Taxation in Europe 2012

The yearly report on the evolution of European tax systems

a publication from the

Institute for Research on Economic and Fiscal Issues

Edited by Pierre Garello

About IREF

IREF is a private institute founded in 2002 by representatives of the civil society coming from the academic as well as business worlds. It is designed to be an efficient platform for the investigation of fiscal and taxation policies. Taxation is a many-faceted issue and existing studies are mostly incomplete if not biased. It is the aim of IREF to explore systematically and completely questions related to taxation and public finance.

IREF has a strong European dimension. Tax studies can no longer ignore the process of globalisation and its consequences in terms of tax competition. In particular, tax authorities are currently under the strain of two opposing forces: centralisation and harmonization on one hand, devolution and competition on the other. It is IREF's intention to reintroduce in this debate the essential links between tax competition and individual freedom.

In order to achieve its goals, IREF relies on a network of specialists. Today, a team of over 25 scholars or professionals--economists and lawyers--report regularly on the quantitative as well as qualitative evolution of the fiscal systems of their respective countries or regions.

Besides its Yearbook on Taxation in Europe, IREF is editing books, reports, briefs and academic studies on topics related to taxation and public finance. Those studies together with general information on taxation in Europe can be found on IREF website at: http://www.irefeurope.org

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A short presentation of IREF 'Yearbook on taxation in Europe' Series

Among the many ways to understand the climate of opinion and the culture of a country, looking at its fiscal system is one of the most rewarding. Sure, fiscal systems almost always rhyme with complexity; each system bearing the weight of its history. But the attempts to change the system, to give it a new direction, are highly instructive.

To observe changes, debates and new directions in tax systems is precisely what IREF yearbook is all about. In that sense, the yearbook is not in direct competition with other yearly reports on taxation that typically focus on numbers rather than on the philosophy behind them.

Another unique trait of this yearbook is to provide the latest information on the topic. What is presented here are the last known figures (this year, data for 2010) and the on-going debates. This approach allows the reader to judge whether public decision makers have been keeping their promises or have been victims of inter-temporal inconsistency; drawing plans that they are later unable or unwilling to maintain.

The yearbook is conceived for all those who look for a dynamic understanding of tax and budgetary policies. This includes scholars and students, of course, but also journalists, businessmen and public decision makers. While avoiding technical jargon, authors do not hesitate to enter the details of a mechanism whenever it is necessary. For we all know that there is sometimes a world between notional and real taxation.

Those reports can be used all along the year for quick reference whenever mention is made of one of the twenty countries presented here. The country profile cards should further facilitate such use of the yearbook.

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Taxation in Europe 2011 : main findings

Open your eyes to the diversity of European countries … and you will see that Europe needs more freedom and responsibility, not further centralization

Pierre Garello
IREF

How far should redistribution go? Who should pay for it and how? What is the proper role of the State and what is better left to private initiative? Should insolvent banks be bailed-out? Is it better to tax individuals when they consume or as soon as they earn their income? Should we rely on taxation to bent individuals' behaviour towards a cleaner, safer life (sin taxes and fat taxes)? Every one has—or should have—an opinion on those important questions. In our modern democracies, those opinions are aggregated through various mechanisms so that each country in Europe ends up with its own budgetary and fiscal policies, and also… its own public debt and public deficit.

This yearbook tells the story of what happened in 2011 in twenty European countries. (You can also look at past issues of the yearbook to learn more about Spain, Croatia and Greece, which are absent from this year's edition.) Reading those reports gives a sense of how diverse are the answers provided to the above questions in different countries.

This is, as a matter of fact, the first lesson that can be drawn from the reports gathered in this yearbook: no matter how difficult the situation is (recall that in 2011 Sweden had a budget surplus while Portugal was nearly bankrupt), governments have a choice. Hence, if many countries have decided in 2011 to cut on expenditures and raise taxes, some have cut both, taxes and expenditures (as in the UK). It is also interesting to note that while some European countries were choosing to stick to a flat tax (Bulgaria, Romania, Slovakia, Lithuania, Poland) others made their systems more progressive (such was the case for both corporate tax and income tax in France). Similarly, when some were reforming their pension systems others put reforms on hold; and if it is consider just in many countries to "go after the rich", in other corners of Europe we could see a clear desire to attract foreign investors (Ireland).

This freedom to choose is essential if only because cultures—for sake of a better world—vary between countries. In some countries, a majority favours lower income inequality even if it should come at the cost of lower growth. In another country the reverse combination of higher growth and higher inequality will be preferred. And still in a third country there is the strong desire to implement policies that should make it possible to have it both ways: high growth and low inequality. And if they believe so, shouldn't they be allowed to try?

Surely, it can also be convincingly argued that the choice of a fiscal and budgetary policy is not just a matter of general preferences regarding the type of society you want to live in. It can be argued that some governments made simply the wrong move inspired by poor economics and that others lack courage or are simply dishonest, or that voters are incoherent and/or myopic. But doesn't freedom precisely provide the best way to discover and correct for those failures; doesn't freedom give the opportunity to learn from the success of others and from its own mistakes?

The sovereign debts crisis and the ensuing euro crisis lead many commentators to pull the future of Europe—or at least of the Euro zone—in the opposite direction: countries will no longer bear the full consequences of their mistakes but they will also have to give up most of their freedom. This could indeed be the only strategy worth trying if the goal is to save the euro; but careful reading of the following reports highlights the differences prevailing among European countries and shade doubts on its chances of success. You can't impose from outside a new "culture", that would require such radical adjustments.

This is not to mean that many European countries can go on without introducing, often painful, reforms. The point instead is that the cost of reforming are much lower and the chances of success higher where competition prevails. How do we know that? We know it from centuries of social evolution that taught us that freedom and responsibility provide the best incentives to look and find ways for individuals to improve their lot. Interestingly, it also brings people closer to each other whereas centralization play them off against each other

A Europe in which tax competition and budgetary accountability prevails is more likely to bring a harmonious and peaceful development.

For each of the twenty countries covered by this year issue are presented below the most remarkable changes—or sometimes absence of changes—that took place in 2011. This assessment is based on the reading of the full reports that follow and, just like a statistic tells only part of the story, it does not replace a careful reading of the reports and of the country profile cards attached.

Austria: So far so good, but for how long? Thanks to a solid growth in 2011 (around 3%), Austria was able to keep its public deficit below 3% of GDP. But the country's fiscal burden is high (above 50% of GDP) and all kinds of excise taxes have already been increased in 2011 (Bank tax, flight tax, tobacco and fuel taxes). Austrians will have to think of something else (like cutting on expenditures and undertaking structural reforms) to face a likely slowdown in 2012.

Belgium: No more secrets! One of the main changes in 2011 was a de facto, if not fully de jure, abolition of bank secrecy. This is but one of the many changes geared towards "making the rich pay". Higher taxes on income from capital and 30% increase in stock exchange tax are included in that package.

Bulgaria: Still leader in the flat tax world, the country intends to protect that achievement. A "Golden rule" limiting public spending was passed and Parliament voted against European tax harmonization. This is understandable since the flat tax at 10% (corporate and income) has given full satisfaction and the only tax increases in 2011 were due to requirement from Brussels to harmonize excise duties. Retirement ages has been pushed back (65 for men and 63 for women). Health care and pension systems still deserve greater attention.

Czech Republic: An ambiguous commitment to expenditure cuts. Cutting on expenditures has been the official rhetoric in previous years and there has surely been a bit of that going on. The new "Budgetary responsibility act" goes apparently in the same direction. But the fact is that, although expenditures were lower than expected in 2011—with noticeable effort to increase cost efficiency of tax administration—fiscal revenues moved in opposite direction due to increases in indirect taxation (VAT and excise duties).

Denmark: The world's heaviest tax burden likely to become even heavier. The new Centre-left government will not cut corporate income tax from 25 to 20% as announced by its predecessor. The mood is rather to tax hikes. It will maintain the nominal freeze for tax thresholds, set up the first European "fat tax", introduce a multimedia tax, and increase many consumption and pollution taxes. To keep the economy grow, the government would like to lower taxes on labour income without "favouring the rich": A difficult equation to solve.

Finland: A new conservative government advocating more taxes. In an all too familiar move, the government elected in Fall 2011 is looking essentially towards higher taxes. VAT, excise duties and capital gains taxes have been increased, the later becoming also progressive. The country was also close to introduce double taxation on dividends and a "solidarity tax" (taxing earned income at higher rate) is being discussed. The minor drop in corporate tax rate is unlikely to provide the necessary bullets to face a rapidly increasing public debt.

France: Never a good time for reforms. With one of the world highest level of pubic expenditures (relative to GDP) and a public debt soon to reach 90% of GDP one could expect a change of policy. Instead former and actual Presidents keep looking towards higher taxes. The cut in social contributions balanced with an increase of VAT rate has been abandoned (social contributions will in fact be increased), and there has been substantial increases in personal income tax, capital income and capital gain taxes and estate taxes; without forgetting the financial transactions tax and, for those who leave, the exit tax.

Germany: Let's wait and see. If the job was made at home (debt-to-GDP ratio felt, deficit is at 1.3% of GDP), outside uncertainty is still surrounding the future of the eurozone. This could explain why few of the initially planed fiscal reforms took place in 2011. There has been a lively discussion on the opportunity to index income tax bands on inflation that led so far nowhere. If no significant changes in fiscal policy took place, tax administration was the object of greater attention. A tax administration that is busier than ever: Acquisition of stolen data from foreign banks being constitutional since 2010; millions have been spent running after tax evaders.

Ireland: The most draconian budget in the story of the Sate. Following a forced bailout, Irish found itself in a difficult situation but 2011 show signed of recovery. Two third of the necessary budgetary adjustment was done through expenditure reductions. Not much occurred on the revenue side except that, frustrating other Members States, it was decided to keep corporate tax rate unchanged at 12.5%. Still the personal income tax bill will be sour to taxpayers: the bands of that tax—among the most progressive personal income tax in OECD countries—have been lowered.

Italy: Three budget packages in one year to save Italia from default. Worried about general economic environment in Europe and Italian public debt, financial markets have forced Berlusconi (twice) and then Monti to introduce severe austerity packages. The ingredients were similar, if not identical, including increased VAT and record high excise duties on oil. A difference: Berlusconi focused more on reducing tax evasion while Monti is taxing wealth which produce immediate results. Results are somehow here; but now a true fiscal reform is required to clean up the mess.

Lithuania: A cloudy sky. This flat tax country seems to be doing well but public debt is growing rapidly (+250% in absolute year in 5 years). This threatens the 15% flat tax; some voices claiming that re-introducing progressivity would solve the problem. Meanwhile, excise duties and tax on natural resources went up in 2011 and a residential property tax was introduced. With elections coming, taxes are likely to be raised by the end of 2012.

Luxembourg: Still an attractive place for business. Despite savings amounting to 1.1% of GDP, a balance budget for 2014 remains out of reach. Hence, not surprisingly, if a crisis contribution has been removed for 2012, the solidarity tax (with rate up to 6% of income tax due) is maintained. The Grand Duchy remains nonetheless a quite attractive place for private investors thanks in particular to the recently improved SPFs (Private wealth Management Companies) and a public debt at 21% of GDP.

Norway: Oil and gas activities help! The country was little affected by the crisis as evidenced by low rates of unemployment (3.25%) and inflation (1.5%) and by reasonable growth at 1.7% of GDP. Consequently, only marginal changes were brought to fiscal policy. Most rates remain unchanged with, here and there, a broadening of bases. It remains that the general tendency for the previous years was towards higher rates and broader bases.

Poland: High growth isn't enough. Despite having the highest expected growth among EU countries for 2012, Poland is struggling to bring its public deficit below 3% and its debt is the second highest (in % of GDP) among emerging European countries. The preferred way for fiscal adjustment has been so far revenue-based: increased VAT and excise duties, transfers from private pension funds to pay-as-you go funding. The government, that started its second mandate in Fall 2011, should rapidly look at the expenditure side of the problem and resume modernization of tax administration.

Portugal: What a year! Closer as you can possibly be from bankruptcy in mid-June, the country engaged then on a serious, painful austerity program; and it did so in a rather smart way. Efforts bear on both expenditure and revenue sides, and many structural reforms were introduced that give a real chance to the country in the longer run. The list of reforms includes: housing policies, justice, public procurement, sector policies, and privatization. Public deficit was hence brought down to 4.2% of GDP. Could Troika be the best political program in decades? Many Portuguese seem to think so.

Romania: A mixed picture. On the one hand, the country is faithful to its flat tax commitment (corporate and personal income tax at 16%) and the second and third pillars of pension system are in place. Further, some improvement for micro-enterprises took place. On the darker side, VAT rate remains at 24% and social contributions appear high relative to benefits. Also, IMF obtained the introduction of a wealth tax (even if a progressive real estate tax was already playing that role) and tax compliance remains extremely cumbersome.

Slovakia: A small and open economy may be not as solid as it looks. The nice 3.1% GDP growth was, as usual, driven by exports that bring little tax revenues (especially where high contributions and tax free dividends push companies towards capital instead of labor). Hence, the relatively low public deficit (4.9%) still amounts to 20% of total tax revenues. That could explain reluctance to join the euro zone rescue and stabilization mechanism. Outlook for 2012 is rather grim: the establishment of a "supergross wage" merging employers and employees social contributions is postponed, and higher "forced insurance payments" for banks is likely.

Sweden: Public budget surplus of 1.2% and debt at 31% of GDP. This is the outcome of lowering taxes in the 2006-2010 period. But with a minority government tax reform is on hold for now; top income tax marginal rate remaining at a world record of 70%. Talks to lower corporate tax and/or find ways to reduce youth unemployment have been unsuccessful (except for reduced VAT rate for restoration). Bad memories from their own financial transaction tax explains the low support Sweden brought to EU directive. People worry that fiscal policy has been pushing households towards debt. Recent judgments have challenged the twofold punishment for tax crime.

Switzerland: Island of freedom and tax competition in a European see of unlimited government. Bilateral agreements with Germany and the UK were signed to protect confidentiality of depositors. Although the cost will be high for depositors, public opinion in Germany and UK complains. At the end, however, chances are they will sign to get the money. Tax competition among cantons to attract businesses remains intense with rates often in the range of 10 to 5%. At federal level, VAT was temporary increased to 8% and a popular initiative death tax was launched with however little chances of success.

United Kingdom: An unusual combination of expenditure cuts and tax cuts. By mid-2011 it became clear that the 5-years fiscal consolidation plan set in 2010 will miss its targets. The plan was based on many substantial cuts on expenditure (mainly non-welfare ones) and a very controversial increase of VAT (from 15 to 20%). Meanwhile, and surprisingly, some taxes on businesses as well as National Insurance Contributions were lowered to encourage business investment and employment. The new plan consists essentially in spreading the period from 5 to 7 years, hoping that growth will be back soon.

Austria

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Austria's main problem is its structural deficit. The high public debt has almost nothing to do with the current crisis or the bank bailouts. Therefore, the only way to avoid further downgrading by the rating agencies and in order to get back on the track towards a balanced budget is a system of reforms and expenditure cuts. Unfortunately, the government is neither able nor willing to reform the social security system, the health care system, or the pension system.

Current situation

Austria is still one of the countries with the highest tax burden in Europe. Currently Austria has a progressive personal income tax with three marginal tax rates (36.5%, 43.21% and 50%), a corporate tax rate at 25% and a flat capital gains tax rate of 25%.

Due to the Austrian tax system, public revenues have been steadily increasing (with the exception of 2009) since the 1980s. Nonetheless, Austrian governments have never managed to achieve a budget surplus, which can be seen from Table 1 below. Therefore, the rating agency Standard & Poor's has followed the trend of other indexes (for example the Heritage's Index of Economic Freedom) and downgraded Austria's credit rating to AA+, and additionally lowered the forecast to "negative".

Table 1: Tax Revenues and Expenditures compared to Public Deficit 1980-2012

Year	Revenues % of GDP	Expenditures % of GDP	Public Deficit % of GDP
1980	47.6	49.7	-2.1
1985	50.1	53.2	-3.1
1990	48.8	51.4	-2.6
1995	50.4	56.3	-5.9
2000	50.1	51.9	-1.7
2005	48.2	50.0	-1.7
2006	47.5	49.1	-1.5
2007	47.6	48.6	-0.9
2008	48.3	49.3	-0.9
2009	48.7	52.9	-4.1
2010	48.1	52.6	-4.5
2011	47.9	50.5	-2.6
2012	48.3	51.2	-3.2

Source: Statistic Austria and Federal Ministry of Finance

Tax policy

Concerning tax rates or additional taxes, Austria did not change its policies. As already mentioned, Austria's citizens are facing one of the highest tax burdens in Europe. Austria's overall tax burden amounts to 42.8% of total domestic income (according to Heritage's Index of Economic Freedom). The main sources of public revenue are the following taxes:

Income tax

The individual income tax charges remained unchanged in 2011. The marginal tax rate of 36.5% concerns income of € 11,000 and more per year. For income from € 25,000 upwards the rate is 43.21%, and finally a 50% rate is calculated for income over € 60,000.

Value Added Tax

Austria's VAT rate remained at 20% (with some exceptions for food and books).

Fuel tax

The fuel tax is approximately 60% per liter and was raised by approximately four to five cents per liter last year. A recent study of the Vienna University of Economics and Business called this tax increase "the most expensive tax increase in history" and is a good illustration of the so-called Laffer effect because, due to the tax increase, less foreigners and tourists filled up their tanks in Austria and the full burden of the tax had to be covered by the Austrians. Therefore the revenue of the tax increase was just €108 million, instead of estimated € 417 million.

Corporate Income tax

The corporate income tax rate remained unchanged at 25% since the decrease in 2005.

Capital Gains tax (25%)

On 1 January 2011, a flat tax on capital gains of 25% was introduced. The tax is applicable on all capital gains from stocks and mutual funds, regardless of the individual's income and the time the asset has been held.

Bank Tax

In addition to the capital gains tax, a bank tax ("Bankenabgabe") was introduced. Total assets of banks are now taxed at a rate of 0.04% if above € 1 billion, while a tax rate of 0.08% is applicable if the bank's assets exceed € 20 billion. The bank tax generated the expected revenue of approximately € 500 million.

Flight tax

The flight tax was also introduced at the beginning of 2011. The tax of € 8 for continental flights and an up to € 35 for international flights also generated the expected € 60 million.

Tobacco tax

Cigarettes in Austria are more expensive since January 2012 due to the third tax increase on tobacco within one year. The government estimates at € 1.5 billion the extra revenues from all three tax increases. Now two thirds of one packet's price goes to the government.

New taxes to consolidate the budget

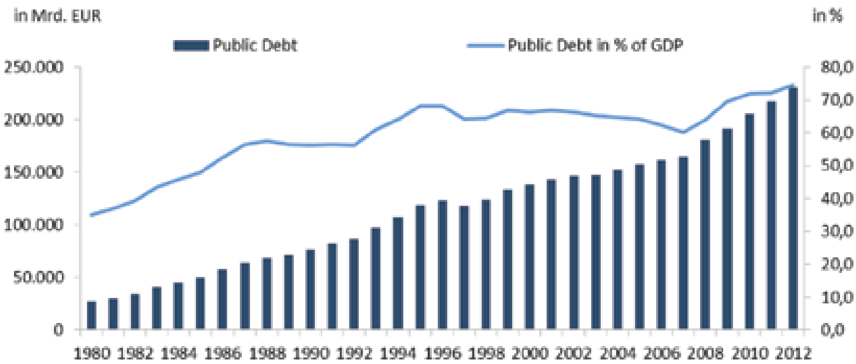
Since the downgrade of Austria's credit rating from AAA to AA+ by Standard & Poor's, the issue of introducing a debt brake has dominated political discussion. The current government, formed by the SPÖ (Social Democratic Party) and the ÖVP (People's Party), managed to guide the discussion away from austerity measures towards a debate on how to generate even more revenue; although, as already mentioned, Austria's fiscal revenues are steadily increasing. However, since past and current governments were not able to achieve (not even in times of high growth) budgetary surpluses, it is highly doubtable that simply raising taxes could reduce the structural deficit.
Nonetheless, SPÖ's appetite for new taxes and tax increases seem to be infinite. The social democrats are proposing to raise the corporate income tax rate from 25% to 28%, even though, since the reduction from 35% in 2005, the revenues have been higher than ever before. Moreover, they once again want to implement an inheritance tax—that was abolished in 2008 after a series of constitutional court convictions. Additionally, a wealth tax for assets above € 1 million, a tax on capital gains on real estate, and an additional "solidarity charge" for the top income tax rate are being promoted.

Budgetary policy

As Graph 1 below shows, Austria's main problem is the structural deficit. The high public debt has almost nothing to do with the current crisis or the bank bailouts. The recent bank bailouts raised the public debt "merely" by 3 percentage points. Therefore, the only way to avoid further downgrading by the rating agencies and in order to get back on the track towards a balanced budget is a system of reforms and expenditure cuts. Unfortunately, the government is neither able nor willing to reform the social security system, the health care system, or the pension system.

Because it is not possible to finance these plans in the current form anymore, the present government prefers to adopt the system a little bit and raise the taxes on the rich to buy some time until the upcoming elections in 2013.

Graph1: Austrian debt in billion euro and as % of GDP



Source: Statistic Austria and Federal Ministry of Finance

Unfortunately, the financial markets do not consider elections as a viable indicator, and therefore their willingness to lend money to Austria will decline and, as a consequence, interest on government bonds will eventually rise and intensify the pressure on the Austrian budget.
For 2012, the government has set its deficit target at 3.2%, failing once again to meet the Maastricht criteria. Even though the government agreed to some mild cuts for all Ministries (except education) the absolute amount of government spending will rise again from € 152,039 million in 2011 to € 155,805 million in 2012 (estimated). In other words, the government is slowing down the speed of the increase in public debt and is not cutting down the absolute debt.

This means Austria's current government will not impose reforms and reduce government expenditures, but wants to raise taxes to generate even more revenues.

Conclusion

At the moment it is hard to locate any positive changes in Austria's policies because there was simply no single reform passed in 2011. The silver-lining of 2011 is the fact that the government was not able to agree on the type of tax increases. But current government has changed the character of the whole discussion from that of excessive public debt and the call for a debt brake, to a call for higher taxes. Now the public mindset has changed and it is generally accepted that Austria needs higher taxes and

that it is impossible to balance a budget solely with expenditure cuts.
This increasing burden of taxation shows in all international country rankings, pushing Austria towards lower rank. According to Heritage's Index of Economic Freedom, Austria counts as "repressed" concerning fiscal freedom and government spending. Moreover, Austria's score has fallen for the first time in the International Property Rights Index (Property Rights Alliance).

Austria needs to get its structural deficit under control instead of further increasing the taxes.
Keeping in mind what Germany's former chancellor Helmut Kohl once said, "At a rate of 50% of public expenditure, socialism begins," It is interesting to note that Austria's share of public expenditure reached 50.5% of GDP in 2011.

Belgium

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In a context of crisis, where the growth rate was only of 1.9% while primary public finances budget represented 49,8% GDP, the massive tax and social security charges further prevented Belgium's entrepreneurs to develop their business. Unable or unwilling to make the reforms that would boost entrepreneurship, the government kept introducing new taxes or modifying existing ones, generally upwards. Also, following changes to the Income Tax Code introduced in 2011 one can say that, if in principle bank secrecy still exists in Belgian tax law, it has been dramatically reduced.

2011: A year of many paradoxes

2011 has proved to be the year of paradoxes for the Belgian economy. To start with, both the number of bankruptcy (with the Brussels Region as a leader) and the number of new companies have increased in the same time. Second, although Moody's Investors Service has, at the end of 2011, downgraded Belgium's local and foreign-currency government bond ratings by two notches, to Aa3 from Aa1, this fact appeared to have calmed Belgian rates.

On the tax field, tax authorities' powers have significantly increased in 2011 in a way that touched directly the taxpayers. Actually, the new rules on bank secrecy (combined to the recent decision to create a "mega-database") mark the end of taxpayers' right to privacy.

Globally, notwithstanding the will to create wealth, the huge tax and social security charges prevent Belgium's entrepreneurs to develop their business, especially in a context of crisis, where the growth rate is only of 1,9%, while primary public finances budget represented 49,8% GDP.

The constant need of resources in order to subside public finances explains thus Belgium's situation, and also the government's attitude to put in place new tax rules, in order to feed its administration.

Hence the paradox exposed above: On one hand, people create more and more businesses; on the other hand, and simultaneously, bankruptcies explode and a drop in economic growth is unfortunately expected for 2012.

If international crisis and 2011' political instability have also contributed to create this phenomenon, the first cause of it remains the State's incapacity to boost the economy by eliminating some of obstacles that prevent entrepreneurs to generate wealth for the country.

Bank secrecy

The scope of Belgian bank secrecy concerning income taxes has been reduced by the law of 14 April 2011. This law introduced a new Article 333/1, §1 Income Tax Code and amended Article 322 Income Tax Code. Few months later, the law of 7 November 2011 "repaired" - by amending them - the provisions regarding bank secrecy introduced by the law of 14 April 2011.

The rule of bank secrecy in tax law is only recognized in the Income Tax Code by its article 318. The new system didn't amend this Article 318 but only the Articles 322 and 333. Therefore, the bank secrecy still exists in its principle in Belgian tax law but it has been dramatically reduced.

With the new regime, bank secrecy can be lifted, in addition to the already existing possibilities, in two more cases:

- If the tax authorities have indications of tax fraud
- If the tax authorities are determining the taxable base by using the method provided by Article 341 Income Tax Code, which means by proving excessive expenses compared to the incomes declared.

In both cases, tax authorities are allowed to ask some information to the banks. The request must be addressed by following a strict procedure and needs to be well defined and motivated.

The new regime also involves the creation of a "central contact point" held at the Belgian national Bank. The banks have to communicate to this contact point the identity of their clients, their bank accounts and contract numbers. The tax authorities will have an access to the data held by that contact point if the investigation has revealed indications of tax fraud and after having followed a certain procedure.

However, before asking the lifting of bank secrecy, the tax authorities must first ask the information to the client himself with a formal request and it's only in when the client doesn't co-operate that tax authorities will be authorized to request the information to the concerned banks and under certain conditions.

Not only Belgian tax authorities can request information, Foreign States also can request information in application of Double Tax Avoidance Agreement. The new Article 322, §4 Income Tax Code considers the request of a Foreign State as an indication of tax fraud.

This new system is much debated and criticized. It has entered in force on 1 July 2011 but, given the Belgian investigation legal delays, the provisions could also indirectly affect past operations (since 1 January 2004) in certain cases of tax fraud.

Changes in taxation

VAT on simultaneous sale of land and new building

Since 1 January 2011, VAT applies on the sale of land on which a new building is standing. Belgian VAT Code considers as "new" the supply of a building before 31 December of the second year following the year of the first use of the property.

The Law of 28 December 2011 containing miscellaneous measures has introduced several changes in Belgian tax law system. The main changes will be developed below.

VAT on notaries and bailiffs

The new law made notaries and bailiffs regular VAT payers as from 1 January 2012. VAT must from then on be applied to all the fees charged by these two categories of professionals. Interestingly, lawyers remain VAT exempt.

Stock exchange tax

Since the Law of 28 December 2011, the stock exchange tax is now raised by 30% for all the operation as from 1 January 2012.

Tax on the conversion of bearer securities

Since the Law of 14 December 2005 concerning the abolishment of bearer securities, bearer securities must be converted into registered or dematerialized securities at the latest by the end of 2013. The Law of 28 December 2011 has introduced a tax for this conversion. The rate of this tax fixed at 1% for conversions taking place in 2012 and at 2% for 2013.

Withholding tax and additional tax on movable income

The default withholding tax rate on interests is now established at 21% (in the past, the general withholding tax on interests was of 15% only) and at 25% for dividends (like in the past). Nevertheless, there are some exceptions to this general rate. The 25% rate is maintained for the interests paid by a mutual fund. The rate stays at 15% for the interests from saving deposits whose first portion of €1,250 (to be indexed) is tax exempted. Liquidation boni remains at 10%. Acquisition boni in case of share buybacks will be subject to a 21% rate (instead of the former10% rate).The rate is maintained at 15% for income related to the State bonds issued and subscribed during the period from 24 November to 2 December 2011. Royalties for copyright remain under the 15% rate.
Are concerned by these new withholding tax rates income attributed or made payable as from 1 January 2012.

For natural persons who receive interests and dividends which amount exceeds € 13,675 (€ 20,000 after indexation for 2012) will be subject to an additional tax of 4% on that higher part. However, some interests and dividends will be free of this additional tax, mainly:

- the first €1,250 EUR (to be indexed) of interests and dividends on savings deposit
- liquidation boni
- incomes from state bonds emitted and subscribed from 24 November 2011 to 2 December 2011

This will affect income attributed or made payable as from 1 January 2012.

Two options are offered to the beneficiary of these incomes. He can voluntary pay the additional tax which will be withheld at source and in this case, the amount of the interests and dividends will not have to be disclosed to the central contact point. The beneficiary can also opt for no withhold at source but in that case the information will be communicated to the central contact point which will give the information to the tax authorities so that they can use it for the assessment of the personal income tax.

Obligation to report all movable income

Unlike in the past, from 1 January 2012, all movable income will have to be mentioned in the personal tax return. This also concerns income of copyright and related rights.

Bulgaria

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Not surprisingly, 2011 was another controversial year for the Bulgarian fiscal policy – the budget deficit was reduced to 2% of GDP; the pension debate was intense and the retirement age was increased; a "golden" fiscal rule was voted in Parliament to restrain future budget deficits; fiscal issues at the European level were heavily debated and Bulgarian Parliament voted a position against tax harmonization and in favour of stricter fiscal rules at the European level. Despite all these, there were no big moves in tax policy, as the main taxes stayed unchanged.

2012 will be a tough year for Bulgarian fiscal policy, as the economy is underperforming and may be heading towards another recession. Tax revenues are still not fully recovered from the previous recession and any negative developments will mean problems for the budget. With written "golden" fiscal rule in the legislation and shrinking fiscal reserves, the pressure will fall on the expenditure side of the budget.

Fiscal Issues: no more fiscal reserve

Bulgarian economy is struggling to recover from the crisis – economic growth is weak, employment is still depressed and foreign investments are practically gone. This of course means that the pressure on the budget is still very much present and the revenue side remains problematic– projected tax revenues in 2012 are still lower than the record high revenues collected before the crisis in 2008. As one might expect, the revenue recovery is particularly weak in those taxes based on those activities that took the hardest hit during the downturn of the economy – mainly indirect taxation (less consumption) and corporate taxation (shrinking profits). As a result, Bulgaria has faced budget deficits in three consecutive years (2009 – 2011) to the total amount of more than BGN 5 billion (€ 2.5 billion). Those budget shortfalls were mainly financed from the fiscal reserve of the country allowing the public debt to stay stable at around 15% of GDP. Consequently, the fiscal reserve, mainly accumulated from budget surpluses prior to the crisis, is now down from more than BGN 10 billion (€ 5 billion) in 2008 to less than BGN 5 billion (€ 2.5 billion) in 2012, which puts it to the so-called "critical minimum". Furthermore, most of these reserves can't be used to cover budget shortfalls as they are part of separate funds with special purposes – for instance, almost BGN 2 billion (€ 1 billion) from the fiscal reserve are part of the pension "Silver Fund", which shall be used (as written in the law) to cover future pension obligations and not current budget deficits. In other words, from now on, budget deficits (including the 2012 deficit) and debt payments (like the important one due January 2013) will mostly be financed via the issuing of public debt.

To summarize, Bulgaria is facing a rather tough fiscal situation, as the economy is underperforming, previous budget revenues have not been recovered and the reserves are already used to their maximum. This puts additional pressure on the expenditure side of the budget, as in 2011 the Bulgarian parliament voted a "golden budget rule" imposing the further constraint that the budget deficit cannot exceed 2% of GDP.

Direct Taxation (Corporate Tax & Income Tax)

Recall that in 2007 the corporate tax rate in Bulgaria was reduced to 10% (down from 15%) and that the following year the income tax was also reformed – replacing the progressive scale (20%, 22% and 24%) with one singe flat rate of 10%. Those tax cuts made Bulgaria the country with the lowest direct taxes in the EU, excluding the social contributions of course. Both tax cuts brought about positive effects for the economy and the state budget that were clearly visible prior to the crisis (see our previous reports). Indeed, the revenues from corporate taxation went straight up after the reform during the boom years of 2007 and 2008 –in this two-years time, the revenues increased by more than 70%.

However, the crisis had a severe impact on corporate profits and in 2010 the revenues were back to their level prior to the reform (2006). In 2011 the revenues from corporate taxation started to recover (up roughly 10%) and the projections are that this trend will continue with another 10% increase in 2012. Still, revenues from corporate taxation are not playing a crucial role for the budget, as they count for less than 2% of GDP (BGN 1.5 billion or € 750 million in 2012). Presently, the 10% tax rate is stable and the debate is rather focused on the tax base and the European perspectives for harmonization – this will be discussed later on in this report.

The flat income tax story is somewhat different. Since the introduction of the single flat rate in 2008 the revenues not only went straight up, but also prove to be stable during the crisis. The positive budgetary effect of the flat tax is indisputable – with a single tax rate (10%) two times lower than the lowest marginal rate of the previous progressive scale (20%, 22%, 24%), the revenues went up and stayed stable during the crisis. In 2011 the revenues from income taxation are projected to reach BGN 2.2 billion (€ 1.1 billion), which is 20% up from the levels prior to the reform (2007) and now heading towards 3% of GDP. Despite the purely ideological debate over the flat tax in Bulgaria, the official projection is that the flat tax will stay unchanged – 10% flat rate and no tax-exempt minimum.

In addition, there is a legislative proposal that the 10% income and corporate tax rates shall be constitutionally protected, thus only a qualified majority (2/3) in Parliament will be able to change them. These constitutional amendments were already debated in Parliament, but their future is still very much uncertain.

Indirect Taxation (VAT & Excise Duties)

Indirect taxes include VAT and excise duties on special goods such as cigarettes and alcohol beverages. Bulgarian tax regime is mainly oriented towards indirect taxation, meaning that the State prefers to tax consumption, rather than income and profits. To put that into perspective, the revenues from income and corporate taxation are slightly less than those from excise duties only and almost twice less than those from VAT.

VAT in Bulgaria is set at 20% and, despite the various discussions that took place during the year, it is supposed to stay at that level for the years to come. Revenues from VAT are expected to recover and to exceed BGN 7 billion (€ 3.5 billion) or almost 9% of GDP in 2012. This is above their 2011 level, but still slightly less than the record set in 2008. Some changes in the preferential VAT for tourism were introduced – effective 1 April 2011 a single reduced VAT rate of 9% apply to hotel accommodation services regardless of whether they are a part of a tourist package or bought individually. The effects of this preferential tax rate on the budget are still unclear and will probably be debated during the forthcoming preparation of the 2013 budget law.

Meanwhile, Bulgaria has to harmonize its tax regime with that of the European Union by introducing the minimum excise duties of the European Community on tobacco, alcoholic beverages, and fuels. Started in 2002, the harmonization process should be completed by the end of 2013. As a result, excise duties are the only taxes that are continuously increasing year after year generating some clearly negative effects. One example is the increased excise duties on cigarettes in 2010, which resulted in a collapse of the (official) consumption, while smuggling went up. Excise duties on motor fuels are also proving to be problematic, as the prices are increasing and EU obligations are seen as a burden to consumers. Nevertheless, excise duties are highly important for the budget, as the revenues are expected to reach above BGN 4 billion (€ 2 billion), which is 5% of GDP. Additionally a new indirect tax was recently (2011) introduced in Bulgaria – a 2% tax is due on insurance premiums for insurance contracts covering risks on the territory of Bulgaria. The tax is to be collected by insurance companies but it is practically a burden for the insured – the revenues in 2012 are projected to be limited, around BGN 24 million (€ 12 million).

Social Security Contributions

Social security (including health) contributions are traditionally highly disputable in Bulgaria. In 2005 the contributions were above 40% of the gross wage, but following some consecutive cuts (mainly pension and unemployment contributions) prior to the crisis they went down to around 30% of gross wage. Since then, they stayed relatively stable (slightly up and down) and in 2012 the social contributions will be at around 31% of the gross wage, paid by both the employer and the employee in a certain ratio (as shown in the table). In addition, the contribution base is capped at BGN 2000 (€ 1000) monthly and any income above that level is not subject to any social security contributions.

Social Security Contributions in Bulgaria (% of gross wage)

Social Contributions (2012)		State Fund		Private Fund	
	Total	Employer	Employee	Employer	Employee
Pension	17.80%	7.10%	5.70%	2.80%	2.20%
Illness & Maternity	3.50%	2.10%	1.40%	X	X
Unemployment	1.00%	0.60%	0.40%	X	X
Labour Accidents & Professional Illness*	0.50%	0.50%	0.00%	X	X
Health	8.00%	4.80%	3.20%	X	X
Overall	30.80%	15.10%	10.70%	2.80%	2.20%

(*) The rate for Labour Accidents and Professional Illness is averaged – there are several rates depending on the labour category – varying from 0.4 to 1.1 percent

From 2009 on, along with social contributions paid by the employee and the employer (as in most European countries), the State itself started to pay social (pension) contributions for every worker – 12% of the gross wage. Those "new" State contributions, however, are more of an accountant's trick than a real reform. Actually, the State had always made payments from the budget to the Pension Fund – the difference is that those payments used be called transfers (or subsidies) and are now called contributions. More importantly, even with these "State contributions", the state pension fund is far from balanced and needs further government subsidies (transfers) to cover the deficits.

In recent years the crisis put additional pressure on the pension system, which resulted in a long-term pension reform drafted at the end of 2010. The plan, however, quickly came under criticisms for being too weak and inadequate, as one of the main measures in the reform consisted in an increase of the retirement age Following a worsening of the pension system deficit in 2011, amendments have been brought to the reform so that the retirement age will start increasing from the beginning of 2012 – by 4

months a year until it reaches 65 for men (63 now) and 63 for women (60 now).
One of the most heated controversies in 2010 has been the partial nationalization of the private professional pension funds – those are actually early retirement accounts in private funds. Around BGN 100 million (€ 50 million) were transferred from the private funds to the State fund, with the idea to support the early retirement obligations for the next 3-4 years. Interestingly, in 2011 the Constitutional Court ruled this as unconstitutional and the argumentation was astonishingly strong in favour of the personal accounts and against any right for a politician to make such decisions. Nevertheless, if this ruling may effectively prevent such takings in the future, this one will not be reversed – those funds have not been returned to their individual legitimate owners.

The recent years have seen the healthcare system in Bulgaria hit by a deep crisis, with a new minister chasing away the former one at least once a year. Still, the state of the system is still best describe as chaos – bad organization and artificial pricing, lack of financing, perverse incentives and fraud, not to mention the absence of agreement on an expected reform. The health contributions are still at 8% of gross wage, which now go entirely and directly into the system. The so called "health reserve", which used to be held at the Bulgarian National Bank (around BGN 1.5 billion or € 750 million) is no longer available, as it was "transformed" at the end of 2010 and actually used to cover budget deficits. Whether the health contributions should be split in some way and partly directed towards a chosen private health fund is still the object of debates.

In 2012 the so-called minimum social security thresholds for the main economic activities and professions were increased. Such changes have been taking place many years in a row bringing those thresholds at least 20% up from their 2009 level– before the big drop in employment. These thresholds are being used as a minimum tax base for social security contributions and are playing important role in Bulgarian tax policy – official data shows that 1 out of every 4 workers is insured on administratively levied minimum thresholds.
Further changes in the social security contributions are to be expected in the forthcoming years, as both pensions and healthcare are being continuously debated. The long-term plan for pension reform is in place, but subject to minor or major changes – as we saw above with retirement age.

The healthcare system has proven to be highly vulnerable in the recent years and it is expected to remain so in the years to come – changes in health contributions are therefore likely.

European debates on harmonization

In 2011 the fiscal debate in Bulgaria was highly EU-oriented, concerning both the proposed fiscal rules to be implemented at the European level and tax harmonization issues. Bulgarian Parliament voted an official position in favour of the new fiscal rules (the so called "Fiscal Compact") and against tax harmonization. Tax harmonization was debated as an issue in general and not so much in relation to the practicalities of the so-called Common Consolidated Corporate Tax Base. Corporate tax base in Bulgaria is wider than the one stemming from the EU proposition, meaning that Bulgarian budget will lose revenues if such common consolidated corporate tax base was put in place. In addition, this reform is viewed as a general threat to future tax harmonization concerning direct taxation, which explains the opposition from the country – no political party is actually in favour of such harmonization.

Conclusions

Fiscal policy in Bulgaria has played a crucial role for the development of the economy in the recent years. Balanced budgets and low taxes proved to be a successful strategy prior to the crisis. In 2011 the deficit was contained at around 2% of GDP, but negative developments (recession) in 2012 may cause additional problems and put pressure on the budget. The newly voted "golden" fiscal rule, however, brings a new constraint for additional measures (on revenue or expenditure side) if the budget deficit were to go up again. As for the taxes, the 10% flat income tax, the 10% corporate tax and the 20% VAT will probably remain untouched in the years to come. Social contributions will once again drag attention, as further reforms in pension system and healthcare are to be expected.

Czech Republic

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The current Czech government continues to follow a plan focused on balancing the state budget by 2016. Even though the measures had been decided shortly after the outbreak of the 2008 crisis, political obstacles and slow economic recovery render their implementation often complicated. If so far the government has been able to cut operating expenses of the ministries, further substantial savings in this area are no longer probable. As a consequence, more and more emphasis is put on increasing tax revenue. For now this is obtained by cutting on administrative costs, but a set of tax increases is already being prepared. Also, there are concerns that the cost-saving measures may undermine the ability of the Czech government to pursue counter-cyclical discretionary fiscal policy. But a recent analysis revealed that the ability and desire to do so has been very limited, at least since 2001, depriving the argument of any credibility.

Fighting the structural deficit

In 2010 the situation of the southern-wing EU countries turned the member countries' attention towards the sustainability of their public finances. But in 2011 the focus swung again, this time in the direction of monetary policy and regulation of financial and banking sector. Hence, even though the goal to reach a balanced budget in 2016 in the Czech Republic still exists, the method to be followed for reaching it is no longer clear. True, the plan for fiscal consolidation indicates that the public deficit should drop under 3 % of GDP in 2013, but according to the Czech National Bank's forecast that takes into account measures which made it at least to the first reading in the Parliament, the deficit is more likely to be at 3.8 % of GDP for that year. Clearly, without additional reforms the government's target will be unreachable especially considering that the capacity to accommodate further cuts in operating expenses of the ministries is already becoming very limited.

Looking backwards, measures adopted in 2010 and 2011 have been successful in reaching the goal of gradually decreasing the structural deficit.

According to the ESCB (European System of Central Banks) methodology, the structural part of the deficit decreased from 6.1 % in 2009 to 4.8 % in 2010 and 3.4 % in 2011. But whereas the 2010 drop was mainly due to an increase of tax revenue; the measures prepared for 2011 were, according to the official documents of the government, more expenditure-oriented. As a matter of fact, the plan was to cut expenditure by CZK 58 billion, compared to the long-term budgetary plan, and to complement this cut with a CZK 20 billion increase in tax revenues.

State budget performance in 2011

Even though GDP grew by a mere 1.7 % in 2011—while the state budget law was based on the prediction of a year-on-year growth of 2.3%--the resulting balance did not deviate significantly. Without surprise, the 0.5 percentage point weaker growth led to lower tax revenue in almost all categories, one significant exception being the revenue from a solar tax--a special income tax imposed on solar power plants put into operation in 2009 and 2010 (see the 2011 Tax Report for more details on this tax). Hence, even though the solar tax brought to the budget almost CZK 6 billion instead of the CZK 4.2 billion planned, altogether, in 2011 only 94.6 % of the adopted state budget's revenue was realized which is consistent with lower growth of the economy. In such a situation we would naturally expect the actual expenditure to exceed the planned value. If the overall balance did not deviate it is only because public expenditures in 2011 were also lower than expected--only 95.8 % of the approved budget, with the only significant exception of pensions.

This puzzling figure can have three mutually non-exclusive sources: First, the lag between economic development and the labor market can be large enough to obscure the reaction given the one-year horizon. But even if what we observe is a lagged reaction to the slightly higher than expected growth in 2010, it should be already accounted for in the 2011 budget which got adjusted during 2011. Second, deliberately inflated expenditure plans could have been used to demand higher cuts in the salaries of public employees and current expenditure of the ministries, or argue against further tax cuts. This version of the story would be also consistent with last year's developments, when both actual revenues and expenditures were below the predicted figures as well. And last but not least, it is even possible that the automatic stabilizers in the form of social expenditure are not functioning as is commonly expected.

Whatever the reasons, the fact remains that, even though the 2011 budget was planning a year-on-year increase of expenditures of 4.6 %, what we observed was a decrease in public expenditures, even if only a small one (by 0.1 %; CZK 1 billion). Hence, with tax revenues higher by 3.1 % from their 2010 level, the government is, indeed, gradually moving in the direction of lower budget deficits. But it does not do so primarily by cutting on expenditures, as the rhetoric often goes, but by extracting more resources from taxpayers. Still, in 2011 the public finance deficit--central to the Maastricht criterion and the Stability and Growth Pact, reached 3.7 % of GDP.

Tax changes as of 2012

With the beginning of 2012 a few tax changes came into effect. In line with the minister's plan, the so-called "flood tax" has revoked. In practice this will be done by adding an extra CZK 100 a month (€ 4 or approx. 5 %) to a general income tax deduction. The predicted yield from this tax (CZK 4 billion or € 160 million) has been used for programs focused on cleaning up damages caused by floods and for flood prevention. On the other hand, as part of the consolidation program envisioned already during 2009, an increase of the reduced VAT rate from 10 % to 14 % effective at the beginning of 2012 has been approved. Eligible for the reduced VAT rate are items such as food, heating, drugs, sports, culture, or services. To partly compensate for that increase, a tax deduction for having a child has been revised upward by 15.5 % to CZK 13,404 a year (€ 536). The approved increase of the VAT includes also the later abolition of the reduced rate in 2013 and hence the shift to a unified VAT at the 17.5 % level (now the two levels are at 14 % and 20 %). The unification is not constructed to be revenue-neutral, but to raise more revenue (at least CZK 22 billion; € 0.9 billion) with the idea to face the increasing costs of the pension reform (see below).

Besides via the increased VAT, the government is expecting to collect more revenue from two other sources. The first one is the EU-prescribed higher excise tax on cigarettes and tobacco which increases the minimal tax per one cigarette from CZK 2.01 to CZK 2.10, and per kilogram of tobacco from CZK 1,340 to CZK 1,400 (both by 4.5 %). The second source, expecting to raise approx. CZK 7 billion a year (€ 280 million), is an introduction of a lottery tax into Czech tax legislation. Until 2012, lottery companies were exempt from corporate income tax and were only obliged to contribute 6-20

% of their profit to charities. As of the beginning of 2012 those companies will be subject to corporate income tax to which is added a special tax at the rate of 20 %. Moreover, they will have to pay to the city they operate in CZK 55 (€ 2.2) per slot machine and per day.

Undergoing important reforms in tax administration, pension reforms, and elsewhere

During the spring of 2011, the finance minister introduced the government plan for the third pillar of the tax reform with the expected effective date of 1 January 2013. The first two pillars were mostly focused on technical and preparatory issues, the core of the tax reform being simplification of the tax system, and reduction of administrative costs for both the payers and the state. The goal should be reached by introducing a Single Collection Point, where payers could deal with all charges nowadays administered by separate authorities. Such unification requires the harmonization of calculation bases for income tax, social security, and health insurance payments. The concept of "super-gross" wage—i.e., the gross wage plus the social security and health insurance paid by the employer—will therefore be abandoned again and, as a consequence, the income tax rate will go up from 15 % to 19 %. Social security ceiling should be set at four-times the average monthly wage and the individuals' rate shall be 6.5 % of their gross wage. Health insurance premiums shall also be set at 6.5 % (currently 4.5 %) with a ceiling at six-times the average wage.

The pension system was also reformed in 2011. As of 1 January 2013, the tax payers will be allowed to opt 3 % of their gross wage out of the pay-as-you-go system and save them in a private pension fund. The only condition required for the opt-out is to top up the 3 % with another 2 % of the gross wage. This means practically that, in case of a voluntary opt-out, the social security payments of an individual will effectively go up to 8.5 % with 3.5 % going in the pay-as-you-go system and 5 % to a private pension fund. The Government's National Economic Council advised to make the savings pillar mandatory for those younger than 40. This, however, proved to be politically unacceptable.

Social security and health insurance payments currently paid by the employer in the total amount of 34 % from the gross wage should be replaced by a single 32 % payroll tax. Agreements on work performed outside the employment relationship which are currently only subject to a 15% income tax, will also, from now on, be subject to social security and health insurance charges, payable both by the individual and the employer. Corporate income tax should remain at 19 %.

Overall, the reforms will most of the time amount to lower tax burdens. The impact of the proposal reveals that, with the exception of taxpayers with a total cost of labor (the super gross wage mentioned above) lower than CZK 15,000 (€ 600), the effective tax rate of a single person without children goes slightly down. In the more frequent case of a married person with two children, the effective tax rate will be lower at all income levels. Even though it has a single rate, the proposed tax will remain progressive in the sense that the effective income tax rate will be a classical concave function gradually approaching approximately 20 % when the total cost of labor reaches CZK 125,000 (€ 5000).

Turning now to self-employed individuals, the new system should maintain the lump-sum expense deductions of 40 %, 60 %, and 80 % depending on the type of business. But they won't be available for VAT payers. At the same time, the turnover threshold at which VAT registration becomes mandatory will be lowered from CZK 1,000,000 (€ 40,000) to CZK 750,000 (€ 30,000). The base for calculation of social security and health insurance payments will be 100 % of gross profits--not 50 % as is the case now. Social security and health insurance payments will work the same as for employees, with the exception of a minimum threshold. Self-employed will also have the possibility to opt-out. But if they pay just the minimum premium of 6.5 %, the benefits from the pension system will be much lower than for employees. In other words, the self-employed will have to pay a higher premium than the employees in order to reach the same level of benefits.

One element of the tax reform proposal is a plan to remove all tax exemptions with the exception of those which constitute the government priorities such as tax benefit for children, the lump-sum expense deductions, support of research and development, old-age security, altruism, housing, etc. The expected impact of the whole tax reform on the public budget in 2013 and 2014 is a loss of CZK 31.6 billion per year, with the opt-out constituting the major part of the revenue drop. The already mentioned VAT unification is not included in this projection.

Institutional changes in the fiscal policy

But the Convergence Program of the Czech Republic includes also plans to modify the institutional framework of the fiscal policy. A substantial change in the process of budget preparation could be caused by the Budgetary Responsibility Act which is now being prepared by the government, as it would forbid approval of a deficit budget. But one has to be careful when evaluating the possible outcomes of that change. If it is true that a structurally balanced budget allowing for cyclical deviations should be an ultimate goal of every government, one should also consider that it is often much easier to increase government revenue than to cut on expenditure. And instead of creating a buffer for unexpected developments by lowering expenditure, time-restricted tax increases may constitute a more attractive alternative to abide by the new rule.

The recent development provides an example of such time-restricted tax increases. During the first months of 2012 the minister of finance pointed out that in order to decrease the deficit to 3.5 % of GDP in 2012, below 3 % in 2013, and to 1.9 % in 2014, additional savings of tens of billion CZK are needed. And to complement expenditure cuts, that meet fierce opposition by his colleagues in the government, he proposed the following revenue measures: moving all items with the exception of books, press, and drugs from reduced to standard VAT rate; doubling the electricity tax; implementing an excise tax for wine; introducing a carbon tax; increasing the personal income tax by one percentage point; implementing a "time limited" increase in the personal income tax progressivity by introducing a second bracket with the rate of 31 % for incomes above four times the average wage; and substantially decreasing the lump-sum expense deductions for self-employed individuals. The revenue increase stemming from these measures is expected to cover more than half of the needed additional savings.

Counter-cyclical discretionary fiscal policy?

One of the major issues connected with the topic of fiscal sustainability is a concern about preserving the ability of governments to pursue a counter-cyclical economic policy. It is mostly the socialist politicians or the labor union representatives who argue against further cuts on the government expenditure side and instead push for stronger role of tax increases in the process of deficit eradication.

With this respect, it may be interesting to summarize here the results of a study conducted by the Czech National Bank and published in the Inflation Report I/2012; a study that evaluates the impact of discretionary fiscal policy measures implemented in Czech Republic during the period 2001-2011. Because it is not trivial to distinguish fiscal discretion from autonomous government revenue and expenditure, the authors of the study use three different methods of estimation. The bottom-up method sums the impacts of individual fiscal measures identified in laws and regulations to obtain the revenue measures. Expenditure discretion is proxied by the deviation of expenditure from its trend. The top-down method measures fiscal discretion as an aggregate annual change in the cyclically adjusted balance of the public budgets. And the third method uses a former Czech National Bank core prediction model to capture the discretionary fiscal policy as the residual of the output gap equation. The three methods lead to various estimates of the scope of the fiscal discretion, but they tell qualitatively the same story. We can directly quote the document: "the periods of desirable counter-cyclical fiscal policy are relatively short (only 2001, 2003, 2007, and 2009), while the periods of pro-cyclical fiscal policy are dominant and longer-lasting (2002, 2004-2006, 2008, 2010-2011)." (p. 37)

Judging from these results, the government was not very successful in pursuing the counter-cyclical fiscal policy even before the recent emphasis on fiscal sustainability. Moreover, in the period 2005-2008 a positive output gap was estimated and restrictive fiscal policy would therefore have been appropriate. But the discretionary part of the fiscal policy was instead expansive with the sole exception of 2007. So, to sum up, the argument that the recent development poses a threat to the ability to pursue counter-cyclical fiscal policy doesn't seem to make much sense. At least not in the Czech Republic.

Denmark

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In September 2011 the centre-right government since 2001 was defeated at the polls, giving way to a centre-left government led by Ms Helle Thorning-Schmidt, Denmark's first female Prime Minister. Before leaving office, the outgoing government sealed a number of fiscally important political agreements including a retirement reform and an agreement to lower corporate tax from 25 percent to 20 percent. While the retirement reform survived the change of government, the plans to lower the corporation tax did not. Having run on a platform of higher taxes, the new government furthermore introduced a 2012 budget which will increase long term tax revenue by ½ percent and thus further isolate Denmark as the most heavily taxed country in the world. However, the government has announced that it will present a tax reform with "markedly" lower tax on labour income, possibly with effect from 2013.

2011 – A "stalemate" year

As described in previous yearbooks, 2010 saw the introduction of the largest tax reform in more than a decade, the centerpiece of which was a lowering of the top marginal tax rate on labor income from 63 percent to 56.1 percent – the lowest in at least 40 years. The reform (agreed upon in 2009) was constructed so that most tax cuts came into effect in 2010, while most of the tax increases that financed the reform would follow in the years to come, especially in the years 2012-19.

In terms of taxation, 2011 was thus meant to be a sort of stalemate year. Most tax cuts had already been introduced the year before, and the tax increases were not to take affect till next year. This effect was exacerbated by an "Economic recovery package", agreed upon in 2010, which postponed the only planned 2011-cut to 2014: An increase in the threshold for the top income tax bracket by some DKK 20,000 (€ 2,690).

As it were, 2011 did witness some tax changes, although nothing like 2010. Firstly, some of the few tax increases originally planned for 2010 were postponed till 2011 due to technical and/or political difficulties. Secondly, the aforementioned economic recovery package – aimed at improving public sector finances in lieu of the financial crisis – also contained a number of tax increases which took effect in 2011.

Tax bracket creep

The most subtle but also most significant part of these tax increases was a three-year (2011-2013) nominally freeze of all tax thresholds, which are traditionally automatically indexed to reflect rising wages. The three-year freeze came on top of the 2010-freeze which was part of the larger tax reform agreed upon in 2009. Thus, the combined effect will be to keep all tax thresholds nominally unchanged from 2009 to 2013, despite the wage inflation in these four years.

The effect of the tax threshold freeze is best illustrated by looking at the effect on the number of taxpayers paying the top income tax rate. In 2010 some 660,000 persons paid the top income tax, equal to 14 percent of all taxpayers. This was after the initial part of the 2010 tax reform had brought the number down from 930,000 persons (20 percent) the year before. As mentioned, a further increase of the tax threshold was supposed to take effect in 2011 bringing the number of top tax payers below 600,000 persons. Instead, the 2011 increase was postponed to 2014 and the top tax threshold was fixed in nominal terms till 2013. The effect was an increase in the number of top tax payers to some 710.000 persons in 2011. This number will continue to rise till 2013 when there will be almost 850,000 persons paying the top income tax rate. In 2014 the planned threshold increase – along with the resumption of automatic indexation – will reduce the number of top income tax payers to around 700,000 persons or the same as today. That is more than 100,000 persons more than without the effect of the tax bracket freeze.

Lower tax deductions for labor unions

The economic recovery package also introduced a DKK 3000 (€ 403) ceiling on the maximum tax deduction for labor union membership fee, which came into effect in 2011. Hitherto, the cost of labor union membership had been fully deductible against local taxes (33.7 percent average). The ceiling, which is nominally fixed indefinitely, will especially hit the politically active (and expensive) unions, and comes on top of the gradual reduction of the tax value of most standard deductions, which was part of the 2010 tax reform. This reduction will take effect in the years 2012-19, lowering the tax value to 25.7 percent. Not surprisingly, Labor Unions have been very critical of this change, which in the long run will all but eliminate the tax subsidy to union membership. So far, the new centre-left government has resisted pleas from the unions to remove the ceiling again.

In all, the economic recovery package will increase total tax revenues by roughly one percent (DKK 8.5 billion. or € 1.1 billion.), of which almost all of it can be attributed to the three-year tax threshold freeze.

The "equalization" tax

The 2010 tax reform had the specific goal of lowering the marginal tax on labor income in order to boost labor supply. However, since the tax on private pensions is mainly levied when pensions are paid out (with corresponding tax deductions upon contribution) the lower marginal taxes would also benefit pensioners. This was especially the case for current or soon to be pensioners with large private pensions, who would benefit from the reduction in the top marginal tax rate, and in effect get a lower tax on their pension pay-outs than the value of the tax deduction when they contributed to the scheme. In order to counter this unintended and to some "unfair" effect of the tax reform (and in order to finance the tax cuts in the reform), the government proposed an "equalization" tax on large pension pay-outs, which were to take effect at the same time as the marginal tax reductions it was supposed to equalize (in 2010). However, due to massive criticism from pensioners and their organizations (including many who would never be affected by the tax) the tax did not take effect until 2011. Originally, the government had toyed with the idea of having the equalization tax for some 30 years, but in the end a 6 percent surtax on pension payments exceeding DKK 362.800/year (€ 48,770) was agreed upon for the years 2011-14. Hereafter the rate will be reduced by one percentage point per year in the years 2015-2020. The tax affects some 30,000 pensioners.

Europe's first fat tax

One element of the 2010-reform which was always intended to take effect in 2011 was the ground-breaking tax on saturated fats. Originally, the tax was supposed to take effect from January 2011 and included only oil and dairy products (except milk) at a rate of some DKK 20-25 (€ 2.7-3.4) per kg saturated fat. This proposal, however, proved unacceptable to the EU, and as part of a later "service check" of the tax reform, the tax was expanded to include meats and as a consequence lowered to DKK 16 (€ 2.2) per kg saturated fat. At the same time, the implementation of the tax was postponed till October 2011.

For the companies affected, the new tax has proven an administrative nightmare. Ever since the idea of a tax on saturated fats was originally introduced in 2009, organizations such as The Confederation of Danish Industries had argued that if such a tax were to be implemented, it should be levied at the retail level, based on the amount of saturated fat in the end product (and thus, ideally, await an expected EU-wide obligatory labeling, which would also show the content of saturated fat). The Ministry of Taxation on its part had always envisaged – and eventually pushed through – a tax based on the amount of saturated fat used in the production of a good. As a consequence, food companies producing in Denmark must now not only keep track of waste, but also on the amount of fat used in the production of goods destined for export. For importers, paying the new fat tax requires detailed knowledge of the production methods of foreign producers, including subcontractors.

New government, new taxes

As mentioned in the introduction, 2011 saw a change of government as the centre-right government which had been in power since 2001 left office in September 2011 following an electoral defeat. The new centre-left three parties minority coalition government is led by Ms Helle Thorning-Schmidt (Social Democrats) and finds its parliamentary majority with support from the Red-Green Alliance on the political far left. Before the election, the Social Democrats – along with the Socialist People's Party who make up the left wing of the new government – campaigned vigorously on a platform of higher taxes, especially on the rich. Specifically, their common campaign manifesto contained a "millionaire tax" of 6 percent on incomes above DKK 1 million (€ 130,000), fewer tax deductions, higher "sin taxes" on tobacco and candy, as well as a number of business taxes. The proposed tax increases would – according to the two parties own estimations – increase total tax revenue by some 2-2.5 percent (DKK 20 billion, € 2.7 billion). This was after a DKK 10 billion tax cut primarily aimed at lower incomes.

In the end, most of these tax increases have not materialized as "promised". This is mainly due to the fact that the change of government only became possible because of the electoral success of the last member of the new government: the Danish Social-Liberal Party, which was opposed to most of these proposed tax hikes. The Social-Liberal Party has traditionally placed itself in the parliamentary centre of politics, being able to work with either side of the political specter. This was clearly demonstrated in the spring of 2011 when the then centre-right government sealed an agreement with the Social-Liberal Party on a retirement reform which the rest of the opposition opposed – even as the Social-Liberal Party was working with the rest of the opposition to oust the government.

Sadly, this was not the case for the plan to cut corporate income tax from 25 percent to 20 percent which the out-going government secured an agreement on without the support of the Social-Liberal Party. The majority behind this tax cut, which were to be fully financed through fewer corporate tax deductions and lower corporate hand-outs, did not survive the election.

After the election – in which the Social-Liberal Party fared well, which was not the case for either the Social Democrats or the Socialist People's Party – the inclusion of the Social-Liberal Party into the new government was necessary to secure its parliamentary stability. As a consequence, most of the proposed tax hikes had to be scrapped to secure an agreement on a common government manifesto. Ironically, the new government also had to adopt the planned retirement reform, which both the Social Democrats and the Socialist People's Party had so venomously opposed before the election, as the parliamentary majority for this reform (because of the support from the Social-Liberal Party) survived the election.

This did not, however, mean that the new government could not agree on any new taxes. On the contrary, the 2012 budget – with the support of the Red-Green Alliance – contained a number of tax increases, many of which were afterwards rushed through parliament so that they could take effect from January 2012.

Further widening of the personal income tax base

As described in earlier reports, Danish tax reforms for the last couple of decades have been characterized by lower marginal taxes financed through an ever widening of the tax base. The newly elected government has followed this trend, albeit regrettably without returning the extra revenue fully to the taxpayers.

Effective from 2012, the value of private health insurance paid by the employer (and deductible as a business expense) will no longer be tax free for the employee. Also there are no longer any tax privileges if a company chooses to pay its employees in company shares. Hitherto, if all employees were given access to the scheme, up to 10 percent of the salary could be paid in shares. The value of the shares would be fully deductible for the company (as would a normal salary), while the employee – upon selling the shares – would only be subjected to the tax which applies to the profit from shares (at most 42 percent depending on the total income from shares that year). This compared with a top marginal tax on wage income of 56.1 percent. From 2012, shares given to employees as part of their salary will be taxed as regular labor income at the moment the employees acquire the shares (so if it is a right to buy shares, not until they exercise this right).

Finally, the government and the Red-Green Alliance agreed on a tightening of the tax privileges related to private pension schemes. Firstly, the yearly tax on the return on private pension schemes was raised from 15 percent to 15.3 percent. Secondly, the maximum deductible amount which can be paid into a private pension plan with more than ten years but less than life-long return payments is reduced from DKK 100,000 to DKK 50,000 (€ 13,440 to € 6,720). The DKK 100,000 ceiling was introduced in 2010, before which there was no limit on the deductible amount. This is still the case for payments to life-long private pension schemes.

No more tax on home computers and Internet

All in all, the abovementioned widening of the tax base for personal income taxes will bolster the tax revenue permanently with approximately DKK 1.2 billion (€ 0.16 billion) or some 0.1 percent of total tax revenue. This is excluding the temporary effect of the ceiling on deductions for private pension contributions, which will bring forward some tax revenue that would normally not materialize until the pensions were paid out.

Of this amount, almost half will go towards amending one of the most despised elements of the 2010 tax reform: The introduction of a DKK 3,000/

year (€ 400) add-on to taxable income for employees with (partly or fully) employer-paid telephone, PC or Internet available for private use outside the workplace. This corresponds to a tax of DKK 1,200-1,700/year (€ 160-230) depending on income (top income tax payer or not). This "multi-media tax" was hotly criticized, and late in 2010, the tax was amended so that married couples – if both are eligible for the add-on – receive a 25 percent discount on the tax.

The new government chose to lower the add-on to taxable income to DKK 2,500 (€ 340) while at the same time exempting employer-paid PC and/or Internet, leaving only employer-paid telephone as the basis for the tax. The 25 percent discount for married couples both eligible for the taxable add-on remains in place.

Higher taxes on consumption

Denmark already levies Europe's highest consumption taxes, mainly due to a uniform VAT rate of 25 percent as well as high taxes on candy, alcohol, cigarettes and a variety of other products. In 2012 and 2013 these taxes are set to increase as a consequence of the new government's 2012 budget agreement with the Red-Green Alliance. In 2012, tax on soft drinks (with sugar), chocolate, candy, ice cream, beer, wine and tobacco will be increased by some DKK 1.3 billion (€ 0.17 billion) in all. Interestingly, the increase in the tax on tobacco (which will increase the price of a package of cigarettes from DKK 39 to DKK 42 or € 5.2 to € 5.7), is not expected to result in any extra revenue as the negative behavioral effects (less smoking and more cigarettes bought across the border in Germany) are expected to nullify the initial positive effects on tax revenues.

Also, a number of taxes or duties on as diverse products as light bulbs, coffee, tea and smokeless tobacco, along with the annual circulation tax on cars will now be increased in 2012 and 2013 by a total of some 9 percent. These taxes had all been held constant in nominal terms since 2002 under the former government. Along with the abovementioned increases, this will bring the extra revenue on consumption taxes to some DKK 2 billion (€ 0.27 billion).

The plan is to increase it further to some DKK 3 billion (€ 0.4 billion) by introducing a tax on all food products with added sugar: Fruit yoghurt, marmalade / jam, ketchup, chocolate milk, etc. – but also relish or pickled products. The tax, which is supposed to take effect in 2013, will not be based on the amount of added sugar or indeed total sugar content in the product, but rather on the weight of the product itself (as is the case with the tax on soft drinks, candy or chocolate). The government will present a proposal in 2012, but based on the total amount of relevant products sold in Denmark it is expected that the forthcoming tax will have to be unrealistically high in order to bring in the expected revenue – with severe consequences for the affected industries and pushing cross-border shopping to new record levels.

Even before the proposed tax increases, official estimates put the total cross-border shopping out of Denmark at DKK 12 billion (€ 1.6 billion) or more than DKK 2000 (€ 270) per year per person.

A higher price on doing business

Individuals are, however, not the only ones to feel the effect of the change of government. As indicated, some of the proposed tax increases which primarily affect consumers will also carry a burden for companies in terms of administrative costs and/or loss of business in their home market. But Danish companies will also be directly hit by a number of tax increases in the years to come.
Most notably, the new government has pushed through a quintupling of the tax on NOx-emissions from DKK 5 per tonne NOx to DKK 25 per tonne NOx (€ 0.67 /tonne to € 3.36 / tonne). The sharp increase will take effect in mid-2012 and could have devastating effects on much of the Danish production industry already suffering under the increase in energy taxes, which were part of the 2010 tax reform. The environmental effects, however, will be modest, as less than five percent of the NOx-particles in Denmark are actually emitted in Denmark (the rest are carried into the country from abroad). Also, the largest emitter of NOx – transportation – will be exempt from the increase.

The government has also tightened the rules concerning the tax-free transfer of family owned businesses from one generation to the next, and it has proposed a number of tightened rules in order to increase corporate taxes. These propositions include higher fines for missing or incomplete transfer pricing documentation, limitations to the deduction of previous years' loss in this year's profits, as well as further limitations on the deduction of interest payments in company profits (mirroring German and French rules in this area).

The world's heaviest tax burden will become even heavier

It must be recalled that the abovementioned tax increases all come on top of the many increases, which were already agreed upon to finance the 2010 tax reform, but which have not yet taken effect. This effectively means that the tax burden was already set to increase for many years, even before the change of government. With the many new tax increases this development will be further exacerbated, solidifying Denmark's position as the most heavily taxed country in the world.

…but maybe the burden will be reshuffled a little

Interestingly, the manifesto of the new government also contained a pledge to boost labor supply by at least 7,000 persons, equal to some 0.025 percent, by implementing a tax reform which "markedly" lowers the tax on labor income. Although the goal of 7,000 extra persons in the workforce is far less ambitious than the last tax reform, which increased labor supply by almost 20,000 persons, the proposed reform is nevertheless proving to be quite problematic for the new government. The heart of the problem is that even though the government has said that it will ensure a just "social balance" in the reform, it has stressed that the promised tax cuts will only benefit those who work (thus excluding pensioners or welfare recipients from benefiting). This is quite logical, as this is the only way to ensure that the reform can boost labor supply without being too costly in terms of lost revenue.

This, however, is not a view shared by the Red-Green Alliance who secures the parliamentary majority of the government. They believe that the forthcoming tax cuts should benefit everyone, especially the poor, i.e. welfare recipients. The divide between the government and its parliamentary ally is further widened by the fact that all official calculations show that it will be virtually impossible to reach the stated goal of an extra labor supply of 7,000 persons without focusing a large share of the tax cuts on the top income earners – at least by raising the threshold for the top marginal tax, which today kicks in at an income level just above the average industrial wage. If the tax cuts are focused solely on low-income workers, all estimates show that the cuts would have to be quite substantial in order to boost labor supply as promised. This could be done e.g. by boosting the "employment deduction", which only applies to labor income, and which has an effective cap on the maximum amount a person may receive.

This means that the government will be more or less forced to reach an agreement with one or more parties from the right-wing opposition in order to secure a parliamentary majority behind a tax reform. But this only adds to the government's frustrations. Firstly because none of the opposition parties – especially those with mandates enough to help the government – have any particularly interest in doing so. At no time since the election has the government enjoyed a majority in the polls, and the opposition will be loath to do anything that could change this. Secondly – and related – because the opposition will undoubtedly require a high price for its support. This price could be either related to the tax cuts (requiring more of the cuts to be directed at the top income tax, possibly by not only raising the threshold but also reducing the rate); but also it could be directed at the elements, which will finance the cuts. The government on its part has stated that the tax reform must be fully financed (no unfinanced tax cuts), and that none of this contribution should come from lower public spending. Indeed, the government manifest clearly states that it expects the supply side effects of the extra labor supply – estimated at some DKK 3 billion (€ 0.4 billion) – to finance an increase in public spending. Also, it is widely expected that the government will try to secure the required "social balance" of the reform by including some more or less symbolic tax increases on the highest income earners such as higher inheritance tax or by introducing an income adjustment to the universal child benefit for very high incomes.

The key opposition parties have on their part demanded that the tax reform be financed – at least in part – by lower public spending so that the reform actually leads to a lower tax burden. And further, they have venomously opposed the idea of higher taxes on inheritance or indeed any element that will lead to a de facto higher marginal tax on high-income earners. This would include income adjustment of the universal child benefit.

The government is expected to present their proposal for a tax reform in the summer or early fall of 2012 with the hope that an agreement may be reached in time for at least some of the tax cuts to take effect from January 2013.

Finland

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In the spring of 2011, Finland held a general election, and tax reform was one of the major issues. The election was won by the Conservative Party with the Social Democrats a close second. Since then, putting aside a slight reduction of the corporate tax rate, most changes have been in the direction of higher taxes: capital gains tax was raised and made progressive for the first time; estate taxes had a similar treatment while all VAT rates were increased by one percentage point. Still, public debt and deficit are ballooning and the high cost of labor is penalizing companies. From either a tax or fiscal perspective, the outlook is rather grim at the moment.

General election in 2011

Throughout most of 2010, and all the way in the run-up to the 2011 election, there was much speculation about a forthcoming major reform of the Finnish tax system. The last time taxation in Finland went through a large-scale overhaul was in 2005, when the country abolished its dividend imputation scheme in favor of a partially tax exempt, partially double tax system on capital gains and corporate profits.

This time around, a working group headed by Matti Hetemäki was again proposing significant reform of tax on dividends, most of which would have led to a sharp increase in the effective tax rate. According to one proposal, the effective tax on dividends from publicly traded companies would be increased by more than half, from an effective rate of 19.6% to 30%, and this was only one of many proposed increases. The new models for calculating the taxable dividend income from non-listed companies were also extremely and unnecessarily complicated.
In the spring of 2011, Finland held a general election, and tax reform was one of the major issues. The election was won by the Conservative Party with the Social Democrats a close second. As a result, Jyrki Katainen of the Conservative Party became Prime Minister, but only after having made rather astounding concessions to the Social Democrats, who became the second major governing party. The party leader Jutta Urpilainen became

Minister of Finance, and Lauri Ihalainen, a former trade union boss, became Minister of Labor.

The so-called “tax-exempt” dividend

One of the key issues behind the drive for tax reform was the fact that non-listed companies can distribute up to €90,000 in tax-exempt dividends to each individual owner. This possibility had long been derided by politicians and media alike, who were horrified that such large sums could be distributed free of tax. In their minds, it was extremely unfair that entrepreneurs, who were basically just employees of their own companies, could “transform” progressively taxed employment income to tax-free capital gains. And indeed, in Hetemäki’s report, this “distortion” was cited as a major reason for the need for reform.

However, one of the many flaws in this line of thinking is that the dividend is by no means tax exempt, because it is paid out of taxed corporate profits. Corporations don’t pay taxes, but their shareholders do, something that becomes extraordinarily evident in companies with only one owner and no employees. In order to be able to pay out a dividend of €90,000, a company had to have a net worth of one million euros per owner (according to the tax code, an amount equal to 9% of the company’s net worth could be distributed as tax-exempt capital gains dividends, capped to €90,000). To arrive at €1,000,000 in retained earnings, the shareholder would have had to pay €351,351.35 in taxes at the corporate level. Then, in order to keep the net worth €1,000,000 to be able to pay out €90,000 euro, the company profit must be at least €121,621.62, on which the company paid €31,621.62 in taxes from 2005 to 2011.

So the tax-exempt dividend was far from tax exempt. Another thing is, of course, that only a handful of the tens of thousands of entrepreneurs in Finland ever came close to be able to distribute €90,000 in dividends, tax exempt or otherwise. The average annual income of entrepreneurs is and has long been well below €40,000. Many don’t even distribute dividends because the money simply isn’t there. Instead, they pay themselves wages, which are taxed as such. This fact rarely featured in the debate.

Tax policy and reform

With the new government sworn in, the main points of the government’s taxation policy were published. The only change with the effect of lowering the tax burden was the proposed reduction in the corporate tax rate from 26% to 25%, which was subsequently lowered to 24.5%, and came into force on 1 January 2012. This had been part of Hetemäki's proposals. The rest of the changes, though, were in the other direction. Capital gains tax was raised from the previous 28% to 30%, and for capital gains exceeding €50,000, to 32%. This was an historic change. Never before had capital gains tax been progressive; it had always been proportional. This was a major achievement for the Social Democrats, who had long been calling for higher taxes on capital gains, as such income was seen to be a privilege of the rich.

The tax-exempt capital gain dividend was left in place, as was the 9 per cent formula, but the maximum tax-free amount was lowered from €90,000 to €60,000. While this won't affect many entrepreneurs today, it is a clear sign where things are headed, and there is already talk about a new, larger reform in a few years, which may well abolish the tax-exempt dividend altogether, moving Finland into a complete double tax regime.
In addition, VAT rates were increased by one percentage point across the board, to 9%, 13% and 23% respectively. A new VAT on newspaper and magazine subscriptions was introduced; now up from nothing to 9%. The government has proposed to increase the VAT-rate with another percentage point, but this increase has yet to come into force.

Estate tax was also increased somewhat after having been significantly reduced a few years earlier. A fourth bracket was introduced to the previous three with a tax rate of 16% for Class I heirs. The other tax rates at this level are 7%, 10% and 13%. For Class II heirs, the last three brackets were doubled to 20%, 26% and 32% respectively. What class an heir belongs to is determined by his or her relationship to the deceased. In general, direct lines of descent or ascent puts the heir in Class I, while other relatives belong to Class II. The spouse and children of the spouse also belong to Class I.

The progressive personal income tax rate has long been high in Finland compared to other countries, but the rates have remained steady or come down a little in recent years. The top rate in 2011 was 49.2%. There are a number of deductions available from both taxable income and the tax itself, but they are, for the most part, quite limited. The one deduction that for many people has meant a significant decrease in their income tax liability is the mortgage deduction, particularly when interest rates were still low (5-6%). The interest paid on the mortgage is deductible from the person's capital gains income. However, many people have little or no capital gains income, which means they report a loss or deficit for that revenue source. The tax code allows a person to deduct an amount equal to 28% of that deficit from their personal income tax liability, capped at €1,440. In practice, this means that any person with a deficit of €5,000 in the capital gains revenue class could get a full deduction from personal income taxes.

The effective tax rate on earned income of €76,000 is 29.7%, whereas an income of €230,000 results in an effective tax rate of 40.9%. To this, social security is added, resulting in a total rate of 36.9% and 48.1% respectively. The government has proposed to introduce a special "solidarity tax", and extra tax on people earning more than €100,000 per year, but how this solidarity tax will be implemented is yet unclear.

Ballooning debts and deficits

The financial crisis, which started in 2008, has hit government finances hard, which can be easily seen in the sharp increase in Finland's national debt. In early 2009, the national debt was €53 billion, an amount roughly equal to the national budget. However, in less than three years, the national debt has surged to well over €80 billion. Even the Ministry of Finance expects the debt to exceed €100 billion as early as 2014. The new government managed to decrease the budget deficit to €7 billion and change, but it is very likely that the actual deficit will be greater than that. With a GDP of about €180 billion, the debt may not be as bad as that of many other European countries, but the trend is alarming, not least when considering that there are no apparent growth promoters in business in Finland at the moment. After the last severe economic crisis in the 1990s, Finland had Nokia to pull the economy up again. Today, Nokia is in decline, as it has been for many years, with no one to take its place.

Looking ahead

From either a tax or fiscal perspective, the outlook is rather grim at the moment. During the past few years, the Finnish labor market has experienced several major and minor strikes, a clear signal that the workers are still not ready to accept that wage increases must be connected to increases in productivity and profitability. Even though the corporate tax rate is comparatively low, labor costs are still a big deterrent to investing in Finland, which can be seen in companies like Nokia axing thousands of jobs in an attempt to increase profitability. With a strong Social Democratic representation in the government and a former trade union boss as the Minister of Labor, liberalization of the labor market won't be forthcoming any time soon.

Even more alarming is the clear and negative change in the attitude of the Tax Administration. It has become distinctly more aggressive the past two years, ever more prone to impose tax increases and penalties, and seeking to tax income that either isn't Finnish source income, or is tax exempt. In particular, the Tax Administration has allocated large resources to a new Transfer Pricing Department, the chief objective of which is to allocate as much of the income of multinational groups to Finland as possible. In addition, the Tax Administration is very reluctant to grant refunds for wrongfully levied tax, no matter how thoroughly the claimant argues his or her case. Many times, the Tax Administration seeks to distort and delay the proceedings instead of objectively reviewing the legal question at hand, violating the principles of the rule of law.

The tax reform of 2011 is expected to show real effects by 2013 or 2014. One of the most discussed issues is the introduction of thin capitalization rules. Thus far, Finland doesn't have any limitations on the debt-to-equity ratio in companies, making the country fit for heavy debt pushdown. This may change in the future, though no formal government proposals have been introduced yet. Another central topic is limits on the mortgage deduction for individuals. Overall, the government has been moving to shift the focus of taxation to consumption, as suggested by the increase in VAT, but also raising and/or introducing new excise taxes as well as energy and environmentally-related taxes.

France

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The French government intends to reduce the deficit to 4.5% of GDP in 2012, 3% in 2013 and 2% in 2014. Those targets should be reached essentially by increasing the fiscal burden. It is indeed noteworthy that no major structural change was debated during the 2012 campaign for Presidential election. With higher taxes and no structural reforms the probability that those targets will be met appears low.
Tax changes in 2011 have been numerous. Capital gains and capital income taxes, real estate transaction taxes, VAT, death tax, financial transactions tax, personal income tax, ownership and residency taxes: all have been increased. To what must be added a new exit tax and a serious increase of sanctions against tax fraud and tax evasion.

A lot of talking but no or little real change

In view of the great fragility of French public finances, all the candidates to the April 2012 Presidential elections have felt the necessity to explain their strategy to put the country back on track, if elected. As a result, fiscal policy has attracted more public attention than rarely ever in the past. Although propositions seem to vary substantially from one candidate to the other, standing back they pretty much come down to the same two-tier plan: (1) cut some taxes here and raise some there so that the net balance is zero and (2) cut some public expenses here and increase some there so that net balance is zero or slightly positive (small reduction in public deficit). In short, no substantial reform, neither in the field of taxation or in the field of public expenditures, is to be expected. This, some say, is justified by the desire to save the country from recession (GDP is expected to stagnate during the first quarter of 2012 and to grow by 0.2% in the second quarter). Keynesianism is still popular there: A strategy that displays a great deal of stubbornness if we recall that France has already one of the highest levels of public expenditures in the world.

If no real change is expected, still, a plethora of reforms was introduced, making it almost impossible to keep track of all the changes. As a matter of fact, many decisions that were taken earlier during Mister Sarkozy's Presidential term have been amended or repealed. Such is the case with the wealth tax that was not abolished, despite what the President had promised. In the meantime, a "fiscal shield" was introduced that was then modified many times and finally suppressed. Sometimes, like in the case of the tax on capital gains, the law was changed in a substantial way taking investors, unfairly, by surprise. It looks like if predictability was no longer a principle of good taxation.

Below are presented the main changes introduced in 2011, most of them to be implemented in 2012. .

Fiscal policy geared towards improving the competitiveness of French companies

One of the guiding principles for fiscal policy in 2011 has been to use taxation in such a way as to lower the cost of labor, thereby increasing the competitiveness of French companies and boosting growth. The system, presented at the French Parliament last February (2012), will also, supposedly, penalize imported goods, further increasing the attractiveness of the "made in France" products. More precisely, the State will lower the level of social contributions paid by employers on low salaries—those contributions were used to fund family benefits. Furthermore, to keep the budget balanced without cutting on social benefits, the State will increase the normal VAT rate from 19.6% to 21.2% and increase the rate of social contributions on capital income by 2 points (more on this below).
This mechanism, known as "TVA sociale" (Social VAT), will penalize imported products in the sense that, while both foreign and domestic companies will have to cope with increased VAT, only the French companies will benefit from a cut in their production costs. Critics have been numerous, claiming in particular that this will have little effect on competitiveness if employers decide to grab the opportunity of a drop in social contributions to increase salaries that in most companies have remained unchanged for many years. Anyway, this "social VAT" will probably not survive the election of a socialist President.

Personal income tax

A new bracket in the progressive taxation scheme was introduced that should last until France brings it deficit down to 3% of GDP (which at the time the change was introduced was scheduled to happen in 2013). Hence, revenues above € 250,000 will be taxed at 44% instead of 41% and those above €500,000 at 45% (up from 41%).

For lower incomes, tax rates remain unchanged (good news for the taxpayer) but the brackets will also remain unchanged (bad news). Indeed, for the second consecutive year the government has decided that it will not adjust the definition of the brackets for inflation. As a consequence, some households that were not paying income tax so far will now be taxable, because of the inflation (2.1% inflation in 2011). For the same reason, others will end up in a higher bracket and for those who were not paying taxes so far, the change will be worsened by the fact that they might loose some benefits reserved to non-taxable households if their incomes have been indexed on inflation.

The same policy—i.e., no adjustment for inflation—will apply in 2012 and 2013 to the threshold above which one has to pay the wealth tax. Altogether, by not adjusting the thresholds of the PIT and of the Wealth tax, the State budget expects to get approximately € 1.7 billion in 2012 and twice more in 2013.

This trend is expected to be unchanged, despite of the election of the socialist forerunner François Hollande. He promised to introduce a new bracket at 45% for income above € 150,000 (so far taxed at 41%) and still another bracket at 75% for income above € 1 million. It is estimated that between 3,000 and 30,000 taxpayers have incomes above that threshold.

Another reform suggested by the socialists consists in merging the PIT with one of the social taxes, the CSG ("Generalized Social Contribution"). The Constitutional Council has judged recently that the CSG is indeed a tax (and not a contribution for social insurance)! It is a flat withholding tax with a very broad base (everyone pays it). Merging PIT and CSG would make the CSG progressive. A huge change! The second part of the proposal is to transform the PIT into a withholding tax, which would eradicate many (probably too many politically speaking) niches applying to the PIT.

Furthermore, it would move the fiscal system from one that is "household based" (family quotient) towards one that would be based on "individuals".

Fiscal policy and family policy: the end of the "family quotient"?

The "family quotient" is a system that divides the amount of taxable income of a family by a number that increases with the number of children. A married couple with three children can hence divide its income by four to get its "taxable income". The socialists had in mind to change that system for the reason, they say, that it reduces the levy on the wealthy and, more importantly, it does not bring one euro to those too poor to pay income taxes (but some, obviously, do not pay taxes precisely because there is a "quotient familial"). The idea was to replace it with a tax credit. Because the proposal was met with strong opposition, the socialist candidate has stepped back: he promised that if he is elected the quotient system will remain but the amount of the tax credit received by the wealthiest via the family quotient will be limited at € 2,000 (down from € 2,300).

Capital income and capital gain taxes

On both fronts the tax burden is significantly increased. Let's us see first capital income tax. In France, income from financial assets (i.e., dividends and interests) can be merged with earned-income so that the regular progressive income tax applies to them. Alternatively, the taxpayer can choose to pay a flat tax on capital income in full discharge of any other tax on that part of his/her income. Although the possibility to choose between the two regimes is maintained, the flat rate (including social security tax) went, for 2011 incomes, from 30.1% to 32.5%. For 2012 incomes, the rate on dividends will be raised to 34.5% and on interest perceived to 37.5%, both up from 30.1% in 2010. Clearly, for many people this is getting very close to their top marginal rate on earned-income and paying the flat rate will no longer be attractive. As a matter of fact, this is precisely what the government was looking for as its members keep repeating: "income from capital should be taxed at least as much as income from labor."

Regarding tax on capital gains, the situation is very similar; the rate on 2011 capital gains (social tax included) will be at 32.5% (instead of 30.1% on 2010's capital gains). With, however, a major change: Until 2011, gains realized on sales below €25,830 were tax-free (or more precisely, only 12.3% in social taxes had to be paid). Starting in 2011, capital gains will be taxed from the first euro.

Tax on capital gains from real estate: soaring from 28.1% to 32.5%

If capital gains realized from the sale of your *main residence* remain untaxed, the tax regime for other gains from real estate transactions—a tax regime that was so far attractive compared to the regime applying to other forms of investment—has been profoundly modified. Indeed, until 2010, the seller of a real estate that was not his/her principal residence had to pay a withholding tax of 16% combined with social taxes of 12.1%, that is, 28.1% in total. Also, there was a tax allowance of 10% beyond the fifth year of ownership (so that no capital gain tax was paid on a real estate held for 15 years or longer) plus a €1,000 tax allowance per year starting from the very first year. This is over! For sales realized between 1 January 2011 and 1 October 2011, the rate will increase to 31.3% (19% of capital gain tax plus 12.3% of social taxes) after what it will be further increased to 32.5% (19% plus 13.5% in social taxes). Furthermore, the €1,000 tax allowance is abolished and one must now held a property for at least 30 years (previously 15) to avoid paying a tax on realized gains.

Meanwhile, owners that rent a studio (or room) will find it less profitable to do so as a new tax on "abusive rents" has been introduced. From 2012 on, renting a studio (or room) of less than 14 square meters for more than €40 per square meter will cost the owner an extra tax (on top of the regular income tax) with a rate ranging from 10 to 40% of the rent (according to the difference between the level of the rent and the threshold of €40/m2).

Wealth Tax

Introduced by the first socialist government of the 5th Republic, in 1982, this levy based on the wealth of the citizen (wealth including here real estate, financial assets, furniture, businesses, etc) has been the object of many debates in recent years. In 2006 a « fiscal shield » was introduced to guarantee that a taxpayer will not be forced to pay more than 70% of his/her income on direct taxes (income tax, real estate taxes, wealth tax, social taxes, etc.) Once President Sarkozy in office, that threshold was lowered to 50% hence making the shield thicker (in 2007). But that movement was reversed in 2011. Indeed, the 2011 fiscal law has brought two changes to the system. First the fiscal shield disappears; second—as compensation—the threshold and rates for the wealth tax are modified. The threshold is increased: Only people with wealth estimated above €1.3 million will pay the tax (up from €790,000), and the rate will be 0.25% if the wealth is estimated between 1.3 and 3 millions and 0.5% above €3 million. It is estimated that this reform will cut by 300,000 the number of taxpayers liable for wealth tax. The new mechanism (with no fiscal shield but a higher threshold for wealth tax) should cost some € 0.9 billion to the State budget.

Part of that loss in terms of fiscal revenue will be made up for by an increase of inheritance tax and donation tax rates; the rates applied to the top two brackets climb from respectively 35 and 40% to 40 and 45%.

Tax on fiscal transactions

Those who were dreaming of a Tobin tax must be happy: it is about to be implemented in France, thanks to former President Sarkozy. . While the draft of a directive for the taxation of financial transactions was released in Brussels, suggesting a start date by January 2014, the French government was proposing to its Parliament to unilaterally start implementing such a tax scheme to transactions realized in 2012. Not all transactions are concerned however. The new tax will hit transactions involving (1) shares, debts or derivatives related to top French companies, (2) Credit Default Swaps on sovereign debt and (3) high frequency trading. The rate is fixed at 0.1% (the minimum rate included in the European directive).

Although the new proposal is promoted as increasing “fiscal fairness” (the claim being that the financial sector is partly responsible for the crisis and should therefore pay its due to the recovery plan), it is of course very uncommon to tax the transaction rather than the benefits made from it. In the present case, of course, *both the transaction and the benefits if any* will be taxed.

Tougher sanctions against tax evasion and tax fraud

In July 2011, a law was passed that introduced an « exit tax » (this is the French name given to the new tax!). The idea behind the law is to counter some strategies of fiscal optimization that reduce fiscal revenues. More precisely, taxpayers that were paying the wealth tax and have decided to move their fiscal residence out of France after 3 March 2011, will pay capital gain taxes on the gains realized in France before they leave if they realize those gains less than eight years after leaving France.

In the same spirit and in preparation for the 2012 Presidential elections, President Sarkozy has expressed his desire to counter what he calls "fiscal exile"; the 2012 fiscal law already introduces much tougher sanctions on tax evasion and tax fraud, especially when a tax haven is involved. Hence, the fine for hiding from the French tax authority a bank account or some life-insurance policy held abroad will climb from a range of €1,000 to €15,000 (depending on the amount hidden) to 5% of the balance of the hidden account. Also, the maximal penal sanction for fiscal fraud has been modified (the last change was in 1977) soaring from €37,500 to €500,000. When the fraud is coupled with some other illegal behavior (fake invoice for instance), the maximum penal fine will be multiplied by ten, going from €75,000 to €750,000. And if a tax haven has been involved, the fine will reach €1 million and up to 5 years in jail.

Local Taxes

After the abolition of the "Professional tax" in 2010, the main fiscal sources of revenue for local governments are real estate taxes (the residence tax and the ownership tax) and a new "contribution économique territoriale" (local contribution to the economy, paid by businesses). Those three taxes represent together about 50% of local administrations' revenues, the rest coming from transfers from central government and borrowing.

Considering only the 40 largest cities, rates for real estate taxes have increased in average by 0.9% in 2011; which is less than in 2010 (+2.8%) or 2009 (+5.1%). But the spread is high between cities. In Marseille, second city by population, a household with two kids, living in an apartment whose rent is 1.5 times the average rent in that city, will, in 2012, pay €1,162 for residence tax (up 13.4% from previous year) and € 852 for ownership tax (up 2.9%). A couple living in Toulouse in a similar situation will pay for the same taxes respectively € 869 (+0.1%) and € 989 (+3.2%); while the Parisian couple will be paying € 444 (+2%) and € 612 (+2%).

Conclusion

On 13 July 2011 the Parliament has adopted a project for a constitutional reform that would impose a control from the Constitutional Council on the budgets of the State and of the Social Security System, making it impossible to vote a fiscal law with the effect of increasing the debt beyond a given threshold. Because a change in the constitution requires a qualified majority of the 3/5 of the Congress (the Congress merging Assembly and

Senate); such a « golden rule » is unlikely to pass since the (then) socialist opposition said they would vote against it.

Never mind: With or without the golden rule, the former government Fillon was committed to reduce the deficit to 4.5% of GDP in 2012, 3% in 2013 and 2% in 2014. The present survey shows that the government intended to reach those targets essentially by increasing the fiscal burden. This is even truer for the new socialist government. It is indeed noteworthy that *no major structural change is being debated during the 2012 campaign for Presidential election*. With higher taxes and no structural reforms the probability that those targets will be met appears low.

Germany

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German tax policy at present is characterized by small steps taken in order to increase the administrative efficiency of the current tax system. Large-scale tax reform is not to be expected any time soon, both due to macro-economic uncertainty, and due to opposing majorities in both chambers of parliament. In any case, the broad tendency of the debate in Germany is at present directed more towards tax increases rather than tax cuts. Redistributive arguments are increasingly dominating the fiscal policy discourse in Germany.

The big picture

For 2011, Germany reported a public debt to GDP ration of 81.7 percent and projects a decline of this ratio to 79.9 percent in 2013. The reported public deficit stands at 1.3 percent of GDP in 2011 (projected structural deficit: 1.4 percent). At the same time, public expenditure stands at 45.7 percent of GDP in 2011, which is not excessively high compared to other Western European countries, and compared to higher historical expenditure shares in Germany itself. The country's constitutional debt brake, which will gradually come into effect until 2016 on the federal and until 2020 on the state level, will require structural deficits below 0.35 percent of GDP on the federal level, and a strict zero deficit policy on the sub-federal level. In addition to this, the newly enacted European Fiscal Pact also demands the annual structural deficit to decrease below 0.5 percent of GDP.

Taking these restrictions into consideration, Germany is in obvious need of further steps of fiscal consolidation. In addition to this, the general economic conditions are still characterized by a high degree of uncertainty. The eventual burdens from a partial Greek debt default, and from defending other EMU countries from the risk of default, cannot be precisely determined at the moment, and the general macroeconomic outlook in the midst of the European debt crisis remains risky.

All of this might explain the reluctance of German policy-makers to engage in large-scale tax reforms at the moment, even though the centre-right coalition did have some far-reaching plans when it took office in 2009. To date, however, neither the simplification of the VAT, nor the abolishment of the local business tax (the Gewerbesteuer), nor a thorough income tax reform have materialized. The administrative capacities of the executive branch appear to be seriously strained by policy-making in the EMU debt crisis, and domestic fiscal policy is to a large extent run via autopilot. Serious debate on far-reaching domestic tax policy changes is more or less on hiatus.

Recent German tax policy in detail

There are a number of small changes that have come into effect in 2012, which serve the purpose of simplifying the administration of the income tax. For example, a lump-sum deduction for work-related costs of employees has now indeed increased from €920 to €1000. The federal ministry of finance claims, maybe somewhat optimistically, that this will save an additional 550,000 employees the time and effort needed to document actual work-related costs. The measure is assumed to reduce tax revenue by €330 million annually. Furthermore, costs for childcare now become easier to deduct, and the joint tax administration of spouses has been simplified. All of these measures certainly reduce the burden of compliance costs for the taxpayer a little bit, but taking the overall complexity of the German income tax into account, this is only a very modest step towards a transparent tax system.

In December of 2011, the German federal government has proposed a law to reduce the adverse effects of cold progression (that is, the phenomenon that, in progressive tax systems and with positive rates of inflation, individual effective tax rates grow faster than nominal incomes) for income tax payers. While government officials promised to look for permanent solutions to this problem, the proposed law is a one-time effort: Until 2014, the entire income tax schedule is intended to be shifted to the right by increasing all limiting amounts in the schedule by 4.4 percent. The federal ministry of finance estimates that this will lead to revenue losses of € 6 billion annually, relative to a situation with untamed cold progression. It remains somewhat disappointing, however, that no permanent solution, such as an inflation-indexing of the income tax schedule, has been sought.

Furthermore, even the measures proposed by the federal government are unlikely to come into effect as planned. The law needs a majority in the *Bundesrat*, the chamber of parliament assembled by *Länder* (state) delegates, and the chances of reaching a majority are slim. One reason is that sub-federal jurisdictions in general suffer from very tight fiscal constraints, and are not eager to surrender revenue from the income tax, which is shared between all levels of government. A compromise can probably only be reached if the central government offers some compensation for sub-federal budgets. The second reason is partisan politics: Social Democrats, Communists and the Green Party together form a majority in the *Bundesrat.* With the 2013 federal election approaching, they show no inclination to vote in favor of income tax cuts that could be interpreted as a success for the conservative-liberal federal government.

An alternative way to cut taxes has been proposed by the liberal FDP: the abolishment of the so-called solidarity surcharge, which is a 5.5 percent surcharge on the tax burden. The surcharge has been introduced after German unification in order to increase revenue to finance temporary transition policies for Eastern Germany. Its revenue is entirely picked up by the federal level. Therefore, the decision to abolish the solidarity surcharge needs support in the only, and not in the *Bundesrat.* There is however only limited support for this proposal in the conservative parties thus far. The problem appears to be that there are no simple technical arguments in favor of such a tax cut, in contrast to the cold progression case. A pure tax cut, on the other hand, is increasingly difficult to justify in the current climate of political debate.

The left-leaning parties have already sketched a possible compromise with regard to a reform dealing with cold progression. In order to agree to the shift of the schedule, they demand an accompanying measure: An increase of the marginal income tax rate in the highest income bracket, for incomes above €250,731, over the status quo of 45 percent. So far it is unclear how large a tax increase on high incomes would have to be in order to win the support of the opposition, but it is obvious that the tax debate is becoming increasingly dominated by redistributive motives again.
In addition to the returning bias of the debate towards distributive issues, the German government has had some problems with actually implementing expenditure cuts that had been decided upon in 2010. In addition to this, the political debate currently shows a widespread reluctance

to engage in further spending cuts. At the same time, it is likely that current historically low costs of debt finance for Germany will not remain at this level infinitely, so the burden of interest rate payments in federal and sub-federal budgets is likely to increase in the future. This state of affairs provokes recurring proposals to increase taxes, rather than cut spending, in order to reduce public deficits.

Accordingly, Chancellor Merkel has become increasingly fond in her political rhetoric of introducing a financial transactions tax. In particular, she has gradually weakened the conditions for her support of such a tax. Initially, her support was conditional on the introduction of a EU-wide financial transactions tax. After the United Kingdom had clarified that it would not take part in this effort, Merkel shifted her position and stated that she would support a financial transaction tax if it were introduced in all EMU member countries. Current developments indicate that even within the EMU, no consensus will be reached. It remains to be seen whether the German government will revise its position again, and eventually support a financial transactions tax introduced only by a subset of EMU member countries. Even if fiscally impotent due to large-scale tax avoidance through a shift of transactions to tax-free trading places, the introduction of such a tax may be a welcome measure of symbolic politics with the 2013 general elections approaching, and with a large majority of the electorate being increasingly hostile towards the financial sector.

In February of 2012, the federal government has also announced its intent to pursue some modest simplifications in corporate taxation. In particular, the deduction of travel costs will be simplified, and the clearing of profits and losses within a group of affiliated companies should also become more flexible. However, these proposals also require a majority in the *Bundesrat*, so their fate is very uncertain at the present stage.

Tax administration and taxpayers' rights

In November of 2010, the constitutional court has decided that the acquisition of stolen data from foreign banks on German tax evaders, and the use of these data in the prosecution of tax evaders, is legal. The tax administration has subsequently made repeated use of this new instrument in 2011 and 2012. In a typical case, data on German citizens with accounts in Luxemburg have been bought; the data set contained approximately 3000 records and was purchased for approximately €3 million. In

March of 2012, the finance minister of the state of Northrhine-Westphalia has announced that his state alone has so far bought three data sets for a total of €7.5 million, and that these purchases have generated an extra revenue of € 300 million. With a prolific international trade in data, and with non-profit ventures such as *WikiLeaks* emerging, the prosecution of tax evaders becomes increasingly efficient. It remains to be seen if this will also have positive, sustained effects on tax morale in Germany.

The German government has in principle agreed upon a new double taxation treaty with Switzerland. According to this treaty, payments on German deposits in Switzerland will in generally be subjected to an anonymous source tax of 26.4 percent – the same tax burden that would be due on interest income in Germany itself. At the moment, it is not clear whether a majority in the Bundesrat will ratify the treaty in its current form. The left-leaning majority there demands a source tax of 35 percent, in line with EU regulations. Furthermore, the provision that existing, so far non-taxed German assets in Switzerland will be subject to a one-off tax at a rate of up to 34 percent is also heavily debated. The left-leaning parties object to the fact that tax evaders are *de facto* allowed to legalize their existing stock of foreign assets with this one-off tax payment, which will be lower than the revenue generated from penalties and full retrospective taxation that would be generated through normal prosecution of tax evaders. Obviously, this objection starts from the questionable assumption that through the normal legal process, sufficiently many tax evaders could be unveiled so that the eventual revenue would indeed be higher than in the case of the general one-off tax agreed upon in the tax treaty with Switzerland.

In practical income tax administration, steps towards an increasingly electronic administration have been taken in recent years. Tax-related characteristics of individual taxpayers, such as personal allowances, are to be stored in a central database in order to facilitate source-based taxation and reduce transaction costs associated with a more paper-based tax administration. Somewhat embarrassingly, the start of the new system has been delayed repeatedly due to technical problems, but a start in January 2013 is now expected.

Ireland

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In an unprecedented and historical move, the European Union forced the Irish government against its stated wishes to indebt itself in an € 85 billion international bailout comprising of the IMF, EU and bilateral loans. This bailout to ensure that the Irish government would continue to pay 100% of face value on maturing senior bonds in zombie banks will have increased government debt by over 40% of GDP by the time the bailout is completed in 2015. Despite such catastrophic economic conditions, the Irish economy is showing signs of recovery. In 2011, Ireland generated a record high annual trade surplus of just under € 44.7 billion, up by 3% on 2010. Regarding public finances, the 2011 budget saw a closing of the deficit by a further €6 billion. Budget adjustment over the period 2011-2014 is realized for two thirds through expenditure reductions and one third should be raised by taxation. It has been called the most "draconian" budget in the history of the state.

An Overview of the Irish Economic Situation

In 2008, the Republic of Ireland was the first country to declare itself in a recession. After nearly fifteen years of year-on-year growth ranging between 5-12%, Ireland suffered a dramatic reversal in 2008, with GDP contracting by 14% and unemployment levels rising from 4.5% in 2007 to over 14% by 2010. Economic growth fell from 4.7% in 2007 to -7.1% in 2009. When the housing and construction bubble burst, a sector which amounted to around 20% of GDP in 2007 was reduced to around 5% of a smaller GDP in 2010.

Between 2000 and 2008, public spending increased by over 140%, while the consumer price index increased by just 35%. Taxation was reduced and the proportion of income earners exempt from income tax increased from 34% in 2004 to an estimated 45% in 2010. All of this was made possible by the very large property-related tax intake during the boom years. Ireland ran budget surpluses in every year but one since Eurozone membership commenced in 1999 and was one of the few Eurozone countries that stayed within both the deficit and debt limits of the Stability and Growth Pact in every year up to 2007.

The Irish government responded to the financial crisis by nationalising a series of banks, bailing out senior bondholders and imposing austerity budgets. The Republic retained its AAA credit rating until August 2010 when in a matter of weeks borrowing rates for government bonds suddenly rose to unsustainable levels. In an unprecedented and historical move, the European Union forced the Irish government against its stated wishes to indebt itself in an € 85 billion international bailout comprising of the IMF, EU and bilateral loans. This bailout to ensure that the Irish government would continue to pay 100% of face value on maturing senior bonds in zombie banks will have increased government debt by over 40% of GDP by the time the bailout is completed in 2015.

Despite such catastrophic economic conditions, the Irish economy is showing signs of recovery. Ireland generated a record high annual trade surplus of just under € 44.7 billion in 2011, up by 3% on 2010. Such news brings hope for an export driven recovery.

Tax Revenues

According to the Irish government's National Recovery Plan, two thirds of the required budgetary adjustment over the period 2011-2014 will be through expenditure reductions and one third should be raised by taxation. Tax revenues have fallen to such a degree that by 2015 the projected total tax revenue shall still remain below its 2007 peak by over €4 billion or 8.5% below the 2007 high. By this stage, the government projects that the deficit will be below 3% of GDP by 2015."

Since 2007, Ireland's national income (GNP) has fallen by 15% and tax revenues have been reduced from over €47 billion to €34.2 billion, back to 2003 levels. Tax revenues in 2011 saw a 7.6% increase on 2010 however. This return to growth follows on from year-on-year declines of 14% in 2008, 19% in 2009 and 4% in 2010. 2011's General Government deficit, at 10.1% of GDP was also within the 10.6% target set as part of the EU/IMF Programme in contrast to a similar measure imposed on Greece.

At end-2007, General Government debt stood at 25% of GDP, well below the European average. By end-2011 it reached over 100% of GDP. General

Government debt is projected to increase further, to 115% of GDP at end-2012, and to peak, in percentage of GDP terms, at 119% in 2013.

National recovery plan

The Plan to correct budgetary imbalances was as follows:

- €15 billion budgetary correction over 4 years;
- €10 billion in public expenditure, €5 billion in tax and revenue raising;
- 40% or €6 billion will be front-loaded in 2011;
- Deficit will be reduced to 9.1% of GDP in 2011 and to below 3% by 2014;
- Debt to GDP ratio will peak at 102% in 2013 and will fall to 100% by 2014.

Those figures were the government's own projection. It was clearly markedly below what the ultimate figure turned out to be.

Budget 2011

On 6th December 2010, then Minister for Finance Brian Lenihan announced the Irish budget for 2011. This budget saw a closing of the deficit by a further €6 billion through tax increases and spending cuts, being called the most "draconian" budget in the history of the state. As Finance Minister Lenihan stated as he introduced the budget in 2010 "Ireland's underlying budget deficit has stabilised at 11.6% of GDP". GDP decreased by 1% in 2010, making it the third consecutive year of negative growth.

Corporation Tax

Despite vociferous pressure from the European Union for a Common Consolidated Tax Base, Ireland has managed to continue its wealth generating primary corporate tax rate of 12.5%. This rate is typically cited as one of the primary reasons for the Irish economic boom. Furthermore, the three-year corporate tax exemption for new start up companies was extended for companies that commence trading in 2012, 2013 and 2014.

Income Tax

The key change in the 2011 budget for income tax was the integration of two new taxes raised during the recession into a large consolidated single tax. The income levy and the health levy have been consolidated into the new Universal Social Charge.

Furthermore, the value of bands and credits were reduced by 10% bringing more people into the tax net whilst the government "tackled over-generous reliefs on private pensions."

The majority of revenue adjustments between 2008 and 2010 were achieved through increases in direct taxation. The marginal rate of taxation on income is now 52 per cent for PAYE workers and 55 per cent for the self-employed. The OECD has concluded that Ireland has the most progressive tax system of the EU members of its organization and Revenue records show that the top 5 per cent of income earners pay 44 per cent of income tax.

During the boom years, taxation was reduced and the proportion of income earners exempt from income tax increased from 34% in 2004 to an estimated 45% in 2011. In 2011 year, just 8%, earning €75,000 or more, paid 60% of all income tax while almost 80%, earning €50,000 or less contributed just 17%.

VAT

As part of the bailout package, the Government agreed with the IMF and the European authorities to increase VAT by 2% to a new level of 23%: 1 per cent in 2013 and 1 per cent in 2014. It should be borne in mind that most food, children clothes, oral medicines and other goods and services will remain at the zero VAT rate. A 13.5% rate that applies to home heating oil, residential housing, general repairs and maintenance will remain the same.

Excise Tax

Excise was increased by 4 cent per litre on petrol and 2 cent per litre on auto-diesel. This follows a 2010 reduction in excise duty on alcohol products by 12 cent per pint of beer and cider; 14 cent per half glass of spirits; and 60 cent per standard bottle of wine. This was done to curb Irish shoppers buying cheaper alcohol in the Northern Ireland.

Capital Taxes

The capital gains tax did not increase in the 2011 budget. This is despite steady increases for a number of years.

For Disposals made between:	Capital Gains Tax Rate
8 April 2009 and 6 December 2011	25%
15 October 2008 and 7 April 2009	22%
Before 14 October 2008	20%

Irish GDP per capita

Ireland's GDP per capita is 27% ahead of the EU average. However, GDP is typically recognised as being a meaningless statistic when referring to wealth in Ireland as up to 90% of exports are owned by foreign firms who repatriate their profits. Hence, Gross National Product is seen as a better indicator which places Ireland at the European average.

Italy

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On July 6 the Berlusconi government passed a first package of mandating modest immediate cuts in the expenditure and similarly modest immediate increases in tax revenue to address concerns on the capacity of Italy to serve its huge public debt. Because this was not enough to reassure markets, the government had to pass a second, more substantial, package of fiscal measures on August 13. Despite those packages and the drafting of a constitutional amendment requiring balanced budgets, Berlusconi's government had to go off the stage and the new Monti's team immediately introduced a third package. As a result, Italy probably never experienced since the tax reform of the 1970's such a huge number of changes in its tax system. Changes refer both to the introduction of new taxes and to modification of tax rates and of the tax base of the present taxes.

Introduction

The year 2011 has been full of economic, financial and political events in Italy. Fueled by the dramatic deepening of the financial crisis in Greece and then in Portugal and Spain, investors' concerns on the capacity of Italy to serve its huge public debt brought, in the early summer, the spread between the German and the Italian bonds to unprecedented levels. The government response was initially rather modest and, above all, it was intended to reach the balance in public sector budget not before 2014. On July 6 the Berlusconi government passed a first package of measures (Decree Law 98/2011) mandating modest immediate cuts in the expenditure and similarly modest immediate increases in tax revenue. The reluctance of the government to restructure the public finances brought to a deepening of the crisis of financial markets with a further widening of the spread and to a sharp fall of stock markets all over Europe. Banks' shares were severely affected showing investors' worries on the capacity of the banks to sustain huge losses in their assets brought up by the collapse of the price of Italian and other European bonds. The government was hence forced to pass a second package of fiscal measures on August 13. Correcting measures, both on the expenditure and the revenue front, were more substantial than those of July, but they were still not deemed to be enough by investors.

Two draft constitutional amendments were also presented. The first one was aimed at enshrining in the constitution the requirement of balanced budget. The second amendment mandated the suppression of the provinces and their replacement with associations of municipalities.

The diminished personal image of the prime minister, due to his numerous "controversies" with the justice and the media, contributed to the rapid shrinking of the confidence of investors in the government. In the late fall, the Berlusconi government stepped down and was replaced by a "technical government" led by Professor Mario Monti and supported by a large, although quite composite, parliamentary coalition. The first and immediate task of the new government was the introduction of a third package of fiscal measures on December 6 (decree law 201/2011 ratified as law 214/2011).

The total impact of the Monti's package for 2012 is approximately equal to the combined impact of the two Berlusconi's packages, while the impact for the following years of Monti's measures is considerably smaller than that of the Berlusconi's combined packages. More precisely, according to the Bank of Italy estimates – shown in Table 1– the total impact for 2012 of the Berlusconi's packages on net borrowing will amount to 1.8 per cent of GDP, while the Monti's package is estimated to impact for 1.3 per cent. For 2013 and 2014 the corresponding figures are 3.3 and 3.5 per cent for Berlusconi and 1.3 and 1.3 per cent for Monti.

Towards the end of the year the situation of financial markets eased showing that Italian authorities were inspiring greater confidence to investors. This is due to the combined effect of the packages and to the perceived higher commitment/ability of the technical government to ask substantial sacrifices to the population. However, the situation remains quite unstable and volatile.

Table 1. Italy: The combined effect of the 2011 finance packages on net borrowing

	2012	2013	2014
Summer measures (Berlusconi government)			
as % of GDP	-1.8	-3.3	-3.5
Total correction (millions of euros)	-28,593	-54,423	-59,892
Revenues (millions of euros)	20,822	35,224	38,823
Expenditures (millions of euros)	-7,771	-19,199	-21,069
December measures (Monti's government)			
as % of GDP	-1.3	-1.3	-1.3
Total correction (millions of euros)	-20,245	-21,320	-21,430
Revenues (millions of euros)	19,366	16,962	14,891
Expenditures (millions of euros)	-8,651	-23,557	-27,608

Source: Bank of Italy, *Economic Bulletin*, n.63, January 2012

Budget policy results and perspectives

The three fiscal packages of 2011 brought a small reduction of the borrowing requirement of the central government to 3.9 per cent of GDP; down from 4.3 percent of the previous year. Preliminary data indicates that general government net borrowing also declined with respect to 2010, from 4.6 per cent of GDP to 3.8 per cent. The result reflects a fall in total expenditure in relation to GDP, despite the increase in interest payments, accompanied by a basically stable ratio of revenue to GDP. However, due to the stagnation of the economy and the rising cost of interests on public debt, the incidence of the latter on GDP has continued to increase - by about 1.5 percentage points from 118.6 percent to 120.1 percent – feeding investors' worries on the capacity of Italy to sustain the burden. The three budget packages approved in the second semester of last year should contribute to a significant improvement in the public finances over the next three years. Their impact on net borrowing is officially estimated at 3.0 percentage points of GDP in 2012 and at 4.7 points a year in 2013 and 2014. The expenditure measures will bring a reduction of 1.6 percentage points of its share of GDP in 2014; significant savings will derive from the measures concerning pensions, which will produce their full effects over a longer time span.

Table 2. Italy: Basic fiscal data

	2008	2009	2010	2011
Public debt (% of GDP)	105.7	116.0	118.6	120.1
Public deficit (% GDP)	2.7	5.3	3.9	3.9
Public expenditure (% of GDP)	49.4	52.5	51.2	50.5
GDP Growth	-1.0%	- 4.8%	+1.8%	+0.4%
Private income tax (rates)	Max 43%	Max 43%	Max 43%	Max 46%
Private income tax revenues as share of total fiscal revenues (excluding social security contributions)	38.3%	38.2%	37.01%	36.6%
Corporate income tax (rates)	27.5%	27.5%	27.5%	27.5% 31,5% for energy sector
Corporate income tax revenues as share of total fiscal revenues	11.5%	9.4%	8.3%	8.0%
VAT (rates)	4, 10, 20 %	4,10,20%	4,10,20%	4,10,21%
VAT revenues as share of total fiscal revenues	28.4%	27.1%	26.0%	26.2%
Wealth tax (rates)	None			
Death tax (rates)	4% for transfers between parents and children exceeding 1 million euro s(unchanged throughout those years)			
Death tax revenues as share of total fiscal revenues	n.a.	n.a.	0.1%	0.1%
Property revenues as share of total fiscal revenues	2.1%	2.2%		
Social contributions (% of GDP)	13.7	14.1	13.7	13.7
Total tax revenues/GDP (%)	42.8	43.3	42.3	42.2
Share of central government (in terms of expenditures compared to total public spending)	57.3%	58.4%	58.5%	58.5%
Share of local administration (in terms of expenditures compared to total public spending)	31.1%	31.3%	31.2%	31.2%

Main sources: Ministero dell'Economia, *Economic and Financial Document; Combined Report on the Economy and Public Finance*; Bank of Italy. *Economic Bulletin, various issues.*

Tax policy

Possibly, Italy never experienced since the tax reform of the 1970's such a huge number of changes in its tax system. Changes refer both to the introduction of new taxes and to modification of tax rates and of the tax base of the present taxes. The overriding goal was to provide quick increases of collections with some consideration to the equity impact of the measures. Some measures are, in principle, temporary and should be retracted with the improvement of the overall budget conditions.

There are similarities, but also important differences between the policies pursued by the two governments that alternated into power. The main similarity is the high reliance in both cases on indirect taxes: VAT and the excise on fuel. With reference to the latter, Italy is now experiencing one of highest burdens on gasoline and fuel. The main differences between packages refer to direct taxes. The two Berlusconi's packages focused on income taxes paid both by companies and individuals. Concerning companies, the changes have been the increase of the burden put on energy companies and banks. For individuals, there has been an increase of taxes on financial revenues and a temporary increase of the top rate on the personal income tax as well as an equally temporary "solidarity contribution" on very large-sized pensions.

The Monti's package is more focused on wealth taxation. It includes the reintroduction of the municipal property tax on primary residences along with a restructuring of the tax. It also includes a tax on real property held abroad and a renewed levy on financial assets repatriated in the past years (the legal ground of this levy is, however, quite shaky, since it reneges a previous contract between the State and taxpayers who repatriated their assets). Finally, the Monti's package has more elements of certainty referring to the actual flow of tax payments being based on measures with immediate effect, while Berlusconi's package rely on the fight of evasion and on closure of loopholes, whose actual impact on tax payments is more potential than real. This explains, among other reasons, why the reaction of financial market to the tax packages of the two governments has been different.

Table 3. Main tax changes introduced in July- August 2011 (Berlusconi's government)

	Estimated revenue for 2012 (million €)	Basic characteristics
Corporate income surtax on energy sector	1 800	4.0% on top of corporate income tax applying to energy firms
Other corporate income measures	1 479	Tax rate of the regional tax on productive activities (IRAP) applying to banks and insurance companies is raised
Vat increases	4 236	Standard rate from 20 to 21%
Regional surtax on income tax	221	Tax rate up to 1.23%
Increase in stamp tax on securities accounts	1 323	0.1 % on total amount of securities held at banks and financial institutions
Measures against tax evasion and rules on tax collection	2 191	Lowering the allowable size of cash transactions, tougher sanctions for tax crimes and stronger incentives for municipalities to take part in tax verifications, and stricter rules on shell companies
Tax on income from financial assets	1 421	Tax rate on all investment income is equalized at 20 per cent (except for government and equivalent securities and supplementary pension plans)
Gaming and excise taxes	4,073	Main change is excise on fuels (plus 4.89 cents per liter of diesel)
Personal income tax (solidarity contribution)	127	Additional 3% on incomes above 300,000 euros. for the three years 2011-13. Additional 5% on pensions of more than €90,000 and 10 on the part above €150,000) for the four years 2011-14.
Other tax revenues	4 027	Include the projected effects of the fiscal and welfare reform to be enacted by 30 September 2012 under the enabling act (€20 billion in 2014). A safeguard clause provides that in the event of non-exercise of this mandate by the Government or less than expected revenue, there will be a flat across-the-board cut in tax allowances and the possibility of re-modulating indirect taxes.
Total new tax revenue	20 676	

Main source: Bank of Italy. Economic Bulletin, various issues

Table 4. Main tax changes introduced in December 2011 (Monti's government)

	Estimated revenue for 2012 (Million €)	Basic characteristics
Increases in excises (mostly oil)	5 967	11.2 cents on diesel fuel
Vat increases	3 280	Standard rate from 21 to 23% starting from October 2012. To be kept in following years unless comparable cuts in expenditure are introduced
Regional surtax on income tax	2 215	Tax rate up to 1.23%
Stamp duties on securities, financial instruments and products	1 223	0.10 % with minimum and maximum amounts
Stamp duties on securities under foreign assets disclosure scheme	1 461	Tax rate: 1.5% of repatriated assets
Increase in self employment social security contribution	1 063	Progressive realignment to the rates paid by dependent workers
Realignment of fiscal with balance sheet values		Refers to the determination of profits for the corporation income tax
Tax on luxury cars, boats and aircrafts	09	€20 per horsepower above 185 (with Berlusconi's package €10 per horsepower above 225)
Tax on real estate and assets held abroad	107	0.75 % of value
Other	252	
Total new tax revenue	26,636	

Main source: Bank of Italy. *Economic Bulletin,* various issues

Conclusions

Tax changes have been many and substantial. They will bring an important increase of tax revenue unless the Italian situation deteriorates rapidly. The tax pressure is going to increase hugely reaching unprecedented levels for Italy—from 42,2 % in 2011 to 45,3% in 2012—nurturing a strong reaction by taxpayers, which is already being manifested. Being dictated by urgency of revenue, the tax changes have further distorted the Italian tax system, increasing the number of tax instruments used and possibly the overall inconsistency. Clearly, an overall reform is needed, but it could be delayed by the precarious economic and financial conditions of the country.

Lithuania

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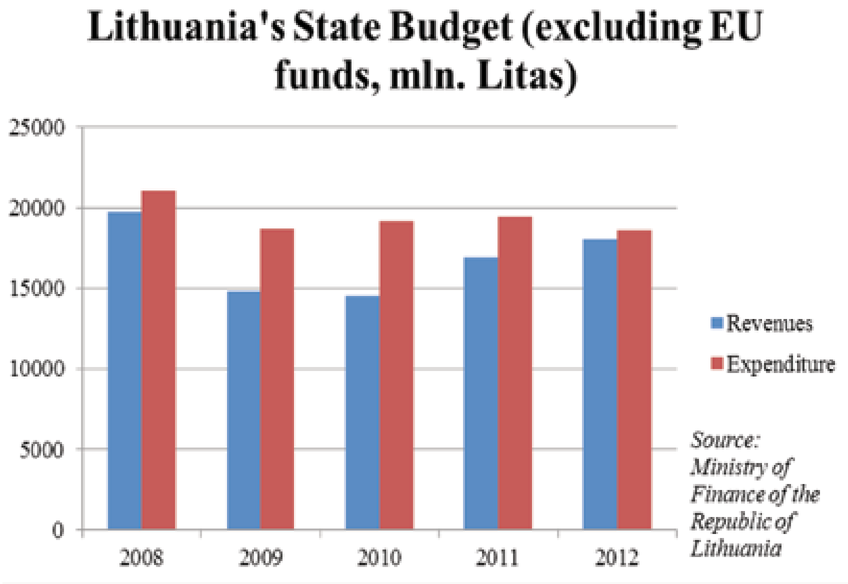
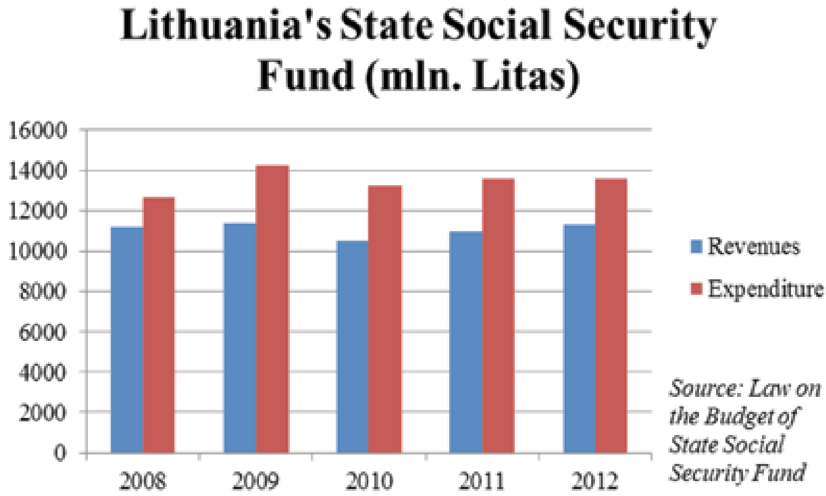
Taxation in Lithuania remained stable throughout most of the year, yet a number of new taxes were introduced in late 2011. With the economy growing at a rate of 5.9% of GDP, the tax revenues were not falling behind their forecasts and the government did not feel a need for changing the tax base or raising the tax rates. However, by late 2011 economic forecasts predicted a mild slowing down of the economic growth, signaling a revenue shortfall. This problem was tackled not only by spending cuts, but also by the introduction of a new and detrimental property tax, copyright levy, as well as increased taxes on land and natural resources. 2011 can also be characterized as a year of ongoing debates on progressive income taxation, with the issue being included in the parliament's agenda for spring 2012.

Budget Deficit and Public Debt

When the economic crisis hit Lithuania in late 2008, the country lacked a budget reserve which would have helped to cushion the blow. In turn, this translated into staggering budget deficits of 9.5% of GDP in 2009 and 7.0% of GDP in 2010 (according to Eurostat). The government's goal was to reduce the budget deficit down to 5.3% of GDP in 2011 and 3.0% of GDP in 2012. The budget deficit goal for 2012 appears to be quite optimistic because a likely slowdown of the economic growth would imply lower taxation revenues. During the past few years, the government was able to rein in spending of the public sector by implementing cuts in the state budget.



Payments from the state social security fund (such as pensions and other social security benefits) were reduced during 2010 and 2011. Important as they were, these cuts did not offset the falling revenues, which resulted in a deficit of the state social security fund. Lithuania's Constitutional Court has previously ruled that pensions are regarded as property and their reductions must be temporary and compensated, meaning that the Lithuanian pension system is not pay-as-you-go in its true sense. As of 2012 pensions were restored to their pre-2010 level, implying an even higher state social security fund deficit. A much-needed reform of the state social security system has stalled, indicating this fund will be the major source of the budget deficits in the years to come.



High budget deficits have resulted in an unprecedented growth of the Lithuanian public debt. In 2007 – 2011 the public debt grew by 250% in absolute terms, from 17% of GDP in 2007 to 39% of GDP in 2011.

Below we outline the most important Tax Law changes

Personal Income Tax

Throughout the year, the personal income tax base remained mostly stable. In 2011, a new reduced rate of 5% came into effect for individual business activities and agriculture. The reduced 5% rate cannot be applied to "free professions" (which include lawyers, bookkeepers, doctors, journalists, and the like) and to income from stocks.

The area of individual business had previously been particularly badly hit by the current government. Individual business can now be pursued under two different regimes: As an individual activity (whereby the personal income tax, mandatory healthcare insurance and social security insurance contributions are levied as a proportion of income) or using a business certificate (whereby the individual pays a fixed amount of personal income tax, as well as fixed amounts of mandatory healthcare insurance and social security insurance contributions). The first scheme can be used for all activities, while business certificates can be purchased for only a limited number of around 100 activities. During 2011, there were debates whether the list of activities for which the business certificate is applicable should be cut and whether business certificates as such should be abolished. The business certificates are an attractive way for small businessmen to pay taxes, since they offer a low tax burden and the administrative burden is exceptionally small. The government has agreed to keep the business certificates, but has placed a 10% limit on the share of income that business certificate owners may receive from companies (meaning the other 90% have to come from individuals).

As of 2012, the minimum fixed amount of personal income tax levied on business certificates has been increased from LTL 120 to LTL 1440 (€ 35 and € 417, respectively).

In late 2011, the parliament passed a law allowing individuals to donate up to 1% of their personal income tax to political parties. This change is related to a ban on corporate donations to political parties and is set to alleviate the financial standing of the political parties. The parties are also set to receive more funding from the state budget. Individuals may also donate up to 2% of their personal income tax to non-governmental organizations.

Throughout the year, members of the parliament as well as the general public debated whether Lithuania should keep its 15% flat tax or adopt a progressive personal income tax. Progressive income taxation would increase an already high tax burden on income from labour (which constitutes up to 42%) and would hurt Lithuania's competitiveness. Opponents of the flat tax dismiss such possible consequences and instead assume that progressive taxation would produce social justice. A number of draft laws envisioning progressive taxation were proposed in 2011, with parliamentary hearings set for the spring of 2012.

Mandatory Healthcare Insurance Contributions

No changes were made to the mandatory healthcare insurance contributions in 2011. Currently, the healthcare insurance contributions are levied on all income from labour (there is no upper limit after which the contributions would not have to be paid) meaning that in practice they resemble a tax rather than insurance. The Ministry of Health has been working on a new version of the Law on Healthcare Insurance, yet there is no plan to make these contributions more similar to insurance rather than tax.

Corporate Income Tax

In late 2011, the parliament passed a law changing the definition of a small business and thus allowing more companies to benefit from the 5% tax rate being applied to small businesses. Prior to this change, the maximum amount of income to qualify for the 5% tax rate was LTL 500,000 (€ 145 000) and as of 2012 it has been increased to LTL 1 million (€ 290 000).

Some politicians used the debates on progressive personal income tax to propose a higher corporate income tax. In the spring of 2012, the parliament will begin hearings on raising the corporate income tax from 15% to 20%. The tax rate had already been raised from 15% to 20% in 2009, but proved to be ineffective and within the same year was reduced back to 15%.

Value Added Tax

In late 2010, the government decided to increase tax revenues by LTL 1 billion (€ 290 million) by reducing the shadow economy. One of the measures proposed by the government at that time was the introduction of cash registers for sellers of food products on roof-covered markets. The government reasoned that the sellers avoid taxes by underreporting their revenues and that cash registers would improve the situation. On the other hand, the sellers maintained that cash registers would increase their administrative burden and went as far as participating in a hunger strike against a compulsory introduction of cash registers. Cash registers were introduced on May 1, 2011.

As of today, the State Tax Inspectorate has not published any official results on the efficiency of this measure, although information collected by an association of small businesses shows that the number of sellers on the markets and their revenues have significantly decreased, in some markets by as much as 40-50%, as sellers became employed by companies, became unemployed or emigrated. Still convinced that this measure was efficient, in the fall of 2011 the government passed a decree that would make cash registers compulsory for sellers on all roof-covered markets.

At the end of 2011, the parliament amended the Law on Value Added Tax and extended the use of VAT reduced rates. Reduced rate of 9 percent applied to heat energy, hot and cold water was set to expire in the end of 2011 and the parliament extended it to the end of 2012. Deadline for applying a reduced rate on medicine and other medical services compensated by the state was also extended from the end of 2011 to the end of 2012. Throughout 2011, a reduced VAT rate was applied to hotel and special housing services and this reduced rate has now expired.

In the same law, the parliament increased the annual turnover ceiling for the VAT exemption scheme from LTL 100,000 to LTL 155,000 (€ 29,000 and € 45,000, respectively). This is a welcome and positive change since it will reduce the tax burden on small businesses.

Excise Duties

As of 2012, excise duty on wine has been increased from LTL 53 to LTL 58 (€ 15 and €17, respectively) and on intermediate alcohol products below 15 percent of alcohol concentration from LTL 198 to LTL 216 (€ 57 and € 63, respectively). Excise duty on other fermented drinks was reduced from LTL 216 to LTL 198 (€ 57 and € 63, respectively).

Residential Property Tax

For almost a decade, Lithuanians had been debating an introduction of a residential property tax. The current government envisioned this tax in its program, but hesitated to introduce it, in part due to objections from the liberal parties within the government. As the parliament sought ways to close the budget gap, debates on residential property tax intensified, with many MPs calling for a “luxury tax” on luxury property. In late 2011, the parliament passed a law introducing property tax on total family-owned property valued above LTL 1 million (€ 290,000). The residential property tax rate is 1% of the estimated property value.

Objections were raised on the legality of the law, since this tax did not originally accompany the budget. For this tax to come in effect on January 1, 2012, the draft law had to be presented together with the draft budget. The tax administration law specifies that new taxes or tax rates can be introduced only after a 6-month adjustment period; this does not apply for taxes accompanying the budget. However, no state institutions viewed this matter seriously and did not challenge the legality of the property tax. After the introduction of residential property tax, a number of MPs have indicated their intention to decrease the taxable property value in 2012 and perhaps even make this tax universal.

Land Tax

For a number of years, some MPs had been putting forward the idea of increasing land tax for unused land. In late 2011, the parliament passed a law abolishing the flat rate of 1.5% simultaneously allowing the municipalities to set the land tax rate in the range of 0.01-4% depending on the use of land and other criteria. Before the changes, the tax was levied on old calculations of land value, while the new law stipulates the tax will be paid according to a "market" value of the land. The new changes will come into effect in 2013. The maximum land tax rate of 4% is so high that if some of the municipalities will actually choose to set the land tax at 4%, it will be cheaper to rent state-owned land rather than own it.

Copyright Levy

Since 2004, the ministry of culture had been making a claim that a copyright levy on media such as VHS, CDs and DVDs was insufficient and should be complemented with a copyright levy on digital devices. A copyright levy on digital devices was held back as unfair to the taxpayers who would have to pay twice for making a private copy – first for the media and then for the device. However, at the end of 2011 this levy was passed together with the other new taxes. It will be levied on numerous devices such as cell phones, TVs, USB, etc. The levy on memory sticks and USB will be in the range of LTL 0.50 – 10 (€ 0.15 – 3) and on cell phones and other devices between LTL 1.5 – 40 (€ 0.4 – 12), depending on their memory.

Possibly, the new levy will make it more attractive for local consumers to buy the devices abroad and ship them to Lithuania, implying that the revenues from the copyright levy will fall short below expectations.

Tax on Natural Resources

In the end of 2011, the parliament passed a law increasing the tax on natural resources by 10 – 323%. The lowest tax increase was on clay and the highest tax increase – on turf (from LTL 0.62/m^3 to LTL 2/m^3 (€ 0.18/m^3 and € 0.58/m^3, respectively)). Taxes on natural resources had previously been increased in 2010 and did not bring in the expected revenues – doubling of the tax rates resulted in the same tax revenues as before the tax increases.

Tax on Cargo Vehicles

As of May 1, 2012 yearly tax on buses weighing below 5 tons and cargo vehicles weighing below 3.5 tons has been increased from LTL 600 to LTL 1800 (€ 174 and € 521, respectively).

Future Prospects

The spring session of the parliament is set to discuss numerous tax issues, among them progressive personal income tax, a hike in the corporate income tax, taxation of automobiles, interest income, etc. If the tax revenues will be collected according to the plan, then the parliament may not raise the taxes. Since 2012 is an election years with parliamentary elections set for October, possible changes in the tax regime may also depend on a general mood of the public. In the fall, the parliament may begin debates on increasing the scope of the property tax with the aim of making this tax universal. The MPs may refrain from passing such a bill before the elections because that may cause widespread resentment, so it is possible this bill would be debated during the hearings on the 2013 budget.

Luxembourg

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Encouraging macro-economic figures in the last months of 2010 and during the first semester of 2011 have led Luxembourg government to lighten a series of tax measures aiming at increasing state resources. The burden of taxation that had been increased significantly for individuals in 2011 remains unchanged for 2012 except for the contribution crisis implemented in 2011 that is removed for 2012 further to a government engagement taken in July 2011. Still, *"Without a change of policy, Luxembourg will not reach a balanced budget in 2014"* as rightly says the forecast committee regarding macro-economic anticipations and the development of Public finances for 2011-2015.

Global outlook: a recovery slower than expected

2011 was expected to be the last transition year, from crisis to growth, as was 2010. Unfortunately, Luxembourg, as most of the European countries, has met economic recession since the last quarter of 2011 due to sovereign debts crisis. As a consequence, growth is now not expected to be back before 2013.

The measures brought together in the 2011 financial Law regarding the financial and economic crisis and aiming at returning to a balanced budget in 2014 will not achieve their objective, according to the Ministry of Finance, even if they have had a budgetary impact representing a saving of 1.1% of the GDP in 2011 and of 1% of the GDP in 2012.

The economic recession was planned to be of 0.9% of the GDP in 2012.

New measures applied as of the 1st of January 2012 are as follows.

Tax measures for individual taxpayers

The "crisis contribution", set at the rate of 0.8 % that was supposed to apply for the years 2011 and 2012 is removed for 2012. The so called "solidarity tax" increased in 2011 from 2.5% to 4 % or even to 6% of income tax due for taxable income over € 150,000 for single tax payers (class I) and € 300,000 for married tax payers (class II) is maintained.

This means an effective maximum tax rate for high income of 41.34 %.

Tax measures for companies

2011 tax measures have all been maintained and the Government does not plan to increase the tax burden on companies in order for the Grand Duchy to remain an attractive place of business.

As of the 1st of January 2011, standard corporate tax is at a rate of 28.8% in Luxembourg City made of the corporate income tax of 22.05 % (increased by the employment fund contribution of 5%) and the Luxembourg municipal business tax of 6.75%.

As of the 1st of January 2012 more than 64 tax treaties are in force with: Austria, Armenia, Azerbaijan, Bahrain, Barbados, Belgium, Brazil, Bulgaria, Canada, Czech Republic, China, Denmark, Estonia, Finland, France, Germany, Great Britain, Georgia, Greece, Hong Kong, Hungary, Iceland, Indonesia, India, Ireland, Israel, Italy, Japan, Latvia, Liechtenstein, Lithuania, Malaysia, Malta, Mauritius, Mexico, Monaco, Mongolia, Morocco, Norway, Panama, Poland, Portugal, Qatar, Romania, Russia, Saint Martin, Singapore, Slovakia, Slovenia, South Africa, South Korea, Spain, Sweden, Switzerland, Thailand, The Netherlands, Trinidad and Tobago, Tunisia, Turkey, United Arab Emirates, United States of America, Uzbekistan, Vietnam.

Tax highlights

(1) On the 14th of December 2011, the Luxembourg VAT administration declared in a circular letter that, due to the fact that the concept of "books" is not construed similarly in the different EU Member States, a reduced VAT rate shall be applied to e-books. The administration pointed out, however, that given the identical use of books and e-books, a different rate is unjustified.

This rate is applicable from the 1st of January 2012, but this system can only last until the 1st of January 2015 considering the Council Implementing Regulation (EU) No 282/2011 of the 15th of March 2011 implementing measures for Directive 2006/112/EC on the common system of Value Added Tax. From the 1st of January 2015, VAT on telecommunication, broadcasting and electronic services supplied to consumers will be charged at the rate of the customer's country and no longer that of the supplier's, as is now the case.

(2) The SPF (Private Wealth Management Companies/ Société de gestion de Patrimoine Familial) regime has been improved by a law that has removed the 5% dividend limitation that used to apply to dividends deriving from participations into non-resident and non-listed companies not subject to tax. SPFs previously automatically lost their tax status, if more

than 5% of the dividends received in a given year came from shareholdings in non-resident non-listed companies not subject to a tax considered to be comparable to Luxembourg corporate income tax (at least 10.5% in practice).
This amendment was motivated by the EU Commission that considered that this provision was not in line with EU law as it provides for different tax treatments to situations which, according to the EU Commission, are comparable: while an income tax exemption applies to all income from Luxembourg participations (dividends and capital gains), prior to the new regulation, income from foreign shareholdings could cause the SPF to lose its exempt tax status.
The SPFs are investment vehicles dedicated to private individual investors only who benefit, under certain conditions, from tax exemptions.

Conclusions

"Without a change of policy, Luxembourg will not reach a balanced budget in 2014". These words are extracted from the introduction of a note issued on the 20th of March 2012 by the forecast committee regarding macro-economic anticipations and the development of Public finances for 2011-2015.
According to this note, the public deficit of Luxembourg may exceed the 3% GDP limit as of 2013 due to the deterioration of the economic situation in 2012 (an economic recession of approximately 1.7%) compared to the figures defined in the initial budget for 2012.
The Luxembourg unemployment rate amounts to 6.1% in 2011 and 6.8% in 2012 but the committee anticipates a positive evolution of the employment even if less dynamic than in the past for the next four years.
The committee also underlines that the modification of the VAT regime for electronic commerce scheduled for 2015 will have a significant impact on the tax revenue of the country. It also warns that the country's Public deficit is at risk of widening rather than declining, resulting in increased public debt. Public debt for 2012 should amount to € 8,9 billion corresponding to 21% of the GDP.

Norway

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The overall level of taxation is kept virtually unchanged from 2011 to 2012, keeping up the Government's commitment of 2005 to maintain total accrued taxes at the 2004 level. According to the Ministry of Finance, the evaluation of the 2004 – 2006 tax reform shows that the reform has been a success and that the Norwegian tax system, on a general basis, is functioning well. Not surprisingly, the evaluation also demonstrates room for improvements, in particular to prevent tax avoidance and to simplify the tax rules.

Tax policy

The Norwegian tax system is characterised by a relatively high share of indirect taxes by international standards. Value Added Tax (VAT) and excise duties amount to approx. 1/3rd and income tax and net wealth tax levied on individuals approx. 1/4er of the total tax revenues. Corporate tax, including employer's part of the social security contribution to the National Insurance Scheme, (NIS), and tax on oil and gas activities each amounts to approx. 1/5th of the total tax revenues.

In 2012 the reduced VAT rate on foodstuffs is increased from 14% to 15%. Also, in order to maintain Norway's position as (allegedly) one of the champions among countries fighting for a better environment, the Government continues to propose rules aimed at further strengthening of the tax system's contribution to a *"fair income distribution and to a better environment"* ("green" taxes). In line with this mantra, the 2012 Budget contains i.a. further adjustments in the tax rules to provide stronger incentives for purchase of motor vehicles with low CO_2 – discharge. The Government also announces the introduction of a special NO_x-component tax on cars.
Total tax revenues in 2012 are estimated at 1 237 billion NOK, (€ 165.4 billion), to be compared with estimated total revenues in 2011 at 1 192 billion NOK, (€ 159.4 billion); an increase of approx. 3,8%. Total tax revenues consists of:

* Direct and indirect taxes from oil and gas activities, estimated at 376.7 billion NOK, (€ 50.4 billion), in 2012 to be compared with 363.3 bil-

lion NOK, (€ 48.6 billion), in 2011, an increase of approx. 3.7%, and

* Direct and indirect taxes from Mainland Norway, (i.e. revenues other than from oil and gas activities), estimated at 860.8 billion NOK, (€ 115.1 billion), in 2012 to be compared with 829.3 billion NOK, (€ 110.9 billion), in 2011, an increase of approx. 3,8%.

Revenues from the oil and gas activities are deposited in the Government Pension Fund Global (GPFG), and the return from the fund is used to finance the public sector.

The Government Pension Fund Global and the Government Pension Fund Norway constitute the Government Pension Fund. The purpose of the Government Pension Fund is *".. to support Government savings to finance the pension costs of the National Insurance Scheme and long term considerations in the spending of Government oil and gas revenues.."*

Economic policy: The fiscal section

The fiscal policy guidelines, introduced back in 2001, plan for a smooth, gradual increase in expenditure of revenue from oil and gas activities to a level than can be sustained over time. The guidelines provide flexibility for using fiscal policy to stabilise the economy over the business cycle. In 2008-2009 the Norwegian Government made ample use of this flexibility, by increasing rapidly the use of oil and gas revenues to mitigate the effects of the global financial crisis on the Norwegian economy. During 2011 the use of oil and gas revenues have been reduced to the normal level.

In 2012, an increase in pension payments from the National Insurance Scheme (NIS) accounts for a large part of expenditure growth in the National Budget. At the same time, the pace of growth of the GPFG is expected to gradually slow in the years ahead and expenditures related to pensions, health services and care for the elderly will grow faster than the expected return on the GPFG. This will present demanding challenges in the Norwegian fiscal policy in the decades to come.

Economic policy: Budget section

In the 2011 National Budget, the Government planned for an unchanged spending, in real terms, of revenues from oil and gas activities. This implied a structural non-oil and gas deficit of 128.1 billion NOK (€ 17.1 billion). New information on economic developments, including budget revenues and expenditures, have led to a quite substantial reduction in the estimated structural deficit for 2011. The re-estimated deficit amounts to

108.1 billion NOK, (€ 14.5 billion).
In 2010, (measured in constant 2007 prices), the Norwegian GDP totalled 2 496.2 billion NOK (€ 333.7 billion), i.e., approx. 0.5 million NOK (€ 66 844) per capita. Mainland Norway's contribution to the 2010 GDP amounted to some 1 937.5 billion NOK (€ 259 billion). Increase in GDP in 2011 was 1.7% and the forecast for 2012 is a further increase of 2.4%. Increase in Mainland Norway's contribution to the GDP was 2.8% in 2011 and the forecast for 2012 a further increase of 3.1%.

In 2010, (measured in constant 2007 prices), Norwegian exports totalled approx. 1 046.9 billion NOK (€ 139.9 billion), with an increase for 2011 of 0.4% and an expected further increase in 2012 of 1.0%. Norwegian imports totalled approx. 714.6 billion NOK, (€ 95.5 billion) in 2010, with an increase in 2011 by 6.5% and an expected further increase in 2012 at 4.3%.

Public debt by the end of 2011 amounts to 653.2 billion NOK (€ 87.3 billion), an increase by approx. 17.7% from 557.4 billion NOK (€ 74.5 billion) by the end of 2010.

Economic policy: General outlook

By the end of 2011, the growth in the Mainland GDP has been positive for seven consecutive quarters, fuelled by private and public consumption. Growth in consumption tapered off in the first half of 2011, but considerable investments in both housing and the oil and gas sector has underpinned growth in the Norwegian economy. Private consumption increased by 2.7% in 2011 from 1 073.2 billion NOK (€ 143.5 billion) in 2010, to 1 102.1 billion NOK (€ 147.3 billion), with an expected further increase in 2012 at 4.0%. Public consumption increased by 2.5% in 2011, from 558.3 billion NOK, (€ 74.6 billion) in 2010, to 572.3 billion NOK (€ 76.5 billion), with an expected further increase in 2012 at 1.5%.

Consumer Price Inflation increased by 1.5% in 2011. The forecast for 2012 is a further increase at 1.6%. Wages (on an average) increased by 4.0% in 2011. The forecast for 2012 is also 4%. Unemployment rate for 2011 was 3.25% of the total work force. The rate is expected to remain unchanged in 2012. By December 14th 2011 the Central Bank of Norway, Norges Bank, lowered its key policy rate from 2.25% to 1.75%. The rate is expected to remain at this level or lower in 2012, depending i.a. on the

Norwegian currency's (NOK's) strength against other currencies, primarily EUR, GBP and USD.
The Norwegian economy may be adversely affected in 2012 by weaker international growth and the unrest in international financial markets. However, the economic policy guidelines followed by the Government in the proposed 2012 Budget constitutes a sound foundation for a stable development in the Norwegian economy.

Taxation

There are no major changes in the rules for 2012 regarding taxation of individuals. As regards corporate taxation, on the other hand, there are a few changes worth mentioning, (the list is not exhaustive):

* Deductions for bad debts between related companies are disallowed, unless under specific circumstances.
* Under the Exemption Method, Norwegian domiciled corporate taxpayers are basically exempt from paying tax on dividends and capital gains from sale of shares. However, with the intention to correct for the fact that the companies can claim deductions for costs associated with income that is tax free under the Exemption Method, three percent of the otherwise tax-free income is taxed, "the three percent rule". As of 2012 the three percent rule applies only to dividends.
* Profit distributions from partnerships to limited liability companies (AS, ASA) are subject to taxation under the three percent rule.
* Dividends to non-Norwegian companies are subject to taxation under the three percent rule if the foreign company's shares are associated with taxable activities in Norway.
* The three percent rule does not apply in a group company situation (for companies domiciled in Norway). The exemption for group situations will apply similarly to dividends to or from companies domiciled in the European Economic Area, (EEA).
* In addition to the changes mentioned above, there are some changes in tax rules targeting agriculture, forestry and reindeer husbandry.

Income tax – Companies/Corporations
(The figures below show proposed tax rates for 2012 with 2011 rates in brackets.)

Ordinary income, income from capital and capital gains inclusive will be taxed at 28% in 2012, unchanged from 2011. Depreciation rates for tax purposes, (depreciation on assets) varies from 2% (business buildings) to 30% (office equipment etc.) per annum, depending on type of asset and calculated according to the declining balance principle.

Dividends distributed from a Norwegian domiciled limited liability company to another Norwegian domiciled company or to a comparable company domiciled within the EEA, are normally tax exempt under current Norwegian tax rules, i.e. no withholding tax. The same normally applies for dividends received by a shareholding company domiciled in Norway distributed by another Norwegian resident company or by a comparable company resident within the EEA under the Exemption Method, although one should keep in mind the "three percent rule" mentioned above and the changes in this rule effective as of 2012.
A company not able to prove to be comparable with a Norwegian limited liability company fully and legally established according to the ordinary corporate legislation in its country of domicile and performing genuine industrial activity will normally be hit by Norwegian CFC-rules ("NOKUS").
Dividends received by a Norwegian domiciled limited liability company on shareholding in a comparable company domiciled outside the EEA are normally taxed in Norway as ordinary income, but with a right for the receiving company to deduct taxes withheld in the foreign company's country of domicile under tax treaty rules or Norwegian domestic tax rules.
Dividends distributed by a Norwegian domiciled limited liability company to a comparable shareholding company domiciled outside the EEA, is subject to withholding tax in Norway (25%), normally reduced to 15% or lower under most tax treaty rules, provided a certain minimum (10% or more) of ownership in the distributing company held by the receiving company.

Personal income tax

Ordinary income tax:	28%	(28%)
Capital income tax:	28%	(28%)

Dividends received by a Norwegian domiciled individual on a shareholding in a limited liability company domiciled in Norway or abroad, are subject to ordinary income tax. Withholding tax paid to the country of domicile of a non-Norwegian company, are normally deductible in the Norwegian taxes levied on the same income.

Surtax on wage income and income from self-employment:

* From (threshold)	NOK 490 000	(NOK 471 200)	(+ 4%)
* Rate	9,0%	(9,0%)	
* From (threshold)	NOK 796 400	(NOK 765 800)	(+ 4%)
* Rate	12,0%	(12,0%)	

Tax on Net Wealth

* Threshold, municipal tax	750 000 NOK	(700 000 NOK)	(+ 7,1%)
* Rate, when exceeding threshold	0,7%	(0,7%)	
* Threshold, state tax	750 000 NOK	(700 000 NOK)	(+ 7,1%)
* Rate, when exceeding threshold	0,4%	(0,4%)	

Inheritance tax

Thresholds:

* Level (1)	470 000 NOK	(470 000 NOK)
* Level (2)	800 000 NOK	(800 000 NOK)

Rates:

* Children/parents, level (1)	6,0%	(6,0%)
* Children/parents, level (2)	10,0%	(10,0%)
* Others, level (1)	8,0%	(8,0%)
* Others, level (2)	15,0%	(15,0%)

“Discount” on non-listed shares 40%. The rate is unchanged in 2012 from 2011. The “discount” applies when calculating the taxable amount from non-listed shares and shares in general partnerships. The ceiling on the amount that enjoys this “discount” is in 2012 limited to 10 million NOK, unchanged from 2011.

Value Added Tax (VAT)

The ordinary VAT rate in 2012 is 25%. Reduced rate is 15%, (up from 14% in 2011). Low rate is (8%). A zero rate applies in some cases.
Norwegian VAT legislation contains rules for adjusting the basis for VAT when certain assets (real estate etc.) are sold or otherwise changes ownership.

Stamp duty

Stamp duty on sale of real estate is 2,5% of the sales price in 2012, unchanged from 2011.

Social security

Individual's contribution to the National Insurance Scheme

Lower threshold for contribution to the NIS:

	NOK 39 600	(NOK 39 600)	
* Wage income contribution:	7.8%	(7.8%)	
* Contribution on income from self-employment in the primary sector (i.e. forestry, farming, fishing):	11.0%	(7.8%)	(+ 41%)
* Contribution on other self-employment income:	11.0%	(11.0%)	
* Contribution on pension income:	4.7%	(4.7%)	

Employer's contribution to the National Insurance Scheme

Varies, depends on the geographical location of the employer's business:

0,0% - 14,1% (0,0% - 14,1%)

Maximum effective marginal tax rates

* Wage income, excl. employers'contribution to NIS:	47,8%	(47,8%)
* Wage income, incl. employer'scontribution to NIS:	54,3%	(54,3%)
* Self-employment, primary sector, incl. contribution to NIS:	51,0%	(47,8%)
* Other self-employment, incl. contribution to NIS:	51,0%	(51,0%)
* Dividends and withdrawals, including 28% corporate tax:	48,2%	(48,2%)

(Special rules apply for calculating the basis for tax on dividends, - in some cases also on interest income.)

* Pension income:	44,7%	(44,7%)

(In some cases pension income is taxed at an effective rate of 55%.)

Allowances

* Personal allowance for taxpayers in Class 1 (single) is increased to 45 350 NOK in 2012 from 43 600 NOK in 2011 (+ 4%).

* Personal allowance for taxpayers in Class 2 (supporting/single parent) is increased to 90 700 NOK in 2012 from 87 200 NOK in 2011 (+ 4%).

* Basic allowances in wage income. The 2012 rate is 38%, up from 36% in 2011. Lower limit is 4 000 NOK in 2012, unchanged from 2011. Upper limit is 78 150 NOK in 2012, up from 75 150 NOK in 2011, (+ 4%).

* Basic allowances in pension income. The rate is 26,0% in 2012, unchanged from 2011. Lower limit is 4 000 NOK in 2012, also unchanged from 2011. Upper limit for 2012 is 65 450 NOK, up from 62 950 NOK in 2011, (+ 4%).

The sum of basic allowance in wage income and the basic allowance in pension income is limited upwards to the maximum basic allowance in wage income.

Special wage income allowance is 31 800 NOK for 2012, unchanged from 2011. Taxpayers who only have wage income are entitled to the higher of the basic allowance in wage income and the special wage income allowance.

There are also many special allowances including: disability, pensioners, taxpayers living in the northernmost areas of Norway (Finnmark and Nord-Troms), seamen, fishermen, self-employed within farming/agriculture, high expenses due to illness, payments to individual pension schemes, travel between home and work site/office, union fees, saving schemes for young individuals under 34 years of age, documented expenses for child-minding and childcare, donations to voluntary organisations.

Summing up

Thanks to a rather sound economy, mainly due to oil and gas revenues, at the time the financial crises hit in 2008-2009, the recovery and even growth in the Norwegian economy has continued through 2010 and 2011. This, however, must be viewed in light of the fact that the impact of the financial crisis on the Norwegian economy was less severe than on the economies of most of Norway's trading partners.

The growth in the Norwegian economy is expected to continue in 2012, supported by low interest rates on loans, greater optimism among households, increased investment in the oil and gas sector and increased demand from export markets, the latter despite the strength of the NOK against other currencies, such as EUR, GPB and USD.

Unemployment has increased slightly, and substantially less than expected, over the past couple of years, a trend expected to continue in 2012.

Tax rates and the basis to which they apply when calculating the taxes tend to increase over time. For the years ahead, the underlying growth in Norwegian tax revenues is expected to strengthen the Budget by approx. 12 billion NOK every year; - taking into account that increased wages implies a higher average price growth for budget elements than the average increase in prices for the tax basis.

Sources: Publications of Finansdepartementet (Ministry of Finance) and Statististisk Sentralbyrå (Statistics of Norway).

Poland

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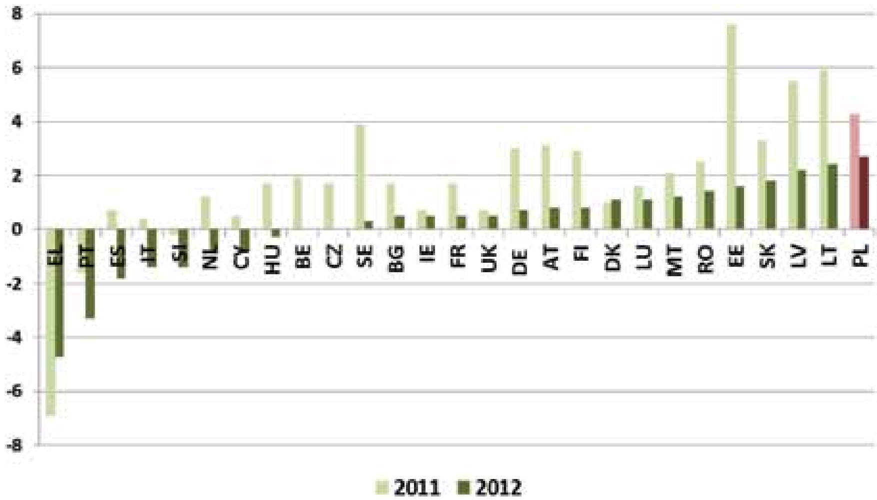
Polish economy is one of the most resistant among the EU countries. While according to the forecasts for 2012 EU is, on average, in the stagnation, Poland will experience the highest growth rate of 2.7%. Despite being the leader in development, Poland performs relatively poor in fiscal terms: in 2010 the fiscal deficit in Poland reached 7.8% of GDP – the highest level since 1991. Being aware of fiscal distress, Polish government has an ambitious goal to reduce the deficit to 3% of GDP in 2012. The size of the fiscal consolidation in Poland (4.5 percentage points) is adequate, yet its structure is much more questionable, as it is mostly revenue-based. It turns out that consolidation driven increase of revenue in Poland is among the largest among EU countries. Besides increased public revenues, the general direction of the reform in Poland is considered appropriate,. It is of utmost importance for Poland to carry out long-overdue reform of tax system and fiscal framework. The former imposes huge administrative costs and thus hampers Polish competitiveness. The latter, in turn, is ineffective in correcting for deficit bias.

Leader in economic growth but laggard in fiscal policy

In 2011, Polish economy was performing relatively well in comparison to other EU countries. According to Eurostat, in 2011 the growth rate of Polish GDP amounted to 4.3%. It was fourth best result in the EU after Baltic countries recovering from severe bust of 2008-2009. Furthermore, forecasts for 2012 assume even better relative position of Poland. While on average EU-27 countries will experience no growth at all and Euro Area will be in a slight recession, Poland with 2.7% of GDP growth ratio is expected to be a leader of economic development. For comparisons in growth rates in 2011-2012 see Figure 1.

Figure 1. Growth rates in EU countries in 2011-2012 (% of GDP)



Source: Eurostat

Despite the optimistic data on growth, Poland struggles with discipline in public budget. In 2010, general government deficit in Poland reached 7.8% of GDP – the highest level since 1991. Fortunately, this negative trend was recently reversed. According to the Polish Ministry of Finance, in 2011, the general government deficit was equal to 5.1% of GDP. At the beginning of 2011 Polish government presented a plan to reduce public deficit further. Namely, to 3% of GDP by 2012 which is in line with Maastricht criteria. By the end of 2011 the European Commission assessed, however, the actions taken by Poland as insufficient and forecasted that the deficit in 2012 will be 4% of GDP, asking simultaneously for additional measures. The latter have been presented in Prime Minister's exposé and in a letter from Minister of Finance to Brussels. Taking them into account, the European Commission currently forecasted the general government deficit in Poland in 2012 to be 3.3% of GDP, later changing the forecast to 3% of GDP..

As a consequence of expansionary fiscal policy in the 2000s, public debt exploded and oscillates currently not far below constitutional limit of 60% of GDP. The indebtedness reached 56.3% of GDP in 2011 (however, by Polish definition the debt is slightly lower). A level of public debt around 55% of GDP is expected in 2012 and 2013, but the result is subject to large uncertainty due to volatility of exchange rate and the valuation of foreign part of public debt. Although this numbers may look moderate when compared to EU-15 countries, where public debt reached 85.3% of GDP in 2011, it must be remembered that Poland is still an emerging market. Comparing to new EU member states from CEE, only Hungary currently has a higher level of public debt, reaching 75.9% in 2011.

Fiscal adjustment with significant tax increases

The size of the planned fiscal adjustment in Poland (see previous section) seems proper, but its structure is much more questionable, as it is to a large extend revenue-based. During the 2010-2012 period general government revenue (as % of GDP) is forecasted to increase by about 2.5 percentage points (hereinafter pp), while the expenditure will fall by 2.3 pp. This will result in fiscal consolidation of about 4.8 pp, which is among the biggest within EU-27. Compared to other EU-27 countries, the planned increase of revenue in Poland is among the biggest. It should be noted, however, that contrary to majority of EU countries Poland is not planning to cut public investment.

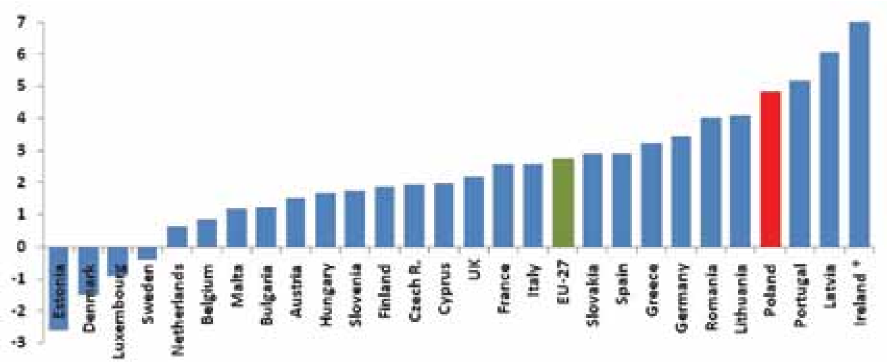
The impact of the fiscal consolidation on GDP growth and the incidence of non-Keynesian effects is still subject to debate, as can be seen in a recent discussion between professor Alesina and IMF staff. However both sides seem to agree that expenditure-based adjustments have better (Alesina) or less harmful (IMF) impact on growth. While Alesina and Perotti (1996) find expenditure-based adjustments expansionary, IMF (2010) states that *"(…) Consolidation is more painful when it relies primarily on tax hikes (…)"*. Both Alesina and IMF focus mainly on OECD countries/advanced economies. But studies focused on the CEE region, like the one by Borys, Cizkowicz and Rzonca (2010) are also worth mentioning. The authors show that *"(…) composition of the fiscal impulse is crucial for non-Keynesian effects to occur. We find that fiscal contractions that rely on expenditure reductions are accompanied by GDP and exports growth acceleration even in the short term (…)".*

One of the most important policy changes in 2011 was a significant increase of social contribution paid to the pay-as-you-go pillar of pension system, at the expanse of the contribution going to the capital pillar. The reduction of contribution going to private funds from 7.3% to 2.3% of gross wage resulted in an increase of public revenue by about 1% GDP annually. Although this change in the short term reduces general government deficit, it might affect long term sustainability of public finance and has negative impact on national savings and GDP growth. The rest of the increase of government revenue was mainly due to changes in tax rates (VAT, excise), freeze of PIT thresholds, increase of capital transfers received and other minor policy changes. Public finances also benefited from previously implemented reforms, limiting early retirement and thus raising population's economic activity.

The economic agenda of the reelected Polish government presented in November 2011 has two economically significant items: the increase of retirement age and the increase of social contributions. Given worsening demographic situation of Poland, the gradual increase of retirement age up to 67 is a necessity. The direction of the reform is right, but the speed of the implementation is too slow, particularly in the case of women. According to the Prime Minister's expose, the increase of retirement age of women from 60 to 67 will take about 30 years (for men it will be less than 10 years, as the increase is only from 65 to 67). So slow pace of the reform will allow women born during the baby boom to leave the labor market before the retirement age is significantly increased, limiting the gains from reform. As mentioned, the second important policy change is the increase of social contribution. As a result, the tax wedge will grow, discouraging employers from creating jobs, which, given low employment rate, is an unwelcome development.

Overall picture of fiscal adjustment in Poland planned for the years 2010–2012 is mixed. The size of the consolidation, among the biggest in EU-27 is right (see Figure 2). The structure however could be better, with more expenditure cuts and less revenue increases. Reduction of contributions going to the capital pillar of pension system and an increase of tax wedge stand out as particularly myopic policies. On the other hand, the growing activity rate and the effect of previous reforms, are welcomed developments.

Figure 2. Change of general government net lending/borrowing as % of GDP in 2010-2012

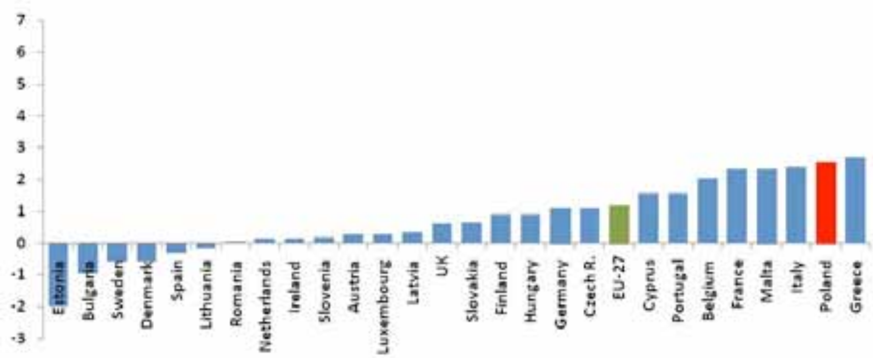


*out of scale; public expenditure as % of GDP in Ireland will fall by 22.7 pp between 2010 and 2012. The size of this fall is due to one off cost of banking crisis.

Source: EC Spring Forecast 2012.

Planned reduction of general government net borrowing is mainly due to the growth of general government revenue, which will be the biggest among EU-27 countries (see Figure 3).

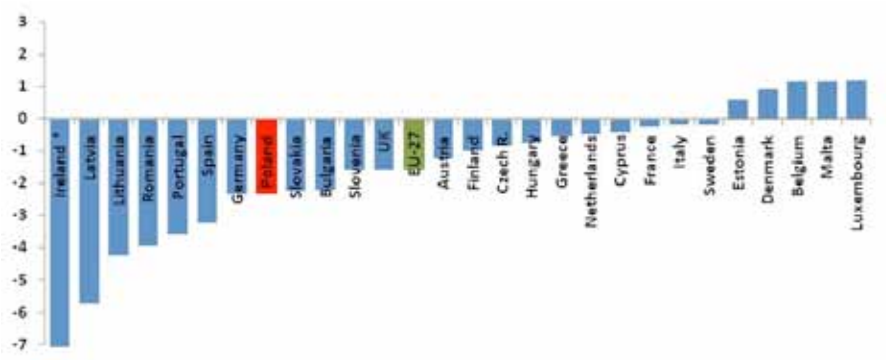
Figure 3. Change of general government revenue as % of GDP in 2010-2012



Nevertheless, planned reduction of public expenditure is rather limited (see Figure 4). It should be noticed however, that Poland will be one of the few countries with public investment (as % GDP) higher in 2010 than in

2012. But still, even excluding interest and investment, the planned reduction of other public expenditure is rather limited (see Figure 5).

Figure 4. Change of general government expenditure as % of GDP in 2010-2012



*Notations as before. Source: EC Spring Forecast 2012.

Tax reform to boost Polish competitiveness and fiscal reform to prevent deficit bias

It is a common wisdom that the beginning of a political term is always the best period to reform. It seems therefore that 2012 is an appropriate time for structural reforms in Poland. In November 2011, for the first time after the collapse of socialism in Poland, the same political party (i.e. liberal conservative Civic Platform) was reelected to govern the country. The Polish government, aware of this electoral regularity, has speeded up recently in reforming retirement system (see above) and deregulating professions. Although these reforms are needed, the political capital, citizens' confidence and timing allow for much far-reaching reformist moves.

Radical changes are urgently required in taxes. Despite the fact that simplification of Polish tax system is on political agenda for a long time, the government still lacks determination to launch significant reforms (see Yearbook on Taxation 2011). This disregard for reforms displayed by Polish politicians in the area of taxes is reflected in the annual report of World Bank on ease of doing business. In its newest version (Doing Business 2012), Poland was ranked 128 among 183 countries in paying-taxes category. There was no change from the previous ranking. Thus, taxation in Poland is far more burdensome than in the leading countries, e.g. Ireland (ranked 5), Denmark (ranked 14) and Luxemburg (ranked 17). Only three EU countries scored more poorly than Poland: Slovakia (ranked 130), Italy (ranked 134) and Romania (ranked 154). The simplification of taxes in Poland would boost competitiveness and lead to more domestic and foreign investments. The latter, in turn, would contribute to even faster economic growth.

The reorganization of Polish fiscal framework is also of utmost importance. As it was presented in previous sections, the current fiscal legislation is not effective in correcting for deficit bias. Poland should therefore introduce stronger fiscal rules as was successfully done in other countries. According to IMF, the most efficient are a balance budget rule (specified as structural and "over the cycle" balance) and expenditure rules. Budget balance rules influence positively debt sustainability and economic stabilization. The advantage of the expenditure rules lie, in turn, in the contracting of the size of the government. The benchmark for reforms in this domain could be the Swiss debt brake which was enshrined in the Federal Constitution in 2011 after its approval in national referendum. The debt brake à la Swiss explicitly determines the expenditure according to revenue adjusted for economic conditions. It further implies the nominal debt to be stable and debt ratio to decrease over time. Moreover, to strengthen monitoring of country's fiscal stance and increase public interest in fiscal policy, Polish government should consider introducing a Fiscal Council. In this case, Sweden could serve as a good example.

The paper contains personal opinions reflecting the views of the authors, not the institution they represent. Section 'Fiscal adjustment mostly through taxes' is the updated summary of FOR Analysis 2/2012. It was also published on www.4liberty.eu. The authors would like to thank Ms. Elena Reznichenko for her comments and language support.

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Portugal

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Portugal was meant to go bankrupt June 2011. In order to avoid a chaotic collapse, the European Union lent to Portugal € 78 billion: 66 billions to the Portuguese State and 12 billions to replenish Portuguese banking system. In return, the Troika composed by the ECB, the IMF and the European Commission imposed the economic program of the government. Below is a description of the attempts by a government to contain its debt in a country travelling along the downward slope of the Laffer curve and amid a European credit crisis. Notwithstanding the drastic measures, the government remains popular and the Troika Memorandum is still viewed by many as the best political program of Portuguese Second Republic. If the government is coherent and remains faithful to its commitment the Troika's intervention should be over before the next election in 2015.

From Stimulus to Austerity

Portugal is the perfect illustration that a Keynesian-style stimulus does not work. Between the beginning of the international crisis in 2008 and the IMF intervention in April 2011, Mr. Socrates and his Socialist government tried a comprehensive stimulus program. However, spending money – that Portugal did not have – in projects without enough return (sometimes, without any return) had the obvious effect: economic decline, record unemployment, massive emigration and, of course, a huge debt to burden future governments and tax payers.

On 23 March 2011, Mr. Socrates resigned, called for an IMF intervention on April 6th (something he proudly promised not to) and lost his re-election bid on June 5th. Mr. Passos formed a right-wing coalition government to apply the IMF recipe – an austerity plan aimed at containing the debt growth both by increasing taxes and cutting expenses.

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tem. In return, the Troika composed by the ECB, the IMF and the European Commission imposed the economic program of the government.

The Troika Program had as objectives to reduce the government deficit to below € 10,068 million (5.9% of GDP) in 2011, 7,645 million (4.5% of GDP) in 2012 and 5,224 million (3.0% of GDP) in 2013 by means of "high-quality permanent measures and minimizing the impact of consolidation on vulnerable groups; bring the government debt-to-GDP ratio on a downward path as of 2013; maintain fiscal consolidation over the medium term up to a balanced budgetary position, notably by containing expenditure growth; support competitiveness by means of a budget-neutral adjustment of the tax structure". All of those objectives are to be obtained by SMART measures - Specific, Measurable, Achievable, Realistic and Time-based – which will be evaluated in a regular basis. The document covered several key areas: fiscal policy 2011-2014, financial sector regulation and supervision, public finances policies, labour market and education, sector policies, housing policies, and justice reform. We give below a short presentation and appraisal of the plan, insisting on the fiscal chapters.

Fiscal Policy

Throughout all the years included in the agreement, the Portuguese government will rigorously implement the Budget Law for that year. Progress will be assessed against the (cumulative) quarterly deficit ceilings in the Memorandum of Economic and Financial Policies (MEFP), including the Technical Memorandum of Understanding (TMU).

2011 and 2012 Fiscal Policy

The government aimed at a 5.9% Budget Deficit by the year-end. In March 2012 it was reported that the deficit was € 7262.5 million, or 4.2% of GDP (down from 9.8% in 2010), while December 2011 public debt was still at 107.8% of GDP. For 2012, the objective is to achieve a deficit of no more than € 7,645 million (4.5% of GDP) by year-end.

On the expenditure side

The aim is to save € 3,140 million. That should be accomplished by fulfilling the following partial goals:

* Improvement of the working of the central administration by eliminating redundancies, increasing efficiency, reducing and eliminating services that do not represent a cost-effective use of public money. This should yield annual savings of at least € 500 million;

* In the area of education, the aim is to save € 195 million by rationalising the school network by creating school clusters; lowering staff needs; centralising procurement; and reducing and rationalising transfers to private schools in association agreements;

* In Healthcare, saving € 550 million

* Pensions above € 1,500 should be reduced according to the progressive rates applied to the wages of the public sector as of January 2011 and lower pensions should be frozen, with the aim of saving at least € 445 million;

* Unemployment insurance should be cut, on the basis of detailed measures listed under 'Labour market and education', yielding medium-term savings of around € 150 million;

* Transfers to local and regional authorities should be reduced by at least € 175 million with a view to having this sub-sector contributing to fiscal consolidation;

* Costs in other public bodies and entities should be reduced by at least € 110 million;

* Costs in State-owned enterprises (SOEs) should be reduced with the aim of saving at least € 515 million by means of: sustaining an average permanent reduction in operating costs by at least 15%, tightening compensation schemes and fringe benefits, rationalisation of investment plans for the medium term, and increase their revenues from market activities;

* Permanently reduce capital expenditure by € 500 million by prioritising investment projects. Make more intensive use of funding opportunities provided by EU structural funds, while preserving the basic competitiveness approach agreed with the European Commission in the context of the current National Strategic Reference Framework (NSRF).

On the revenue side

The introduction of a standstill rule to all tax expenditure was accepted, blocking the creation of new items of tax expenditure and the enlargement of existing items. The rule will apply to all kinds of tax expenditure, of a temporary or permanent nature, at the central, regional or local level. Further measures included:

* Reduction of corporate tax deductions and special regimes, with a yield of at least € 150 million in 2012. Measures include abolishing all reduced corporate income tax rates, limiting the deductions of losses in previous years according to taxable matter and reducing the carry-forward

period to three years, reducing tax allowances and revoking subjective tax exemptions, curbing tax benefits (namely those subject to the sunset clause of the Tax Benefit Code), and strengthening company car taxation rules; proposing amendments to the regional finance law to limit the reduction of corporate income tax in autonomous regions to a maximum of 20% vis-à-vis the rates applicable in the mainland;

* Reduction of personal income tax benefits and deductions, with a yield of at least € 150 million in 2012. Measures include: capping the maximum deductible tax allowances according to tax bracket with lower caps applied to higher incomes and a zero cap for the highest income brackets; applying separate caps on individual categories by (a) introducing a cap on health expenses; (b) eliminating the deductibility of mortgage principal and phasing out the deductibility of rents and of mortgage interest payments for owner-occupied housing; eliminate interest income deductibility for new mortgages (c) reducing the items eligible for tax deductions and revising the taxation of income in kind; proposing amendments to the regional finance law to limit the reduction of personal income tax in autonomous regions to a maximum of 20% vis-à-vis the rates applicable in the mainland;

* Levy of personal income taxes on all types of cash social transfers, ensuring convergence of personal income tax deductions applied to pensions and labour income with the aim of raising at least € 150 million in 2012;

* Change in property taxation to raise revenue by at least € 250 million by reducing substantially the temporary exemptions for owner-occupied dwellings. Transfers from the central to local governments will be reviewed to ensure that the additional revenues are fully used for fiscal consolidation;

* Raise VAT revenues to achieve a yield of at least € 410 million for a full year by: reducing VAT exemptions; moving categories of goods and services from the reduced and intermediate VAT tax rates to higher ones; proposing amendments to the regional finance law to limit the reduction of VAT in the autonomous regions to a maximum of 20% vis-à-vis the rates applicable in the mainland;

* Increase excise taxes to raise at least € 250 million in 2012. In particular by: raising car sales tax and cutting car tax exemptions; raising taxes on tobacco products; indexing excise taxes to core inflation; introducing electricity excise taxes in compliance with EU Directive 2003/96;

* Increase efforts to fight tax evasion, fraud and informality to raise revenue by at least € 175 million in 2012.

The measures included some space for manoeuvring; counting on the fact that some measures would not be completely implemented by Mr. Socrates and therefore a safety margin would allow to still come within the deficit target. Vitor Gaspar, José Manuel Barroso chief advisor and now Mr. Passos' Finance Minister has successfully implemented the measures however and that allowed for the 2011 4.2% result and paved the way to an even better 2012 result.

2013 Fiscal Policy

The government intends to achieve a general government deficit of no more than € 5,224 million in 2013.

Regarding expenditure, the government will follow further deepening of the measures introduced in the 2012 Budget Law with a view of reducing expenditure in the area of: Central administration functioning (€ 500 million); Education and school network rationalization (€ 175 million); Wage bill (annual decreases of 1% per year in headcounts of central administration and 2% in local and regional administrations); Health benefits schemes for government employees (€ 100 million) ; Healthcare sector (€ 375 million); Transfers to local and regional authorities (€ 175 million); Cost reductions in other public bodies and entities, and in SOEs (€ 175 million); Cut in capital expenditures (€ 350 million); Maintain the suspension of pension indexation rules except for the lowest pensions. In addition, the government will extend the use of means testing and better target social support achieving a reduction in social benefits expenditure of at least € 350 million.

Regarding revenue, the government will follow further deepening of the measures introduced in 2012 Budget Law, leading to extra revenue in the following areas: Change in corporate tax bases with reduced tax benefits and tax deductions (€ 150 million); Personal income tax benefits and tax deductions (€ 175 million); Taxation of all types of cash social transfers and convergence of personal income tax deductions for pensions and labour income (€ 150 million); Excise taxes (€ 150 million). Update the notional property value of real estate assets for tax purposes to raise revenue by at least € 150 million; Transfers from the central to local governments will be reviewed to ensure that the additional revenues are fully used for fiscal consolidation.

2014 Fiscal Policy

The government will aim at achieving a general government deficit of no more than € 4,521 million. The necessary measures will be defined in the 2014 Budget Law. With the 2014 Budget Law, the Government accepted to further deepen the measures introduced in the 2012 and 2013 with a view in particular to broadening tax bases and moderating primary expenditure to achieve a declining ratio of government expenditure over GDP.

Beyond fiscal policy

The plan is a comprehensive one enforcing modernization in almost all sectors of state and market activities. The main ones are presented below.

Financial Sector Regulation and Supervision

The objectives of this section are to preserve financial sector stability; to maintain liquidity and support a balanced and orderly de-leveraging in the banking sector (facilitating the issuance of government guaranteed bank bonds for an amount of up to € 35,000 million); to strengthen banking regulation and supervision (and to help banking groups supervised by BoP to reach a core Tier 1 capital ratio of 9% by end-2011 and 10% by end-2012 and maintain it thereafter, providing € 12,000 million if necessary); to bring closure to the Banco Portugue s de Negócios case (selling it without a minimum price) and streamline state-owned Caixa Geral de Depósitos; to strengthen the bank resolution framework and reinforce the Deposit Guarantee Fund and the Guarantee Fund for Mutual Agricultural Credit Institutions; and to reinforce the corporate and household insolvency frameworks.

Public Finances Policy

The objectives are to improve the efficiency of the public administration by eliminating redundancies, simplifying procedures and reorganising services; to regulate the creation and functioning of all public entities (e.g. enterprises, foundations, associations); to streamline the budgetary process through the newly approved legal framework, including by adapting accordingly the local and regional financial legal frameworks; and to strengthen risk management, accountability, reporting and monitoring.

Public Private Partnerships

The government will avoid engaging in any new PPP agreement before the completion of the reviews on existing PPPs and the legal and institutional reforms proposed (see below). It was expected to perform in 2011, with the technical assistance from EC and the IMF, an initial assessment of at least the 20 most significant PPP contracts, including the major Estradas de Portugal PPPs, covering a wide range of sectors. A study, conducted wit the help of a top tier international accounting firm to be completed by end-March 2012, will assess the feasibility to renegotiate any PPP or concession contract to reduce the Government financial obligations. All PPPs and concession contracts will be available for these reviews. Finally, the government will enhance the annual PPP and concessions report prepared by the Ministry of Finance in July with a comprehensive assessment of the fiscal risks stemming from PPPs and concessions. The report will provide information and analysis at sector level. The annual review of PPPs and concessions will be accompanied by an analysis of credit flows channelled to PPPs through banks (loans and securities other than shares) by industry and an impact assessment on credit allocation and crowding out effects. This particular element will be done in liaison with the Bank of Portugal.

State-owned enterprises

The government is committed to report on concrete plans to reduce the overall operating costs of central government's 10 State-owned enterprises (SOEs) posing the largest potential fiscal risks to the State and on a planned review of the tariff structure. Operational costs were to be reduced by the end of 2011 by at least 15% on average compared with 2009. Tighter debt ceilings for SOEs are to be applied from 2012 onwards. By end-March 2012, a report reviewing the operations and finances of SOEs at central, regional and local government levels must be delivered. The report will assess these companies' business financial prospects, the potential exposure of the government and scope for orderly privatisation. No additional SOEs at central government level should be created until this review is completed.

Privatisations

The government will accelerate its privatisation programme. The existing plan, elaborated through 2013, covers transport (Aeroportos de Portugal, TAP, and freight branch of CP), energy (GALP, EDP, and REN), communications (Correios de Portugal), and insurance (Caixa Seguros), as well as a number of smaller firms. The plan targets front-loaded proceeds of about € 5,500 million through the end of the program, with only partial divestment envisaged for all large firms. The Government commits to go even further, by pursuing a rapid full divestment of public sector shares in EDP and REN, and is hopeful that market conditions will permit sale of these two companies, as well as of TAP, by the end of 2011 – a privatization that was later postponed to the end of 2012. The Government will identify, by the time of the second review, two additional large enterprises for privatisation by end-2012. An updated privatisation plan will be prepared for March 2012. The government also committed to prepare an inventory of assets, including real estate, owned by municipalities and regional governments, examining the scope for privatisation.

Public administration

The government will take measures to increase the efficiency and cost- effectiveness of the public administration. Those measures include:

* Merge the tax administration, customs administration and the information technology service DGITA in a single entity;

* Establish special chambers within the tax tribunals specialised to handle large cases and assisted by a specialised technical staff pool;

* Cut in the number of municipal offices by at least 20% per year in 2012 and 2013;

* Increase the resources devoted to auditing in the tax administration to at least 30% of the total staff, mostly through reallocations of staff within the tax administration and other parts of the public administration until 2013

* Find a solution to the bottlenecks in the tax appeal system;

* Reduce management positions and administrative units by at least 15% in the central administration by December 2011;

* Limit staff admissions in public administration to achieve annual decreases in 2012- 2014 of 1% per year in the staff of central administration and 2% in local and regional administrations;

* Cut by two thirds of income tax allowances for healthcare, including private insurance;

* Achieve a self-sustainable model for health-benefits schemes for civil servants. The overall budgetary cost of existing schemes will be reduced by 30% in 2012 and a further 20% in 2013, with further reductions at a similar pace in the subsequent years towards having them self-financed by 2016;

Labour Market and Education

The objectives on this section were to revise the unemployment insurance system; to reduce the risk of long-term unemployment while strengthening social safety nets; to reform employment protection legislation to tackle labour market segmentation, foster job creation, and ease the transition of workers across occupations, firms, and sectors; to ease working time arrangements to contain employment fluctuations over the cycle, better accommodate differences in work patterns across sectors and firms, and enhance firms' competitiveness; to promote labour cost developments consistent with job creation and enhanced competitiveness; and to ensure good practices and appropriate resources to Active Labour Market Policies to improve the employability of the young and disadvantaged categories and ease labour market mismatches. It must also address early school leaving and improve the quality of secondary education and vocational education and training, with a view to raise the quality of human capital and facilitate labour market matching.

To do so, reforms in labour and social security legislation will be implemented after consultation of social partners, taking into account possible constitutional implications, and in respect of EU Directives and Core Labour Standards.

The government will in particular:

* Reduce the maximum duration of unemployment insurance benefits to no more than 18 months. The reform will not concern those currently unemployed and will not reduce accrued-to-date rights of employees;

* Cap unemployment benefits at 2.5 times the social support index (IAS) and introduce a declining profile of benefits over the unemployment spell after six months of unemployment (a reduction of at least 10% in the benefit amount). The reform will concern those becoming unemployed after the reform;

* Reduce the necessary contributory period to access unemployment insurance from 15 to 12 months;

* Total severance payments for new open-ended contracts will be reduced from 30 to 10 days per year of tenure (with 10 additional days to be paid by an employers' financed fund) with a cap of 12 months and elimination of the 3 months of pay irrespective of tenure;

* Total severance payments for fixed-term contracts will be reduced from 36 to 10 days per year of tenure for contracts shorter than 6 months and from 24 to 10 days for longer contracts (with 10 additional

days to be paid by an employers' financed fund);

* By April 2012, the Government will prepare a proposal aiming at aligning the level of severance payments to that prevailing on average in the EU;

* The Government will commit that, over the programme period, any increase in the minimum wage will take place only if justified by economic and labour market developments and agreed in the framework of the programme review;

Sector Policies

Energy Markets: Complete the liberalisation of the electricity and gas markets; ensure that the reduction of the energy dependence and the promotion of renewable energies is made in a way that limits the additional costs associated with the production of electricity under the ordinary and special (co-generation and renewable) regimes; ensure consistency of the overall energy policy, reviewing existing instruments. Continue promoting competition in energy markets and to further integrate the Iberian market for electricity and gas (MIBEL and MIBGAS).

Telecommunications and postal services: The government will increase competition in the market by lowering entry barriers; guarantee access to network/infrastructure; strengthen power of the National Regulator Authority.

Transports: The government will adopt a strategic plan to rationalise networks and improve mobility and logistic conditions in Portugal; to improve energy efficiency and reduce environmental impact; to reduce transport costs and ensure financial sustainability of the companies; to strengthen competition in the railways sector and attract more traffic; to integrate ports into the overall logistic and transport system, and make them more competitive. This section also mentions the necessity to "Ensure full independence of the state-owned railway operator CP from the State". Knowing CP financial balance, that is highly unlikely.

Other services: Eliminate entry barriers in order to increase competition in the services sector; soften existing authorisation requirements that hinder adjustment capacity and labour mobility; reduce administrative burden that imposes unnecessary costs on firms and hamper their ability to react to market conditions.

Housing Policies

The objective is to improve households' access to housing; foster labour mobility; improve the quality of housing and make better use of the housing stock; reduce the incentives for households to build up debt. To this end, the government will among other things: (i) Present measures to amend the New Urban Lease Act Law 6/2006 to ensure balanced rights and obligations of landlords and tenants, considering the socially vulnerable; (ii) Adopt legislation to simplify administrative procedures for renovation; (iii) Modify property taxation with a view to level incentives for renting versus acquiring housing.

Justice Reform

The objective of this reform is to improve the functioning of the judicial system, which is essential for the proper and fair functioning of the economy, through: ensuring effective and timely enforcement of contracts and competition rules; increasing efficiency by restructuring the court system, and adopting new court management models; reducing slowness of the system by eliminating backlog of courts cases and by facilitating out-of-court settlement mechanisms.

Competition and sector regulators

The government must eliminate "golden shares" and all other special rights established by law or in the statutes of publicly quoted companies that give special rights to the state by end-July 2011. It will take measures to improve the speed and effectiveness of competition rules' enforcement, establishing a specialised court in the context of the reforms of the judicial system, by March 2012, and proposing a revision of the competition law, making it as autonomous as possible from the Administrative Law and the Penal Procedural Law and more harmonized with the European Union competition legal framework, by December 2011, and ensuring that the Portuguese Competition Authority has sufficient and stable financial means to guarantee its effective and sustained operation through all the period;

Public procurement

The government will modify the national public procurement legal framework and improve award practices to ensure a more transparent and competitive business environment and improve efficiency of public spending.

Implementation of the Program

The Troika Memorandum is a complete government program. It was sign by PS (member of European Socialists), PSD and PP (both members of EPP), representing 85% of the political spectrum. As the Socialists lost the elections in June 2011, PSD invited PP for a majority government and both have been implementing the program ever since.

A usual trick for European governments in the last decades has been to blame Brussels for the bad news while taking credits for the good ones. The same can be said about the Troika Memorandum, but with some caveats: PS has been distancing itself from the document it signed as government, claiming the current government has been out-troiking Troika, while the government has been claiming that it has surpassed Troika deficit requirements while respecting its social role (and avoiding some difficult sells, like privatizations).

What has been done so far

On June 30th 2011, the government created a special tax that would fall on 50% of the 2011 Christmas Salary (the "13th month") above the national minimum wage of € 485 (50% on €515, if for example your salary was 1000, or 50% on 1015, if it was 1500) – contradicting a major campaign promise, but expecting a €1,025 million extra income. Later the government added that in 2012 and 2013 civil servants would not receive a Christmas ("13th month") or Vacation ("14th month") salaries. Early in 2012 the government added that after 2014 – from 2015 to 2017 – those salaries will return to their previous, higher levels, at the rate of 25% each year, thus reaching 100% only in 2018. Also, the compensation of civil servants' extra hours will be halved in 2012 and 2013. To be fair, private employees will have to work an extra half-hour every day during the same timeframe, an increase on the working week without any sort of compensation.

On July 5th, after several years of battling with the European Commission on the matter, the government finally gave up its golden shares – special shares that gave the government a disproportionate and controlling role in privatised companies – in EDP, Galp and PT. Also, privatisations have started but at a rate slower than expected. China Three Gorges bought the 21.35% the state still owned in EDP paying € 2,700 million. The Cahora Bassa Dam in Mozambique was finally completely sold – a process that should have ended in 1975 –, those remaining 15% brought € 77 million in state revenue. REN is still state-controlled, but the sell of the first

40% earns the State some € 600 million. Vitor Gaspar, when visiting the London School of Economics in February, announced his plan to sell the Portuguese Air Company (TAP), the Airport Company (ANA) and Railroad Freight Branch Company (CP Carga) in the first half of 2012 and the Radio and Television group (RTP), the Caixa Insurance division, the Mail (CTT) and the Water (Águas de Portugal) companies in the second half. The left strongly objects all those privatisations.
The government reduced severance payments from 30 to 20 days per year of tenure on July 5th 2011. In 2012 that payment will be reduced to 6-to-13 days, pursuant to the text of the memorandum, as that is the median in the European Union.
On August 12th 2011, Vitor Gaspar announced a VAT hike on natural gas and electricity, from the lowest bracket (6%) to the normal bracket (23%). The Education Minister has already closed 266 schools that had less than 21 students (out of 654 in those conditions, due to political negotiations with the respective mayors), continuing a practice started by previous governments. All state universities remain open, but their budget was cut by 8.5%.
Public transportation companies, whose huge debt is a serious concern, were told to raise by 15% their tickets' prices on July 21st. Early in 2012, group discounts were reduced from 50% to 25%, although a new special group – roughly 600.000 persons obviously in a very poor economic situation -- was created.
Government has cut managerial positions across the board, from hospitals to state institutes; the cuts being in some cases as high as 30%.
Notwithstanding those drastic measures, the government remains popular and the Troika Memorandum is still viewed by many as the best political program of Portuguese Second Republic. If the government is coherent and remains faithful to its commitment – not being strong with the weak and weak with the strong as governments usually are – the Troika's intervention should be over before the next election in 2015.

Among urgent concerns

Madeira had a reported debt of € 6,328 million (123% of GDP, 927% of tax revenues), but in 2012 an unreported debt of around € 2,000 million have been found, mostly in unpaid expenses to construction companies. 2010 deficit was reported being at € 1,190 million (23% of GDP) on September 2011. Jardim, the ruler of the region since 1978, has won in October 2011 with only 48.56% of the vote (down from 64,20%) and a clear mandate to reign in the deficit.

New Private-Public Partnerships have been halted and a commission to investigate the current ones have been established (see above). € 160 million have been saved in some minor deals, but the price tag of the ones already signed was recalculated and, according to an April 2011 study, will cost € 59,600 million in the next 40 years. For 2011 only, the cost passed the € 2,000 million mark, representing an expense 18% over budget.
State Owned Enterprises (SOEs), especially in the transportation sector (rail, air and urban) continue to be a major concern. They will need € 2,500 million in 2012 and in the 1st quarter of 2012 a third of that amount has already been spent.
The Laffer's Curve effect seems to have been penalizing Portuguese tax collection. After raising several taxes in 2011 and still some more in 2012, VAT collection – which account for 41% of Tax Revenues - felt 3,2% in the first quarter. Also, Social Security saw its contributions decrease by 2.5% while its expenses were soaring 3.8%, more than estimated in the budget for the first quarter. Following this trend, these two items combined will result in a € 838 million shortfall, or almost a 0.5% hike in the deficit-to-GDP ratio.

Final Remarks

Unemployment has reached 15%, the highest ever recorded and an appalling number considering the low minimum wage of the country – when compared with its southern European neighbours – that traditionally guaranteed Portugal a low unemployment figure (such as the 4.3% reached in 2001). Emigration has been surprisingly high – the highest since the 1960s, when people ran from the prospect of fighting in a lost colonial war – and has achieved 150.000 in 2011, or around 1.5% of the population. This emigration is even more problematic because the youth that is voting with their feet against the current "acquired rights status quo" are the best of the "best prepared generation ever".

On Economic Growth, the Bank of Portugal forecasted – as late as March 2012 – that GDP –will fall by 3.4% in 2012, mainly due to purchasing power deterioration. It has already felt by 1,6% in 2011 and is forecasted to be just maintained (0.0%) in 2013.

On a positive note, the trade balance, in deficit since 1995, will reach a surplus in 2012, due to a boost in exports and a decrease in imports. Also, the financial deficit will improve from -5,2% of GDP in 2011 to -0,4% in

2013. The banking sector is also de-leveraging quickly (tier 1 raised from 6% to 10.5% in most important banks) and the country's debt as a whole is now only € 371,489 million (as of December 2011), down from over 400,000 some quarters ago, and to be compared with a GDP of € 171,112 million in 2011.

Austerity means less spending and less borrowing. With the current government and Troika's assistance, Portugal is correcting its pass excesses following exactly that recipe.

Romania

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After a year of high fiscal uncertainty, Romanian authorities offered to taxpayers a relative fiscal stability in 2011. Fiscal Code was amended 14 times in 2010 but only 5 times in 2011. The main tax rates remained constant: Personal and corporate income tax (16%), social contributions (between 44.5% and 55.7%, depending on work conditions) and VAT (24%, increased in 2010 from 19%). The best fiscal change could be considered either the reintroduction of the option between 16% corporate income tax and 3% turnover tax for micro-enterprises or the introduction of a single reporting form for income tax and social security contributions.
Because 2012 is an electoral year (local and parliamentary elections, followed by presidential elections in 2013), uncertainty will be the major problem in taxation. A new government (supported by the same political majority), established mid February 2012, announced the introduction of a wealth tax, included in IMF agreement since 2010. However, details and deadlines are not yet clear. Another recurrent promise – the reduction of social contribution rates – is contingent on unspecified economic conditions.

Taxes

Personal Income Tax

Romanian flat tax survived another year at the same level it has been since its first implementation in 2005: 16%. This performance is noticeable in the economic and political Romanian environment. Direct attacks on flat-tax principle (especially from Social-Democratic Party and related "independent analysts") dropped in intensity but they were replaced by an indirect threat. The political program of the Social-Liberal Union (a political alliance between the SDP and the National-Liberal Party, potential winner of 2012 legislative elections) proposes the introduction of two supplementary brackets (8% and 12%) for lower incomes (around minimum wage and, respectively, average wage).

The tax base includes most individual incomes: salary, dividends, interests earned from deposits in Romanian banks and other savings instruments, capital gains, prizes, income from the renting of real estate and from real estate transactions, etc. Even pensions over a certain amount (1000 Lei, about € 236) are taxed at 16%. Under certain conditions, employees working in software design can be exempted from personal income tax. This is rather surprising considering that this industry pays salaries (much) above average. Romanians are taxed on their worldwide income, except for salaries from abroad that remunerate activities performed abroad.

Social contributions (including those to the second pillar pension system and, up to 400 euro/year, to the third pillar pension system) are fiscally deductible.

Personal allowances are applicable only for salaries according to the formula presented in 2009 edition of IREF report and remained unchanged in 2011. They decrease gradually (down to 0) with the gross salary and increase with the number of "dependable persons" (children and/or adult persons with very low income taken in charge by the taxpayer). This means that Romanian personal income tax is flat only relative to the taxable income and not relative to the gross income.

Specific fiscal deductions exist for incomes other than salaries. For example, a 25% expense allowance applies to personal income from rents.

Gambling income is taxed at 25% of the net income, which represents income over 600 Lei (€ 142) per day, paid by the same entity.

Corporate Income Tax

Another achievement of fiscal authorities is the stability of corporate income tax rate at 16% for the 6th consecutive year. This rate concerns undistributed profits. As mentioned earlier, dividends paid to individual stockholders are included in personal income and taxed at 16%. Under certain conditions, dividends paid to another EU company are exempted from this supplementary taxation.

Tax base was increased in 2010 by explicitly declaring some expenses as not fiscally deductible, like car fuel, for example. These restrictions, supposed to be temporary, were maintained in 2011.

Since January 2011, there is an exemption from standard withholding tax (16%) on interest and royalties paid to non-resident entities if the beneficiary is EU or EEA member and holds at least 25% of taxpayer's shares for 2 years or more.

Capital gains are taxed at 16%.

Micro-enterprises (less than 9 employees and a turnover below € 10,0000) have again the option between the general rule of 16% corporate income tax and a 3% tax on turnover. This facility was introduced in 2001 but it was suppressed for the fiscal year 2010 because it was extensively used as a tax avoidance device for employees' social contributions. Its reintroduction became official on December 30th, 2010 and applicable starting January 1st, 2011…

There is still no consolidation or group taxation in Romania, which means that every entity must submit individual tax returns and that it is not possible to compensate profit and losses between group members. However, losses can be carried forward up to seven consecutive years.

Value Added Tax

After a sharp increase in 2010, from 19% to 24%, fiscal authorities decided to maintain unchanged the standard rate, close to the maximum level allowed by European regulations. The reduced rates (9% or 5%) remained the same and they are applicable for a short list of products. There are permanent calls to enlarge this list and/or to diminish the reduced rates, but without any effect in 2011.

Romanian VAT rules are fully harmonized with relevant EU Directives (112/2006 and 8/2008).

There are also two reduced rates and a limited list of exemptions. The highest one (9%) concerns cultural services, books, newspapers, medicines, hotel accommodation, dental and medical services. The lower rate (5%) was introduced in 2009 and maintained in 2010 for new houses and apartments, as a social and anti-crisis policy.

Excises

Excises level is set in Euros and their payment is in Lei, at the exchange rate calculated by the National Bank of Romania in the first working day of October 2010. The exchange rate diminished slightly (-0.08%), but excises levels increased at much higher rates. "Harmonized excises" on energy, tobacco and alcohol are still inferior to EU minima levels, but the difference is supposed to be reduced in future years, according to accession treaty.

Concerning "un-harmonized excises", the bad news for Romanian coffee drinkers is that the excise on this product (introduced for the first time in 1998) was maintained for 2011 and 2012, despite the fact that it was supposed to be abolished since 2010.

Social contributions

Romanian legislation maintains the conventional but flawed distinction between employer's and employee's social contribution. Table 1 outlines the recent evolution of social contribution rates. The reduction in social security contributions represents a permanent proposal of business associations and some opposition leaders. No significant modification is expected for the first quarter or half of 2012. However, according to government officials, a reduction in social security contributions could be possible, but contingent on economy's growth.

There were no significant changes in tax base, which remains the gross wage and all "dependent work"-related income, which means all income earned under contracts that Fiscal Code considers actually employee-employer contracts. The purpose of this provision is to close previous loopholes used to avoid social security contributions.

Table 1. Social security contribution

Type of contribution	Fiscal liability	2009*** Febr.-Dec	2010	2011 January	2011 Febr.-Dec.
Pension*	Employee**	10.5 (2%)	10.5 (2.5%)	10.5 (3%)	10.5 (3%)
	Employer	20.8 25.8 30.8	20.8 25.8 30.8	20.8 25.8 30.8	20.8 25.8 30.8
Health	Employee	5.5	5.5	5.5	5.5
	Employer	5.2	5.2	5.2	5.2
Unemployment	Employee	0.5	0.5	0.5	0.5
	Employer	0.5	0.5	0.5	0.5
Risk and accidents	Employer	0.15-0.85	0.15-0.85	0.15-0.85	0.15-0.85
Labor inspection	Employer	0.25-0.75	0.25-0.75	0.25-0.75	0
Salaries' guarantee fund	Employer	0.25	0.25	0.25	0.25
Sick leave and indemnities	Employer	0.85	0.85	0.85	0.85
Total**		49.75-53.75 54.75-58.75 59.75-63.75	44.50-45.70 49.50-50.70 54.50-55.70.	44.50-45.70 49.50-50.70 54.50-55.70	44.50-45.70 49.50-50.70 54.50-55.70

(*)Employer's contributions are for "normal", "uncommon" and, respectively, "special" conditions of work.
(**)Since 2008, employee's pension contribution (9.5% or 10.5%) is split between the first pillar ("pay-as-you-go", public) and the second pillar (capitalization, privately administrated) of the pension system. The value in brackets represents the contribution to the second pillar in the case of eligible employees.
(**)The tax base differs slightly from some contributions and changed over time, but in most cases, it is gross salaries (payroll) or very close to it. Therefore, the total is not always rigorously precise but represents a useful approximation. Source: Romanian legislation
(***)On 2nd February 2009, government announced an increase – effective immediately – in pension contributions from 27.5% in December to 31.3% (10.5% employees' contribution to 1st and 2nd pillar + 20.8% employers' contribution). Government limited the contribution to the second pillar at 2%, although it was scheduled to increase at 2.5% in 2009, according to Pensions' law.

Social contributions are caped at a level calculated at the equivalent of five times gross salary. In 2011, the average gross salary was 2022 Lei, about € 477 per month. Therefore, above this level, social contributions are regressive.

The gap between the high level of social security contributions and the low level of benefits explains the efforts made by employees and employers to avoid them, using legal loopholes as well as "less legal" methods (e. g.: Minimum wage official contract combined with unrecorded cash payments). Fiscal authorities attempts to close loopholes are responsible in part for regulatory instability.

For eligible employees, the 10.5% employee's mandatory contribution to the pension system is split between the public pension funds (first pillar, "pay-as-you go", 7.5%) and the privately owned and administered pension funds (second pillar, capitalization, 3%). This transfer of contributions from first pillar to second pillar is supposed to increase by 0.5%, up to a contribution of 6% to the second pillar in 2016. Romanian authorities blocked in 2009 the scheduled increase, therefore the current level is still 0.5% less than the level established by the private pensions law of 2008. For 2012, contribution to the second pillar will grow to reach 3.5%, but only after March.

Local taxes

Transfers from state budget represent the main source of local budgets. They are calculated as a percentage of VAT, corporate and personal income tax collected from taxpayers at the local level. These "entitlements" established by law can be supplemented with further transfers. The official criteria are inspired by the desire to redistribute wealth toward poorer municipalities/counties and/or to finance the national strategy of development. However, all governments were accused of being biased towards municipalities run by mayors from their own political party.

Taxes on real estate (land and buildings) and motor vehicles are another source of financing for local budgets. Their levels vary with companies and individual taxpayers. Real estate tax is on taxable value, which in turn depends largely on building structure, locality and zone rankings.

Individuals pay 0.1% of building's fiscal value. The tax is higher if the buildings is not the main residence. Since July 1st, 2010, owners of more than one building had their "normal" real estate tax increased for the first (65%), second (150%), third and more (300%) houses (apartments, buildings), aside their main residence. This progressivity in real estate tax existed before, but percentages were significantly increased from their previous levels (15%, 50%, 75% and 100% for each supplementary house/building). The 2010 increases were supposed to be temporary but government coalition decided to maintain them for 2012. The progressivity in real estate tax can be considered a "wealth tax surrogate" and was not challenged by any major political party. It was not yet established if the progressivity in real estate taxation will be eliminated after the introduction of an explicit wealth tax. This wealth tax is required by the stand-by agreement between IMF and Romania and was delayed since 2010. New government reiterated mid-February 2012 the promise to honor this commitment, but without any further details.

Companies pay a tax between 0.25% and 1.25% of the entry value of the building, if the evaluation is less than three years old. Absent a recent revaluation, local authorities can decide an increase of the tax value of 5 to 10% (even 20% in 2012, or 40%, if the last evaluation is more than 5 years old).

Quasi-taxes and other administrative fiscal burden

Romanian taxpayers, especially businesses and individual entrepreneurs, are facing very high non-monetary fiscal burden that take various forms. According to an economic newspaper, there are over 95000 laws and regulations in Romania. In 2011, Monitorul Oficial (the official gazette) had 938 issues. The instability, ambiguity and incoherencies generate incalculable costs and are responsible for the transformation of the Constitutional Court in "the third chamber" of the Romanian Parliament.

* Fiscal instability. At the very end of 2010, Government modified more than 100 articles of the Fiscal code. The complementary regulation ("norme de aplicare") were elaborated and published only mid-February 2011… In 2011, Fiscal Code was amended five times. This represents an obvious improvement compared to 14 modifications in 2010. The figures refer to the number of Laws and Government Ordinances that amended the Fiscal Code. If we take into account other relevant pieces of regulation, the improvement is less impressive: 26 changes in 2011, compared to 27 in 2010. Of course, all these modifications ignored the spirit of article 4 of the Fiscal Code, which stipulates that changes are made "usually" only by law (and not by Government Ordinance) and at least six months in advance before their enforcement.

* Fiscal ambiguity. Regulation is not always formulated in a way that protects taxpayers against authorities' arbitrariness;

* Compliance costs: high frequency of reporting and payments, despite the elimination or regrouping of some taxes and forms. Progresses made in e-governance have not eliminated direct (physical) interaction with authorities.

In 2011, some steps were made towards a reduction of the quasi-fiscal taxation and administrative burden.
After five years, businesses can submit a single form for social contribu-

tions and income tax. Moreover, any company can submit this form online. The fiscal authorities presented this as a major achievement, but the impact on taxpayers remains limited. The main explanation is that the cost of digital certificates represents a significant burden for small companies and it does not eliminate direct, physical interactions with fiscal authorities.

The certification of annual tax returns by a "fiscal consultant" (a closed profession) was suspended for most businesses in 2011, but will be mandatory after January 1st 2013. It is still mandatory for companies required by law to audit their financial statements.
SME with 2010 turnover below € 35,000 can use a simplified accounting and reporting system. The signature of a chartered accountant (another closed profession) is no longer necessary; a simple college degree in economics/accountability is enough. The accountant can be hired under the provisions of the Civil Code and not necessarily under a regular labor contract (highly taxed and regulated). These companies can also opt for the statute of "non-payer" of VAT, which allows them to avoid a significant administrative burden.

Garda Financiara ("Financial Guard"), often accused of abuses and misconduct, had its powers reduced concerning minor offenses in accounting and reporting.

Despite the multiplicity of taxes and authorities' public commitment to reduce them, new taxes and new reporting requirements were enforced in 2011. For example, since October 1st 2011, drugs suppliers are submitted to a special "contribution" calculated as a percentage (to be announced each quarter) of reimbursed drugs. A group of Senators, members of the political majority, proposed in February 2011 a 2.5% "solidarity tax" on banks' profits, but without any consequence except an increase in fiscal uncertainty.

Although wealth taxation (required by IMF agreements) was not yet enforced, the "rich" were a recurrent target in public discourse and legislation. Fiscal inspectors were granted extended powers to check the correlation between assets and taxable income, especially for wealthy people. Inspectors will have an easier access to bank accounts and other databases in order to establish a "personal fiscal status" and to detect any significant change in that status. If the difference between "personal fiscal status" and reported income is higher than 10% and represents more than 50,000 Lei (€ 11,798), the verification continues in order to establish precisely the amount to be taxed at 16%. This significant change was adopted by an Emergency Ordinance at the end of 2010. Its impact is not yet known.

For the last two decades, agriculture has been considered as under-taxed, especially when compared to other economic sectors. There are electoral and economic reasons for this situation. Rural population represents a significant and active part of the electorate. The fragmentation of agricultural land, uncertainty in property rights on land, a high part of production that avoids "official" markets etc. are some factors that explain why a broader taxation of agricultural sector could fail the cost-benefit analysis, in fiscal authorities' opinion. End 2011, a debate concerning taxation of agricultural income (by increasing the tax base) had little practical effects, besides usual fiscal uncertainty. However, some steps were taken towards a "better" taxation of agricultural incomes. For example, the income corresponding to land lease will be calculated (16%), withhold and paid by the land tenant (usually a registered company). Previously, landowner was supposed to mention this income in his annual tax form.

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Slovakia

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Tax environment in Slovakia remained rather stable, the 8,6% growth of government tax revenues was mostly based on economic growth. Most significant change was increased VAT rate by 1% to 20%, few other changes regarding mostly tax base did not have substantial impact on total government revenues. New tax on profit from sold free emission quotas has been introduced at rate 80%; data on collection is not available yet. The parliament had also legislated new bank tax, which should be enforced first in 2012. Planned contributions reform has not been approved. The parliament approved a constitutional act limiting the debt to 60% GDP for the next ten years and 50% from then on. In 2012, more significant changes in taxation policy are expected.
Figure of the year: It took three years and increased tax rates to reach pre-crisis nominal level of the tax revenues of the general government.

General environment in 2011

Recovery measured by GDP growth continued in 2011 by 3.1% in real terms. It took almost three years to reach the nominal level of the record high pre-crises year 2008, the growth was export driven, resulting from an increased industrial production. Despite some uptake in number of employed persons, unemployment rate reaching 14% signals that the recovery is based on productivity gains. Net investment remains low. Tax revenues reached 8.6% annual growth, helping government significantly to decrease its deficit to 4.9% GDP from previous 8.1%. The actual deficit in 2011had been lower by 0.9%, but government was forced to finance the debts of several state agencies that occurred in previous fiscal years but was not officially recorded. Despite substantial decrease, public deficit remains huge, equaling to almost 20% of total tax revenues. In other words, should the budget be balanced by higher income taxes, the rates would need to double. This calculation is symptomatic for small and open economies, were export oriented production plays the tune (value of export at 80% of GDP). Such a production generates only little taxes (as exports are not subject to VAT). At the same time, export industries in Slovakia are weak employers, as high contributions burden on labor and no dividend tax favor huge capital and technology investments at the expense of hiring. Therefore, the ratio of taxable income to GDP is very low, and any comparison of deficit spending with GDP provides inaccurate measure and gives better than real picture. It can be illustrated also with the growth of public debt. An increase from 28% of GDP to 44% of GDP between 2008-2011 may not look like a disaster, but in nominal terms, the size of debt measured by annual total tax revenues doubled.

Nevertheless, despite higher inflation and indexation of most of the state benefits paid, the amount of total public expenditures remained about the same in 2011, which provides an evidence of real consolidation effort and prioritization of expenditures.

The most important changes in budgeting policy were focused at improving the transparency and efficiency of public procurement including e-auctions and on-line availability of all government contracts. Despite holding completely diverging views on the role of the government in an economy, members of the parliament approved the constitutional law limiting the public debt. The so called "debt brake" was hence set to 60% of GDP (should drop to 50% in 10 years), with obligatory measures that government has to adopt whenever the debt reaches the level of 50% GDP (40% later). Shall the debt reach 57%, the government must ask the parliament for a confidence vote. New law also introduces a Fiscal council, an independent body that should officially measure long-term fiscal sustainability of public sector. Based on this calculation, the budgeting process should introduce a concept of limits on total public spending for the following 3 fiscal years, aimed at reaching long-term sustainable level.
Other consolidation measures taken in 2011 cannot be considered as structural and especially pensions, health and education sectors remain the areas of ineffective or too expensive public spending. Broad reform of contributions system has not been finally approved by parliament.

Discussions on Slovak participation in euro zone (Greece) rescue and stabilization mechanisms were the hottest topic in late summer and autumn 2011. The disagreement within the ruling coalition over increased funding of European Financial Stability Fund resulted in October into loss of confidence for the government. At the end, Slovak parliament approved requested increase with the help of opposition vote. The price for the vote

has been and will be high, not only due to potentially higher costs of rescue mechanisms (at the moment, total guarantees issued estimated at €1851 per capita). In the March 2012 elections, ruling coalition lost its power and will be substituted by a new government, known for huge increase of public spending in the 2006-2010 period, with little interest in continuing the reform process especially of judiciary and with an intention to increase tax revenues.
The 2012 budget has been adopted only thanks to an agreement with parliamentary opposition. As a result, little consolidation effort is planned in 2012, leading to the same deficit as in 2011.

Taxation 2011

Strong growth of total tax revenues, resulting in 8.6% annual increase in feed of government coffers was driven mainly by higher tax revenues; social and health contributions generated one third of the growth. This growth, exceeding 2% of GDP, occurred despite few changes in taxation. The level of taxation remains stable over last four years, total tax revenues of general government being at 26% of GDP.

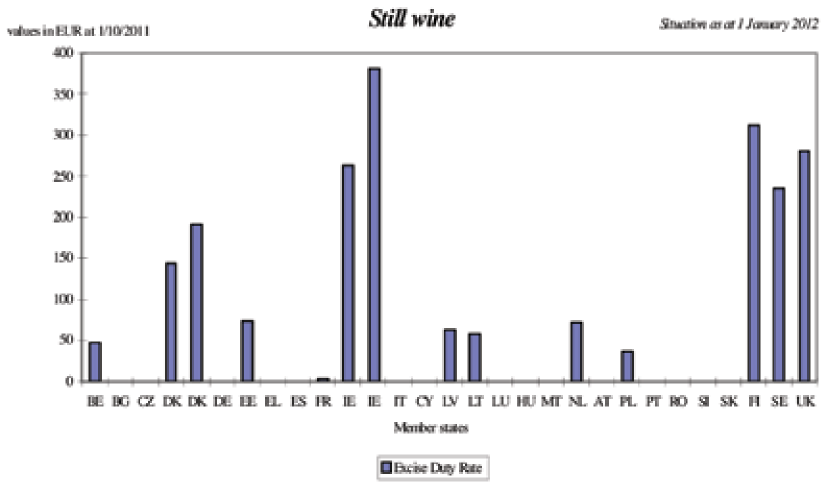
There were no changes in income tax rates in 2011. 19% tax rate is still applied to both corporate (CIT) and personal income tax (PIT). 15% annual growth in PIT revenues did not result from wage or employment increase, but from switching off crises-measures adopted in 2009, which had temporarily increased the per capita income tax deductible. Effective tax rate of PIT remains low, at 8.1% of gross salary. CIT effective rate, measured as a share of GDP, did not exceed 2.6%.

Due to the combination of a 1% increase of VAT rate (now at 20%) which had been adopted as a temporary measure that should be automatically turned off as soon as public deficit drops below 3% of GDP, with the one-off VAT payment by government agency linked to a PPP construction project, revenues from this tax increased by 11%. Nevertheless, discounting these two special measures, VAT collection rather stagnated, as domestic demand measured by retail sales is falling since 2008.

Besides the above-mentioned measures, there were several rather small changes both in direct and indirect changes, leading either to broader tax base, or higher rates (tobacco).

Wine Tax

Still wine tax is a deal breaker for most of European parliaments in countries where wine is produced. From traditional wine producers, only France levies the tax. –



Source: European Commission http://ec.europa.eu/taxation_customs/resources/documents/taxation/excise_duties/alcoholic_beverages/rates/excise_duties-part_i_alcohol_en.pdf

The new law on alcohol tax defines the tax rate on per alcohol content basis at rate € 1080 for 100 liters of 100% ethanol. But the Slovak parliament was not willing to establish the level playing field for all producers of alcohol drinks, and by establishing special coefficient, the differentiation continues. As an illustration, the 0.5l beer is taxed by 5 cents and there is still no tax on still wine. Meanwhile, the parliament approved the taxation of wine made out of fruits (e.g. apples) at rate € 1.3 per liter,. However, due to strong pressure from a single large producer and one large importer, the tax rate has been zeroed, as Slovakia would have been the only EU country to have different rates for products with same alcohol content.

The original proposal of the law included a wine tax. Ministry of finance supported its proposal with an analytical papers arguing mostly that any kind of alcohol creates negative externalities (consumers don't take into account all the consequences of their consumption). Another argument in favor of taxing wine is that a zero tax of still wine represents a tax subsidy for foreign production, as most of the wine consumed in Slovakia is imported. Interestingly, what that debate illustrates once more is that the concept of externality is a stick that governments like to use when a new tax is politically preferred, but thrown away when, for instance, all beverages should be taxes equally. Negative externalities, as one of the justification for any excise tax, is also immediately forgotten when it comes to linking the excise tax revenues to a specific purpose – like using the proceeds from the tax on tobacco to cover research on lung cancer or on tobacco substitutes. All consumption taxes in Slovakia are considered as general revenue of government, with no specific use.

Changes in taxation in 2012

No significant changes in direct or indirect taxation have been adopted yet. The reform of contributions' system, which supposed to establish so called "supergross" wage merging the contributions of employee and employer into one payment, had not been adopted by the parliament, as the government lost the support of parliament just few days before the vote on the reform. The reform pack would not only make the financial relation between citizen and government more transparent, but also includes necessary changes in pensions system with automatic mechanisms to reflect aging and financial wealth of working population.

Nevertheless, two new tax payments have been legislated – the tax on balance sheet items of financial institutions (banks) and the tax on free CO2 emission quotas. As industrial production in Slovakia collapsed after 1991, the current emissions are far below the 1990 benchmark, which is used for distribution of emission quotas. Therefore, existing emitters receive free surplus quotas that they sell on the market. Government decided to impose 80% tax on these so called "unearned" profits. Nevertheless, this special tax has been disputed by emitters as well as European Commission, final word has not been given yet.

Bank tax

No bank in Slovakia had to be rescued or supported during the last financial crisis. The banking sector had been already expensively restructured at the beginning of millennia, costing around 10% of GDP. Slovak banks are mainly depository and lending institutions, with only limited investment activities. Main retail banks are moneymaking machines for their foreign owners (banks). Despite the absence of any signs that the financial health is worsening, the government decided to impose a special "bank payment", which will be cumulated and serve as a reserve to cover the costs of eventual rescue of the sector. The bank tax rate, at 0.4%, will be charged to the bank on uninsured liabilities (liabilities minus own equity and insured deposits). According to Slovak banking association, the tax rate is the highest among countries with similar tax base. It will effectively increase the CIT rate of banks from 19% to almost 30%.

In reality, the true motivation for this new tax-like payment might have little to do with a life belt to rescue banks. Although it is supposed to be a reserve, it is likely that Eurostat will treat those payments as government revenue therefore decreasing the public deficit. Many, including the ECB, disputed this approach saying it will open the risk of moral hazard to use these sources for other purposes. Minister of Finance, having no substantial arguments, finally admitted that, hadn't we imposed these payments, the liabilities of Slovakian subsidiaries of foreign banks would have been taxed by countries of residence of their owners. The winner of March 2012 elections already announced almost that he will double the rate to 0.7% which proves that banks remains an easy target for public opinion.

Next years will show if this quasi-tax will substantially effect the lending behavior of banks. It can be also expected, that owners of the banks will require higher margins on invested equity, moving the effective tax load on individual clients.

Expected changes in taxation 2012

The outcome of elections in March 2012 brought the dominance of one party that controls the majority in parliament. The composition of the government and its action plan have not been published yet, but according to the latest news and the political program of ruling party, some significant changes in taxation have already been indicated:

* 25% PIT rate for annual income over €33 000
* 22% CIT rate for profits over €30 000 000
* Bank payment rate to be increased from 0.4 to 0.7%
* New taxes on expensive Real Estate
* Dividend tax paid by individuals 5%
* Increased taxes on alcohol, tobacco, hazard games

The winner of elections already indicated its positive stance to Tobin tax, without no specific details.

Sweden

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Since Sweden was hit by a financial crisis in the 1990s a surplus target for the budget was introduced. The financial savings of the consolidated public sector shall on average be equal to 1 percent of GDP over a business cycle. Sweden also has an expenditure ceiling and a requirement on local governments to have balanced budgets. The result is that Sweden in 2011 had a budget surplus of 1.2 percent and the public debt was as low as 31 percent of GDP. In 2011 politicians have been looking for reforms with a possibility to create more jobs for younger people (youth unemployment is above 20%). High wages for younger people and a strict regulation of the labor market are probably the main sources of the problem. In 2011 the government decided to reduce the VAT on restaurants and catering services from 25 to 12 percent. It was the only politically feasible tax reform in 2011.

No more tax reforms

The Swedish centre-right government with its Prime Minister Fredrik Reinfeldt stayed in place after the election in 2010 but lost its majority in the parliament. The new minority government is now depending on support from the opposition parties for its proposals. During its first period 2006 to 2010, the centre-right government introduced major tax reductions. Total taxes, as percentage of GDP, were decreased from 48.8 to 45.2. Sweden introduced a system with earned income tax credits, which reduced taxes substantially for those with lower income. The new political situation means that there is little room for new tax reforms. The government dropped a proposal for further steps with earned income tax credits. All plans for further major tax reform seems to be stopped until next election in 2014. Although Sweden might have fiscal space for more tax reforms, this government has made fiscal stability the overarching policy. Tax reforms during 2006 to 2010 with lower tax rates actually increased tax revenues. The real reason for the cease in tax reforms is that the centre-right government lacks support for further reforms in parliament.

Few new ideas on tax policy

Tax policy was a major subject during the election campaigns in 2010. The earned income tax credit, or in-work tax credit, as the government preferred to call it, was the most important political tool for the government during 2006 to 2010. Now that the political situation makes it impossible to use this tool further, this government has few new ideas on tax policy.

The high youth unemployment is perhaps the most forceful political issue in Sweden. Sweden has traditionally had low unemployment rates. Since the financial crisis the rate for youth unemployment has remained high and Sweden today has a higher youth unemployment rate than the average in the EU. In February 2012 as many as 25.2 percent of all Swedes in age 15-24 were unemployed.

Politicians have been looking for reforms with a possibility to create more jobs for younger people. High wages for younger people and a strict regulation of the labor market are probably the main sources of the problem. In 2011 the government decided to reduce the VAT on restaurants and catering services from 25 to 12 percent. This reform had been marketed as a reform for more jobs for younger people, but perhaps most important, this reform also had support from one of the opposition parties in parliament, the green party. It was the only possible tax reform in 2011.

Sweden still has the highest marginal tax rate on income. Reduced income tax, through earned income tax credits, has not affected the high marginal tax rate. Including taxes on income paid by employers, the top marginal tax rate in Sweden is 70 percent. This is of course a severe problem for business. The leading party in the government, the moderate party, has made it a political issue, not to reduce the top marginal tax rate. This tax rate has been designated as an important tax on rich people.

To ease the problem for business with the extremely high marginal tax rates on personal income the government improved the special tax break for international experts. Before it was necessary to prove the need for an international expert. In the new rule the level of payment (SEK 88000, € 9900) is proof enough to ensure that an expert is entitled to this tax break.

For business the perhaps most important policy change was the elimination of double VAT on web applications sold through e.g. Apple iTunes Store. The Swedish National Tax Agency perceived Apple iTunes Store as an end-customer. This forced Swedish companies selling web applications through Apple iTunes Store to pay full VAT in Sweden. Customers to Apple iTtunes Store in other member states in the EU then had to pay full VAT on the application. The result was double VAT on Swedish applications for smart phones and iPads. After a long and intensive campaign from the Swedish business organizations, the Swedish National Tax Agency eventually changed their policy. To only have to pay VAT once might be seen as a small victory but this is a good illustration of how the Swedish National Tax Agency acts.

Swedish National Tax Agency has got a more important role in policy shaping. The new director of the Tax Agency, Ingemar Hansson, is a former Secretary of State for the minister of Finance. Mr Ingemar Hansson has a high profile in Swedish debate on tax policy and sometimes it seems like he is more important than the politicians when it comes to decide on tax policy. On television Mr Hansson has said that businesses should show their commitment to the Swedish society by paying more taxes than actually stipulated by law.

In 2010 the government appointed a state committee to look into the taxation of businesses. This committee had to evaluate the corporate tax and the tax level on capital income. Its task was also to find solutions to make it more tax favorable to use equity than debt to finance business investments. The moderate party, which is the biggest party in centre-right government, was pushing towards lower corporate tax. The socialist party is also in favor of lowering corporate tax levels. Both the moderate party and the socialist party consider lower corporate taxes a competitive advantage, which will attract businesses to Sweden. The first proposal from this committee is a deferred tax credit for new businesses. This proposal has been highly criticized and is not likely to be realized.

The perhaps most important aspect of Swedish political debate is the lack of proposals for growth and job creation. Tax reforms could be an important tool for growth but the political situation in Sweden makes it an extremely unlikely scenario before 2014.

High marginal tax rates on personal income

Sweden in 2011 has the highest marginal tax rate in the world. The government has lowered income taxes quite substantially with an earned income tax credit but they have not reduced the marginal tax. The earned income tax credit depends on the total income. It is constructed to give the highest tax credit for lower income levels. The opposition parties in the parliament have proposed changes in the earned income tax credit system, lowering the credit for higher incomes. This proposal would increase the top marginal tax rate even further.

Taxation of personal income starts with local taxes, which are decided on a local level, the local tax rates being set in average at 31.60 percent. For annual income of SEK 401000 (€45,000) and above, working Swedes have to pay state tax set at 20 percent. The top marginal tax level is a state tax of 5 percent. This tax starts at an annual income of SEK 574,300 (€ 64,600) for working citizens. In total this makes the top marginal tax rate 20 plus 5 plus the local tax, which varies from 28.90 to 34.30 percent. Adding social contribution on top of that brings the top marginal tax rate at 70%.

Time for responsibility

In the absence of other reforms the Swedish centre-right government has made fiscal discipline its main focus. Anders Borg, the Minister of finance, named the Swedish budget bill for 2012 ”Time for responsibility”.

Since Sweden was hit by a financial crisis in the 1990s a surplus target for the budget was introduced. The financial savings of the consolidated public sector shall on average be equal to 1 percent of GDP over a business cycle. Sweden also has an expenditure ceiling and a requirement on local governments to have balanced budgets. The result is that Sweden in 2011 had a budget surplus of 1.2 percent and the public debt was as low as 31 percent of GDP. For 2012 the government has substantially increased resources for the Swedish Financial Supervisory Authority and have the intention to raise the capital adequacy requirement for banks, to reduce default risks.

Although Sweden as a nation has a strong economy, Swedish families are exposed to financial uncertainty. A threat within the country is household indebtedness in relation to a cooling housing market. Swedish household debt is growing rapidly and amounts to 161 percent of disposable income, an increase of 55 percentage points since 2000. Installment time for an average family house is now as high as 100 years.

Falling house prizes could quickly challenge the strong Swedish economy and result in a credit crisis. The government has proposed regulating bank lending. On the other hand, some politicians have pointed out tax policy as a way to solve this problem. Today Sweden has a high capital gains tax of 30 percent and interest on loans for houses is also deductible against personal income at 30 percent. This tax regime is stimulating debt and limits savings, especially in a country with high taxes on personal income.

The Swedish tax on financial transactions

In the 1980s Sweden introduced a tax on financial transactions. Most of the stock market moved away from Sweden due to this tax. Swedish politicians still remember how harmful this tax was to the economy and this explains why the support from Sweden for the EU commission's proposal on a FTT was very low. The Minister of Finance, Anders Borg, has claimed that ”A transaction tax would be difficult to accept since it would increase both household borrowing costs as the costs for companies and governments”.

Local courts are challenging the special sanctions for tax crimes

Swedish local courts are challenging the special sanctions for tax crimes. Today the Swedish tax authorities can sentence a taxpayer to pay a penalty tax, usually 20 or 40 percent extra tax. Tax crimes are also a part of the regular judiciary system and the offender can thus also be sentenced with a fine or, in severe cases, to jail. Sweden has twofold punishment for tax crimes. This twofold punishment is not in conformity with judgments by the European court of justice. Recent judgments in Swedish courts have challenged the twofold punishment in the tax system.

The Swedish National Tax Agency has introduced a system with so called “enhanced cooperation” between large companies and the tax authorities. In Sweden, tax authorities have to treat all taxpayers the same. The interest for business to go into this system seems to be limited.

Switzerland

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At the international level, Switzerland's planned agreements with Germany and the UK on a withholding tax for depositors in Swiss banks have caused some political uproar in all countries concerned, and implementation is still contested. Double tax treaties were signed with a number of new countries including the OECD information exchange standards. Internally, Swiss cantons continued to lower taxes, and improvements were made for corporations in federal tax law. New threats have arisen with an initiative to tax inheritance over 2 million Swiss francs, and VAT was raised temporarily from 7.6% to 8% to refinance invalidity insurance.

Withholding tax for German and UK depositors in Swiss-based banks

In order to maintain the confidentiality of international depositors and regularize undeclared funds in Swiss-based banks, Switzerland signed largely identical bilateral agreements with Germany and the United Kingdom last year, yet to be ratified in the parliaments of the respective countries. The currently expected date for entering into force is 1 January 2013. Under the agreements depositors would have two options to regularize untaxed assets held in Switzerland: They could either pay a flat rate one-off sum anonymously, or voluntarily disclose untaxed assets to their national tax authorities (or otherwise close their banking relationship in Switzerland).

With the anonymous payment of the one-off sum the client would have fulfilled his tax obligation for the past. A rate of 19% to 34% of the assets would apply for the one-off payment (the effective rate for clients is expected to be between 20% and 25% of total assets).

For the future the Swiss-based banks would deduct a tax amount annually on an anonymous basis from any income incurred. In Germany the rate would be equivalent to German income tax (current rate is 26.375%). In the UK the tax rates would depend on the kind of income and gains and be slightly lower than the corresponding UK marginal tax rates in order to compensate that a tax at source is levied earlier in time (i.e., interest income would be taxed at 48%, dividend income at 40%, capital gains at 27% and other income at 48%). The deduction of this withholding tax would have the effect of satisfying any tax liability. Alternatively, clients have the option to authorize their bank to report their income to the national tax authorities through the Swiss Federal Tax Administration in order to disclose it in their tax return.

The agreements would allow German and UK resident clients with bank accounts in Switzerland to be fully tax compliant for the past and the future while maintaining their privacy at the same time. They also aim at decriminalizing banks, bank employees and bank clients by means of regularizing of the past. Swiss-based banks have committed to making an advance payment of CHF 2 billion (€ 1.66 billion) to the German government and CHF 500 million (€ 416.17 million) to the UK government (set according to the different business volumes) after the agreements come into effect. These payments will be offset against tax payments made under the withholding tax regime.

These withholding tax agreements have come under fire by opponents of banking confidentiality for preserving the account holders' anonymity (who often stored assets in Switzerland not to escape tax but as a way to protect themselves from inflation, confiscatory taxation or government mismanagement elsewhere). It is believed that overindebted governments will nevertheless ratify them. For the protection of wealth in Europe and the diversity of legal systems, the agreements are bad news and mean a further erosion of individual property rights in Europe.

Avoidance of double taxation

In view of implementing the Swiss Federal Council's decision of 13 March 2009 aligning exchange of information practice in accordance with the OECD standard (Art. 25 of the OECD model convention), Switzerland has (re)negotiated double tax treaties with over 30 states. New or revised double tax treaties are applicable as per 1 January 2011 with Chile, Denmark and Faeroe Islands, Finland, France, Qatar, Luxembourg, Mexico, Norway and the UK, and from 1 January 2012 with Austria, Columbia, Georgia, India, the Netherlands, Poland and Tajikistan.

Apart from adopting the OECD standard on information exchange, the new double tax treaties can typically include further important developments, such as lower or zero withholding taxes on dividend, interest, and royalty payments and/or inclusion of additional entities (e.g. transparent entities, pension funds) for treaty benefits.

In relations with Taiwan, the Swiss Federal Council recognized a private agreement between the Trade Office of Swiss Industries in Taipei and the Taipei Cultural and Economic Delegation in Switzerland as having the effect of a double tax treaty.

Further tax reductions in the cantons

The fiscal and financial sovereignty of the Swiss federated states, the 26 cantons, has been one of the best kept secrets of the relative quality of public governance in Switzerland for decades. In 2011, the cantons continued to improve their tax environment at the margin, thereby responding to tax reductions in neighboring cantons or simply realizing the need for more attractiveness in the case of those that had slept through previous rounds of tax competition.

Canton of Zug

Traditionally one of the pioneer cantons when it comes to tax competition, in recent years Zug had come under pressure by other small jurisdictions in central Switzerland that radically slashed tax rates (in particular Obwalden and more recently, Lucerne). In a referendum, voters in Zug approved some modest improvements last year, which will result in a decrease of the tax burden for corporations as well as for individual residents. These amendments came into force on 1 January 2012. They include a reduction of the corporate income tax rate for the first CHF 100,000 (approx. €83,249) of profits from 4% to 3% and a gradual reduction of the current corporate income tax rate of 6.5% for profits in excess of CHF 100,000 to reach a rate of 5.75% by 2014 (the corporate income tax rate will be 6.25% in 2012, 6% in 2013 and 5.75% from 2014 onwards).

For individuals, Zug, which has one of Switzerland flattest tax system (with very mild progression on higher incomes), simply doubled the annual allowance for both external and home childcare for children up to the age of 14 from CHF 3,300 to CHF 6,000. In addition this allowance is no longer restricted to lower income families but will be given to all families regardless of their level of net income. This increase, together with the annual general child allowance of CHF 12,000, will result in a total allowance of

CHF 18,000. Zug also increased the annual general child allowance for children from the age of 15 from CHF 12,000 to CHF 18,000 (approx. €15,000).

Canton of Nidwalden

Also in central Switzerland, the canton of Nidwalden adopted yet another partial revision of the cantonal tax law that became effective at the beginning of 2011. For corporations, Nidwalden reduced the flat corporate income tax rate from 9% to 6% and the flat capital tax rate from 0.1% to 0.01%. It also abolished the percentage and amount limits relating to research and development expenditure, which are now entirely deductible, and abolished inheritance tax for family business succession as a going concern.

As a special regulatory innovation, Nidwalden introduced a "licence box rule" with a tax relief of 80% last year. With this rule net licensing income resulting from the right to use intellectual property rights is taxed separately at a flat rate of 1.2% for Nidwalden cantonal and communal taxes. The definition of the term licensing income is based on the provisions made for royalties in the OECD model tax convention (according to these guidelines licensing income within related companies, capital gains on the disposal of intellectual property and milestone payments qualify as licensing income). Nidwalden tax law takes into account net income as calculation for the reduced rate: This means that costs directly linked to intellectual property, such as debt financing costs, R&D expenses, administrative costs, taxes, depreciation and sub-licence payments are deductible. Lump sum tax credit is also granted on foreign licensing income under the same conditions. This enhances Nidwalden's attractiveness for Swiss and international licensing companies.

Cantons of Neuchâtel and Jura

An unusual move was made last year by two of least competitive cantons, Neuchâtel and Jura, which both announced corporate tax reforms, and in the case of Jura, a gradual reduction of personal income taxes as well.

Neuchâtel adopted a corporate tax reform whereby the statutory profit tax rate (canton and municipality together) will be gradually halved by 2016. In 2012, the rate is 18% (down from 20% in 2011), 16% in 2013, 14% in 2014, 12% in 2015 and finally 10% from 2016 onwards. Together with the federal tax, the effective rate will be 15.6% instead of 22.2% today.

Among other measures, as from 2011, following the principles of the latest federal corporate tax reform, profit tax will be credited against capital tax. Therefore, companies will not bear any capital tax burden when the profit tax is higher. However, the relatively high capital tax rate of 0.5% will not be reduced, except for holding and domiciliary companies, for which the rate was divided by 100 and will decrease from 0.1% to 0.001%. On the other hand, it is expected that the canton of Neuchâtel will be more restrictive in granting tax holidays for newly settled companies in the future, given the decrease in the profit tax rate.

For its part, the government of the canton of Jura announced last year a comprehensive reform reducing the tax burden by 20% until 2020. Jura currently has a tax burden that is 40% higher than the Swiss average. Its population is older than average and has been stagnating for years, as young people have left to find jobs elsewhere. Yet the cantonal parliament apparently got cold feet and decided to postpone the reform until 2013 due to budgetary uncertainties.

Capital contribution principle

At the federal level, on 1 January 2011 the so-called capital contribution principle came into force. This regulation foresees total exemption from Swiss income and withholding tax of distributions out of capital contribution reserves as repayments to shareholders. Only capital contributions made after 31 December 1996 qualify for the tax exemption. All Swiss companies are in principle affected by the change of regulation; however, companies held by individual shareholders as well as foreign-owned companies can potentially benefit more significantly.

Although the measure significantly alleviates the tax burden for business owners, it has been controversial because of the tax revenue shortfalls, which seem to have been underestimated by the Swiss federal administration. However, calls to revise the rules have been turned down by Parliament in order to preserve legal certainty. In the meantime the measure has allowed corporations to distribute dividends tax-free.

Taxation of employee participation instruments

After many years of stalemate, the Swiss parliament adopted a new federal law on the taxation of employee participation instruments. Although originally designed to boost Switzerland's attractiveness for startup companies usually resorting to this kind of compensation, the new rules have been watered down, as they fell victim to controversies over excessive executive pay. Nevertheless, they provide a legal basis for the taxation of equity-based instruments.

Taxation of employee shares remains unchanged, i.e., shares are taxed at grant whereby a discount of 6% p.a. is granted for blocked shares (up to a maximum of 10 years blocking period). Options are generally subject to taxation at exercise. As the Parliament cancelled a proposed tax discount of 10% for each year of restriction, the full gain realized at exercise is subject to taxation. The cantons have to amend their legislation accordingly.

Popular initiative death tax

The Swiss Evangelical Party, supported by the Social Democrats and labor unions, launched a popular initiative for a 20% tax on inherited or donated assets over CHF 2 million last year. Such a tax currently does not exist at federal level, and it has been abolished in most cantons in particular for direct heirs. Although the 100,000 required signatures are still being gathered and a date for the popular vote has yet to be set (most likely in 2014), the initiative foresees that donations would be taxed retroactively as of 1 January 2012 if the text were to be accepted by both a majority of voters and cantons. This has led to substantial legal uncertainty and to an unprecedented wave of tax-free donations before 31 December 2011, as asset owners gave real estate and other assets to their children. The chances of this initiative being accepted are currently deemed to be slim.

Temporary VAT increase from 7.6% to 8%

As from 1 January 2011, value added tax was raised for a period of seven years from 7.6% to 8% for the main rate, from 2.4% to 2.5% for essential consumption goods such as food, and from 3.6% to 3.8% for the hotel and restaurant sector. A majority of 54.5% of voters had approved this move in 2009 in order to refinance invalidity insurance. This tax increase levies an additional CHF 1.2 billion per year.

United Kingdom

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In June 2010 the newly elected coalition government under David Cameron introduced an emergency budget. Its aim was to reduce the budget deficit to 2% of GDP over the five-year life of the new Parliament. By mid-2011 it was clear that the Government would miss its target. A supplementary budget was therefore introduced in November 2011 representing further consolidation. The coalition Government at least says it is trying to cut expenditure in real terms and is experimenting with cutting some taxes as well – an unusual combination presumably designed to entice the private sector to fill the gap left by the inevitable reduction in public services. For the moment the measures taken (cuts in corporation tax, small reductions in personal tax, small downward adjustments in National Insurance Contributions) seem hardly perceptible, but they may offer some incentive for private initiative to "crawl into" areas left vacant by the reluctantly retreating state sector. This, and the much hoped-for "new technologies", may produce the magical growth numbers – but no one (apart from the OBR) is taking any bets.

The UK is now two years into its five-year fiscal consolidation program. The situation inherited by the elected coalition was dire. The public sector deficit for 2009 had risen to 11% of GDP (the largest peacetime deficit ever recorded), national income had plunged by 5%, causing the gross national debt to rise to almost 80% of GDP (OECD, *Restoring public finances*, Paris, 2011, p. 202). The fear was that the UK would be forced into a sovereign debt crisis, with financial markets withholding refinancing facilities except at exorbitant rates of interest, as had just happened in Ireland and was in the process of developing in Greece.

When the second-highest ranking finance minister occupied the offices vacated by his Labour predecessor after the election in May 2010, there was apparently a note on the empty desk saying: "Sorry. There's no money left. We spent it all."

Last year's *Yearbook* described that June 2010 budget in detail. The fiscal consolidation was planned to take place partly as a result of tax increases, and partly through expenditure cuts. The aim was to cut the deficit over a 5-year period from -10% in 2010-11 to -2% in 2014-15. The net debt/GDP ratio (UK definition of net public debt) was planned to start falling already in 2013-14 as a result of hoped-for growth.

The bulk of the fiscal consolidation was to take the form of expenditure cuts (see Table 1, line 4) the remainder coming from net tax increases. Of these by far the most important and unpopular measure was an increase in the standard VAT rate from a temporary emergency level of 15% (introduced by the Labour government to prop up demand in 2009) to 20% as from January 2011.

Table 1: UK Government's fiscal consolidation program and various indicators

		2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
1	Total accumulated "consolidation" bn£	41	59	82	106	134	155
2	"Consolidation" via tax hikes bn£	18	22	25	27	28	29
3	"Consolidation" via expenditure cuts bn£	23	37	57	79	106	126
4	Consolidation via expenditure cuts %	56	62	69	74	79	81
5	Annual Consolidation as % nominal GDP	0.1	0.1	1.14	1.44	1.8	2.05
6	Public sector borrowing requirement % GDP	8.3	5.8	5.9	4.3	2.8	1.1
7	Public debt (Maastricht definition) % GDP	84.0	89	91.9	92.7	91.4	88.6
8	Total nominal Government expenditure £bn	696	683	720	733	744	756
9	Change in nominal Government exp % pa		-1.9	5.4	1.8	1.5	1.6
10	Change in real Government exp % pa		-3.6	2.9	-0.7	-1	-0.9
11	Government expenditure % GDP	45.8	44.9	45.7	44.4	42.8	41.1
12	Forecast Nominal GNP £bn	1,521	1,576	1,652	1,740	1,839	1,941
13	Forecast Nominal GNP growth % pa	2.9	3.6	4.8	5.3	5.7	5.5
14	GDP deflator % pa	2.2	2.7	2.5	2.5	2.5	2.5
15	Forecast Real GNP growth % pa	0.7	0.9	2.3	2.8	3.2	3

Sources: HM Treasury, 2012 Budget, March 2012 and Office of Budget Responsibility, March 2012,own calculations

This was of course hugely controversial. VAT is by nature regressive, since the poor contribute proportionally more of their income through this tax than the rich. Although the UK VAT system, like most others, attempts to attenuate its regressive nature by exempting many "essentials" for lower income-earners, this does not stop controversy when the standard VAT rate is raised, *while leaving zero-rated items as they were.* Why, people ask, should the rich benefit from VAT tax exemptions designed for the poor? Why indeed – but one cannot have it all ways. There is a good argument in natural justice and administrative simplicity to subject all items to a low rate of VAT, leaving the question of income redistribution to be resolved by other, more transparent means.

It is an indication of the urgency of the 2010 fiscal crisis that the incoming Government dared introduce such a massive increase in this highly unpopular tax (but which accounts for only 16% of all tax receipts – see Table 3 below).

Another interesting feature of the 2010 fiscal consolidation programme was the *reduction* of certain number of key taxes: corporation tax was to be cut from 28% to 24% over the life of the parliament, and the tax rate on small and medium sized companies was to be cut from 21% to 20%. Some National Insurance Contributions were reduced and the personal tax allowance was scheduled to rise progressively from £6,475 to £10,000 over the five-year budgetary period. The budget was thus intended to encourage business investment and employment to some degree, while the Lib-Dem coalition partners obtained a tax concession for the lowest paid, in order to offset the effect of the VAT increase on the most vulnerable members of the population.

The tax strategy of new Government was therefore to shift part of the extra tax burden onto the broader population while trying to encourage business investment and employment with adjustments to corporate tax. The new VAT rate was expected to bring in an extra £12bn per annum by 2011-2012, while tax concessions were expected to cost around £5bn, leaving a net fiscal tightening of only some £7bn or a modest 0.3% of GDP.

The bulk of the fiscal consolidation programme was therefore to be found on the spending side. Here the UK budget makes a distinction between "non-welfare departmental services" and "social transfers". The accumulated cuts in non-welfare departmental services were impressive, with only international development aid, "climate change", pensions and the National Health Service spared (Table 2).

Table 2: Emergency expenditure cuts, June 2010 Budget

International development aid	34.2
Climate change	16.2
Work and pensions	1.4
National Health Service	0.3
Defence	-7.3
Education	-10.8
Transport	-14.6
Culture, media, sport	-21.1
Home Office	-25.2
Justice	-25.3
Business, innovation and skills	-28.5
Environment, food and rural affaire	-39.0
Communities and local government	-67.6

Source: IREF Yearbook 2011

Accumulated expenditure cuts were planned to reach £164bn over the five-year period, of which £117bn (or 71.5%) were to come from reductions in departmental budgets and services and some £47bn from welfare cuts (mainly through means testing and capping). However, most of these cuts were planned to take place towards the latter part of the 5-year planning period (from 2013 onwards – see Table 1, line 5).

Welfare reforms, though contributing only 30% to the total fiscal tightening "effort", were revolutionary in that the incoming Government made a break with the philosophy of universal benefits, which had inspired the National Insurance system since 1945. This universal philosophy was originally intended to encourage middle-class support for the social benefits system. However, it had become increasingly expensive over the years and targeting benefits to the most needy seemed (to the incoming Government) the best way to cut the abyssal public sector deficit left by the outgoing Labour administration.

How has this plan fared since its inception?

The 2011 Autumn Statement

By mid-2011 it was clear that the Government would miss its targets. Slower than expected economic growth was blamed, due to the on-going financial crisis in the euro zone, leading to lower than expected tax receipts, while higher than expected inflation led to higher index-linked social spending. A supplementary budget was therefore introduced in November 2011 representing further consolidation.

Small neutral changes were introduced on the revenue side, mainly to please the public before the winter (postponement of a fuel duty increase), while on the expenditure side public investments were once again squeezed, public sector pay was restrained for an extra year, and various tax credit schemes were revised downwards (Office of Budget Responsibility, *Economic and Fiscal Outlook*, November 2011, p. 116). For example, the Autumn Statement announced that the lone parent and couples element of working tax credit would be frozen, and parts of the child tax credit would be removed (OBR, idem, p.147).

According to the Office of Budget Responsibility (OBR), thanks to these measures "the Government has put itself back on course to meet its targets » by reducing « structural non-investment spending » by a further £8 billion, or 0.5% of GDP in 2015-16, mounting to 0.8% GDP by 2016-17 (idem, p.6).

However, the big unknown remained GDP growth. Most forecasts were very subdued because of these additional public expenditure cuts. The Office for Budget Responsibility forecast lower GDP growth in 2015-16 because of, *inter alia*, the "additional discretionary fiscal tightening" of 0.5% in the Autumn Statement.

The 2012 Spring Budget

The most interesting reform introduced in March 2012 was the reduction of the « super » tax from 50% to 45% on personal incomes above £150,000 a year, introduced by the Labour Government in 2009. At the time thought to be hugely popular and remunerative, this tax not only did not save the Labour Government from defeat, but it turned out to be surprisingly ineffective from a revenue-raising point of view.

In the words of the Office of Budge Responsibility (OBR, *Economic and Fiscal Outlook*, March 2012, p. 108):
"The March 2010 Budget estimated that the 50 per cent rate would raise an additional £2.6 billion of tax in 2012-13... It assumed that the 300,000 individuals likely to be affected would be liable to an extra £7.5 billion in

tax in the absence of any change in behaviour, but that £4.9 billion of this would never materialise as they took steps to reduce their taxable income. These steps might include labour supply responses (e.g. working less, taking a lower paid job, retiring early, or leaving the country) or greater recourse to tax planning, avoidance and evasion. The increase in the tax rate might also affect the willingness of high earning individuals based abroad to move to the UK and pay tax here."
This is as good a summary as any of the main factors at play behind the "Laffer Curve". It will be noted that it was the Treasury itself which made these observations.

When the current Government came to power in May 2010, it decided not to change this super-tax rate, which had just come into operation as planned in March 2010. In the event, during the fiscal year 2010-11, it only yielded £0.6bn which, according to the OBR "illustrates how willing and able high-income individuals are to adjust their behaviour in response to changes in tax rates » (OBR, idem, p.109). The combined income of top-rate tax payers fell from £116bn to £87bn, so the increased rate of tax yielded almost nothing. According to the OBR, *lowering* the top rate from 50% to 45% would by the same token cost the Treasury almost nothing either. In fact, it is budgeted to cost no more than £100 million. In other words, the UK is at the point of inflection of the Laffer Curve in respect of this tax.

George Osborne, arguing the case for reducing the super tax to 45% before the House of Commons, said: "No chancellor can justify a tax rate that damages our economy and raises next to nothing".

In addition to this surprise measure, the Government brought forward by one year the scheduled reductions in corporate tax (from 26% to 24% in 2012, and from 24% to 22% in 2014). The general personal allowance was increased by a £1,000 to £9,205, while the special tax allowance for pensioners was scrapped, in line with the Government's overall policy to target the poor directly and scrap universal benefits, in this case withdrawing a tax allowance based on age rather than the level of income. It also announced that henceforth public sector wages would reflect regional disparities. This meant that government departments, in the past relocated out of their expensive London premises to distant provincial centres for cost-saving reasons, were now to be put under additional pressure to adjust public sector pay to local labour market conditions. Adjustments to VAT coverage were introduced in order to remove anomalies and bring more items into its net. Tax relief on charitable donations was capped.

The net effect was expected to be small (a net fiscal tightening of about 0.1% in 2013-14, and neutral over the long term). In the longer term, perhaps the most significant announcement was the government's intention to raise the pension age to 67 years and its promised support for private pension schemes.

This budget has been much criticized. According to the Opposition, it was a "Budget for the Rich" and a "Budget for Business" - bad. The press has been critical of what has become known as the "stealth granny tax" (the abolition of the tax allowance for pensioners mentioned above) - cruel. Public opinion has objected to the "patsy tax" (adding warmed meat patsies to the VAT net) – highly unpopular. The public (and not only the wealthy) are dismayed about the attack on the much appreciated UK system of charitable donations – likely to turn out to be extremely tax-inefficient. Austerity is not popular.

Macroeconomics of the 2012 Spring Budget

Table 3 shows how tax revenues and National Insurance Contributions are expected to evolve as a % of GDP over the next five years. As real GDP is expected to grow very slowly, this table reflects the will of the Government to hold taxation and spending as nearly constant as possible in real terms. It will be noted that VAT is expected to rise as a proportion of GDP from 2010, but that most other taxes will be a constant or declining ratio of GDP.

Table 1, line 8 shows a sudden leap in Government expenditure from £683bn in 2012/13 to £720bn in 2013/14. This is due to a revival of public investment from a low in 2011/12/13, dictated by the need to produce a sharp and noticeable change in the overall deficit (HM Treasury, 2012 Budget, March 2012, p. 86). Much of this extra investment in 2012/14 will be devoted to the Government's stated policy to "rebalance the UK economy" away from the financial sector and towards energy, infrastructure, technology, housing, exports, investment and inward investment (for a summary, see HM Treasury, 2012, p. 86).

Table 3: Main tax revenues as %GDP, 2010-2017

	Per cent of GDP						
	Outturn	Forecast					
	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Income tax and NICs	17.0	16.7	16.5	16.7	17.1	17.2	17.4
Value added tax	5.8	6.4	6.5	6.4	6.4	6.3	6.3
Onshore corporate taxation	2.4	2.2	2.3	2.3	2.2	2.2	2.3
UK oil and gas receipts	0.6	0.7	0.6	0.5	0.5	0.3	0.3
Fuel duties	1.8	1.8	1.7	1.7	1.7	1.6	1.6
Business rates	1.6	1.6	1.7	1.7	1.7	1.6	1.6
Council tax	1.7	1.7	1.7	1.7	1.7	1.6	1.6
Excise duties	1.3	1.3	1.3	1.3	1.2	1.2	1.2
Capital taxes	1.0	1.1	1.0	1.1	1.2	1.3	1.3
Other taxes	2.5	2.6	2.8	2.8	2.8	2.7	2.6
National Accounts taxes	35.8	36.2	36.1	36.3	36.4	36.1	36.2
Gross operating surplus	1.7	1.5	1.5	1.5	1.5	1.5	1.5
Other receipts	-0.2	-0.2	-0.1	-0.1	0.0	0.1	0.2
Current receipts	37.3	37.5	37.5	37.7	37.8	37.6	37.9

Source: OBR, March 2012, p.100

Table 4 (Net Public Borrowing, 2010-2016) shows how forecasts of the public sector deficit have evolved over the past two years, and what the current (March 2012) view is.

Table 4: Net public borrowing %GDP

	2009-2010	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Outturn	11.1	9.3					
Forecast June 2010		10.1	7.5	5.5	3.5	2.1	1.1
Forecast March 2011		9.9	7.9	6.2	4.1	2.5	1.5
Forecast November 2011		9.3	8.4	7.6	6	4.5	2.9
Forecast March 2012			8.3	5.8	5.9	4.3	2.8
Public sector net debt (UK definition)- March 2012		60.5	67.3	71.9	75	76.3	76

Source: OBR, March 2012 p. 164

Table 4 shows that the OBR tended towards pessimism in 2010-11– the deficit was forecast to be 10.1% of GDP, while the actual outcome was 9.3% - somewhat better than expected but, along with the record 11.1% in 2009-10, among the highest ever recorded in UK fiscal history.

Table 4 also shows the generally deteriorating macroeconomic situation, since all future deficits were adjusted upwards from one year to the next. This current gloom, however, does not seem to have dented the OBR's resolutely optimistic view that government policies will produce a rapid reduction of the public sector deficit to manageable proportions by 2016 (though missing the original target of 1.5% for that year). It is hard not to be struck by this curious mixture of short-term pessimism and long-term optimism.

Of course, nobody really knows what the future will bring. The entire strategy of the consolidation programme depends on real economic growth (see Table 1, line 15). Indeed, it should be noted that what started out as a five-year budget consolidation programme has now turned into a seven year plan… In short, the success of the consolidation programme now seems to depend on a combination of spreading the pain over 7 years instead of 5 (beyond the life of the current Parliament), and pulling wildly optimistic growth numbers out of thin air (over 3% *real* growth from 2015/16 onwards).

This appears unrealistic. In fact, most observers believe that the fiscal consolidation, if it occurs, will be the result of inflation rather than economic growth.

It is however worth noting that the coalition Government at least says it is trying to cut expenditure in real terms (see Table 1, line 10), and is experimenting with cutting some taxes as well – an unusual combination presumably designed to entice the private sector to fill the gap left by the inevitable reduction in public services. For the moment the measures taken (cuts in corporation tax, small reductions in personal tax, small downward adjustments in National Insurance Contributions) seem hardly perceptible, but they may offer some incentive for private initiative to "crawl into" areas left vacant by the reluctantly retreating state sector. This, and the much hoped-for "new technologies", may produce the magical growth numbers – but no one (apart from the OBR) is taking any bets.

Austria 2011

Public finances			
Year	2010	2011	Change
Public Debt	71,9%	72.2% of GDP € 217.4 billion	+0,3 GDP points
Public Deficit	4.5%	2.6% $7.8 billion	- 1.9 GDP points
Tax and social contributions (%GDP)	43.6%	43.6% (Statistik Austria)	0.0%

Tax rates and bases				
Personal Income Tax	Below €11 000 (Prev. €10 000)	€11 000 - €25 000	€25 000 - €60 000 (Prev. €51 000)	Above €60 000
	0% unchanged	36.5% unchanged	43.21% unchanged	50% unchanged
Capital Gains	25% introduced in 2011, previously identical to marginal tax rate, capital gains were tax free after one year. A new bank tax introduced in 2011.			
VAT	20% 10% reduced rate (food, books, newspapers) 12% reduced rate (vine purchased directly at a vinery) All Rates unchanged			
Corporate income	25% unchanged			
Excise taxes	Tax on tobacco and fuel increased in 2011 Flight tax introduced in 2011			
Wealth taxes	No wealth tax			

Macroeconomic data	
GDP and GDP growth	€ 301,308 millions -- + 5.3% (4.1% in 2010, -2.8% in 2009)
Gross annual income of employee	€ 28,715 (in 2010)
Unemployment	7.2%

Best change in 2011	Government was not able to agree on the type of tax increases
Worst change in 2011	Government has changed the character of the whole discussion from that of excessive public debt and the call for a debt brake, to a call for higher taxes.

Belgium 2011

Public finances			
Year	2010	2011	Change
Public Debt	95.9% € 341.93 billion	98.2%	
Public Deficit	3.8% GDP	3.7% GDP	
Consolidated Tax revenues	43.3% GDP	43.6% GDP	

Tax rates and bases					
Personal Income Tax	Below €7,900	€7900 - €11240	€11240 - €18730	€18730 - €34330	Above €34330
	0% unchanged	30% unchanged	40% unchanged	45% unchanged	50% unchanged
Capital Gains	33% or 16,5 % if the property falls within the terms of taxability				
VAT	21 %, 12 %, 6% Unchanged (since 1 January 2010 the VAT rate in the catering sector is 12%)				
Corpo-rate income	Bellow €25 000	€25 000 - €90 000	€90 000 - € 322 500	Above €322 500	
	24.25%	31%	34.5%	33%	
Excise taxes	Increase in excise duty on diesel CN codes, change of the tax system for manufactured tobacco, modification of the excise system for soft drinks and coffee				
Wealth taxes	No wealth tax				

Macroeconomic data	
Real GDP growth	2% (2.2% in 2010, -2.7% in 2009)
Annual average gross wage (OECD)	€ 42 740
Unemployment	7.1% (7.9% in 2010)

Best change in 2011	
Worst change in 2011	new rules on bank secrecy (combined to the recent decision to create a “mega-database”) mark the end of taxpayers’ right to privacy

Bulgaria 2011

Public finances			
Year	2010	2011	Change
Public Debt	16.1 % of GDP	16.5% of GDP	+ 0.4%
Public Deficit	3.1% of GDP	2.10% of GDP	1 percentage point (improvement)
Consolidated Tax revenues	33.9% of GDP	33.70% of GDP	-0.2 percentage point

Tax rates and bases	
Personal Income Tax	10% (Unchanged)
Capital Gains	10% (Unchanged)
VAT	20% (Unchanged)
Corporate income	10% (Unchanged)
Excise taxes	Increased for gas oil and kerosene (2011); electricity for industrial purposes, cigarettes, tobacco, fuels (2010)
Wealth taxes	No wealth tax

Macroeconomic data	
GDP growth (constant prices)	+1.7% (Eurostat, it was +0.4 in 2010)
GDP per capita	€ 4 800 (Eurostat, in 2010)
Unemployment	11.8% (Eurostat, harmonized rate)

Best change in 2011	Bulgaria Parliament voted a “golden” fiscal rule to restrain future budget deficits – the rule limits the budget deficit to a maximum of 2% of the expected GDP. Additionally, the rule is supposed to be constitutionally protected by a qualified majority (2/3) in Parliament – this is still unclear, as it takes a minor change in the Constitution and the vote is still ahead.
Worst change in 2011	Bulgarian fiscal reserve is shrinking – first the “health reserve” was used to cover budget shortfalls and recently a law was drafted that will permit the use of the so called pension “Silver Fund” to cover debt payments. The fiscal reserve is always a touchy subject, as it supports the currency board and financial stability of the country..

Czech Republic 2011

Public finances			
Year	2010	2011	Change
Public Debt	CZK 1 451 billion (€59 209 million) 39.3 % of GDP	CZK 1560 billion (€ 62.4 billion) 40.7 % GDP	+10 %
Public Deficit	CZK 195 billion (€7 955 million) 5.3 % of GDP	CZK 143 billion 3.7 % GDP	-21.86 %
Consolidated Tax revenues	CZK 1049.8 billion (€42.8 billion) 28.4 % of GDP	CZK 1075.6 billion (€ 43 billion) 28.1 % GDP	+2.5 %

Tax rates and bases	
Personal Income Tax	15 % from “super-gross” wage = standard gross wage + health and social insurance contributions paid by the employer Unchanged since 2008
Capital Gains	All earned income from capital is taxed the same as regular income
VAT	20 % (unchanged since 2010 but was at 19% in 2009) 10% reduced rate (unchanged since 2010 but was 9% in 2009)
Corporate income	19% (unchanged since 2010 but 20% in 2009)
Excise taxes	increased: minimal tax on cigarette (to CZK 2.10) and tobacco (to CZK 1400) by +4.5 %
Wealth taxes	None, just a property tax (land + real estate)

Macroeconomic data	
GDP	1.7% (2.7% in 2010) Eurostat (GDP at constant price)
Average income per month	CZK 24319 (€ 972)
Unemployment	6.7% (Change from 7.2% in 2010) Eurostat, Harmonized rate as of december

Best change in 2011	It should be possible to opt 3 % of the gross wage out of the pay-as-you-go pension system starting in 2013
Worst change in 2011	Reduced VAT rate goes up from 10 % to 14 % from the beginning of 2012

Denmark 2011

Public Finances			
Year	2010	2011	Change
Public Debt	DKK 752.8 billion	DKK 830.9. billion €111.7 billion	+10.4%
Public Deficit	DKK 47.4 billion	DKK 34.7 billion €4.7 billion	-26.8+50.2%
Consolidated Tax revenues	DKK 837.5 billion	DKK 862.5 billion €116.0billion	+29.9%

Tax rates and bases				
Personal Income Tax	Below DKK 46,630 (€6,260)	DKK 46,630/DKK 320,000 (€6,260/€42,930)	DKK 320,000/ DKK 423,800 (€42,930/€56,860)	Above DKK 423,800 (€56,860)
	8% unchanged	40.9% unchanged	42.3% unchanged	56.1% unchanged
Income From Capital	Net negative capital income	Net positive capital income below DKK 40,000 (€5,380)	Above DKK 40,000 and with total income not in top bracket	Above DKK 40,000 and with total income in top bracket
	Deductible against local taxes: 33.7%, unchanged	37.3% unchanged	37.3% unchanged	48.2% (down from 50.2%)
Income from Shares	Below DKK 48,300 (€6,490)		Above DKK 48,300 (€6,490)	
	28% unchanged (will drop to 27% in 2012)		42% unchanged	
VAT	25% Rate unchanged (a small number of exemptions e.g. newspapers, financial services)			
Corporate income	25% (unchanged)			
Excise tax	No increases in 2011			
Wealth tax	No wealth tax but property is taxed			

Macroeconomic data	
GDP growth	+1% (+1.3% in 2010) – Eurostat at constant price
Average income	DKK 256,090 (€34,360) in 2010
Unemployment	7.5% (7.3% in 2010) –Eurostat harmonized rate (December)

Best change in 2011	The outgoing centre-right government made a political agreement to cut the corporate tax rate from 25 percent to 20 percent
Worst change in 2011	The incoming centre-left government scrapped the plan to cut the corporate tax.

So current debt is 96 percent of consolidated tax revenues ; and the defecit is 4 percent of consolidated tax revenues

Finland 2011

Public finances			
Year	2010	2011	Change
Public Debt (EDP)	€ 87 billion	€ 93 billion	+ 6,90%
Public Deficit	2.50% of GDP	0.50% of GDP	- 2 GDP points
Consolidated Tax revenues	€ 76 billion	€ 82 billion	+ 8.18 %

Tax rates and bases					
Personal Income Tax	Earned income	16,100-23,900	23,900-39,100	39,100-70,300	70,300-
	Tax at the lower limit	€8	€ 515	€ 3,175	€ 9,883
	Tax rate for amount exceeding	6.5%	17.5%	21.5%	29.75%
Capital Gains	30% (previously 28%) For capital income > €50,000 tax rate is 32% (new)				
VAT	23% regular rate 9% and 13% reduced rates				
Corporate income	24.5 % (reduced from 26%)				
Excise taxes	Some increases in 2012 (e.g. sweets and ice-cream 23c/kg, beverages 4c/l, gasoline +2.34c/l, diesel 10.55c/l)				
Wealth taxes	Abolished in 2006				

Macroeconomic data	
GDP level & growth	€180 billion 2.9% growth (3.7% in 2010) Eurostat (at constant price)
Average income (GDP per capita)	€ 25 649
Unemployment	7.4% (7.9% in 2010) Eurostat harmonized rate

Best change in 2011	Central tax board ruling that a Norwegian investment fund was entitled to exemption from Finnish withholding tax on Finnish source dividends paving the way for further refunds to foreign investors.
Worst change in 2011	Supreme Administrative Court ruling that the fee paid to a representative of a venture capital firm by one of its portfolio companies should be considered the representative's personal income.

France 2011

Public finances			
Year	2010	2011	Change
Public Debt	€ 1 618 billion	€ 1 717.3 billion	+6,14%
Public Deficit	7.7% of GDP	5.2% of GDP (€ 90.7 billion)	- 2.5 GDP points
Consolidated Tax revenue	49.5% of GDP	50.7% of GDP	+1.2 GDP points

Tax rates and bases							
Personal Income Tax	< 5 963	€5 963 to €11 896	€11 896 to €26 420	€26 420 to €70 830	€70 830 to €250,000	$250,000 to €500,000	>€500,000
	0%	5.5%	14%	30%	41%	44% (41 in 2010)	45% 41 in 2010
Capital income & gains taxes	32.5% tax on dividends and interests (previously at 30.1%, it will further raise to 34.5 and 37.5% for respectively dividends and interests) 32.5% tax on capital gains (up from 30.1% with abolition of tax-free threshold) 32.5% on real estate gains (up from 28.1)						
VAT	Should be 21.2% (up from 19.6%) regular rate 5.5% and 2.1% reduced rates						
Corporate income	33.1/3 % 15% reduced rate						
Excise taxes	Tax on cigarettes increased						
Wealth taxes	In 2011, threshold increased at €1.3 million—up from €750,000, and rate are at 0.25% between 1.3 and 3 million and 0.5% above. "Fiscal shield" abolished in 2011. Inheritance and donation tax rates increased for the top brackets (from 35 and 40 to 40 and 45%)						

Macroeconomic data	
GDP	€ 1 996 583.1 billion (+1.7% from 2010)
GDP per capita (Eurostat data)	€30 600 (€ 29 900 in 2010)
Unemployment	9.9% (9.7% in 2010)

Best change in 2011	Public deficit lower than expected (5.2% instead of 6%)
Worst change in 2011	Capital income, capital gains and real estate investment heavily taxed

Germany 2011

Public finances			
Year	2010	2011	Change
Public Debt	83.2% of GDP	81.7% of GDP	-1.5 GDP points
Public Deficit	4.3% of GDP	1% of GDP	- 3.3 GDP points
Total Tax revenues as percentage of GDP	22.2%	22.8%	+ 0.6 GDP points

Tax rates and bases					
Personal Income Tax	<€8005	€8005	Between €8005 and €52882	Between € 52882 and €250730	€250730<
	0% Unchanged	14% Unchanged	concave increasing schedule Unchanged	42% Unchanged	45% Unchanged
Capital Gains	25% Unchanged				
VAT	19% regular rate 7% reduced rate Unchanged				
Corporate income	29.83% Unchanged (including municpal business tax)				
Excise taxes	Annual, slight increases in tobacco taxes until 2015				
Wealth taxes	No net wealth tax, only property taxes on housing and land				

Macroeconomic data	
GDP growth	2.9% (3.7 in 2010, -4.7% in 2009)
GDP per capita	€ 31384.11 (30218.34 in 2010)
Harmonized Unemployment rate (Eurostat data)	5.5% (6.6% in 2010)

Best change in 2011	A (negotiated, not yet ratified) tax treaty with Switzerland that facilitates the legalization of German incomes shifted there in order to evade taxes.
Worst change in 2011	The fact that Germany still did not manage to produce a budget surplus with record tax revenue and historically low interest rates on German public debt.

Ireland 2011

Public finances			
Year	2010	2011	Change
Public Debt		108 % of GDP	+ 17 GDP points
Public Deficit	31.3% of GDP € 48.8 billion	10.1 % of GDP € 15.7 billion	- 68%
Consolidated Tax revenues	€ 31 761 million	€ 34 175 million	+ 7.6%

Tax rates and bases	
Personal income tax	52% (top rate) Unchanged
Capital Gains	25% Unchanged
VAT	21% Unchanged but will be raised to 23% by 2013
Corporate income	12.5% Unchanged
Excise taxes	Increases: by 4 cent per litre of petrol and 2 cent per litre on auto-diesel
Wealth taxes	All Irish nationals and domiciled individuals whose worldwide income exceeds €1 million and whose Irish-located capital is greater than €5 million required to pay an Irish domicile levy of €200,000 per annum regardless of where they are tax resident. In 2011, Base for Capital Acquisitions Tax broadened by reducing tax-free thresholds by 20%

Macroeconomic data	
GDP	€ 157 396 million (was €155,992 million in 2010)
Average income (GDP per capita)	
Unemployment	14.2% (13.6% in 2010)
Best change in 2011	Tax relief abolished on trade union subscriptions raising €26m
Worst change in 2011	Some €560m of the €1.1bn revenue package came from the pre-announced two-point increase in the top rate of VAT

Italy 2011

Public finances			
Year	2010	2011	Change
Public Debt	€1 842 269 million 118,5% of GDP	120.1% of GDP	+1.6 GDP points
Public Deficit	3.9% of GDP	3,9 % of GDP	unchanged
Total Tax revenues	42.3% of GDP	42.2.% of GDP	-0.1 GDP points

Tax rates and bases						
Income From Labour	0 - €15.000	€15.001 - €28.000	€28.001 - €55.000	€55.001 - €75.000	€75,000 - €300 000	>€300 000
	23% Un-changed	27% Un-changed	38% Un-changed	41% Un-changed	43% Un-changed	46% NEW
Capital Gains	Most incomes from financial instruments taxed at 20% (Previously: Dividends: 27% ; Interest: 12,5%/27% ; Royalties: 15%)					
VAT	21% regular rate (up from 20% and should go to 23% October 2012) 10% and 4% reduced rates					
Cor-porate income	General: 27,5% Energy sector: 31.5% (NEW)					
Excise taxes	+4.89 cents per litre of diesel					
Wealth taxes	No wealth tax					

Macroeconomic data	
GDP	+ 0.4% (+ 1.8 % in 2010)
Average income (GDP per capita)	Not available
Harmonized Unemployment Rate (Eurostat)	9.7% (8.3% in 2010)

Lithuania 2011

Public finances			
Year	2010	2011	Change
Public Debt	36 590 million Litas (€ 10 610 million) 38% GDP	41 740 million Litas (€ 12 100 million) 39% GDP	+1% GDP
Public Deficit	7.3% GDP	5.5% GDP	-1.8% GDP
Consolidated Tax revenues	26 530 million Litas (€ 7 700 million) 28% GDP	28 560 million Litas (€ 8 280 million) 27% GDP	-1% GDP

Tax rates and bases	
Personal Income	15% Unchanged
Capital Gains	15% Unchanged
VAT	21% regular rate 9% reduced rate Unchanged
Corporate income	15% Unchanged
Excise taxes	Unchanged
Wealth taxes	No (property tax introduced as of 2012)

Macroeconomic data	
GDP growth	5.9% 1.4% in 2010
Average salary (before taxes)	2042 Litas (592 Euros) 1988 Litas (576 Euros) in 2010
Unemployment	15.4% 17.8% in 2010

Best change in 2011	Allowing more businesses to qualify for the reduced 5% corporate income tax rate (doubling the maximum amount of income to qualify for the reduced rate from LTL 500,000 (€ 145 000 to LTL 1 million (€ 290 000)).
Worst change in 2011	Introducing a new and detrimental property tax, copyright levy, as well as raising taxes on land, natural resources, cargo vehicles.

Luxembourg 2011

Public finances			
Year	2010	2011	Change
Public Debt	€ 7.6 billion	€ 7.7 billion	+1,3%
Public Deficit	2.2% of GDP	0.3% of GDP	-1.9 percentage point
Consolidated Tax revenues	€10.85 billion	$ 11.68 billion	+ 9.5%

Tax rates and bases			
Personal Income Tax	Bellow € 11,265	€ 11.265 to € 41.793	Over € 41.793
	0% Unchanged	Progressive tax rates from 8% to 38% Unchanged	39%
	Solidarity tax on income tax due increased from 2 to 4 or 6% pushing the top effective marginal rate at 41.34%		
Capital Gains	28.8% Unchanged		
VAT	VAT tax rates amount 15% (normal VAT tax rate), 12% (intermediary VAT rate), 6% (reduced rate) or 3% (super reduced rate) Special VAT for e-books to be introduced in 2012		
Corporate income	28.8%. Unchanged		
Excise taxes	Unchanged		
Wealth taxes	Wealth tax has been abolished for individual tax payers but remains applicable to companies only at a rate of 0.5%.		

Macroeconomic data	
GDP growth (at current prices)	1.6% in 2011
Average income (GDP per capita)	€ 74.644,07 in 2010
Unemployment	6.1% in 2011 5.8% in 2010

Norway 2011

Public finances			
Year	2010	2011	Change
Public Debt	557.4 billion NOK (€ 74.5 billion)	653.2 billion NOK (€ 87.3 billion),	17.7%
Structural Public Deficit		108.1 billion NOK (€ 14.5 billion).	
Total Tax revenues		1 192 billion NOK (€ 159.4 billion);	

Tax rates and bases		
Personal Income Tax	28%	
	Surtax on wage income and income from self-employment:	
	NOK 490 000 - NOK 796 400 (brackets increased by 4% from 2011)	> NOK 796 400 (brackets increased by 4% from 2011)
	9% (unchanged)	12% (unchanged)
VAT	25%, 14%, 8%, 0% the 14% rate on foodstuff set to increase to 15% in 2012	
Corporate income	28% (unchanged)	
Dividends	Various rules apply according to origin and destination with rates going from 0% to ordinary income tax rate	
Excise taxes		
Wealth taxes	Above NOK 700,000 (NOK 750,000 in 2012)	
	0.7% municipal tax + 0.4% state tax (unchanged)	

Macroeconomic data	
GDP growth	+ 1.7% from 2010 in 2010 (at 2007 prices) GDP was 2 496.2 billion NOK (€ 333.7 billion),
GDP per capita	€66,844 (in 2010)
Unemployment	3.25%

Poland 2011

Public finances			
Year	2010	2011	Change
Public Debt	€ 207 7 million	57% of GDP	
Public Deficit	7.8%	5.6%	- 2.2 percentage point
Consolidated Tax revenues	€ 112 6 million	-	-

Tax rates and bases		
Personal Income Tax	Bellow 85 528 PLN (€21.522,76**)**	Above 85 528 PLN (€21.522,76)
	18% minus 556.02 PLN (€140)	14 839.02 PLN (€3.734) plus 18% of the amount above 85 528 PLN
Capital Gains	19% Unchanged	
VAT	23%, 8%, 5% (previously 22%, 7%, 3%)	
Corporate income	19% Unchanged	
Excise taxes	Different rates applied (in accordance with EU directives)	
Wealth taxes	no	

Macroeconomic data	
Growth of GDP	4.3% (3.4% in 2010)
Average income (GDP per capita)	€ 9 300 in 2010
Unemployment	(9.8% in 2010)

Best change in 2011	Fiscal consolidation effort (even though revenue-driven)
Worst change in 2011	Postponement of tax reform

Portugal 2011

Public finances			
Year	2010	2011	Change
Public Debt	92.4 % € 151 775 million	107.8 % €174 891million	+15.2%
Public Deficit	€ 16 912 million 9.8% of GDP	€ 7 262.5 million 4.2% of GDP	- 57.1%
Consolidated Tax revenues	€ 65 298million 38.9 % of GDP	€ 71 859million 41.6 % of GDP	+10.05%

Tax rates and bases								
Perso-nal Income Tax	Below €4989	€4989 - €7410	€7410 – €18375	€7410 - €42259	€42259 - €61244	€61244 - €66245	€66245- €153300	Above € 153 300
	11,5%	14%	24.5%	35.5%	38%	41.5%	43.5%	46.5%
Capital Gains	Bond Income	Royalties and technical service fees	Stock Divi-dends	Stock and bond Price Gains				
	25% (*)	15%	25% (*) (21.5% in 2010)	25% (21.5% in 2010)				
VAT	Portugal		Madeira		Azores			
	23%, 13%, 6% (unchanged but many goods and services taxed at higher rate)		22%, 12%, 5% (up from 16%, 9% and 4%)		16%, 9% and 4%			
Cor-porate income	25% for residents (Unchanged) – 30% for non-residents from low tax country (new) With State and Municipal surcharges the maximum tax rate is from 29.5 to 31.5%							
Excise taxes	**Car Taxes**: 7% increase, on average; Commercial cars ended. **Circulation Tax**: 3,6% increase; Collection cars exemption (used to pay 0%) ended.							
Wealth taxes	Burden of municipal property tax, municipal of transfer tax and inheritance/ estate tax has been increased							

Macroeconomic data	
GDP	€ 171 632 million (-0.5% nominal)
GDP per capita	€ 16 738
Unemployment	13.6% (10.9% in 2010)

Best change in 2011	The Troika Memorandum and its effect on the State Deficit
Worst change in 2011	Municipal Transfer Tax: the double standards now appli-cable (charges with interests if error is against the state vs pays only if and when required with no interests if the error is in favour of the state) are worrisome.

(*) If paid to a resident of a listed tax haven: 30%.

Romania 2011

Public finances			
Year	2010	2011	Change
Public Debt	32.5 % GDP	34.3% of GDP	5.54%
Public Deficit	-6.5% of GDP	-4.35% of GDP	- 33.08 %
Consolidated Tax revenues/GDP	32.8%	33.1%	0.91%

Tax rates and bases	
Personal Income Tax	16% Unchanged
Capital Gains	16% Unchanged
VAT	Normal rate 24% (unchanged from 2010, 19% in 2009) Reduced rate 9%, unchanged Special rate 5%, unchanged
Corporate income	16% Unchanged
Excise taxes	Increase for gasoline (3.32%) , diesel gas (3.17%) and cigarettes excises (5.49%).
Wealth taxes	No Wealth tax but real estate taxes increased and possible introduction of wealth tax in 2012

Macroeconomic data	
GDP	+1.5 % (-1.9% in 2010)
GDP per capita	GDP per capita: $12,300
Unemployment	7% (7.2% in 2010)

Best change in 2011	Reintroduction of the option between 16% corporate income tax and 3% turnover tax for micro-enterprises.
Worst change in 2011	

Slovakia 2011

Public finances			
Year	2010	2011	Change
	€ billion	€ billion	
Public Debt	27	30,6	+13,5%
Public Deficit	-8,1	-4,9	+3,2%
Consolidated Tax revenues	16,6	18,0	8,6%

Tax rates and bases	
Personal Income Tax:	
Income from labour	19% unchanged
Capital Gains	0%
VAT	20% (19% in 2010) 10% reduced rate (medicaments, books, medical devices for patients) 6% for home-made agroproducts cancelled in 2011
Corporate income	19% unchanged
Excise taxes	Tax on tobacco increased in 2011 New Bank tax Special 80% tax on proceedings and holding surplus emission quotas applied in 2011 and 2012
Wealth taxes	No wealth tax

Macroeconomic data	
GDP	69,06 bln. € 4,8% Change from 2010
Average monthly salary	786 € 2,2 %Change from 2010
Unemployment	13,5% -0,9% Change from 2010

Best change in 2011	0% growth of total public expenditures
Worst change in 2011	VAT rate increased by 1% to 20%

Sweden 2011

Public finances			
Year	2010	2011	Change
Public Debt	SEK 1288 billions (€144 billions) 39,1% of GDP	SEK 1075 billions (€121 billions) 31 % of GDP	-16%
Public Deficit	SEK 1 billions (€ 0,1 billions) (0,0% of GDP)	SEK - 67 billions (-€7,5 billions) (1,9% of GDP)	From deficit to surplus
Consolidated Tax revenues (*)	SEK 1488 billions (€166 billions) (45,2% of GDP)	SEK 1 507 billions (€ 170 billions) (43% of GDP)	+1,2%

(*) including social security mandatory contributions

Tax rates and bases				
Personal Income Tax (tax brackets have been increased)	Bellow SEK 12 500 (€ 1 408)	Above SEK 12 500 (€ 1 408)	Above SEK 401000 (€45 000)	Above SEK 574300 (€ 64600)
	0%	Local tax from 28,9 to 34.3 %	48.9 – 54.3 % (the local tax + 20% state tax)	59,3%. (local tax+25 % state taxes)
Capital Gains	30 (20 and 25 for some privately owned companies) (Unchanged)			
VAT	25, 12 or 6% (Unchanged rates) NEW : VAT on restaurants and catering services reduced from 25 to 12%			
Corporate income	26,3% (Unchanged)			
Excise taxes	No changes			
Wealth taxes	no			

Macroeconomic data	
GDP	+3,9% (4.4% in 2010)
Average income (over all working Swedes)	331 000 SEK (€37 200)
Unemployment	7,8% (8.2% in 2010)

Best change in 2011	The double VAT on applications for smart phones was abolished.
Worst change in 2011	Sweden still has worlds' highest top marginal tax rate at 70% including social contribution taxes.

Switzerland 2011

Public finances			
Year	2010	2011	Change
Public Debt (% of GDP)	37.9%	36.5%	-1.4 GDP points
Public Deficit/ Surplus (% of GDP)	+0.2%	+0.4%	Surplus increased by 0.2 points of GDP
Public expenditures as % of GDP	34%	34.8%	+0.8 points of GDP

Tax rates and bases	
Personal Income Tax	21.7% (average, depending on canton) Unchanged
Capital Gains	No tax
VAT	8% (7.6% in 2010)
Corporate income	18.6% (average, depending on canton) (down from 18.8 in 2010 and 21.2% in 2009)
Excise taxes	Unchanged
Wealth taxes	0.02% (average, depending on canton) Unchanged

Macroeconomic data	
GDP	+ 1.9% (2.7% in 2010 -1.6% in 2009)
Average income (GDP per capita)	CHF 64,891 CHF 65,908 in 2010 (source : IMF at constant price)
Unemployment	3.45% (3.64 in 2010)

Best change in 2011	Ongoing tax reductions in some cantons
Worst change in 2011	VAT increase from 7.6% to 8% (limited to 7 years)

United Kingdom 2011

Public finances			
Year	2010	2011	Change
Public Debt	£1108.4 billion 75.7% of GDP	£1250.3 billion 82.9% of GDP	+12.8%
Public Deficit	£148 billion or 10.1% of GDP	£124.6 billion or 8.3% of GDP	15.9%
Current receipts (OBR data)	£551 billion fiscal year 2010-2011	£575 billion fiscal year 2011-2012	5.38%

Tax rates and bases				
Personal Income Tax	0 - £ 2 440	0 – £ 35 000 (previously 37401)	£ 35 000 - £ 150 000 (previously 37401)	Above £150,000
	10% (starting rate for savings only)	20% (unchanged)	40% (unchanged)	50% (unchanged)
Capital Gains	18%-28% depending on income (unchanged but annual exempt amount for capital gains tax increases in line with statutory indexation to £10,600 with effect from 6 April 2011)			
VAT	20%, 5% and 0% (unchanged)			
Corporate income	26% (down from 28%)			
Excise taxes	Fuel duty decreased 1pence per litre. Increase of duty rates for all alcoholic drinks, beer and tobacco by two per cent above the rate of inflation			
Wealth taxes	no			

Macroeconomic data	
GDP (current market price)	€ 1 507.587 billion +0.8%
GDP per capita	€ 27,700 (Eurostat)
Unemployment	8% 7.8% in 2010

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