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Analysis on the Taxation in the EU Member States

Ana Alexandru[1]

Abstract: The purpose of this paper is to perform an analysis on the tax revenue collected by the Member States. The analysis takes into account the period 2000-2013 and highlights the main reasons reforms Member States' tax systems

Keywords: taxation; fiscal revenues; tax rate

JEL Classification: H20; H25; E62

1 Introduction

In 2012, the level of taxation in EU-28 was 39.4% of GDP. The level of taxation in the EU is high compared to countries like Russia 35.6%, and New Zealand, 31.8%. Countries which are less developed usually have a relatively low weight. High tax rate in the EU is not new; it makes its presence felt since the last third of the 20 century. In that time, the role of the public sector was expanded, this led to a large increase in tax rate 1970, and to a lesser extent, in the 1980s and early 1990. Member states have adopted several packages of measures for fiscal consolidation after the first Treaty of Maastricht and the Stability and Growth Pact. In many Member States, it is possible to widen the tax base to increase revenue collection potential, opportunity to reduce the tax rate or simplify the taxation. Many standard taxation systems have various exemptions, allowances, reduced tariffs and other tax systems known as "tax expenditures" This cannot always be justified, may not be the most effective tools for social goals. Member States have a more effective strategy in terms of raising legal tax rates. In some states, the process of consolidation was mainly based on the restriction or reorganization of primary public expenditure and in others the focus was on tax increasing.

2 Tax Rate in EU-28

2.1 General Overview

Tax rate in GDP surpassed the crisis in 2012 and will continue to increase in 2013. The tax rate in GDP began with a decrease in tax 2000 and increased by 2007 in the euro area and the EU-28. Income tax decreased in 2010 in both the euro area and the EU-28.

[1]Student, Faculty of Economic Sciences, “Danubius” University of Galati, Romania, Address: 3 Galati Boulevard, 800654 Galati, Romania, Tel.: +40.372.361.102, fax: +40.372.361.290, Corresponding author: anamariaalexandru1994@yahoo.com.

There are many reasons why government tax revenue varies from one year to another. Main reasons are changes in economic activities (affecting the level of employment, the sale of goods, services, etc.) and tax legislation (affecting tax rates, tax based) and changes in GDP.

Table 1. Total Taxes % of GDP

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Belgium	45,1	45,1	45,2	44,7	44,8	44,8	44,4	43,9	44,2	43,4	43,8	44,2
Bulgaria	31,5	30,8	28,5	31,0	32,5	31,3	30,7	33,3	32,3	29,0	27,5	27,3
Czech Republic	33,8	33,7	34,6	35,4	35,9	35,7	35,3	35,9	34,4	33,4	33,6	34,6
Denmark	49,4	48,5	47,9	48,0	49,0	50,8	49,6	48,9	47,8	47,8	47,5	47,7
Germany	41,3	39,4	38,9	39,1	38,3	38,3	38,6	38,7	38,9	39,4	38,0	38,5
Estonia	31,0	30,2	31,0	30,8	30,6	30,6	30,7	31,4	31,9	35,3	34,0	32,3
Ireland	31,5	29,7	28,3	28,8	30,1	30,6	32,1	31,5	29,5	28,1	28,0	28,2
Greece	34,6	33,2	33,7	32,1	31,3	32,2	31,7	32,5	32,1	30,5	31,7	32,4
Spain	34,1	33,7	34,1	33,9	34,8	35,9	36,8	37,1	32,9	30,7	32,2	31,8
France	44,2	43,8	43,3	43,1	43,3	43,8	44,1	43,4	43,2	42,1	42,5	43,7
Croatia	:	:	37,9	37,5	36,7	36,6	37,1	37,4	37,1	36,5	36,4	35,3
Italy	41,5	41,1	40,5	41,0	40,4	40,1	41,7	42,7	42,7	42,9	42,5	42,4
Cyprus	30,0	30,7	30,9	32,2	33,0	35,0	35,8	40,1	38,6	35,3	35,6	35,3
Latvia	29,7	28,9	28,6	28,6	28,6	29,2	30,6	30,6	29,2	26,6	27,2	27,6
Lithuania	30,9	29,4	29,1	28,8	28,9	29,1	30,0	30,2	30,7	30,4	28,5	27,4
Luxembourg	39,2	39,8	39,3	38,1	37,3	37,6	35,9	35,6	37,5	39,8	38,1	38,2
Hungary	39,8	38,7	38,0	38,0	37,7	37,4	37,3	40,4	40,3	40,1	38,1	37,3
Malta	27,3	28,9	30,0	30,4	31,3	32,9	33,0	33,9	33,0	33,4	32,2	33,0
Netherlands	39,9	38,3	37,7	37,4	37,5	37,6	39,0	38,7	39,2	38,2	38,9	38,6
Austria	43,0	44,9	43,6	43,4	43,0	42,1	41,5	41,7	42,7	42,4	42,1	42,2
Poland	32,6	32,2	32,7	32,2	31,5	32,8	33,8	34,8	34,3	31,8	31,8	32,3
Portugal	31,1	30,8	31,4	31,6	30,5	31,4	32,1	32,8	32,8	31,0	31,5	33,2
Romania	30,2	28,6	28,1	27,7	27,2	27,8	28,5	29,0	28,0	26,9	26,8	28,4
Slovenia	37,3	37,5	37,8	38,0	38,1	38,6	38,3	37,7	37,3	37,2	37,7	37,2
Slovakia	34,1	33,1	33,0	32,9	31,5	31,3	29,3	29,3	29,1	28,7	28,1	28,6
Finland	47,2	44,8	44,7	44,1	43,5	43,9	43,8	43,0	42,9	42,8	42,5	43,7
Sweden	51,5	49,4	47,5	47,8	48,0	48,9	48,3	47,3	46,4	46,5	45,4	44,4
United Kingdom	36,3	36,1	34,8	34,4	34,9	35,4	36,1	35,7	37,1	34,3	35,0	35,8

Source: Taxation trends in the European Union, Statistical books, 2014 edition, European Union, 2014

The crisis, along with fiscal policy measures has a strong impact on tax revenues in 2009 and the first effects became visible in 2008. In 2012, tax revenues in terms of GDP, substantially increased and reached its highest level since 2001, as we can see in table above.

2.2 Incentives for Research and Innovation

Experiencing concerns about decreasing competitiveness, many countries have introduced tax changes which had hoped to limit crises effects. These measures targeted to help small businesses and stimulate private investment in the Member States.

The vast majority of Member States apply tax incentives to stimulate private investment and innovation. This has become increasingly attractive in the start of the crises. In this period, about half of Member States have introduced or announced changes in terms of taxation that are offered support for research and development. Latvia introduced a new form of tax incentives for certain costs related to research and development.

Several Member States have introduced or expanded tax measures designed to stimulate entrepreneurial activity, investments in certain sectors. Some Member States have introduced tax incentives underlying goal of stimulating reinvestment of profits, for small enterprises (Spain, France). Sweden launched a new tax incentive for business in December 2013 in which individuals acquire the shares of small and medium enterprises can deduct half of the amount of acquisition. United Kingdom has introduced a new measure of tax relief for investments.

2.3. Direct Taxation

The direct tax rate in GDP has exceeded pre-crisis levels. Proactive fiscal measures taken by Member States in the last year was correcting their deficit economic recovery.

Direct taxes have decreased since 2008 (13.7% of GDP to 12.7 % of GDP in 2009). After a continuous decrease, direct taxes have increased. Starting from 2009-2010 direct taxes in the EU -28 increased from 12.8 % to 13.2 % of GDP. This could be due to an increase in income taxes of companies. Main components of direct taxes are income tax of individuals and corporate. We cans see this image in the table above.

Table 2. Direct Taxes as % of GDP

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Belgium	17,5	17,8	17,6	17,2	17,5	17,6	17,3	17,0	17,2	15,9	16,4	16,8	17,4
Bulgaria	6,9	7,5	6,4	6,2	6,0	4,9	5,2	8,2	6,7	5,9	5,4	5,2	5,3
Czech Republic	7,9	8,3	8,8	9,2	9,2	8,9	8,9	9,0	8,0	7,2	6,9	7,2	7,2
Denmark	30,5	29,5	29,3	29,6	30,4	31,9	30,7	30,1	29,7	30,0	29,9	29,9	30,6
Germany	13,0	11,4	11,0	11,0	10,8	11,1	11,9	12,2	12,4	11,8	11,2	11,7	12,1
Estonia	7,7	7,2	7,5	8,0	7,9	7,0	7,1	7,4	7,9	7,5	6,8	6,5	6,8
Ireland	13,6	12,7	11,6	11,9	12,4	12,3	13,2	12,9	11,7	10,9	10,6	12,3	13,1
Greece	10,0	8,8	8,8	8,0	8,2	8,8	8,3	8,3	8,3	8,5	8,0	8,8	10,2
Spain	10,6	10,5	11,0	10,4	10,8	11,5	12,3	13,5	11,1	10,0	10,0	10,0	10,6
France	12,5	12,6	11,8	11,4	11,7	11,9	12,2	12,0	12,0	10,3	11,0	11,7	12,4
Croatia	:	:	6,1	6,0	6,0	6,2	6,9	7,4	7,2	7,2	6,5	6,2	6,1
Italy	14,4	14,7	14,0	14,7	13,9	13,3	14,3	15,0	15,2	15,4	14,8	14,8	15,2
Cyprus	11,2	11,3	11,3	9,7	8,8	10,2	10,8	13,8	12,9	11,2	11,1	11,7	11,1
Latvia	7,3	7,6	7,9	7,6	7,9	7,9	8,5	9,2	9,8	7,2	7,4	7,4	7,7
Lithuania	8,4	7,8	7,4	7,9	8,7	9,0	9,5	9,2	9,3	6,0	4,7	4,4	4,9
Luxembourg	15,0	15,3	15,4	14,8	13,1	13,7	13,2	13,2	14,2	15,0	14,7	14,5	14,8
Hungary	9,9	10,2	10,2	9,6	9,1	9,1	9,5	10,4	10,6	10,0	8,6	7,0	7,5
Malta	9,0	9,7	11,0	11,5	11,0	11,7	12,0	13,3	12,7	13,6	12,9	13,0	13,9

Netherlands	12,0	11,7	11,8	11,0	10,7	11,7	11,9	12,2	12,0	12,1	12,2	11,7	11,2
Austria	13,2	15,0	13,8	13,7	13,5	12,8	12,9	13,4	14,0	12,8	12,8	13,0	13,4
Poland	7,2	6,7	6,9	6,6	6,4	7,0	7,5	8,6	8,6	7,5	7,0	7,0	7,2
Portugal	9,6	9,1	9,1	8,5	8,3	8,3	8,6	9,5	9,7	9,0	8,9	9,9	9,4
Romania	7,0	6,4	5,8	6,0	6,4	5,3	6,0	6,7	6,7	6,5	6,1	6,2	6,1
Slovenia	7,4	7,6	7,8	8,0	8,2	8,7	9,1	9,2	8,9	8,3	8,2	8,0	7,8
Slovakia	7,4	7,5	7,1	7,1	6,1	6,0	6,1	6,2	6,5	5,5	5,4	5,5	5,6
Finland	21,4	19,3	19,1	18,1	17,8	17,8	17,6	17,8	17,8	16,4	16,2	16,6	16,3
Sweden	22,6	20,8	19,6	20,2	20,9	22,0	22,2	21,2	19,8	19,6	19,2	18,5	18,3
United Kingdom	16,5	16,7	15,6	15,0	15,2	16,0	16,8	16,5	18,2	15,8	15,5	15,6	15,1

Source: Taxation trends in the European Union, Statistical books, 2014 edition, European Union, 2014

3 The Distribution of the Tax Burden according to the Type of Taxation

Considerable variation between Member States showing the distribution of total tax revenue by type of taxation base (labor, capital and consumption). The largest source of income comes from income tax in the work, and half of all revenues are coming consumption tax, followed by capital. Tax structure is different between Member State.

3.1 Consumption Tax

In 2012, the revenue collected from taxation of consumption remained at the same level as the previous year. The level of consumption was climbed back in 2007. The evolution from 2000 to 2012 is described in the figure below.

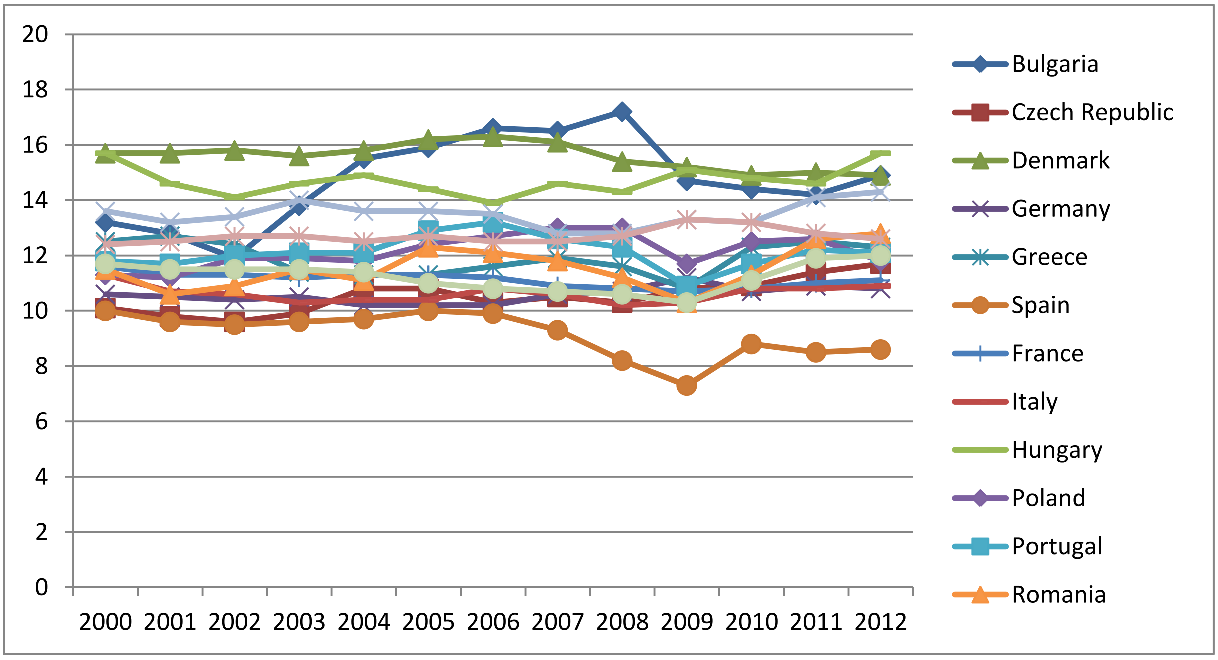

Figure 1. Taxes on Consumption as % of GDP

Source: Taxation trends in the European Union, Statistical books, 2014 edition, European Union, 2014

3.2 Labor Taxation

In 2012 the increasing of the tax burden on labor have place. Starting from the economic crisis won the arguments in favor of reducing the tax burden on labor, but the achievement of this goal remains difficult.

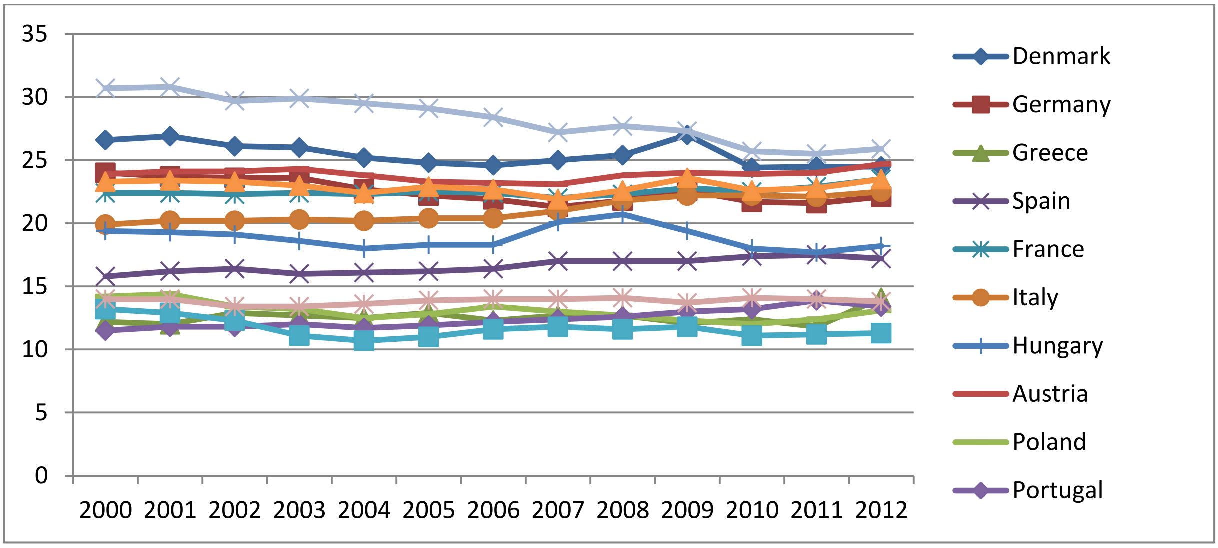

Figure 2. Taxes on Labor as % of GDP

Source: Taxation trends in the European Union, Statistical books, 2014 edition, European Union, 2014

The 28 Member States recorded an increase in employment in 2012, the highest growth being recorded in Greece, followed by Poland and Cyprus, each with two percents. The tax burden on labor varies between Member States. The higher direct taxes on labor are registered in Belgium with a share of 42.8% in 2012, Italy (42%) and Austria (41.5%) and the small direct taxes are recorded in Malta (23.3%), Bulgaria (24.5%) and the UK (25.2%). In the context of the economic crisis, given the high level of unemployment, high taxes on labor the effect was harmful in terms of work incentives for individuals and firms. Labor tax increases were relatively rare in this time and especially took the form of restrictions tax credits or tax exemptions for people with higher incomes.

4 Conclusions

Reforms that were introduced in the Member States in 2013 and 2014 shows that many Member States have taken measures to increase indirect tax. Taxes on consumption and environmental taxes was being considered less harmful, although most of the Member States have taken steps to improve the tax structure, and some states have taken steps to adopt new reduced rates. In the field of labor taxation (personal income tax and social security contributions) many countries only increase the fiscal burden.

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