TAX SYSTEMS IN COMPETITION AND COUNTRIES IN TRANSITION*

(POREZNI SUSTAVI U TRŽIŠNOJ UTAKMICI I ZEMLJE U TRANZICIJI)

Foreword to the papers presented at the international conference organized collaboratively by Prof. Dr. Manfred Rose (University of Heidelberg) and Dr. Đuro Njavro (President of the Zagreb School of Economics and Management (ZSEM). The conference was held at the ZSEM on 18 June 2004.

After more than ten years of transformation in countries of transition and in view of rising fears of tax competition in these regions, it is time to evaluate the status quo of public finances and in particular to review the reform of tax systems. Tax reform was the focus of all reform measures in the area of public finance in the 1990s. With recent modifications, and in some cases major revisions, of income and profit tax systems in East and South East European countries – among them Poland, Slovakia, Croatia and others – we can perhaps observe a second wave of tax reform in many transition countries. A major factor for continuing tax reform might be increased tax competition. In view of the challenge raised by tax competition and taking into account the experience gained from the latest tax reform measures in some transition countries, it is worth comparing the various reform directions in the area of income and profit taxation.

One objective of the conference was to provide a platform upon which taxation experts would be able to exchange experiences and opinions on how to assess international tax competition and what options are open to a country wishing to participate successfully therein. Another goal was to survey the different reform directions taken in selected East European countries. What role does tax competition play in these countries? Is there a second wave of reform as a consequence of EU accession? What lessons can be drawn from recent experiences? What are the reform options in the new millennium?

Answers to these questions are provided by papers submitted for publication in this journal. Lars Feld of the University of Marburg launches our series with his analysis of the fundamental question „Tax Competition: How great is the Chal-

* U Zagrebu je 18.lipnja 2004. održana međunarodna konferencija pod nazivom «Tax Systems in Competition and Countries in Transition» (Porezni sustavi u tržišnoj utakmici i zemlje u tranziciji). Organizatori su bili Sveučilište Heidelberg i Zagrebačka škola ekonomije i menadžmenta. U narednim ćemo brojevima sukcesivno objavljivati recenzirane radove s te konferencije. U ovome broju donosimo uvodno slovo prof. Manfreda Rosea i dr.Đure Njavra i jedan od dva uvodna rada s konferencije.

lenge?". In his paper Lars Feld subjects to a thorough analysis the validity of various assessments of tax competition which can be found in the literature. This is followed by a paper by Manfred Rose and co-authors Michael Rimmler and Daniel Zöller „Tax reform for tax competition: Which alternatives should be used?" in which the authors examine the issue of the alternative tax systems that are currently options for a country wishing to compete on equal terms or even to lead the field in international tax competition. The concept of dual income tax is an option that has already been implemented by the Nordic countries with a view to creating a framework of attractive conditions for investment. In his paper „The dual income tax: How successful has its implementation been in European countries?", Bernd Genser of the University of Konstanz examines the characteristics of the dual income tax and its prospects as an alternative system in international tax competition.

Papers focusing on individual countries were presented at the conference by Alexander Klemm (Institute for Fiscal Studies) on the Russian flat tax; Link Trevor (Ernst & Young Zagreb und Bratislava) on the Slovakian flat-rate reform; Sandra Švaljek (Institute of Economics, Zagreb) on the Croatian tax reform; and Manfred Rose and David Nguyen-Thanh of the University of Heidelberg on tax reform in Bosnia and Herzegovina.

Sandra Švaljek has submitted a paper for publication in this journal on the tax reform implemented in Croatia since 1994, a reform which has received considerable international critical acclaim. In their contribution Manfred Rose and David Nguyen-Thanh report on the new cash-oriented method of profit calculation applied in the District of Brčko in Bosnia and Herzegovina.

International tax competition is becoming fiercer, undoubtedly in large part as a result of the reforms of enterprise profits in Estonia (tax-free retained profits), Slovakia (19% profit tax rate) and Austria (25% tax rate on retained profits and more generous profit-loss offsetting between related enterprises). In 2004, the District of Brčko in Bosnia and Herzegovina introduced a profit tax with a tax base adjusted for equity capital interest (see the paper by Rose und Nguyen-Thanh). In 2007 Belgium also plans to introduce taxation of interest-adjusted enterprise profits, which will make the tax environment for investment in Belgium substantially more attractive. Between 1994 and 2000 Croatia also operated a system for the taxation of interest-adjusted enterprise profits. Švaljek explains in her paper why this attractive concept was abandoned by the new government in 2000. In Switzerland the Avenir Suisse has presented a suggestion that combines the concept of dual income tax with the taxation of interest-adjusted enterprise profits. In Germany both the Council of Economic Advisers and the tax experts of the CDU have proposed the introduction of a dual income tax in conjunction with low tax rates on those profit elements that correspond to the interest on invested equity capital.

It will be extremely interesting to see which courses of action countries opt for in future in order to render their tax environments particularly attractive for business investment and, as a consequence, for employment.

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