



January 23,2008

P R E S S R E L E A S E

Subject: The fast spread of flat taxes - from 2008, in 16 countries on low levels

In the beginning of the 90th only one country, Hong Kong, had a flat - proportional - income tax with the same percentage for everybody. Since then more and more countries introduce flat rates, from 2008 existing in 18 countries.

The latest trend since a few years is to introduce very low flat income taxes on the level of 10-13%. The lowest level of 10% has been introduced in Kyrgyzstan, Kazakhstan and Macedonia during the last two years and in Bulgaria from 2008. Russia introduced 13% in 2001 and Ukraine followed with the same level in 2004.

Estonia being the first country in Europe (1994) with a flat income tax cuts down its level with 1 percent per year, from 21 to 20 percent in 2008 with the goal of 18 percent income tax in 2011. Lithuania cuts down the level from 27 to 24 percent in 2008 and Hong Kong from 16 to 15 percent.

Flat income taxes 2008		
Kyrgyzstan	2006	10%
Kazakhstan	2007	10%
Macedonia	2008	10%
Bulgaria	2008	10%
Georgia	2005	12%
Macau	2005	12%
Russia	2001	13%
Ukraine	2004	13%

Hong Kong	1947	15%
Iraq	2004	15%
Slovakia	2004	19%
Jersey and Guernsey	1940	20%
Estonia	1994	21%
Island	2007	23,75%
Lithuania	1994	24%
Latvia	1994	25%

The globalisation and the growth of the global foreign direct investment intensified the competition among Governments, especially the developing country which are trying to attract foreign direct investment, which will effect on the employment decreasing and life standard increasing. The challenge for using the tax reduction for attracting the foreign direct investment has intensified, especially at the developing countries, since the capital and the companies are getting more mobile, and the business climate is more similar. Apart from that many economic theoreticians disagree regarding the usage of tax reduction for attracting foreign direct investment, in the practice has been proven that due to this, many developing countries has accomplished a sustainable growth of the foreign direct investment. The factors as the infrastructure, political stability, price stability, assessed governmental regulation, rule of law, price labour etc. are of great importance, but the thing that has it's biggest influence regarding the final decision about the choice of the location for the investing, is the height of the tax rate.

- There are four reasons for the introduction of flat income taxes,
 1. Flat rates are simple and fair,
 2. they promote economic growth,
 3. they promote tax competition,
 4. and they are also neutral to inflation.

- says Ms. Anita Popovska, president of the Macedonian Taxpayers Association, which is administered by the OHRID Institute for Economic Strategies and International Affairs. The OHRID Institute since 2006 is a permanent member of the International Taxpayers Association in Stockholm, Sweden.

Converting the Macedonian budget from social into developing i.e. issuing more money for investment than for salaries, is one of the biggest challenges for the Macedonian Government, especially for the fiscal authorities. However, the thing that asks most attention is the sustainability of the budget, strengthening the tax discipline, but raising the human negligence for the need of tax payment as well. Through tax reform i.e. 0% tax for paid tax, an this definitely will contribute for creating the development budget i.e. increasing the capital investment.