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## **Global fall in income taxes as increased labor mobility forces governments to compete on tax, says KPMG International survey**

**Top rate personal income tax rates around the world have fallen by an average of 2.5 percent in the past six years, as governments strive to balance their need for revenue with the impact of increasing global labor mobility, a new international study from KPMG has found. To reduce taxes on individuals has been a trend in several EU countries and especially in Central and Eastern Europe, with the notable exception of Hungary.**

Of the 87 countries surveyed, 33 have cut their rates in the past six years and only seven have a higher top rate in 2008 than they did in 2003. Worldwide, top personal tax rates have fallen from an average of 31.3 percent in 2003 to 28.8 percent in 2008. But European Union (EU) taxpayers still pay the highest rates, at an average of 36.4 percent, followed by taxpayers in the Asia Pacific countries with an average of 34.6 percent and those of Latin America at 26.9 percent.

At a country level, the highest tax rates in the world are paid by the people of Denmark, with a top rate of 59 percent for the whole six years, followed by those of Sweden, whose rate came down last year from 57 percent to 55 percent, and those of the Netherlands, who have paid 52 percent for the whole period.

Excluding those countries which levy no tax at all, the lowest EU rate is in Bulgaria, with a newly introduced flat rate of 10 percent, down from 24 percent. In Asia Pacific the lowest is in Hong Kong, with 16 percent and in Latin America it is in Paraguay with 10 percent.

Among the large western European economies, France has made the most significant cut in its rates, from 48.1 percent in 2003 to 40 percent in 2007. Germany has gone from 48.5 percent to 45 percent, having briefly stood at 42 percent in 2005 and 2006.

But across the EU it has been the introduction of flat rate taxes in the Eastern European states that has had the most impact. As well as Bulgaria's new flat rate of 10 percent:

- Estonia has cut its rates from 26 percent in 2003 to a flat 21 percent in 2008
- Slovakia has gone from 38 percent to a flat 19 percent
- Lithuania last year fell 6 points to 27 percent and this year a further 3 points to a flat 24 percent
- Romania has cut rates from 40 percent to a flat 16 percent; and
- The Czech Republic, this year, introduced a flat rate tax set at 15 percent.

According to Mike Glover, Head of Tax Advisory Services at KPMG in Hungary, there has certainly been a trend in Central and Eastern Europe to reduce taxes on individuals, with perhaps the notable exception of Hungary. “Furthermore, the rate of tax applied only tells part of the story, as it is also necessary to consider the thresholds at which the higher tax rates commence”.

“Given that the share of national wealth taken by tax revenue in many countries is static, or has increased in the past five years, the fall in personal and corporate tax rates raises the question of how governments are now raising funds.” said Mike Glover. “The answer may lie in increases in indirect taxation, through value added taxes, goods and services taxes, customs duties and fees for specific services.

“We do not foresee a time when personal income taxes will fall so far that they become irrelevant to people moving from country to country. But it is entirely possible that the relative level of indirect taxes will begin to play a much greater part in people’s decisions on where in the world to go for work.”

In the Asia Pacific region, tax competition between Hong Kong and Singapore has led Singapore to cut its rate from 22 percent for 2003 to 21 percent in 2006 and 20 percent in 2007.

In Latin America, personal tax rates have generally stayed low but stable. There is an increase in the average, from 25.6 percent in 2003 to 26.9 percent in 2008, but this is entirely due to the introduction of a 10 percent income tax in Paraguay and a 25 percent tax in Uruguay, both effective from 2007. Elsewhere in the region, tax movements have all been down. Mexico and Panama stand out for their steady, year-on-year reductions. In the past six years, Panama has gone in stages from 33 percent to 22 percent, while Mexico has gone from 34 percent to 28 percent.

### **Key findings:**

- *33 of 87 countries surveyed have cut personal taxes in past six years, only seven have increased*
- *Highest rates in Europe, lowest in Latin America*
- *Indirect taxes may be filling revenue gaps*

### **Note to editors**

KPMG’s Individual Tax Rate Survey 2008 is the first time that KPMG has conducted a cross-border survey of personal tax rates with historical data from 2003-2008. The report covers 87 countries, concentrating on the highest level of personal tax payable to the central government. For ease of comparison, the survey has excluded, where possible, other taxes like social security contributions, state and municipal taxes.

The study has detailed country-by-country comparisons of movements in income tax rates, along with comparisons of tax thresholds at the highest rate, and of the impact of social security contributions on income.

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