

Trends in tax systems in the EU

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Introduction

It has long been acknowledged that many European countries, and especially Belgium, have a high level of taxation on labour incomes. Against that backdrop, national and international economic institutions point out that this heavy taxation may lead to distortions in the labour supply, and stress the need to transfer part of the tax burden from labour to other revenue sources.

In the current context, it is less a question of changing the method of taxation but rather a matter of seeking new potential revenues, as the need for massive fiscal consolidation is nearly universal. That consolidation essentially requires cutting back public expenditure, but in view of the scale of the problem, it also means seeking new resources. Ideally, the latter should create the minimum possible additional distortions and should ultimately replace taxes that cause greater distortion, once the tax pressure can be eased somewhat.

Moreover, tax systems are constantly evolving. It is therefore important to analyse the main trends apparent in the EU, and more particularly in the euro area, since the start of the century. 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 should be useful for guiding future tax reforms recommended by the EC and the Ecofin Council, which Belgium seems to be willing to tackle. In connection with European integration, it is likewise interesting to see whether the Member States are trying to harmonise their

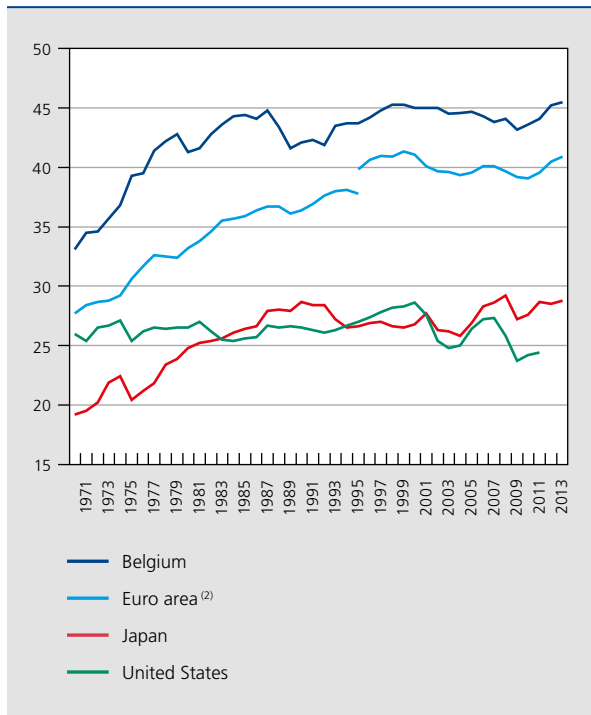
tax systems and tax levels or whether, conversely, they are engaging in fiercer tax competition.

This article begins by 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. It then considers the recent past – from 2000 onwards – in the euro area countries, plus Denmark, Sweden and the United Kingdom. It systematically reviews developments and the current situation for the main fiscal and parafiscal revenues – for simplicity, the term “fiscal” will also include the parafiscal revenue later in this article –, looking first at taxes on the factor labour, which on average represent more than half of the total tax burden. The next two sections focus on consumption taxes and environmental taxes. Finally, the article briefly considers capital taxes as a whole before taking a more specific look at corporation tax and discussing some current developments concerning taxation of income from movable property and of financial transactions.

1. Total tax revenues

Since 1970, the total tax burden in what is now the euro area has followed more or less the same pattern as in Japan. The total level of fiscal revenues expressed as a percentage of GDP thus increased substantially up to the end of the 1980s in Japan and up to the mid-1990s in Europe. Thereafter, the tax burden remained stable overall in the euro area. In Japan, the slight fall from the early 1990s was transient, since it was

CHART 1 TOTAL FISCAL AND PARAFISCAL REVENUES⁽¹⁾
(in % of GDP)



Sources: EC, OECD (up to 1980 for Japan and 1994 for the euro area).
(1) Excluding imputed social security contributions.
(2) Unweighted average for 1970-1994, own calculations.

subsequently matched by a rise from the beginning of the 2000s. Over this period as a whole, the variations were much less marked in the United States, where total tax revenues today are similar to, but lower than, those of the 1970s.

Since 1970, the total tax burden in terms of levels has always been heavier in Europe than in the United States and Japan. However, the fairly small gap between Europe and the United States at the start of the period has widened, and Japan now has a heavier tax burden than the US. That burden is currently around 30% lower in Japan than in Europe, as was already the case at the start of the period, whereas in the United States it is almost 40% below the European figure.

In comparison with these major economic regions, Belgium has always had a particularly heavy tax burden. In 2013, the gap in relation to the euro area is 4.6 percentage points of GDP.

Within the euro area, the total tax take expressed as a percentage of GDP remained practically unchanged between 2000 and 2013. However, that apparent stability conceals variations in the member countries.

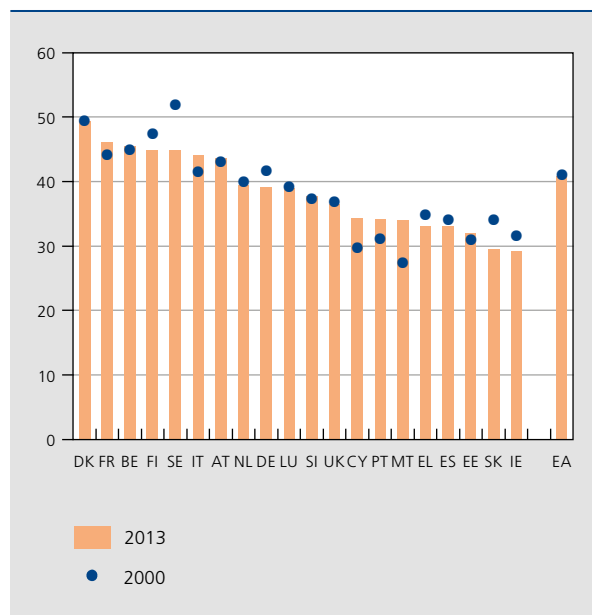
Among the countries which reduced the tax burden, Sweden stands out for the scale of that reduction, so that it is no longer the country with the heaviest tax burden in Europe. Although Finland's tax cuts were more modest, they removed the country from the third place which it had held in 2000. At the other extreme, taxation became the lowest in the euro area in Member States which also made substantial cuts, namely Ireland and Slovakia. In Spain and Greece, the current fiscal consolidation has driven the tax burden back up in recent years, which partially offset the decline observed until 2009.

Conversely, other countries have recorded an increase in their tax burden over the past 13 years. Among the countries where the burden was already high in 2000, this essentially concerns France and Italy. Taxation was also increased in Member States where the burden remains below the euro area average, such as Malta, Cyprus and Portugal.

Belgium, which now ranks third, reverted to a total level of taxation close to that prevailing in 2000, as did Austria and the Netherlands, for example. Nonetheless, that stability covers a downward phase up to the outbreak of the financial and economic crisis, followed by an increase dictated by fiscal consolidation.

In the following breakdown of taxation by type of tax, the most recent statistics often end in 2011, but in some cases

CHART 2 FISCAL AND PARAFISCAL REVENUES IN EUROPE⁽¹⁾
(in % of GDP)



Source: EC.
(1) Excluding imputed social security contributions.

the financial and economic crisis has resulted in a change of trend which only became apparent later. That applies, for example, to the substantial consolidation undertaken by certain euro area Member States which had previously exhibited a downward trend in their tax burden. Wherever possible, the findings relating to the period 2000-2011 are supplemented by notes on the most recent years, though the comments are sometimes merely qualitative.

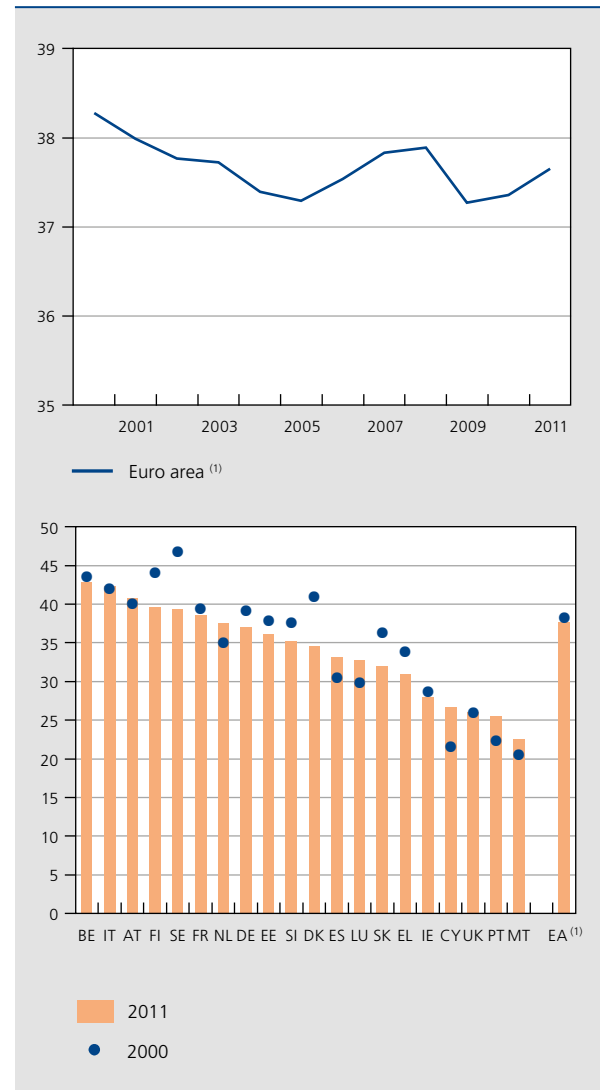
2. Taxes on labour

The implicit tax rates applicable either to labour or to other tax bases are calculated from macroeconomic data, by comparing the revenues actually collected with the theoretical tax base indicated by the national accounts. They therefore show the true tax burden, and in particular take account of any reductions granted, also known as tax expenditure.

In 2011, the implicit tax rate on labour in the euro area as a whole was slightly lower than in 2000. However, that decline was not continuous. Up to 2005, the reduction had been more or less linear. After that, driven by a number of countries such as Italy, the Netherlands and Slovakia which took fiscal measures in that regard, the implicit rates of tax on labour edged back up until 2008, without regaining the levels of the start of the century. In 2009, the fall in this tax rate was particularly marked. That was due, on the one hand, to the crisis and the pro-cyclicality of taxes on labour, as the progressive character of personal income tax then implies that the decline in taxes outstrips a contraction of the tax base. On the other hand, a number of Member States had then taken measures in favour of a reduction in the tax burden as part of their recovery plans. The rise which ensued from 2010 was initially connected with the temporary cyclical upswing, and was subsequently due to the essential fiscal consolidation in many economies. In fact, in 2011 and 2012, various countries increased the rate of personal income tax – sometimes for a limited period – while endeavouring to strengthen the employment incentives for certain target groups. One result of this was an increase in the tax burden on high incomes.

Over the period as a whole, there was some convergence in the implicit rates of tax on labour in Europe. That was due partly to larger increases in labour taxes in countries where the tax rate had been relatively low – such as Malta, Portugal and Cyprus – and partly to cuts in certain countries where the rate had been particularly high, such as Sweden and Finland. The great exceptions to this relative convergence are Greece and Slovakia, which lowered the implicit tax rate on labour whereas it had been fairly close to, but below, the euro area average in 2000. Belgium

CHART 3 IMPLICIT TAX ON LABOUR
(rates)



Source: EC.
(1) Weighted average.

likewise cut this tax rate, but by such a small amount that it became the country with the highest implicit tax rate on labour in this group, at 42.8% in 2011. Conversely, Malta had the lowest implicit tax rate at 22.7%, only just over half the Belgian figure.

As stated in the introduction, international economic institutions regularly recommend reducing taxes on labour in favour of other types of taxation, especially in the euro area countries, as there are many economic arguments in favour of doing so.

The main one concerns the impact that the various tax instruments may have on economic growth. Thus,

an OECD publication based on an empirical analysis covering 21 countries, establishes that “income taxes are generally associated with lower economic growth than taxes on consumption and property” (Arnold, 2008). That publication actually determines the ranking of taxes having the greatest impact on growth. Corporate income taxes seem to have the most negative effect, followed by personal income taxes, consumption taxes and finally property taxes, and particularly taxes on immovable property. A more recent study (Arnold *et al.*, 2011) shows that the tax change most conducive to economic recovery in the current circumstances is a reduction in taxes on the lowest incomes, which would stimulate demand, increase the labour supply and reduce income inequality.

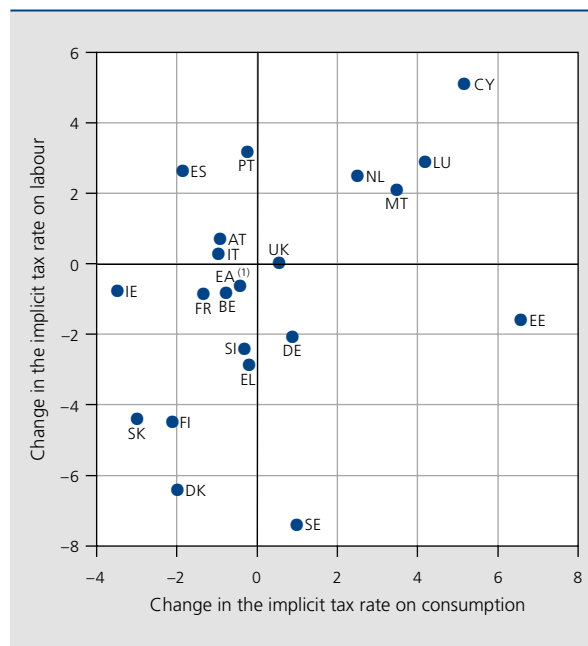
One of the other arguments in favour of cutting taxes on the factor labour is that this type of tax applies only to domestic production, whereas a consumption tax affects all goods regardless of where they are produced. Similarly, it is argued that indirect taxes affect all the production factors in the same way, whereas taxes on labour (or capital) affect only one factor. Finally, from the point of view of fairness, taxes on labour apply only to workers, whereas consumption taxes apply to the entire population.

It is therefore interesting to check whether European countries have followed these many recommendations – made not only by the OECD but also by the IMF and the EC ⁽¹⁾. To that end, we compare the movement in the implicit rates of tax on labour and on consumption.

A first obvious finding is the lack of coordination or similarities between euro area Member States in regard to transferring taxation from one base to another. In fact, the comparison of changes in the implicit rates of tax on labour and consumption between 2000 and 2011 shows that these rates have risen in some cases and fallen in others, depending on the country. On average, the two implicit tax rates have fallen slightly in the euro area, leaving their mutual relationships unchanged overall. Eleven countries reduced the implicit tax rate on labour while eight increased it. This number is the same for consumption taxes, though the countries concerned sometimes vary.

Three countries seem to have followed the recommendations, with a reduction in labour taxes offset by an increase in consumption taxes: Germany, Sweden and Estonia. However, in addition to this group, there are countries which reduced the burden on both these tax bases, cutting labour taxes by more than consumption taxes. Between 2000 and 2011, this essentially concerned Denmark, Greece, Finland, Slovenia and Slovakia. The Nordic countries thus all appear to have followed these

CHART 4 IMPLICIT TAXATION OF LABOUR AND CONSUMPTION
(change in the rates between 2000 and 2011)



Source: EC.
(1) Weighted average.

recommendations. Finally, Malta, which increased its total tax burden, and Luxembourg, which increased it for the two tax bases together, did so by boosting consumption tax revenues by more than those derived from labour, which likewise corresponds to the recommendations, in view of the circumstances.

In contrast, some countries did the opposite of what was recommended, increasing the burden on labour and cutting consumption taxes. This applies to Spain, Portugal, Austria and Italy. Ireland cut its consumption taxes by more than the tax on labour, as did France. Finally, in Belgium, the United Kingdom, the Netherlands and Cyprus, the changes were small or similar for both types of taxation.

The same lack of comparability between countries is evident in regard to the transfer of part of the tax burden from labour to capital. However, taking the average for the euro area, the implicit tax rate on capital declined by more than the rate on the other tax bases, which seems contrary to the recommendations.

The second frequent recommendation on labour taxes concerns limiting the taxation of the lowest incomes, in

(1) See, in particular, IMF (2012) and EC (2013g).

particular to promote the economic recovery by expanding the labour supply.

The OECD's microeconomic data can be used to trace the movement in marginal rates of tax for eight types of workers who differ in their income levels, marital status and number of children. The marginal tax rate includes the taxes and social security contributions paid by these people and by their employers, and any family allowances that they receive. To observe the movement in tax on the lowest incomes without taking account of changes in benefits which depend on family circumstances, it is best to consider the case of a single person with no children, paid two-thirds of the average wage.

This case study reveals that the fluctuations since the beginning of the century have been highly diverse. Thus, some countries recorded strikingly large cuts in the marginal burden on labour. Denmark and Sweden reduced this tax rate by almost 10 and 8 percentage points respectively, and Germany and the Netherlands reduced it by more than 5 points. Conversely, Ireland increased it by almost 10 points and Italy by almost 4 points. These changes narrowed the gaps in this respect for the lowest incomes, but the average fall at the level of the OECD still came to less than 1 percentage point. However, the current levels still range from a marginal tax rate on low wages of almost 66 % of the wage cost for employers in Belgium⁽¹⁾ to less than 38 % in Ireland. Among the founding member countries of the EU, the rates are relatively high.

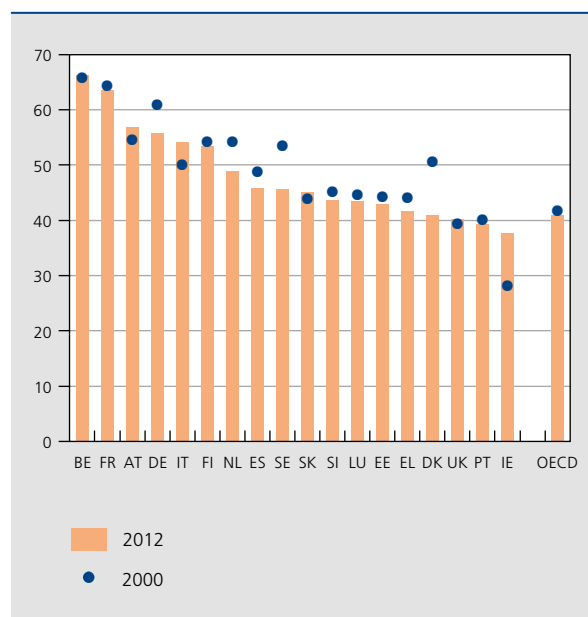
To establish whether the countries reducing income taxes targeted the lowest earners or whether the reduction in labour taxes was general, it is useful to compare these movements with what happened to the highest incomes. To that end, we use the OECD simulations relating to incomes equivalent to 167 % of average earnings, again in the case of a single person with no children. That comparison shows that, on average in the OECD, the moderate fall in the marginal burden on labour was slightly greater on high incomes than on lower incomes, which is contrary to the recommendations.

However, some countries improved their relative situation in terms of marginal tax rates on low incomes as opposed to high incomes. Sweden, Spain, Greece and, to a lesser extent, Slovenia, France and Portugal increased the tax on high labour incomes while reducing the tax burden on low incomes. In Denmark and the Netherlands, the reduction was more modest for high wages than for the lowest incomes.

Contrary to the recommendations concerning low wages, the movement in marginal rates was favourable to high

CHART 5 FISCAL AND PARAFISCAL LEVIES ON LOW WAGES

(marginal rates for a single person earning 67 % of the average wage, in % of wage costs)



Source: OECD.

incomes and unfavourable to low wages in Austria, Slovakia and Belgium. In Germany, Luxembourg and Finland, the fall in the marginal rate was smaller for low wages than for high wages. Finally, in Ireland and Italy, the increase in the marginal tax rate between 2000 and 2012 affected low wages more than high wages.

3. Consumption taxes

Consumption taxes consist essentially of VAT (which accounts for over half of indirect taxes), excise duties, customs duties, certain motor vehicle taxes and environmental taxes⁽²⁾. As these taxes are levied via a payment from the consumer to the supplier and not direct to the State, they are also referred to as indirect taxes.

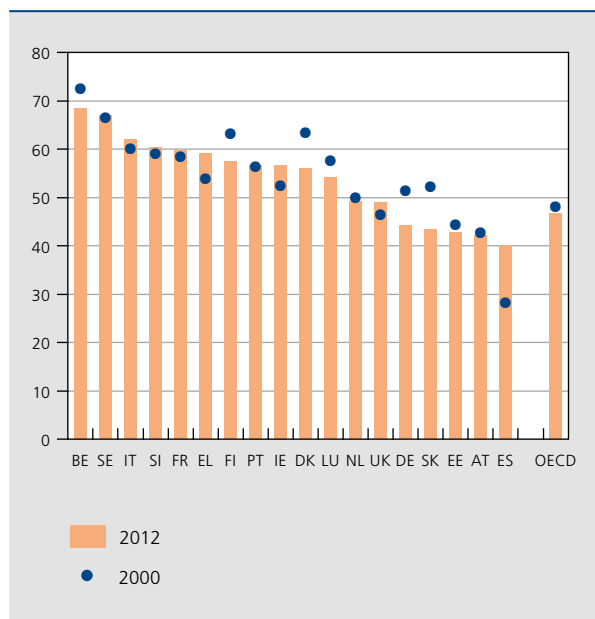
As already indicated, the international economic institutions regularly advocate increasing consumption taxes in order to provide scope for cutting the taxes on labour, which should attenuate the distortion entailed by taxes on the production factors. However, increasing indirect taxes is no panacea, particularly as it generally tends to be more unfair. Indirect taxes are not in fact progressive since they

(1) In all types, the marginal rates in Belgium are much higher than the OECD average. They are even the highest, with the exception of the case of households with children but only one income.

(2) Most environmental taxes are consumption taxes. However, owing to their specific characteristics, they will be discussed in the next section.

CHART 6 FISCAL AND PARAFISCAL LEVIES ON HIGH WAGES

(marginal rates for a single person earning 167% of the average wage, in % of the wage cost)



Source: OECD.

affect all consumers equally. They are actually regressive in that households with limited resources spend a larger proportion of their income on consumption. Thus, shifting the tax burden from labour to consumption would be favourable to firms and workers, but detrimental to people on benefits. To overcome this drawback, many countries have introduced a system of reduced rates on basic essentials, thus trying to introduce a degree of progressiveness into taxation, but this creates new distortions which are not more desirable. In order to avoid this type of negative effect, it would be better to use part of the additional revenue generated by higher consumption taxes to make a supplementary transfer to modest-income households. The rest of this section looks at how these various arguments and recommendations have been applied in the countries analysed, first in general and then more specifically for VAT and excise duties.

3.1 General developments

Overall, the implicit tax rate on consumption dropped by 0.4 percentage point in the euro area between 2000 and 2011. The relative stability at the start of the period was disrupted by the outbreak of the financial and economic crisis and by its consequences. In 2008 and 2009, there was a sharp reduction for a range of reasons. First,

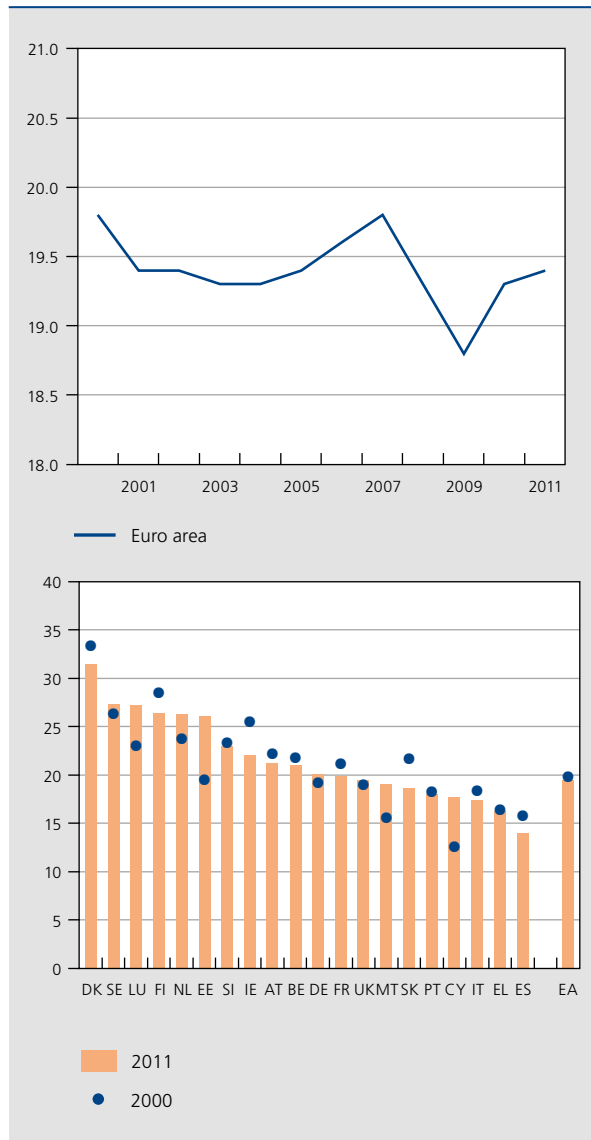
it was due to the recovery measures supporting final demand. These essentially comprised either a reduction in the standard VAT rate (Portugal, United Kingdom) or a cut in the reduced rates (Finland), or extension of the range of goods taxed at reduced rates (Finland, Austria, Belgium and Cyprus). Next, this fall may be due to a time lag between the payment of VAT by firms, which is immediately affected by the slowdown in activity, and the refund of VAT to firms – particularly exporters – which takes time to follow the economic cycle. In addition, some countries speeded up the refunds as part of their recovery strategy, contributing to a fall in net VAT revenues. Finally, as shown by an INSEE analysis (Faure *et al.*, 2012), when purchasing power declines, consumption switches to basic necessities, less taxed.

Conversely, since 2010, more than half the euro area Member States have put up their standard and/or reduced rates of VAT. Some of them have also limited the number of goods and services which are VAT-exempt or taxed at reduced rates. Excise duties likewise increased significantly in most Member States between 2011 and 2013. Finally, for 2013, the EC (2013d) expects a further rise in indirect tax revenues as a percentage of GDP. These developments indicate that the implicit tax rate on consumption will probably have continued rising in 2012 and 2013. In Belgium, too, the recent measures imposing VAT on certain services which had previously been exempt (notaries, bailiffs, lawyers and pay-TV) and higher excise duties should slightly increase the level of implicit tax on consumption.

Between 2000 and 2011, there was a particularly big increase in the implicit taxation of consumption in certain countries, rising by up to 6.6 percentage points in Estonia, whereas it declined in other countries, with Ireland making the largest reduction of 3.5 percentage points. Following these changes, the implicit taxation of consumption only converged slightly between 2000 and 2011, with hardly any reduction in the standard deviation.

By 2000, certain southern European countries, such as Spain, Greece, Italy and Portugal, already had some of the lowest implicit rates of tax on consumption in the euro area. Moreover, those rates fell even further between 2000 and 2011, in contrast to what happened on average in the other euro area Member States. However, it was mainly after 2008 that they fell below their 2000 level, indicating that the crisis had a serious impact there. In addition, these countries had not reduced their standard rates of VAT, suggesting that there was no deliberate intention to reduce the tax burden on consumption; those standard rates have actually risen since then, as have excise duties. The Nordic countries have some of the

CHART 7 IMPLICIT TAXATION OF CONSUMPTION
(rates)



Source: EC.

highest implicit rates of tax on consumption in Europe. Nonetheless, those rates did edge closer to the European average. Belgium recorded a moderate fall in this implicit rate, putting it very close to the euro area average in 2011.

3.2 VAT

VAT is a tax charged on all goods and services at the point of consumption, wherever they are produced. This tax is currently neutral in that there is no discrimination between producers of different origins. However, in the European Union this system is still regarded as

transitional: since the creation of the Single Market in 1993, the aim has been to establish a common system of VAT in which the seller of goods and services would invoice the VAT, so that the system would be based on the country of origin.

Under this “transitional” system, EU legislation stipulates that the standard VAT rate must be at least 15%, but that Member States may adopt one or two reduced rates of not less than 5% for specific goods and services. In addition, exemptions may be granted, notably for labour-intensive services (in an attempt to bring down unemployment) and for the supply of energy. Some territories are also permitted to apply specific rates to a restrictive list of products or services. Furthermore, a range of goods and services which were exempt or subject to “super-low” rates before 1991 can continue to be taxed at those reduced rates, in accordance with an exhaustive list and/or strict criteria laid down by European law, such as having a social purpose intended to benefit the final consumer. Finally, there are various exemptions defined at Community level, in the public interest (health care, long-term care, education, cultural services, etc.), either because it would be difficult to establish a tax base (financial services, etc.), or for historical reasons (renting of property, for example).

Where these reduced rates apply for social reasons to goods or services regarded as basic essentials, they can attenuate the regressive character of VAT in an attempt to ease the burden borne more specifically by the less well-off. However, this approach attracts criticism, as redistribution is more effectively achieved through direct taxation. Sometimes, rates are also cut to stimulate consumption of certain goods and services, such as books, newspapers, public transport, or plants and flowers.

Owing to the existence of reduced rates and exemptions, the VAT revenues actually collected are lower – sometimes much lower – than they would be if the standard rate applied to all goods and services consumed. Moreover, VAT fraud leads to substantial losses of tax revenues. According to the OECD (2012), those losses average 12% of revenues in the European Union.

As an unweighted average in the euro area, the standard VAT rate increased from 18.1 to 20.4% between 2000 and 2013. During that period, there were two phases in the increase in this rate. Between 2000 and 2009, the rise was moderate, not even one percentage point. A third of it was due to the increase in the rate in Cyprus, which the island implemented in order to conform to the minimum rate of 15% under European rules in view of its accession to the EU. From 2009 onwards, some countries resorted

to the VAT rate to increase their revenues for the purpose of the fiscal consolidation. In the space of four years, the average rate in the euro area then increased by 1.4 percentage points.

Between 2000 and 2013, most of the countries considered thus increased their standard rates of VAT without that common trend leading to harmonisation. Only in Slovakia was the standard rate reduced, while it remained unchanged in six countries, of which Belgium. The biggest increases took place in the countries under particularly severe budgetary pressure, namely Cyprus, Greece, Portugal and Spain. Those countries also had some discretion in this respect, as their rates were below the European average in 2000, and – with the exception of Portugal – even in 2008. In Belgium, although the standard rate has remained static, it is now close to the European average.

The reduced rates likewise pursued an upward trend, since only Finland reduced these rates, while twelve countries in the survey sample increased them, again for the purpose of contributing towards the recent fiscal consolidation. Those rates remained unchanged in seven countries, including Belgium.

3.3 Excise duties

Excise duties are the second biggest source of indirect revenue. They have two specific characteristics, namely they are levied only on clearly defined goods, and the amounts payable are generally expressed in terms of criteria other than the selling price, such as the volume sold. However, some excise duties are calculated *ad valorem*, i.e. on the basis of the selling price. Excise duties are often introduced to influence consumption behaviour in relation to certain specific goods, particularly those which are harmful to health or the environment. On the other hand, like VAT, they do not discriminate according to the origin of the goods and are collected by the final seller rather than directly by the State, so that makes them indirect taxes.

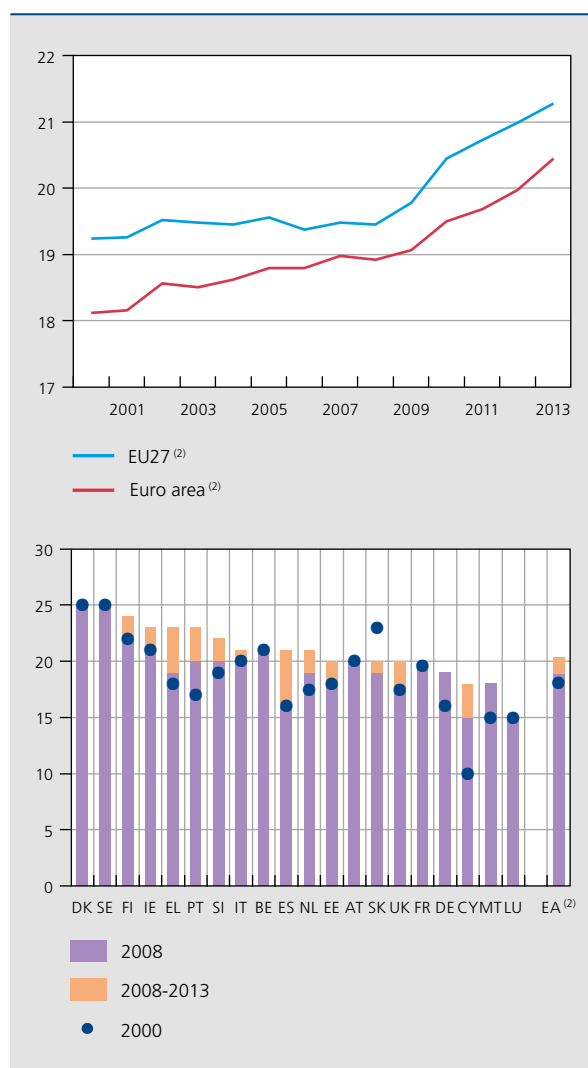
Some products attract excise duties in all 15 Member States which made up the EU in 2000, for which data are available for the entire period. This essentially applies to some alcoholic beverages (though not necessarily all), tobacco, and mineral oils. Excise duties on the last item also form part of the environmental taxes on energy.

In the case of tobacco, the excise duties combine unit levies with *ad valorem* levies. As this second component

is affected by inflation – or at least by an increase in the price of cigarettes excluding tax – the excise duties per unit of sales increase even without any change in the law. On average for the countries considered, the increase came to almost 85 % between 2000 and 2013 at current prices, up from € 85 to € 162 per thousand cigarettes. At constant prices the increase is over 40 %, reflecting the substantial use of this resource by a number of countries in connection with the recent fiscal consolidation.

The excise duties on wine are levied according to volume⁽¹⁾. Some major wine producers such as Spain, Italy and Greece, but other countries too, do not charge excise duties on this product. The excise duties are also particularly low in France. At constant prices, they declined by

CHART 8 STANDARD RATES OF VAT⁽¹⁾



Source: EC.

(1) Where two rates apply in a given year, the rate prevailing on 1 July is the one considered.

(2) Unweighted averages.

(1) Here it is a question of the volume in hectolitres. The volume of alcohol may also determine the level of excise duty, the latter being reduced in some countries if the alcohol content of the wine is below a certain limit.

almost 5 % on average between 2000 and 2013, demonstrating the extent to which this tax is eroded over time if it is not increased in nominal terms. The nominal level of the excise duties went up by only 30 % in the countries which charge this duty, a figure which is below average inflation. In the countries which collect excise duties on these products, the average is still well above the level in Belgium, where the increase was no more than 12 %.

The excise duties on beer, again per hectolitre consumed, are significantly lower than on wine, but are nevertheless levied in all 15 Member States considered. Beer-producing countries such as Belgium and Ireland impose lower excise duties on beer than on wine, while some wine-producing countries, such as France, Spain and Portugal, tax beer more heavily than wine. At constant prices, the rate of excise duty on beer has fallen slightly, on average, in the countries examined. The biggest proportionate increases occurred in Spain, France and Greece, where excise duties were still particularly low in 2000. In Belgium, these excise duties remain well below the average.

Excise duties on mineral oils represent a large proportion of total excise revenues, owing to both the high level of consumption and the tax burden imposed on these products, which regularly exceeds 100 % of the price excluding tax. These excise duties vary according to the purpose for which the product is used (e.g. heating or road fuel), the fuel's characteristics (LPG, diesel or petrol), and even whether it is destined for business or private use.

On average, in the oldest 15 EU Member States, taxes on heating oil rose by much more than inflation between 2000 and 2013. They more than doubled at current prices, rising by over 60 % at constant prices. The rise was particularly steep in Greece, and almost all the countries considered recorded an increase. However, there was a reduction in France and Luxembourg, the latter actually abolishing excise duty on this product. As the biggest increases occurred in the countries where these products were already heavily taxed, the dispersion became significantly more marked in this respect. Starting from a level which was already fairly low compared to its partners in 2000, Belgium now ranks second lowest after Luxembourg. It should also be noted that taxes on heating oil are generally lower than those on diesel, essentially for social reasons, though that is not the case in the Netherlands and Greece.

Expressed in current prices, the taxes on Eurosuper 95 and on diesel increased in all the countries considered except the United Kingdom between 2000 and 2013, but in varying proportions. The average nominal rise for the countries studied came to 26 and 28 % respectively for

Eurosuper and diesel. Conversely, at constant prices, the taxes on these motor fuels were down slightly, indicating that the measures taken did not entirely offset the impact of inflation on these revenues. In Belgium, the rise was fairly close to the average in the case of Eurosuper 95, but exceeded it for diesel, so that the levels approached the average for the 15 countries.

Furthermore, the relative levels of taxation on these two motor fuels are at odds with the regularly cited environmental arguments encouraging heavier taxes on diesel than on Eurosuper 95, as diesel emits more fine particulates and nitrogen oxides (NOx). Despite these arguments, diesel is still subject to lower tax, sometimes much lower, than Eurosuper 95 in every country studied. However, some countries do seem set to eliminate these discrepancies, either quite strongly, such as Sweden and Finland, or more gradually, such as Italy, Denmark, France and Austria, or even Belgium.

4. Environmental taxes

The aim of environmental taxes is to influence the behaviour of consumers and/or producers by increasing the marginal cost of certain goods and services to the private consumer, raising it to the level of the marginal cost for society. These taxes generate what is sometimes called a "double dividend", as these tax revenues – which make it possible to reduce other taxes – complement the environmental objective. These taxes take many forms, ranging from excise duty on certain polluting products, such as fuel, to specific levies on certain products which may vary according to product characteristics.

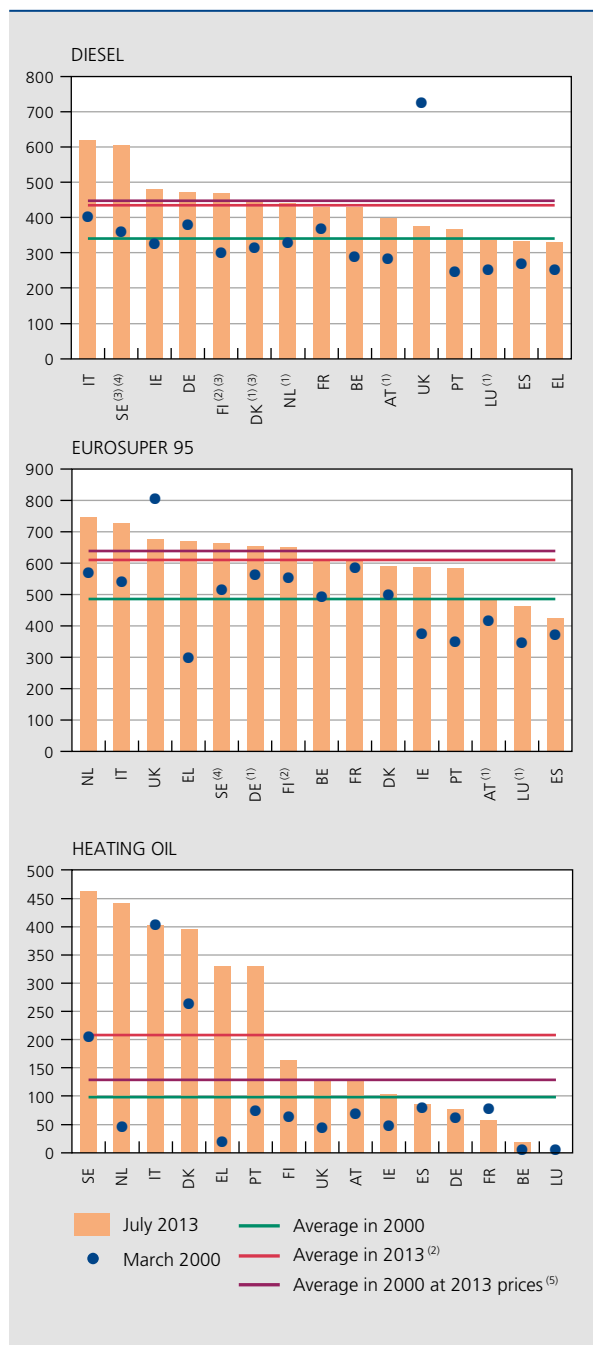
On average in the euro area, environmental tax revenues expressed as a percentage of GDP declined between 2000 and 2011, dropping from 2.6 to 2.3 %, as most countries recorded a downward trend. Unlike other types of tax, these revenues now exhibit a greater dispersion between euro area countries than in 2000. The general decline as a percentage of GDP is due solely to levies on energy, as the other resources remained more or less stable.

The fall in these revenues may seem contrary to expectations against the backdrop of mounting concern over global warming, pollution and the exhaustion of natural resources. However, it essentially stems from the improvement in energy efficiency, namely the use of energy per unit of GDP.

Taxes on energy generate almost three-quarters of the environmental taxes in the euro area as a whole. In some countries (Netherlands, Malta, Ireland and Denmark),

their volume is equivalent to less than 60 % of total environmental taxes, while it exceeds 90 % in Luxembourg. Other environmental taxes, namely those on transport and other types of pollution, represent on average respectively around 20 % and almost 5 % of environmental tax

CHART 9 EXCISE DUTY ON MINERAL OILS
(in € per thousand litres)



Source : EC.
 (1) Low sulphur content.
 (2) Environment-friendly.
 (3) Including taxes on CO₂.
 (4) Class 2.
 (5) Deflated by the HICP of the 15 first EU Member States.

revenues. These proportions have varied only a little since the start of the century, with the share of energy down slightly in favour of the other two sources.

In Belgium, the level of environmental taxes is below the euro area average. The ranking by component of these taxes in Belgium compared to the EU reveals the factors behind this relatively low figure. Thus, in regard to taxes on energy, Belgium ranks 26th. Conversely, other taxes on transport (annual road tax, registration taxes, etc.) and on pollution or the use of resources, expressed in percentages of GDP, bring in as much as the euro average, or even slightly more.

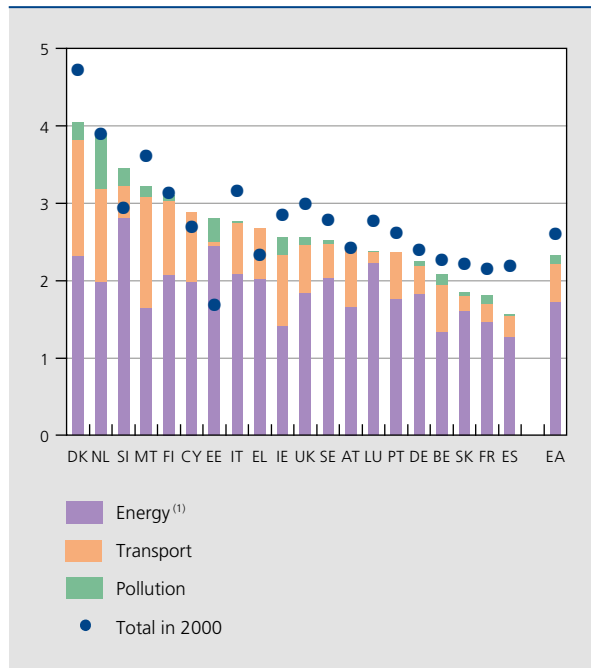
So the most significant environmental taxes concern energy. The implicit tax rate on energy can be measured in euros paid per tonne of oil equivalent⁽¹⁾. According to the EC's data, the implicit tax rate on energy expressed at constant prices declined by almost 3 % on average in the euro area between 2000 and 2011, reflecting the natural downward trend in taxes charged per physical unit, which are eroded by inflation if nothing is done. That effect can be counteracted by regular adjustments or the indexation of these taxes per unit, as in Denmark.

As in the case of taxes on labour and consumption, the average implicit tax rate on energy went through various phases during the period studied. The natural downward tendency was more or less constant between 2000 and 2008. That phase was followed by a rise from 2009, which was probably due mainly to the need for fiscal consolidation. There were many measures concerning this in 2012 and 2013 which are likely to have generated a continuing rise in these revenues.

In the countries analysed, the implicit taxation of energy generally increased, albeit in varying proportions. However, this taxation was down in Italy – where it was high in 2000 – and in Spain, where it was then already low. It remained practically stable in France and Germany so that the level reverted to what it was in 2000 in the euro area, the various countries being weighted according to their respective GDP. Some Member States which had a fairly low implicit tax rate on energy in 2000 are now close to or above the euro area average, such as Cyprus, Slovenia, Greece and Malta. The gap has also narrowed for countries such as Finland and Portugal. In Belgium and Slovakia, where the rate prevailing in 2000 was well below the average, the increase has been moderate so that the gap in relation to the average has hardly narrowed. Taking account

(1) This rate is calculated as the ratio between total energy tax revenues and final energy consumption, aggregating different energy sources on the basis of each source's net calorific value (EC, 2013a).

CHART 10 ENVIRONMENTAL TAXES
(in % of GDP, 2011)



Source: EC.
(1) These taxes include excise duty on fuel.

of these developments, the dispersion of the implicit rates of tax on energy is now less than in 2000, though it cannot be said that there has been any harmonisation in this sphere.

In 2011, the implicit tax rate on energy in Belgium was the third lowest in the euro area, after Slovakia and Estonia. This low figure was due mainly to the excise duty on heating oil, which stood at € 18.5 per thousand litres, compared to an average of € 135.6 in the euro area.

5. Taxes on capital and capital incomes

Capital and the income derived from holding it are taxed in many ways, so that a brief typology of those methods may be useful. Thus, a first distinction must be made between tax on the capital itself – property or wealth – and tax on the income derived from it.

In regard to property, movable assets are rarely subject to direct, recurring taxation, one exception to that principle being the solidarity tax on wealth in France. Conversely, in the wake of the financial crisis, the

proposal for a tax on financial transactions has gained increasing support. Such a tax would form part of the taxes on property, in that there is no link with the income generated but only with the value of the property transferred. Similarly, transfers of movable or immovable assets in the form of gifts or inheritances are frequently also taxed, as they have been for a very long time. In addition, the sale of real estate is subject to tax. Finally, immovable assets are subject to recurrent taxation in all EU countries except Malta.

Taxes on capital income comprise corporation taxes and taxes on financial capital gains and other household capital income. In addition, the EC includes income taxes and social security contributions of self-employed workers, notably in calculating the implicit tax rate on capital, the distinction between the parts concerning labour remuneration and capital remuneration being difficult and arbitrary.

Following a general presentation of the level of the implicit tax rate on capital as a whole and how it has changed, the analysis focuses on corporation tax, which generally accounts for the major share of capital taxes, and on recent developments in the taxation of income from movable assets and of financial transactions.

5.1 General presentation

The EC calculates the implicit tax rate on capital as the ratio between, on the one hand, taxes on capital and capital incomes⁽¹⁾ and, on the other hand, total capital incomes (including the incomes of companies and self-employed workers). There is therefore some statistical inconsistency between the numerator and the denominator of this indicator. Nevertheless, it is interesting to see how the taxation of capital and capital incomes has changed over the medium term.

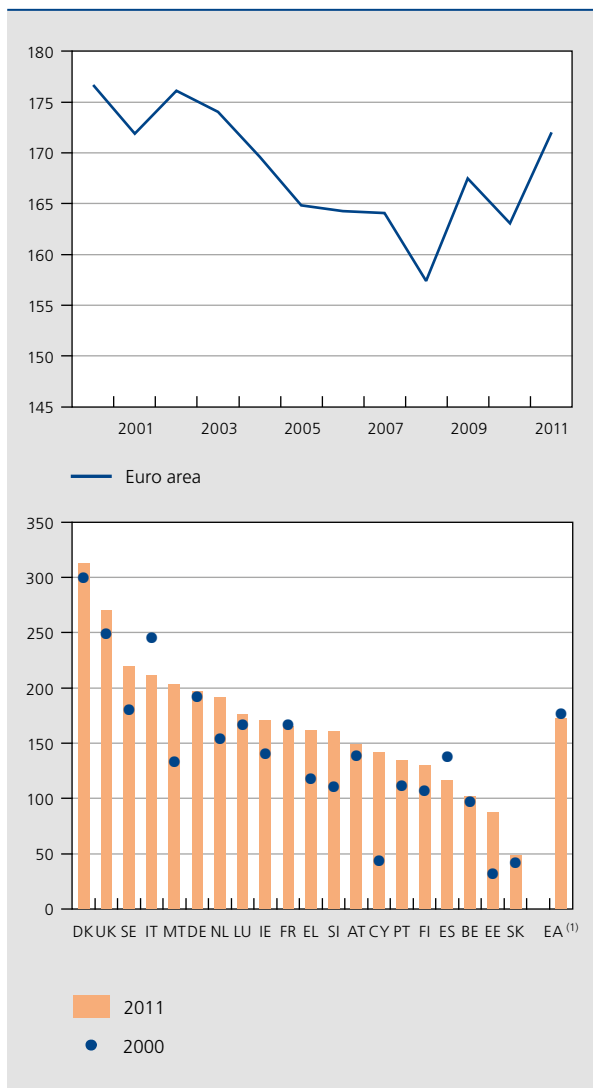
The EC data show that the implicit tax rate on capital declined by 1.3 points in the euro area between 2000 and 2011, bringing it down to 28.9%. Once again, this movement was not linear, as the sharp rise recorded between 2004 and 2007 temporarily drove this rate above the levels prevailing at the start of the century. Conversely, following the outbreak of the financial crisis, the rate dropped steeply until 2010 before edging back up in 2011.

(1) In Belgium, capital tax thus defined includes notably corporation tax and taxes paid by self-employed workers, inheritance and gift taxes, taxes on long-term savings, revenue collected at the time of the first and second tax amnesties, withholding tax on income from immovable property, road taxes paid by firms, the nuclear levy, the annual tax on UCIs and transfers to the Industrial Accident Fund from private industrial accident insurance funds.

CHART 11

IMPLICIT RATES OF TAX ON ENERGY

(in € per tonne of oil equivalent, deflated data, base year 2000)



Source : EC.
(1) Average weighted by respective GDP.

Over the period from 2000 to 2011, the total decline was particularly marked in certain countries where this rate had previously far exceeded the average, such as Sweden, Finland and the United Kingdom. It was also substantial in some Member States even though the implicit tax rate there was already relatively low, such as the Netherlands, Slovakia, Germany and Austria. Conversely, some countries which already had a high tax rate compared to the European average increased the gap still further after the implicit rate had risen, as it did in France. This rate also recorded a moderate increase in Belgium, but that was enough to drive it above the euro area average. As a result of these developments, the dispersion is now greater than it was in 2000.

5.2 Corporation tax

Nominal rates of corporation tax, being easy to compare, are generally the initial focus of attention for potential investors, even if they subsequently analyse the situation in greater depth. It is therefore useful to focus on these rates – and more specifically on the adjusted top rate – even if they do not cover the complexity of corporation tax systems, better grasped via the effective tax rate.

Nominal rates vary greatly from one country to another, and in 2013 they ranged from 10% in Cyprus to 36.1% in France. In all euro area countries, rates have been reduced since 2000, except in Malta where the rate was steady. Taking the euro area average, this rate thus dropped from 34.4% in 2000 to 25.9% in 2013. Once again, there were two sub-periods. Up to the start of the financial crisis in 2008, the first downward phase was continuous and sustained. The average rate then stood at 26.3% in the euro area, more than 8 percentage points below its 2000 level. Since then, the fall has been considerably slower, and the rate actually nudged upwards in 2012 and 2013.

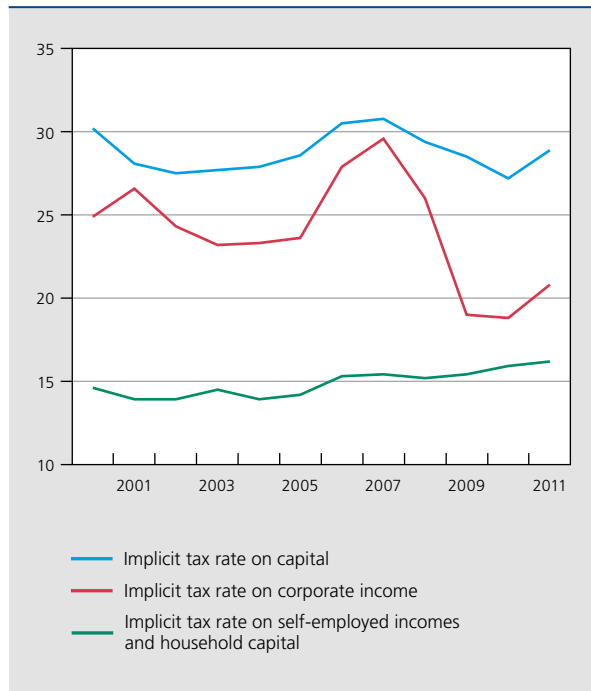
With a tax rate of 33.99%, Belgium has the third highest adjusted top tax rate in the EU, after France and Malta, despite the rate cut which took effect on 1 January 2003. In fact, no fewer than twelve countries have made larger reductions since 2000, headed by Germany where the rate was cut from 51.6 to 29.8%. It is noteworthy that among the countries with particularly low rates, Cyprus and Ireland are maintaining these levels despite the pressure put upon them in connection with the European support measures for those countries.

The recent trend towards stabilisation of the tax burden on companies is evident not only in the tax rates but also in the policy on business taxation relating to a number of other instruments. Analysis of the effective tax rate sheds light on developments of this type.

The average effective tax rate on non-financial corporations is a measure of the discounted value of future taxes paid, expressed in proportion to the net discounted value of income flows (excluding the initial investment cost). It indicates the potential attraction of investing in one country rather than another. That rate, illustrated here, is calculated by making a number of economic assumptions, such as a required real net return of 5% and inflation at 2%.

Between 2000 and 2012, the average effective tax rate in the euro area went down by 6.3 percentage points, a fall of almost a quarter. However, the more or less general decline was concentrated on the period 2000-2008,

CHART 12 IMPLICIT RATES OF TAX ON CAPITAL
(euro area)



Source: EC.

when countries appeared to engage in intense tax competition in this respect. Since the outbreak of the financial and economic crisis the “race to the bottom” has come to a halt, notably because the necessary fiscal consolidation prevented any further cuts in this area. This competition has reduced the rate dispersion between the various countries.

Between 2000 and 2011, for the euro area as a whole, the decline in nominal rates (-25 %) outpaced the fall in effective rates (-22 %). The decline was even smaller in terms of corporation tax revenues expressed as a percentage of GDP, which were down by 17 %. These last two significant falls confirm that tax competition concerns not just the nominal rate but the overall tax burden on businesses. However, it is important to understand the reasons why these three concepts diverge.

Various factors explain these differences. Thus, the fall in nominal rates was offset by expansion of the tax base, mainly via a restriction on tax expenditure in favour of companies. The discrepancy between the decline in the effective rates and the fall in revenues is logically due to expansion of the tax base, which may be surprising in a crisis period. The reason could be that many self-employed workers set up their own companies in view

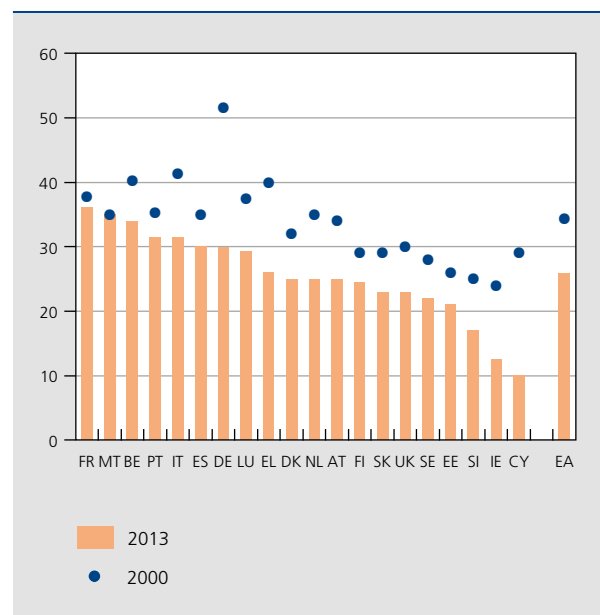
of the increasing tax advantage, owing to the widening difference between the tax burden on companies and that applicable to individuals.

The decline in the effective rate of corporation tax was likewise widespread with the exception of Ireland, where there was a 5 percentage point increase, and Malta, where the rate reverted to its 2000 level. The steepest falls occurred in Cyprus, Greece and Germany where they exceeded 12 percentage points. In this respect, Belgium recorded the sixth biggest reduction owing to the effect of the notional interest system.

Thus, the downward convergence of nominal rates in the EU countries merely reflects tax competition and not coordinated action at European level. Each Member State is in fact free to choose the rate of direct corporation tax. Moreover, this competition also concerned the tax base, notably via an increase in tax expenditure or advantages available to small firms, for example. Member States therefore developed strategies to attract international investment by adjusting nominal rates, tax bases or special tax regimes.

Harmonisation at European level would have prevented this competition from being detrimental to the Member States considered as a whole. Some rules have gone in that direction. For instance, one key European initiative

CHART 13 CORPORATION TAX RATES⁽¹⁾
(adjusted top rates)



Source: EC.

(1) Where multiple rates coexist, only the top basic rate is considered plus any eventual surcharges and the average of local taxes.

was the Ecofin Council agreement of 1 December 1997 on a set of measures to combat tax competition. Subsequently, in 1999, the Primarolo group had submitted a report identifying 66 detrimental tax practices, including the tax regime applicable to coordination centres in Belgium, which was then abolished though the notional interest deduction was introduced.

Since any coordinated approach at European level requires unanimity, and taking account of the Member States' attachment to their fiscal powers, the EC long ago gave up trying to get the rates increased in countries where they are particularly low, including certain new Member States. On the other hand, it has tried to establish a common consolidated corporate tax base for firms operating in multiple Member States. In 2011, it actually submitted a draft Directive on the subject, which has been discussed but is still encountering resistance from a number of countries. In 2012, the European Parliament suggested going down the road of enhanced cooperation, which would make it possible to produce a draft backed by a minimum of nine countries.

However, in the absence of overall success, harmonisation has been achieved for some specific elements, as set out in the Directive on relations between parent companies and subsidiaries, the merger Directive and the one establishing a common tax regime applicable to interest payments and royalties between associated firms located in different Member States.

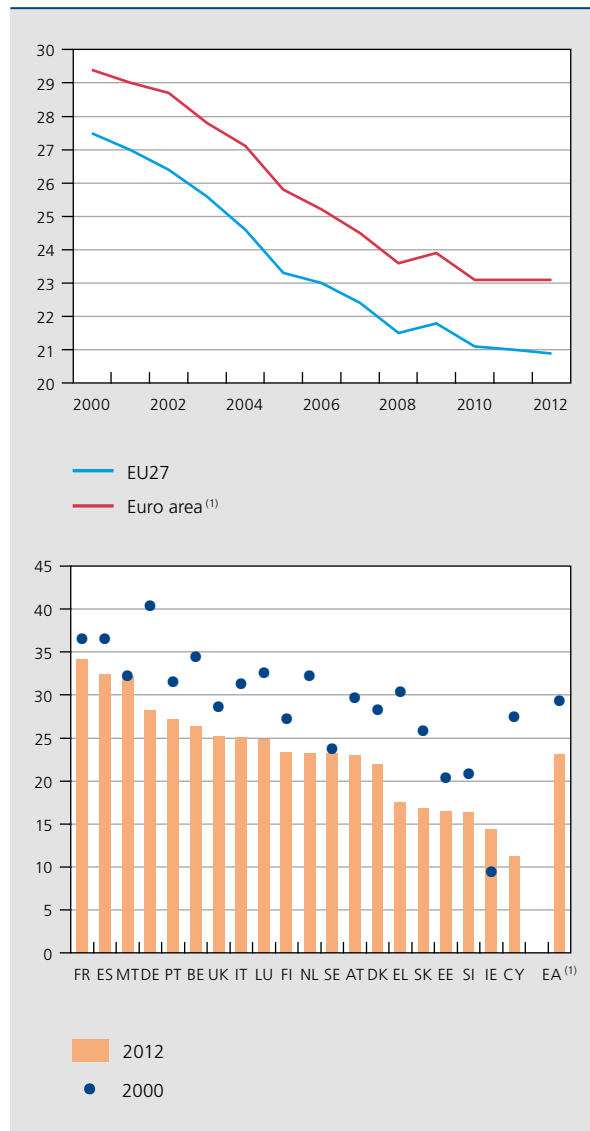
5.3 Taxation of income from movable property and financial transaction tax

In the absence of harmonised statistics over a long period at international level, this section looks at two major developments now taking place. The first concerns the international battle against tax evasion concerning income from movable property; the Directives on the taxation of savings and on data exchange agreements are part of that battle. The recent American FATCA (Foreign Account Tax Compliance Act) could lead to a change here at European level. The second development concerns the possible introduction of a financial transaction tax in certain EU Member States, which is yet to be agreed.

THE EUROPEAN DIRECTIVES ON THE TAXATION OF SAVINGS AND THE EXCHANGE OF INFORMATION

Income from the interest on capital is one of the most mobile tax bases. To combat tax evasion in this sphere, the EU adopted the Directive on the taxation of savings income in 2003, which was implemented on 1 July 2005 and

CHART 14 EFFECTIVE TAX RATE OF THE NON-FINANCIAL SECTOR



Source: EC, taken from ZEW.
(1) Unweighted average.

aims to ensure the effective taxation of savings incomes collected in the form of interest payments made in one Member State to individuals resident in another Member State, in accordance with the law in the latter country.

The exchange of information is the cornerstone of that Directive. However, three countries – Belgium, Luxembourg and Austria – had nevertheless obtained a temporary but unlimited exemption enabling them to collect the tax at source rather than exchange information. The tax rate was 15% between 1 July 2005 and 30 June 2008, and 20% from 1 July 2008 to 30 June 2011; since 1 July 2011 it has stood at 35%. Belgium abandoned this exemption on 1 January 2010.

Every three years, the EC has to report to the Council on the functioning and effectiveness of the Directive, and propose any adjustments. When the Directive was first reviewed in 2008 the EC had identified a number of weaknesses giving rise to circumvention, and suggested modifications to rectify them. First, the Directive only applies in the signatory countries. Second, it only concerns individuals. It is therefore easy to get around it by using corporate structures such as trusts. Finally, the definition of interest income makes it possible to circumvent the directive by using innovative financial products.

On 13 November 2008, following this report, the EC adopted a proposal for an amendment to the Directive to close the loopholes in the text and make it more effective against tax evasion. The European Parliament approved the proposal, and the European Economic and Social Committee also gave its consent. At the level of the Ecofin Council, political agreement was reached by the end of 2009. Even though the proposed changes enjoyed a consensus and were considered acceptable to all, Luxembourg and Austria did not in the end agree to endorse the amended text.

The second review of the Directive, in 2012, confirmed the need to extend its scope. However, the debate on the amendments is still ongoing, as Luxembourg and Austria have once again rejected the revision, and particularly the extension to other products such as life insurance. On this point, before coming on board, the two countries want the same rules to apply to Switzerland and other European tax havens. However, Luxembourg promised to join in the automatic exchange of information from 2015, thus partially renouncing its banking secrecy, whereupon Austria undertook to consider the matter.

Despite the lack of real progress so far, a number of recent developments seem to indicate genuine changes at both European and international level. Thus, the agreements which some European countries have signed with the United States on the automatic exchange of information under the FATCA should step up the pressure on the two recalcitrant countries. Adopted in 2010, the FATCA requires banks to forward to the IRS (US Internal Revenue Service) the information necessary for the taxation of American taxpayers, wherever they are resident. Recalcitrant banks will be subject to a highly dissuasive tax on their transactions. Rather than allow US law to apply to their banks, many countries therefore opted to negotiate an agreement governing the details of the exchange of data on bank accounts held by American taxpayers. That should lead to very widespread implementation of the FATCA, particularly in the EU.

The bilateral agreements with the United States prompted France, Germany, Italy, Spain and the United Kingdom to launch a pilot programme in April 2013 on the automatic exchange of data at European level, based on the American model. Other Member States then joined the project, laying the foundations for a multilateral agreement within or even beyond the EU. Banks in participating countries will have to reveal information on their foreign customers, which is then forwarded to the tax authorities of the taxpayer's country of residence.

Finally, on 15 February 2011, the EU adopted Directive 2011/16/EU on administrative cooperation in the field of taxation. On 12 June 2013, it also submitted a proposal for extending the mandatory automatic exchange of information to other forms of capital income such as dividends, capital gains and any other income generated by assets held on a financial account. The preamble to that proposal explicitly refers to the FATCA. In fact, pursuant to Article 19 of this Directive, if a Member State provides a third country with wider cooperation than specified by the Directive, it cannot refuse that wider cooperation to another Member State wishing to take part in such a form of wider mutual cooperation. The fact that Member States have concluded or will conclude agreements with the United States under the FATCA means that they provide wider cooperation within the meaning of that provision. Extension of the automatic exchange of information on the basis of an EU-wide legislative instrument will remove the need for Member States to invoke Article 19 of the Directive in order to conclude bilateral or multilateral agreements on the same subject which they may consider necessary in the absence of applicable European legislation.

DRAFT FINANCIAL TRANSACTION TAX

In September 2011, the EC adopted a proposal for a Directive on a financial transaction tax (FTT). This was in response to the Member States' desire to ensure that the financial sector contributes fairly to the cost of the crisis, while discouraging future speculation, by a harmonised approach. This tax was thus intended to generate substantial revenues and help to promote financial market stability.

As it was impossible to secure the unanimous approval of the 27 EU Member States in favour of a common tax, eleven countries including Belgium wanted to adopt the FTT via an enhanced cooperation procedure, authorised by the Council in January 2013.

In February 2013, the EC then submitted a new proposal for a Directive introducing the FTT. Under that proposal,

any financial transaction would be taxed provided at least one of the parties was established in a participating country (residence principle). Transactions concerning a financial instrument issued in a participating country would also be covered by the proposal (place of issue principle).

All instruments tradable on the capital markets, money market instruments, UCI units and derivatives are covered, but not day-to-day financial activities of households and firms, e.g. relating to insurance or credit. Similarly, the proposal covers all types of transactions, whether conducted on organised or over-the-counter markets, except for primary market transactions and those effected with ESCB central banks.

According to the draft, the tax rate is set at 0.1 % for all these instruments, except for derivatives which would qualify for a rate of 0.01 % on the value of the underlying assets, though each Member State is free to charge higher rates. These taxes will be paid by financial institutions. In addition, these amounts are payable by each financial institution concerned, whether it is the seller or the buyer.

Altogether, the EC estimates that this tax could raise around € 31 billion per annum for the participating countries as a whole, taking account in particular of changes in the behaviour of agents who will logically reduce the volume of the transactions which have become more expensive. That move will have a negative impact on tax revenues, but is in itself one of the aims of the tax. This assessment likewise considers that the new tax will to some extent result in relocation and tax avoidance. Thus, the Commission anticipates that these circumventing strategies will lead to a 15 % reduction in equity and bond transactions and a 75 % fall in derivative transactions. For Belgium, an estimate by FPS Finance puts the potential revenue for the Belgian State at between 0.18 and 0.48 % of GDP, or between € 0.8 and 2 billion.

Last July, the European Parliament submitted an opinion on this FTT draft, in which it proposes that pension fund transactions should be eligible for a 50 % cut in the tax rate for the first three years. It also suggests a rate of 0.05 % for transactions in sovereign bonds. The argument here concerns preserving the profitability of pension funds and maintaining liquidity on the government bond market, so as not to put up public borrowing costs. Finally, it suggests expanding the tax base to include currency transactions.

So far, the ECB has not given a detailed opinion on the proposal for a Directive. Nevertheless, the institution has recommended careful examination of the effects of this proposal in view of the potential risks to financial stability

and the transmission of monetary policy inherent in the tax as envisaged in the Commission document.

It is now for the eleven Member States taking part in the enhanced cooperation procedure to approve the Directive and transpose it into national law. However, the recent lack of progress seems to indicate that the Directive will not enter into force before mid-2014 at the earliest.

Conclusions

In 2013, the total average tax burden in the euro area had practically reverted to the level prevailing at the start of the century. However, that stability conceals geographical and chronological variations and differences between types of taxation.

Geographically, the Nordic countries still impose a heavy total tax burden, though it has been greatly reduced in Sweden and Finland, and to a lesser extent in Denmark, which has the highest level of tax in Europe. France and Belgium are now in second and third place in the ranking of the highest tax countries. Of the countries studied, Malta and Cyprus have recorded the biggest increase in the tax burden. In Slovakia and Ireland, there was also a marked fall, and these two countries now have the lowest tax rates.

The period examined can be divided into four phases, generally apparent both in Europe and in Japan or the United States. The first two phases precede the financial and economic crisis and feature a reduction in the tax burden up to 2004, followed by a more limited rise up to 2007. After that, the crisis led to a reduction in the tax burden following the contraction of the tax base and the ensuing recovery measures. Finally, from 2010-2011, the growth of tax revenues was due to fiscal consolidation taking place almost everywhere.

Despite a modest decline at European level, there is no common trend in taxation of the factor labour. The biggest cuts in the implicit tax rate between 2000 and 2011 occurred in the Nordic countries, though the rate there still exceeds the European average. Other countries where this rate was below the European average proceeded to increase the tax burden on this factor. These movements led to a limited convergence of the implicit tax rate on labour. There was no generalised transfer of part of that tax to consumption, as repeatedly recommended by international economic institutions. Nonetheless, some countries – including Germany and Sweden – did make that transfer, and 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 in indirect taxation also varied between countries and went through a number of phases. Overall, however, the implicit tax rate 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 on which a lower VAT rate is applied. Excise duties have sometimes risen by more than inflation (tobacco, alcohol, heating oil), and sometimes by less (motor fuel). 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 concerning 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 the competition between countries, as European coordination has so far only resulted in agreements on specific elements.

Income from movable assets is the subject of special international attention. The financial crisis has in fact rekindled interest in better coordination, including 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.

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