COMPARATIVE STUDY ON INDIRECT TAXES AT EU LEVEL

HARALAMBIE GEORGE ALIN,
AssociateProfessor, Faculty of Economics, Petroleum and Gas University, Ploiesti, Romania,
e-mail: haralambiegeorgealin@yahoo.com

Abstract

The economic downturn, affecting lately the states all over the world, imposed their governments to take measures in fiscal and budget plan in order to reduce the budget deficit, by reducing spending and increasing the revenue mobilized to the budget, especially tax revenues, by increasing the tax burden both for the individuals and legal entities.

Reforming the tax system at European level involved widening the tax base both for the income earned by individual taxpayers and those made by companies to the detriment of effective tax rates increase.

The share in GDP of mandatory levies is uneven across the EU. In the year 2012, it range from 30% in Lithuania with 50% to Denmark.

Fiscal consolidation in the member states aimed reforms in the field of indirect taxation (by increasing VAT-1% for the Czech Republic, Slovakia, Italy, Poland and Finland to 7% in Hungary with 5%, Romania, 4%, excise duties and environmental taxes) and a downward trend in the rate of taxation in the case of direct taxes through progressive taxation of personal income, which led to increased revenue due compulsory levies in most countries of the European Union. 13 EU countries have acted to increase the VAT rate between 2010-2014.

Keywords: *tax burden, tax system, tax revenue, indirect taxes*

JEL Classification: *H21, H87*

1. Introduction

In order to fulfill its functions, the state appeals to diverse sources of funding, such as tax levies, public credit and revenues realized by state institutions in the provision of services for community members. Taxes are the oldest and most traditional means available to the State for providing public funds.

Traditionally, taxes are classified into: direct and indirect, based on factors such as tax, legal, administrative and economic, reflecting their structure, showing the importance of how they influence the income of the taxpayers and the dynamics of revenue mobilized at the budget.

Direct taxes allow customization of the taxation by establishing a correlation between the tax base and the personal situation of the taxpayer by applying progressive rates or through deductions, reductions, increases of taxes or by exemptions, allowing a better redistribution of GDP. They are nominal imposed on the natural taxpayers or legal persons presenting a final tax incidence on them, their effectiveness depends on individual income levels.

Indirect taxes are included in the prices of goods and services under different forms and names as: value added tax, excise duty. In this case, we can discuss about tax repercussions in the sense that their payment is made to the budget by the economic agent, and those who support them effectively are final consumers. They do not take into account the bearer contributory power being unfair to them, but presents a high tax yield.

They are regressive, an optimal fiscal policy must take into account the reduction of them.

Changes in the level of taxation is the result of economic activity, size of public spending financed, legislation in this field with implications for the tax rate and tax base, procedures for amending the amount of tax liabilities but also for the financial emerging macroeconomic fluctuations.

I believe that the success of fiscal policy depends on the ability of the Government to determine the optimal threshold of fiscal pressure to ensure the maximization of revenue raised from budget, because an excessive taxation lead to fiscal abstinence embodied in refraining taxpayer to conduct business generating taxable income and to the increase of the phenomenon of tax evasion, the authorities resorting to harsher sanctions applied in tax field, the result of the inability of the public authorities to ensure compliance of taxpayers volunteer to pay taxes and fees.

2. Taxation in the European Union

The years preceding the financial crisis were characterized by a high tax burden at EU level compared with that recorded by countries with advanced economies (US, Japan, China, Russia) due to the increasing role of the public sector. The analysis reveals a high rate of taxation on consumption and a lower tax burden for labor and capital among EU countries.

Subsequently, the tax rate gap widened, reaching to about 15% between member states of the EU and the US, and 10% compared to Japan, following the decisions taken by EU countries towards fiscal consolidation, either by reducing spending, or by increasing taxation. Taxation at EU level was approximately 39%, taxes in the euro area (19) was greater than the european average because of high budget deficits and rising sovereign debt, while in developing countries, taxation is reduced.

Taxation at EU level is dependent on European Fiscal Pact (Treaty on Stability, Coordination and Governance in the Economic and Monetary Union) entered into force on 1 January 2013, which provides a sound fiscal governance, avoidance of excessive deficit by member states.

The Treaty stipulates the obligation to maintain a structural deficit for each member state, with a lower limit of 0.5% and a maximum of 1% of GDP, and government debt below 60%. Cyclical budget deficit plus the structural deficit should not exceed 3% of GDP. Failure to comply with this goal lead to financial penalties of up to 0.1% of GDP for that state.

Achieving the goals mentioned above required tax reforms in order to increase revenues.

In the period 2010-2013, the overall tax rate in the 28 EU Member States increased from 39.4% to 40.5% of EU GDP.

Share in GDP of compulsory levies is uneven across the EU. In the year 2013 it varied from 30% in Lithuania to 50% in Denmark.

In developed countries the tax burden is much higher than those in developing countries.

In these circumstances, it is necessary to rearrange the tax systems within the community area on a new base addressing the fair redistribution of the tax burden as well as reduce tax evasion by harmonizing national legislation with the European.

Architecture tax systems on the EU countries is different. Their analysis shows that the new member countries focus on indirect taxes, their share in total budget amounts mobilized increasing from year to year, in particular in the case of excise, due to higher exchange rate for the euro (excise duty being fixed in euro, after being converted into the national currency of the countries that are members of the euro area) and their alignment to the minimum level set by European directives, while in other countries a major contribution to the formation of budget revenues is held by the income taxes.

According to Eurostat data, the lowest level of direct taxes are recorded in the following countries: Croatia (17.1% of total), Lithuania (18%), Bulgaria (18.8%), Hungary (19.2%) and Slovakia (19.7%), this emphasis on indirect taxes, while in Denmark, Ireland, Great Britain, Sweden and Norway have a high share of direct taxes in total tax revenues.

3. Taxation in the European Union

Along with direct taxes, indirect taxes have an important role in the total tax revenues mobilized budget.

Judicious use of indirect taxes can decrease tax evasion and as a result the overall level of taxation rate, allowing taxpayers to use revenues either for consumption or for investment.

The most common form of indirect tax settlement is the consummation taxes these fees being included in the sale price of consumer goods and services.

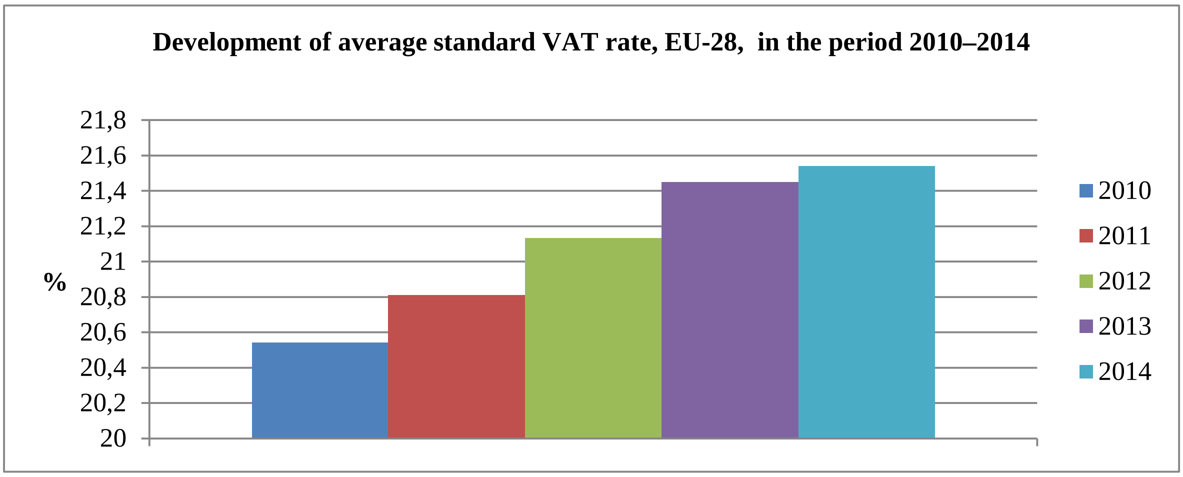
In the concept of the romanian economist Iulian Văcărel consumption taxes are placed on products that are consumed in large quantities that can not be replaced by buyers with others, so that in this way the tax constantly have returns a high tax.

Consumption tax on product shall be calculated as a fixed amount per unit of measure, or based on percentages applied to the sale price, the rates used are different from one country to another and from one product to another.

In total consumption taxes, VAT accounts for two thirds and three quarters. In Sweden, it has a share of 74% of all consumption taxes, while in Italy is 56%.

Since 2010, the average standard VAT rate increased from 20.54% to 21.54% in 2014, as shown in figure number 1.

Figure no. 1 **Average standard VAT rate, EU-28, in the period 2010–2014**



During this period 20 member states increased standard VAT rate, as shown in table number 1.

Table no.1. **VAT rates applicable in the Member States of the European Union**

	VAT	2010	2011	2012	2013	2014
Belgium	Standard	21	21	21	21	21
	Reduced	6/12	6/12	6/12	6/12	6/12
Bulgaria	Standard	20	20	20	20	20
	Reduced	7	9	9	9	9
Czech Republic	Standard	20	20	20	21	21
	Reduced	10	10	14	15	15
Denmark	Standard	25	25	25	25	25
	Reduced	-	-	-	-	-
Germany	Standard	19	19	19	19	19
	Reduced	7	7	7	7	7
Estonia	Standard	20	20	20	20	20
	Reduced	9	9	9	9	9
Ireland	Standard	21	21	23	23	23
	Reduced	13.5	13.5	13.5	13.5	13.5
Greece	Standard	23	23	23	23	23
	Reduced	5.5	6.5	6.5	6.5	6.5
Spain	Standard	18	18	18	21	21
	Reduced	8	8	8	10	10
France	Standard	19.6	19.6	19.6	19.6	20
	Reduced	5.5	5.5	5.5	5.5	5.5
Croatia	Standard	23	23	25	25	25
	Reduced	10	10	10	5	5
Italy	Standard	20	20	21	21	22
	Reduced	10	10	10	10	10
Cyprus	Standard	15	15	17	18	19
	Reduced	5/8	5/8	5/8	5/8	5/9
Latvia	Standard	21	22	22	21	21
	Reduced	10	12	12	12	12
Lithuania	Standard	21	21	21	21	21
	Reduced	5/9	5/9	5/9	5/9	5/9
Luxembourg	Standard	15	15	15	15	15
	Reduced	6/12	6/12	6/12	6/12	6/12
Hungary	Standard	25	25	27	27	27
	Reduced	5/18	5/18	5/18	5/18	5/18
Malta	Standard	18	18	18	18	18
	Reduced	5	5/7	5/7	5/7	5/7

	VAT	2010	2011	2012	2013	2014
Netherlands	Standard	19	19	19	21	21
	Reduced	6	6	6	6	6
Austria	Standard	20	20	20	20	20
	Reduced	10	10	10	10	10
Poland	Standard	22	23	23	23	23
	Reduced	7 (3)	5/8	5/8	5/8	5/8
Portugal	Standard	21	23	23	23	23
	Reduced	6/13	6/13	6/13	6/13	6/13
Romania	Standard	24	24	24	24	24
	Reduced	5/9	5/9	5/9	5/9	5/9
Slovenia	Standard	20	20	20	22	22
	Reduced	8.5	8.5	8.5	9.5	9.5
Slovakia	Standard	19	20	20	20	20
	Reduced	6/10	10	10	10	10
Finland	Standard	23	23	23	24	24
	Reduced	9/13	9/13	9/13	10/14	10/14
Sweden	Standard	25	25	25	25	25
	Reduced	6/12	6/12	6/12	6/12	6/12
United Kingdom	Standard	17.5	20.0	20.0	20.0	20.0
	Reduced	5	5	5	5	5

Source:http://epp.eurostat.ec.europa.eu/

In 2014, VAT standard rate increases were recorded: France (from 19.6% to 20%), Italy (from 21% to 22%) and Cyprus (18% to 19%). The highest levels of standard VAT rate are in Hungary (27%), Croatia (25%), Denmark (25%) and Sweden (25%), while the lowest are in Luxembourg (15%) and Malta (18 %).

Regarding the reduced rate, the countries with the highest percentage are: Czech Republic (15), Finland (10/14), Austria (10) and the lowest rate is found in the UK (5) Croatia (5).

Along with VAT, a significant share of consumption taxes have excise taxes, particularly energy products representing 16%, followed by tobacco and alcohol by about 8%.

Member state of EU apply the Directive 2008/118 / EC on the general arrangements for excise duty. They grew at a steady pace in countries that joined the EU after 2007 in order to achieve the minimum assumed with the signing of the Treaty of Accession to the European Union.

4. Conclusions

As practice has shown it, maintaining a high level of taxation in particular for indirect taxes lead to lower consumption by the population because of diminishing demand for goods and services due to lower purchasing power, with repercussions on investment and hence on the employability of the workforce.

The immediate effect of that mention above has been the reduction of income mobilized to the budget from tax revenue.

Many EU member states that have opted to increase the VAT rate realized that revenue growth was insignificant.

By 2015, some european countries have announced plans to reduce the standard VAT rate, among them being Romania.

5.Bibliography

[1] **Haralambie G.,** Taxation, Theory and applications, ProUniversitaria Publishing House, Bucharest, 2014;

[2] **Hoanţă N.,** Tax evasion, C.H. BECK Publishing House, Bucharest, 2010;

[3] **Ţâtu L., Şerbănescu C., Ştefan D., Cataramă D., Nica A., Miricescu E.,** Taxation, from law to practice, 8th Edition, C.H. BECK Publishing House, Bucharest, 2013

[4] **Văcărel I., Gheorghe B., Bercea F., Anghelache G., Moşteanu T., Bodnar M., Georgescu F.,** Public finances, Sixth Edition, Didactic and Pedagogical Publishing House, Bucharest, 2007

[5] ∗∗∗http://ec.europa.eu/eurostat;

[6] ∗∗∗ www.insse.ro