



Estonia

Taxation and consolidation – distributional issues

Madis Aben

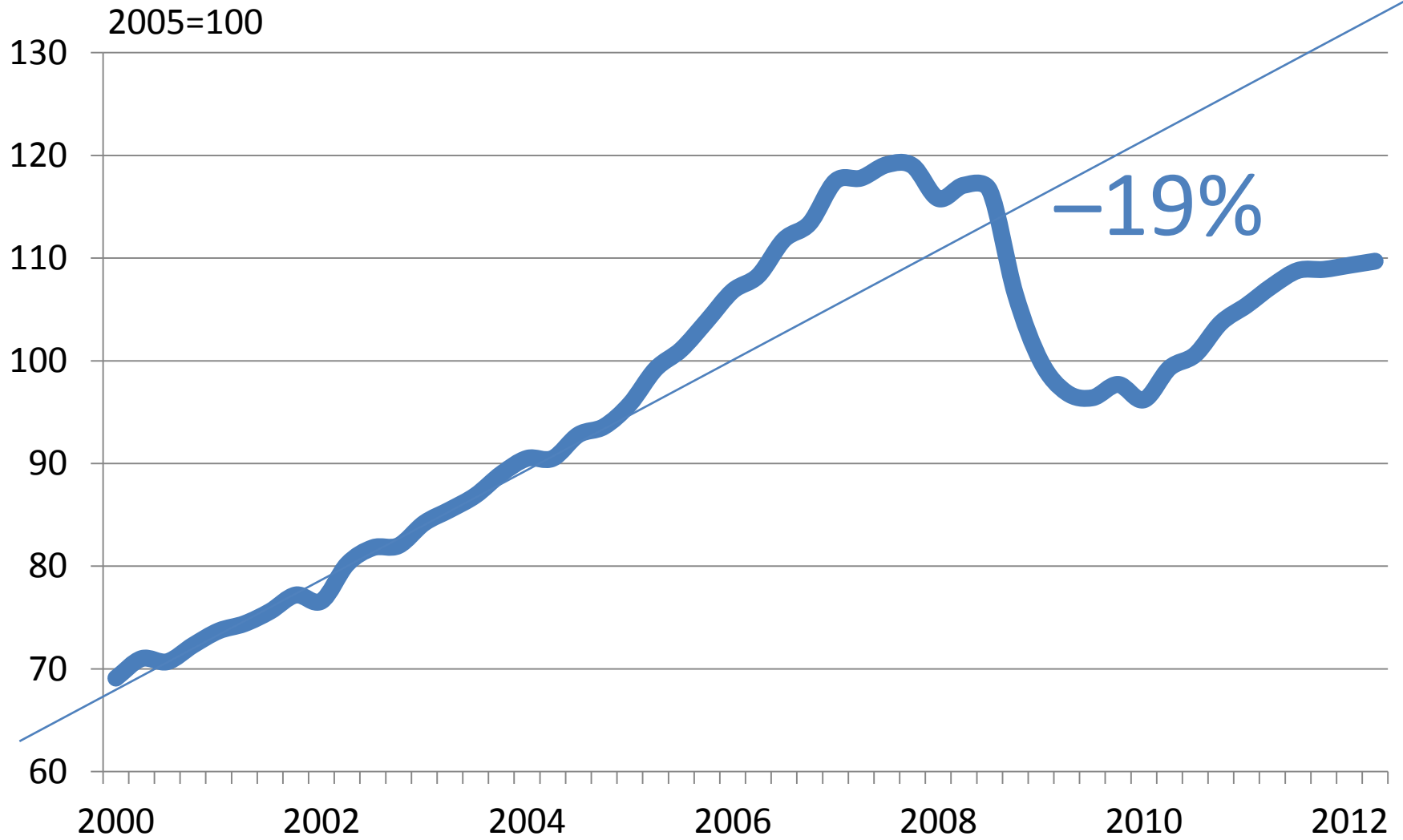
Estonia

18.10.2012

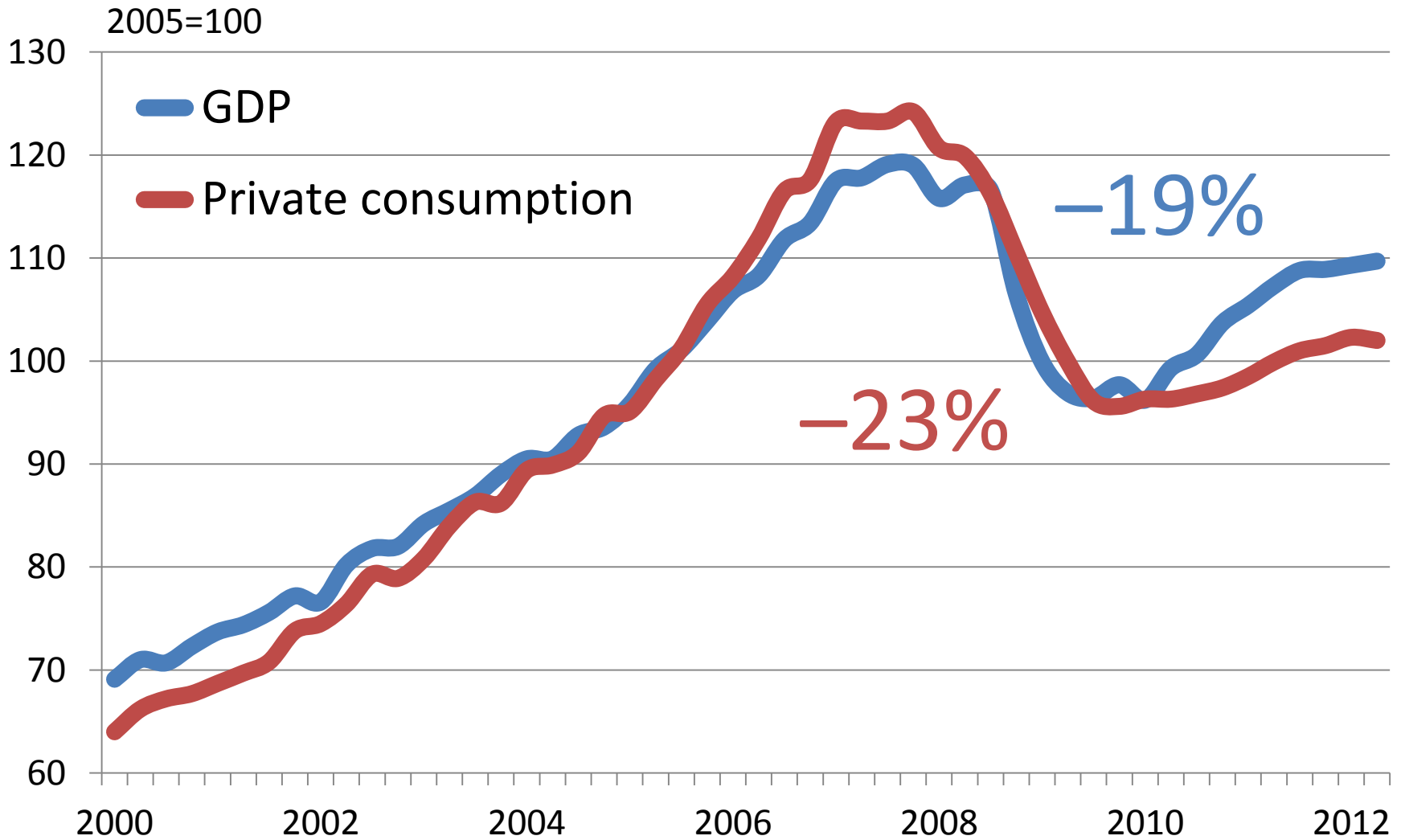
Menu

- Economic background
- Fiscal measures implemented
- Impact assessment
- Political economy of distribution
- Conclusion

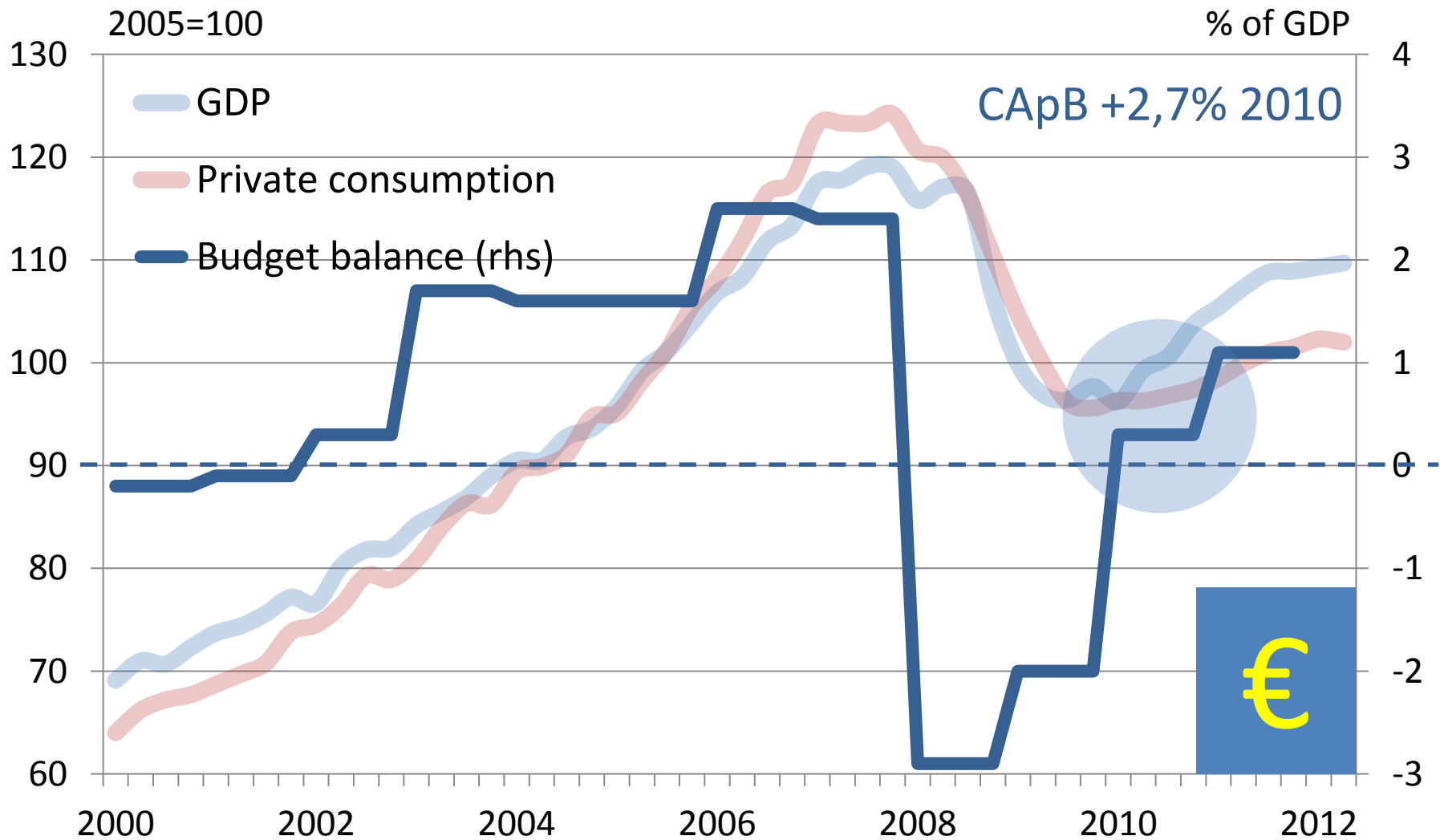
GDP



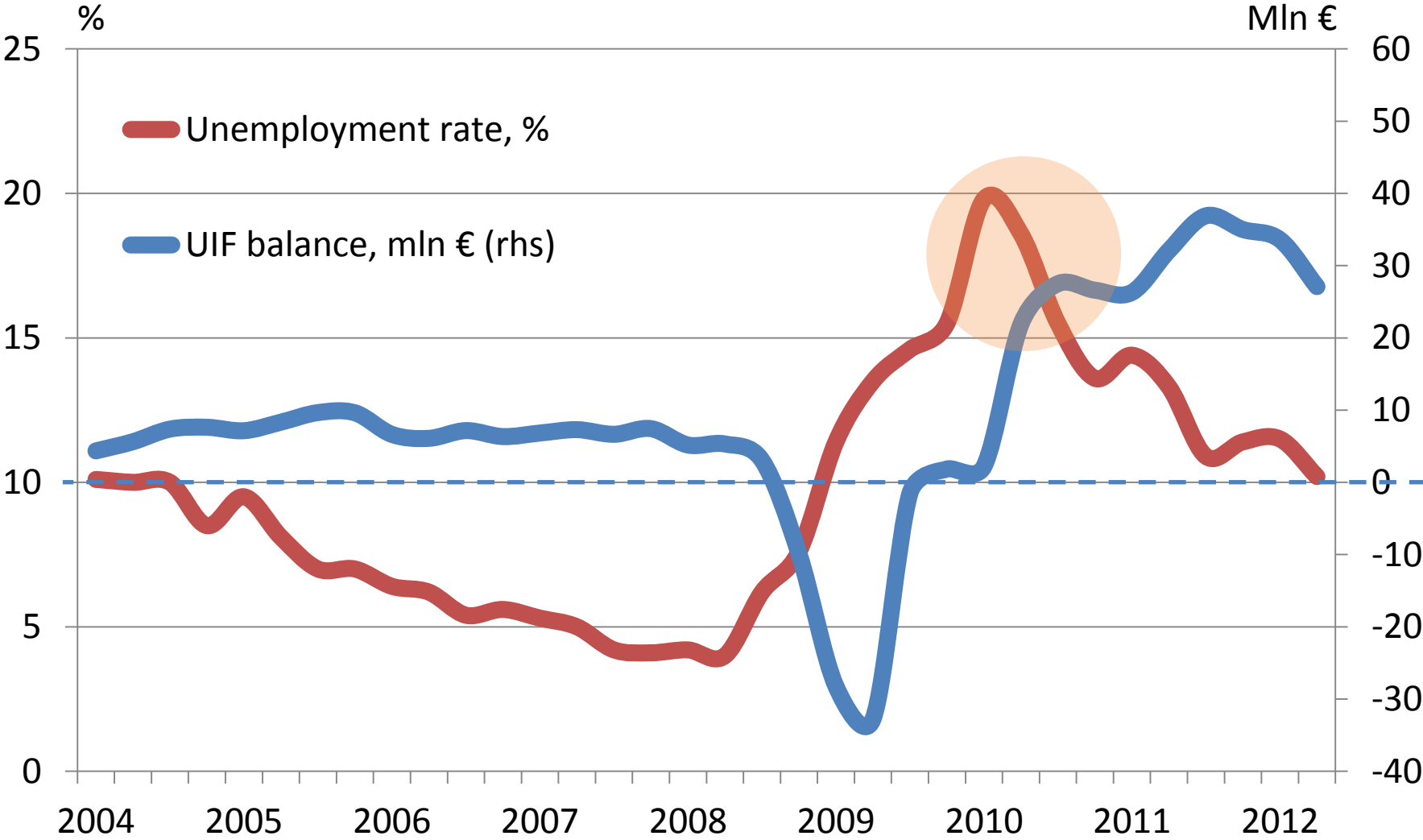
GDP & C



GDP & C & Budget Balance



Unemployment & UIF balance



Crisis measures – background

- Perception of “balanced budget” principle
- **Fulfil Maastricht criteria and join €**
- But ... “we would have done it anyway”
- Distributional consequences –
generally not analyzed or discussed while
making fiscal changes

Crisis measures

- 1,5 bln € 2009–2010; >10% of GDP
- Cuts in operational expenditure
- Additional dividends from SOE & sell of land
- Pension growth 14% > 5% (300€); elections!
- Extensive use of EU funds

- Tax measures ...

Tax measures 2009–2010 (% of GDP)

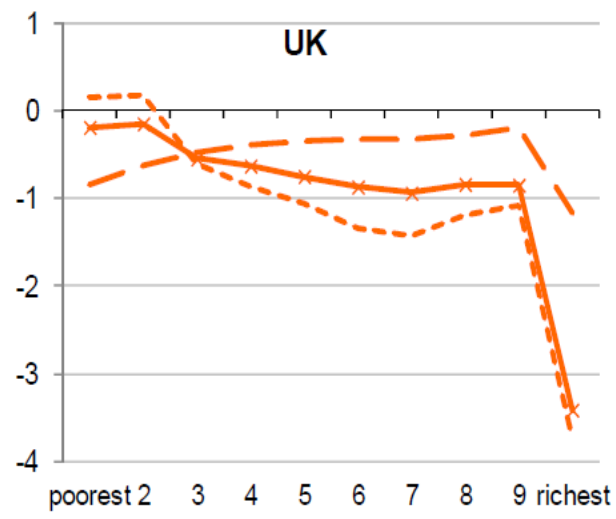
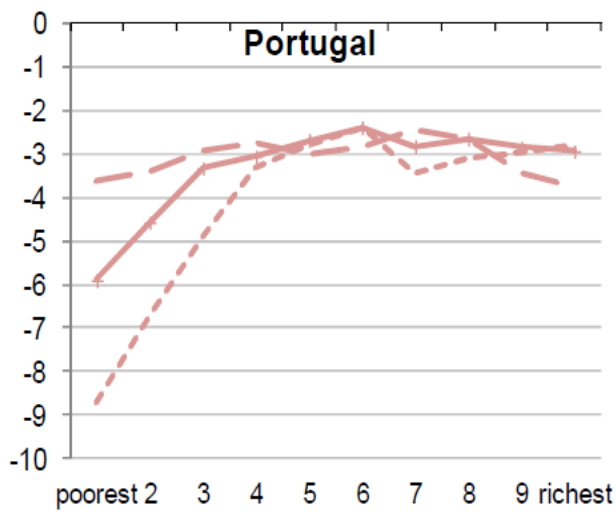
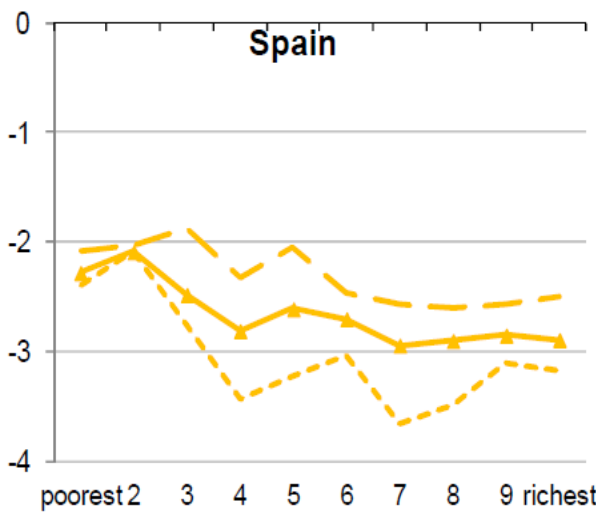
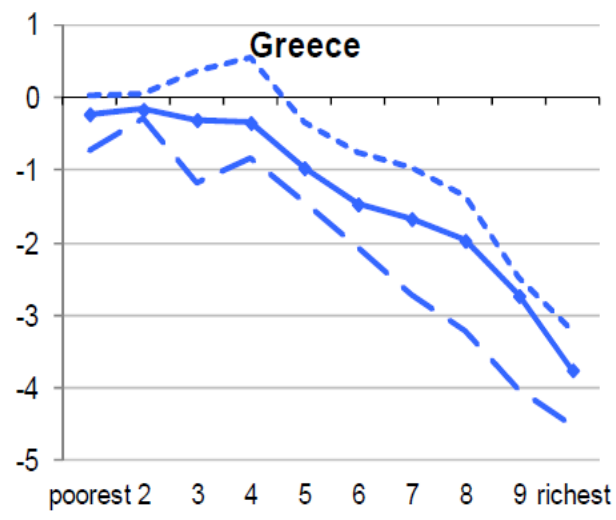
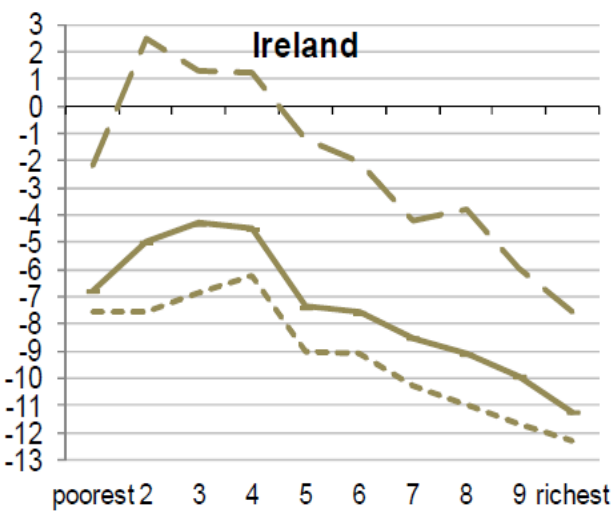
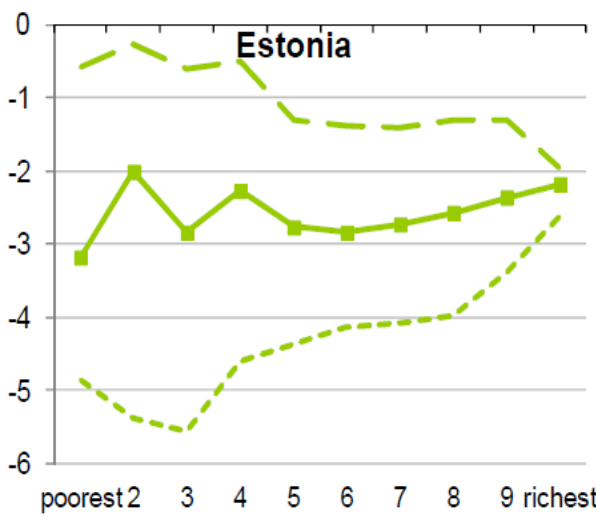
- VAT 18 > 20% +1,2% r
- Increase of min. level of SSC +1,0% r
- Alco & tobacco excise +0,6% r
- Electricity & fuel excise +0,3% n
- Unempl. insurance tax (+2,2pp)
- Suspension of contrib. to II p. pillar

EC Research Note 2/2011

“The distributional effects of austerity measures:
a comparison of six EU countries”

(EUROMOD)

Figure 6 Percentage change in household disposable income due to austerity measures: by type of household

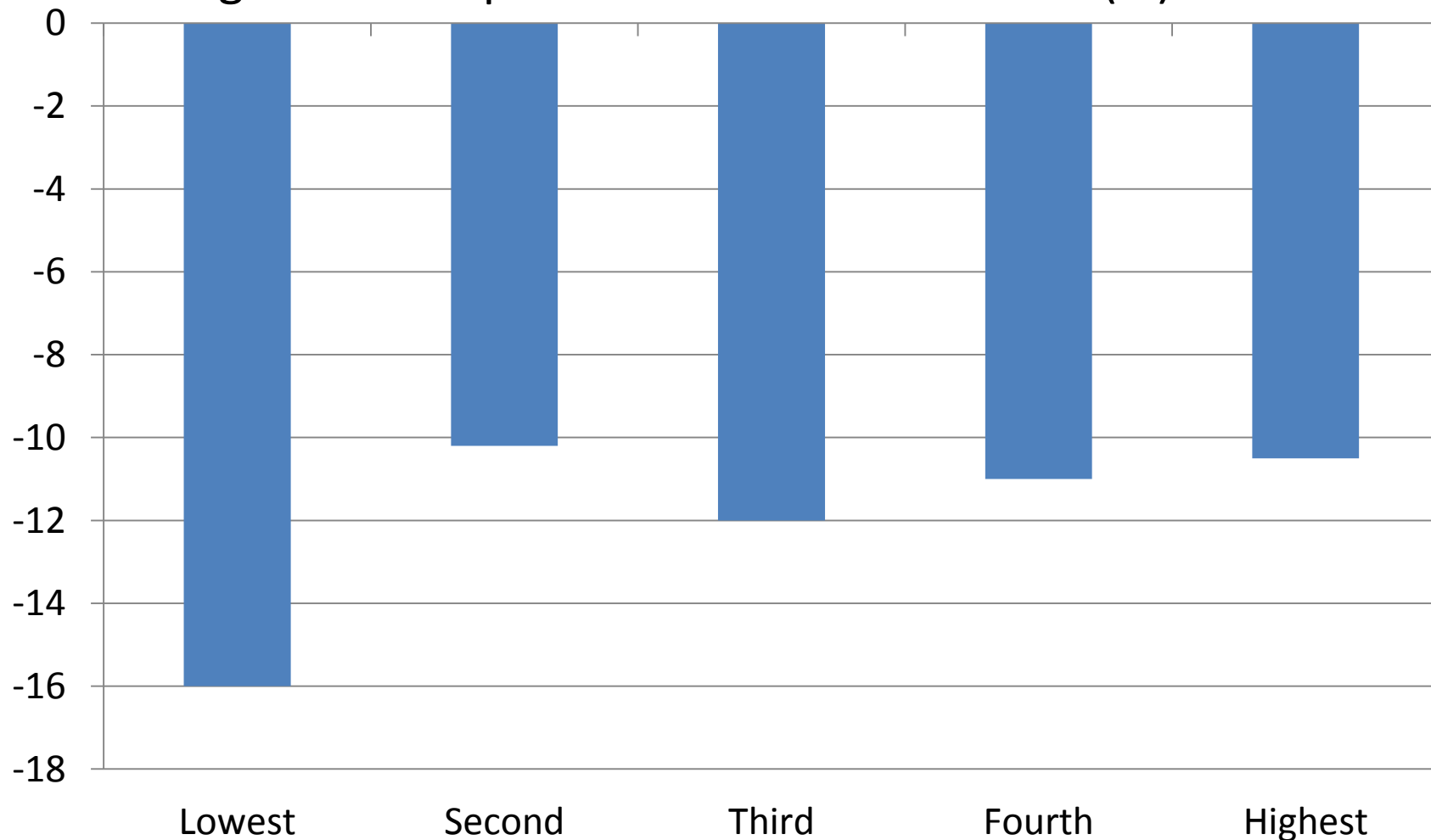


no VAT!

— All - - - With children — With elderly people

OECD: incomes at bottom hit hardest

Real change of HH disposable income 2008–2010 (%)



OECD (2007 > 2010):

- Share of pop in abs poverty: 6,5% > 11,7%
- ... among HH w/children: 9,4% > 18,1%
- “Social policy stance is focused on self-responsibility and work incentives, and **deemphasizes the role of redistribution.**

Although these principles may result from **social choice**, the low level of short-term income support means that the poverty among those without work is among the highest in the European Union.”

Political economy of taxation

- COM, IMF, OECD – high labor taxation of **low earners**, ...
- ~~Corporate profits, cap gains, cars, bequests, gifts, (property) ...~~
- (Marginal) income tax rate $21 > 20\%$ (2015)
- Ceiling on social tax at 4x average wage
- Tax policy not a subject of free discussion

Quantitative text analysis

- Ministry of Finance of Estonia
“Strategic objectives - 2012–2015”
- HM Treasury
“Strategic objectives - 2008–2011”

Text analysis results

	HMT	EE MoF
• No of text pages	10	50
• Fair, fairness	13	0
• Welfare, well being	9	0
• Prosperity FOR ALL	5	0
• “Distributional issues”	27	0