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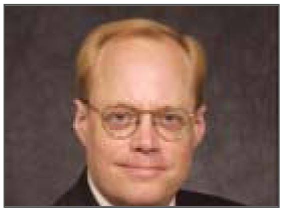

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## Higher Tax Rates Don't Always Mean Higher Collections

"Tax Cheat" (Photo credit: Sasha Y. Kimel)

How higher tax rates can yield lower collections is a good question. It's one the governments of England, France and even Greece should be asking. We could soon be asking it at home too. In Greece, large tax hikes were imposed as part of the austerity measures demanded by foreign lenders. Yet the Greek Finance Ministry has reported a 16% decrease from a year earlier, a loss of 775 million euros, or $1.05 billion in one month. See Tax Hikes Backfire, Greece's Revenues Plummet.

Although the explanation for the Greek about-face is imperfect, Finance Ministry officials have attributed the drop in revenues to a drop in consumption. Greek citizens have been hammered by pay cuts, tax hikes and pension cuts. They have cut back spending even on essential items. In fact, supermarket sales fell 500 million euros ($6763 million) in 2012.

Tax evasion is a notorious problem in Greece and some say evaders must be caught, but it is precisely the latest tax increases that have evidently fueled tax evasion. Evasion is a sensitive subject, but if you keep raising tax rates, no matter how honest and compliant people are, some will vote with their feet. Wealthy individuals and wealthy companies have resources and alternatives.

As a result, they are precisely the ones you can't push too far without an effect. They may not push back but may quietly fly the coop if it becomes too unpleasant or too expensive. Regardless of national temperament, behavior on this point seems consistent. In Britain, the number of taxpayers declaring £1 million a year in income fell by more than 60% in just one year. The recession, right?

Perhaps, but this happened to be the year millionaires faced a 50% income-tax rate up from 40% the prior year. Incredibly, the number of millionaire tax filers plunged from 16,000 in 2009-2010 to 6,000 in 2010-2011. See Britain's Missing Millionaires: Income tax Rates Rise but Revenues Fall. Britain thought tax collections would go up, yet tax collections went down.

France went even further with its 75% rate. After France's socialist President François Hollande proposed a 75% tax on earnings over one million euros, France's wealth-king Bernard Arnault applied for Belgian nationality. Ouch. See If U.S. Had 75% Tax Rate, You'd Leave Too.

Yanks have their own lower boiling point. When Facebook's Eduardo Saverin left for tax-friendly Singapore, some thought it was a great idea. See Why Denise Rich Followed Eduardo Saverin's Expat Lead. Our worldwide income tax system is becoming more controversial, yet is unlikely to change. See Expats Lobby For Tax on Residence, Not Worldwide Income.

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