2018 International Tax Competitiveness Index

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Executive Summary

There are different ways to assess and compare global tax systems. A common method is to measure how much countries collect in taxes relative to the size of their economy—in other words, the burden of taxation. While this is a useful measure, it does not tell us how well a nation taxes, or the structure of its tax system. Does the tax system raise a sufficient amount of revenue to fund public services in an economically efficient manner, or is it a complex tax system that causes considerable economic distortions?

The Tax Foundation's 2018 *International Tax Competitiveness Index* is a tool for helping citizens and their government leaders answer those questions and design reforms to make their tax system more conducive to economic growth. The *Index* draws upon more than 40 different factors to rank the economic quality of the tax systems of the 35 nations within the Organisation for Economic Co-operation and Development (OECD). The *Index* is comprehensive in its scope, analyzing the five major areas of a nation's tax system: the corporate income tax, personal income tax, consumption taxes, property taxes, and international tax provisions.

Countries should continually evaluate how their tax policies impact growth. A well-designed tax code is easy for taxpayers to comply with and can promote economic development while raising sufficient revenue for a government's priorities. Poorly structured tax systems can be costly, distort economic decision-making, and cause lasting damage.

A competitive tax code minimizes the impact that tax rates have on the decisions of workers and businesses. In today's globalized world, businesses can choose to invest in any number of countries to find the highest rate of return. If a country's tax rates are too high, they will drive investment and jobs elsewhere, leading to slower economic growth. In addition, taxes that are difficult to comply with will lead to tax avoidance.

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Additionally, a tax code should not pick winners or losers. It should not punish or give special treatment to one type of activity versus another. This means that taxes shouldn't favor consumption over saving, as often happens with investment taxes and wealth taxes. This also means there should be few or no targeted tax breaks for specific activities performed by businesses or individuals.

Some countries perform very well in some of these areas while failing in others. Accounting for these differences, the *Index* shows why some countries, like France and Italy, rank at the bottom with the least competitive tax systems, while others like Estonia and Latvia rank the best with the most competitive tax systems.

In this fifth edition of the *Index*, for 2018, Belgium and the United States saw the largest improvements over their prior year rankings. Belgium advanced six places to rank 19th and the U.S. advanced four places to rank 24th. Both countries recently adopted significant tax reform packages. Denmark and Japan both fell three places, to 21st and 26th, respectively, after being surpassed by other countries that have improved their tax codes.

Many countries are in the process of addressing weaknesses in their tax codes to improve their competitiveness and develop their potential for future economic growth. The *Index* provides a road map for each of the 35 OECD countries to make their tax systems more competitive.

2018 Rankings

For the fifth year in a row, Estonia has the best tax code in the OECD. Its top score is driven by four positive features of its tax code. First, it has a 20 percent tax rate on corporate income that is only applied to distributed profits. Second, it has a flat 20 percent tax on individual income that does not apply to personal dividend income. Third, its property tax applies only to the value of land, rather than to the value of real property or capital. Finally, it has a territorial tax system that exempts 100 percent of foreign profits earned by domestic corporations from domestic taxation, with few restrictions.

While Estonia's tax system is the most competitive in the OECD, the other top countries' tax systems receive high scores due to excellence in one or more of the major tax categories. Latvia, which recently adopted the Estonian system for corporate taxation, also has a relatively efficient system for taxing labor. New Zealand has a relatively flat, low-rate individual income tax that also exempts capital gains (with a combined top rate of 33 percent), a well-structured property tax, and a broad-based value-added tax. Switzerland has a relatively low corporate tax rate (21.1 percent), a low, broad-based consumption tax, and a relatively flat individual income tax that exempts capital gains from taxation. Sweden has a corporate income tax rate of 22 percent, below the OECD average of 23.9 percent, no estate or wealth taxes, and a well-structured value-added tax and individual income tax.

For the fifth year in a row, France has the least competitive tax system in the OECD. It has one of the highest corporate income tax rates in the OECD (34.4 percent), high property taxes, an annual net wealth tax, a financial transaction tax, and an estate tax. France also has high, progressive, individual income taxes that apply to both dividend and capital gains income.

In general, countries that rank poorly on the *ITCI* levy relatively high marginal tax rates on corporate income. The five countries at the bottom of the rankings all have higher than average corporate tax rates, except for Poland at 19 percent. In addition, all five countries have high consumption taxes, with rates of 20 percent or higher, except for Chile at 19 percent.

TABLE 1.

2018 *International Tax Competitiveness Index* Rankings

Country	Overall Rank	Overall Score	Corporate Tax Rank	Individual Taxes Rank	Consumption Taxes Rank	Property Taxes Rank	International Tax Rules Rank
Estonia	**1**	**100.0**	1	1	9	1	6
Latvia	**2**	**86.0**	2	2	27	6	5
New Zealand	**3**	**83.0**	18	3	6	3	15
Luxembourg	**4**	**80.5**	21	17	2	18	1
Netherlands	**5**	**77.5**	19	8	12	10	3
Switzerland	**6**	**77.0**	6	9	1	34	8
Sweden	**7**	**75.0**	7	20	16	7	7
Australia	**8**	**72.2**	27	19	7	4	17
Czech Republic	**9**	**69.6**	8	4	33	13	9
Austria	**10**	**69.6**	15	21	10	9	13
Slovak Republic	**11**	**69.4**	10	6	32	2	27
Turkey	**12**	**68.8**	17	5	24	17	10
Hungary	**13**	**68.4**	3	15	34	26	2
Finland	**14**	**67.7**	5	27	14	11	18
Norway	**15**	**66.2**	13	11	18	24	14
Germany	**16**	**65.3**	24	28	11	14	11
Korea	**17**	**64.4**	28	10	5	25	31
Canada	**18**	**64.0**	22	23	8	20	22
Belgium	**19**	**63.8**	23	7	25	23	12
Ireland	**20**	**63.7**	4	33	23	12	21
Denmark	**21**	**63.7**	14	30	17	8	23
Slovenia	**22**	**63.6**	12	12	28	21	16
United Kingdom	**23**	**63.1**	16	24	22	30	4
United States	**24**	**61.5**	20	26	4	28	32
Iceland	**25**	**60.2**	11	31	19	22	20
Japan	**26**	**59.5**	35	25	3	29	25
Spain	**27**	**57.4**	26	18	15	31	19
Mexico	**28**	**57.2**	31	13	26	5	34
Greece	**29**	**51.9**	25	14	30	27	29
Israel	**30**	**51.7**	29	35	13	15	33
Chile	**31**	**48.3**	30	22	29	16	35
Portugal	**32**	**48.2**	33	29	31	19	28
Poland	**33**	**47.7**	9	16	35	32	30
Italy	**34**	**46.9**	32	32	20	33	26
France	**35**	**41.4**	34	34	21	35	24

Notable Changes from Last Year

Belgium

Belgium's ranking improved from 25th to 19th after adopting a significant tax reform package that will progressively reduce its statutory income tax rate over the next several years. For 2018, the combined corporate income tax rate is 29.6 percent, a reduction from 34 percent in 2017. The participation exemption was also increased from 95 percent to 100 percent.

Compliance time for consumption taxes fell by 25 hours from 100 in 2017 to 75 hours in 2018.

Chile

Chile amended its personal income tax and reduced its top marginal tax rate from 40 percent to 35 percent, partially flattening its rate structure. Chile improved from 33rd to 31st.

Estonia

Estonia instituted changes to its VAT and individual income tax. The threshold for the VAT was increased by 8.5 percent, from $28,571 to $74,074. Estonia remained ranked 1st overall.

Israel

Israel reduced its corporate income tax rate from 24 percent to 23 percent, but fell one place from 29th to 30th on the *Index*.

Japan

Though Japan improved compliance costs associated with its corporate income taxes, the country fell three spots on its ranking from 23rd to 26th, being passed by countries making more significant improvements to their tax systems. Compliance time associated with corporate income taxes fell from 62 hours to 38 hours, a reduction of nearly 40 percent.

Korea

Korea increased tax rates on corporate income and dividends, dropping its overall ranking from 15th in 2017 to 17th this year. The corporate income tax rate went from 24.2 percent to 27.5 percent and the rate applied to dividends increased from 37.4 percent to 40.3 percent.

Latvia

Latvia implemented a business tax reform package that matches the competitive Estonian system. Latvia now applies a corporate income tax at a rate of 20 percent to distributed corporate profits. It was already among the top five most competitive countries, and these reforms helped Latvia move to 2nd place behind Estonia.

Luxembourg

Luxembourg replaced a previously repealed patent box with an 80 percent exemption on income from patents, software, and other intellectual property. Luxembourg maintained its ranking of 4th on the *Index*.

Mexico

Though compliance time still remains relatively high at 102 hours, Mexico reduced the time necessary to comply with corporate taxes by 16 percent, down from 122 hours. Still, Mexico fell one place from 27th to 28th on the *Index*.

New Zealand

New Zealand fell to 3rd place on the *Index* from 2nd place last year. Compliance time connected to consumption taxes did fall from 59 to 47 hours.

Norway

Norway improved from 17th to 15th on the *Index* after cutting its corporate tax rate from 24 percent to 23 percent.

Poland

Poland increased the top marginal tax rate on individual income from 38.8 percent to 39.9 percent. It also imposed an asset tax on certain financial institutions. It fell from 32nd to 33rd on the *Index* ranking.

United States

The United States adopted a comprehensive tax reform package that included a reduction of the corporate income tax rate from 35 percent to 21 percent, improvements to expensing of capital investments, and rate changes for the personal income tax. As a result, the U.S. improved its ranking from 28th to 24th.

TABLE 2.

Changes from Last Year

Country	2016 Rank	2016 Score	2017 Rank	2017 Score	**2018 Rank**	**2018 Score**	Change in Rank	Change in Score
Australia	8	74.17	8	75.73	**8**	**72.20**	0	-3.53
Austria	13	69.56	11	74.09	**10**	**69.59**	1	-4.50
Belgium	24	62.20	25	62.89	**19**	**63.76**	6	0.87
Canada	18	66.45	19	67.40	**18**	**64.00**	1	-3.40
Chile	31	51.55	33	50.91	**31**	**48.30**	2	-2.61
Czech Republic	14	69.45	9	74.37	**9**	**69.65**	0	-4.72
Denmark	23	64.50	18	67.78	**21**	**63.72**	-3	-4.06
Estonia	1	100.00	1	100.00	**1**	**100.00**	0	0.00
Finland	11	71.53	13	70.01	**14**	**67.75**	-1	-2.26
France	35	43.19	35	41.22	**35**	**41.42**	0	0.20
Germany	15	68.47	16	68.87	**16**	**65.33**	0	-3.55
Greece	30	51.82	30	54.63	**29**	**51.94**	1	-2.68
Hungary	19	65.51	14	69.90	**13**	**68.36**	1	-1.55
Iceland	20	65.36	24	63.23	**25**	**60.24**	-1	-2.98
Ireland	21	64.72	22	65.50	**20**	**63.75**	2	-1.75
Israel	28	54.51	29	54.83	**30**	**51.68**	-1	-3.15
Italy	34	46.44	34	49.56	**34**	**46.86**	0	-2.69
Japan	26	59.12	23	64.89	**26**	**59.51**	-3	-5.38
Korea	12	70.17	15	69.13	**17**	**64.36**	-2	-4.77
Latvia	2	86.56	3	84.72	**2**	**85.97**	1	1.24
Luxembourg	5	80.86	4	83.25	**4**	**80.46**	0	-2.80
Mexico	27	58.39	27	59.06	**28**	**57.20**	-1	-1.85
Netherlands	4	83.80	5	80.31	**5**	**77.53**	0	-2.78
New Zealand	3	84.09	2	85.08	**3**	**82.95**	-1	-2.13
Norway	17	66.61	17	68.34	**15**	**66.23**	2	-2.11
Poland	32	51.32	32	52.13	**33**	**47.70**	-1	-4.43
Portugal	33	50.14	31	52.80	**32**	**48.20**	-1	-4.60
Slovak Republic	10	71.89	10	74.18	**11**	**69.36**	-1	-4.82
Slovenia	16	67.62	20	66.76	**22**	**63.65**	-2	-3.12
Spain	25	59.46	26	61.01	**27**	**57.45**	-1	-3.56
Sweden	7	79.03	7	79.31	**7**	**75.03**	0	-4.28
Switzerland	6	79.06	6	79.53	**6**	**77.05**	0	-2.48
Turkey	9	72.43	12	73.05	**12**	**68.78**	0	-4.28
United Kingdom	22	64.67	21	66.56	**23**	**63.05**	-2	-3.51
United States	29	53.43	28	55.41	**24**	**61.49**	4	6.08

Due to some data limitations, some more recent tax changes in some countries may not be reflected in this year's version of the *International Tax Competitiveness Index*. Last year's scores published in this report can differ from previously published rankings due to both methodological changes and corrections made to previous years' data. Changes in methodology have been applied to prior years to allow consistent comparison across years.