



International Forum Discusses Flat Tax Pros and Cons

Advocates and opponents of flat tax met at Bled on Friday, 3 February to discuss the pros and cons of the controversial measure, which presents one of the centrepieces of the government-sponsored economic reforms.

Slovenian government is in favour of flat tax, however as it has not yet drafted a final proposal on the measure, it is open for opinions of experts and states that have already implemented or are in the process of implementing the measure, Finance Minister Andrej Bajuk said.

Bajuk, addressing the participants of a two-day international forum on the issue, added that implementation of the flat tax in some states put competitive pressure on others as well.

Therefore foreign and domestic experts confronted their opinions at the two-day event that opened today in the tourist resort of Bled. The forum was also attended by representatives of mainly SE European states and new EU members.

Bajuk added that flat tax would make Slovenian economy more competitive as well as simplify the tax system. "However, the state also intends to take care of those who would lose out because of the move," Bajuk said.

One of ideologists behind flat tax, Alvin Rabushka of the Stanford University, said that flat tax increases the competitiveness of the economy in the long term as well as improves the living standard for all.

While the transition to the flat tax might be difficult, its negative effects are short-term only, Rabushka added.

Jegor Gaidar of the Moscow institute for transitional economies said that tax revenues have actually increased in Russia after the country implemented a flat tax. Taxes are harder to evade under the new system, Gaidar added.

Michael Keen of the International Monetary Fund said that flat tax lowers the tax evasion rate and maximises revenues. Such a system is much simpler and it also eliminates numerous exemptions and tax relieves.

Meanwhile opponents of the flat tax said that analyses have shown that a flat tax system is not simpler, nor does it increase revenues.

Richard Murphy of UK-based Tax Research pointed out that flat tax cannot sustain a modern state. Moreover, a progressive tax system could also be made simple.

However a flat tax would increase the number of people who evade taxes. Such a system cannot work because it could be easily subverted, Murphy added.

Joze Mencinger of the Ljubljana Institute for Economic Research meanwhile pointed out that there is no need for a radical reform that could have a detrimental effect on the economy and social cohesion.

"I am not saying that higher profits would cut investments in research and development, however there is no evidence that money would be used this way. There is also no evidence that economic growth increases if R&D gets more funding," Mencinger pointed out.

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