

PROSPERITAS

A Policy Analysis from the Center for Freedom and Prosperity Foundation

September 2006

Vol. VI, Issue VI

The Slovakian Tax System - Key Features and Lessons for Policy Makers -

Born after the peaceful 1993 dissolution of Czechoslovakia, Slovakia is a small country of 5.5 million people that has captured the attention of economists, entrepreneurs, and politicians from around the world thanks to a 19 percent flat tax enacted in October 2003 and implemented in January 2004.

The Slovak tax reform is a real step towards a tax system that is better and fairer for taxpayers. Marginal tax rates on work, saving, and investment were reduced, while the elimination of special preferences reduced the likelihood that decisions would be made for tax reasons rather than economic reasons. This is a key reason why the country is enjoying strong growth of about 6 percent per annum. As noted by the US State Department, "Since 1998, Slovakia's once troubled economy has been transformed into a business friendly state that leads the region in economic growth."¹

Growth has averaged nearly 6 percent annually since the flat tax was adopted and the unemployment rate has dropped according to the International Monetary Fund.² Income tax revenues have exceeded forecasts. Combined with fiscal restraint, this has significantly lowered government borrowing.

However, a key question for investors and entrepreneurs is whether Slovakia will take a step backwards following elections in June 2006. The new government is comprised of parties with a populist tint and seems intent on policies that would penalize the nation's most productive citizens – a move that would send a negative sign to global investors.

By Martin Chren

THE TAX SYSTEM – AN OVERVIEW

Key Features:

- The aggregate tax burden in Slovakia is about 30 percent of GDP, down from a peak of 41 percent of GDP in 1993 and one of the lowest levels among developed nations.

1 State Department, Investment Climate Statement – Slovakia, 2005. Available at <http://www.state.gov/e/eb/ifa/2005/43039.htm>.

2 International Monetary Fund, "IMF Executive Board Concludes 2005 Article IV Consultation with the Slovak Republic," Public Information Notice (PIN) No. 06/32, March 22, 2006 Available at <http://www.imf.org/external/np/sec/pn/2006/pn0632.htm>.

- Slovakia implemented a flat tax rate of 19 percent on January 1, 2004. The flat tax applies to labor income and capital income.
- Taxpayers have a zero-tax threshold that enables them to protect a substantial share of income from tax – an amount that was dramatically increased as part of tax reform.
- Slovakia has a 19 percent value-added tax, a uniform rate that applies to all goods and services. Under the former system – and perhaps a future system if the new government decides to restore a discriminatory rate structure, goods and services generally were taxed at 14 percent or 20 percent.
- Slovakia’s corporate tax rate is 19 percent. Dividends paid to shareholders are not subject to a second layer of tax.
- As part of the reform, the death tax and gift tax were both abolished.
- Payroll taxes are a significant burden. Counting both employee and employer shares, they are nearly 50 percent. As is the case in most countries, there is a cap on the amount of income subject to payroll taxes since there is a limit to the amount of benefits that can be obtained. The various payroll taxes in Slovakia disappear for those earning three times the average wage.³
- Slovakia has a territorial tax regime according to the Organisation for Economic Cooperation and Development,⁴ though the Congressional Research Service categorizes Slovakia’s tax system as being based on worldwide taxation.⁵

Key Observations:

- Slovakia is known as the “Tatra Tiger” for its sweeping economic reforms. In addition to tax reform, Slovakia has implemented personal retirement accounts, liberalized labor markets, enacted school choice, and reformed the welfare system.
- Slovakia is a market-oriented nation, though it does not rank among the world’s most free economies. It is the 34th freest nation in the world according to the Heritage Foundation’s Index of Economic Freedom⁶ and the 54th freest nation in the world according to the Fraser Institute’s Economic Freedom of the World.⁷ But while it lags in some categories, Slovakia has dramatically improved its economic ranking since 1999.

3 David Moore, “Slovakia’s 2004 Tax and Welfare Reforms,” Working Paper 05/133, International Monetary Fund, July 2005.

<http://www.imf.org/external/pubs/cat/longres.cfm?sk=18298>

4 OECD data provided to the President’s Tax Reform Advisory Panel. See http://www.taxreformpanel.gov/final-report/TaxReform_App.pdf.

5 Memo to Senator Bennett, Congressional Research Service, August 23, 2006.

6 <http://www.heritage.org/research/features/index/indexoffreedom.cfm>.

7 <http://www.fraserinstitute.org/admin/books/chapterfiles/EFW2005ch1.pdf#>.

- The flat tax and other reforms have improved economic performance. After adjusting for inflation, economic growth has been average about six percent per year.
- The flat tax reform has generated a supply-side feedback effect. Because lower income tax rates stimulated additional productive behavior, personal income tax revenue collections in the first year were higher than forecasted by static revenue estimates. Likewise, value-added tax collections were lower than forecast in response to the generally higher tax rate.
- Slovakia's reforms have triggered better tax policy in other jurisdictions. Shortly after implementing the flat tax, neighboring Austria reduced its corporate tax rate from 34 percent to 25 percent. Romania also adopted a 16 percent flat tax modeled after the Slovakian system.

A CLOSER LOOK AT THE TAX SYSTEM

Slovakia's 19 percent flat tax is the cornerstone of an economic reform agenda that has helped make the country an attractive destination for global investment. Based on the goals of fairness and simplicity, the new tax system features a low tax rate and a minimal level of double-taxation. Slovakia today arguably has the most competitive tax system in Europe, and one of the best tax regimes in the entire world.

The flat tax of 19 percent replaced a 5-bracket "progressive" income tax regime that had rates ranging from 10 percent to 38 percent. The 19 percent rate also applies to corporate income, replacing the 25 percent rate that existed under the old system. While the single income tax rate has attracted the most attention, it was not the only important change in the tax code. The flat tax also has resulted in a dramatic simplification of the tax code. Like most other developed countries, the Slovak Income Tax Act used to be riddled with different exemptions, special rules, discriminatory tax rates, and many other policies tailored for narrow interests groups. All told, there were more than two hundred departures from equal treatment before the reform. Most of them were eliminated during the reform, which has made the tax system more simple and transparent – though simplification was not so extensive as to allow taxpayers to submit their tax returns on a postcard.

Eliminating the double-taxation of saving and investment was another key goal of the Slovak reform. Policy makers wanted to make sure that income was not taxed more than one time. Under the old system, for instance, dividends used to be taxed a first time as the profit of a company, and then a second time when distributed to shareholders. Now there is no second layer on tax on dividends in Slovakia. This principle of no double-taxation also resulted in the repeal of the inheritance tax, better known as the death tax. The gift tax also was abolished, followed by the elimination of the real estate transfer tax in 2005.

The Slovak tax reform also changed the value-added tax (VAT) – which is a European version of a national sales tax. Prior to the reform, the VAT imposed a basic rate of 20 per cent, and a special reduced rate of 14 per cent for selected products. After the tax reforms, there was one

unified rate of 19 percent, which is set at the same level as the flat tax rate on personal and corporate income.

Revenue neutrality was a precondition for reform, meaning the new system had to collect about as much money as the old system. Income tax revenues have declined, though not as much as initially forecast, and revenues from “indirect taxes” such as the VAT and excise duties have increased. As such, the majority of the Slovak population did not feel a major difference in their net tax liability because of the reforms.

The Slovak Tax Regime

In most respects, Slovakia’s tax system is typical for a developed nation. As shown in Table 1, Slovakia has usual array of taxes found in European nations.

Tax reform primarily focused on direct taxes – i.e., the personal income tax and corporate income tax. In part, this is because indirect taxes, including the VAT and various excise taxes, are dictated at

least in part by the European Union. The framework for these indirect taxes is standardized in several directives issued by the European Commission, and EU-member countries (Slovakia

Direct Taxes	Indirect Taxes
Personal Income Tax	Value Added Tax (VAT)
Corporate Income Tax	Excise Taxes (on liquor, beer, wine, mineral oils, and cigarettes and tobacco products)
Property Tax	Certain municipal taxes
Motor Vehicles Tax	
Payroll tax	
Certain municipal taxes	

Source: Slovak Tax Legislation; summary by author

Flat tax	Introduction of a single, 19 percent rate of personal income tax, corporate income tax, and value added tax
Simplification of the Income Tax Act	Elimination of more than 80 % of all exceptions, special tax regimes, and special treatments from the Tax Code
No double taxation	Elimination of tax on dividends
No death tax	Elimination of the inheritance tax
No taxation of goodwill	Elimination of the gift tax
No taxation of real estates transfers	Elimination of the real estate transfer tax
Fiscal decentralization	Strengthening of competencies, including taxation competencies, of municipalities and regional governments; Real estate tax collected by municipalities and motor vehicles tax collected by regional governments

Source: Slovak Tax Legislation; summary by author

being an EU-member since May, 2004) have limited flexibility to modify or adapt these taxes except as allowed by the Brussels-based bureaucracy. In most cases, the space for modifications is limited to setting tax rates within a restricted limit (15 percent to 25 percent in the case of the VAT).

Nations still retain considerable sovereignty over the income tax, however, and this is where Slovakian lawmakers had considerable leeway for reform. Table 2 provides an overview of the key features of the new tax system.

No description of the Slovak tax system would be complete without a discussion of payroll taxes, which frequently represent the most onerous tax for Slovakian taxpayers. As outlined in Table 3, the various payroll taxes are imposed on both employees and employers, though most economists agree that such taxes (sometimes called mandatory insurance premiums, or mandatory contributions) are borne by workers. Payroll taxes were not affected by tax reform, but a new pension law that took effect in January 2005 allows workers to direct 9 percent of their salaries to a personal retirement account.

Table 3: Mandatory contributions as a percentage of gross salary

Type of mandatory insurance	Employee's contribution	Employer's contribution	Maximum computation base
Sickness	1.4	1.4	1.5 times the average monthly salary
Retirement ¹	4	14	
Reserve fund ²	***	4.75	3 times the average monthly salary
Disability	3	3	
Unemployment	1	1	
Health	4	10	
Guarantee fund	***	0.25	1.5 times the average monthly salary
Accident	***	0.8	
TOTAL	13.4	35.2	48.6

Note: Rates may vary for self-employed persons, students, pensioners, etc.

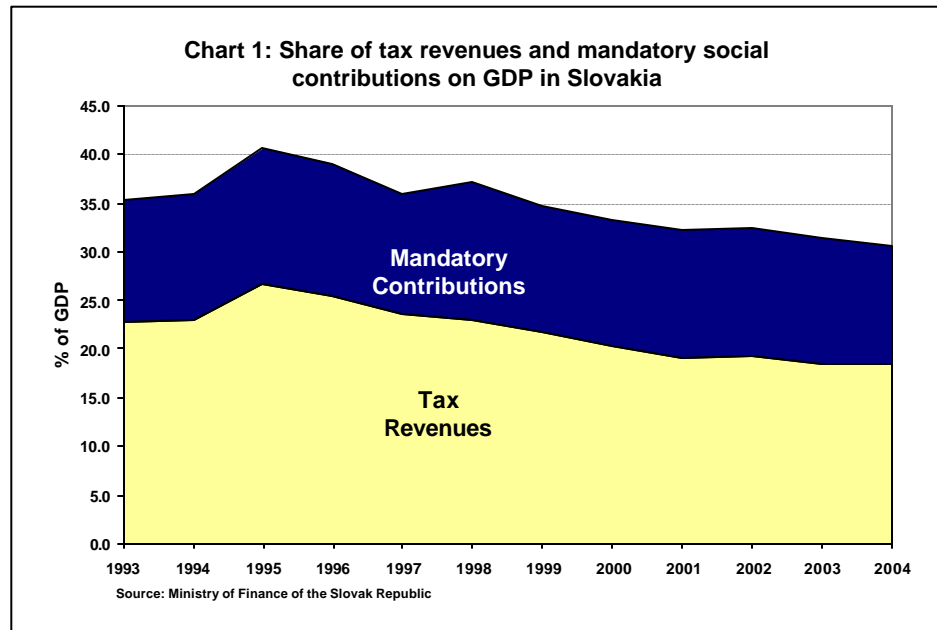
¹As of January 1, 2005, a new retirement scheme was adopted in Slovakia, based on the idea of personal retirement accounts (i.e. a fully-funded pension system). Therefore, all Slovak citizens who have less than ten years till reaching their retirement age may choose whether they will stay in the old, unfunded, pension scheme, or whether they will start sending part of their mandatory retirement insurance contribution (9 percent of gross wage) to their personal retirement account (in such case, instead of the total 18 percent old age contribution to government, employer sends 9 percent to personal retirement account and just the remaining 9 percent to the unfunded pension pillar administered by government's social security provider Socialna poisťovna). More information on the Slovak Pension Reform may be provided by the author.

²The "Reserve Fund" is in fact a transition tax, introduced to finance the cash flow deficit in the retirement trust fund of social security after the introduction of personal retirement accounts.

Source: Slovak Social and Health Insurance Legislation; summary by author

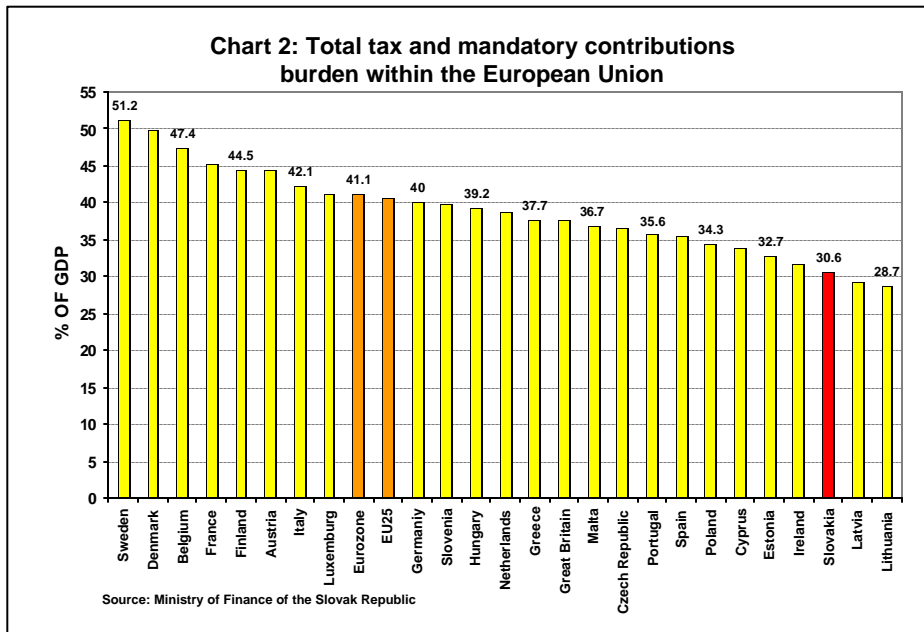
The aggregate tax burden

From the macroeconomic perspective, the tax burden in Slovakia is moderate – at least when compared to other European nations. Measured as a share of economic output, the burden of government revenues from taxes and social contributions has dropped significantly since Slovakia’s independence in 1993, when taxes consumed more than 41 percent of economic output. Today, taxes and mandatory social contribution revenues

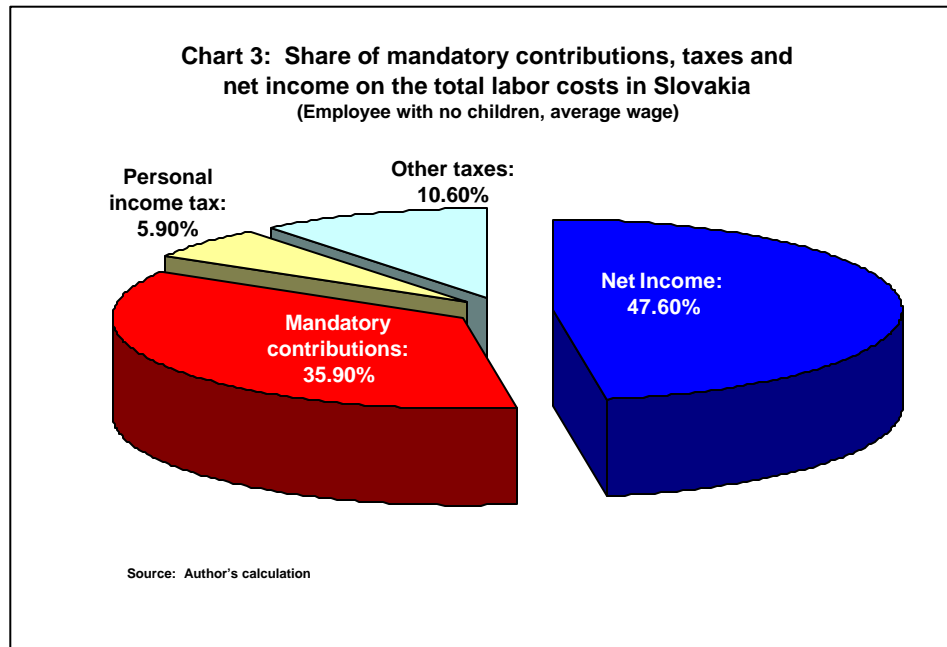


consume approximately 30 percent of GDP. Compared to other countries of the European Union,

it is the third lowest burden – after Latvia and Lithuania – significantly lower than the EU-average.



For the average worker, however, the tax burden is still very high. High payroll tax rates are the culprit. Thanks to these onerous levies, the take-home pay of an average worker in Slovakia is less than one half of his total labor costs. Indeed, the OECD warns that, the “high level of total payroll taxes is likely to



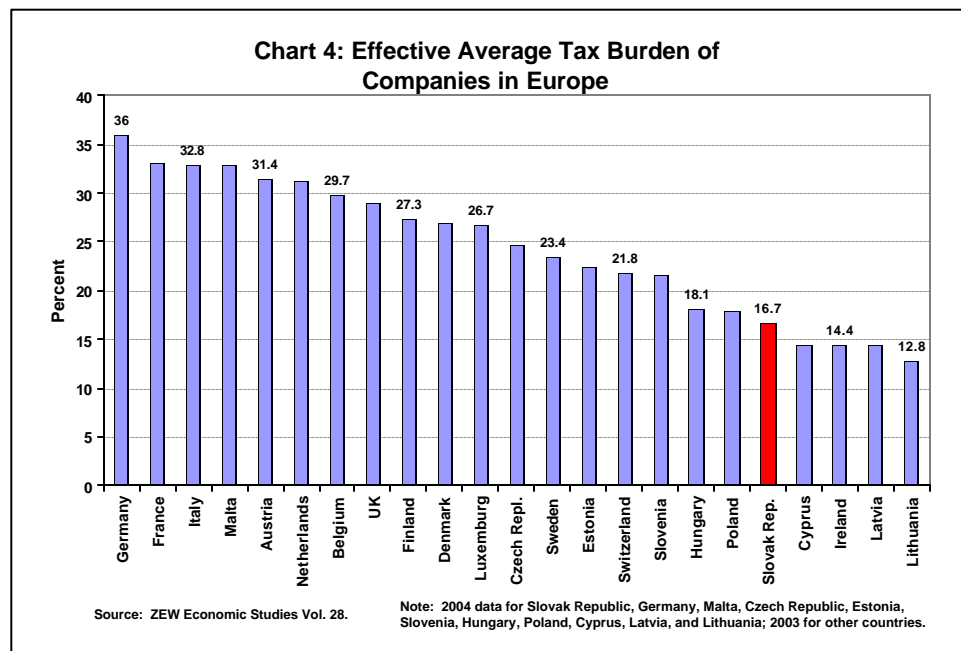
be the greatest hindrance to employment growth.”⁸ The pension reform is ameliorating this problem by shifting a portion of the payroll tax into a form of deferred compensation, but the overall burden remains high.

Companies in Slovakia are in a much more competitive position. Corporate profits are

taxed only once, at a flat rate of 19 percent. And since the tax on dividends was eliminated from the Slovakia’s tax code, this is one of the lowest effective tax rates on investment in the developed world. It certainly is one of the lowest tax rates in Europe. According to one study, Slovakian firms face the fifth lowest effective tax rate in Europe.

The aggregate spending burden

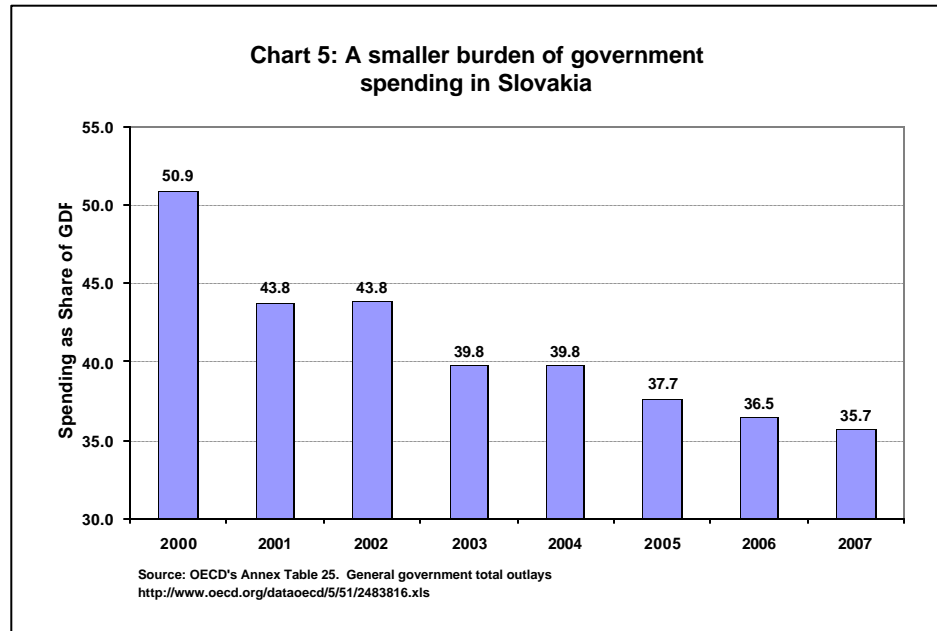
Slovakia has been able to reduce its tax burden in part because it has successfully reduced the size of government. By some measures, outlays used to consume nearly two-thirds of economic output in Slovakia, though more detailed and consistent figures



8 Anne-Marie Brook and Willi Leibfritz, 'Slovakia's introduction of a flat tax as part of wider economic reforms', OECD Economics Department Working Papers No. 448, Organization for Economic Development and Cooperation, Paris, October 2005

[http://www.oelis.oecd.org/olis/2005doc.nsf/linkto/ECO-WKP\(2005\)35](http://www.oelis.oecd.org/olis/2005doc.nsf/linkto/ECO-WKP(2005)35)

indicate that the burden of spending peaked at about 53 percent of GDP.⁹ In a remarkably short period of time, government spending has fallen to about 35 percent of GDP. To be sure, this reduction reflects both fiscal restraint (the numerator in the spending/GDP ratio) and better economic performance (the denominator in the spending/GDP ratio).



The net result, though, is that government is a significantly smaller burden on the productive sector of the economy. Slovakia joins Ireland and New Zealand in an elite group of governments that have demonstrated that reductions in the size of government are both politically palatable and economically desirable.¹⁰

These reductions in the size of government also make good tax policy more feasible. Many politicians think that fiscal balance should be the key goal of economic policy. And as stated above, EU nations supposedly are bound to keep budget deficits below 3 percent of GDP. This mistakenly puts the focus on the symptom rather than the disease – but Slovakia has wisely pursued a policy of growth and spending restraint, and this has enabled policy makers to implement good tax policy.

OVERVIEW OF THE 2003 SLOVAK TAX REFORM

Policy makers wanted to create a highly competitive and neutral (non-distortionary) market environment in Slovakia. It took about a year to reform the tax code. The new Income Tax Act was approved in Parliament in October 2003 after months of discussion and debate. It was re-approved in December 2003 after a presidential veto, and it took effect on January 1, 2004.

The actual tax reform meant much more than just changes in tax rates. Its ultimate aim was to transform the Slovak tax system into one of the most competitive regimes among developed countries. Today, the new Slovak tax system is competitive mainly because of the unusually high

⁹ Organisation for Economic Cooperation and Development, Statistical Annex No. 25, available at <http://www.oecd.org/dataoecd/5/51/2483816.xls>

¹⁰ Daniel J. Mitchell, "The Impact of Government Spending on Economic Growth," Backgrounder No. 1831, The Heritage Foundation, March 15, 2005. Available at <http://new.heritage.org/Research/Budget/bg1831.cfm>.

degree of its efficiency (low marginal tax rates), transparency (simple rules), and neutrality (absence of either loopholes or penalties).

Changes in the personal income taxation

In the area of direct income taxation, the Slovak tax reform was focused on the implementation of a single rate tax, also known as a “flat tax” in accordance with the principle of taxing all income equally, regardless of source or use. The new legislation eliminated 21 different types of taxation of direct income that had been in force in Slovakia, including various personal income tax rates in five tax brackets (10 percent, 20 percent, 28 percent, 35 percent, and 38 percent) and different tax treatment of selected segments of economy (agriculture, forestry, large foreign investors etc.). The existence of a single marginal tax rate for all income above the standard exemption sharply decreases the discriminatory effects of income taxation.

Slovak reformers made sure to design the reform in a politically acceptable manner. The revolutionary reform in Slovakia was politically possible because leaders actively advertised several important features of the new tax system.

First, the non-taxable threshold for every individual was significantly increased. Under the old law, taxpayers did not pay tax on the first SKK 38,760 of income (about \$1,250). Under the flat tax, the “zero-bracket” amount was set at 160 percent of a poverty-level income. For 2004, this meant taxpayers could protect the first SKK 80,832 (about \$2,600). The hike in the non-taxable threshold compensated low-income earners who had benefited from the lowest, 10 percent marginal tax rate in the previous system, and enabled lawmakers to explain that those taxpayers would not be disadvantaged by tax reform.

Moreover, the zero-bracket is now indexed for inflation.¹¹ This means that the non-taxable threshold automatically increases every year, thus preventing “hidden” or “inflationary” increases in the real tax burden due to increases in nominal income. For instance, the non-taxable amount of SKK 80,832 in 2004 was automatically increased to SKK 87,936 in 2005, and then increased again to SKK 90,816 in 2006.

An increase in the spouse allowance was another popular feature of the reform. Under the old law, the employed partner in a marriage could deduct SKK 12,000 (less than \$400) from his/her tax base if his/her spouse was unemployed and did not have any significant taxable income over the past year. Now, this allowance has been raised to the same amount as the non-taxable threshold per individual, an increase of more than 700 percent. This was a very important reform since there is no such thing as a joint tax return in Slovakia.

Also the tax treatment for each child has been changed from the original fixed deduction of SKK 16,800 (about \$540) to a tax credit of SKK 4,800 (more than \$150) for each child – which actually is more valuable to parents since the credit means an actual reduction in tax liability whereas a deduction merely reduces taxable income. In other words, taxpayers (married couples

¹¹ Technically, the zero-threshold amount is indexed to the poverty line, but since the poverty line is adjusted for inflation annually, the non-taxable level of income also stays pace with inflation as well.

only) may deduct SKK 4,800 per child directly from their tax bill instead of deducting SKK 16,800 per child from their taxable income. With a 19 percent tax bracket, this means that each child reduces a family's tax liability by an extra \$50, a not insignificant sum in Slovakia.

Slovak leaders also explained that the zero-bracket amount

and child tax credit meant that the tax system retained an element of effective progressivity. All personal income up to 1.6 times the poverty line is exempt from taxation. As a result, the effective tax rate for individuals below this threshold will be zero. However, the effective tax rate starts increasing once the individual has exceeded this threshold.

Changes in the corporate income taxation

Effective January 1, 2004, the corporate tax rate in Slovakia was reduced to 19 percent from the previous rate of 25 percent (the rate was 45 percent as recently as in 1993). The new tax system also was based on the principle of taxing capital income only once, even if it is transferred from the corporate to the personal level. Thus, dividend taxation at the personal level has been cancelled and investment income is taxed only once, at the level of corporate profits. Because of this reform, the effective tax rate on investments in Slovakia faced by private investors (which represents the combined impact of corporate income tax on profits and tax on dividends) is among the lowest for all developed nations.

Another important step was the easing of rules pertaining to the treatment of business losses. The new tax law permits losses to be deducted from taxable income over a five-year period, with unequally sized annual write-offs permitted.

Slovak companies, however, are not allowed to deduct all investment expenses in the year when they occur, a policy known as expensing. Instead, depreciation models are set in the tax code. This means that for each investment expense (expense in amount higher than approximately \$1,000), only a given fraction of its costs may be deducted every year. Depending on the type of the investment or property, the depreciation period is 4, 6, 12, or 20 years.

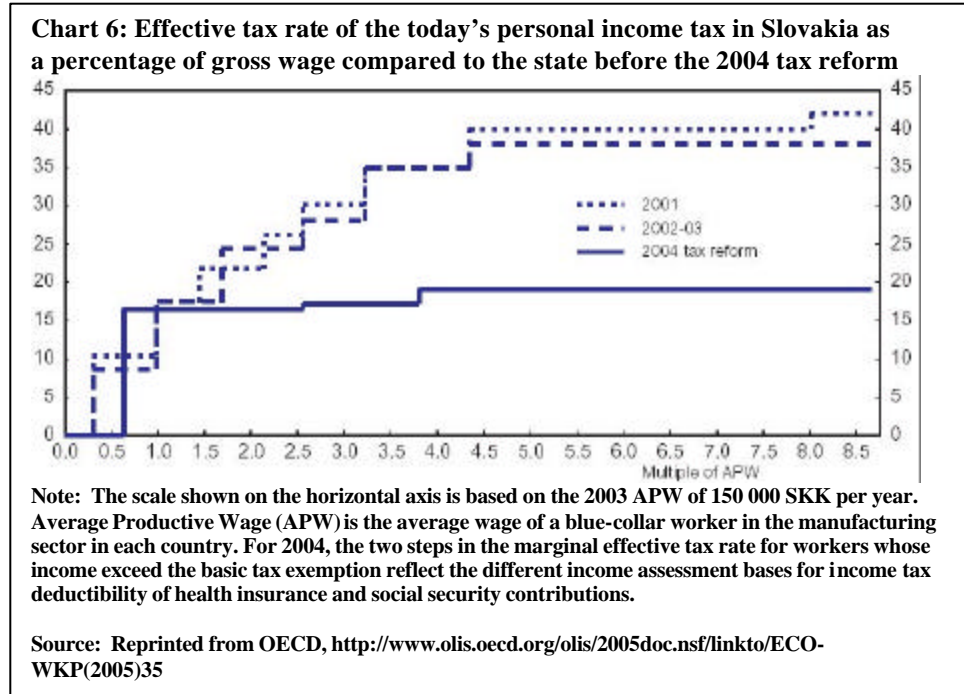


Table 4: Overview of the changes applied to tax base and tax rates of the Slovakia's income taxation

	Former tax system (until the end of 2003)	New tax system (since 2004)
Personal Income Tax	5 rates (brackets) 10%, 20%, 28%, 35%, 38%	19%
Corporate Income Tax	25%	19%
Basic tax allowance (non-taxable minimum)	SKK 38,760 /year	1.6-times the annual minimum living standard amount (poverty line)
Child allowance (per child)	SKK 16,800 /year deductible from tax base	replaced by tax "bonus" deductible from tax 4 800 SKK/year
Spouse allowance	SKK 12,000	1.6-times the annual minimum living standard amount

Source: Slovak Tax Legislation, summary by author

Simplification of the Income Tax Act

Perhaps the most notable – and also radical – change in the Slovak tax code was the simplification of both individual and corporate income taxation.

In order to achieve the highest possible degree of tax transparency and to minimize economic distortions, the new tax code eliminated a large amount exemptions and special regimes – around 80 percent of the total.¹²

This simplified the tax system and also removed tax breaks that encouraged people to make decisions based on tax considerations rather than economic benefits.

Table 5: Overview of the number of different tax exceptions and special tax regimes in the old income tax law in Slovakia (before the reform)

Type of departure from the rules:	Number:
Exceptions:	90 items
Income that is not a part of the tax base:	19 items
Deductions:	7 items
Items free of tax:	66 items
Special tax rates:	37 items

Source: Author's calculation

¹² Calculation by the Institute for Economic and Social Reforms, Bratislava

The tax reform was coordinated with reforms in the social security and healthcare systems. Almost all tax deductions and exemptions that had originally been intended to achieve non-fiscal policy goals were replaced by targeted measures in the relevant policy areas. New forms of targeted social compensations have been introduced to redistribute income in a simpler and less destructive manner, a policy particularly benefiting low and medium income households and families with children.

Changes in the indirect taxation – VAT and excise taxes

The introduction of a relatively low flat-rate income tax was expected to lower tax revenues in the short term. Although the designers of the tax reform recognized that a more pro-growth tax system would boost taxable income and thus offset part of the revenue loss associated with a lower tax rate, the most cautious approach was followed in order to avoid fiscal controversy. This is one of the reasons why higher indirect tax rates were implemented as a part of the reform. Moreover, tax reform advocates believed that a shift toward indirect taxation would have a positive overall impact on the economy.

It is important to mention that the laws and regulations on VAT, as well as for excise taxes, are fully harmonized with the EU standards, and therefore there was not much maneuvering space for the Slovak government in the area of the indirect taxation. Indeed, the only space for “tax reform” in indirect taxation was setting the tax rates in these types of taxes.

Prior to the reform, Slovakia had a standard value added tax (VAT) rate of 20 percent and a reduced rate of 14 percent on selected products and services (such as basic food, medicines, electricity, construction works, books, newspapers, magazines, hotels, and restaurant services). As a part of the reform, the reduced rate of VAT was cancelled entirely and a unified 19 percent rate was introduced for all goods and services from January 1, 2004. Due to Slovakia’s accession to the European Union, the compulsory exemptions prescribed by the EU Directives have been preserved – all others have been abolished. In addition to generating increased tax revenues, the unification of VAT rates is also expected to eliminate the economic distortions and inefficiencies associated with taxing the consumption of various goods and services differently.

The tax reform also modified excise duties on mineral oils, tobacco and tobacco products, wine and beer, entering into force on August 1, 2003. The amendments increased excise duty rates on these types of products. The increased excise taxes on tobacco products have harmonized the Slovak tax law with EU minimum rate requirements earlier than was required in Slovakia’s Accession Treaty to the European Union.

Changes in other types of taxes in Slovakia

Three other types of taxes were eliminated as a part of the tax reform in Slovakia: the inheritance tax, the gift tax, and the real estate transfer tax. The gift tax and inheritance tax were eliminated completely from January 1, 2004. Simultaneous with the elimination of the gift tax, charitable donations are no longer treated as tax-deductible expenses. The real estate transfer tax was abolished as of January 1, 2005.

The tax reform was accompanied by fiscal decentralization, which included significant changes in the structure of municipal, or local, taxes concerning real estate tax, road tax and other local taxes. Several responsibilities of the central government, especially in the area of education, social policy, culture, health care, roads maintenance, etc. were transferred to municipalities and administrative regions.

In principle, fiscal decentralization significantly strengthens the authority of municipalities and administrative regions in the field of local taxes. Revenue from personal income tax, despite being collected by the central government, is allocated exclusively among the municipalities and administrative region. The former road tax was transformed to a tax on motor vehicles, and is collected and administered by the self-governing regional administrations; the real estate tax is collected and administered by municipalities (towns and cities). In addition, municipalities in Slovakia may collect several other types of taxes since January 2005, including tax on dogs, tax on using public areas, “tourist” tax (tax on accommodation facilities), tax on vending machines, tax on gambling machines (only machines not providing financial wins), tax on entering historical core of towns by motor vehicle, and tax on nuclear facilities (only in towns situated closely to nuclear power plants).

Strengthening the taxation powers of municipalities is, however, sometimes criticized, as the municipalities and administrative regions are, at least according to some economists, expected to substantially increase the level of local taxation in the long term. The main problem is that in most of the taxes administered by the regions and municipalities, the legislation does not state any minimum or maximum tax rates. This has already led to some skyrocketing tax hikes, especially in the real estate tax rates, often by more than 100 percent. Theoretically, local and regional governments should be free to set tax rates based on voter preference, but there are valid concerns that politicians at these levels are using their taxing power to play favorites. The central government put a cap on real estate taxation to minimize this type of chicanery.

IMPACTS AND EFFECTS OF THE SLOVAK TAX REFORM

Drafting a tax reform proposal is much easier than overcoming political obstacles and implementing a new system. It may not be possible to replicate the success of Slovakia in adopting a set of major economic and social reforms during a short period of time. Vaclav Klaus, economist and president of the neighboring Czech Republic, once said that such a situation would not be imaginable in any country with a more deeply entrenched system.

In any event, the success of the Slovak tax reform was clearly made possible chiefly by fully responding to the two main pressures that any tax reform has to face. First, what will happen to government finances? Second, what is the bottom-line impact on companies and individuals?

Economic effects of the Slovak tax reform for taxpayers

The goal of tax reform was not to re-divide the static tax burden. Instead, Slovakian leaders wanted a fiscal system that would improve economic performance. The flat tax has helped make this happen. As noted in Forbes, “The Slovak Republic is set to become the world's next Hong Kong or Ireland, i.e., a small place that's an economic powerhouse. Foreign investors are already taking note: Foreign direct investment in this country of 5.4 million people has grown from \$2 billion to \$10 billion since 1999.”¹³ The State Department wrote, “Slovakia currently offers the most advantageous tax environment for corporations from all OECD and EU states.” Little wonder, then, that the Department stated, “Slovakia ranked as the 9th most favorable economy in terms of tax burdens.”¹⁴

A common mistake is to judge the impact of tax reform using a “static” view – comparing taxation of the same amount of income in the old and new system. In reality, the economy has become more dynamic, as the average wage grew by more than 10 percent annually in nominal terms in 2004. The International Monetary Fund has even commented on the “higher-than-projected growth in economy-wide wages.”¹⁵ The World Bank noted that, “The economy has been gathering strength over recent years. Real GDP rose to 5.5 percent in 2004.”¹⁶

The positive economic news continued into 2005 and appears likely to continue for the foreseeable future. The IMF wrote, “Robust economic growth has continued in 2005, and its pace (forecast by the mission at around 5½ percent for the year as a whole) has surpassed expectations. Private consumption and fixed investment demand have strengthened appreciably... the mission projects real GDP growth to increase to about 5¾ percent in 2006 and 6½ percent in 2007, and moderate to 5¼ percent in 2008.”¹⁷ The OECD makes similar projections, estimating real growth of about 6 percent annually.¹⁸

What does all this mean? Simply stated, the flat tax is a success for Slovakia and the Slovakian people. Faster growth means higher income and better living standards. And this has happened in Slovakia. If we take into account that new taxes were also paid from new (higher) incomes, it turns out that one year after the tax reform virtually all Slovak taxpayers were better off.

The poor also benefit. The Bank also wrote, “At 6.3 percent among households and 8.6 percent among individuals, the incidence of poverty...was among the lowest poverty rates in the Europe and Central Asia region.”¹⁹ The State Department mentioned another positive feature of the

13 Steve Forbes, “Investors’ Paradise, Forbes, August 11, 2003. Available at <http://www.forbes.com/forbes/2003/0811/021.html>

14 State Department, Investment Climate Statement – Slovakia, 2005. Available at <http://www.state.gov/e/eb/ifd/2005/43039.htm>.

15 David Moore, “Slovakia’s 2004 Tax and Welfare Reforms,” Working Paper 05/133, International Monetary Fund, July 2005.

<http://www.imf.org/external/pubs/cat/longres.cfm?sk=18298>

16 World Bank, “The Quest for Equitable Growth in the Slovak Republic,” Report No. 32433-SK, September 19, 2005.

17 International Monetary Fund, Slovak Republic—2005 Article IV Consultation Discussions Preliminary Conclusions of the Mission, December 14, 2005.

18 OECD, Economic Outlook, No. 78, November 29, 2005. Available at <http://www.oecd.org/dataoecd/45/46/20434938.pdf>.

19 World Bank, “The Quest for Equitable Growth in the Slovak Republic,” Report No. 32433-SK, September 19, 2005.

market-based reforms, writing that the, “unemployment rate has hovered around 20 percent in recent years, but has declined to under 14 percent recently.”²⁰

These positive results should not be surprising. There is growing evidence that low tax rates and a small burden of government boost economic performance. Even traditionally hostile international organizations now recognize this relationship. As the International Monetary Fund observed, “...tax reforms reduce distortions in the economy...the reduction in tax exemptions is an obvious gain to the economy...resource allocation is generally more efficient if based on market rather than tax signals.”²¹ The Fund also explained that, “High marginal tax rates are widely recognized as dampening incentives to work.”²²

The OECD also gives high marks to the economic principles behind the tax reform. Regarding incentives to work, the OECD explained, “The link between high tax wedges and low employment is well documented.” And since “the majority of workers have experienced drops in both their marginal and average tax rates, leading to higher net incomes,” the OECD remarked, “unemployed people in Slovakia now have significantly greater incentives to work.” The OECD also explained that “Replacing the progressive income tax by a flat rate tax should also stimulate *human capital formation* as the return on this investment is not taxed at higher rates.”²³

The OECD also praised the impact on capital formation. The analysis from the Paris-based bureaucracy noted, “With respect to the level of capital formation, this is likely to be boosted, given that the tax reform has significantly reduced the statutory taxes on capital, and has increased depreciation allowances. With respect to the allocation of capital, this should now be more efficient, since the tax system is now more neutral with respect to the return on investments funded by debt versus equity.”²⁴ Likewise, the OECD wrote, “Tax rates on capital returns have been reduced significantly and that a more even playing-field has been created with respect to different types of investment finance. This can be expected to improve both the level and efficiency of capital investment in Slovakia.”²⁵

It is possible to say that the new Slovak tax system has alleviated the tax discrimination of the higher income groups and has underlined the principle of a merit-based tax system. Slovak reformers are convinced that the new tax system creates favorable conditions for achieving a higher degree of economic efficiency. Taxpayers now have incentives to work and earn more without the distorting effect of progressive taxation. A more transparent tax system and lower direct taxes should have a positive impact on investment activities of firms, development of

20 State Department, Investment Climate Statement – Slovakia, 2005. Available at <http://www.state.gov/e/eb/ifa/2005/43039.htm>.

21 David Moore, “Slovakia’s 2004 Tax and Welfare Reforms,” Working Paper 05/133, International Monetary Fund, July 2005. <http://www.imf.org/external/pubs/cat/longres.cfm?sk=18298>

22 *Ibid.*

23 Anne-Marie Brook and Willi Leibfritz, Slovakia’s introduction of a flat tax as part of wider economic reforms, OECD Economics Department Working Papers No. 448, Organization for Economic Development and Cooperation, Paris, October 2005 [http://www.oalis.oecd.org/olis/2005doc.nsf/linkto/ECO-WKP\(2005\)35](http://www.oalis.oecd.org/olis/2005doc.nsf/linkto/ECO-WKP(2005)35)

24 *Ibid.*

25 *Ibid.*

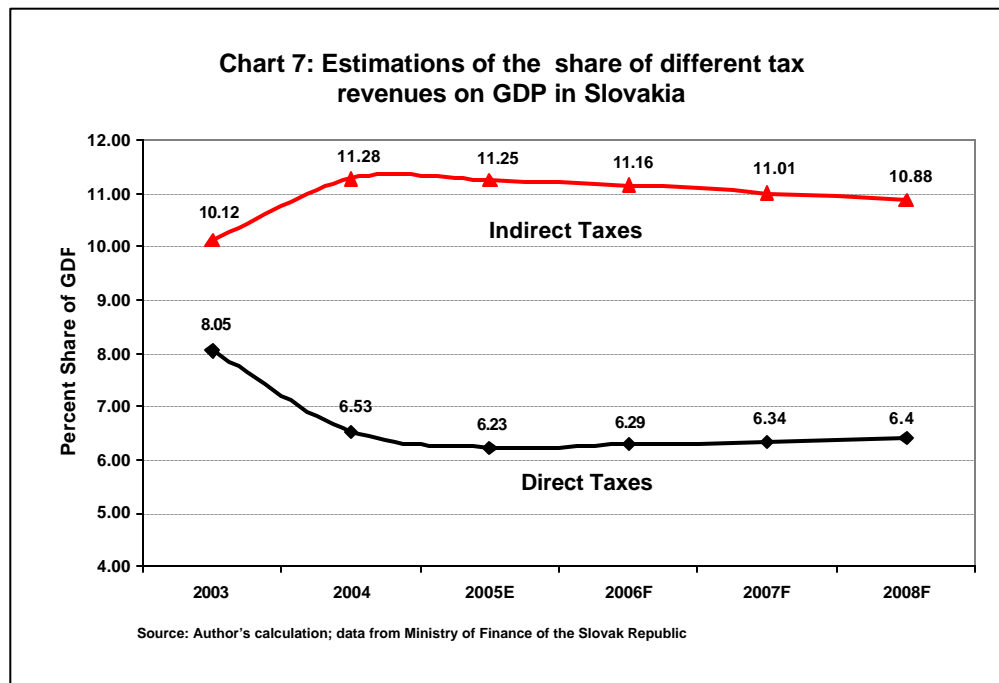
entrepreneurship and fight against high unemployment, which should lead to an improving living standard of Slovak citizens.

The shift from direct to indirect taxation, despite causing negative income effects, is in line with the recommendations of multinational institutions, such as the World Bank or the OECD, as the indirect taxes do not cause transaction costs, connected to rent-seeking activities of taxpayers seeking to lower their tax obligations.

Fiscal Impact for Government

The limits to the tax reform carried out in Slovakia were set by the fiscal constraints. The Slovak government, following a goal of entering the Eurozone (adopting the euro currency) as soon as possible, set a target of reducing the government's deficit below 3 percent of gross domestic product by 2006. This objective was considered more sacrosanct than tax reform – particularly because of the European Union's Maastricht Treaty, so authors of the reform had to accept the principle of revenue neutrality. In other words, collecting the same amount of tax revenue after reform as before reform was a necessary condition for the tax reform to gain support from political leaders.

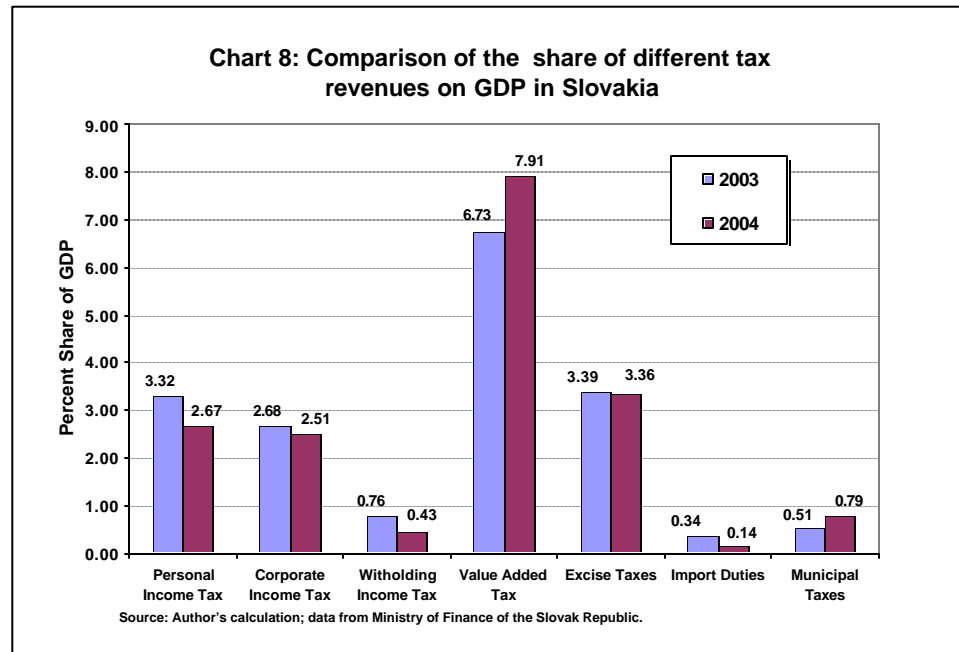
When designing the new tax code, the Ministry of Finance therefore paid serious attention to its fiscal impact calculations. It produced or commissioned five independent estimates of the fiscal



impact of the newly-designed tax system (estimates were prepared by the International Monetary Fund; Institute of Financial Policy of the Slovak Ministry of Finance; a special high-level advisory group consisting of prominent Slovak economists and analysts; Slovakia's

Statistics Office; and Slovak Academy of Sciences). In order to eliminate any possible negative surprises associated with the uncertainty of all estimations, only the cautious scenarios were used (i.e. reflecting the worst-case scenarios of tax reform's impact).

This is why the projected drop in revenues from lower income tax rates was offset by an increase in revenues from indirect taxes, especially the VAT. This was also one of the main reasons why reformers decided to adopt one single unified VAT rate of 19 percent in Slovakia, giving up the previous 14 percent preferential rate for certain products.



The net impact of income tax reform and VAT expansion is to shift the overall system toward indirect taxes. In 2003, revenues from indirect taxes accounted for 10.12 percent of GDP and direct taxes accounted for 8.05 percent of GDP, the latest estimations for 2004 (first year of the new tax system) show that the share of indirect taxes on GDP went up to 11.28 percent, while the share of direct taxes fell to 6.53 percent.

A review of actual tax revenue collections in 2004 suggests that the assumptions used by the authors of the tax reform were correct. Tax revenues correspond to the expectations, with one “supply-side” exception. Collection of revenues from VAT was lower than predicted, as one might expect since the tax was increased. Revenues from income taxes, meanwhile, exceeded expectations, which is exactly what proponents thought would happen as lower tax rates encouraged more productive behavior and less tax evasion. As the International Monetary Fund noted, “Cash-basis data show significantly better than budgeted collections of most taxes, notably income taxes.”²⁶ Combining these revenue changes from the VAT and income taxes, the total fiscal impact of the Slovak tax reform was neutral.

There also is evidence that tax collections remained strong in 2005. As the IMF noted, “Fiscal performance thus far in 2005 has been better than expected. Tax revenues have been boosted by stronger growth in their underlying bases (wages, employment, consumption, and enterprise profitability) and should exceed the budgeted levels.”²⁷

26 David Moore, “Slovakia’s 2004 Tax and Welfare Reforms,” Working Paper 05/133, International Monetary Fund, July 2005.

<http://www.imf.org/external/pubs/cat/longres.cfm?sk=18298>

27 International Monetary Fund, Slovak Republic—2005 Article IV Consultation Discussions Preliminary Conclusions of the Mission, December 14, 2005.

It is important to note that apart from its direct fiscal impacts, the Slovak tax reform had some indirect consequences that should lead to improved fiscal position of the country. The flat tax rate and simplification of the Slovak tax system, together with other structural reforms have attributed to the international perception of Slovakia as a country with deep structural reforms. So far the set of reforms has been reflected in improving rating position that led to cheaper state debt service, increased competitiveness and in growing interest of foreign investors.

Static effects of the Slovak tax reform for taxpayers

If the revenue effects of the Slovak tax reform were the main preconditions for the reform to be approved by the government, the “bottom-line” effects of the tax reform played the most important role in gaining support from the general public.

Table 6: Comparison of budgeted and real tax revenues as a share on GDP in Slovakia in 2004 (revenue impacts of tax reform in the first year) *

(ESA95, % of GDP)	2003	2004B	2004	2004NR
Tax incomes total	18.1	17.9	18	18
Personal Income Tax	3.3	2.1	2.6	3.5
Corporate Income Tax	2.7	1.8	2.5	3.1
Withholding Income Tax	0.8	0.9	0.4	0.6
Value Added Tax	6.7	8.8	7.9	7.1
Excise Taxes	3.4	3.3	3.4	3
Other Taxes	1.1	1	1.1	1.1

*Note: 2003 – real share of revenues from different types of taxes on GDP in 2003; 2004B – budgeted share of revenues from different types of taxes on GDP after the tax reform; 2004 – real share of revenues from different types of taxes on GDP after the tax reform; 2004NR – estimated scenario of revenues from different types of taxes on GDP in case if no tax reform was adopted. Total tax income does not equal to a simple sum of partial tax incomes because of rounding.

Source: Ministry of Finance of the Slovak Republic, Financial Policy Institute: First Year of the Tax Reform or 19 % at Work, http://www.finance.gov.sk/EN/Documents/IFP/Publications/TAXREFORM_EN.pdf

Several factors should be considered when assessing the overall income effect of Slovakia’s tax reform: First, the effect of replacing a progressive personal income tax with a single income tax rate; second, the effects of increased indirect taxes such as the value added tax and excise taxes; and third, the effect of the overall reform on economic performance, including any concomitant changes in pre-tax income.

The introduction of a single income tax rate did have a positive or neutral effect on almost all groups of workers and citizens, mainly because the “zero-bracket” amount was designed in a way so that virtually no group of wage earners would be paying more on income tax than in the previous system. Of course, it is always true that when replacing a progressive tax rate with a

single low rate tax, people with highest incomes, who were in the highest tax brackets before the reform, gain the most on a static basis. However, thanks to the higher non-taxable threshold, even citizens who were paying the lowest tax rate of 10 percent in the old system were among the winners of tax reform.²⁸ Moreover, the newly introduced tax credit for children resulted in slightly positive net balance for families with children even in the medium income-range (positive impact increasing with an increasing number of children).

Such a configuration enabled the flat income tax to be politically accepted and approved in a very short time – no more than nine months elapsed between the first public presentation of the reform plan and the ultimate approval of the new tax legislation by the Parliament.

The benefits – as measured on the basis of tax liability – of the flat tax reform were partially or completely offset by the impact of increased indirect taxes (VAT and excise taxes). The changed rate of the value added tax, especially the elimination of the reduced VAT rate of 14 percent, had a negative impact on all taxpayers. Higher excise taxes added to the burden for most taxpayers.

The Slovak tax reform most affected – at least on a static basis – the following groups of taxpayers:

- Many taxpayers with incomes in the middle of the income curve, ranging from SKK 13,000 to SKK 25,000, saw an increase in their overall tax burden (the average wage in Slovakia falls in this range, and it was estimated that about 60 percent of working taxpayers in Slovakia have incomes in this range). On the other hand, workers with the lowest wages, as well as workers with wages over double the average wage were net gainers of the reform.
- Single taxpayers with no children were most likely to be affected in a negative way. Unlike their middle-income peers with kids, they could not benefit from the new tax bonus that replaced the former per-child tax deduction.
- Taxpayers with no income were adversely affected, a category that includes mainly pensioners, unemployed people, etc. These groups could not benefit from the positive impacts of the income tax, but were affected by the increased indirect taxation. This was also the reason why opposition parties asserted that the Slovak tax reform was socially irresponsible, and also one of the main reasons why the Slovak President decided to veto the reform after it was approved in Parliament for the first time. To reduce the impact on pensioners, the Slovak government decided to pay out a special pension benefit of SKK 1,000 in the middle of 2004 to all recipients of old-age, disability and other pension benefits.

²⁸ The previous Income Tax Act basically contained a progressive tax rate with five marginal rates of 10 percent (for the lowest incomes), 20 percent, 28 percent, 35 percent and 38 percent (for the highest incomes).

- Last but not least, it is worth noting that simplicity has a value to taxpayers. The US State Department explains that, “Many observers consider Slovakia's flat rate tax system to be one of the simplest in Europe.”²⁹

To reiterate an earlier point, it is important to note that these static estimates of taxpayer liability deliberately fail to incorporate the impact of tax reform on pre-tax income. Needless to say, this creates an incomplete and misleading picture.

Slovakia was experiencing annual growth of about 4 percent before reform. Since the flat tax was implemented, annual growth has been close to 6 percent. The flat tax almost certainly does not deserve all the credit – especially since Slovakia has adopted other pro-growth reforms such as personal retirement accounts, but tax reform clearly has played a role in boosting Slovakia's economic performance.

The difference between 4 percent growth and 6 percent growth may not sound particularly meaningful, but the long-run impact – because of compounding – is very significant. A nation experiencing 4 percent growth will double its national income in 18 years. With 6 percent growth, by contrast, national income will double in just 12 years. For average Slovaks, this rapid increase in living standards is the key benefit of tax reform.

CONCLUSION AND SUMMARY

There certainly still is a lot of work to do to improve the Slovak tax system. Nonetheless, the Slovak tax reform is a real step towards a better and fairer system for the taxpayers. Tax returns in Slovakia have not been reduced to the size of a postcard, as the famous proponents of flat tax in the United States are promising, but the newly adopted Slovak flat tax generally follows the principles of an academic flat tax proposal perhaps in the most consistent way, if compared to all countries where this kind of reform has been introduced. Indeed, there is a strong case to be made that the Slovak flat tax is the version that best satisfies the ideal system outlined by Professors Hall and Rabushka at Stanford University's Hoover Institution.³⁰ Much of this is a credit of few free market institutes that originally came up with this idea in Slovakia and promoted it continuously in all possible ways and on all possible places.

The introduction of a flat personal income tax instead of a progressive system of taxation was done without negative income effects on Slovak workers, mainly thanks to an increased general tax allowance. Two groups of workers – those with the lowest wages and those with wages significantly higher than average – were the major winners of the reform. On the other hand, in order to respect the principle of revenue neutrality of the tax reform that was the main condition of the government to support it – increased indirect taxation has levied higher burden on several groups of Slovak citizens, especially those with no income. It is expected, though, that faster growth and more job creation will quickly make all taxpayers much better off because of reform.

29 State Department, Investment Climate Statement – Slovakia, 2005. Available at <http://www.state.gov/e/eb/afd/2005/43039.htm>.

30 Robert Hall and Alvin Rabushka, *The Flat Tax*, 2nd ed. (Stanford, Calif.: Hoover Institution Press, 1995). Available at <http://www.hoover.org/publications/books/3602666.html>.

Flat tax rate and simplification of the Slovak tax system, together with other structural reforms (healthcare, pensions, banking sector and energy sector restructuring and privatization etc.) have attributed to the international perception of the Slovak Republic as a country with strong economic drive, and gave it the nickname “Tatra Tiger”, or “Investor’s Paradise”. As the IMF noted, “Perhaps the clearest conclusion is that the tax reform has gained widespread attention from investors and policymakers alike, with several other countries looking to implement their own variants of the Slovak reform.”³¹

The OECD echoed these thoughts, writing that, “...in comparison with the previous system, the recent reforms have significantly simplified the tax system and improved incentives for both capital investment and labour supply. Thus, in terms of economic growth it can be expected that the effects of the reforms on the economy are positive.” Moreover, the OECD noted that, “the reforms are expected to improve both the level and efficiency of capital investment in Slovakia – although further improvements could be made by eliminating the double taxation on projects financed by retained profits. Second, the combination of the tax and social benefit reforms has enhanced the incentives for unemployed workers to seek work, which should result in higher labour supply.”³²

The World Bank is similarly effusive, commenting that, “the reform has been praised by many, both within the country and internationally. Among other sources, the World Bank’s Doing Business in 2005 ranked the Slovak Republic as the best reformer in 2004 and number seven out of 145 countries surveyed in terms of its investment climate.”³³

Simplification of the tax code has dramatically improved its transparency and business-friendliness. As a result, one of the main barriers to entrepreneurship identified in Slovakia by business surveys has been eliminated: the excessive complexity and frequent changes in the tax laws. Thus, the implementation of the tax reform should positively affect the business environment in the medium-term and long-term and should serve as a major stimulus for further inflow of foreign direct investment. Moreover, the government expects that low corporate tax rates and high transparency of corporate and investment tax laws should sharply reduce the maneuvering space for tax evasion and tax avoidance. As a result, tax collection should improve in medium and long-term in spite of decreased nominal tax rates.

Martin Chren is Director of the F. A. Hayek Foundation, a think-tank based in Slovakia and promoting principles of a free market economy. He also serves on the Board of the Slovak Taxpayers Association.

31 David Moore, “Slovakia’s 2004 Tax and Welfare Reforms,” Working Paper 05/133, International Monetary Fund, July 2005.

<http://www.imf.org/external/pubs/cat/longres.cfm?sk=18298>

32 Anne-Marie Brook and Willi Leibfritz, Slovakia’s introduction of a flat tax as part of wider economic reforms, OECD Economics Department Working Papers No. 448, Organization for Economic Development and Cooperation, Paris, October 2005

[http://www.oilis.oecd.org/olis/2005doc.nsf/linkto/ECO-WKP\(2005\)35](http://www.oilis.oecd.org/olis/2005doc.nsf/linkto/ECO-WKP(2005)35)

33 World Bank, “The Quest for Equitable Growth in the Slovak Republic,” Report No. 32433-SK, September 19, 2005.

BIBLIOGRAPHY

- Brook, Anne Marie – Leibfritz, Willi:** Slovakia's introduction of a flat tax as part of wider economic reforms, OECD Economics Department Working Papers No. 448, Organization for Economic Development and Cooperation, Paris, October 2005
[http://www.oilis.oecd.org/oilis/2005doc.nsf/linkto/ECO-WKP\(2005\)35](http://www.oilis.oecd.org/oilis/2005doc.nsf/linkto/ECO-WKP(2005)35)
- Chren, Martin:** A Fundamental Tax Reform in Central Europe, published in Tax Issues, a magazine of the Tax Foundation, Washington D.C, USA, January 2004
<http://www.taxfoundation.org/files/7ef1142255e5d35b3c6bd90e0e68bc99.pdf>
- Chren, Martin:** Analysis of public expenditures and tax and contribution burden in Slovakia in 2004 with setting the date of the tax freedom day, Slovak Taxpayers Association, Bratislava, 2004
- Chren, Martin:** Unfair Competition? Slovakia's Tax Policy, Occasional Paper 21, Liberales Institut, Berlin, 2006
<http://admin.fnst.org/uploads/1044/21-OC.pdf>
- Durajka, Branislav:** Tax Reform in Slovakia, to be published in William Davidson Institute at University of Michigan Business School Policy Briefs series, Ann Arbor, USA
- Golias, Peter:** Fundamental Tax Reform in Slovakia, policy paper published by INEKO – Institute of Social and Economic Reforms, Bratislava, Slovakia, May 2004
http://www.ineko.sk/reformy2003/menu_dane_paper_golias.pdf
- INEKO – Institute for Social and Economic Reforms:** Tax impact calculator published at the website www.ineko.sk
- International Monetary Fund,** Slovak Republic—2005 Article IV Consultation Discussions Preliminary Conclusions of the Mission, December 14, 2005.
<http://www.imf.org/external/np/ms/2005/121405.htm>
- Miklos, Ivan:** Fundamental Tax Reform in Slovakia, a presentation for the Harvard Business School, Bratislava, Slovakia, 2004
- Ministry of Finance of the Slovak Republic:** A Fundamental Tax Reform in Slovakia, presentation of the Slovak tax reform, Bratislava, Slovakia, 2004
- Ministry of Finance of the Slovak Republic:** Actualization of the basic framework of Slovak public finance for years 2005 – 2010, Bratislava, March 2005
- Moore, David,** “Slovakia's 2004 Tax and Welfare Reforms,” Working Paper 05/133, International Monetary Fund, July 2005. Available at
<http://www.imf.org/external/pubs/ft/wp/2005/wp05133.pdf>

Bibliography (continued)

Odor, Ludovit – Krajcir, Zdenko: First year of the tax reform or 19 percent in action, Financial Policy Institute's Economic Analysis No. 8, Ministry of Finance of the Slovak Republic, Bratislava, September 2005
http://www.finance.gov.sk/EN/Documents/IFP/Publications/TAXREFORM_EN.pdf

Sulik, Richard: A concept of the tax reform in Slovakia, Bratislava, 2003

World Bank, "The Quest for Equitable Growth in the Slovak Republic," Report No. 32433-SK, September 19, 2005. Available at
<http://siteresources.worldbank.org/INTSLOVAKIA/Resources/TechnicalNote.pdf>

*The **Center for Freedom and Prosperity Foundation** is a public policy, research, and educational organization operating under Section 501(C)(3). It is privately supported, and receives no funds from any government at any level, nor does it perform any government or other contract work. Nothing written here is to be construed as necessarily reflecting the views of the Center for Freedom and Prosperity Foundation or as an attempt to aid or hinder the passage of any bill before Congress.*

Center for Freedom and Prosperity Foundation, the research and educational affiliate of the Center for Freedom and Prosperity (CFP), can be reached by calling 202-285-0244 or visiting our web site at www.freedomandprosperity.org.

Additional Issues of Prosperitas:

19) June 2006, Vol. VI, Issue V, "Making Section 911 Universal is Good Economic Policy and Good Tax Policy," by Yesim Yilmaz, Web page link below:

<http://www.freedomandprosperity.org/Papers/sec911-2006/sec911-2006.shtml>

18) June 2006, Prosperitas Volume VI, Issue IV, "The Health Care Choice Act: Restoring Competition in the Individual Insurance Market," by Sven Larson, Web page link below:

<http://www.freedomandprosperity.org/Papers/hc-choice/hc-choice.shtml>

17) June 2006, Prosperitas Volume VI, Issue III, "Tax Havens, Tax Competition and Economic Performance," by Yesim Yilmaz, Web page link below:

<http://www.freedomandprosperity.org/Papers/taxhavens/taxhavens.shtml>

16) June 2006, Prosperitas Volume VI, Issue II, "The Swedish Tax System -- Key Features and Lessons for Policy Makers," by Sven Larson, Web page link below:

<http://www.freedomandprosperity.org/Papers/sweden/sweden.shtml>

15) January 2006, Prosperitas Volume VI, Issue I, "The Paris -Based Organization for Economic Cooperation and Development: Pushing Anti-U.S. Policies with American Tax Dollars," by Dan Mitchell, Web page link below:

<http://www.freedomandprosperity.org/Papers/oced-funding/oced-funding.shtml>

14) November 2005, Prosperitas Volume V, Issue II, "The OECD's Anti-Tax Competition Campaign: An Update on the Paris -Based Bureaucracy's Hypocritical Effort to Prop Up Big Government," by Dan Mitchell, Web page link below:

<http://www.freedomandprosperity.org/Papers/oced-hypocrisy/oced-hypocrisy.shtml>

13) May 2005, Prosperitas Volume V, Issue I, "Territorial Taxation for Overseas Americans: Section 911 Should Be Unlimited, Not Curtailed," by Dan Mitchell, Web page link below:

<http://www.freedomandprosperity.org/Papers/section911/section911.shtml>

12) August 2004, Prosperitas Volume IV, Issue II, "The Threat to Global Shipping from Unions and High-Tax Politicians: Restrictions on Open Registries Would Increase Consumer Prices and Boost Cost of Government," by Dan Mitchell, Web page link below:

<http://www.freedomandprosperity.org/Papers/shipping/shipping.shtml>

11) June 2004, Prosperitas Volume IV, Issue I, "The OECD's Dishonest Campaign Against Tax Competition: A Regress Report," by Dan Mitchell, Web page link below:

<http://www.freedomandprosperity.org/Papers/oced-dishonest/oced-dishonest.shtml>

10) October 2003, Prosperitas Volume III, Issue IV, "The Level Playing Field: Misguided and Non-Existent," by Dan Mitchell, Web page link below:

<http://www.freedomandprosperity.org/Papers/lpf/lpf.shtml>

9) July 2003, Prosperitas Volume III, Issue III, "How the IRS Interest-Reporting Regulation Will Undermine the Fight Against Dirty Money," by Daniel J. Mitchell, Web page link below:

<http://www.freedomandprosperity.org/Papers/irsreg-dm/irsreg-dm.shtml>

8) April 2003, Prosperitas Volume III, Issue II, "Markets, Morality, and Corporate Governance: A Look Behind the Scandals," by Daniel J. Mitchell, Web page link below:

<http://www.freedomandprosperity.org/Papers/corpgov/corpgov.shtml>

- 7) February 2003, Prosperitas Volume III, Issue I, "Who Writes the Law: Congress or the IRS?," by Daniel J. Mitchell, Web page link below:
<http://www.freedomandprosperity.org/Papers/irsreg/irsreg.shtml>
- 6) April 2002, Prosperitas Volume II, Issue II, "The Case for International Tax Competition: A Caribbean Perspective," by Carlyle Rogers, Web page link below:
<http://www.freedomandprosperity.org/press/p03-25-02/p03-25-02.shtml>
- 5) January 2002, Prosperitas Vol. II, Issue I, "U.S. Government Agencies Confirm That Low-Tax Jurisdictions Are Not Money Laundering Havens," by Daniel J. Mitchell. Web page link below:
<http://www.freedomandprosperity.org/Papers/blacklist/blacklist.shtml>
- 4) November 2001, Prosperitas, Vol. I, Issue IV, "The Adverse Impact of Tax Harmonization and Information Exchange on the U.S. Economy," by Daniel J. Mitchell. Web page link below:
<http://www.freedomandprosperity.org/Papers/taxharm/taxharm.shtml>
- 3) October 2001, Prosperitas, Vol. I, Issue III, "Money Laundering Legislation Would Discourage International Cooperation in the Fight Against Crime," by Andrew F. Quinlan. Web page link below:
<http://www.freedomandprosperity.org/Papers/kerry-levin/kerry-levin.shtml>
- 2) August 2001, Prosperitas, Vol. I, Issue II, "United Nations Seeks Global Tax Authority," by Daniel J. Mitchell. Web page link below:
<http://www.freedomandprosperity.org/Papers/un-report/un-report.shtml>
- 1) August 2001, Prosperitas, Vol. I, Issue I, "Oxfam's Shoddy Attack on Low-Tax Jurisdictions," by Daniel J. Mitchell. Web page link below:
<http://www.freedomandprosperity.org/Papers/oxfam/oxfam.shtml>

Complete List of Prosperitas Studies, including summaries:
<http://www.freedomandprosperity.org/fpf/prosperitas/prosperitas.shtml>

Center for Freedom and Prosperity Foundation
P.O. Box 10882, Alexandria, Virginia 22310
Phone: 202-285-0244
www.freedomandprosperity.org