



## INCOME TAX RATE SURVEY

The consultant company KPMG recently published the Income Tax Rate Survey. In accordance with the survey it can be noticed slow global decline in top rate personal income taxes, from an average of 31.3 percent in 2003 to 28.8 percent in 2008. The survey was executed considering 87 countries where an analysis is made in regards of the tax policy change in the last 6 years.

The highest personal income taxes in the world are paid by citizens of the European Union. But it is here that we have seen the steepest falls in average tax rates, from 41.5 percent in 2003 to 36.4 percent in 2008.

Among the large Western European countries, France has made a significant cut from 48.1 percent in 2003 to 40 percent in 2008, and Germany from 48.5 percent to 45 percent, having briefly stood at 42 percent in 2005 and 2006. There have been smaller cuts implemented in Italy and Spain, both down from 45 percent in 2003 to 43 percent this year.

Perhaps the most significant new development in this period has been the introduction of flat rate taxes into Europe, often introduced at a much lower level than the highest variable rate. So far, it has been mainly Eastern European states that have taken this step, notably Estonia, where rates have fallen from 26 percent in 2003 to a flat 21 percent in 2008, Slovakia which has gone from 38 percent to 19 percent, Lithuania, which in 2007 fell 6 points to 27 percent and this year a further 3 points to 24 percent, and Romania where rates have gone from 40 percent to 16 percent. In 2007, this was the lowest rate in the EU. But Romania has since been overtaken by the Czech Republic, which this year introduced a flat rate tax set at 15 percent, and by Bulgaria, whose new flat rate of 10 percent gives it the lowest personal tax rate of the 27 EU member states.

At a country level, the highest tax rates in the world are paid by the people of Denmark, who have had a top rate of 59 percent for the whole five years, followed by those of Sweden, whose rate came down in 2007 from 57 percent to 55 percent, and those of the Netherlands, who have paid 52 percent for the whole period. After the Europeans, the next highest taxes are paid by the people of the Asia-Pacific region.

In regards to Republic of Macedonia, in 2007 a flat rate tax of 12% was introduced on personal income. The cut was from 18% in 2003 to 10% in 2008. With these reform Macedonia has one of the most attractive tax packages in Europe. The flat tax rate introduces a simple tax system that stimulates successful companies to further improve operations and increase profitability. Also, companies will use the funds saved from the lower taxes to increase their competitiveness. Macedonia has signed numerous double taxation agreements in order to avoid double taxation of foreign companies operating in Macedonia.



In the table below are shown some of the drastic changes which happened in the period between 2003 and 2008.

### **Income Tax Rate**

|                       | <u>2003</u> | <u>2008</u> |
|-----------------------|-------------|-------------|
| <u>Macedonia</u>      | <u>18%</u>  | <u>10%</u>  |
| <u>Lithuania</u>      | <u>33%</u>  | <u>24%</u>  |
| <u>Estonia</u>        | <u>26%</u>  | <u>21%</u>  |
| <u>Slovakia</u>       | <u>38%</u>  | <u>19%</u>  |
| <u>Romania</u>        | <u>40%</u>  | <u>16%</u>  |
| <u>Czech Republic</u> | <u>32%</u>  | <u>15%</u>  |
| <u>Ukraine</u>        | <u>40%</u>  | <u>15%</u>  |
| <u>Bulgaria</u>       | <u>29%</u>  | <u>10%</u>  |