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I seem to have reignited some debate on flat taxes this morning, so let me mention this old theme of mine in a little more detail.

Back in 2006 the ACCA published a report they commissioned from me entitled "A flat tax for the UK? The implications of simplification". The report was paid for by ACCA research funds and as such had to meet strict, objective academic research standards, including (as is essential for a professional institute) a neutral approach. But I am not subject to those constraints here, and I can therefore be more straightforward about what the evidence I uncovered when writing that report revealed.

There are no flat tax states

The first conclusion I reached was that there are no "flat tax states". Those countries that claim this title in Eastern Europe have tax systems that are nothing like the flat tax model as laid out by Alvin Rabushka and Steve Forbes in the USA, who are the main political promoters of this idea. At best they have single rate income tax, capital gains tax and corporation tax systems with all the resulting complexity that flow from retention of such structures. In fact, Russia, Lithuania and Serbia even manage multiple rates of income tax, which somewhat negates the claim to have flat tax systems.

So-called flat tax states have complex tax systems

Secondly, the tax systems that these states operate are not simple. They all retain complex rules for calculating income, the treatment of capital allowances and the consideration of capital gains. They also have a wide variety of allowances and reliefs available for ordinary citizens to claim against their personal income including, in most cases, relief for pensions, mortgage interest, education costs, home to work travel, union and other dues, charitable contributions and so on, and on (in some cases).

Flat taxes increase admin burdens

Next, these systems do not appear to reduce the administrative burden on the tax payer, as is claimed. In Estonia 84% of adults submit a tax return each year; in the UK it's 16%. And in the same country details of benefits in kind supplied by an employer to their employees have to be made monthly, which makes the annual P11D routine in the

UK seem like a positive panacea in comparison.

Flat taxes do not deliver increased tax revenues or growth

These departures from the myth that is promoted around flat taxes might have been acceptable if the claims for their economic performance had been shown to have any support. Unfortunately that was not the case either. It is widely claimed that tax revenues increase when flat taxes are introduced. No evidence was found to support this claim. Income tax revenues fell in countries introducing flat taxes if other obvious factors (such as Russia’s oil boom, the creation of which can hardly be attributed to a tax change) are taken into account. Indeed, if tax revenues did increase it was almost entirely of VAT and NIC, as was he case for example in Slovakia and Romania, where income tax revenues fell.

Nor can this increase in indirect tax be attributed to economic growth resulting from the adoption of a flat tax. Indeed, the Estonian Ministry of Finance specifically warned against making an assumption that this was possible. Their spokesman when interviewed for the report said of flat tax “it’s a tax; it’s not a medicine for the economy.”

And the IMF and Institute for Fiscal Studies did not find the rich in Russia were more tax compliant after the introduction of a flat tax, as its proponents claim they should have been. But curiously though those on low pay who actually saw flat taxes increase their tax burden in that country were more tax compliant, counter intuitively to the claims of those who propose such taxes.

Flat taxes undermine democracy to benefit the rich

Finally, although the UK’s leading exponent of flat taxes, Richard Teather of Bournemouth University claimed that his proposals for a flat for the UK would not help the rich in the UK and would only benefit the less off, my work showed that the data he used when coupled with HMRC data could not support that view. In fact, those earning less than £22,000 might save an average of about £200 a year (before NIC changes, which are likely to increase their bills based on the precedent of other flat tax states), those between about £22,000 and £74,000 would see their tax bills rise by up to £2,000 whilst those earning over £74,000 might see their tax bills reduce by over £7,000 an average. This is a clear indication that this system will favour the rich, as all other surveys in the UK and the range of data I reviewed for other countries also showed to be true.

So, the evidence failed to support any of the claims made by the flat tax lobby. In which case I concluded that those promoting flat taxes wished to promote these four things:

1. Reduced taxes for the rich
2. Increased taxes for working people
3. Reduced tax on companies
4. Reducing the role of government.

As some indication of this two quotes from **Alvin Rabushka, the man who invented flat tax are illuminating. Both come from the interview with me for this research, which he consented to be published. About the redistributional effects he said:**

The only thing that really matters in your country is those 5% of the people who create the jobs that the other 95% do. The truth of the matter is a poor person never gave anyone a job, and a poor person never created a company and a poor person never built a business and an ordinary working class guy never drove economic growth and expansion and it's the top 5% to 10% who generate the growth for the other 90% who pay the taxes to support the 40% in government. So if you don't feed them [i.e. the 5%] and nurture them and care for them at the end of the day over the long run you've got all these other people who have no aspiration for anything more than, you know, having a house and a car and going to the pub. It seems to me that's not the way you want to run a country in the long run so I think that if the price is some readjustment and maybe some people in the middle in the short run pay a little more those people are going to find their children and their grandchildren will be much better off in the long run. The distributional issue is the one everyone worries about but I think it becomes the tail that wags the whole tax reform and economic dog. If all you're going to do is worry about overnight winners and losers in a static view of life you're going to consign yourself to a slow stagnation.

I think that pretty much supports my first two claims, and since the third is part of the same metric, it's covered by the same evidence.

As for the role of government he said:

I think we should go back to first principles and causes and ask what government should be doing and the answer is "not a whole lot". It certainly does way too much and we could certainly get rid of a lot of it. We shouldn't give people free money. You know, 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. And if it didn't do any of that stuff it wouldn't need all of that tax money so that's the fundamental position and as long as you're going to have government do all that stuff you're going to have all those high taxes.

As he also made clear, that then let's you have a flat tax. In other words: privatisation is pre-condition of flat tax. Public service and flat taxes are incompatible in his opinion. But in that case what I wrote for the Guardian last year is true:

Flat tax is not a serious attempt at taxation, but is instead an exercise in social engineering. That is why its innocent appeal is so dangerous.

That ‘social engineering’ process is designed, as Rabushka himself say, to ‘take the tax code out of the economy’. In other words, it leaves people wholly dependent upon market forces. The consequence happens to be that politics is neutered on the way because as anyone who follows general elections knows, at the end of the day politics is about the economy. Rabushka and the right wing want to stop that. And if you don’t believe me, John Meadowcroft who writes for the Institute of Economic Affairs, a think tank Margaret Thatcher still supports, said recently when asked if he thought democracy a ‘market institution’ (when undertaking an interview on ***www.transformingbusiness.net) that :***

Democracies and free societies tend to go hand in hand. Having said that, democracy tends to lead to socialist policies, such as protectionism. If democracy leads to property rights and the rule of law, then yes, you need democracy. But otherwise, democracy is not a prerequisite for a market economy. Democracies tend to create very large states. In most European countries, including the UK, nearly half of GDP goes to the state. This is not good for the creation of free markets.

It seems fair to conclude that some in the mainstream the right wing now think democracy can be sacrificed to the market, and I believe that promoting flat taxes is part of that process. Which leads to the conclusion that two writers (Hettich and Winer) have put forward that:

It is possible to have a flat tax, or to have democracy, but not both

I agree.