

EVOLUTIONS AND TRENDS ON HARMONIZATION AND TAX COORDINATION

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Abstract

The study of harmonization and tax coordination process is opportune to highlight the importance of a legal framework consistent throughout the Community and ensuring achievement awards Fiscal Union.

An European harmonized and coordinated tax system is beneficial to prevent or mitigate potential negative economic imbalances of the application of the 28 different tax systems on full integration.

In this context, it's necessary to present and analyze the measures taken, methods and techniques used by the Member States in order to achieve harmonization and tax coordination.

Keywords: tax harmonization, coordination of fiscal, direct tax, indirect tax

1. Introduction.

Fiscal policy is considered an essential component in economic policies by all Member States of the European Union. At European level it should be designed and implemented with respect to two European principles, namely that of subsidiarity and acceptance of all other national fiscal policies.

To obtain the purposes of financial stability and economic convergence fiscal policy should include a tax efficient, able to provide the necessary budgetary resources, equitable distribution of tax obligations, not the least discrimination in the application of fiscal rules.

In other words, fiscal policy should be uniform, represented by the European tax system fully integrated, where the internal market distortions caused by the existence of 28 different tax regimes to be removed.

In this context, follow the directions outlined in the text of the Maastricht Treaty, the Stability and Growth Pact or the Fiscal Pact designed to achieve the coordination and harmonization of national fiscal policies.

2. Concepts and significations for the harmonization and tax coordination.

Asymmetry created by applying several fiscal policies in the European Union correlated with the existence of a single monetary policy in the euro area, are two causes that generate negative consequences on the provision and allocation of resources between states, the fair tax competition and to establish a "fiscal balance" between Member States.

In terms of tax, assuming a common position is obviously necessary, thus making it possible to obtain compatibility of tax systems to eliminate existing differences in tax regimes.

Gradually these attempts turned into a real process, known in the literature as the harmonization and tax coordination.

However, its definition has known multiple formulations. The tax harmonization is the process by which laws and legal standards in the field of various tax European countries are improved in order to meet the requirements of the *acquis communautaire*.

On the other hand, complement this fiscal coordination, stressing fiscal policy coherence within the Community.

According to R. Nechita, tax harmonization must „be understood as a compatibility differences, [...] or as an elimination of differences, a uniform tax.”¹

While the process of harmonization and tax coordination was seen as a way to act to eliminate disparities „between national tax systems to the point that they do not distort the allocation of resources between states without being canceled incentives arising from tax competition.”²

Developments and trends manifestation of this process applicable laws targeted specifically direct and indirect taxation. In terms of direct taxation, the tax harmonization aimed to improve the functioning of the tax system in the single market, initially manifested by increasing fiscal coordination between Member States.

Later, the process of harmonization and tax coordination becomes consistent, trying to outline a single architecture to direct taxation. This new construction, have as a prerequisite to obtain uniformity in the administration of taxes, the tax base and tax rates.

The indirect taxation, subject to harmonization process was marked by simplifying the application of value added tax, the calculation of its uniformity and not least to establish limits on VAT rates.

However, harmonization actions were directed and the excise tax regime. Changes were considered to set minimum rates of excise duty (only for certain

¹ Capital newspaper of February 24, 2011, and reappeared in <http://www.ecol.ro/content/europa-are-nevoie-de-concuren%C8%9Ba-fiscala-nu-de-armonizare-fiscala>;

² Negrescu D., Comanescu A., „Trends of tax harmonization in the European Union. Challenges for Romania”, European Institute of Romania, Project SPOS 2007 – Strategy and Policy Studies, Study no. 5, Bucharest, 2007, pp. 42;

categories of products), and rules on the holding, movement and monitoring information for products subject to excise duty.

In these circumstances, we can say that we have the complete harmonization process, characterized by the implementation of a centralized fiscal policy at European level or just coexistence tax regimes as a result of good coordination of fiscal policies.

However, practice shows that in fact tax harmonization imposed observance of the „prevalence of Community rules in relation to national, so that national tax rules to be restructured and adapted as far as possible consistently and fiscal relations between the member countries of the Union to based on fiscal neutrality.”¹

3. Harmonization and tax coordination in the direct tax system.

The onset of the process of harmonization and tax coordination in the field of direct taxation was perceived differently in each of the Member States of the European Union. In large part, this process has taken the form of fiscal reforms, characterized in some cases by implementing its own tax rules and measures at national level and in other situations of improving tax systems already in place, introducing new elements require or recommended by European Union.

However, a different perception of each of the leads on the one hand the EU Restricting freedom and on the other to diminish the possibilities of protection of the internal market; which attracts the several adverse effects on economic and social environment.

In this context, the national direct tax systems must respond to fiscal targets equally to domestic and European requirements on the elimination of double taxation, discrimination, abuse, or non-taxation, tax simplification and lower costs of this procedure.

Tax harmonization trends direct taxes aimed primarily corporate profits, corporate income tax, respectively, and less revenue individuals.

In this respect, tax harmonization and coordination was concentrated on the main elements of the tax, including the tax base may be mentioned, the rate of taxation and the administration of the tax.

The Harmonization of European tax base meet the requirements of a cross-border tax losses reduction, eliminating tax costs, as well as „measures to combat the problems of transfer pricing.”² Currently, the latter being subject to regulations designed to prevent income transferable to another country without being taxed correctly.

A potential solution at this problem was provided by the European Commission in 2001, by which method of calculation of corporate profits has been

¹ Chilarez D., Ene G. S., „Harmonization and tax competition in the European Union”, Magazine „Managerial Strategies”, pp. 95, www.strategiimanageriale.ro;

² Negrescu D., Comanescu A., „Trends of tax harmonization in the European Union. Challenges for Romania”, European Institute of Romania, Project SPOS 2007 – Strategy and Policy Studies, Study no. 5, Bucharest, 2007, pp. 52;

simplified. This system is the recognition of tax rules in the country of origin and is known as the Home State Taxation (HST).

According to the Commission Communication to the Council and the European Parliament, the use of this system allows „the profits of a group of companies active in more than one Member State, be calculated in accordance with a single tax system”¹, usually the rule of origin headquarters is located, using tax rates established under national law.

The original concept for SMEs was later developed and adopted in 2011 in a complex formula called Common Consolidated Corporate Tax Base (CCCTB). Through this system the method of determining the base for the income tax has been enhanced by the introduction of new formulas, which related to the common base of each fiscal year is divided among group members according to the following relationship sharing² quota - parts:

$$C_A = \left[\frac{1}{3} \times \frac{Sales^A}{Sales^{Grup}} + \frac{1}{3} \left(\frac{1}{2} \times \frac{Payments_{salarii}^A}{Payments_{salarii}^{Grup}} + \frac{1}{2} \times \frac{N_{employees}^A}{N_{employees}^{Grup}} \right) + \frac{1}{3} \times \frac{Av^A}{Av^{Grup}} \right] \times CTB \quad (1)$$

Where:

C_A – apportioned share of Company A;

$N_{employees}$ – number of employees of the company and for the group;

Av – active;

CTB – consolidated tax base.

As can be seen, the rule establishing a fair share is distributed as each of the three factors (sales, assets, employment) are assigned equal weights.

In terms of tax rates the harmonization process has not reached the expected performance at EU level is easily observed remarkable differences between them.

Thus, in the year 2013 in countries such as Belgium, France, Malta and Spain are applied rates exceeding 30%, while in others such as Slovenia, Luxembourg, Ireland, Romania, Germany and Cyprus they are below the 20%. The highest rate of tax being practiced in France, where it reaches 36% and the lowest rate of corporate tax practice in Cyprus is 10%.

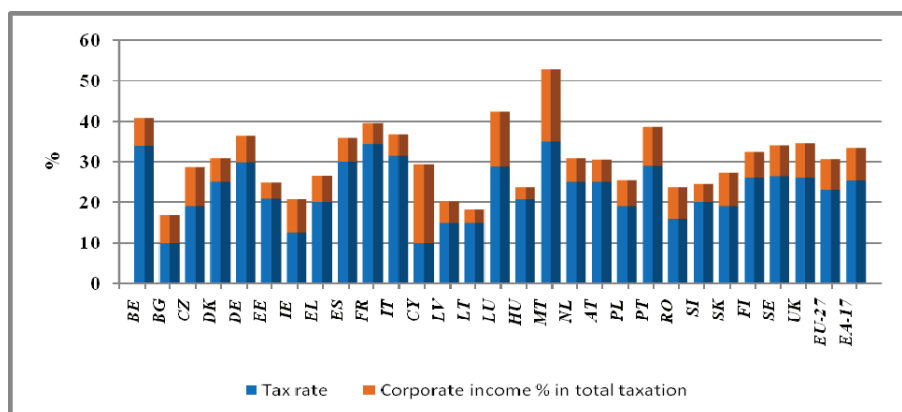
In terms of management of revenues from this tax bracket, this is a responsibility that belongs in general to the Central Authority or Federal Tax Administration, in Austria.

¹ Commission of European Communities, „Tackling the corporation tax obstacle of small and medium-sized enterprises in the Internal Market – outline of a possible Home State Taxation pilor scheme [...]”, Brussels, 23.12.2005, COM(2005)702, pp. 8;

² According to the Directive (CCCTB) 11 2011/0058, Chapter XVI "The distribution of the tax base" art. 86;

Changes of tax regime in profits during the process of harmonization and tax coordination have an influence of annual fiscal results, both at Member State level and on the whole, that the average in the European Union and the Eurozone. The differences of share taxes on corporate income in total income and tax rates related to European Union states are plotted in Fig. No. 1:

Fig. No. 1 Income tax and tax rates in the Member States, EU-27 and EA-17 for 2011



Source: Author's own processing after: Eurostat Statistical books, „Taxation trends in the European Union”, 2013 Edition

Chart analysis reveals that, in 2011, in countries where the tax rate is higher than 30% (for Belgium, Spain, France, Malta), the share in total income tax revenue varies between 5.2% and 6.8%, except for Malta where tax accounts for 17.8% of the total.

In countries such as Bulgaria, Ireland, Cyprus, Latvia and Lithuania, where corporate tax rates are between 10% and 15%, receipts from this source recorded weights ranging from 3.2% of total in Lithuania and 19.4% of the total, to Cyprus.

This proves that not always practicing high tax rates can provide a significant increase in revenues.

4. Harmonization and tax coordination in the field of indirect taxation.

Unlike harmonization and tax coordination in the field of direct taxation, consumption taxation system was achieved significant progress.

Along with entry into force of the Treaty of Maastricht, bring into question aspects of the process of harmonization of indirect taxation. Aim of this process being to facilitate the movement of goods and services in the Community, to increase the efficiency of collection of indirect taxes, reducing inflationary impact, and the elimination of tax evasion.

Implementing a common indirect tax system useful in removing tax obstacles, was the harmonization of the tax base, to determine accurately the tax payers, total or partial exemption from payment of tax obligations and not least uniform tax rates (especially VAT).

The harmonization of VAT, the VI Council Directive refers to the introduction of a common system of VAT, which contains a uniform basis of assessment.

In this respect, according to art. 2 of Directive no. 77/388/EEC, recently sphere VAT included:

- Services and supplies of goods effected for consideration within the country;
- Imports of goods.

Also, are considered taxable, „any person who independently carries out in any place any economic activity”¹ of the above, and those who carry out transactions on an occasional basis in areas such as: production and sale of goods, provision services (mining, agricultural or professional) in order to obtain revenue.

In terms of the tax base, it's determined differently depending on the origin of goods, respectively goods / services within the country or imported goods.

In the first case, the taxable amount is the payment has been or will be received by the supplier to the buyer (amount includes direct subsidies on the supply price). However, in determining the tax base includes taxes, fees and other expenses, excluding VAT effective.

In the second case, that of imports of goods, the tax is determined using the same elements as in the previous case, with the addition amount of excise duty paid or due to other Member States, the customs duty, customs fee, and other expenses.

The tax base so determined shall apply its quota, set at national level, but compliance with regulations concerning VAT rates limits.

Another category of indirect taxes subject to harmonization and coordination is the excise duty.

Harmonization of excise duties has a special significance because they are placed in particular on those categories of products that have a high level of consumption (such as fuel and energy), the major influence on production costs.

The absence of tax harmonization in this area caused significant distortion at Community level, with negative effects on the functioning of the single market.

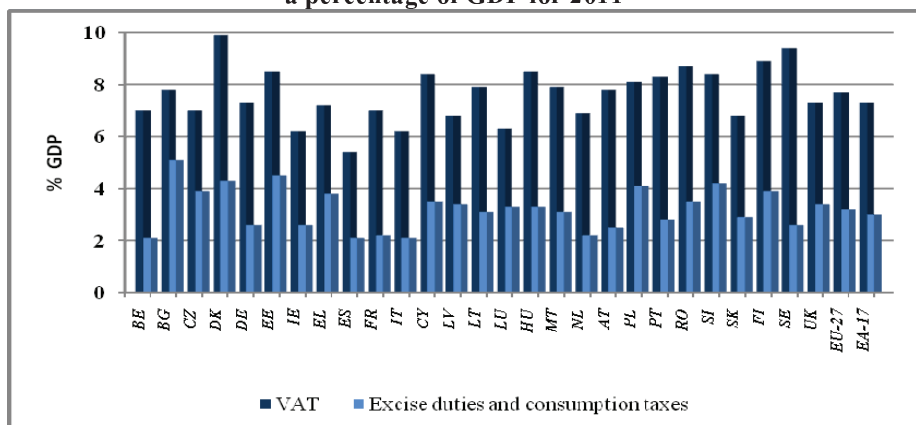
The measures of harmonization to excise duties it was oriented:

- Establish taxable object, namely: oil, alcohol, tobacco products, etc..;
- The tax base;
- The tax rates in the fixed quotas me this common for certain categories of products;
- Movement and monitoring of products subject to excise.

¹ Official Journal no. L 145/1977, Directive no. 77/388/EEC of 17 May 1977 *on the harmonization of the laws of Member States relating to turnover their taxes - common system of value added tax: uniform basis of assessment*, article 4, par. 1;

Harmonization and tax coordination in the indirect tax system yielded the following fiscal developments in the Member States of the European Union, represented graphically in Fig. No. 2.

Fig. No. 2 Evolution of indirect taxes in the Member States, EU-27, EA-17, as a percentage of GDP for 2011



Source: Author's own processing after: Eurostat Statistical books, „Taxation trends in the European Union”, 2013 Edition

In most Member States of the European Union VAT collection efficiency can be observed for 2011. Tax revenue from this source ranged from a minimum of 5.4% of GDP for the Spain and 9.9% of GDP percentage for Denmark.

The European average is calculated for this year of 7.7% of GDP by approximately 0.4 pp higher than the euro area average.

In terms of excise receipts from this source have exceeded the 5.1% of GDP (Bulgaria) in any member state of the European Union. In developed countries, characterized by the existence of a stable tax system and tax policy coherent national, such as Belgium, Spain, France, Italy or the Netherlands, revenues from excise duty and other taxes on consumption at only represented 2.1% of GDP, according to the statistics of 2011.

European average (EU-27) was 3.2% of GDP, exceeding by 0.2 pp average earnings in the euro area (EA-17).

5. Conclusions

The process of harmonization and tax coordination has proven to be a slow, conducted in several stages, often doomed to failure, the fiscal sovereignty is maintained and protected.

In order to improve the quality of this process is necessary to establish uniform tax rules, compliance with which will not impede fiscal objectives of the Member States or which have the effect of enhancing the tax. Therefore,

implementation of the new rules must be performed using a transparent and consistent legislation, implementing tailored actual capacity of each state.

Currently, the failure process of harmonization and tax coordination in the field of direct taxation, led to a migration of capital investment and labor into countries that have a tax system permissive and attractive, favorable development of economic activity.

This proves that the introduction of the common ways of calculating the corporate tax base is not sufficient to achieve the objectives of the EU economy.

Therefore, intensification of this process should be continued in terms of tax rates (by enclosing them within certain limits or by introducing progressive taxation system throughout the community area), and the other evidence used in determining taxable income respectively deductible expenses, deductible or limited deductibility (in this case to establish a unique formula in determining calculation base and allowances applicable).

In consumption taxes, uniform legislation has been a real success led to the removal of tax barriers such economic exchanges between Member States becoming easier.

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