COORDINATES OF THE FISCAL POLICY IN THE MEMBER STATES OF EU

DOBROTĂ GABRIELA
PROFESSOR Ph.D CONSTANTIN BRÂNCUSI UNIVERSITY OF TÂRGU JIU, ROMANIA
e-mail:gabi.dobrota@yahoo.com
CHIRCULESCU MARIA FELICIA
ASSISTANT PROFESSOR Ph.D., CONSTANTIN BRÂNCUSI UNIVERSITY OF TÂRGU JIU, ROMANIA
e-mail:chirculescu_felicia@yahoo.com
UNGUREANU DRAGOŞ MIHAI
LECTURER Ph.D SPIRU HARET UNIVERSITY OF BUCHAREST, ROMANIA
e-mail: dragos.ungureanu@yahoo.com

Abstract

Regardless of the mode how is regarded the fiscal policy – a fundamental tool in the procurement of public funds, element determinant of economic growth, a means of influence of the consumption, saving or investments, it remains an important component of the general policy of the state, which can exert influences and also at the level of other states. Tax systems used by Member States of the European Union may become similar or different as a result of centralized or decentralized decisions, ie by mimicking successful practices in taxation or adapt to emerging standards.

Each member state shall establish the coordinates of its own tax system, which creates the premises for tax competition. Important is the fact that it must be fair and transparent, otherwise being registered negative effects both in terms of the tax base and in that of revenues. Tax competition in the European Union is normal, observing that tax reforms are common especially after the entry of the new Member States. In this paper we performed analysis it refers to tax competition manifested in direct taxes, tax side testing of the European Union member states. Should be noted that tax competition manifestation occurs in the field of indirect taxes (which we will study done in future research), trying to look for the answer to "competition or tax harmonization in the EU".

Keywords: *tax competition, optimal tax*

JEL classification*: H 25, H 77, H 39*

1. Introduction

The issue of tax competition discussed so far can be found in economic thinking from the classical period presented in the work of Adam Smith, Wealth of Nations in 1976 [6] . Another definition of tax competition is given by Massimo Salzano M. Alfano as apreciză tax competition as "possibility" of countries to change their taxation base against the cuts by all of the other countries the tax base"[1].

From the definitions above we can consider that intervention by the tax competition can be viewed on tax rates when the government decides to change tax rates in order to attract capital, but also in terms of the tax base, in which the trend of reducing the tax base by providing deductions, exemptions, etc.

Practicing in the European Union of different tax regimes are even tax competition between Member States premise. In this respect, Stolojan Massimo Salzano M. Rosaria and notes that tax competition is "the possibility of countries to change their taxation base against the cuts by all of the other countries the tax base." [1, 10]

In literature are known both opinion ,,pro fiscal competition", highlighting its positive effects as well as contrary opinions, considering that fiscal competition is harmful, thus trying to formulate some strategies to combat this phenomenon. Those who consider tax competition as one bad reasons that it is able to influence the location decisions of investment. However, this effect of tax competition is contested because the choice of location for an investment depends mostly on other factors such as infrastructures, proximity to customers, cheap labor force and with an appropriate qualification, favorable reglementations, etc. and less than the tax regime.

Taxation plays an important role in decision-making when in host countries no significant differences in terms of other elements.

2.Tax competition in the EU practice

Tax competition between member states of the European Union should not be seen as inevitable because there are now means to master. Tax competition may also have other effects, namely to stimulate governments to reform the tax system and to implement growth policies. Most countries have begun to reform their fiscal policies to improve competitiveness, as it is considered that the present taxation becomes an instrument for increasing the competitiveness of a country in Europe.

Setting the expression of tax competition requires an analysis of the evolution of direct taxes. Structure and evolution of direct taxes in the European Union Member States indicate major differences between countries.

Record the total amount of income from direct taxes and fully collect tax liabilities cannot be achieved only under conditions where there is adequate cooperation between tax administrations of the Member States of the European Union. In this regard, the provisions of Council Directive 77/799/EEC concerning mutual cooperation between national tax authorities are appreciated as their compliance leads to increased cooperation between national tax administrations.

If we analyze the evolution of the share of direct taxes in tax revenue in the period 1995 - 2011 we find that there has been growth in Latvia (5.4%) in Malta increased by 8.1% in France (7, 2%), Slovenia (3.5%), Greece (3.3%), and significant reductions in countries like Romania (17.3% - ecard that put Romania on the first place in terms of weight direct taxes in tax revenue over the interval under consideration), Bulgaria and Estonia (10.2% to 10%), Lithuania (13.5%), Poland (up 9.9 percentage points).

Minimum, average and maximum share of direct taxes in tax revenue indicates an uneven distribution of the sample countries, the minimum ranging between 19.2% - 20.2%, the average being between 30% -31% and maximum value of 62.8% registered by Denmark.

In 2011, above the EU average of 30.6% of the share of direct taxes in tax revenues were: Belgium (38%), Denmark (62.8%), Ireland (43.4%), Spain (31.6 %), Italy (34.7%), Cyprus (33.3%), Luxembourg (38%), Malta (39.4%), Austria (30.9%), Finland (38.1%), Sweden (42.2%), the UK (43.9%) and below the minimum threshold were the following countries: Bulgaria (18.9%), Czech Republic (21.1%), Estonia (20%), Greece (27.1%), France (26.9%), Latvia (26.8%), Lithuania (17%), Hungary (18.7%), Netherlands (30.4%), Poland (21.7%), Portugal (29.9%), Romania (21.2%), Slovenia (21.2%), Slovakia (19.1%).

In the period 2000-2011, significant changes took place in Estonia (with -5 percentage points), Lithuania (-11.1%), Hungary (- 6.2%), Poland (with - 9.9%), Romania (-17.3%) and Slovakia (with - 7.8%), as shown in figure no. 1.

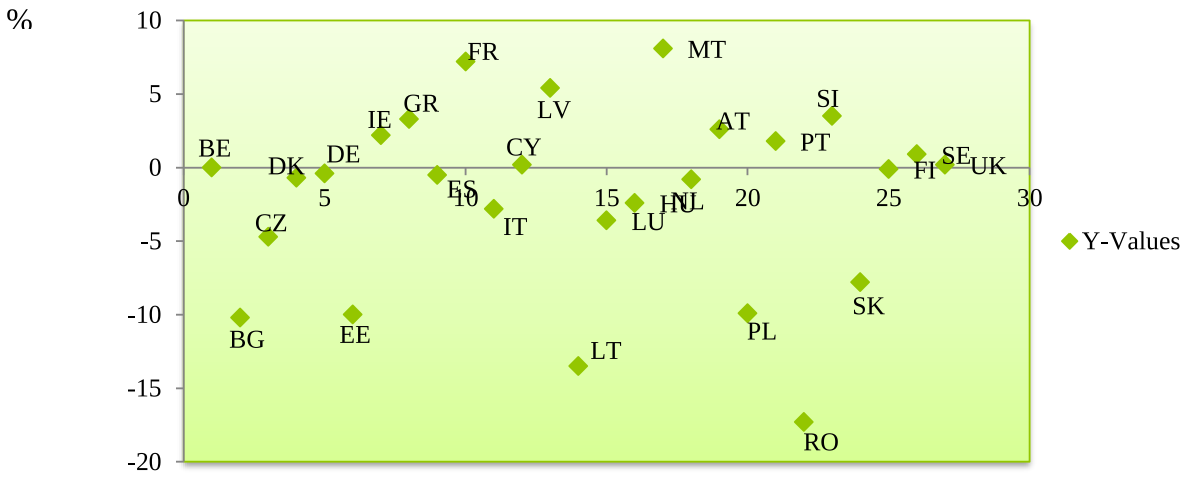

Figure 1. Modification of the level of direct taxes in total tax revenue in Member States in 2011 compared to 2000

Regarding the share of tax in total tax revenue in the EU27 in 2011, the average was 7.8%, 1.4 percentage points less than in 2008. In the same year the highest was recorded in Cyprus (19.4%), while the opposite was Hungary (3.1%).

Compared to 1995, a significant evolution of this indicator was registered in Malta, where the gap was 7.7 percentage points (from 10.1% in 1995 to 17.8% in 2009), while the opposite was Bulgaria found where the difference was -7.6% (from 14.6% in 1995 to 6.9% in 2011).

Among countries with a high share of corporate tax revenue in the last fiscal year period of analysis include Malta (17.8%), Luxembourg (13.5%), Cyprus (19.4%) and Czech Republic (9.7%).

One of the reasons for this difference is the application of reduced tax rates in most countries that joined the EU in 2004. Among the countries that joined in 2004 and 2007 and have basically a low corporate tax rates of profit are numerous: Cyprus (10.0%), Latvia (15.0%), Lithuania (15.0%) , Poland (19.0%), Czech Republic (19.0%), Slovakia (19.0%), Bulgaria (10.0%), Romania (16.0%).

We note that in 2011 the average statutory corporate tax rate in the EU27 is 23.1%.

At that time the highest levels of statutory corporate tax rates companies (Table 1.) Were recorded in countries such as Belgium (34.0%), Germany (29.8%), Spain (30.0%), France (34.4%), Italy (31.4%), Malta (35%).

Table no. 1 Statutory corporate tax rates of companies in the European Union Member States in the period 2000-2013

Country	Years								
	2000	**2002**	**2004**	**2006**	**2008**	**2010**	**2011**	**2012**	**2013**
Belgium	40,2	40,2	34	34	34	53,7	34	34	34
Bulgaria	32,5	23,5	20	15	10	10,0	10	10	10
Czech Republic	31	31	28	24	21	15,0	19	19	19
Denmark	32	30	30	28	25	51,5	25	25	25
Germany	51,6	38,3	38,3	38,7	29,8	47,5	29,8	29,8	29,8
Estonia	26	26	26	23	21	21,0	21	21	21
Ireland	29	29	29	26	26	41,0	12,5	12,5	12,5
Greece	37,8	35,4	35,4	34,4	34,4	45,0	24	20	26,0
Spain	51,6	38,3	38,3	38,7	29,8	43,0	30	30	30
France	40	35	35	29	25	45,8	34,4	36,1	36,1
Italy	24	16	12,5	12,5	12,5	45,2	31,4	31,4	31,4
Cyprus	41,3	40,3	37,3	37,3	31,4	30,0	10	10	10
Latvia	25	22	15	15	15	26,0	15	15	15
Lithuania	24	15	15	19	15	15,0	15	15	15
Luxembourg	37,5	30,4	30,4	29,6	29,6	39,0	28,6	28,8	29,2
Hungary	19,6	19,6	17,6	17,5	21,3	40,6	20,6	20,6	20,6
Malta	35	35	35	35	35	35,0	35	35	35
Netherlands	35	34,5	34,5	29,6	25,5	52,0	25,5	25	25
Austria	34	34	25	25	25	50,0	25	25	25
Poland	30	28	19	19	19	32,0	19	19	19
Portugal	35,2	33	27,5	27,5	26,5	42,0	29	31,5	31,5
Romania	**25**	**25**	**25**	**16**	**16**	**16,0**	**16**	**16**	**16**
Slovenia	29	25	19	19	19	41,0	19	19	23
Slovakia	25	25	25	25	22	19,0	20	18	17
Finland	29	29	29	26	26	48,6	26	24,5	24,5
Sweden	28	28	28	28	28	56,4	26,3	26,3	22
United Kingdom	30	30	30	30	30	50,0	28	24	23

Source: www.europa.eu.int, Statistica Eurostat

It is obvious that a policy of reducing the statutory corporate tax rates is not the only way of reducing the high tax burden on businesses. In the transition period, most countries that joined the EU in 2004 have introduced numerous exemptions, the most significant being the exemptions from income tax to attract foreign direct investment and established the territory of these special economic zones, which offered financial incentives to investors foreigners.

Regarding the share of personal income taxes in total tax revenue in the EU27 group of countries we find a dispersion around the average, which stood at 20.3% level. During the period under review, significant changes took place in Estonia (by -7.1 percentage points), Lithuania (-9.1%), France Romania (-13.4%), as apparent from the figure 2.

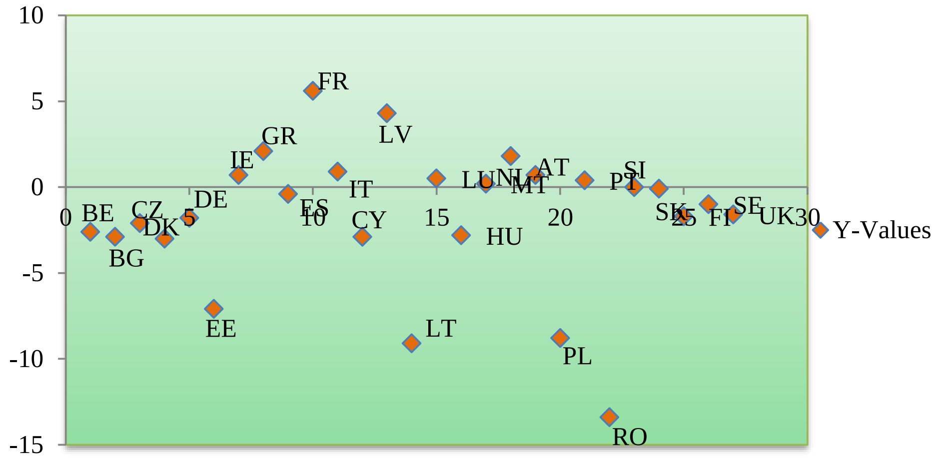

Figure 2. Modification of personal taxes in total tax revenue in the EU Member States in 2011 compared to 2000

According to the chart above, during 2000-2011, the share of personal taxes in total tax revenue growth recorded in 11 countries: Ireland, Greece, Latvia, Luxembourg, Malta, Netherlands, Austria, Portugal, and in a much larger number of countries was a decrease of this indicator: Belgium, Bulgaria, Czech Republic, Denmark, Germany, Estonia, Spain, Cyprus, Lithuania, Hungary, Poland, Romania, Slovakia, Finland, Sweden and the UK.

In the paper "The structure of tax systems in the EU" is realized a classification of taxes on labor, taking into account the distinct between employees and unemployed.

The high level of personal income is mainly due to the size of tax rates applied to personal income taxation of employees in European Union member states.

In table 2 are tax rates for personal income of employees in the EU27. Member States have implemented a wide range of tax measures that had the effect of boosting.

Table 2 Implicit tax rates on labor in the EU Member States in the period 2000-2013

	2000	2002	2004	2006	2008	2010	2011	2012	2013
Belgium	60,6	56,4	53,7	53,7	53,7	53,7	53,7	53,7	53,7
Bulgaria	40,0	29,0	29,0	24,0	10,0	10,0	10,0	10,0	10,0
Czech Republic	32,0	32,0	32,0	32,0	15,0	15,0	15,0	15,0	22,0
Denmark	59,7	59,8	59,0	59,0	59,0	51,5	55,4	55,4	55,6
Germany	53,8	51,2	47,5	44,3	47,5	47,5	47,5	47,5	47,5
Estonia	26,0	26,0	26,0	23,0	21,0	21,0	21,0	21,0	21,0
Ireland	44,0	42,0	42,0	42,0	41,0	41,0	41,0	41,0	41,0
Greece	45,0	40,0	40,0	40,0	40,0	45,0	49,0	49,0	46,0
Spain	48,0	48,0	45,0	45,0	43,0	43,0	45,0	52,0	52,0
France	59,0	57,8	53,4	45,8	45,8	45,8	46,7	46,8	50,2
Italy	45,9	46,1	46,1	44,1	44,9	45,2	47,3	47,3	47,3
Cyprus	40,0	40,0	30,0	30,0	30,0	30,0	30,0	38,5	38,5
Latvia	25,0	25,0	25,0	25,0	25,0	26,0	25,0	25,0	24,0
Lithuania	33,0	33,0	33,0	27,0	24,0	15,0	15,0	15,0	15,0
Luxembourg	47,2	39,0	39,0	39,0	39,0	39,0	42,1	41,3	43,6
Hungary	44,0	40,0	38,0	36,0	40,0	40,6	20,3	20,3	16,0
Malta	35,0	35,0	35,0	35,0	35,0	35,0	35,0	35,0	35,0
Netherlands	60,0	52,0	52,0	52,0	52,0	52,0	52,0	52,0	52,0
Austria	50,0	50,0	50,0	50,0	50,0	50,0	50,0	50,0	50,0
Poland	40,0	40,0	40,0	40,0	40,0	32,0	32,0	32,0	32,0
Portugal	40,0	40,0	40,0	42,0	42,0	42,0	50,0	49,0	53,0

Romania	**40,0**	**40,0**	**40,0**	**16,0**	**16,0**	**16,0**	**16,0**	**16,0**	**16,0**
Slovenia	50,0	50,0	50,0	50,0	41,0	41,0	41,0	41,0	50,0
Slovakia	42,0	38,0	19,0	19,0	19,0	19,0	19,0	19,0	25,0
Finland	54,0	52,5	52,1	50,9	50,1	48,6	49,2	49,0	51,1
Sweden	51,5	55,5	56,4	56,6	56,4	56,4	56,6	56,6	56,6
United Kingdom	40,0	40,0	40,0	40,0	40,0	50,0	50,0	50,0	45,0

Source: www.europa.eu.int, Statistica Eurostat

Reducing tax rates of wages was an important element of the target increase the supply of labor or aimed at improving living conditions of low-income individuals.

We find that the time interval under consideration, 2000-2013, most EU Member States 27 had a decrease in the analyzed indicator as follows: Belgium 6.9%, Bulgaria 40%, Czech Republic 21%, Denmark 10, 1%, Germany 9.5%, 5% Estonia, Ireland 7%, Spain 4%, France 8.9%, Italy 3.7%, Cyprus 1.5%, Latvia 1%, Lithuania 18% Luxembourg 7 7%, Hungary 28%, Netherlands 8%, Poland 13%, Romania 24%, Slovakia 17%, Finland 11.1%, Sweden 4.7%. The tax rate for personal income of employees in the EU in the period 1995-2013 increased in the following countries: Greece 1%, Portugal 13%, the UK by 5%.

To identify the coordinates of fiscal policy promoted by the EU member states can be observed the structure of tax revenues by main categories of taxes and share of tax revenues in GDP (table 3).

Table 3 The structure of tax revenues and their share in GDP

Country	It %Tt	Ranking 2011	Dt %Tt	Ranking 2011	Sc %Tt	Ranking 2011	Tt %GDP	Ranking 2011
Belgium	29,6	27	38	7	32,3	14	44,1	3
Bulgaria	54,2	1	18,9	25	26,9	21	27,2	26
Czech Republic	34,2	20	21,1	22	44,7	1	34,4	15
Denmark	35,6	17	62,8	1	2,1	27	47,7	1
Germany	29,8	26	30	14	40,1	4	38,7	8
Estonia	43,1	6	20	23	36,9	9	32,8	18
Ireland	39,4	13	43,4	3	17,2	25	28,9	22
Greece	40,1	12	27,1	16	32,8	13	32,4	20
Spain	32,5	23	31,6	11	38,6	5	31,4	21
France	35,4	18	26,9	17	38,4	7	43,9	4
Italy	33,8	21	34,7	9	31,5	16	42,5	6
Cyprus	41,9	11	33,3	10	24,8	22	35,2	14
Latvia	42,1	8	26,8	18	31,1	17	27,6	25
Lithuania	45,6	4	17	27	37,6	8	26	27
Luxembourg	32,3	24	38	8	29,7	18	37,2	11
Hungary	45,8	3	18,7	26	35,5	10	37	12
Malta	42,3	7	39,4	5	18,3	24	33,5	16
Netherlands	31,2	25	30,4	13	38,4	6	38,4	9
Austria	34,7	19	30,9	12	34,6	12	42	7
Poland	43,3	5	21,7	19	35,3	11	32,4	19
Portugal	42	9	29,9	15	28,1	20	33,2	17
Romania	**46,9**	**2**	**21,2**	**21**	**31,9**	**15**	**28,2**	**24**
Slovenia	38,7	14	21,2	20	40,4	3	37,2	10
Slovakia	37,93	15	19,1	24	43	2	28,5	23
Finland	33,1	22	38,1	6	28,8	19	43,4	5
Sweden	42	10	42,2	4	15,9	26	44,3	2
United Kingdom	37,7	16	43,9	2	18,5	23	36,1	13

Source: www.epp.eurostat.ec.europa.eu

Legend: It – indirect taxes; Dt direct taxes; Sc- social contributions;Tt – total taxes

From the date presented it is found differences between countries in terms of orientation towards obtaining resources from different categories of taxes (direct, indirect, social contributions). An interesting position it is noted at Denmark, which is oriented mainly towards direct taxation rather than to social contributions. In Romania there is an opposite situation in the sense that most revenue are generated from indirect taxes and social contributions. This demonstrates the fiscal policy orientation to excessive taxation of labor and for indirect taxation (characteristic elements for the former communist economies that have applied gradual tax reforms). Regarding the share of tax revenue in GDP there is a variation between 26% in Lithuania and 47,7% in Denmark (figure 3).

Figure 3 Total revenues as a percentage of GDP in 2011 in the EU Member States
Source: own realization based on the data from Table 3

3. Conclusions

Establishing the coordinates of fiscal policy in the EU member states remains an attribute of national bodies, but subject to compliance to requirements imposed by Community regulations (eg, through the Maastricht criteria have been established the fundamental parameters of the fiscal deficit or public debt, fact which governs the fiscal policy of each country).

We consider that future fiscal policy in the European Union must strike a balance between fiscal harmonization and tax competition so as not to obstruct the common market opportunity to develop and ensure the growth of the Member States.

The tax system of each country represents a whole, so that the absence of taxes is often compensated by the existence of another tax. Not infrequently fiscal loosening for direct taxes is offset by tightening indirect taxation. But anyway, the strong reduction of taxes, in order to harmonize, without reconsidering the tax system in its whole, risk unbalancing at the level of national budgets. Whatever measures that have been taken or will be EU tax competition will continue. Specialists in Fiscal consider that a State like Ireland where the tax system is relatively low (the practice of tax rates on profits of corporations both small and personal income), the economic model adopted is better than in the developed gets its great Germany and France.

Also, bear in mind that any tax measure adopted or have the effect of facilitating the functioning of the common market. Therefore, in the fiscal area is needed more transparency and less distortion for the market to function normally under fair and open competition.

Finally, we can say that for economic agents and population of the 27 EU Member States benefit from a single market, must be eliminated the coexistence of 27 different tax regions, because are affected due to differences, both circulation on market of goods, services and labor as well as the competition as motor of economic development.

4. Bibliography

[1] **Alfano M. R, Salzano M.**, Tax competition in an open border scenario: An Evolutionary Game Approach, Siepi, 1999;

[2] **Chirculescu M.F.,** Direct taxation in the European Union. Theoretical and practical approach, Mirton, Timisoara, 2013;

[3] **Dobrotă G., Chirculescu M.F**., The fiscal pressure in the EU Member States, Annals of the University "Constantin Brancusi " University of Targu Jiu, Economy Series, Nr . 1/2011;

[4] **Gaetan N.,** Corporate Tax Competition and Coordination in the European Union: Whatd we know? Where do we stand? Forthcoming in: International Taxation (2007), available at http://mpra.ub.uni-muenchen.de/107;

[5] **Mitchell DJ**., Competition Promotes Good Tax Policy, Executive Highlights no.315, Australian Financial Review, 10 November 2005;

[6] **Nandra E.R**., Tax competition: Hell and tax havens, SC Edited scope SRL, Cluj- Napoca, 2008;

[7] **Negrescu D., Comănescu A**., Trends in EU tax harmonization. Challenges for Romania, European Institute of Romania, Bucharest, 2007;

[8] **Popeangă V., Popeangă VN**, Direct Taxes - national and international approaches, Focus Publishing , Petrosani, 2006;

[9] **Tatoiu A.M**., Harmonization tax systems in the context of European Union integration, Publishing House Book of Science , Cluj- Napoca, 2008;

[10] **Stolojan T., Tatarcan R**., Integration and European fiscal policy, Ed Infomarket, Braşov, 2003;

[11] **Stewart K., Webb M**., International Competition in Corporate Taxation: Evidence from the OECD Time Series, Economic Policy, 21 (45): 153-201.

[12] **Văcărel I**., The taxes in the European Union and Romania, National Institute of Economic Research, Romanian Academy, Bucharest, 2003;

[13] www.europe.eu.int;

[14] www.worldtaxpayers.org;

[15] www.epp.eurostat.ec.europa.eu, Taxation trends in the European Union, Statistical books, European Comision, 2013.