



# FUNDAMENTAL TAX REFORM IN SLOVAKIA

---

**Ivan Mikloš**

*Deputy Prime Minister and Minister of Finance  
of the Slovak Republic*

Bratislava  
March 18, 2004



# FISCAL REFORM: GENERAL CONTEXT

## MAIN GOVERNMENT'S OBJECTIVE:

- reduce the general government deficit under 3.0% of GDP by 2006...
- ... while simultaneously decreasing public expenditures as a share of GDP

Fiscal Position of General Government (% of GDP)					
	2002	2003	2004*	2005*	2006*
Revenues	41.8	39.7	38.4	38.1	37.9
Expenditures	49.0	44.7	42.4	41.5	40.8
Net borrowing	-7.2	-3.6	-4.0	-3.1	-3.0

\* Forecasts



## SPECIFIC GOALS OF THE TAX REFORM

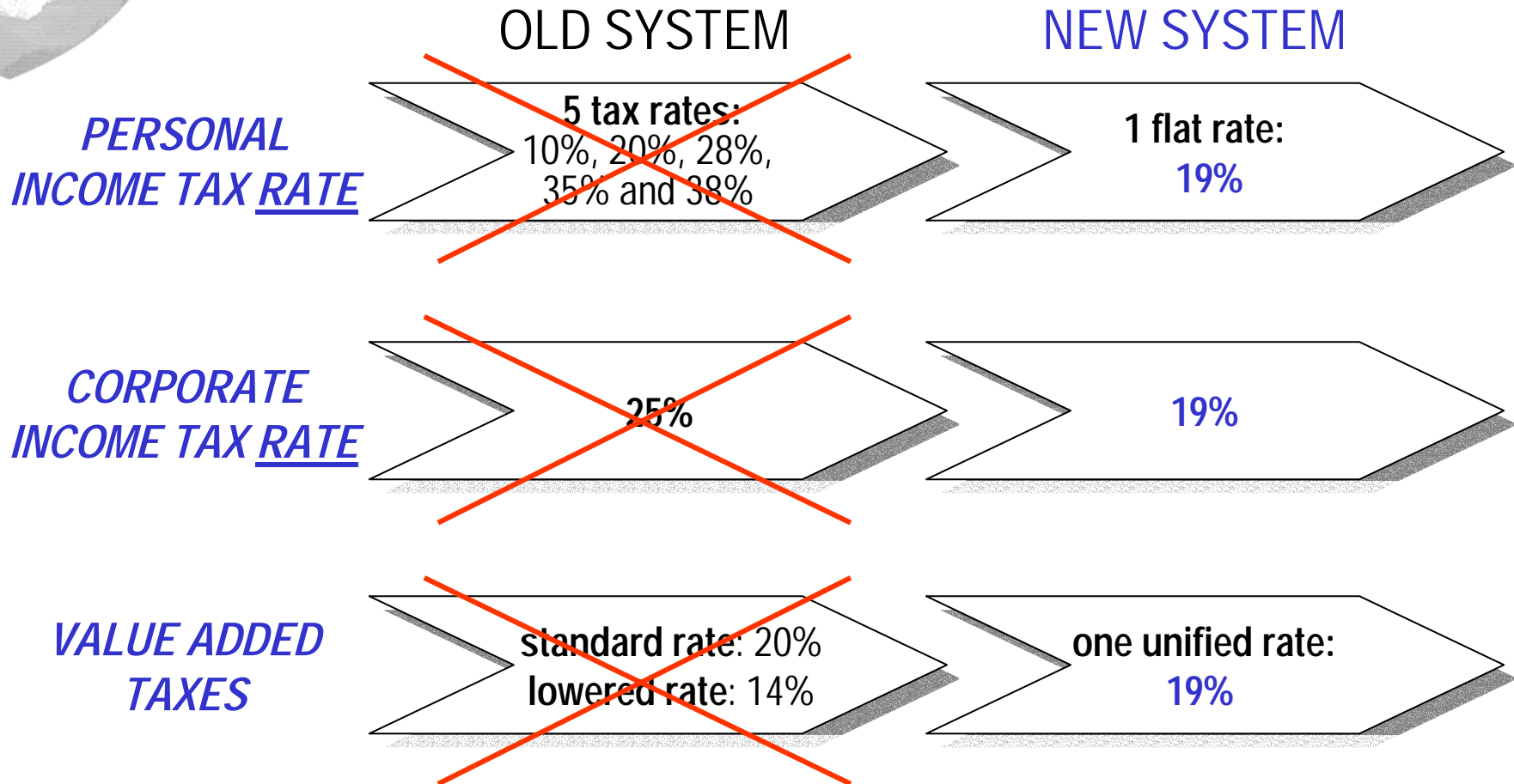
---

### BASIC PHILOSOPHY: LIGHT, NONDISTORTIVE, SIMPLE AND TRANSPARENT TAX SYSTEM

- create **business and investment friendly environment** for both individuals and companies
- **eliminate existing weaknesses and inefficiencies** in the tax law
- achieve the highest possible degree of **tax fairness** by taxing all types and all amounts of income equally
- **shift the tax burden** from direct to indirect taxes
- **eliminate distortive roles of tax policy** as instruments for achieving non-fiscal goals

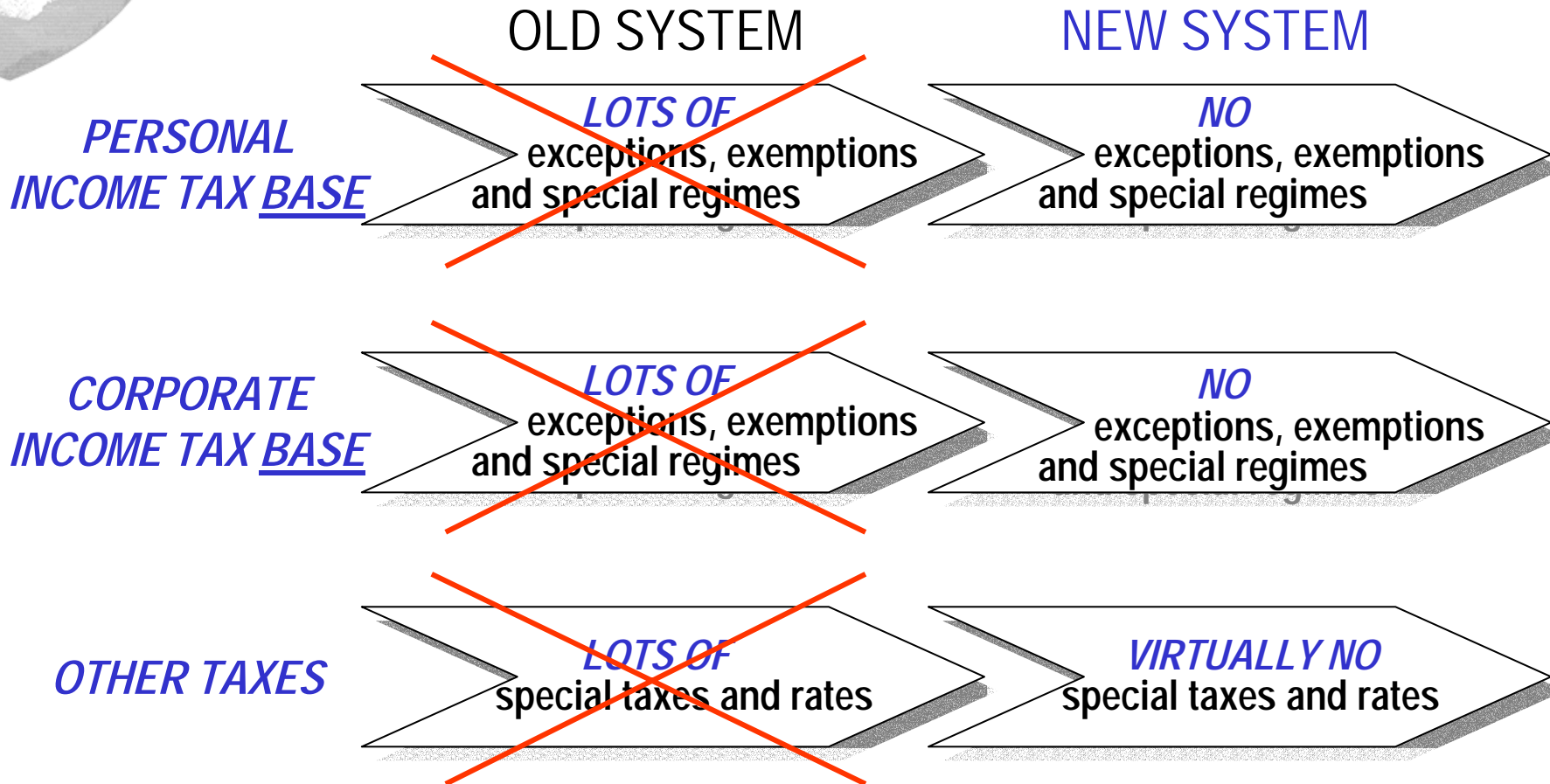


# THE REFORM RADICALLY DECREASES ECONOMIC DISTORTIONS CREATED BY THE TAX SYSTEM





# THE REFORM RADICALLY SIMPLIFIES THE TAX SYSTEM AND INCREASES ITS TRANSPARENCY





# THE REFORM ELIMINATES MOST FORMS OF DOUBLE TAXATION OF INCOME

~~INHERITANCE  
TAX~~

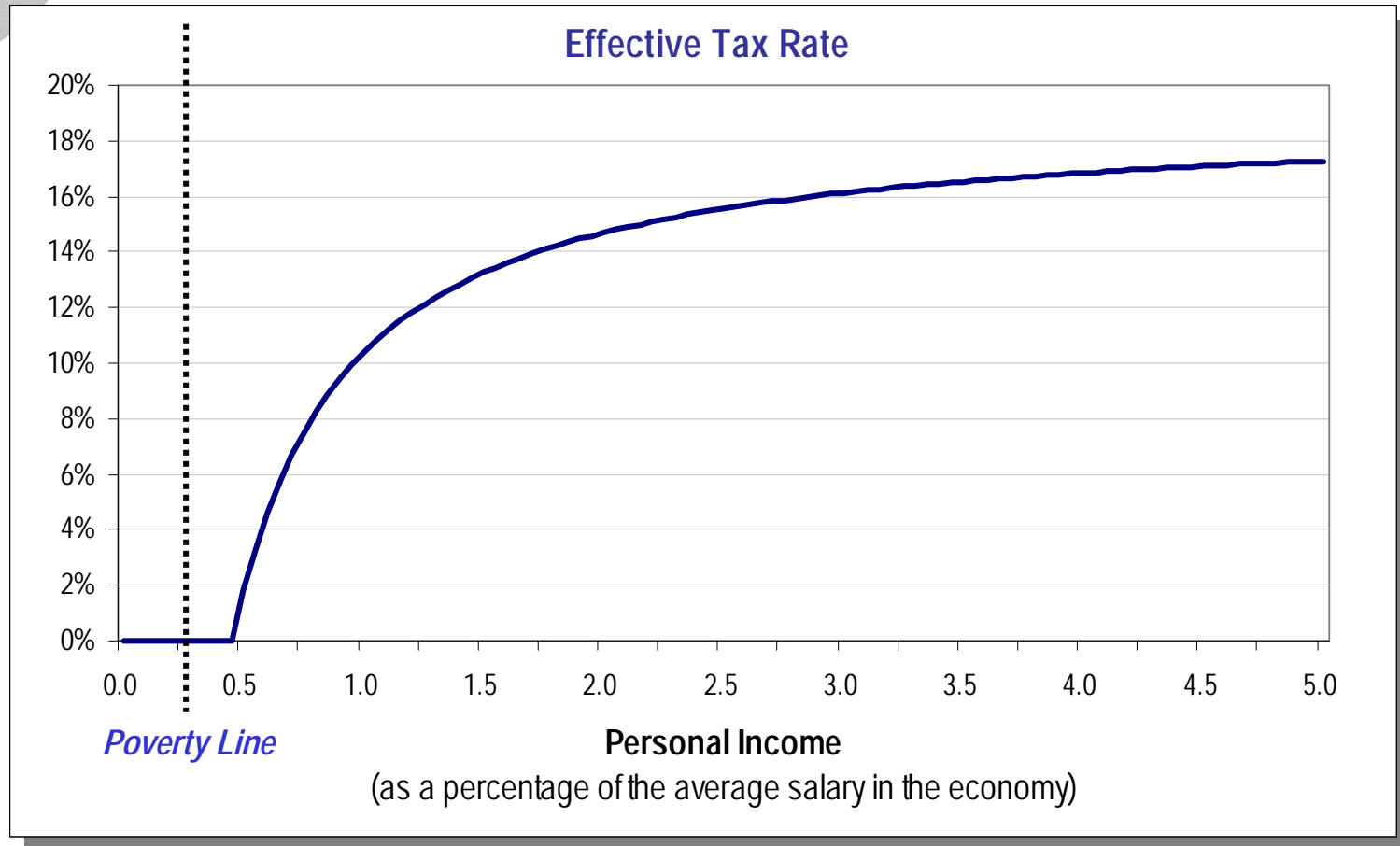
~~DIVIDEND  
TAX~~

~~GIFT  
TAX~~

~~REAL ESTATE  
TRANSFER TAX  
(as of 2005)~~

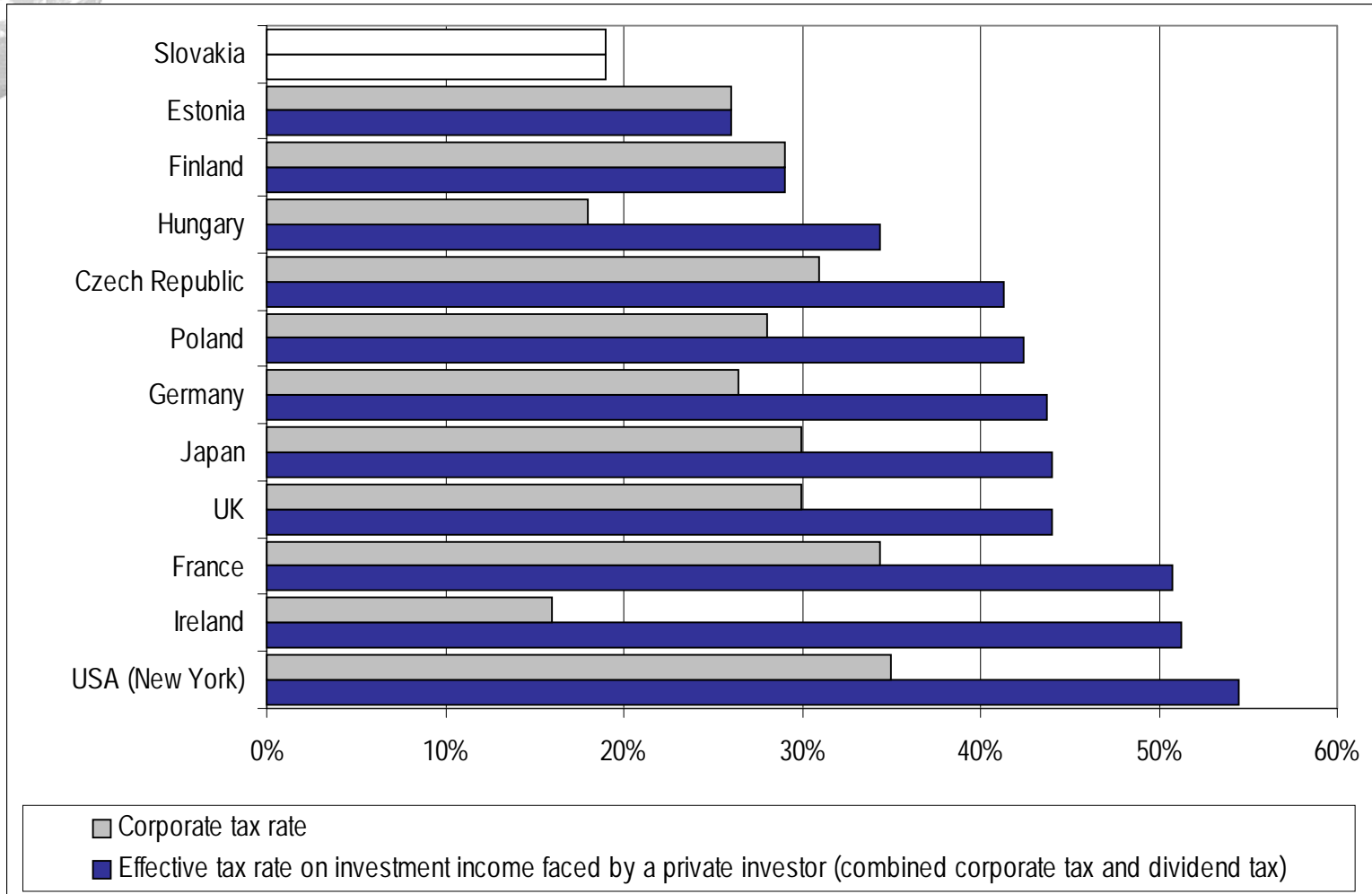


# FLAT TAX STILL ENSURES PROGRESSIVE TAXATION OF INCOMES





# TAX RATES FACED BY INVESTORS IN SLOVAKIA



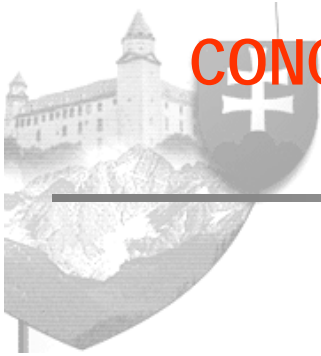




# FISCAL IMPACT OF THE TAX REFORM

---

- reform designed to be **revenue neutral in 2004**
- serious attention paid to fiscal impact quantifications
- **5 independent estimations** made by following institutions:
  - International Monetary Fund
  - Slovak Ministry of Finance - Institute of Financial Policy
  - special high-level working committee
  - Infostat (Slovakia)
  - Slovak Academy of Sciences
- most conservative estimates adopted for fiscal purposes



## CONCLUSION: POLITICAL WILL AND MANAGEMENT ARE KEY FOR SUCCESSFUL REFORMS

---

- must have a clear vision where you want to go
- timing is key in the implementation
  - implement less popular steps first
- resist lobbies and entrenched interests
  - if you give in to one demand, you will be less able to say no to others
- compensate the most vulnerable part of the population



# FUNDAMENTAL TAX REFORM IN SLOVAKIA

---

**Ivan Mikloš**

*Deputy Prime Minister and Minister of Finance  
of the Slovak Republic*

Bratislava  
March 18, 2004