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TAX POLICIES IN POLAND, SLOVAKIA, AND BULGARIA: SITTING ON A TICKING BOMB OR CATCHING UP WITH THE WEST

After the end of communism the countries of Central and Eastern Europe shared very similar challenges. Despite the different patterns of transition the dominant model of ‘catching up with the West’ included adoption of western legal and institutional standards. In economic terms it presumed privatisation, liberalisation and the prompt accumulation of capital that was devastated during communism. The ultimate goal was to promptly achieve dynamic economic development and sharp improvement of the living standard. The inadequate taxation policies inherited from the communist system had to be adjusted to the demands of the free market economy. New taxation policies were necessary not only to serve the purposes of the ‘catching up’ process, but also to stabilise the countries’ fiscal conditions and to attract foreign direct investments that were to be the main drivers of economic prosperity. The newly created taxation systems in the countries from the region were complex, confusing and replete with exemptions.

The solution appeared to be the flat tax system, which made an impressive career throughout the region. The flat tax was supposed to encourage capital accumulation; lead to the growth of disposable income and enhance foreign investments; promote equal treatment of taxpayers; stimulate further investments, savings, labour, and entrepreneurship; encourage political responsibility and feature administrative simplicity thus, resolving the problems of tax evasion and improvement of tax collection. Finally, the flat tax was supposed to eliminate the shadow economy, encourage tax compliance and lead to economic growth.

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This paper conducts a comparative review of Bulgaria's, Slovakia's and Poland's taxation system performance in pursuit of the question whether the flat tax system was able to meet the hopes reposed in it. The three countries were selected because they nominally contain different taxation systems: Poland has a progressive one; Slovakia has a flat tax while retaining some elements of progressive taxation; whereas Bulgaria has the most radical flat tax systems in the region. Furthermore, after a quarter of a century their economic and tax experience does not correspond with the expectations of the flat tax dogma.

The research argues that the question whether the taxation system in the region is flat or not is of secondary importance, despite the fact that all the tax systems in their essence aim to follow a very similar 'flattened' taxation pattern. Secondly, that the quest for foreign direct investments cannot be followed blindly and uncritically, since the three countries' experience reveals alternative and most importantly, not only positive achievements. Finally, the paper argues that the current performance of the three countries' taxation systems does not correspond with the expectations that the flat tax system will resolve the internal operational difficulties, such as high compliance gaps, tax evasion and weak tax administration. Having in mind that after a quarter of a century the three countries reached different levels of economic development, the question remains whether the current taxation systems are still relevant or they have lost their appropriateness. Poland and Slovakia are approaching the challenge of a 'middle income trap', whereas Bulgaria still needs to 'catch up'. Thus, the former two should reconsider the current pressuring weaknesses of their taxation systems, whereas the latter should reassess its approach towards foreign direct investments and reconsider the direction of its economic policy.

INTRODUCTION¹

Countries often share similar national and international priorities. In that respect the countries of Central and Eastern Europe sharing the legacy of

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the Soviet model of planned economy and political domination decided to reorient their political and economic reality towards the West. Thus, political pluralism and free market economy became the main priorities of the new political elites. Hence, CEE countries constitute an interesting example of a wide variety of players sharing a similar starting point and sound direction. However, they often followed different ways to achieve these goals. This tendency was recognised by prof. Krystyo Petkov, as a new, prospective interdisciplinary research area of national and regional economies and social policies².

The paper will aim to contribute to the thus recognised field of research through a comparative analysis of selected tax policies conducted by three Central and Eastern European countries – Poland, Slovakia and Bulgaria. Particular attention will be devoted to the pursuit of a very similar ‘quest towards the West’. The three countries took for granted such economic paradigms as the argument that the attraction of Foreign Direct Investments will facilitate the ‘catching up’ process through the import of ‘know how’, improvement of quality, new forms of management or accumulation of capital. Secondly, that the introduction of flat tax rate taxation systems will increase the competitiveness and attractiveness of the economies and will provide better conditions for economic growth. While comparing the implementation of these decisions and their consequences, the paper will aim to recognise the current challenges and assess the relevance of the ‘catching up’ policy today.

Since 1989 Central and Eastern European (CEE) countries have had to address swiftly the complexity of challenges stemming from the collapse of communism. One of the main priorities of the subsequent transitional period was the mythical notion of ‘catching up with the West’³, understood as the adoption of the same political and economic model of an organisation that aimed to fill the gap between the former communist countries and Western Europe. As Ivan Berend defines it, the countries of the region rushed to ‘copy Western institutions, knocking at the door of the European Community, attempting to attract foreign capital’³. Stanisław Gomulka describes the apparent discrepancy between the economic development of Poland and the western economies as a ‘civilizational gap’. Its minimisation and eventual

² See Petkov, K. 2010. Ploskiat danyk i krizata, fiskalnite efekti i socialnite defekt. [Flat tax and Crisis, the Fiscal Effects and Social Deffects.] *Ikonomicheski alternativi*, no. 5. Available at: <http://alternativi.unwe.bg/alternativi/index.php?nid=44&hid=1858>.

³ Berend, I.T. 1996. *Central and Eastern Europe 1994–1993*. Cambridge University Press, p. 303.

overcoming were considered to be among the top three economic priorities⁴. Indeed, among the main targets of the economic ‘catching up’ was the accumulation of capital, decreasing the distance to West European countries as far as GDP was concerned and improving living standards. These ambitious plans required the introduction of profound reforms from the rails of the planned economy towards that of the free-market economy.

Among the most pressuring issues related to the process of transition was the establishment of a new, relevant and efficient taxation system⁵. Vazquez and McNab mentioned the need to mitigate the acute revenue problems expected to occur at the beginning of the transition; the need to develop tax systems to meet the peculiarities of each country; the selection of taxes that could be more easily enforced by weak administrations; the early introduction of VAT and excises and the elimination of export taxes and the prevention of high import taxes; the introduction of personal-income taxation for fiscal and educational purposes⁶. In such an environment, taxes had to ensure continuous revenues in order to finance state functions and to reorient the incentive structure, to facilitate enterprise restructuring and private sector development⁷. However, the emergence of the new tax systems was, just as most of the political actions in the early days of the transition, a response to the demands of the day, rather than a comprehensive and well-coordinated action synchronised with wider economic, and strategic objectives. Thus, the new taxation systems became leaky, complex, and unequal and subject to constant manipulations.

After twenty-five years, the countries of the region are now considered stable free market economies. All the former Central and Eastern Europe (CEE) Soviet satellites are members of the EU and active participants in the integration process. However, continuous economic emigration from the region and apparent discrepancy in the living standards in comparison

⁴ Gomulka, S. 2014. Transformacja gospodarczo-społeczna Polski 1989–2014 i współczesne wyzwania. [Economic and social transformation of Poland 1989–2014 and contemporary challenges.] In: *Nauka*, no. 3, p. 7. Available at: http://www.pan.poznan.pl/nauki/N_314_01_Gomulka.pdf.

⁵ The gradual disappearance of state-owned enterprises constituting the main source of budget revenue, the need for wage controls in order to tame hyperinflation and the need to secure new sources of revenue demanded a reform of the tax systems.

⁶ Martinez-Vazquez, J., McNab, R.M. 2000. The Tax Reform Experiment in Transitional Countries. *National Tax Journal*, vol. 53, no. 2, pp. 276–277.

⁷ Gray, C.W. 1991. *The challenge of tax reform in Central and Eastern Europe*. Proceedings of the Annual Conference on Taxation Held under the Auspices of the National Tax Association – Tax Institute of America, vol. 84, p. 165.

to the 'old Europe' Member States, shows that despite all of the efforts, CEE countries still lag behind their Western partners in terms of wealth and economic development.

Having in mind these general tendencies in the region, Bulgaria, Poland and Slovakia's taxation systems constitute interesting focal points of reflection on the role and quality of taxation policy among the countries in transition in the region. Apparently, taxation policy itself is not a panacea for all the economic challenges of the countries in transition, but its practical implementation determines the pace of a country's economic development and the citizen's attitude towards the state.

The three countries constitute interesting examples of economies facing similar challenges and reaching for different solutions. In particular, they all went through debates concerning the progressive or flat tax taxation schemes which were supposed to be the solution not only for the confusing and complex tax systems that emerged throughout the nineties but also an answer to the demand for favourable conditions enhancing foreign direct investments (FDI). These investments were the needed 'missing element' allowing the post-communist economies to cumulate the necessary capital to catch up with the West.

Although at first glance pursuing a very similar goal, the three countries have substantially different taxation systems. Poland has a progressive one, Slovakia with its comprehensive flat-tax system reform was once considered to be the economic miracle of the region, whereas Bulgaria has the most 'orthodox' flat-rate tax system. Secondly, the Polish tax system is considered to be confusing and complex, but the Bulgarian and Slovak ones are labelled as simple and modern. The data from the annual reports of the World Bank contradict these perceptions. What makes the comparison even more confusing is the fact that the positioning of the three countries among the fastest growing economies in the EU does not correspond with their tax system structures, since Poland and Slovakia are among the top five countries, whereas Bulgaria is not⁸.

This paper will analyse whether the three countries' taxation policies are still relevant to the goal set up a quarter of a century ago. Moreover, it will evaluate whether the low tax rates designed among others to attract FDI's were justified. Thirdly, it will explore what the most pressuring challenges for

⁸ European Commission. 2016. *Commission Staff Working Document, Country Report Poland 2016*, SWD(2016)89 final, 26 February 2016, p. 4. Available at: http://ec.europa.eu/europe2020/pdf/csr2016/cr2016_poland_en.pdf.

the taxation systems in the three countries are and thus assess the relevance of the tax policies they pursued in the past. Finally, the paper will seek to answer whether the countries of the region are still on the right track or an urgent adjustment of their taxation policies is necessary to continue ‘catching up with the West’ and avoid the middle income trap.

THE FLAT RATE TAX – A COMPARATIVE OVERVIEW

The turbulent period of the 1990s in the region influenced the development of a tax systems in each country. The internal attempts to organise the process of transition, the need to attract investments, the extensive tax abuse, and criminal economic activity, frequent legislative changes and inefficient administration required the introduction of a tax model that would not only stabilise the budget revenue but also comprehensively address transition challenges⁹. During the 1990s free market taxation systems were introduced in response to the pressuring need to secure revenues to the government budgets and as a consequence of the demands of the new free market economy. The communist system model of taxation, when the state would finance expenditures by transferring revenue from state firms, became irrelevant with the introduction of the privatisation processes in each country¹⁰. Therefore, new taxes had to be introduced, practically designing the fundamentals of new fiscal systems.

Along with the internal challenges of fiscal consolidation of the new democracies, external pressures also played a role. As Hilary Appel (2006) argued, ‘the bulk of tax policymaking of that time falls outside the realm of domestic politics and is instead overwhelmed by external imperatives’¹¹. Among others, the EU imposed tax harmonisation of value added tax (VAT) and excise duties prior to membership. On the other hand, ‘the globalisation of finance and the internal competition for foreign direct investment have led governments to lower corporate tax rates in order to attract and maintain

⁹ On the problems with administration and customs see: Martinez-Vazquez, J., McNab, R.M. 2000. The Tax Reform Experiment in Transitional Countries. *National Tax Journal*, vol. 53, no. 2, pp. 273–298.

¹⁰ See: Appel, H. 2011. *Tax Politics in Eastern Europe*. Ann Arbor: The University of Michigan Press, p. 25.

¹¹ Appel, H. 2006. International imperatives and tax reform, Lessons from Post-communist Europe. *Comparative Politics*, vol. 39, no. 1, p. 44.

investment levels¹². The consequences for policy makers in the region were apparent. The indirect-tax harmonisation fostered by the EU and the demands for global integration left ‘very little room to manoeuvre in distributing the tax burden’. Until today, the tax structure in the three countries confirms the claim that the ‘allocation of the tax burden between workers and business’¹³ was a logical consequence of these particular sets of priorities¹⁴. The introduction of personal income tax and corporate income tax was also in line with prospective membership in the EU. However, extended progressivity in personal-income taxation¹⁵ and high corporate income taxation soon turned out to be an obstacle for the emerging free market economies.

A flat income tax appeared to be the solution. The arguments behind the introduction of the flat tax were roughly the same throughout the region. The main purpose of the flat tax was to increase the economy’s competitiveness while securing fiscal stability. Following the forerunners of the contemporary concept¹⁶, the flat tax encourages capital accumulation, which was one of the main purposes of the governments in CEE. It also leads to the growth of disposable income and enhances foreign investments, and promotes equal treatment of the taxpayers. By decreasing the tax burden on the wealthier part of society, it also stimulates further investments, savings, labour, and entrepreneurship. The flat tax also encourages political responsibility and features administrative simplicity. Thus, it is a remedy to tax evasion and an improvement of tax collection. The flat tax is supposed to eliminate the shadow economy and to encourage tax compliance. Eventually, the tax would

¹² *Ibidem*, p. 48.

¹³ *Ibidem*, p. 46.

¹⁴ Having said that, one should not forget that the nominal VAT tax rates can differ substantially from as low as 17% in Luxembourg to as high as 27% in Hungary.

¹⁵ Before the 2003 reform in Slovakia in the PIT there were five band rates on income that ranged from 10 to 38%, In Poland until 2008 there were three thresholds from 19 to 40% and in Bulgaria four rates (20%, 26%, 32% and 40%). The corporate income in Slovakia was subject to withholding tax rates from 5% to 25%. In Bulgaria, according to the law of December 1997 corporations were taxed with 10% municipality tax and 30 or 20% central budget tax on the remaining part of the taxable profit. In Poland Corporate Income Tax was steadily decreased from as high as 40% in the eighties and steadily reduced to 32% by 2000. For more details on the taxation systems of the three countries see Bał, M., Stanchev, K., Rencko, J. et.al. *Needs for Deregulation of the Tax Systems in Central and Eastern Europe, A Comparative Study, Bulgaria, Poland, Slovakia*. I.M.E Occasional papers, pp. 5–10.

¹⁶ Hall, R.E., Rabushka, A. 2007. *The Flat Tax*. Hoover Classics, Hoover Press.

lead to economic growth¹⁷. As Evans and Aligica emphasised, ‘these normative dimensions allude to the certainty, convenience and fairness criteria set forth by [Adam] Smith that form the cornerstones of the classical liberal tradition’¹⁸. However, the distribution of wealth becomes more concentrated¹⁹.

Among the three countries subject to analysis, the flat tax was introduced in Slovakia and Bulgaria in 2004 and 2008 respectively. In Slovakia, the flat tax was introduced as a part of a comprehensive review of the tax regime, healthcare, social security, amendments to the commercial and criminal codes and significant improvements in the business environment²⁰.

Chart 1

The tax system in Slovakia as introduced by the reform of 01.01.2004²¹

The system is based on five key measures:

1. Implementation of flat personal and corporate income tax rate at the level of 19% (before: 5 tax brackets from 10% to 38% for individuals and 25% for legal entities plus huge number of exceptions and special rates)
2. Unification of VAT rates at the level of 19% (14% and 20% before)
3. Elimination of dividend tax
4. Elimination of gift tax, inheritance tax, and real estate transfer tax
5. Elimination of almost all exceptions, deductible items, special regimes and special rates

¹⁷ About the flat tax in Bulgaria see Ganey, P. 2007. *Pravo v desetkata*. [The bullseye.] 11 September 2007. Available at: <http://ime.bg/bg/articles/pravo-w-desetkata/#ixzz3sDL4asiw>; Angelov, G. 2007. *Danyci i danychna politika*. [Taxes and tax policy.] Institute for Market Economy. Available at: <http://ime.bg/bg/articles/danyci-i-danychna-politika>; In Slovakia: Chren, M. *Unfair competition? Slovak Tax Reform*, p. 9, presented at the colloquium ‘Perspectives on International Tax competition’ organised by the Liberal Institute of the Friedrich-Naumann-Stiftung. Potsdam 3. December 2005. Available at: <http://www.fnf.org.ph/downloadables/Slovakia's%20Tax%20Policy.pdf>; Pogatsa, Z. 2009. Tatra Tiger: Growth Miracle or Belated Recovery? *Acta Oeconomica*, vol. 59, no. 4, pp. 377–390; Moore, D. 2005. *Slovakia's 2004 Tax and Welfare Reforms*. IMF Working Paper, WP/05/133 July 2005.

¹⁸ Evans, A.J., Aligica, P.D. 2008. The Spread of the Flat Tax in Eastern Europe, A Comparative Study. *Eastern European Economics*, vol. 46, no. 3, p. 50.

¹⁹ *Ibidem*.

²⁰ Mikloš, I. *Slovakia, A Story of Reforms*, p. 4. Available at: http://www.upms.sk/media/Slovakia_A_story_of_reforms.pdf, and EBRD. *Transition Report 2013, Stuck in Transition*, p. 51. Available at: <http://www.ebrd.com/downloads/research/transition/tr13.pdf>.

²¹ As provided by Mikloš, I., *Ibidem*.

The reform was also subordinated to the goal of entering the Eurozone as soon as possible and therefore of bringing the public budget deficit below 3 percent of gross domestic product by 2006. 'In other words, a political condition for the tax reform to gain support from the political leaders was that its overall impact on the fiscal position of the Slovak government will not be negative'²².

The reform broadened the tax base, shifted the tax burden from direct to indirect taxation, and was accompanied by cuts in social security. The 19% flat tax rate applied to personal and corporate income and VAT. The inheritance and gift tax and the real estate transfer tax were among the 21 taxes abolished from 1 January 2005²³. Remarkably, through the preservation of a high tax-free threshold, the tax retained one of the key features of progressive taxation, namely its distributive role. Moreover, since the poverty line is subject to annual adjustment to take into account inflation, the Slovak government prevented the 'hidden' or 'inflationary' increase of the real tax burden due to the inflation of nominal income²⁴.

Last but not least, as M. Chren pointed out over a year after the reform, 'The tax reform meant much more than just changes in the tax rates. Its ultimate aim was to transform the Slovak tax system into one of the most competitive ones in the developed countries'. As he continued 'today, the new Slovak tax system is competitive mainly because of the unusually high degree of its efficiency, transparency and non-distortiveness'²⁵. In short, the Slovak tax system remained progressive but to a lesser degree²⁶.

²² Chren, M., *op. cit.*, p. 14.

²³ OECD, Centre for Tax Policy and Administration. *Tax reforms Policy in the Slovak Republic*. Available at: <http://www.oecd.org/tax/tax-policy/37154700.pdf>.

²⁴ Chren, M., *op. cit.*; I. Mikloš argues that 'it was necessary to decrease tax burden of high income groups (because the rates for the highest income groups decreased even by half, from 38% to 19%) and the lowest income groups, where on the contrary the rates increased from 10% to 19%. This objective that ensured also political pass of tax reform was ensured by significant almost 2,5 times higher increase of non-taxable income, which in addition is valorised. In result of this precaution, the real effective tax burden decreases also to the groups with low income. Effective rate is therefore still progressive; people with low income do not pay anything, while high incomes are taxed almost with 19%.'. See *Slovakia, A Story of Reforms, Change of the socio-economic model with limited liability*. Available at: http://www.upms.sk/media/Slovakia_A_story_of_reforms.pdf.

²⁵ Chren, M., *op. cit.*

²⁶ See Moore, D. *Slovakia's 2004 Tax and Welfare Reforms*. IMF Working Paper, WP/05/133 July 2005 and Kahanec, M. et al. *GINI growing inequalities impacts. Growing inequalities and their impacts on the Czech Republic and Slovakia, Country report for*

In Bulgaria, the implementation was more gradual with the introduction of a 10% dividend tax in 2007 and 10% personal-income and corporate-income taxes in 2008. The main specifics of the Bulgarian flat tax are the introduced tax rates, which up until today are the lowest in nominal terms among the CEE countries (10%). Secondly, the tax free threshold was removed and various tax benefits were eliminated. Thus, the Bulgarian flat tax is the most 'orthodox' one. The reform was also completed gradually because comprehensive social security reform was introduced in two phases – in 2007 and 2008²⁷. Nevertheless, despite the fact that the reform was broadly revenue neutral as a result of the shift from direct to indirect taxation²⁸, high labour costs remained a substantial obstacle to the comprehensive exploitation of the opportunities stemming from the flat tax reform.

Poland, almost simultaneously with Bulgaria, also advanced changes to its taxation system by introducing alternative flat personal income and corporate income taxes. In Poland, the personal income tax had already been introduced in 1992²⁹. In 2004, three progressive thresholds (19, 30 and 40%) were established³⁰. Five years later, the thresholds were reduced to two (18% and 32%) while the nominal taxation thresholds were increased, thus confirming the tendency to decrease tax progressivity³¹.

Table 1:

Personal income taxable base in PLN		Tax
more than	up to	
	85,528	18 per cent minus tax-reducing amount of PLN 556.02
85,528		PLN 14,839.02 + 32 per cent of the sum exceeding PLN 85,528

The Czech Republic and Slovakia, p. 113. Available at: http://gini-research.org/system/uploads/511/original/Czech_Slovak.pdf?1377869960.

²⁷ Ganev, P. 2007. *Pravo v desetkata*. [The bullseye.] 11 September 2007. Available at: <http://ime.bg/bg/articles/pravo-w-desetkata/#ixzz3sDL4asiw>.

²⁸ OECD, Centre for Tax Policy and Administration. *Tax reforms Policy in the Slovak Republic*. Available at: <http://www.oecd.org/tax/tax-policy/37154700.pdf>, p. 4.

²⁹ Szczodrowski, G. 2007. *Polski system podatkowy*. [Polish tax system.] Warszawa: Wydawnictwo naukowe PWN, p. 67.

³⁰ A 50% threshold was also proposed, but Poland's Constitutional Court rejected it.

³¹ Russel, P. 2008. *Podatek liniowy*. [Flat tax.] *Infos Biuro Analiz Sejmowych*, no. 16/40, p. 4.

Simultaneously, 19% flat personal-income tax was introduced in 2009 as an alternative to the existing progressive taxation for persons conducting business activity as one of the taxation options. The taxpayer decides about the form of taxation. However, by selecting the flat rate option, one would no longer have access to tax exemptions, including preferential tax treatment for spouses and single parents. At this point, the existence of numerous tax reliefs appears to be crucial: since most taxpayers were over the 32% threshold up until 2009, it did not automatically mean that they would select the 19% flat rate. The advantages of progressive tax relief require meticulous calculation of each case that qualifies for the alternative methods of taxation. During the past five years, however, the group of people selecting the flat rate tax grew steadily.

To summarise, despite the profound flat-rate tax reform conducted in Slovakia, in Poland and Slovakia the systems retained a degree of progressivity due to the presence of a threshold below which personal income remained tax free. In Poland, the reduction of the thresholds was drastic, and *de facto* led to a flat-rate tax system for personal income. In other words, the noticeable tendency to flatten the tax rates, the alternative flat rate tax on personal income and the corporate income flat rate indicate Poland's drift towards the same flat rate trend in the region. However, the system retains non-taxable minimum and numerous tax reliefs for personal taxation, thus making the system a regional Quasimodo. On the other hand, Bulgaria's flat rate tax system appears to be the most radical in terms of eliminating non-taxable minimum and numerous tax deductions.

What seems to be quite apparent is that the three countries followed a very similar taxation policy of the steady reduction of tax rates. (see Table 2 below) This trend was further encouraged by the regional tax competition in pursuit of foreign direct investments. However, the social consequences of these policies remain on the flipside.

Although this paper does not intend to delve into the discussion on the redistributive role of taxation and the alternative notions of equality, the taxation trends in the three countries require a brief comment. According to the supporters of the flat tax, its egalitarianism stems from the fact that every individual is taxed evenly with the same percentage. However, the critics argue that such an approach ignores the fact that the value of money is different for those who earn more than those who earn less. The Slovak reforms took this precaution into consideration and accommodated the flat tax reform through simultaneous substantial increase of the non-taxable minimum and the introduction of new forms of targeted social compensations to ensure

a fairer distribution of income, particularly benefiting low and medium income households and families with children³². However, in Bulgaria the extension of the tax base and the elimination of non-taxable minimum meant that the tax burden was substantially shifted onto the low-income and middle class of the society³³. Paradoxically, in Poland the introduction of optional flat rate taxation for self-employed, the decrease of thresholds and relatively high set up of the second threshold practically introduced a flat rate tax for over 95% of the society, but at the same time retained the existing tax deductions and benefits. Thus, the Polish and Slovak systems retained the essence of the taxation system distributive role, whereas Bulgaria ignored this aspect.

Having in mind these national characteristics, it becomes difficult to conclude unequivocally who benefits more from the flat tax – the poorer or richer parts of the society. The devil remains in the details. The Slovak case reveals that the reforms can be crafted in a way that each part of the society can be better off than before the reforms, but this is because the flat tax was reconciled with such splinters of progressive taxation as non-taxable minimum and family benefits. On the other hand, the Bulgarian case reveals the congenital defect of the dogmatic understanding of equality as solely the even implementation of the same tax rate.

Another observation from the comparative research of the taxation reforms in the three countries is that the introduction of the flat tax system in its orthodox form seems to be impossible through genuine democratic process. This argument does not mean to undermine the tax reforms in these countries as illegitimate or non-democratic, but to emphasise that where the reforms were subject to open social debate, the trade-off that was achieved was a practical ‘progressivisation’ of the flat tax in order to obtain the necessary political approval. In Slovakia the flat tax reformers had to agree to such shape of the reform that will secure the interests of weaker groups in the society. Because the promoters of the flat tax in Poland were aware of the consequences, the introduction of the flat tax was approached differently. Instead of a lofty and loud flat tax reform the progressive tax system was flattened reaching results similar to the Slovak ones. In Bulgaria, where the flat tax reform was a subject to a successful lobbying with the

³² Chren, M. *Unfair competition? Slovak Tax Reform*, p. 10.

³³ See Hristoskov, Y. 2010. Ploskiat danyk, mit i realnosti. [Flat Tax, Myth and Reality.] In: *Ikonomicheski Alternativi*, no. 5, p. 59, also European Commission. 2016. *Commission Staff Working Document, Country Report Bulgaria 2016*, SWD(2016) 72 final, 26 February 2016, p. 5. Available at: http://ec.europa.eu/europe2020/pdf/csr2016/cr2016_bulgaria_en.pdf.

government³⁴ and the reform was imposed instead of agreed, its 'orthodox' form is a subject of permanent and strong criticism from a vast spectrum of economists, trade unions and politicians³⁵.

Tax reforms have substantial implications for the entirety of social, economic and political relations. Hence, their prudent crafting needs to rely among others, on the argument that the economy and thus the society will be better off after the reform in a reasonable perspective. The introduction of the flat tax was supposed to resolve numerous internal and external challenges. Among the former were decreasing tax avoidance and defeating the grey economy, decreasing unemployment, improving tax collection and boosting economic growth. Among the latter is the pressure of regional tax competition and the need to attract foreign direct investments. The tax reforms in the three countries reveal that the benefits from the implementation of the flat tax are automatic for the wealthier part of the society, whereas the protection of the lower income groups requires additional effort. Thus, in order to justify the implementation of the flat tax reforms, it is necessary to prove that the reform indeed improved the performance in these fields. The next two parts will focus on the foreign direct investment experience of the three countries and its correlation with the flat tax reforms and subsequently on the above mentioned internal challenges.

THE TAX COMPETITION AND FOREIGN DIRECT INVESTMENTS IN THE THREE COUNTRIES

Among many essential aspects of the flat tax reform, tax competition in the region deserves particular attention. In the early days of the transition, countries throughout Central and Eastern Europe introduced numerous tax holidays and exemptions³⁶. They were necessary to revive the economies, integrate the former socialist economies with the West, attract technological

³⁴ In Bulgaria the flat tax was introduced by the officially socialist government of Sergey Stanishev.

³⁵ On the process of implementation of the flat tax reforms in Slovakia see Fisher, S., Gould, J., Haughton, T. 2007. Slovakia's neoliberal turn. *Europe-Asia Studies*, vol. 59, no. 6, pp. 977–998; On Bulgaria see Petkov, K. 2010. Ploskiat danyk i krizata, fiskalnite efekti i socialnite defekt. [Flat tax and Crisis, the Fiscal Effects and Social Defects.] *Ikonomicheski alternativi*, no. 5. Available at: <http://alternativi.unwe.bg/alternativi/index.php?nid=44&hid=1858> and the remaining chapters on flat tax in the volume.

³⁶ Martinez-Vazquez, J., McNab, R.M. 2000. The Tax Reform Experiment in Transitional Countries. *National Tax Journal*, vol. 53, no. 2, pp. 273–298 (277).

know-how and provide employment opportunities since the high unemployment rates were a pressuring social, political and economic issue³⁷. Additionally, the perspective of EU membership required the adoption of EU legal standards. In such an environment, the establishment of friendly tax environments became tools in the race for foreign direct investments (FDI). Before the introduction of the flat tax in Slovakia and Bulgaria, expectations for FDI inflows ran high. Thus, in the period between 2004 and 2008, the three countries decreased their top statutory tax rates in personal and corporate income taxation as presented in the table below:

Table 2

	Top personal income tax rate %					Top corporate income tax rate %				
	1995	2000	2005	2010	2015	1995	2000	2005	2010	2015
BG	50	40	24	10	10	40	32.5	15	10	10
PL	45	40	40	32	32	40	30	19	19	19
SK	42	42	19	19	25	40	29	19	19	22
EU Avg.	47.2	44.6	40.4	38.6	39.3	35	32	25.3	23.2	22.8

Source: European Commission, Directorate General for Economic and Financial Affairs (ECFIN) and Directorate General for Taxation and Customs Union (TAXUD). 2015. *Tax reforms in EU Member State 2015, Tax policy challenges for economic growth and fiscal sustainability*. Institutional Paper 008, p. 107. September 2015. Available at: http://ec.europa.eu/economy_finance/publications/eqip/pdf/ip008_en.pdf.

Furthermore, each of these countries continued to provide additional assistance to prospective foreign investors. Already in 1997 Bulgaria adopted its Law on foreign investments which, among others, allowed special treatment for ‘priority investment projects’ which had to meet at least one of the following criteria: to exceed 5 million USD; to create more than 100 new workplaces; to invest in regions with the excessively high unemployment rate. The incentive for such investments was the tax exemption. Special investment classes also determined the government’s assistance to investors³⁸.

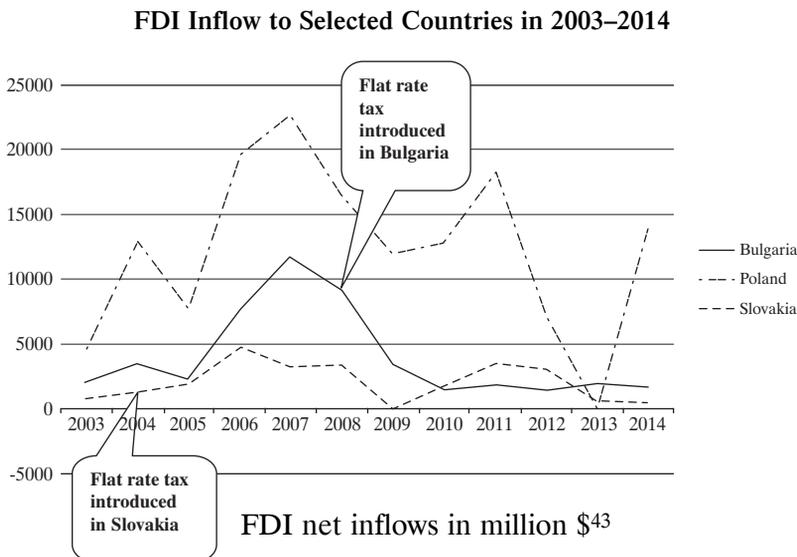
³⁷ Popescu, G.H. 2014. FDI and Economic Growth in Central and Eastern Europe. *Sustainability*, vol. 6, 8149–8163, p. 8150. DOI: 10.3390/su6118149.

³⁸ Białek, Ł. Pulse of the region: Overview of Foreign Direct Investment in Central and Eastern Europe. *Bulletin of Central and Eastern Europe*, no. 3, pp. 7–8. Ganchev, D. 2010. Prekrite chuzhdestranni investicii za perioda 1992–2008 g. – izvodi i novi predizvikatelstva. [Foreign direct investment in the period 1992–2008 – conclusions and new challenges.] *Ikonomicheski alternative*, no. 2, pp. 40–56.

The introduction of the flat corporate income tax of 10% in 2008 was another substantial step in creating such a favourable environment.

In Poland, prospective foreign investors could rely on Multiannual Support Programmes, Cash Subsidies, Real Estate Tax Exemptions or Special Economic Zones (SEZ)³⁹. SEZs provide certain benefits such as a corporate tax exemption, support for new investment projects and grants for creating new jobs⁴⁰. Slovakia remains the country with the best organised and most transparent investment regulations, designed to meet the need of companies in manufacturing, technology, services or tourism. The state covers 50% of the investment costs, and the minimum investment amount (3.5, 7 or 14 million Euro) depends on the unemployment rate in the region⁴¹. Particular attention is also paid to Research & Development: state grants encourage the transfer of such R&D centres to Slovakia⁴².

Figure 1



³⁹ The fourteen SEZs established in Poland are not subject to the European Commission state aid regulations.

⁴⁰ Białek, Ł., *op. cit.*, p. 64; Allen & Overy. 2001. *Foreign Direct Investment in Central and Eastern Europe*; OECD. 2012. *FDI in Figures*. Available at: <http://www.allenoverly.com/SiteCollectionDocuments/Foreign%20direct%20investment%20in%20Central%20and%20Eastern%20Europe.PDF>.

⁴¹ Białek, Ł., *op. cit.*, p. 68.

⁴² *Ibidem*, p. 68–69.

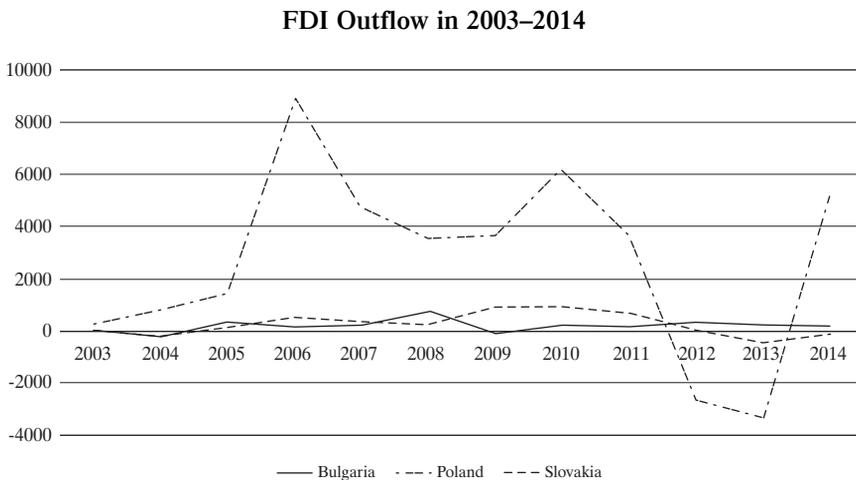
⁴³ <http://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD?page=2>.

The FDI inflow data for the period 2003–2014 deserve a closer look. So far, we have concluded that the taxation systems of Poland and Slovakia are only nominally different, whereas in their essence they are very much the same. However, the Bulgarian flat rate tax is much more ‘orthodox’. The second important observation is that the conditions for FDI in the analysed period were not the same. One of the consequences of the global financial crisis of 2007–2008 was the reduction of foreign investment activity at least in the first year after the crisis. The third factor is the membership in the EU. Poland and Slovakia joined it in May 2004 and Bulgaria in January 2007.

The FDI inflow data reveal that there is no direct connection between the introduction of the flat rate personal and corporate income taxation and the growth of foreign investments. Reversely, the membership in the EU seems to be a good catalyst for foreign investments around the moment of joining the Union. The three countries’ FDI substantially increased around the time of obtaining the membership.

Secondly, the economic crisis did not cause a substantial change in the FDI outflow, but significantly decreased the level of inflow. Thirdly, the country with the highest foreign direct investments is Poland, where the taxation system is often recognised as complex, unclear and most importantly for the survey – not a flat rate.

Figure 2



In the period 2004–2008, Poland could boast of 802 FDI projects. Bulgaria and Slovakia had 287 and 305 respectively. All the countries faced a decline of FDI projects in the period 2009–2013 (Poland by 180, Slovakia by 104 and

Bulgaria by 139). The crisis had a much more significant impact on Central and Eastern Europe job creation with an FDI decrease of 30% compared to only 13% in Western Europe⁴⁴. Most interestingly, a report by Ernst and Young (EY) shows that Poland is perceived as the most attractive CEE country for investments (with 31%), while Slovakia is the least (2%)⁴⁵. The data confirm that although fiscal policy affects location decisions, it is less important as the regions converge⁴⁶. Since such a tendency can be observed in Central Europe, the role of other aspects determining FDIs increases, such as education of the workforce or access to larger markets. Regional specialisation and agglomeration economies also appear to be important factors⁴⁷. These observations are confirmed by the fact that the FDI structure of the Central European countries is substantially different from that in Bulgaria. Poland and Slovakia are part of the 'Western Europe's industrial backyard' in which most of the manufacturing centres are located⁴⁸. Whereas, in Bulgaria the FDI flow is much more service oriented⁴⁹.

As indicated by Piotr Bogumił, the Central and Eastern European (CEE) countries received a significant amount of capital inflows, which supported the catching-up process in the region. For some countries, this process resulted in capital misallocation, which led to an unsustainable boom and a subsequent financial bust. According to Bogumił's survey, the changes in the sectoral share of the FDI flow in Poland, Czech Republic, and Slovakia were smaller, and the flow continued mainly into the tradable sector, adding to export growth. However, in countries like Bulgaria, the share of FDI flowing into manufacturing and services shrank rapidly over 2003–2008 and was replaced by FDI inflows into construction and real estate⁵⁰. In Bulgaria,

⁴⁴ Data from *Ernst & Young European Attractiveness Survey*, EY 2014, p. 48.

⁴⁵ Bulgaria was not included among the top countries in the survey. Ernst & Young. 2014. *Ernst & Young European Attractiveness Survey*, p. 12.

⁴⁶ Angenendt, J. 2011. *Foreign Direct Investment in Central Europe and Differences in Transition between post-communist Central European Economies*. Hamburg: Diplomica Verlag, pp. 40–41.

⁴⁷ *Ibidem*.

⁴⁸ According to D. Ganchev's data for the period 1998-2008 the branches with largest foreign direct investments are as follows: real estate; financial sector, processing industry, automotive sector services, etc. See. Ganchev, D., *op. cit.*, p. 45; See also: Bogumił, P. 2014. Composition of capital inflows to Central and Eastern Europe – is Poland different? *ECFIN Country Focus*, vol. 11, issue 8.

⁴⁹ According to Saul Estrin and Milica Uvalic only in 2010, 81% of the inward FDI stock to Bulgaria was concentrated in services. See footnote *infra*. 100.

⁵⁰ Bogumił, P., *op. cit.*, p. 3.

the build-up of sizeable capital inflows into the non-tradable sector fuelled unsustainable consumption (and construction) investment booms, which ended with a bust in its real-estate sector. Poland and Slovakia avoided this scenario because foreign capital went mainly towards manufacturing and business services⁵¹. Last but not least, the FDI flow as a percentage of GDP indicates the penetration of foreign capital into the economy. Among the three countries, Poland scored the lowest percentage (less than 40), followed by Slovakia with almost 60% and Bulgaria over 90%⁵². Having in mind Ganchev's argument that the structure of the FDI inflow to Bulgaria does not correspond with the needs of the Bulgarian economy and the prospects for its further development, it becomes apparent that treating foreign direct investments as a goal, instead of a tool is an essential mistake⁵³.

The quest for attracting foreign investments continues. The most recent race between Slovakia and Poland for the Jaguar Land Rover factory to be established in Western Slovakia is instructive. As reported by the Financial Times, the Slovak authorities offered 'tax and other fiscal incentives to the British carmaker'⁵⁴. The Polish authorities also offered a location within a SEZ, which implied tax exemptions and government assistance.

Indeed, the logic behind pursuing FDIs is that investors provide labour, know-how, build capital and of course provide wages that eventually constitute a source of income for the state budget. However, not all the capital generates added value and even if it does, there is no guarantee that it will remain in the host country and will contribute to its further development.

Examples of drawbacks are present in each of the analysed countries. Most recently that was illustrated by Slovakia. In 2012, Slovak GDP growth was driven by increased productivity of the export-oriented industrial sector, especially car manufacturing⁵⁵. Nevertheless, increased production by more

⁵¹ *Ibidem*.

⁵² Estrin, S., Uvalic, M. 2013. *Foreign direct investments into transition economies: Are the Balkans different?* LSE 'Europe in question' discussion papers, LEQS Paper no. 64/2013, pp. 33–34. Available at: <http://www.lse.ac.uk/europeanInstitute/LEQS/LEQSPaper64.pdf>.

⁵³ Ganchev, D., *op. cit.*, pp. 46–54.

⁵⁴ Foy, H., Sharman, A., How Slovakia overtook Poland in Jaguar Land Rover factory race. *Financial Times* [Online] 17 November 2015. Available at: <http://www.ft.com/intl/cms/s/2/4ec6972c-73db-11e5-bdb1-e6e4767162cc.html#axzz3rz589uF3>.

⁵⁵ Slovakia remains the world leader in car production in 2015, Liptakova, J. 2015. Slovakia still tops in per capita car production. *The Slovak Spectator* 19 March 2015. Available at: <http://spectator.sme.sk/c/20056604/slovakia-still-tops-in-per-capita-car-production.html>; Analysis of the economic situation in the countries of Central and

than 1/3 in 2012 had no impact on VAT since exporters do not pay it. The fact that these factories operate mainly as assembly centres, together with the tax holidays for many of the foreign investors resulted in a similar level of CIT revenues with noticeable GDP growth. The carry forward losses from the period 2009–2010 additionally limited tax collection. Hence, the Slovak government relied on the tobacco tax with almost 40% growth in the last five years, notwithstanding the fact that the tobacco tax rate is currently the highest among Visegrad countries.

Similar challenges exist in Bulgaria. The detailed survey of Dobrin Ganchev concludes that the uncontrolled inflow of FDI in the Bulgarian financial sector, which constituted the second most intensively exploited area (after real estate) in 2007, also brought negative consequences. That year almost all Bulgarian banks turned into branches of Austrian, Italian, Greek or Hungarian financial institutions. Almost simultaneously the economic crisis erupted and the Bulgarian government decided to provide financial assistance to local entrepreneurs. However, it became apparent that the government could not find a credit partner, since all the branches were preoccupied with the economic hurdles of their headquarters⁵⁶. It led to the practical inability of the Bulgarian government to find intermediaries able to streamline its financial support to the Bulgarian business.

Table 3

Total Direct Investments accumulated after 1989 in million EUR

	1990	2000	2011
Poland	84	26355	152104
Slovakia	217	3667	39496
Bulgaria	86	2082	36693

Source: Białek, Ł. Pulse of the region: Overview of Foreign Direct Investment in Central and Eastern Europe. *Bulletin of Central and Eastern Europe*, no. 3, p. 74.

To sum up, it is apparent that the tax incentives offered by the states are important. Yet, they are not crucial for the country's attractiveness. As the EY report reveals, during the crisis new FDI destinations emerged, e.g. Serbia and Russia, or Spain in Western Europe. On the other hand, the

Eastern Europe, no. 1/14 January 2014. Available at: https://www.nbp.pl/en/publikacje/inne/NMS_01_14_en.pdf, p. 5. Furthermore, Slovakia hosts plants of major companies like Dell and Sony.

⁵⁶ Ganchev, D., *op. cit.*, p. 46.

financial burden of host countries distorts the mutual benefit of investments, since the host countries *de facto* participate in investment costs. Thus, tax competition in the region imposed additional costs on taxpayers through the sharing of the investors' burden. Although the promises made to foreign investors by government officials are not publicly available, further research on this aspect can shed more light on the efficiency of FDI.

A quarter of a century after the end of communism the three countries' economies became part of the global and regional economic integration processes. However, the presumption that through such cooperation the countries will obtain technological know-how was premature. Among the three countries subject to analysis, Poland and Slovakia seem to have reached the limits of low labour costs, low taxes, and geographical proximity package of FDI incentives⁵⁷. With the growing labour costs and wage expectations, these countries face the middle-income trap challenge; and a reassessment of the existing fiscal policies is required. The Slovak government learned its lessons by shaping much more target oriented conditions for attracting foreign capital in Research and Development. The Polish government also seems to recognise the need to invest in the capitalisation of the national economy through a national strategy. Hence, the argument for the need of the flat tax as an incentive for foreign direct investments is not convincing. The blind acceptance of foreign investments does not meet the demand of the day for the competitive, innovative and smoothly organised economy. The next subchapter will reflect on the internal peculiarities of the taxation systems in the three countries in pursuit of an answer to the question whether the flat tax scheme has been able to improve them.

THE CHALLENGES FACING TAX SYSTEMS IN THE THREE COUNTRIES

The discussion about the quality of the tax regimes in the three countries cannot continue without revisiting the trivial argument that tax systems are as good as their enforcement. Although in the 2016 'Doing business report' the three countries were classified relatively high with Poland scoring best, the section 'Paying taxes rank' reveals a substantial lag behind Western European countries. Having in mind the alleged simplicity and efficiency of the flat tax, the Polish score is rather surprising, and confirms the argument that the efficiency of the taxation system is more important than the flat/

⁵⁷ See Bogumil, P., *op. cit.*, p. 4.

progressive features of the tax. On the other hand, among many reasons for the introduction of the flat tax pointed out earlier, there was the argument that it will solve the problem of lower tax compliance. The Bulgarian example suggests that the presence of the flat tax does not mean that the system is simple. Even though it has the lowest tax rates in the three countries, Bulgaria has the most time-consuming taxation system, requiring 423 hours and the largest number of payments (14)⁵⁸. Also, the costs of tax collection is high, standing in the upper range of the spectrum at 1.34% of net revenue in 2011⁵⁹. Slovakia is known for its alleged simplicity (confirmed by the fact that the required hours are only 188). It requires more payments (10) than Poland (7) and provides the highest total tax rate as a % of profit (51, 2%)⁶⁰. However, in comparison to the Netherlands, for example, the most striking is the dynamic of changing indicators in all categories among the three countries every single year, whereas the selected western countries indicators remain firm (see Table below). Changes to the tax system in Belgium or the Netherlands are introduced seldom and if so, are not immediately followed by new ones. Despite the declining numbers of payments in the three CEE countries, the intensity of changes year to year is much higher. That contributes to the general feeling among the taxpayers that the systems are unstable, instrumental and thus unreliable⁶¹.

The essence of the Polish, Slovak and Bulgarian countries taxation systems requires critical reflection. The existence of flat tax aura and their improving performance in international reports support the argument that the systems are cheap, simple and efficient. This conclusion is premature.

Poland constitutes the most noticeable example of popular dissatisfaction with the taxation regime. The 2015 Civic Development Forum (Forum Obywatelskiego Rozwoju – FOR) report on the future of Poland analyses administrative challenges of the taxation system. The reason for the low FDIs is not the low potential revenue, but unclear costs. The main obstacle is the

⁵⁸ The EU-28 average is 189 hours.

⁵⁹ European Commission. 2016. *Commission Staff Working Document, Country Report Bulgaria 2016*, SWD(2016) 72 final, 26 February 2016, p. 43. Available at: http://ec.europa.eu/europe2020/pdf/csr2016/cr2016_bulgaria_en.pdf.

⁶⁰ World Bank Group. *Doing Business 2016, Measuring Regulatory Quality and Efficiency*. Available at: http://www.doingbusiness.org/~/_media/GIAWB/Doing%20Business/Documents/Annual-Reports/English/DB16-Full-Report.pdf.

⁶¹ All the data retrieved from Doing Business reports in the period 2006–2016. Earlier reports contain different methodology which makes the comparative analysis in longer perspective impossible.

existing taxation system, with its complexity and unfair treatment promoting the violation of law, which is an additional cost that directly influences investment profitability. The unstable taxation and administrative regulations on par with the ambiguity concerning their execution and the judicial system incapacity directly impact profit calculations⁶².

Figure 3

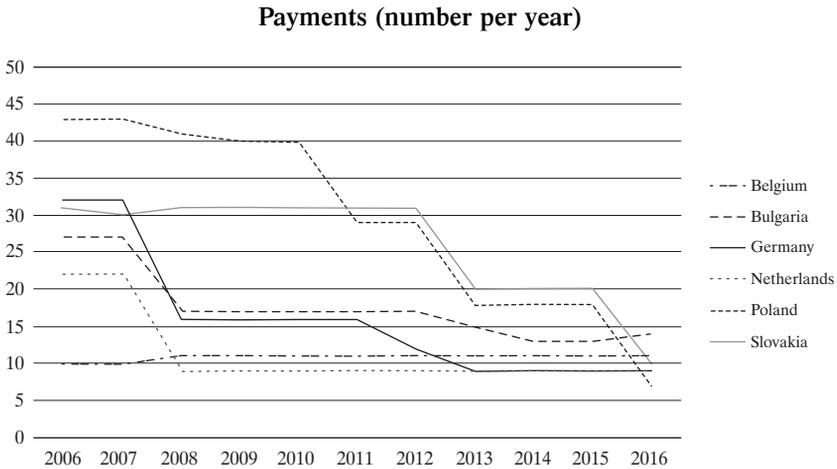
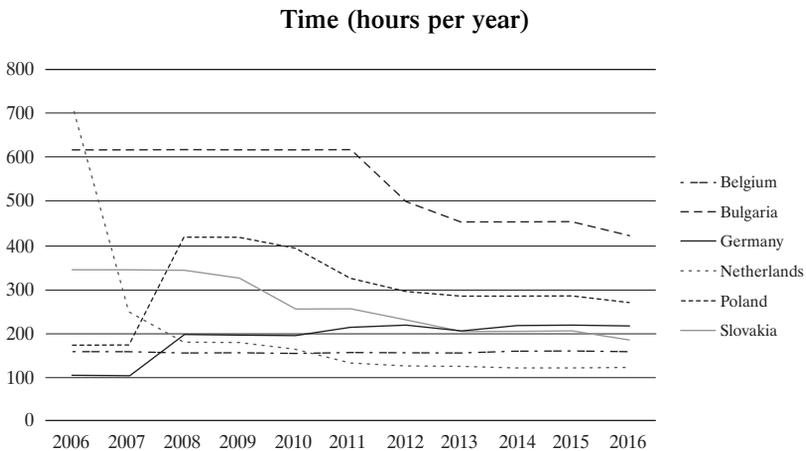


Figure 4



⁶² Łaszek, A. 2015. *Następne 25 lat. Jakie reformy musimy przeprowadzić, żeby dogonić Zachód.* [The next 25 years. What reforms to introduce to catch up with the West?] Forum Obywatelskiego Rozwoju, p. 109.

According to FOR, in Poland the costs related to the obligation to cumulate, store and deliver information to the authorities is 6.1% of GDP. The administrative burden (solely as a result of legal requirements) is 2.9% of GDP. In all cases, Poland's administrative costs are higher than in other OECD countries⁶³. In 2010, Deloitte identified over 4,000 informational obligations for companies⁶⁴.

According to small and medium enterprises, the tax law is too complicated, ambiguous and difficult to interpret⁶⁵. Entrepreneurs must often request clarifications from the tax authorities. However, obtaining such interpretations is very time-consuming and does not guarantee a safe conduct pass⁶⁶. The side effect is a destabilisation of the company's business process. 31% of the survey participants mentioned the need for general interpretations of taxation regulations issued by the Ministry of Finance. This is important, especially having in mind the contradicting and often conflicting interpretations issued by different local tax administration units.

The overproduction of law in Poland (measured in pages of law entered into force) is 1.7 times higher than in Italy, six times higher than in the Czech Republic and 7.5 times higher than in Slovakia. 'Should the entrepreneur be interested in becoming acquainted with all the legislative changes within one year, he would need to devote 3.26 hours daily to doing this'⁶⁷.

The 2011 ECDDP report revealed that the VAT law provisions effective since their adoption in 2004 were modified 698 times and every single year new VAT law ordinances of the Finance Minister were issued⁶⁸. For the

⁶³ Average administrative costs in OECD 3,5% of GDP (PL over 6%), administrative burden is 1,5–2% of GDP (PL almost 3%). Łaszek, A., *op. cit.*, p. 124. Another survey by Karol Jagliński claims that the costs of tax administration in the three countries are relatively similar and constitute between 1.6% and 1.3% of the collected annual revenue, locating them among the costliest tax administrations in the EU. Jagliński, K. 2013. *Koszty i efektywność system podatkowego w Polsce*. [Costs and efficiency of the tax system in Poland.] Fundacja Republikańska, pp. 4–5.

⁶⁴ Łaszek, A., *op. cit.*, p. 123.

⁶⁵ See Łaszuk, A. and Employers PL report.

⁶⁶ According to the survey conducted by Employers PL in 2014 in 61% of the cases entrepreneurs needed to wait between one and six months to receive such interpretation. For detailed data see *Podatek VAT w Polsce, problem przedsiębiorstw sektora MŚP*. [VAT Tax in Poland. The SME sector problem.], p. 1. Available at: <http://www.komitetpodatkowy.pl/pobierz/135.html>.

⁶⁷ Łaszuk, A., *op. cit.*, p. 128.

⁶⁸ ECDDP. 2011. *Na dobre czy na złe? Zmiany podatkowe XXI wieku. Raport specjalny*. [For good or for bad? Tax changes of the 21st century. Special report.], p. 7. Available at: http://www.ecddp.pl/download/Raport_podatkowy_ECDDP.pdf.

period 2002-2011, a single corporate income tax law provision was changed 33 times. On average, every second day from the beginning of the twenty-first century, an important change of the taxation legislation was made⁶⁹. The situation in Bulgaria is not better. Since its entering into force on 1 January 2007, the Law on personal income tax and the Law on corporate income tax have been changed thirty seven times each⁷⁰.

According to the EBRD, Polish companies devote 23% of their time to government regulations in comparison to 13% in CEE⁷¹. FOR data reveal that the income tax law in Poland is subject to an average of ten amendments per year, the tax statute 6, and the VAT law 4 times. To resolve legal incompatibility, the Ministry of Finance issued only in 2014 almost 38 thousand taxation interpretations (150 per day). Over 3,000 decisions about taxation interpretations were issued and over half of them were considered by courts.

It is not surprising that the general belief among SMEs is that the main aim of the Ministry of Finance is to secure budget revenue regardless of the need to secure a business friendly environment. The government does not exploit sufficiently public consultations and the changes in legal provisions cannot surprise entrepreneurs. Hence, the changes proposed in the taxation law are mainly perceived as politically rather than economically oriented. The impression of Polish entrepreneurs is confirmed by the general attitude expressed by foreign investors on the need for cuts in regulations⁷².

The tax administration requires sound and clear operational rules since 81% of the survey participants recognised the high level of discretion as an opportunity to 'find something punishable in the company'⁷³. A quarter of the respondents also believes that it is better to give up on VAT return than to be subject to a tax administration control related to this return⁷⁴. The survey also revealed that in medium-size enterprises the tax related time is 1,5 hours per week. It is 4 hours in small enterprises, and 20 hours per week in micro

⁶⁹ http://www.ecddp.pl/download/Relacja_z_konferencji_ECDDP.pdf.

⁷⁰ Own calculations based on the amendments to each law.

⁷¹ Łaszek, A. 2015. *Następne 25 lat. Jakie reformy musimy przeprowadzić, żeby dogonić Zachód*. [The next 25 years. What reforms to introduce to catch up with the West?] Forum Obywatelskiego Rozwoju, p. 128.

⁷² Ernst & Young. 2014. *Ernst & Young European Attractiveness Survey*.

⁷³ *Podatek VAT w Polsce, problem przedsiębiorstw sektora MŚP*. [VAT in Poland. The SME sector problem.], p. 2. Available at: <http://www.komitetpodatkowy.pl/pobierz/135.html>.

⁷⁴ *Ibidem*.

companies, in spite of the fact that most of the small companies use taxation firm services⁷⁵.

In Bulgaria, high tax compliance costs are one of the main challenges for the business community, and improving the tax administration is of key importance. Despite the relatively low tax burden, the tax collection system in Bulgaria creates one of the highest tax compliance burdens in the EU for SMEs⁷⁶. The number of hours per year spent on tax compliance is very high, as is the number of tax payments required over a year from a standardised business⁷⁷.

In a similar vein, recently Bulgaria has been lacking a comprehensive tax compliance strategy. In 2014, the government's efforts to improve tax compliance produced new legal amendments⁷⁸. The same attempts mainly translate into frequent legislative changes, which often contradict each other or require unplanned investment by businesses. Hence, they create additional uncertainty and costs for entrepreneurs (e.g. the installation of additional control devices)⁷⁹. In October 2015 Bulgaria adopted a Single Tax Compliance Strategy, but the European Commission country report has already pointed out that 'measures suggested by the strategy to increase tax revenues do not appear to directly address some key issues, such as inadequate use of available technologies and information, instances of corruption and weak governance'⁸⁰. Having in mind Bulgaria's lowest score among the three countries in the Transparency International Corruption Perceptions Index,

⁷⁵ *Ibidem*, p. 3.

⁷⁶ Ganev, P., *op. cit.*, 8.

⁷⁷ European Commission. 2015. *Country Report Bulgaria 2015, Including an In-Depth Review on the prevention and correction of macroeconomic imbalances, Commission Staff Working Document*. COM(2015) 85 final, 26 February 2015, p. 42.

⁷⁸ It clarified the rules for collecting taxes levied on excise goods to close legal gaps, reduced unnecessary administrative burdens, and tackled cases of abuse and tax fraud, in particular relating to energy and tobacco products. See: European Commission. 2015. *Country Report Bulgaria 2015, Including an In-Depth Review on the prevention and correction of macroeconomic imbalances, Commission Staff Working Document*. COM(2015) 85 final, 26 February 2015, p. 42.

⁷⁹ European Commission. 2015. *Country Report Bulgaria 2015, Including an In-Depth Review on the prevention and correction of macroeconomic imbalances, Commission Staff Working Document*. COM(2015) 85 final, 26 February 2015, p. 42.

⁸⁰ European Commission. 2016. *Commission Staff Working Document, Country Report Bulgaria 2016*, SWD(2016) 72 final, 26 February 2016, p. 43. Available at: http://ec.europa.eu/europe2020/pdf/csr2016/cr2016_bulgaria_en.pdf.

legislative uncertainty and tax evasion become an even more acute issue since existing corruption habits also impact the quality of tax collection.

	Transparency Index 2014 Score (from 0 to 100)	Corruption Index 2014 Rank
Poland	61	35/175
Slovakia	50	54/175
Bulgaria	43	69/175

THE CASE OF VAT

In fact, the legal framework in the three countries we are observing is porous and invites tax evasion and fraud. Probably the main taxation issue in the three countries is evasion in the realms of VAT. In 2012, VAT evasion was 15% in the EU area, 27% in Poland, 17% in Bulgaria and 35% in Slovakia⁸¹. The three countries are all subject to EU Council's Country-Specific Recommendations to improve tax compliance⁸².

Poland applies reduced VAT rates to an extensive number of goods and services⁸³. Although the biggest number of tax reliefs is related to personal income taxation, most costly are the VAT preferences, which constitute almost half of the total costs related to tax reliefs⁸⁴. Complexity affects the

⁸¹ *Update Report to the Study to quantify and analyze the VAT Gap in the EU-27 Member States*. 2012. Available at: <http://www.case-research.eu/en/node/58716>, and *Study to quantify and analyze the VAT Gap in the EU Member States, 2015 Report*. TAXUD/2013/DE/321. Available at: http://ec.europa.eu/taxation_customs/resources/documents/common/publications/studies/vat_gap2013.pdf.

⁸² The recommendations concerned ten EU countries. Garnier, G., Gburzyńska, A., Georgy, E., Mathe, M., Prammer, D., Rua, S., Skonieczna, A. 2013. *Recent Reforms of Tax Systems in the EU. Good and Bad News*. Taxation Papers, Working Paper N.39-2013. European Commission, p. 28.

⁸³ Among others foodstuff, water supplies, pharmaceutical products, medical equipment, transport of passengers, books, and periodicals, admission to cultural services and amusement, social housing, renovations and repairs of private dwellings, hotel accommodation, restaurants, use of sporting facilities, medical care, waste collection, minor repairs, hairdressing. Source: European Commission. 2015. *Commission Staff Working Document, Country Report Poland 2015*. COM(2015) 85 final. Available at: http://ec.europa.eu/europe2020/pdf/csr2015/cr2015_poland_en.pdf.

⁸⁴ Wawrzak, S. 2015. Przywileje podatkowe jako przejaw ingerencji państwa w gospodarkę. [Tax privileges as a manifestation of state interference in the economy.] In: Domaradzki, S., Haczkowska, M. eds. *Ku przyszłości. O Polsce za 25 lat*. [Towards the

efficiency of the VAT system and involves a large budgetary cost. (2.7% of GDP in 2012)⁸⁵.

The largest tax evasion that significantly affects public finance deficit in Slovakia is also associated with VAT. While in 2005 the total VAT revenue losses in Slovakia amounted to 1.7% of GDP, in 2011 they reached 4% of GDP, which corresponds to the annual shortfall in tax revenues of 2.7 billion Euros. Taking into account the estimated VAT revenue losses as well as the results of tax audits, the tax authorities in Slovakia identified only 18% of tax evasion⁸⁶. As Rabatinova and Schultzova admit, that means that there is an 80% probability of not detecting the evasion of VAT. Since the success of Slovakia's fiscal consolidation after the economic crisis will largely depend on increasing the efficiency of the value added tax system and reducing VAT revenue losses, Fico's government is focused on the fight against tax fraud in the area of VAT. The government adopted a 2012–2016 Action Plan to Combat Tax Fraud. Through an electronically submitted VAT control statement by all VAT payers, VAT collection was improved, but the cost of tax compliance soared due to the increased administrative requirements for business. VAT and CIT non-compliance are significant issues in the Slovak Republic. As Remeta *et al.* conclude non-compliance, particularly in the area of VAT, appears to be concentrated in a few sectors⁸⁷. In 2015, the EC country report recognised the weaknesses of the badly integrated system, which distorts the links between tax assessment, tax collection, risk assessment and tax audits⁸⁸.

In Slovakia the tax administration mainly focuses on VAT tax audits, whereas the data indicate that the self-employed are converting to limited

future. About Poland in 25 years.] Warszawa: Laboratorium Idei – Prezydencki Program Ekspercki, Kancelaria Prezydenta RP, p. 144.

⁸⁵ In particular, it is believed that the reduced VAT rate applied to housing and housing works constitutes the biggest loss of potential revenue among the reduced VAT rates.

⁸⁶ Rabatinova, M., Schultzova, A. 2014. *The VAT Revenue Losses in Slovakia – The Fight Against Tax Evasion*. SGEM2014 Conference on Political Sciences, Law, Finance, Economics and Tourism, vol. 2, no. SGEM2014, pp. 817–822 Conference Proceedings, ISBN 978-619-7105-26-1/ ISSN 2367-5659, 1–9 September 2014. DOI:10.5593/SGEMSOCIAL2014/B22/S6.103.

⁸⁷ Remeta, J., Perret, S., Jareš, M., Brys, B. *Moving Beyond the Flat Tax – Tax Policy Reform in the Slovak Republic*. OECD Taxation Working Papers, no. 22. OECD Publishing, p. 11. Available at: <http://dx.doi.org/10.1787/5js4rtzr3ws2-en>.

⁸⁸ European Commission. 2015. *Commission Staff Working Document, Country Report Slovakia 2015*. COM(2015) 85 final, p. 12. Available at: http://ec.europa.eu/europe2020/pdf/csr2015/cr2015_slovakia_en.pdf.

liability companies. Furthermore, since 2012, the tax and customs offices have been subjected to consolidation (into Financial Administration), which as of now is rather nominal, with the Tax Administration and customs service still operating separately⁸⁹.

In Poland, a general tax act that deals with general tax rules and procedures and sets the framework for relations between taxpayers and tax authorities is due. However, this cannot be achieved without an efficient and high-quality tax administration⁹⁰, which according to 14.6% of the respondents in the World Economic Forum's Global Competitiveness Report 2014–2015, constitutes a serious weakness in Poland⁹¹.

Complying with tax obligations remains a major obstacle for a well-performing business environment. The lack of clarity and frequent changes in the tax law and diverging interpretations by the tax authorities weigh on the complexity of the system. Tax compliance continues to be an important issue in Bulgaria. The value of the shadow economy in the three countries, which is a rough proxy for the size of tax evasion, seems considerable in Bulgaria (13.4% of GDP in 2011 according to the National Statistical Institute, 2011). According to the 2012 OECD survey, Poland and Slovakia score even higher (16%)⁹². The 2013 VAT compliance gap confirms that VAT gap percentage of theoretical VAT liability in Slovakia is 35%, in Poland over 25% and in Bulgaria over 15%⁹³.

Among the main difficulties that the countries from the region face are the low level of tax revenues, the doubtful efficiency of the tax administration and enormously high compliance costs for taxpayers (and SMEs in particular). In the case of Bulgaria, among the main reasons for concern are the widespread shadow economy, undeclared work, high administrative and tax compliance costs. In Slovakia the poor VAT collection, the fragmented revenue collection

⁸⁹ *Ibidem*.

⁹⁰ European Commission. 2015. *Commission Staff Working Document, Country Report Poland 2015*. COM(2015) 85 final. Available at: http://ec.europa.eu/europe2020/pdf/csr2015/cr2015_poland_en.pdf.

⁹¹ See *Założenia nowej ordynacji (Kodeksu podatkowego)*. [Assumptions of the new Tax Code.] Inicjatywa FOR.

⁹² Gyomai, G., van de Ven, P. 2014. *OECD Statistics Brief, The Non-Observed Economy in the System of National Accounts*, no.18. Available at: <http://www.oecd.org/std/na/Statistics%20Brief%2018.pdf>.

⁹³ European Commission. 2016. *Commission Staff Working Document, Country Report Slovakia 2016*. SWD(2016) 93 final, 26 February 2016, p. 14. Available at: http://ec.europa.eu/europe2020/pdf/csr2016/cr2016_slovakia_en.pdf.

system, the lack of an effective audit strategy and the poor implementation of anti-fraud strategies remain among the key challenges⁹⁴.

In conclusion, Slovakia, Bulgaria, and Poland face the same challenge concerning the tax administrative reform and increasing VAT efficiency and VAT compliance⁹⁵. Fifteen years ago and over ten years after the end of communism in the region, Martinez-Vazquez and McNab had already drawn attention to the repressive nature of the then 'fresh' taxation regimes, the rapid change and instability of tax laws, and many opportunities for tax evasion and avoidance⁹⁶. So far, it seems that the flat-rate tax has not been sufficient to resolve these issues.

CONCLUSIONS

The process of transition from the planned economy to the free market, from communism to liberal democracy and the desire to 'catch up with the West' created a specific set of circumstances that are the essence of the contemporary economic reality in Central Europe. The taxation regimes of the three countries rely on sound free-market philosophy, globalisation demands, European integration limitations and tangible economic targets. Among the strongest arguments for the success of the adopted model of economic development is the substantial increase of GDP of all the three countries. Today, this progress is much more visible in Slovakia and Poland than in Bulgaria, which remains the poorest EU Member State⁹⁷.

⁹⁴ Garnier, G. et al., *op. cit.*, p. 28.

⁹⁵ European Commission, Directorate General for Economic and Financial Affairs (ECFIN) and Directorate General for Taxation and Customs Union (TAXUD). 2015. *Tax reforms in EU Member State 2015, Tax policy challenges for economic growth and fiscal sustainability*. Institutional Paper 008, p. 93. September 2015. Available at: http://ec.europa.eu/economy_finance/publications/eeip/pdf/ip008_en.pdf, see also Toro, J., Jensen, A., Thackray, M., Kidd, M., Russell, B. 2015. *Administracja podatkowa – wyzwania modernizacyjne i priorytety strategiczne*. [Tax administration – modernisation challenges and strategic priorities.] Międzynarodowy Fundusz Walutowy, Departament ds. Podatkowych. Available at: http://www.mf.gov.pl/documents/764034/3224234/20150505_Raport_MFW_PL.pdf.

⁹⁶ Martinez-Vazquez, J., McNab R.M. 2000. The Tax Reform Experiment in Transitional Countries. *National Tax Journal*, vol. 53, no. 2, pp. 273–298 (288–289).

⁹⁷ For GDP regional comparisons see: Gomułka, S., *op. cit.*, p. 9, as well as: <http://www.thecatchupindex.eu/TheCatchUpIndex/>, and Sedlak and Sedlak. *PKB w Polsce na tle innych krajów postkomunistycznych*. [GDP in Poland against other post-communist

Table 4

Real GDP growth (% change compared with the previous year)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
BG	6.6	6.0	6.5	6.9	5.8	-5.0	0.7	2.0	0.5	1.1	1.7
PL	5.1	3.5	6.2	7.2	3.9	2.6	3.7	4.8	1.8	1.7	3.4
SK	5.2	6.5	8.3	10.7	5.4	-5.3	4.8	2.7	1.6	1.4	2.4
EU 28	2.5	2.0	3.4	3.1	0.5	-4.4	2.1	1.7	-0.5	0.0	1.3

Source: http://ec.europa.eu/eurostat/statistics-explained/images/2/2c/Real_GDP_growth%2C_2004%E2%80%9314_%28%25_change_compared_with_the_previous_year%3B_average_2004%E2%80%9314%29_YB15.png.

‘Catching up with the West’ required the accumulation of capital. This is what determined the features of the three taxation systems. They had to take into consideration such characteristics as reliance on cheap labour, the pursuit of foreign direct investments and stable revenue from the taxation of labour and indirect taxes. Despite the nominal distinction between flat-rate (Slovakia and Bulgaria) and progressive (Poland) taxation systems, the three countries actually operate in the same flat-rate tax regional environment.

The logic behind the need to attract FDIs was that it would attract capital and technological know-how. In order to attract FDIs, countries offered cheap labour, tax incentives and even participation in investment projects. Yet, major challenges remain. One is the threat of falling into the ‘middle-income trap’: lack of access to high technologies and rising wages. Secondly, the threat of an imbalance between foreign and national capital. As the economic crisis has shown, the departure of FDI from CEE was much higher than from the ‘old’ EU Member States⁹⁸. Due to the size of its economy, Bulgaria has the largest percentage of FDI as % of GDP, but also the cheapest labour force. In Slovakia the percentage is lower (GDP is twice as large, with a similar FDI inflow), but the threat stems from the FDI relatively monothematic structure⁹⁹.

countries.] Available at: http://www.rynekpracy.pl/artukul.php/typ.1/kategoria_glowna.27/wpis.950 and the IMF report: Roaf, J. et al. 2014. *25 years of transition, post-communist Europe and the IMF*. Available at: https://www.imf.org/external/pubs/ft/reo/2014/eur/eng/pdf/erei_sr_102414.pdf.

⁹⁸ Ernst & Young. 2014. *Ernst & Young European Attractiveness Survey*.

⁹⁹ Mainly car manufacturing and electronics.

Although Bulgaria still needs to ‘catch up’, Slovakia and Poland seem to have reached a turning point where the pursuit of further prosperity should be linked to a reassessment of the taxation policy in line with the new economic position of these countries. The pursuit of more Research and Development tax incentives introduced by the Slovaks seems to be an appropriate direction, but just as in the case of FDI a healthy balance between the pursuit of innovation and financial costs needs to be preserved. FDI is a necessary tool to catch up, but the costs of their acquisition should not be underestimated, since under certain conditions FDI can leave fast, and the economy can suffer financial drainage. In order to prevent this, the countries of the region need to craft carefully the structure of the national economy with a healthy proportion of internal and external capital¹⁰⁰. The further economic success of Poland and Slovakia will depend on their ability to transform their economies from relatively low- technology goods to more advanced products¹⁰¹.

Theoretically, the Hall-Rabushka flat-rate concept claims that people should be taxed according to the benefit they reap from the economy, rather than according to what their taxpaying abilities are. In practical terms, the Polish, Slovak, and Bulgarian tax systems focused on the taxation of consumption and labour, simultaneously favouring the stability of the government’s revenue and the establishment of an appropriate climate for foreign investors. The growing outcry focused on the alleged regressive nature of the flat-rate tax and the imposition of the tax burden primarily on poorer and middle-class taxpayers. In other words, the emphasis was on social justice, rather than on economic efficiency¹⁰². The economic picture of the

¹⁰⁰ Sadłakowski, D. Analiza kosztów gospodarczych wynikających z napływu bezpośrednich inwestycji zagranicznych. [Analysis of economic costs resulting from inflow of foreign direct investment.] *Studia i prace Wydziału Nauk Ekonomicznych i Zarządzania*, no. 41, vol. 3, Uniwersytet Szczeciński, p. 166–167. Available at: http://www.wneiz.pl/nauka_wneiz/sip/sip41-2015/SiP-41-t3-157.pdf.

¹⁰¹ European Commission. 2016. *Commission Staff Working Document, Country Report Poland 2016*, SWD(2016)89 final, 26 February 2016, p. 2. Available at: http://ec.europa.eu/europe2020/pdf/csr2016/cr2016_poland_en.pdf.

¹⁰² Peykov, N. Available at: https://www.academia.edu/7645142/%D0%A1%D0%BE%D1%86%D0%B8%D0%B0%D0%BB%D0%BD%D0%B0_%D0%BD%D0%B5_%D1%81%D0%BF%D1%80%D0%B0%D0%B2%D0%B5%D0%B4%D0%BB%D0%B8%D0%B2%D0%BE%D1%81%D1%82_%D0%BD%D0%B0_%D0%BF%D0%BB%D0%BE%D1%81%D0%BA%D0%B8%D1%8F_%D0%B4%D0%B0%D0%BD%D1%8A%D0%BA_%D0%B2_%D0%91%D1%8A%D0%BB%D0%B3%D0%B0%D1%80%D0%B8%D1%8F

three countries after twenty-five years proves that this choice led to intended and unintended consequences.

Among the intended ones were the increase of the countries' competitiveness and openness to regional and global economic trends; the noticeable increase in foreign direct investments and the incorporation of the countries' economies in the global economic system; the simplification of the tax systems and an alleged increase in their efficiency.

Among the unintended consequences there were growing social inequality and the feeling of social defeatism. The former became particularly acute after joining the EU, when the citizens of the three countries recognised the profound difference between the logic of Western European welfare and their transitional economies. The other one, which became more and more acute with every next election in the region, is the growing nationalism and social demands towards the state. The arguments about 'banksters', exploitive investors, the need to regain the national economy and political life become much more appealing than the arguments about the genuine equality of the flat tax and the economic rationality of the existing taxation model. The disappointment with the 'sluggish' process of 'catching up' and the popular rejection of free-market's 'invisible hand' as inhuman and socially harmful gain ground among all layers of these societies. In other words, the lack of deeper reflection about the consequences of the existing taxation model can contribute to the return of national socialism – if it is not already too late.

At the national level, the research reveals that the genuine problems today are not so much related to the model of the taxation system, but much more to its inefficiency and the discretion of the taxation administration, the overproduction of taxation legislation, lack of predictability and tax evasion. As the Slovak and Bulgarian cases reveal, the flat tax guarantees neither efficiency nor simplicity. Slovakia today has the best score for hours per year devoted to taxation, but Bulgaria has the worst. Surprisingly, the efforts to improve the tax administration allowed Poland to be classified closer to Slovakia rather than to Bulgaria.

Another legacy of the process of transition remains the fact that the tax systems of these countries are vulnerable to political manipulations, regardless of their consequences for the economy. In each of the three countries, populist initiatives to exploit direct and sector-targeted taxes exist. Some of them are a consequence of the uncritical acceptance of taxation trends in Western Europe, whereas others are 'regional products' originating from dominant political narratives.

Today's tax policies in Poland, Slovakia and Bulgaria still call for the transition period pursuit of 'catching up with the West'. As Łaszuk pointed out in his report, one of the reasons why the inefficiency of the tax administration has become so apparent and so acute in Poland is the fact that other burning issues, like corruption or court's inefficiency, were successfully resolved. For Bulgaria, which is still subject to the European Commission's Mechanism for Verification and Cooperation monitoring its anti-corruption efforts and judicial independence performance, the road seems to be much longer.

The pursuit of FDI is not over, and the countries seem to be satisfied with being Western Europe's industrial backyards, where the physical manufacturing of western technology takes place. Georgi Ganey argues that the lack of capital or wealth to tax makes Bulgaria a developing country, which means that the country still needs to catch up¹⁰³. In Bulgaria the debate should reassess Dobrin Ganchev's argument that not the quantity, but the quality of foreign investments and their contribution to the country's economic development should be decisive. After a quarter of a century, it becomes apparent that the tax system itself is not sufficient to provide the necessary conditions for the accumulation of capital. However, Slovakia and Poland are much closer to the point where a debate on the taxation systems seems to be necessary. The argument that the dominant taxation model in western European countries is progressive rather than the flat tax is used widely among the critics of the flat tax. The 'catching up with the West' model proved its efficiency by providing stable economic growth and openness to regional integration and to the global economy. However, its unevenly balanced tax burden and growing social inequality require a prompt disarming of the 'ticking bomb' of growing nationalist and social demands. The administrative inefficiency of the tax systems, their excessive repressiveness and simultaneous vast tax evasion or misuse of VAT remain among the biggest threats. The three countries' tax systems seem to be still in transition and the flat tax scheme should not be considered a panacea.

¹⁰³ Ganey, G. Bulgaria. In: Garello, P. ed. *Taxation in Europe 2013, The yearly report on the evolution of European tax systems*. Institute for Research on Economic and Fiscal Issues. Available at: http://en.irefeurope.org/SITES/en.irefeurope.org/IMG/pdf/taxation-in-europe-yearbook_iref-europe-2013.pdf.

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TAX POLICIES IN POLAND, SLOVAKIA, AND BULGARIA: SITTING ON A TICKING BOMB OR CATCHING UP WITH THE WEST

Summary

This paper conducts a comparative review of Bulgaria, Slovakia and Poland's taxation system performance in pursuit of the question whether the flat tax system was able to meet the hopes reposed in it. The three countries were selected because they nominally contain different taxation systems: Poland has a progressive one; Slovakia has a flat tax while retaining some elements of progressive taxation; whereas Bulgaria has the most radical flat tax system in the region. Furthermore, after a quarter of a century their economic and tax experience does not correspond with the expectations of the flat tax dogma. The research argues that the question whether the taxation system in the region is flat or not is of secondary importance, despite the fact that all the tax systems in their essence aim to perform in a very similar 'flattened' taxation pattern. Secondly, that the quest for foreign direct investments cannot be pursued blindly and uncritically, since the three countries' experience reveals alternative and most importantly, not only positive achievements. Finally, the paper argues that the current performance of the three countries' taxation systems does not correspond with the expectations that the flat tax system will resolve the internal operational difficulties such as high compliance gaps, tax evasion and weak tax administration. Having in mind that after a quarter of a century the three countries reached different levels of economic development, the question remains whether the current taxation systems are still relevant or they have lost their appropriateness. Poland and Slovakia are approaching the challenge of a 'middle income trap', whereas Bulgaria still needs to 'catch up'. Thus, the former two should reconsider the current pressuring weaknesses of their taxation systems, whereas the latter should reassess its approach towards foreign direct investments and reconsider the direction of its tax policy.

POLITYKI PODATKOWE POLSKI, SŁOWACJI I BUŁGARII: SIEDZENIE NA TYKAJĄCEJ BOMBIE CZY DOGANIANIE ZACHODU

Streszczenie

Artykuł dokonuje analizy porównawczej funkcjonowania systemów podatkowych Bułgarii, Słowacji i Polski, poszukując odpowiedzi na pytanie czy podatek liniowy był w stanie sprostać pokładanym w nim nadziejom. Polska, Bułgaria i Słowacja zostały wybrane do przeprowadzenia analizy porównawczej, ponieważ nominalnie posiadają odmienne systemy podatkowe. Polska posiada progresywny, Słowacja – podatek liniowy, zachowując jednak elementy progresywnego opodatkowania, a Bułgaria posiada najbardziej radykalny system podatku liniowego w regionie. Co więcej, po ćwierć wieku można dojść do wniosku, że ekonomiczne i podatkowe doświadczenia nie potwierdzają w całości dogmatu podatku liniowego. Badania przedstawione w artykule prowadzą do wniosku, że w swojej istocie dyskusja nad tym, czy dany system podatkowy jest liniowy czy też nie, posiada drugorzędne znaczenie, ponieważ wszystkie badane systemy podatkowe w swojej istocie zostały „spłaszczane” w praktyce. Po drugie, że dążenie do bezpośrednich inwestycji zagranicznych nie może odbywać się ślepo i bezkrytycznie, skoro doświadczenia trzech państw ukazują odmienne, i co najważniejsze, nie tylko pozytywne wyniki. Ostatecznie autor dochodzi do wniosku, że wyniki systemów podatkowych analizowanych państw nie są w stanie spełnić oczekiwań pokładanych w podatku liniowym, co do rozwiązania takich wewnętrznych problemów, jak zmniejszenie luki podatkowej, unikanie podatków czy też słabość administracji podatkowej. Biorąc pod uwagę fakt, że po dwudziestu pięciu latach te trzy państwa osiągnęły odmienny poziomy rozwoju gospodarczego, pozostaje pytanie, czy obecne systemy podatkowe są nadal aktualne, czy też się zdezaktualizowały? Gdy Polska i Słowacja zbliżają się do wyzwań „pułapki średniego wzrostu”, Bułgaria nadal musi „doganiać”. Dlatego, te pierwsze muszą zastanowić się ponownie nad słabościami swoich systemów podatkowych, a Bułgaria powinna poddać ponownej refleksji swoje podejście do bezpośrednich inwestycji zagranicznych i zmienić kierunek swojej polityki podatkowej.

ПОЛЬСКАЯ, СЛОВАЦКАЯ И БОЛГАРСКАЯ НАЛОГОВАЯ ПОЛИТИКА: СИДЕТЬ НА ТИКАЮЩЕЙ БОМБЕ ИЛИ ДОГОНЯТЬ ЗАПАД

Резюме

В статье произведён сравнительный анализ функционирования налоговых систем Болгарии, Словакии и Польши, связанный с поиском ответа на вопрос, может ли линейный подоходный налог оправдать возложенные на него надежды. Выбор Польши, Болгарии и Словакии для проведения сравнительного анализа обусловлен тем, что эти государства номинально имеют различные налоговые системы. В Польше действует прогрессивный, в Словакии – линейный подоходный налог, с сохранением, однако, элементов прогрессивного налогообложения, а Болгария отличается наиболее радикальной системой линейного подоходного налога в Европе. Более того, спустя четверть века можно утверждать, что экономический опыт и опыт налогообложения не в полной мере подтверждают предпосылки о роли линейного подоходного налога. Исследования, представленные в статье, позволяют прийти к выводу, что дискуссия по поводу того, является ли данная система налогообложения по своей сути линейной или же нет, имеет второстепенное значение, так как все системы налогообложения, подвергнутые анализу, оказались «расплюснутыми» на практике. Следующий вывод касается того, что стремление к непосредственным иностранным инвестициям не может быть слепым и бескритичным, если результаты опыта трёх государств оказываются различными, и, что самое важное, не только положительными. И, наконец, автор приходит к выводу, что результаты систем налогообложения анализируемых государств не в состоянии оправдать надежды, возлагаемые на линейный подоходный налог, в случае решения таких внутренних проблем, как снижение налогового бремени, избегание налогов или слабость налогового администрирования. Принимая во внимание тот факт, что спустя двадцать пять лет упомянутые три государства достигли различных уровней экономического развития, задаёмся вопросом: являются ли существующие системы налогообложения по-прежнему актуальными, или также потеряли свою актуальность? Когда Польша и Словакия приближаются к черте «ловушки среднего дохода», Болгария по-прежнему должна их «догонять». В связи с этим, два первых государства должны ещё раз предпринять попытку рефлексии над слабыми сторонами своих систем налогообложения, а Болгария должна пересмотреть свой подход к непосредственным иностранным инвестициям и изменить направление налоговой политики.