Liudmyla Nechyporuk, Doctors of Economic Sciences, Professor
V.N. Karazin Kharkiv National University
Kharkiv, Ukraine

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TAXES ROLE FOR THE SUSTAINABLE DEVELOPMENT

Sustainable development is a development that meets the needs of the present without compromising the ability of future generations to meet their own needs. Taxes play an important role in the health of a country's economy and ensuring sustainable. A well-structured tax code is easy for taxpayers to comply with and can promote economic development while raising sufficient revenue for a government's priorities. In contrast, poorly structured tax systems can be costly, distort economic decision-making, and harm domestic economies.

Many countries have recognized this and have reformed their tax codes. Over the past few decades, marginal tax rates on corporate and individual income have declined significantly across the Organization for Economic Cooperation and Development (OECD). Now, most OECD nations raise a significant amount of revenue from broad-based taxes such as payroll taxes and value-added taxes (VAT). Not all recent changes in tax policy among OECD countries have improved the structure of tax systems; some have made a negative impact.

Tax Foundation updates International Tax Competitiveness Index (ITCI). ITCI is demonstrate an evolution of how the member countries in the Organization for Economic Co-operation and Development structure their tax systems. The index defines a competitive tax code as "one that keeps marginal tax rates low" and, to inform its rankings, considers forty tax policy variables, with the purpose of offering key insights into different tax models and how tax policy should be perceived around the world. ITCI seeks to measure the extent to which a country's tax system adheres to two important aspects of tax policy: competitiveness and neutrality [1]. This allows us to look back, see how country ranks have changed over time, and be able to identify the largest movers and shakers over the last 10 years.

Table 1

Five leading countries in dynamics ranking of The International Tax Competitiveness Index

Dynamics ranking of The International Tax Competitiveness Index		
№	Countries that saw the largest improvements in their rank over the last 10 years	Countries that fell the furthest in the rankings last 10 years
1	Canada, which ranked 27th in 2014 and now ranks 15th	Chile, which ranked 20th in 2014, and now ranks 35th
2	The United States, which ranked 30th in 2014 and currently ranks 21st	Colombia, which ranked 24th in 2014, and currently ranks 38th
3	Finland, which ranked 26th in 2014 and is now at 19th	Poland, which ranked 23rd in 2014, and is now at 33rd
4	Mexico, which placed 32nd in the 2014 rankings and has climbed to 26th	Belgium, which placed 18th in 2014, and has now fallen to 27th
5	Israel, which ranked 13th in 2014 and has risen to 8th	Costa Rica, which ranked 17th in 2014, and is now at 22nd

Source: Tax Foundation, International Tax Competitiveness Index 2023, October 2023

The further up a country moves on the Index, the more likely it is to have broader tax bases, relatively lower rates, and policies that are less distortionary to individual or business decisions. Falling on the Index reveals a policy preference for narrow tax bases, special tax policy tools, and rules that make compliance more difficult. According to research from the OECD, corporate taxes are most harmful for economic growth, with personal income taxes and consumption taxes being less harmful. Taxes on immovable property have the smallest impact on growth.

Separately, a neutral tax code is simply one that seeks to raise the most revenue with the fewest economic distortions. This means that it does not favors consumption over saving, as happens with investment taxes and wealth taxes. It also means few or no targeted tax breaks for specific activities carried out by businesses or individuals. You can find the list of top 10 world countries with highest taxes, according to which a West African country Ivory Coast is the highly taxed country. Tax rates in Ivory Coast – 60%, Finland – 56%, Japan – 55%, Austria – 55%, Denmark – 55%, Sweden – 52%, Aruba – 52%, Belgium – 50%, Israel – 50%, Slovenia – 50% [2]. In addition, the list given below is the list about which countries have the lowest tax rates that is 0% taxes on income: Bermuda, Cayman, Islands, Bahamas, Brunei, Bahrain, Qatar, Kuwait, Oman, United Arab Emirates and Saudi Arabia [3].

In globalized world, capital is highly mobile. Businesses can choose to invest in any number of countries throughout the world to find the highest rate of return. This means that businesses will look for countries with lower tax rates on investment to maximize their after-tax rate of return. If a country's tax rate is too high, it will drive investment elsewhere, leading to slower economic growth. In addition, high marginal tax rates can impede domestic investment and lead to tax avoidance. As tax laws become more complex, they also become less neutral. If, in theory, the same taxes apply to all businesses and individuals, but the rules are such that large businesses or wealthy individuals can change their behavior to gain a tax advantage, this undermines the neutrality of a tax system [1]. A tax code that is competitive and neutral promotes sustainable economic growth and investment while raising sufficient revenue for government priorities.

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