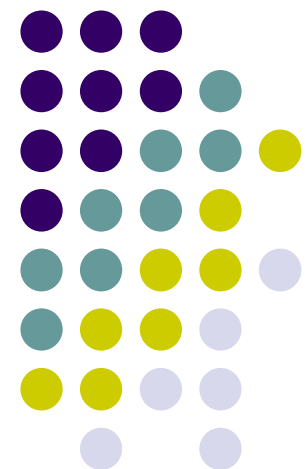


Fiscal Reforms and Economic Development

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Taxes Determine Economic Development



- High Taxes – low economic growth
- Low taxes – high economic growth
- Taxes disturb or damage the economy.
- They make the labour too expensive and non-competitive. Capital flight occurs.
- Good way of lowering taxes is making them flat





The Example of Sweden

- For 100 years Sweden enjoyed growth surpassed only by Japan
- Sweden was one of the few richest countries in the world
- The reason for this was the vast economic liberty introduced in the 1840s
- In the 1970, Sweden introduced the largest taxes in the world
- Today Sweden does not enjoy the economic supremacy from the past



Lowering of Taxes can Result in Increased Revenues



Increased tax revenues in Russia with a flat income tax

	<u>Million Rubles</u>	<u>Million USD</u>	
2000	174.302,0	6.225	
2001	255.565,2	9.127	+47%
2002	357.838,3	12.780	+40%
2003	455.254,9	16.259	+27%
2004	574.100,0	20.504	+26%
2001–2004		Average increase	+35%

No correction to inflation.

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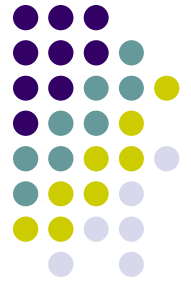




Why Flat Income Taxes?

- Simple
- Promotes economic growth
- Neutral to inflation
- Fair

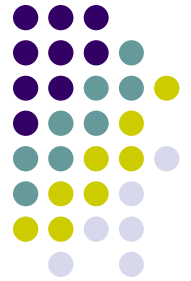
Macedonia, 2009 - One of the Leaders in Europe



Georgia (2005)		12%
Ukraine (2004)		13%
Russia (2001)		13%
Macedonia (2007)		15%
2008		12%
2009		10%
Romania (2005)		16%
Hong Kong (1947)	max.	16%
Slovakia (2004)		19%
Estonia (1994)		23%
2007		22%
2008		21%
2009		20%
Latvia (1994)		25%
Lithuania (1994)		27%
2008		24%



How to Succeed in Introducing Flat Taxes



- The introduction of flat tax has to be a part of a larger package
 - Intensified fight against tax evasion
 - PR of the tax cut abroad
 - Intensified activities for attracting foreign direct investments
 - Intensified activities for promoting domestic investments



Tax Competition

- Tax competition between states is a powerful force
 - Montenegro introduces 9% corporate tax
 - Serbia introduces 10% corporate tax
 - Many Central Asian countries have lower flat income taxes than Macedonia



Summary

- Tax relief and simplification is good for economic development
- Tax cuts have to be introduced in package with improvements in efficiency of tax collection
- Tax cuts can be successful only if they are marketed globally well. Slovakia is a good example