FISCAL UNION BETWEEN MZTH AND REALITY – TAX DEVELOPMENTS AND TRENDS IN THE EUROPEAN UNION AND EURO AREA

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Abstract

European integration means "a stage towards the organized world of tomorrow" as stated by Jean Monnet, involving, consequently, the correlation between economic and social values and objectives. Given the context, we notice the importance and the role of national policies in the European space, with a special emphasis on the monetary and fiscal-budgetary aspects.

This study focuses on the research of the fiscal-budgetary integration, of the tax system evolution in the EU member states, due to the consequences of taxation upon the economic and social development of any country, given the frequent reforms to which the tax system was subjected with time.

Keywords: tax system, corporate tax, income tax, VAT

1. Introduction

The European Union enlargement, as well as the full integration within its structures, represents a challenge both for its member states, as well as for the ones in the accession process. The importance of full integration has already been highlighted in 1950 by Jean Monnet - "primus inter pares", who on May 9th conceived the Schuman Plan, accounting for the first stage of the European organization for economic integration.

Although European integration means the transfer of national competencies from strictly individualized fields to an European organization, where sovereignty is jointly exerted, this study deals with only one field of the economic integration, i.e. the fiscal field, due to the influence of the tax system, analyzed as an instrument of the tax policy, upon the taxation level and due to its economic, financial, social and political implications.

2. Historical Evolution of Tax System

The tax system's role in the economic activity was perceived differently from one historical stage to another, from one group of states to another and differently even for countries that belong to the same group, according to their economic and social development. Consequently, the tax system as tax policy instrument contributes to the growth and to the development of the economic potential of the society in general and to the satisfaction of the population's social needs, in particular.

Given the context, we observe the need to know and to understand the way in which the tax system is operating, starting with the first theoretical approaches of the doctrine makers that tried to explain the utility of taxes, the determination of an optimum level for such taxes, as well as aspects regarding their collection.

By means of consequence, according to the physiocrats' conception regarding the economic life, the state's revenue has as its sole source the net product, because, in their opinion, the taxation of the net product will not affect the conditions of simple reproduction. Elaborating on this theory, Abatale Baudeau proposes the introduction of a single tax, but this idea is rejected by physiocrats because they consider that "this tax will not be felt by anyone, because no one will pay the tax"[1]

Following this conception, the physiocrats' view develops by elaborating new theories, much closer to the economic reality, based on the idea that "the state budget is fed by means of several channels and nowhere in the history did ever exist a single tax system, but a multiple taxation system."[2]

An important contribution in the development of taxation was brought by Adam Smith, who introduced for the first time in economy the concept of

[1] Gide Ch., Rist Ch., "*Istoria doctrinelor economice" (History of Economic Doctrines)*, Ed. Casei Scolilor, Bucharest, 1926, pg. 63;
[2] Popescu Gh., "Evolutia gandirii economice" (*Evolution of Economic Thought*) – 3rd edition, Ed. Academiei Romane - Bucharest, Ed. Cartimpex – Cluj, 2004, pg. 120;

„invisible hand” and used the tax policy as an instrument for economy stabilization. Starting from the premise that the state has certain liabilities in order to protect and to safeguard the society’s interests, among which we mention national defence, creation of justice or execution of public works, such obligation becomes more an more expensive, consequently, expenses grow becoming increasingly more difficult to be incurred; thus, as society develops, the expenses must be incurred through the general contribution of the entire society in the form of taxes and fees which will meet certain requirements and principles.

Thus, Adam Smith in ”*The Wealth of Nations*”, formulates for the first time in the evolution of economy the general principles of taxation, which include aspects regarding their arrangement and collection.

The 13 principles he formulated are the following: tax fairness, certitude of taxation, convenience of tax levy, performance of taxes, taxation uniqueness, taxes stability, taxes elasticity, taxation proportionality and progressiveness, as well and taxation substantiality, simplicity, neutrality and morality.

In the modern taxation theory, the stress is put on finding an efficient modality to collect taxes. Over this period, we notice the contribution of Frank Ramsey, who considers that ”the highest taxes must be enforced upon those receipts or disbursements with the highest price inelasticity rate in relation to the offer or demand”[1], obtaining thus an income growth, without recording a significant efficiency loss.

Shortly after the studies elaborated by Ramsey, “the father of supply-side economics”, Arthur Laffer, distinguished himself on one hand by his opinion according to which the tax rate cut involves a reduction of the tax revenues, thus the arithmetical effect being obvious, and on the other hand, the tax rate cut may increase labour and production, leading to the growth of the public revenues, thus to the occurrence of the economic effect.

Nevertheless, the start of the economic recession in 1929, respectively, 1933, determined the reformation of the economic thinking at that time. In this context, a new conception formulated by Keynes comes to the fore regarding the role of the state’s intervention in the economy, as well as the origination of new mechanisms for the functioning of the market economy

[1] Samuelson P.A., Nordhaus W. D., “Economie politica” *(Political Economy)*, Ed. Teora, Bucharest, 2000, pg. 380;

based on the use of financial and money instruments, considered by P. Samuelson as extremely efficient automatic stabilization forces.

Thus, the measures promoted by Keynes reveal the fact that "taxes, state loans, public expenditures etc. have been used by the public authorities as instruments for the promotion of economic growth, for economic cycle correction, labour force occupancy, restoration of general balance disturbed by conjunctural factors".[1]

3. Tax System in the European Context

Starting from the analysis of the historical evolution, one may notice that the economic theories were in a continuous adapting process to the economic and social developments and, in the context of tax integration a new approach based on the current reality becomes necessary.

To this respect, we note the need for a common monetary policy and for its coordination with the national tax policies, but such aspect may lead to ideological divergences, to completely contrasting ideas upon the state's economic policy's objectives, for establishing the priority among such and the intervention's degree of intensity. This is why, by applying the monetary and budgetary convergence criteria provided in the Maastricht Treaty it is possible to establish the purpose, to choose the corresponding means and methods, it is also possible for a certain functionality to exist, as well as a purpose of the tax integration.

Meanwhile, there is the need to unify and coordinate the national tax policies in the European Community area based on a series of principles, methods and techniques. Thus, the main instrument used by the European Union in order to accomplish the standardization of tax policies at the level of the 27 member states consists in the coordination of taxes, considering the two European integration principles: the principle of observing the national tax policies and the principle of subsidiarity. In parallel, for the Euro Area, the Stability and Growth Pact provides the application of the tax conduit principles, especially related to the adjustment of the structural budgetary balance.

Nevertheless, the regulations of the Maastricht Treaty and of the SGP are not sufficient for the efficient operation of a single market, because the

[1] Vacarel I. Bistriceanu Gh., "Finante publice" *(Public Finance)*, 6th edition, Ed. Didactica si Pedagogica, 2007, pg. 84-85;

existence of 27 different tax systems involves a series of costs experienced in the trading activity, in the economic entities' activity, as well as at the level of individuals, hence, the implementation of the Aquis on taxation becomes necessary, on its two components: direct taxation and indirect taxation.

From the direct taxation viewpoint, the short-term unification of legislation is difficult to achieve. Currently, the European directives refer only to less relevant aspects in relation to direct taxation. The innovation proposed by the European Commission is focused on the corporate tax. It aims at the introduction of a system of rules applicable by the economic entities that unfold their activity in the European Union.

This system of rules is known as "common consolidated corporate tax base", used for the taxable profit calculation. The new tax system aims at the calculation of the tax base using a single formula, by filing a single tax declaration for the entire activity of the economic operators within the European Union at the "single counter", as well as at aspects regarding the distribution of the consolidated tax base using "a formula that includes three equal-value factors (labour force, assets and sales),"[1] but it does not force the member states to adopt a single corporate tax rate.

Such an approach is necessary for:

- "cutting the company conformity costs as regards the corporate tax;
- removing double taxation for the companies that operate within the internal market;
- removing over-taxation for cross-border activities"[2]; thus, limiting the negative effects induced by the existence of the current numerous tax obstacles..

In relation to the income tax, it may be noted that only few EU member states use the single income taxation rate, the most frequently used method being the progressive income taxation in instalments. Likewise, it is worth mentioning that the number of instalments, the taxation rates level, the determination of the taxable income, as well as the income type subjected to taxation varies from one state to another according to the national legislation of each such state.

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[1] European Commission, "Proposal for a Council Directive on a Common Consolidated Corporate Tax Base", 16.03.2011, pg.3;

[2] European Commission, "Proposal for a Council Directive on a Common Consolidated Corporate Tax Base", 16.03.2011, pg.2;

Thus, in Romania, as starting with 2005, a single 16% rate was introduced, adopted on January 1st, 2012 in Hungary, as well, applied on its territory to all income categories. In some states in the Euro Area, such as Germany, progressive rates taxation is used, according to the income size, ranging from 15% to 42%; for the overall annual income, except for allowances, in Malta the tax rates level varies from 15% to 35%, and in the French tax system the rates vary from 5.5% to 41%, the tax on the personal income being levied on the total net income, determined according to the calculation formulas afferent to each income type, including for the incomes that come from external sources, if the contributors are French residents.

As regards indirect taxation, starting with "the year 1975, the Commission's efforts focused on adopting and enforcing the 6th Council Directive on VAT: uniform basis of assessment."[1] At the same time, this programme aimed at simplifying the procedures and formalities applicable to VAT in the intra-community trade, with the purpose of removing misrepresentation in the field of concurrence and of encouraging the SMEs activities within this space.

Currently, the VAT regulations aim at "ensuring the unitary application of the current VAT system..., especially as regards the taxable persons, the supply of goods and of services and the place of taxable operations"[2], and last but not least, the regime of tax rates, of deductions and of mentioning the operations that are exempted from the VAT payment.

In this context, at the European Union level, the standard VAT rates level afferent to the year 2011 ranged between 15% and 25%, the highest rate being levied in states such as Denmark, Hungary and Sweden, and the lowest in Luxembourg and Cyprus, as results from figure no. 1.

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[1] Official Journal C 244, 24/09/1981 P. 0004-0012, „Information from the Commission - programme for the simplification of value added tax procedures and formalities in intra-community trade", pg. 1;

[2] Official Journal of the European Union, Council Regulation no. 282/2011, laying down implementing measures for Directive 2006/112/EC on the common system of value added tax, of 15.03.2011, comma 4;

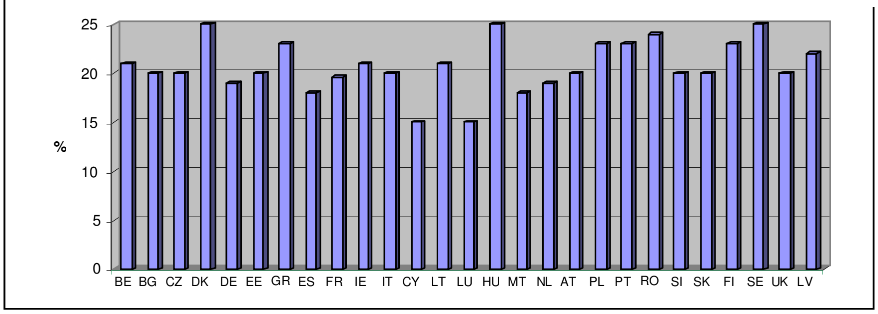


Fig. nr. 1 Nivelul **Fig. no. 1 VAT standard rates level in the EU afferent to 2011**

Source: author's processing of data assumed from the European Commission, „VAT rates Applied in the Member States of European Union", Situation at 1st July 2011

4. Comparative Analysis upon the Results of Enforcing Tax Systems in the EU 27 and in the Euro Area

The analysis upon the results of direct and indirect taxation, within the European Union, as well as in the Euro Area states, allows to highlight the importance of taxes in forming the financial resources necessary for expenditures at community level, and under the economic and social aspect, a major interest is represented by "sizing the part of the Gross Domestic Product took at the state's disposal by means of taxes".[1]

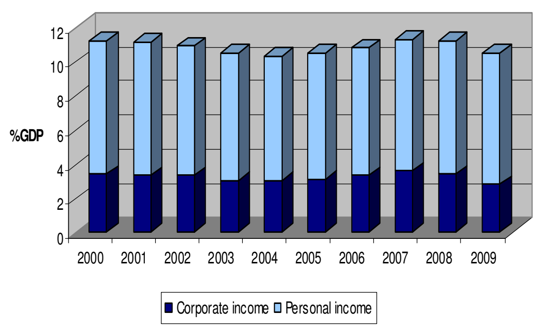
Thus, at the EU-27 level, the total tax revenues (calculated as arithmetic mean) amounted in 2000 at 37% of the GDP, followed by a decreasing tendency of 1% for the following period, amounting in 2009 to 35.8% of the GDP. As compared to the situation recorded in the EU-27, in the Euro Area, the total tax revenues amount afferent to the same period was constantly maintained around 37% of the GDP.

As direct taxation is concerned, the evolution of the corporate tax and of personal income tax collection degree at the EU-27 level as compared to the Euro Area for the period 2000-2009, is highlighted in figure no. 2 and in figure no. 3.

[1] Vacarel I. Bistriceanu GH., ... "Finante publice" *(Public Finance)*, 6th edition, Ed. Didactica si Pedagogica, 2007, pg. 280;

Fig. no 2 Evolution of corporate tax and income tax in the EU-27 for period 2000-2009

Fig. no. 3 Evolution of corporate taxe and income taxe in the Euro Area for period 2000-2009



Source: author's processing after data from European Commission - Taxation and customs union, „Taxation trends in the European Union", Edition 2011

After analyzing the two charts, one may notice that the value of the personal income tax is higher that the corporate tax value at the EU-27 level, as well as in the Euro Area. Given the context, the corporate tax percentage from the GDP ranged between 2.7% and 3.6% in both the cases, and for the income tax, the Euro Area recorded a percentage of 7.8% of the GDP in 2000, respectively, of 7.7% of the GDP in 2009, and in the EU-27, the mean for the period 2000-2009 varied from 7.8% to 8.3% of the GDP.

Indirect taxes varied as percentage from the GDP for the period between 2000-2009, between a minimum of 13.4% in 2002 and a maximum of 14.2% in 2006, and in 2009 they recorded a percentage of 13.4% from the GDP.

Although the European Union member states adopted VAT legislation unification measures due to the remarkable differences of the standard rates (comprised between 15% and 25%) applied at national level or due to the narrowing of the application basis, the VAT percentage from all tax revenues (EU-27) calculated for 2004-2010 is situated below 25%, though increasing as compared to 2000, when it amounted to 19.7%.

For the Euro Area the collections from VAT registered a downward trend over 2007-2010, varying from 6.9% to 6.6% from the GDP.

5. Conclusions

Irrespective of the unfolded economic activity, the evolution of the tax system was perceived differently in every state for every period, according to the economic development degree, according to the standard of living, as well as according to the contributors' capacity to adapt to the new changes. Nevertheless, the financial role of the tax instruments maintains its importance and it is unanimously recognized, and the taxes and fees afferent to the different activities account for the main public resources formation modality.

Following this study, one may notice that, even though the tax unification and coordination process was roughly accomplished, it shows a series of deficiencies as its enforcement at national level is concerned.

The new approaches' implications draw the attention upon the consequences generated by the increase of fiscal pressure, which, within the Euro Area, amounted to 44.5% in 2009 and of the taxation degree, respectively „what percentage of the gross domestic product is concentrated at the state's disposal through taxes, fees and contributions".[1] From this viewpoint, it may be concluded that the states recording a high GDP per inhabitant also have a higher taxation rate, highly influenced by the structure of taxes and fees, by the way in which the matter subjected to taxation is determined and correlated with the progressiveness of the taxation rates.

[1] Vacarel I. Bistriceanu GH., ... "Finante publice" *(Public Finance)*, 6th edition, Ed. Didactica si Pedagogica, 2007, pg. 380.

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