The prospects of budget revenue in the aspect of optimal tax burden

Abuselidze, George

28 October 2011

Online at https://mpra.ub.uni-muenchen.de/85634/
MPRA Paper No. 85634, posted 02 Apr 2018 17:13 UTC
The prospects of budget revenue in the aspect of optimal tax burden

George Abuselidze

Batumi Shota Rustaveli State University, Ninoshvili str.35, Georgia
e-mail abuseri@mail.ru

Abstract. Creation of optimal tax and budget systems is one of the difficult problems of economic science. One of the most important areas of tax reform is to develop a tax code in the aspect of optimal tax gravity. The new tax code - a step to improvement, since a number of reduced taxes and simplified tax system at the same time. In order to once and for all ended the confrontation between the Government of the Infinite and Taxpayer, resolved the problem of budget revenues, was a powerful national economy, it is necessary to develop a tax code so that its weight was exactly 38.2%, which we call the "golden stake" (and created a graph (curve)) - the name of G. Abuselidze.

Keywords: finance, state budget, tax policy, tax burden.

At present special attention is devoted to macroeconomic stabilization, the main indicators of which are taxes and budget. They are not only associated, but determine each other and make dialectical unity as well: on the one hand, taxes are main source of the budget revenue, and on the other hand, the level of tax revenue significantly depends on the structure and the direction of the budget expenditures, efficiency of its utilization.

It is well known that social-economic level of the country is highly determined by improvement of financial field, implementation of which would be impossible without optimal and reasonable tax policy. Yet there is no doubt that optimal tax system development and implementation is extremely difficult problem.

Therefore, creation of optimal tax and budget system is one of the most difficult problems of economics. Tax and budget system must be developed so that private entrepreneurial activity will not be depressed by the increase of budget revenue. Optimality of tax and budget policy is defined by transparency and impartiality of its scope in budget formation and successful regeneration of revenue, utilizing them in the purpose of stabilization of economy and implementation of state interests in the future.

Since earliest times, many famous scientific economists, including Nobel Prize winners, moved into front line the question of decreasing tax burden in the country that would encourage economic activity and increase tax revenue of the budget.

Although foreign experience witnesses, that economy is not effective in conditions of too liberal or too heavy tax load, correct calculation of tax load is very important.

According to the tax theory of well known American economist A. Laffer and supply-oriented theory of his followers – M. Burns and G. Stein, driving force of economy is the interest of business owners and increase of tax rates to specified level will cause growth of revenue, but its further increase is economically unjustified, whatever the motivation is. Beyond this limit (the so-called critical area) revenue starts to diminish, because taxes burden the business. This view is known as Laffer Effect and is used as a proof that decrease of tax rates finally results in increase of total tax contribution.

Foreign researches performed in this respect reveal that while taking into account time factor it is very importance, whether average single tax increases or decreases.

Eugenie Balatsky introduces the term “aftereffect” according to which rising of average single tax upper the concrete value causes reduction of budget revenues several years later. For this effect
A. Dagaev uses the term of tax “hysteresis”, as Laffer effect exhibits only after several years. That is why words order – Laffer effect with tax “hysteresis”, or Laffer effect with aftereffect is correct.

According to the economic theory of supply with the view of resolving the problem of country’s economy tax decrease is necessary. With low tax rates business owners have opportunity to accumulate, which provides complete utilization of business potential and increase of gross domestic product of the country.

Researches performed in respect to the countries of post-soviet capitalism revealed principal potential of existence of Laffer effect. It is not less important, that many economists enjoying world recognition put a question of reduction of tax load just in respect of such countries (ex., Nobel prize winner in Economic, Professor Gary Becker towards Georgia and Harvard University Professor Jeffrey Sachs towards Ukraine). As they consider, reduction of tax load promotes growth of economic activity and growth of budget revenues. It should be necessarily remarked that reduction of the rates of some kinds of taxes (what naturally, will be expressed through reduction of average single tax) causes growth of budget revenues in Georgia.

Economy of post-soviet capitalism countries, in contract to economy of the other countries has one typical important feature: great reserve of unloaded production facilities, what from its side gives potential of significant expansion of production without big investments, what presents a precondition for appearance of Laffer effect.

For the countries being in the process of transformation of post-soviet economy it is very important that reduction of tax rates for the purpose of reduction of tax load is not limited with stimulation of supply, as it simultaneously promotes stimulation of demand as well. This approach offered by us is called “Laffer-Keynes synthesis”, which makes a methodological basis for so called tax therapy promoting development of post-soviet capitalist countries.

According to Keynesian approach, reduction of tax rates causes growth of consumption: increase of consumers expenditure in the sort-time period causes growth of goods and service demand, i.e. expansion of production and job growth; besides, decrease of reserves caused with growth of consumption sharpens competition between investors, what finally causes rise of interest rate, consequently prevents domestic investments and stimulates foreign capital importation. For developed countries economy such an effect is naturally negative.

As for economy being in the process of post-soviet transformation, it is evidently desired: first of all, lessening of tax load promotes release of the sums needed for loading of production facilities. Besides, for the purpose of production of competitive products in terms of out-of-date equipment and technology just foreign investments are needed.

A part of economists prejudice correctness of above mentioned postulates of theory of supply. For example, G. Mankiw considers with theory to such practical extent that in his well-known book “Principles of Economics”, he uses the episode, when in 80s of XX century a group of economists (including Laffer) recommended to the presidential candidate R. Reagan to reduce income profit for the purpose of economic activation and increase of tax revenues, for illustration of “charlatan and eccentric” economists.

We must note that in our opinion acute reduction of tax burden is not a cure and not always leads to growth of the tax base and the budget revenue.

Authors of another approach consider decrease of tax rates as a salvation from budget deficit. Professors from Ohio University of the USA Dowl Mallaway and Richard Vedder came to a conclusion that mean rates of federal taxes and deficit in federal budget are actually correlated. The higher tax rates the higher budget deficit is. Using the method of complex analysis they found that tax increase by 1 USD results in 1,58 USD growth of government expenditure, which means 0.58USD growth of deficit.

---

4 Гисаев А. Б. Налоги и экономический рост: теории и эмпирические оценки. М., 203, С.87
Although tax increase seems to be the easiest way of elimination or reduction of budget deficit, but actually it is not true.

Therefore, with the view of elimination of budget deficit there is no need in higher tax rates or introduction of new taxes. Considering regional features and specific tasks, it is reasonable to differentiate tax rules, profit rates and objects of taxation.

In gross domestic product incomes gained from taxes is various in the different countries. For example, in Sweden it equals 50%, in Denmark – 46.6%, in New Zeeland – 45%, in France – 39%, in Germany – 33%, in Great Britain – 31%, in Canada – 30%, in Japan – 29%, in Australia – 28%, in the USA – 27%, in the CIS countries – averagely 25-27%.

Sorrow, we must say that XX and XXI centuries in Georgia are unprecedented paradox: taxes paid by a legal entity (company or organization) whose income is considerably smaller than the subjects’ living wage, as well as the required amount of tax. This is happening against the background of the state can not provide a significant portion of the population, development and manufacturing employment: this is also unprecedented in terms of the directive - the verdict is against the taxpayer: "I have to pay! If you do not pay - not exist! "By this directive is the one who has failed to provide meaningful, normative and moral state - tax policy - implementation.

Unfortunately, most of the authors do not pay attention to the question of different tax regimes and rates influence on macroeconomic balance and employment level. However, we disagree with the Laffer-Keynes theory postulates, considering that introduction of optimal mean tax rates only is not able to increase employment level, initiate establishment of a new balance and mobilization of maximal tax revenue in the budget.

In fact, the conditions can be regarded as optimal tax burden, when favorable economic environment is achieved for better economic functioning and business activities of the country are extended. It means that taxes must be optimal both for the State as well as for individual business owners. Such is a condition, when both budget revenue and private investments are increasing at the same time.

Then I think the fair will be set for approval - the justification for the amount of fees will be good and best for the country: what should be public and the government's approach to the solution of this problem.

Besides, the aim of tax reforms implemented in developed countries is determination of tax rate optimum, which means to work out tax policy encouraging business development and increasing budget revenue.

After all of the foregoing, it will be to formulate a valid opinion of cargo (in burden), which exists in any economy. "The tax burden in the economy is the financial (resource) burden (burden), which will push the economy to the legal sector as a collective consumption good production for the state's coercive redistribution of national income, as provided by law to collect the Tax due. It is usually higher than the optimum size of development is characterized by a trend.

We belong to the group, which considers establishment of the optimal tax burden as the most realistic and effective way for correct tax policy formation. The only difference is that this is possible only if based on mathematical truth.

Therefore, for the approval of all above mentioned, draw a straight line ox and take a point a (see the chart).

---

5 Balatsky E.V. Analysis of influence of tax load on economic development by means of production-institution functions. Forecasting problems. 2003(2), p.15

Write the chart as equals:

\[
\frac{x}{a} = \frac{a}{x - a}
\]  \hspace{1cm} (1)

Where \( X \) is maximum tax rate – 100%,
\( a \) – maximum tax revenue of the budget,
\( x-a \) – optimal tax rate.

Equals we introduced may seem strange and ridiculous, as actually seems strange that “ratio” of the whole section to its part is the same as “ratio” of this part to whole section minus this part. But let us continue and write the equals as quadratic equation:

\[
x^2 - ax = a^2
\]  \hspace{1cm} (2)

To check correctness put the answer in the formula (2).

Thus, optimal tax rate is

\[x-a=100-61.8=38.2%\]

If we put all this on ordinate axis and compare to Laffer’s conception, we will get the following picture as indicated in Fig. 1.

Thus, in case of taxation with this rate – 38.2%, instead of Laffer rate – 50%, budget revenue will increase and taxpayer will get the source, which allows him to extend the business and create new jobs that eventually reflect on economic development of the country.

This study carried out in Georgia, is presented in my thesis, where we named this rate (38.2%) “The Golden Rate”, and the chart we compiled by means of the triangle, we called after G. Abuselidze, which can be expressed as indicated in Fig. 2.

Based on the abovementioned, we can conclude: if we want to put an end to the confrontation between the government and business owners, to develop production, to settle the problem of the budget revenue and, eventually, create powerful economy, we need to elaborate the Tax Code, with its burden equal to exactly 38.2%\(^7\).

\(^7\) Abuselidze G. Peculiarities of formation and functioning of Georgian budget system in transient period, Author's abstract of dissertation, Tbilisi, 2005, p.16.
Figure 1. Tax burden

Figure 2. Tax burden
References
12. Дагаев А. А. Инвестиции и налоговая политика (контуры обновляющейся парадигмы). Экономист. 1995 (1).
13. Дагаев А. А. Приведет ли снижение налогов к увеличению инвестиций. Мировая экономика и международные отношения. 2001 (1).