



1<sup>st</sup> of April, 2010

**Flat proportional income taxes 2010**  
**- From 1 to 25 countries in 16 years**

Kyrgyzstan (since 2006)	10%*
Kazakhstan (2007)	10%*
Macedonia (2007)	10%*
Mongolia (2007)	10%
Albania (2008)	10%
Bulgaria (2008)	10%*
Nepal (2008)	10%
Serbia (2008)	10%
Georgia (2005)	12%*
Macau	12%
Belarus (2009)	12%*
Russia (2001)	13%*
Hong Kong (1947)	15%
Ukraine (2004)	15%*
Iraq (2004)	15%
Montenegro (2007)	15%
Mauritius (2007)	15%
Czech Republic (2008)	15%
Romania (2005)	16%
Slovakia (2004)	19%*
Jersey and Guernsey (1940)	20%
Estonia (1994)	19%*
2011	18%
Lithuania (1994)	24%
Jamaica (1984)	25%
Trinidad & Tobago	25%

***Why flat income taxes?***

1. They are simple and fair
2. They promote economic growth
3. They promote tax competition
4. They are neutral to inflation



***Why mostly in the new democracies?***

1. Wish liberal values with more individual freedom
2. Wish to get rid of socialistic high taxes
3. Wish to reduce the black economy
4. Wish to promote economic growth and increased tax revenues with lower taxes (see Russian example)
5. They have no heavy package of social welfare

**Remarkable development of flat income taxes  
– from 1 to 25 countries in 16 years**

Taxes always disrupt or destroy economic activities. The most devastating tax is the income tax. That is why the World Taxpayers Associations has focused its energy and resources on reforming these systems. In 1993 just one country of the World, Hong Kong, the country with the most free economy, had a flat income tax.

In 1994 the three Baltic States introduced flat income taxes. The first in the Western world. Six years later Mr. Mart Laar, the Prime Minister of Estonia at that time, in his speech to the World Taxpayers Conference in Estonia said that there is a need for spreading the flat tax around the world. Mr. Laar was heard, everybody worked hard and today 25 countries of the world have introduced flat rates for private individuals. So, we have seen the flat tax reform go from 1 to 25 countries in 16 years. A remarkable achievement indeed, the list of the 25 countries is attached.

There are five good arguments for flat income taxes:

1. They are simple
2. They are fair
3. They promote economic growth
4. They are neutral to inflation
5. They promote tax competition

Russia introduced flat rates in 2001 and tax revenues increased, as an average by 25% during the first four years.

Lower taxes higher economic growth, higher taxes lower economic growth.

The flat rate is also neutral toward inflation, because as prices rise tax levels do not have to be changed. That is a great political and administrative advantage. The first countries introduced flat rates around 25% from 1994, while the next group ten years later introduced them at 15-19%. The last and biggest group of 11 countries have introduced historic low levels of 10-12% from 2005-2009. Low levels never heard of before.

Today as many as eight countries have the low 10% rate. First to come was Kyrgyzstan in Central Asia, with 10% in 2006.



The following year (2007) Kazakhstan, Macedonia and Mongolia introduced 10% rates. Albania, Bulgaria, Serbia and Nepal followed in 2008. All with 10%. Georgia, Macau and Belarus have 12% rates.

Now we are ready to make the case for the next step: From flat to 0 - Replace income taxes with consumption taxes!

The ultimate flat rate is 0. In Asia, taxes are lower and in some countries the income tax is so small that it is better to abolish it than make it flat. This is the case in Thailand, where the income tax is equal to three times the beer tax or a 3% VAT. Also possible in Japan and South Korea. In this sense, it is not very prudent to introduce a flat rate and still have all the bureaucracy of an income tax for taxpayers, employers, tax administration or the political system.

In Japan, the whole income tax can be replaced by an increased VAT of 7% - from 5% today to 12%. If they also replaced all corporate taxes with a VAT, they would increase the VAT to 18% -- the same average level as in Europe, but with no income tax or corporate tax at all. The first step is to abolish the income tax with the positive effects of the economy, higher productivity and a growing labor force.

Taxpayers associations have done remarkable work to get to where we are today. The fight has to continue to abolish the income tax as a whole wherever this is possible.

The flat tax is better than the progressive income taxes that we have had for 100 years. But the next step is to replace all private income taxes with consumption taxes of different kinds, as our Resolution from 2001 goes. The less harmful for the people the better.