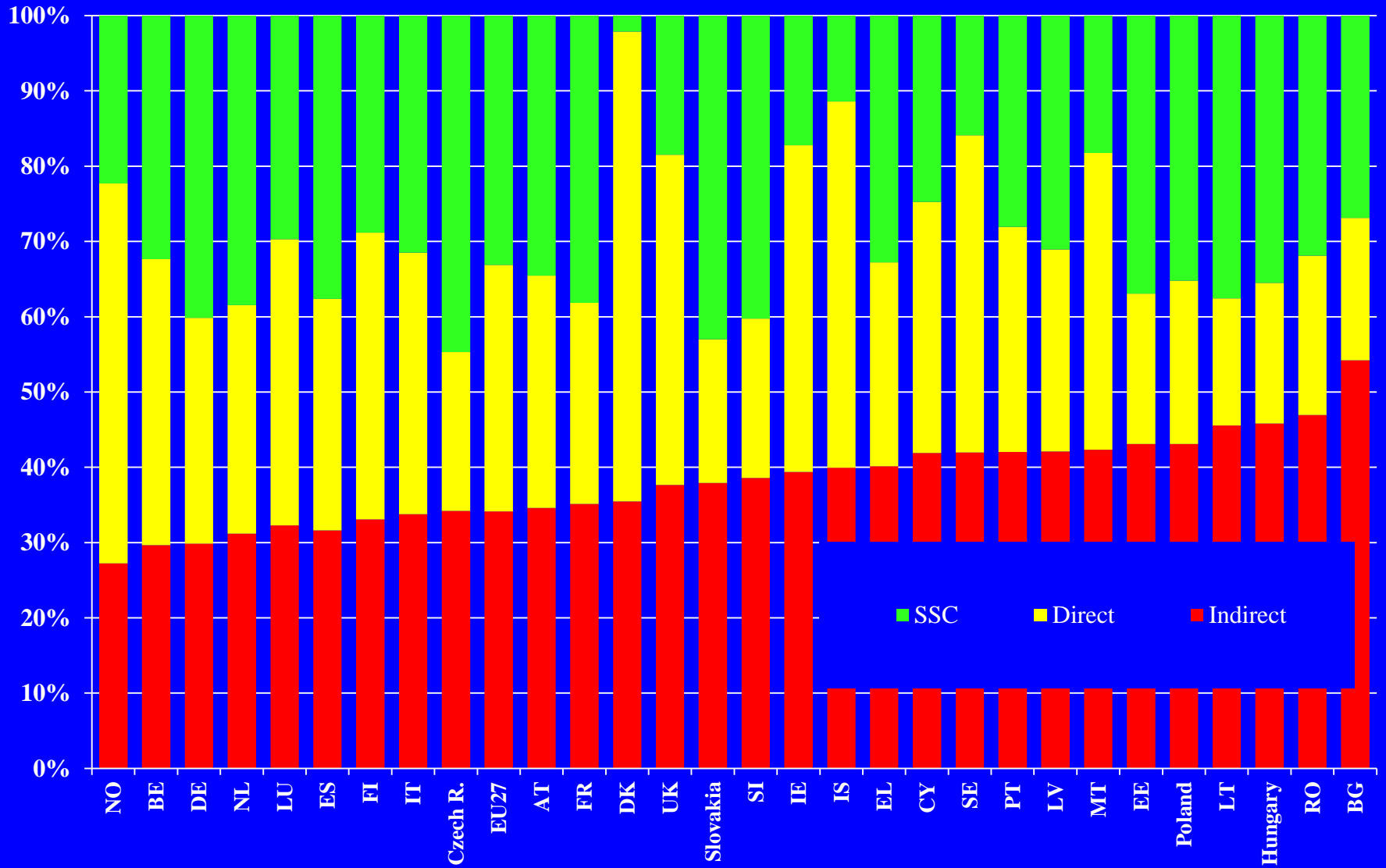
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Tax design

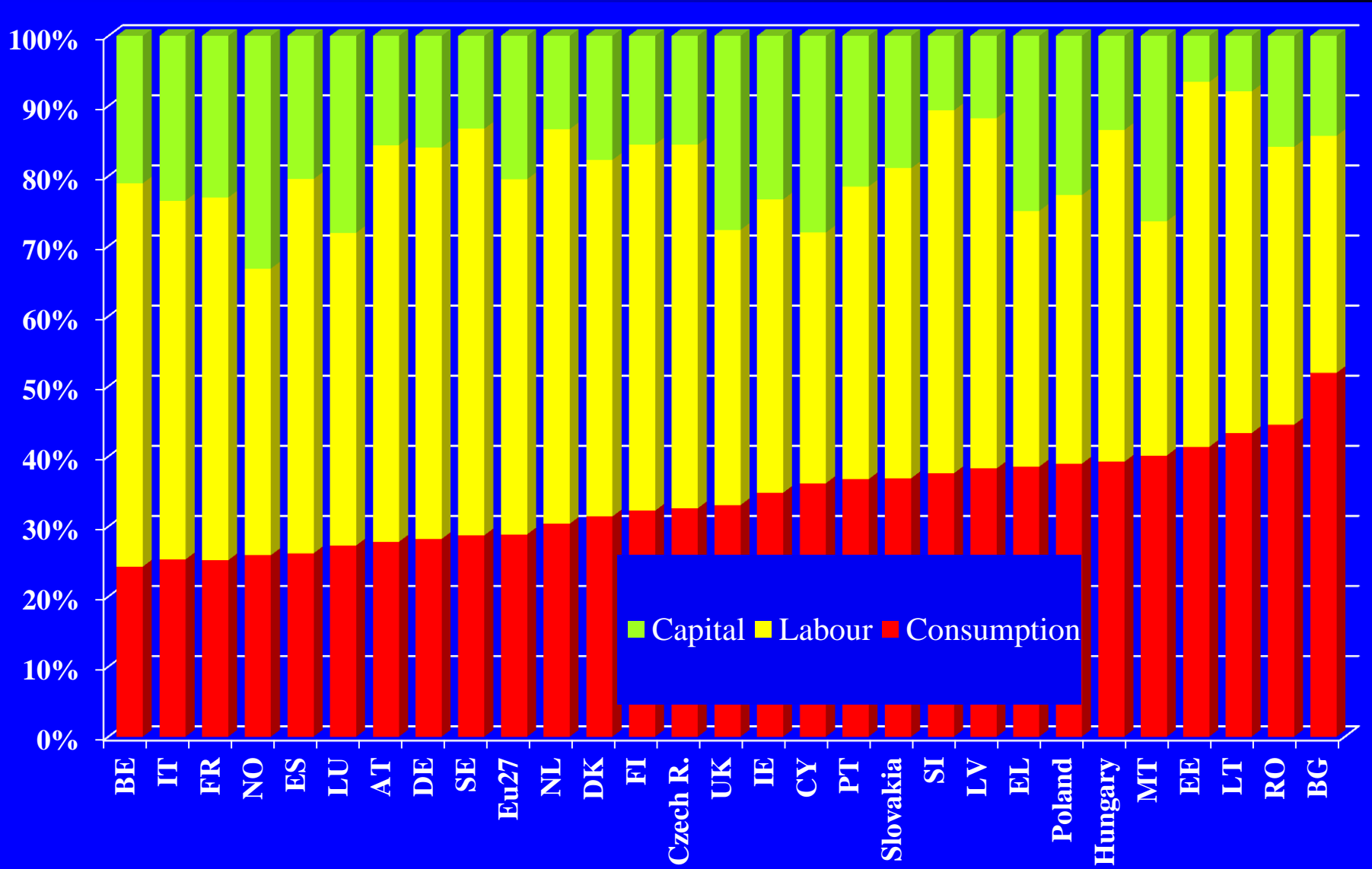
Share of tax and SSC in GDP, 2011



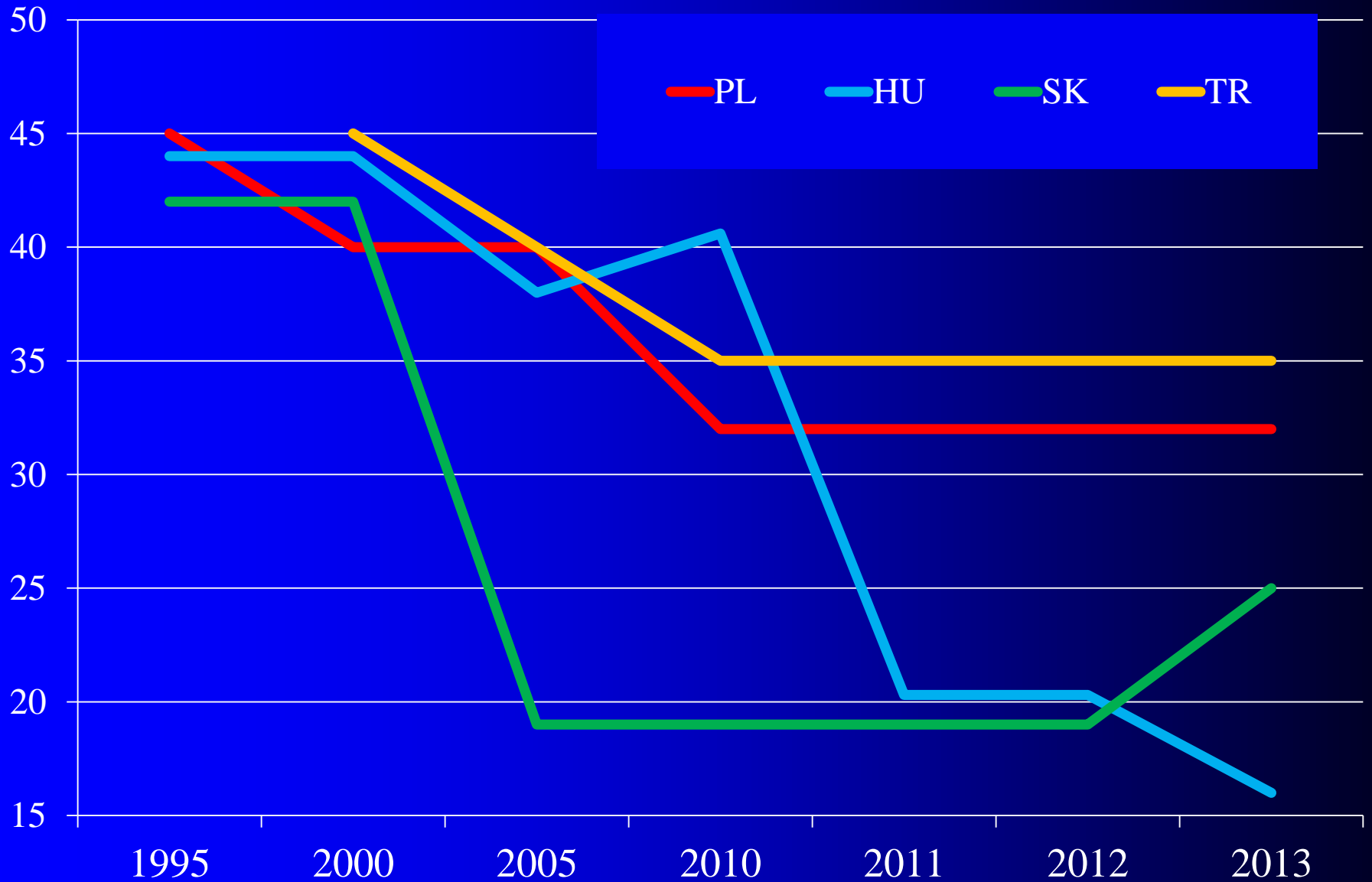
Tax design- tax mix, 2011



Tax design - tax mix, 2011



Tax design – top PIT rates



Tax design - PIT

Why a flat rate tax?

- simplicity?
- efficiency?
- fairness? Will it win in a national referendum?
- a sing of reforms?
- to prevent the politicians from doing stupid things?

Once you abandon proportional taxation, „*you are at sea without rudder or compass, and there is no amount of injustice and folly you may not commit.*”

John McCulloch

Tax design - PIT

**PIT – Polish experience with non-flat and unfair
PIT – case of self-employed vs employees. An
example of bad policy**

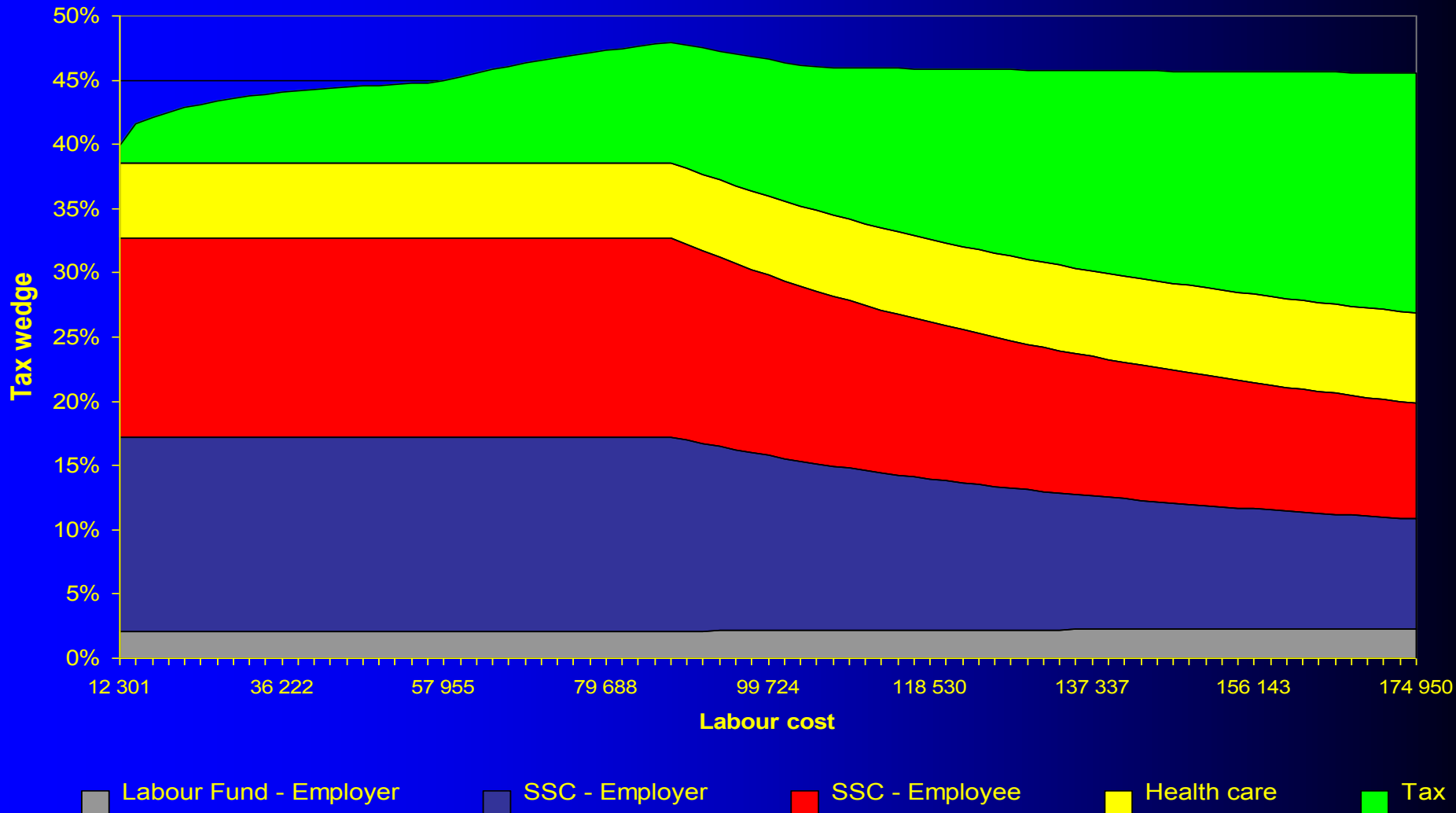
Till 2007 - 3 tax brackets: 19%, 30% and 45%; 95%
taxpayers in the first bracket

From 2007 – 2 brackets: 18% and 32%; 98-99%
taxpayers in the first bracket

From 2004 self-employed can use a flat 19% PIT

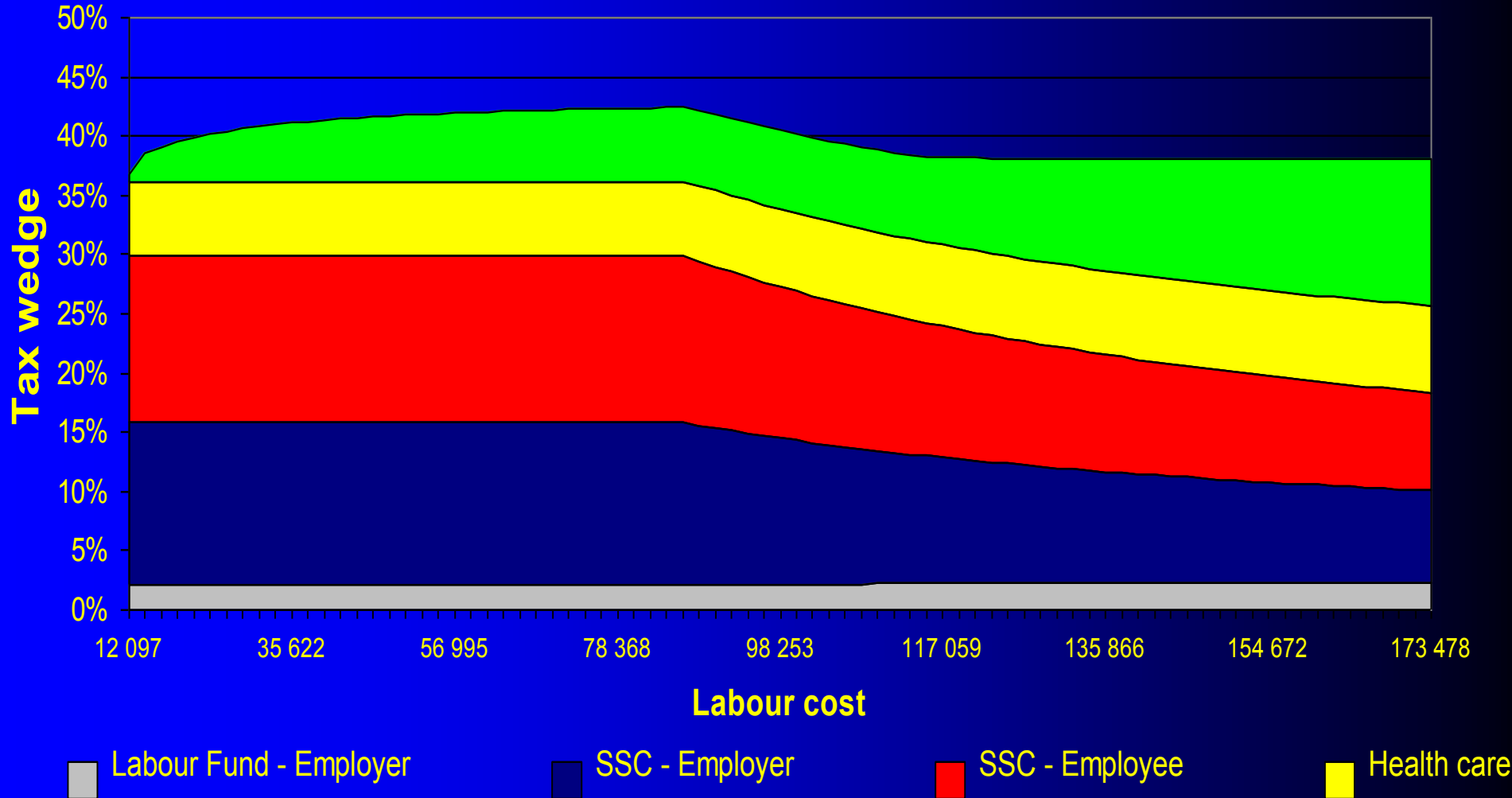
Tax design - PIT

Tax wedge 2006



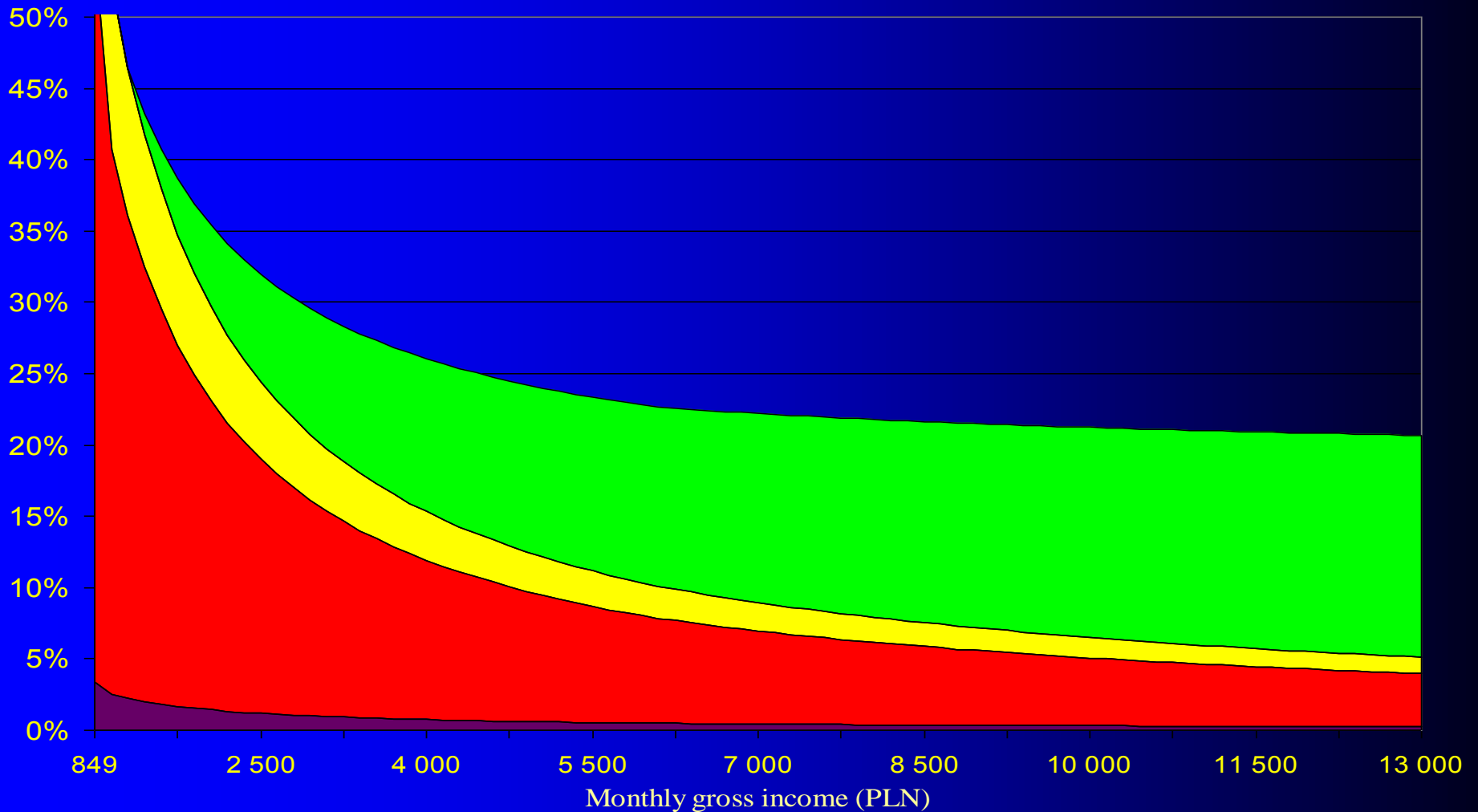
Tax design - PIT

Tax wedge 2009



Tax design - PIT

Tax wedge in Poland- selfemployed (lump sum SSC + 19% PIT)



■ Labour Fund

■ social security

■ health care

■ tax

Tax design - VAT

VAT – why does one rate occur so rarely?

Are we sure that one rate is *first best*?

I assume YES, but:

- Redistribution
- Labour intensive services – shadow economy / barriers of entry – is a high threshold a solution? Pros and cons
- Why do advanced economies not have a uniform rate? Why has Slovakia abandoned one rate? Just politics? Or was it a rational choice taking into account efficiency, fairness and compliance?

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Key practical lessons :

Successes:

- Significant elimination of tax credits/deductions (eg. for housing), but they reappeared as child credits
- Tax expenditure surveys
- Taxation of resources – case of copper and silver mining

Tax design

Key practical lessons :

Failures:

- No vision, no tax policy
- Excises
- Tax expenditures
- Farmers
- Immovable property taxation
- No formal body between MoF and taxpayers
- Tax wedge for employees and self employed – already shown
- Inefficient tax administration
- And many many many more

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Key practical lessons :

Challenges:

Taboo topics (eg. cadaster tax, joint taxation of spouses)

Taxation of small business – shadow economy

Practical issues:

- VAT on cars used both for private and business use

- Excise duty on heating oil and diesel oil

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Lessons from review:

- Neutral (efficient)
- Progressive
- System

YES, YES, YES

We may add:

- Simple
- Stable
- Predictable

as much as possible

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Role of models and empirical evidence:

- Limited at this stage, but anyway it would be nice to know if a tax system can:
 - make families have more kids
 - make firms invest more, especially in R&D
 - make people save more, especially for retirement
 - create more workplaces

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Major obstacles:

- Politics
- Politics
- Politics

Possible solutions:

- Non-opportunistic politicians, that cheat voters
- Education – no free lunch
- Any hints?