POSITION PAPER

FLAT TAX:

ECONOMIC GROWTH AND FAIRNESS FOR ARGENTINA

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EXECUTIVE SUMMARY

The Flat Tax has proven to be an effective tool for simplifying tax systems, promoting equity, and fostering economic growth in several countries. This report examines the theory and practice of Flat Tax, analyzing international examples and evaluating its implementation in Argentina.

INTERNATIONAL EXPERIENCES

Internationally, several countries have adopted the Flat Tax system positively, including Estonia, Lithuania, Hong Kong, Ukraine and Latvia.

- **Estonia:** Pioneering the implementation of Flat Tax in 1994, Estonia established a model for efficient tax reforms. This Baltic country experienced remarkable economic growth and increased foreign investment, demonstrating how a simplified tax system can stimulate the economy and improve administrative efficiency.
- **Lithuania:** Following Estonia's footsteps, Lithuania adopted the flat tax, significantly improving its tax structure. The simplification of the system and reduced tax rates fostered a more dynamic business environment and a more robust economy.
- **Hong Kong:** Known for its efficient and competitive tax system, Hong Kong has successfully implemented a Flat Tax model that has attracted numerous international companies. This approach has contributed to its position as one of the world's most important financial centers.
- **Ukraine:** The adoption of the Flat Tax in Ukraine in 2004 led to an improvement in tax collection and an increase in economic activity. Despite political and economic challenges, the country has demonstrated that a simplified tax system can be beneficial in contexts of economic transformation.
- **Latvia:** As another successful example in the Baltic region, Latvia implemented the Flat Tax to revitalize its post-Soviet economy. This reform has been instrumental in stabilizing its economy and attracting foreign investment, strengthening its economic development.

These international examples demonstrate that, regardless of the differences in economic and political contexts, adopting a Flat Tax system can lead to greater fiscal efficiency, sustained economic growth, and attractive foreign investment, critical aspects for developing countries or countries in economic transformation such as Argentina.

FLAT TAX BENEFITS

- **Administrative Simplification:** Reduces the tax system's complexity, facilitating taxpayer compliance and reducing administrative costs.
- **Economic Stimulus:** By reducing tax rates, investment and entrepreneurship are encour-

aged, leading to more robust economic growth.

» **Tax Equity:** A flat tax system eliminates distortions and preferential treatment, promoting more significant equity.

» **Increased Collections:** Despite lower tax rates, countries have experienced increased collections due to economic expansion and improved tax compliance.

» **Incentive to Formality:** The flat tax is an effective tool to encourage citizens' transition from the informal economy to the formal economy.

» **Perception of the fairness of the tax:** When citizens consider that the value of the tax is fair and equitable, there is an increase in compliance and adherence to tax obligations.

APPLICATION IN ARGENTINA

Argentina faces economic challenges, including high inflation, tax complexity, and tax evasion. The implementation of a Flat Tax system effectively solves these problems, providing the following specific benefits:

1 **Economic Boost:** By reducing the tax burden, investment, and job creation are encouraged, boosting the economy.

2 **Reducing Tax Evasion:** A more straightforward and transparent system facilitates compliance with tax obligations and reduces tax evasion.

3 **Increased Tax Revenues:** Improved tax collection is achieved through economic growth and greater efficiency in tax administration.

4 **Social Equity:** The simplification of the tax system favors social equity, allowing a fairer distribution of the tax burden.

CONCLUSION

Implementing a Flat Tax system in Argentina could be an effective strategy to revitalize its economy, simplify its tax system, and improve equity. International examples show that, with proper planning and implementation, the Flat Tax can lead to sustainable economic growth, more significant tax equity, and increased tax revenues. However, any tax reform must be accompanied by complementary policies to ensure its long-term success and sustainability.

INTRODUCTION

Argentina is in a deep crisis in the 21st century due to the loss of values and identity of the country and its culture, corruption, and lack of education. This has led the government to excessive public spending, an unprecedented fiscal deficit, and a very low-quality education, as well as a remarkable lack of legal certainty in everyday life.

To escape this crisis, Argentina needs urgent changes in its public policies, including a profound shift in its tax system.

The tax system is the basis of a country's economy and society since all these factors are interrelated to maintain the balance of the State. This happens because taxes have specific functions and certain effects, namely:

» **Financing of public expenditures:** Public expenditures are monetary disbursements made by the State under law to satisfy general needs.

Therefore, taxes are the primary source of financing for the government and are necessary to finance public spending, such as spending on public services (security, education, health, registry services, justice services, etc.), infrastructure (roads, hospitals, schools, lighting, cleaning, etc.) and social programs (improvements, welfare aid, economic aid, pensions, etc.).

This tax function is determinant at the time of designing the organization of the State through what is known as the *Public Sector or Administration*. That is to say, it is determinant to know how many public offices and agencies should be financed by the Argentine federal system. That is to say, the posts and positions at the National, Provincial, and Municipal levels should be accounted for and according to the three independent powers of the State: Judicial Power, Legislative Power, and Executive Power. *The taxpayers maintain this organization.*

» **Influence on economic behavior:** Taxes can have an impact on the way people and businesses make financial decisions: *for example*, if income taxes are too high, they can discourage people from working more or investing in their own business, resulting in fewer jobs to fill in the long run, as sectors of society become unproductive, and are more likely to receive assistance from the state and remain so, or else fall into informal labor to keep their income as much as possible out of the reach of the state.

» **Influence on trust in government and society:** Taxes directly impact people's trust in government and society. If taxes are perceived as fair and are used responsibly, they can increase people's confidence in government and society in general by motivating investment in the country (both local and foreign). However, if taxes are perceived as unfair or used irresponsibly, they tend to decrease people's and companies' trust in the government and society in general, as has been happening since the 2019/2020 period [1], when many companies have started to leave the country in search of more reliable, safe and

1 *During the administration of Alberto Fernández and Cristina Fernández de Kirchner, and according to specialized consulting firms, by the end of March/2023, at least 25 multinational companies will have left the country. And the outlook is of more departures due to the context of unleashed inflation, fluctuation of the dollar and uncertainty regarding the policies to be implemented by the Government in the next months. See:*
https://www.iprofesional.com/negocios/379202-cronologia-de-la-fuga-25-multinacionales-ya-se-fueron-del-pais

stable jurisdictions.

» **Redistribution of wealth:** Some people believe that taxes can also be used to redistribute a society's wealth through *progressive tax programs* (such as those currently in Argentina) or *social transfers*[2] to mitigate economic inequalities and improve the quality of life of those most in need.

Regarding the last point, "redistribution of wealth," we must point out that this is a severe conceptual error since, over the years, the functionality and raison d'être of the tax has been distorted: it *is none other than to cooperate in sustaining the infrastructure of the State, in exchange for certain services to society in general.*

When in the first epochs of civilized society, kings, emperors or governors demanded the payment of tribute from their citizens, they did so for two main reasons: 1°) the payment was due because the monarch allowed certain citizens to use and exploit the land (income tax), and ***2°) because in exchange for these tributes, the king offered protection to his subjects from foreign invasions, and for this purpose he had to form and maintain an army.***

Over the years and due to wars, epidemics, and the advance of science, it was understood that the State had to provide and guarantee, in addition to *security*, access to HEALTH, EDUCATION, and *JUSTICE (yes, Justice is a service of the State*[3]).

But, at the same time, the history and reality in Argentina and in many other countries[4] that have used and use these mechanisms of redistribution of wealth through progressive taxes and social plans to alleviate the economic inequalities of their citizens show that it has other results:

» **Decreased incentive to invest:** Progressive taxes can reduce the incentive to invest by increasing the cost of doing business[5].

» **Adverse effects on job creation:** Progressive taxes also harm job creation by increasing the cost of hiring new workers.

» **Difficulty predicting future income:** Progressive taxes make it difficult for individuals and businesses to predict their future income, making decision-making and long-term planning difficult.

» **Work deterrence:** Social transfers tend to deter people from working, as they are provided a source of income without working. This leads to lower productivity and lower economic growth in the long run.

» **High financial costs:** Social assistance is costly for the government and requires higher tax collection, which harms the economy and society.

2 *In Argentina they are known as "Social Plans". As of December 2022, around 22 million people receive some kind of social assistance from the State, within the framework of an estimated population of 46.2 million citizens according to the National Institute of Statistics and Census of the Argentine Republic.*

3 *With respect to the Justice Service, the elimination of initiation fees will be proposed later on, since they limit the Right of Access to Justice, a right that is constitutionally recognized for all citizens.*

4 *Clear examples of this are practically all of South and Central America, the United States at present (analyze the cases of the States of Florida and California due to the legal reforms to several penal and social security norms) and all other countries that offer a certain "welfare" to their citizens in an excessive manner.*

5 *According to the Doing Business report, published in 2021 and produced by Deloitte, Argentina in terms of "Ease of doing business", ranked 126th out of 190 countries analyzed. It was also reported that starting a business in Argentina requires between 400 and 500 USD, while in the rest of Latin America, starting a business requires between 100 and 300 USD.*

To solve the problems mentioned above, a *Flat Tax* system is proposed.
This tax system proposes a single low rate for all taxpayers, regardless of their income level, economic activity, or geographic location.

It is also a system that, due to its simplicity, eliminates all scales and exemptions, allowing exemption from taxation above a certain income level, both for individuals and legal entities.

This system has been implemented since 1947 in different countries and jurisdictions and has proven to have several benefits, such as:

» **Simplification of the tax system:** A single tax system is more straightforward than a progressive tax system, as there is only one tax rate instead of several, and this is exactly what Flat Tax seeks to do by eliminating different tax rates and treatments for different income levels. This reduces the administrative burden for individuals and businesses and makes it easier to predict the taxes due. It also eliminates double taxation and makes tax evasion and avoidance ineffective.

» **Stability:** A single tax system provides stability regarding government revenues and budget since the tax rate is constant and does not change according to income level.

» **Increased incentive to work and invest:** The Flat Tax can increase the motivation to work and support by reducing and eliminating rate differentials in favor of all taxpayers regardless of income level. This leads to more significant economic growth and job creation in the short and long term.

» **Increased trust in government and society:** The Flat Tax can also increase people's confidence in government and society by being perceived as fairer and more equitable than a progressive tax system since this system, being so simple, turns out to be highly transparent at the same time.

Up to this point, we can state that the Argentine Republic has had a history of high taxes and a complicated tax system that is difficult to comply with. The current progressive income tax system is and has been continuously criticized for being unfair and for discouraging work and investment. In addition, the current tax system has contributed to capital flight and has made long-term planning difficult for individuals and businesses.

Thus, the Flat Tax system is presented as a real viable option to reform the tax system in Argentina: by establishing a single rate for all taxpayers, regardless of their income level, the tax system will be simplified, and the administrative burden will be reduced, which will result in lower costs for the self-employed, entrepreneurs, professionals and companies. In addition, by lowering the tax rate for all taxpayers, the incentive to work and invest would increase because savings and productivity would allow it.

The Flat Tax could be the most helpful tool to improve the economy and the quality of life in Argentine society, addressing economic inequalities from a liberal and globalized point of view.

FLAT TAX: THEORY, PRACTICE AND RESULTS

"Count all the means of earning and living that are known in our society and do not leave one without taxation. That the contribution weighs on all equally and on each one according to his forces: there is the tax equality".

Juan Bautista Alberdi[6]

In this chapter, the Flat Tax concept will be discussed from a theoretical perspective and its application in practice, as well as the results it has produced in different contexts.

To begin with, and about the opening sentence, we can say that Juan Bautista Alberdi, father of the Argentine constitutional text, defended equality in the payment of taxes, that is, that all citizens should contribute to the support of the State according to their possibilities, without discrimination based on factors such as the section in which a person lives, the type of production they carry out or the size of their patrimony.

These ideas clearly oppose the current progressive tax system in Argentina, which is characterized as unfair and discourages work and investment.

Thus, in a more modern era, this system was foreseen by Milton Friedman around the 1960s, when he referred to the need to implement a flat rate tax system of between 15% and 19% to be applied to all income of individuals or companies, eliminating the tax scales and graduations in the United States.

In his 1962 book "Capitalism and Freedom," Friedman argued that a *Flat Rate* would simplify the tax system and reduce compliance costs for individuals and businesses; and that it would promote job creation and economic growth by eliminating the distortion of incentives created by different tax rates for different income levels.

In addition, Friedman argued that a Flat Rate would be more equitable than the current progressive tax system, as all taxpayers would pay the same tax rate on their income, no matter how much they earn, which would make the tax system fairer and more accessible for citizens to understand, as there would not be different tax rates for different income levels.

In summary, Friedman's arguments favoring a Flat Tax included simplifying the tax system, reducing compliance costs, promoting economic growth and job creation, and tax fairness.

Finally, in 1985, economists Robert E. HALL and Alvin RABUSHKA published their book "Flat Tax" where they brought together Milton Friedman's liberal ideas with their own and resulted in a system that has been applied in several countries around the world; in fact, the idea was first promoted in Steve Forbes' 1996 presidential campaign tax plan and has been adopted by several countries since then, the first being Estonia and Lithuania in 1994,

6 *Juan Bautista ALBERDI (1856) "Sistema Económico y rentístico de la Confederación Argentina".*

followed by Latvia in 1995 and Russia and Ukraine in 2003.

Since then, several other countries have adopted the Flat Tax system, including Serbia, Georgia, and Moldova in 2009 and Hungary and Andorra in 2011, as shown in the following table.

In most of these countries, implementing the Flat Tax has been accompanied by a reduction in other taxes and a simplification of the tax system in general, which has led to increased economic growth and greater confidence in government and society.

Flat income tax 2015. From 1 to 44 countries in 17 years
20 countries in Europe with flat tax (bold)

Saudi Arabia (foreigners 20%)	2,5%
Montenegro (since 2007)	9%
Kyrgyz Republic (2006)	10%*
Kazakhstan (2007)	10%*
Turkmenistan	10%
Macedonia (2007)	10%*
Mongolia (2007)	10%
Albania (2008)	10%
Bulgaria (2008)	10%*
Nepal (2008)	10%
Serbia (2008)	10%
Bosnia & Herzegovina	10%
Andorra (2011)	10%
Abkhazia	10%
Transnistria	10%
Timor-Leste	10%
Macau	12%
Belarus (2009)	12%*
South Ossetia	12%
Russia (2001)	13%*
Bolivia	13%
Hong Kong (1947)	10% + 15%*
Lithuania (1994)	15%*
Iraq (2004)	15%
Mauritius (2007)	15%
Czech Republic (2008)	15% + 22%
Malta (2011)	15%
Ukraine (2004)	15% + 17%*
Seychelles	15%
Romani (2005)	16%
Hungary (2011)	16%
Slovakia (2004)	19%+21%*
Georgia (2005) (incl.social tax 8%)	20%*
Jersey and Guernsey (1940)	20%
Estonia (1994)	21%*
Madagascar	21%
Latvia (1994)	25%*
Jamaica (1984)	25%
Belize	25%
Saint Helena	25%
Trinidad & Tobago	25%
Grenada	30%
Tuvalu	30%

Own elaboration based on: World Taxpayers Associations

SUCCESS STORIES

THE SPECIAL CASE OF HONG KONG
THE BACKGROUND

It can be said that Hong Kong was the second State (after Jersey) that, without yet having a proper economic theory on Flat Tax, adopted such a system in the late 1940s[7], since that country had implemented an *optional flat tax of 16%* for companies and individuals (15% as of 2008)[8] who wanted to reduce bureaucracy and therefore administrative costs.

Due to the success of such implementation in increasing GDP per capita, in 1950, Hong Kong definitively adopted a very low-rate tax system and has remained that way ever since:

The Southeast Asian territory of Hong Kong has become an economic giant on the fiscal anchor of the Flat Tax. This system has been so successful that it has survived the global financial crisis. This system has been so successful that it has survived the transition from British colony jurisdiction to become the unique administrative region of China[9] (underlining belongs to me).

According to economist Andrei Grecu, compared to other states, Hong Kong's entire tax code is no more than 200 pages long: *"This combination of simplicity and low taxation has reduced the adverse effects of taxation on work effort, savings, and risk-taking and was a key factor in Hong Kong's remarkable economic growth and development."*[10]

According to Flat Tax expert Daniel J. Mitchell[11], in 2007, he explained that Hong Kong had been the fastest-growing economy in the world for the past 50 years, given that between 1950 and 1981, Hong Kong had fiscal surpluses in 27 of those years.

According to The Economist[12], "The territory's tradition of simple, low taxes...is widely seen as one of the main reasons for its impressive rise to prosperity." In fact, in 2006, government spending constituted only 17% of GDP compared to the OECD average of over 40%[13].

Much more impressive, however, was that Hong Kong has since limited the government's burden. Budget outlays consume only 16% of GDP, and ***the government's policy does not allow spending to rise beyond 20%***. Compared to other industrialized nations, where governments consume around 40% of GDP, that's a particularly impressive statistic, so it's no wonder that Hong Kong is the freest economy in the world[14].

7 *Hong Kong has had a flat tax system since the 1947 Inland Revenue Ordinance.*

8 *Patrick Basham & Daniel Mitchell, "Lessons from Abroad- Flat Tax in Practice". This publication is a chapter from the book, The Impact and Cost of Taxation in Canada: The Case for Flat Tax Reform, to be published by The Fraser Institute in February 2008.*

9 *Quotation from "Patrick Basham & Daniel J. Mitchell, "Lessons from Abroad - Flat Tax in Practice, Ch. 4, p. 103", Pre-released chapter from "The Impact and Cost of Taxation in Canada Chapter." Excerpted from Littlewood, Michael (2007). The Hong Kong Tax System: Key Features and Lessons for Policy Makers. Prosperitas 7, 2.* http://www.freedomandprosperity.org/Papers/hongkong/hongkong.shtml

10 *Grecu, Andrei (2004). Flat Tax - The British Case. Adam Smith Institute.*

11 *Mitchell, Daniel J. on "Russia's Flat-Tax Miracle. Scripps Howard News Service" (March 24, 2003).* http://heritage.org/Press/Commentary/ed032403.cfm

12 *The Economist, 2000, February 24.*

13 *Long, Simon (2007). One-Horse Race: A Special Report on Hong Kong. The Economist (June 30).*
http://www.economist.com/specialreports/displaystory.cfm?story_id=9359188.
http://www.economist.com/specialreports/displaystory.cfm?story_id=9359188

14 *Gwartney, James, Robert Lawson, and William Easterly (2006) on Economic Freedom of the World: 2006 Annual Report. The Fraser Institute.*

THE HONG KONG NEWS.

Today, **Hong Kong families receive 95.7% of their income after taxes**, making it the lowest-taxed country in the world.

The current tax rates in Hong Kong are as follows:

- The **corporate income tax**[15] is 16.5% and can be deducted at 8.25% when the profits obtained do not exceed HK 2 million (about €222,222).
- **Personal income tax** is 15%.
- **Real Estate Income Tax (rents)** is 15% based on earned income.
- **Tax on the sale or transfer of real estate*** for Hong Kong *residents* rates range from 1.5% to 8.5%, depending on the property's value.
- **Tax on the sale or transfer of real estate** for *non-residents or residents with several properties* in Hong Kong at a flat rate of 15% on the property's value.
- Capital gains tax 0%
- Wealth tax 0% Taxes on assets
- Tax on dividends 0% Tax on dividends 0% Tax on dividends
- Taxes on interest from savings 0% Taxes on interest from savings 0% Taxes on interest from savings 0% Taxes on interest from savings 0% Taxes on interest from savings
- 0% VAT
- Inheritance and gift taxes 0%.
- Social Security Taxes **0%****

*The ***Stamp Duty***[16,] or tax on the sale or transfer of real estate, was created and implemented in 2010 due to the growing shortage of land and real estate in general.

In addition to the above rates, the scheme provides for *Special Stamp Duty (SSD)* on the resale of residential properties in Hong Kong within 36 months from the date of acquisition. The rates are:

- 20% for residential properties held for six months or less.
- 15% for residential properties owned for more than six months but for 12 months or less.
- 10% for residential properties owned for more than 12 months but for 36 months or less.

****Regarding** workers, although no contributions are made to a social security system, workers and employers must contribute to the mandatory provident fund, known as the **Mandatory Provident Fund (MPF)**, for their future retirement. The minimum contributions are 5% of the gross salary, both by the worker and the company, making the minimum contribution 10% in total[17].

15 *Visit:* https://www.gov.hk/en/residents/taxes/taxfiling/taxrates/profitsrates.htm
16 *Visit:* https://www.gov.hk/en/residents/taxes/stamp/index.htm
17 *Visit:* https://www.mpfa.org.hk/en/mpf-system/mandatory-contributions/employees#anchor1

In conclusion, all these tax measures have made Hong Kong a very attractive place for multinational companies and individuals looking for a low tax rate and a reduced tax burden. Although Hong Kong does not have a Flat Tax system in the traditional sense of the term or comparison to the *European Flat Tax*, its low tax rate and lack of wealth, capital, and inheritance taxes can be considered a form of Flat Tax. In any case, Hong Kong has proven to have a successful tax system and has experienced strong economic growth and confidence in the government and society over the years

REPUBLIC OF ESTONIA.
BACKGROUND.

Estonia implemented the Flat Tax system in 1994. Since then, that nation has been leading the first place in the *International Tax Competitiveness Rankings*[18] for the last eight years, according to the latest report published in 2021 by the Tax Foundation (see Table 1).

Before implementing the Flat Tax, Estonia, which had spent several decades being occupied and managed by the USSR, with extremely high poverty and malnutrition, had a progressive tax system with tax rates that increased with income. However, this system was found to be inefficient and difficult to administer and was not generating sufficient tax revenue for the government.

BUROCRACY 0.

To implement the Flat Tax, the Estonian government carried out several economic and public measures, namely:

» First, it reduced the number of bureaucratic obstacles and simplified the tax system in general, being the motto of such implementation: **ZERO BUREAUCRACY**. This made it easier for companies and individuals to file their tax returns and pay their taxes, resulting in that by 2021, the tax declaration process would take only five minutes[19] and be done online as well as creating a company, which is also done online and in an estimated record time of three minutes. Likewise, one of the objectives of this zero bureaucracy plan was to establish, with a long-term vision, that **civil servants and public employees** should **not exceed 12% of the active population** and that they should receive continuous training, especially in intermediate positions, which are the link between workers and civil servants.

» Secondly, and in correlation with the previous measure, the government also reduced public spending. It promoted the privatization of state-owned enterprises to improve economic efficiency. Reforms were made to the labor market and the social security system to make it more flexible and attractive to workers and companies.

» Thirdly, it strongly promoted the incentive for technological and scientific development,

18 *The* **Fiscal Competitiveness Rankings** *are indexes that analyze how a country uses its resources and capacity to provide its inhabitants with a high level of prosperity: in 2006 Argentina was ranked 71 out of 141 countries analyzed, but this situation has become more complex due to the public policies carried out by the governments, given that in 2018, although the use of public funds had improved, Argentina was ranked 81 in the ranking and in 2019 it was ranked 83.*

19 *Estonian citizens file tax returns by themselves, and this procedure is done online and takes about five (5) minutes to complete the form. To check the information, here is a link to the Estonian Government's tutorial on how to file a tax return (in Estonian language):* https://www.youtube.com/watch?v=I4Ncqee_26M

both from the implementation of new technologies in the public sector (both in administration and education), as well as strong economic incentives to the private sector: it *was the first country in the world (2000) to recognize the Internet as a Human Right, that is, as a primary and fundamental right to which all its citizens should have access. For this reason, starting in 2005, it implemented a strong program in schools so that all students could access computers. It also carried out solid educational campaigns on using new technologies for citizens in general. This ICT reform*[20]*, led years later, Estonia to implement the "e-Residency" program*[21] *which resulted in the year 2021, having more than 70 thousand "cybercitizens" and being one of the states that produces the most technological unicorns*[22] *or startup annually and at the level of the Nordic countries and the United States.*

» Fourthly, the educational reform promoted in addition to technological innovation since 2005 allowed them to occupy the fifth place in the PISA evaluations in 2021, with Estonia's education being considered, in certain aspects, as one of the best educational systems above that of Finland.

Fifthly, in 2013, Estonia passed the new Public Services Act, which established that the hiring policy would be decentralized, i.e., it was no longer the Government itself who established which company or whom to hire, but rather this is done through the local Treasury offices and after a process of needing positions and personnel selection.

TAX RATES.

Since the implementation of the Flat Tax in 1994 until today, Estonia has not changed the rates on personal and corporate income tax, as well as maintaining the VAT tax; together, the three taxes have a prime rate of 20%. And although deductions[23] and exemptions are established, they are pretty limited for exceptional cases:

» Capital gains, income from economic activities, including the sale of goods and services, and the provision of professional services and salaries for employment earned by **individuals** are subject to a 20% tax rate if they exceed €6,000 per year. If they do not exceed this threshold, they are exempt from taxation.

» Capital gains and other financial yields obtained by **companies** are subject to a 20% rate.

» **VAT** rate of 20%.

Some of the deductions and exemptions are as follows:

» Deduction at 5% of income tax for individuals with income under €2,160[24]

20 *ICTs: Information and Communication Technologies.*

21 *The* **ELECTRONIC RESIDENCY or E-Residency** *is a program by which anyone can become a remote resident in Estonia and be allowed to use all digital services online worldwide. This residency card is not compatible with Estonian citizenship. That is, you can found your startup in Estonia from anywhere in the world and benefit from the tax system there.*

22 *A unicorn is an emerging company, or startup, with a valuation of more than US$1 billion.*

23 *Interest on housing loan, training expenses, gifts and donations can be deducted from income to the extent of up to EUR 1,200. Deductions may not exceed 50% of the taxpayer's taxable income in Estonia for the same tax period.*

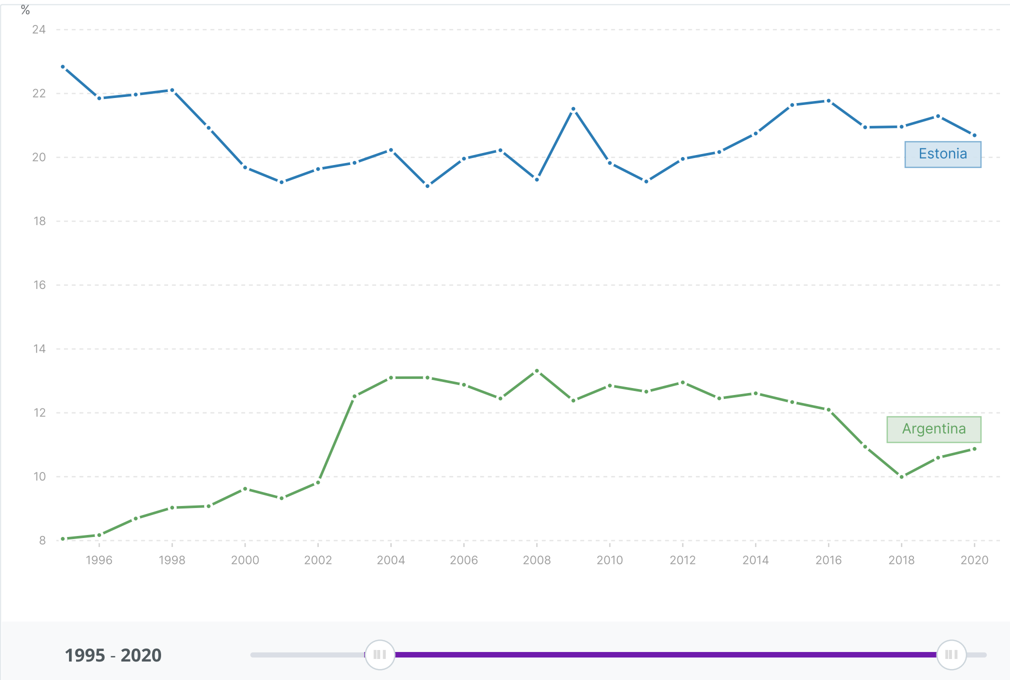
24 **Increased basic exemption for the spouse (if the spouse's annual income is less than €2,160 and if the total annual income of the spouses does not exceed €50,400) is €2,160 and the difference in the spouse's annual income.**

- Different deductions for individuals generating income between €6,000 and €25,200 per year. Above this threshold, they are taxed at 20% without any tax benefit.
- **Income derived from the ownership of stocks or bonds is subject to a rate of 14%.**
- Rental income is taxed at 14% if certain improvements have been made to the rented property, otherwise, it is taxed at 20%.
- Dividend income: 0% rate for dividends from local companies and 14% rate for dividends from foreign companies.
- Life insurance proceeds: 0% rate
- **Deductions for work-related expenses (e.g., transportation or training expenses): up to 40% of gross income.**
- Deductions for medical and social security expenses: up to 20% of gross income.
- Income tax deduction in companies from 20% to 14% when complying with Social Responsibility requirements (such as hiring people with disabilities, compliance with environmental sustainability standards, etc.).
- **Corporate income tax deduction from 20% to 0% when capital reinvestments are made.**
- **Offsetting of losses against prior years' earnings for companies.**

THE RESULTS.

Finally, it is worth noting that Estonia has increased its tax revenue by 40% of GDP between 1994 and 2020. In comparison, this increase in Argentina does not exceed 14 points with respect to GDP:

Tax Collection (% Of GDP) - Estonia, Argentina



Own elaboration with data from the [https://datos.bancomundial.org/]

Therefore, although its taxes are not relatively high, Estonia has come to be considered as one of the countries with the highest tax competitiveness due to its simplicity, without ever having been considered a tax haven and that in the last almost thirty years, has raised the welfare and quality of life of its citizens.

In summary, the implementation of Flat Tax in Estonia was carried out through: simplification of the tax system, strong implementation of new technologies including for tax filing, reduction of public spending and bureaucracy, promotion of privatization of state-owned enterprises, labor market reforms and reforms in the social security system. These measures have helped to improve the country's economic efficiency and attract more investment.

REPUBLIC OF LITHUANIA.

THE BACKGROUND.

Lithuania was one of the first Eastern European countries to implement the Flat Tax system in 1994. Currently, it ranks sixth in the *International Tax Competitiveness Ranking* published by the Tax Foundation (2021), (see Table 1).

Prior to[25] implementing the Flat Tax, Lithuania had a progressive tax system with three different rates:

- A rate of **36%** for higher incomes.
- A rate of **24%** for middle-income and low-income
- A rate of **9%** for the lowest incomes.

THE IMPLEMENTATION OF THE FLAT TAX.

The implementation of the Flat Tax sought to simplify the tax system and encourage investment and economic growth. To achieve this, economic and public measures such as labor reforms, privatization, deregulation and openness to foreign investment were implemented:

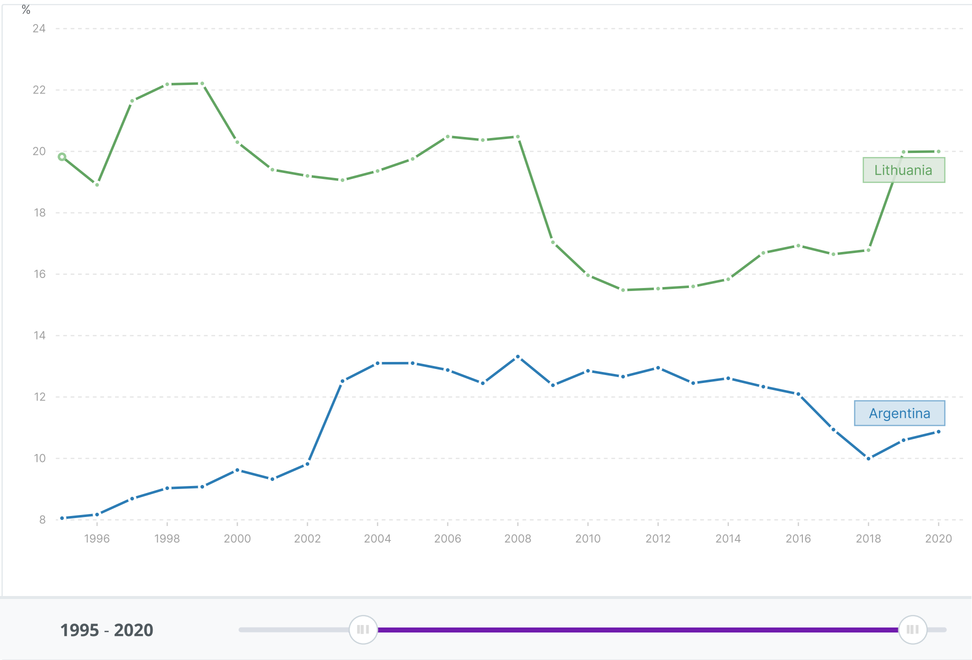
- Labor reforms: Lithuania implemented labor reforms to make its labor market more flexible and attractive to investors.
- Privatization: Privatization of many of its state-owned enterprises was carried out, which helped to increase competitiveness and attract foreign investment.
- Deregulation: The economy was deregulated, eliminating trade barriers and reducing government intervention in the economy to almost zero or only in foreseen and legislated emergency situations.
- Openness to foreign investment: Lithuania made great efforts to attract foreign investors, offering tax incentives and simplifying procedures for foreign investment.

Likewise, the system implemented in 1994 had a single and fixed rate of 33% for both personal income tax and corporate income tax.

25 *In 1991, after 50 long years of occupation, the so-called Baltic countries, Estonia, Latvia and Lithuania, gained their independence from the Soviet Union. At that time, misery, scarcity and shortages were the norm in the lives of their people.*

Since then, these rates have been reduced several times, which is why the tax collection with respect to GDP has fluctuated several times, as shown in the table below:

Tax Collection (% Of GDP) - Lithuania, Argentina



Own elaboration with data from the [https://datos.bancomundial.org/]

THE TOPICALITY OF THE LITHUANIAN TAX SYSTEM.

Currently, with the implementation of the Flat Tax system, Lithuania has eight main taxes and seven excise taxes:

Direct taxes[26] include:

» **Personal income tax** is expected to be waived for citizens whose income is less than €300 per year, with a minimum salary of €500 per month.

» **Corporate income tax** rate ranges from 5% to 15%:

- The **5%** applies if the companies do not exceed €300,000 per year in sales; if their number of employees is less than 10 and if the shareholders own more than 50% of the shares of other companies, the first two criteria of both companies are added together.
- The **15% rate** applies in all other cases.
- In the case of **small companies** or **agricultural enterprises**, they are stimulated with a rate of **0% to 5%.**

26 *Traditionally, taxes are divided into direct and indirect taxes, although there is no coincidence in the criterion of attribution to each category. According to the most accepted conception, DIRECT taxes are levied on a person's income or wealth, while INDIRECT taxes are levied on an economic activity such as consumption (VAT).*

» **The dividend** tax rate is 15% and, exceptionally, 0% when the beneficiary is a resident of the European Union or of another country with which a tax treaty has been signed.

» **Real estate taxes** range from **0.3% to 3%**. Real estate is usually taxed at 1% of the value of the property, which exceeds €220,000.

» The **land tax** includes only the payment of land tax, while the provisions on the calculation and payment of this tax are determined by the municipalities and districts. The object of the land tax is on private property and its annual rate ranges from 0.01% to 4% of the value of the land (in the case of forests, the rate does not include the value of trees).

» **Inheritance and gift tax** is highly residual, which means that the tax collection does not reach 0.1% of the GDP and its collection is *testimonial*, which means that its taxation depends on whether or not it is declared by the beneficiary.

Indirect taxes include:

» Three different **VAT** rates are provided for:

- General **21%**,
- Rate of **9%** applies to:
- Passenger transportation on regular routes.
- On books and non-periodic informative publications.
- For certain lodging services (until December 31, 2022).
- Supply of thermal energy and hot water for residential use.
- Wood and wood products for domestic heating.

» **5%** rate applies to:

- Medications and medical aids.
- Technical support teams for people with disabilities and their repair.
- Periodicals.

» **The purpose of excise** taxes is to reduce social consumption on the following goods:

- Ethyl alcohol, denatured alcohol and alcoholic beverages, including beer.
- Tobacco.
- Coffee, chocolate and products containing cocoa.
- Gold and silver, except for jewelry and coins.
- Motor fuel, excluding aviation fuel and diesel fuel.
- Luxury class cars
- Publications of an erotic or violent nature.

» Tax on lotteries and games of chance.

Special contributions:

- **Social security contributions:** These are paid by both employers and employees. For the employee it is 19.5% and includes 6.98% of the health insurance contributions. And the social security tax for the employer is 1.79%, which includes 0.32% for the Guarantee Fund and the Long-Term Unemployment Fund.
- Tax on **public natural resources.**
- Tax on **oil** and **natural gas.**
- Tax on **environmental pollution.**
- Consular fees
- Administrative stampings
- Sales tax

In conclusion, Lithuania that started the 90's as one of the poorest countries in the Baltic region, today is one of the states that maintains a growing and strong economy, especially because it is one of the countries that is leading the **FinTech** market[27] globally, its strong investment in technology, the facilities to do business and the low tax burden has made that Lithuania receives 63% of the investment in this market, where 48% is local investment and 15% foreign investment.

So much so that Lithuania is home to the most collaborative center known as *Fintech Hub Lithuania*[28] , where unicorns such as NEXPAY, CURVE or REBELLION work.

In addition to that by mid-2021, Lithuania has given birth to more than 230 FinTech with more than 4,000 people employed in the sector forecasting an increase of about 2,000 more jobs by the end of 2022. It ranks fourth in the global FinTech ranking and first at the European level; it has also been considered the most chosen country for Tech Startups[29] .

REPUBLIC OF LATVIA.

LATVIA RIDES THE FLAT TAX WAVE

The Republic of Latvia, a Baltic country that faced a situation of great poverty and economic scarcity after the end of the Soviet occupation in 1990, successfully implemented the Flat Tax system in 1995. The objective of this measure was to simplify the tax system and reduce tax evasion through a flat tax rate of 25% for all income levels. The implementation of Flat Tax in Latvia was accompanied by a series of public policies that contributed to the country's economic growth. These included:

- **Privatization:** Latvia privatized much of its state-owned enterprises in an effort to im-

27 *In Lithuania, an entity may offer two types of virtual asset activities: virtual currency exchange operator and virtual currency wallet operator. These activities are not subject to licensing; however, specific requirements, as provided for in the Law on Prevention of Money Laundering and Terrorist Financing of the Republic of Lithuania , must be met in order to be recognized as a VASP (Virtual Asset Service Providers). Visit:* https://www.coinfirm.com/blog/lithuania-removes-vasps-from-jurisdiction/?utm_source=user.com&utm_medium=email&utm_campaign=newsletter&__ca__chat=mpfl9lwwtwlu *last viewed 03/02/20222.*

28 *Visit:* https://www.fintechhub.lt/

29 *See report:* https://investlithuania.com/wp-content/uploads/The-Fintech-landscape-in-Lithuania-2020-2021.pdf

prove the efficiency and competitiveness of its economy. Privatization also helped to attract foreign investment and increase the capital available for economic growth.

» **Liberalization:** Latvia liberalized several key markets, including the foreign exchange market, the real estate market, and the services market. These measures helped increase competition and improve efficiency in these markets.

» **Structural reforms:** It also implemented a series of structural reforms, such as the labor reform and the reform of the pension system, with the aim of improving the competitiveness and efficiency of its economy.

» **Deregulation:** Latvia has significantly reduced government regulation in an effort to foster economic growth and improve competitiveness.

» **Infrastructure investment:** Latvia has invested in key infrastructure projects, such as roads, airports and ports, with the aim of improving the country's connectivity and boosting trade and tourism.

» **Environmental protection:** A number of measures have been adopted and implemented to protect the environment and promote economic sustainability with a view to the long term.

The rapid economic growth experienced in the first ten years after the implementation of the Flat Tax led Latvia to rank second in the International Tax Competitiveness Ranking published by the Tax Foundation published in 2021 (see Table 1). However, they also faced challenges, such as inflation and Central Bank intervention to stabilize the economy.

These public policies have contributed to the country's economic growth and have helped improve the competitiveness and efficiency of the Latvian economy.

During the period 1995-2000, rapid economic growth in Latvia brought with it some challenges along the way. Inflation, in particular, became a problem in several periods, leading the Central Bank of Latvia to intervene to control it, generating several economic dislocations. In addition, the rapid growth of the real estate and construction sector generated concerns among experts due to a possible real estate bubble and economic overheating.

It was for this reason that Latvia did not stop with the implementation of the Flat Tax and the aforementioned measures, but sought and continued to implement economic policies and public policies to improve its economy and strengthen its position in the European Union and in the world market. Some of the main policies implemented after 2000 include:

» **Accession to the European Union:** Latvia joined the European Union in 2004. EU accession has provided access to a larger market and has helped attract foreign investment.

» **Euro accession:** Latvia adopted the euro as its official currency in 2014. The adoption of the euro has helped improve economic stability and reduce the costs of trade and financial transactions.

» **Tax reform:** Latvia has continued to improve its tax system, with the aim of improving competitiveness and efficiency. This included tax reductions (such as a 40% reduction in the corporate tax rate for investment projects of government interest) and the elimination of tax exemptions.

» **Public sector reform:** Latvia carried out a major reform of the public administration and the justice system, which allowed the acceleration of administrative processes and speeded up the justice system.

» **Investment in education and innovation:** Latvia has invested in the development of its human capital, through education and training, with the aim of improving the competitiveness and productivity of its economy.

» **Promoting competition:** Latvia adopted measures to promote competition and efficiency in its economy, including deregulation of the telecommunications market and the elimination of trade barriers for sectors such as information technology and electronic components (which benefit from a 30% reduction in their tax rate), or the steel, chemical and pharmaceutical industries.

» **Policies to reduce poverty:** Latvia has implemented policies to reduce poverty and improve equality of opportunity, including social assistance programs and employment programs.

Overall, the policies implemented after 2000 have helped to strengthen Latvia's economy and improve its position in the European Union and the world market.

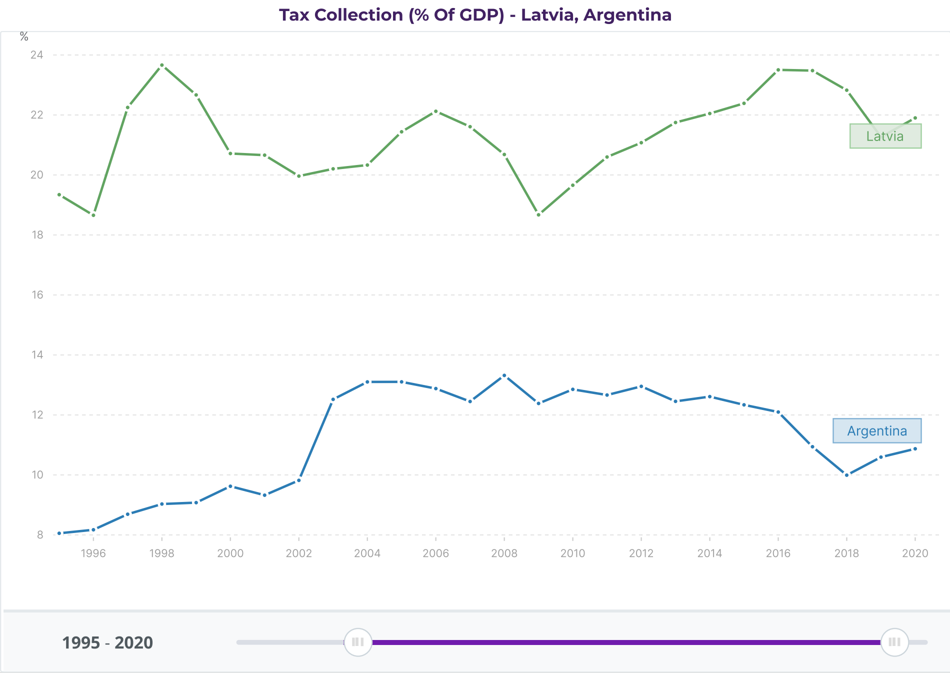
For 2004, Latvia maintained the following rates[30] :

» Tax on workers' income 25%.

» General corporate income tax was 15%.

» The general VAT rate was set at 18% and the reduced rate at 5%.

Over time, Latvia has been one of the countries that has varied the most in the rates of the most representative taxes to GDP. This has been mainly due to economic variations due to inflation and the challenging financial crises of 2008 and the subsequent fall in GDP in 2009, when tax revenue to GDP fell to '95 levels, as shown in the graph below:



Own elaboration with data from the [https://datos.bancomundial.org/]

30 *Data taken from:* https://datosmacro.expansion.com/impuestos/impuesto-renta-trabajadores/letonia

LATVIAN TAX NEWS

As mentioned, the foundations of taxation in Latvia were laid in 1995, when the law "On Taxes and Duties" was introduced in the country by which the FLAT TAX system was implemented. As of today, these regulations are supplemented by the Latvian Customs Code, acts of local self-government, specialized laws of the Saeima[31] , resolutions of the Cabinet of Ministers of Latvia and laws of the European Union, which do not contradict the main documents.

It is currently ranked second in the International Tax Competitiveness Ranking published by the Tax Foundation published in 2021 (see Table 1).

In turn the Latvian tax system suffering from the global crises of 2008 and 2016 and unstable inflation since about 2005, has since 2018 introduced several tax changes in the value of rates.

Therefore, we can describe the current Latvian tax system in fifteen taxes:

» **Corporate income taxes (ISR)**[32] (Profits, capital gains, dividends, interest and royalties) are taxed equally at: **20%** and **0%** for reinvested earnings:

- ISR at the rate of 20% is payable only on profit sharing to be distributed or disbursed as dividends, or used for purposes not directly related to the development of the business.
- **If a company does not pay dividends, but decides to invest the profits earned in the business, no income tax will be paid**. Therefore, Latvia's tax policy allows international companies to invest profits in business development without losses.

» **Turnover tax on microenterprises:** 15% reduced to 9%.

» **Personal income tax:** Latvia has an annual non-taxable minimum of €3,600. Above this limit, the following items may be deducted from such tax: ***Education*** (including extracurricular activities such as clubs, sports school, music school, etc.); ***medical bills*** *and* ***health insurance payments*** *to insurance companies;* ***donations and gifts to*** *Latvian* ***charities and political parties****;* ***private pension fund payments*** *and* ***payment of life insurance savings fund premiums***[33] . Still the rates range from 5% to 15% depending on income.

» **Mandatory State Social Security Contributions (MSSIC):** The standard MSSIC for employees is 34.09% and deductible at 23.59% paid by the employer; and 10.50% paid by the employee.

31 The Saeima is the unicameral body holding legislative power in the Republic of Latvia. It consists of 100 deputies elected by open-list proportional method, with the seats allocated to political parties that obtain at least 5% of the votes. Data taken from https://es.wikipedia.org/wiki/Saeima last visited on 19/01/2023.

32 When paying dividends to the budget it will be necessary to transfer 20% of the accumulated amount, and deliver the rest to the founder. If the profit remains entirely at the disposal of the company, the tax does not apply. All other taxes in Latvia for legal entities have remained practically unchanged:
- if the annual turnover exceeds 40,000 euros, you must pay income tax, VAT and insurance premiums for employees;
- if the annual turnover is less than 40,000 euros and the team has no more than 5 people, a 15% tax on the turnover of microenterprises.
In addition to the basic taxes, the company may be required to pay contributions for the ownership and use of real estate, transportation, excise taxes or customs duties. It depends on the company's assets or chosen activities.

33 It should be noted that the total amount of eligible deductions for education, medical services, donations and gifts may not exceed EUR 600 per year and not more than 50% of annual taxable income. Eligible expenses for family members include expenses for education and medical treatment only in the amount of EUR 600 per family member.

» **Real estate tax:** The general rate is 1.5% of the value of the property, although due to the characteristics of the properties taxpayers must pay an additional rate of 1.5%. In other cases the scales vary from 0.2%, 0.4% and 0.6%.

» **VAT:** As of 2021, the general rate is 21% and may be reduced to 5% for certain foods and 12% in the following cases:

- Medicine and special equipment;
- Special food for babies;
- Regular transportation services of passengers and their luggage provided in the domestic territory;
- Educational and original literature;
- Newspapers, magazines and others;
- Accommodation services in tourist homes;
- Wood heating supplies for home consumption;
- Thermal energy supplies for household consumption.

» **Solidarity tax:** This tax is paid by persons subject to Social Security (employers, local and foreign employees, and self-employed persons) when income exceeds the maximum amount of social security contributions, which is equivalent to €62,800.

» **Excise taxes and customs:** The fundamental purpose of excise taxes is to limit the consumption of goods that are harmful to the environment and people's health, while generating additional revenue for the State through an additional consumption tax (in addition to VAT) on goods that are not basic necessities and do not affect the most vulnerable sectors of society. Although the main purpose of excise taxes is fiscal, their use falls mainly on certain specific goods, and they are usually paid by importers, exporters and transporters[34] :

- Oil products
- Alcoholic beverages
- Tobacco products
- Non-alcoholic beverages
- Coffee (including coffee extracts, essences and concentrates)
- Natural gas
- Liquids for use in electronic cigarettes

» **Tax on natural resources:** This tax is paid mainly on the extraction of natural resources, environmental pollution, disposal and use of hazardous goods, as well as packaging used for the provision of commercial activities, such as the use of disposable plates and tableware, etc. In other words, it varies according to the resource or commodity.

» **On electricity consumption:** The electricity taxapplies to electricity supplied to final customers (including electricity generated from renewable energy resources, by cogenera-

34 *We recommend visiting the Latvian Treasury website:* https://www.vid.gov.lv/en/excise-duties.

tion plants), electricity used to generate thermal energy, and electricity supplied during the tax period for self-consumption (including administrative buildings). *The tax exemption applies to electricity used by households and electricity used to generate electricity to ensure the electricity generation process directly*[35].

» **Taxes on lotteries and games of chance:** The general rate is 10% of revenues from ticket sales. Gambling tax rates vary and are determined according to the type of game.

- Other Taxes:
- Customs
- Taxes on Vehicle Transactions and Taxes on Corporate Vehicles
- Taxes on transportation

Latvia's economy, despite being one of the smallest in the European Union, has experienced steady growth in recent decades, which has allowed it to maintain a stable tax revenue to GDP ratio. However, the COVID-19 pandemic has had a significant impact on its economy, causing a contraction of 3.6% in 2020[36] .

Despite the measures implemented to aid economic recovery, such as the temporary reduction of income tax for small businesses, increased tax deductions for workers and the temporary elimination of value added tax (VAT) for certain goods and services, these tax changes directly affected tax revenues and contributed to the contraction of the Latvian economy. In addition, these measures also triggered inflation, which affected the economy until 2022.

The public deficit in 2022 remained high at 7.1% of GDP, mainly due to measures to mitigate the impact of high energy prices and increases in pensions and subsidies. The public deficit is projected to decline in 2023 to 3.4% of GDP, mainly due to an increase in tax revenues and the phasing out of COVID-19 support. However, government support to the energy sector will remain limited, which will affect the budget deficit in 2023.
Finally, the energy support package of 1.5% of GDP will continue to weigh on the budget deficit in 2023, along with increased spending on social payments, defense and support for people fleeing Ukraine.

In 2024, the public deficit is projected to fall to 1.4% of GDP thanks to continued growth in tax revenues and the expiration of the energy support measures adopted for 2023; and the Debt/GDP ratio is also expected to decline to 42.4% in 2022 thanks to a significant negative stock-flow adjustment.

However, despite the deficit reduction, for the following years, debt is projected to remain above the 2022 level, driven by the need to replenish the Treasury's cash buffer, and is projected to stand at 44.0% of GDP in 2023 and 43.6% in 2024[37] .

Despite all these variations, Latvia's economy is known for innovation and for being a regional transportation hub, but there is also a significant shadow economy. Labor costs are relatively low

35 *The exemptions on this tax are applicable as of January 1, 2023.*

36 https://www.heritage.org/index/country/latvia#government-size *last visited on 01/25/2023.*

37 https://economy-finance.ec.europa.eu/economic-surveillance-eu-economies/latvia/economic-forecast-latvia_en#:~:text=Latvia's%202022%20growth%20spurt%20is,growth%20around%20the%20year%20change. *Last accessed on 01/25/2023.*

by EU standards and there is a shortage of available workers, which can be very attractive to foreigners from Latin America. The government also provides subsidies for electricity, heating, agriculture, transportation and other sectors .[38]

It is important to note that Latvia's success in implementing the Flat Tax was the result of a comprehensive approach and the adoption of a set of coherent and complementary economic and fiscal policies.

RUSSIAN FEDERATION

THE BACKGROUND

After the end of the Russian occupation in several territories and the abandonment of communism in 1990, Boris Yeltsin assumed the presidency in 1991 with the aim of freeing the Russian economy to the international economy.

However, the transition to a free market economy was not easy, as the Soviet economy had been controlled by the state through the "price control" system. This resulted in high prices and an even worse off working class with low wages and pensioners. In addition, corruption and privatization of state enterprises by Russian oligarchs aggravated the economic situation.

This combination of economic factors led to increased poverty, an epidemic of alcoholism and a negative impact on the health of the population. During this period, Russian citizens received humanitarian assistance from international NGOs, as the government was unable to cope with the unleashed socio-economic crisis.

Thus, in 1993, with the Russian GDP reaching its lowest point and a serious constitutional crisis, in spite of the efforts of the Parliament to stop Yeltsin in his economic experiment, he attacked the legislative facilities and besieged them, an event that was marked by hundreds of deaths. Without further ado, Yeltsin promulgated a new, more authoritarian constitution.

By 1995, the Russian government was subsumed in corruption, a weak economy and a very poor population.

In addition, taxation during 1992 to 1998 was decentralized, allowing regional and local authorities to create their own taxes or establish tax havens for national offshore companies.

THE IMPLEMENTATION OF THE FLAT TAX.

In the Russian Federation, the Flat Tax system was implemented in two stages:

The *first in 1998, which was initiated by the enactment of the Federal Tax Law, published in July of the same year and which regulated the relationship between taxpayers, tax agents and tax collection authorities.*

The second stage occurred in 2001, when Russia implemented a Flat Tax system whereby the tax

38 https://www.heritage.org/index/country/latvia#government-size *last visited on 01/25/2023.*

rate on personal income was significantly reduced from three rates[39] to a single rate of 13%.

This implementation was aimed at improving the economy and tax collection in a period of great financial crisis and corruption.

Deductions were also granted for charitable contributions, as well as deductions for educational and medical expenses. *The corporate tax rate was reduced from 35% to 24%*[40] .

The Flat Tax system produced an increase in tax revenues and economic activity, which generated an 80% growth in tax revenues and GDP in 2002 and 2003. *Income tax revenues grew faster than general revenues and other taxes; thus, after adjusting for inflation, revenues increased another 16% in 2004*[41] .

This meant that total actual personal income tax collections more than doubled four years after the law was implemented.

As it is, Russia's tax system resulted in a highly centralized system dependent on the profits of the mostly state-owned oil and natural gas corporations.

Tax burdens on oil companies exceeded 45% of their net sales in 2006[42] . Oil-related tax rates are not regulated by the Tax Code, but by government decree. Economic growth from 1999 to 2008 has averaged 6.9% growth per year since the single tax was introduced. In 2010, revenues regulated by the Tax Code accounted for 73% of federal revenues[43] .

This improvement in revenue collection was mainly attributed to increased economic activity, as the Flat Tax system encouraged the creation of new jobs, savings and increased Russians' disposable income and willingness to invest in the country.

RUSSIAN TAX REGIME

Russia's tax system is composed of *federal, regional and local taxes*, each established by different levels of the legislature. The Tax Code sets federal rates, while regional laws set regional rates, with certain limitations set by the Code.

Federal taxes include:

» **Individuals** pay income tax which in 2021 was progressivized and from that year onwards is taxed at a rate of 13% up to 5 million rubles and 15% above that threshold[44] .

» **Individuals** also pay a land tax of 0.3% of the cadastral parcel of land, which is calculated using a special formula, and a vehicle tax, which is linked to the engine power of the vehicle.

39 *Rates of 12%, 20% and 30% in a single 13% tax.*

40 *Patrick Basham & Daniel Mitchell, "Lessons from Abroad- Flat Tax in Practice". This publication is a chapter from the book, The Impact and Cost of Taxation in Canada: The Case for Flat Tax Reform, to be published by The Fraser Institute in February 2008.(Page 117).*

41 *Quotation from "Patrick Basham & Daniel J. Mitchell, "Lessons from Abroad - Flat Tax in Practice, Ch. 4, p. 117", Pre-released chapter from "The Impact and Cost of Taxation in Canada Chapter." Excerpt from Lynn, Matthew (2004). Eastern Europe Gives a Taste of Flat-Tax Paradise. Bloomberg News Service (November 29).* http://www.bloomberg.com/apps/news?pid=10000039&refer=columnist_lynn&sid=aNSQHmLkk_Lw

42 *Doing business in Russia 2008, p. 48, citing official state statistics for 2006. These data were compared to 12% growth in construction and 16.5% growth in telecommunications.*

43 *Ministry of Finance of Russia. Key parameters of federal budget for 2008-2010: Revenues regulated by the Tax Code accounted for 68% of federal revenues in fiscal year 2008.*

44 *Of the revenues generated by this tax, 85% is transferred to regional budgets and the remainder to local (municipal) governments.*

» **Taxes on income of professionals**[45] : From 2023 will be implemented throughout Russia and at a rate of 4% for services rendered to individuals and 6% for services rendered to companies. The amount exceeding 2.4 million rubles will be taxed at 13%-15%, as in the case of employees.

» Most **small businesses** are eligible for **simplified taxation** and can choose one of the following taxes: income tax (6%), profit tax (15%), unified agricultural tax (6%, farmers only) or imputed income tax (calculated by a special formula, only for certain businesses).

» **Corporate taxes for medium and large companies** include income tax (20%), value added tax (20%), property tax (0 to 2%) and some other taxes such as water tax and mineral tax, depending on the industry to which the company belongs.

» On **VAT**[46] Value Added Tax (VAT) in Russia is composed of three brackets: general (20%), reduced (10%) and exempt.

- The general VAT rate is 20%. It is applicable to all products and services that are not subject to one of the two subsidized rates and includes imports[47] .
- The reduced VAT rate is 10%. Foodstuffs selected before release from bonded warehouse, children's clothing, medicines, newspapers and books are subject to this rate.
- With respect to transportation services, such as public transportation or airline tickets, healthcare, education and financial services, including insurance, are **exempt** and in some cases deductible from income.

» **Social Security Taxes**[48] : Both **residents** and **non-residents** are taxed at a general rate of 30%, consisting of four different items and are paid only by the employer, which means that no percentage of the employee's salary is destined to the payment of social contributions.

- **Payments to the pension (or retirement) system** made by companies is 22% of the employee's gross salary below 1,465,000 rubles per year (€16,278) to the country's pension fund. For the part of the salary exceeding that amount, they must pay 10%, with no limit.
- **Payments to health insurance**, which finances the country's health services. The cost for companies is 5.1% of the employee's gross salary, with no limit.
- **Payments to the social insurance fund.** For foreign workers, the amount is 1.8% of gross salary, with a maximum base of 966,000 rubles (€10,773). For domestic workers, the amount is 2.9%, with the same maximum base. So such contribution

45 *Visit (in Russian):* https://minfin.gov.ru/ru/press-center/?id_4=37976

46 *In 2009, the Minister of Economy reduced the VAT rate from 18% to 12% and 13%. Since 2019 it remains at 20%. See:* https://datosmacro.expansion.com/impuestos/iva/rusia *last visited on 01/31/2023.*

47 *This tax rate has been in place since 2019. Previously, the general and single VAT had been 18%.*

48 *These data were extracted from* https://www.finanzasclaras.es/impuestos-rusia/#impuestos-rentas-trabajo *Its original source was PWC, but since that consulting firm left Russia and Belarus in March 2022, after the invasion of Ukraine, the information cannot be verified, even more so since the Russian government itself has eliminated the publication of tax rates and all other relevant statistical and economic data. Therefore, the information shown here is, for the most part, updated to 2021.*

is, at most, 200-300 € per year.

- **Payments to workers' compensation insurance**. The usual percentage is only 0.2% of gross salary, with no maximum base. Although the specific percentage depends on the level of risk of the work activity and can reach 8.5% for the most dangerous jobs.

» Taxation on the **extraction of mineral resources** in Russia is one of the main sources of revenue for the federal government and is regulated by the Tax Code.

In particular, most of the revenues from this tax are generated by oil companies, which pay tax rates based on a formula that considers world oil market prices and a field-specific depletion factor. Since 2021, a special tax on steel has also been established, demonstrating a trend towards diversification of the tax base and broadening the range of natural resources subject to taxation in Russia. In addition, it is important to note that tax rates are calculated in dollars, reflecting Russia's economic integration in the international context and its dependence on world market prices.

» OTHER TAXES: Taxes on alcoholic beverages (except low alcoholic beverages) and tobacco are foreseen.

RUSSIAN TAX NEWS

Since the implementation of the Flat Tax in Russia, several events have had a significant impact on its economy: in 2014, Russia invaded the Crimean space and denounced the Crimean Pact, which led to tension with Ukraine and other international countries.

Repression of freedom of expression, association and peaceful assembly also intensified. The international economic crises of 2008, 2009 and 2016, combined with the drop in oil prices in 2016, have negatively affected Russia's economy. In addition, the invasion of Ukraine in February 2022 and the resulting economic sanctions have exacerbated the situation.

However, information on the tax system and tax rates in Russia has been removed from public information since 2022 and is not available on the Government's website[49] or the Ministry of Economy[50] .
However, according to Deputy Economy Minister Alexey Valeryevich, the Personal Income Tax (PIT) is expected to undergo adjustments in 2023 to encourage long-term savings[51] .

For their part, the IMF, OECD and World Bank estimate that Russia's GDP is similar to that of Italy, its exports are similar to those of Belgium and its population continues to decline, despite its abundant natural resources. Russia's economy is expected to shrink by 5% to 8% by 2023.

In conclusion, although hydrocarbon export revenues have increased, the Russian economy is in a precarious situation due to the recession, changes in the tax system, the war against Ukraine and future tax implementations to compensate for the consequences of the war.

49 http://government.ru/en/department/69/events/ *last accessed on 01/30/2023.*
50 *See* https://minfin.gov.ru/
51 *Visit:* https://minfin.gov.ru/ru/press-center/?id_4=38107 *in Russian. Last visited on 30/01/2023.*

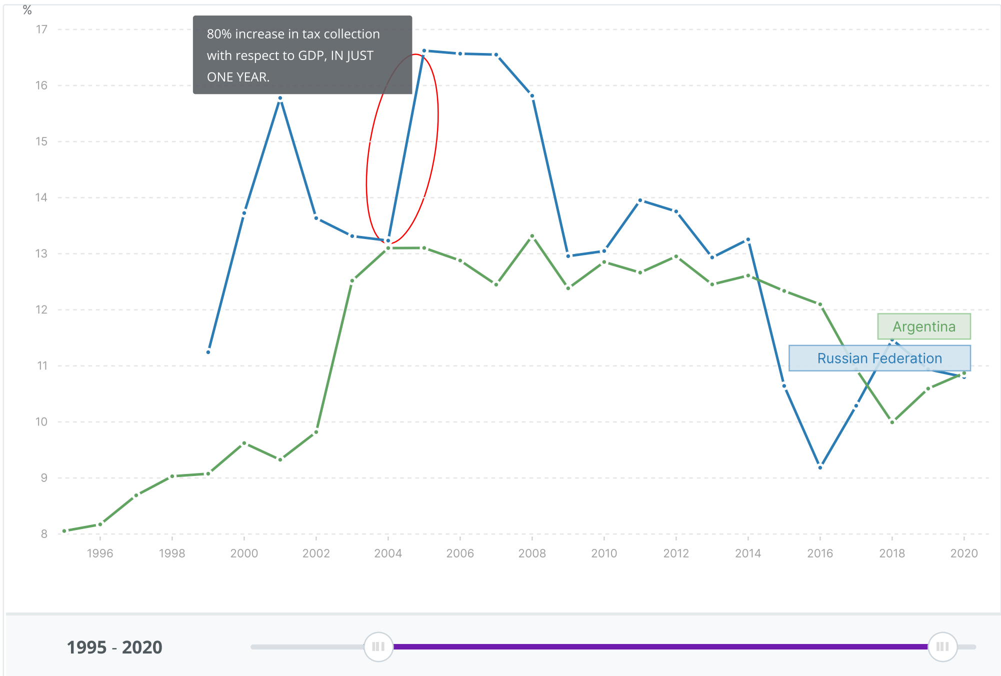
UKRAINE

FROM 1990 TO THE PRESENT DAY.

After the end of the Soviet invasion in 1990, Ukraine found itself in a period of political and economic transition aimed at opening up the economy to a market system. However, the first years after independence were difficult for Ukraine, as it suffered an economic collapse and a deep recession.

Beginning in the 1990s, Ukraine began to implement significant economic reforms, including privatization of some state-owned properties and liberalization of foreign trade. Despite these advances, corruption has been a major obstacle to the successful implementation of economic reforms:

Tax Collection (% Of GDP) - Argentina, Russian Federation



Own elaboration with data from the [https://datos.bancomundial.org/]

The process of privatization of state-owned enterprises in Ukraine was the subject of controversy, as it was often executed in a non-transparent manner and with a high degree of corruption. A particularly blatant example of corruption in privatization was that of Petro Oleksyyovich Poroshenko[52] , a Ukrainian oligarch who bought a large number of shares in one of Ukraine's largest state-owned enterprises (specializing in the production of chocolate-based foods), shares that were held by citizens and acquired them at very low prices, as well as obtaining state approval to auction the enterprise at exorbitant prices after its acquisition. This type of practice was repeated over the years, resulting in a concentration of properties, agricultural properties and companies in the hands of very few oligarchs by 2022.

In early 2004 Ukraine implemented the Flat Tax system, with the aim of addressing fiscal

52 Petro Oleksyyovich Poroshenko is a Ukrainian businessman and politician.From June 7, 2014 to May 20, 2019 he served as President of Ukraine. After the termination of his office and the assumption of the current President Volodymir Zelensky, Poroshenko since then serves as a deputy. He has been cited as one of the most influential people in Ukrainian politics and with extensive connections to Russia.

and economic challenges and improving the efficiency of the tax system. The Tax Code of Ukraine was amended in 2010 and amended several times between 2012 and 2022, with the introduction of significant changes in tax legislation in 2021.

The implementation of this system has been the subject of evaluation and debate, and it has been argued that it has had a positive impact on the Ukrainian economy, especially in terms of tax incentives for taxpayers and improved efficiency of the tax system.

As it is, in 2012, Ukraine implemented the Customs Code that introduced the provisions of the General Agreement on Tariffs and Trade (GATT), the Kyoto Convention and the requirements of the World Customs Organization (WCO).

And as of September 1, 2017, the Association Agreement with the European Union came into force throughout Ukraine, but despite having signed that agreement and obtained candidate membership status in 2022, Ukraine still needed to make significant reforms and changes to its local legislation to comply with EU trade standards and principles.

By 2022, the Ukrainian government was working on the implementation of European Union standards in customs legislation (AEO program, accession to the Common Transit Convention, protection of intellectual property rights at import), but the outbreak of the Russian war against Ukraine has made it difficult to fully comply with these agreements:

The confrontation between Ukraine and the Russian Federation resulted in Crimea, as well as some territories of Donetsk, Luhansk, Kherson and Zaporizhzhia, being considered "temporarily de facto occupied by the Russian Federation" with a specific legal regime. Active military actions continue in eastern and southern Ukraine, which has had a significant and negative impact on the country's economy, with an expected 30-45% reduction in GDP, according to several reputable analysts and organizations, such as the World Bank.

In view of this situation, Ukraine decided to impose martial law as of February 24, 2022, by a Decree of the President and extended until February 19, 2023, thanks to several decrees passed by the Parliament. The Ukrainian Chamber of Commerce and Industry recognized the military aggression of the Russian Federation as a force majeure circumstance from February 24, 2022 until its official termination (i.e. for the legal purposes of judicial and administrative proceedings).

Despite the situation, Ukrainian state bodies and courts continue to operate, but under specific recommendations and restrictions, such as the possibility of delay of proceedings and hearings, and the extension of procedural deadlines. However, certain public registries, such as the Unified State Register of Legal Entities, Private Entrepreneurs and Public Organizations of Ukraine, operate on a limited basis. In addition, foreign payments are generally prohibited according to a Resolution of the National Bank[53] of Ukraine.

THE IMPLEMENTATION OF THE FLAT TAX IN 2004

The implementation of the Flat Tax in Ukraine in 2004 was an integral part of the economic and tax reforms aimed at modernizing the country's economic system and attracting more foreign investment. This system simplified the tax system by establishing a flat tax rate of 13% for individuals and 18% for companies, reducing the administrative burden and costs for companies. The implementation of the Flat Tax has been considered a success. The sys-

53 *Data extracted from https://taxsummaries.pwc.com/ukraine last visited 02/13/2023.*

tem considered the *residence* of individuals and corporations when calculating taxes, which can make the difference between being exempt or having to pay higher rates.

To fully understand their impact, it is necessary to analyze taxes individually and their evolution:

» **PERSONAL INCOME TAX (P.I.T.**[54]): **18%** is the tax rate that applies to income earned from salary and other forms of compensation under labor and civil contracts, foreign income and other income not covered in other categories such as *passive income*[55] , except dividends that meet certain conditions:

- **Ordinary dividends** paid by non-residents, mutual funds and non-taxpayers of corporate income tax (CIT[56]) are taxed at **9%.**

- **Dividends** paid by **resident corporate income** taxpayers (except mutual funds) are subject to a **5%** rate.

- **Military Tax:** In August 2014[57] **, *a temporary*** military tax of **1.5%** on personal income was introduced. The taxable base of the military tax is the same as that of the PIT (with some exceptions) and is not capped. Ukrainian employers and other tax agents are responsible for withholding taxes. Income not withheld by a tax agent must be paid on the basis of a self-assessment within the PIT deadlines.

- A **tax deduction** is allowed **for educational expenses:** This deduction includes **preschool, school** and **higher education**, as well as **extracurricular** education. The total amount of the tax deduction payable by the taxpayer in the fiscal year being reported may not exceed the amount of the taxpayer's annual general taxable income calculated as salary.

- **Tax deduction for charitable contributions** allowed**:** From the 2022 tax year, a tax deduction for charitable contributions is allowed up to **16%**[58] of the taxpayer's taxable income. These include donations to charitable or non-profit organizations registered in Ukraine.

- **Tax deduction** is allowed **for voluntary long-term life insurance premiums or non-state pension insurance** for the benefit of a taxpayer and his/her immediate family members (i.e. spouse, parents, children). For 2023, the deductible amount is limited to *UAH 3,760*[59] per month for a taxpayer. The limit for payment related to the taxpayer's immediate family members is half of the previous monthly limit.

- **A mortgage interest expense deduction** is allowed, through a limited amount of interest on a qualified mortgage, provided it is used to finance the **acquisition of a** taxpayer's ***"principal place of residence"*** (i.e., the apartment/house where the taxpayer is registered).

» **CORPORATE INCOME TAX (C.I.T.): Applies** to taxable income earned by entities resident

54 *From its acronym in English: Personal Income Tax.*

55 *Passive income of individuals can be interest income, dividends, royalties, investment income, etc.*

56 *From its acronym in English: Corporate Income Tax.*

57 *Time of the invasion of the Russian Federation into the Ukrainian Jurisdiction of Crimea.*

58 *Until the 2021 tax period, the deduction was up to 4% for this concept.*

59 **UAH**: *The Hryvnia, or Hryvna, is the local Ukrainian currency. 3,760 UAH is equivalent to about 95 Euros. Visit:* https://www.google.com/finance/quote/UAH-EUR?sa=X&ved=2ahUKEwjA3_nhw5P9AhWCZjABHWqO-BuAQmY0JegQIARAZ *Last viewed on 02/13/2023.*

in Ukraine and abroad and non-residents with a permanent establishment in Ukraine. Resident entities are taxed on their worldwide income. Non-resident entities are taxed on their Ukrainian source income and the standard rate is **18%**.

- **Special rates for Insurance Companies:** Long-term life insurance premiums, insurance premiums under voluntary pension programs and voluntary health insurance premiums are subject to the **0%** rate and a **3%** rate is applied to all other insurance premiums (excluding contributions, premiums and reinsurance payments) received by the insurance company.

- **Special rates for gaming organizations**: These are subject to a **30%** rate as of January 1, 2021. The operation of gaming machines is subject to a rate of **10%** and a rate of **18%** to betting houses and other gambling activities (including casinos).

» **SIMPLIFIED TAX SYSTEM (UNIFIED[60] - S.T.S.[61]):** As of April 1, 2022 and during the period of martial law, business entities of any organizational and legal form, without limitations on the number of employees or ownership structure (and without other limitations established by clause 291.5 of the Tax Code of Ukraine), may elect to switch to a Simplified Tax Regime which has a **2%** rate on income. *This system is not available for*:

- Entities engaged in the manufacture, import and sale of excisable goods, extraction and sale of mineral resources;
- Financial institutions;
- Securities registrars;
- Independent units of legal entities that are not unified taxpayers;
- Non-residents.

» **UNIFIED SOCIAL CONTRIBUTION (U.S.C.[62]):** The basic rate of contribution for a company that pays income/remuneration from employment under civil agreements to individuals is **22%** of gross compensation. The taxable amount subject to the USC is capped per individual per month. As of 2018, the cap is set at 15 times the minimum wage established for the respective month (e.g. UAH 100. 500[63] as of October 2022).

» **REAL ESTATE TAXES (R.E.T.[64]): As from** January 1, 2015 applies to both residential and non-residential real estate owned by individuals are reached by the tax. The taxable base is determined based on the size of the total area of a real estate asset. There is a ***partial exemption*** for private residential property, whereby the first 60 square meters for apartments, 120 square meters for single-family dwellings, or 180 square meters for different types of real estate are not subject to RET. The exemptions do not apply to assets (i) exceeding more than five times the potential exemption area and/or (ii) used to generate income. The rate and additional RET exemptions are set by local governments, but generally **cannot exceed 1.5%** of the minimum wage established on January 1 of the reporting year per square meter (for 2023 - UAH 100.50 per square meter).

60 *Groups 1 and 2 of the simplified (unified) tax system are available only for private entrepreneurs, and group 3 for private entrepreneurs and legal entities. Taxpayers in group 1 are not required to use cash registers. Taxpayers in groups 2, 3 and 4 are required to start using cash registers in the quarter following the quarter in which their income exceeds 220 minimum wages as of January 1 of the reporting year.*

61 *From its acronym in English: Simplified Tax System.*

62 *From its acronym in English: Unified social contribution.*

63 *Approximately €2,500 Euros.*

64 *From its acronym in English: Real Estate Tax.*

- If the taxpayer has one or more residential properties with a total area of an asset of more than 300 square meters (for an apartment) or 500 square meters (for a house), the amount of the calculated tax will be increased by UAH 25,000 per year for each such asset.

» **TRANSPORTATION TAXES:** A local transportation tax is levied on owners of passenger cars (such as cab services) with an average market value of more than 375 minimum wages as of January 1 of the reporting year (i.e., UAH 2,512,500, about €63,700 for 2023) and less than five years old. The car owner must pay a tax of UAH25,000 (about €600) for each car per year.

» **VALUE ADDED TAX (VAT):** As of December 31, 2022, there are four VAT rates:

- The **20%** rate applies to almost all transactions subject to VAT.
- The **14% rate** applies to import and supply transactions of certain agricultural products (products of plant origin such as corn, soybeans, sunflower seeds and certain other products) in Ukraine.
- The reduced rate of **7%** applies to the supply and import of registered medicines and specific medical products, as well as medicines, medical products and medical equipment that are allowed to be used in clinical trials. It also applies to various services of culture, tourism and creative industries, air transportation of passengers and cargo within Ukraine, supply of tickets for sporting events of international and Ukrainian level.
- The **0%** VAT rate applies to the export and re-export of goods and certain other specific transactions.

» **GIFT AND INHERITANCE TAX:** There is no gift or inheritance tax in Ukraine. However, income received as inheritance or gift is subject to PIT (Personal Income Tax) at the following rates:

- **0%** if received from a resident's family members (spouse, child, parent, brother/sister, grandparent and grandchild).
- **5%** if received from resident testators/donors other than those mentioned above.
- **18%** if received from or by a *non-resident* testator/donor, regardless of relationships with such testator/donor.

» **FOREIGN TAX CREDIT:** Tax residents may credit taxes paid abroad on income received outside Ukraine, provided that there is a *Double Taxation Agreement between Ukraine and the relevant foreign jurisdiction*. The amount of the foreign tax credit is limited to the amount of Ukrainian tax payable in the respective reporting period. In order to claim a tax credit, the taxpayer requires an official confirmation of the income received, the taxable base and the amount of income tax paid in such foreign jurisdiction. Such documents are issued by the relevant foreign tax authority and must be duly legalized and translated into Ukrainian.

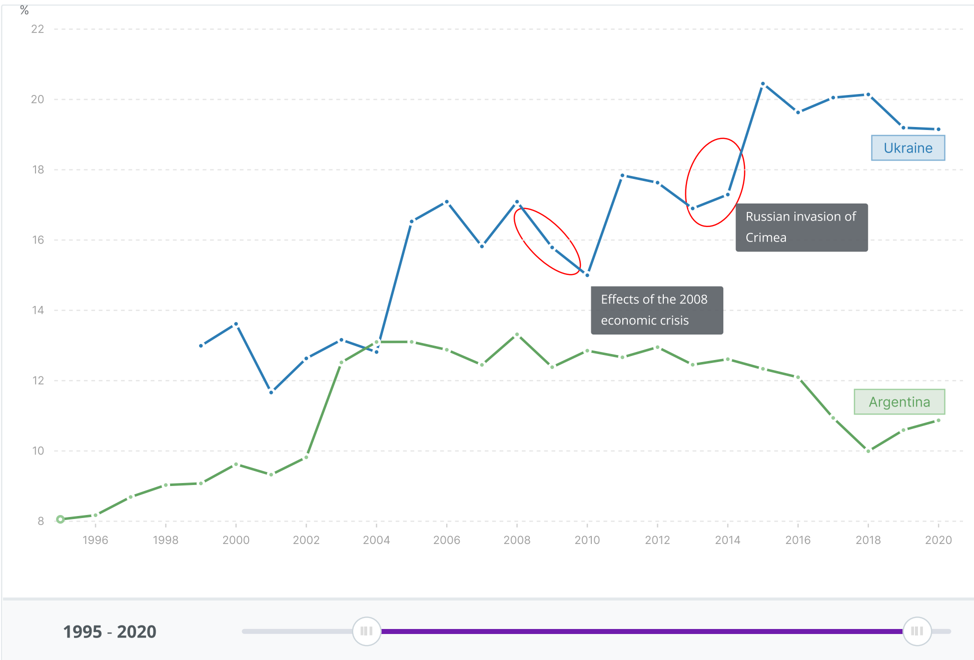
» **NET EQUITY TAX:** None.

In conclusion, the Flat Tax system was implemented in Ukraine in 2004 as part of a set of economic and tax reforms aimed at modernizing the country's economic system and attracting more foreign investment. The tax system simplified the administrative burden and reduced costs for businesses by establishing a flat tax rate of 18% for individuals and companies.

Despite the fact that Ukraine has faced several economic crises in the past, such as 2008, 2016 and 2020, and has suffered constant invasions on its territory, the Flat Tax system has allowed the country to grow economically. It is important to mention that this tax system also included a series of tax deductions for taxpayers, allowing them to reduce the amount of taxes they have to pay, especially in times of armed conflict; therefore, these deductions have proven to be beneficial for taxpayers and help alleviate the tax burden.

And although there have been some adjustments in tax rates since the implementation of the Flat Tax, the system remains relatively simple and efficient. Moreover, it has allowed Ukraine to maintain a solid economic growth rate in recent years, demonstrating that the Flat Tax system can be a useful tool for a country's economic development.

Tax Collection (% Of GDP) - Ukraine, Argentina



Own elaboration with data from the [https://datos.bancomundial.org/]

ITALY, THE FALSE FLAT TAX

INTRODUCTION

Since 2017, the Italian government has implemented a series of fiscal measures aimed at encouraging foreign investment and improving the country's economy.

One of the most significant measures has been the introduction of a single tax, known as *Flat Tax*, which applies to new foreign residents who opt for this regime.

Under this regime, new residents pay an annual tax of €100,000 on all their non-Italian source income, instead of the ordinary tax rates. This single tax regime has a duration of 15 years and can be extended to any member of the family, who will be subject to an annual sum of €25,000. Taxpayers opting for this regime are exempt from Gift and Inheritance taxes on assets and real estate abroad.

The lump sum payment covers any foreign income subject to the flat tax, which means that individuals can send funds to Italy without limitations as the tax covers income earned abroad.

However, it is important to note that the single tax does not apply to any Italian source income or capital gains obtained from the transfer of non-Italian "qualifying" shareholdings in the first 5 years following the election.

I. WHY DO WE SAY THAT IT IS A "FALSE FLAT TAX"?

Italy has a diversified economy, which is divided into a developed industrial north, with many private companies, and a less developed south. The economy is largely driven by the manufacture of high-quality consumer goods produced by small and medium-sized enterprises, many of which are family-owned. Due to its archaeological and artistic heritage, tourism is one of the most important sectors[65] .

The introduction of the "so-called flat tax" has been introduced in the country to encourage foreign investment, which has generated some dissatisfaction among Italian citizens, as many argue that it is difficult for them to benefit from the annual amounts, since they must continue to bear the rest of the ordinary tax burdens, which belong to a *progressive* tax universe - not a minor fact -.

And while since 2014, Italy has provided for a similar system for **self-employed workers**, through the *flat-rate* taxation regime[66] , also known as the *Régime forfettario*, which was established by Law 190/2014:

The reality is that this regime establishes that the taxable base is determined by means of a **fixed tax rate of 15%**, without the inclusion of Value Added Tax (VAT), Regional Tax on Productive Activities (IRAP), Municipal Services Tax (ISA), *and without the application of withholding taxes.* In order to be eligible for this flat-rate taxation system, certain criteria and established limits must be met. The Budget Law for the fiscal year 2023 has increased the annual income threshold to qualify for the flat-rate taxation regime to EUR 85,000[67] .

However, what has been implemented in Italy is not a true flat tax, not even for foreigners wishing to invest in that State, since it has an important limitation: the ***15-year period that this system lasts***. *In reality, what has been implemented in Italy is a tax benefit for foreign investment and not the application of the flat tax system proposed by theorists such as Friedman, Robert Hall and Alvin Rabushka, which implies a real reduction of the tax system and a reduction to a few taxes (no more than 10 or 15 taxes in the whole territory), as well as a low and single rate*

65 https://taxsummaries.pwc.com/italy *Last accessed 02/28/2023.*

66 *The* **flat tax** *is a tax that is levied in a fixed and uniform manner on all taxpayers who meet certain conditions. In other words, the amount of the tax does not depend on the level of income or the amount of assets owned by the taxpayer, but rather a single rate or tariff is applied to all taxpayers. According to the definition given by the Spanish economist José Ignacio Conde-Ruiz, the flat tax is "a tax that is levied indiscriminately on economic activity, regardless of the income earned by taxpayers".*

67 *Previously, in fiscal year 2022, this limit was EUR 65,000.*

income tax that taxes equally the different productive modalities: labor, capital and consumption. In short, the Italian system does not tax all taxpayers equally and does not apply a single low rate (flat rate).

In order to better understand the Italian tax system, some of the ordinary taxes (to differentiate it from the benefit to foreigners) are set out below:

CORPORATE TAXES:

» **CORPORATE INCOME TAX:** Italian cooperative entities are subject to a *Corporate Income Tax or IRES*[68] , and to a *Regional Production Tax* or *IRAP*[69] . The standard rates are as follows:

- 24% for IRES.
- 3.9% for IRAP[70] .

» **SUBSTITUTIVE TAX ON CORPORATE REORGANIZATIONS** (mergers, spin-offs, contributions in kind): Corporate restructurings are, in principle, neutral from a tax point of view even if, for financial accounting purposes, the transaction results in the recognition of higher values of assets or goodwill.

Companies may choose to obtain partial or total tax recognition of the increase in the financial book values of assets or goodwill resulting from corporate restructurings, provided that they pay the substitute tax. This tax is not deductible for IRES or IRAP purposes. The substitute tax may also be paid in three annual installments of 30% in the year of election, 40% during the second year and the remaining 30% in the third year plus interest at the rate of 2.5% per annum on the deferred amounts. The substitute tax is calculated on a **progressive tax base**:

- 12% up to EUR 5 million,
- 14% from EUR 5 million to EUR 10 million and
- 16% from 10 million euros.

» **SOCIAL SECURITY CONTRIBUTIONS:** The total social security rate is around **40%** of the employee's gross salary (the rate depends on the labor activity performed by the company, the number of employees in the company and the employee's position), and is withheld as follows:

68 *The* **IRES** *taxable income is determined in accordance with the worldwide taxation principle, which states that, regardless of the location/jurisdiction where the income arises, to the extent that the income is legally attributable to an entity resident in Italy, the income is taxed in Italy. IRES is charged on the total net income reported in the company's financial statements adjusted by specific tax rules. Non-resident companies are taxed only on Italian source income.*

69 *There are different methods of computation of the* **IRAP** *taxable base, depending on the nature of the business carried out by the taxpayer. Provisions for risks and liabilities, as well as extraordinary items, cannot be taken into account for the determination of the IRAP taxable base. For sales and manufacturing companies, the IRAP taxable base is largely represented by the gross margin of the company in its financial statements. In addition to the non-deductible items mentioned above, interest income and expenses and loan loss provisions are excluded for IRAP taxable income purposes. IRAP is levied on a regional basis, and regions may increase or decrease the standard IRAP rate by up to 0.92%. Companies with facilities in different regions must allocate their overall taxable base to the different regions based on the employment costs of personnel located in the different sites. Facilities become relevant for the IRAP calculation if they have been established for more than three months. Italian companies with Permanent Establishment (P.E.) abroad, as well as shipping companies that qualify for the tonnage tax regime, are not subject to IRAP on income earned through these Permanent Establishments.*

70 *It is a kind of PERSONAL PROPERTY TAX levied in the Provinces of Argentina.*

- The employer's charge is about 30%.
- The employee's charge is about 10%.

» **TONNAGE TAX:** Shipping companies tax resident and non-resident in Italy, operating in Italy through a Permanent Establishment, may qualify and then elect to be subject to the Italian tonnage tax regime. The regime basically allows the determination of presumptive income based on the net tonnage of qualifying vessels prorated to the actual days of shipment (tonnage income). The tonnage income is subject to IRES only (24%).

FINANCIAL TRANSACTION TAX (FTT): Applies to *(i) cash equities, (ii) derivatives and (iii) high frequency trading transactions*. The cash equity FTT applies to the purchase of shares and other equity instruments issued by Italian companies, as well as securities (wherever issued) tracking such Italian shares. The taxable amount is the daily net balance of transactions on the same financial instruments carried out by the same person on the same settlement date. The rate is **0.2%** on OTC transactions or **0.1%** on transactions carried out on a regulated market (or multilateral trading system).

» **DIGITAL SERVICES TAX (DST)**[71] : As of tax year 2020, companies will apply a tax at a rate of **3% on the** value of digital services. The *web tax* is aimed at taxpayers that individually or at group level perform during a taxable year (in this case, according to each calendar year) when granting the provision of the following services:

- Channeling of advertising on a digital interface to the users of that digital interface.
- Offering a multifaceted digital interface to enable user interaction and to facilitate the direct provision of goods and services.
- The transmission of data collected about users and generated from user activities on digital interfaces.

This tax has the same objective as that of *RES. 05/2021 OF THE ARBITRAL COMMISSION OF THE MULTILATERAL AGREEMENT ON GROSS INCOME*[72] *IN ARGENTINA*. This Resolution limits the growth and commercial progress of our Citizens, since it establishes that any person or company that makes an isolated sale from one Jurisdiction to another must register and pay the Gross Income Tax in such province, that is to say, "the whole universe of subjects that commercialize by this means is included, since there is no way to carry out electronic commerce if it is not through a connection or transmission point". It is as if the Provinces, by means of this provision, had set up a kind of customs office to carry out commerce in the National Territory...

TAXATION OF INDIVIDUALS:

» **Personal Income Tax (IRPF)** comprises three types of taxes: ***national, regional and municipal***. The national tax varies between **23%** and **43%**[73] , while the regional tax ranges between **1.23%** and **3.33%**. *The municipal tax, on the other hand, varies from* ***0%*** *to* ***0.9%***

71 The revenues collected are subject to tax when the user uses the device to access the above digital services in the Italian territory. In order to identify the user's location, the Italian tax authority has provided specific linkage rules between the user and the Italian territory (i.e. IP address or other means of geolocation).

72 The Multilateral Agreement is an agreement signed by the 23 Argentine provinces and the Autonomous City of Buenos Aires and whose purpose is the harmonization of the withholding of GROSS INCOME between Provinces for activities carried out by the same taxpayer in one, several or all of its stages in two or more jurisdictions, but whose gross income, being derived from a single, economically inseparable process, must be jointly attributed to all the jurisdictions involved, whether the activity is carried out by the taxpayer himself or by a third party (intermediaries, brokers, travelers, etc.), with or without a relationship of dependence.), with or without a relationship of dependence, and even at a distance, i.e. "between absentees" (by means of internet, letters, correspondents, etc.).

73 ***23%*** *up to €15,000 //* ***25%*** *from €15,000 to €28,000 //* ***35%*** *from €28,000 to €50,000 //* ***43%*** *from €50,000 onwards.*

and municipalities have the power to establish progressive tax rates applicable to the national income bracket[74] .

Individuals resident for tax purposes in Italy must declare all their foreign investments, both financial and non-financial, for control purposes by filing the Italian tax return. Therefore, foreign income is not relevant for taxation purposes in Italy.

» **ADDITIONAL TAX ON VARIABLE COMPENSATION IN THE FINANCIAL SECTOR:** Refers to a tax levied on a form of variable compensation granted to executives and managers working in the financial sector by acquiring shares in companies. This variable compensation can take various forms, such as bonuses, stock options or incentive plans. This additional tax is set at a rate of **10%**.

» **SINGLE TAX ON PRODUCTIVITY BONUS**[75] : It is an additional compensation paid to an employee as a result of an improvement in the production quality and/or productivity of a company. It is important to note that the productivity bonus cannot exceed €3,000 per year. Also, this bonus is subject to substitute taxation, which implies that an amount equivalent to **10%** of the Personal Income Tax (IRPF) must be paid as autonomous and municipal withholding. Although it is not exempt from Social Security withholding tax, the tax rate has been reduced to *5%* in the Budget Law for fiscal year 2023[76] .

OTHER TAXES:

» **VALUE ADDED TAX (VAT**[77] **): VAT** is levied on supplies of goods and services made in Italy by entrepreneurs, professionals or artists and on imports by any person. Intra-Community acquisitions are also subject to VAT in certain situations. The standard Italian VAT rate is **22%**. Reduced rates are provided for supplies of specifically listed goods and services, such as:

- **4%** for listed food, beverages and agricultural products, and e-books/e-magazines that meet certain requirements.
- **5%** for certain health services, for the sale of herbal foods, for certain transportation services on seas, lakes, and rivers, for district heating services, and for specific products related to children (e.g., powdered milk).
- **10%** for electric power supplies for listed uses, listed drugs, and *pellets*.

» **SOLIDARITY CONTRIBUTION IN THE ENERGY SECTOR:** The 2023 Budget Law introduced a temporary solidarity contribution for the current year, payable by companies

74 This is what happens in a similar way in several municipalities of the country, when they charge the SECURITY AND HYGIENE TAX and calculate it on the Gross Income.

75 This bonus is only awarded to the entire eligible workforce (or a homogeneous category) based on fair, predetermined and materially valuable performance objectives and criteria. For example, the achievement of goals related to electricity savings, revenue growth, increased profits, decreased production waste, improved delivery times, or the implementation of an intelligent work scheme, known as a KPI.

76 Employees who have received gross annual remuneration in excess of 80,000 euros in the previous year, including any variable remuneration scheme, are not entitled to receive this tax credit. In order for the above measures to be applied, the employer must sign a collective bargaining agreement with the unions or work committees. If there are no trade unions or work committees, it is possible to apply a territorial collective bargaining agreement (if any) signed by the most representative trade unions in the relevant territory.

77 For its acronym in Italian: Imposta sul Valore Aggiunto. Regarding this particular tax, Italian regulations have established many requirements, in particular for the purchase/sale of goods and services with respect to the rest of the European Community and the Republic of San Marino. These requirements are further intensified with the commercialization carried out with persons (natural or legal) from States outside the European Community or Italy. In short, the VAT imputation system is too cumbersome. **To learn more about this tax, it is recommended to read the report made by PWC at** https://taxsummaries.pwc.com/italy/corporate/other-taxes **as it is not the subject of research of this document.**

with activities in the energy and oil and gas sector due to the extraordinary increase in prices in this sector.

» **REGISTRATION TAX:** For specific deeds and contracts (it is a figure similar to the *stamp tax in Argentina*[78]). Depending on the nature of the contract and the goods that are the object of the contract, as well as the form of the contract, the registration tax is applied as a fixed amount or as a percentage of the value of the goods and/or rights that are the object of the contract. As a general rule, no proportional registration tax is payable in the case of transactions subject to VAT.

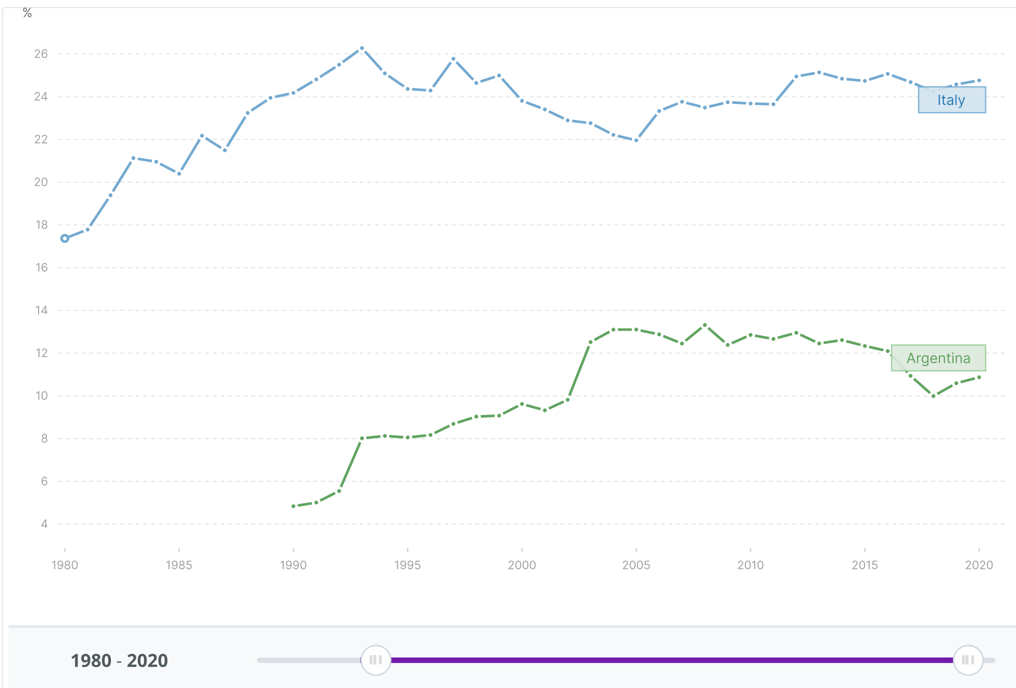
» **UNIFIED MUNICIPAL TAX (IMPOSTA UNICA COMUNICALE OR IUC):** The IUC is composed of the following different taxes:

- *IMPUESTO UNICO (Imposta Municipale Unica or IMU)*: A tax levied on the ownership of real estate (buildings, rural land, farmland), except for real estate held as *primary private property*. The standard tax rate is **0.76%**. Depending on the municipality and the taxpayer's status, the tax rate may be increased or decreased. The tax base is generally determined on the basis of the so-called "cadastral value", i.e. on the value obtained from the capitalization of the estimated standard income expected to be obtained from the real estate.

- *INDIVISIBLE SERVICES TAX (Tributo per i Servizi Indivisibili or TASI)*: A service tax owed by owners and lessees of real estate, except for real estate intended for primary private ownership according to the different cadastral categories (A/1, A/8 and A/9). The amount owed by the lessee may vary according to the *regulations* established by the municipality.

- *WASTE TAX (Tassa sui rifiuti or TARI):* A waste tax levied on the *owner* or *user* of real estate.

Tax Collection (% Of GDP) - Italy, Argentina



Own elaboration with data from the [https://datos.bancomundial.org/]

78 *Insurance contracts and their endorsements, including automobile insurance, fire, transportation of goods, theft, hail and other property damage coverage, lease contracts, etc. are subject to the tax. Read Law No. 18,524:* http://servicios.infoleg.gob.ar/infolegInternet/anexos/230000-234999/234937/norma.htm

Thus, the Italian government has implemented a special regime since 2017 for new foreign residents and their foreign income for a period of 15 years. Although it is presented as a fair and uniform tax system for all, it is not a true Flat Tax in the sense of a simplified, flat-rate tax system that taxes all productive modes equally:

Italy, in order to join the Flat Tax Club, must first understand that such implementation is not feasible without a significant restructuring of the entire public administrative system, as it is one of the European countries with the highest number of public employees and bureaucracy: ***in Italy every year a company must undergo a hundred obligations, forms and declarations to be submitted in time to offices and ministries, where to receive an indication you have to go to about ten different offices, where you receive eight different opinions, often contradictory and divergent. To this must be added the Circulars with which the Tax Agency provides clarifications, extensions that are then cancelled and/or any other useful indication, which ends up making the company's accounting more complex.***

In fact, according to a World Bank report (see Table No. 1), Italy is one of the countries with the most complex tax system in the world, which hinders the ability of companies and individuals to meet their tax obligations effectively and efficiently.

Moreover, the critical point of the Italian system is that it has a multitude of corporate taxes, personal taxes and those created by the State organization itself; in fact, local taxes and other taxes represent 40% to be added to corporate income tax, so it is useless to promise a reduction of these taxes by a few percentage points, if dozens of taxes, tariffs and various levies remain in force.

On the other hand, Italy does not have a Flat Tax system in general, as many Italian citizens are forced to bear ordinary tax burdens, which has generated some discontent among taxpayers with and without tax benefits, even more so when they compare the tax rates applied in Estonia, Lithuania or Bulgaria.

To expand a little more on the complexity of the Italian tax system, it is important to note that Italy has a large number of taxes levied on different activities and goods. For example, there are ***specific taxes on petroleum products, tobacco, alcohol, cars, boats, airplanes, gambling, electricity, television, luxury goods, among others. There are also regional and municipal taxes that vary according to the geographic location of the taxpayer and the activity being developed***.

In addition, as mentioned above, Italy has a progressive tax system, which means that as the taxpayer's income increases, so does the tax rate applied to him or her. This implies that not all taxpayers pay the same amount of tax, but that people with higher incomes are subject to higher tax rates than people with lower incomes.

In conclusion, the Italian tax system is very complex and has a large number of taxes levied on different activities and assets. Although a pseudo Flat Tax regime has been implemented to encourage foreign investment, this regime is not applicable to all taxpayers and does not eliminate the complexity of the Italian tax system as a whole, which discourages local investment.

TABLE N° 1

2023 International Tax Competitiveness Index Rankings

Country	Overall	Overall Score	Corporate Tax Rank	Individual Taxes Rank	Consumption Taxes Rank	Property Taxes Rank	Cross-Border Tax Rules Rank
Estonia	1	100.0	2	1	15	1	11
Latvia	2	88.5	1	3	27	5	9
New Zealand	3	86.1	29	5	1	8	19
Switzerland	4	84.7	10	9	3	36	1
Czech Republic	5	81.2	6	4	25	6	10
Luxembourg	6	78.9	23	21	7	14	5
Turkey	7	78.6	11	7	13	22	7
Israel	8	78.3	13	23	11	11	8
Lithuania	9	76.6	3	10	30	7	22
Australia	10	75.9	32	14	9	4	21
Hungary	11	75.0	4	6	38	23	3
Slovakia	12	74.3	18	2	29	3	30
Sweden	13	73.3	8	20	21	10	13
Netherlands	14	70.6	25	19	16	21	4
Canada	15	69.8	24	24	8	25	15
Slovenia	16	66.6	7	13	31	24	18
Norway	17	66.6	14	27	23	15	12
Germany	18	66.6	31	35	14	12	6
Finland	19	66.5	9	25	24	19	20
Austria	20	65.3	20	30	17	16	16
United States	21	65.0	22	22	4	29	35
Costa Rica	22	64.8	36	33	5	9	31
Korea	23	61.6	26	37	2	32	26
Japan	24	61.5	30	34	6	26	25
Greece	25	61.4	19	8	33	28	23
Mexico	26	60.1	27	28	12	2	38
Belgium	27	60.0	15	11	22	30	33
Ireland	28	58.9	5	31	34	17	34
Denmark	29	58.5	17	36	20	18	29
United Kingdom	30	56.1	28	26	35	35	2
Spain	31	55.8	33	17	19	37	17
Iceland	32	55.5	12	18	28	34	32
Poland	33	55.3	16	12	36	31	27
Portugal	34	52.1	37	29	26	20	28
Chile	35	50.5	35	38	10	13	37
France	36	49.1	34	32	32	33	14
Italy	37	48.4	21	16	37	38	24
Colombia	38	46.4	38	15	18	27	36

Own elaboration based on: 2023 International Tax Competitiveness Index.

FLAT TAX: REBUTTAL OF CRITICISM

There are several criticisms that have been raised against this tax system over the years. These criticisms can be grouped into five main categories, which will be analyzed and refuted in detail one by one.

Most common criticisms:

1. **Unrealistic: It is an** unrealistic system and applicable only in a few countries, especially in small jurisdictions.
2. **Regressivity:** One of the most important criticisms of the flat tax system is that it is *regressive*. This means that people with lower incomes pay a higher proportion of their income in taxes than people with higher incomes. This is because the tax rate is the same for all lower income people, and therefore they have less disposable income to cover their basic needs.
3. **Inequality:** The flat tax system can also be considered unfair because it does not take into account the differences in each individual's ability to pay. For example, a person with a low income might have to pay the same percentage of tax as a person with a very high income, which could be considered unfair treatment.
4. **Loss of tax revenue:** Some critics argue that a flat tax system could result in a loss of tax revenue for the government. Because people with higher incomes would pay less tax under such a system, the government could receive less tax revenue overall, which could reduce its ability to fund public programs and services.
5. **Lack of progressivity:** The flat tax system does not allow for tax progressivity, i.e. the ability to increase the tax rate for those with higher incomes. Tax progressivity is often used to reduce inequality and to ensure that those with higher incomes contribute more to society.

REFUTATIONS:

1 IF THERE IS A REMARKABLE ASPECT OF THIS SYSTEM, IT IS ITS REAL AND POSITIVE ECONOMIC IMPACT.

At the beginning, many argued that it was an unrealistic system, and that Hong Kong was a special case, but as Daniel Mitchell rightly pointed out, critics could never say what was unrealistic or why Hong Kong was a special case. The truth is that over the years, and the influence of geopolitical changes, some 40 countries have opted for this system and their economies have grown so much that they have positioned themselves at the top of the international rankings in terms of economic and fiscal efficiency.

It has also been said that the Flat Tax only works in "small" countries, which has been disproved when a nation like Russia adopted this system and had an increase in its revenue of 80% just one year after its adoption.

We explain this situation with the ***Laffer Curve*** theory.

This theory holds that there is a maximum point in tax collection through taxation, beyond which tax collection will decline as tax rates are increased: if taxes are too high, individuals and businesses will have less incentive to work, invest and undertake, which in turn will reduce the tax base and tax revenue.

The relationship between the Laffer curve and the flat tax system is that a tax system with a low tax rate and a broad threshold of exemption can stimulate economic activity, increase the tax base and ultimately generate more tax revenue, due to the economic growth that its implementation allows.

The Laffer Curve, as pointed out by Montero and Fernández, *is a guide for carrying out reforms to improve tax collection*, but it is also linked to a series of factors that have to do with the economic growth of the country where it is applied[79] .

It is worth noting that the tax history of mankind[80] , has highlighted that with lower taxes everyone benefits: Businessmen compete better and invest more, consumers see their income increase and therefore consume more and better services improving their quality of life and above all, governments collect more.

2 FALSE REGRESSIVITY

While it is true that a flat tax system may appear regressive at first glance, in practice, this need not necessarily be the case. In fact, several countries that have implemented flat tax systems have actually succeeded in making the system more progressive in terms of its impact on the distribution of the tax burden.

For example, in Russia, which implemented a flat tax system in 2001, total tax revenues have increased, while inequality in income distribution has decreased since the system was implemented:

According to the World Bank, Russia's Gini index, which measures inequality in income

79 *"The FLAT TAX Revolution: A Proposal for Latin America (draft)" by Alex Montero and José Joaquín Fernández. June 2006, p. 76.*

80 **Clarification: To** *cite all the cases of States/Countries that implemented a tax reduction and the consequent increase in tax revenue and improvement in the quality of life of the Citizens would be infinite and would entail the study of hundreds of cases. As this is not the purpose of this work, the reader is recommended to search the data by country.*

distribution, has decreased from 0.46% in 2000 to 0.38% in 2019. In addition, according to data from the Organization for Economic Co-operation and Development (OECD), the percentage of total tax revenues in Russia relative to GDP has increased from 25.2% in 2000 to 36.2% in 2019.

Also, with respect to the idea that people with lower incomes pay a higher proportion in taxes than people with higher incomes, this is not the case, as several studies indicate that a flat tax system is not as regressive as it is thought to be.

According to the published study *"The Economic Effects of Flat Tax Reform on the United States: A Simulation Analysis Using the NIGEM Model"* by economists K. Hassett and A. Mathur, a flat tax system with a 19% tax rate for all taxpayers would result in a less unequal income distribution compared to the current U.S. tax system.

Beyond the data and studies previously mentioned, it should be noted that in practice, the application of this tax system is that it maintains ***minimum exemptions***. *This means that for those with income below a certain level and with a harmonious list of deductible expenses, they are likely to pay less tax or even no tax at all.*

These considerations in favor of the least favored invalidate the "regressivity" argument. In reality, the Flat Tax system has positive effects on the economy and on poverty reduction. A flat tax rate incentivizes investment and entrepreneurship, which in turn generates employment and increases economic output. If the economy expands, more tax revenue is generated, which in turn would allow the government to invest more in social programs that benefit the poorest.

In addition, the flat tax rate in a flat tax system is low, compared to the higher marginal rates in progressive tax systems. This means that low-income people may have more money available to spend and save, which could help them lift themselves out of poverty.

So again, this argument against the Flat Tax system falls apart on its own.

III. IN THIS SYSTEM WE ARE ALL EQUAL BEFORE THE LAW

One of the main arguments against the Flat Tax system is that it may be unfair because it does not take into account the individual ability to pay of each taxpayer. However, this argument is based on a misconception of equality, which should mean that the rules apply equally to all citizens, without discriminating on the basis of their income, classifying them as poor, middle class, rich or very rich.

Equality before the law and taxation are closely related because taxation is a way for the government to raise funds to finance public services, infrastructure and other expenditures that benefit society as a whole. Equality before the law implies that all people should be treated equally by the legal system and that the rules should be applied uniformly and equally, regardless of a person's social or economic position. In the case of taxation, equality before the law means that all people should be taxed fairly and equitably, without discrimination or favoritism toward certain groups or individuals. A fair and equitable tax system should be designed to ensure that each person contributes according to his or her economic capacity, without violating the principle of equality before the law; since it is not correct to hold the idea that those with higher incomes should pay a higher proportion of their income in taxes than those with lower incomes, since this is the beginning of inequality before the law.

This idea of equality before the law was expressed by Juan Bautista Alberdi in Article 16 of the Argentine National Constitution, which states:

"The Argentine Nation does not admit prerogatives of blood or birth: there are no personal privileges or titles of nobility. **All its inhabitants are equal before the law**, and admissible to employment without any other condition than suitability. **Equality is the basis of taxation and public charges.**"

Although the Flat Tax system does not consider the amount of income of each taxpayer, it ***does ensure that the tax burden is equitable for all***, which is fundamental for the State to fulfill its main function of raising funds for its support.

In this sense, the fairness of the Flat Tax system lies in the fact that all individuals pay the same proportion of their income in taxes.

On the other hand, some ideological sectors that advocate a higher tax burden for those with higher incomes argue that the Flat Tax system is unfair and unrealistic. However, this position is based on a distorted view of equality, since equality should mean equal application of the rules for all citizens.

Dan Mitchell, was able to explain the following, *"...under the current tax system with discriminatory tax rates, special loopholes, national penalties we are clearly not satisfying the principle of "equal treatment under the law." If you move to a flat tax, you are treating everyone the same and I would point out that for the class warfare people who want to punish the rich or at least who want to collect more revenue from the rich the flat tax is a remarkably successful way to do it.* ***The rich may be bad, as some collectivists think, but they are not stupid, or at least their financial advisors are not***. *What happens when you tax the rich at very high rates? They hide their money, they don't declare what they earn, they find loopholes, deductions and credits (...)* ***when tax rates are low, the rich end up declaring and earning more income, and governments usually raise more with a lower tax rate than with a higher one.*** *We saw it in the United States with Reagan. We saw it with the flat tax in Russia. We saw it with the drastically lower tax rates in Ireland. We see it all over the world. We see it in Hong Kong, where 8% of taxpayers pay more than half the tax burden and, in fact, it's closer to 75% of the tax burden.* ***So if you want the rich to pay a lot of money, give them a low rate tax system so they have no interest in trying to hide their money from the taxman***[81] *."*

With these simple words, the Flat Tax expert was able to synthesize what ***every tax system should aim at***: the *reduction of evasion and avoidance, and this can only be achieved with an orderly, simple, simple, effective and low tax system, which is why Flat Tax for Argentina would be ideal*.

Indeed, a tax system that is orderly, simple, simple, effective and with a low tax burden, such as the Flat Tax, contributes significantly to the reduction of tax evasion and tax avoidance. Likewise, although the objective of a tax system is not to equalize the socio-economic inequalities of a population, the Flat Tax system can help to reduce such inequalities by increasing the purchasing power of taxpayers and, therefore, boosting consumption and private investment in the country.

3 INCREASE IN TAX REVENUES

One of the arguments against the flat tax system is that it could result in a loss of tax revenues for the government.

81 *Article "CONVERSATIONS FROM THE FRONTIER CENTER FOR PUBLIC POLICY". Numb. 115. (2008) With Daniel Mitchell, Cato Institute Senior Fellow and Global Tax Expert.*

Among several studies, including an analysis by the Center for Freedom and Prosperity[82] suggested that if the United States were to adopt a 15% flat tax system, tax revenues could increase due to increased economic activity and tax compliance. For its part, the Heritage Foundation[83] found that a flat tax system could generate an additional $2.6 trillion in revenue over a ten-year period compared to the current U.S. tax system.

In addition, it is important to mention again Laffer's theory, which argues that by finding a fair balance in tax rates, tax revenues can increase. ***In other words, people do not inherently seek to avoid or evade taxation, but do so as a result of a tax system that is stifling to them. In the case of*** Argentina[84] , for example, the tax burden is so high that people seek options to survive at the expense of the state.

To make this point clear, the relationship between taxes and tax collection is one of the most important issues in the field of public economics and fiscal policy. Taxes are a primary source of revenue for the government and their collection makes it possible to finance public spending and social policies. Therefore**, it is crucial to design efficient tax systems that allow for adequate and sustainable revenue collection for the State**.

The relationship between taxes and tax revenue is governed by several factors: one of them is the tax rate, which determines the percentage of taxes levied on a taxable base. The tax rate can affect taxpayers' decision to pay taxes and the amount of taxes collected. *If the rate is too high, taxpayers may seek ways to avoid or evade paying taxes, which tends to decrease tax collection*.

Another important factor is the tax base, which is the amount on which tax rates are applied. If the tax base is broad, more taxes can be collected, while if it is narrow, collection may be limited. *Tax evasion can also affect the tax base, since if taxpayers do not declare all their income or wealth, the tax base is reduced and tax collection also decreases.*

In addition, the efficiency and effectiveness of the tax administration is fundamental for adequate tax collection. An efficient tax administration can identify and penalize tax evaders, as well as facilitate tax compliance for taxpayers. On the other hand, an inefficient tax administration can decrease tax collection and increase administrative costs, as is currently the case due to the universe of regulations that exist and that are published every week, complicating tax collection and tax returns.

In conclusion, the relationship between taxes and tax collection is complex and is influenced by several factors. **It is important that tax systems are designed in an efficient, equitable and sustainable manner so that they allow for adequate tax collection and contribute to the economic and social development of the country**.

4 NOTHING MORE UNFAIR THAN A PROGRESSIVE TAX SYSTEM

One criticism of the flat tax system is that it does not allow for progressivity of the tax,

82 "The Economic Benefits of a Flat Tax" written by Dan Mitchell and published by the Center for Freedom and Prosperity in 2012.

83 "The Economic Impact of the Tax Cuts and Jobs Act," written by Stephen Moore and Joel Griffith, published by the Heritage Foundation in 2015.

84 In a recent report made by the Argentine Industrial Union (UIA), it was determined that the tax pressure in the country is **50.7%** *with respect to Income Tax, Personal Property Tax and Stamp Tax, if it is considered that the sectors that pay them must face the burden more than others, due to the great informality of the local economy (...). January/2023. Visit:* https://www.uia.org.ar/comunicaciones/ *Last visited on 03/21/2023.*

meaning that people with higher incomes do not pay a higher tax rate.

The progressive tax system has been the subject of controversy in the economic debate. One of the main critics of this system was the economist Milton Friedman[85] , who argued that a progressive tax system is unfair and has negative effects on the economy and society.

Friedman argued that a progressive tax system discourages investment and economic growth by reducing people's incentive to work, save and invest. According to his reasoning, if taxes on higher incomes are very high, people with higher incomes will have less incentive to work longer hours or take higher-paying jobs. In addition, high taxes can discourage entrepreneurs from investing in new projects, which can limit economic growth and job creation.

Friedman also argued that a progressive tax system can have negative effects on individual freedom and personal responsibility. According to his perspective, when the government redistributes wealth through progressive taxes, it creates a system of negative incentives that can discourage people from working hard and being responsible for their own decisions, while maintaining that government should have a limited role in the economy, and that progressive taxes can lead to an increase in government intervention and government intervention in the economic lives of its citizens.

Economist Robert Carroll[86] argued that a flat tax system with a 20% tax rate would be more progressive than the current U.S. tax system, since the Flat Tax proved to be fairer and more efficient than a progressive system because all taxpayers would pay the same tax rate, regardless of their income. According to this author, this promotes equality before the law and reduces the gap between rich and poor.

In addition, Carroll explained that a flat tax system can be more efficient than a progressive tax system because a progressive tax system creates negative incentives to work harder and earn more money, since as income increases, so does the tax rate that must be paid. This discourages people from working hard and being productive, which limits economic growth and job creation.

Finally, Carroll argued that a flat tax system can be simpler and more transparent than a progressive tax system, as the latter is complicated and difficult to understand, making it difficult to comply with tax obligations.

To conclude, it is worth mentioning that according to an article on the Flat Tax in 2008[87] , when analyzing the countries that joined the flat tax, they stated that **"No nation has returned to a supposedly progressive tax. Despite the IMF's flawed analysis, the flat tax appears to be remarkably resilient. None of the flat tax countries has returned to a discriminatory rate structure."**

Finally, Hall and Rabushka explained in 1995 that when different forms of income are taxed at different rates, or when different taxpayers face different rates, people find ways to take advantage of them. Therefore, we can affirm that a tax system based on a single, simple, low and equal tax for all would generate positive effects on economic activity by allowing a better allocation of resources and encouraging work, savings and investment than the current progressive tax system.

85 *"Capitalism and Freedom" (1962).*

86 *Article "Progressive Consumption Taxation: The X Tax Revisited" (2004), published in the National Tax Journal.*

87 *Article "The Global Flat Tax Revolution: Lessons for Policy Makers" by Dan Mitchell (2008). Published by The Center for Freedom and Prosperity. Visit* https://freedomandprosperity.org/files/flattax.pdf

FLAT TAX IN ARGENTINA: A MULTIFACETED ANALYSIS

The flat tax system is not the only solution to reduce poverty or increase tax revenue in relation to GDP. The tax system needs to be part of a comprehensive long-term strategy, including social assistance programs and public policies that promote economic growth and job creation.

That said, it is important to point out that the countries that we have analyzed throughout this document, and that implemented the Flat Tax system, not only modified their tax code, but also had to implement public and economic policies that allowed the tax system to have positive consequences.

In the case of Argentina, several structural problems have been identified, including:

» **Lack of a tax code** applicable throughout Argentina, including detailed procedures for tax returns, payment and claims before the tax authorities.

» The limitation on the import and export of goods and services, plus the removal of tax benefits to importers and exporters.

» An aeronautical code that has fallen into disuse due to the lack of updating, added to a universe of complementary laws that on more than one occasion contradict each other and complicate the legal reality.

» The Customs Code is outdated and difficult to interpret.

» A “floating” exchange rate regime, due to an exchange rate with constant intervention of the central bank in the capital market, constantly causing legal uncertainty.

» The continuous devaluation of the local currency “PESO”.

» **Hyperinflation** due to the continued issuance of local currency without real economic backing, which increases the prices of goods and services and reduces the purchasing power of the population.

» Marked citizen insecurity in the different jurisdictions of the country.

» **High levels of corruption in the State**[88] .

» Regarding the **labor market**, in Argentina it is extremely difficult and costly to hire and fire employees since there is no freedom in hiring. In addition, there is a mandatory MINIMUM, VITAL and MOBILE WAGE, which only distorts workers’ salaries by placing a ceiling on the negotiation of the value of the work they perform. The lack of a real unemployment fund and the terrible obligatory nature of the contribution to unions and state social works.

88 *According to the latest* **Corruption Perceptions Index (CPI)** *published by the foundation “Transparency International, the global coalition against corruption” (01/31/2023), by which the perceived levels of corruption in the public sector of each country are rated,* **Argentina ranks 94th out of 180 countries analyzed, with a score of 38/100, being one of the countries with the highest corruption, since 0 means highly corrupt and 100 means extremely clean**. *Visit:* https://www.transparency.org/en/cpi/2022/index/arg

- With respect to the **pension system**, which has recently been violated and expropriated from all Argentine retirees[89] , it is bankrupt and with an income of 300,000 retirees in 2023 who have not contributed, violating the principle of solidarity, since active workers contribute to finance the retirement and pensions of passive workers.
- **Poverty of 39.2% (11.5 million people), Indigence of 8.1% (2.4 million people) and 54.2% of minors are poor**[90].
- Excessive bureaucracy and high government spending, without due technological innovation, growing untrained administrative public sector and with income through clientelism and therefore without prior competitive examinations of suitability.
- Excessive difficulty for citizens to access public information.
- In terms of **education**, Argentina used to be one of the countries with the highest levels of education in the continent. Today this seems like a beautiful fairy tale, since Argentina has fallen in the international rankings of education (PISA), since in 2022, of the 79 countries evaluated by the OECD, the country **ranks 63rd in Reading, 71st in Mathematics and 65th in Science**. All below the regional average and with the worst score in the country's history[91] .
- **Deficient investment in technological innovation**[92] : Although by 2022, Argentina improved its position from 80th place in 2020 to 73rd place in 2021 and currently ranks 69th in the world innovation ranking that includes 132 countries analyzed, the truth is that innovation of all kinds in the country is extremely limited due to the existing prohibitions on imports and exports, the exchange rate "cepo" and other measures, thus limiting the private sector: The private sector is the one who makes the necessary investments to initiate or bring technological innovation to the country from abroad, since the State due to mismanagement of its resources (resources in general) cannot fulfill such function, so there is a feeling of suffocation in the technological and commercial sector, making such private sector smaller and smaller, since investors, innovators and entrepreneurs are forced to leave the country (brain and capital drain).

  As for the Argentine State, due to the lack of investment in the area and the poor management of state resources, Argentina continues to fall below the average of the WIPO mea-

89 *The main purpose of the* **Necessity and Urgency Decree 163/2023**, *issued in Argentina on March 22, 2023, is to establish a series of measures related to public debt. In particular, the Decree refers to several previous laws and decrees authorizing the issuance of treasury bills denominated in U.S. dollars by the Body Responsible for the Coordination of the Systems Integrating the Financial Administration of the National Public Sector. The Decree authorizes the issuance of new treasury bills in US dollars for an amount of up to USD 4,334,000,000, with a ten-year term and full amortization at maturity, which may be fully or partially precanceled. These bills will accrue interest at a rate equal to the international reserves of the Central Bank of the Argentine Republic (BCRA) for the same period and up to a maximum of the annual LIBOR rate minus one percentage point. Interest will be paid semiannually and the subscription of these bills must be integrated in special drawing rights (SDR). The Decree also establishes the issuance of a new non-transferable treasury bill in US dollars, maturing on September 30, 2032, to be delivered to the Central Bank of the Argentine Republic (BCRA), in order to cover the equity difference arising from the operations of the Export Increase Program, created in an extraordinary and transitory manner in Decree No. 576/22, and reestablished in an exceptional and transitory manner in Decree No. 787/22.*

90 *INDEC report published on 30/03/2023. Visit:* https://www.indec.gob.ar/uploads/informesdeprensa/eph_pobreza_03_2302A7EBAFE4.pdf

91 *In general terms, Argentina improved its performance in Reading, but dropped in Science and Mathematics with respect to the 2012 edition, the last comparable data since the 2015 edition was cancelled due to problems with the sample because of corruption in the information collected by the government of Cristina Fernández de Kirchner.*

92 *According to the World Intellectual Property Organization's "Global Innovation Index 2022. Visit:* https://www.wipo.int/edocs/pubdocs/en/wipo-pub-2000-2022-en-main-report-global-innovation-index-2022-15th-edition.pdf

surement: As an example in the region, the country considered the most innovative was Chile, which achieved the 50th position globally in 2022 and maintained the leadership it already had in this ranking. This time it was the only Latin American and Caribbean country in the top 50. It was followed by Brazil in 54th place, which for the first time entered the podium, dethroning Costa Rica (68th). Mexico came third in the region and is on the 58th step of the world ranking.

To address Argentina's tax problems, at least 75% of them need to be tackled, starting with the implementation of the flat tax system. This new tax system will solve problems such as double taxation, tax evasion and avoidance, high tax, and administrative costs, unfair progressive tax scales, and time-wasting, among others.

In Argentina, as of April 1, 2023, there will be 172 taxes, not including public debt as future taxes, nor inflation as non-legislated taxes. The serious problem of the tax system lies in its tax structure, which is perceived as unfair, complex and costly, with negative effects on capital accumulation. In order to achieve high and sustained economic growth to combat poverty, a new tax system that adequately encourages work, savings and investment is required.

A possible solution is the implementation of a single, simple, low and equitable tax for all, accompanied by the elimination of other taxes and preferential treatments. It is recommended that the rate of this single tax be around 13%, with the objective of doubling tax collection with respect to GDP in a calendar year. Although the desire of Argentine citizens to have a tax reduction is well known, a political will is required to carry out this reform, which should be promoted from Congress.

It is important to note that the tax system has a significant influence on the economic and social development of a country, so it is essential that appropriate reforms are made to generate a fair, efficient and equitable tax environment for all citizens.

TAX REFORM AND DEVELOPMENT: IMPLEMENTING FLAT-TAX IN ARGENTINA

The Flat-Tax is a very good alternative for tax reform since, according to its principles, it seeks a low tax rate and a broad definition of income, which generates fiscal awareness as the proposal is clear. In the same sense, it is intended that the benefit is taxed only once, at the same rate and as close as possible to the source, which makes it simple to apply and easy to understand, thus avoiding the search for ways to avoid it.

In Hall and Rabushka's original proposal, it is a comprehensive tax that reaches both individuals and businesses and operates as a consumption tax, since neither savings nor investment are taxed. In this way, investment and entrepreneurship are favored. In fact, they propose accelerated depreciation, considering it as an expense of the first period, with the possibility of transferring losses to subsequent periods without limit. Of course, in order to implement this modification in the form of amortization, a transition plan for previous investments should be proposed.

An important point is that, contrary to what is usually said, it is a tax that can be highly progressive, depending on the exempted amount and the chosen rate.

THE CURRENT SITUATION

A first point to consider is that, regardless of what has been done in recent decades, Argentina is a federal country with 1 national government, 24 provincial governments and 2170 local governments. It would be desirable to return as soon as possible to the order regulated by the National Constitution. In this sense, it is clearly established which are the national functions and which are the provincial ones, in the same way that the resources of each jurisdiction are established. Thus, according to Article 4 of the National Constitution, the federal resources are:

» Funds of the National Treasury: import and export duties; sale or lease of nationally owned land; postal revenue; contributions that Congress imposes on the population in an equitable and proportional manner.

» Borrowings and credit operations decreed by Congress for national emergencies or for enterprises of national utility.

Section 5 prescribes that "Each province shall enact for itself a Constitution under the republican representative system, in accordance with the principles, declarations and guarantees of the National Constitution; and **which shall ensure its administration of justice, its municipal regime, and primary education**. Under these conditions, the Federal Government shall guarantee to each province the enjoyment and exercise of its institutions" (emphasis added). In accordance with this, Art. 121° indicates that each province reserves for itself all the non-delegated power.

Section 75° details the functions of the Congress and complements what has been said so far. Thus, in the current reality, the **national resources** are import and export duties, indirect taxes in concurrence with the provinces, direct taxes for a determined period of time (Income Tax, Personal Property) and contributions to Social Security. **Provincial resources** consist of co-participation, gross income, real estate, automobile and stamp taxes. The **municipalities** have the co-participation and the taxes for services rendered (or not).

Secondly, we must consider is the federal co-participation of taxes. Art. 75° inc. 2 speaks of "An agreement law, on the basis of agreements between the Nation and the provinces, shall institute co-participation regimes for these contributions, guaranteeing the automatic remittance of funds (...).) The distribution between the Nation, the provinces and the city of Buenos Aires and among them, shall be made in direct relation to the competences, services and functions of each one of them, contemplating objective criteria of distribution; it shall be equitable, supportive and shall give priority to the achievement of an equivalent degree of development, quality of life and equality of opportunities throughout the national territory. The "National Assembly shall establish and modify specific allocations of co-participable resources, for a determined period of time, by special law approved by the absolute majority of the totality of the members of each Chamber", while clause 3 reads "Establish and modify specific allocations of co-participable resources, for a determined period of time, by special law approved by the absolute majority of the totality of the members of each Chamber".

It is also necessary to remember that, according to the sixth transitory clause, the regulation of item 2 should have been established before the end of 1996, which has not yet occurred and instead Law 23,548 of 1988 (Alfonsín Government) continues to be used, with some modification. Article 3 of this Law establishes that the distribution will be made as follows:

» 42.34% for the Nation

» 54.66% automatically for member provinces

» 2% automatically for the recovery of the relative level of Buenos Aires (1.5701%), Chubut, Neuquén and Santa Cruz (0.1433% each).

» 1% for the Fund for National Treasury Contributions to the provinces

Complementing this, Art. 4° indicates the percentage corresponding to each province and Art. 8° adds Tierra del Fuego (since 1991) and CABA (since 2016).

Thirdly, we must analyze the revenues and expenditures of the jurisdictions. According to the Institute for the Economic and Social Development of Argentina (www.idesa.org), in the year 2022, revenues reached 29% of the GDP, with 24% corresponding to the Nation and 5% to the provinces. According to the same source, the distribution of these 29% was 16% for the Nation and 13% for the provinces, the latter made up of 5% of their own revenues and 8% of co-participation. As for the Nation's expenditures, they amounted to 21.3% of GDP. This percentage can be broken down into national functions 15.3% (pensions, public employment and other expenses), provincial functions 3% (national programs on non-delegated functions) and economic subsidies 3%. From the above, we can see that Central Administration spending could be lowered by simply ceasing to overlap functions with the provinces. Provincial expenditures, as a percentage of GDP, are mainly composed of public employment (8.5%), pensions (2.1%) and economic subsidies (1.3%).

A fourth and important point to consider is the composition of the tax system. Although there are different estimates that go up to 170 taxes at different levels of government, there is agreement that 10 are the ones that represent 90% of the tax collection. According to IARAF (La Nación, June 11, 2023), there are 148 taxes, of which 138 represent 9% of the collection, while 83% corresponds to 6 taxes (5 national and 1 provincial), of the 4 that remain to complete 91% of the collection, 3 are national and 1 municipal. The taxes that collect the most according to the IARAF report are:

» VAT 22.9%.

» Profit 18.8%.

» Social Security dues and contributions 16.4% 16.4%

- Gross income 13.2% Gross income
- Export duties 6.6% Export duties
- Credits and debits 5.4%.
- Import duties 2.6%.
- Municipal health and safety fees 2%.
- Fuels 1.7% Fuels
- Internal co-participation 1.7%.

OUR PROPOSAL

As a first step, a consensus should be reached to eliminate all those taxes that do not influence tax collection, but represent a significant administrative burden. Specifically, the 138 mentioned above, which together represent only 9% of the resources, among these are Personal Property, minimum presumed profit, free transfer of goods, PAIS Tax, taxes on tickets abroad, transfer of real estate and many others that represent nothing more than inconveniences and expenses for the taxpayer or methods to intervene in the market. It is also necessary to repeal the General Resolutions of AFIP whose sole purpose was to intervene in the exchange market. In this way, there would remain 10 taxes that can also be simplified for the benefit of both the efficiency of the tax administration and the associated cost for the taxpayer.

- **National taxes:** a Flat-Tax with a rate of 13% of the taxable base is proposed to replace the current income tax, export duties, debits and credits, self-employed and single tax. The single rate would be for both individuals and businesses, so that the current four categories would be reduced to two: employees and businesses organized as companies or sole proprietorships (current companies, self-employed and single taxpayers). If the national government limits itself to the functions delegated to it by the provinces, this should be sufficient to cover its requirements.
- **The taxable income for individuals would be obtained by subtracting exemptions and deductions from income.** As exemptions, it is proposed to maintain the current scale, updated by inflation every three months until the macroeconomy stabilizes and then on an annual basis. As for deductions, it is proposed to deduct total health expenses; own and children's educational expenses, since they represent an investment in human capital; social security contributions; contributions to professional funds; life and retirement insurance; prize earnings from sports, academic and cultural contests that are not a habitual and recurrent work activity; and donations to registered foundations, public welfare entities, churches and political parties.
- **For businesses**, the taxable base would be gross income minus all expenses for the period including salaries, social security contributions and reinvestment of profits. A particular case of this point is that of the self-employed and single taxpayers who would all be included in the category of self-employed but their exemptions and deductions should be both those of human persons and companies, an option to simplify is that the owner is assigned a salary for his management work and that on that amount the exemptions and deductions of human person are applied and on the business activity the liquidation of companies. This should be done in two different forms. In this way, tax simplification should reduce the incentive for evasion and would favor greater tax collection, in accordance with international experience. In addition to this tax, import tariffs would be maintained, lowering them in all cases to the minimum allowed by the MERCOSUR Common External Tariff and trying to unify it

into a single tariff in agreement with trading partners. If this tariff is low and no other type of import barriers are generated, the greater openness of the economy should increase revenue collection.

» **Provincial taxes:** it is proposed to replace the national VAT and the Gross Income Tax with a single 13% final sales tax, while eliminating all other current taxes that are outside the ranking of the top 10 tax collectors.

» **Municipal taxes:** municipalities should only be empowered to levy taxes for specific purposes, such as street maintenance, waste collection and other functions of that level of government.

CONCLUSION

The implementation of a Flat Tax system in Argentina presents multiple benefits. This tax reform, characterized by its simplicity and efficiency, is a key catalyst to revitalize the Argentine economy.

First, the simplification of the tax system, thanks to a single tax rate, makes it much easier for taxpayers to comply with their tax obligations. This clarity and ease of management reduces tax evasion and avoidance, persistent problems in the current system. In addition, a simpler and more transparent tax regime not only improves administrative efficiency, but also increases confidence in the tax system.

Second, the reduction in tax rates, inherent in the Flat Tax, encourages investment and entrepreneurship. This economic stimulus is vital for job creation and the promotion of economic growth. International experience has shown that countries with Flat Tax systems achieve remarkable economic development, which is a positive sign for Argentina.

Another crucial aspect is the potential increase in tax revenue. Although a reduced flat tax rate might seem counterproductive for state revenues, the broadening of the tax base and improved tax compliance offset and outweigh this reduction. This translates into greater resources for the State, which can be invested in critical areas for the country's development, such as education, health and infrastructure.

In addition, the implementation of Flat Tax in Argentina contributes to greater social equity. The simplification of the system not only benefits companies and individual taxpayers, but also promotes a fairer distribution of the tax burden, reducing economic disparities.

In conclusion, adopting a Flat Tax system in Argentina marks a significant shift towards a more efficient, fair and transparent tax system. This change not only boosts economic growth and improves social equity, but also increases tax collection, thus improving the State's ability to meet the needs of society. However, it is essential that this tax reform be accompanied by appropriate complementary policies to ensure its long-term success and sustainability.

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The purpose of the Argentine Taxpayers' Council is to submit proposals to public administrations aimed at simplifying the tax system and reducing the tax burden borne by the private sector. It supports a rational, non-distortive tax system that favors and stimulates social development within a framework of economic freedom. It has signed a Framework Agreement with the Fundación Democracia, which depends on the Círculo de Legisladores de la Nación, for the preparation of bills and the performance of dissemination activities in academic, political and parliamentary environments. The Council operates as a Working Group belonging to Fundación Internacional Bases. More information at https://www.consejocontribuyentes.org

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