

ANALYSIS OF THE TAXATION TREND IN THE STATES OF THE EUROPEAN UNION

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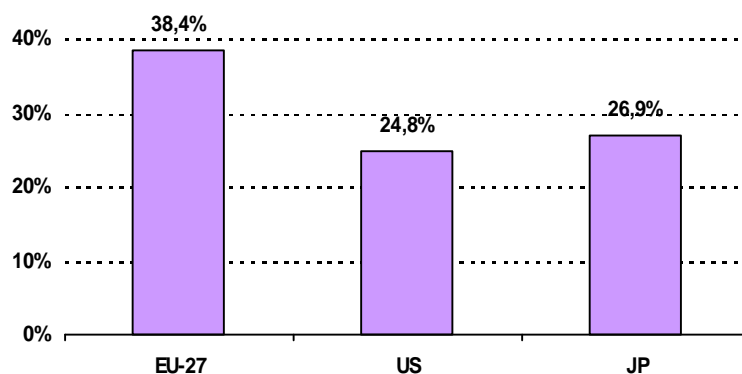
Abstract: Taxation has become the key issue of discussions at European level due to the major discrepancies between the states of the European Union. Its analysis is therefore required, especially as most of the anti-crisis measures in the recent years have focused on this field. It should be known better because we should not just look at different indicators and compare them with those of the European Union, we must understand the policies and motivations of the analyzed values in order to learn how to take the most valuable lessons from “the European experience”.

Keywords: taxation, crisis, taxes, the EU

JEL classification: H2, H3

1. The EU - a region with high taxation

The entire European Union is an area with high taxation. In 2010, the last for which it was possible to collect complete data, the taxation rate, calculated as a percentage of the total revenues collected in the GDP across the 27 European states, reached the level of 38.4%, calculated as a weighted average. This value is up to 40% higher than the one of the U.S.A. or Japan.



Graph no 1. The taxation rate in the EU, the U.S.A. and Japan

Note: EU-27 weighted average

Source: Commission Services and Eurostat (ESA 95) (gov_a_tax_ag) for the EU, OECD (SNA2008) for the US and Japan

The EU average is generally high, not only compared to the two developed countries; among the OECD states, the non-EU ones, only New Zealand and Canada have an average taxation of over 30% of the GDP.

This high average does not prove that all the Member States have a higher taxation though, on the contrary. Overall, the differences of taxation between the European states are significant; the average taxation, including the social security contributions, records differences of over 20%, from 47.6% in Denmark, down to 27.1% in Lithuania, showing the significant differences between the EU states regarding the role of the state in the economy. More specifically, the tax burden is with 70% higher in the country with the highest tax compared to the country with the lowest one.

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As a general rule, it appears that taxation is, on average, higher in the old EU-15 states than in the 12 new Member States (NMSs) that joined after 2004, with few exceptions, Ireland and Greece, which have the lowest taxation in the EU and Portugal also which, with an increase of 0.5% in 2010, precludes Greece in the ranking.

**Table no 1. Total tax revenue (including social security contributions)
1995-2010, in % of GDP**

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
BE	43,8	44,3	44,8	45,4	45,4	45,1	45,1	45,2	44,7	44,8	44,8	44,4	43,9	44,2	43,4	43,9
BG	30,8	28,6	27,6	32,1	32,8	31,5	30,8	28,5	31,0	32,5	31,3	30,7	33,3	32,3	29,0	27,4
CZ	35,5	34,1	34,6	33,4	34,2	33,8	33,7	34,6	35,4	35,9	35,7	35,3	35,9	34,4	33,6	33,6
DK	48,8	49,2	48,9	49,3	50,1	49,4	48,5	47,9	48,0	49,0	50,8	49,5	45,9	47,8	47,7	47,6
DE	39,8	40,1	40,1	40,4	41,3	41,3	39,4	38,9	39,1	38,3	38,3	38,6	38,7	38,9	39,2	38,1
EE	36,3	34,3	34,3	34,0	32,5	31,0	30,2	31,0	30,8	30,6	30,6	30,7	31,4	31,7	35,7	34,2
IE	32,7	32,8	32,1	31,4	31,5	31,3	29,5	28,3	28,7	30,0	30,5	32,0	31,3	29,6	28,2	28,2
EL ⁽¹⁾	29,1	29,4	30,6	32,5	33,3	34,6	33,2	33,7	32,1	31,3	32,2	31,7	32,6	32,2	30,5	31,0
ES	32,1	32,6	32,7	33,4	33,9	34,1	33,7	34,2	33,9	34,7	35,9	36,8	37,1	33,0	30,7	31,9
FR	42,7	44,0	44,2	44,1	44,9	44,2	43,8	43,3	43,1	43,3	43,8	44,1	43,4	43,2	42,0	42,5
IT	39,8	41,5	43,4	42,3	42,0	41,5	41,1	40,5	41,0	40,4	40,1	41,7	42,7	42,7	42,8	42,3
CY	26,9	26,4	25,9	27,6	27,8	29,9	30,7	30,9	30,2	33,0	35,0	35,8	40,1	38,6	35,3	35,7
LV	33,2	30,8	32,1	33,7	32,0	29,7	28,9	28,6	28,6	28,6	29,2	30,6	30,6	29,2	26,7	26,3
LT	27,5	27,1	30,6	31,7	31,7	29,9	28,5	28,2	28,0	28,1	28,4	29,2	29,5	30,0	29,2	27,1
LU	37,1	37,6	39,3	39,4	38,3	39,1	39,8	39,3	38,1	37,3	37,6	35,9	35,7	35,5	37,6	37,1
HU	41,0	39,9	38,3	38,2	38,9	39,8	38,7	38,0	38,0	37,7	37,4	37,3	40,4	40,3	40,1	37,7
MT	26,8	25,4	27,5	25,6	27,3	27,9	29,7	30,6	31,1	32,6	33,7	34,0	34,8	33,8	34,3	33,3
NL	40,2	40,2	39,7	39,4	40,4	39,9	38,3	37,7	37,4	37,5	37,6	39,0	38,7	39,2	38,3	38,8
AT	41,4	42,8	44,2	44,1	43,8	43,0	44,9	43,6	43,4	43,0	42,1	41,5	41,7	42,7	42,6	42,0
PL	37,1	37,2	36,5	35,4	34,9	32,6	32,2	32,7	32,2	31,5	32,8	33,8	34,8	34,3	31,8	31,8
PT	29,5	30,2	30,2	30,3	31,0	31,1	30,9	31,5	31,7	30,6	31,5	32,3	32,8	32,8	31,0	31,5
RO	27,5	25,9	26,4	29,0	31,0	30,2	28,6	28,1	27,7	27,2	27,8	28,5	29,0	28,0	26,9	27,2
SI	39,0	37,8	36,7	37,6	37,9	37,3	37,5	37,8	38,0	38,1	38,6	38,3	37,7	37,2	37,6	38,0
SK	40,3	39,4	37,3	36,7	35,4	34,1	33,1	33,0	32,9	31,5	31,3	29,3	29,3	29,2	28,8	28,1
FI	45,7	47,1	46,4	46,3	45,9	47,2	44,8	44,7	44,1	43,5	43,9	43,8	43,0	42,9	42,6	42,1
SE	47,9	50,3	50,7	51,2	51,5	51,5	49,4	47,5	47,8	48,0	48,9	48,3	47,3	46,4	46,7	45,8
UK	34,7	34,4	34,8	35,9	36,2	36,7	36,5	34,9	34,7	35,2	36,0	36,7	36,3	37,9	34,8	35,6
NO	42,0	42,4	42,2	42,0	42,3	42,6	42,9	43,1	42,3	43,0	43,2	43,5	42,9	42,1	42,4	42,9
IS	33,3	34,3	34,6	34,4	36,8	37,1	35,3	35,2	36,7	37,8	40,6	41,4	40,5	36,6	33,8	35,0
EU-27 average																
GDP weighted	39,3	39,9	40,1	40,2	40,6	40,4	39,5	38,8	38,8	38,7	39,0	39,5	39,4	39,3	38,4	38,4
arithmetic	36,6	36,4	36,7	37,0	37,2	37,0	36,3	36,0	36,1	36,1	36,5	36,7	37,1	36,6	35,8	35,6
EA-17 average																
GDP weighted	39,7	40,4	40,8	40,7	41,2	40,9	40,0	39,5	39,5	39,2	39,4	40,0	40,0	39,6	39,0	38,9
arithmetic	36,7	36,8	37,0	37,1	37,2	37,2	36,8	36,7	36,6	36,5	36,9	37,0	37,3	36,9	36,5	36,4

(1) Date for Greece is provisional for 2003-2010

For more details see Annex A and B of the Taxation Trends Report

Source: Eurostat (online data code gov_a_tax_ag)

Date of extraction: 13.01.2012

Consistently, as the Euro zone (ZE-17) consists mostly of the old Member States, its average taxation is slightly higher than the EU - 27 average (0.5%).

The NMSs have a different structure. Thus, if the EU - 15 obtained, in roughly equal proportions, incomes from direct and indirect taxes as well as from social contributions, in the new ones there are recorded small shares of the direct taxes.

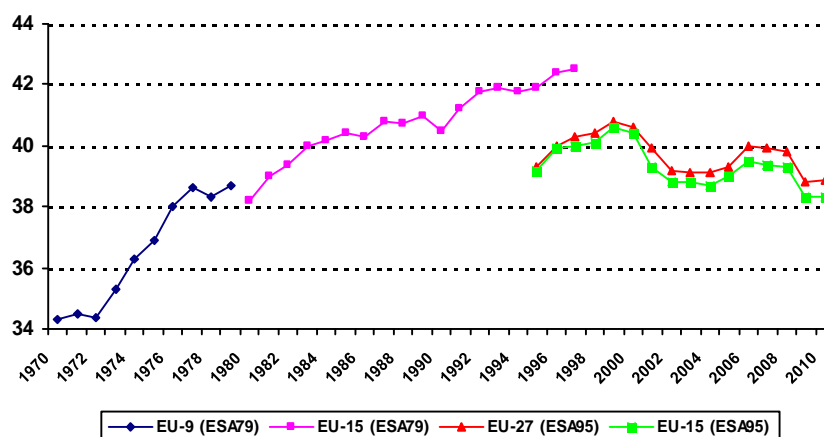
The efforts to reduce taxation, permanent after 2000, gradually declined and the reduction of taxes, almost aggressive in 2001, easily lost its importance in the years that followed, being totally abandoned in 2005. In addition, in the NMSs it has been recorded a reduction of taxation in the early 90s, steady growths being registered after this period.

The European taxation is the highest since the third decade of the twentieth century. At that time, the state intervention in the economy expanded leading to high rates of taxation in the 70s. In the late 90s, the Maastricht Treaty at first and the Stability and Growth Pact later brought the adoption of some fiscal consolidation packages. This process was based on the public spending cuts, in some Member States, and on the tax increases, sometimes temporary, in others.

2. Direct taxes at the EU level - lower in the NMSs

Taxes are traditionally divided into direct and indirect ones; the first category allows a greater redistribution of incomes and the second category is characterized by progression. Therefore, the use of direct taxation, more noticeable by the electorate, tends to be higher in the countries where the income redistribution objectives are more pronounced, which is manifested by the increased tax revenues.

In general, the NMSs have a different structure from that of the EU – 15; while the old states collect taxes (direct, indirect and social contributions) in similar proportions, the new ones often have a low share, in total, of the direct taxes, despite the major indirect tax harmonization. This is because their harmonization has not imposed their size but their legal form and their minimum level, particularly to the excise duties.



Graph no 2. Long-term trends in the overall tax ratio (including SSC) (%) 1970-2010, % of GDP

*Note: The statistical break is due to the change from ESA79 to ESA 95. All data are GDP-weighted.
Source: 1970-1994: Commission services (reproduced from 2007 edition of the report); 1995-2010: Eurostat (gov_a_tax_ag)*

Interesting differences are registered, among the old Member States as well. The Nordic states (Sweden, Denmark and Finland), for example, are mainly based on direct taxation, while some southern states (Greece and Portugal, for example), on indirect taxes.

In Denmark, most of the public spending is done from general taxation, not on the account of the social security contributions. The share of direct taxes in the total incomes is the highest in the European Union, of 29.9%, and the one of social contributions is very low, of 1.0%.

At the opposite end, there is Germany having the largest share of social contributions in the total revenues, of 15.5%, and the lowest one of direct taxes, of 11.2%, in the EU - 15, as France.

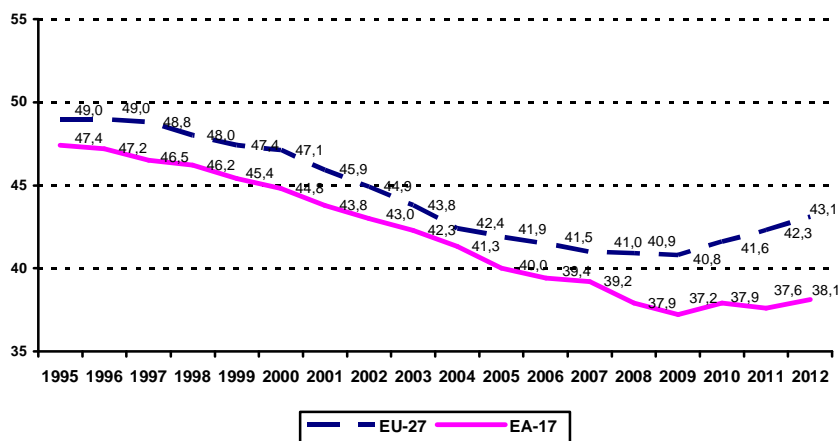
2.1 Taxation of the personal income

The EU - 27 average is of 38.1%. This varies significantly across the Union, from 10% in Bulgaria, to maximum 56.6% in Sweden (see Chart No. 3), while Denmark, which recorded the highest values by 2009 – of 59%, reduced its percentage to 55.4%.

The lowest ten values are not found in any of the old EU - 15, the highest ones being recorded, as expected, in the Nordic countries, excepting the Netherlands, which ranks third, having the largest income taxation, even though is ranked 12 in terms of general taxation.

Not surprisingly at all, the lowest values are recorded in Bulgaria, the Czech Republic, Lithuania and Romania, where taxation is generally lower.

The trend has been increasing since 2009. Every year, five to six Member States have increased their rate of taxation of the personal income and therefore, in 2012, reached the highest average in 2008 – of 38.1% (see Chart No. 3). These changes are due to the global financial crisis. Equally apparent is the increase in the EU-15 average, of 43.1% in 2012, after the minimum reached in 2009 - of 40.8%.



Graph no 3. Development of top personal income tax rate 1995-2012, in % (arithmetic average)

Source: Commission services

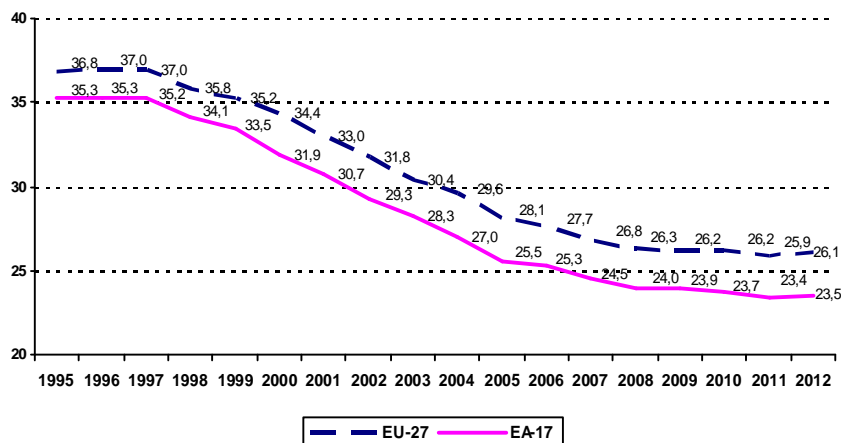
2.2 Taxation of the corporate income

From the second half of the 90s, corporate taxation has decreased significantly and continuously, from 35.3% in 1995 to 23.5% in 2012 (see Chart No. 4). But the crisis has slowed and then halted this trend.

Although the trend was of reduction, the corporate tax rates vary widely within the European Union. The adjusted rate of corporate taxation¹ varies from a minimum of 10% (Bulgaria and Cyprus) to a maximum of 36.1% in France, even though the gap between the minimum and the maximum has decreased since 1995.

As in the case of taxation of the personal income, lower values are recorded in the states with lower tax rates; the new Member States fit this profile, excepting Malta which has not changed its rate since 1995.

¹ In some states, the corporate income is overcharged through additional taxes, similar but not identical to the corporate income tax. To take account of this aspect as well, the simple rate of corporate taxation has been adjusted for comparative purposes, in case of different values being chosen the highest of them and the local tax surcharges being added, on average, to the standard rate.

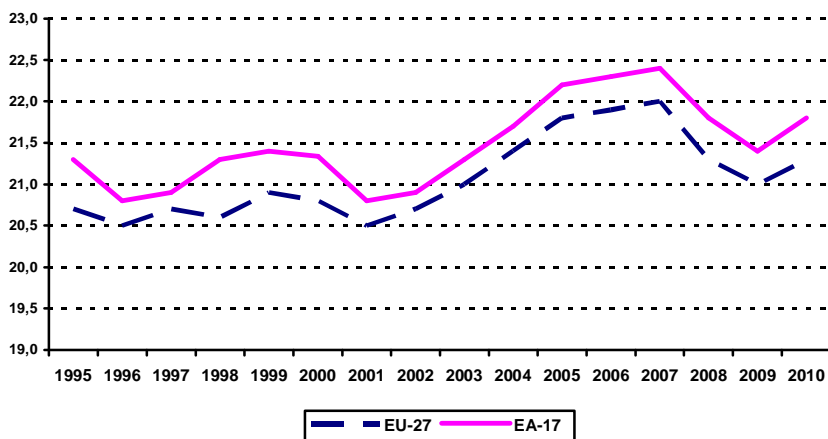


Graph no 4. Development of adjusted top statutory tax rate on corporate income 1995-2012, in % (arithmetic average)

Source: Commission services

3. Indirect taxation

The implicit tax rate, whose data are the most significant to show the tax burden¹, emphasizes that the consumption taxation, in most of the EU countries, is on an upward trend since 2001 (see Chart No 5). The arithmetic average of the EU - 25 has increased, on average, by 1.5% ever since and by 0.5% in 2005.



Graph 5: Implicit tax rate on consumption 1995-2010, in % (arithmetic averages-adjusted for missing data)

Source: Commission services

The trend is even more apparent in the small Member States, which have increased taxes up to the minimum level of the EU, in the recent years.

¹ The implicit tax rate generally shows the effective average of tax burden on different types of income or activities, respectively labor, consumption and capital, as the ratio between the income brought by the respective type of tax and its base (maximum possible). For example, for consumption, it is calculated the ratio between the total income of all the taxes on consumption and the final consumption expenditure of households.

The large Member States recorded slight decreases in consumption taxes, excepting Germany, where the VAT increased by 3% in 2007.

The growth trend is general, compared to the base year 1995, decreases being recorded only in 10 countries.

Since 2001, this has been more general, only 7 Member States recording decreases, the most notably in Greece, with - 2.5%, followed by other states with more modest reductions of up to 1%, such as Lithuania, Germany, Italy, United Kingdom and Austria.

Bulgaria, Cyprus and Romania have registered significant growths of over 5% in the period 2001-2005, which demonstrates the idea that the most significant increases have been recorded in the NMSs.

The decomposition of the implicit rate of consumption tax shows that other taxes as well, such as excise taxes (on energy, tobacco, alcohol), contribute significantly to the revenues from taxes on consumption and there are significant differences between the states, in this regard. This is because their size reflects the degree of involvement of the state in reducing pollution and the incidence of some diseases caused by smoking or drinking or simply shows the acute need for budgetary resources for the poor countries exploiting the dependencies of their own citizens.

The European taxation level is clearly high; therefore we found it necessary to be reduced in the future, although the pace will be different in each European state. It is also required the setting of some clear parameters for a common fiscal policy which to complete the older common policies (for example, the CAP – the Common Agricultural Policy) of the European Union.

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