

The Flat Tax: A Fair, Simple and Transparent Reform for Italy

ALIQUOTA UNICA

15%

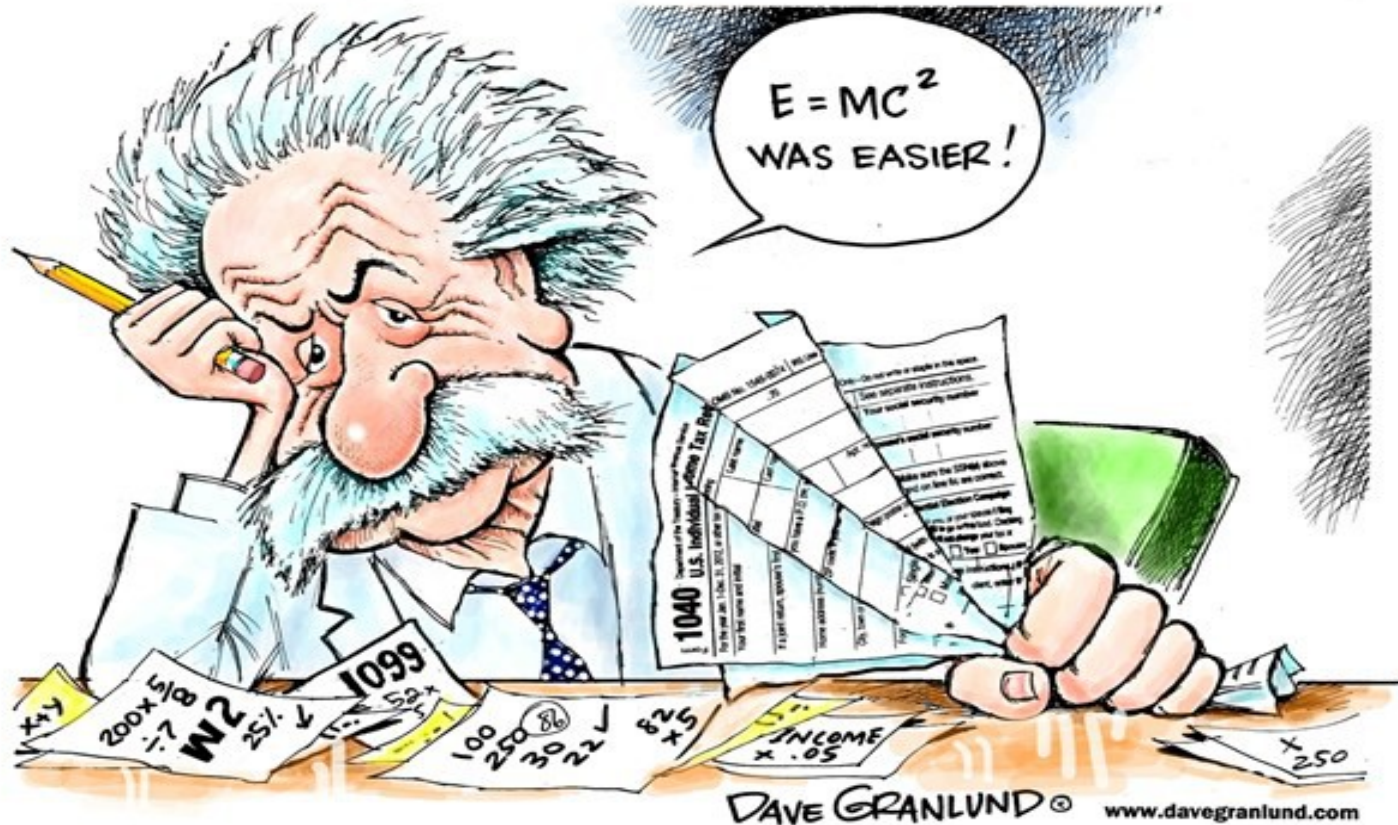
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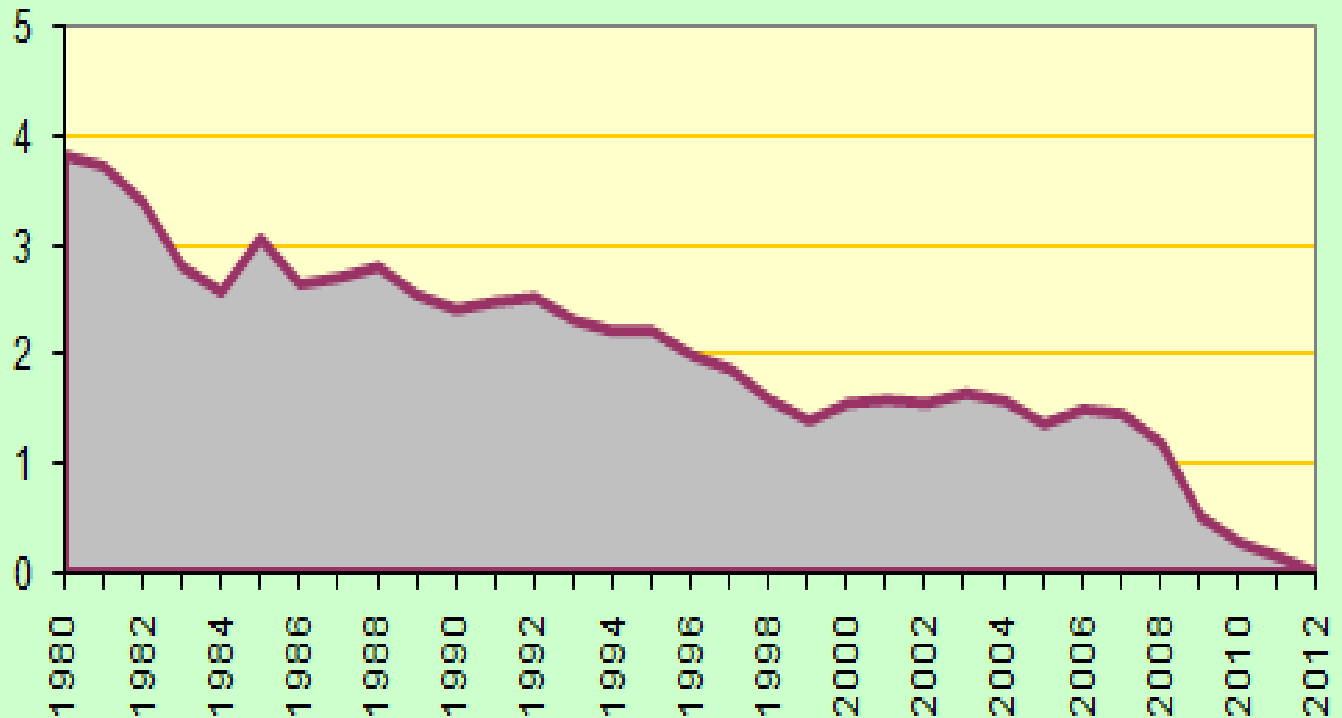
Even Einstein Can't Understand the Income Tax Code





TAXES

Italy GDP - 10 year moving average 1980 - 2010
(annual, % change)



Source: Istat, IMF, 2012 own estimate

Italy's cumulative GDP growth since 2000

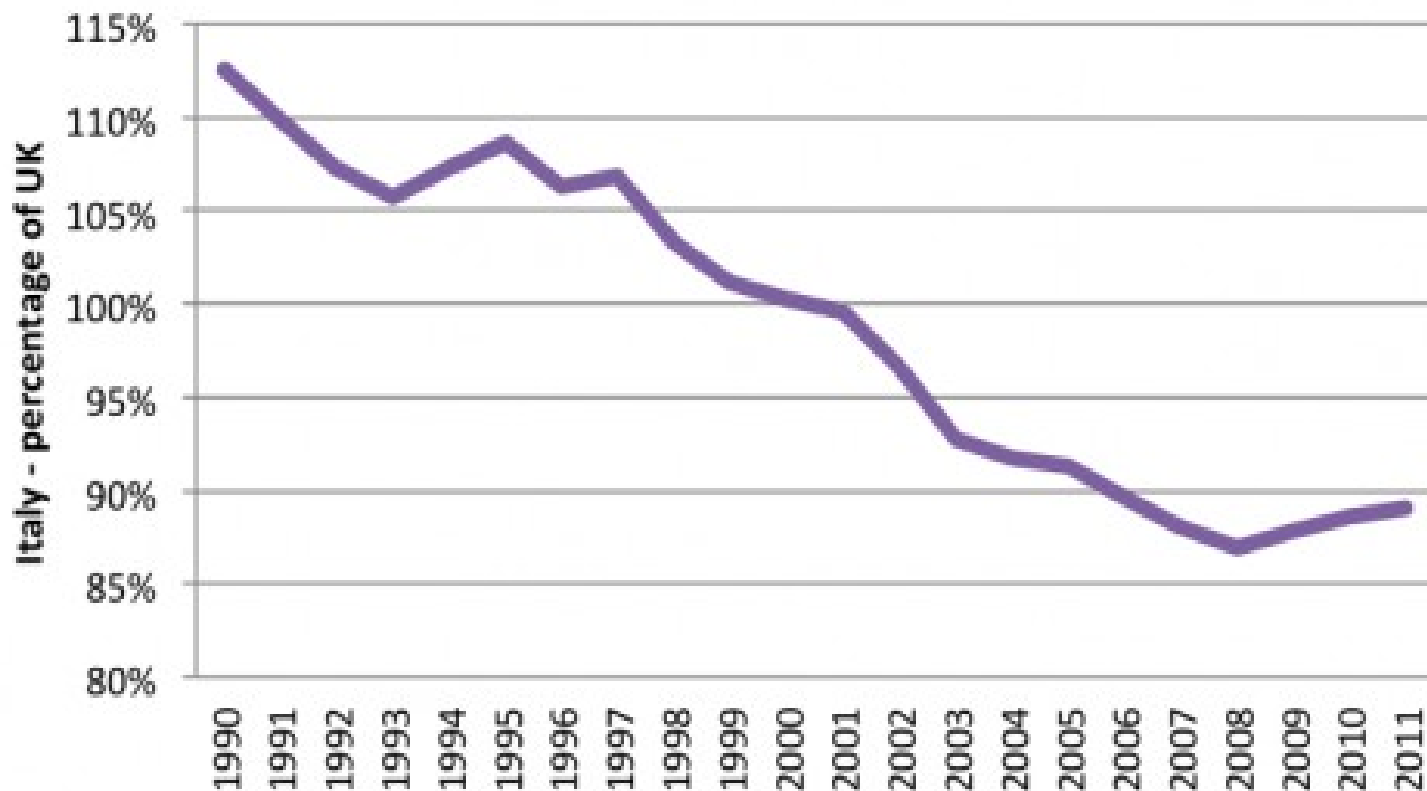
12%



Quartz | qz.com

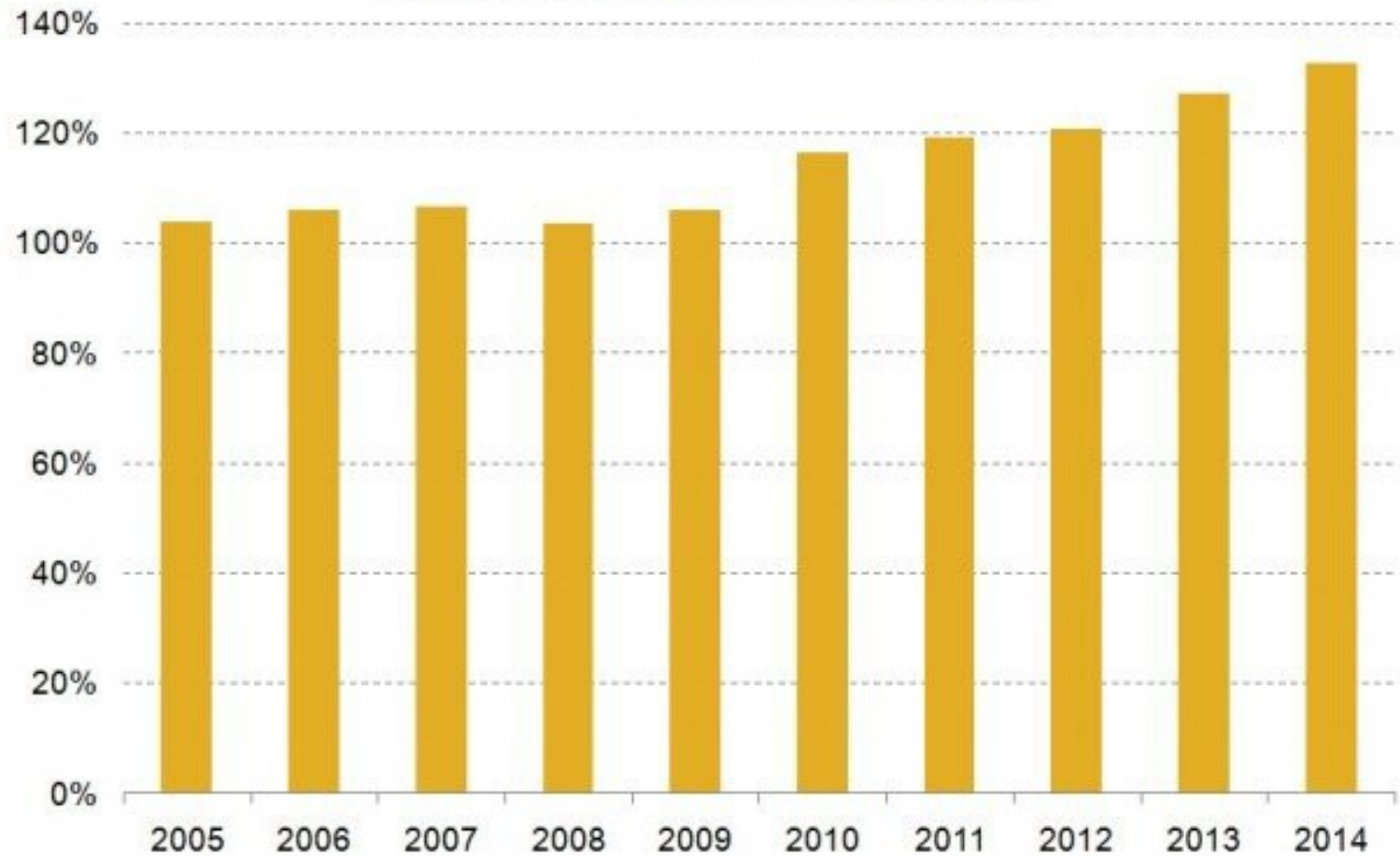
Data: Istat

Italy Output per Worker



www.economicshelp.org | Source: OECD

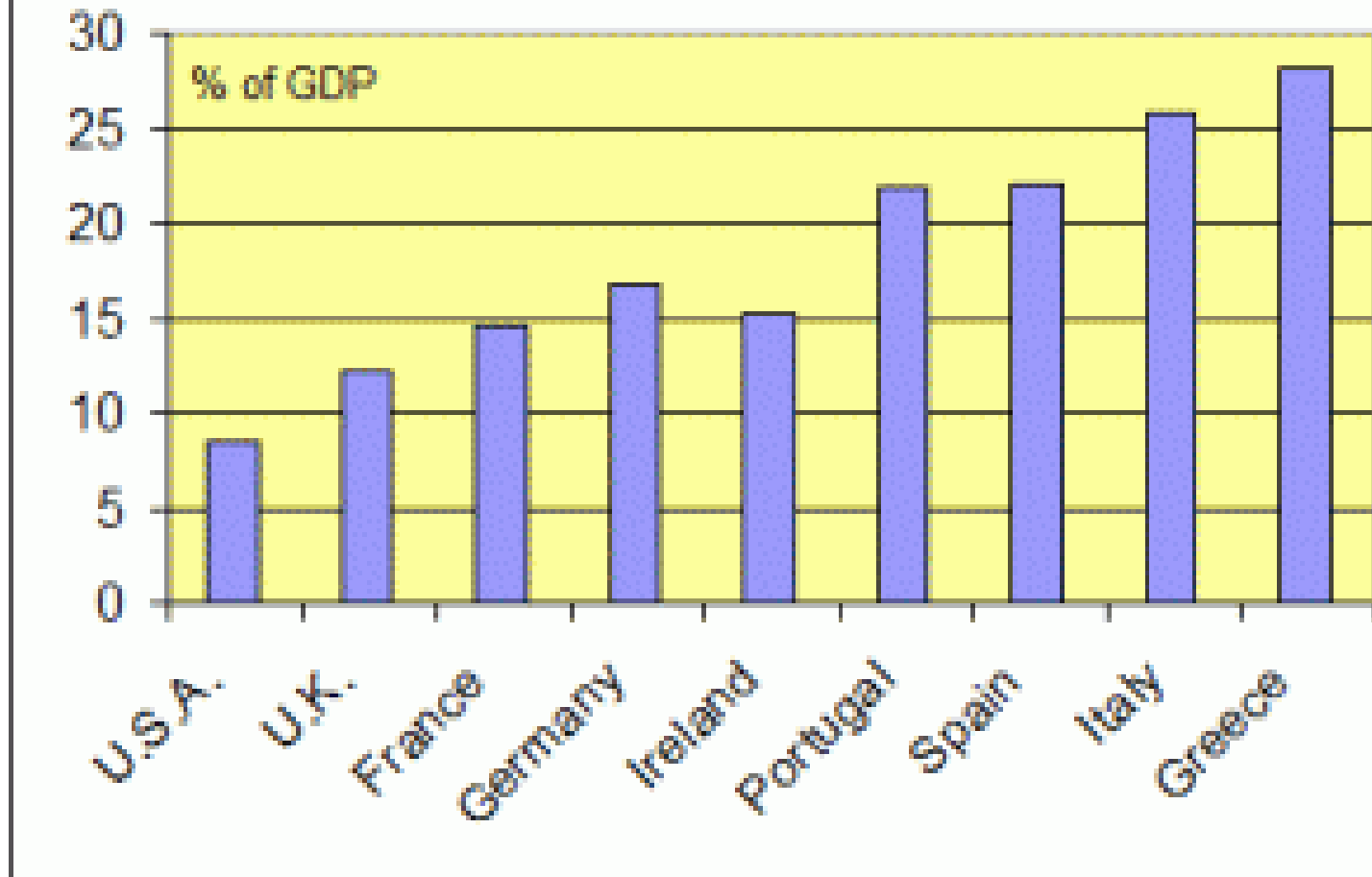
Italy Government Debt to GDP ratio (%)



Market Realist^Q

Source: Eurostat

Size of the shadow economy 2002/03



Tax Revenue as % of GDP in Italy (Excluding Social Security)

• 1965	16.8%	• 2000	30.0%
• 1975	13.7%	• 2007	30.3%
• 1985	22.0%	• 2009	29.7%
• 1995	27.4%	• 2011	29.6%

Total Tax Revenue as % of GDP in Italy (Including Social Security)

• 1965	25.5%	• 1995	39.9%
• 1970	25.7%	• 2000	42.0%
• 1975	25.4%	• 2007	43.2%
• 1980	29.7%	• 2009	43.4%
• 1985	33.8%	• 2011	43.0%
• 1990	37.6%	• 2012	44.4%

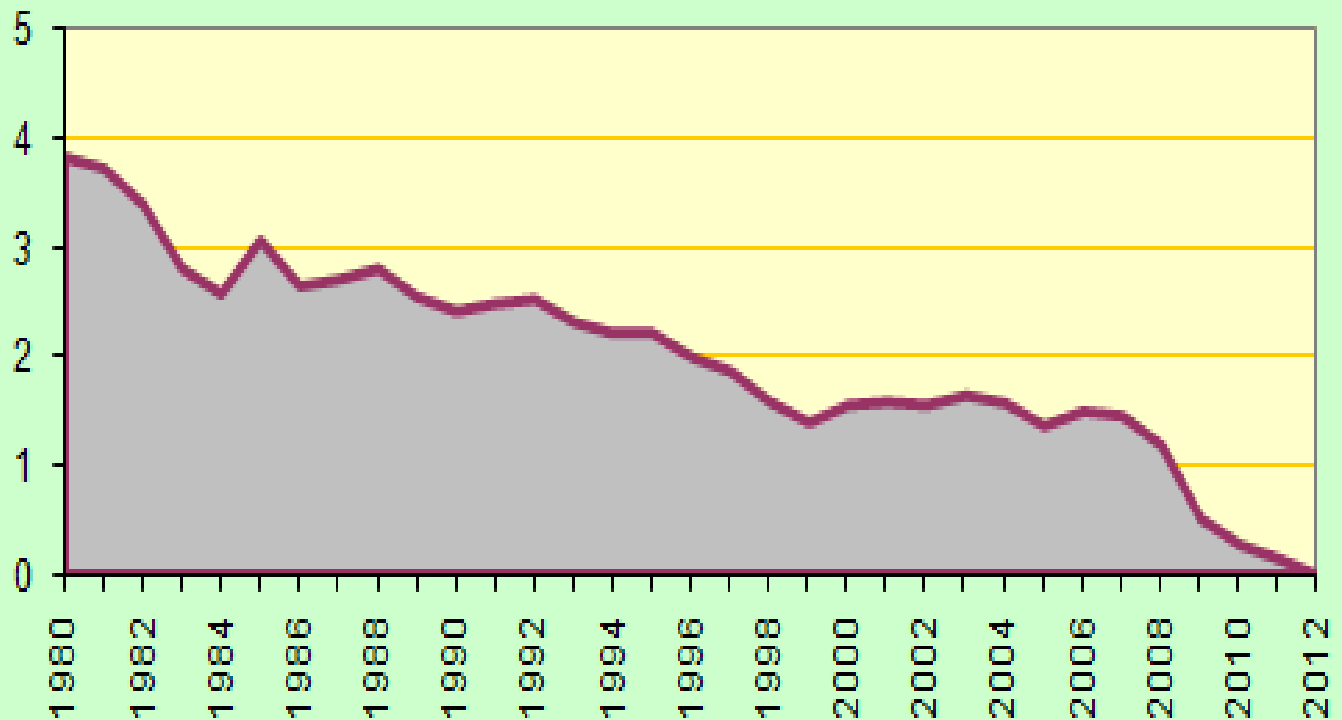
Changes in Tax to GDP Ratio in Italy

Percentage Points by Decade

- 1965-1975 -0.1% 25/25 in OECD
- 1975-1985 +8.5% Second
- 1985-1995 +6.5% First
- 1995-2011 +3.1% Sixth

Between 1975-2011, Italy ranked first in OECD

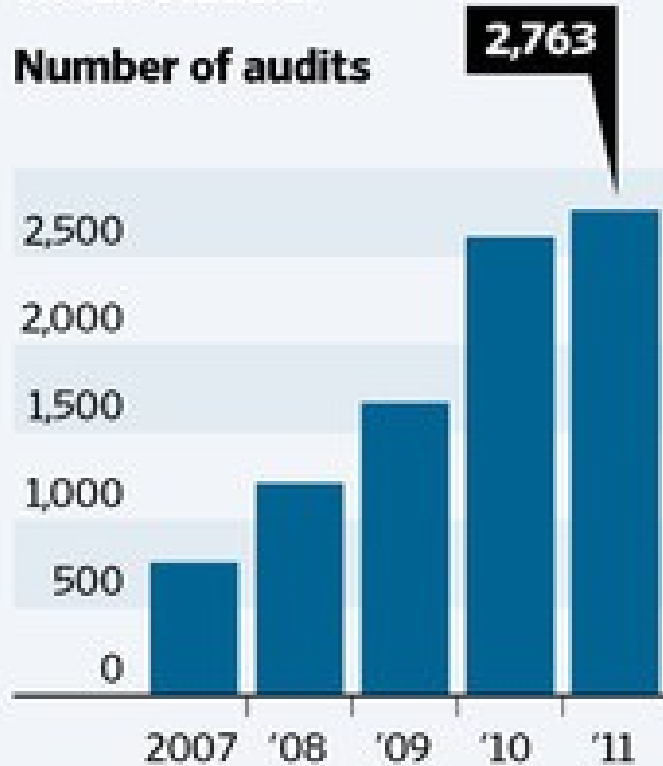
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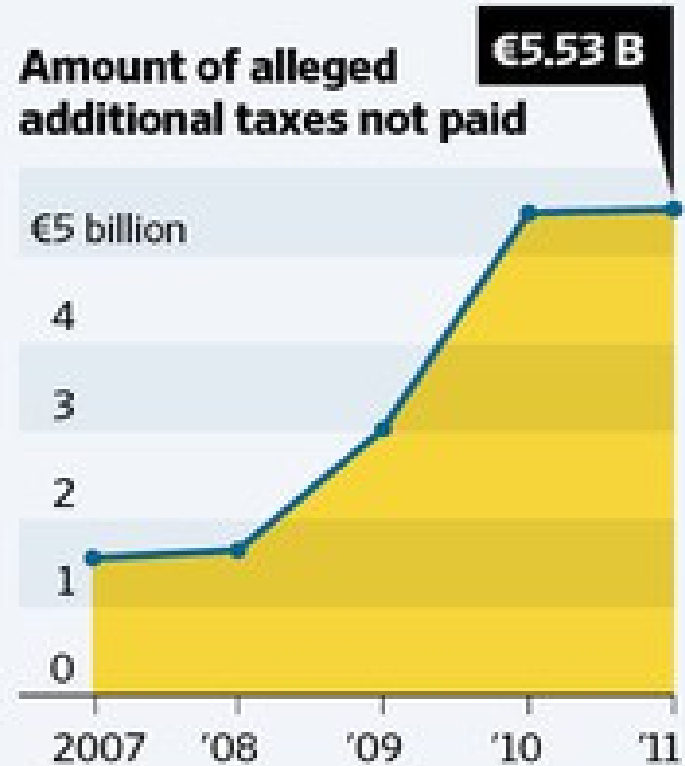
The Taxman Cometh

Italy, which faces a budget crisis, has been cracking down on tax evaders.



Source: Italian government's tax agency

€1 billion = \$1.35 billion



The Wall Street Journal



Italy individual income tax rates 2014

Tax (%)	Tax Base (EUR)
23%	0 - 15,000
27%	15,001-28,000
38%	28,001-55,00
41%	55,001-75,000
43%	75,001 and over

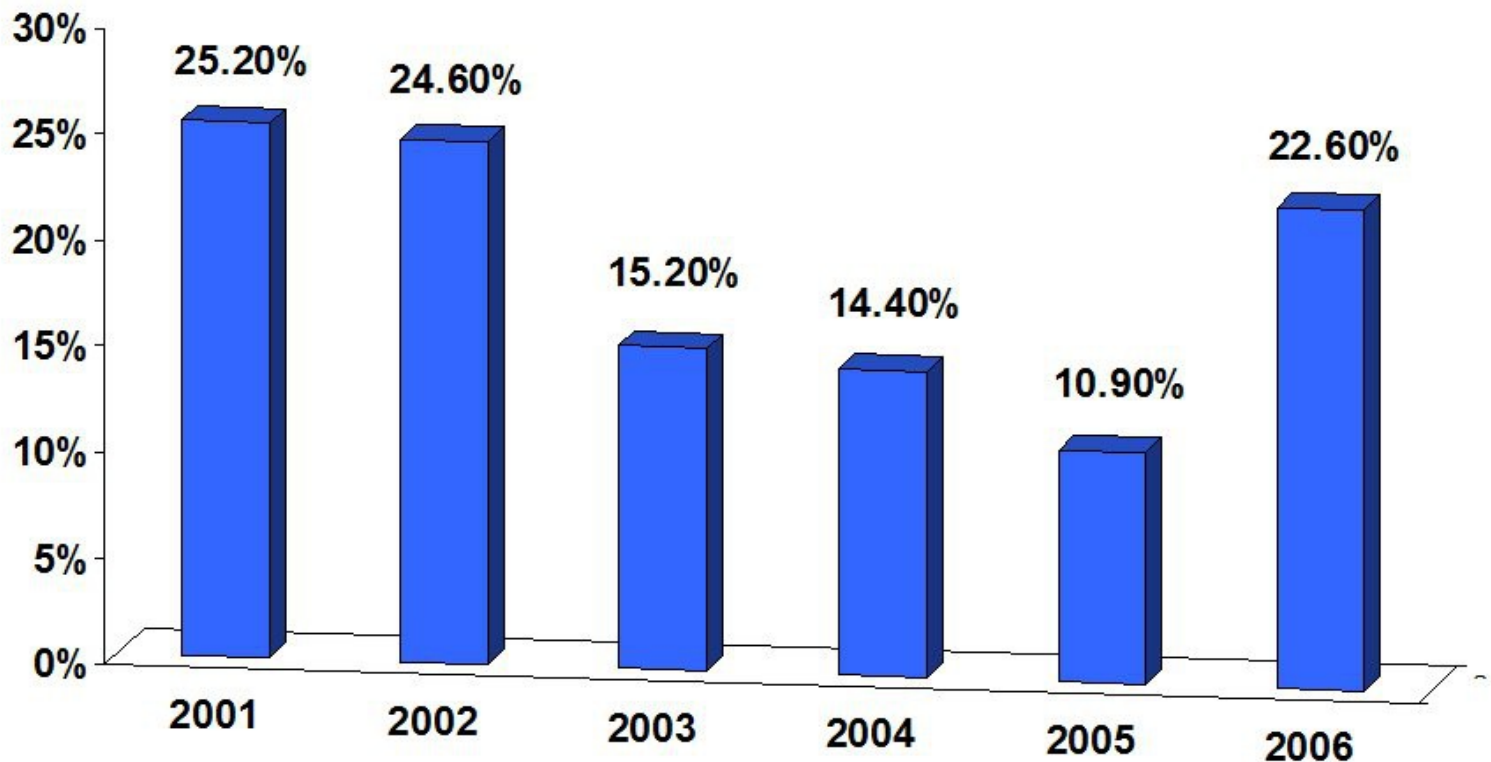
Note: An additional 3% solidarity tax is imposed on all personal income exceeding EUR 300,000.

Countries or Jurisdictions With a Flat-Rate Tax (Includes Personal Exemption or Allowance. Effective Zero Rate on First Tranche of Earnings or Self-Employed Business Profits)

- Abkhazia 10
- Albania 10
- Anguilla 3
- Belarus 12
- Belize 25
- Bolivia 13
- Bosnia and Herzegovina 10
- Bulgaria 10
- Czech Republic 15 (Temporary 22 upper bracket)
- Estonia 21
- Georgia 20
- Greenland 37 (plus municipal flat rate of 5 or 8)
- Grenada 30
- Guernsey 20
- Guyana 33.3
- Hong Kong 15
- Hungary 16
- Jamaica 25
- Jersey 20
- Kazakhstan 10
- Kyrgyzstan 10
- Latvia 24
- Lithuania 20
- Macedonia 10
- Madagascar 20
- Mauritius 15
- Mongolia 10
- Montenegro 9
- Nagorno-Karabakh 5
- Pridnestrovia 10
- Romania 16
- Russia 13
- Serbia 12
- St. Helena 25
- Seychelles 15
- Slovakia 19 (Temporary 25 rate)
- South Ossetia 12
- South Sudan 10
- Switzerland 11 (plus 14...35 cantonal and municipal)
- Timor-Leste 10
- Trinidad and Tobago 25
- Turkmenistan 10
- Tuvalu 30
- Yemen 15

Revenue Growth: Russia's 13 Percent Flat Tax

Figure 4: Russia's 13 Percent Flat Tax: Inflation-Adjusted Income Tax Revenue Rising Rapidly Every Year



Rabushka with Mart Laar, Prime Minister of Estonia, Who Adopted the Flat Tax in 1994



Criteria for Evaluating Income Taxes

Equity: Fairness; (aka Social Justice) What's Fair and Just?

Horizontal Equity (Equal Treatment Under Law)

Vertical Equity (Progressive)

Simplicity

Administrative

Ease of Compliance

Comprehensibility

Economic Efficiency

Scope and Level of Taxation (Crowding Out)

Minimize Economic Distortions

Neutrality Across All Lines of Production

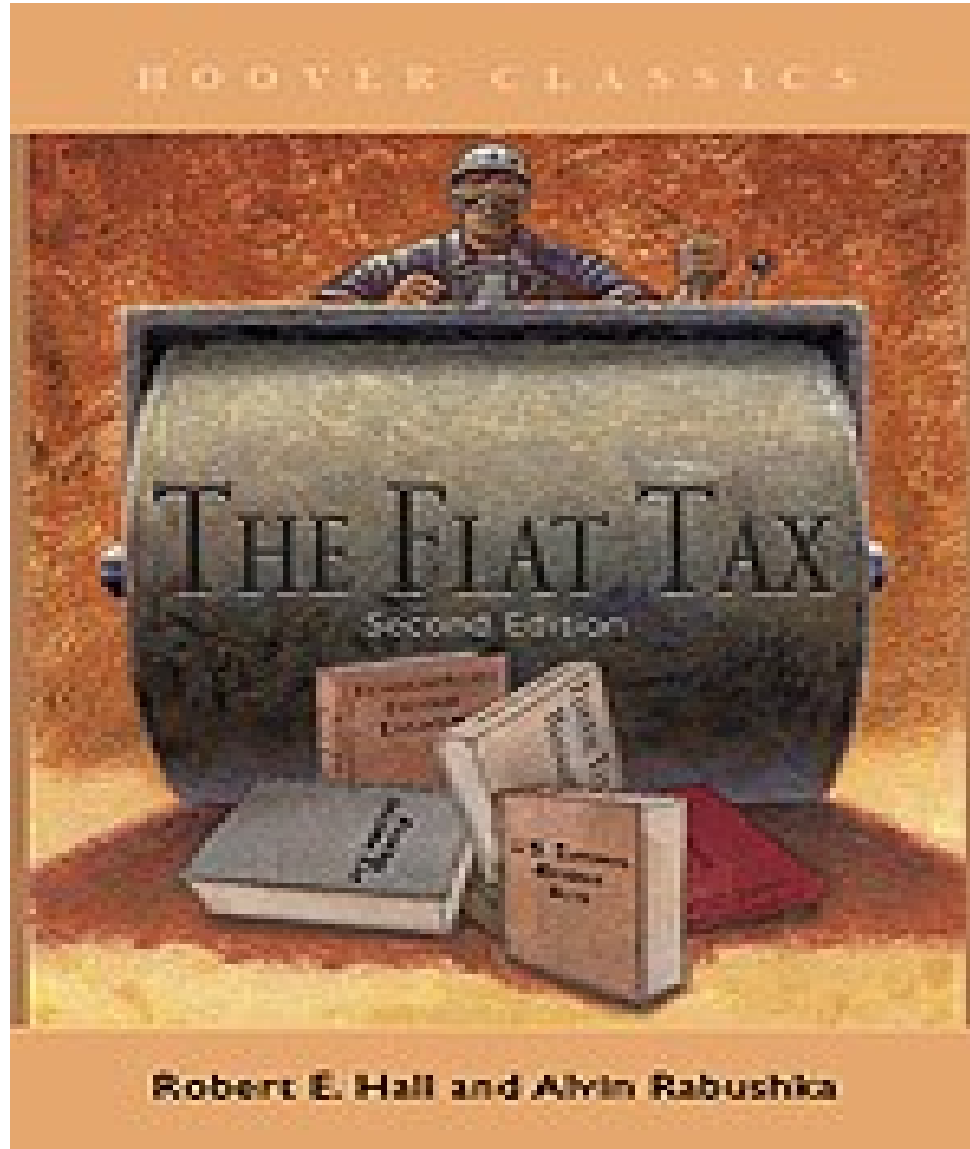
Minimize Tax Evasion and Avoidance

Purpose

Collect Revenue

Achieve Social Policy Goals

Free Book On-Line



Hall-Rabushka Personal Income Tax Form

Form 1		Federal Income Tax		1996
First Name	Last Name	Occupation	Social Security Number	
First Name of Spouse (if applicable)	Last Name	Occupation	Spouse's Social Security Number	
City	State	Zip Code		
1. Wages, Salary and Pensions			1.	
2. Personal allowance			2a.	
a. \$26,200 for a married couple filing jointly			-----	
b. \$13,100 for a single person			2b.	
c. \$17,200 for a single head of household			-----	
3. Number of dependents, not including spouse			3.	
4. Personal allowance for dependents (line 3 multiplied by \$5,300)			4.	
5. Total personal allowances (line 2 plus line 4)			5.	
6. Taxable wages (line 1 less line 5, if a positive number; otherwise zero)			6.	
7. Tax (17% of line 6 — multiply line 6 by 0.17)			7.	
8. Tax already paid			8.	
9. Tax due (line 7 less line 8, if positive)			9.	
10. Refund due (line 8 less line 7, if positive)			10.	

20% Flat Tax with Personal Allowance Creates Progressive Income Tax

Income	Personal Allowance	Taxable Income	Tax Paid	Effective Tax Rate
\$20,000	\$20,000	\$0	\$0	0
\$30,000	\$20,000	\$10,000	\$2,000	6.7%
\$40,000	\$20,000	\$20,000	\$4,000	10%
\$50,000	\$20,000	\$30,000	\$6,000	12%
\$60,000	\$20,000	\$40,000	\$8,000	13.3%
\$70,000	\$20,000	\$50,000	\$10,000	14.3%
\$80,000	\$20,000	\$60,000	\$12,000	15%
\$90,000	\$20,000	\$70,000	\$14,000	15.6%
\$100,000	\$20,000	\$80,000	\$16,000	16%
\$200,000	\$20,000	\$180,000	\$36,000	18%
\$300,000	\$20,000	\$280,000	\$56,000	18.7%
\$1,000,000	\$20,000	\$980,000	\$196,000	19.6%

Features of the Flat Tax

- Broad Base (Minimize/Eliminate Deductions, Exemptions, Credits, Subsidies)
- Only Allow Personal Exemption to Remove Low-Income Households From Income Taxes and Create Progressivity
- Low Rate
 - Sufficient to Fund Legitimate Expenditures of Government
 - Encourage Risk-Taking
 - Reduce Tax Avoidance and Tax Evasion
 - Reduce Corruption (Bribery)
 - Reduce Pressure for Special Benefits
 - Reduce Lobbying
 - Reduce Litigation