HARMONISATION AND FISCAL COMPETITION IN THE EUROPEAN UNION

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Abstract:

Despite all efforts to harmonize the economic and political systems, the economic globalization and the intensification of capital mobility also created the conditions of a fiscal competition between the EU member states. Currently, in the European Union there is not a fully integrated European tax system, which has an impact on how the same decision of fiscal policy is transmitted at the level of each member state.

The present paper summarizes some pros/cons regarding the orientation of the fiscal harmonisation efforts in a manner allowing governments to use the fiscal policy as an instrument of public policy in their efforts to cope with the asymmetric macroeconomic shocks and the adjustment of the macroeconomic indicators.

Key words: *European Union*; *fiscal harmonisation, fiscal policy, fiscal sovereignty*, *fiscal competition*

JEL Classification: G38, F36

1. Introduction

In the context of EU's general policy, the fiscal policy is considered essential for all EU countries. Nonetheless, their fiscal independence is constrained both by the non-distorting of the competition obligation within the Single Market and the need for fitting into the Maastricht convergence criteria (1993), incorporated in the "Stability and Growth Pact (2008)" and more recently in the "Fiscal Pact" (2013), pursuing **the coordination** of the national fiscal policies to ensure a climate of stability and fiscal prudence.

In order to achieve the objectives set, through the stability and convergence projects, the Member States have expressed their intention of accepting the change of their tax systems as a result of a regulatory coordination process, aiming at tax harmonisation in compliance with the two principles of European integration: the principle of accepting all the countries' fiscal policies, under certain conditions, and the principle of subsidiarity, as vertical relations between the European institutions and the national governments, with the aim of ensuring the European Union's freedoms and protection of the single market. The extent and the limits of the fiscal harmonisation process have been the subject of often divergent opinions and debates, so that the results of this process have mostly failed to occur especially in the field of indirect taxation.

Currently, in the European Union there is not an integrated European tax system, but a junction of different national tax systems. Such diversity has made the national tax systems become sometimes generators of tax competition. In the context of the differences in the tax regimes and the tax rates level, the primary objective of fiscal policy within the EU was to avoid distortion of competition on the single European market.

Due to the processes of regionalisation and harmonisation of the economic and political systems and the manifestation of the financial crisis in recent years in the Member States, there was a series of financial imbalances that have directly affected the tax bases especially in the area of direct tax, with negative effects on government tax revenue. These circumstances have brought into discussion once again the lack of a common fiscal policy and of effective tax coordination within the European Union.

The debates and views on harmonisation and tax competition in the European Union have also been visible in the literature especially since the '90s when many experts,

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politicians and authors have expressed different opinions on the architecture of a common fiscal policy, oscillating between a centralised fiscal policy as a result of tax standardisation, including a standardisation of the tax rates (full harmonisation) or of a compatibilisation of diversity as a result of a simple coordination of the national tax systems.

According to some authors, the European Union should have the power to set and collect taxes and not only to make recommendations to the Member States on the fiscal policy measures (Trovato, 2007).

In a market economy, the tax system is one of the most important instruments of fiscal policy the state uses in the social and economic activities (Ioneci M., Marcu N., 2007).

According to other authors, the fears concerning the low tax jurisdictions and the possible side effects are not founded. On the contrary, these jurisdictions are trying to find their place domestically. In case the process were stopped by the tax harmonisation, the European Union would be less convergent than ever before (Smith 1999).

The tax competition generates responsible fiscal policies that can help increase the mobility of capital and the liberalisation of economies (Mitchell, 2002).

Furthermore, there are several points of view based on empirical studies concerning the effects of tax competition on capital mobility and international labour correlated with the income tax at a regional and national level (Bretschger and Hettich, 2002).

The methodology used in this study is based on assessments of the theory, research and interpretations of the literature and analyses of the practical activity specific to the fiscal field at national, European and international levels, on which some opinions and proposals were founded and formulated.

2. Tax harmonisation, achievements and limitations

Tax reforms in most Member States differ in scope and depth, ranging from the implementation of own tax policies by increasing or reducing the tax burden and the implementation of some elements of European fiscal policy in compliance with the EU charges or recommendations, with multiple implications both for taxpayers and decision makers.

Practice has shown that the European economic integration processes triggered the outsourcing within the Union, of some state-specific issues, including the fiscal ones whose impact can have effects on other member states or can affect the two decisive factors: ensuring community freedoms and protecting the single market.

In order to diminish these effects, together with the launch of the “European single market project” the clear focus was on the tax harmonisation that should be based on the rule of the Community policies prevalence in relation to the national ones, so that the national tax regulations are restructured and adapted as uniformly as possible, and the fiscal relations between the EU Member States rely on fiscal neutrality.

In this regard, at the Commission’s initiative, several measures were taken at different stages to promote a better coordination of the national tax systems of the Member States in order to make them compatible with the Community law and with the jurisprudence of the EU Court of Justice, mainly aiming at the elimination of discrimination and double taxation, preventing unintended cases of non-taxation and tax evasion and reducing the compliance costs entailed by including the non-residents in the provisions of several tax systems.

Although tax harmonisation at Community level was stipulated by the EU Treaties and they were initially intended as an immediate objective both for indirect taxes and direct ones, this process was implemented with difficulty, encountering a number of obstacles also due to the fact that the European Community’s and the Member States’ fiscal policy objectives were and are different. The Community aims at achieving the economic and monetary union, while the Member States aim to guarantee as immediate objective the insurance of the fiscal resources necessary to meet their national responsibility and to cover the public spending, animated by the desire to continue to use taxation as financial, economic and social leverage.

Over time, the tax harmonisation process has created a series of controversies on the limitations of the regulatory interventions in which one should act from the level of the EU bodies, taking into consideration the content approaches of the direction given to harmonisation. If the concept of harmonisation is envisaged as a generic term, it can be understood either as a compatibility of the differences or as an elimination of the differences. Harmonisation, between these possibilities, may be the result of the evolution of some actions that have aims ranging from a “fiscal unification” in the sense of equalising the tax rates and bases, as well as of the regulations and procedures, up to “a tax coordination” that ensures the coexistence of the tax systems in the Member States, so that the policy-makers work together to avoid the possible fiscal actions, to lead to “negative externalities” on other Member States, and the own tax systems to pursue the same objectives.

According to some opinions, none of these limit-solutions is appropriate to the stage reached by the economic integration in the EU. “The tax unification” does not have a legal basis (given not only the circumscribed limiting provisions of the EC Treaty on tax matters, but also the existence of the subsidiarity principle), nor political support (as long as the EU’s institutional structure is not a federal one) and neither economic rationality (in the absence of unification of economic policies at EU level). On the other hand, the mere “tax coordination” corresponds to a level of economic and political integration much less advanced than that achieved so far within the EU and it is incapable of achieving the desideratum of “neutrality” (D. Negrescu, A.Comanescu, 2008).

However, the fiscal harmonisation process triggered from the EU regulatory interventions ranging from tax coordination actions to fiscal equalisation actions, respectively of the tax rates and bases, or of the tax collection regulations and procedures, or through combined actions, so that the tax systems pursue the same goals and objectives, which do not affect the single European market.

If the first harmonisation initiatives were not well received by the Member States because they wanted to be very radical, being directed towards equalising all the tax rates and bases, starting with the ‘90s they have become more moderate, but their effect still allowed the national tax systems to differ significantly, especially in the case of direct taxes, if we consider the type of tax, the tax base, the tax rates, and the administrative and collection procedures. With reasons, in order to have comparability of the data concerning the national accounts classification, and within them, the taxes used by each Member State, in 1995 the ESA 95 - European System of Accounts was created.

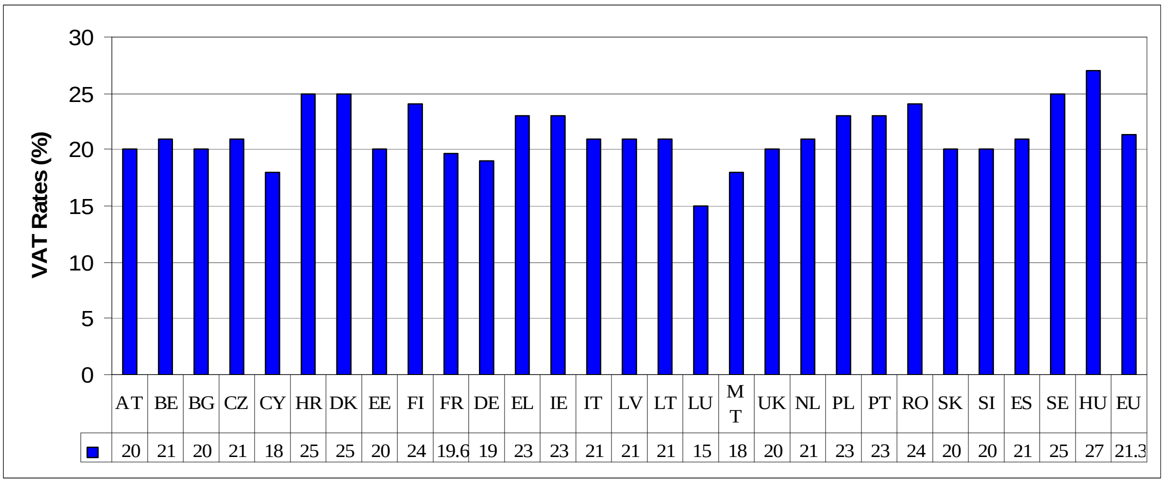
The first harmonisation efforts were particularly aimed at indirect taxes in order to eliminate the obstacles of exercising the freedoms of goods establishment and movement, of services and of capital, but also to eliminate border controls and to limit unfair tax competition between states. In this regard, the EU’s fiscal strategy was focused mainly on customs duties, on VAT and excise duties, in time a large number of directives as legal basis being established and implemented for each area, yielding competences in favour of the Community, or a limitation of the Member States’ competence (Costas, 2006), so that we are currently witnessing:

- exclusive competence in the field of customs duties, where the Member States are not allowed to charge both intra-community and international trade, the Community having the power to adopt legislation or to conclude international treaties;

- shared competence between the Community and the Member States, as in the VAT field, where the Community legislation does not allow the Member States to maintain or establish any other charge on the turnover, but leaves it up to each Member State to establish a level of the tax rates which must fall within an interval between 15% and 25% and at most two shares reduced to at least 5%), or, as it is the case of harmonised excise duties, whose dimension must be determined in compliance with a level stipulated by the Community directives.

Even if through successive Community regulations a Community regime was outlined, applicable to the indirect taxes, nevertheless, in the VAT case, as main indirect tax in the Member States, there are significant differences in the tax rates (Chart 1), which entitles us to say that the situation is far from achieving the goal of tax harmonisation up to the level of getting close to or unifying the tax rates.

Chart 1. VAT Rates Applied in the Member States of the European Union -Situation at 1st July 2013



Source: Made by the authors using data from following sources: European Commission Taxation and Customs Union, VAT Rates Applied in the Member States of the European Union- taxud.c.1(2013)2823545

In the field of direct taxes, tax harmonisation was much more limited, mainly aiming at not affecting free competition on the market, minimising the evasion possibilities and avoiding double taxation based on the bilateral agreements between the Member States and, not least, avoiding the negative effects of competition between the Member States, in particular avoiding the transfer of the tax basis through the migration phenomenon of the businesses seeking the most favourable tax regime. The last goal would be considered fully justified if we consider that there has recently been a trend identifiable worldwide but also within the EU as part of the tax basis to be increasingly more elastic depending on the tax rates, migrating to tax zones as favourable as possible.

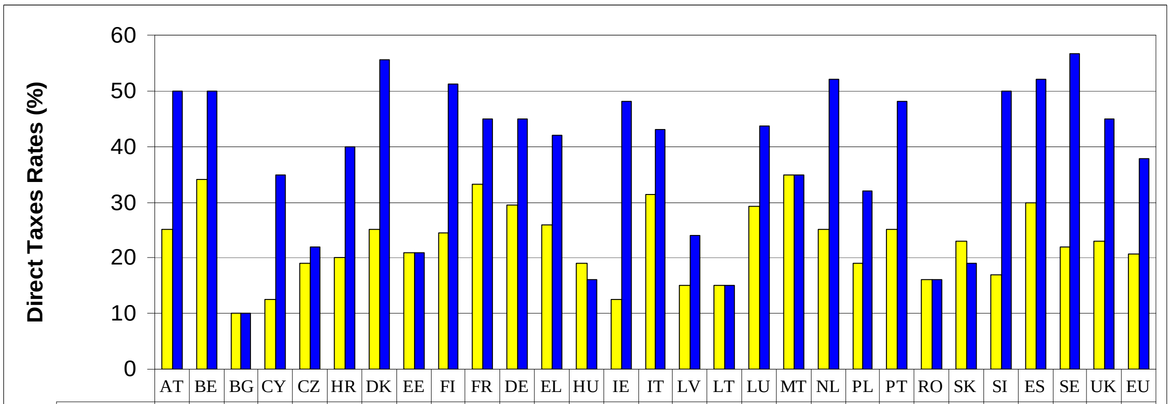
The achievement of the objectives proposed in the field of direct taxes harmonisation has been hampered by two obstacles that have boosted each other: on the one hand, the unanimity rule, which requires that all the EU Member States have to agree with a Community decision on taxation (tax rates or bases), and on the other hand, due to a lack of convergence of views on the limits of this approach (the structure of the tax basis or maximum or minimum limits of the tax rates). The first proposals on the harmonisation of the tax rates were raised in the reports of “Neumark” (1963) and “Van den Tempel” committees (1971), but they were not completed.

An example of the small-step evolution in the tax harmonisation process, in the field of direct taxation is the taxation of companies because it is believed there is a risk that very low tax rates in a country, or the various tax cuts unfairly attract companies from competing countries with effects on tax bases erosion in their countries of origin. In this respect, we have to mention the efforts to achieve a rapprochement of the regulatory or administrative provisions of the Member States to establish a common consolidated corporate tax base (CCCTB) that applies to a company's entire activity regardless of where it operates in the European Union. The complexity of the problems and the diversity of recommendations and implications on this aspect addressed by the different committees of experts and specialists, to whom we have resorted in time, make the perspective of concluding these efforts uncertain.

If in the field of company taxation, the harmonisation concerns were more intense, in the field of taxation by individuals such concerns were limited to a few measures on the income from capital movements (interest, royalty) to avoid the international double taxation.

A comparative analysis of the tax rates of the profits made by companies and also the income of individuals highlights the big differences in the 28 EU Member States (Chart 2).

Chart 2. Direct tax rates – corporate and individual income (%) within the European Union in 2013



	AT	BE	BG	CY	CZ	HR	DK	EE	FI	FR	DE	EL	HU	IE	IT	LV	LT	LU	MT	NL	PL	PT	RO	SK	SI	ES	SE	UK	EU
Corporate	25	34	10	12.5	19	20	25	21	24.5	33.3	29.5	26	19	12.5	31.4	15	15	29.2	35	25	19	25	16	23	17	30	22	23	20.6
Individual	50	50	10	35	22	40	55.5	21	51.1	45	45	42	16	48	43	24	15	43.6	35	52	32	48	16	19	50	52	56.6	45	37.8

Source: Made by the authors using data from following sources: KPMG-Global http://www.kpmg.com/Global/

Although the tax rates as comparison elements can be discussed in terms of the tax bases structure to which they apply (in the case of company taxation) and of the tax methods (separate or global taxation for individuals), we find that there are significant differences, even between the countries where the methods for determining the tax bases are similar.

We are thus witnessing difference of tax bases from 10%, as it is the case of Bulgaria, up to levels of 35% in Malta and 34% in Belgium and France. We can generally notice that the 15 EU countries up to the enlargement from 2000 record high tax rates: Germany (29.55%), France (33.33%), Belgium (34%), Italy (31.4%), Luxembourg (29.22%), etc. There are large differences between the countries which joined the EU after the enlargement in 2000: Bulgaria (10%), Cyprus (12.5%) as compared to Estonia (21%) and Slovakia (23%).

The same significant differences are also recorded in the field of income tax by individuals, where we find marginal rates at a minimum level of 10% in Bulgaria, up to 56.6% in Sweden to or 55.56% in Denmark without taking into account the case of Bulgaria, and in Romania's case and in other countries' case we talk about a flat tax, unlike the progressive taxation which is much more aggressive.

As shown in Chart no. 1 and 2, in terms of harmonisation of tax rates, all efforts ended in failure, so today we are witnessing a level of taxation in the Member States that differ strongly in a fairly wide interval.

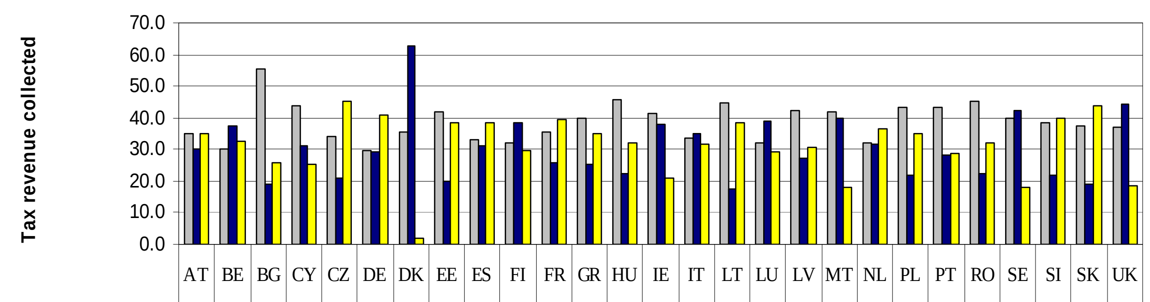
In the absence of Community decisions on the taxation bases or rates in line with the developments that followed, Community law imposed itself in the field of direct taxes as well, through the establishment of directives aimed at a structural harmonisation meant to regulate some areas, such as: taxation for subsidiaries, affiliates located in several Member

States and elimination of double taxation, the achievement of a common system of taxation applicable to mergers, divisions and contributions to the establishment of a company, taxation of savings and royalties, etc.).

It should be noted that within the European Union there are significant differences in taxation philosophy and in terms of tax structure in total tax revenue. Moreover, it is known that while developed countries have tax systems focused on direct taxes, the less developed countries, particularly the ones which have recently become Member States, apply tax systems focused on high indirect taxes and social contributions.

The low taxation rates of corporations and of personal income applied to the Member States that joined the EU after 2000 represent a significant part of the reasons why their tax revenues collected are reduced as share in the total tax revenues. From this point of view, according to the data available for 2010 (Chart 3), the situation is as follows:

Chart 3. The structure of tax revenues in the Member (EU 27)



	AT	BE	BG	CY	CZ	DE	DK	EE	ES	FI	FR	GR	HU	IE	IT	LT	LU	LV	MT	NL	PL	PT	RO	SE	SI	SK	UK
Indirect	35.0	30.3	55.4	43.8	34.0	29.8	35.4	41.7	33.0	32.0	35.5	39.7	45.5	41.4	33.5	44.7	32.0	42.4	41.8	32.2	43.5	43.1	45.2	39.7	38.5	37.2	36.9
Direct	30.3	37.2	18.8	31.1	20.8	29.4	62.7	19.9	30.9	38.2	25.8	25.2	22.6	37.9	34.9	17.4	38.8	27.1	40.1	31.5	21.9	28.4	22.6	42.2	21.8	19.1	44.4
Contributions	34.9	32.4	25.8	25.1	45.2	40.8	2.1	38.5	38.6	29.8	39.3	35.1	31.9	20.7	31.7	38.3	29.2	30.7	18.1	36.3	34.9	28.5	32.2	18.1	40.1	43.7	18.7

Source: Made by the authors using data from following sources:
European Commission Taxation and Customs Union

We note that while among the EU-15 Member States the share of direct, indirect taxes and contributions are relatively close, in the new Member States direct taxation occupies the lowest levels (Lithuania (17.4%), followed by Bulgaria (18.8%) and Slovakia (19.1%), Romania (22%). All these countries have adopted tax systems with fixed rates leading to a significant reduction in direct taxes as compared to the indirect ones.

In terms of the share of indirect taxes in total of taxes collected, the top positions are occupied by Hungary (45.5 %), Bulgaria (55.4%) and Romania (45.2 %) compared to 38.6 % EU27 average.

In the case of social contributions there are major differences between the developed countries from the former EU – 15, such as those between Germany and France, focusing on ***such collections*** and those from Denmark, Sweden and the UK, where the share of social contributions is reduced, given that the latter covers a large part of social security charges from other taxes while its share of total direct tax revenue is among the lowest in the states (the former EU - 15).

The difficulties occurred in the process of tax rates harmonisation prompted the European Union to use other means easier to accept and implement, such as those aimed at developing common rules, fiscal coordination and cooperation between the Member States within the Union.

Given the above, we can say that at least in the field of direct taxation, the harmonisation efforts have largely failed. The Member States continue to regard fiscal policy as a component of national sovereignty and their tax systems differ substantially due to the differences between the economic and social structures but also due to the conceptual differences on the role of taxation in general, and of a certain tax, in particular.

3. Expressions and trends in tax competition

The use of the tax competition concept is presented in the literature in terms of its significance as a tax-setting strategy in a non-cooperative game between jurisdictions – whether countries or states or provinces within a federation – with each setting some parameters of its tax system in relation to the taxes set by others (Keen M.., 2008), or more broadly as a reduction of taxes, which entails the possibility that certain categories of taxable persons or legal entities choose to locate assets or their income tax sources in those tax residences that meet at the highest level the optimal combination between a low tax burden and/or the public goods received.

Depending on the purposes set, tax competition occurs depending on the orientation of the governments in the countries applying it, and it aims at:

- attracting foreign direct investment, considered increasingly important for generating employment in the EU;
- attracting mobile financial capital (portfolio investments), useful for financing investments, strengthening the financial markets and for obtaining comparative advantages in supplying financial services;
- attracting intra-firm financial flows that can be channelled into their own tax jurisdictions by attracting those corporate functions used for the international transfer of profits;
- attracting highly qualified labour force.
- attracting buyers (indirect taxpayers) in border areas, but not only, in particular buyers of products subject to VAT or excise duties, in case there are significant differences between them.

Tax competition in the EU can be viewed as a competition between the Member States' tax jurisdictions in which everyone wants to become more fiscally attractive for different categories of direct or indirect taxpayers. Such an assessment from the investors may cover several qualitative and quantitative parameters that refer to:

- acceptability of tax rates by setting lower rates compared to others charged in other jurisdictions;
- providing incentives (discounts, deductions, exemptions) in establishing the tax bases;
- flexibility and transparency of taxation calculation regulations and methods;
- infrastructure and operation of the tax management and administration system at central and local level;
- provision of facilities related to the environmental conditions or in ensuring the infrastructure necessary for the business establishment or development.

Such tools promoted by the central and local governments can positively influence the increase of capital and labour mobility, each taxpayer being interested in having the most lucrative opportunities to achieve the greatest return on income before or after taxation. In search of such opportunities, taxpayers leave their national residence state borders, thus penalising those tax systems with high marginal tax rates and/or substantial regulations, which translates into an increase in the tax basis and hence in the total revenues in the host countries.

In the recent years and especially in the period before the crisis, the phenomena of tax burden transfers within the EU have increased through more and more diverse ways in terms of form and nature. Such trends have also been encouraged by the increase of the international capital flows, by the financial innovations, the regulation of the financial markets and by the newly created opportunities for tax evasion, with diminishing effects of the ability to achieve the public finances and recording fiscal deficits for some Member States.

As a reaction to these imbalances there was criticism especially from the representatives of the developed Member States who considered their manifestation a result of the insufficient harmonisation of fiscal policies in the EU, but also of efficient tax non-coordination, allowing the Member States' governments (especially those of the new members) to use fiscal policy instruments as a means of allocating taxable material with high mobility (capital and jobs) in their tax jurisdictions under conditions of tax competition.

4. Tax harmonisation versus tax competition

Given everything mentioned above, we may bring some pros and cons to the tax harmonisation process in terms of the extent and limits in which this process should be continued, by recourse to the option for full harmonisation or harmonisation based on tax coordination with the implicit acceptance of some tax competition elements.

In the proposed approach, we must remember our point of view that due to the complexity of the mechanisms and the implications involved by the integration process and the need to get aligned with the constituent Treaties of the European Union, the functioning and objectives of the tax system of a Member State cannot be addressed independently, especially when its interaction with those of other states have negative external influences, especially on the smooth functioning of the single European market. Thus, a form of fiscal harmonisation is inevitable, and a number of issues may be arguments in favour of tax harmonisation, such as:

- elimination of discrimination and the risk of double taxation;
- preventing the unintended non-taxation cases and of tax evasion, especially in the intra-Community transactions;
- preventing the loss of revenue associated with tax competition and the weakening of revenue mainly through migration of national tax bases between the Member States, in search of a more favourable tax regime;
- reducing the compliance costs entailed by including the non-residents under the provisions of several tax systems;
- lack of appreciation by some Member States in relation to others, of the benefits of a single market, but also in terms of international distribution of tax revenues;
- distorting of the establishment and thus of the allocation of budgetary resources, with negative consequences on the level of financing public expenditure.

Also, the lack of a single coordinated system can influence the way in which the same fiscal policy decision is transmitted and applied at EU level, in each state, thus recording different effects from those expected to be achieved.

If tax harmonisation based on tax coordination would lead to the removal of the mentioned drawbacks, we believe that achieving full harmonisation would not be necessary, which would involve the maintenance of certain manifestation conditions of tax competition, based on the following arguments, among which there are some interdependence relationships:

a) in the context of economic and social imbalances, full harmonisation may create a vulnerability of the national fiscal policies, through the inability to defend itself from the changes in the economic conditions and in particular the effects of certain economic and financial crises. Given that the global economy is facing great difficulties, the issue of the state's active involvement in the economic and social life has made a comeback in an attempt to mitigate the effects of the existing and potential imbalances, including through the use of fiscal policy as a macro-stabilisation lever. During the recent crisis, many countries have found it necessary to increase the maximum rates of income tax, adopting one of the following two approaches: either the application of new tax rates for high incomes or the introduction of temporary taxes for budget shortfall emergency situations" (KPMG, 2012).

b) In the current conditions in which the financial and economic globalisation has developed competition for access to finance, implicitly by attracting foreign investment, for the less developed countries the possibility of attracting foreign investment with economic potential by using the fiscal policy as a tool to attract in their tax jurisdictions, implicitly by using lower tax rates would be among the few arguments. In the regional context, for the new Member States, maintaining a certain degree of independence in fiscal policy might prove to be a better choice on medium term in which to undergo fiscal consolidation, especially at present when fiscal sustainability of public finances has become a priority.

c) If in the tax harmonisation process there were set some common tax rates, the trend would be that their level would be at a level considered "reasonable" for all the Member States, but logically, this level would have to be at a lower level than that of the high rates charged by the developed countries and a higher one than those currently practiced by the less developed countries. In this case, there are reactions in both types of states. On the one hand the developed countries would be forced to resize their public expenditure downwards, and the least developed ones would lose the benefits of the lower tax rates, becoming insufficiently attractive for foreign investment and a fiscal burden for their own taxpayers. In this case, it is not surprising that the countries with high marginal tax rates do not appreciate tax competition, while the less developed countries continue to be in a "beauty contest" with tax rates as attractive as possible for foreign investment.

d) under the conditions of tax competition within reasonable limits both locally and nationally, by lowering the tax rates, the fiscal policy could contribute to the increase of competitiveness and business development, because taxpayers would keep a larger share of their income that can ensure in the future an increase of the tax basis and consequently of the fees collected. But not the vice-versa, the endurance limit of the tax pressure according to the theory represented by the Laffer curve is well-known. Furthermore, this may become a development factor of the European economies through the increase of the production factors mobility in the context of international competition because investors can take advantage of the lower rates tax systems, without leaving the EU limits.

e) Given that the national governments are susceptible to the trend of "imposing taxation to spend" without effectively managing the public resources, tax competition may help limit these trends and boost budgetary efficiency by using less resources and hence the reduction of the taxpayers' vulnerability towards the exploitation exerted on them by the state, which constantly wants to increase its resources by increasing the taxes. Furthermore, when taxpayers know they can freely transfer their capital, they can easily defend themselves from the government abuses and corruption.

f) the pretext of the "four freedoms" manifestation on the single European market must not be used for the elimination of tax competition in favour of a complete harmonisation of the national tax systems. There cannot be a question of equality between tax competition and market competition in the real sense. The market competition is dominated by the law of supply and demand, whereas tax competition is only one aspect of competition between countries, as result of budgetary constraints and political, economic and social interests. A full harmonisation would be effective up to certain limits as uniformisation reduces regional tax competition, and also the global one, which would be a disadvantage for the European tax system.

5. Conclusions

Although harmonisation of tax policies is an important objective of the European public finance system accepted by the Member States through the Accession Treaties with all efforts made, the priority given to this process has known in time stages of hesitation and of interest oscillating in intensity, so that the harmonisation level achieved so far is contrary to expectations, but without talking about a unified fiscal policy.

The current results of the tax harmonisation process in the EU shows that although there is a fiscal strategy with common goals, their achievement is different, the Member

States are still using their fiscal sovereignty prerogatives, while the European Commission seems to have abandoned its previous efforts oriented towards harmonisation, without a strategy to follow in this regard. The fact that the European Commission's harmonisation measures must be introduced in compliance with the unanimity rule, it happens very often that some regulatory initiatives are blocked by one or two Member States, thus preventing their application. The reserves of the Member States against the harmonisation initiatives of the direct taxes in relation to the indirect ones, are not only the result of the different degrees of stringency with which the two types of harmonisation are stipulated in the EU Treaties, but also the fact that the harmonisation of indirect taxes, the discretion of the national authorities in matters of taxation has declined considerably.

Even in the cases in which the adoption of Community legislative acts was successful in this area, there were commonly used as a means of harmonising the Directives rather than the Regulations. It is known that the Directives only contain result obligations, they must be transposed into the national legislation and not applied directly as in the case of Regulations, which allow a greater degree of choice from the national authorities, which tend to preserve their fiscal sovereignty, further confirming the reluctance of the Member States to comply this subject with supranational regulations.

Due to the delay of the results initially expected as a result of the fiscal harmonisation process, the Member States with a developed economy and a sharp taxation continue to be concerned about the possibility of reducing their sources of budget revenue by the migration of the potential investors or the relocation of the existing ones towards tax jurisdictions that use reduced tax bases as main reasons for attracting foreign investment, that is why they promote and support full harmonisation, including the case of personal income tax, condemning tax competition that they want reduced or eliminated.

The possible negative or positive effects attributed to tax competition in the EU are supported from the different positions of some states on somewhat divergent positions of interest. On one hand, the countries with developed economies and the ability withstand the market shocks are against tax competition, while the less developed countries are not fully prepared to abandon entirely the right to collect taxes in the way dictated by the interests of their own fiscal policies, as it remains one of the few policy tools available to governments, by which to compensate the shortfalls created by any crisis in the economy and of the shocks spread on the market.

Faced with such challenges for the Member States, the regional tax policy is on a second position, while the interest in the benefits offered by the tax competition becomes a viable option. For the EU bodies, one of the major challenges has been and remains to find solutions to the problems concerning the need of compatibility of the Member States' different systems and relationships, including the tax system which occupies a significant position.

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