

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 the indirect taxes in the European Union taxation 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 (Miloș, 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).

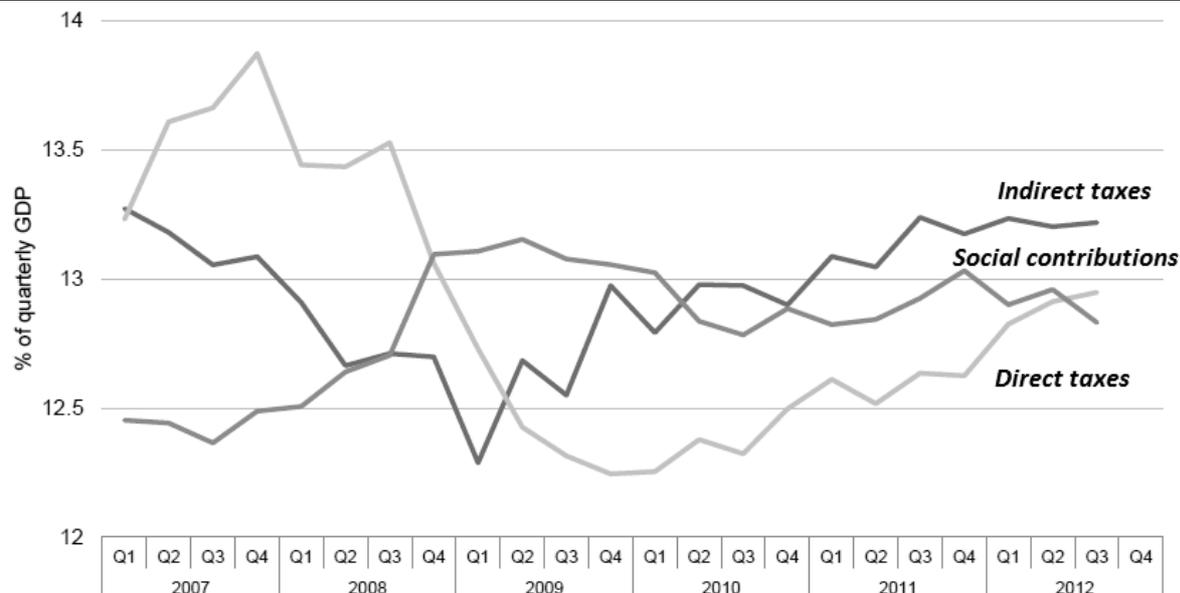


Fig.no 1. Dynamics of the main categories of taxes in the EU-27 countries between 2007-2012

Source: realized by author, data provided by Eurostat

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).

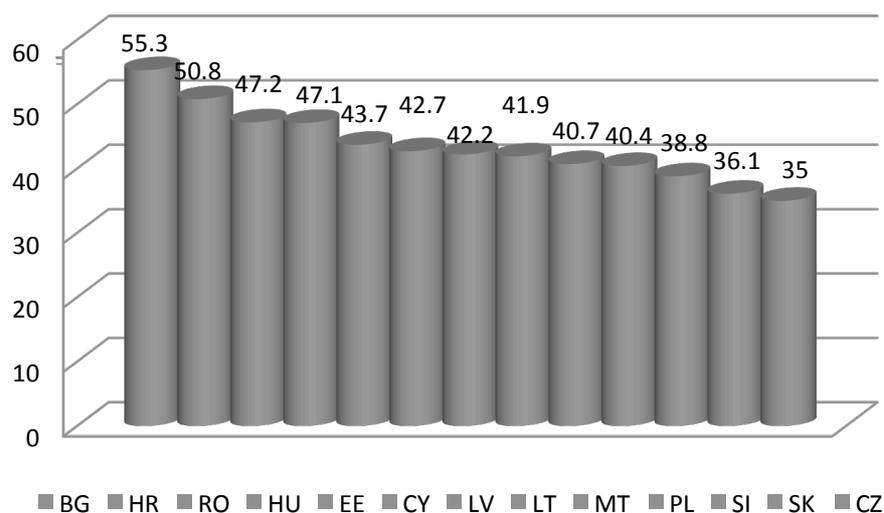


Fig.no. 2. Share of indirect taxes in total tax burden in the EU-13 states (2012)

Source: realized by author, data provided by European Commission

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).

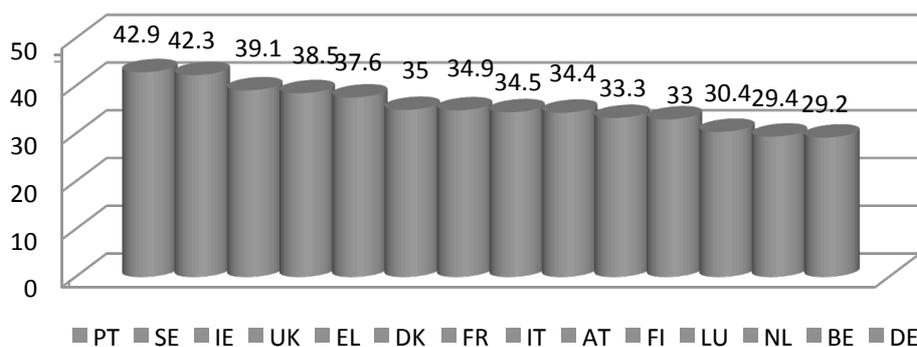


Fig.no. 3. Share of indirect taxes in total tax burden in the EU-15 states (2012)

Source: realized by author, data provided by European Commission

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 30,10 % in total taxation, in comparison with 21,90 % registered in the EU-27 countries. Excise duties and consumption taxes reach the share of 12,40 % in total taxation, compared with a share of 9,20 % registered in EU-27 countries. Due to this consideration, we will further focus on the evolution of these categories of taxes.

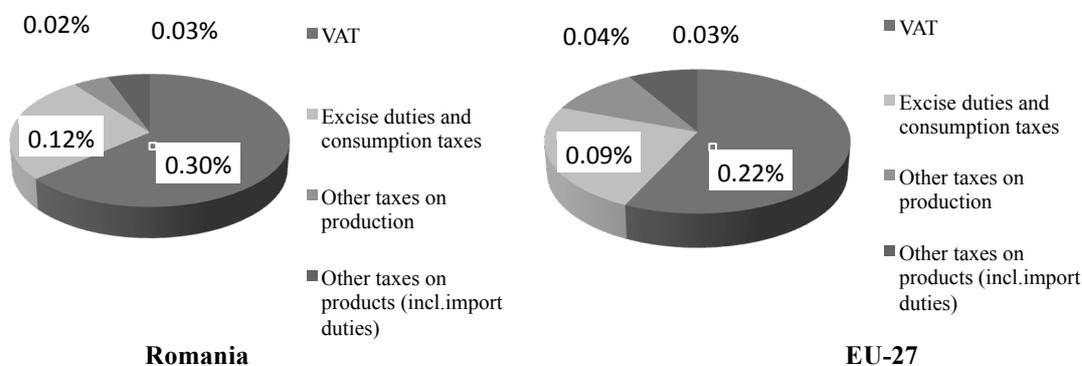


Fig. no. 4. Structure of indirect taxes/Total taxation in Romania and EU-27 countries (2012)

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).

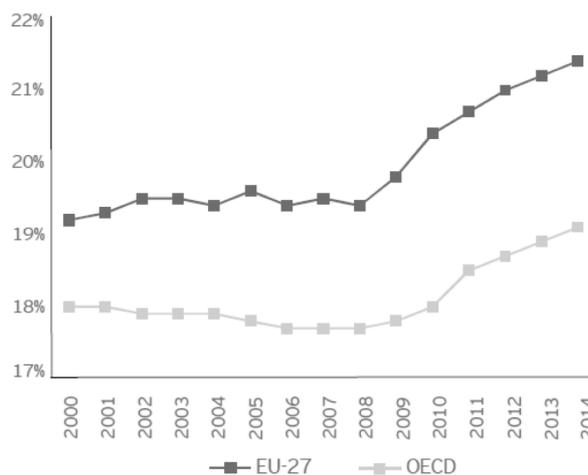


Fig.no. 5. Average standard VAT rates evolution in EU-27 countries and OECD countries
Source: Ernst & Young, 2014

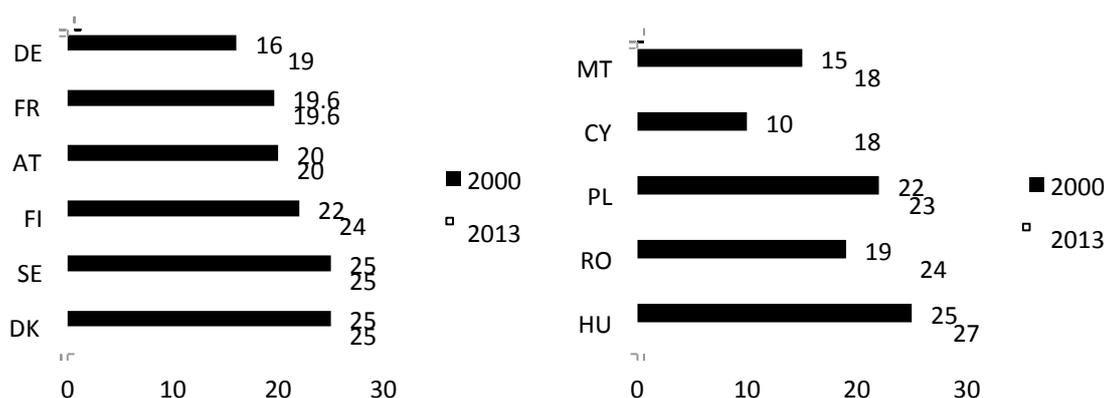


Fig.no. 6. Maximum and minimum standard VAT rates in the EU-28 countries
Source: realized by author, data provided by European Commission

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).

Table no.1. Indirect taxes as % of GDP - VAT

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Diff. (1) 2000 to 2012	Ranking 2012	Revenue (2) 2012
Belgium	7.2	6.9	6.9	6.8	6.9	7.0	7.1	7.1	7.0	6.9	7.1	7.0	7.2	0.0	19	26 896
Bulgaria	8.3	8.4	7.3	8.6	9.9	10.2	10.7	10.4	10.9	9.0	9.2	8.7	9.4	1.1	3	3 740
Czech Republic	6.2	6.1	6.0	6.1	7.0	6.9	6.4	6.3	6.8	6.9	6.9	7.1	7.2	1.0	18	11 050
Denmark	9.6	9.6	9.6	9.6	9.8	10.1	10.3	10.4	10.1	10.2	9.8	9.9	10.0	0.4	2	24 422
Germany	6.8	6.6	6.4	6.4	6.3	6.3	6.4	7.0	7.1	7.5	7.2	7.3	7.3	0.4	17	194 040
Estonia	8.4	8.2	8.4	8.2	7.7	8.7	9.1	8.9	7.9	8.8	8.7	8.4	8.7	0.2	8	1 508
Ireland	7.2	6.8	7.0	7.0	7.3	7.6	7.7	7.6	7.3	6.4	6.4	6.0	6.2	-1.0	25	10 219
Greece	7.2	7.5	7.6	7.0	6.8	6.9	7.1	7.4	7.3	6.5	7.3	7.2	7.1	-0.1	22	13 713
Spain	6.2	6.0	5.8	6.0	6.2	6.5	6.5	6.0	5.1	4.1	5.6	5.4	5.5	-0.6	28	57 057
France	7.4	7.3	7.2	7.2	7.3	7.4	7.3	7.2	7.1	6.9	7.0	7.0	7.0	-0.4	23	142 499
Croatia	:	:	12.4	12.4	12.0	12.1	12.2	12.0	11.9	11.3	11.7	11.4	12.3	:	1	5 403
Italy	6.5	6.2	6.2	5.9	5.8	5.9	6.2	6.2	5.9	5.7	6.3	6.2	6.1	-0.4	26	95 473
Cyprus	5.5	5.7	6.6	7.8	8.4	9.1	9.7	10.2	10.6	9.2	9.2	8.5	8.9	3.4	7	1 578
Latvia	7.1	6.8	6.7	7.2	7.0	7.8	8.6	8.2	6.7	6.0	6.6	6.8	7.1	0.0	21	1 583
Lithuania	7.5	7.3	7.3	6.7	6.4	7.1	7.6	8.1	8.0	7.4	7.9	7.9	7.7	0.1	14	2 521
Luxembourg	5.6	5.8	5.8	5.7	6.1	6.2	5.8	5.7	6.3	6.9	6.4	6.7	7.1	1.5	20	3 064
Hungary	8.9	8.1	7.8	8.2	8.9	8.4	7.6	8.1	7.8	8.6	8.8	8.6	9.4	0.5	4	9 084
Malta	5.7	6.1	6.2	6.3	7.1	8.0	7.9	7.5	7.7	7.7	7.5	7.8	7.8	2.1	13	536
Netherlands	6.9	7.3	7.2	7.3	7.3	7.2	7.4	7.5	7.3	7.0	7.3	6.9	7.0	0.1	24	41 699
Austria	8.1	8.1	8.1	8.0	7.9	7.9	7.6	7.7	7.8	8.0	8.0	7.8	8.0	-0.1	12	24 563
Poland	6.9	6.8	7.2	7.1	7.2	7.7	8.1	8.3	8.0	7.4	7.8	8.0	7.3	0.4	15	27 881
Portugal	7.6	7.5	7.6	7.7	7.7	8.4	8.6	8.5	8.4	7.1	7.8	8.3	8.5	0.8	10	13 995
Romania	6.5	6.2	7.1	7.2	6.7	8.1	7.9	8.1	7.9	6.6	7.6	8.7	8.5	2.0	9	11 212
Slovenia	8.6	8.3	8.5	8.5	8.5	8.6	8.5	8.4	8.5	8.0	8.2	8.3	8.2	-0.4	11	2 889
Slovakia	7.0	7.2	7.0	7.5	7.8	7.9	7.5	6.7	6.9	6.7	6.3	6.8	6.1	-0.9	27	4 328
Finland	8.2	8.0	8.1	8.6	8.5	8.7	8.7	8.4	8.4	8.7	8.5	9.0	9.2	0.9	6	17 640
Sweden	8.6	8.7	8.8	8.8	8.8	9.0	8.9	9.0	9.3	9.6	9.7	9.5	9.3	0.7	5	37 861
United Kingdom	6.5	6.5	6.6	6.7	6.7	6.5	6.5	6.4	6.3	5.6	6.5	7.3	7.3	0.8	16	140 457

Notes: (1) % points (2) mill. Euro

Source: DG Taxation and Customs Union and Eurostat (online data codes: gov_a_tax_ag)

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).

Table no.2. Indirect taxes as % of GDP – Excise duties and consumption taxes

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Diff. (%) 2000 to 2012	Ranking 2012	Revenue (%) 2012
Belgium	2.4	2.3	2.3	2.4	2.4	2.4	2.2	2.2	2.1	2.1	2.2	2.1	2.1	-0.3	28	7 783
Bulgaria	3.9	3.7	3.9	4.4	4.8	4.7	4.8	5.8	5.9	5.5	5.1	5.1	5.1	1.2	1	2 042
Czech Republic	3.1	3.1	3.1	3.3	3.4	3.6	3.6	3.9	3.3	3.7	3.7	3.9	4.0	0.8	5	6 042
Denmark	4.1	4.1	4.1	4.0	3.8	3.5	3.4	3.2	3.1	3.3	3.3	3.4	3.4	-0.7	13	8 294
Germany	2.8	2.9	3.0	3.2	3.0	2.9	2.8	2.6	2.6	2.7	2.5	2.6	2.5	-0.4	22	65 830
Estonia	3.0	3.3	3.2	3.1	3.6	3.7	3.4	3.6	3.3	5.0	4.3	4.4	4.5	1.6	2	791
Ireland	3.2	2.9	2.9	2.8	2.7	2.6	2.4	2.4	2.4	2.7	2.6	2.5	2.4	-0.8	23	3 966
Greece	3.1	3.1	2.9	2.8	2.6	2.6	2.5	2.6	2.3	2.6	3.3	3.7	3.6	0.6	7	7 023
Spain	2.6	2.5	2.5	2.5	2.5	2.4	2.2	2.2	2.2	2.2	2.3	2.2	2.2	-0.5	27	22 187
France	2.6	2.5	2.6	2.5	2.3	2.2	2.3	2.2	2.1	2.2	2.2	2.2	2.2	-0.3	25	45 167
Croatia	:	:	4.7	4.6	4.3	4.1	4.0	3.8	3.6	3.3	3.7	3.4	3.4	:	14	1 484
Italy	2.6	2.4	2.3	2.4	2.2	2.2	2.2	2.1	1.9	2.1	2.0	2.1	2.4	-0.2	24	37 240
Cyprus	2.5	3.2	2.8	3.8	4.4	4.1	3.9	3.7	3.3	3.2	3.5	3.6	3.4	0.9	12	603
Latvia	3.5	3.1	3.1	3.3	3.5	3.6	3.3	2.9	3.2	3.7	3.5	3.4	3.2	-0.2	15	714
Lithuania	3.2	3.3	3.2	3.3	3.0	2.9	2.9	2.9	3.0	3.5	3.3	3.0	2.9	-0.4	17	943
Luxembourg	4.5	4.2	4.4	4.3	4.6	4.2	3.8	3.6	3.7	3.9	3.6	3.6	3.6	-1.0	8	1 530
Hungary	4.0	3.7	3.6	3.7	3.3	3.2	3.3	3.4	3.4	3.6	3.3	3.3	3.5	-0.4	9	3 439
Malta	2.4	2.7	2.6	2.5	2.7	3.0	3.0	3.3	3.0	2.9	2.9	3.0	3.0	0.6	16	208
Netherlands	2.6	2.5	2.5	2.5	2.6	2.5	2.5	2.4	2.4	2.3	2.3	2.2	2.2	-0.5	26	12 956
Austria	2.7	2.7	2.7	2.8	2.8	2.7	2.5	2.5	2.5	2.5	2.5	2.5	2.5	-0.2	21	7 628
Poland	3.7	3.7	4.0	4.1	4.2	4.2	4.0	4.2	4.4	3.8	4.2	4.1	4.0	0.4	4	15 408
Portugal	2.6	2.8	3.0	3.2	3.1	3.0	3.1	2.8	2.7	2.7	2.8	2.8	2.7	0.1	19	4 402
Romania	3.0	2.8	2.6	3.5	3.6	3.3	3.2	3.0	2.7	3.2	3.3	3.5	3.5	0.6	10	4 620
Slovenia	3.0	3.4	3.4	3.4	3.4	3.3	3.3	3.3	3.3	4.1	4.3	4.2	4.5	1.5	3	1 602
Slovakia	3.1	2.7	2.9	3.1	3.3	3.7	2.9	3.5	2.7	2.8	2.9	2.9	2.8	-0.3	18	1 973
Finland	4.3	4.1	4.2	4.3	3.9	3.8	3.7	3.3	3.3	3.4	3.5	3.9	3.9	-0.3	6	7 517
Sweden	3.1	3.1	3.2	3.2	3.0	3.0	2.8	2.7	2.7	2.9	2.8	2.6	2.6	-0.5	20	10 587
United Kingdom	3.9	3.8	3.7	3.6	3.5	3.3	3.2	3.2	3.2	3.5	3.5	3.5	3.5	-0.5	11	67 159

Source: DG Taxation and Customs Union and Eurostat (online data codes: gov_a_tax_ag)

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)

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

EU-15 countries			
<i>Spain</i>	1.01.2014	New tax	Fluorinated greenhouse gases
<i>Portugal</i>	1.01.2014	↗	Beer, intermediary products and spirits drinks, cigars, cigarillos
	1.01.2014	↘	Colored and marked fuel in aquaculture activities
<i>France</i>	1.04.2014	↗	Energy products, polluting activities
<i>Ireland</i>	16.10.2013	↗	Cigarettes, tobacco products, alcohol
<i>Denmark</i>	1.07.2013	↘	Duties on beer 100 % pure alcohol
	1.01.2014	↗	Mineral water, weight-based packaging
<i>Finland</i>	1.01.2014	↗	Carbon dioxide on fossil motor petrol and on fossil diesel fuel
	1.01.2014	↗	Strong liquors, beer, wines, soft drinks, sugar, cigarettes, cigar, pipe tobacco, cigarette tobacco, ground tobacco, drink powders containing sugar
<i>Netherlands</i>	1.01.2014	↗	Diesel and unleaded petrol, alcoholic beverages

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 to 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).

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