

THE FLAT TAX: THE HOLY GRAIL FOR THE FUTURE OF EUROPEAN’S TAXATION SYSTEMS?

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ABSTRACT

It is widely known that Western European countries’ tax systems are suffering from a deep crisis, being the current progressive taxation models no longer able to achieve their original goal, i.e. realize equality among taxpayers according to the theory of income’s decreasing marginal utility. Several economic studies show indeed that the personal income taxes currently in force in Europe no longer properly address the taxpayers’ ability to pay as only few incomes’ categories are actually subject to progressive taxation, meaning that the personal income taxes are no more shaped as “comprehensive” income taxes. Moreover, the development of these tax systems has led to very complex tax rules for the taxpayers to comply with – this characteristic, combined with high marginal tax rates often deemed confiscatory and with the lack of protection of the minimum of subsistence, has encouraged tax evasion phenomena. In order to address the before mentioned weaknesses of the progressive taxation systems, some proposed to turn to a flat taxation design. Being already adopted in more than 60 countries all around the world as of the Fifties, this model is awarded as the one able to solve most of the problems at stake, notably to remarkably simplify personal income taxation, enhance compliance, and – to certain extent – increase the tax yield. In this paper I’ll analyse pros and cons of the flat tax system, taking into account those countries which have already experienced the adoption of this model, with a particular focus on the current Italian political proposal to turn the progressive personal income tax rate structure to a flat one, combined with personal deductions to respect the principle of progressivity held at art. 53 It. Const.

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