TAXES ON CONSUMPTION IN SOME EUROPEAN UNION COUNTRIES

ŞERBAN (BOICEANU) CORINA, PĂTRAŞC MIHAELA
Tibiscus University Timişoara, România

Abstract:
The paper studies the development, over the period 2000-2010, of tax revenues in eight EU countries. Taxes have been analyzed according to the standard structure, as well as to the new economic classification proposed by the Directorate-General for Taxation and Customs Union.

Key words: *taxes, budgetary revenue, ITR*

JEL classification: *H20,H21,Hh87*

The results of national fiscal policies, consisting in the size of the revenue collected by the central government consolidated budget, are a tool within reach of national governments to ensure a balanced budgetary policy in order to maintain the lowest budget deficits and public debt, therefore a decent level of national welfare.

The concept of national sovereignty is currently experiencing a new approach however, due to the integration of tax policies of the member countries of the European Union in the context of general policies and agreements of the European Union to achieve socio-economic prosperity and security in Europe. Although tax policy is vital for each country, its effects reaching beyond national borders easily influence the budgetary policies of neighboring countries, members or non-members of the European Union.

Currently, due to the strong financial crisis that has affected the whole world, the issue of ensuring balanced national budget policies is increasingly present. The European Union has reached the need for a financial treaty to guarantee, for the future, that no state will jeopardize Europe's financial balance (especially in the euro area). Member States will have to apply national fiscal policies by similarity.

Twenty-five European leaders signed on 1 march 2012 the *Treaty on Stability, Coordination and Governance* aimed at strengthening fiscal discipline and introducing stricter surveillance within the euro area, in particular by establishing a "balanced budget rule". The main elements of the so-called fiscal compact include a requirement for national budgets to be in balance or in surplus, a criterion that would be met if the annual structural government deficit does not exceed 0.5% of GDP at market prices. This balanced budget rule must be incorporated into the member states' national legal systems, and in the event of deviation from this rule, an automatic correction mechanism will be triggered. The treaty also contains provisions on the coordination and convergence of member states' economic policies and on governance of the euro area.

That is why the issue of tax harmonization in the EU has arisen, an already accepted issue, even though partially, especially when it comes to indirect taxes (where, as widely known, the European customs tariff was generalized, intra-community custom duties were abolished, VAT and the main types of excise duties were harmonized); further solutions are needed when it comes to direct taxes, still under each country's national sovereignty.

In this paper, we have analyzed the development of budgetary revenues from eight EU countries, according to different types of structure, over the period 2000-2010, to highlight the reasons for creating the treaty.

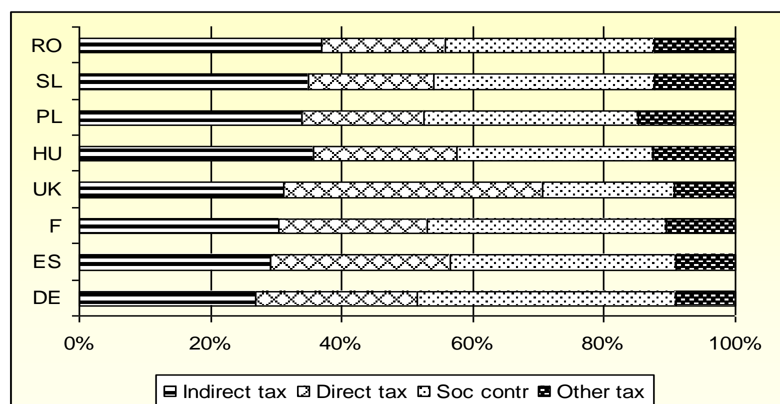

Figure 1 Average structure of government revenue (% of TR) 2000-2010
Source: adaptation from Government Finance Statistics

The analysis of the average structure of government revenue and its major components (including mandatory social security contributions and revenue from government economic activities) over the period 2000-2010 in figure no.1 reveals that the largest share in total government revenue is held by *revenues from taxes and duties*, which exceed 50% of the total government revenue. Great Britain holds the first position, with a 71% share of revenues from taxes and duties in total government revenue, exceeding by far European averages (around 60%). Spain has a share of taxes and duties close to the European average (57% of total revenue), and Romania with 56%. Lower shares of revenues from taxes and duties are found in Poland (52 %), where besides social security contributions, other current revenues hold a significant share (15% of total revenue). Germany holds the lowest share of revenues from taxes and duties of all countries under study, 51.5% of total government revenue, not because of low taxation or a poor representation of such revenues within taxation structure (Germany being reputed as a high taxation country throughout the European Union), but because of the higher share of revenues from social security contributions (39.5% of total revenue)[1].

Generally, the Eastern European Member States, which are often characterized by lower taxation, frequently differ also in terms of their composition; in particular, while most Member States raise roughly equal shares of revenues from direct taxes, indirect taxes, and social contributions, the eastern Member States frequently display a substantially lower share of direct taxes in the total. One of the reasons for the low direct tax revenue can be found in the generally more moderate tax rates applied in the Eastern Member States for corporate tax and personal income tax.

In what concerns *direct taxes*, their average in 2000-2010 varies between 18.45% of total revenue in Poland and 39.54% of total revenue in Great Britain, where they represent the most important source of government revenue. In economically developed countries *direct taxes* hold shares around 25%, while in former communist countries their share is lower because of the economic instability they experienced in the period under study. Spain holds quite a significant share of direct taxes in total government revenue (27.6%), larger than Germany’s (24.6%) or France’s (22.6%). During the years of economic growth, Hungary held a consistent share of direct taxes in total government revenue, with an average of 21.68%, close to the one in highly

[1] Şerban (Boiceanu) Corina, Ioan Talpoş - General Government Revenue In Certain European Union Countries, Annals of the University of Petroşani, Economics vol 10(2), 2010

developed countries. Unfortunately, Poland and Romania hold very low shares of direct taxes in total government revenues (19%). One of the reasons for the low direct tax revenue can be found in the generally more moderate tax rates applied in the Eastern Member States for corporate tax and personal income tax (with minimum corporate taxes 10% in Bulgaria, followed by Romania with 16%).

Revenues from social security contributions come second as importance within government revenues, reaching more that 30% averages throughout the entire European Union.

'Indirect taxes' are defined (in the ESA95 system) as taxes linked to production and imports, i.e. as compulsory levies on producer units in respect of the production or importation of goods and services or the use of factors of production. They include VAT, import duties, excise duties and other specific taxes on services (transport, insurance etc.) and on financial and capital transactions. They also include taxes on production defined as 'taxes that enterprises incur as a result of engaging in production', such as professional licenses, taxes on land and building and payroll taxes.[2]

The low share of direct taxes in the Eastern Member States is counterbalanced by generally higher shares of either indirect taxes or social contributions, or both, in total tax revenues.

In what concerns indirect taxes, the situation is just the opposite, meaning that they have the largest share within the structure of budgetary revenues in the former communist countries (over 34% of total revenue). The average of indirect taxes over the last ten years, is ranging from 26.8% of total revenue in Germany (minimum) to 36.8% of total revenue in Romania (maximum of the countries studied). In Spain, France and the UK, the share of indirect taxes is about 30% of total revenue, while in new countries it exceeds 34% of total revenue, due to a higher indirect tax burden, in order to compensate for the low level of direct tax revenues. The table below shows the increase in VAT rates after the onset of the economic crisis in countries in which VAT revenues are one of the most important resources of the national budget (RO, HU, SP, PL), affected by the decrease in the final consumption of the population.

Table 1 VAT rates in some European countries (% standard rate/ % reduced rate)

Country	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
EU-27	19,3	19,5	19,5	19,4	19,6	19,4	19,5	19,4	19,8	20,4	20,7
DE	16/7	16/7	16/7	16/7	16/7	16/7	19/7	19/7	19/7	19/7	19/7
F	19,6/5,5	19,6/5,5	19,6/5,5	19,6/5,5	19,6/5,5	19,6/5,5	19,6/5,5	19,6/5,5	19,6/5,5	19,6/5,5	19,6/5,5
UK	17,5/5	17,5/5	17,5/5	17,5/5	17,5/5	17,5/5	17,5/5	17,5/5	15/5	17,5/5	20/5
ES	16/7	16/7	16/7	16/7	16/7	16/7	16/7	16/7	16/7	18/8	18/8
HU	25/12	25/12	25/12	25/12	25/12	20/5	20/5	20/5	20/5	25/18	25/18
PL	22/7	22/7	22/7	22/7	22/7	22/7	22/7	22/7	22/7	22/7	23/8
RO	19	19	19	19/9	19/9	19/9	19/9	19/9	19/9	24/9	24/9
SL	19/8	20/8,5	20/8,5	20/8,5	20/8,5	20/8,5	20/8,5	20/8,5	20/8,5	20/8,5	20/8,5

Source: Taxation trends in the European Union, 2011 edition

A new tax structure derived from the separation of taxes into three economic functions: taxes on consumption, labor and capital add up to the total of taxes received by the general government.

Taxes on consumption are defined according to the new classification methodology prepared by the Directorate-General for Taxation and Customs Union, as taxes levied on transactions between final consumers and producers and on the final consumption goods[3].

[2] Taxation trends in the European Union, 2011 Edition
[3] In the ESA classification these can be identified as the following categories: Value added type taxes, Taxes and duties on imports excluding VAT (Taxes on products except VAT and import duties less,

Table 2 Taxes on Consumption as % of Total Taxation

Country	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
EU (27)	28,4	28,1	28,1	28,4	28,4	28,5	28,2	27,9	27,9	27,5	27,7
United Kingdom	33,3	32,2	32,0	32,9	33,4	32,5	31,1	29,8	30,0	28,3	29,8
Germany	25,2	25,2	26,2	26,2	26,4	26,2	26,1	25,9	27,0	27,0	27,8
Spain	29,8	29,2	28,4	27,9	28,2	28,0	27,5	26,7	25,4	25,2	23,6
France	27,0	26,2	25,7	26,1	26,0	26,0	25,8	25,3	25,2	25,0	25,6
Hungary	39,8	39,7	37,9	37,2	38,7	39,8	38,7	37,4	36,5	35,9	38,1
Poland	35,2	34,8	34,5	36,2	37,0	37,4	37,6	37,3	37,1	37,6	36,2
Romania	37,3	38,1	37,1	38,9	41,7	40,9	44,2	42,3	40,7	40,1	38,4
Slovenia	39,0	37,0	35,6	36,2	36,1	35,4	34,7	34,4	34,9	35,9	37,3

Source: Taxation trends in the European Union, 2011 Edition

We will proceed with the analysis on taxes on consumption, which are a great/significant part of the public revenues in a growing number of European countries.

A lot of variation can be seen of the overall level from consumption taxes. In particular, despite the fact that the most important indirect taxes are harmonized at EU level, there is substantial variation in the amount of revenues raised from consumption taxes. This can be explained, because that harmonization usually does not directly translate into the equalization of actual tax rates, but that structures and some minimum requirements are harmonized (e.g. minimum excise duties on mineral oils and tobacco).

Over the past decade, in the countries studied, consumption taxes have been between 23.6% and 44.2% of total taxation, the EU- 27 average decreasing over this period from 28.4% to 27.5% (2008). Although the evolution of the values in various European countries is quite different, the phenomenon can be explained, on the one hand, due to the lower consumption during the economic crisis. We can notice a group of the countries studied: the well-developed countries have tax revenues on consumption below 30% of total taxation, while former communist countries have a share of over 30% of total taxation, with maximum values recorded in Romania, the same as for indirect taxes (the maximum for the period being 44.2% of total taxation). The general explanation is that the final domestic consumption amounts to a large domestic share of GDP in the new member countries (phenomenon also highlighted within the standard structure of budgetary revenues, where indirect taxes represent an important share within budgetary resources).

For many of the old Member States, the low share from consumption taxes can bee explained through high labor taxation (France, Germany), and for countries such as Spain, through relatively low VAT revenue (with standard VAT rate 16% - see table 1) which are applied to a relatively large base. However, currently the dispersion among the Member States is still larger compared to the one in 2000.

A more pertinent analysis of the tax burden within the EU is achieved by means of implicit tax rates. They are computed as the ratio of total tax revenues of the category (consumption, labor, and capital) to a proxy of the potential tax base defined using the production and income accounts of the national accounts. Implicit tax rates measure the actual or effective average tax burden directly or indirectly levied on different types of economic income or activities that could potentially be taxed by Member States.

---

stamp taxes, taxes on financial and capital transactions, export duties and monetary compensatory amounts on exports), other taxes on production (taxes on international transactions, taxes on pollution, under-compensation of VAT (flat rate system)) and other current taxes (Poll taxes, Expenditure taxes, Payments by households for licenses)

Implicit tax rates allow the monitoring of tax burden levels over time (enabling the identification of shifts between the taxation of different economic functions e.g. from capital to labor) and across countries[4].

The *Implicit tax rate on consumption* (ITR)is defined as all consumption taxes divided by the final consumption expenditure of private households on the economic territory. The aggregate level of the implicit tax rate on consumption used in this study classifies consumption taxes into four main sub-components: VAT, energy, excise duties on tobacco and alcohol and residual[5], among which the VAT component is the largest.

Table 3 Implicit rates on consumption in some European countries 2000-2009 (%)

Country	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
EU-27	**20,8**	**20,3**	**20,5**	**20,9**	**21,3**	**21,7**	**21,8**	**22,0**	**21,4**	**20,9**
DE	18,9	18,5	18,5	18,6	18,2	18,1	18,2	19,7	19,7	19,8
F	20,9	20,3	20,3	20,0	20,1	20,1	19,9	19,5	19,1	18,5
UK	18,9	18,7	18,5	18,8	18,6	18,2	18,0	18,0	17,5	16,8
ES	15,7	15,2	15,4	15,8	16,0	16,3	16,3	15,9	14,1	12,3
HU	27,5	25,6	25,3	26,0	27,4	26,3	25,6	27,0	26,6	28,2
PL	17,8	17,2	17,9	18,3	18,4	19,7	20,4	21,4	21,1	19,0
RO	17,0	15,6	16,2	17,7	16,4	17,9	17,8	18,0	17,7	16,9
SL	23,5	23,0	23,9	24,0	23,9	23,6	23,8	23,8	23,9	24,2

Source: Taxation trends in the European Union, 2011 edition

Overall, the EU-27 average implicit tax rate on consumption (between 20-22%) has lower values than the implicit tax rate on labor, despite their gradual decline (from 36% to 33.8%), and implicit tax rates on capital (nearly 24%).

From the table no. 3, one could notice that the implicit tax rate on consumption decreased by 1 percentage points from 2007 to 2009. There are various possible reasons for this development. In part, it is likely to be the consequence of a shift in consumption patterns towards primary goods, which are normally subject to lower VAT rates. In addition, involuntary inventories accumulated by businesses due to the severity of the downturn at the end of 2008 might have led to significant VAT refunds by tax administrations.

In 2009, in **Romania,** the implicit tax rate on consumption was at 16.9 %, 4 percentage points lower than the EU-27 average. Due to the very high share of final consumption of households in GDP, consumption taxes as per cent of total taxation are, nevertheless, among the highest in the group of the countries under study (38,4%) with Hungary, with 10 % more than the EU average (27.7 %, EU-27).

Although in the European Union, the first common financial policies have led to a relative harmonization of indirect taxes, in the analysis performed, the "Puzzling Tax Dynamics" has appeared, therefore, still causing several heated debates about the superiority of one type of tax over the other.

It is often claimed that for growth, taxes on consumption are better than taxes on income. The main arguments present the way that different taxes affect savings and labor supply decisions.

Between the two types of taxes the different treatment of savings is the key element, taxes on income require savings to bigger taxation than taxes on consumption, because taxes on income often include both income the saved and the income from

[4] Taxation trends in the European Union, 2011 Edition

[5]The approach taken in the report- Taxation trends in the European Union, 2011 Edition- has been to introduced the first time in the 2007 report constructed on the basis of the National List of Taxes supplied by Member States

savings. In contrast, taxes on consumption include just the income from savings when it is spent[6].

These arguments provide satisfactory support for a move in the balance of taxation towards taxes on consumption.

Taxes on income discourage labor supply more than taxes on consumption – and produce the redistributive effect of taxation. But the efficiency advantages of taxes on consumption (to improve economic efficiency and increase growth) are normally associated with a wide gap between rich and poor (i.e. the redistributive effect of the tax system). Therefore, if a move towards taxes on consumption would increase incentives to work, it would also increase social inequality.

The opponents of indirect taxes claim that competition produces a race to the bottom in taxation of capital and substantial welfare gains for the countries, as they replace distortionary capital income taxes with higher, more efficient consumption taxes. "Countries with relatively inefficient tax systems can experience significant welfare losses if, as a byproduct of financial integration, they find themselves competing over capital income taxes against countries with relatively efficient tax systems. In this case, and from the perspective of the efficiency effects of direct and indirect taxes emphasized in this paper, harmonization of indirect taxation is undesirable because it forces countries to respond to the adverse effects of tax competition on tax revenues by raising highly-distorting labor income taxes. Harmonization of taxation on immobile factors and freedom to adjust consumption taxes to make up for the tax revenue lost to capital income tax competition would be far more desirable."[7]

Several new global economic events tend to continue in the process of raising many questions about the possibility of tax policy cohesion in sovereign countries, to ensure both the maintenance of national welfare, as well as a European financial balance.

BIBLIOGRAPHY

1. Boiceanu Corina - Sustainability of Public Finance in United Kingdom, Sustainability of public finance in United Kingdom. Anale-Ştiinţe Economice, volXIII, Ed. Eurostampa, Timisoara 2007

2. Mendoza Enrique G. ¸ Linda L. Tesar - Explaining the Puzzling Tax Dynamics of the European Union: Quantitative Lessons of Tax Competition in Financially Integrated Countries, Festschrift in honor of Guillermo A. Calvo, April 15-16, 2004

3. Şerban (Boiceanu) Corina, Ioan Talpoş - General Government Revenue In Certain European Union Countries, Annals of the University of Petroşani, Economics vol 10(2), 2010

4. ***** -** Consumption Taxes: the Way of the Future? OECD Policy Brief Oct 2007, www.oecd.org/publications/Policybriefs

5. *** - Taxation trends in the European Union, 2011 Edition, http://epp.eurostat.ec.europa.eu/portal/

[6] Consumption Taxes: the Way of the Future? - OECD Policy Brief

[7] Enrique G. Mendoza¸ Linda L. Tesar - Explaining the Puzzling Tax Dynamics of the European Union: Quantitative Lessons of Tax Competition in Financially Integrated Countries