

**Emilia CLIPICI**  
University of Pitesti  
Pitesti, Romania

**Florin FRANT**  
University "Eftimie Murgu" of Resita  
Resita, Romania

# FISCAL COMPETITION AND MOBILITY OF THE ECONOMIC FACTORS

Case study

---

## **Keywords**

Fiscal competition,  
Mobility of the economic factors,  
Tax systems

## **JEL classification**

F42, G18, H21

---

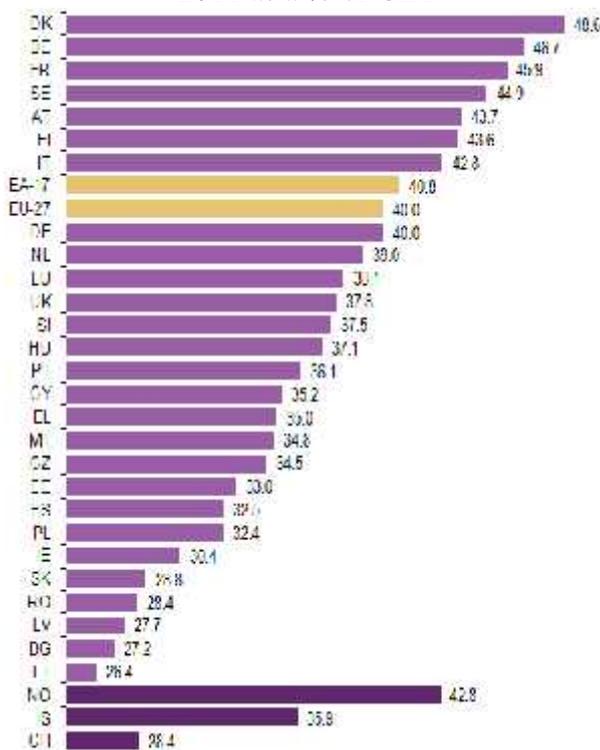
## **Abstract**

*The interaction between the free movements of the taxable bases was the basis for defining the concept of tax competition, which is a response to external pressure on two dimensions: the competition for locating activities and the competition for locating the tax base. The article starts from the realities of the European Union and details a wide range of aspects concerning the taxation mechanism and its improvement while also providing for macroeconomic stability; it compares the current taxation levels in the European Union, and analyses fiscal competition and its effects on legal persons. The research methods are represented by the systematic, comparative analysis, and by the complex approach of the researched topic, depending on the established purposes and tasks. In the paper, mathematical and statistical methods have been used, such as: classification, synthesis, comparative static and dynamic analysis, correlation analysis, economic-mathematical modelling, induction and deduction methods, graphical representation of the researched events and phenomena.*

## 1. INTRODUCTION

Taxation (the tax burden level – figure no.1 and the value of the taxes levied) is often mentioned as one of the assessment criteria for the attractiveness level of an area as headquarters for industrial, financial and commercial activities. However, there is no consensus concerning the relative share of this criterion compared to others, such as market proximity, production costs, the possibility of having qualified personnel, infrastructure and public equipment, public aid, etc.

Figure no. 1. Ranking of total tax revenue by Member States and EFTA countries in 2011 as a % of GDP



Source: Eurostat,

[http://epp.eurostat.ec.europa.eu/statistics\\_explained/index.php?title=File:2\\_Ranking\\_of\\_total\\_tax\\_revenue\\_by\\_Member\\_States\\_and\\_EFTA\\_countries\\_as\\_a\\_%25\\_of\\_GDP.PNG&filetimestamp=20130102164221](http://epp.eurostat.ec.europa.eu/statistics_explained/index.php?title=File:2_Ranking_of_total_tax_revenue_by_Member_States_and_EFTA_countries_as_a_%25_of_GDP.PNG&filetimestamp=20130102164221)

Tax systems are complex and are not easily comparable between them. However, it is essential to assess whether the tax incentives of the various authorities reach the set objectives, to assess the potential impact of the decisions aimed at

promoting positive industrial changes on their territory and to calculate their relation with the assessed cost.

The mobility of the economic factor increases in the EU due to the following reasons:

- Large enterprises view the Economic market as a single market, their “national” market;
- electronic commerce ignores national boundaries;
- the production and distribution value chain become increasingly segmented, and their various components are increasingly mobile (CCMI/037 - CESE 599/2007);
- The improvement of the transport infrastructure and decreasing costs following the restructuring of the freight transport encourages the geographical spread of the companies and their branches;
- The number of multinational acquisitions and mergers of companies is increasing;
- The EU enlargement, contributes, among others, to the mobility of the economic investments, of persons and capitals;
- The increase of the knowledge level and of the language training contributes to an increased mobility of people.

All Member States use specific or structural elements of their tax systems, in order to attract investments and activities on their territory, thereby increasing their potential for jobs and their tax base. On the other hand, taxpayers (corporations and individuals) try to improve their economic status outside their country. Their fiscal contributions, influenced by the disparities in the national fiscal regimes, are part of the strategic variables.

## 2. THE CONCEPT OF TAX COMPETITION VS. TAX HARMONIZATION

Many studies have analysed the intensity and real impact of tax competition on the mobility of the production factors and of the existent capitals, and fail to reach a real convergence of the conclusions. The only common conclusion of these studies is that the fiscal criterion is only one of the determining factors in locating mobile investments. The fiscal harmonization need emerged on the background of these differences. The concept of "tax harmonization" acquired special importance with the evolution towards the creation of an economic and monetary union. Ever since 1962, the European Commission created a Tax and Financial Committee in charge with defining the guiding principles of the economic and financial policy of the community. This committee prepared the *Neumark report* according to which the creation of the single market implies setting taxation requirements of an economically unified space. Highlighting the difficulty of reaching this objective due to the differences among the legislations of the member states, the authors show that it is not necessary to create a community tax system, instead, it must resort to harmonization, allowing for the existence of national peculiarities that do not jeopardise the achievement of the objectives of the community. Therefore, the harmonization process is not a simple exercise of aligning tax practices of each country to the taxation means of the community, harmonization does not standardize. With this acceptance the question emerged: what taxes must be harmonized and what level of harmonization must be adopted?

In 1971, the Werner report, prepared by the Fiscal and Financial Committee, answered to this question: in relation to indirect taxes is necessary to

approximate national laws and suppress controls of the individuals at borders. On the other hand, for direct taxes it is recommended to harmonize just the taxes influencing the movement of capital. More specifically, only taxes on securities and, generally, the structure of the profit tax. Moreover, for direct taxes there cannot be a real harmonization, but only the implementation of common rules on establishing groups of companies and their operation, the establishment of a type of European company or avoiding tax fraud and tax evasion in the common market.

The first more significant results concerning fiscal harmonization were obtained in the period before 1 January 1993, and since that date the development of the domestic market became a reality. After that day, the efforts of the community institutions and of the member states were channelled in three main directions:

- improving the value added tax;
- taxation of savings;
- Direct taxation of companies.

With its enlargement from 15 to 27 member states, the Union undeniably won in diversity. Each new member country is marked by its specific geographic, historical, cultural, social, political and economic context, by its industrial network and its specific tax laws.

The concept of tax competition was introduced by Charles Tiebout and starts from the idea of the existence, for public goods, of the equivalent

of the private goods markets (Tiebout, 1956). Consequently, taxpayers should choose those residences that provide a combination of public goods and taxes (i.e. the prices of public goods) that meet their preferences to the highest extent. In their turn, the fiscal authorities will try to attract taxpayers in their own jurisdictions, providing them with the tax-public goods combination desired by them until an optimum size of the tax base is obtained, i.e. the tax base that allows for the minimization of the cost of the supplied public goods.

The interaction between the free movement of the taxable bases (a decisive factor for obtaining budgetary revenues) and the intention of the countries to keep an optimum level of the foreign investments (a decisive factor for economic achieving growth) was the basis for defining the concept of tax competition, which is a response to external pressure on two dimensions: the competition for locating activities and the competition for locating the tax base.

At the community level, tax competition is influenced by two key factors: ensuring community freedoms – especially the four freedoms of movement – and protecting the single market – especially the policies on fair competition, administrative and judicial cooperation.

Tax competition is the strategic fiscal conjuncture, resulted from the lack of cooperation among the various fiscal jurisdictions, in which each sets its own tax system limits according to the actual situation (the number and level of the existing tax rates) in the other jurisdictions, *in order to enhance the attractiveness of their jurisdiction for businesses, residents, employees or consumers.* (Keen, 2008)

This phenomenon can be classified according to:

- a. The fiscal tools used by the authorities:
  - *Competition through the tax rates*, when the authorities set lower tax

rates compared to the rates charged in other jurisdictions;

- *Competition through tax bases*, when the authorities grant various facilities in determining the taxable matter (granting allowances, provisions on to the fiscal treatment of losses, various possibilities to record amortization, etc.);
- *Competition through public expenditure* (« *expenditure competition* »), when the authorities allocate a significant amount of expenditures to provide public goods that increase the productivity of businesses (e.g. the infrastructure), in order to determine them to choose their own fiscal jurisdiction.
- b. *Depending on the hierarchical relationships of the involved public authorities*
  - *Horizontal tax competition*, when the authorities are on the same level of government;
  - *vertical tax competition*, when the public authorities that are at different levels of government tax the same taxable matter.

The purpose of tax competition is to attract:

- foreign direct investments;
- portfolio investment, financial capital with high mobility, required to finance domestic companies and to strengthen the local financial market;
- internal financial flows within multinational groups, which can be channelled towards the own jurisdictions by attracting corporative functions used for the international transfer of profits for the tax optimization;
- foreign buyers, especially those of products subject to excise taxes, where there are significant differences among them;
- highly skilled labour force, viewed as having a high degree of mobility.

Most often, the competition among governments is the competition aimed at attracting capital by charging lower tax rates. We should mention that there is also a different competition, where the authorities do not rely solely on fiscal variables:

- Where environmental standards are not regulated at national level in an attempt to facilitate the location of businesses in their jurisdictions, local or regional authorities compete by lowering environmental standards (Oates, 2001).
- Regulating quality standards for products manufactured in own fiscal jurisdictions, lower for indigenous products, as long as most of them are exported (Sinn, 1997)

The specialized literature has mainly analysed the tax competition exercised with the purpose of attracting factors with a high level of mobility.

Frightened by the possibility of reducing the sources of budget revenues, rich countries condemn competition by taxes, wanting to see reduced or eliminated. Under the aegis of international organizations such as the EU or OECD, rich countries promote various forms of harmonization in order to avoid transferring jobs and capital from rich countries to developing ones.

The tax competition at European and regional level may generate both positive and negative effects. The positive effects consist of:

- the decrease of the taxpayers' vulnerability in relation to their exploitation by the state. From this perspective, the state is viewed as a monopoly, with a natural tendency to increase costs and expand its activities, and for this purpose it needs to increase its resources by raising taxes.
- Tax competition can stimulate the increase of the budgetary efficiency, because it determines the provision of the

best services at the lowest cost for the taxpayer. Due to the fact that tax competition reduces the resources of the budget, the costs must be better "managed", thus limiting waste.

- Tax competition can stimulate the economic activity, by releasing investments from part of the burden of taxation.

The negative consequences of tax competition can be:

- Generating a suboptimal level of public goods: as tax competition intensifies; it becomes increasingly difficult to levy taxes from taxpayers at levels covering the marginal cost of the supply of public goods;
- the general erosion of budgetary revenues, resulting, among others, in a frustration of the efforts to reduce budget deficits, which is a problem particularly delicate in the EU, in the context of the limitations imposed by the Stability and Growth Pact;
- Shifting the tax burden on less mobile tax bases, negative social effects. The budget revenue losses associated to the reduction of the tax burden on the mobile production factors could be, in theory, compensated by increases in indirect taxes;
- influencing decisions to place investments (distortion of resource allocation: they are removed from the most effective uses); this effect of tax competition has sometimes been challenged on the grounds that the choice of location for an investment depends to a greater extent on factors other than tax regime (e.g., the proximity to customers, the cheap labour that has appropriate skills, infrastructure, favourable regulations, etc). However, given that there are no significant differences between host countries in terms of other elements, the tax regime may come to play an important role, a phenomenon highlighted by several studies that identified a statistically significant link between the level of taxation and the foreign direct investment;
- the induction of strategic interactions among the fiscal authorities such as the

“prisoner’s dilemma” type, with the corollary of establishing taxation rates at increasingly low levels (*race to the bottom*). The existence of this effect is empirically documented.

A study on the situation in the EU concluded that an increase by 10 percentage points of the tax rates in neighbouring countries determines an increase by 8 percentage points of the rate of taxation of a European country. Its manifestation is greatly facilitated by the occurrence, in the contemporary world, of the possibility to dissociate advantages (infrastructure, education) and respectively, the inconveniences (the contribution to the public revenue) shown by a tax jurisdiction or another, a phenomenon known as *free riding*.

It is practically impossible to be able to determine which of the effects of tax competition are more likely to occur, because this depends on many factors, gradually highlighted by the specialised literature:

- The availability of alternative mechanisms that can substitute taxes as a tool for attracting capital;
- Asymmetries between countries in terms of size and available resources;
- Concentrating the production in certain geographical areas;
- The degree of mobility of production factors;

So the main advantage of progressive taxation is that it does not jeopardize the budgetary balance and does not require increases in other taxes and duties, the introduction of new taxes, the increase in the prices of the utilities and the decrease of budgetary spending.

### **3. POSITIVE AND NEGATIVE EFFECTS OF THE TAX COMPETITION**

The tax competition at European and regional level may generate both positive and negative effects. The positive effects consist of:

- the decrease of the taxpayers’ vulnerability in relation to their exploitation by the state. From this perspective, the state is viewed as a monopoly, with a natural tendency to increase costs and expand its activities, and for this purpose it needs to increase its resources by raising taxes.

- Tax competition can stimulate the increase of the budgetary efficiency, because it determines the provision of the best services at the lowest cost for the taxpayer. Due to the fact that tax competition reduces the resources of the budget, the costs must be better “managed”, thus limiting waste.

- Tax competition can stimulate the economic activity, by releasing investments from part of the burden of taxation.

The negative consequences of tax competition can be:

- Generating a suboptimal level of public goods: p as tax competition intensifies; it becomes increasingly difficult to levy taxes from taxpayers at levels covering the marginal cost of the supply of public goods;

- the general erosion of budgetary revenues, resulting, among others, in a frustration of the efforts to reduce budget deficits, which is a problem particularly delicate in the EU, in the context of the limitations imposed by the Stability and Growth Pact;

- Shifting the tax burden on less mobile tax bases, negative social effects. The budget revenue losses associated to the reduction of the tax burden on the mobile production factors could be, in theory, compensated by increases in indirect taxes;

- influencing decisions to place investments (distortion of resource allocation: they are removed from the most effective uses); this effect of tax competition has sometimes been challenged on the grounds that the choice of location for an investment depends to a greater extent on factors other than tax regime (e.g., the proximity to customers, the cheap labour that has appropriate skills,

infrastructure, favourable regulations, etc). The existence of this effect is empirically documented. A study concludes on the situation in the EU concluded that an increase by 10 percentage points of the tax rates in neighbouring countries determines an increase by 8 percentage points of the rate of taxation of a European country. Its manifestation is greatly facilitated by the occurrence, in the contemporary world, of the possibility to dissociate advantages (infrastructure, education) and respectively, the inconveniences (the contribution to the public revenue) shown by a tax jurisdiction or another, a phenomenon known as *free riding*.

It is practically impossible to be able to determine which of the effects of tax competition are more likely to occur, because this depends on many factors, gradually highlighted by the specialised literature:

- the availability of alternative mechanisms that can substitute taxes as a tool for attracting capital;
- Asymmetries between countries in terms of size and available resources;
- Concentrating the production in certain geographical areas;
- The degree of mobility of production factors;

So the main advantage of progressive taxation is that it does not jeopardize the budgetary balance and does not require increases in other taxes and duties, the introduction of new taxes, the increase in the prices of the utilities and the decrease of budgetary spending.

#### **4. THE TAX COMPETITION IN EUROPE**

The Tax Competition in Europe is about the behaviour of economic agents and public institutions in a specific geographic space (a continent the limits of which stretch from Gibraltar to Svalbard and from the Channel Islands to Lithuania, with a common cultural heritage), political space (the taxpayers choose the

government and they prefer and control the budgetary and fiscal policies in their country; parliamentary systems prevail), economic space (economic freedom refer to the technical requirements for international business starting with well interconnected traffic systems, (nearly) perfect banking services all over Europe, to abolition of legal impediments to the free movement of economic factors within Europe, the mobility of production factors is enhanced by the fact that direct investment in a jurisdiction is not any more a requirement for market access as enterprises can cater to the world market from single locations , etc) and legal setting (the EC Treaty and a huge array of secondary legislation provide a set of rules which are binding both for the economic agents – the taxpayers – and the Member States themselves: fundamental freedoms of the EC Treaty, the state aid provisions, the EC directives in tax matters or newly established European “soft law” (e.g. the Code of Conduct) which define the limits to the fiscal and economic behaviour of the Member States and the market citizens respectively). The tax competition (lower tax burden of business subjects) generates responsible tax policy for higher economic growth. It results in decrease in the statutory tax rates and the increased capital mobility results in situation, when the taxpayer can move the capital in the low tax jurisdictions very easily (Mitchell, 2001). The tax rates of Europe are presented in the table no 1:

**Table No.1. The tax rates of Europe**

| Country                               | Corporate tax  | Maximum Income tax rate   | Standard VAT rate  |
|---------------------------------------|--|---|--|
| Albania <sup>[2]</sup>                | 10%  | 10%   | 20%  |
| Austria                               | 25%  | 50%   | 20% <sup>[3]</sup>   |
| Belarus                               | 24%  | 15%   | 20% <sup>[2]</sup>   |
| Belgium                               | 33.99%   | 50%   | 21% <sup>[3]</sup>   |
| Bosnia and Herzegovina <sup>[4]</sup> | 10%  | 0% (+ 0%-15% per location)  | 17%  |
| Bulgaria <sup>[5]</sup>               | 10%  | 10%   | 20% <sup>[3]</sup>   |
| Croatia                               | 20%  | 40%   | 25% <sup>[6]</sup>   |
| Cyprus                                | 10%  | 35%   | 18% (reduced rates of 8% and 5%) <sup>[7]</sup>  |
| Czech Republic                        | 19%  | 22%   | 21% <sup>[3]</sup>   |
| Denmark                               | 22% (decreased from 25% in 2013)   | 55.56% (+additional 8% social security paid by the employee)  | 25% <sup>[3]</sup>   |
| Estonia                               | 21%  | 21%   | 20% <sup>[3]</sup>   |
| Finland                               | 24.5%, however the government has agreed on lowering it to 20% as of 2014. | 53%   | 24% <sup>[3][8]</sup> (reduced rate of 14% for groceries and restaurants)  |
| France                                | 33.33% (15% for "small" businesses)  | 45% (+4% for incomes above a yearly EUR 500,000) <sup>[9]</sup>   | 19.6% (reduced rate of 7%, 5.5%, 2.1% and 0% for specific cases like some food, transportation, cultural goods, etc.) <sup>[3]</sup> |
| Germany                               | 30.175% to 33.325% (15.825% federal plus 14.35% to 17.5% local)            | 45%   | 19% (reduced rate of 7% applies e.g. on sales of certain foods, books and magazines, flowers and transports) <sup>[3]</sup>          |
| Georgia                               | 15%  | 20%   | 18%  |
| Greece                                | 25%  | 42%   | 23% <sup>[3]</sup>   |
| Hungary                               | 10-19%   | 16% (additional contributions at 10% Social Security by Employee + 24% Social Security by Employer and Health Care 7% by Employer )   | 27% <sup>[3][10][11]</sup>   |
| Iceland                               | 18% <sup>[12]</sup>  | 46.28% <sup>[12]</sup>  | 25.5% <sup>[12]</sup>  |
| Ireland                               | 12.50%   | 41% (additional contributions at 4% Pay-Related Social Insurance (PRSI) and 7% Universal Social Charge (USC)).<br><br>A surcharge of 3% applies people who have income from self-employment above €100,000, | 23% <sup>[13]</sup>  |

| Country                    | Corporate tax  | Maximum Income tax rate  | Standard VAT rate              |
|----------------------------|--|--|--------------------------------|
|                            |  | regardless of age.   |                                |
| Italy                      | 31.4%  | 45%  | 21% <sup>[3]</sup>             |
| Latvia                     | 15%  | 23%  | 21% <sup>[14]</sup>            |
| Liechtenstein              | 12.5% (2.5% on IP and royalties)   | 17.89% (11.6% Social security is shared between employer and employee) 100k USD income gives 7.6% income tax rate. 0% capital gains tax.   | 8% <sup>[15]</sup>             |
| Lithuania                  | 15%  | 15% (as of end 2012)   | 21%                            |
| Luxembourg                 | 28.59% (commercial activity); 5.718% on intellectual property income, royalties; 0% on dividends and capital gains (under certain conditions in case of major participation) | 38.95%   | 15% <sup>[3]</sup>             |
| Macedonia <sup>[16]</sup>  | 10%  | 10%  | 18%                            |
| Malta                      | 35%  | 35%  | 18% <sup>[3]</sup>             |
| Montenegro                 | 9% <sup>[17]</sup>   | 9% <sup>[17]</sup>   | 17% <sup>[17]</sup>            |
| Netherlands                | 20% or 25% above € 200,000 profit <sup>[18]</sup>  | 52% <sup>[19]</sup>  | 21% <sup>[20]</sup>            |
| Norway <sup>[21][22]</sup> | 28%  | 47.8%  | 25%                            |
| Poland                     | 19%  | 32%  | 23% <sup>[3]</sup>             |
| Portugal                   | 12.5%-27.5% (Mean tax rate: 15%)   | 46.5% (additional contributions at 11% Social Security by Employee + 23.75% Social Security by Employer)   | 23% (reduced rates 13% and 6%) |
| Romania                    | 16%  | ~45% total tax; for a gross income of 1000€ 16% income tax, unemployment insurance 0.5%, mandatory health insurance 5.5%, social security 10.5%, and the employer pays extra 0.5% for unemployment, health insurance 5.2%, accidents insurance 0.5%, social security 20.8%, 0.85% and 0.25% other taxes, all calculated on the gross income, so for a gross income of 1000€ the net salary is ~ 725€ and the total expenses for the employer ~ 1326€ | 24% <sup>[3][23]</sup>         |
| Russia                     | 6% or 20%  | 13% (additional contributions by Employer: 0%-5.1% Federal Health Care Fund, 0%-2.9% Federal Social Security Fund, 10%-26% Pension Fund)   | 18% (reduced rates 10% and 0%) |

| Country                  | Corporate tax  | Maximum Income tax rate   | Standard VAT rate   |
|--------------------------|--|---|---|
| Serbia                   | 15%  | 10%-52% (capital gain tax 15%, standard income tax rate 10%, additional contributions by Employee: 13% state pension fund, 6.5% state health fund, 0.5% unemployment fund; additional contributions by Employer: 11% state pension fund, 6.5% state health fund, 0.5% unemployment; maximum contributions capped (amount changing monthly); additional tax for higher salaries (after 3 times average salary additional 10%, after 6 times average salary additional 15%)), <sup>[24][25][26]</sup> | 20%   |
| Slovakia                 | 23%  | 19% (additional contributions at 4% Health Care by Employee + 10% Health Care by Employer, 9.4% Social Security by Employee + 19.4% Social Security by Employer)  | 20% <sup>[3]</sup> (10% reduced rate)   |
| Slovenia <sup>[27]</sup> | 20% (2012: 18%, 2013: 17%, 2014: 16%, 2015+: 15%)  | 50%   | 22% <sup>[3]</sup> (reduced rate 9,5%) - from 1 July 2013   |
| Spain                    | 30% (28% Basque Country & Navarra, 4% ZEC companies in Canary Islands)   | 42%   | 21% <sup>[3]</sup> (reduced rates 10% and 4%)   |
| Sweden                   | 22%  | 56.6%   | 25% <sup>[3]</sup> (reduced rates 12% and 6%)   |
| Switzerland              | 25%  | 45.5%   | 8% <sup>[28]</sup>  |
| Turkey                   | 20%  | 35% <sup>[29]</sup>   | 18%, 8%, 1% and 0%  |
| Ukraine                  | 23%, from 1.01.2012 - 21%, from 1.01.2013 - 19%, from 1.01.2014 - 16%  | 17%   | 20%   |
| United Kingdom           | 23%, from 6.4.2014 - 21%, from 6.4.2015 - 20% (20% for businesses with profits less than £1,500,000) <sup>[30]</sup> | 45% on marginal additional annual income above £150k, 40% between £115k-150k, 60% between £100k-£115k, 40% between £35000-£100000, 20% between £9k-£35000, 0% below; plus national insurance contributions at various rates between 2% and 13.8% <sup>[31]</sup>  | 20% (reduced rate of 5% for home energy and renovations, 0% for life necessities - groceries, water, prescription medications, medical equipment and supplies, public transport, children's clothing, books and periodicals) <sup>[3]</sup> |

Source: [http://en.wikipedia.org/wiki/Tax\\_rates\\_of\\_Europe](http://en.wikipedia.org/wiki/Tax_rates_of_Europe)

## 5. CONCLUSION

The conclusion is that only the taxes for which the persistence of important disparities creates the risk of significant distortions in the mechanism of the market should be harmonized. On the other hand it is not absolutely necessary to harmonize levies whose impact is mainly placed on the incomes of the households such as is the case of the income tax of individuals, social contributions paid by employees, the inheritance tax, the individuals' wealth tax.

According to the specialists, the main target of the reform of the taxation system for individuals should be the optimization of the correlation of the revenues with the level of the public spending, as well as the optimization of the actual tax system by diminishing the maximum limits of the tax rates, especially for the taxes on the incomes of the individuals, reducing tax incentives, etc.

No matter how many tranches would be calculated, the system consisting of the application of progressive rates is not stimulating and leads, especially in the area of big incomes, to the implementation of schemes for the avoidance of taxes or even to tax evasion. All the states that have introduced the flat tax were successful, particularly by increasing the tax base (declaration of the real incomes), and by increasing the number of taxpayers (reducing undeclared work).

In this context, the purpose of the progressive taxation system for the incomes of the individuals is not an economic one, but rather a social one. At the same time, from the economic perspective, this system contributes to the emergence and development of tax evasion and undeclared work.

The discussions on the tax reform usually take into account three versions: the flat tax, the progressive system, and dual system, a combination of the first two. While the flat tax was the rule in all industrialized countries in the first half of the nineteenth century, the first clearly formulated applications for a "strong

progressive or gradual tax system" appeared in Karl Marx' Communist Manifesto of 1848. Subsequently, the capitalist countries were those who adopted such a system. Although taxpayers worldwide lose approximately 8 billion hours a year to fill in their income statements, until today, no "big" Western economy shifted back to the flat tax. The latest trends in the Eastern European countries is manifested by the introduction of a flat tax, initiated by Estonia in 1991, followed by Latvia (1994), Lithuania (1994), Russia (2001), Serbia (2003), Ukraine (2003), Slovakia (2003), Georgia (2004), Romania (2005) and Bulgaria (2007). The flat tax is also mentioned in the government program of the Czech authorities.

## ENDNOTES

- [1]. *"Top Marginal Personal Income Tax Rates"*. Tax Policy Center. 2008. Retrieved 2011-12-26.
- [2]. *Federation of International Trade Associations : country profiles*
- [3]. All current EU standard rates are from European Commission, *VAT Rates Applied in the Member States of the European Community, Situation at 1 January 2009*, [http://ec.europa.eu/taxation\\_customs/resources/documents/taxation/vat/how\\_vat\\_works/rates/vat\\_rates\\_en.pdf](http://ec.europa.eu/taxation_customs/resources/documents/taxation/vat/how_vat_works/rates/vat_rates_en.pdf), consulted 23 August 2009.
- [4]. *Fabel Werner Schnittke - International Consulting and Auditing Company*
- [5]. *Bulgaria cuts corporate tax to 10 percent - iht,business,economics, world economy,Bulgaria Corporate Tax - Business - International Herald Tribune*
- [6]. *"Croatia - Tax changes effective March 2012"*. kpmg.com. 2012-02-24.
- [7]. *"Cyprus Government VAT Information"*. Cyprus Government. 2013-01-14. Retrieved 2013-04-06.
- [8]. *Change in VAT rates as of 1 July 2010*
- [9]. *"Individual income tax rates table"*. KPMG. 2013. Retrieved 2013-07-10.
- [10]. *"VAT hike pushes Hungary's consumer price inflation to 5.1% in July"*. Realdeal.hu. 2009-08-11. Retrieved 2011-05-12.
- [11]. *"Hungary plans bigger budget cuts, VAT hike to 27 pct"*, 2012-01-01. Retrieved 2012-01-03.
- [12]. [1]<sup>dead link</sup>
- [13]. *"VAT increase to 23% confirmed"*. Irish Times. 2011-12-06. Retrieved 2011-12-07.

- [14]. *Three governments, one prime minister*, *The Baltic Times*, 27 June 2012
- [15]. *Liechtenstein tax law*
- [16]. *Invest in Macedonia / Taxes and Rates*
- [17].  
[http://www.mipa.co.me/userfiles/file/Tax\\_highlight\\_2010\\_Montengro.pdf](http://www.mipa.co.me/userfiles/file/Tax_highlight_2010_Montengro.pdf)
- [18]. *Dutch Tax Administration*
- [19]. *Dutch Tax Administration*
- [20]. *"Netherlands 21% VAT rate increase is effective October 2012"*.
- [21]. *The Norwegian tax reform 2004-2006 - regjeringen.no*
- [22]. *Skatteetaten - Guide to Value Added Tax in Norway*
- [23]. *"Romania plans big VAT rise to secure bail-out funds"*. *BBC News*. 2010-06-26. Retrieved 2011-05-12.
- [24]. *Personal Income Tax Law Serbia (official website)*
- [25]. *Accurate Personal Income Tax Calculator as of September 2013 for Serbia*
- [26]. *Maximum Contributions for State Funds by Accountant Association of Serbia*
- [27]. *Ministry of Finance - Tax Administration of the Republic of Slovenia*
- [28]. *"Swiss voters approve VAT rate increase"*. *Meridianglobalservices.com*. Retrieved 2011-05-12.
- [29]. *Income tax rates (in Turkish)*
- [30]. *HM Revenue & Customs: Corporation Tax rates*
- [31]. *HM Revenue & Customers: Rates and allowances - Income Tax*

retrieved from  
<http://www.csiss.org/classics/content/43>

## REFERENCES

- [1] Keen M. (2008) *Tax competition*, The New Palgrave Dictionary of Economics, Ed. Steven N. Durlauf and Lawrence E. Blume, Palgrave Macmillan
- [2] Mitchell J. (2001) *Tax Competition Primer: Why Tax Harmonization and Information Exchange Undermine America's Competitive Advantage in the Global Economy*, Heritage Foundation Backgrounder, pp. 2-4.
- [3] Oates W.E. (2001) *A Reconsideration of Environmental Federalism*, Resources for the Future
- [4] Sinn H.W. (1997) *The Selection Principle and Market Failure in Systems Competition*, *Journal of Public Economics*, no. 66, pp.247-274
- [5] Tiebout C. (1956) *Exports and Regional Economic Growth*, *The Journal of Political Economy*, 160-164 and