

Chapter 11

Taxation Regime and Macroeconomic Systems' Dynamics

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ABSTRACT

In this chapter, the authors, operating the criteria of rigid and comfortable national taxation regimes, attempt to evaluate the stimulating impact of country's taxation systems on the dynamics of their macroeconomic growth and country's participation in the world trade. Therefore, the chapter presents the authors' conclusions concerning the efficiency of fiscal instruments for economic growth stimulation and external trade attractiveness increase as applied to the majority of contemporary states. Based on correlation of indices of tax reforms and trends of the modern countries macroeconomic development, the co-authors present their conclusions on the priority importance of the so-called "taxation comfort" in the context of country's positioning in the global rankings. Research proved a taxation effect in countries' macro-economic growth and external attractiveness stimulating, as well as this effect dependence on the level of countries material wellbeing and infrastructural conditions.

INTRODUCTION

Taxation regime of a country is among the most efficient and well known instruments of state regulation and state economic stimulation. It can also become the factor of attractiveness for foreign investors, for potential business partners from abroad and also for highly qualified (today often known as "the creative class") labor force. Cross-country comparison of the current tax rates and of the so-called "taxation comfort" (which metaphorically expresses the (in) convenience of all tax payments and other related formalities) today is actively used by a wide range of international and regional organizations and unions as a feature in overall cross-country comparisons and their consequent ranking. It is also part of various

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aggregates indicators and indices – global competitiveness, investment attractiveness. Additionally to that, tax rates and taxation comfort assessments are also a significant factor for a variety of forecasts, foresights and strategic plans of various levels, from micro to macro.

There exist a popular idea that today, due to intensive globalization of the world economy and wide universalization of various public-level and business practices (including, inter alia, economic and fiscal regulation), the potential of a taxation regime as a factor of economic development is overestimated since its influence on country's participation in global trade and country's capacity of compete globally is rapidly decreasing. All of the above makes the following question topical as many times before: In the 21st century is national taxation system still able to stimulate the economic growth of a country and promote its trade attractiveness abroad?

- **Research Aim:** On the basis of authors' analysis of today's most widely used indicators of taxation regimes worldwide as well as indices of the same countries' macroeconomic development we will attempt here to evaluate the impact of tax reforms on the dynamics of economic growth on the sample of the selected countries.

Taking this aim into account, we set here *the following tasks*:

- On the basis of the mentioned above correlation, the determine the potential to stimulate the macroeconomic growth in the selected countries and also to estimate their external trade attractiveness from the standpoint of national tax systems according to the international ranking "Doing Business";
- To describe the tax regime rank in "Doing Business" as a factor stimulating national exports and imports;
- To determine whether the so-called "taxation comfort" (measured through the number of tax payment per year and also time spent on all taxation-related procedures and documents) is indeed able to stimulate country's macroeconomic growth as compared to the same stimulating impact a tax rate (in the same country) may have;
- To analyze the role of tax rate as a tool in stimulation of national external trade (that is, import and export);
- To text empirically the presence (or absence) of reverse dependence between the level of country's economic development, its participation in the world trade and the level of its "taxation comfort".

LITERATURE OVERVIEW

The influence of taxation regime on the economic growth dynamics and other macroeconomic indicators of the states today is an extremely topical issue because nowadays national governments tend to reconsider both instruments and strategies related to national competitiveness increase and global repositioning in the structure of global labour distribution.

Historic features of tax policies implementation and of the related national strategies aimed at stimulation of external competitiveness of countries were well outlined by H. Pemberton (2004) while examining the most important elements of the growth policy package, focusing on the array of new taxes introduced after 1960 which sought to raise growth by increasing the government's control over

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