TRENDS IN TAXATION OF EUROPEAN UNION MEMBER STATES

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Abstract: *Taxation was and continues to be the chapter to which the European Union can't find any solution and real measures for sustaining the integration process. Fiscality's level, very different to the 28 fellow states, can't reconcile the various requests from the fellow states. In this piece of work we will analyze the European Union fiscality level based on the recent data given at the European level. The economical worldwide crisis seems endless for the majority of the European Union states, for this reason, we propose to analyze how the fiscal changes from the past years in Romania contributed to economic recovery and what are the perspectives in this domain.*

Keywords: *taxes, taxation, European Union, fiscal measure, trends in taxation.*
JEL Classification: *H2.*

1. EU tax burden – the global place

The level of taxation, meaning the sum of taxes and compulsory actual social contributions in the 28 Member States (EU-28) amounted to 39.4 % in the GDP-weighted average in 2012, nearly 15 % of GDP over the level recorded for the USA and around 10 % above the level recorded by Japan.

The tax level in the EU is high not only compared to those two countries but also compared to other advanced economies; among the major non-European OECD members for which recent detailed tax data is available, Russia (35.6 % of GDP in 2011) and New Zealand (31.8 % of GDP in 2011) have tax ratios exceeding 30 % of GDP, while tax-to-GDP ratios for Canada, Australia and South Korea (2011 data) remained well below 30 %. As for less developed countries, they are typically characterised by relatively low tax ratios.

Compared to its EFTA neighbours, a mixed picture emerges. While Switzerland had a very low tax ratio at 27.9 % of GDP, Norway's tax-to-GDP ratio stood above the EU average and is coupled with a low expenditure-to-GDP ratio resulting in large budgetary surpluses.

Graph no. 1. Tax revenue (including social contributions), EU aggregates in selected countries, 2012 (% of GDP)

Source: DG Taxation and Customs Union and Eurostat (for European countries) and EFTA, OECD for other countries

High EU tax levels are not new, dating back essentially to the last third of the 20th century. In those years, the role of the public sector became more extensive, leading to a strong growth of tax ratios in the 1970s, and to a lesser extent also in the 1980s and early 1990s. In the late 1990s, first the Maastricht Treaty and then the Stability and Growth Pact led EU Member States to adopt a series of fiscal consolidation packages. In some Member States, the consolidation process relied primarily on restricting or scaling back primary public expenditures, in others the focus was rather on increasing taxes (in some cases temporarily). By the end of that decade, however, a number of countries took advantage of buoyant tax revenues to reduce the tax burden, through cuts in the personal and corporate income tax as well as in social contributions.

2. The government tax revenue evolution after year 2000

The overall tax-to-GDP ratio started decreasing from 2000. This trend continued until 2004. The overall tax ratio increased up to 2007 in the euro area and the EU-28. Tax revenues then decreased until 2010 in both the euro area and the EU-28.

The first effects of the global economic crisis were felt on revenues already in 2008 even though in the EU the annual growth turned negative only the following year — growth slowed down substantially during the third quarter of 2008 and turned negative in the last quarter. Tax revenues in the main tax categories displayed a corresponding pattern, with a differing fiscal lag for direct taxes, indirect taxes and social contributions (Table no.1).

Mainly measures on the expenditure side were taken by the Member States during the trough of the recession. Those countries that introduced tax cuts directed them at cutting labour taxes and, to a smaller extent, capital taxation. The overall tax ratio reached its lowest value since the beginning of the decade in 2010. Initial consolidation measures and a modest recovery of the economy stabilised tax revenues in 2010, as expenditure side saw consolidation in almost all countries in 2011 and 2012.

Table no. 1. Revenue EU- 28 (% of GDP)

	2006	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
I. Indirect taxes	13.3	13.2	12.8	12.6	13.0	13.2	13.4	13.5
VAT	6.7	6.8	6.7	6.4	6.8	6.9	6.9	6.9
II.Direct taxes	13.2	13.5	13.4	12.5	12.3	12.6	12.9	13.2
Personal income	9.0	9.2	9.3	9.2	8.9	9.0	9.3	9.4
Corporate income	3.2	3.2	2.9	2.2	2.3	24	2.4	2.5
III.Social contributions	12.0	11.9	12.1	12.5	12.3	12.3	12.4	12.6
Employers social contributions	6.8	6.8	6.9	7.1	7.0	7.0	7.0	7.1
Households socialcontributions	5.2	5.1	5.2	5.4	5.3	5.3	5.4	5.5
IV.Unlikely to be collected	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
V. Total (I+II+III-IV)	39.4	39.4	39.2	38.6	38.5	39.0	39.6	40.0

Source: Eurostat, 2015

There are many reasons why government tax revenue varies from year to year. In general, the main reasons are changes in economic activity (affecting levels of employment, sales of goods and services etc.) and in tax legislation (affecting tax rates, the tax base, thresholds, exemptions etc.) as well as changes in the level of GDP. The crisis — together with measures of fiscal policy adopted in the countries — has a strong impact on the level and composition of tax revenue in 2009–2013, although the first effects had already become visible in 2008.

It should be noted, that even when using accrual methods of recording, the effects of changes in legislation or economic.

Euro Area, as we see in the Table no. 2, is maintaining the same structure as EU member states but with a lightly large values in social contributions, especially in 2009 when the level is 14.1 % of GDP, so in 2012 and 2013 when is again over 14 %.

Comparing to the EU – 28 the ratio of VAT is in general smaller, with values between 6.4%-6.7%, comparing to 6.4%-6.9% in EU-28.

The level of taxation is mainly over the EU-28 and in last year of analysis, 2013, reaches a maximum level of 41.2 % of GDP, the biggest value since 2006, as we see in Table no. 2.

Tabel no. 2. Revenue Euro Area (% of GDP)

	2006	2007	2008	2009	2010	2011	2012	2013
I. Indirect taxes	:	:	:	:	:	:	:	:
VAT	6.6	6.7	6.5	6.4	6.6	6.6	6.7	6.7
II.Direct taxes	2.3	12.7	12.5	11.8	11.7	12.0	12.5	12.8
Personal income	8.4	8.6	8.8	8.7	8.6	8.6	9.1	9.3
Corporate income	3.1	3.2	2.8	2.1	2.2	2.3	2.4	2.5
III.Social contributions	13.6	13.4	13.7	14.1	13.9	13.9	14.2	14.3
Employers social contributions	7.7	7.7	7.8	8.0	7.9	7.9	8.0	8.0
Households socialcontributions	5.9	5.7	5.9	6.1	6.0	6.0	6.2	6.3
IV.Unlikely to be collected	0.1	0.1	0.1	0.2	0.1	0.2	0.1	0.1
V. Total (I+II+III-IV)	39.9	40.0	39.6	39.3	39.2	39.7	40.7	41.2

Source: Eurostat

3. VAT – major source of revenue - varies extremely between Member States

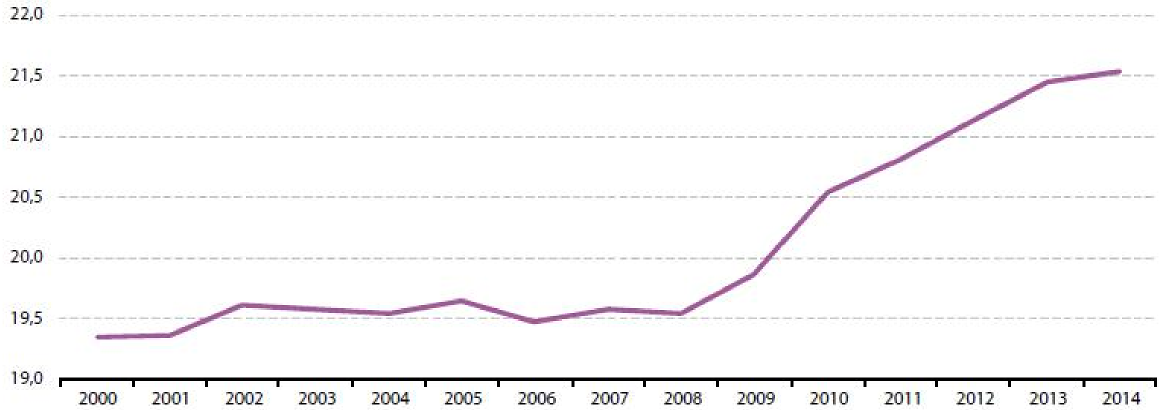
VAT typically accounts for between two-thirds and threequarters of the ITR on consumption. In Sweden, VAT represents 74 % of the ITR (the highest in the EU), compared with 56 % in Italy (the lowest EU value).

However, other non-VAT components are also significant. On average in the EU, energy taxes make up around 16 % of the ITR on consumption. These are mostly composed of excise duties on mineral oils. The next important category is tobacco and alcohol which account for 8 % of the ITR on average across the EU. These taxes are a relatively significant component of the ITR on consumption for Bulgaria and Estonia, but contribute least to the indicator in Sweden and the Netherlands.

Since 2009, VAT standard rates have been on a rising trend in most Member States. The EU average VAT standard rate increased by two percentage points — from 19.5 % in 2008 to 21.5 % in 2014 (Graph no. 2). Over this period, 20 Member States registered a standard rate rise. In 2014, the VAT standard rate has increased in France, Italy and Cyprus.

The highest VAT standard rate is found in Hungary (27 %), followed by Croatia, Denmark and Sweden (all 25 %). The lowest rates are in Luxembourg (15 %) and Malta (18 %).

The VAT Gap is defined as the difference between the theoretical VAT liability and the collections of VAT, in any country and in any year (in absolute or percentage terms). A recent report ‘Study to quantify and analyse the VAT Gap in the EU-27 Member States’, estimates that the total VAT Gap for 26 EU countries (EU-28 excluding Cyprus and Croatia) amounted to approximately Euro 193 billion in 2011, or about 1.5 % of GDP, an increase from the 1.1 % of GDP recorded in 2006.



Graph no. 2. Development of average standard VAT rate, EU-28, 2000-14
Source: Commission services

In relation to GDP, the countries with the largest gaps are Romania, Latvia, Greece and Lithuania. The study shows a marked upward trend in the VAT Gap in many Member States since 2008, as a result of the economic crisis. This was especially the case in Spain, Greece, Latvia, Ireland, Portugal and Slovakia. On average across the EU, the VAT Gap increased by 5 percentage points since the start of the economic crisis in 2008.

4. Analysis of the main taxes

Consumption taxes increased from 10.7 % of GDP in 2009 to 11.1 % of GDP in 2010 remained relatively stable to stand at 11.2 % of GDP in 2012. This was mainly due to increases in VAT rates in many Member States resulting in higher VAT revenues as well as resumed domestic demand in most Member States. Consumption taxes are mainly composed of indirect taxes and these are expected to have a shorter lag in reaction to the renewed growth in output, an assumption supported by the increase from 2009 to 2010.

In contrast to this, taxes on labour declined from 2009 (19.9 % of GDP) to 2010 (19.7 % of GDP) and then increased from 2010 onwards to exceed the 2009 level in 2012 (20.1 % of GDP). Since 2009, a number of Member States raised the top rate in the area of personal income taxation.

Direct taxes decreased strongly from 2008 (13.7 % of GDP) to 2009 (12.7 % of GDP). After a slight further decrease from 2009 to 2010, direct taxes resumed growth. From 2011 to 2012, direct taxes in the EU-28 increased from 12.8 % of GDP to 13.2 % of GDP. This could be primarily due to an increase in taxes on profits of corporations, rather than tax-raising measures — the increase in this component of direct taxes is stronger than the one in income taxes on individual or household income. During 2008 and 2009, the fall in direct taxes was more pronounced than the fall in indirect taxes.

Direct taxes have also taken longer to recover. The main components of direct taxes are taxes on the income of individuals and corporations. In the crisis, taxes on the income or profits of corporations experienced a decline in 2008 and further decreased in 2009. Despite their lower relative weight in the tax burden, the decrease in 2009 was stronger than the decrease in taxes on individual or household income (which are affected by unemployment). This reflects the higher sensitivity of corporate profits to the economic climate. The longer lag in recovery could also be partly due to taxation policies in many Member States allowing losses to be carried forward and offset against profits.

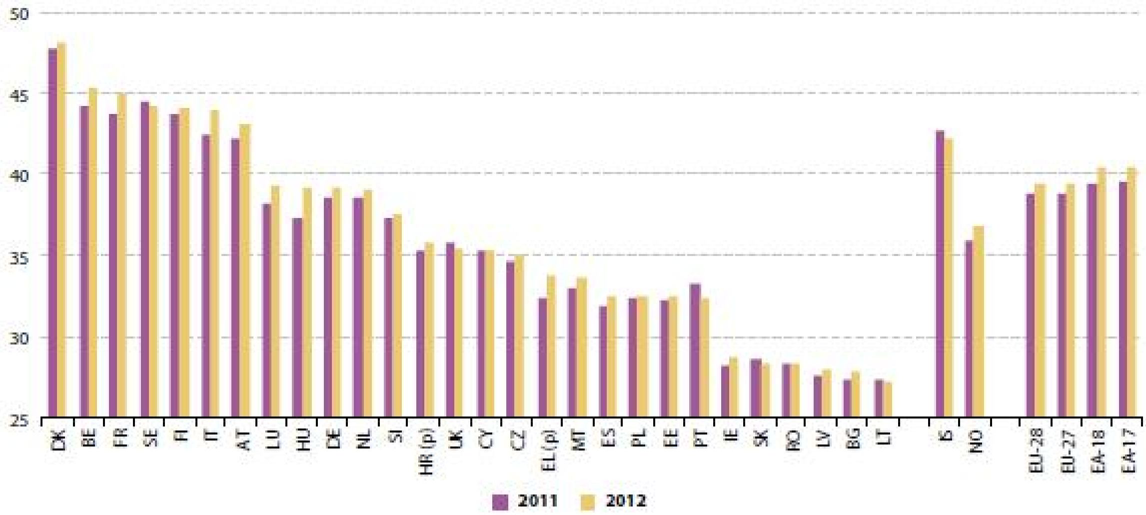
In 2012, EU-28 tax revenue (including social contributions) accounted for nearly 90% of total government revenue. As Graph no. 3 shows, the ratio of 2012 tax revenue to GDP was highest in Denmark, Belgium and France (48.1 %, 45.4 % and 45.0 %

respectively); the lowest shares were recorded in Lithuania (27.2 % of GDP), Bulgaria (27.9 % of GDP) and Latvia (27.9 % of GDP).

5. Conclusions on tax burden and the impact of fiscal changes in Romania and EU countries

Amongst the countries that joined the EU since 2004, Hungary and Slovenia had the highest tax revenue-to-GDP ratios in 2012, at 39.2 % and 35.7 % of GDP respectively. Even so, tax revenue in both countries remains lower than the EU average. It is interesting to note that the arithmetical average of the 28 EU countries is somewhat lower (at 36.3 %) than the GDP-weighted EU average (39.4 %), due to the relatively low levels of GDP (and therefore low weight) for some of the countries that have low tax revenue.

In 2012, tax revenues in percentage of GDP increased in 22 EU Member States as well as Norway, remained stable in Cyprus and decreased in six Member States: Portugal (– 0.9 % Of GDP), Slovakia and the United Kingdom (both – 0.3 % of GDP), Lithuania and Sweden (– 0.2 % of GDP) and Romania (– 0.1 % of GDP) as well as Iceland (– 0.5 % of GDP).



Graph no. 3. Tax revenue (including social contributions), 2011-12 (% of GDP)

Source: Taxation Trends in European Union, Eurostat Statistical Books, 2014.

In percentage points of GDP, the highest increases from 2011 to 2012 were recorded by Hungary (1.9 % of GDP), Italy (1.5 % of GDP), Greece (1.3 % of GDP), France (1.2 % of GDP) and Belgium (1.2 % of GDP). While Belgium, France and Italy are among the countries with a consistently high tax burden, the tax burdens of Hungary and Greece remain below the EU average.

In Hungary, an increase in both absolute VAT revenue and personal income tax revenue (after a drop in 2011 due to the introduction of a new flat-rate system) were the main reasons for the increase in the tax-to-GDP ratio.

In Greece, absolute tax revenue continued to decrease in 2012. However, the further decrease in GDP in 2012 led to an increase in the tax-to-GDP ratio. While absolute increases are noted for taxes on income and other current taxes, decreases are observed for taxes on production and imports (reflecting the negative growth in output) and actual social contributions. New taxes, for example the tax on real estate introduced in 2011, helped to contain the decline in absolute tax revenue.

Table no. 3. Revenue in Romania (% of GDP)

	2006	2007	2008	2009	2010	2011	2012	2013
I. Indirect taxes	12.7	12.5	11.8	10.8	11.9	13.0	13.2	12.8
VAT	7.9	8.0	7.8	6.5	7.5	8.6	8.4	8.3
II.Direct taxes	6.0	6.7	6.6	6.4	6.0	6.1	6.0	5.9
Personal income	2.8	3.2	3.3	3.4	3.2	3.3	3.4	3.4
Corporate income	2.8	3.0	2.9	2.6	2.3	2.3	2.1	2.0
III.Social contributions	9.7	9.8	9.2	9.3	8.5	9.0	8.8	8.6
Employers social contributions	6.3	6.2	5.9	5.8	5.4	5.6	5.6	5.6
Households socialcontributions	3.4	3.6	3.3	3.5	3.1	3.4	3.2	3.0
IV.Unlikely to be collected	:	:	:	:	:	:	:	:
V. Total (I+II+III-IV)	29.0	29.6	28.3	27.2	27.1	28.1	28.1	27.4

Source: Eurostat (online data code: gov_10a_taxg), 2015

Romania has a relatively low taxation, comparing to other EU countries, as shown in Table no. 3, between 27.1 % of GDP in 2010 and a maximum level of 29.6 % in 2009. The gap between those two years is due to the impact of crisis measures, mainly of VAT changes, respective the increase of standard rate to 24% .

The main measures in our country, recent or for perspective, are concerning for example: proposal Reform Tax Code: 5 % WHT on income from dividends, 16 % in present, from 1 January 2017; exemption of reinvested profits in new technological equipment; change of calculation methodology for new start-up small enterprises income tax. The new income tax rates for start-up small enterprises that have at least 1 employee for the first 24 months from the date of creation is of 1 %. Thereafter, the rate will become 3 % from income; reduced VAT rate on the supply of foodstuffs, non-alcoholic drinks to 9 % (from standard 24 %); proposed VAT reduction rate for books and cultural services from 9 % to 5 % as of 1.1.2016; decrease of excise duty on energy products: gasoline, diesel, kerosene from January 2017; increase of the excise duties on cigarettes from RON 412.02/1 000 cigarettes from January 2016.

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