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A Flat Tax for Slovenia

The object of this paper is to estimate the parameters for a flat tax for Slovenia, modeled on the framework of the Hall-Rabushka flat tax, which would be a revenue-neutral replacement for Slovenia's current corporate and individual taxes on income and profit.¹ The table is based on data posted on the web sites of the Statistical Office of the Republic of Slovenia and the Ministry of Finance. I want to thank Mr. Gonzalo Capriolo in the Ministry of Finance, who clarified the tax treatment of social security contributions paid by employers and employees, provided the actual data on allowances, the change in 2005 in the way additional allowances for pensions was provided to make the system transparent, and the appropriate percentage of allowance on investments.

Table 1 derives the revenue-neutral flat rate for a Hall-Rabushka flat tax for Slovenia. Line 1 is the gross domestic product of Slovenia in 2004 in Mio. SIT.² Line 2 is indirect business tax, consisting of VAT and Excises, that is included in GDP but not under the flat tax. Line 3 is left blank (I have no data on this). It is income included in GDP but not in the tax base, mostly the value of houses owned and lived in by families (imputed rental income of owner-occupied housing); this income does not go through the market. Line 4 is wages and salaries that would be reported on the first line of the wage-tax form (see Figure 3.1 in Chapter 3 of *The Flat Tax, 2nd Edition*) and would be deducted by businesses.³ Investment, line 5, is the amount spent by businesses purchasing new plant and equipment (expensing of investment, or 100 percent first-year write-off).⁴ Line 6 shows the taxable

income of all businesses after they have deducted their wages and investment. The revenue from the business tax, line 7, is 17.5 percent of the tax base in line 6. (The 17.5 percent rate was the derived revenue-neutral flat rate.) Line 8 shows the amount of personal allowances (relief) under Articles 8,

Table 1: Hall-Rabushka Slovenia Flat-Tax Revenues Compared with Current Slovenian Revenues

Line	Income or Revenue	Mio. SIT
1	Gross domestic product	6.193.539
2	Indirect business tax (VAT plus excises)	856.610
3	Income in GDP, but not in tax base	
4	Wages and salaries	2.891.765
5	Investment	1.152.320
6	Business-tax base (line 1 minus lines 2 through 5)	1.292.844
7	Business-tax revenue (17.5 percent of line 6)	226.248
8	Personal allowances	591.658
9	Wage-tax base (line 4 less line 8 less SS contribution)	1.661.027
10	Wage-tax revenue (17.5 percent of line 9)	290.680
11	Total flat-tax revenue (line 7 plus line 10)	516.928
12	Actual individual income tax	382.523
13	Actual corporate income tax	124.355
14	Total actual revenue (line 12 plus line 13)	508.878

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¹ The Hall-Rabushka flat tax model is set forth in Robert E. Hall and Alvin Rabushka, *The Flat Tax, 2nd Edition* (Stanford: Hoover Press, 1995), pp. 52-82. Any mistakes in this derivation are my responsibility.

² Statistical Office of the Republic of Slovenia, Rapid Reports, September 30, 2005, st./No 262. 3 National Accounts, st./No. 1, Table 2, "Gross value added by activities at basic prices and gross domestic product, current prices, 2000-2004," p. 3.

³ Ibid., Table 4, "Gross domestic income and primary incomes, 2000-2004," p. 5. The figure is wages and salaries of employees, excluding employers' social contributions.

⁴ Ibid., Table 5, "Gross domestic product by expenditures, current prices, 2000-2004," p. 5. The number inserted in line four amounts to 70 percent of gross capital formation for 2004, based on the approximate percentage on allowances for investment in 2003 supplied by Mr. Capriolo. It is likely that expensing of investment would increase investment, but it is also true that expensing and low rates would enhance growth that would raise revenue, thus offsetting any loss from a smaller tax base due to higher investment.

9, and 10 of the Income Tax Law.⁵ The wage-tax base on line 9 shows the amount of wages and salaries after deducting all family allowances from the amount on line 4, increased along with social security contributions paid by the employee at 22.1 percent of gross wages. The wage tax revenue on line 10 is 17.5 percent of the wage-tax base. Total flat tax revenues appear on line 11. Lines 12 and 13 show the actual revenue in 2004 from the current individual and corporate income taxes.⁶ Total actual revenue appears on line 14.

Total actual revenue in 2004 from the current Slovenian individual and corporate taxes on income and profit amounted to Mio. SIT 508.878. A flat rate of 17.5 percent on the Hall-Rabushka framework applied to business and personal income amounts, respectively, to Mio. SIT 226.248 and Mio. SIT 290.680, totaling Mio. SIT 516.928, slightly above actual revenue.

⁵ Data on allowances are for 2003. I increased the number by 4 percent as an estimate of likely higher allowances claimed in 2004.

⁶ Rapid Reports, September 30, 2005, st./No. 264, National Accounts, st./No. 2, Table 5, "Detail classification of national taxes and social contributions according to ESA 1995, Slovenia 2000-2004", p. 7.