Sustainable Taxation

Sustainable Governance Indicators 2024

SGI Sustainable Governance Indicators

BertelsmannStiftung

Indicator

Policies Targeting Adequate Tax Revenue

Question

To what extent do existing tax institutions and procedures support or hinder adequate tax revenue flows?

30 OECD and EU countries are sorted according to their performance on a scale from 10 (best) to 1 (lowest). This scale is tied to four qualitative evaluation levels.

10-9 = The tax system is fully aligned with the goals of ensuring adequate tax revenues.

8-6 = The tax system is largely aligned with the goals of ensuring adequate tax revenues.

5-3 = The tax system is only somewhat aligned with the goals of ensuring adequate tax revenues.

2-1 = The tax system is not at all aligned with the goals of ensuring adequate tax revenues.

Finland

Score 9

In Finland, the state and municipalities have the power to levy taxes. The Evangelical Lutheran Church and the Orthodox Church are allowed to collect their membership fees through regular taxation. Taxation policies are largely effective. Taxes are generally high in Finland because the country has comprehensive healthcare and social security systems, and operates a costly education system that does not charge tuition. In general, the public has a favorable attitude toward high levels of taxation. In a recent poll, 96% of respondents agreed that taxation is an important means of maintaining the welfare state, and 79% agreed that they paid their taxes willingly.

The taxation policy of Petteri Orpo’s government is designed to enhance household spending capacity, create stronger incentives for workforce participation and contribute to the overall improvement of economic conditions. This policy aims to promote employment and self-employment while fostering a supportive environment for domestic ownership (Ministry of Finance n.d.). The government is committed to refraining from implementing discretionary measures that would raise the overall tax rate, emphasizing a strategy that encourages economic growth and individual financial empowerment. In short, the government strongly addresses possible disincentives in the tax system that may discourage individuals from seeking employment and companies from making investments.

Administrative capacities in Finland are sufficient to collect the taxes levied, and tax evasion is effectively prosecuted. Finland performs well regarding structural balance and redistributional effects. While overall taxation policies generate steady government revenue, they are insufficient to prevent state and municipal budget deficits.

Citation:
Ministry of Finance. n.d. “Fiscal Policy.” https://vm.fi/en/fiscal-policy

Norway

Score 9

Taxes on income from work, payroll, and consumption (VAT) are generally high in Norway but are relatively similar to the OECD average. However, taxes on properties, financial assets, and company profits are modest.

A distinguishing trait of the Norwegian economy is that taxes on income and consumption constitute only half of the total public sector revenue. The other half comes from taxes on the extraction of natural resources (oil, gas) and from rent on global financial investments through the Government Pension Fund Global. Consequently, the traditional primary objective of a tax system – funding public expenditures – is relatively less important in Norway. Regarding macroeconomic policy governance, the state can vary its incomes and expenditures independently of domestic taxation levels. Therefore, issues related to incentive structures, economic behavior, and the rational use of resources are relatively more important in the design of the taxation system.

The collection of taxes is highly automated, as are tax declarations for employees. Tax evasion is considered a minor problem, and in general, the population accepts a high level of taxes. However, tax avoidance receives increasing attention both in the media and in national administration. The OAG reported in 2023 that the reporting of and control over wealth abroad, taxable in Norway, is suboptimal, resulting in substantial lost tax income.

Citation:
Norges Bank Investment Management. n.d. “About the Fund.” https://www.nbim.no/en/the-fund/about-the-fund/

OECD. 2024. Taxing Wages 2024: Tax and Gender through the Lens of the Second Earner. Paris: OECD Publishing. https://doi.org/10.1787/dbcbac85-en

Office of the Auditor General of Norway. 2023. Skatteetatens arbeid med å avdekke norske skattepliktiges inntekter og formuer i utlandet samt kryptovaluta. Dokument 3:3 (2023−2024). https://www.riksrevisjonen.no/rapporter-mappe/no-2023-2024/skatteetatens-arbeid-med-a-avdekke-norske-skattepliktiges-inntekter-og-formuer-i-utlandet-samt-kryptovaluta

Sweden

Score 9

Tax policy is no longer a major impediment to the competitiveness of Swedish businesses. The administrative capacity for levying and collecting taxes is very high, with efficient, digitalized services. The agencies handling tax issues are the Swedish Tax Agency and the Swedish Economic Crime Authority.

Current levels of business taxation are low from a comparative perspective. There are innovation incentives in the form of R&D grants and regional and tax incentives for international businesses relocating to Sweden (Business Sweden, 2022). In 2024, tax revenues are projected to balance the budgets of municipalities as well as reduce any deficits at the national level (Konjunkturinstitutet, 2023).

Citation:
Business Sweden. 2022. "Incentives Guide 2022: For Companies Looking to Invest in Sweden." https://www.business-sweden.com/globalassets/services/learning-center/establishment-guides/incentives-guide-2022.-pdf

Konjunkturinstitutet. 2023. "Konjunkturläget: December 2023." https://www.konj.se/download/18.e8ef5d618c8082c058119f2/1706692715038/Konjunkturlaget-December-2023.pdf

Switzerland

Score 9

The Swiss tax ratio is significantly below the OECD average, and tax rates are moderate particularly for businesses, with a moderately progressive income tax. Hence, from a liberal point of view and in comparative perspective, there are few disincentives in the tax system that may discourage individuals from seeking employment or companies from making investments. One exception may be the tax for married couples (see below).

The overall public revenues ratio (federation, cantons, municipalities) is around 29% of GDP (2021). The federation receives 36% of all public revenues, the cantons 24% and the municipalities 15%. Social insurance programs – which are regulated on the level of the federation – receive 24% of total public revenue (FFA 2022). Public debt is very low, at 16% of GDP (FFA 2023a).

It is important to note that due to the principle of federalism, tax rates can differ substantially between regions, as individual cantons and local communities have the power to set regional tax levels. For example, the tax load for a couple (one bread earner, CHF 100,000 gross income, no children) varied by a factor of 3.5 between the cantonal capital with the lowest tax rate (Zug) and that with the highest tax rate (Neuchâtel) in 2018 (FTA 2023). Therefore, any information on Swiss tax policy should be accompanied by information on which government – municipal, cantonal or federal – is in charge. In the following, we focus on the federal level.

Switzerland's apparently low levels of government revenue as a percent of GDP can be attributed in part to the way in which the statistics are calculated. Contributions to the occupational pension system (the so-called second pillar) and the health insurance program – which are non-state organizations – are excluded from government revenue calculations. The share of government revenue as a percent of GDP would be about 10 percentage points higher if contributions to these two programs were included. This would bring Switzerland closer to the euro zone average – but even then the Swiss figure would be significantly lower.

Tax policy does not impede competitiveness. Switzerland ranks at the top of competitiveness indexes, and given its low level of taxation, is highly attractive for corporate and personal taxpayers both domestically and internationally. Tax policy has contributed to a balance between revenues and expenditures.

The country's tax policy has come under scrutiny from the OECD and European Union for treating domestic and some international firms differently at the cantonal level. These international firms have their regional headquarters in Switzerland – employing more than 150,000 people and contributing substantially to tax revenue – but do most of their business abroad.

In response to the scrutiny, the federal government introduced a contentious corporate-taxation reform policy. In the end, in 2017, a quid pro quo was agreed to. To win the support of politicians on the political left, contributions to the first pillar of the pension system (AHV) have been increased by the same amount as taxes are reduced for firms. These additional resources for the AHV are generated through increased contributions from the federal state as well as from increased social security contributions from employers and workers. This compensation deal was accepted by popular vote in May 2019.

Another recent tax reform, prompted by international political pressure from the OECD, involves minimal taxes for large, internationally active corporate groups. These are now supposed to pay at least 15% tax on their profits. These taxes were agreed to in a popular vote in June 2023, and became effective on 1 January 2024.

Given that other countries have lagged behind in the implementation of this OECD standard, Swiss businesses sought to delay the date of implementation, but did not succeed (NZZ 10 November 2023).

Another major tax issue with constitutional implications involves tax rates for married couples, which under certain circumstances may be higher than those paid by unmarried couples. A measure that would have implemented reform on this issue failed by a narrow margin in a 2017 popular vote, possibly as a result of erroneous information provided by the federal government regarding the number of persons affected. An April 2019 ruling by the Federal Supreme Court abrogated the outcome of the 2017 referendum. This marked the first time in Switzerland's history that a popular vote had been annulled by the Federal Supreme Court. The Federal Council planned to submit a new bill on this issue in March 2024 (FDF 2023b).

Citation:
FFA (Federal Finance Administration; Eidgenössische Finanzverwaltung). 2022. Taschenstatistik. Öffentliche Finanzen 2022. Bern: FFA.

FFA (Federal Finance Administration; Eidgenössische Finanzverwaltung). 2023. "Federal Debt." https://www.efd.admin.ch/efd/en/home/fiscal-policy/federal-debt.html

FFA (Federal Finance Administration; Eidgenössische Finanzverwaltung). 2023b.

“https://www.estv.admin.ch/estv/de/home/die-estv/steuerpolitik/parlamentsgeschaefte/2-15.html”

FTA (Federal Tax Administration, Eidgenössisches Steuerverwaltung) 2023. “Tax burden in Switzerland.” https://www.estv.admin.ch/estv/en/home/fta/tax-statistics/tax-burden-switzerland.html

NZZ. 2023. “Setzt nun ausgerechnet die Schweiz die Mindeststeuer am schnellsten um und gibt damit einen Wettbewerbsvorteil preis?” Neue Zürcher Zeitung, November 10.

Canada

Score 8

Tax policy in Canada is sophisticated and serves many purposes. The tax code is a mammoth document with numerous additions and changes over the years, which have increased its complexity. This complexity affects measures such as equity and complicates audits and the work of tax courts (Gillespie 1979).

Canada has lowered statutory corporate tax rates in recent decades to encourage investment. Rates are now comparable to OECD averages. Individual tax brackets and earned income tax credits provide higher take-home pay for low- to middle-income levels to reward work. However, high marginal effective tax rates still exist for higher-income ranges, which serve to disincentivize work and advancement. Tax complexity related to income splitting and dividends can also discourage small business investment (PBO).

However, among G7 members, Canada has the “lowest marginal effective tax rate on new business investment” (Canada 2023, 70).

The introduction of online tax filing and automation has improved the system’s efficiency. However, continued underfunding for auditors and investigators enables slippage. An estimated $25 billion per year is lost due to tax noncompliance. Fewer than half of tax evasion court cases result in convictions. Faulty procedures and overburdened prosecutors undermine enforcement.

Aggressive “tax schemes” often go unpenalized, which incentivizes this behavior (CBC 2015).

Citation:

Canada, Department of Finance. 2023. Budget 2023, A Made-in-Canada Plan. Ottawa: His Majesty the King in Right of Canada.

Gillespie, W. I. 1979. “Postwar Canadian Fiscal Policy Revisited, 1945-1975.” Canadian Tax Journal 27: 265–76.

https://pipsc.ca/news-issues/tax-fairness#:~:text=The%20Parliamentary%20Budget%20Officer%20estimates,yield%20%245.75%20in%20tax%20revenue

https://www.cbc.ca/news/business/taxes/tax-time-2015-why-tax-cheats-in-canada-are-rarely-jailed-1.2960595

Denmark

Score 8

It is a consequence of an extended welfare state that total tax revenue as a share of GDP is high. However, a series of tax reforms over the years have aimed to reduce tax distortions by broadening the tax base and lowering marginal tax rates. Recent initiatives include earned-income taxes and favorable taxation – and subsidies – for individuals who postpone retirement. A recent reform aimed at strengthening work incentives also includes a higher marginal tax rate for the very rich.

While the administration of the tax system in general is very efficient and IT-based, operating smoothly and automatically for most households, there have been recent cases of malfunctioning systems and tax evasion. These issues have raised questions about the system's efficiency and adequacy. In particular, a new property tax system has been controversial, especially regarding the valuation of property, which constitutes the basis of the tax.

The overall tax structure is decided by the state. While a component of income taxation is municipal, the degree of freedom for municipalities in setting the tax rate is restricted by a municipal "tax stop." This effectively implies that one municipality can only raise its tax rate if another municipality reduces its tax rate. Municipalities have some leverage over the land tax (grundskyld).

The overall structure is adequate for financing the public sector even given the demands of an aging population.

Citation:
Ministry of Finance. 2023. Aftale mellem regeringen og Danmarksdemokraterne, Det Konservative Folkeparti, Radikale Venstre og Nye Borgerlige om: Reform af personskat. https://fm.dk/media/27385/aftale-om-reform-af-personskat.pdf

Ministry of Taxation. 2023. "Faktaark 10: Ændringer i beløbsgrænser of satser." https://skm.dk/media/xpxn1uqs/faktaark-10-aendringer-i-satser-og-beloebsgraenser.pdf

Ministry of Industry, Business and Financial Affairs. 2022. https://em.dk/aktuelt/udgivelser-og-aftaler/2022/jan/-aftale-om-staerke-og-innovative-virksomheder

New Zealand

Score 8

New Zealand's government has been actively addressing potential disincentives within the tax system that might discourage individuals from seeking employment and companies from making investments. The most important measures intended to mitigate these disincentives include lower marginal tax rates for low- to middle-income earners as a means of incentivizing work; tax credits and deductions for businesses to encourage employment, investment, and innovation; and simplified tax rules to reduce compliance burdens.

New Zealand's tax administration, managed by the Inland Revenue Department (IRD), is generally considered to have sufficient administrative capacities to collect government-levied taxes. The IRD has invested in modern digital systems (e.g., O'Neill 2023) – which allow for easier and more efficient tax filing, payments and data management – and employs a risk-based approach to compliance. This approach focuses efforts on areas with higher risks of noncompliance, helping to optimize resources for maximum effectiveness (Inland Revenue 2023: 98).

New Zealand also has enforcement measures to address tax evasion, such as penalties for noncompliance and investigations into suspected cases. The IRD collaborates with other government agencies (e.g., the Serious Fraud Office) and international counterparts to gather information and address cross-border tax evasion. However, critics have pointed out that tax evasion investigations can suffer from a lack of resources (Wells 2023).

Citation:
Inland Revenue. 2023. Inland Revenue Annual Report Te Tari Taake Pūrongo ā-Tau 2022-23. https://www.ird.govt.nz/-/media/project/ir/home/documents/about-us/publications/annual-and-corporate-reports/annual-reports/annual-report-2023.pdf

O'Neill, R. 2023. "Inland Revenue Eyes Local Cloud Hosting for Its Brand New Tax Engine." Reseller News, May 22. https://www.reseller.co.nz/article/707263/inland-revenue-eyes-local-cloud-hosting-its-brand-new-tax-engine/

Wells, I. 2023. "Newsable: Billions Likely Lost to Tax Evasion, as White Collar Crime Investigators Go Underfunded." Stuff, May 15. https://www.stuff.co.nz/national/crime/300878382/newsable-billions-likely-lost-to-tax-evasion-as-white-collar-crime-investigators-go-underfunded

Austria

Score 7

The Austrian government receives reasonable tax revenues, sufficiently funding its comparatively generous welfare schemes. Currently, there is no legal minimum salary in Austria, so taking up an occupation might involve accepting a poorly paid job. However, as in other countries, very low salaries are not taxed, and most salaries have a lower bound due to collective bargaining agreements that cover almost all employees. In 2023, an annual salary of up to €11,693 was not taxed. Income taxes are particularly high in Austria, which is detrimental to employment in general. In contrast, taxation on wealth is almost nonexistent compared to international standards (Arbeiterkammer 2023).

The overall burden of taxes and other levies is very high in Austria, placing the country in the top tier of European nations (ranked 3 out of 29 countries, surpassed only by Denmark and France). The Austrian government is committed to addressing tax avoidance seriously, but the amount lost due to tax evasion has clearly exceeded €1 billion – nearly 4% of the country's health budget or 5.6% of the education budget (Wirtschaftskammer 2023).

In a recent comparative study assessing different countries' "capacity of tax administrations to collect and process data for investigating and ultimately taxing those people and companies who usually have most means and opportunities to escape their tax obligations,” Austria featured in the top tier of countries, with a score of 65 in 2022 compared to an average score of just 47 (see Tax Justice Network).

However, in its 2023 report, the Austrian Court of Audit criticized the serious lack of trained personnel in this field, which undermines the government’s declared ambition to avoid different forms of tax avoidance or evasion. Early in 2022, fewer than 200 of the scheduled 236 full-time positions had been filled. Additionally, newly planned IT resources were not considered to be functioning as intended (Rechnungshof 2023).

Citation:
https://www.arbeiterkammer.at/beratung/steuerundeinkommen/dazuverdienen/Steuerberechnung_fuer_Zuverdienst.html

https://www.wko.at/oe/oesterreich/chart-of-the-week-2023-11-10.pdf (Wirtschaftskammer 2023)

https://www.bundesfinanzministerium.de/Content/DE/Downloads/Broschueren_Bestellservice/die-wichtigsten-steuern-im-internationalen-vergleich-2022.pdf?__blob=publicationFile&v=6

Rechnungshof. 2023. “Personalmangel große Hürde bei Reform im Bereich Finanzstrafsachen.” https://www.rechnungshof.gv.at/rh/home/news/news/news_3/Personalmangel_Huerde_bei_Reform_Finanzstrafsachen.html#

https://taxjustice.net/country-profiles/austria/

https://www.ots.at/presseaussendung/OTS_20220406_OTS0129/finanzpolizei-2021-bei-28000-kontrollen-36-mio-euro-strafen-beantragt

France

Score 7

Tax rates are high for individuals and businesses in France, although this has not prevented the existence of a structural public deficit. Despite its high level, taxation does not seem to serve as a strong disincentive to different economic actors. It is largely based on indirect taxation, especially on consumption. Taxation on labor is significant, but it also supports a highly developed social protection system and extensive public services. Firms generally oppose high taxes, but benefit from a variety of exemptions. The effective average tax on business has decreased significantly since 2016, but still ranks above the OECD average. However, this has not harmed France’s attractiveness for international investors, as it was ranked sixth worldwide in 2022 (Business France 2022; Ernst&Young 2023).

In international comparison, the fiscal administration has been recognized for its high capacity levels, although it has also been one of the targets for the reduction in the number of civil servants. It maintains a broad ability to manage the complex fiscal system, which to date has been simplified only marginally. Tax evasion rates remain significant. Following monitoring and enforcement measures, authorities have collected €14.6 billion in additional revenues, indicating the broad prevalence of these practices (Court of Accounts 2023). While the end of bank secrecy with

Switzerland has improved the situation on this front, the fight against "fiscal paradises" is far from complete.

Citation:
Business France. 2022. "La France au 6e rang mondial des pays les plus attractifs." https://www.businessfrance.fr/decouvrir-la-france-actualite-la-france-au-6e-rang-mondial-des-pays-les-plus-attractifs
Court of Accounts. 2023. "La détection de la fraude fiscale des particuliers." https://www.ccomptes.fr/fr/publications/la-detection-de-la-fraude-fiscale-des-particuliers
ErnstYoung. 2023. "France Attractiveness Survey 2023." https://assets.ey.com/content/dam/ey-sites/ey-com/fr_fr/topics/attractiveness/barometre-de-l-attractivite-de-la-france-2023/ey-attractivite-france2023-episode1-executive-summary-uk.pdf

Hungary

Score 7

Hungary raises a substantial amount of revenue through consumption taxes. The share of consumption taxes in overall revenue is 45.3%, which is significantly higher than the OECD average of 32.3%. Corporate taxes are extremely low, contributing only 2% of state revenues (OECD: 9.6%). Since 2010, successive Orbán governments have transformed the Hungarian tax system. In 2011, the progressive income tax was replaced with a flat tax. In 2012, the standard value-added tax (VAT) rate was increased from 25% to 27% – the highest level in the European Union – with reduced tax rates on selected products and services. In 2017, a uniform corporate income tax of 9% replaced a two-tier system with rates of 10% and 19%. The effective average tax rate for businesses dropped from 19.3% in 2016 to 11.1%. The personal income tax rate was flattened at 15%. Between 2017 and 2018, employers' social security contributions were cut by seven percentage points. These changes have resulted in a slight decline in the tax-to-GDP ratio since 2016. The move to a flat income tax, combined with a strong reliance on the taxation of consumption, has made the Hungarian tax system less redistributive.

The tax burden, especially on larger companies, has substantially decreased. However, companies still struggle with frequent changes in taxation policy and the complexity of the tax regime, which includes many sectoral taxes. Moreover, tax policy and its administration have been instrumentalized to favor oligarchs close to Fidesz and punish outsiders. The classification of businesses as "reliable," "average" or "risky" by the National Tax and Customs Authority (NAV) – combined with the promise of preferences for "reliable" taxpayers – points to favoritism.

In Hungary, the tax burden is high for the general population, while it allows companies to improve their productivity. Even so, the complexity of tax regulations and the high rate of social security contributions take a heavy administrative and financial toll on small and medium-sized companies, providing an incentive for tax evasion (Filep-Mosberger and Reiff 2022). This tax policy aligns with Fidesz's neoliberal economic approach. Combining the employers' and employees' social contributions, the burden in Hungary is high.

Filep-Mosberger, P., & Reiff, Á. 2022. "Income Tax Evasion Estimation in Hungary." MNB Working Papers (No. 2022/4).

Ireland

Score 7

The Irish tax system is relatively effective in addressing disincentives for seeking employment. However, there are specific issues such as high marginal tax rates for second earners due to a male breadwinner family-based system, and steep cliffs in low-paid interactions with welfare and tax systems, which policy attempts to taper. From the perspective of companies making investments, the tax system is considered effective, with some viewing it as overly generous due to historical and ongoing tax breaks for R&D investments. Ireland is also known for its favorable tax treatment of cultural work, exempting the first €50,000 of income for artistic work. According to the OECD, Ireland has one of the lowest disincentives to work as a percentage of earnings lost to taxes and benefits lost in return to work (OECD, 2024).

The administrative capacity for tax collection in Ireland is robust, with the Revenue Commissioners considered a best practice administrator. There is pressure to extend its administrative capacities beyond revenue collection. While there is a relatively robust and public prosecution of tax evasion, the issue lies in the degree to which tax avoidance is legal and does not require prosecution.

Ireland's over-reliance on corporation tax creates sustainability issues for tax and spend policies. Historically low corporate tax rates have incentivized corporations to route international revenues through Ireland, creating an international tax justice issue. Increased flows of multinational corporation (MNC) revenue through Ireland have boosted recent corporation tax volumes, complicating the sustainability of Irish tax revenue. This dependency is highlighted by the Irish Fiscal Advisory Council (IFAC) and the Economic and Social Research Institute (ESRI), noting the vulnerability of Ireland's revenue to shifts in MNC activity or changes in global corporate tax policies, particularly those of the United States. The "rainy day" fund, disbanded during the pandemic, was reestablished in Budget 2024 as the Ireland Strategic Investment Fund, but contributions to it were critiqued as insufficient by both ESRI (2023) and IFAC (2023).

The distortion of Irish GDP, largely due to the transfer pricing activities of MNCs, presents a risk to tax sustainability and affects the accuracy of performance indicators. Paul Krugman famously referred to this phenomenon as "leprechaun economics." For international comparisons, Ireland's GNP is often used instead of the inflated GDP. General figures for investment as a percentage of GNP tend to be underestimated, while growth figures are overestimated. In 2017, the Irish Central Statistics Office responded by developing the modified Gross National Income indicator (GNI*), to provide a more accurate picture. In 2021, Ireland's public spending was 24.4% of GDP, significantly below the EU-27 average When measured by the more realistic modified Gross National Income, the ratiowas 39.3% of GNI* , which is still below the EU-27 average for public spending. .

Citation:
IFAC. 2023. “Fiscal Assessment Report, December 2023 – Irish Fiscal Advisory Council.” https://www.fiscalcouncil.ie/wp-content/uploads/2023/12/Fiscal-Assessment-Report-December-2023-Irish-Fiscal-Advisory-Council-Dublin.pdf
ESRI. 2023. “Budget Perspectives 2024.” https://www.esri.ie/events/budget-perspectives-2024
OECD. 2024. “Financial Disincentive to Return to Work (Indicator).” doi: 10.1787/3ef6e9d7-en (Accessed on 19 February 2024).

Slovenia

Score 7

Tax revenue comes from a wide range of taxes. Income tax accounts for approximately 40%, with social security contributions at more than 30% and corporate tax at 10%. According to the OECD, this is among the highest in its category. While the average tax wedge for a single employee has increased since 2009 by less than 1%, it remains lower than the pre-2009 levels. Slovenia ranked 14th out of 38 OECD countries in terms of the tax rate in 2022, with a rate of 37.4% compared to the OECD average of 34.0%.

Many employers and economists call for lower income taxes to address investment problems in Slovenia. Others, however, emphasize the need for higher productivity instead of lower taxes. Prime Minister Janša’s government responded to the former group by preparing a “mini-tax reform.” In contrast, Prime Minister Golob’s government announced several higher taxes for 2023. The OECD advocates for changes to the tax system to foster growth by further reducing taxes on labor and increasing taxes on consumption and property.

The tax authorities reported a decline in tax liabilities for 2023, which totaled €841.4 million, 6.1% less than the previous year. This trend of decreasing tax liabilities has persisted for years. In 2022, the Financial Administration filed 61 criminal charges with the public prosecutor’s offices (31 cases, 33.69% less than in 2021) and reported 46 criminal offenses to the police (30 cases, 39.47% less than in 2021). A total of 254 offenders were charged.

In 2022, authorities conducted 471 income tax checks – covering tax on income from employment, other income, capital assets, and undeclared income from employment – identifying an additional €18,815,871 in tax debts. This number of checks is significantly lower than in 2020 (580), when almost twice as much additional tax debt was identified.

The Tax Justice Network reports that the tax shortfall had a significant social impact, equivalent to 6.67% of the healthcare budget and 8.12% of education spending.

Citation:
Ministrstvo za finance. 2023. “Letno poročilo Finančne uprave Republike Slovenia.” https://www.gov.si/assets/organi-v-sestavi/FURS/Strateski-dokumenti/2023/Letno-porocilo-Financne-uprave-za-leto-2022.pdf

OECD. 2023. “Taxing Wages – Slovenia.” https://www.oecd.org/tax/tax-policy/taxing-wages-slovenia.pdf

OECD. 2023. “Revenue Statistics – Slovenia.” https://www.oecd.org/tax/revenue-statistics-slovenia.pdf

Tax Justice Network. 2024. “Slovenia.” https://taxjustice.net/country-profiles/slovenia/

Spain

Score 7

According to the OECD, tax compliance in Spain has improved recently. Spain demonstrates commendable performance in tax compliance and administration, excelling in the digitalization of its tax processes. This digital advancement helps reduce tax arrears and lowers compliance costs. There is potential for further improvement by allocating more resources to the Tax Administration Agency to enhance system efficiency. As outlined in the RRP, the fiscal system is being modernized to reduce the informal economy and tax fraud by increasing staff and tax investigations. Tax reforms within the RRP, aligned with recommendations from an expert committee, aim to align Spain’s revenue-to-GDP ratio more closely with the EU average. These reforms focus on bolstering corporate, wealth, and environmental taxation while reducing tax exemptions. However, experts note that these changes are still pending, as Spain needs to improve tax revenue to balance the increased public deficit accumulated over the last decade. In late 2022, a tax reform was implemented, raising the asset tax for wealthier residents while reducing it for more modest families (see also “Policies Targeting Tax Equity”).

Citation:
Instituto de Estudios Fiscales. 20122. Libro blanco sobre la reforma tributaria. Madrid: Instituto de Estudios Fiscales.

United Kingdom

Score 7

Taxes in the UK have been increasing, with the tax take as a proportion of GDP reaching a recent high in 2023. However, it remains relatively low compared to other European countries. In 2022, the Institute for Fiscal Studies described the UK’s tax burden as “at its highest sustained level since the 1950s,” in the context of a recent failed attempt by the Truss government to introduce major tax cuts (Adam et al. 2022). The UK tax system balances income and expenditure taxes and includes a variety of specific taxes within a complex tax code. Tax decisions are primarily made during the chancellor of the exchequer’s twice-yearly “fiscal events.” The most recent event, in November 2023, included headline announcements on cutting payroll taxes (national insurance) and increasing investment allowances for companies. However, the failure to uprate tax bands effectively resulted in “stealth” taxes, pushing more people into paying income tax or into higher tax rate bands.

Overall, tax collection functions adequately, although His Majesty’s Revenue and Customs (HMRC) faced sharp criticism in December 2023 from the chair of the

House of Commons Treasury Committee for reducing telephone support. Additionally, a January 2023 report by the public accounts committee criticized HMRC for poor service to taxpayers and an increase in uncollected tax. Staff cuts at HMRC have contributed to these issues.

There are some variations in taxation among the UK's nations. The Scotland Acts of 2012 and 2016 granted the Scottish government new taxation and borrowing powers, which it has used sparingly until recently. Proposals for 2024 include a new tax rate for moderately affluent citizens that is more onerous than in the rest of the UK. The National Assembly of Wales has far less fiscal discretion, while the ongoing suspension of the Northern Ireland Executive inhibits changes, resulting in de facto direct rule from London.

Citation:
Https://committees.parliament.uk/publications/33390/documents/182713/default/
Adam, S., Delestre, I., Emmerson, C., Johnson, P., Joyce, R., Stockton, I.
Waters, T., Xu, X., and Zaranko, B. 2022. "Mini-budget response." Institute.
for Fiscal Studies. 2023. "Mini Budget Response." https://ifs.org.uk/articles/mini-budget-respo
nse

Australia

Score 6

Australian taxes as a proportion of GDP (29.5%) are relatively low compared to the OECD average (34.5%) (OECD 2023; Whiteford 2022). However, reliance on income taxes is relatively high, while consumption taxes are low, and wealth/land taxes are almost nonexistent. This over-reliance on income taxes is seen as a deficiency that results in inadequate revenue to meet expenditure needs and creates excessive disincentive effects for productive activity. This issue is increasingly exacerbated by a growing need to address policy challenges stemming from an aging population, climate change, and geopolitical risk.

The tax system is moderately effective in constraining global tax abuse. The Tax Justice Network (2023) estimates that approximately AUD 3.8 billion is lost in tax revenue every year due to tax abuse by corporations and individuals, equating to 0.9% of the country's tax revenue (or AUD 152 per capita of the Australian population). There is much debate about the efficiency and equity of Australia's tax profile, with commentators arguing that the country should consider raising more money by increasing taxes on mining and energy companies (Denniss 2022).

Citation:
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Belgium

Score 6

Taxation in Belgium involves the collection of taxes at both the national and local levels. Major federal taxes encompass income tax, social security, corporate taxes, and value-added tax, while local levels involve property and communal taxes. Tax revenue stood at 45.6% of GDP in 2022, the second-highest share following France of the EU according to Eurostat.

The European Semester highlights that high labor taxes discourage work, with the tax burden exceeding the EU average for most wage levels. Some initiatives aim to boost low-wage earners’ net income, but they inadvertently increase the tax rate for lower-middle-income earners, creating a “low-wage trap.” The High Council of Finance suggests a general employment bonus could alleviate this. However, the “low-wage trap” might deter lifelong learning and working longer hours (European Commission 2023).

Belgium, as a small open economy, faces concerns about potential capital outflow if it opts for taxation. In the pursuit of attracting capital and fostering investment, the country maintains numerous tax loopholes and exemptions to reduce distortionary incentives or to stimulate entrepreneurship. Notably, Belgium ranks 16th in the 2021 Corporate Tax Haven Index by the Tax Justice Network, citing issues in Tax Court Transparency and the existence of loopholes, contributing to corporate taxation avoidance for both income and capital. The European Semester also stresses the complexity of capital taxation leading to distortions in investment behavior (European Commission 2023).

The current government aims to address benefit fraud and tax evasion (the first one, as often, being smaller by a sizable amount), but these efforts are considered inadequate by a prominent judge. The judge advocates for bolstering resources in administration and the judiciary, simplifying rules, and eliminating potential gaps and loopholes (see press article).

Finally, the current government was planning a significant tax reform to mitigate the discouraging effects of labor taxation. However, disagreements among the diverse partners in the (broad) government coalition have resulted in a deferral of the reform to the next legislature or, possibly, indefinitely.

Citation:
https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Tax_revenue_statistics#Tax_revenue-to-GDP_ratio:_France.2C_Belgium_and_Austria_show_the_highest_ratios
European Commission. 2023. “2023 European Semester: Country Report – Belgium.” Brussels. Available at:

https://economy-finance.ec.europa.eu/publications/2023-european-semester-country-reports_en#details
Belgium's report for the Corporate Tax Haven Index by the Tax Justice Network: https://cthi.taxjustice.net/en/cthi/profiles?country=BE
A press article on the measures taken by the government deemed insufficient by a judge: https://www.brusselstimes.com/514132/is-belgium-doing-enough-to-fight-tax-evasion
A press article on the failed tax reform: https://www.lesoir.be/526311/article/2023-07-18/reforme-fiscale-la-vivaldi-renonce

Czechia

Score 6

By European standards, the Czech tax system features a low level of direct taxes, both on companies and individuals, which results in a relatively low share of government revenue in GDP. This significantly constrains the government's ability to finance infrastructure investment, which has been heavily dependent on EU support – a source expected to decline. Low tax levels reflect governments' attempts to win electoral support by holding down personal tax levels.

The average income tax rate during the observed period was lower than the OECD average (27%), decreasing from 25.21% in 2020 to 19.70% in 2021 and 19.48% in 2022. These changes were made by the Babiš government before the parliamentary elections in 2021 and during a time of a growing budget deficit due to pandemic measures. The effective average tax rate for businesses was 16.70% in 2020 and 17.0% in 2021, lower than the OECD average of 20%.

The tax system is administered by the Financial Administration under the Ministry of Finance, employing 14,000 individuals, half of whom are engaged in checking tax returns. The administration consistently complains of inadequate resources for countering tax evasion, yet it claims to have identified CZK 37 billion in otherwise unpaid taxes in 2022. Identified serious tax fraud typically relates to VAT, and 867 such cases were referred for legal action in 2022, totaling CZK 5.5 billion. The most serious was the OCTAVIAN case, involving tax evasion of CZK 700 million and taking over eight years to investigate. Eleven individuals finally faced charges for activities in the period 2009 – 2010, although the key figure had yet to be extradited from the UK, where he claimed asylum on the grounds that he could not expect a fair trial in Czechia. According to the Financial Administration, such investigations typically require multi-agency cooperation across several countries, for which only very limited resources are available.

Reducing VAT evasion among smaller businesses remains a controversial issue. To address this, compulsory electronic cash registration was introduced in 2016 for catering and hotels and in 2017 for retail, with plans for expansion to more sectors in 2020. The initiative was always opposed by the ODS and vocal small-business owners, who cited the additional financial burden of purchasing the necessary equipment. The system was completely abolished under the Fiala government at the start of 2024. Opponents argued it was expensive and ineffective. Babiš claimed it had generated CZK 35 billion in extra revenue, though that claim is difficult to verify. While the introduction of electronic cash registers coincided with an increase in VAT revenue, this did not result in a higher share of total tax revenue.

The Financial Administration of Czechia plans to build a new information system, set to be partially operational in 2026, to establish a central database, improve tax collection efficiency, and detect tax evasion.

Citation:
https://www.financnisprava.cz/assets/cs/prilohy/fs-financni-sprava-cr/Vyrocni_zprava_o_cinnosti_FS_CR_za_rok_2022.pdf

Germany

Score 6

Germany’s tax system has effectively generated dynamic revenue growth. From 2019, the last year before the COVID-19 pandemic, to 2023, revenues increased from €799 billion to €916 billion, a rise of 14.6% despite the strong economic downturn caused by the pandemic (BMF 2023 a,b). Current tax projections indicate continued strong growth, with revenues expected to surpass €1 trillion in 2025 (BMF, 2023a).

However, the German tax system must today be seen as one of the significant reasons for a declining German growth potential. High marginal tax rates disincentivize both employment and corporate investment.

The top marginal personal income tax rate of 47.5% is comparable to the OECD average (OECD 2023), but the average marginal rate remains a key challenge for Germany’s competitiveness. An average single earner pays marginal taxes, including social security contributions, of 58.4% of labor costs. This places Germany at a top position in the OECD and 15 percentage points above the OECD average (OECD 2023: 75). These high marginal tax rates reduce the willingness to work and incentivize a cutback of working hours. This situation has serious consequences for the country’s growth potential given the shrinking labor force due to the aging population.

The corporate tax system in Germany lacks international competitiveness. Over the past decade, Germany’s position in effective corporate tax rate comparisons has steadily declined. In 2022, very few industrial countries impose a higher tax burden on companies. Among 35 European countries, Japan, and the United States, Germany ranks third in its effective average tax rate on companies, which includes all details of tax base definitions (ZEW, 2023). In Europe, only Spain imposes a slightly larger tax burden on companies. Consequently, Germany has lost considerable tax appeal as a destination for foreign direct investment. Although Germany is among the initiators of the new OECD rules on international minimum corporate tax rates, this project is unlikely to improve German tax competitiveness since the international minimum tax rate will be set far below the German level.

The German tax administration, by international standards, effectively collects revenues and combats tax evasion. International estimates on the size of the shadow economy consistently report GDP shares for Germany that are clearly below the average for EU and OECD countries (Hassan and Schneider, 2016).

Citation:
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OECD. 2023. Taxing Wages, Indexation of Labour Taxation and Benefits in OECD Countries. Paris: OECD Publishing.
ZEW. 2023. “Mannheim Tax Index.” www.zew.de/mannheim-tax-index

Israel

Score 6

Tax policy includes tax exemptions for individuals and companies to encourage investment and labor market participation. For individuals, there are tax exemptions for women, Israeli citizens, parents with small children and university graduates. Employees do not need to file an annual tax report to receive an exemption.

There are also exemptions for companies, especially high-tech firms, and those operating in peripheral regions, to encourage investment in Israel, particularly in areas where there is a shortage of jobs.

The administrative capacity to collect taxes is generally sufficient. However, over the past two years, a personnel shortage in the Tax Authority has made it more challenging for the agency to meet its goals. In Israel, only self-employed workers are required to file an annual tax report, which makes it difficult for the authority to identify tax evasion. To address this, the Tax Authority has launched a platform for receiving anonymous reports on tax evasion and conducts investigations to uncover such cases. Nevertheless, these efforts do not cover the entire scope of tax evasion.
The current war with Hamas has dramatically increased public spending on military and social needs. However, it is still unclear how the government will increase revenues following the war.

Lithuania

Score 6

The tax system is largely aligned with the goal of ensuring adequate tax revenues. A significant portion of government revenue comes from indirect taxes, especially the value-added tax (VAT), which is relatively high at 21% (up from 18% during the financial crisis a decade and a half ago). Meanwhile, environmental and property tax rates are relatively low. Taxes on labor (personal income tax and social security contributions) present a barrier to the competitiveness of Lithuanian businesses. According to the OECD, in 2022 the average rate of income tax and employees' social security contributions in Lithuania was 37.11%, compared to the OECD average of 27%.

Despite high average tax rates on labor income, tax revenue as a percentage of GDP is below the OECD average, constituting the third-lowest such figure in the EU. This is the result of a highly differentiated, or as the World Bank calls it in its recent assessment, schedular tax system, in which statutory and effective tax rates vary significantly between legal forms of economic activity (employment contracts, individual activity certificates, etc.) and between sources of income (wages, capital gains, etc.).

Furthermore, although its overall incidence is declining, significant tax evasion persists. According to the European Commission, the VAT gap (as a percentage of theoretical VAT liability) remains significantly higher than the EU average – in 2020, it was the fifth-highest such figure in the EU. The current coalition government, in its program adopted in late 2020, committed to reducing the VAT gap from 25% to 10%. However, the target date for achieving this goal is 2030 – well beyond the term of the current government.

According to the Tax Justice Network, tax administration capacity in Lithuania was below the OECD average in 2022 (respectively with index indicator scores of 40 and 47). Potential tax revenues are still influenced by the country's significant shadow economy (estimated at 22.4% of all economic activity in 2022), extensive tax avoidance, widespread tax exemptions and low tax morale. An improvement in VAT and excise tax collection has been noted in recent years; this is attributed partially to improvements in tax administration and partially to a reduction in fuel and tobacco-product smuggling from Russia's Kaliningrad region and Belarus (due to the general decline in trade with those countries).

In 2022, the government adopted changes to the Law on Tax Administration and related legal norms regarding the protection of taxpayers' data, expanding the list of sanctions to further reduce tax evasion and the VAT gap.

Citation:
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Poland

Score 6

The “Polish Deal” (Polski Ład), introduced in early 2022, was a tax scheme aimed at boosting the post-pandemic economy. It involved an extensive tax system overhaul, increased family benefits, higher healthcare expenditures and additional public investments. The initiative faced criticism for its added spending commitments, elevated tax load on entrepreneurs and the middle class, and unclear investment strategies. Widespread confusion led to numerous amendments in the same year.

The scheme introduced a reduction in the tax scale from 17% to 12%. The tax-free allowance was raised to PLN 30,000, and the tax threshold was increased to PLN 120,000. Individuals earning below PLN 13,000 saw their tax burden reduced. Unfortunately, the inflationary situation did not favor investments, which reached only 16.7% of GDP in 2022, the lowest such figure since 1994. Many businesses were concerned about their financial liquidity and elected to delay investments until economic conditions improved. This improvement was expected to occur in 2024, with a predicted growth in investment spending of more than 2%.

In Poland, tax administration institutions include the Ministry of Finance, which oversees financial policies, and the National Revenue Administration (Krajowa Administracja Skarbowa, KAS), which is responsible for tax collection. Additionally, the Fiscal Administration Chamber (Izba Administracji Skarbowej, IAS) handles tax-related legal matters, and local tax offices (Urząd Skarbowy) manage tax affairs at the regional level. Their effectiveness has increased since 2015, as the VAT tax gap has been narrowing. This gap was approximately 4.9% in 2022, making it one of the smallest such figures in Europe. However, collecting tax obligations owed to the state continues to present challenges. Tax authorities claim to detect irregularities, yet only around 10% of the allegedly outstanding arrears are subject to enforcement.

Citation:
https://www.dentons.com/en/services-and-solutions/global-tax-guide-to-doing-business-in/poland

Portugal

Score 6

In 2022, most OECD countries experienced a decline in the tax-to-GDP ratio (OECD, 2023). However, Portugal stood out as an exception, maintaining high levels of taxation on income and consumption, specifically at 36.5%. The government forecasts a further increase in the tax burden to 37.2% of GDP for 2023 (Ministry of Finance, 2023). If realized, this forecast would represent a rise compared to 2022 and establish a new historical peak. The government justifies this upward trend by citing inflation, increased job market dynamism (with more people employed), and the budgetary consolidation goals pursued by recent administrations. Nevertheless, Portugal’s tax-to-GDP ratio remains below the EU-27 average (Eurostat, 2023).

The high tax burden in Portugal discourages companies from investing and families from allocating their income toward savings or consumption. Consistent recommendations urge Portugal to reduce contextual business costs and establish a taxation framework that offers greater predictability for investment.

Despite recent progress, the Portuguese tax authority still faces significant challenges in addressing offshore wealth accumulation and sophisticated tax evasion schemes. Although Portugal has a Strategic Plan to Combat Fraud and Tax Evasion, more than half of the plan’s measures remain unimplemented. Notably, about 22% of Portugal’s GDP was held offshore in 2022 (EU Tax Observatory, 2023).

To combat tax evasion and money laundering, more proactive and effective on-the-ground supervision is needed. However, the Portuguese tax authority is currently stretched thin in terms of human resources. The Tax Workers’ Union has called for the immediate recruitment of an additional 2,000 employees and a reorganization of the entity’s operations to enhance efficiency (Dinheiro Vivo, 2023). This situation underscores the need for strengthened capacity and resources to effectively manage and enforce tax regulations.

Citation:
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Estonia

Score 5

There is a wide consensus that the current tax system needs revision due to a long-term trend of decreasing tax returns, an aging population and environmental pressures. The Russian war of aggression in Ukraine has made the forecasts even more pessimistic. Tax reforms are one of the major issues in political debates in 2022 – 2023.

One of the main and lasting challenges comes from the Estonian welfare system, which is financed almost entirely (80%) through social insurance contributions. High labor costs may weaken the country’s economic position and lead to labor relations abuses. Even more importantly, social insurance contributions alone cannot provide sufficient financing for social services, given an aging population and changing work patterns, which destabilize social tax receipts. In addition to public pension funds that are persistently accumulating debt, there are serious concerns about the financial sustainability of the national health insurance fund (EHIF).

According to forecast reports by Arenguseire Keskus (2020) and the Estonian Health Insurance Fund (2022), EHIF will enter conditions of deep and increasing debt within two to three years. If the funding principles remain unchanged, maintaining the availability of public healthcare at the current level will be impossible. Despite the urgency, two government coalitions (2022, 2023) led by the neoliberal Reform Party have neglected the issue, including proposals offered by the Social Democrats, a coalition partner.

Government rigidity with regard to social protection revenues may harm employers' incentives to create low-paid and part-time jobs, as these are subject to the standard rate of social security contributions. Small and medium-sized businesses often prefer to pay dividends instead of fair wages as a means of "optimizing" tax expenditures. In the debate on the EU Platform Work Directive, the Estonian government clearly sided with platforms and voted against the planned regulations. However, starting in 2024, platforms such as Uber, Bolt and Airbnb will be required to send information about their service providers and their earned income to the Tax and Custom Board.

Advanced digital tax declaration systems contribute to the administrative capacity of tax collection and minimize tax avoidance. The challenge is that the current tax legislation in some cases allows individuals to avoid paying adequate social security contributions and income tax.

Citation:
Arenguseire Keskus. 2020. Eesti Tervishoiu Tulevik. Stsenaariumid aastani 2035. https://arenguseire.ee/uudised/tervishoiu-rahastamise-probleem
ERR. 2022. "Prognoos: haigekassa eelarvet ootab paarisaja miljoni eurone miinus." https://www.err.ee/1608699778/prognoos-haigekassa-eelarvet-ootab-paarisaja-miljoni-eurone-miinus

Greece

Score 5

Ensuring adequate tax compliance in Greece has been challenging due to a long history of tax evasion. A 2012 study estimated that the shadow economy in Greece accounted for around 27% of GDP between 1999 and 2010, compared to an OECD average of 20% (IMF 2013: 11).

Several factors contribute to this lack of tax compliance, including the large proportion of self-employment (28% of total employment; OECD 2020: 9), the indirect tax burden (with VAT at 24%), the high unemployment rate (9.4% in November 2023, the second highest in the EU after Spain; Eurostat 2024), and low tax morale. The self-employed consistently underreport their revenues, and they are numerous and difficult to control. Additionally, tax morale is low, as citizens have long doubted the effective use of public funds, both before and after the economic crisis (Exadaktylos and Zahariadis 2014).

Compared to other OECD countries, Greece's tax administration capacity remains among the lowest (Tax Justice Network 2023). While the effective average tax rate for businesses is close to the OECD average (Mannheim Tax Index 2021), disincentives for prospective investors persist. Although Greece's average income tax rate is below the OECD average (OECD 2022), the social insurance wedge – relatively high contributions that businesses and employees pay to social security funds – acts as a significant deterrent.

Tax officials today have better access to bank accounts than before the economic crisis. The customs unit's mobile squads conduct random inspections of businesses, particularly during the long Greek summer. A special unit of the Independent Authority for Public Revenue (AADE 2024) investigates large businesses, smaller firms, the self-employed, and high-net-worth individuals (Petrakis 2019).

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Tax Justice Network. 2023. "https://iff.taxjustice.net/#/explorer"

Italy

Score 5

The Italian tax system is strained by the need to finance high public spending and interest on significant public debt. It also struggles to significantly reduce high levels of tax evasion and the size of the informal economy. Consequently, the level of fiscal pressure remains high (42.9% in 2022 according to the OECD), and the tax burden is unevenly distributed. Tax pressure is very high for households and companies that regularly pay taxes, while it is low for those who evade taxes (e.g., many companies and a large number of independent contractors and self-employed individuals).

Families with children have limited exemptions, and labor and business are heavily taxed, resulting in fewer new businesses and employment opportunities.

The capacity of the tax administration has improved over the past year. One significant measure introduced by recent governments is the online system for filing income tax returns, the “730 precompilato,” which has seen increasing use each year. This system simplifies the tax filing process, replacing paper forms for most taxpayers. The general shift to electronic invoicing and the new VAT payment method have also enhanced tax control effectiveness.

The NRRP aims to reduce Italy’s tax evasion rate from 18.5% in 2019 to 15.8% in 2024, a challenging target given the current executive’s approach. Notably, the Meloni government has raised the threshold for the flat tax (15%) for the self-employed from €65,000 to €85,000 and plans to reduce the number of personal income tax rates from four to three in 2024, financed two-thirds by deficit spending.

Japan

Score 5

Both the welfare and tax systems generally encourage employment in Japan. However, the Japanese tax system seriously disincentivizes individuals, particularly women, from seeking high-paying employment or full-time jobs. After surpassing an income threshold of JPY 1 million (€6,400) per year, workers married to a full-time worker have to pay local residence taxes, and lose some cash benefits and child allowances. Above an income threshold of JPY 1.03 million per year, they are subject to national income tax. Exceeding further thresholds leads to compulsory enrollment in the employees’ insurance as well as loss of spousal deduction. Due to these barriers, many housewives prefer to work part-time. The Japanese government has announced plans to address this problem, though detailed policies are yet to be announced. In October 2023, Prime Minister Kishida also revealed his intention to introduce tax breaks for corporations to promote investment.

While the tax-revenue-to-GDP ratio is slightly above the OECD average, a major issue with the tax system is that revenues continue to fall way short of government spending. Japan has by far the highest debt ratio of any country. VAT increases since 1989 have proven highly unpopular and are often softened with a number of exemptions. Despite continuous reductions in recent decades, corporate tax rates in Japan remain relatively high.

Japan’s tax administration capacity has been evaluated slightly above the OECD average in the Tax Justice Network ranking. Generally, tax evasion is effectively punished in Japan. According to the Tax Justice Network, Japan loses more than $8.3 billion annually due to global tax abuse committed by multinational corporations and private individuals. This corresponds to 0.87% of Japan’s tax revenue, lower than the regional average of 1.6% and the global average of 2.8%.

Under the Tax Haven Counter Measure Law from 1978, the profits earned by subsidiaries of Japanese companies located in tax havens are treated as income of the parent corporations and taxed in Japan.

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Latvia

Score 5

Latvia ranks second in the International Tax Competitiveness Index 2023 and has some of the lowest tax rates in the EU. Its corporate tax rank (first in 2023) and individual tax rank (third) demonstrate a practical approach to taxation management. Latvia’s corporate tax system ranks 16th out of 64 countries measured in 2022 with an indicator of 0.33. This demonstrates that Latvia’s corporate tax is simple and competitive, as it allows loss carryovers.

Meanwhile, the tax-to-GDP ratio was 30.2% in 2022, compared to 29.0% in 2000 (OECD, 2023). In addition, Latvia ranks 38th in the tax-to-GDP ratio among the 38 OECD countries (OECD, 2023). With a relatively low tax-to-GDP rate and a high shadow economy, Latvia has room for improvement in tax collection, which could positively affect the business environment by minimizing the shadow economy.

The shadow economy in Latvia remains significant, with a substantial proportion of non-reported wages, or “envelope wages” – 46.7% of the shadow economy in 2022 – while undeclared income represented about 29%. The prevalence of envelope wages and undeclared income demonstrates the restricted administrative capacity to collect taxes and combat the shadow economy.

Each year, during the state budget development process, the government changes the tax laws – mostly in personal income tax and value-added tax laws – to ensure budgetary income. However, industries have criticized the government for amending the personal income tax too often and have requested that the government simplify income tax calculations for individuals. The law on personal income tax was adopted in 1993 and has been amended yearly since.

In 2023, the government approved "The Road Map for Designing the National Tax Policy White Paper 2024 – 2027" to outline new national policy guidelines by early 2024. The government foresees actions to minimize the shadow economy and relieve the tax burden for low-wage earners. The Latvian tax system currently includes 14 taxes, and the government plans to change some tax rates but not introduce comprehensive reforms in taxation.

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Netherlands

Score 5

In a brief promotional clip, the Tax Service (Belastingdienst, BD) identifies its mission as "bringing in money for The Netherlands Ltd.," aiming for digital transactions where possible and engaging in personal interactions when necessary. However, the clip also highlights a disconnect: Although 78% of Dutch citizens shop online and 83% use online banking services, the BD primarily communicates with its millions of clients via through postal letters. This massive operation involves 25,000 civil servants out of the 110,000 employed by the national government, handling 20 million queries, 1 million refunds, 500,000 objections and 200,000 office visits annually. Despite these challenges, tax collection itself appears on the surface to function well.

Nonetheless, the BD faces significant challenges. Once considered to be one of the most advanced tax authorities globally, it now operates on outdated computer systems and is struggling with overdue maintenance of critical ICT infrastructure. These issues jeopardize future tax collection, prompting the government to postpone necessary tax policy updates until after 2026. Compounding these problems are structural staff shortages resulting from an ill-conceived early pension scheme, which has further hampered citizen services.

Recent disclosures revealed that the BD categorizes implementation and compliance risks as "high" across five tax categories, collectively generating nearly €100 billion in revenue, a quarter of the state's income in 2023. The BD's ability to uphold complex tax laws has been compromised over the years, exacerbated by its dual role in tax collection and the administration of various supplements, allowances and refunds.

Taxation in the Netherlands is intricate and opaque. Income policies rely not only on tax rates and brackets but also on credits, benefits tailored to household situations and incomes, and a labyrinth of exemptions, deductions and adjustments. Adjusting allowances and supplements is technically simpler than creating new subsidies, which requires legislative changes and more time. This complexity burdens both taxpayers and tax administrators alike. For taxpayers, this complexity sometimes results in a "poverty trap," where accepting paid work or a slight increase in income can lead to a net loss due to reduced allowances or exemptions. The infamous child benefit scandal, which eroded trust in Dutch governance, directly stemmed from these complexities and a strong focus on fraud detection.

ICT failures have also compromised legal standards. Algorithms used for benefit calculations and fraud detection were found to discriminate against non-Dutch households. Despite warnings, the BD proceeded with the use of potentially discriminatory algorithms, prioritizing organizational interests over legal compliance and fundamental rights. Political pressures from the Ministry of Finance further obstructed transparency in tax policies, leaving citizens and businesses unaware of updated interpretations of tax laws, potentially resulting in overpaid taxes.

Citation:
Belastingdienst. 2022. "Vernieuwen dienstverlening en toezicht."

NRC, Stokmans, and Vermeulen. 2023. "Belastingdienst ziet 'hoge risico's' bij het innen van 100 miljard euro aan belasting." NRC July 12.

Ziesemer. 2023. "Waarom het maar niet lukt om ons belastingstelsel makkelijker te maken." De Correspondent September 14.

Nu.nl. 2023. "ICT-problemen bij de Belastingdienst duren al zeker achttien jaar." March 4.

Deijkers, J., and Van Wensen, H. 2023. "Door ICT-problemen Belastingdienst dreigt een nieuwe fiscale ramp." Elseviers Weekblad November 8.

"`Davidson, David, and Sebastiaan Brommersma. 2023. "Belastingdienst blijft wet overtreden met mogelijk discriminerende fraude-algoritmen." Follow the Money December 14."`

NRC, Jeroen Wester. 2023. "Martijn Nouwen | wetenschapper. Financiën hield openbaarmaking van belastingbeleid tegen, 'dit leidt tot rechtsongelijkheid'." NRC March 28.

NRC, Derk Stokmans Stefan Vermeulen. 2023. "Staatssecretaris Marnix van Rij over de hervormingen bij de Belastingdienst: 'Ik vind het veel te lang duren'." March 22.

Slovakia

Score 5

The tax quota II (taxes and social contribution to GDP) continuously increases in Slovakia, reaching 42.4% by 2023. Due to fiscal challenges generated by the "poly-crisis," the government seeks ways to increase public revenues, independent of potential disincentives of the tax system that may discourage individuals from seeking employment and companies from making investments. Many experts criticize the especially high levels of social contributions. According to the OECD (2023), the level of social security contributions is significantly higher than the EU average and is expected to grow as the new Fico government increases health insurance contributions by 1%.

The body responsible for tax collection is “Finančná správa” SR. This agency has sufficient administrative capacity to collect taxes, although the efficiency of tax collection remains problematic. According to the Tax Justice Network’s Corporate Tax Haven Index, Slovakia ranks 51, better than most other new EU members.

Thanks to several improvements within the tax collection system, the tax gap in Slovakia has gradually decreased but remains higher than the EU average (European Union, 2023). Administrative costs of taxation in Slovakia are higher than in most other developed countries (for older data, see Nemec, Pompura, and Šagát, 2015). This point is emphasized by the European Semester Report 2022 (European Union, 2022: 8): “Further efforts simplifying taxes and improving compliance can increase public revenues and ensure fairness.”

Citation:
Nemec, J., Pompura, L., and Šagát, V. 2015. “Administrative Costs of Taxation in Slovakia.” European Financial and Accounting Journal 10 (2): 51-61.

European Union. 2022. 2022 Country Report – Slovakia. Brussels: European Union.

European Union. 2023. VAT Gap Report 2023. Brussels: European Union.

OECD. 2023. Revenue Statistics 2023 – the Slovak Republic. Paris: OECD.
https://cenastatu.sme.sk/kv-d-cdz/2022/
https://www.financnasprava.sk/sk/titulna-stranka

United States

Score 5

The United States enjoys a diverse tax base, with federal revenues coming from income tax, payroll tax, corporate tax, and consumption tax (Kwak 2013). However, the U.S. tax system is famously complicated, with a bewildering array of deductions, tax expenditures, and loopholes (Parlow 2013). This complexity enables those with the means to hire professionals to help them legally reduce their tax contributions (Graetz 2003). The U.S. tax system does not produce enough revenue to eliminate the deficit and provide sufficient resources to fulfill major obligations in the long run.

The Internal Revenue Service (IRS) is the primary federal agency responsible for tax administration in the United States. It collects taxes and enforces tax laws at the federal level. In recent years, it has modernized its systems, allowing for online tax filing and the use of data analytics.

There are reasonable tax enforcement and compliance efforts, including audits and penalties for noncompliance (Alstadsæter et al. 2019). In addition to the IRS, the

U.S. Treasury has the Financial Crimes Enforcement Network (FinCEN), which analyzes financial data to identify potential financial crimes, such as money laundering or financing terrorism. Tax evasion cases are then prosecuted by the Department of Justice, which works closely with these agencies (Slemrod 2007).
Biden’s Inflation Reduction Act addressed long-standing IRS funding deficiencies by providing $79.4 billion in stable, long-term funding through 2031. This funding aims to improve tax compliance by cracking down on high-income individuals and corporations who often avoided paying their lawfully owed taxes and to enhance service for millions of Americans who do pay their taxes. The funding will enable the IRS to modernize its IT infrastructure, administer new energy tax credits, and rebuild the agency’s administrative capacity.

Citation:
Joel Slemrod. 2007. “Cheating Ourselves: The Economics of Tax Evasion.” Journal of Economic Perspectives.
Annette Alstadsæter, Niels Johannesen, and Gabriel Zucman. 2019. “Tax Evasion and Inequality.” American Economic Review.
Jeffrey Parlow. 2013. “The Necessity of Complexity in the Tax System.” Wyoming Law Review.
Michael Graetz. 2003. “100 Million Unnecessary Returns: A Fresh Start for the US Tax System.” Yale Law Journal.
Sunjoo Kwak. 2013. “Tax Base Composition and Revenue Volatility.” Public Budgeting and Finance.

Indicator

Policies Targeting Tax Equity

Question

To what extent do existing tax institutions and procedures consider equity aspects?

30 OECD and EU countries are sorted according to their performance on a scale from 10 (best) to 1 (lowest). This scale is tied to four qualitative evaluation levels.

10-9 = The tax system is fully aligned with the goal of ensuring equity.

8-6 = The tax system is largely aligned with the goal of ensuring equity.

5-3 = The tax system is only somewhat aligned with the goal of ensuring equity.

2-1 = The tax system is not at all aligned with the goal of ensuring equity.

Denmark

Score 9

Denmark is among the most equal countries in the world, due to its highly redistributive and progressive tax system. In 2022, the Gini coefficient was estimated by Statistics Denmark to be 30. Although the Gini coefficient has been slightly increasing over the past 15 years, it remains low in international comparisons. Relative poverty rates are also low in Denmark. According to Statistics Denmark, 3.7% of the population has a net income below 50% of the median income (Statistics Denmark 2023).

The Economic Council of the Labor Movement argues that inequality will increase slightly as a consequence of the 2023 tax reform. However, it also contends that this tax reform is the most balanced in terms of equity in the past 20 years (Economic Council of the Labor Movement 2023).

The Economic Council of the Labor Movement. 2023. “Regeringens skatteudspil øger uligheden trods forsøg på balance.” https://www.ae.dk/analyse/2023-11-regeringens-skatteudspil-oeger-uligheden-trods-forsoeg-paa-balance

Statistics Denmark. 2022. “Income inequality 2022.” https://www.dst.dk/da/Statistik/emner/arbejde-og-indkomst/indkomst-og-loen/indkomstulighed

Austria

Score 8

In several critical assessments of both horizontal and vertical equity, Austria has been found to offer much room for improvement. Specifically, most of the state’s revenues come from taxes on labor and value-added taxes, while very little is generated by any form of wealth taxes.

Also, the Austrian practice of public and private employers paying 13th and 14th salaries per year – which are effectively less taxed – has been considered to particularly benefit recipients of higher salaries (Reflektive 2018). Apart from that and relatively high value-added taxes, tax progression is rather high. The Gini coefficient drops significantly from pre-tax to post-tax income (Rocha-Akis 2023).

With an average rate of income tax and employees' social security contributions for single persons with no children at 31.19%, Austria ranked 24th out of 30 countries in a recent survey. With an effective average tax rate for companies at 23.10% in 2021, Austria ranked 19th out of 27 countries in a recent survey (OECD 2023; Mannheim Tax Index).

The most significant equity effects are achieved not by taxation but by redistribution, where Austria stands out among the countries with the highest levels of post-tax redistribution. Considering child-related benefits and tax provisions, the net average tax rate for an average married worker with two children in Austria was 10.7% in 2022. This rate is the 28th lowest in the OECD and compares with the OECD average of 14.1% (OECD 2023).

Citation:
https://www.oehgb.at/wp-content/uploads/2014/12/Eigentuemertag_2014_Ladner.pdf

https://www.momentum-institut.at/system/files/2022-02/PB%202022.01%200101%20Steuerstruktur.pdf

Rocha-Akis, Silvia, Jürgen Bierbaumer, Benjamin Bittschi, Julia Bock-Schappelwein, Martina Einsiedl, Marian Fink, Michael Klien, Simon Loretz, Christine Mayrhuber. 2023. "Umverteilung durch den Staat in Österreich 2019 und Entwicklungen von 2005 bis 2019." https://www.wifo.ac.at/news/umverteilung_durch_den_staat_in_oesterreich

OECD. 2023. Taxing Wages 2023: Indexation of Labour Taxation and Benefits in OECD Countries. Paris: OECD Publishing. https://doi.org/10.1787/8c99fa4d-en

https://www.reflektive.at/weihnachtsgeld-als-steuergeschenk-fuer-besserverdienende/

Mannheim Tax Index: https://www.zew.de/mannheim-tax-index

France

Score 8

France's tax system is highly redistributive. According to the French public observatory on inequalities (Observatoire des inégalités 2023), the Gini coefficient (rate between the average primary income of the richest 10% compared to the 10% poorest) is 19.6 for primary incomes; it drops to 5.5 through the effect of taxation and welfare transfers. This is one of the most redistributive effects within the OECD.

The tax system is overall fair across different actors with similar capacities. Looking at individuals, the main difference lies in the status of the person, depending on whether he or she is self-employed or a salaried employee. Taxation tends to be higher for the self-employed, but with more specific exemptions. A few professions, such as journalists, also benefit from partial tax exemptions with disputable grounds.

Taxation is progressive when it is direct. Income tax is paid by roughly half the population, and the highest marginal rate is about 45%. For companies, the logic of redistribution is less present. Larger firms tend to pay more taxes, but also have more ways to avoid them. Recent debates have particularly concerned the implementation of a new minimal tax rate for global companies (Laffite et al. 2021). Usually, labor-intensive companies tend to pay more taxes than capital-intensive companies. In all cases, the highest-earning individuals and companies tend to pay relatively less than other income categories. Bach et al. (2023) show that the tax rate declines from 46% for the 0.1% of the richest households to 26% for the 0.0002% richest.

Citation:
Bach, L., Bozio, A., Guillouzouic, A., and Malgouyres, C. 2023. “Quels impôts les milliardaires paient-ils?” Note de l’Institut des Politiques Publiques 92. Retrieved 15 January 2024 from https://www.ipp.eu/wp-content/uploads/2023/06/Note_IPP_Billionaires-version-actualisee.pdf

Laffitte, S., Martin, J., Parenti, M., Souillard, B., and Toubal, F. 2021. “Taxation minimale des multinationales: contours et quantification.” https://www.cae-eco.fr/staticfiles/pdf/cae-focus064.pdf

Observatoire des inégalités. 2023. “Redistribution: comment les impôts et les prestations réduisent les inégalités.” https://www.inegalites.fr/Redistribution-comment-les-impots-et-les-prestations-reduisent-les-inegalites

Norway

Score 8

Taxes on income from work are generally higher than taxes on financial assets, property, and profits. Since non-work income is the main source of wealth for the richest segments of the population, a separate wealth tax is implemented to ensure a just taxation system and collect taxes from the very wealthy. Unlike other taxes, the wealth tax is politically controversial. Critics argue that the strong growth in house prices extends the impact of the wealth tax to groups not originally targeted, as the value of homes is included in the tax calculation. In 2023, significant media attention focused on super-rich individuals who moved to countries with more favorable tax systems to protest the Norwegian wealth tax.

Distributional considerations (vertical equity) and a higher tax level for high-income earners (a progressive tax rate) have been central elements in the design of the work income tax system. Additionally, for low-income earners, the tax system is designed to avoid levying taxes on income below the poverty line, defined as 60% of the median income.

Citation:
Ausheim, S., and Strøm-Andresen, J. 2023. “Utvikling i formuesskatten siste 10 år – noen utvalgte perspektiver.” Regnskap Norge https://www.regnskapnorge.no/faget/artikler/skatt/utvikling-i-formuesskatten-siste-10-ar/

Sweden

Score 8

Horizontal equity in tax policy has improved in recent years. Simplification of the tax system, including fewer deductible items, has broadened the overall tax base. This improvement in horizontal equity results from a combination of a less progressive tax rate and an overall reduction in taxes.

Vertical inequity has increased significantly over the past decade (OECD 2015; 2022). While the country remains one of the more egalitarian in the OECD, the trend of rising inequality persists. One way to counteract this trend is to improve the redistribution effectiveness of the tax and benefit system.

A recent report suggests that the tax system would also benefit from incorporating a gender perspective, arguing that gender blindness has adversely affected women's income (Jämställdhetsmyndigheten 2023). The report revisits the long-standing debate on the need for tax reform, which was considered during the January Agreement – the compromise that allowed for the formation of the previous government in 2018 – but was never initiated.

Citation:
OECD. 2015. "Sweden Policy Brief." https://www.oecd.org/sweden/sweden-achieving-greater-equality-of-opportunities-and-outcomes.pdf

OECD. 2022. "Country profiles: Sweden." https://www.oecd.org/regional/oecd-regional-outlook-2023-country-profiles-sweden.pdf

Jämställdhetsmyndigheten. 2022. "Kunskapsunderlag om frågor som rör skatter och jämställdhet." https://jamstalldhetsmyndigheten.se/media/xr5fihnu/underlagsrapport-2023-2-skatter-och-jämställdhet.pdf

Canada

Score 7

Equity is ostensibly one of the goals of the Canadian tax system. Yet large inequities exist in the treatment of salaries and wages compared with capital investment income and real estate holdings.

Canada's tax system aims for horizontal equity, generally trying to treat those with similar income levels equally. However, provisions like capital gains exclusions and business deductions can enable higher-income groups to face lower effective tax rates than lower-wage workers.

Groups like seniors, workers with disabilities, and families with children do receive some tax incentives and credits aimed at supporting their higher costs, but pension income, for example, is fully taxed.

Vertical equity is also aimed for in the form of a "progressive" system in which higher earners pay larger shares of taxes. Canada's progressive income tax schedule imposes higher percentage taxes on sections of income as earnings rise.

However, the concentration of savings and capital gains among higher earners leads to this income being taxed at lower rates, undermining vertical equity. Most deductions also tend to provide greater benefits to higher-income groups, reducing their effective rates.

Finland

Score 7

The state taxes individual incomes at progressive rates ranging from 12.64% (for an annual taxable income of €20,500) to 44% (for an annual taxable income of €150,000) in 2024 (Vero.fi: Tax Administration n.d.). Municipal taxes vary from 4.4% to 10.8%, depending on the municipal authority. Generally speaking, demands for vertical equity are largely satisfied. However, this is less true of horizontal equity.

The corporate income tax rate was lowered in January 2014 from 24.5% to 20%, which is, on average, less than in other Nordic countries and EU member states. Adjustments in recent years have made Finland's taxation system less complex and more transparent.

Citation:
Vero.fi: Tax Administration. n.d. "Changes in Taxation." https://www.vero.fi/en/About-us/newsroom/changes-in-taxation/

Germany

Score 7

In principle, the German tax system treats entities with similar tax-paying abilities in a similar manner. Exemptions often relate to sectoral tax subsidies. For example, farmers are exempt from paying the motor vehicle tax (Kfz-Steuer) and benefit from a tax subsidy on diesel fuel consumption. These exemptions often have historical origins and are defended by special interest groups, even if they have clearly lost their justification. Following a 2023 ruling of the Federal Constitutional Court on the Debt Brake, the government has proposed phasing out these sectoral tax exemptions, which, from the perspective of equal sectoral treatment, would represent progress.

A specific feature of the German income tax system is its attention to the details of each individual tax case. Taxpayers can claim reductions for a multitude of special circumstances. Although this attempt to ensure maximum fairness for each case creates significant complexity, it contributes to vertical equity.

Germany's tax and transfer system is notably effective in redistributing income between the rich and the poor among OECD countries. This system significantly reduces inequality in market incomes, resulting in a more equitable post-tax scenario. The Gini coefficient, which is 0.49 for pre-tax market incomes, drops to 0.29 for disposable incomes after applying all redistributive tax and transfer mechanisms (Sachverständigenrat 2019). Thus, the tax and transfer system excels in achieving its redistributive objectives and equalizing incomes.

Germany taxes inheritances but allows generous provisions for corporate wealth. There is no wealth tax, and the idea is highly controversial. Therefore, while income is significantly equalized through the tax system, this is less true for wealth.

Citation:
Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Entwicklung. 2019. Den Strukturwandel meistern, Jahresgutachten 19/20. Wiesbaden: Sachverständigenrat.

Ireland

Score 7

Irish tax policies largely ensure horizontal equity by treating different groups of economic actors with similar tax-paying abilities consistently. However, two areas require attention: the tax treatment of second earners, who face high marginal tax rates, and the tax treatment of landlords, whose income is subject to income tax rather than corporate tax. The income tax system is relatively progressive, imposing higher taxes on those with a greater ability to pay, thus ensuring vertical equity. However, the indirect tax system is less progressive than the income and property tax systems, disproportionately impacting the lowest income deciles due to Value Added Tax and heavy excise taxes on alcohol and tobacco products, which have been increased in recent budgets.

Income tax, considered progressive, has become slightly less so due to targeted tax reductions for middle to higher earners, increasing the standard bands and cutting the higher rate (SJI 2023, TASC 2023). The 2022 Commission on Tax and Welfare examined potential disincentives within the tax system that may discourage individuals from seeking employment and companies from making investments. It set out medium to long-term policy scenarios to advise the government, effectively seeking to raise revenue while protecting incentives.

The effective tax rate for businesses is low at 14% and has decreased in recent years, while the average rate of income tax and social security contributions for employees is relatively low at 27.5%, up from 20.35% in 2007, suggesting an inequitable balance. Despite considerable inequality in market income in Ireland compared to OECD nations, taxation and the transfer system help narrow the gap, making post-tax income more equitable (McGauran, 2021). However, measures of income poverty and material deprivation in Ireland still point to a high incidence of low living standards (Roantree et al., 2021).

Equity also requires a global assessment of labor and capital impacts. The “double Irish” corporation tax facility was replaced in 2016 with a “knowledge box” providing a 6.25% corporate tax rate on profits from certain patents and copyrighted software resulting from qualifying R&D conducted in Ireland. With 25% of the Irish business labor force directly employed by MNCs, income tax is less affected. At the fiscal level, over 75% of corporate tax receipts and 40% of income tax and Universal Social Charge payments come from MNCs. Corporation tax receipts were €15.3 billion in 2021, €3.5 billion (almost 30%) higher than 2020, reflecting strong exports (DOF 2022). This growth continued into 2022 and 2023, with a slight drop in late

2023 before a recovery. Receipts are heavily concentrated, with around 10 large firms (including Apple, Dell, Google, Intel, Microsoft, and Oracle) accounting for 56% of all corporation tax generated in 2020, with pharma and IT sectors dominating.

Citation:
TASC. 2023. “TASC Publications.” https://www.tasc.ie/publications
SJI. 2023. “Budget 2024 Analysis and Critique.” https://www.socialjustice.ie/content/publications/budget-2024-analysis-and-critique
McGauran, A. M. 2021. “Welfare and Employment in Ireland: Income, Wealth, Redistribution and Their Implications for the Welfare System.” https://www.nesc.ie/publications/welfare-and-employment-in-ireland-income-wealth-redistribution-and-theirimplications-for-the-welfare-system-151-7/
Roantree, B., Karina Doorley, Seamus McGuinness, Bertrand Maître, Sylvia C. Murphy, and Emma Quinn. 2021. Poverty, Income Inequality and Living Standards in Ireland. Dublin: Economic and Social Research Institute and Community Foundation for Ireland. https://www.esri.ie/publications/poverty-income-inequality-and-living-standards-inireland-first-annual-report

Japan

Score 7

Japan generally has a fair tax system, with 40.2% of revenues raised from social insurance taxes, 19.5% from consumption taxes, 19.1% from individual taxes, 12.9% from corporate taxes and 8.1% from property taxes. Corporate taxes have been continuously reduced but are still comparatively high at 29.7%. The consumption tax rate, introduced in 1989, was raised to 10% in 2019, but remains relatively low compared with other OECD states.

Both income and inheritance taxes are highly progressive with tax rates varying between 5% and 45% for the former, and between 10% and 55% for the latter tax, depending on income. Redistribution is also ensured by a reduced 8% consumption tax rate on food and beverages. In addition, a hometown tax was introduced in 2008 to reduce income disparities between urban and rural regions. Under this system, taxpayers may deduct donations to countryside areas from their income and inhabitant taxes.

Nevertheless, some taxpayer groups, such as farmers, are more privileged than others, as they have access to more tax deductions than salaried workers. Moreover, the introduction of the Qualified Invoicing System in October 2023 put tax-exempt businesses at a significant market disadvantage, compelling many freelancers and small businesses to register as consumption taxpayers to avoid losing clients.

While the redistributive function of the tax system has improved over the years, it remains limited in comparison to other systems (Shiozaki 2020) and is often criticized for disadvantaging low-wage workers.

Citation:
Margolis, Eric. 2023. “Freelancers aren’t happy with Japan’s new invoice system.” The Japan Times September 25. https://www.japantimes.co.jp/community/2023/09/25/how-tos/freelancer-tax-system/

Shiozaki, Akihisa. 2020. “Japan’s Homogeneous Welfare State. Development and Future Challenges.” In The Crisis of Liberal Internationalism: Japan and the World Order, eds. Yoshi Funabashi and John Ikenberry. Washington, DC:

Brookings Institution Press, 203-236.

Tax Foundation. 2023. “Taxes in Japan.” https://taxfoundation.org/location/japan/

World Economic Forum. 2023. “The Pros and Cons of Furusato Nozei, Japan’s Hometown Tax Programme.” https://www.weforum.org/agenda/2023/02/japans-hometown-tax-programme-show-challenges-for-the-future-tax-system/

Slovenia

Score 7

The corporate tax rate is 19% and, according to an OECD report, is one of the lowest in comparison. Prime Minister Golob’s government has increased it to 22% for 2024 – 2028. The progressive income tax for individuals with a handful of different rates ensures a certain vertical equity. Since 2023 (Golob government), the highest income tax rate is back to 50% (previously 45%) for those in the highest tax bracket. The general tax-free allowance was increased to €5,000 in 2023, as already provided for in the mini-tax reform of Prime Minister Janša’s government. However, this reform had promised that the amount would be €7,500 in 2024, while the current government of Prime Minister Golob has decided that the general tax allowance will remain at €5,000 in 2024.

Citation:
OECD. 2024. “Tax Database.” https://www.oecd.org/tax/tax-policy/tax-database/

United Kingdom

Score 7

Income tax is the largest component of UK tax revenue, accounting for just under a quarter in the tax year 2022/23, followed by national insurance (a payroll tax) at close to 18%, and VAT at 16%. Corporation and capital taxes raise a further 13%, with a variety of other taxes, levies, and duties making up the balance. The income tax system is progressive, with bands of 20%, 40%, and 45%, providing reasonable vertical equity. However, this exists in a context where the UK Gini coefficient was around 0.25 in 1980 and 0.4 in 2018 (Institute for Fiscal Studies 2022). An anomaly in the system arises from the “personal allowance” – the amount any income taxpayer can earn before entering the lower rate band. Once taxable income (including from savings and investments) reaches £100,000, the personal allowance is reduced by £1 for every additional £2 of income, creating a de facto 60% tax band for those earning between £100,000 and £125,000.

Recent decisions have maintained various thresholds in cash terms, rather than adjusting for inflation, effectively bringing more taxpayers into the income tax net and pushing more into higher bands – a phenomenon known as “fiscal drag.” An attempt by the short-lived Truss administration to abolish the 45% rate for higher earners drew widespread criticism and was quickly abandoned. In his November 2023 autumn statement, the Chancellor of the Exchequer highlighted a reduction in national insurance, but the fiscal drag effect meant the median taxpayer still paid more.

Evidence summarized in a House of Commons briefing shows that the top percentile contributes 29% of income tax revenue, with a further 31% from those in the 90-99 percentiles. The briefing also reveals that VAT and other indirect taxes disproportionately affect the poorest households as a proportion of disposable income. While this is clearly regressive, the relatively low share of indirect taxes in total tax revenue mitigates the horizontal inequity.

With a high proportion of income tax and national insurance assessed through the PAYE system, where payments are made directly from employers, horizontal equity is largely maintained. However, tax avoidance remains a constant battle between high earners and tax authorities. Over the years, some of the more egregious loopholes have been closed, but the very wealthy often still find ways to limit their tax bills, sometimes by directing income to tax havens. One such avoidance option is through “non-domiciled” status, where people with substantial earnings outside the UK can avoid tax by registering in a lower tax jurisdiction. Although there are relatively few non-doms, they can benefit significantly, albeit with a charge from the UK tax authorities. The issue gained prominence when Rishi Sunak’s wife was found to have non-dom status, prompting her to change her status in response to public criticism. Whether to abolish non-dom status is currently a dividing line between the two main political parties.

Citation:
https://www.bbc.co.uk/news/business-32216346

https://commonslibrary.parliament.uk/research-briefings/cbp-8513/

Institute for Fiscal Studies. 2022. “IFS Incomes, Poverty, and Inequality.”
tab ‘Inequality’), https://ifs.org.uk/living-standards-poverty-and-inequality-uk

Australia

Score 6

Australia raises a relatively high proportion of its taxation from income tax, and its income tax regime is more progressive than many other similar countries. Australia levies relatively low average and marginal tax rates at low income levels but relatively high marginal tax rates at high income levels (The Treasury 2023). Furthermore, while many other countries levy a social security contribution as effectively a flat-rate tax, Australia does not impose a separate social security contribution, with pensions funded from the main revenue stream, supplemented by private contributions. Compared to other resource-rich advanced economies, Australia imposes relatively low tax rates on its large and highly profitable mining and energy sector, which some commentators argue is inequitable because it results in a greater tax burden on other sectors (Denniss 2022).

Citation:
The Treasury. 2023. “Tax White Paper: At a Glance.” https://treasury.gov.au/review/tax-white-paper/at-a-glance.

Denniss, R. 2022. “It’s time to tax mining and energy giants properly.” The Australia Institute. https://australiainstitute.org.au/post/its-time-to-tax-mining-and-energy-giants-properly-struggling-australians-should-share-in-their-record-profits/

Czechia

Score 6

The tax administration in Czechia strives to apply the principle of horizontal equity to the extent its resources allow. Taxpayers have the right to appeal tax office decisions, and in 2022, 4,991 individuals exercised this right, with 3,705 appeals related to VAT assessments. Of these, 2,123 were accepted by the tax authorities. Those dissatisfied with the outcomes can file complaints through the court system; 517 did so in 2022, although most of these complaints were rejected.

Vertical equity is a crucial aspect of the personal income tax system. No tax is levied on an amount equivalent to roughly 70% of the average wage. A 15% tax rate applies to income up to 48 times the minimum wage, after which the tax rate increases to 23%. However, this structure adds little to progressivity, as social insurance payments increase with income up to that threshold and are then capped.

Comparatively low corporate tax rates benefit high-income individuals and private companies, many of which transfer income out of the country to lower-tax regimes. In October 2023, the Chamber of Deputies approved a law on equalization taxes to ensure a minimum level of taxation for large multinational and domestic groups. Czechia will require these groups to pay at least a 15% income tax, which is lower than the current effective rate. This move positions Czechia among countries not allowing themselves to become tax havens. However, it does not prevent companies operating in Czechia from finding ways to declare profits elsewhere and avoid Czech taxation.

Israel

Score 6

Income tax in Israel is progressive, though the exemptions described in the previous section tend to reduce its progressiveness, as exemptions mainly apply to high earners. Over the years, there has been a steady decrease in the income and corporate tax burden, accompanied by a rise in indirect taxes (especially VAT), which are regressive. The VAT in Israel is quite high at 17% and is set to increase to 18% in 2025 due to the costs of war. The VAT is consistent across services and areas, except for fruits and vegetables, which are completely exempt. There is no inheritance tax in Israel, but there is a tax on capital that contributes very little to government revenue.
Each year, the government designates several areas of the country (mostly peripheral regions) as eligible for tax exemptions, which individuals can deduct from their

overall tax liabilities, including labor and capital. Corporate taxes also include various exemptions for companies located in peripheral areas to encourage investment in these regions.

In addition, there is no VAT in Eilat, a touristic city in the south of Israel.

Lithuania

Score 6

The tax system is largely aligned with the goal of ensuring equity. In terms of horizontal equity, there are mismatches between various groups of economic actors with similar tax-paying abilities. Labor is taxed somewhat more heavily than capital, while specific groups such as farmers and lawyers benefit from tax exemptions.

In a recent assessment of the Lithuanian tax system, the World Bank (2022) calculated over 72 differentiated tax treatments by type of entity, size, type of activity and source of income (capital/labor). Previous governments have reduced the number of exemptions provided to various professions and economic activities with regard to personal income tax, social security contributions and VAT. Social security contribution rates were reduced after the 2019 reform, but the personal income tax rate was increased. Ceilings on these contributions, reintroduced in 2019, start at a very high level but are gradually decreased.

Overall, the tax system's capacity for vertical equity and redistribution is relatively limited in Lithuania. The system places a higher tax burden on those with a greater ability to pay taxes, as large companies pay more substantial sums than do small companies. For many years, Lithuania had a flat income tax rate of 15%. However, this was changed to a progressive structure with two brackets: 20% and 32%. Progressivity is further enhanced by an untaxed income threshold, which benefits lower-wage earners.

Nevertheless, only wages are taxed progressively; income derived from individual activity certificates, business certificates and dividends is not. As a result, when total income is skewed toward dividends and individual activity certificates, the impact of progressive tax rates is significantly weakened. According to a World Bank study, the effective tax rate on income steadily increases between approximately the 20th and 90th income percentiles but declines above that level.

In 2021 the current coalition government initiated a process of tax reform aimed at enhancing equity, particularly horizontal equity. This involved reducing existing tax exemptions for certain types of businesses and expanding the base for the real estate tax. However, these reform proposals did not receive support from the liberal members of the governing coalition, and faced criticism from business associations. A tax reform plan in 2023 was not implemented due to a lack of support in the parliament. Nevertheless, the legislature agreed to increase the untaxed income threshold by 20% starting in 2024 for individuals earning up the level of the average monthly wage.

Citation:
World Bank. 2022. “TSI Project 20LT09 Micro Enterprises and Self-employed Tax Regulatory Assessment for Removing Hurdles to Growth: Report Assessing the Impacts of Tax Optimization and Bunching in MEs and Self-employed and Legal Entities Responses to Size-based Tax Rates in Lithuania.”

New Zealand

Score 6

Existing tax institutions and procedures are designed with considerations for equity, aiming to achieve fairness and balance in the tax system.

In August 2023, Parliament passed the Taxation Principles Reporting Bill, which establishes a statutory framework requiring the Commissioner of Inland Revenue to report annually on New Zealand’s tax settings against a set of core principles, including horizontal and vertical equity. The bill has been criticized for providing only vague definitions of these core tax principles (Barrett 2023).

The concept of “horizontal equity” is defined as meaning “people with similar levels of income should pay similar amounts of tax.” This definition is incompatible with the Income Tax Act because people with similar levels of income often do not pay similar levels of tax due to credits and deductions that help offset tax burdens for specific groups, such as families with children through the Working for Families tax credit package.

New Zealand’s tax system generally aims to achieve vertical equity. However, despite various mechanisms intended to impose a greater tax burden on those with greater financial capacity, the tax system demonstrates weaknesses in accomplishing vertical equity and addressing societal inequality. Notably, compared to the OECD average, New Zealand relies heavily on personal income tax and a goods and services tax (GST) (OECD 2023). While GST is generally considered a regressive tax because it disproportionately affects lower-income individuals, New Zealand’s personal “broad base, low rate” income tax also lacks progressivity. Furthermore, New Zealand does not have a comprehensive wealth tax or a capital gains tax, partly because the Labour government (2017 – 2023) ignored calls, including recommendations from its own Tax Working Group (Walls 2019), to introduce a capital gains tax. In 2020, a law change gave Inland Revenue the power to require the wealthiest families to submit their earnings information. A two-year investigation into high-wealth individuals (311 who generally have a net worth of more than $50 million) concluded in 2023 and revealed that they pay less than half the amount of tax, across all forms of income, than do most other New Zealanders (RNZ 2023).

The Taxation Principles Reporting Bill 2023 does not address this problem, despite stating that “the tax system should be progressive. Tax is progressive if people with higher levels of economic income pay a higher proportion of that income in tax." Importantly, the bill provides governments with considerable scope to decide how to balance the core tax principles.

Citation:
Barrett, J. 2023. "Making NZ's Tax System Fairer Is a Good Idea – But This Proposed New Law Isn't the Answer." The Conversation, June 1. https://theconversation.com/making-nzs-tax-system-fairer-is-a-good-idea-but-this-proposed-new-law-isnt-the-answer-206745

RNZ [Radio New Zealand]. 2023. "Wealthiest Paying Tax at Much Lower Rate Than Most Other New Zealanders – IRD Report." https://www.rnz.co.nz/news/national/488705/wealthiest-paying-tax-at-much-lower-rate-than-most-other-new-zealanders-ird-report

OECD. 2023. "Revenue Statistics 2023: New Zealand." https://www.oecd.org/tax/revenue-statistics-new-zealand.pdf

Walls, J. 2019. "Government kills off capital gains tax, won't happen on Jacinda Ardern's watch." New Zealand Herald, April 17. https://www.nzherald.co.nz/nz/government-kills-off-capital-gains-tax-wont-happen-on-jacinda-arderns-watch/PRAJYZ2BSONYAFTJI4HJ6JUS5A/

Poland

Score 6

Poland's income tax system is progressive, meaning tax rates depend on the amount of income earned. The tax obligation arises at the moment an event defined in the law occurs. It is irrelevant whether any actual payment has been made, which poses a significant challenge for businesses operating on the basis of delayed payments, as these companies must pay taxes even if they have not yet received the underlying revenue.

Poland introduced a minimum tax as of January 1, 2024. It will be paid by companies that have incurred a tax loss or have not exceeded a 2% profitability threshold. Additionally, the largest state monopolies contribute the most substantial fees to the state treasury, largely as a result of amounts allocated to purchase CO2 emission rights.

Slovakia

Score 6

There are no recent academic studies on the horizontal and vertical equity of taxation in Slovakia. Experts opine that horizontal equity should not be a concern; however, the issue of vertical equity deserves attention. According to the European Semester Report 2022 (European Union, 2022: 8): "The tax burden on workers is high, particularly for low-income earners. This can discourage people from taking up work." Several experts have proposed a return to a progressive personal income tax rate to help revitalize Slovak public finance and increase the level of vertical tax equity. However, the Fico government did not include this change in its recent tax reform packageage (Bakoš, 2023).

Citation:
Bakoš, T. 2023. “Schmögnerová a ľavičiari pripravili pre Fica nové dane. Viac zaplatia bohatí, Matovičov balíček sa prepracuje.” Pravda October 25. https://ekonomika.pravda.sk/ludia/clanok/686143-schmognerova-a-laviciari-pripravili-pre-fica-nove-dane-viac-zaplatia-bohati-matovicov-balicek-sa-prepracuje/

European Union. 2022. 2022 Country Report – Slovakia. Brussels: European Union.

Spain

Score 6

Horizontal equity in Spain’s tax system is affected by the asymmetrical tax competence of autonomous communities. There are two distinct models: the common regime, applied uniformly across most autonomous communities, and the foral regime, which grants broad fiscal and financial self-governance to the Basque Country and Navarre, allowing them to set and regulate their own tax systems. Significant regional differences exist among the common regime autonomous communities, leading to varying tax rates for similar economic players in different regions. The main differences relate to taxes on revenues, donations, and asset transfers.

To improve horizontal equity, a finance ministry expert committee recommended harmonizing the tax system across autonomous communities in 2022. However, it is unlikely this measure will be implemented soon. Some regional governments, particularly Madrid, have faced criticism for cutting taxes on revenues and other items.

Regarding vertical equity, Spain’s tax revenues relative to GDP are modest, primarily driven by labor taxation. Social security contributions from workers and the self-employed are regressive, increasing inequality by reducing the redistributive effect of direct taxation. In 2022, the proportion of labor taxes to both GDP and total tax revenues was slightly below the EU average, as were revenues from consumption and environmental taxes. Spain’s tax scheme reduces inequality less than the EU average. To increase tax revenues, there is potential to leverage tax bases more extensively, such as implementing wealth-related taxes and more broadly applying the “polluter pays” principle (European Commission 2023).

The RRP addresses tax system reforms, following the EC recommendation to make taxes more progressive. The 2021 budget included increased tax rates for high-income individuals and corporations. In 2023, the government implemented tax reductions benefiting low- and medium-income households and small and medium-sized enterprises, while raising taxes for wealthier individuals, especially those with substantial capital income. A “solidarity tax” was introduced in 2023 on assets worth at least €3 million, impacting wealth, personal income, and corporate taxes, and generating €635 million in revenue.

Citation:
European Commission. 2023. “Country Report – Spain.” Brussels, May 24. SWD(2023) 609 final. https://economy-finance.ec.europa.eu/system/files/2023-05/SWD_2023_609_1_EN_autre_document_travail_service_part1_v4.pdf

World Inequality Database, access: https://wid.world/country/spain/

Luis Ayala, ed. 2022. Desigualdad y pacto social. Barcelona: La Caixa.

United States

Score 6

As Picketty and Saez (2007) have argued, federal income tax in the United States is “progressively designed, but its progressive nature is often undermined. Marginal rates increase as income rises. For example, the federal tax brackets range from 10% to 37%.”

Tax deductions, credits, and exemptions are used to promote horizontal equity by providing targeted relief to specific groups based on their circumstances (Roberts and Hite 1994). The Earned Income Tax Credit (EITC), for example, is phased out at higher income levels. The American Opportunity Credit and the Lifetime Learning Credit allow individuals to deduct some educational expenses from their tax bills, but these are only available to lower-income Americans (Crandall-Hollick 2014).

The Affordable Care Act (Obamacare) also provides tax credits to low- and middle-income families to subsidize the costs of healthcare (Saltzman et al. 2015). The legislation also imposes a 3.8% net investment income tax on high-income individuals with investment income (Hinde 2017).

Capital gains are taxed at a lower rate than income, which can lead to perverse situations where quite wealthy individuals pay a lower amount of tax than a middle-class family (Mehotra and Ott 2016). However, long-term capital gains are taxed at rates that are supposed to reflect income. Capital gains taxes range from 0% to 20% (Robbins 2018).

The alternative minimum tax (AMT) is designed to ensure wealthy individuals pay a minimum amount of tax, regardless of their ability to take advantage of deductions (Feenberg and Poterba 2004). The Trump administration lowered the maximum AMT from 39.6% to 28%. The Inflation Reduction Act of 2022 imposes a corporate alternative minimum tax of 15% on the adjusted financial statement income of large corporations.

“Inheritance tax (known in the United States as the estate tax) does not apply at the federal level for the vast majority of properties (Brunson 2019). Since the Trump presidency, estates under $11 million pay no inheritance tax (Smith 2021). Altogether, the redistributive capacity of the tax system in the United States is low, leading to massive income and wealth inequality.”

Citation:
Smith, Laura. 2021. “Trump and Congress.” Policy Studies.
Samuel Brunson. 2019. “The Aftermath of the Death Tax.” Indiana Law Journal.
Daniel Feenberg and James Poterba. 2004. “The Alternative Minimum Tax and Effective Marginal Tax Rates.” National Tax Journal.
Ajay Mehrotra and Julia Ott. 2016. “The Curious Beginnings of the Capital Gains Tax Preference.” Fordham Law Review.
Jacob Robbins. 2018. “Capital Gains and the Distribution of Income in the United States.” National Bureau of Economic Research.
Jesse Hinde. 2017. “Incentive(less)? The Effectiveness of Tax Credits and Cost-Sharing Subsidies in the Affordable Care Act.” American Journal of Health Economics.
Evan Saltzman, Christine Eibner, and Alain Enthoven. 2015. “Improving The Affordable Care Act: An Assessment Of Policy Options For Providing Subsidies.” Health Affairs.
Margot L. Crandall-Hollick. 2014. “The American Opportunity Tax Credit: Overview, Analysis, and Policy Options.” Congressional Research Service.
Thomas Picketty and Emmanuel Saez. 2007. “How Progressive is the U.S. Federal Tax System? A Historical and International Perspective.” Journal of Economic Perspectives.
Michael Roberts and Peggy Hite. 1994. “Progressive Taxation, Fairness, and Compliance.” Law and Policy.

Belgium

Score 5

By OECD standards, Belgium’s tax structure is relatively inequitable. The tax base is too narrow, placing excessive pressure on labor income. For over two decades, Belgium has had the OECD’s highest effective tax and social security wedge on labor, although this is gradually decreasing (see OECD data). This heavy burden on labor income creates incentives for tax avoidance and evasion. Conversely, much capital income (e.g., housing rents, capital gains, and some multinationals’ profits) is either inefficiently taxed or not taxed at all. Additionally, the widespread adoption of tax deductions and specific tax programs results in inefficiencies and distortions. Consequently, while horizontal and vertical equity within each income source (i.e., labor, capital, and corporate income) are theoretically guaranteed, differential treatment and a lack of information undermine this principle in practice.

Citation:
Tax wedge – OECD data: https://data.oecd.org/tax/tax-wedge.htm

Greece

Score 5

The Greek tax system is not well-aligned with the principle of horizontal equity (Tax Justice Network 2023). Despite improvements in tax system digitalization, new tax laws, and the operation of the Independent Authority for Public Revenue (IAPR), tax evasion remains prevalent among certain occupational groups.

Tax compliance among the self-employed and small enterprises, which form the backbone of the Greek economy, remains inconsistent. For example, in 2022, 67% of the self-employed declared an annual income below €10,000, despite significant increases in their turnover (European Commission 2023: 11). This suggests that some entrepreneurs and professionals report incomes lower than those of salaried workers earning the legally guaranteed minimum wage (€10,920 per year).

In December 2023, the government passed a new law targeting tax evasion, making it difficult for entrepreneurs and professionals (e.g., lawyers, engineers) who employ salaried workers to declare an annual income lower than that of their employees. The law also imposes heavy penalties on transactions over €500 made in cash and promotes the use of credit cards and bank transfers to reduce cash transactions. These steps aim to enhance horizontal equity.

However, some degree of vertical equity is achieved in Greece. The tax system imposes higher taxes on individuals and companies with greater ability to pay. Since 2021, the top personal income tax rate has been 44%, the 15th highest among EU Member States (Tax Foundation 2023). Among OECD countries, Greece is one of the least complicit in allowing individuals to hide their finances from legal scrutiny (Financial Secrecy Index 2022). Additionally, Greece is far from being a corporate tax haven compared to other OECD countries (Corporate Tax Haven Index 2021).

Citation:
Corporate Tax Haven. 2021. “Interactive Map.” https://cthi.taxjustice.net/en/cthi/interactive-map

Financial Secrecy Index. 2022. “https://fsi.taxjustice.net/”

Tax Foundation. 2023. “Top Personal Income Tax Rates in Europe.” https://taxfoundation.org/data/all/eu/top-personal-income-tax-rates-europe-2023/#:~:text=Denmark%20(55.9%20percent)%2C%20France,among%20OECD%20countries%20in%202022

Tax Justice Network. 2023. “https://iff.taxjustice.net/#/explorer”

Italy

Score 5

Italy’s tax system contains several distortions. There is a significant asymmetry between employees and the self-employed, with the latter being treated more favorably and responsible for a high proportion of tax evasion. Due to high evasion levels, revenues from value-added tax fall short of targets. Property and corporate profits are generally treated more favorably than personal income, with greater opportunities for tax evasion. Revenues from corporate profits taxation as a percentage of GDP are similar to those of other large European countries (Italy 2.1%; France 2.3%; Spain 1.97%; Germany 1.65% in 2020) (Openpolis).

Citation:
Oecd. 2023. “Revenue Statistics 2023.” https://www.oecd.org/tax/revenue-statistics-2522770x.htm
Liberati, P. 2020. “Alcune riflessioni sul sistema tributario italiano.” Economia italiana 1: 239-267.
REV: on corporate profits taxation see Open polis: https://www.openpolis.it/le-imposte-sui-profitti-dimpresa-in-europa/

Latvia

Score 5

The tax burden is unequal, with low-wage earners paying a higher proportion of taxes than medium- and high-income earners, despite progressive income taxation. Additionally, adverse demographic trends will impact further development and exacerbate the already unequal distribution of incomes. The European Commission has recognized that Latvia's tax and benefit income distribution system is ineffective; thus, inequality and poverty will remain challenges in the coming decade.

Each year, the government has been increasing the minimum wage (€500 in 2022, €620 in 2023, €700 in 2024), while the non-taxable minimum income has remained unchanged at €500 for both 2023 and 2024. Thus, the government is expected to invest efforts to reduce poverty among the elderly and low-wage earners.

A micro-enterprise tax was created in 2010 as a simplified tax for small businesses and startups. Since then, the tax has undergone many changes, primarily aimed at limiting its applicability and encouraging all businesses to transition to a unified corporate tax regime. Starting in 2024, the government will implement a flat rate of 25% on turnover for the micro-enterprise tax.

Meanwhile, reacting to the high profits of banks in 2023, the government introduced a special corporate tax regime for banks and non-bank creditors, determining 20% of the previous year's profit.

Citation:
Koņuševskis, R., Leitāne, L., Rozīte, K., and Bule, L. 2019. "Nodokļu reforma neapliekamā minimuma, atvieglojumu un attaisnoto izdevumu piemērošanas problēmu, efektivitātes un risinājumu izvērtējumā." https://www.tiesibsargs.lv/wp-content/uploads/migrate_2022/content/kopsavilkums_1551263741.pdf
Finanšu ministrija. 2023. "Valsts budžets 2024.gadam." https://www.fm.gov.lv/lv/valsts-budzets
European Commission. 2023. "Country Report – Latvia." Institutional Paper 238, June 2023. https://economy-finance.ec.europa.eu/publications/2023-country-report-latvia_en

Netherlands

Score 5

Regarding horizontal equity, income taxation adheres to a principle of progressivity ("draagkrachtbeginsel"). However, concerning vertical equity, the overall outcome of the system is regressive, though less visibly so. Pre-tax incomes and benefits have become more unequal, but government tax policies have effectively adjusted them to achieve greater equality in outcomes. The Gini index for net incomes, adjusted for household size, sits just below the European average of 0.3 and has remained stable for the past two decades. In contrast, the Gini index for wealth has consistently hovered around a high 0.8 for decades.

The crux of the issue lies in the differential treatment of capital and labor within the tax system. Labor income is subject to progressive taxation, while income from shares and investments is subject to regressive taxes. This segmented tax structure has widened the gap between the wealthiest and middle-to-lower income groups. Despite corporations generating about 68% of labor- and consumption-related tax revenues, they contribute only 10% to total state revenues. This disparity primarily stems from the contrasting tax treatments of labor and capital. Consequently, 61% of wealth is concentrated among the wealthiest 10% of households, leaving 25% of households in net debt.

Recently, the Senate approved a “tax reform” package aimed at modestly enhancing vertical tax equity within the existing framework. Notably, the system used to treat labor and investment income differently remains unchanged. However, implementation faces delays until 2026 or later due to operational challenges and issues within the BD, despite a judiciary directive to reform the investment income system promptly.

Citation:
Hoppe, et al. 2021. Taxes. STI.

Rijksoverheid. 2023. “Belangrijkste belastingwijzigingen per 1 januari 2024.” https://www.rijksoverheid.nl.

Open Overheid.nl. 2022. “Interdepartementaal Beleidsonderzoek, 1 July. Licht uit, spot aan: de vermogensverdeling.”

Platform O, Soons. 2023. “Herverdeel vermogen om bestaanszekerheid te verhogen.” March 14.

Portugal

Score 5

Portugal has a progressive tax system for taxing income from work, meaning higher incomes are taxed at a higher average rate. However, the overall system penalizes workers and lower-income groups. This is because indirect taxes, such as VAT, are particularly high and have a greater impact on the income of the poorest.

To achieve budget consolidation, recent administrations have relied on indirect taxation by either maintaining high levels on certain indirect taxes, such as VAT, or raising rates on others. Although Portugal’s overall tax-to-GDP ratio in 2022 was below the EU-27 average, the country’s VAT-to-GDP ratio stood at 9.4%, surpassing the EU average of 7.5%. Notably, VAT and other indirect taxes are the primary sources of revenue for the Portuguese tax system, deviating from the norm observed in the EU. This substantial reliance on more regressive indirect taxation measures raises equity concerns. These taxes impose a higher effective tax rate on the poorest individuals, as they constitute a larger share of their income. Increasing indirect taxes while decreasing direct taxes, as has happened in recent years, has led to a reduction in the overall progressivity of the tax system.

A recent study suggests that Portugal’s tax system places a relatively low burden on wealth, in contrast to higher taxation on labor and consumption. This system positions Portugal as the third OECD country with the most significant disparity between the taxation of wages and dividends, underscoring its lack of effective measures to address the nation's pronounced wealth inequality (Mergulhão, 2023). Despite the high progressivity of the Personal Income Tax (PIT) system, its impact is substantially diminished due to various "non-inclusion" options ("não englobamento") and the multitude of available tax benefits.

Citation:
Eurostat. 2023. "Main National Accounts Tax Aggregates." https://ec.europa.eu/eurostat/databrowser/view/gov_10a_taxag/default/table?lang=en

Mergulhão, Alexandre. 2023. "A fiscalidade em Portugal." https://causapublica.org/estudos/a-fiscalidade-em-portugal/

Estonia

Score 4

Estonia has a simple and transparent tax system. The income tax rate for individuals is low, with a standard rate of 20%, and is only slightly progressive. More precisely, the deductible amount for individuals with a monthly income of €1,200 – €2,100 decreases incrementally, and individuals with a monthly income above €2,100 receive no exemptions at all. Introduced in 2018, the system was intended to benefit low- and medium-income earners, but with the increase in the average salary (to €1,812 in 2023), it fails to deliver the expected effect.

The current government coalition, which has been in power since March 2023, intends to return to the pre-2018 fully proportional income tax system starting in 2025. This decision is set in the Coalition Agreement 2023 – 2027. Despite intense political criticism from the opposition, the minister of finance (Reform Party) has insisted that this debate will not be formally reopened.

Following recent policy reforms, Estonia has returned to the fully proportional income tax system, which is more favorable for high-income classes.

Retained and reinvested profits are exempt from corporate income tax in Estonia. Dividends, taxable at the corporate level at a 14% tax rate, are subject to a 7% withholding tax. Taxing dividends instead of corporate profits complicates national budget planning, as firms can decide the amount and timing of dividends, which do not necessarily occur every year. Capital is not taxed at all, except for a very marginal land tax, further violating the principle of horizontal equity.

Tax exemptions for raising children currently exist, and taxpayers can also deduct their mortgage interest up to 50% of their taxable income. However, both measures will be abolished in 2024. Heated debates have continued throughout 2023 about introducing a car tax, with the main controversies revolving around balancing equity and environmental goals. Parliamentary parties have not yet reached a consensus.

Citation:
Coalition agreement 2023-2027. https://valitsus.ee/en/coalition-agreement-2023-2027#majandus

Switzerland

Score 4

The redistributive effect of taxes (calculated by comparing income inequality before and after taxes and social benefits) is comparatively limited – that is, tax policy does little to correct for market income inequality.

A tax issue with constitutional implications involves tax rates for married couples which, under certain circumstances, may be higher than those of unmarried couples. The Federal Council planned to submit a new bill on this issue in March 2024 (FDF 2023a) (for details see the discussion in P5.1).

Given the available evidence on tax evasion, wage incomes are arguably treated less favorably than income from property (Baselgia 2023). It is much harder to evade taxes on income than taxes on property.

The fact that specific cantons attract certain companies and wealthy foreigners by offering them preferential tax advantages is another instance of differential treatment in tax policy. Although the share of taxpayers that benefit from this rule is very small (less than 0.1% of all taxpayers), it is a contentious political issue that very rich foreigners – who are not gainfully employed in the country – pay very moderate taxes (FDF 2023b).

The bulk of tax revenue goes to cantons and municipalities. Cantons and municipalities decide on their tax rates, and these rates vary widely. Therefore, the fiscal quotas of cantons and municipalities also vary, and by implication, so does their provision of public services (see also P5.1). In the Swiss political discourse – particularly among center-right politicians – this lack of horizontal equity is intentional. In a strongly decentralized political system, citizens decide democratically, frequently in a popular vote, on their local tax rate. Additionally, center-right politicians argue that different tax burdens create competition between local and regional units for attracting firms and individual taxpayers.

A project aimed at imposing micro-taxes on electronic transactions, mainly targeting the finance sector, was unsuccessfully launched by finance professor Marc Cheney of the University of Zurich. Finally, a major reform project – with implications for horizontal equity – concerns the abolition of taxes on owner-occupied rental value. For decades, the Homeowners Association sought to eliminate this tax while retaining as many of the concurrent tax deductions for renovations and debt service as possible. Despite support from some politicians in the political center and on the right, this campaign ultimately failed. Recently, another similar reform attempt has been launched. Caught in a complex web of different political forces – cantonal ministries of finance, the political left, craftsmen in the construction sector, banks and insurance companies that issue mortgages, homeowners, and some center-right politicians – the fate of the reform is not yet clear (FDF 2023c, FFA 2023).

Citation:
Baselgia, Enea. 2023. "The Compliance Effects of the Automatic Exchange of Information: Evidence from the Swiss Tax Amnesty." EU Tax Observatory Working Paper No. 19. https://www.taxobservatory.eu//www-site/uploads/2023/06/EUTO_WP19_Baselgia_AEOI_Compliance_June2023.pdf

FDF (Federal Department of Finance; Eidgenössisches Finanzdempartement) 2023a. https://www.efd.admin.ch/efd/de/home/steuern/steuern-national/reform-der-ehe–und-familienbesteuerung.html

FDF (Federal Department of Finance; Eidgenössisches Finanzdempartement) 2023b. "https://www.efd.admin.ch/efd/en/home/taxes/national-taxation/lump-sum-taxation.html"

FDF. 2023c. https://www.efd.admin.ch/efd/de/home/steuern/steuern-national/wohneigentumsbesteuerung.html

Hungary

Score 3

Vertical equity in Hungary is shaped by the flat tax, which is measured as a share of income and strongly benefits higher-income deciles (Paulus et al. 2017). The high standard value-added tax (VAT) rate of 27% exacerbates the problem, as low-income families cannot avoid consumption and lack the ability to save money or invest. Regarding horizontal equity, all individuals with the same income level are subject to the same tax rate, irrespective of the source of their income. In terms of businesses, sectoral taxes discriminate against some companies. While this may be justified for the internalization of costs, such as with environmental taxes, discrepancies in Hungary do not align with this rationale. Rather, sector-specific taxation is employed by the government to target companies and branches that do not align with its ideology, such as foreign-owned businesses. Withholding taxes, as well as taxes on dividends, interest and royalties for companies, are set at 0%. Property taxes are low and contribute only 2.7% to state revenues (OECD average: 5.6%). This benefits a relatively broad segment of society, as the government's family policy strongly encourages young families to buy property through several programs.

Citation:
Paulus, A., Lelkes, O., Čok, M., Kump, N., Hegedűs, P., Võrk, A., and S. Kralik. 2017. "Flat Tax Reform in Eastern Europe: A Comparative Analysis of Alternative Scenarios in Estonia, Hungary and Slovenia, Using EUROMOD." In Tax and Benefit Policies in the Enlarged Europe, Routledge, 91-123.

Indicator

Policies Aimed at Minimizing Compliance Costs

Question

To what extent do existing tax institutions and procedures minimize compliance and collection costs?

30 OECD and EU countries are sorted according to their performance on a scale from 10 (best) to 1 (lowest). This scale is tied to four qualitative evaluation levels.

10-9 = The tax system is fully aligned with the goal of minimizing compliance and collection costs.

8-6 = The tax system is largely aligned with the goal of minimizing compliance and collection costs.

5-3 = The tax system is only somewhat aligned with the goal of minimizing compliance and collection costs.

2-1 = The tax system is not at all aligned with the goal of minimizing compliance and collection costs.

Estonia

Score 10

Estonia has implemented two key strategies to minimize compliance and collection costs effectively. First, it employs a simple tax system with few exemptions or tax brackets. Second, it has established a well-developed digitalization of tax and customs declarations.

As the first public e-service, eMTA – the online tax declaration service – is regularly updated and highly popular among citizens and enterprises. By 2021, 97% of income declarations were filed using the digital eMTA system. Based on available financial data, the eMTA pre-fills declarations for individuals, making the process fast and easy for citizens. Various authentication methods are available including via ID card (including digital ID, residence permit card, e-Resident digital ID, and diplomatic card), mobile IDs, Smart IDs and EU e-IDs.

Finland

Score 9

Tax administration in Finland has been at the forefront of digitalization. The Vero.fi Tax Administration website and MyTax e-service are the primary points of entry for information and interactions regarding tax issues for individuals and companies. It is currently possible to file tax reports online. Moreover, the tax authorities send a suggested report, and if individuals liable to pay taxes are satisfied with the suggestion, they do not need to take any further action.

Finland has also updated its income register through the tax authorities. The register includes up-to-date information on all payments for various stakeholders, including the tax authorities and social security funds.

Tax rules are transparent and easily understandable. The tax authorities have minimized compliance costs for taxpayers. These rules promote transparency and comprehensibility, reducing administrative collection costs for tax institutions and avoiding expensive tax litigation.

Citation:
Vero.fi: Tax Administration. https://www.vero.fi/en/individuals/

MyTax. https://www.vero.fi/en/e-file/mytax/

Israel

Score 9

Israeli employees do not have to file a tax report, which increases compliance and reduces administrative costs. Employers report their income annually. An employee working for more than one employer has to file a request for tax coordination. In recent years, this request can be filed online via the tax authority website. Individuals receive the necessary form electronically and immediately, which further increases compliance.

Self-employed individuals must submit an annual tax report. To do so, many use accountancy services. In general, tax regulations are accessible and well explained on the tax authority website, and the tax authority has branches in many localities.
Lastly, each Israeli citizen can access their personal files from and track the progress of various requests with the tax authority.

New Zealand

Score 9

New Zealand has designed its tax institutions and procedures with an emphasis on simplicity and efficiency, aiming to minimize compliance and collection costs for both taxpayers and the government. Taxpayers whose tax is deducted from their wage, salary, benefit or scheduler payment automatically are not required to file an annual return, and any refund is automatically returned (IRD 2023a). Additionally, there are very few exemptions on New Zealand's Goods and Services Tax (IRD 2023b). Both of these mechanisms reduce the state's administrative burden.

Independent reviews often laud New Zealand for its transparent and easy-to-understand tax system. For example, the International Tax Competitiveness Index – published by the conservative Tax Foundation think tank – ranks New Zealand third in terms of "tax competitiveness," ahead of international financial centers such as Switzerland and Luxembourg (Tax Foundation 2023). In PwC's 2020 Paying Taxes

Index, which measures how easy it is for companies to discharge their tax obligations in a given jurisdiction, New Zealand was placed ninth out of 189 territories, ahead of all other OECD member countries except Denmark and Ireland (PwC 2020). New Zealand was also ranked ninth on the “paying taxes” measure in the World Bank’s Business Index (World Bank 2020).

Citation:
IRD. 2023a. “Getting a Tax Refund.” https://www.govt.nz/browse/tax-benefits-and-finance/tax/getting-a-tax-refund

IRD. 2023b. “Charging GST.” https://www.ird.govt.nz/gst/charging-gst/exempt-supplies

PwC. 2020. “Paying Taxes 2020.” https://www.pwc.com/gx/en/services/tax/publications/paying-taxes2020.html

Tax Foundation. 2023. “International Tax Competitiveness Index.” https://taxfoundation.org/wp-content/uploads/2023/10/TF-ITCI23-Book_16-10_FV.pdf

World Bank. 2020. “Doing Business 2020: New Zealand.” https://www.doingbusiness.org/content/dam/doingBusiness/country/n/new-zealand/NZL.pdf

Switzerland

Score 9

Apart from flat tax regulations (in the canton of Obwalden), tax rules are considered difficult by many taxpayers. Arguably, comparing German and Swiss rules, Swiss rules may in general be more transparent and comprehensible, and tax forms are relatively easy to fill out without the support of a tax counselor. This conclusion is confirmed by indicators such as the “ease of paying taxes” by the World Bank. For example, taxpayers are calculated to have spent 15 hours doing corporate income taxes in 2020, 40 hours for labor taxation and eight hours for VAT – compare this with a respective 41 hours, 134 hours and 43 hours in Germany (pwc n.d.).

Citation:
pwc. n.d. “Interactive tax data explorer.” https://www.pwc.com/gx/en/services/tax/publications/paying-taxes-2020/explorer-tool.html

Denmark

Score 8

For the average person, the tax system is straightforward, requiring minimal individual action. Various controls ensure the accuracy of tax records, relying largely on the automatic registration of most economic flows.

However, the tax system is complex, making it difficult for individuals to understand all its rules and regulations. This raises both a democratic issue regarding citizens’ ability to comprehend the system and concerns related to behavioral responses to incentives that are imperfectly understood. Despite recent difficulties with tax collection and the system’s complex nature, it still maintains a high degree of legitimacy.

Taxation of companies is also complex, and employer organizations representing Danish companies and industry have consistently argued that the tax code should be simplified (Danish Industry 2023). While the costs of developing new IT systems to collect debt and to collect new housing taxes have been somewhat unsuccessful, the Danish tax system is generally perceived as effective.

Citation:
Danish Industry. 2023. “60+ skridt mod et simplere skattesystem.” https://www.danskindustri.dk/globalassets/billedarkiv/kampagnesites/simpel-skat/skattekatalog/simplificering-af-skattesytemet-2022–1-nov.pdf?v=240120

Ireland

Score 8

Irish revenue administrative capacities are well-regarded and sufficient for collecting levied taxes, with effective public prosecution of tax evasion. However, there is a public perception that company-level tax evasion is less frequently prosecuted and that tax avoidance is facilitated. The tax system is efficient, well-digitalized and aligned with the goal of minimizing compliance costs.

However, the Tax Justice Network reports that Ireland loses $13,589,860,352 annually to global tax abuse, equivalent to 19% of its tax revenue (billion) or $2,792 per capita. This places Ireland 11th worst in the world for tax loss. Tax administration capacity in Ireland is rated at 25, which is low compared to the global average of 47 (Tax Justice Network 2021). This is largely due to the facilitation of tax avoidance, though domestic tax administration scores highly for non-complexity.

While tax rules for basic income tax are relatively transparent and easy to understand, minimizing compliance costs for taxpayers (such as form filling and consulting fees), corporate tax rules are less transparent. Ireland has been accused of engaging in “tax games,” leading to high-profile legal battles with the EU and costly tax litigation.

Citation:
Tax Justice Network. 2021. “Corporate Tax Haven Index-2021 Results.” https://taxjustice.net/country-profiles/ireland/

Lithuania

Score 8

The tax system is largely aligned with the goal of minimizing compliance and collection costs. The use of the electronic system of tax declaration and payments has contributed to making tax compliance easier for taxpayers. The culture of the State Tax Inspection has also evolved into a focus on assisting taxpayers rather than focusing on sanctions. However, the existence of different types of tax treatments by entity type and size, type of activity, and sources of income (capital/labor) makes tax compliance more costly.

Norway

Score 8

The collection of taxes is fully automated and integrated with the collection of social security contributions. For most wage earners and the self-employed, the tax rules are perceived as relatively simple and easy to comply with. However, even though compliance is easy because of the high degree of automation, the rules themselves are complex, and the burden of proof largely falls on the taxpayer when automated reporting requires adjustment. This process remains very transparent, and it is easy to communicate with the Tax Administration in such cases.

Sweden

Score 8

A significant tax reform in Sweden in the early 1990s simplified taxes and reduced both deductible items and tax rates. Since then, two commissions of inquiry and a recent report have advocated for another large-scale tax reform, although none has been implemented so far. The report argues that the current system is overly complex, contains too many exceptions, and imposes high marginal taxes (Eklund, 2021; see also Jämställdhetsmyndigheten, 2022). Generally, taxpayers can easily file returns electronically through the Swedish Tax Agency’s digital services.

Citation:
Eklund, Klas. 2021. Vårt framtida skattesystem – en ESO rapport med förslåg på en genomgripande skattereform. https://eso.expertgrupp.se/wp-content/uploads/2020/11/2020_7-vårt-framtida-skattesystem-webb.pdf

Jämställdhetsmyndigheten. 2022. “Kunskapsunderlag om frågor som rör skatter och jämställdhet.” https://jamstalldhetsmyndigheten.se/media/xr5fihnu/underlagsrapport-2023-2-skatter-och-jämställdhet.pdf

Australia

Score 7

Despite the considerable complexity of the income tax system, compliance costs are relatively low for most taxpayers due to the use of electronic filing, with income from most sources, including wages and salaries, interest, and dividends, now pre-populated. However, 70% of tax returns are still lodged by a tax agent, likely due to the range of available deductions and the difficulty for ordinary people to determine their entitled deductions.

There have also been concerns about compliance and transparency in the Australian tax system. The Tax Justice Network (2023) estimates that approximately AUD 3.8 billion is lost in tax revenue every year due to tax abuse by corporations and individuals, equating to 0.9% of the country’s tax revenue (or AUD 152 per capita of the Australian population).

The Australian government recently passed a law to improve corporate tax transparency and compliance (Leigh 2023). Its measures include stronger rules requiring corporations to reveal where their assets and activities are domiciled for taxation purposes and greater alignment between corporations' activities and tax obligations.

In sum, while general levels of compliance are high, leakages are not trivial.

Citation:
Tax Justice Network. 2023. "Country Profiles: Australia." https://taxjustice.net/country-profiles/australia/

Leigh, A. 2023. "Making multinationals pay their fair share – Integrity and Transparency Bill." https://www.andrewleigh.com/making_multinationals_pay_their_fair_share_integrity_and_transparency_bill_2023

Austria

Score 7

The Austrian tax system is comparatively complex but has become slightly easier to navigate over time. As always, complexity benefits high-income individuals or firms more than low-income individuals, and in the former case, relying on tax consultants is common practice.

In a World Bank survey on the ease of paying taxes indicator, Austria ranks 19th out of 30 countries, though its score has improved significantly over the past decades. According to a study by PwC (n.d.) for 2020, taxpayers spent 46 hours on corporate income taxes, 50 hours on labor taxation, and 35 hours on VAT. In comparison, taxpayers in Germany spent 41, 134, and 43 hours, respectively, while those in Switzerland spent 15, 40, and 8 hours, respectively.

In another cross-country comparison by the European Parliament focusing on tax compliance costs for businesses in absolute values, Austria ranked slightly below the European average.

On the two specific questions of whether "fast-changing legislation and policies are a problem when doing business" and whether "the complexity of administrative procedures is a problem when doing business," Austria ranked slightly below the European average. This suggests the existence of a fairly workable regime in place.

Citation:
https://www.europarl.europa.eu/RegData/etudes/STUD/2023/642353/IPOL_STU(2023)642353_EN.pdf

https://www.bmf.gv.at/en/the-ministry/internal-organisation/Tax-Authority-Austria.html

https://www.rydoo.com/compliance/austria/austrian-paperless/

pwc. n.d. "Interactive tax data explorer." https://www.pwc.com/gx/en/services/tax/publications/paying-taxes-2020/explorer-tool.html

Canada

Score 7

The tax rules in Canada are very complex, especially for high-income earners and large companies. Although low earners and small businesses benefit from a simplified system, the complexity of Canada's tax regulations undermines transparency and increases administrative costs for taxpayers.

Frequent changes from year to year make it difficult for average taxpayers to understand the tax implications of different behaviors and plan accordingly. Opaque technical language around deductions and income categories reduces clarity. The general lack of easily accessible summaries of rules for average taxpayers hinders transparency and drives up taxpayer costs.

As a result, large numbers of Canadian taxpayers rely on professional help, paying billions annually in fees. Many millions of hours are spent annually by individuals completing complex return forms. This complexity also drives administrative and litigation costs, as the Canada Revenue Agency (CRA) audits more than 350,000 files each year. Ultimately, Canada has one of the highest tax dispute rates among OECD countries due to lack of clarity in rules and audit results.

Citation:
https://taxpage.com/tax-audit-assistance/#:~:text=There%20are%20over%20350%2C000%20audit,35%2C000%20are%20tax%20shelter%20audits.&text=CRA%20may%20choose%20to%20audit%20a%20taxpayer%20for%20several%20reasons.

Czechia

Score 7

The Czech tax system is rather complicated and has accumulated several exceptions over the years. Complaints about its complexity and the administrative burden have been strongest from small business owners. In 2022, a system was introduced to alleviate this burden, allowing these owners to make a single payment covering both income tax and compulsory insurance contributions. Under this system, following a single declaration, the payment remains constant even if their incomes vary month to month. Although this system was initially welcomed as a good idea, survey evidence suggested that only 7% of small business owners used it in its first year, rising to 10% in 2023. The main reason for the low uptake was that it did not offer significant benefits, suggesting that the existing system was not too complicated to pose serious problems for many.

The tax administration has been accused of being overly rigid, failing to distinguish between mistakes and attempts to defraud. A significant number of cases end up in court, indicating that the cost of litigation is not prohibitive for everyone. Several law firms offer to take up these cases, with costs equivalent to at least ten times the average wage in terms of hours of a lawyer's time.

Citation:
https://www.financnisprava.cz/assets/cs/prilohy/fs-financni-sprava-cr/Vyrocni_zprava_o_cinnosti_FS_CR_za_rok_2022.pdf
https://www.businessinfo.cz/clanky/pausalni-dan-vyuziva-jen-deset-procent-osvc-jake-jsou-duvody/

France

Score 7

The tax system is transparent in principle but complex in practice.

Forms are usually simple in the most straightforward cases. Digitalization of most functions has even made partially automatic completion of various forms possible, starting with the income tax form. However, such automation is far from systematic. Numerous specific cases and exemptions make it difficult for people to understand forms, and facilitate optimization strategies. People who are not accustomed to working with computers, a group which constitutes a significant section of the population, often find the digitalized functions difficult to use. A number of practical guides exist in these markets, as well as various consulting services. For private individuals, only a small minority of generally high income earners has to use this type of service. As the tax system also involves refunds, the fact that people do not claim what they are entitled to is significant.

For firms, the use of specialized internal and external services is almost mandatory. This is a specific burden for small companies, whereas bigger ones tend to have a streamlined process.

According to a calculation by PwC (n.d.) for 2020, taxpayers spent an average of 28 hours on corporate income taxes, 80 hours on labor taxation and 31 hours on VAT. The corresponding totals in Germany were 41 hours, 134 hours and 43 hours, and in Switzerland were 15 hours, 40 hours and eight hours.

Tax institutions represent a sizable state expense, estimated at more than $5 billion in 2016 (Court of Accounts 2016). The Court of Accounts has argued that substantial reform is needed to increase the overall efficiency of the tax collection system. Simplification seems the best strategy. Specific litigation on tax issues does not seem problematic.

Citation:
Court of Accounts. 2016. Simplifier la collecte des prélèvements versés par les entreprises. Report. Retrieved January 15, 2024 from https://www.ccomptes.fr/fr/publications/simplifier-la-collecte-des-prelevements-verses-par-les-entreprises

pwc. n.d. “Interactive Tax Data Explorer.” https://www.pwc.com/gx/en/services/tax/publications/paying-taxes-2020/explorer-tool.html

Latvia

Score 7

Latvia has a sizable shadow economy, and its tax revenues as a share of GDP are below the EU average. The European Commission has noted that Latvia collects less tax from capital and property compared to the EU average. Therefore, there is significant room to improve tax compliance.

All laws, including tax laws, are available online for free. However, due to frequent amendments, taxpayers need to stay updated, especially on regulations related to COVID-19 restrictions and relief.

The tax administration has an electronic system (EDS) for tax calculations and payments to simplify communication between the tax administration and taxpayers.
Since July 1, 2023, the government has introduced a licensing system for accountants who deliver their services as outsourced. The decision aims to increase the quality of accountancy but has created additional compliance costs, especially for small businesses.

Citation:
European Commission. 2023. Country report – Latvia. Institutional paper 238, June 2023. https://economy-finance.ec.europa.eu/publications/2023-country-report-latvia_en

Spain

Score 7

According to the Instituto de Estudios Fiscales, in 2022, a significant portion of the Spanish population – one in two citizens – felt they did not know what taxes were for, and many were unaware of the taxes they were paying. Concurrently, one in four people believed the state's role should be minimal, intervening only to correct market imbalances. However, most citizens would pass a tax knowledge test, as evidenced by the percentage of correct answers.

As part of the RRP, the Tax Agency is developing a new model for remote taxpayer interaction and information services. The Integral Digital Administration aims to increase administrative capacities for tax collection and minimize compliance costs for taxpayers. The agency will assist taxpayers through multiple channels, streamlining service management and delivery. This centralized control enhances service quality and facilitates the development of appropriate IT tools and training methods.

Citation:
Tax Administration Agency. 2023. "Report on the Comprehensive Digital Administration (ADI) project." https://sede.agenciatributaria.gob.es/static_files/Sede/Agencia_Tributaria/Planificacion/Plan_Recuperacion/Informe-sobre-el-proyecto-ADI.pdf
Instituto de Estudios Fiscales. 2023. "Barómetro fiscal." https://www.ief.es/investigacion/soc_barometro.vbhtml
Committee of Experts. 2022. "White Paper on Tax Reform." Institute of Fiscal Studies https://www.ief.es/docs/investigacion/comiteexpertos/LibroBlancoReformaTributaria_2022.pdf

United Kingdom

Score 7

Although the UK tax system is complex, the arrangements for collecting the three largest revenue-generating taxes – income tax, national insurance, and VAT – are relatively straightforward. The PAYE system efficiently captures the majority of individual taxpayers, and VAT is well-established.

For those required to submit full returns due to additional earnings, His Majesty's Revenue and Customs (HMRC) is increasingly pushing for online submissions, which most taxpayers now use. While HMRC provides extensive downloadable guidance, it has faced criticism for insufficient support for individuals with queries not directly covered by the guidance or those in unusual circumstances.

Unsurprisingly, wealthier taxpayers are more likely to employ tax accountants, accepting the trade-off of paying for services to avoid handling their own returns and to take advantage of avoidance opportunities.

Belgium

Score 6

Tax collection in Belgium is largely automated, with individual tax statements predominantly pre-filled with data from the tax authorities. If this information is accurate, individuals have no further action to take. However, if the data is incorrect or incomplete, the process becomes more complex. Despite efforts by the authorities to simplify tax returns by reducing the number of codes and entries, the total remains high, making tax returns challenging to complete and understand for the average taxpayer.

Additionally, the numerous existing deductions and tax schemes are not only costly for the budget but also tend to create inefficiencies. For example, the extensive use of reduced VAT rates and exemptions heightens the risk of VAT noncompliance.

Citation:
https://www.lecho.be/monargent/impots/declaration-fiscale/comment-remplir-votre-declaration-fiscale-en-2023/10306608.html
https://www.lesoir.be/516131/article/2023-05-29/tout-le-monde-nest-pas-capable-de-verifier-sa-declaration-dimpots

Greece

Score 6

Since the onset of the economic crisis, the Independent Authority for Public Revenue (IAPR) has made significant progress in digitalizing tax systems, and the government has introduced numerous new tax laws.

In Greece, a long-standing tradition of adopting numerous laws, presidential decrees, and ministerial circulars to regulate taxation has created a complex and often confusing system (Sotiropoulos and Hristopoulos 2017). This complexity reduces the transparency and clarity of tax rules, prompting many citizens and businesses to hire personal accountants to manage their tax declarations.

Recognizing these challenges, successive governments have focused on simplifying tax rules and reducing administrative costs. In 2019, the government passed a law to digitalize tax information on income and expenses. The IAPR subsequently developed the "myDATA" platform (AADE 2024), which, despite delays due to the COVID-19 pandemic, is now operational. This platform is designed to digitalize the tax and accounting records of companies and liberal professions through the use of electronic accounting books.

However, the administrative capacities needed to effectively collect taxes still require further enhancement, especially given the scale of tax evasion. While penalties for tax evasion are enforced, the IAPR has also implemented a dispute resolution system to address complaints promptly. Nevertheless, citizens and businesses can appeal these penalties in administrative courts, where the slow and inefficient justice system often hampers the prosecution of tax evasion.

Citation:
The law on digitalization of tax collection is Law 4646/2019.

AADE. 2024. "myData." https://www.aade.gr/en/mydata

Sotiropoulos, D.A., and L. Hristopoulos. 2017. Excessive Regulation and Bad Regulation in Greece. Athens: Dianeossis Publications.

Hungary

Score 6

The Hungarian tax system was ranked 11th out of 100 on the 2023 OECD international tax competitiveness index, earning 75 points. With more than 80 international treaties regulating tax issues worldwide, Hungary has a comparably high number. The country's tax administration capacity is also relatively high. In terms of complexity, Hungary's tax system ranks in the middle among EU countries. Digitalization has advanced rapidly, making the Hungarian system highly advanced and almost paper-free. The Hungarian tax authority (NAV) prepares draft personal income tax returns for citizens, which taxpayers need only accept or supplement if needed. However, for freelancers and entrepreneurs, the administrative burden and complexity of tax declarations have significantly increased. This followed the phase-out of a simple and highly popular fixed-rate tax scheme (KATA) in 2022, sparking protests and leading to the introduction of more costly and complicated alternatives for non-employees (Euronews 2022). The authority collects vast amounts of data and already uses AI algorithms. Concerns have been raised about the potential misuse of tax authorities to pressure individuals or companies opposed to the government. Efficiency and surveillance, therefore, have gone hand in hand.

Citation:
Euronews. 2022. “Hungarians protest for second day against tax overhaul.” 14 July. https://www.euronews.com/2022/07/14/hungarians-protest-for-second-day-against-tax-overhaul

Netherlands

Score 6

The Tax Office (Belastingdienst, BD) provides extensive information to taxpayers, but most deductions must be personally filed in order to receive a tax refund. Organizations like the Consumer Association and the Association of Homeowners regularly offer tips for filing tax returns. Given the complexity of the Dutch tax system, it is little surprise that there is a thriving industry of advisers – from sole practitioners to large firms – offering tax consultancy services. “Belastingadviseur-wijzers” assist individuals and small businesses in navigating different advisory options and corresponding rates, which started at €60 in 2023 but can vary widely based on personal or business circumstances. Appeals incur court fees starting at €50, rising to €184 for appeals involving dividend or sales tax.

Because tax policy and interpretations have not been well communicated, individuals, businesses and consultants may have based recent tax returns on outdated rules, potentially resulting in overpayment of taxes.

Moreover, the BD could be more supportive. For instance, while any online shopping service can accept payments via PayPal or iDEAL, the BD has yet to implement this functionality, citing excessive new legislation and the need to maintain existing laws.

Fifteen years ago, the Dutch BD was among the world’s most advanced tax authorities, known for its slogan: “We can’t make it more fun…”. Today, it is struggling to simplify an overly complex system. State Secretary Marnix van Rij (CDA), who was responsible for tax reforms under the Rutte IV government, aimed to “reduce the number of tax schemes by evaluating them every five years” and “abolish, cut back or adjust negatively evaluated schemes.” However, eliminating outdated regulations often proves more challenging than introducing new ones. For example, when the Court of Auditors recommended reviewing the agricultural exemption regulation in 2021, it lacked political support. The finance minister of the time remarked that the Court’s recommendations ran up against “the law of political gravity” in the parliament.

Errors in allowance settlements and other mistakes result in significant litigation costs. Following a Supreme Court ruling, hundreds of BD employees are rectifying levy payments wrongly imposed on assets, addressing some 310,000 objections. Similarly, hundreds of officials are working to compensate parents affected by the child benefit scandal. These "recovery cases" impact the BD's ability to handle routine tasks, as outlined in its 2023 annual plan.

Citation:
Klaver. 2022. "Belastingen: makkelijker kunnen we het maar niet maken." De Correspondent, October 5.

Rijksoverheid. 2022. "Nieuw box 3 stelsel op basis van werkelijk (ipv fictief) rendement naar 2026 (o.g.v. uitspraak van de Hoge Raad. lid december 2021)."

NRC, Stokmans and Vermeulen. 2023. "Staatssecretaris Marnix van Rij over de hervormingen bij de Belastingdienst:'Ik vind het veel te lang duren.'" NRC March 22.

NRC. 2023. "Martijn Nouwen | wetenschapper Financiën hield openbaarmaking van belastingbeleid tegen, 'dit leidt tot rechtsongelijkheid'." March 28.

Ziesemer. 2023. "Waarom het maar niet lukt om ons belastingstelsel makkelijker te maken." De Correspondent September 14.

Slovenia

Score 6

Tax regulations and procedures are complex for both individuals and companies. Prime Minister Janša's government has already prepared measures to reduce bureaucracy and simplify procedures. In 2023, the Ministry of Finance analyzed the tax system and admitted that the tax rules had become opaque following the introduction of numerous partial changes in recent years – they have made the system less transparent.

Prime Minister Golob's government announced a reform of the tax system in 2022 to address these shortcomings and introduce changes so that those with significantly more pay their taxes fairly. However, in 2023, the reform was still not prepared; at one point, it was even canceled. By the end of 2023, the reform was back on the agenda but not publicly presented. These developments have confused and not contributed to the predictability of the system.

For years, at least the income tax form, the "informative calculation," has been prepared by the Financial Administration and sent to taxpayers, who can complain if the data is incorrect.

Citation:
Vlada. 2024. "Cilj je pregleden, enostaven in uravnotežen davčni sistem." https://www.gov.si/novice/2023-03-14-cilj-je-pregleden-enostaven-in-uravnotezen-davcni-sistem

Germany

Score 5

The German income tax system is one of the most differentiated and complex in the global tax landscape. While standard tax declarations for employees' wages are generally straightforward, the ambition to account for all the individual features of a single tax case has resulted in substantial complexities and reporting requirements.

Hence, tax compliance costs in Germany are significant. Digital tax declaration possibilities have advanced in recent years, with more information, such as from employers and health insurers, being centrally provided. Still, an SME in Germany needs a relatively high number of hours to comply with its tax reporting and declaration requirements (World Bank 2020).

Citation:
World Bank. 2020a. "Doing Business, Paying Taxes: Time (Hours per Year) [PAY.TAX.TM]." https://databank.worldbank.org/source/doing-business

Italy

Score 5

According to the World Bank's Doing Business indicator on the "ease of paying taxes," Italy has a very complex tax system. There is approximately one accountant for every 510 people in the country. The system has improved with the introduction of the pre-completed personal income tax return, which works well for those with only salaries and little property to declare. Otherwise, the procedure and rules are so complex that people need to seek external advice.

Citation:
Senato della Repubblica. 2022. "Elementi essenziali della tassazione in Italia." https://www.senato.it/service/PDF/PDFServer/BGT/01361079.pdf

Japan

Score 5

Japan's tax system is relatively complex with many different taxes, income thresholds and tax deductions. In recent years, however, Japan has been working on simplifying tax payment procedures. The National Tax Agency has been implementing the vision of a "society where all tax procedures can be performed without going to a tax office." Nevertheless, between FY2020 and FY2021, the number of taxation-related requests for reconsideration increased from 4,369 to 4,582, with 10.4% of requests approved in 2020 and 13.4% in 2021.

The Digital Agency, established in September 2021, has promoted the use of My Number – a 12-digit personal number provided to each citizen to facilitate and link all administrative interactions. However, the introduction of My Number cards has proceeded with many problems. In May 2023, it was revealed that 130,000 bank accounts were erroneously linked to the wrong person. Once properly implemented, the My Number system should facilitate payment of taxes, reduction of administrative collection costs and sharing of data between various institutions.

Citation:
"My Number glitches undermine Japan's digital future." The Japan Times, June 9. https://www.japantimes.co.jp/opinion/2023/06/09/editorials/my-number-failure/

National Tax Agency. 2022. "National Tax Agency Report 2022."

https://www.nta.go.jp/english/Report_pdf/2022e.pdf

National Tax Agency. 2023. “National Tax Agency Report 2023.” https://www.nta.go.jp/english/Report_pdf/2023e.pdf

Poland

Score 5

The online platform provided by the Ministry of Finance, known as the e-Tax Office, facilitates the digital management of various tax-related issues. This platform includes services such as Your e-PIT, access to penalty mandates, provision of a tax micro account number and the e-Microenterprise service, which is designed for generating and submitting standard audit file for tax reports, among other features.

Levels of public trust in the tax offices remains relatively stable: 30% of survey respondents indicate that they are satisfied, 20% are dissatisfied and 50% have no opinion on the issue. The most significant reservations come from entrepreneurs and residents of large cities, primarily due to excessively long tax proceedings. A major issue is the VAT refund process for businesses, with key criticisms directed at officials’ arbitrariness and lack of substantive knowledge, which potentially cause financial liquidity challenges.

Portugal

Score 4

Portugal’s taxation system is often criticized for its complexity, partly due to the existence of over 500 tax benefits (Oliveira et al., 2019). The income tax system’s numerous “non-inclusive” options and diverse tax benefits contribute to this complexity and lack of transparency, favoring tax planning and consultancy firms and benefiting those who can afford their services. Key issues include the high number of tax benefits, the scattered nature of different regulations, overlapping objectives, and the difficulty in measuring impacts in terms of tax expenditure and the number of beneficiaries.

The profusion of tax benefits and the intricate rules surrounding them lead to increased costs in both compliance and administration of the tax system. These complexities burden tax authorities, who expend more resources explaining rules to taxpayers, and escalate compliance costs for taxpayers themselves. Additionally, there’s a higher likelihood of these benefits being exploited by unintended recipients, resulting in abuses and necessitating further administrative resources to address them.

In 2023, there was a noticeable increase in the perception of the Portuguese tax system as complex and ineffective, with the proportion of respondents holding this view rising from 68% to 72% (Deloitte, 2023). This growing negativity highlights the need for reform. Issues such as court efficiency, municipal licensing, authorizations, and general bureaucracy are identified as significant barriers to investment in Portugal. The implementation of electronic tax compliance systems, equipped with automatic error detection, is seen as a crucial step toward improving interactions between taxpayers and the tax authority, streamlining processes, and reducing complexities.

To enhance the competitiveness of the national economy, it is imperative to streamline the tax system by reducing complexity and ensuring greater stability. Ambiguity and frequent legislative changes are among the most commonly cited factors contributing to the complexity of the Portuguese tax system (Alves 2021).

Citation:
Deloitte. 2023. "Observatório da Competitividade Fiscal 2023."
https://www2.deloitte.com/pt/pt/pages/tax/articles/observatorio-competitividade-fiscal-2023.html

Alves, Andreia. 2021. The Complexity of the Tax System and Its Impact on the Practice of Accounting Professionals in Portugal. Dissertação de Mestrado, Universidade do Minho.
https://repositorium.sdum.uminho.pt/handle/1822/73708

Oliveira, Francisca et al. 2019. Os benefícios fiscais em Portugal. Grupo de Trabalho para o Estudo dos Benefícios Fiscais. https://www.portugal.gov.pt/download-ficheiros/ficheiro.aspx?v=%3D%3DBAAAAB%2BLCAAAAAAABACzMDQwAgCG5%2BMmBAAAAA%3D%3D

Slovakia

Score 4

The most recent academic study analyzing the compliance costs of Slovak taxation is the article by Nemec, Čižmárik, and Šagát (2017). According to this study, the compliance costs of income taxation for the self-employed in 2011 were between 156.37% and 839.02%, and for firms, between 12.76% and 47.13%. The tax administration system has improved since this research, particularly through electronization. However, additional steps are necessary, as stressed by the European Semester Report 2022 (European Union, 2022). The tax rules remain complicated and insufficiently stable.

Babčák (2023) provides compelling data. According to his paper, during 2023, the income tax law was amended 25 times, with 15 of these changes not taking effect on January 1. The VAT tax law was amended eight times, and the tax code ten times. The author also emphasizes (Babčák, 2023: 16) that the tax legislation is "characterized by the extraordinary complexity of individual tax institutes, generating the associated excessive administration with which neither the tax subjects nor the financial administration have sufficient experience."

Citation:
Nemec, J., Čižmárik, P., and Šagát, V. 2017. "An Estimation of the Compliance Costs of Slovak Taxation." Ekonomie a Management 20 (2): 77-86.

Benčák, V. 2023. "Several Reflections and Thoughts on 'Quo Vadis Slovak Tax Law'." In Daňové právo a nové javy v ekonomike. Košice: UPJŠ, 7-44.

United States

Score 4

The U.S. federal government has promoted electronic filing, which reduces paperwork and speeds up processing time. This minimizes both compliance and collection costs (Chang and Limato 2017).

The Internal Revenue Service (IRS) provides extensive online resources to help taxpayers find information about their tax liabilities, reducing the need for human interaction and thereby lowering compliance costs. Simultaneously, the IRS engages actively with taxpayers through various assistance programs designed to educate Americans about their tax responsibilities (Krause 2000). These programs are aimed at both individuals and businesses (Engel and Hines 1999).

The IRS uses a risk calculation to determine where to allocate resources for compliance. It employs data analytics to efficiently identify patterns of noncompliance (Hoopes et al. 2012).

On the other hand, the U.S. tax system is known for its complexity. This does not promote transparency or comprehensibility. The sheer volume of laws and exemptions is very difficult for individuals to navigate without professional assistance (Mock and Shurtz 2014). Americans have become highly reliant on tax preparation software to file accurate returns (Zelenak 2010). As a result, the IRS has sometimes demonstrated leniency with misfiled taxes due to confusion. For example, the IRS has a voluntary disclosure scheme that invites individuals to disclose unpaid taxes from previous years without penalty. Biden’s Inflation Reduction Act added another layer of complexity to the federal tax code. The new provisions will increase the administrative burden on the IRS and the tax compliance burden on taxpayers.

Citation:
Lawrence Zelnak. 2010. “Complex Tax Legislation in the TurboTax Era.” Columbia Journal of Tax Law.
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Eduardo Engel and James Hines. 1999. “Understanding Tax Evasion Dynamics.” Working Paper 6903. National Bureau of Economic Research.
Kate Krause. 2000. “Tax Complexity: Problem or Opportunity?” Public Finance Review.
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Indicator

Policies Aimed at Internalizing Negative and Positive Externalities

Question

To what extent do existing tax institutions and procedures internalize negative and positive externalities?

30 OECD and EU countries are sorted according to their performance on a scale from 10 (best) to 1 (lowest). This scale is tied to four qualitative evaluation levels.

10-9 = The tax system is fully aligned with the goal of internalizing externalities.

8-6 = The tax system is largely aligned with the goal of internalizing externalities.

5-3 = The tax system is only somewhat aligned with the goal of internalizing externalities.

2-1 = The tax system is not at all aligned with the goal of internalizing externalities.

Norway

Score 9

Norway has a long tradition of using taxes and subsidies to influence the consumption of certain harmful commodities. Taxes on alcohol and tobacco are high, while a historical system of taxing luxury goods has been dismantled. As a policy instrument in the green transition, carbon taxes are being introduced for more product groups – particularly in sectors not covered by the EU ETS, such as waste incineration – and the government has signaled a gradual increase to NOK 2,000/tCO_2e by 2030. A compensation system for industries at risk of carbon leakage continues to coexist. Incentivization of specific activities (for example, research and development) is generally done through direct support rather than through the tax system. However, the tax system has been actively used in combination with other economic incentives to introduce zero-emission vehicles, yielding effective impacts.

Czechia

Score 8

The concept of externalities has influenced Czech tax policy, though it has not been the principal driver. The policy has evolved partly in response to pressures from particular interests and input from the EU, which has contributed to the introduction of environmental taxes. While the resulting share of environmental taxes appears high by international standards, this reflects the continued high use of environmentally harmful heating and transport fuels rather than a genuine concern for environmental issues. Vehicles are taxed according to EU emission standards, with the worst offenders incurring significant tax supplements while the best face no extra tax. Environmental taxation, as defined by EU carbon trading rules, has also influenced transport policy, as indicated in the section on Resilient Critical Infrastructure.

Tax deductions are available for firms engaged in research and development (R&D), but these have proven difficult to claim. The number of firms interested fell from 1,306 in 2015 to 835 in 2021, the latest year for which information is available. The problem lies in the stringent conditions for defining R&D imposed by the tax administration and upheld in court judgments. These conditions require systematic activity that leads to something demonstrably new, not merely the adaptation of an existing product. There is no specific targeting to focus on particular areas and their usefulness, although this can be addressed in accompanying policies for research support through subsidies.

Citation:
https://www.czso.cz/csu/czso/danova-podpora-vyzkumu-a-vyvoje-v-roce-2021-dosahla-24-miliardy

Germany

Score 8

Since the ecological tax reforms of the late 1990s, the German tax system has included “green” taxes designed to internalize the ecological damage produced by certain polluting activities. German industry is subject to the European emissions-trading system, which features market-based pricing of CO_2 emissions. In 2021, Germany took another significant step toward comprehensive CO_2 pricing by introducing a national price on CO_2 for fossil fuels used for heating and cars. This CO_2 levy is increasing from its starting price of €25 in 2021 to €45 in 2024 and €55 in 2025. In 2027, a European emission trading system is planned to cover emissions from traffic and buildings. With this system, the CO_2 price will then be determined as the market price in this trading system (Bundesregierung, 2024).

Critics argue that the government could do more with price incentives. The current administration seeks to steer the green transition through regulations that mandate specific technologies. A recent example is the new Building Energy Act (Gebäudeenergiegesetz). This act prescribes in detail which technology must be used under certain circumstances. The concept of a price mechanism is to leave these decisions to the voluntary actions of agents, potentially leading to higher efficiency.

Subsidies and tax incentives are largely focused on measures with ecological or research-related justifications. Among the largest federal subsidies are support for energy efficiency in buildings, support for microelectronics, hydrogen infrastructure, charging and fueling infrastructure, measures for natural climate protection, and climate protection contracts with industry (BMF, 2023). The financial capacity of the government to fund these incentives has been curtailed by the Federal Constitutional Court’s ruling on the German Debt Brake, forcing the government to reprioritize these subsidies. However, the government remains committed to using substantial financial incentives to support the green transition.

Citation:
BMF. 2023. Subventionsbericht des Bundes 2021-2024. Berlin: Bundesministerium der Finanzen.
Bundesregierung. 2024. “CO2-Preis steigt auf 45 Euro pro Tonne.” Pressemitteilung 1. Januar. www.bundesregierung.de/breg-de/aktuelles/co2-preis-kohle-abfallbrennstoffe-2061622

Sweden

Score 8

Tax policy has been used to absorb negative externalities and promote positive ones. In 2022, environmental tax revenue amounted to SEK 97 billion, a decrease of SEK 6.5 billion from 2021. The new government reduced the tax on fuel, while the center-right government decreased revenue from electricity.

Having said that, tax revenue from emissions rights has increased threefold from 2021 to 2022. Energy taxes contribute the most to environmental tax revenue and include energy tax on fuels, carbon dioxide tax, and energy tax on electricity (SCB, 2023).

Citation:
SCB (Statistikmyndigheten). 2023. “Environmental tax revenue decreases in 2022.” https://www.scb.se/en/finding-statistics/statistics-by-subject-area/environment/environmental-accounts-and-sustainable-development/system-of-environmental-and-economic-accounts/pong/statistical-news/environmental-accounts – environmental-taxes-2022-and-industry-allocated-environmental-taxes-2021

Austria

Score 7

The steering function of the Austrian tax regime – its ability to incentivize changes in economic behavior to preserve the sustainability of natural resources and environmental quality – has long been notably weak. However, the ecological-social tax reform passed by the government in October 2021 marked the start of a new era, including the pricing of CO2. The newly established CO2 pricing regime has been criticized for being too lenient to make a significant impact on shaping citizens’ behavior, and many issues remained unaddressed by the reform, such as lower taxation of diesel. Additionally, the scheduled incremental increase in fees has been delayed to mitigate the hardships of high inflation.
Ecologically harmful subsidies include subsidized commuting (Pendlerpauschale) and diesel for agriculture.

More recently, the government has significantly expanded subsidies introduced to internalize positive externalities. This has been particularly evident with incentives to replace older heating systems with new non-fossil options. In 2023, the government tripled the federal-level subsidies available, allowing up to 75% of costs to be refunded and, in cases of social hardship, even up to 100%.

Austria has an established regime for providing subsidies for basic research (“Grundlagenforschung”), but the resources have not been sufficient to fund all submitted applications deemed “excellent” by external and international peer reviews.

Citation:
https://www.bmk.gv.at/service/presse/gewessler/20231129_heizungstausch.html
https://www.derstandard.de/story/2000145801814/1-1-milliarden-fuer-grundlagenforschung-in-oesterreich

Denmark

Score 7

Subsidies and deductibles are used to internalize both positive and negative externalities. One example of the former is the large deductible offered to firms innovating technologies to become more energy efficient. An example of the latter is the deductible offered for transportation to and from work. This transportation deductible aims to maintain population levels in low-density areas, but works against the sustainability targets set in the 2020 Climate Law.

Regarding environmental and climate issues, there is room for improvement with regard to internalizing externalities. The CO2 tax is a step in that direction, but it has not been fully implemented yet.

The Danish tax system has been criticized for being too complex and for offering too many deductions. This complexity can result in offsetting deductions, which means that policy goals are not met.

Estonia

Score 7

Environmental taxes have been on the political agenda for many years, and both tax rates and total revenue from these taxes have increased. However, environmental taxes as a share of overall tax revenues remained stable or slightly decreased in 2021 compared to 2019 (6.8% and 9.6%, respectively) (Eurostat 2023). Compared to the European Union average, Estonia has higher excise duties on fuel, pollution and raw resources such as oil shale mining. Excise duties from fuel alone comprise more than 6% of all tax revenues (ASK 2021). The government program for 2023 – 2027 includes a planned increase in fuel excise duties in May 2024.

Pollution and mining levies are most substantial in northeastern Estonia, and since these funds go to municipal budgets, they can represent significant revenue for local governments. In Alutaguse municipality, such levies have composed about one-third of the budget. However, experts warn that relying on environmental taxes is not sustainable in the long run. As the economy becomes greener, the income from these taxes will diminish (ASK 2021). The electricity excise duty is applied equally to both fossil and green energy. Additionally, the tax rate is substantially lower – nine times lower – for big enterprises as a means of making Estonia more attractive to large businesses.

Taxes on transport, such as those on heavy vehicles and road tolls, are very marginal. Estonia has been the only EU country without a car tax; however, the introduction of such a levy has been specified in the coalition agreement for 2023 – 2027. The principles of the car tax were intensively debated throughout 2023. The right-wing Isamaa, which publicly opposed the introduction of the car tax, became the most popular political party largely because of this anti-tax campaign. At the moment, it is not clear when the car tax will be introduced, and with which calculation formula. However, one of the clear principles is to encourage people to opt for newer and greener vehicles.

The government already supports purchases of electric vehicles and electric bikes with grants of $1,700 and $700, respectively. According to Bank of Estonia expert Kaspar Oja, this measure lacks social equity because it supports better-off urban people and enterprises that do not need the support (ERR 27.02.2003).

In 2022 – 2023, VAT for printed and digital media outlets was reduced from 9% to 5%. Starting in 2024, this rate will return to the former level. According to the government, Estonian media houses are strong enough, and media consumption will not suffer because of this change. However, increases in VAT, coupled with higher prices for home delivery of newspapers, impair access to media for low-income and rural households.

Citation:
Arenguseire Keskus. 2021. Keskkonnahoidu mõjutavad maksud Eestis 2021. https://arenguseire.ee/wp-content/uploads/2021/09/2021_maksustruktuur_keskkond_luhiraport.pdf
ERR. 2023. “Elektriautode ostu toetamine tekitab vastakaid arvamusi.” February 27. https://www.err.ee/1608898838/elektriautode-ostu-toetamine-tekitab-vastakaid-arvamusi

France

Score 7

The internalization of negative externalities is sometimes achieved by taxation even if this goal was not intended. The example of the high gasoline tax rates in France illustrates such a case. In recent years, the attempt to impose a duty on carbon emissions from transport has largely failed due to fierce resistance from the “red hat” (2013) and “yellow vest” (2018 – 2019) social movements. However, the principle that polluters should pay for their pollution is firmly stated in Article 110-1 of the Environmental Code. Its effective application is generally restricted to situations in which the pollution has a direct, immediate and visible impact even if various contributions have been put in place – for instance, to fund recycling industries for disposable products.

The internalization of positive externalities has mostly been applied to agriculture, with specific programs for contributions to landscapes or biodiversity. This is also the case for the energy-saving domains, as companies and individuals can receive direct reimbursements or subsidies for insulating buildings or buying appliances used to generate renewable energy. Furthermore, the government has subsidized electric vehicle leases for low-income households. Research by companies is also largely subsidized.

Netherlands

Score 7

Under the terms of the 2019 Dutch Climate Accords – a “triumph for poldering” – large companies will face a carbon tax while also receiving subsidies to adopt cleaner practices using green hydrogen. Furthermore, they will be permitted to capture and store greenhouse gases in seabeds. Coal-fired power plants, scheduled to close by 2030, will receive “green” subsidies to facilitate the transition to greener technologies. By that year, thanks to new wind turbines and solar panels, 75% of Dutch electricity is expected to be sourced from renewable sources.

In terms of internalizing positive and negative externalities, the government adopts a balanced approach that differs from the conventional economic wisdom preferred by most experts. Rather than relying solely on punitive measures such as carbon taxes and regulatory levies, the government also incentivizes companies to adopt greener technologies through subsidies. This approach reflects a broader struggle between two policy paradigms: that of traditional neoclassical economists on the one hand, who advocate for correcting market failures through negative incentives like taxes and regulatory levies, and that of transition thinkers on the other, influenced by so-called science, technology and society (STS) theories. These latter thinkers argue that market-failure theory alone is not sufficient, and that addressing complexities, dependencies and uncertainties requires a more proactive role from government as a guiding force and coordinator (cf. Mazzucato), as exemplified by Dutch policymakers in various contexts (see e.g., “Circular Economy” and “Effective Climate Action”). Under this paradigm, successful ecological transitions also necessitate positive incentives such as “green” subsidies and tax exemptions for corporations, as well as nudging strategies aimed at citizens.

Citation:
extinction rebellion.nl. 2022. “Opinie fossielesubsidie.” https://extinctionrebellion.nl

Me Judice, den Butter. 2023. “Vervang fossiele subsidies door regulerende heffingen.” 6 November.

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Bolhuis. 2023. “Beleidseconomen moeten weten wat transitiefalen is.” Economisch Statistische Berichten November 30.

PBL and CPB, Brink et al. 2023. “Afschaffing fossiele energiesubsidies: eerder een hersenkraker dan een no-brainer.”

PBL. 2023. “Afschaffen fossiele subsidies vooral nuttig als het energietransitie stimuleert.” 21 October.

New Zealand

Score 7

Existing tax institutions and procedures aim to internalize both negative and positive externalities – at least to some extent.

Environmental taxes, such as levies for agricultural emissions, as well as tobacco and alcohol taxes, aim to internalize negative externalities by discouraging excessive consumption. Conversely, other tax policies provide subsidies or tax credits to incentivize behaviors that generate positive externalities. An example of this is the Clean Car Discount for low-emissions vehicles.

Tax policies aimed at internalizing negative and positive externalities were a key focus of the 2023 election campaign. The new National-ACT-NZ First coalition announced it will scrap the "future generations" smoking ban, instead directing revenue from tobacco taxes to fund the coalition's tax cuts (Corlett 2023). Additionally, the coalition axed Auckland's Regional Fuel Tax, which was introduced for 10 years to pay for the city's new rail infrastructure projects, and removed the Clean Car Discount. They argued that the latter scheme – which taxes high-emission vehicles to subsidize low-emission vehicles – was fiscally unfair (Trevett 2023).

Citation:
Corlett, E. 2023. "New Zealand scraps world-first smoking 'generation ban' to fund tax cuts." The Guardian, November 27. https://theguardian.com/world/2023/nov/27/new-zealand-scraps-world-first-smoking-generation-ban-to-fund-tax-cuts#:~:text=The%20laws%20were%20due%20to,outlets%20and%20the%20generation%20ban%E2%80%9D

Trevett, C. 2023. "Election 2023: National Vows to Scrap Discounts on EVs and 'Ute Tax' in 100 Days if Elected." New Zealand Herald, September 30. https://www.nzherald.co.nz/nz/politics/election-2023-national-leader-christopher-luxon-sets-out-new-policy-as-concerns-about-campaign-safety-rise/INHI4QQZYFAV5MV7OZBNLQHPIM

Portugal

Score 7

Portugal's tax policy internalizes positive externalities primarily through subsidies and tax benefits. One noteworthy initiative in terms of tax expenditure is the SIFIDE, the Tax Incentive System for Business R&D. This program aims to enhance the competitiveness of companies by supporting their research and development (R&D) efforts through the deduction of corresponding expenses from corporate taxes.

Since 2015, companies have reported increased R&D investment within the framework of SIFIDE (ANI, 2023). This tool facilitates greater internationalization of national projects and businesses and simultaneously enhances Portugal's efficiency and attractiveness to international investors. The more a company invests in R&D, the higher the percentage of the incremental rate.

Taxes with environmental relevance accounted for 5.3% of total revenues from taxes and social contributions in 2022, reflecting efforts to internalize negative externalities (INE, 2023). This was higher than the EU-27 average of 5% (Eurostat, 2023). However, the 2022 ratio decreased from 2021, when it was 6.6%, marking the lowest percentage since 1995. Consequently, Portugal's gap with the EU-27 average narrowed from one percentage point in 2021 to 0.3 percentage points in 2022. Additionally, most of this tax revenue comes from taxes on oil, with minimal contributions from taxes on pollution and resources.

Portugal has recently increased its environmental subsidies to enhance its environmental footprint. The latest state budget introduces three new green taxation measures: a levy on ultralight plastic bags, incentives for scrapping end-of-life vehicles, and an increase in the Single Circulation Tax for older vehicles. These initiatives complement existing subsidies, such as tax incentives for energy rehabilitation works in buildings and the purchase of electric cars.

However, despite these proactive steps, the OECD has noted that Portugal's green tax policies still lack consistent incentives to effectively reduce energy and water consumption and divert waste from landfills (OECD, 2023). This observation suggests that while progress has been made, more comprehensive and impactful measures are still needed to achieve significant environmental improvements.

Citation:
ANI – Agência Nacional de Inovação. 2023. "Indicadores do SIFIDE."
https://www.ani.pt/pt/financiamento/incentivos-fiscais/sifide/

INE – Instituto Nacional de Estatística. 2023. "Impostos e taxas com relevância ambiental 2022."
https://www.ine.pt/xportal/xmain?xpid=INE&xpgid=ine_destaques&DESTAQUESdest_boui=593750697&DESTAQUESmodo=2

Eurostat. 2023. "Environmental tax revenues."
https://ec.europa.eu/eurostat/databrowser/view/env_ac_tax/default/table?lang=en

OECD. 2023. "OECD Environmental Performance Reviews: Portugal 2023."
https://www.oecd.org/environment/country-reviews/oecd-environmental-performance-reviews-portugal-2023-d9783cbf-en.htm

Slovenia

Score 7

As the European Environment Agency (2023) reported, the share of environmental taxes in total tax revenue varies among EU member states. Slovenia is among the countries that have seen the largest decrease (by more than 2%) between 2010 and 2021 – from 9.4% to 7.2%. According to the Slovenian Statistical Office (2023), environmental taxes accounted for 2.86% of GDP in 2022, compared to 3.12% in 2021. In 2022, €1,633 million in environmental taxes were paid in Slovenia, only 0.02% more than in the previous year. Energy taxes accounted for the largest share of environmental taxes (84.1%), followed by transport taxes (12.5%) and taxes on pollution and resources (3.4%). Private households paid 53.4%, and the corporate sector paid 43.1% of environmental taxes (3.5% were paid by non-residents – foreign transit across Slovenian territory).

Taxpayers in Slovenia can apply for a reduction in the tax base of up to 100% of the sum of investments in research and development during a certain period, up to a maximum of the amount of the tax base.

Citation:
European Environment Agency. 2024. “Slovenia.” https://www.eea.europa.eu/en/analysisindicators

United Kingdom

Score 7

Fuel, tobacco, and alcohol duties, which together account for around 5% of total tax revenue, aim to internalize negative externalities. The fuel tax escalator (later renamed “stabilizer”), introduced in 1993, was intended to rise faster than inflation to deter fuel use. However, successive chancellors have often chosen not to apply it during periods of rising oil prices or wider cost-of-living pressures. Fuel duties were cut as a temporary measure in the 2022 budget and maintained for another year in the 2023 budget.

For businesses, various tax incentives stimulate investment and research, internalizing positive externalities. These incentives were reinforced in the November 2023 fall statement.

Finland

Score 6

In Finland, there has been no major shift away from the taxation of labor toward environmental taxation; the share of environmental taxes in tax revenues remains moderate. There are also few other taxes and subsidies introduced to internalize negative externalities. These include taxes on tobacco products and alcoholic drinks. Similarly, very few taxes and subsidies have been introduced to internalize positive externalities. For example, there are no subsidies for basic research that benefits the public, except that foundations do not need to pay tax, regardless of the field of operation of the foundation.

Greece

Score 6

The Greek tax system is somewhat aligned with the goal of internalizing externalities, particularly through the imposition of environment-related taxes. Among OECD countries, Greece has the highest environmental taxes relative to total tax revenues (OECD 2020).

The Hellenic Foundation for Research and Innovation (ELIDEK) provides grants for basic research across all scientific disciplines, with recent funding supported by Greece's National Recovery and Resilience Plan, part of the EU Recovery and Resilience Facility (ELIDEK 2022). However, in terms of fund absorption, private businesses in Greece lag behind state universities and research institutions, which conduct the majority of basic research.

Citation:
ELIDEK. 2022. "Basic Research Financing." https://www.elidek.gr/wp-content/uploads/2022/03/%E2%80%9CBasic-Research-Financing%E2%80%9D-Horizontal-support-for-all-Sciences.pdf

OECD. 2020. "Environmentally related tax revenue." https://stats.oecd.org/Index.aspx?DataSetCode=ERTR

Ireland

Score 6

Irish taxes and subsidies are underdeveloped in their capacity to address environmentally harmful behavior. However, a carbon tax has been introduced and will be increased over time by statute. Revisions to corporation tax have introduced positive externalities for corporate research and development, which arguably benefits the public. There are also limited tax subsidies for investment in personal education.

The share of environmental taxes in total tax revenue was low at 1.3% in 2021, down from 2.42% in 2006, and below the 2021 OECD average of 2% (OECD 2021). There has been substantial critique of the spillover impact of Irish taxation on the Global South. Killian (2020) documents case studies of Irish spillover effects and negative externalities on Kenya and other African states. Tax Justice Ireland highlights the impact of Irish tax policy on child development in the Global South. The Irish revenue system is well-regarded internationally for its administrative capacity and has contributed to capacity-building projects in Eastern Europe and beyond. It is not yet clear how recent OECD-led BEPS changes will impact negative and positive externalities, and Ireland is resisting some changes regarding the scope of what might be defined as corporate tax.

The Apple case is indicative of how Ireland handles externalities, often minimizing revenue intake and risking perceptions of complicity in tax avoidance, with potential compliance costs and reputational risks. After years of litigation regarding whether Ireland had facilitated Apple in avoiding the payment of €13 billion in corporate tax, the European General Court ruled in July 2020 that the European Commission "did not succeed in showing to the requisite legal standard" that Apple had received tax advantages from Ireland. However, the European Commission appealed this decision to the European Court of Justice. In November 2023, Advocate General Giovanni Pitruzzella recommended that the European Court of Justice annul the decision of the lower court, arguing that it did not correctly assess "the substance and consequences of certain methodological errors that, according to the Commission decision, vitiated the tax rulings." The final judgment from the European Court of Justice is expected in 2024 and often reflects the Advocate General's recommendations.

Citation:
OECD. 2021. OECD Environmental Performance Reviews: Ireland 2021. Paris: OECD Publishing. https://doi.org/10.1787/9ef10b4f-en
Tax Justice Network. 2022. "Ireland's Responsibility for the Impacts of Cross-border Tax Abuse on the Realisation of Children's Economic, Social and Cultural Rights." https://taxjustice.net/wp-content/uploads/2022/08/Ireland_CRC_submission_august2022.pdf
Killian, S., O'Regan, P., Lynch, R., Laheen, M., and Karavidas, D. 2022. "Regulating Havens: The Role of Hard and Soft Governance of Tax Experts in Conditions of Secrecy and Low Regulation." Regulation and Governance 16 (3): 722-737.
Tax Justice Network. 2021. "Corporate Tax Haven Index - 2021 Results." https://taxjustice.net/country-profiles/ireland/

Israel

Score 6

Several measures are used to internalize externalities. There is a special tax on gasoline for cars and on the purchase of cars. Additionally, there is a special tax on tobacco products, including electronic cigarettes. The previous government promoted a tax on road usage during rush hours, although this initiative was dropping following the elections. The previous government also added a tax on plastic tableware and cutlery. However, the current government has removed this tax.

The government provides tax deductions for projects defined by the Authority for Innovation as research and development. Additionally, recognized research and development companies are entitled to other deductions and benefits.

Latvia

Score 6

Latvia imposes several taxes on environmentally harmful activities, including a natural resources tax and an excise tax on fossil fuel, both with varying rates. The transport tax also varies based on CO2 emissions. Since 2022, Latvia has introduced subsidies to encourage the use of electric cars – €4,500 per new car and €2,250 per secondhand car. However, electric cars have not been widely adopted due to inadequate charging infrastructure.

The parliament passed a law in December 2023 to provide additional support for mortgage holders facing difficulties with increased mortgage payments. The financial sector opposed the legislation, arguing that it would have detrimental effects on the banking industry and signaling the government's intent to interfere in the market. The ECB also warned of potential negative impacts on future investments in Latvia.

Citation:
European Central Bank. 2023. "Key ECB Interest Rates." https://www.ecb.europa.eu/stats/policy_and_exchange_rates/key_ecb_interest_rates/html/index.en.html

LSM. 2023. “ECB flags ‘potential negative consequences’ of Latvia’s mortgage relief law.” https://eng.lsm.lv/article/economy/banks/18.12.2023-ecb-flags-potential-negative-consequences-of-latvias-mortgage-relief-law.a535809/
3. Baltijā restartējas atbalsts elektromobiļiem: kādi ir subsīdiju modeļi? https://uzladets.lv/baltija-restartejas-atbalsts-elektromobiliem-kadi-ir-subsidiju-modeli/

Lithuania

Score 6

Many analysts and several international institutions, such as the IMF and the OECD, have for many years been recommending both shifting and expanding the tax burden to somewhat reduce labor taxation and instead increase property and environmental tax rates. Lithuania’s taxes in these areas are among the European Union’s least ambitious. The minister of environment in 2021 proposed a revamp to car taxation by abolishing the registration tax and introducing an annual tax, which would then be gradually increased over the succeeding years. He suggested it as a way of addressing negative externalities and reducing emissions, although opponents criticized the tax for not targeting the precise externalities and for being regressive. The parliament rejected the proposal in early 2022 amid disagreement among coalition partners and criticism from the opposition.

In 2023, the parliament adopted the increase of excise duties for certain types of fossil fuels, slated to come into effect in 2024 and later. The policy includes the abolishment of existing excise tax exemptions for certain types of fossils fuels, increases in the excise tax rate for diesel fuel, and increases in the excise tax rate for gasoline over time. However, the resulting public discontent made it likely that some of these policies would be withdrawn in the 1st half of 2024. Beginning in 2024, excise taxes on different types of alcohol were also increased.

There is also a reduced profit tax rate applied for investments in research and innovation. This policy is intended to motivate businesses to invest in such activities, which are associated with positive externalities. However, not all taxes intended to internalize positive externalities have functioned this way; rather, since they have not been abolished, they have become likely sources of negative externalities. One example is a reduced corporate income tax rate for micro enterprises, which was intended to incentivize their growth but instead provoked a bunching of enterprises at the threshold of the higher tax rate, while also producing incentives for engaging in other sorts of unproductive activities.

Citation:
World Bank. 2022. “TSI Project 20LT09 Micro Enterprises and Self-employed Tax Regulatory Assessment for Removing Hurdles to Growth: Report Assessing the Impacts of Tax Optimization and Bunching in MEs and Self-employed and Legal Entities Responses to Size-based Tax Rates in Lithuania. Output 2.”
Kalanta, Marius. 2021. “Special Corporate Income Tax Rate for Micro-Enterprises in Lithuania: Productive or Unproductive Incentive?” Enterprise Lithuania Report. Vilnius.

Poland

Score 6

In line with EU recommendations, environmental pollution-related taxes in Poland primarily target gases, particulates and CO2 emission rights. However, Poland is one of the few EU members that has not implemented a tax for owners of the most emissions-intensive vehicles. The government is introducing taxes to encourage healthy eating, such as a sugar tax, and is limiting access to unhealthy or dangerous products.

In 2016, Poland introduced the Research and Development Tax Relief (R&D relief) policy. Since 2022, companies have been able to deduct up to 200% of costs identified as innovation-related in their records. The government later expanded these incentives to include additional reliefs, such as the IP Box program, relief for innovative employees, relief for prototypes or the use of robotics, and expansion, which became eligible for tax deductions for the first time in 2023. Taxpayers have the right to an additional deduction of 50% of costs incurred for robotization from the tax base for the period 2022 – 2026.

Spain

Score 6

Spain performs slightly below the OECD average in green budgeting. In 2021, environment-related tax revenues amounted to 1.8% of GDP, compared to the OECD average of 2.0%. Pollution and resource taxes on waste, water pollution, and abstraction account for a small portion of environmental tax revenue. Additionally, energy and transport taxes contribute minimally to this category.

While autonomous communities have a history of legislating environmental taxes, the Spanish government adopted its first green taxes in 2023. A finance ministry expert committee recommended increasing environmental taxes, including higher rates on car registration, diesel, and agricultural fuel, and new taxes on airplane tickets.

Investments in knowledge transfer and job creation benefit from special tax treatment. Spain’s corporate tax rate within the eurozone is moderate at 25%, with incentives and tax exemptions reducing the effective rate to around 20%. Spanish regulations permit the carryforward of unused tax credits for research, development, and innovation (RDI) investments. Spain has one of the most advantageous “patent box” regimes in the EU, allowing up to a 60% exemption of net income from specific intangible assets.

Tax policies vary among autonomous communities. For example, the Community of Madrid approved a tax reduction for foreign investors in 2023, targeting individuals who have lived outside Spain for at least five years and wish to invest and transfer their tax residence to the region. Specifically, 20% of the total investment in financial assets or real estate may be deducted.

Citation:
OECD. 2023. "Countries on Green Budgeting."
https://www.oecd.org/publication/government-at-a-glance/2023/country-notes/spain-a91a38d3/

Belgium

Score 5

Belgium performs moderately well in terms of environmental taxes. In 2021, revenues from environmental taxes were above the European average, constituting 2.49% of GDP compared to the EU average of 2.24%. Energy taxes were the primary component, accounting for 1.77% of GDP, closely aligning with the EU average of 1.76%. Transport taxes made up 0.62% of GDP, surpassing the EU average of 0.41%, while taxes on pollution and resources amounted to only 0.11%, slightly exceeding the EU average of 0.08%. Environmental taxes represented 5.72% of total tax revenue, higher than the EU average of 5.52%. Despite this, some significant shortcomings remain. According to a report in the Flemish newspaper De Standaard, Belgium allocated €2.79 billion in subsidies for diesel fuel sales, with a substantial portion benefiting foreign companies. Fossil fuel subsidies are estimated at €13 billion, or 2.8% of GDP, leading one expert to assert that "in Belgium, we subsidize fossil fuels more than we tax them" (see press article). Regarding research and innovation, following the 2002 Barcelona European Council meeting, the Belgian federal government implemented tax incentives to bolster business R&D starting in 2005. These tax benefits, in addition to significant direct support (subsidies) from the three Belgian regions, included partial exemption from withholding tax on R&D personnel wages and tax credits for R&D investment and patent income deduction. The popularity of these incentives grew steadily, resulting in substantial budgetary costs, reaching €2,782 million in 2019 (0.59% of GDP), primarily driven by an increase in corporate income taxation benefits. Dumont (2022) suggests that certain corporate tax incentives may lead firms to reduce their own R&D spending. Given the significant portion of budgetary costs for supporting business R&D, enhancing the efficiency of R&D tax incentives by implementing a cap on total public support is recommended.

Citation:
Share of environmental taxes in total tax revenues: https://ec.europa.eu/eurostat/databrowser/view/SDG_17_50/default/table?lang=en
Environmental tax revenues: https://ec.europa.eu/eurostat/databrowser/view/env_ac_tax/default/table?lang=en
Press article on diesel subsidies: https://www.standaard.be/cnt/dmf20230731_97443573
Press article on environmental taxation:
https://www.lesoir.be/art/d-20230616-H02P2D?referer=%2Farchives%2Frecherche%3Fdatefilter%3Dlastyear%26sort%3Ddate%2Bdesc%26word%3Destelle%2Bcantillon
Dumont, M. 2022. Public Support to Business Research and Development in Belgium-Fourth evaluation. Federal Planning Bureau. https://www.plan.be/publications/publication-2305-en-public_support_to_business_research_development_in_belgium_fourth_evaluation

Canada

Score 5

There is little connection between the tax system and externalities in Canada, except for carbon taxes. Canada applies some environmental taxes and research subsidies to address minor externalities. For example, some provinces and local governments tax or charge for landfill waste disposal to cover disposal costs. Fuel taxes are expected to cover some road maintenance costs and help capture local air pollution impacts but underestimate environmental damage per liter. Many forms of water pollution and toxic chemical releases remain untaxed.

In one major deviation from this model, the federal government of Canada has implemented carbon pricing mechanisms and successfully imposed them on the provinces, though current prices are likely below estimated climate damage costs.

Positive externalities are supported through tax credits, which aid some R&D spending by private sector companies. The government of Canada allocates approximately $3 billion annually in generous tax credit incentives through the Scientific Research and Education Development Program.

Research grant programs from tri-council funding agencies also subsidize academic research and graduate training. The spillover benefits of training skilled workers are also not fully captured.

Citation:
https://www.canada.ca/en/revenue-agency/services/scientific-research-experimental-development-tax-incentive-program/evolution-program-a-historical-perspective.html

Hungary

Score 5

In 2023, several new pieces of legislation in the environmental sector were introduced, but administrative problems remain. Taxation has not been harmonized with ecological sustainability and quality goals for a long time. Although environmental tax revenues in Hungary have been slightly higher than the EU average, issues persist with Hungary’s tax structure due to numerous exemptions and special taxes (e.g., subsidies for reorganizing the coal sector). Over the past two decades, environmentally related tax revenue has consistently declined as a percentage of total tax revenue. VAT on cross-border digital services (27%) has been introduced. Recently, the government introduced the extended producer responsibility (EPR) principle, significantly impacting green taxation. So far, green taxation has served as both a financing tool for the Hungarian waste management system and a measure to increase the price level of environmentally harmful goods. The first role will be shifted to the new EPR regime, and the sole purpose of the green tax will be tackling harmful goods via price (Andersen, 2023). This will also affect the circular economy.

To address CO_2 emissions, the government introduced new payment obligations for operators of facilities receiving free emission allowances (Government Decree No. 320/2023. (VII. 17.)), also known as the CO_2-quota tax. Additionally, transaction fees will apply.

In terms of internalizing positive externalities, the government provides selected companies with corporate tax breaks and direct subsidies in exchange for investments in R&D, education and training through the so-called Strategic Partnership Agreements. Although these agreements have not been fully transparent and have provided advantages to these companies on top of the already extremely low corporate income tax rate, they have led to partnerships between higher education institutions and companies, mostly in the car manufacturing industry and related disciplines (Martin 2023).

Citation:
Andersen. 2023. "Extended Producer Responsibility – Significant changes in the Hungarian green tax legislation." https://hu.andersen.com/news/extended-producer-responsibility-significant-changes-in-the-hungarian-green-tax-legislation

Martin, J. P. 2023. "From Dual Economy to Parallel Universes: Attitudes and Coping Strategies of Businesses vis-à-vis Crony State Capitalism – the Case of Hungary." CIPE Working Paper. https://www.cipe.org/resources/from-dual-economy-to-parallel-universes-attitudes-and-coping-strategies-of-businesses-vis-a-vis-crony-state-capitalism-the-case-of-hungary/

Italy

Score 5

Italy provides some subsidies for basic research, but aside from programs to attract foreign researchers or Italians conducting research abroad (e.g., individual tax credits), there are no significant subsidies or tax credits for research institutions or universities. Regarding taxes and subsidies to address environmentally harmful behavior, Italy is among the most demanding countries in the EU, although most revenues are not invested in environmental policy.

Citation:
https://www.openpolis.it/come-vengono-gestite-e-impiegate-le-tasse-ambientali
Istat. 2023. "GLI INCENTIVI ALLE IMPRESE PER LA RICERCA E SVILUPPO." https://www.istat.it/it/files//2023/09/Focus_incentivi_RS_DEFINITIVO.pdf

Japan

Score 5

The share of environmental taxes in Japan's total tax revenues (1.27%) is below the OECD average (1.40%). As the Global Warming Countermeasures Tax on the consumption of fossil fuels is set at a very low level of JPY 289 (approximately €1.80) per ton of CO_2, it only internalizes environmental pollution costs to a very limited extent. In addition, the carbon levy, planned to be introduced in 2028, is expected to be set at the relatively low level of JPY 1,500 (approximately €9.50) per ton of CO2.

Despite hikes in recent years, the tobacco excise tax remains relatively low, which fails to combat health issues connected with smoking. Japan performs better in internalizing the problem of traffic congestion through high automobile taxes.

Japan has a comprehensive R&D tax credit system, under which tax deductions are available for basic or applied research and experimental development up to the ceiling of 25% of the corporation's or 40% of the R&D venture corporation's national corporate income tax liability. In September 2023, the Kishida government considered the introduction of additional tax breaks for investments in areas such as batteries, electric vehicles and semiconductor chips.

Citation:
Influence Map. 2023. "Carbon Taxes." https://japan.influencemap.org/policy/Carbon-Tax-5346

Masao Ichikawa and Takahiro Tabuchi. 2022. "Are Tobacco Prices in Japan Appropriate? An Old but Still Relevant Question." Journal of Epidemiology 32 (1). https://www.ncbi.nlm.nih.gov/pmc/articles/PMC8666320/

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United States

Score 5

The complex U.S. tax system contains a variety of incentives for activities associated with positive externalities. For example, the federal government provides tax credits for renewable energy projects (Newell et al. 2019). The Investment Tax Credit (ITC) and the Production Tax Credit (PTC) support investment and production in wind, solar, and other renewables (Sherlock 2020).
Another example of a tax institution that internalizes positive externality is the Low-Income Housing Credit. It encourages the construction and refurbishment of affordable housing by providing tax credits to developers working on projects in this area.
Negative externalities are more often addressed at the state level through the tax system (Hines 2007). For example, many states impose various "sin taxes" on alcohol, tobacco, recreational drugs, gambling, fast food, and sugar (Perkins 2014). The federal government briefly had a luxury tax, introduced in 1990, which applied to high-end cars, planes, yachts, and fur coats (Green 2010). However, the tax proved so unpopular with the wealthy that it was repealed by the Bill Clinton administration in 1993 (Conlon et al. 2022).

Citation:
James Hines. 2007. "Taxing Consumption and Other Sins." Journal of Economic Perspectives.

Rachel Holmes Perkins. 2014. "Salience and Sin: Designing Taxes in the New Sin Era."
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Christopher Conlon, Nirupama Rao, and Yinan Wang. 2022. "Who Pays Sin Taxes? Understanding the Overlapping Burden of Corrective Taxes." Review of Economics and Statistics.
Sherlock, Molly. 2020. "The Renewable Electricity Production Tax." Congressional Research Service.
Richard Newell, William Pizer, and Daniel Raimi. 2019. "U.S. Federal Government Subsidies for Clean Energy: Design Choices and Implications." Energy Economics.

Australia

Score 3

The Australian taxation system has been criticized for its low taxation of the high-polluting mining and energy sectors (Denniss 2022). Furthermore, recent Australian governments have been reluctant to use the tax system to advance progress toward environmental goals, following a short-lived experiment with a carbon tax (2012-14) during the government led by Julia Gillard, which was immediately abandoned by her successor as prime minister, Tony Abbott. Recent research (Rajabi 2023) demonstrates that a carbon tax could be both economically and environmentally effective in Australia.

More broadly, there is relatively little built into the Australian taxation system to internalize externalities, with notable exceptions being excise taxes on tobacco, alcohol, and motor vehicle fuel. However, in the case of motor vehicle fuel, the rationale is raising revenue for road building and maintenance rather than addressing externalities, since farmers and miners using vehicles that do not use public roads are entitled to rebates on fuel excises. The exemption of fresh food, healthcare, and education from the goods and services tax, and large subsidies for health care and education, can also be interpreted as improving incentives to undertake activities with positive externalities.

Citation:
Denniss, R. 2022. "It's Time to Tax Mining and Energy Giants Properly."The Australia Institute. https://australiainstitute.org.au/post/its-time-to-tax-mining-and-energy-giants-properly-struggling-australians-should-share-in-their-record-profits

Rajabi, M.M. 2023. "A carbon tax can have economic, not just environmental benefits for Australia." The Conversation. https://theconversation.com/a-carbon-tax-can-have-economic-not-just-environmental-benefits-for-australia-210380

Slovakia

Score 3

The fact that the Slovak tax system is not an effective tool to internalize negative externalities is stressed by the 2022 European Semester Report (European Union, 2022: 8-9): "Fiscal policy and taxation are not yet sufficiently supporting the green transition. Addressing the pricing of CO2 emissions is essential, as they are generally too low given their environmental costs. Despite the economy's energy intensity, environmental taxes were only 2.4% of GDP in 2020. Road taxes and vehicle registration fees could better reflect emission intensity by increasing them for polluting vehicles. Additionally, environmental charges related to waste management and air pollution could be adjusted accordingly to better promote resource efficiency."

Taxes are not used to internalize positive externalities; this government role is realized through subsidies. Various subsidies exist for this purpose. However, the European Semester 2022 (European Union, 2022: 8) report states, "The use of economic incentives and disincentives lacks coherence and is not always in line with the polluter pays and the user pays principles."

Citation:
European Union. 2022. 2022 Country Report – Slovakia. Brussels: European Union.

Switzerland

Score 3

Corresponding to the general liberal-conservative approach of Swiss tax policy, taxes do little to internalize externalities. The rejection of a comprehensive CO2 law in 2017 in a popular vote supports this observation. This law would have internalized negative externalities. After the popular vote, the federal government proposed a new law in December 2021, substantially watering down the failed CO2 law and renouncing any new attempts to tax CO2 emissions. Rather, this new measure relies almost entirely on positive incentives, and any attempts to increase the price of gasoline by additional taxes have been opposed vehemently in the political process.
However, there are also examples of tax policy that incentivizes environmental protection. A CO2 levy on fossil fuels has existed since 2008. Two-thirds of its revenue is redistributed to the population and the economy. For citizens, this redistribution is administered via a reduction of health insurance premiums. Similarly, there has been a tax on volatile organic compounds – for instance, those present in solvents and those responsible for ozone pollution – since 2000 (OFEV n.d.); once again, the benefits are redistributed to the population through the health insurance system. Evidently, these initiatives are far from enough to foster a general dissuasive dynamic regarding environmentally harmful behavior.

Citation:
OFEV: https://www.bafu.admin.ch/bafu/fr/home/themes/air/info-specialistes/mesures-de-protection-de-l-air/taxe-d_incitation-sur-les-cov.html

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