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PRESS RELEASE

Trends in tax systems in the EU

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In the current context, there is a need for substantial fiscal consolidation almost everywhere in Europe. It essentially entails cutting public expenditure, but in view of the scale of this consolidation, it is also necessary to find new resources. Ideally, the latter should create as few additional distortions as possible and should ultimately replace taxes that cause greater distortion, once the tax pressure can be eased somewhat.

Besides, tax systems are constantly evolving. It therefore seemed important to analyse the main trends apparent in the EU. Among other things, that analysis should define Belgium's position in relation to its partners, in terms of both developments over recent years and current levels of taxation. This review should be useful for designing future tax reforms.

After putting the overall fiscal and parafiscal burden into perspective over a long period, not only in the euro area but also in the United States and Japan, the article systematically reviews developments since 2000 and the current situation for the main fiscal and parafiscal revenues, grouped according to the tax base. Thus, the article examines taxes on the factor labour, consumption taxes, environmental taxes and capital taxes, focusing more specifically on corporation tax and some current developments concerning taxes on income from movable property and on capital transactions.

In 2013, the total tax burden in the euro area had practically reverted to the level prevailing at the start of the century. The overall tax burden in the Nordic countries remains high, though it has been cut considerably; Denmark still has the highest tax level in Europe, followed by France and Belgium. Among the countries examined, Malta and Cyprus recorded the sharpest rise in the tax burden since 2000, while there was a further marked fall in Slovakia and Ireland, the two countries which now have the lowest taxation.

The period examined can be divided into four phases. The first two precede the economic and financial crisis, and feature a reduction in the tax burden up to 2004 followed by a more moderate increase up to 2007. The crisis then led to a fall in the tax burden following the contraction of the tax base and the ensuing recovery measures. Finally, from 2010-2011, the expansion of tax revenues has been due to the fiscal consolidation taking place almost everywhere.

Despite a modest decline at European level, there is no common trend in taxes on labour. The transfer of part of the burden to consumption, as repeatedly recommended by international economic institutions, only occurred in certain countries, such as Germany and Sweden, which also cut the marginal rates of tax for workers on modest incomes. Belgium heads the ranking in terms of the implicit tax rate and marginal rates of tax on labour.

Changes to indirect taxation have also varied between countries, although the implicit rate of tax on consumption has fallen somewhat since 2000, both in the euro area as a whole and in Belgium. Standard rates of VAT have nevertheless risen on average, particularly as fiscal consolidation has taken effect. The reduction in the implicit tax rate could thus be due to a change in consumption habits in favour of goods attracting a lower rate of VAT. Excise duties have sometimes risen by more than inflation (tobacco, alcohol, heating oil), and sometimes by less (motor fuels). Belgium remains among the countries where excise duties are generally fairly low, or even very low in the case of heating oil.

Contrary to what one might have expected given the mounting concern over global warming, pollution and the exhaustion of natural resources, the burden of environmental taxes was lower overall in 2011 than in 2000.

The clearest trend in developments among the various types of taxation concerns corporation tax. Up to 2008, there was a significant decline in levels of both nominal and effective rates – taking account of tax expenditure as well – and in revenues expressed as a percentage of GDP. The strong tax competition in this

sphere was then curbed by the necessary fiscal consolidation. Thus, the relative convergence of corporation tax rates is due to competition between countries, as European coordination has so far only resulted in agreements on specific elements.

Income from movable assets is also the subject of special international attention. The financial crisis has in fact rekindled interest in better coordination as regards data exchange and taxation. Thus, the updating of the Savings Taxation Directive and the American legislation (FATCA) should greatly improve the exchange of financial information. In addition, the proposed introduction of a financial transaction tax could contribute to an increase in the tax on capital at European level.