Taxation in the EU from 1995 to 2002

Tax Rates: Income and Corporate Tax Rates 2004
EU25 overall tax burden decreased from 41.1% of GDP in 2001 to 40.4% in 2002

Lower tax burden on average in the new Member States

In 2002, the overall tax burden[1] (i.e. the total amount of taxes and social security contributions) in the EU25[2] stood at 40.4% of GDP. The tax-to-GDP ratio increased from 40.5% in 1995 to 41.8% in 1999, then declined steadily from 1999 to 2002. From 2000 these reductions in the majority of Member States have been partly due to reforms in tax systems, particularly through cuts in personal income tax rates and in social contributions. In 2002, as compared with 2001, the EU25 tax-to-GDP ratio decreased by 0.7 percentage points.

In all ten new Member States (NMS), the tax-to-GDP ratio was lower in 2002 than the EU15 average (40.5%), ranging from 28.8% in Lithuania to 39.8% in Slovenia.

The publication 'Structures of the taxation systems in the EU'[3] issued today by Eurostat, the Statistical Office of the European Communities and the Commission's Directorate-General for Taxation and Customs Union provides a compilation of tax indicators in a harmonised framework based on the European System of Accounts (ESA 95) for analysing the structures of the taxation systems of the Member States and monitoring taxation policies across the EU.

The 2004 edition provides for the first time tax revenue data for the ten new Member States and for Norway and additional implicit tax rates (i.e. average effective tax rates) on corporate income, on capital and business income of households and on energy consumption, as well as methodological improvements. The following examples illustrate the contents of the publication.

Large differences in the tax burden between Member States

Among the Member States there are substantial differences regarding the total tax burden. **Sweden** recorded the highest tax-to-GDP ratio (50.6% in 2002), followed by **Denmark** (48.9%), **Belgium** (46.6%) and **Finland** (45.9%). The lowest ratios were observed in **Ireland** (28.6%), **Lithuania** (28.8%), **Latvia** and **Malta** (31.3% each) and **Cyprus** (32.5%).

In 2002 as compared with 2001, the tax burden declined in 16 out of 24 Member States. **Poland** (from 41.2% to 39.1%), **Ireland** (from 30.5% to 28.6%), **Sweden** (from 52.2% to 50.6%) and the **United Kingdom** (from 37.3% to 35.8%) recorded the largest reductions. The tax-to-GDP ratio increased in 8 out of 24 Member States, the highest increases being recorded for **Luxembourg** (from 40.7% to 41.9%) and the **Czech Republic** (from 34.3% to 35.4%).

Tax burden, structure of taxes and top statutory tax rates

	Total taxes			Indirect taxes		Direct taxes		Social security contributions		Top statutory personal income tax rate[5], %	Effective top statutory tax rate on corporate income[6], %
	as % of GDP			*as % of total tax burden*							
	1995	**2001**	**2002**	**1995**	**2002**	**1995**	**2002**	**1995**	**2002**	**2004**	**2004**
EU25	**40.5**	**41.1**	**40.4**	**33.6**	**34.8**	**31.5**	**33.1**	**34.9**	**32.1**	**41.7**	**27.4**
EU15	40.6	41.2	40.5	33.5	34.6	31.5	33.5	34.9	31.9	46.2	31.4
BE	45.1	46.2	46.6	29.5	29.7	37.9	38.8	32.7	31.4	50.0	34.0
CZ	39.9	34.3	35.4	34.7	31.3	25.1	26.2	40.2	42.4	32.0	28.0
DK	49.3	49.9	48.9	34.8	36.1	62.1	60.5	3.1	3.4	47.6	30.0
DE	40.8	40.8	40.2	30.1	30.5	27.5	27.1	42.4	42.3	45.0	38.3
EE	:	:	35.2	:	40.1	:	24.4	:	35.5	26.0	26.0
EL	32.6	37.0	36.2	44.1	40.5	23.8	26.9	32.1	32.5	40.0	35.0
ES	33.4	35.5	36.2	32.6	33.6	31.3	31.3	36.0	35.2	45.0	35.0
FR	44.0	45.0	44.2	36.8	35.2	20.6	27.6	42.6	37.2	49.6	35.4
IE	33.4	30.5	28.6	43.9	43.7	41.1	40.8	15.0	15.5	42.0	12.5
IT	41.2	42.5	41.7	30.9	35.9	37.4	34.5	31.6	29.5	45.0	37.3
CY	:	32.7	32.5	:	42.7	:	35.8	:	21.5	30.0	15.0
LV	37.2	31.8	31.3	40.7	37.7	23.2	29.9	36.1	32.4	25.0	15.0
LT	28.6	29.1	28.8	43.0	43.5	30.7	26.2	26.4	30.2	33.0	15.0
LU	42.3	40.7	41.9	31.9	33.4	41.6	39.3	26.5	27.3	38.0	30.4
HU	:	39.4	38.8	:	39.2	:	26.9	:	33.9	40.0	17.7
MT	27.7	30.4	31.3	46.0	42.5	31.4	36.1	22.6	21.4	35.0	35.0
NL	40.6	40.0	39.5	29.3	33.5	31.2	31.3	39.5	35.2	52.0	34.5
AT	42.3	45.3	44.4	35.9	35.2	28.4	31.6	35.6	33.2	50.0	34.0
PL	34.3	41.2	39.1	37.5	40.4	33.2	18.7	29.4	40.9	40.0	19.0
PT	33.6	35.6	36.3	43.5	42.1	26.6	26.9	29.9	30.9	40.0	27.5
SI	41.3	39.4	39.8	39.5	41.9	17.5	20.2	43.0	37.9	50.0	25.0
SK	41.5	32.9	33.0	37.7	36.4	27.9	22.6	34.5	41.0	38.0	19.0
FI	46.0	46.0	45.9	31.0	30.6	38.2	42.9	30.8	26.5	53.0	29.0
SE	49.5	52.2	50.6	32.8	34.3	40.8	36.8	26.4	28.9	56.0	28.0
UK	35.4	37.3	35.8	39.9	38.9	42.6	44.2	17.5	16.9	40.0	30.0
NO	42.6	43.7	44.2	38.8	31.2	37.9	46.4	23.2	22.4	:	:
US	27.6	28.9	:	:	:	:	:	:	:	:	:
JP	27.7	27.3	:	:	:	:	:	:	:	:	:

Source: Commission Services.

For US and Japan the source is OECD

Lower direct taxes in the new Member States

Looking at the different types of taxes[4] and their share in total tax revenues, generally, the NMS have a lower share of direct taxes in relation to total tax revenues and a higher share of indirect taxes and social security contributions. In 2002, **Poland** (18.7%), **Slovenia** (20.2%) and **Slovakia** (22.6%) recorded the lowest shares of direct taxes, compared to 33.1% for the **EU25**. On the other hand, **Denmark** (60.5%), the **United Kingdom** (44.2%) and **Finland** (42.9%) had relatively high shares of direct taxes. One of the reasons for this difference can be found in lower tax rates applied in most of the NMS for personal income tax and corporate tax. In 2004, the top statutory personal income tax rate[5] in the **EU15** is on average 46.2% compared to 34.9% for the NMS, and the effective top statutory tax rates on corporate income[6] are 31.4% and 21.5% respectively.

With regard to indirect taxes, **Ireland** (43.7%), **Lithuania** (43.5%), **Cyprus** (42.7%) and **Malta** (42.5%) recorded the highest values compared to 34.8% for the **EU25**, while **Belgium** (29.7%), **Germany** (30.5%) and **Finland** (30.6%) registered the lowest shares.

Regarding social contributions, the largest shares were observed in the **Czech Republic** (42.4%), **Germany** (42.3%) and **Slovakia** (41.0%) compared to 32.1% for the **EU25**, whereas in **Denmark** (3.4%), **Ireland** (15.5%) and the **United Kingdom** (16.9%), the shares of social security contributions were relatively low. **Denmark** 's social security system is, in fact, almost exclusively financed out of general taxation.

Slight decrease of labour and capital implicit tax rates

According to economic function, i.e. labour, capital and consumption, labour taxes were the largest source of tax revenue, contributing in 2002 around 50% of total tax receipts in the **EU15** as a whole. Taxes on capital accounted for approximately 20% of the total tax receipts while consumption taxes accounted for almost 30%.

The implicit tax rate on labour[7] in the **EU15** decreased from 37.7% in 1998 to 36.3% in 2002. Among the EU15 Member States, rates ranged in 2002 from 24.6% in the **United Kingdom** and 25.9% in **Ireland** to 46.6% in **Sweden** and 43.9% in **Finland**. The implicit tax rate on labour largely reflects the important role played by wage-based contributions in financing the social security system. On average in the EU, more than 60% of the overall implicit tax rate on labour consists of non-wage labour costs paid by both employees and employers.

The implicit tax rate on capital[7] increased in the **EU15** from 24.5% in 1995 to 30.7% in 2000, decreasing further to reach 28.4% in 2002. The increase up to 2000 occurred against a background of falling statutory corporate tax rates and simultaneous base broadening measures. However, an important part of the increase in the implicit tax rate on capital can be attributed to cyclical factors, i.e. the economic expansion up to 2000. The decline in the implicit tax rate observed in 2001 and 2002 was linked to the slowdown of economic growth and the impact of measures taken to reduce tax rates. The lowest implicit tax rates on capital in 2002 were recorded in **Greece** (18.1%) and **Germany** (20.9%) and the highest in **France** (36.6%), **Ireland** and **Luxembourg** (32.0% each).

Consumption[7] was most taxed in the Nordic countries, **Denmark** (33.7%), **Sweden** (30.6%) and **Finland** (28.0%). **Spain** (16.3%), **Italy** (17.1%) and **France** (17.4%), on the other hand, registered the lowest implicit tax rates.

Implicit tax rates by type of economic activity (in %)

	Implicit tax rate on consumption			**Implicit tax rate on labour**			**Implicit tax rate on capital**		
	1995	**2001**	**2002**	**1995**	**2001**	**2002**	**1995**	**2001**	**2002**
EU15	**19.5**	**19.4**	**19.5**	**37.3**	**36.8**	**36.3**	**24.5**	**29.4**	**28.4**
BE	21.2	21.4	21.9	44.1	43.9	43.5	23.7	28.8	30.1
DK	31.3	33.8	33.7	40.7	41.5	39.9	26.4	30.8	28.8
DE	18.8	18.3	18.3	39.5	39.9	39.9	21.2	22.4	20.9
EL	17.5	18.7	18.1	34.1	37.6	37.8	12.0	18.6	18.1
ES	14.3	15.9	16.3	28.9	29.6	30.0	20.7	27.5	29.6
FR	18.3	17.2	17.4	42.2	42.7	41.8	31.0	38.2	36.6
IE	25.2	25.0	25.8	29.8	27.5	25.9	21.6	31.4	32.0
IT	17.6	17.3	17.1	37.8	41.5	41.1	26.3	28.1	28.1
LU	21.7	23.3	23.7	29.5	29.2	28.0	24.9	31.1	32.0
NL	22.6	24.6	24.2	35.1	31.8	31.9	23.0	30.1	29.6
AT	20.6	21.5	22.0	38.7	40.0	39.2	23.5	30.1	28.5
PT	19.5	19.4	20.1	31.0	33.3	33.7	20.7	31.7	:
FI	28.2	27.6	28.0	43.9	44.4	43.9	27.9	27.8	30.3
SE	28.4	29.5	30.6	48.4	47.9	46.6	18.0	32.3	31.5
UK	21.8	21.3	21.3	25.7	25.4	24.6	27.8	34.1	30.8

: Data not available

1. The tax-to-GDP ratio measures the **overall tax burden** as the total amount of taxes and compulsory actual social security contributions as a percentage of GDP. This indicator is widely used to measure the overall tax burden but includes the taxes that are raised on social transfers. Because social transfer recipients often receive directly a net pay, they do not feel the burden of paying taxes.
2. **EU25**: Belgium (BE), the Czech Republic (CZ), Denmark (DK), Germany (DE), Estonia (EE), Greece (EL), Spain (ES), France (FR), Ireland (IE), Italy (IT), Cyprus (CY), Latvia (LV), Lithuania (LT), Luxembourg (LU), Hungary (HU), Malta (MT), the Netherlands (NL), Austria (AT), Poland (PL), Portugal (PT), Slovenia (SI), Slovakia (SK), Finland (FI), Sweden (SE) and the United Kingdom (UK).
3. **"Structures of the taxation systems in the EU: 1995-2002"**, 361 pages, ISBN 92-894-7733-4, EUR 28 (excl. VAT), only available in English. The publication is available free of charge in PDF format on the Eurostat website.
4. **Tax revenues** received by the General Government are defined as taxes on production and imports, current taxes on income and wealth, capital taxes and actual social contributions. The different **types of taxes** comprise:
   Indirect taxes, linked to production and imports. They include compulsory levies on producer units, value added tax, import duties, excises and other specific taxes on services (transport, insurances), on financial and capital transaction and other taxes on production.
   Direct taxes, on income and wealth, include personal and corporate income taxes as well as capital taxes.
   Social contributions comprise employers' and employees' actual social contributions, self-employed and non-employed social contributions. Non compulsory actual social contributions are not included, e.g. non-funded social insurance schemes provided by employers.
5. **Top statutory personal income tax rate** reflects the tax rate for the highest income bracket without surcharges. For Denmark, Finland and Sweden also the municipal income tax is included.
6. **Effective top statutory tax rate on corporate income** reflects the non-targeted rate including surcharges and averages of local taxes. For Estonia the rate refers only to distributed profits; as from 2000 the tax rate on retained earnings is zero.

The rate for Italy includes ‘IRAP’ (rate 4.25%) a local tax levied on a tax base broader than corporate income.

7. **Implicit tax rates** (ITR) measure the effective average tax burden on different types of economic income or activities, i.e. on labour, consumption and capital. ITR express aggregate tax revenues as a percentage of the potential tax base for each field.

ITR on labour considers all personal income taxes, payroll taxes and compulsory social security contributions as labour tax revenues and, as the tax base, the total amount of compensation of employees in the economy. The average may conceal important variation in the tax burden across the income distribution.

ITR on consumption considers taxes levied on transactions between (final) consumers and producers and on the (final) consumption of goods and the tax base is defined as the final consumption expenditure of households on the economic territory.

ITR on capital includes taxes levied on the income earned from savings and investments by households and corporations and taxes related to stocks of capital stemming from savings and investment in previous periods. The denominator of the capital ITR aims to approximate the world-wide capital and business income of Member States' residents for domestic tax purposes. Trends in this capital ITR reflect a wide range of factors and it should be interpreted with caution.