Special Report

The Forbes Tax Misery Index

Jack Anderson 03.20.08, 5:00 PM ET
Forbes Magazine dated April 07, 2008

Reducing the entrepreneurial tax load has become sport for some emerging economies. Asia's biggest nations, however, continue to be standoffs.

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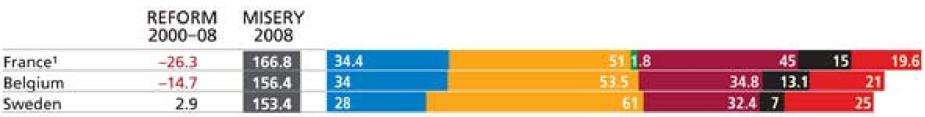
The latest Forbes Misery & Reform Index shows substantial movement toward tax cuts since 2000, but with room to go. Just how much room exists at the low end of the tax burden is shown this year in the leapfrogging of Qatar to prizewinning position on our list. With a planned major reduction in its only significant levy, on corporate income, the Persian Gulf state will best nearby Dubai as an enticing spot for entrepreneurial wealth creation. Both will now best longtime low-tax champion Hong Kong--despite that territory's admirable round of one-time levy reductions in its latest budget.

The Misery measure annually sums up the top rates faced by a successful enterprise not enjoying special tax favors. We think it is the most relevant among several useful ways of analyzing the investing climate. **More ...**

2008 Tax Misery & Reform Index

The misery score is the sum of the taxes shown in the colored bars, at the highest marginal percentage in each locale. It is our best proxy for evaluating whether policy attracts or repels capital and talent. The countries at the top of the chart impose the harshest taxes while those at the bottom are the most tax friendly. The Reform column reflects a reduction in misery (a negative number highlighted in red) or an increase in misery since we began tracking. In most of the world local governments are usually funded from property taxes, which aren't part of the Misery Index.



See all 66 countries

Tax Burden & Spending

This table takes into account the total taxes imposed by a country at all levels, national and local, as a share of GDP. It includes as well overall government spending at all levels of government, which in all countries is greater than the current tax burden. The resulting deficits are covered by public debt repaid through future taxes, hidden taxes not reported, profits from state-owned monopolies, and the privatization and sale of government assets. This breakdown is available only for OECD member countries (smaller than our Misery set) and uses the latest official 2007 data from the OECD for the year 2006.

See all 30 countries

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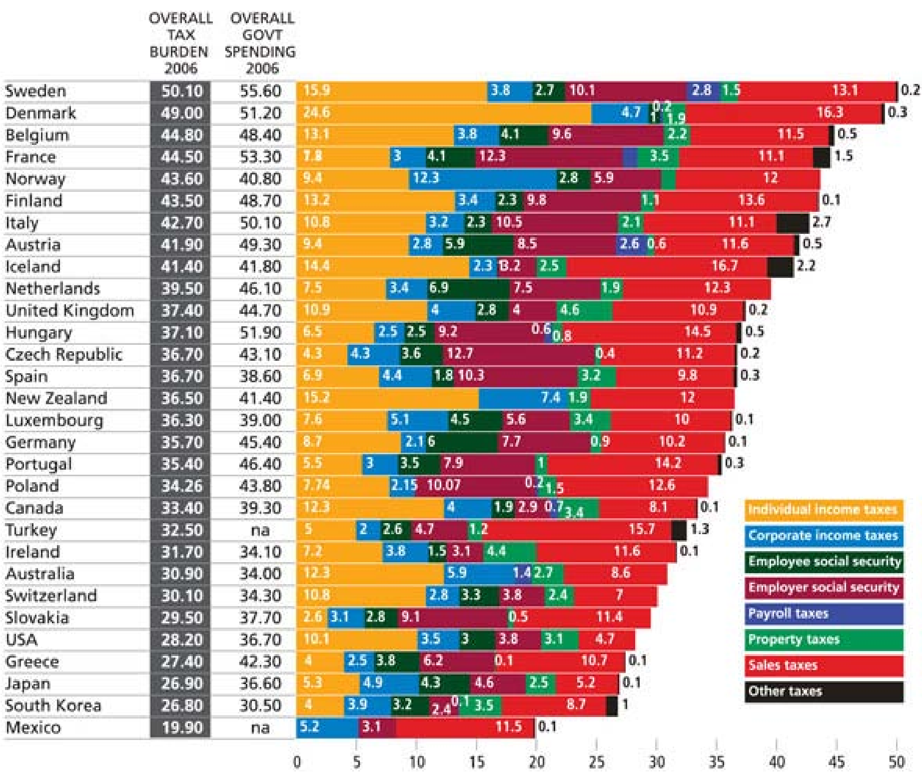

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A Play for the Low End

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Perhaps the greatest ferment on this front today is in the Gulf, where various governments are trying to broaden their economies beyond today's oil wealth. The looming action by Qatari authorities may have been triggered by discussion of tax at the 2007 FORBES CEO Middle East Forum in Doha. Other states in the region also are jockeying to try to gain or protect an edge.

By The Numbers: Most- and Least-Taxed Nations

The tax competition today is truly global. The 2008 index highlights the stable (and again lower) taxes of Asia while noting the "flat tax" revolutions of central Europe, the Balkans and Russia. Other notable reformers this year are Vietnam, with an eight-point improvement from cutting both personal and corporate top rates; Romania, which lopped nearly seven points off its misery; and Australia, which cut business taxes for better than seven ticks.

Although it shows no movement in the latest year, China remains a case of special interest. As other costs rise in the world's fastest-growing big economy, the tax burden will be even more of a factor. Despite the adjacent low misery in Hong Kong and Taiwan (planning to reduce further its corporate rate to 17.5 % in the near future--we'll see how newly elected Ma Ying-jeou fares), the People's Republic is still nearly the worst tax offender. Chinese officials protested this placement last year after their own *China Daily* editorialists said, "FORBES has a point." Yet last year we showed eight points of reform in China, and sure enough in 2007 the total Chinese tax revenue increased by more than 30%, substantially greater than the growth in GDP.

Comparing the Misery Index of today to that of our first swing in 2000 (a change reflected in the Reform column), all but a handful of countries in the index have got better for entrepreneurs. France shows an impressive reduction, but more work needs to be done. The same holds true for much of Europe and a few places that are fighting to emerge as powerhouses, such as Turkey, Mexico, Slovakia and Israel. The U.S. awaits more reform, especially in high-tax jurisdictions like New York City. The bad news for the countries at the top of the index (mostly in Continental Europe): more misery for the most miserable. The increases are generally coming in individual income taxes and the social security taxes supporting a social system strained because of government inefficiencies and a demographic wave of retirees. Asia generally lacks the social security tax problem, with China as the exception.

Asia-Pacific's picture is broadly favorable: Most jurisdictions are considering further reform; Hong Kong and Singapore, the region's stars, are continuing their competition through rebates, primarily. By contrast, India and Japan retain the second- and third-highest corporate tax rates in the world. Again, these are the top rates, and in certain countries there are ceilings on some levies such as social taxes, but in many countries the new trend is to eliminate these ceilings. Entrepreneurs will want to dig deeper into this analysis online. Although local taxes are not generally considered in the Misery Index, except for Germany, the U.S. and Canada, where they are particularly important, a separate study shows that this burden tends to track the relative national misery.

Future tax loads are a function of public spending patterns. For a glimpse of that picture, at least for members of the OECD industrialized-nations club (Asia as yet has few members), see the accompanying Overall Tax Burden & Spending table *(below)*. The trend here is not as encouraging as current misery reductions.

By The Numbers: Most- and Least-Taxed Nations

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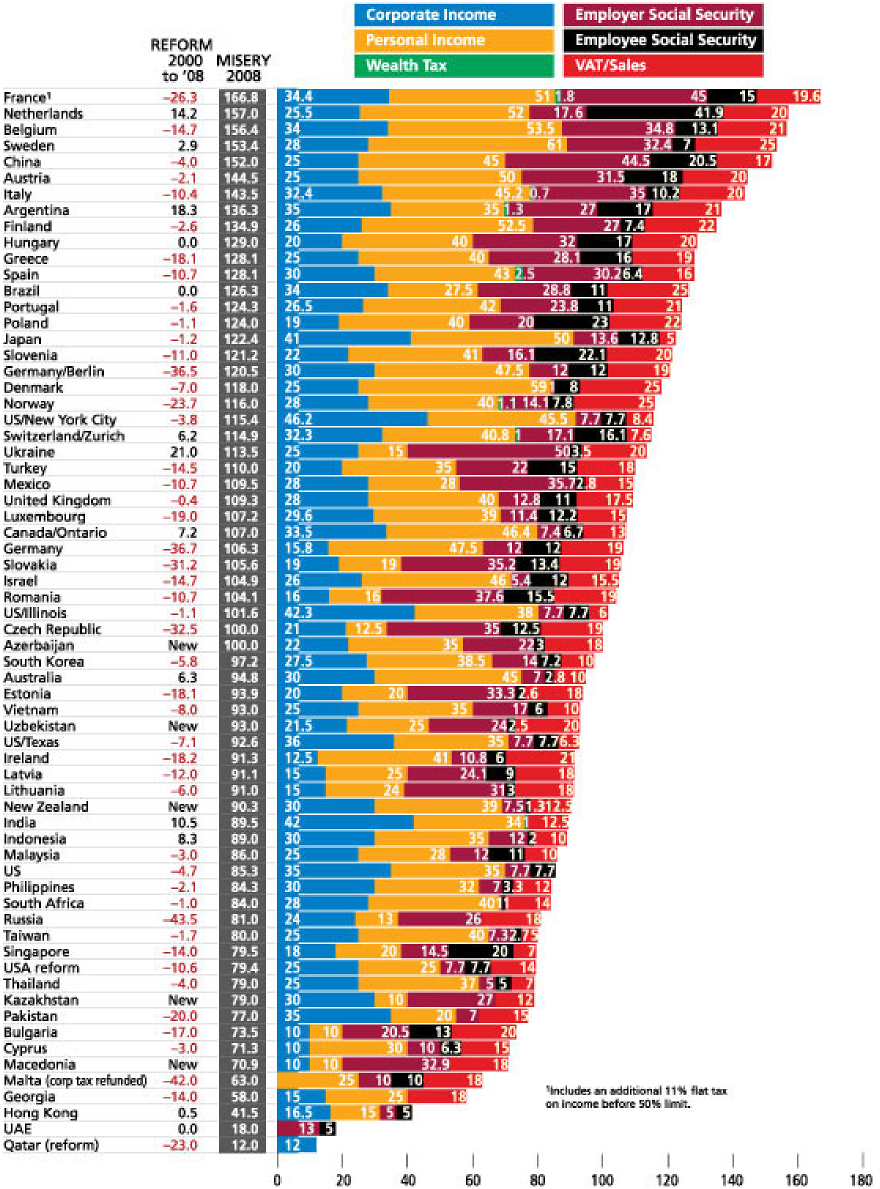

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