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Experience in Tax Changes in Certain Central European Countries in the Past Two Decades

Summary

This study reviews the tax regimes of four Central European countries. A hundred years ago, these countries were part of a single economic and political unit, the Austro-Hungarian Monarchy (which included the entire territory of today's Austria, Hungary, and Slovakia, and a significant part of Romania: Transylvania, Banat and Partium). Already then, different regions had different economic strengths, but their legal and cultural conditions were the same. By the end of the 20th century, despite their different historical development models, these four countries became once again part of a legal, economic and cultural entity, i.e. the system of the European Union, and then during the first decade of the 21st century, they became its full members. The tax changes implemented by these countries in the recent decades and their success in catching up with the level of welfare in the European Union are studied in this context.

Journal of Economic Literature (JEL) codes: E6, H2, H7, O4

Keywords: tax reform, tax compliance, economy, growth, GDP, welfare

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Introduction

The aim of this study is to review the responses given by the governments of four Central European countries (Austria, Romania, Slovak Republic and Hungary) to the economic and political challenges in the past few decades. It is assessed whether the tax reforms have improved the standard of living for the population and the performance of these economies. The two-decade period specified in the title is not rigidly adhered to; in some cases earlier and later periods are also covered.

Changes in the Austrian tax regime between 1995 and 2015

Austria, which has been a member state of the European Union since 1995, is considered to be role model, due to its welfare system and the quality of its public services, not only in its smaller region, but also on a worldwide scale. Its Gross Domestic Product per capita at the beginning of the period under review was USD 27,500 per capita, which was above the average of USD 23,600 in the 18 old EU Member States and exceeded those of the French and British. A characteristic feature of its tax regime is that Austrian legislation has refrained from implementing major tax reforms.[1] Disregarding minor changes, tax laws in force for forty, fifty and sometimes seventy years have been effective in assisting compliance. In the Austrian tax regime, few new types of tax have been introduced or eliminated during the period under review, and Austrian tax policy has followed the Anglo-Saxon approach: "An old tax is a good tax" (cited by Stiglitz, 2000:405). It is also noteworthy that the detailed arrangements, i.e. the tax rates and tax reliefs are also constant. The method of calculating personal income tax has hardly changed during the analysed period. In Austria, since 1988 there has been a tax-exempt bracket for low-income earners, which is called a "tax-reducing item" in the Austrian methodology (Herich, 2011:9–11). Throughout the period, personal income tax in Austria has remained progressive in nature, with changes only in the maintenance of the bracket limits and some minor tax rate adjustments. Personal income tax has not changed substantially, as the purpose of the state was not to increase the tax revenue from PIT, but to adjust the tax brackets taking social aspects and inflation into consideration. This is illustrated by the drastic increase in the tax-free bracket between 2003 and 2011. Personal income tax has traditionally accounted for 30 per cent of tax revenue in the government budget, and this has not changed in recent decades. The Austrian tax regime, like the Western European models, did not introduce flat-rate taxation in this area either. The same applies to corporate tax. While the general tax rate was 34 per cent before 2003, it fell to 25 per cent in 2005 and has not changed ever since. As far as value added tax is concerned, it has had two brackets since 1995, that is, since the accession of Austria to the European Union, where the standard rate has always been 20 per cent and the reduced rate has been 14 per cent. A very old type of income of the Austrian government budget is property tax, stipulated in the Land Tax Act of 1955, which goes to local council budgets and its rate has been 2 per cent for decades. In addition, there are land, agricultural and forestry

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contributions, which are transferred to the federal government pursuant to Act of 14 July 1960, and a vehicle tax has been in place since 1990.

Table 1: Evolution of Austrian tax brackets in terms of important tax types between 1993 and 2015

Main tax types	1993	1995	2001	2003	2015
Corporate Tax	45	40	29	25	25
Dividend	25	15	15	15	15
Value Added Tax	20	20	20	20	20
Reduced VAT	14	14	14	14	14

Source: Edited by the author

Economic results of Austrian tax changes

The slight tax reforms over the period under review have not had any impact on the continued expansion of GDP and personal consumption. Neither the effects of the 1995 accession to the European Union nor the tax changes of 2005 were perceptible in the growth trends of consumption, wages and GDP. Accession to the European Union brought about major changes in excise tax and value added tax (VAT), but their effects also softened in the net few years.

A closer look at the typical macro-economic data of the Austrian economy reveals that the tax burden, or the ratio (of tax + social security) to GDP, increased from 39.6 per cent in 1990 to 43 per cent in 2015. Austria is thus one of the countries of the European Union with a high level of tax withdrawal. Austrian GDP rose from USD 27,500 in 1995 to USD 36,000 in 2015, while in the past ten years the average growth rate has been 10 per cent. Although the state withdraws a large part of the generated income through high taxes, it did not affect the high consumption potential, and in fact, the growth rate of consumption by employees and other economic agents exceeds the rate of GDP growth. The Austrian tax regime withdrew 41.8 per cent of GDP in 2017.[2] In Austria, the tax-to-GDP ratio has not decreased during the 20 years under review, on the contrary: it has increased slightly, which is unique in the region.

The level of Austrian welfare has been steadily improving over the period studied, despite the application of more sophisticated economic incentives not focusing on tax reforms. Despite the absence of tax reforms, the state budget has been able to operate in a stable and predictable manner, and rising GDP has increased household consumption and employee incomes. These figures suggest a constantly developing, stable and prosperous state. In 2013, the level of personal consumption in Austria was 20 per cent higher than that of the EU-28 average. Interestingly, in spite of the positive economic and social situation, in 2016 Austria, following the example of less successful neighbouring countries, started the biggest tax reform of all times, making reference to the need for improving competitiveness. The necessity and aims of this were doubted by many experts.[3]

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Tax changes in Slovakia in the past two decades

Established on 1 January, 1993, Slovakia has had an interesting trajectory in economic policy, with a constantly improving economy and several significant tax reforms. Among the countries surveyed, it achieved the highest GDP growth from USD 6,600 per capita per year in 1995 (Dobos, 1998:60–61) to USD 14,100 per capita per year by 2015. Some experts attribute their economic success to the comprehensive tax reforms carried out in 2003 and 2013, while others (Erdős, 2012; Saavedra, 2007) think it was due to cheap and skilled labour and the involvement of foreign capital. At the time of its creation, the Slovakian tax regime was, according to numerous experts, incomprehensible and complex (Wéber, 2014:57), characterised by low levels of consumption and high unemployment rates close to 30 per cent. Prior to the 2003 tax reform (Wéber, 2014:37), the unemployment rate was 17.5 per cent, and real wages fell by 2 per cent in 2002. The minor tax reforms carried out to that date had not had significant results and most of the income generated had been withdrawn by the state.[4] In 2002, the year preceding the tax reform, personal income tax had five brackets (10-20-28-35-38 per cent), but significant personal benefits were also available, e.g. for those having children. Recognising the inefficiencies of minor tax changes, the Slovakian legislation undertook a radical change in 2003. The aim was to create an efficient tax regime that allows few tax reliefs (Kiss et al., 2008). The core of the changes made in 2003 was flat-rate taxation and the elimination of the so-called "small" taxes (OECD, 2006). The tax reform introduced by Act 595/2003 resulted in one of the largest post-regime-change tax transformations in Central Europe. A flat-rate system was adopted not only in personal income taxation, but also in all other central taxes (corporate tax, VAT and interest tax). The number of central taxes was reduced from 10 to 6, thus eliminating dividend tax and taxes due on inheritance or gifts received. Under the new rules, up to 60 per cent of the already raised average wage belonged to a tax-free income tax bracket (Kiss et al., 2008:81). The standard VAT rate was reduced by 1 per cent from 20 per cent to 19 per cent, but the privileged tax rate of 14 per cent was abolished, thus broadening the scope of products exposed to the standard VAT and thereby significantly increasing tax revenues. As a result of these steps, the income redistribution ratio fell from 36.3 per cent in 2003 to 19 per cent in 2004. The financial data of Slovakia's government budget show that despite the tax cuts implemented, tax revenues have increased and reduced tax rates have been able to meet the needs of the government budget. In the first year after the reform, the government budget revenue increased by 7.7 per cent, which is a slight increase in real terms against 7.5 per cent inflation. Thus, the tax reform did not affect the realised rate of tax revenues, but it had an impact on its structure. It must also be noted that these changes coincided with Slovakia's accession to the European Union on 1 May 2004. The unification of the customs area and legislation clearly had a stimulating effect on the economy. The biggest professional controversy was triggered by the flat-rate personal income tax. Budget figures for 2004 confirmed the optimistic view, as the personal income tax revenue increased by more than 20 per cent compared to 2003. Similarly positive trends could be observed in corporate taxation, where revenues increased by

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more than 10 per cent on a year earlier. However, other considerations must also be taken into account when the data are assessed realistically. PIT income was positively impacted by a 2.5 per cent increase in real wages, while broadening the corporate tax base triggered a rise in tax revenues despite declining tax rates, and companies became more interested in recognizing profits because they could get their income without having to pay dividend tax. These steps directly increased the level of compliance and reduced shadow economy (Kiss et al., 2008:11). An analysis of the structure of tax revenues reveals that Slovakia's share of fiscal revenues from indirect taxes has increased and, similarly to the system of other post-socialist countries in the region, government revenue has been increasingly earned from levying consumption. According to Tibor Erdős (2012:113), the adoption of flat-rates in major taxes will result in higher revenues from VAT and a decrease in revenues from direct taxes, and the Slovakian flat-rate tax regime has been designed to avoid drastic reductions in the tax revenue.

Outcomes of and experience gained from Slovakian tax changes

An analysis of the results of the tax reform leads us to the conclusion that the Slovakian government budget had already been successfully transformed and revitalised before the emergence of the 2008 global economic downturn. While the average growth rate of GDP was 3.9 per cent between 2000 and 2004, after the reform, between 2004 and 2009 it increased to 7.8 per cent (Kozma, 2013:430). One of the characteristic indicators, the output doubled in machine manufacturing between 2006 and 2007, and exports also increased significantly (Erdős, 2012:113). However, not even the Slovakian authors claim that the sole reason for these positive developments was the introduction of a flat tax rate. Other factors included cheap and skilled labour, advanced infrastructure and an investment-friendly global economic climate. The favourable economic developments ended in late 2008. In 2010 Slovakia's GDP was already decreasing in nominal terms, and consumption, exhibiting rapid growth between 2005 and 2010, stagnated between 2010 and 2013. In 2013, the Slovakian government was compelled to reshape the clear tax regime established in 2003 and to revert to the characteristic Central European practice of frequent tax reforms. In 2011, Iveta Radicova's government reintroduced dividend tax. The next head of government, Robert Fico, announced in 2012 that they would abandon the flat-rate scheme and increase the tax rate as of January 1, 2013 (Kaffka, 2013). The corporate tax rate was raised from 19 to 23 per cent and a 25 per cent bracket was levied on higher personal incomes. At the same time, the standard rate of VAT was also increased by 1 per cent. The trend of tax changes did not end: corporate tax rate was reduced from 23 per cent to 22 per cent in 2014, and to 21 per cent in 2017. Nevertheless, a closer look at the macro-economic figures of the Slovakian economy reveals no significant decline in the annual consumption, the gross domestic product or the income of employees. Slovakia's GDP increased steadily between 2004 and 2015. In terms of quantifiable results of tax reforms, Slovakia showed the most dynamic changes. Among the countries under review, Slovakia's GDP grew the most rapidly in the period

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reviewed, i.e. between 1995 and 2014. From a baseline of USD 6600 per capita per annum, by the end of the period it reached annual USD 14,100 per capita, more than double. Between 2005 and 2015, the income earned by Slovakian employees rose by 120 per cent, at a rate unique in the region, and so did their consumption. This latter increased from EUR 22,245.6 in 2005 to EUR 44,314.0 in 2015. All these processes, which were favourable for the population, took place simultaneously with an exemplary reduction in tax centralization, as this rate fell from 39.6 per cent in 2005 to 32.4 per cent in 2015. The Slovakian economy closed its gap to the European average in terms of personal consumption over the past decades, adopting the euro and cutting the tax burden. The economic data indicate that neither the major 2003 tax reform nor the small-scale tax changes adopted in the subsequent years have made a significant impact on the macro-economic indicators. Only the 2008 economic downturn seems to have broken the trend of development. This leads to the presumption that one of the most profound tax reforms in Central Europe was only able to affect the standard of living temporarily. Between 1995 and 2015, Slovakia's government budget and the financial situation of businesses and households improved dramatically, but this is only partly attributable to the tax reforms. The influx of foreign capital, the favourable global economic climate and the investment-friendly economic policy had at least the same importance.

Changes in the Romanian tax regime over the past two decades

Of the countries under review, Romania started from the worst economic situation at the moment of the change of regime. Even by Central European standards, it was characterised by poor-quality infrastructure, low wages and a low influx of foreign capital. At the same time, Romania was in a favourable situation in terms of the low level of public debt (Pogátsa, 2016:14), the size of the country's market and a significant amount of skilled workforce. In 1995, Romanian GDP amounted to 15 per cent of Austria's and 60 per cent of Hungary's GDP. The influx of foreign working capital that began in the early 2000's took advantage of cheap labour and a relatively large amount of natural resources (oil, soil, mineral ores, hydropower and timber). A series of infrastructure development projects were launched. Similarly to the other Central European countries, in the mid-1990's, Romania suffered from the low-efficiency of tax administration and a high ratio of shadow economy. Although up to the 2005 tax reform, all major forms of central taxation adopted in other European countries had already been introduced and low tax rates had been applied, the tax administration had remained inefficient. For this reason, and in preparation for the accession of Romania to the European Union, the Romanian legislation adopted Act 571/2003 on taxation (Herich, 2011:121–124), which uniquely regulated the entire Romanian tax system in a comprehensive framework. The flat-rate system was introduced on 1 January 2005, and the previously 25 per cent corporate tax rate was reduced to 16 per cent, the same rate as the personal income tax rate (Polyák, 2007). The two rates applied in value added tax (19% and 9%) remained unchanged, similarly to the dividend tax

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and the social security contribution system. As a result, the ratio of tax revenue to GDP increased after the tax reforms from 27 per cent in 2004 to 28.3 per cent as early as in 2005. As a result of the reforms (Kiss et al., 2008:15), personal income tax revenues decreased by 7 per cent and corporate tax revenues by 3 per cent in the next fiscal year, but they were offset by rising VAT revenues. After 2005, Romanian GDP showed steady annual growth up to 2008. In certain years, e.g. in 2006 and 2007, the growth rate was close to 9 per cent. Romania has managed to increase its GDP significantly in recent decades: from USD 3,700 per capita per annum in 1991 to USD 7,100 per capita per annum in 2015, representing an increase of nearly 90 per cent. Meanwhile the tax to GDP ratio showed extreme year-on-year fluctuation in Romania: from 40.3 per cent in 1996 it rose to 128.9 per cent in 1997, and then fell back to 59.4 per cent in 1998 and 59.6 per cent in 1999. By the standards of the European Union, these figures suggest the significant changes implemented in the tax regime in Romania every year. After the 2008 economic downturn, GDP per capita fell sharply: from USD 6,700 per capita to USD 6,300 per capita in 2010. In response, the Romanian government raised the VAT rate to 24 per cent in 2010 and then, inconsistently, reduced it to 20 per cent in 2016 and 19 per cent in 2017 (Adó online, 2017). The corporate tax rate was further reduced in 2017 from 16 to 14 per cent (Pop–Urse, 2018). Although gross domestic product increased by 90 per cent between 1995 and 2015, despite the tax reforms, the shadow economy did not decrease significantly in Romania.[5] The state did not earn any tax on 29.6 per cent of gross domestic product. The situation was similarly grave in employment: according to the Romanian Bureau of Statistics, in the second half of the period under review, only an average of 6.2 million employees were officially registered per annum, and only 4,300,020,000 of a population of nearly 20 million paid social security contributions.

From the early 2000s, the population could also perceive the benefits of good economic performance. Employee incomes increased by 60 per cent between 2005 and 2015 and household consumption almost doubled. However, this still remained considerably below the Western European levels of consumption and employee incomes. Until the end of the reviewed period, Romanian household consumption only exceeded that of the immediate neighbours (i.e. Serbia, Bulgaria and Ukraine). Romania is still one of the poorest countries in the European Union. In 2016, it reached 59 per cent of the European Union average in terms of actual individual consumption (AIC).

Achievements of Romanian tax changes

Romanian economic policy-makers have tried to adopt the legal institutions that have already been successfully applied in other countries through mosaic-like tax legislation. They created a system similar to the Hungarian one in terms of giving priority to consumption taxes, but they also adopted certain elements of the Slovakian tax regime, such as flat-rate tax on personal and corporate incomes, while as regards to property tax, some elements of the Austrian example are followed. The initial "ad hoc" and chaotic tax regime was completely reshaped by the 2003 Tax Code. The mixed system

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resulting from the 2004-2005 tax reforms was unique due to the flat rate applied to several central taxes. Although the personal income tax has remained flat-rate ever since in Romania, similarly to the Slovakian, Serbian and Ukrainian systems, a tax-free bracket has also been maintained, thus preserving something of the progressive character of the original income tax regime. In contrast, in VAT and corporate taxation a volatile system of the opposite direction was set up on several occasions, each time in direct service of the interests of the government budget. Overall, compared to the standard of the European Union, Romanian tax revenues were characterised by a low ratio of total withdrawals to GDP up to the end of the period under review (Kiss et al., 2008:33).

Tax changes in Hungary between 1995 and 2015

Hungary was the first among the former socialist countries of Central Europe to introduce the important elements of Western tax regimes, i.e. VAT, personal income tax and corporate tax, in as early as 1987, prior to the political change of regime. These steps provided the Hungarian economy with a 10 to 15-year advantage in receiving western capital and establishing a Western-type legal framework. This was the first comprehensive tax reform, and perhaps the most significant one in Central and Eastern Europe to date. These changes challenged Hungarian natural and legal persons (Szilovics, 2007:812–817), as the tax burden imposed on wages considered low in a European comparison were high relative to other European countries. This situation has basically not changed ever since.

In the reviewed period the Hungarian tax regime was characterised by both significant changes in terms of multi-tax tax reforms and by gradual transformation in the form of numerous minor changes in multiple tax types every year. The public finance reforms included the 1995 Bokros Package and the 2011 amendments implemented by the Second Orbán Administration. In addition, the Hungarian Parliament also adopted significant changes in the tax regime every year. Hungary, like many other countries in the region, has been in a state of permanent reforms since 1988. This is most perceptible in personal income taxation. Income tax brackets were reduced from an initial 11 to 8 in 1990 and then to 7, followed by a four-bracket system in 1991, which was further reduced to a three-bracket and then a two-bracket system in 1999 and 2005, respectively. This was followed by a 16-per cent flat-rate tax established in 2011 and reduced to 15 per cent in 2014. In this period only Ukraine and Russia had lower tax rates at 13 per cent (Martinez-Vazquez et al., 2008) as Slovakia, Latvia, Lithuania and Estonia applied 19, 25, 33 and 26 per cent. It should be noted that Romania, Slovakia and Austria have maintained the tax-free bracket for low-income earners all along this period, thus reinforcing the progressive character in taxation. The Hungarian corporate tax rules also underwent profound changes during the reviewed period:[6] the 40 per cent corporate tax set in 1990 was reduced to 16 per cent between 2006 and 2009, and a two-bracket withdrawal of 10 and 19 per cent was adopted in 2010, which was then dropped to a single 9 per cent. In an international comparison, these figures may already appear

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competitive, as the rate of corporate tax is 10 per cent in Cyprus and Bulgaria, 16 per cent in Romania and 19 per cent in the Czech Republic. A distinctive feature of Hungarian corporate taxation is that it imposes a number of special corporate taxes (banking and sector-specific extra taxes for large businesses) and offers a number of reduced tax options for small and medium-sized enterprises (itemised tax for small businesses (KATA), tax for small businesses (KIVA), and simplified business tax (EVA)). [7]

Hungary has also taken radical steps in this area of taxation.[8] In 2011, VAT was raised to 27 per cent, the highest one in the world, from an already high 25 per cent. In the reviewed period significantly lower VAT rates were found at its regional competitors: Estonia and Lithuania applied 18 per cent, Romanian VAT was 19 per cent in certain periods, Ukraine applied 19 per cent and up to 2013, Slovakia had also set the vAT at 19 per cent (Ivanova et al., 2005).

Achievements of and experiences in Hungarian tax changes

As far as changes in Hungarian taxation between 1995 and 2015 are concerned, the following essential correlations must be highlighted: The ratio of the total Hungarian tax burden to GDP did not change significantly during the period under review. Over the past 20 years, the rate of 40.4 per cent set in 1995 decreased to 36.8 per cent in 2005, but then increased again to 39.2 per cent in 2015. This means a mere 1 per cent cut in 20 years. The pace of tax centralization in Hungary can be termed high in comparison to the other countries of the region, which are at similar levels of development (Csomós–P. Kiss, 2014:65). In the reviewed period the pace of increase in tax centralization was always higher than the rate of growth in employee incomes and household consumption. This means that GDP growth did not result in a significant improvement in Hungarian taxpayers' income and consumption situation. The rate of corporate tax was reduced more significantly than natural persons' income taxes in the period under review, and thus companies benefited more from the changes. Between 1995 and 2015, GDP increased faster in Hungary than in Austria: by 60 per cent, from USD 6,700 per capita per annum to USD 11,000 per capita per annum. In spite of GDP growth, the high level of public burden in Hungary compared to the EU average has not decreased. Taxes and social security contributions to GDP changed hectically year by year, while the annual growth rate of change was around 19 per cent in 1996 and 1997, before declining to 5.9 per cent in 2005 and then to 4.3 per cent in 2007. The ratio of taxes and social security contribution to GDP was often higher than the growth rate of gross domestic product in the analysed period. Between 2005 and 2015, the income of Hungarian employees increased by about 20 per cent, while consumption increased by only 15 per cent, at the same time, GDP increased by 16 per cent in this decade. These figures show that while incomes have increased, the tax burden has increased even more and, as a result, the net income position of taxpayers has not improved either.

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As a whole, the Hungarian tax regime has not been characterised by a comprehensive tax reduction but by the reorganization of taxes. Instead of a significant reduction, the applied changes were aimed at restructuring to improve efficiency. However, the surplus income earned from cutting the personal income tax rate has been offset through the record-high sales tax rate, a drastic increase in excise taxes, and the transfer of sector-specific extra taxes. The Hungarian population has not been relieved during this period, and consumption remains low by EU standards.

Another characteristic of the Hungarian tax regime is that the ratio of taxes and contributions on labour, i.e. the tax wedge,[9] remains high. On Belgium and Germany precedes Hungary in this respect. Moreover, according to a 2011 comparative analysis of the countries of the world, Hungarian employees ranked 5th in the statistics of the highest number of hours worked. Hungarians spend an average of 1980 hours a year working, only Mexico, Chile, Greece and Russia preceded them. According to the statistics of the European Union, Hungary was the 4th poorest country in the European Union in 2012, 2013 and even according to the latest report in 2016. It is also a constant feature of the Hungarian system that taxes on capital gains, wealth and assets are low by international standards (Pogátsa, 2016:124–125).

It can be stated that despite several tax reforms, in the analysed period the Hungarian tax regime has not improved in quality and in efficiency, and nor did it impose less burden on taxpayers. It has preserved its essential character of imposing burden on basic consumption, being heavily centralized and unpredictable. Only a few elements suggest a shift towards social justice, partly due to the 2011 reforms, which have significantly improved the financial situation of taxpayers with children in an exemplary manner. The government helped small businesses by introducing beneficial special taxes. For the large-business sector, Hungarian economic policy has also provided significant direct subsidies over the past decades in order to encourage capital investment and the creation of new jobs. In 2015, the value generated by the 11 largest companies in Hungary accounted for 25 per cent of GDP, but related to this, only 2 per cent of the total corporate tax revenue was paid nto the budget by these companies.[10] Given the direct state subsidies granted to the large-business sector, the significant reduction in corporate tax rates and labour contributions and the gradual reduction in special taxes, large corporations have obviously been the real winners of tax policy decisions over the last twenty years. As a positive outcome, the measures taken in tax administration after 2016 to whitewash the economy have been successful (Electronic Trade and Transport Control System (EKÁER), Electronic Toll Collection System (HU-GO), online cash registration and digital billing) and have significantly increased the revenue of the government budget (see also: Deák, 2005:191).

Tax management models in the reviewed countries

In Central European countries, which once started from very similar legal and economic backgrounds, development did not have much in common in the last hundred years, and significant differences were seen up to the early 1990s (Appel, 2006). Be-

tween 1995 and 2015, i.e. in the period under review, legal and economic convergence accelerated in a number of areas (Gandullia, 2004) in these post-socialist countries, initially due to their efforts to comply with the expectations of the European Union and, following their accession, to economic and legal integration. However, there remain significant differences in taxation, which falls into national competence, between Austria and the post-socialist states. The change management strategy applied to the Austrian tax regime between 1995 and 2015 was not to carry out changes of comprehensive tax reforms. They have always sought predictability and stability in taxes (Bozsik, 2013:125). The Austrian example shows that high levels of tax withdrawals can also be efficient if the conditions remain comprehensible and clear to all. This predictability facilitates compliance, reduces the shadow economy and tax fraud, increases the country's ability to attract capital by maintaining tax conditions in the long term, taking into account the principle of neutrality and saving economic players from ongoing reforms. The Austrian tax regime has shown that a model that maintains direct taxes (corporate tax, progressive personal income tax) at relatively high level[11] and does not overload consumption taxes (VAT, excise tax) can be effective. In contrast to other Central European countries, Austria has aimed at having low consumption and turnover taxation. VAT remained at the standard rate of 20 per cent all along. This supported not only domestic consumption but also shopping tourism and tourism in general, and thus indirectly increased gross domestic product. A further characteristic feature of the system was the continued valorisation of personal income tax, which remained progressive but also maintained a tax-free income bracket in the period under review. In Austria, direct taxes and the costs added to wages in the form of contributions are traditionally high compared to other countries in the region: the employer pays EUR 186 on each EUR 100 paid as a salary. The other surveyed countries have also converged to this model: the employer's cost is EUR 187 in Hungary, EUR 185 in Slovakia and EUR 183 in Romania. A characteristic feature of Austrian tax management is its ability to provide the tax revenues needed to secure the high living standards and public services by a conservative, non-reformist and predictable tax regime.

In contrast to the above, the analysed post-socialist countries have been trying to meet the challenges of international tax competition and of the European Union, as well as their budgetary and social needs by the regular adoption of changes. Each used different taxation methods and placed the emphasis on different items. They frequently adopted new elements that appeared to be effective (flat-rate taxation, increase in consumption taxes, reduction of capital taxation). "Direct taxes were reduced to increase their ability to attract capital, and the missing revenues were provided by raising indirect taxes and reducing government spending" (Kiss et al., 2008:71). Constant changes took place at different times and in different ways in each country, but they rarely reached the level of a tax reform. The tax conditions were significantly changed in Hungary in 1987-1988 and in 2011, in Romania in 2005, in Slovakia in 2003 and 2013. It can be concluded that Austria and the four post-socialist countries made efforts at complying with the Lisbon principles of the European Union and the improvement of competitiveness and the attraction of capital by following different

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models. However, the inconsistency of implementation caused a problem in all of the above Central European countries. The sometimes increasing and other times decreasing tax burden and the ever-changing tax liabilities made these national tax regimes unpredictable for economic operators and deteriorated compliance. The states were aware of the importance of stability, but this was primarily enforced through corporate taxation.

Table 2: Changes in the corporate tax rate in the countries under review, 2005–2015

	2005	2010	2013	2015
Austria	25	25	25	25
Slovakia	19	19	23	22
Hungary	16	19	19	19
Romania	16	16	16	16

Source: Edited by the author

In contrast, the former socialist countries did not follow this principle in personal income taxation during this period.

Table 3: Changes in personal income tax rates in the countries reviewed between 2002 and 2015

	2002	2005	2010	2013	2015
Austria	5 brackets	5 brackets	4 brackets	4 brackets	4 brackets
Slovakia	5 brackets	1 bracket	1 bracket 19	1 bracket	3 brackets
Hungary	3 brackets	3 brackets	2 brackets	1 bracket	1 bracket
Romania	5 brackets	2 brackets	1 bracket	1 bracket	1 bracket

Source: Edited by the author

Neither the tax rates nor the tax incentives or tax-related legal institutions were stable in three of the reviewed countries. Special taxes were levied on certain groups of economic operators (special tax on retail chains, bank tax). These three countries also shared a practice of offering significant reliefs in order to encourage the establishment of businesses. This solution was only exceptionally used in the Austrian system. It can be concluded that due to the advantages granted to large businesses in the tax regime of the former communist countries, natural persons had to shoulder higher public burdens. According to OECD comparisons, in these member states the corporate sector pays less tax than private taxpayers. One reason for this includes high consumption tax, which imposes an administrative burden on economic operators, as the actual tax burden is borne by the ultimate consumer, who cannot pass it on. This was also established by the European Union's 2013 report (European Commission, 2013). In Hungary the budget shared around 45.8 per cent of indirect tax revenues

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in the 2000's. Of the EU Member States, only Romania has a higher share. The newly acceded Central European countries significantly increased consumption taxes in the European Union. Another common feature of these countries is that taxes on capital and property do not provide significant revenue for the state budget. The countries of the region do not apply uniformly levied property tax, in the western sense of the term, on all items of property.

Table 4: Changes in taxes to GDP in certain Central and Eastern European countries

	1995	2005	2011	2015
Hungary	40.4	38.1	38.7	39.2
Romania	–	28.3	28.1	28.0
Slovakia	39.6	31.4	28.2	32.4

Source: Edited by the author

The data confirm that only the Slovakian reform of 2003 resulted in a noticeable reduction in the tax burden. During the entire period under review, i.e. in 20 years, the tax burden in Slovakia decreased by 20 per cent. It is exceptional that, contrary to the significant decline in the level of government withdrawal, household consumption and gross domestic product have increased. By contrast, in Hungary, as a result of the 2011 reforms, the situation of the government budget has improved, but the income and consumption of the population have not increased significantly.

Impact of tax changes on GDP

It is worth examining the correlation between tax reforms and GDP growth, in other words, the direct effect of tax reforms on gross domestic product. First and foremost, it has to be pointed out that expecting significant GDP growth from tax reforms is unrealistic. Developments in gross domestic product can be influenced by the combination of a number of factors, such as the size of the shadow economy, the level of legal compliance, the extent of corruption, the quality of government work or global economic activity. It must be seen that the cause-impact relationship between tax reforms and GDP is widely debated. Tibor Erdős, referring to the personal income tax reform implemented by the Slovakian and Baltic states, stated: "Expectations are too high; it cannot be proven that flat-rate taxation leads to faster economic growth" (Erdős, 2012:109). This is an important statement because the correlation between the efficiency of a tax regime, i.e. the social costs of revenue collection, and macro-economic indicators is widely overestimated. According to a study by István Hetényi: "Taxation in itself does not play a decisive role in the competitiveness of a country" (Hetényi, 2006:10). According to others, the tax regime does not even have a direct impact on labour supply (Csomós–P. Kiss, 2014:61). This is confirmed in a study by Bozsik, which states: "It is not tax rates that bear importance in terms of tax competition." According to Stiglitz, taxation affects all elements of the economy, but its exact mechanism of ac-

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tion is difficult to determine (Stiglitz, 2000:401–402). In his opinion, the size of shadow economy and the system of tax incentives may be equally important (Bozsik, 2013:130). Saavedra came to a similar conclusion after examining the experiences of flat-rate personal income tax cuts (Saavedra, 2007). He concluded that reforms can improve the tax morale but have no significant impact on revenues. In her 2005 study, this was confirmed by Ivanova (Ivanova et al., 2005) who, having examined the achievements of a tax reform, found that, contrary to the expectations, there was no significant change in tax payments for income groups where lower marginal rates had been decreased, but where tax rates had hardly changed, tax payments increased significantly.

It can be concluded that the most frequent targets of tax reforms in the countries under reviewed were the tax rates, the method of calculating a tax element and the scope of tax reliefs. However, according to professional analyses, these techniques are unsuitable for achieving the most frequently declared economic policy goals. The applied solutions very frequently fail to meet the criteria of tax reforms; they may only be termed as tax reorganizations. Of the countries reviewed, only Romania and Slovakia had actual tax reforms which led to a change of at least 20 per cent in a number of central taxes while the loss of revenue was not fully compensated for by raising other tax types.

It is no coincidence that these two countries have been able to boost their economies and improve the standard of living for their citizens, i.e. the taxpayer natural persons. If the actual impact of tax reforms on gross domestic product is reviewed, GDP growth should be seen in the case of a successful tax reform, since no reform aims to reduce GDP or to undermine economic efficiency. Consequently, the impact of tax reforms on gross domestic product can be a valuable tool for assessment. Romania's gross domestic product did not increase faster after the reforms. If this was the direct objective of the measures, it could have been achieved without reforms. In Slovakia no ground-breaking changes can be seen in GDP growth either in the years after 2003 or after 2013. Slovakian GDP grew significantly every year; only the global economic downturn had a major impact on this trend.

A closer look at GDP growth rates in the four countries reveals national peculiarities in the annual GDP trends (for example, in terms of pace), however, they do not necessarily result from tax reforms, but are due to the combined effect of other economic and political factors. Only the impacts of the 2008-2010 economic downturn can be clearly demonstrated in these countries' GDP trends. However, these countries overcame the crisis in different ways, and Austria suffered the slightest shock, as it had already been stable. A similar impression is gained when looking at the combined ratio of these countries' taxes to their gross national product. The trends are also the same in this respect, regardless of the actual tax reforms in the countries concerned, as increase in the tax burden has been in sync with growth in GDP. This is also true for Austria, where no actual tax reforms was performed. It can be concluded that tax reforms or changes in the tax-to-GDP ratio have resulted in noticeable economic changes in terms of the living standards or economic performance only in two of the four countries: Slovakia and Romania, and changes were also merely temporary in these countries.

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The most important findings of my research include the following:

a) The Austrian system, while refraining from tax reforms, has performed better than the post-socialist countries in realizing tax revenues. Based on the Austrian example, it seems to be more efficient to focus on a slight improvement in the performance of the tax administration and on modernizing its technical conditions than to introduce new taxes and repeatedly reform the tax regime. A tax regime that is predictable and easy to comprehend can work better, despite minor errors, than a seemingly more efficient but constantly changing model. Businesses and natural persons prefer stability. However, the quality of tax legislation is important, as high-quality tax laws become outdated over time due to the changes in both the economic policy and the legal environment. Change is necessary, but its pace and extent are important factors.[12] Too fast and too frequent reforms devalue the tax standard, make compliance more difficult, give a headache to the tax office, and turn tax law into a set of technical requirements. The regular application of tax amnesties also has a negative impact.

b) A balanced tax regime, which is proportional in the distribution of the tax burden between different types of taxes and does not only focus on consumption, seems to be an effective solution. The reforms performed in the former socialist countries have maintained the level of VAT high to provide budgetary security for tax cuts in other types of taxation. To this end, Central European countries have been compelled to raise VAT rates significantly since 2003.

c) When politicians make a decision on a tax reform, it is also important that the transformation should reach a critical mass of the tax regime, as this is a prerequisite of efficiency. There is a tax stimulus threshold for both the general public and businesses, which has been very high in the past twenty years, and the reforms must reach this level. Such changes should cover several types, several tax rates, the way the tax base is calculated, the system of tax reliefs and a wide range of rules of equitable burden sharing. Taxpayers should perceive not only legal changes, but also the benefits they bring to their consumption and realised income. In their absence, the tax reform will only become a factor complicating their situation. The main lesson learnt from the tax reforms in Central Europe is that these measures have not been able to have a long-term and significant positive effect on increase in gross domestic product and on the improvement of social welfare in the countries executing them. It must be seen that "many countries are capable of achieving rapid growth for a few years or even a decade, but hardly any countries have shown progress and economic convergence over decades" (Palotai–Virág, 2016:13).

d) As far as the welfare impact of tax changes in Central European countries are concerned, again Austria has been the most successful in this respect. In the period under review, it was able to maintain its welfare-related achievements considered outstanding worldwide. The other three countries have been on different tracks in convergence: Hungary is less successful, as it has not been able to approach either the European Union average or the level of Austria. Despite being an enthusiastic follower of international taxation trends, it has been unable to make significant progress in terms of either GDP or the individual standard of living.

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e) Romania has become a relatively successful country in the region in closing the gap. In the period under review, Romanian GDP expanded steadily, but consumption grew faster. As a result, Romania managed to boost its economy in certain periods. Between 2005 and 2016, income and consumption levels in the country almost doubled. Slovakia proved to be the most successful in the region in terms of convergence. This is where the most significant tax cuts were made in most tax types in the shortest time, while the country has managed to improve both its macro-economic indicators and the situation of its citizens. Slovakian household consumption has increased to 73 per cent of the EU average in 2012 and 77 per cent in 2016. This brought them closest to the Austrian level among the countries reviewed.

Table 5: Consumption per capita to the EU average (100%), EU27=100

	2008	**2010**	**2013**	**2016**
Austria	113	116	118	128
Romania	49	45	57	59
Slovakia	70	71	74	77
Hungary	62	60	62	63

Source: The author's own, based on data by Eurostat

f) As a conclusion it should be noted that based on the data and on expert opinions, two successful models can be highlighted: the Austrian and the Slovakian. The single element they have in common is thoughtful and consistent implementation in tax management measures. Their examples show that any path can be successful if it is compatible with the other means of the country's economic policy, conveys a clearly recognizable message to the taxpayers and is able to sustain the system for at least 8 to 10 years. In the post-socialist countries of the region, during the period of almost thirty years since the change of regime, there has been no social consensus on the implementation of equality in the discharge of public burdens.

Notes

1 The financial powers between the federal state and the provinces are still governed by a 1948 law. The Corporate Tax and Personal Income Tax have been regulated by an Act of 1988, the VAT by an act of 1994, the Land Tax by a law dating back to 1955, while the Taxation of Beer have been regulated by an of 1977 to this day.

2 International Tax Competitiveness Index 2018, cited by Bunn et al., 2019:1.

3 International Tax Competitiveness Index 2018, cited by Bunn et al., 2019:3.

4 See also Miklós et al., 2005

5 Cited by E-Népujság.ro, published in the daily Gándul 27/12/2012.

6 See also the opinion of an international tax expert: Brother Leyman, 2011:36.

7 For more details on these taxes, see Deák, 2016:246.

8 For further details on the economic impacts of taxing consumption, see Matolcsy, 2015.

9 OECD data from 2016.

10 www.demnet.hu/hu/nemzetkozi-fejlesztes/kapacitasfejlesztes-szemleletformalas/593-ki-fizet-adot-kozep-kelet-europaban (Foundation for the Improvement of Democratic Rights (DemNet) (2014): *Ki*

fizet adót Közép-Kelet Európában. Partners involved in the research concerned: Finance Uncovered, Za Zemiata, Glopolis, Lapas, IGO, Ekvilib Institut).

[11] On the 2014 data see in more detail: European Commission, 2014:18–19.

[12] For more details see Szilovics, 2003.

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