

Panel 2 – Tax reform (introduction of flat tax)

Summary report:

Written and presented by Ludovit ODOR, Director, Institute of Financial Policy, Ministry of Finance of the Slovak Republic

Ladies and gentlemen

Let me start with the words of Albert Einstein. Several decades ago he said: „The hardest thing in the world to understand is income tax“. It is still true that to design an effective tax system is very difficult. There is no unique solution or one blueprint how to do that. On the other hand there is a broad consensus about some general principles. Virtually all panelists agreed that the first step is to define properly the role of the government in the economy. This will help us to find an appropriate level of taxation. Next step is to propose an optimal structure of taxes. According to Mr. Owens from OECD and Mr. Mitchell from Heritage Foundation an effective tax system should be:

- Simple
- Transparent
- Non-Distortive
- Non-Discriminatory
- Taxing income only once, if possible

Lower direct taxes could help to increase long-term growth potential of the economy. Another important aspect to recognize is that tax base is as important as tax rate. According to Mr. Owens: „Reduce rates, broaden the base“ could be a wise policy recommendation in many countries.

Deputy Prime Minister Mr. Miklos presented the main features of the new, far-reaching tax reform in Slovakia. One could find many of the above-mentioned good principles in this new system. As Mr. Mitchell pointed out, flat tax is one of the best solutions. He added that researchers indicate that the optimal marginal tax rate is below 20%. It seems to me that Slovakia with 19% made a good choice. Nobody in the panel questioned the important role of tax competition. No tax harmonisation in case of direct taxes is desirable. However removing tax obstacles is necessary.

Mr. Miklos warned that theoretical discussion is not enough, strong political will is crucial to reform old-fashioned tax systems.

Finally, I would like to refer to the title of this conference - „Economic reforms for Europe“. The main message of this panel was that Slovak tax reform could definitely serve as a good inspiration for other EU countries. Thank you for your attention.