INDIRECT TAXATION TRENDS IN THE EUROPEAN UNION MEMBER STATES

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Abstract:  
The objective of this paper is to outline the recent dynamics of the indirect taxation in the European Union member states, with a special focus on the Romanian case. We could notice that indirect taxation continues to play an important role for all the member states, in their attempt to recover from the global economic crisis. Moreover, we have presented some of the recent changes in the legislative frameworks, which happened with a rather rapid pace, and contributed to a rather challenging business climate.

Key words: indirect taxation, European Union, VAT

JEL: H21, H25

1. Introduction

The indirect taxation has deep implications for businesses worldwide. This happens because they influence the activity of the firms on a daily basis. Since the majority of the European Union countries are recovering from the financial crisis, indirect taxation is still representing a powerful instrument in the hands of the governments in order to manage their significant level of indebtedness. Consequently, there are expected some further increases in the level of indirect taxes. In this economic context, an analysis of the indirect taxes, of the way they have evolved over time, focusing on the main categories that these taxes comprise, is useful in order to make some assumptions regarding their impact on the business climate, as well as their evolution in the near future.

The paper is structured as follows. Section 2 presents some facts regarding the place of the indirect taxes in the European Union tax system, analysing the data supplied by European Commission and Ernst & Young. Section 3 focuses on analysing the trends regarding the main categories of indirect taxes (VAT, respectively excises and consumption taxes) in the European Union member states. Section 4 concludes.

2. Place of indirect taxes in the European Union fiscal burden

The theoretical background has divided the taxes into various categories, according to some specific classification criteria, the main one splitting the total taxes into direct and indirect ones (Donath and Milos, 2008, Donath et al., 2008). Indirect taxes are imposed on consumption, sales, services, and are usually included in the price of goods and services, which makes them less visible for the payers in comparison with the direct taxes (Miloş, 2011).

In Romania, like in other Central and Eastern European countries, more recent members of the European Union, the contribution of the indirect taxes to the total taxation is significantly larger than the one of the direct taxes. On the contrary, the old member states collect relatively equal from direct taxes, indirect taxes and social contributions. However, in the last years, starting with the first quarter of 2009, there can be noticed a growth of the indirect taxation in the EU-27 states (Fig.no.1).
If we are to consider the new member states of the European Union (EU-13), which have joined it starting with 2004, the highest share of indirect taxes belongs to Bulgaria (55.3 %), Croatia (50.8 %) and Romania (47.2 %). The lowest share of indirect taxes in the total tax burden is registered in Czech Republic (35 %) (Fig.no.2).

As far as concerns the old member states of the European Union, there are some differences. While for the majority of these countries, the indirect taxation accounts for approximately a third of the total taxation, for some countries (Portugal, Sweden, Ireland, United Kingdom) their importance seems to be larger (Fig.no.3).
According to some recent studies (Ernst & Young, 2014; OECD, 2013), the increase of the indirect taxation is a measure sustained by a large number of international financial organizations (such as IMF, OECD, European Commission), because of their neutral influence on growth in comparison with direct taxation, which has a negative influence on the economic growth. Therefore, the European Union member states should feel encouraged to increase further the indirect taxation (mainly VAT and taxes on real property) in order to overcome the negative effects of the financial crisis on their public budgets. However, the empirical results obtained in the literature regarding the connection between taxation and economic growth are often contradictory (Kneller et. al., 1999; Romer & Romer, 2007). Although, like we will see in the next section, a large number of countries have experienced an increase of the standard rate of VAT and this upward trend is likely to continue (Fig.no.5).

Another issue related to the indirect taxation is represented by the need to create a more efficient, robust, reformed VAT system, which has become outdated in relation to the new dimensions of businesses today (which imply cross-border trade, mobile communication and electronic services operations). This is one of the reasons why the governments are permanently improving their VAT system, making it more transparent and effective when it comes to avoidance or even fraud. It is obvious that these changes come with a cost for businesses, cost which grows with the pace of the legislative change. The firms need to understand the new legislation, see how is it going to affect both them and their suppliers/clients, and adapt their accounting systems and operations procedures accordingly. If not, they are most of the times submitted for penalties.

### 3. Dynamics of the main categories of indirect taxes

The indirect taxes contribute with a share of 38.5% in the total taxation of the EU-27 member states. However, the most important indirect taxes are VAT, respectively excises duties and consumption taxes since together account for over 80% of the indirect taxes in EU-15 countries while in EU-12 countries and especially in Romania they are even more important (Fig.no.4). VAT in Romania accounts with a share of 30.1% in total taxation, in comparison with 21.9% registered in the EU-27 countries. Excise duties and consumption taxes reach the share of 12.4% in total taxation, compared with a share of 9.2% registered in EU-27 countries. Due to this consideration, we will further focus on the evolution of these categories of taxes.

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**Fig. no. 3. Share of indirect taxes in total tax burden in the EU-15 states (2012)**
Source: realized by author, data provided by European Commission

**Fig. no. 4. Structure of indirect taxes/Total taxation in Romania and EU-27 countries (2012)**
Source: realized by author, data provided by European Commission
Consumption taxes increased in most of the EU countries, especially due to the increase in the VAT rates, that generated higher VAT returns for some member states. If we analyse the 2000-2013 period, we can notice the upward trend of the VAT in 2000-2002, followed by a relative stagnant period (2002-2008), and again an upward trend starting with 2009 (Fig.no. 4). When revisiting the standard rates of VAT, we can see that maximum level of standard VAT in EU-15 countries is registered in the Scandinavian countries (Denmark and Sweden - 25 %, respectively Finland – 24 %), while lowest VAT values are registered in Germany, France and Austria (19 %, 19.6% and 20 %).

When comparing with the other EU countries (both old and new members), Romania ranks in the first positions, with one of the highest standard VAT figure (24 % starting with 2010), which generates a supplementary fiscal burden on the population and has a negative effect on the consumption. Moreover, due to this high value, it becomes pretty difficult for the state to collect this tax. Consequently, Romania is one of the EU countries with the largest VAT gap (difference between VAT liabilities and collections of VAT). From the EU-13 countries, only Hungary surpasses Romania’s standard VAT rate, with a value of 27 %, the biggest from all European Union countries. The lowest VAT figures are registered in Malta and Cyprus (Fig. no. 6).

If we take into consideration the importance of VAT (as % in GDP), we can notice that Romania ranks ninth position in 2012, after Croatia, Denmark, Bulgaria, Hungary, Sweden, Finland, Cyprus and Estonia (Table no.1).
As far as concerns the revenues collected from this tax, we can see that Romania had collected 11,21 billion euros, comparable with the amount achieved by Czech Republic but more than two times smaller than the figure registered by Poland (of 27,88 bill. Euros) (Table no. 1). Romania also ranks a top position given the importance of VAT in total taxation (of 30 % in 2012).

VAT rates are not the only ones which have experienced an upward trend over the time, with the aim of collecting more revenues to the budget. In most of the European Union countries, we see a growth of the excise taxes, especially on those products which are considered harmful for the population (tobacco, alcohol, mineral oils, energy). However, if we look at the dynamics of excise duties and consumption taxes as % of GDP in the period 2000 -2012, we can notice that their importance in GDP has remained relatively unchanged in the majority of EU -15 countries, while in the EU-12 countries, the biggest increases are registered in Estonia (1,6 %), Slovenia (1,5 %) and Bulgaria (1,2 %). On the contrary, we have EU -15 countries which have experienced a decrease of the importance of these type of taxes in the GDP over the analysed period: Luxembourg (-1 %), Ireland (-0,8 %), Denmark (-0,7 %) (Table no.2).
Moreover, the environmental issues are also considered by many governments when issuing new legislation which is good in terms of sustainable development but in the same time makes it more difficult for the firms to process and apply the new legislation (Table no.3).

**Table no.3. Excise duties changes in the European Union countries (2013-2014)**

<table>
<thead>
<tr>
<th>Excise duties</th>
<th>Date of change</th>
<th>Type of change</th>
<th>Product</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>EU-13 countries</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Romania</strong></td>
<td>1.01.2014</td>
<td>⇨</td>
<td>Gas, fuel and kerosene</td>
</tr>
<tr>
<td><strong>Bulgaria</strong></td>
<td>1.01.2014</td>
<td>⇨</td>
<td>Natural gas used as motor fuel and for heating purposes, heavy fuels</td>
</tr>
<tr>
<td><strong>Croatia</strong></td>
<td>3.09.2013</td>
<td>⇨</td>
<td>Leaded and unleaded petrol, gas oil and kerosene petroleum for motor fuel</td>
</tr>
<tr>
<td><strong>Czech Republic</strong></td>
<td>1.01.2014</td>
<td>⇨</td>
<td>Tobacco products</td>
</tr>
<tr>
<td><strong>Lithuania</strong></td>
<td>1.04.2014</td>
<td>⇨</td>
<td>Alcohol, alcoholic products</td>
</tr>
<tr>
<td><strong>Malta</strong></td>
<td>5.11.2013</td>
<td>⇨</td>
<td>Cigarettes, tobacco products, alcoholic beverages, cement</td>
</tr>
<tr>
<td><strong>United Kingdom</strong></td>
<td>5.11.2013</td>
<td>⇨</td>
<td>Bunkering fuel, heavy lead fuel, liquid petroleum, methane</td>
</tr>
</tbody>
</table>

Source: DG Taxation and Customs Union and Eurostat (online data codes: gov_a_tax_ag)
### EU-15 countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Date</th>
<th>New Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spain</td>
<td>1.01.2014</td>
<td>Fluorinated greenhouse gases</td>
</tr>
<tr>
<td>Portugal</td>
<td>1.01.2014</td>
<td>Beer, intermediary products and spirits drinks, cigars, cigarillos</td>
</tr>
<tr>
<td></td>
<td>1.01.2014</td>
<td>Colored and marked fuel in aquaculture activities</td>
</tr>
<tr>
<td>France</td>
<td>1.04.2014</td>
<td>Energy products, polluting activities</td>
</tr>
<tr>
<td>Ireland</td>
<td>16.10.2013</td>
<td>Cigarettes, tobacco products, alcohol</td>
</tr>
<tr>
<td>Denmark</td>
<td>1.07.2013</td>
<td>Duties on beer 100 % pure alcohol</td>
</tr>
<tr>
<td></td>
<td>1.01.2014</td>
<td>Mineral water, weight-based packaging</td>
</tr>
<tr>
<td>Finland</td>
<td>1.01.2014</td>
<td>Carbon dioxide on fossil motor petrol and on fossil diesel fuel</td>
</tr>
<tr>
<td></td>
<td>1.01.2014</td>
<td>Strong liquors, beer, wines, soft drinks, sugar, cigarattes, cigar, pipe tobacco, cigarette tobacco, ground tobacco, drink powders containing sugar</td>
</tr>
<tr>
<td>Netherlands</td>
<td>1.01.2014</td>
<td>Diesel and unleaded petrol, alcoholic beverages</td>
</tr>
</tbody>
</table>

Source: realized by author

## 4. Conclusions

Indirect taxation plays an important role in all European Union countries, where it brings more than a third of the total taxation, but especially in the new member states of the European Union (which have joined it starting with 2004), where the share of indirect taxation in total taxation becomes even more important. Moreover, the place of indirect taxation has gained weight in the last years, due to the efforts of governments of overcoming the negative effects of the financial crisis and the difficulty of raising direct taxes.

If we are considering the structure of the indirect taxes, the revenues from VAT and excise duties and consumption taxes are the consistent ones, both for old and new member states of European Union. VAT rates have experienced an upward trend over the time, with the aim of collecting more revenues to the budget. In most of the European Union countries, we see a growth of the excise taxes, especially on those products which are considered harmful for the population (tobacco, alcohol, mineral oils, energy) or the introduction of new ones, especially related the environment.

Future research may consider the empirical connection between indirect taxation and economic growth in the European Union member states. There can be made an analysis, having in consideration two different panels (old and new member states).

## 5. References

[7]. Milos, M., Challenges regarding future sustainability of pensions, Studia Universitatis "Vasile Goldiş" Arad-Seria Științe Economice, pp.105-111, 2011