European Union EU 25 Taxation Structures by Country 1995-2002

Detailed Tables and Analysis for Each EU Country and Norway

July 2004--The publication "Structures of the taxation systems in the European Union" by Eurostat, the European Union's Statistical service, presents time series of tax data from national accounts for the twenty-five Member States of the European Union and Norway. It provides a breakdown of taxes according to three different types of classification: by major type of tax (i.e. direct taxes, indirect taxes, social contributions), by levels of government (i.e. central-, state- and local government, social security funds and the European institutions), and by economic function (i.e. consumption, labour and capital). The breakdown of taxes by economic function and data on environmental taxes are so far only presented for the EU-15 Member States. The publication also includes implicit tax rates (ITRs) on consumption, labour and capital, which measure the effective average tax burden on different types of economic income or activity. ITRs express tax revenues that can be allocated to these economic categories as a percentage of the total potential tax base in the economy.

The publication is divided into three parts. Part I describes the tax revenue data available in national accounts and reviews major trends between 1995 and 2002 for the countries of the enlarged Union and Norway. Part II – limited to the old EU-15 – Member States presents the economic classification of taxes, the methodology for the implicit tax rates and a comparison of implicit tax rates between Member States over the period 1995-2002. In addition it presents a chapter analysing the trends in environmental taxes. Part III includes country chapters. It describes, for each Member State, the 1995-2002 trends in the overall tax burden and structures of taxes as well as tax policy changes in the period.

Most of the data presented in this publication are directly available from the standard tables of national accounts provided by Member States to Eurostat, accessible via the database NewCronos. This is the case for the breakdown of taxes by major type of tax and by levels of government. However, the classification of taxes by economic function is not standard, and is computed specifically for this publication. It relies on a detailed breakdown of national accounts tax data and on additional computations provided by tax departments in the EU-15 Member States. This edition of 'Structures' covers the period 1995 to 2002. This period corresponds to the years for which

national accounts data is available in the new European System of Accounts (ESA95) format for all 25 Member States and Norway. Compared to the publication of last year there have been further methodological improvements. The definition of total taxes has been refined as voluntary social contributions are no longer regarded to be part of total taxes. In addition new more policy oriented sub-indicators for measuring the effective tax burden on capital and business income have been introduced: the implicit tax rate on corporate income and the implicit tax rate on capital and business income of households including self-employed. In addition, there is a new chapter describing trends in environmental taxation referring to a new implicit tax rate on energy consumption.

Tax structures and recent developments

One of the greatest challenges for the European Union ever, is the accession of ten new Member States. This publication measures the overall tax burden as the total amount of taxes and compulsory actual social contributions as a percentage of GDP. The new Member States have generally a lower tax-to-GDP ratio than the old Member States. In 2002 taking the arithmetic averages, the total tax burden in relation to GDP of new Member States is 6.6 percentage points lower than the average level of the EU-15 countries. The picture of the new Member States is composed of a group of three countries with a level close to the EU-15 (Slovenia, Poland and Hungary) and a group of the remaining countries with a level substantially lower, up to 12 percentage points. Among EU-15 only Ireland has a ratio lower than the average of this second group of new Member States. Regarding the tax structure of the tax revenues by major type of taxes, generally, the new Member States have a lower share of direct taxes in relation to total tax revenues including social contributions. In 2002 the difference between the EU-15 and the new Member States (arithmetic) averages was about 10 percentage points. One of the reasons of this difference can be found in the lower tax rates for corporate and personal income taxation in the new Member States. In 2004 the average corporate income tax rate in the new Member States is about 10 percentage points lower than in the EU-15 and the average top statutory personal income tax rate lies about 11 points lower. The low share of direct taxes in the new Member States is counterbalanced by higher shares of indirect taxes and for the Czech Republic, Poland and Slovakia by social contributions. Regarding taxes by levels of

government there is not a big difference in the taxes received by local governments between the EU-15 average and the average of the new Member States (around 10% of total taxes).

Noticeable differences in the tax-to-GDP ratio and in the tax mixes are also present among the EU- 15 Member States. Regarding the total tax burden from the first (Sweden) to the last (Ireland) of the rank there is a difference of 22 percentage points. Highest tax ratios are found in Sweden, Denmark, Belgium and Finland whilst the lowest appears in Ireland, the UK, Spain Greece and Portugal. Some of the Nordic countries (i.e. Sweden, Denmark and Finland) have relatively high shares of direct taxes in total tax revenues, whereas some southern countries (in particular, Portugal and Greece) have relatively high shares of indirect taxes compared to the EU average. In Denmark, the United Kingdom and Ireland the shares of social contributions to total tax revenues are relatively low, whereas these shares are relatively high in Germany and, to a lesser extent, in France. More details on the structures of the taxation systems (by more detailed type of tax) in individual Member States are given in the country annexes in part III of this publication.

In the EU-15, since the late 1990's, a number of Member States have taken the opportunity to reduce the tax burden in proportion to the size of the economy, in particular through cuts in personal income tax rates and in social contributions, but also through tax rate reductions in corporate income tax. The tax reforms that were implemented vary in coverage and depth (part III of the publication presents further information on the individual Member States), but they were often aimed at reducing the tax burden on labour income, at achieving a reduction in corporate income tax rates (whilst broadening the tax base at the same time) and at improving the functioning of capital markets. Reforms in the area of indirect taxation were more diverse. Increases in indirect taxation were driven by 'green' tax reforms in several Member States, often as a counterpart to the reduction in the taxation of labour income (the so-called 'double dividend' approach). In some Member States the share of revenues received by state governments (regions) increased.

The EU-15 average tax-to-GDP ratio continued to rise between 1995 and 1999 despite the mentioned reforms. Only in recent years (2000-2002) have there been substantial reductions in the ratio among the majority of Member States. One reason why the tax cuts did not show up immediately in the figures is that the economic upswing of the late 1990s may have lifted the measured overall tax burden; the slowdown in recent

years has arrested this trend and the tax reductions are finally visible in the figures between 2001 and 2002. The tax-to-GDP ratios remain relatively high in the Nordic countries and in Belgium, whereas they are relatively low in the United Kingdom, Portugal, Spain and Ireland. Ireland stands out for having witnessed the largest reduction in the overall tax burden. The tax-to-GDP ratios in the European Union generally remain high by international standards.