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Sustainable society – flat tax

T*The title of this essay may be surprising at first glance, so it might be a good idea to explain how sustainable society has been coupled with flat taxes. In Hungary – but also in other countries – few would associate flat taxes with support for families, raising children, or marriage. Indeed, there could be a link between them. It is easy to acknowledge that human beings are the ones that carry, generates, and pass on all those complexities that allow them to live as part of a community – the society. Families represent the stage where this transfer is mostly and traditionally done. By considering the role of families, marriage, and the raising of children, one can reach the realisation that the sustainability of any society requires solidarity among the generations of the past, present, and future. When translated into numbers, in modern societies this solidarity is manifested primarily in tax laws and social security laws. The question, therefore, should be rephrased to express whether tax laws could and should have a role in concepts related to sustainable society. And if the role of tax laws should be sought, why could not we take international examples and see whether a regime of flat tax could serve the sustainability of the society?*

Accordingly, this essay will address demographic first, then certain constitutional requirements related to public burdens, including the institution of marriage and families as well as

understanding of the fundamental rights of children in connection with taxation will be discussed, followed by a German draft bill of a flat tax system that has received great publicity, its impacts on redistribution as well as arguments against it, and finally a Hungarian study that scrutinised the potential impacts of a Slovakian-type flat tax regime in Hungary.

DEMOGRAPHICS

According to UNESCO, the most prominent criteria and universal requirements of a sustainable society are *social fairness*, based on the concepts of ensuring equal chances for all to access opportunities and of a mutual share in public burdens; *constant endeavour to improve living standards*; *sustainable usage of natural resources, which requires environment-conscious activity by the society*; *preservation of the quality of the environment*. According to the generally accepted view, implementation requires a system-based approach and governance whose institutional and governmental manifestation is a system of institutions that integrates all dimensions of sustainable progress.¹

Regarding social sustainability, a number of problem scopes can be defined as indicated by literature. One of them is the issue of demo-

graphics, families, and children.² In the development of the composition of a population, particular attention should be given to expected changes in Europe, a decline in populations, and an increasing extent of demographic ageing. (See Table 1)

It is clear that *lack of children* is one of the main reasons for this process. A typical data, there were just 9.66 births for a population of 1,000 in Hungary in 2007 and 8.20 births in Germany. With these results, Hungary takes 200th spot and Germany takes 221st place in a list surveying 223 countries.³

Obviously, long-term actions or actions with long-term impacts must serve the welfare of society – constant welfare for present and future generations – in each scope.

Despite having limited impact, tax laws cannot be exempted, either. However, tax laws must meet the criteria of *constitutional law*.

CONSTITUTIONAL PRINCIPLES OF PUBLIC BURDENS

Let's see the constitutional background. The most obvious legislation is Article 70/I. of the Constitution, describing the obligation to contribute to public revenues.⁴

The Constitutional Court has explained Article 70/I. of the Constitution in a number of decisions. According to the findings of the Court, the government has great liberty in choosing what economic source as the starting point of tax payment and in selecting the scope of taxable assets.⁵ In accordance with the resolutions of the Constitutional Court, Article 70/I. of the Constitution does not prevent the government from prescribing other payment obligations (for instance, sales and property taxes, duties, customs duties, contributions, fines, fees, etc.). The extent and method of contribution to public revenues are described by laws on taxes, duties, contributions, etc.⁶ Article 70/I. of the Constitution does not say that tax payment obligations cannot be prescribed for enterprises that make losses in terms of income⁷. Legislators have great freedom in ways of developing the tax system: It is within the consideration of legislation and the government's economic policy within the limits ensured by the Constitution, the Constitutional Court decided.⁸

When interpreting Article 70/I., it is essential to understand that the word income and assets do not refer to taxable property, even though there have been seemingly contradictory resolutions by the Constitutional Court.⁹

Table 1

POPULATION CHANGES IN DEMOGRAPHICS BETWEEN 2005 AND 2050

Basik scenario by Eurostat, EU-25	2005–2050	2005–2010	2010–2030	2030–2050
Total population	-2.1	+1.2	+1.1	-4.3
Children (0–14)	-19.4	-3.2	-8.9	-8.6
Youths (15–24)	-25.0	-4.3	-12.3	-10.6
Adults (25–39)	-25.8	-4.1	-16.0	-8.0
Adults (40–54)	-19.5	+4.2	-10.0	-14.1
Adults (55–64)	+8.7	+9.6	+15.5	-14.1
Adults (65–79)	+44.1	+3.4	+37.4	+1.5
Adults (80+)	+180.5	+17.1	+57.1	+52.4

Source: EC (2004), Green Book, A demográfiai változások kihívása, a nemzedékek közötti szolidaritás új formái, [Demographic Challenge, New Forms of Solidarity Among Generations] COM (2005) 94 final, http://ec.europa.eu/regional_policy/conferences/demographicchallenge_jan07/doc/presentations/ageproofing_toolkit_hu.doc

All Article 70/I. says is everyone has “the obligation to contribute to public revenues on the basis of their income and wealth”.

Conversely, the Révai Encyclopaedia¹⁰ defines taxable assets as “any such object or action after which the taxpayer is obliged to pay tax. The tax asset shall be the property in question in the case of property tax; the rent of land, house, capital, etc. in the case of rent tax; the income in the case of wage tax; the taxable goods in the case of consumption taxes; transfer actions, legal transactions and deeds thereof in the case of sales tax.”

Today – according to *Gábor Földes*¹¹ – law schools teach students that tax assets are physical objects, rights, legal relationships, facts or titles subjected to taxation. The taxable value is the pecuniary value or quantity of the tax asset. Tax assets could be anything with pecuniary value or quantity and is in some loose connection with the taxable person and their income or wealth. The government has a large amount of freedom as to what economic source is selected as the core of tax payment and on this basis what is defined as tax asset.¹² Pursuant to the practice of the Constitutional Court, Article 70/I. of the Constitution does not disallow the government to prescribe other payment obligations (for instance, sales and property taxes, duties, customs duties, contributions, fines, fees, etc.).¹³

Conversely, the *tax source* – according to the Révai Encyclopaedia – is “the total of assets taxes are paid from. Accordingly, taxes can be paid from income or wealth. Some authors of legal texts – such as Wagner – say taxes may be paid from capital assets, because this way the division of wealth and income can be influenced favourably. This type of taxation tells of a strongly democratic stream, but it cannot be recommended outside the scope of inheritance taxes because the tax – regarded as a recurring service – cannot fulfil its intended purpose in case the wealth is exhausted, and would

decrease savings. Therefore, income could be the only reasonable tax source, and the extent of tax should be no more than what is left after primary necessities.”

This last sentence is relevant as to interpreting Article 70/I., and it may be a good idea to recall how public burdens were regarded at the time¹⁴: “Therefore, income could be the only reasonable tax source, and *the extent of tax should be no more than what is left after primary necessities.*” Consequently, Article 70/I. should lead to the concept – if historical interpretation of public contributions were to be followed – that taxation must not put taxpayers in an impossible (financial) situation. Taxpayers have to pay public contributions (under almost any title) in line with their income/wealth positions. In another, more up-to-date, interpretation, this means the (constitutional) requirement of *tax exemption for minimum subsistence*.¹⁵

Also, it means another requirement that taxation cannot be of excessive extent or of a confiscatory nature. According to Resolution 1558/B/1991. of the Constitutional Court, progressive, bracket-based taxation in the case of personal income tax is considered constitutional until the extent of tax reaches a level where it becomes obviously excessive, disproportionate and unjustified.¹⁶

At the same time, *the requirement of performance-based taxation*¹⁷ can also be interpreted from Article 70/I. Although *universality, equality and proportionality* are taught at Hungarian law schools as the constitutional principles of taxation, it can be drawn directly from the requirement of both equality and proportionality that entities with identical economic performance should be regarded identically, and that entities with higher economic performance can or should be taxed at a higher extent. In the practice of the Constitutional Court related to legal equality, it is remarkable that “anti-constitutionality is caused not only when a certain

group (in a similar position) is subject to different regulations (with no constitutional grounds) within the concept of regulations, but it is also a discrimination when a given regulation concept is applied *identically to groups in considerably different positions* from constitutional aspects. If no reasonable explanation is to be found for such a damage-inducing action after careful consideration, it is to be deemed arbitrary, and therefore as anti-constitutional.”¹⁸

PROTECTION OF MARRIAGE AND FAMILIES IN THE SCOPE OF PUBLIC CONTRIBUTIONS

At first glance, there are several scopes regarded by the Constitution as being in different positions than others. Marriage and families are defined primarily, to be protected as institutions by the Republic of Hungary (Article 15) and laws related to minors. Accordingly, children are the only natural persons that have a *fundamental right* to be protected and cared for by the family, the state, and the society as required for their appropriate physical, mental, and moral development (Article 67). A family should be interpreted as a community comprising parents and a child or children, ideally a community based on marriage.

Children are human beings eligible to all fundamental rights, but in order to use these rights fully all conditions their age requires shall be ensured.

Although parents ensure these rights primarily, the state and the society both have obligations in accordance with the Constitution. It is the fundamental obligation of parents to provide upbringing, defined by Article 67 of the Constitution as care necessary for physical development.¹⁹

Consequently, however, Articles 15 and 67 of the Constitution *shall be interpreted jointly* with Article 70/I of the Constitution. In other words, the public contribution rule of the

Constitution cannot be interpreted as a stand-alone rule but should be regarded jointly with other regulations of the Constitution, including those defining the fundamental rights and protection of marriage, families, and minors. It is because the Constitution prescribes obligations for the parents, the state, and the society by defining the fundamental rights of children. When describing parents' upbringing obligation, and no such obligation is prescribed for others, the Constitution impacts parents' performance as far as taxes are concerned. Obviously, the economic performance and the tax payment ability of parents that raise their child or children in their own homes differ from childless singles and couples. It is easy to realise the assets to be allocated for the upbringing of a child or children, as prescribed by the Constitution, reduce the amount to be used by parents freely. Because of these two reasons, parents with a child or children bear larger public contributions than the childless even if tax burdens are identical. This would violate the principle of performance-based tax payment. The protection of the institution of families should mean that families shall not be disadvantaged by the government in comparison to those having no children. Citizens living in families (i.e. raising children) are burdened by the Constitution with additional obligations compared to others. The protection and care required for the appropriate physical, mental, and moral upbringing of a child have an impact of reducing income and wealth. It is anti-constitutional to oblige citizens living in families to pay a similar extent of public contributions as citizens not living in families do.²⁰

The practice of the Constitutional Court clearly links the institution of families with marriage. According to the Constitutional Court, “the institution of marriage in our culture and legislation is traditionally a community formed by a male and a female. This community typically aims to bear and raise children

within the family in addition to being the background for the couple to live in mutual care and support. The ability to father or bear children is not a component or conditions of marriage, but the spouses must be of different sexes because of the original and typical purpose of marriage. Constitutional protection for the institution of marriage is also granted for the purpose of furthering couples to create families with children.”²¹

The conclusion can be drawn from the decision of the Constitutional Court that the institution of marriage is regarded as preparations for establishing a family and therefore it is to be protected.

MARRIAGE AND FAMILY IN GERMANY'S BASIC LAW

It is worth taking a brief look at how justices of the German Constitutional Court regard family and marriage, especially since the German Basic Law and the Hungarian Constitution prescribe the obligation to protect the institution of marriage and family identically.

The German Federal Constitutional Court (BVerfG) dictates that the matrimony of a man and a woman shall be regarded marriage.²² It is also clear from the track record of decisions delivered by the German BVerfG (as well as the Federal Public Administration Court, the Civil College of the Federal Supreme Court, and the Federal Social Court) that the acknowledgment of the domestic partnership is based on the existence of different sexes therein, the ability to establish a family.²³ The German Constitution, similarly to the Hungarian one, regards marriage the only form of cohabitation to be protected. A typical characteristics of marriage is the formation of financial union between the spouses for the duration of the marital cohabitation. Marriage is undoubtedly an economic unit in which the spouses partici-

pate equally in income creation. Therefore, the tax performance of the couple – the husband and the wife – is indicated by the respective halves of their total income. Consequently, when the tax laws regards marriage as an economic unit and taxes the income of couples dissimilarly to that of singles by taking their total income into consideration and splits it equally, the government does not provide tax allowance but executes the marriage protection directive of the Constitution.²⁴ In January 1984, the Federal Court of Switzerland, also acting as a constitutional court, reached the decision that married couples shall be burdened less in terms of taxes than singles are and cannot be burdened more than couples living in cohabitation.²⁵ The Federal Court has established that it is anti-constitutional to discriminate double-income couples against those in cohabitation in terms of taxes if their positions are comparable.

As for constitutional considerations, the decision of the German Constitutional Court²⁶ should also be underlined that focuses on public contributions related to nursing insurance but the principle outlined in the decision – the constitutional requirement of obliging the childless to pay higher contribution, and contribution payers have to be exempt from contribution payment if they already have at least one child or when their first child is born – could have far-reaching ramifications.

In Germany nursing insurance is a service with several beneficiaries typically. Persons given nursing are beneficiaries, but family members living with the patient or taking responsibility for nursing other ways are also given help. Implemented as of 1 January 1995, the system required the insured to pay a contribution of 1.7 per cent irrespective of having children. This status quo was challenged by the German Constitutional Court. The court argued that those who were raising at least one child had made individual contributions, therefore their contribution could not be identical

to that of the childless. Taking this consideration further, the questions can be raised that those raising one child should pay different rates than those raising three, four or five kids; and that those that have no children as a result of a conscious decision should pay more in the scope of pension and health insurance?²⁷

FLAT TAX AS A PROGRAM

The conclusion that Hungary's tax system needs changes may also be drawn from the fact that each political party addresses some issues of a tax reform, which also took centre stage in the election campaigns of the most recent general election in 2006.

Some circumstances that are quite controversial should be addressed here as the solution for them should perhaps be delivered by a future tax reform. In Hungary, nearly 100,000 micro businesses choosing EVA (Simplified Enterprise Tax) pay nearly 25 per cent of the total paid by the other 1.3 million economic entities registered by the KSH (Hungarian Statistical Office) in Hungary.²⁸ According to the most recent tax statistics, three out of five private entrepreneurs and one-third of companies (106,000 companies) do not generate profits. Last year, on paper, one out of every four persons – totalling nearly 1.2 million – earned minimum wage or less; an indication that they cover their sustenance from minimum wage and other untaxed income, provided the data in their tax returns are truthful. This scope used so much tax deduction and other tax refunds that at the end of the day they were responsible merely for 1.9 per cent of all personal income tax paid. A remarkable data, the average tax burden of micro businesses and small and medium enterprises was 15.6 per cent last year with a 16-percent corporate tax, while large corporations paid 9.7 per cent on average.²⁹ Looking at the numbers solely, the tax payment ability of small businesses in Hungary is appar-

ently bigger than large corporates'. Obviously, it's no coincidence that among OECD member states Hungarians paid the second-highest rate of tax and contributions last year, 54.4 per cent. Taxpayers in Belgium pay that much, but at HUF 610,00 their average salary is four times higher than the Hungarian average.³⁰

The most significant tax policy proposal put forward by the then government party SZDSZ (Alliance of Free Democrats) in the 2006 campaign was to implement flat tax, a uniform 20 per cent for VAT, Personal Income Tax, corporate tax, and pension contribution. SZDSZ said the biggest advantage of this design would be simplify taxation, possibly eliminating trickery and loopholes.

Minor opposition party MDF (Hungarian Democratic Forum) promised an 18-percent flat tax in personal income tax, the elimination of capital gains tax, and no implementation of interest tax. However, both major parties – government party MSZP (Hungarian Socialist Party) and opposition force Fidesz (Alliance of Young Democrats) – rejected the idea of a flat-tax system, saying the current tax regime, where wealthier people paid a higher percentage, was fairer from a social point of view, and a 20-percent flat tax would mean a tax hike for those currently in the 18-percent bracket.³¹

By now it has become part of the agreement between the government coalition parties that, after an interim period, a flat tax system, ensuring more transparent and simpler tax payment, would be implemented in 2009. The concept indicates a 20-percent flat tax,³² while the issue of fairness seems to have been relegated to the backseat.

INTERPRETATIONS OF FLAT TAX

What is a flat-tax system? This concept means various, different, tax designs. It is a standardised tax rate applied for a homogeneous tax basis; a proportional tax. In terms of income taxes, how-

ever, a tax is usually meant by it which is not proportional but incorporates an income limit for tax exemption. In this case income beyond that limit is taxed. The combination of tax-exempt income and a uniform tax rate applied for income beyond that limit indirectly results in progressive taxes. The average tax rate on income just a bit higher than the limit is near zero, while high income are close to the constant tax rate.³³

A study prepared by the Hungarian Ministry of Finance³⁴ underlines that a proposal for a flat tax was first developed by *Robert Hall* and *Alvin Rabushka* in the early 1980s, so the idea of flat tax comes from the United States. The proposal suggested every dollar of income should be taxed at a standardised rate of 19 per cent with the exception of family income below USD 25,000, which should be exempt from tax. They argued that this simple taxation design would contribute greatly to economic development, because substantial clerical costs could be saved. Rabushka said such a system would in fact eliminate the need for tax returns, because the flat tax could be withheld when each unit of income was produced, saving the time and cost to calculate taxes and file tax returns as well as considerably simplifying tax control. Counter-arguments concerning fairness were not justified, said Hall and Rabushka, because the objectives of social policy should not be achieved through taxation. According to the Ministry of Finance study, OECD distinguishes between four flat tax designs:

- flat tax without tax exemption (Georgia),
- flat tax with tax exemption (Russia),
- flat tax with tax refund, and
- standard rate extended to corporate taxes as well.

In the background of the concept of flat tax there is *Arthur B. Laffer's* famous and much-debated theory which seeks to find some connection between tax rates imposed by the government and the size of the tax revenue collected by the treasury.³⁵ The Laffer Curve

graphically displays the connection between tax revenues and tax rates. The graph shows that the size of tax revenues initially increase at a relatively fast pace as tax rates are increased, but then growth slows down and revenues reach their maximum at T^* . When the tax rate is higher than T^* , people respond by either reducing their work performance or evading tax payment, resulting in lower tax revenues. If the tax rate amounted to 100 per cent, everybody would stop working and revenues would decrease to nought. The Laffer analysis also showed that a government has two choices as far as taxation is concerned. One, imposing higher taxes on a small percentage of the population, or doing the opposite by applying lower taxes but to a wider tax base. The Laffer Curve also indicates two theoretical tax rates for the same tax revenue, a high and a low rate. Consequently, state revenues do not necessarily decline when lower tax rates are employed.³⁶

While flat tax existed in Hong Kong and tax havens like the Channel Islands earlier, nowadays a victory parade has been witnessed, albeit in Easter Europe only. Estonia and Lithuania implemented a flat-tax system in 1994, Latvia in 1997, Russia in 2001, Serbia in 2003, Slovakia and Ukraine in 2004, and Romania in 2005. The Czech Republic, Bulgaria, and Macedonia have been preparing to follow suit in 2008.³⁷ The advantages of flat tax include positive impacts on employment and economic growth, a reduction in tax evasion schemes, and considerable simplification in the taxation system. On the other hand, flat tax generates problems for those with low and medium income, because their tax burden increases.

PAUL KIRCHHOF'S FLAT TAX

In Western Europe, the implementation of flat tax was considered most seriously in Germany in the form of a finalised bill. There's no flat tax

in personal income tax in Western Europe, except for Iceland³⁸ and Greece.³⁹ The German tax reform is attributed to *Paul Kirchhof*,⁴⁰ finance minister candidate in *Angela Merkel's* election campaign in 2005. The Christian-Democratic finance minister candidate was compared by *Angela Merkel* to *Ludwig Erhard*, regarded the foster father of Germany's economic miracle. The debate that had evolved around Kirchhof became a substantial factor in the election because of the tax reform he suggested.⁴¹ According to the professor of Heidelberg University, a 25-percent flat tax would give the slowing German economy a boost to clamber out of near-stagnation. The 62-year-old professor likes to use colourful similes to illustrate his messages. According to him, the current taxation system in Germany is “a fast-growing weed that suffocates the garden of freedom”. Of the moderately successful reforms implemented by the Schröder administration he said it was like “a vehicle in such a bad shape that makes further repairs absolutely pointless”.

Kirchhof believes it was time to make radical modifications in tax laws. Germany has 31 federal taxes, regulated by more than 70,000 articles. According to his proposal, the number of taxes would be reduced to four, comprising an income tax, a sales tax, an inheritance tax, and a consumption tax, and the relevant bulk of laws would be reduced to 400.

The result of three years of research and popularly known as *Einkommensteuergesetzbuch* (EStGB⁴²), Kirchhof's concept focuses on the idea that return taxes, i.e. taxes on income, should be standardised on legal basis in a transition period spanning 2 to 4 years. All income are managed as one irrespective of its origins, i.e. wages, interest, lease, or corporate earnings. Differences stemming from different cost-deduction rules related to various tax assets will be eliminated. EStGB would expand the tax base, and in addition to natural persons

“tax-law entities” will also be included in it. “Tax-law entities” are a concept independent of civil law. It comprises all sole proprietorships, separated assets, and capital ventures (economic entities), replacing corporate tax completely. Opportunities for tax evasion stemming from corporate restructuring are eliminated; tax differences between various enterprise forms are also eliminated. All tax deductions and exemptions are also eliminated, causing a considerable expansion in the tax base. Marital splitting (when spouses combine then halve their income) would also be changed as spouses could now consolidate their respective tax-free income.

Natural persons could deduct up to EUR 2,000 as flat-rate costs from their income. Minimum sustenance would remain untaxed. All taxable persons and dependents, all children are entitled to tax exemption up to EUR 8,000, to be used by the married parents of the dependent child. Sixty per cent of the next EUR 5,000 bracket is taxed, and 80 per cent of the next EUR 5,000, which means the full tax at 25 per cent is only applied for income beyond EUR 20,000.

The flat tax system proposed by EStGB makes lengthy browsing of tax laws, the seeking of tax advisors and finding ways of tax evasion unnecessary. While the government presently not only demands money from taxable persons but deprives them of a lot of time by forcing them to study receipts often collected in shoe boxes, as well as tax law explanations and tax tips, the proposed tax reform would relieve them from all these obligations.

On the basis of one of the books authored by Kirchhof⁴³ – voted the best literature in September 2005 – it is beneficial to take a close look at the legal considerations behind EStGB.

The author, on the basis of constitutional law, rejects the role taxes play in economic policy, emphasising the financing role of taxes instead. Its legitimacy is established by the

concept that income usually and obviously is subject to the community and the legal and economic environment provided by the community. In these cases, the state, acting as the representative of the community, may demand part of the income by way of taxes. For instance, a thriller could be written in a single day and may reap huge success in the market and generate a huge income, while another book, this one on tax reforms, is written for three years night and day and received by the market differently, although it may even be more valuable for the community in spite of being judged by the market as an unsuccessful publication. The progressive design of taxes stems from this idea: Those making a larger income use the market and the conditions provided by the state more intensively, thus the participating community may have higher demands.

The state earns its funds differently than private economy where income is generated by the direct exchange of output. The state is not a market player directly. Its services, ensured for the greater good of the entire society, are transferred not amid market conditions. The financial and economic impartiality and sovereignty of the state is protected by the fact that it finances its operation by taxes. Taxpayers that pay higher taxes have no stronger clout on the operation of the state or the legislation than those paying less, and vice versa, the government does not prefer major taxpayers to minor ones. Strict separation of government revenues and expenditures is one of the focal points of the German Basic Law. Ever since the Magna Charta Libertatum and the taxation policy laid out by the second political will of *Frederick the Great* the constitutional conclusion of the state policy concept that sets out from limiting taxation rights and protects taxpayers by prohibiting excessive taxes and prescribes that the larger part of income should remain with those who earn it⁴⁴ has been the concept of taxation

in proportion to performance, the prohibition of confiscation-type taxes, and the requirement that taxes should be on par with income and wealth.⁴⁵

Tax benefits described in tax laws and state subsidies granted by way of tax benefits also represent the government's commitment to support conduct desirable for the government and hampers undesirable conduct. In these cases, taxes not only ensure revenues but act as a tool of control while tax benefits have to be paid by other taxpayers at their own expense in the form of higher taxes, supporting activities or organisations they would never support as they would rather spend their funds on their families or enterprises they trust. Using taxes as a control tool is a controversial issue, because in these cases their role of ensuring revenues are demoted; taxes efficient as control tolls cannot be efficient in terms of government revenues.⁴⁶

However, the fairness of taxes above all means equality, the lack of tax privileges. Taxes are the price of economic freedom and do not limit freedom, but, on the contrary, are the expression of freedom.

Historic experience, especially the history of Central and Eastern Europe and the former Soviet Union, indicates that countries with central economic management do not need taxes, but in these countries property is not held freely and there's no economic autonomy, either.⁴⁷ But wherever property and enterprise are free, coverage of government spending can only be ensured by taxes. Government subsidies provided through taxes raise the issue of limited competition and government subsidies, as well.

From the aspect of constitutional law, the other issue is the requirement⁴⁸ that tax laws should be irrespective of organisations, which means taxes should be independent of what form of incorporation is used, or not used, to realise income.

Tax legislation has to regard the fact that Germany has one of the worst fertility rates in the world, taking 181st place in the ranking of 191 countries. Unless the current trends change, its population of 81 million will drop to 65 million by 2050. A typical data, 44 per cent of the population holding higher education degrees are childless. Germany's cultural, economic and political future is fundamentally at risk. Tax legislation must help Germany's future become open. A change in values should be done to make people care more about their families and children than the size of their income. Also, the misconception that the emancipation of women can only be realised through business and professional career should be disposed of. Families are communities of human beings entitled to dependency and of those obliged to sustain them. Children demand part of their parents' income. This title of the children and the obligation of parents are derived from the Constitution⁴⁹. It is anti-constitutional to disregard the additional obligations incurred to those raising kids when defining public contributions, because it violates the principle performance-based taxation, and the requirement of imposing taxes on the basis of wealth and income. A tax which disregards the concept that the raising of children is not just an individual commitment, but the interest of the entire society. Those taking this responsibility cannot be disadvantaged in terms of taxes compared to those without it, because the taxability of the latter scope is higher than those with kids. In the case of equal taxes, those would be at a disadvantage who act for the benefit of the state.

POTENTIAL IMPACTS OF EStGB

Using a micro-simulation method (FiFoSiM), the Financial Research Institute of the University of Cologne has scrutinised the

redistribution impacts of flat taxes, particularly the Kirchhof bill.

The impacts of various flat tax propositions have been scrutinised by various micro-simulation studies in terms of how flat taxes impact the distribution of tax contributions regarding various income groups in the current status quo. Such analyses are significant not only from a scientific aspect, but politically as well, because the outcome of a comparison may impact the chances of implementation.

The research institute has developed its own micro-simulation model⁵⁰, which aims to analyse impacts on growth, redistribution, and employment by using tax statistics as well as social and economic data.

The model comprises two parts: A micro-simulation model of Germany's tax and redistribution system and the supply model of the labour market estimated on the basis of economic calculations. As a special feature, the model is based on a twin database. One of them uses roughly three million entries randomly selected by various criteria from the federal wage and income tax statistics of Germany. The other incorporates a social and economic survey made in 2003 that comprised 12,000 households or 30,000 individuals. The former is used to describe groups of taxpayers and income by various criteria, and the latter helps calculate net income of households.

According to the findings of the survey⁵¹, a common feature of flat taxes is the widening of the tax base, an increase in non-taxed income cap, and a relatively low, standard tax rate. Various designs for flat-rate tax reform have different impacts on income distribution, but a flat tax increases income inequalities overall. Particularly the middle class as well as employees outside the scope of self-employment and pensioners – accounting for the majority of the population – would be set back by the implementation of a flat tax, while the upper ten per cent of the population with the highest income

– particularly those making their living from self-employment – would benefit from it.

According to the analysis, reforms to implement flat taxes would increase social inequalities, and the Kirchhof model has an impact of increasing income inequalities.

At the same time, it can also be discerned in general that the higher the untaxed income limit and the tax rate, the lower the inequality increasing impacts of a flat tax.

Although similar studies in 1985 predicted a five-percent increase in jobs in the United States and a two-percent bump was expected in Germany in 2003 – positive impacts of a flat tax system on labour market cannot be verified unequivocally. Even if there is such an impact, it is likely to be insignificant. Impacts on investments and employment are theoretically subject to the applied tax rate and the situation on the labour market at the time.

It is to be noted that Table 4 of the survey suggests that on the basis of the Kirchhof model – when taking the demographics of winners and losers into consideration – 81.77 per cent of individuals between the ages 35 and 50 and 70.67 per cent of citizens between 55 and 65 years would benefit from the implementation of EStBG. It should be similarly noted that the results of the survey conducted on the basis of family status indicate that 90.12 per cent (!) of married couples raising children would benefit from the implementation of EStBG, whereas 54.44 per cent of singles with no kids could boast the same.

Obviously, married couples with more than one child would especially leverage from the Kirchhof-model.

Interestingly, one of the biggest losers of EStBG are taxpayers whose main income comes not from work but from equity. They take runner-up position among losers with 47.73 per cent according to Table 5, only preceded by over-65 citizens with 49.15 per cent in the age breakdown.

Based on their income, households are divided into ten categories. The lowest tenth has the strongest income position, and the highest tenth has the weakest. Based on Table 5

- in the first four classes of households (40 per cent of less affluent households) the ratio of losers is under 20 per cent (in the first class, the poorest, this ratio is 0.02 per cent),
- the fifth tenth has the highest ratio of losers at 22.21 per cent, and
- this ratio decreases but stays above 20 per cent up to the ninth tenth, but
- the households with the highest income would have a loser ratio of 19.04 per cent only.

ARGUMENTS AGAINST EStBG

Many are against Kirchhof's proposition.⁵² One of the weightiest reasons cited by those against a flat tax system is its unfairness. According to their view, a flat tax would mean higher taxes for the poorer in a multi-bracket progressive system, and it would be a tax cut for the more affluent because of eliminating a high tax rate. Sceptics argue that tax the principle of performance-based taxes at the same time means income taxes should be progressive, obliging the more affluent to pay more than the less well-to-do.⁵³

According to the majority of sceptics, a tax reform would surrender the basic principle of performance-based taxation. A secretary would be taxed at the same rate as the chairman of a supervisory board. The taxation system would lose the role of a social equaliser, and taxes would no longer regroup income. A survey⁵⁴ released by the managing board of IG Metall⁵⁵ indicates that the net annual income of a single head nurse with an annual salary of EUR 34,500 would be EUR 1,010 less, suffering a 4.3-per-cent slump in income. A family with two kids

where both parents are blue-collar workers with one of them working part-time and earning a combined EUR 52,500 annual income would suffer a loss of EUR 1,266, representing 3.1 per cent of their income. As a contrast, a manager with no spouse and no children earning EUR 65,000 annually would make EUR 4,765 or 12.5 per cent more. The income of a manager whose spouse is a housewife with two kids and earning EUR 208,000 annually would be 9.4 per cent higher when flat tax is implemented. These figures clearly show that high-income individuals would benefit from a tax reform.

Sceptics – including DIW⁵⁶ according to a newspaper article – expect the central budget to lose EUR 26 billion if the Kirchhof model were to be implemented. Flat rate tax would clearly lower the tax rate, especially in the scope of higher income and would cause lower burdens – both in relative and absolute terms – for this scope than in the scope of average wages. Surveys indicate that the abolition of all tax deductions and tax subsidies would increase the tax basis by no more than 12 per cent while 14.5 per cent could be achieved by putting a heavier burden on business earnings. According to surveys, the tax contributions paid by 'the wealthy' are substantial in the scope of income taxes, financing a considerable ratio of government expenditures. Ten per cent of the wealthiest taxpayers are responsible for 51 per cent of income tax revenues, and the topmost 0.1 per cent – representing 29,000 individuals – account for 8.3 per cent of income tax revenues.

POTENTIAL IMPACTS OF FLAT TAX IN HUNGARY

Impacts of a flat tax on the redistribution system in Hungary have also been surveyed.⁵⁷

The survey is based on the concept that the government has a number of tools to execute

redistribution. One of these pillars is the tax system, which can be regressive, linear, or progressive. Income tax systems are generally progressive, but tax deductions modify the degree of progression, and indirect taxes complicate the system further. The other major tool used in redistribution is the system of social transfers, which comprises universal or eligibility-based benefits. Income redistribution in Hungary is also demonstrated by micro-simulation, using the micro-simulation model TÁRSZIM-2005 devised by the Ministry of Finance. One of the core components of the model is an individual-level database that describes the composition of the society and the characteristics of its members well, making it representative and aptly detailed. The database is built on a compilation by the Tárki Monitor in 2004, containing the individual demographic data, labour market characteristics, and income figures of 2,325 Hungarian households surveyed in 2003, as well as the main characteristics of the households. This was supplemented by the database of KSH Háztartás Költségvetési Felvétel [Hungarian Statistical Office Household Budget Survey] of 2003, which contains detailed consumption data of nearly 8,000 households. The third database is an APEH [Financial and Tax Control Authority] random sample of nearly 62,000 individuals taken from income tax returns for the year 2003.

The other core component of the model is the system of taxes, contributions, and benefits. What the study establishes of the status quo scrutinised on the basis of regulations effective in 2006 is that tax deductions account for a substantial sum in the Hungarian system of taxes and benefits, but they fail to reach the really needy, favouring those with medium-sized income instead. As a contrast, cash benefits are delivered to the poorer third of households primarily, increasing their income substantially. The system reaches families with

children efficiently, and the significance of benefits increase when the number of children are higher.

The implementation of a flat tax would modify this redistribution system. In addition to describing the current situation, the study examines the potential redistribution effects of a flat tax by using an imaginary tax regime which is less complex than the current regime and similar to the one implemented in Slovakia. In this imaginary system tax rates are standardised at 20 per cent (both for Personal Income Tax and Value Added Tax), and all income would be included in the consolidated tax basis, but employees' tax rebate and the supplementary tax rebate ensuring no taxes for minimum wage would remain in place. Apart from that, there would be no other tax deductions or gas price subsidies, but income-based benefits managed by the municipalities as well as insurance-based transfers and family benefits (family benefit, maternity benefit, and maternity allowance) would remain in place.

Also operating with ten income brackets, the study also identifies winners and losers in the income groups, establishing that the universal 20-percent flat tax would be beneficial for higher-income individuals. Although there are no huge discrepancies in tax payments except for the upper 20 per cent of the income range, tax burdens would be significantly lower for the wealthiest. Personal income tax for the entire family in the upper half of the income range would be lower, but VAT paid would increase for all ten income scopes (this latter is an obvious consequence of the elimination of the preferential VAT rate). The more affluent would benefit from the combined result of these factors, and poorer strata would emerge as losers. Overall, the income of the upper third would increase, but the lower half would have to do with less disposable income. Roughly 15 per cent of households would benefit from a flat tax

regime and 15 per cent would be at disadvantage, and the rest would not experience substantial changes. Winners come from the upper income range, and the rate of losers is over 10 per cent in each group, but the distribution is highest in the middle range. Compared to the current system, the implementation of such a tax regime would reduce the extent of income regrouping, hence social solidarity. Expectations suggest that the implementation of a Slovakian flat tax in Hungary would be beneficial for well-to-do households primarily and would make poorer one the losers. The main reason for that lies in the reduction of the highest tax rate in the scope of personal income tax and the impacts of the VAT consolidation, increasing the expenses of households.

CLOSING CONSIDERATIONS

A flat rate tax means a more transparent and more intelligible tax system, provided it focuses on a single tax rate, the elimination of all deductions, the implementation of a wider and standardised tax base.

Its fairness cannot be assessed in itself. The main reason is that its most frequently criticised flaw – preferring the more affluent and causing disadvantages for the poorer strata – is largely subject to the economic environment⁵⁸ and the legislative details, including the size of the tax-free income and the extent of the tax rate.⁵⁹ Flat tax is also suitable to express a number of constitutional requirements or political objectives. However, the argument against it – that it would eliminate progression – is true in formal consideration only. Although higher income would not be taxed at a higher rate, progression would still prevail: In the Kirchhof model the 25-percent rate impacts income over EUR 20,000⁶⁰ but leaves income below that intact.

NOTES

- ¹ <http://www.unesco.hu/index.php?type=node&id=131>
- ² A társadalmi fenntarthatóság mérése – Módszertani tanulmány [Measuring Social Sustainability – A Study in Methodology], Társadalomtudományi munkacsoport [Social Sciences Working Group], Ms. Bodorkós, Barbara – Pataki, György – Ms. Vári, Anna, http://www.kep.taki.iif.hu/file/Vari_Tarsadalmi_fenntarthatosag_indikatorai.doc
- ³ 1st on the list Niger with 50.16, Ireland 151st with 14.40, France 162nd with 12.91. Source: <https://www.cia.gov/library/publications/the-world-factbook/rankorder/2054rank.html>
- ⁴ Article 70/I: "All natural persons, legal persons and unincorporated organizations have the obligation to contribute to public revenues on the basis of their income and wealth."
- ⁵ 620/B/1992 ABH 1994, 539, 541.
- ⁶ 61/1992. (XI. 20.) Constitutional Court Decision, 1992, pages 280, 281.
- ⁷ 122/B/1996 Constitutional Court Decision, 2002, pages 737, 746.
- ⁸ 54/1993. (X. 13.) Constitutional Court Decision, 1993, pages 340, 342.
- ⁹ 61/2006. (XI. 15.) Constitutional Court Decision, 2006, page 674.
- ¹⁰ Pallas Nagy Lexikona [Pallas Great Encyclopaedia]
- ¹¹ Földes, Gábor: Tax Legislation, Osiris Kiadó [Osiris Publishing House], 2001, page 127
- ¹² 620/B/1992 Constitutional Court Decision, 1994, pages 539, 541.
- ¹³ 61/1992. (XI. 20.) Constitutional Court Decision, 1992, pp 280, 281.
- ¹⁴ The 'Addendum' of the Pallas Nagy Lexikon dated "In the Month of Christmas 1897 in Budapest"
- ¹⁵ This requirement can be found in the practice of the German Constitutional Court. For instance, the rule of German Constitution prescribing special government protection for marriage and families (GG Art. 6 Abs.1.) means in practice that sustenance amounts for each family member should be left untaxed in the case of family tax. See also: Beschluß des Zweiten Senats vom 10. November 1998 – 2 BvL 42/93 – In accordance with the practice in Germany, the government is obliged to leave taxpayer income untaxed up to the extent necessary for the minimum of human existence (Existenz-minimum) BVerfGE 82, 60.
- ¹⁶ Constitutional Court Decision, 1992. page 506.
- ¹⁷ In the practice of the German Constitutional Court – even though this principle is not linked to a single constitutional rule – is generally attached to the requirement of equal rights. The 'Leistungsfähigkeitsprinzip' can be interpreted as a horizontal effort, putting equal burdens on entities with equal economic strength. See also: Uwe Paschen: Steuerumgehung im nationalen und internationalen Steuerrecht, page 52, <http://books.google.hu/books?id=wkKnqqXF1iwC&pg=PA52&lpg=PA52&dq=leistungsfahigkeitsprinzip+bverfg&source=web&ots=qVVgGCpref&sig=gVs23dH9Tu7CpdjQIIW1M6C2-Nc&hl=hu>
- ¹⁸ 6/1997. (II. 7.) Constitutional Court Decision, 1997, page 67.
- ¹⁹ (995/B/ Constitutional Court Decision, 1993, pp 524-525.)
- ²⁰ It should be noted that child support received on the basis of obligations defined by the law is tax-free (on the part of the child), and rightly so. However, support for children given in kind is not exempt from tax – at least according to the letter of the Personal Income Tax Act – although it should be. Some families, typically those with divorced parents, a certain part of the child support (the part to be paid by one of the parents) is not regarded as income at the family where the child is actually raised.
- ²¹ 14/1995. (III. 13.) Constitutional Court Decision, 1995, pp 82, 83.
- ²² BVerfG FamRZ 93/1419
- ²³ BVerfG FamRZ 93/164; BVerfG FamRZ 95/1352; BVerwGE 15/306; 52/11; BGHZ FamRZ 93/533; BSGE 63/120.

- ²⁴ See also: Professor Dr. Rudolf Wendt: Grundfragen der Familienbesteuerung, from page 11, <http://wendt.jura.uni-saarland.de/Prof.Dr.Wendt/Vortraege/GfderFamilienbesteuerung.htm>
- ²⁵ <http://www.efd.admin.ch/dokumentation/zahlen/00579/00608/00631/index.html?lang=de>
- ²⁶ BVerfG 03.04.2001 – 1 BvR 2014/95; on 3 April 2001 six decisions about nursing insurance were delivered. <http://www.versicherungsnetz.de/Onlinelexikon/Pflegeversicherung.html>
- ²⁷ There used to be a childless tax in Hungary, abolished after the 1956 revolution (see Part V. of 1004/1953. (II. 8.) Council of Ministers Decree, and 8/1953. (II. 8.) Council of Ministers Decree on childless tax). Beginning on 1 March 1953, males between 20 and 50 years of age as well as females between 20 and 45 had to pay 4 per cent of their income (HUF 15 per month in the case of household employees) in case they did not have a child (biological or adopted or in foster care). Parents whose child had died after the age of 20 were exempt from the tax, along with members receiving pay from the People's Army or the National Security Authority and their wives, as well as the war disabled at 100 per cent and 75 per cent and the civilian war disabled, and males and females between 20 and 24 years of age until they attended school (university, etc.). Decided after the 1956 revolution, 14/1956. (XII. 24.) Government Decree abolished childless tax..
- ²⁸ Explanation of Act CLIII. of 2005 on the 2006 Budget of the Republic of Hungary 2006, II. 1.1.
- ²⁹ <http://index.hu/gazdasag/magyar/bevall071115>
- ³⁰ http://www.oecd.org/document/57/0,3343,en_2649_201185_40233913_1_1_1_1,00.html, Table 01.
- ³¹ <http://valasztas2006.origo.hu/valasztas2006/20060209ado.html?pldx=2>
- ³² <http://www2.szdsz.hu/hu/szdsz/hirek/20060610egykulcsos>
- ³³ Die Flat Rate Tax von Prof. Dr. Clemens Fuest, manuscript by Andreas Peichl dated 6 November 2007.
- ³⁴ Nemzetközi adóreform tapasztalatok [International Experience in Tax Reforms], Szakmai háttéranyag [Background material], 5 September 2007, prepared by the Economic research Department of the Economic Policy Division of the Ministry of Finance on commission by Economic Competitiveness Round-table, http://versenykepesseg.magyarorszagholnap.hu/images/5_%C3%BCI%C3%A9s_Nemzetkozitapasztalatok.pdf, pp 4–5
- ³⁵ <http://de.wikipedia.org/wiki/Laffer-Kurve>
- ³⁶ One of the examples for the 'operation' of the Curve is reduction of Hungary's corporate tax to 18 per cent from 36 per cent as of 1 January 1995, which caused not a decrease but an increase in tax revenues.
- ³⁷ Remarkably, former Socialist countries are the forerunners of implementing flat tax in Europe; and, also remarkably, Poland and Hungary, the two countries where the economic and political transition started, are exceptions.
- ³⁸ In Iceland, the linear personal income tax was 25.75 per cent in 2002. Income is tax free, actually taxed at zero per cent, up to HUF 809.616. A 7-percent supplementary tax is imposed on income exceeding ISK 3,980,000 (roughly HUF 12 million). Capital gains tax is 10 per cent. Available to all, tax deduction equals to HUF 936,000 annually. If the tax reduction is higher than the tax to be paid, the difference is compensated by the treasury. the unused part of singles' tax reduction is then cancelled. Married couples can add 95 per cent of their unused tax deduction to the income of the spouse. Tax payment can be reduced by a complex but detailed set of child benefits (the sum depends on how many children there are, and how many of them are under 7 or over 16, whether the parent is single, and the parent's income is average or above average, because higher income gets lower tax benefit after the child or children). www.es.hu/pd/display.asp%3Fchannel%3DPUBLICISZTIKA0411%26article%3D2004-0316-0955-23SFBH
- ³⁹ Personal income tax reform in Greece started in 2007 and will facilitate a gradual transition to a uniform 25-percent tax until 2010 and the abolishment of existing tax benefits. Since public finance deficit was 6.5 per cent of GDP last year, the objective is to curb tax evasion rather than reduce tax burdens (Athens wanted to push deficit below 3 per cent in 2006 to meet the criteria set forth by the Stability Pact. <http://index.hu/gazdasag/vilag/kulcssz05082/?print>

- ⁴⁰ German expert of constitutional and tax laws, a professor at Heidelberg University Law School, federal constitutional justice between, 1987 and 1999, http://de.wikipedia.org/wiki/Paul_Kirchhof
- ⁴¹ "Germany heads to polls on flat tax" FigyelőNet, 17 September 2005, <http://www.voks2006.hu/index.php?id=4&cid=106239>
- ⁴² 13,122 characters, 23 Sections, no appendices, <http://www.bwl-bote.de/20050817.htm>
- ⁴³ Paul Kirchhof: Der Weg zu einem neuen Steuerrecht – klar, verständlich, gerecht Deutscher Taschenbuch Verlag München, September 2005
- ⁴⁴ Indirect taxes should also be taken into consideration when calculating the 'larger part'. Accordingly, the theoretic 50-percent tax rate should be reduced by the VAT rate. The 25-percent rate in the Kirchhof model takes tax burdens imposed by indirect taxes into consideration.
- ⁴⁵ The latter two principles are also evident in the practice of the Hungarian Constitutional Court. In its Decision 1531/B/1991., the Constitutional Court resolved a case where the petitioner found the proportional rule of Article 70/I. as being violated by a municipal decree because the lump sum annual tax on his property had been imposed in a such way that it was excessive compared to the value of the property. The Constitutional Court Decision established that although it is not the responsibility of the extent or the sum of the tax, but "when a normative applies a public burden that results in the bankruptcy of the taxable person, it can no longer be regarded as tax", Constitutional Court Decision 1993., pages 707, 711. In other decision it was established that when the tax extent is so excessive in comparison to the underlying value (the market value of the property) that it is regarded as confiscation, then it would be anti-constitutional. The same reasoning was applied in its Decision 25/2005. (VII. 14.) regarding stamp duties.
- ⁴⁶ The example of the tax on petty cash also demonstrates that no revenues would have been made had the tax achieved its goal, because the objective was to keep cash in petty cash below a certain percentage of sales. Cash beyond that limit were to be taxed, but no taxes were to be paid on sum below the cap.
- ⁴⁷ It is to be noted that the first tax reform in Hungary was based on laws coming into force in 1987 and 1988, which means the implementation of VAT, corporate tax, and the law on corporations preceded the political and economic transition. Péter Gosztonyi writes in his book *A magyar Golgota [The Hungarian Golgota]* (Szászorszép kiadó [Szászorszép Publishing], Budapest, 1993) that Party Committee Secretary János Berecz said in an interview in the second half of March 1998 that Gromiko, the then Foreign Secretary of the Soviet Union, had warned them: deep changes were to be expected both politically and economically, because the Soviet Union was going to give up her Eastern European positions (pp 241–243). Gosztonyi says the collapse of the Communist regime did not come as a surprise for party leaders. "Time will tell whether they used the warning appropriately".
- ⁴⁸ According to a decision by the German Constitutional Court (Schwarzwaldklinik, BVerfGE 101, 151) neither the legal or the incorporated form of an enterprise may lead to different tax burdens. The freedom of association prohibits the tax legislation to affect the right to free choice of forms of incorporation. The decision projects a future resolution that personal enterprises and capital corporations are to be considered as equal by the tax legislation.
- ⁴⁹ The Hungarian Constitutional Court considers Article 67 (1) of the Constitution, prescribing the care obligations of parents and the state, as one of the fundamental rights of children; Constitutional Court Decision 576/D/2000, 2006, page 1314
- ⁵⁰ Dokumentation des Wohlfahrtsmoduls von FiFoSiM, Frank Brenneisen und Andreas Peichl, FiFo-CPE Discussion Papers, No. 07.04., 2007
- ⁵¹ Die Flat Tax: Wer gewinnt? Wer verliert? Eine empirische Analyse für Deutschland von Clement Fuest, Andreas Peichl, Thilo Schaefer, Juli 2006, Finanzwissenschaftliche Diskussionsbeiträge Nr. 06–6
- ⁵² Including Prof. Dr. Stefan Homburg (1961), professor of Leibniz University, Hannover, and chairman of Public Funds Institute, member of the federal Finance Ministry's Scientific Council between 1996 and 2003; and Prof. Dr. Rudolf Hickel, researcher for Institute for Work and Economy (IAW), professor of economics at the University of Bremen, who authored the study "*Kirchhof's Conservative-Liberal Guide to Taxes: Tax Simplification Simply Causes Unfairness in Tax Contributions and Renders the State Poor*" in September 2005.

- ⁵³ The outcome of the general election in 2005 proved catastrophic for Angela Merkel's Christian-Democrats, who had clearly been losing in the polls during the entire election campaign. Observers find it likely that many voters were compelled to reconsider their positions by the radical reform concepts of Merkel's shadow financial minister, Paul Kirchhof. http://www.bbc.co.uk/hungarian/news/story/2005/09/050919_germany_election.shtml
- ⁵⁴ One of the largest trade unions of the world, comprising nearly 2.3 million employees in metallurgy industry, textile and clothing industry, and timber and plastics industry.
- ⁵⁵ *Wirtschaft aktuell* 13/2005 – Aktuelle wirtschaftspolitische Analysen der IG Metal
- ⁵⁶ Deutsches Institut für Wirtschaftsforschung, *Netzeitung.de*, 7 September 2005
- ⁵⁷ *Közgazdasági Szemle* [Economic Journal], year LIII., July-August 2006 (pp 604–623) Ms. Benedek, Dóra – Ms. Lelkes, Orsolya: A magyarországi jövedelem-újraelosztás és egy egykulcsos adóreform vizsgálata mikroszimulációs modellel [Study of Income Redistribution and a Flat Tax in Hungary by Micro-simulation Model].
- ⁵⁸ Obviously, a flat tax has different impacts and reasons in each country. Flat tax systems are generally implemented in economies where – using a bit of simplification – it was all or nothing, either because the economy was in such a bad shape (Estonia), or because progressive taxation had been so ineffective (Russia). A flat tax means a totally different thing in an economically developed, strong country with an extensive and well-operated benefit system. In Germany, the child care benefit (Kinderbetreuungsgeld) alone is EUR 800 per month until the child reaches 1.5 years of age, EUR 624 until two years, and EUR 436 until three years of age – applicable up to a limit of EUR 16,200 annual income. As a comparison: In Hungary, minimum wage is HUF 69,000 at the moment, average pension will be HUF 85,000 in 2008, and the minimum of old-age pension is set at HUF 28,500.(!).
- ⁵⁹ The rate ranges from 13 per cent (Russia) to 33 per cent (Lithuania). Both countries can boast success in the implementation of a flat tax system..
- ⁶⁰ EUR 1,666.6 per month.