



# Tax by Design in Slovakia

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„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)*

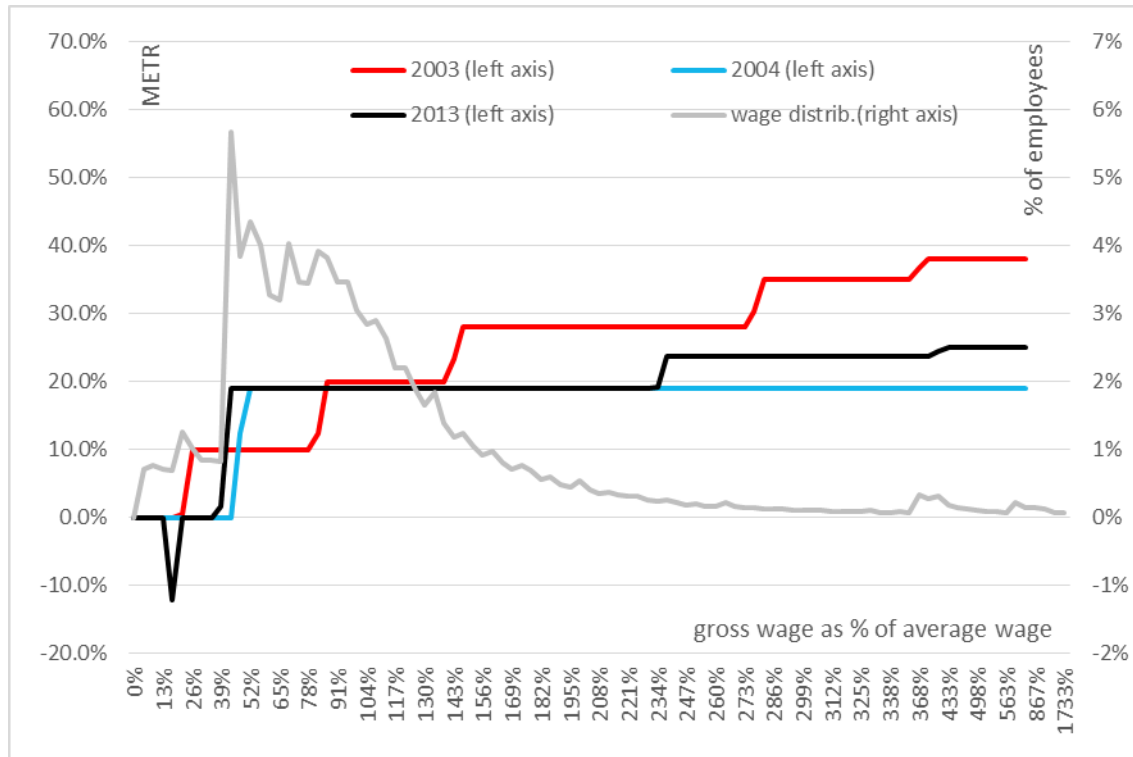
# Outline

- 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

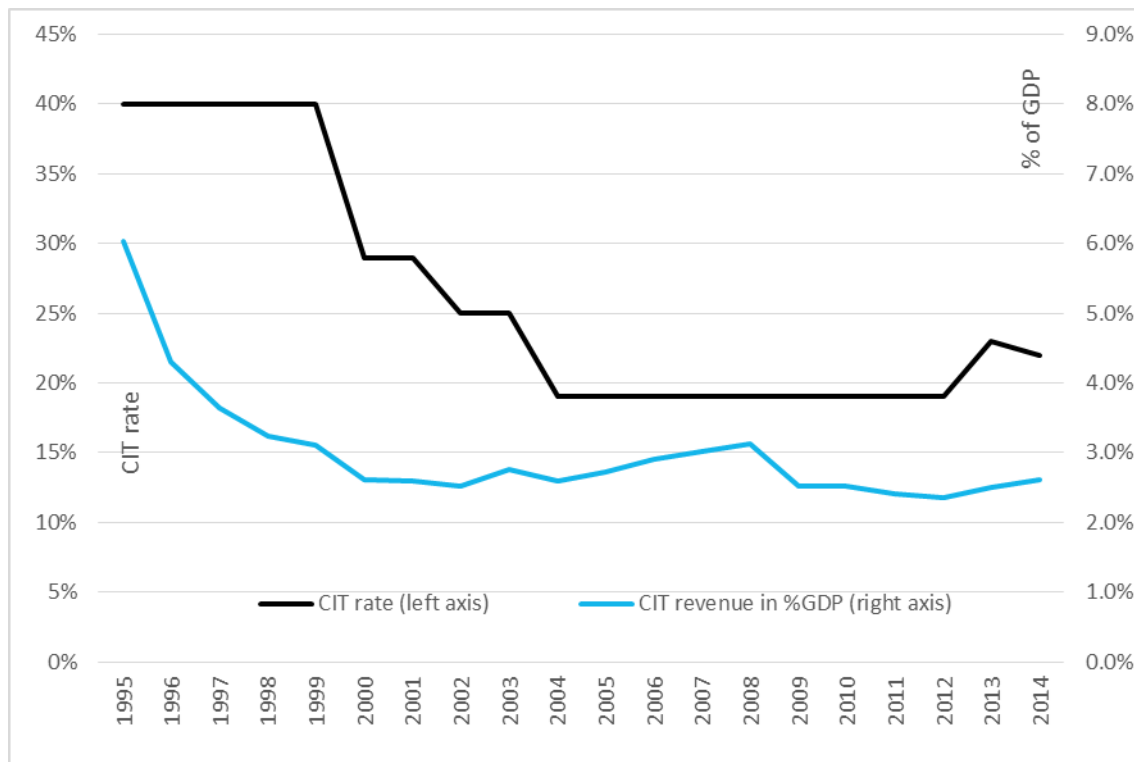
# Tax (and Benefits) by Design in Slovakia

- 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

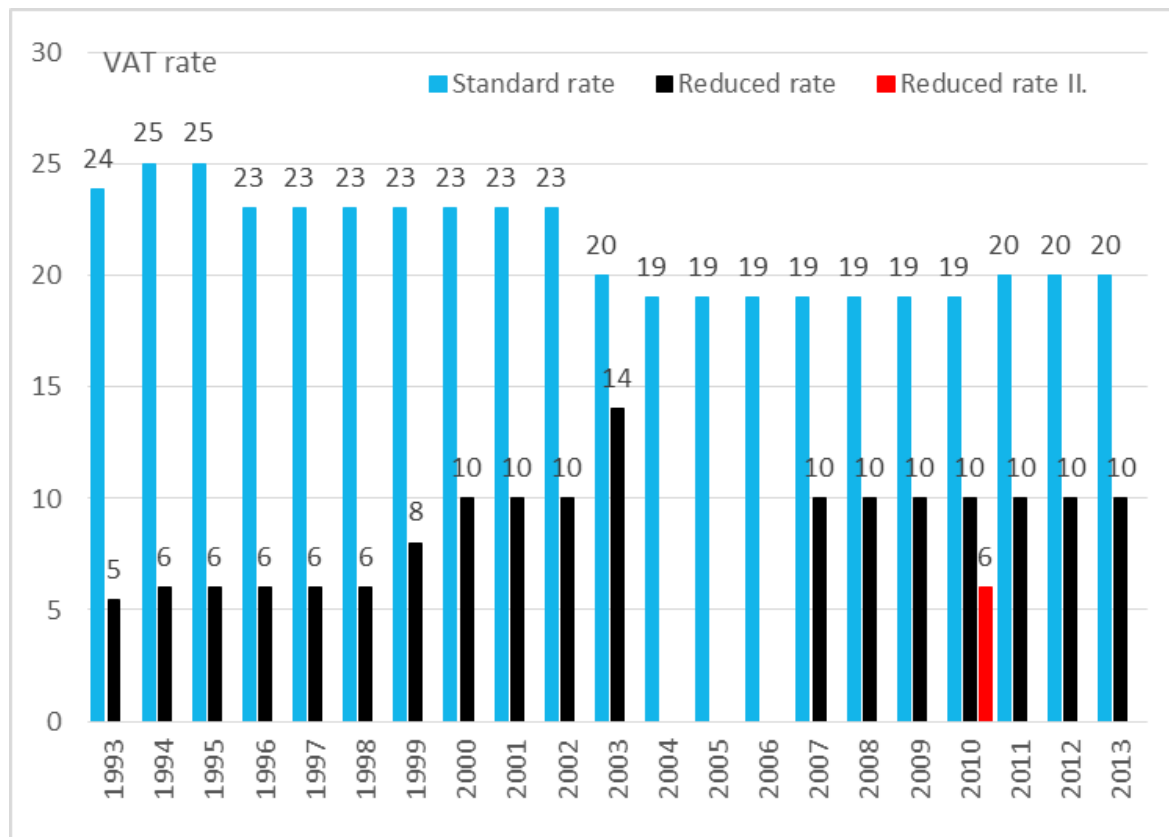
# Personal Income Tax



# 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



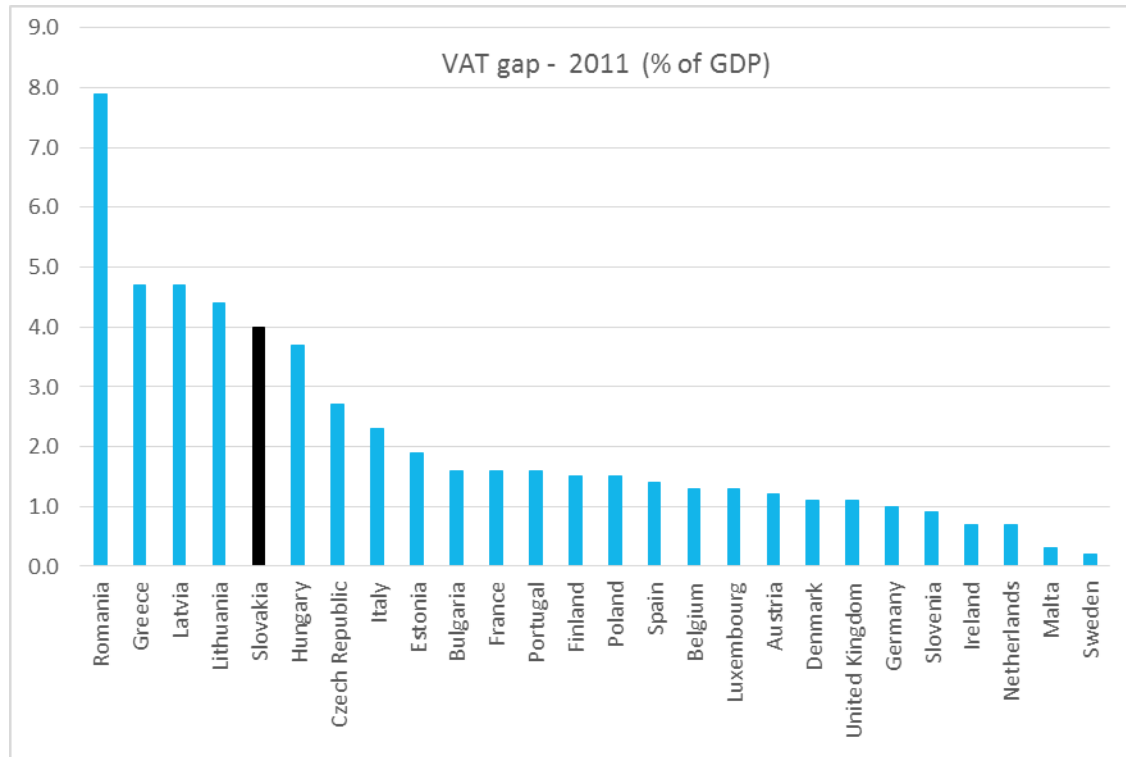
# Taxes in Crisis Times

- 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

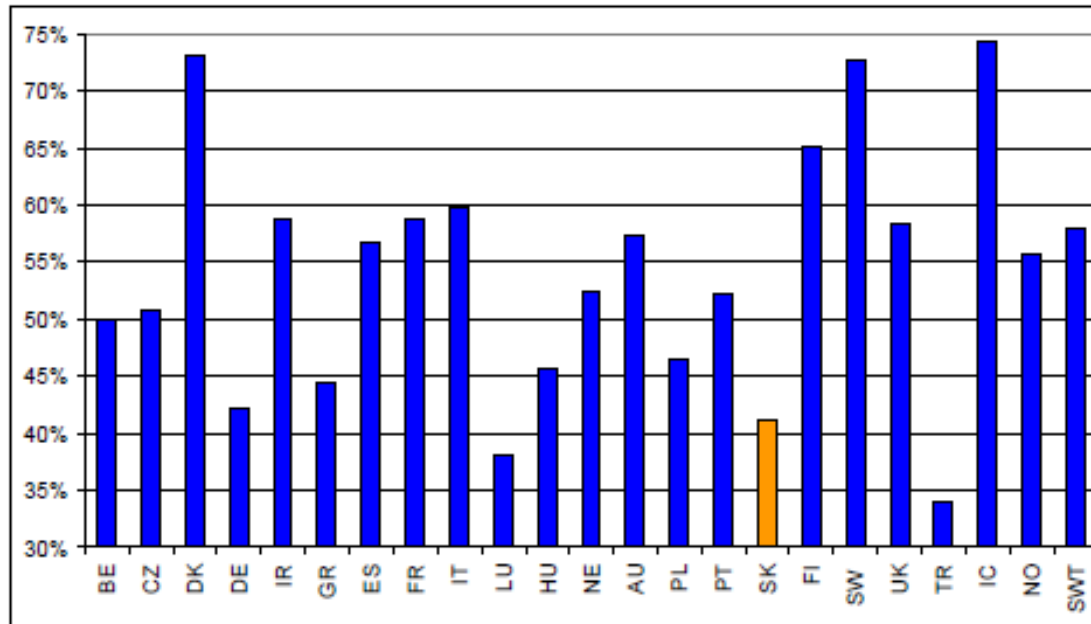
# Mirrlees in CEE: points of departure

- 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



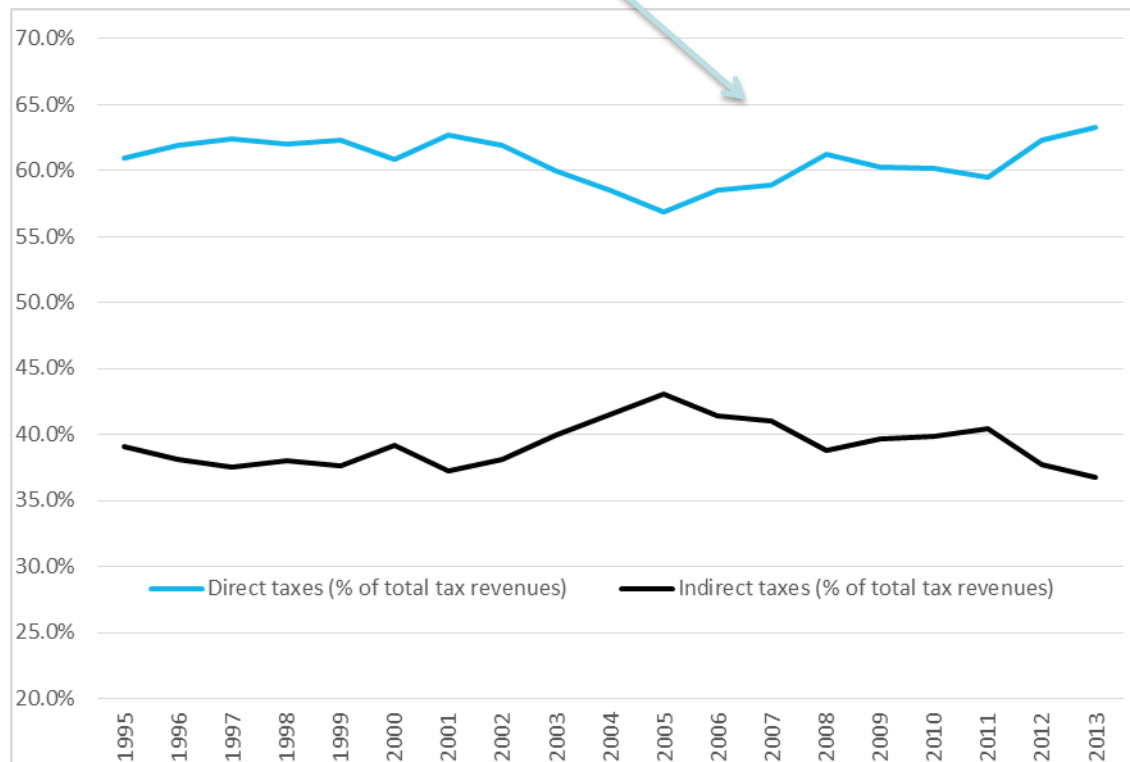
# Effectivity of Labour Taxation



# Tax Structure



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

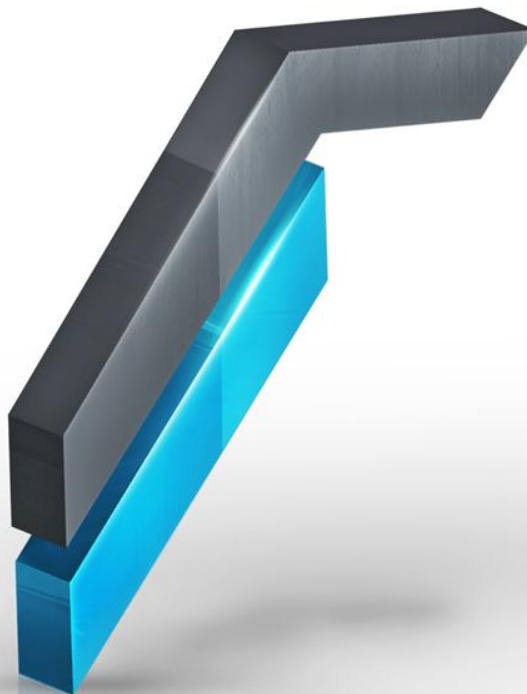


# Models and Policy

- 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



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Thank you for Your attention!