The Flat Tax Spreads to Ukraine

By Alvin Rabushka

On May 22, 2003, Ukraine's parliament, taking a page from Russia's playbook, overwhelmingly voted into law a 13% flat tax on personal income to take effect on January 1, 2004. (See "The Flat Tax at Work in Russia") The 13% flat tax replaces five brackets of 10, 15, 20, 30, and 40%. Dividends and interest on bank deposits will be taxed at a lower 5% rate beginning January 1, 2005. Following further in Russia's footsteps, the tax rate on company profits was previously reduced, from 30% to 25% (see "Further Extending Russia's Tax Reforms"). Ukraine's finance minister is also seeking a reduction in VAT, from 20% to 15%.

News reports suggest that Ukraine officials consulted with their Russian colleagues. The advice they received was that incentives and revenue would rise and the underground economy and tax evasion would decline (see "The Flat Tax at Work in Russia: Year Two").

Ukraine adds one more country to a growing list that have adopted a flat tax. The chronology is Estonia (implemented in 1994), Latvia (1995), Russia (2001), and now Ukraine (2004). Belarus intends to harmonize its tax code with Russia. A bill for a 20% flat tax (perhaps as low as 15%) on personal income is before Slovakia's parliament in May 2003.

The opposition ODS - Civic Democratic Party in the Czech Republic has drawn up plans for a 15% flat tax on personal income, which has a top rate of 31%, and a 15% flat tax on corporations, down from 29%.

A planned May 2003 visit on my part to Beijing to discuss the flat tax with officials in the Ministry of Finance was postponed due to the SARS outbreak. A Chinese translation of *The Flat Tax* has been published by the China Financial & Economic Publishing House in May 2003. Chinese professors of public finance have written articles on the benefits of sharply reducing China's top personal income tax rate of 45% to no more than 20%.