

LIBERAL POLICY FOR  
TAX  
REFORM

# NO DEMOCRACY WITHOUT DEMOCRATS

SILC is a liberal foundation that promotes democracy. Our main goal is to strengthen organizations and individuals in their struggle for democracy and human rights.

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# LIBERAL POLICY FOR TAX REFORM



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# INTRODUCTION

Any serious political party aspiring to win seats in decision making bodies and to govern responsibly needs a plan, a policy, a programme of reform. Liberal parties, believing in reason as the foundation of political action, are likely to have elaborate views on a broad spectrum of political issues. A liberal party will have a plan for elevating the mind and levelling the playing field through education and culture, by making sure basic as well as higher education is accessible, and the cultural sector is left free to express itself. A liberal party concerns itself with insuring a broad provision of social services and health care. A serious liberal party must also concern itself with the details of how the above services are funded.

Liberal policy is based on the right of every individual to live life according to one's preferences. This means that you have a right to do what you want with your income. Every individual should be able to buy food or start a company without heavy restrictions. However, for a state to be able to provide social services to its population, it must be funded by taxation. But a state that taxes its citizens must be transparent and use the revenues responsibly. It must ensure that the revenues are used correctly in order to make people willing to fund it.

This booklet is an attempt to collect some comparative insights on how liberal parties address fiscal and tax policy issues. Depending on where you are, the contended fiscal and tax policy areas differ.

In many countries, the tax administration itself is the problem. If many people, or even a majority in some cases, do not pay their taxes or actively avoid it, the system must be improved. The Addis Ababa Action Agenda, mentioned in the UN Sustainable Development Goal 16, stresses the establishment of effective,

accountable and inclusive institutions at all levels. A balanced and transparent fiscal policy combined with a modern and user-friendly tax collection system will make it easy to do the right thing. But who should be taxed, and how much? How do we ensure that taxes are used correctly and how do we make people pay taxes at all?

Herein, we gather ideas from liberal parties within very different contexts. The liberal party *Vente Venezuela* operates in a context of state collapse and severe repression, mustering thousands of freedom lovers for political change. *Afek Tounes* was part of the unity government after Tunisia's transition to democracy and now holds seats on all levels as an opposition party and a force for good governance. The Ukrainian liberal party *Syla Lyudey* is sprung out of civil society movements and governs and holds seats in many municipalities in Ukraine, also away from the larger cities where liberalism tends to be more en vogue. Lastly, the *Liberaterna* party of Sweden has been in and out of coalition governments in Sweden since the country's inception of democracy in the 1920s.

To the best of our ability, we have both tried to provide a comparative policy overview and to include interesting case studies from each country.

A core belief that is driving us liberals forward is that every individual should be free to do what he or she wants to do. We believe in equality of opportunity – the opportunity to live how you want to, without someone else restricting you. We believe in effective, transparent and fair systems to ensure these opportunities for each and every one of us.

# AFEK TOUNES

Afek Tounes' vision for a fair taxation policy in service of a prosperous economy.

In a post-independence logic characterized by the dominant role of a large state which should do everything, combined with a lack of natural resources, taxation has been decisive for Tunisia's development and financial balance. Thus, tax revenues have always been a significant proportion of the state budget and several tax reforms have continued to guide investments. Examples are Law 72 in favour of exports, the French Code investment of 1993 in favour of regional development and the encouragement of venture capital, agriculture, flotation of companies on the stock exchange and tax-exempt reinvestment.

The tax burden has never stopped increasing, especially in the last years of pre-revolution kleptocracy but also after 2011. As a consequence of this pressure, among other things, there has been a significant development of a parallel market. Between 2010 and 2016, tax revenues increased by 55% and from 2017 to 2018 there was a recorded growth of 15.5% in tax revenues. But this can be explained by the fact that public spending, mainly on salaries, has increased since the revolution and is financed largely by simple tax hikes that do not address real economic problems.

Today we also have a very complex model with an enormous number of tax texts within finance laws. More than 600 new tax measures have been implemented since 2011. Very few people contribute to the economy through these laws, as more than a third of the working population works in the informal sector

and half of the listed taxpayers as well as many non-commercial activities under-declare. However, 250 companies alone generate 50% of the corporate taxes. In 2014, the total amount of fiscal incentives by the state was around 2 billion TND.

This system is characterized by absence of transparency, by instability and by a lack of tax control. This is becoming a severe burden for the Tunisian economy, inciting corruption and fraud, discouraging Tunisian investors and failing to attract foreign investors to the country.

Increasing the tax burden each time to balance the budget is not the solution to our problems. Afek Tounes is convinced that a revival of the economy is only possible by regaining confidence, removing obstacles and brakes to investment and lastly by transforming the Tunisian tax system. This transformation would have the following objectives:

- Reduction of the tax burden and simplification of the tax system to make it understandable for all.
- Generalization of VAT accompanied by a reduction of rates.
- Modernization of the administration to combat tax fraud and tax evasion.
- Rehabilitation of regions through decentralization and ceding more tax collection rights to local communities.
- Reduction of withholding taxes. Most taxpayers do not declare this income and it becomes a de facto discharge.
- Strengthening of penalties for financial crime.

# VENTE VENEZUELA

One of the great challenges for Venezuela is to have a reconstruction of the country at the time when freedom is recovered. The reconstruction must include an institutional redefinition that leaves behind the strong state presence in people's affairs and the economy. In addition, we must clean up after decades of fiscal and financial mismanagement which is a result of oil dependence and exacerbated populism.

Despite our regulatory framework for budgetary policies and past experience with debt problems, we need to develop a stricter one to avoid pro-cyclical behavior with fiscal revenues and debt and to ensure respect of the constitutional mandatory rule for the central bank not to back the treasury debt. It is indispensable to have a real independent central bank to avoid populism and short-sighted interventionism.

Unfortunately, the state institutions have for a long time been subject to government influence and its increasingly clientelist and populist practices. Furthermore, citizens are alienated from influence as the state has got used to having oil revenue rather than taxes as the main funding. Instead of the state depending on the citizens, the citizens have been depending on the state as a result of clientelism and populism.

This has made the state present in everything, and even the private sector became dependent on the government of the day. This exacerbated interventionism has made genuine autonomy and economic freedom difficult. In addition, the institution in charge of tax collection in the country has in practice been used as a mechanism for pressure and persecution, persecuting entrepreneurs and small businesses for the last 20 years.

The deterioration of basic services and infrastructure – and

the urgent need for their recovery – opens up the opportunity for participation of the private sector using the multiple PPPs that already exist. The first focus should be on the electricity sector, as without it productive recovery will be impossible, as well as the oil industry – currently reserved by the state oil company PDVSA - whose opening would result in accelerated rescue of spaces with numerous positive socioeconomic effects. All that can be privatized will be open for investment and debt swaps through open and transparent processes, which will help to achieve a balanced budget and a debt reduction. This is a great opportunity to do things never tried before, based on a free economy.

It will be necessary to carry out deep reforms and at the same time bring about a cultural change that leaves behind all those vices that not only had allowed the indiscriminate growth of the state to the detriment of its citizens and their freedom, but had also sustained practices that facilitated the loss of freedom and autonomy of all kinds of sectors and areas of society. Regaining confidence in the private sector and economic freedom is essential.

This perspective not only reduces fiscal pressure but promotes the recovery of the economy and society's wellbeing.



# AFEK TOUNES

## **Public Sector and Tax Rate**

Local communities only receive 5% of the tax rate. We should decentralize and raise that to 20%. They should also receive a percentage of VAT, income tax, road taxes, registration fees and taxes on real estate. In addition, they should receive information about local taxes and taxpayers.

## **Tax Base**

Decrease the income tax and make it progressive, with 0% for the lowest incomes (<800 TND/month) and a ceiling of 20% for incomes above 50 000 TND/month. Use VAT as the main tax revenue contribution, then corporate taxes and lastly income taxes. Limit the number of different tax rates for corporate taxation, with 5% for those we want to encourage and 15% for most companies regardless of activity.

## **Investment Incentives**

### **Fiscal Policy and Budget Balance**

Modernize the tax administration so that it is available to the taxpayer. Develop remote services. Improve communication with taxpayers. Equip administration officials with necessary tools to modernize. Prepare a general tax code. Simplify the tax system and reduce the number of preferential tax regimes. Establish legislation and control structures to combat corruption and undeclared activities.

### **Tax Evasion and Corruption**

Ensure better tax justice through better knowledge of the contributions of different people and the benefits that are available to them. One step is establishing a unique personal identifier (PID) that can be used for reception of benefits such as subsidies and healthcare.

### **Fighting Black Economy**

Abolish the flat-rate scheme. Simplify accounting for taxpayers with a turnover of <300 000 TND. Generalize VAT to include all products. Lower the VAT rates – it will be compensated by an increase of taxpayers and products. Limit cash transactions. Reduce personal income tax. Strengthen tax audits. This will encourage taxpayers outside the system to integrate.

# SYLA LYUDEY

## Public Sector and Tax Rate

### Tax Base

VAT administration should stimulate the creation of products with high added value and not just fill the state budget. To encourage people to save and demand effective use of taxes we should introduce self-payment of taxes.

### Investment Incentives

Make Ukraine into a country of entrepreneurs. Simplify the conditions for doing business. Our vision is that both Ukrainian and foreign companies should be able to do business in Ukraine. Instead of a corporate income tax, we should introduce a tax on withdrawn capital. Prioritize science and new technology. Support creative and innovative startups that can help modernize the state.

### **Fiscal Policy and Budget Balance**

The state exists for the taxpayers – not for officials’ relatives and friends. It must be compact, efficient and transparent. New electronic technology can help digitalize and slim the state. Thus, we should reduce the number of ministries, agencies, departments and officials.

### **Tax Evasion and Corruption**

### **Black Economy**

There is a significant economic potential hidden in the shadow markets. Amber mining, cannabis cultivation, gambling, leisure etc. are operating largely in the black economy and corruption is common. Some illegal markets should become legal. The natural resource market should become transparent and competitive.

# VENTE VENEZUELA

## **Public Sector and Tax Rate**

The oil industry has long been connected to public finances in Venezuela. Indirect taxes such as VAT have often been a response to a reduction of the oil tax contribution and progressive income taxes have not been able to generate major distributive impact on society. The recent hyperinflation acts as a tax without benefit to anyone. A healthy society requires a stable macroeconomic development.

## **Tax Base**

The economy today is burdened by taxes and controls. We must rationalize state expenditure, increase transparency and reduce taxes to promote entrepreneurship, innovation, trade and job creation that would boost the economy. Venezuela must also reduce the oil dependency, diversify the economy to stimulate transition to clean energy and create a more comprehensive energy policy.

## **Investment Incentives**

The impact of Covid-19 on the global value chain should be an opportunity to attract foreign investment to Venezuela. Combined with an attractive and fair tax policy this can create a rapid recovery for our economy. Local tax incentives could be promoted in support of national interest such as securing borders, research, and innovation projects.

### **Balanced Budget and Fiscal Policy**

Venezuela must develop a strict regulatory framework for budgetary policy. It is necessary to have an independent central bank to avoid short-sightedness and populism. The deteriorating services and infrastructure could be saved by public-private partnerships, especially in the energy sector, and transparent, open processes will help to achieve budgetary balance.

### **Tax Evasion and Corruption**

Illegal operations are both a national and a regional problem. We must reduce the incentives for corruption by having simple and effective regulations and taxes combined with rigorous control measures to put pressure on the black market.

### **Black Economy**

The Venezuelan black economy consists of informal economy and drug trafficking. The informal economy flourishes due to entry barriers into the formal economy. To tackle this, we need tax breaks, labour cost reductions and property protection to encourage open activities. Drug laws should be improved to punish the damaging activities and the illegal trafficking, not the consumption.

# LIBERALERNA

## **Public Sector and Tax Rate**

Sweden has a large public sector and hence a high tax rate. The Swedish Liberal Party supports the welfare state and accepts high tax levels. However, it is sometimes possible to decrease the rate without serious effects on welfare. The economic effect depends on what is taxed and how. The connection between tax rate, growth and welfare system outcome is not simple but depends on organization.

## **Tax Base**

A nation's prosperity is mainly built by its work force and entrepreneurs. Work and businesses should be stimulated and protected from inhibitory tax levels. We are against that Sweden has one of the world's highest "marginal effects" on income. Instead, VAT, "green" taxes and taxed consumption with negative health effects, e.g. of alcohol and tobacco, are less damaging and thus better alternatives.

## **Investment Incentives**

Swedish companies must be competitive. As a nation we are heavily dependent on our export industry and foreign investments. State policies affect the competitiveness. Labour costs and corporate taxes cannot significantly exceed our competitors'. Extra tax cuts for companies focusing on intensive research are important. More attractive Employee Stock Options to support entrepreneurial businesses.

### **Fiscal Policy and Budget Balance**

To counteract cyclical changes and deep international crises, a low national debt is an advantage. After several economic crises since the 70s there has been a broad consensus in Sweden about a strict regulatory framework for budgetary policies. It has improved our ability to cope with the corona crisis. An independent national bank is important to resist short-sightedness and populist tendencies.

### **Tax Evasion**

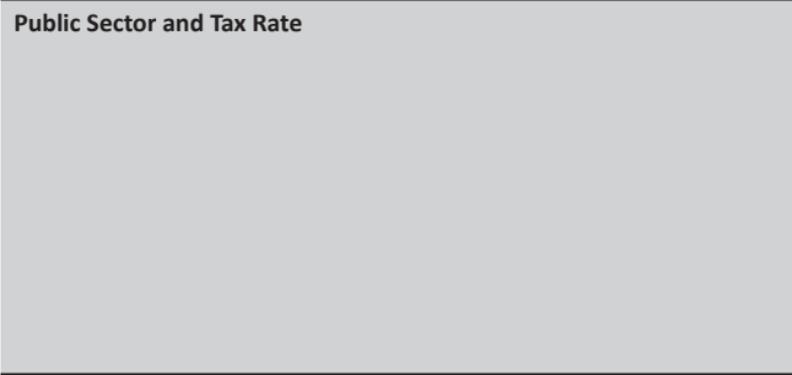
In order to stand up against tax evasion, e.g. large international corporations who transfer profits to countries with lower taxes, there must be regulation on the EU level. Single countries, especially smaller ones, are unable to do this alone.

### **Black Economy**

It is important to fight corruption and black markets. The liberals believe in a combination of stricter controls and other methods, such as simplified regulations and targeted tax reductions on services that are common in the black economy.

# YOUR OWN IDEAS

**Public Sector and Tax Rate**



**Tax Base**

**Investment Incentives**

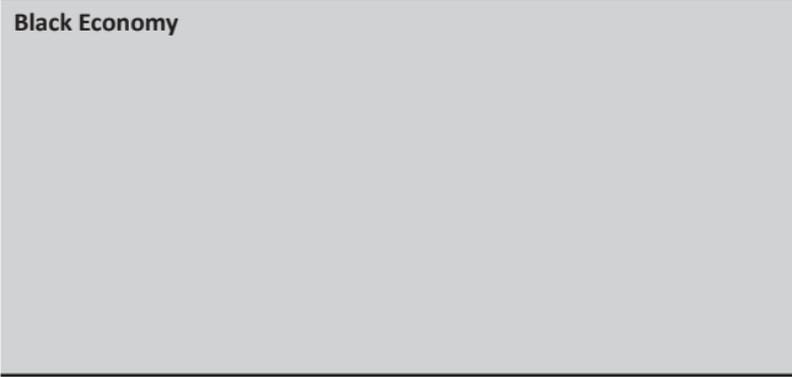


## **Fiscal Policy and Budget Balance**



## **Tax Evasion**

## **Black Economy**



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