

Consolidation of Budgets and Tax Cuts are no Contradiction

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President

1



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Reasons for the Increasing Debts

Crises but also

- To break the Maastricht Criteria
- Lack of internal and external control of public budgets
- Lack of Transparency
- Escalating out of control of the welfare state
social security costs, public spending,....
- Public administration
- Not a revenue problem, but a problem of public spending

2



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Solution

- Controlling Public Finance
→ Regulation and Sanctions
- Free Market Economy with “Laws of the Game”
- Transparency
- Limit of public sector
- Regular insolvency procedure
- No EU-Harmonization of economic policy
(no state-directed or central planned economy)
- No EU tax or higher taxes needed

3



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Why Cutting Public Spending? (I)

- Excessive government / public spending are financed by taxation
- Taxation and Economic Growth:
 - high taxation → low economic growth
 - low taxation → high economic growth
- High taxes and the government expenditure that they finance mean lower rates of economic growth

4



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Why Cutting Public Spending? (II)

Towards a lean and efficient Public Sector

- Budgetary consolidation and fiscal stance (short-term)
- Sustainability of public finances (long-term)

5



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Why Cutting Public Spending? (III)

- Growing interest in “quality” and “effectiveness” of public spending
- More spending is not always leading to better performance
→ Can “get more for less”

6



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Why Cutting Public Spending? (IV)

- Increasing debts
 - increasing revenues, but higher increase of public expenditure (e. g. Germany)

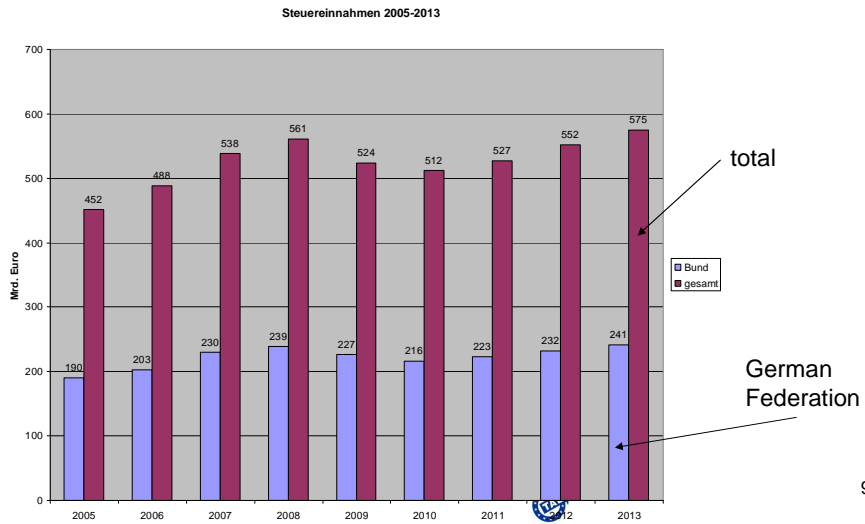
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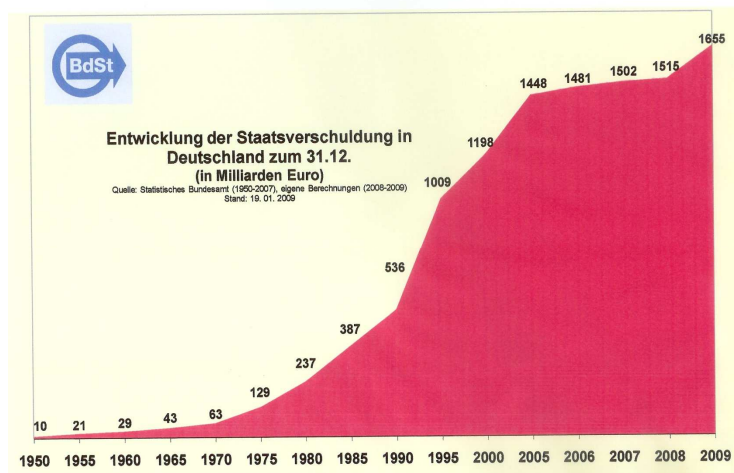
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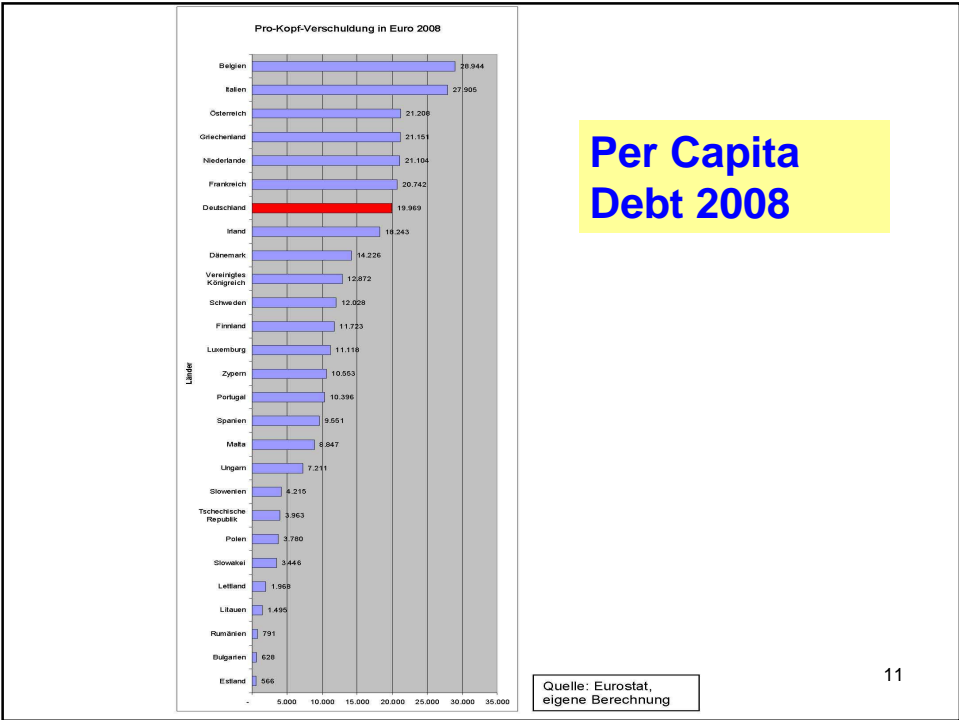


Revenues Germany 2005-2013



History of the Public Debt Germany 1950-2009, in bn Euro





The rise of government expenditure

General government expenditure (% of GDP)			
	1913	1960	1990
France	17.0	34.6	48.8
Germany	14.8	32.4	44.1
Italy	17.1	30.1	52.4
Japan	8.3	17.5	31.3
United Kingdom	12.7	32.2	38.5
United States	7.5	27.0	36.0

Sources: European Commission, Tanzi & Schuknecht (2000)

12

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Cross country differences in public spending

General government expenditure in 2005 (% of GDP)			
France	53.7	Sweden	56.0
Belgium	52.2	Denmark	52.5
Finland	49.9	United Kingdom	44.0
Austria	49.8	Norway	42.9
Italy	48.1	New Zealand	40.6
Portugal	47.8	Japan	39.5
Germany	46.8	Canada	39.3
Greece	46.8	Australia	34.9
Euro area	47.6	United States	34.8
Netherlands	45.4	Korea	28.1
Luxembourg	43.2		
Spain	38.2		
Ireland	34.1		

1 Sources: European Commission if available, otherwise OECD

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How large does government need to be?

Objective / spending category	Efficient performers	Spending (% GDP)
Education	JP, NL, UK	≈ 5%
Other goods and services	JP, NZ, CH	≈ 10%
Infrastructure / investment	AT, CA, CH, SE	2-3%
Redistribution / transfers	JP, NO	10-15%
Total primary spending		≈ 30%
Interest payments		2-3%
Total expenditure		30-35%

14

Guidelines for a regular insolvency procedure for States (and Area Municipalities) (I)

Based on the IMF study "A New Approach To Sovereign Debt Restructuring", Krueger, Anne O., 2002

- No insolvency manager similar to the private sector, because of the need of sovereignty of States
- Only Control bodies (EC, ECB, IMF)
- According to the agreement with these bodies the state could file for insolvency
- Payment-Moratorium for month for interest and paying back

15



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Guidelines for a regular insolvency procedure for States (and Area Municipalities) (II)

- Suspension of the right of action in contract of the debtee
- Debt Restructuring plan (obligor and debtee), accepted if 70% of acceptance of the debtees (no unanimity principle!)
- The control body moderates the proceedings/negotiations and pushes for political measures/action to minimize the risk of new insolvency crises

16



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**Children are liable
for their parents!**



Bund der Steuerzahler
www.steuerzahler.de



Kinder haften
für ihre Eltern!

Die Schulden von heute sind die Steuern von morgen. Über 3 Billionen Euro hat der Staat bis heute angehäuft. In jeder Sekunde werden es 2,241 Euro mehr.

Der Bund der Steuerzahler fordert deshalb: Wir müssen raus aus der Schuldenfalle. Das geht nur mit konsequenten Einsparungen bei den Staatsausgaben.

Steuern und Abgaben müssen tragbar, gerecht und einfach sein.

Wir nennen die Fakten:
www.steuerzahler.de
Telefon: 0800 - 88 383 88

17

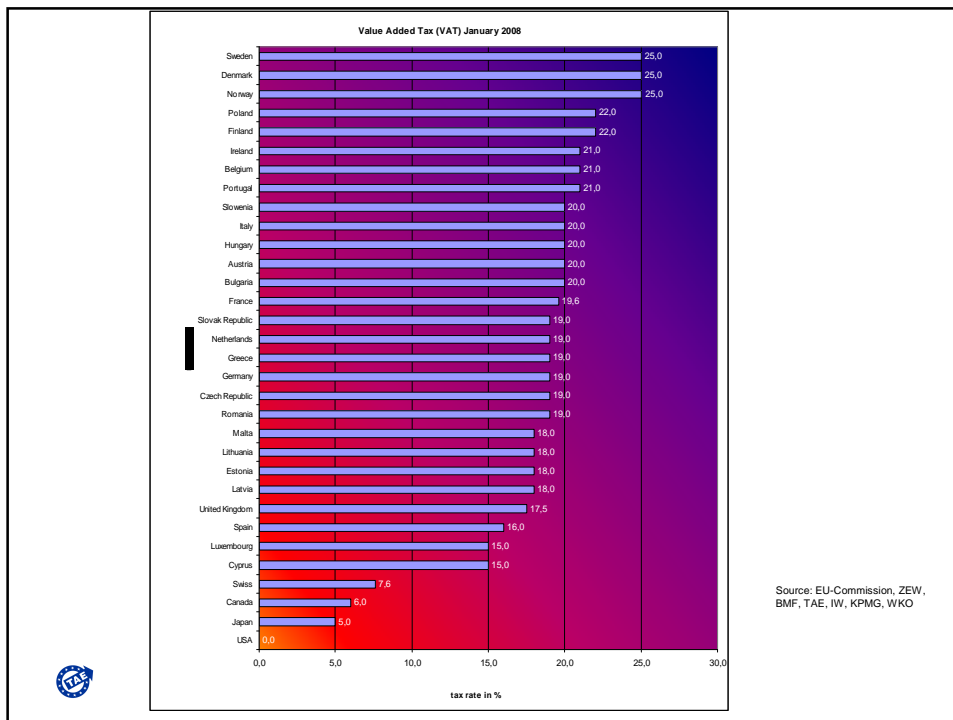
Ten taxpayers' Commandments

Constitutional declaration of the rights of taxpayers

The European Union (EU) does not have its own constitution. Since its formation the European Union has expanded in a way that every European citizen must fear it.

The TAE demands a constitutional framework for the finances of the EU and its member states which should contain the following taxpayers' rights:

1. Constitutional limitation of tax burdens and protection against double taxation of income by different countries
2. Constitutional limitation of government spending
3. Constitutional ban of indebtedness
4. Constitutional guarantee of tax exemption of the level of subsistence
5. Constitutional guarantee of public finance control
6. Constitutional order of general understandable tax laws
7. Constitutional guarantee to avoid hidden tax increase caused by inflation
8. Constitutional order of privatization
9. Punishment of waste of tax money and tax evasion
10. Constitutional limitation of public administration



Flat income taxes 2008 and year of introduction	
Bulgaria (2008)	10%
Estonia (1994)	21%
- 2009	20%
- 2010	19%
- 2011	18%
Georgia (2005)	12%
Hong Kong (1947)	15%
Iraq (2004)	15%
Island (2007)	22,5%
Jersey and Guernsey (1940)	20%
Kyrgyzstan (1 Feb. 2006)	10%
Kazakhstan (2007)	10%
Latvia (1994)	25%
Lithuania (1994)	24%
Macedonia (2007)	10%
Macau	12%
Romania (2005)	16%
Russia (2001)	13%
Slovakia (2004)	19%
Ukraine (2004)	13%

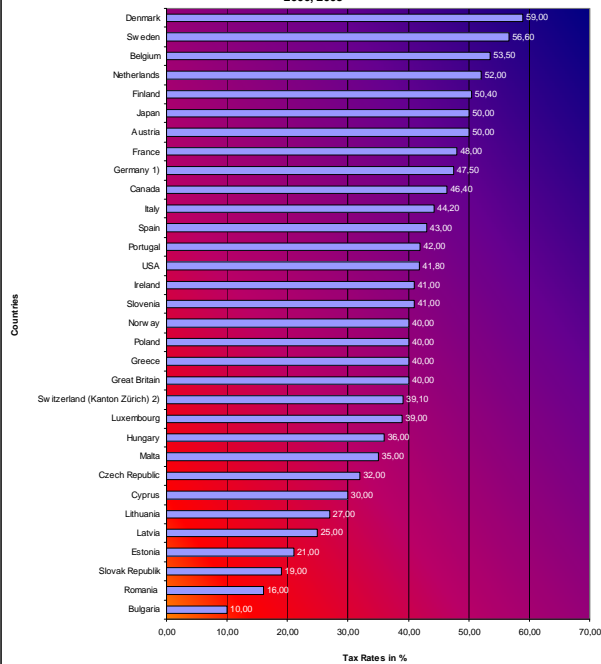
Increased tax revenues in Russia with a flat income tax

Year	Rubles (Mio.)	USD (Mio)	Increase
2000	174302,0	6225	
2001	255565,2	9127	+47%
2002	357838,3	12780	+40%
2003	455254,9	16259	+27%
2004	574100,0	20504	+26%
2001–2004			Average Increase +35%

No correction to inflation
Source: WTA, B. Tarras-Wahlberg



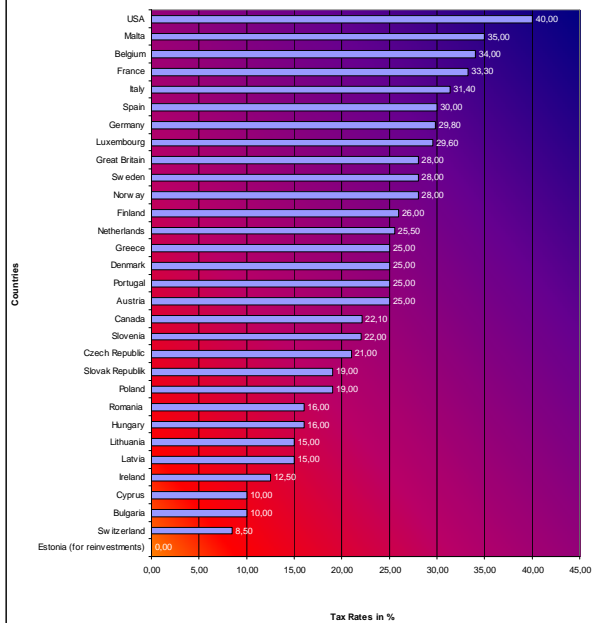
**Income Tax Highest Tax Rates
2006, 2008**



Source: Source: EU-Commission, ZEW, BMF, TAE, IW, KPMG, WKO
1) incl. ("Solidaritätszuschlag")
Solidarity Contribution
2) average tax rate



**Corporate Income Tax
Highest Tax Rates 2008**



Source: EU-Commission, ZEW, BMF, TAE, IW, KPMG, WKO
1) nominal corporate tax rate or comparable country tax
Germany incl. Solidarity tax and "Gewerbesteuer"



Inheritance Tax 2006/2007/2009

Country	General Maximum Rate %	Maximum Rate Children %	Rules for Business Property	Rates, Respite
Austria	60	15		
Belgium	80	30	in some extent exemption	
Cyprus	0	40		
Czech Republic	20	0		
Denmark	30,25	15		
Estonia	0	0		
Finland	48	16		
France	60	40		
Germany	50	30	tax free/tax reduction if the business will be continued	up to 10 years
Great Britain	40	40	exemption possible	
Greece	40	20		
Hungary	40	21		
Ireland	20	20	valuation rate 10%	
Italy ¹⁾	8	4	tax free amount 1 Million €	
Latvia	0	0		
Luxembourg	48	0		
Malta	0	0		
Netherlands	68	27		
Norway	30	20		
Poland	20	7	tax exemption for small farming and individual enterprises	
Portugal	0	0		
Russia	40	40		
Slovak Republic	0	0		
Slovenia	30	0		
Spain	81,6	40,8		5 years
Sweden	30	0		no inheritance tax between husband and wife (since 2005)
Switzerland (e.g. Zurich)	42	7	reduction 80%	

The chart contains only the maximum rates and does not give any information about the inheritance tax in particular cases. In most National tax laws you find stepped rates and tax reductions or deduction possibilities in the case of inheritance. Therefore in a particular case the inheritance tax could be much lower.
But one impact of the inheritance comparison is very interesting for the "old" EU-15: A lot of the 10 new EU-Member-Countries, becoming members of the EU in 2004, have abolished their inheritance tax accompanied by radical tax cuts of their corporate income tax.

¹⁾ Italy reintroduced the inheritance tax 1.1.2007, but at low level. Germany plans a inheritance tax reform.



External Sources

Beside own sources following sources flew in:

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Prof. Richard Vedder, MISES OR BISMARCK? THE PATH TO RESTORING GERMAN ECONOMIC GROWTH, Munich, 23 September 2003
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Jürgen Stark, Member of the Executive Board and Member of the Governing Council of the ECB, Berlin, 23 March 2007
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- Research Results of the German Taxpayers Association (BdSt) and its Karl-Bräuer-Institute (KBI)

25



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26



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