Is a flat tax the best way forward for Europe?

Published: January 13, 2026, 1:28 am

Many accountants are attracted to the idea of a flat tax. The most common form of that tax, and the one most often referred to in the press is that created by Alvin Rabuska and Robert Hall. However, to understand flat tax it is necessary to explain four myths that lead to one truth - which is that it is anything but simple because it is nothing like what it claims to be.

The first myth is that Robert Hall and Alvin Rabushka created a viable tax system when they published their books on flat tax. They did not. It is not even clear that they sought to achieve that aim. What they did do was propose a flat tax that would replace all income taxes, corporation taxes, capital gains taxes and inheritance taxes. That flat tax would be charged on just two things. The first was income from employment in the country where the tax was to be charged. No deductions bar a personal allowance would be allowed against that taxable income from domestic employment. The second chargeable source of income would be the cash flow surplus of businesses arising within the country in which the tax was to be charged but with no relief being provided for interest paid; this supposedly (but not actually) resulting in a tax charge at source on interest received by individuals.

The result is an extraordinarily narrow tax base, especially when a low rate of tax is to be used. Hall & Rabushka proposed 19%. It is narrower still when it is appreciated that no tax of any sort would be applied to investment income, private pensions and all income from overseas, all of which would be exempt from tax.

The last point is the most significant. This is because tax planners seek to do two things. The first is to take an income stream out of tax. The second is to offset as many expenses against income as possible if the first option proves impossible to achieve. Hall and Rabushka might claim that their tax abolishes tax reliefs, which when combined with low taxes would, they claim, bring an end to almost tax planning, but that is obviously untrue. Their logic is only applicable to the second type of tax planning. Their flat tax does in fact openly encourage the first type of planning, which all accountants prefer. It does this by allowing any employee who wished to set themselves up as an offshore company to supply their services to immediately create a totally tax free environment for themselves. In addition, companies who could shift their income recognition outside the country where the flat tax might be applied could do the same. With numerous tax havens now offering zero percent tax rates it is clear that the Hall & Rabushka tax scheme was either designed by people who knew little about tax or how tax planning works and the consequent need for anti-avoidance measures to prevent abuse of tax systems, or their intent was to facilitate these practices and to encourage the resulting loss of income to governments. I assume Hall & Rabushka understand tax. The second objective is consistent with Rabushka’s stated aims, and therefore seems likely.

This fact has been appreciated by those countries that have adopted what have been called â€šÃ„Ã²flat taxes’, which leads us to the second myth. This myth is that these countries do in fact have flat taxes. The simple fact is that not one of those countries has a tax system that comes close to the Hall & Rabushka model of a flat tax. In a recent survey of flat taxes in Eastern Europe I found that none of those countries taxed business on a cash flow basis, and none offered 100% allowances for capital expenditure in the year in which investment took place. In addition, all charged the worldwide income of companies registered in their territory to tax, as they did their resident citizens. Several, including Russiadid not even have a single income tax rate. Only two (Slovakia and Romania) had the same income and corporation tax rates, although Rabushka thinks this essential to a proper flat tax system, whilst all also had extensive systems of allowances and reliefs for individuals and rules on tax accounting that made many currently in use in the UK loom positively simple in comparison. Some, such as Estonia had extensive controlled foreign company rules for individuals and all had complex rules for taxing benefits in kind, an issue all flat tax proponents have failed to address appropriately. Because of the complexity of their tax system 84% of Estonians submit tax returns. Just 16% do in the UK.

Put simply, the evidence that these countries have flat taxes does not exist. At best it might be said that some of them have single rate income tax systems, but that is far removed from being the flat tax system Hall & Rabushka propose. None the less, Rabushka and his supporters, such as former USpresidential candidate Steve Forbes, claim that these states have seen massive benefits accrue from the adoption of their single rate income tax systems. This is the third myth of flat taxes, because this claim is not supported by the available evidence.

It is true that some countries have increased their tax revenues since introducing flat taxes. However, as the most authoritative study on this whole subject by Ivanova, Keen and Klemm has shown, in the case of Russia this increase in revenue was almost certainly attributable to economic growth, better tax collection and enhanced tax compliance by those least affected by the introduction of the 13% income tax rate in that country. It did not result from enhanced output by those who obtained the benefit of the tax cuts, contrary to the claimed supply side growth stimulus that those who support flat taxes suggest results from its introduction. Other countries, such as

Slovakia and Romania have also seen revenue increases, but in indirect taxes such as VAT and not from the direct taxes which the reforms affected, again suggesting enhanced tax collection regimes gave rise to the increased revenues. Any reasonable review makes such a conclusion seem likely. Indeed, the CIA Factbook said of Georgiabefore it introduced a flat tax that it “suffered from a chronic failure to collect tax revenues, however, the new government is making progress in reforming the tax code, enforcing taxes, and cracking down on corruption.” This was commonplace in most of the so-called flat tax states, and since (thankfully) tax evasion on this scale is not commonplace in Western Europe it is highly unlikely that the trend can be reproduced in those countries.

This brings us to the final myth, which is that most tax payers will benefit from a flat tax, but the rich will hardly do so at all. This is not true. I have shown that data used by Richard Teather to support this claim in the UK in his work for the Adam Smith Institute was inappropriate for the purpose for which it was used and as such all conclusions drawn from it were misleading. In fact, in the UK a flat tax would always make middle income earners in the range from £25,000 to about £70,000 of earnings per annum worse off. Those earning lower sums might benefit by a small amount. Those earning above that range would benefit substantially; those in the top decile of income earners being likely to benefit by more than £8,000 per annum. The same pattern has been found in surveys in the Netherlands, Germany and Denmark. It is also a feature of flat taxes in Eastern Europe where those who have to work to earn a living suffer the effects of national insurance rates much higher than those found in Western Europe, including a top rate of 48.6% in Slovakia. Put simply, flat taxes shift income from middle income earners to the best off in society.

In summary, the evidence is clear. Hall and Rabushka’s flat tax is not credible as a tax system, and no one has used it. Those who claim to have flat taxes have not in practice got anything like the system described by that name, and the economic benefits they have claimed from the use of the systems they have introduced are overstated with the cause being wrongly attributed. And a flat tax system in the UK would be wholly unworkable because most middle income earners would be substantially worse off.

Having shattered the myths about flat tax, what is the truth? That is simpler to explain and is that the flat tax system is not intended to be a credible tax system. It has two purposes. The first is to undermine the role of government in society by denying it the revenue it needs to undertake those tasks we are accustomed to it fulfilling. As Alvin Rabushka told me when interviewed for my research:

“We should get rid of welfare programmes, we need to have purely private pensions and get rid of state sponsored pensions. We need private schools and private hospitals and private roads and private mail delivery and private transportation and private everything else. You know government shouldn’t be doing any of that stuff.”

The second task that flat taxes are designed to do is shift the tax burden from capital to labour. This it would do, very effectively. By providing ample opportunities for avoidance almost all corporate income and that of many higher paid employees who could shift their earnings overseas will join all investment income, capital gains and gifts in the tax free category of income. This leaves the intention of this tax clear as an unambiguous attempt to shift the burden of tax onto lower paid labour whilst denying that group in society the benefits it has customarily enjoyed from centre-ground governments.