

EXCISE IN TAX PRACTICE IN THE EUROPEAN UNION

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Abstract: : Special taxes on consumption is one of the oldest forms of taxation. The preference has been linked to their use for the collection facilities. Long established as fixed amounts per unit , they were easier to control especially for products such as oil , where production and distribution is highly concentrated or products subject to a monopoly , as if tobacco (in France) or alcohol (in some Nordic countries) . Despite a strong tendency to focus on the three products (alcohol, tobacco and hydrocarbons) were maintained in many countries specific taxes considered obsolete. It is considered legitimate overcharge abuse alcohol and tobacco consumption because directly affects not only the health of the consumer but also those around you and involve significant expenditures from the budget to finance the costs of combating the effects of this large consumption, more than the proceeds realized by excising these products.

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1. INTRODUCTION

The issue of harmonizing indirect taxes including excise, was laid in 1987, when the Commission opted for their total unification. The solution was subsequently abandoned because there were situations extremely different from one country to another on the importance and weight of excise in GDP and tax revenues, but also in the level of taxation applied, so the impact of unification would have been extremely different for EU countries. Excise represented in Belgium only 3.1% of GDP and 6.9% of tax revenues, while their share in Portugal was three times higher, accounting for 9.2% of GDP and 26.6% of tax revenues, given that in the major developed countries they represented between 3% and 5% of GDP.

Excise structure and the level of taxation of various products were also very different from one country to another. For fuel, for example, the situation was totally different in Germany and the UK that charged relatively moderate taxes for gasoline, benefiting diesel very little in relation to countries such as France and Italy which practiced very high gas taxes, but applied very low taxes on gasoline.

Regarding alcohol the differences were even more important. There were basically three well defined areas: Northern Europe (Denmark, Ireland and the United Kingdom) which applied very high taxes; the Center (Belgium, the Netherlands,

Germany and France) with moderate taxes and the South (Spain, Italy, Greece and Portugal) which applied very low, almost null taxes. Such structures on products gave obvious advantage to local productions. For example, beer - producing countries, but which were not producing wine, favored beer consumption. The situation was reversed in the wine - producing countries, except for France and Germany which produce both products.

Regarding tobacco taxation was, generally, more homogeneous, the weight of taxes in the final price of cigarettes being between 70 and 75%. The difference appears here between producing and importing countries. France, for example, which produced brown tobacco, of a lower value, applied a proportional tax system, favoring its own products, instead importing countries charged fixed taxes which benefit blonde tobacco whose price is higher compared to brown tobacco.

As well as the value added tax, excise can affect the proper functioning of the single market in the absence of harmonization measures that eliminate potential competitive advantage of economic agents exempted by national authorities to pay all or part of these taxes. The harmonization of excise in the member states of the European Union represented a complementary measure to the introduction of the common system of the value added tax. To comply with the principle of fiscal neutrality, the European regulations regarding excise provide, as in the case of VAT, the use of the destination principle (excisable goods are taxed in the country of consumption) and establish, unlike VAT, a permanent and general regime on the holding, movement and control of excisable products (Moșteanu, T., *Politici fiscale și bugetare europene*, p. 113). The community system regarding excise was introduced on January 1st 1993 with the creation of the single market. It was applied for the following categories of products: tobacco, alcohol and mineral oils.

2. CHARACTERISTICS OF EXCISE WHICH IMPOSE TAX HARMONIZATION AND THE OBJECTIVES OF HARMO

Excise presents, mainly, the following **characteristics**:

a) *there are taxes on the consumption of a small number of products and are practiced in all member states*. Being an indirect tax, but directly connected to commercial transactions and free movement of goods in the single market, it is subject to tax harmonization;

b) normally, *the products chosen to apply excise have a number of features*: their production and sale are controlled by the state; the elasticity of demand in relation to the incomes is over-unit; the consumption of products causes negative externalities (health, environment costs increase, etc.), that is why excise is also used as a means of discouraging the consumption of those products;

c) *excisable products are tobacco products, alcoholic beverages and energy and electricity products*. The European Union allows also the application of some other taxes on these products (e.g. “green” taxes for environmental protection), if there are no barriers for trade in the single market. From one member state to another, we also meet other products bearing excise (see Directive 2008/118/EC). Harmonization aims, primarily, goods bearing excise in all member states, looking to uniform product definition, units of measurement and exceptions. The harmonization of excise on fuels, for example, is absolutely necessary given their major influence on production costs. Practicing different rates of taxation in the member states is likely to introduce major distortions in the competitive system;

d) *excise is calculated based on percentages applied to price and/or fixed amounts per product unit.* In the member states there are significant differences in the relative and absolute size of excise placed on the same product. The big differences in the rates of excise from one state to another are explained not only by policies to discourage consumption, but also because, for example, tobacco and wine present great importance in the agriculture of some member states with smaller excise. *These differences, however, distort competition in the single market and constitute an important incentive for tax evasion* (smuggling of cigarettes, alcohol, etc.). In addition, excise has a high potential of tax competition by attracting consumers from other states if there are lower levels of taxation. The harmonization of excise rates leads to the reduction of these negative effects. For the products that are part of the same group and which are in competition with each other, especially tobacco products and alcoholic beverages, ***it is necessary for excise to be relatively equal in order not to affect competition;***

e) In the European Union, regardless of the member state making the goods carrying excise or imported ones, *excise payment is made in the member state where the products are consumed.* To this end, *excise payment is considered suspended until those products are declared marketed for sale.* The harmonization imposes uniform rules for the strict registration of the movement and storage of products bearing excise in the European Union.

However, the first measures to harmonize excise at community level were taken relatively late, with the establishment of the single market (1993). The delay can be explained by their lower importance as a source of budget revenue (compared with VAT), but also the relatively limited range of products to which it applies, which gives it a lower distortion potential of intra - community exchanges. On the other hand, there were frequent cases of discrimination against imports from other countries, especially alcoholic beverages by setting lower excise on domestic products that were easily substitutable with imported products (e.g. in France - Cognac versus whiskey, in England - beer versus wine, etc.).

The harmonization of excise aimed ***three important objectives:***

- tax base;
- tax rates;
- movement of excise bearing products between the member states.

The harmonization of the tax base was to prevent the establishment of a manner to favor domestic production at the expense of imports and included:

- establishing taxable goods through harmonized excise, namely tobacco products, alcoholic beverages, mineral oils, energy products and electricity. Member states may apply excise to other products as well (setting their list and the level of taxation) provided that this tax does not involve border formalities;

- defining the base for excise: the price for products with the largest consumption on the market - cigarettes; Pluto degrees - beer; hectoliter of pure alcohol in alcoholic beverages, which made it impossible to discriminate in favor of domestic products;

- setting the products exempt from tax or taxed at a reduced cost such as plane gas, energy products used as raw material or in areas such as agriculture, horticulture, fisheries, forestry, etc.

Regarding *tax rates*, although they have been introduced since 1992 with minimum levels of taxation in order to minimize distortions to the intra - community

trade, their range of variation is still very high (especially for tobacco products) which also reflects cultural particularities of the consumption of these products.

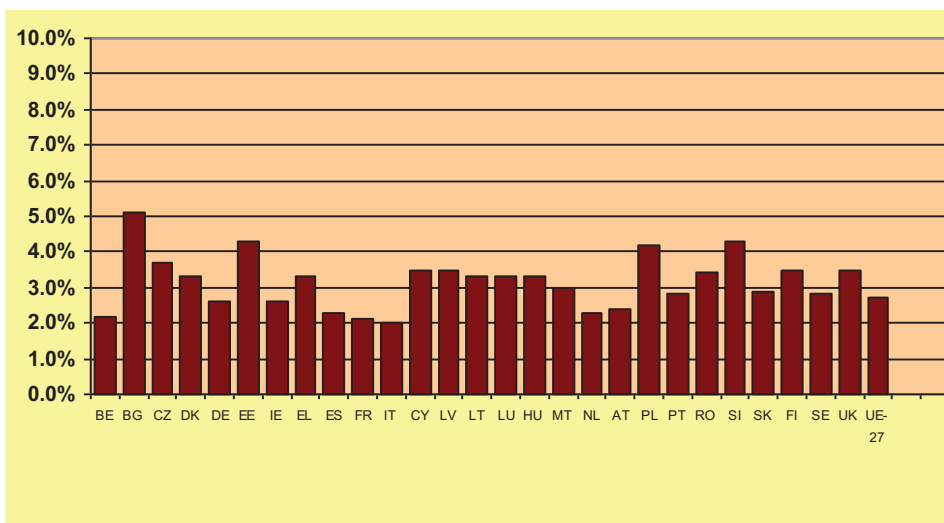
The regime (movement) of excise bearing products is a special one, designed to certify that excise is paid in (and by) the country in which the goods are consumed. Thus, although the taxable event is the manufacture (or import) in the EU of the good subject to excise, the effective collection of tax is suspended until the actual time of consumption. There are created, in this sense, fiscal warehouses managed by economic agents authorized by national tax agencies and compelled to present certain guarantees.

3. EXCISE CONTRIBUTION TO THE FORMATION OF BUDGET REVENUES

The weight of revenues from excise and other taxes on consumption in GDP, between 2000 and 2010, is presented in Table no.1, and the graphical reflection of their participation in the formation of budget revenues in 2010 is shown in Chart no.1.

Chart no. 1

Revenues from excise in 2010 (% from GDP)



Source: data processed from Taxation trends in the European Union

Analyzing the data presented in Table no.1, we find that excise revenues have registered a significant decline (0.3 percentage points) between the interval margins. After a period (2000 - 2004) in which the receipts remained relatively constant, they decreased gradually until 2009 and in the next year they recorded a slight revival.

Among the member countries we can note that twelve of these registered increases in revenues from excise and other taxes on consumption. The largest increases are registered by Estonia (1.4 percentage points), Bulgaria (1.1 percentage points) and

Slovenia (1.3 percentage points) followed, almost without exception, by the countries that joined the EU more recently and which, although often received exemptions, had to make efforts to align to the excise applied in the EU. In the other European countries there were reductions under one percentage point, except for Luxembourg (-1.2 percentage points).

In 2010, receipts from excise and other taxes on consumption exceed the European average (2.7 % of GDP) in nineteen states led by Bulgaria (5.1 %), Estonia (4.3 %) and Slovenia (4.3 %), while in the other eight states receipts are below average.

Table no.1

**Revenues from excise and other taxes on consumption (% from GDP)
between 2000 and 2010**

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Belgium	2.4	2.3	2.3	2.4	2.4	2.4	2.2	2.2	2.1	2.1	2.2
Bulgaria	3.9	3.7	3.9	4.4	4.8	4.7	4.8	5.8	5.9	5.5	5.1
Czech Republic	3.1	3.1	3.1	3.3	3.4	3.6	3.6	3.9	3.3	3.7	3.7
Denmark	4.1	4.1	4.1	4.0	3.8	3.5	3.4	3.2	3.1	3.3	3.3
Germany	2.8	2.9	3.0	3.2	3.0	2.9	2.8	2.6	2.6	2.7	2.6
Estonia	3.0	3.3	3.2	3.1	3.6	3.7	3.4	3.6	3.3	5.0	4.3
Ireland	3.2	2.8	2.8	2.7	2.7	2.6	2.4	2.4	2.4	2.7	2.6
Greece	3.1	3.1	2.9	2.8	2.6	2.6	2.5	2.6	2.3	2.6	3.3
Spain	2.6	2.5	2.5	2.5	2.5	2.4	2.2	2.2	2.2	2.2	2.3
France	2.6	2.5	2.6	2.5	2.3	2.2	2.3	2.2	2.1	2.2	2.1
Italy	2.6	2.4	2.3	2.4	2.2	2.2	2.2	2.1	1.9	2.1	2.0
Cyprus	2.5	3.2	2.8	3.8	4.4	4.1	3.9	3.7	3.3	3.2	3.5
Latvia	3.5	3.1	3.1	3.3	3.5	3.6	3.3	2.9	3.2	3.7	3.5
Lithuania	3.2	3.3	3.2	3.3	3.0	2.9	2.9	2.9	3.0	3.5	3.3
Luxembourg	4.5	4.2	4.4	4.3	4.6	4.2	3.8	3.6	3.5	3.5	3.3
Hungary	4.0	3.7	3.6	3.7	3.3	3.2	3.3	3.4	3.4	3.6	3.3
Malta	2.5	2.8	2.6	2.6	2.8	3.1	3.1	3.4	3.1	3.0	3.0
Holland	2.6	2.5	2.5	2.4	2.6	2.5	2.5	2.4	2.4	2.3	2.3
Austria	2.7	2.7	2.7	2.8	2.8	2.7	2.5	2.5	2.5	2.5	2.4
Poland	3.7	3.7	4.0	4.1	4.2	4.2	4.0	4.2	4.4	3.8	4.2
Portugal	2.6	2.8	3.0	3.2	3.1	3.0	3.1	2.8	2.7	2.7	2.8
Romania	3.0	2.8	2.6	3.5	3.6	3.3	3.2	3.0	2.7	3.2	3.4
Slovenia	3.0	3.4	3.4	3.4	3.4	3.3	3.3	3.3	3.3	4.1	4.3
Slovakia	3.1	2.7	2.9	3.1	3.3	3.7	2.9	3.5	2.7	2.8	2.9
Finland	4.3	4.1	4.2	4.3	3.9	3.8	3.7	3.3	3.3	3.4	3.5
Sweden	3.1	3.1	3.2	3.2	3.0	3.0	2.8	2.7	2.7	2.9	2.8
Great Britain	4.0	3.8	3.7	3.6	3.5	3.4	3.2	3.2	3.2	3.5	3.5
EU-27	3.0	2.9	3.0	3.0	2.9	2.8	2.7	2.6	2.6	2.6	2.7

Source: <http://ec.europa.eu/eurostat>

The dispersion among member states is very sharp, Bulgaria having a level of receipts 2.5 times higher than Italy, where excise revenues represent only 2 % of GDP in 2010.

In 2010 excise revenues were for EU-27 about 7 % of the total tax levies and over a fifth (20.5 %) of revenues from indirect taxes, so a considerable contribution.

As it results from the data in Table no.2, an important contribution in the volume of revenues is brought by tobacco and alcohol excise, which in 2010 provides a third of the excise revenues in EU-27.

Table no.2

Weight of tobacco and alcohol excise from the excise total in 2010

	Excise total and other taxes on consumption (% from GDP)	Excise from tobacco and alcohol	
		% from GDP	% of the excise total and other taxes on consumption
Belgium	2.2	0.7	31.8
Bulgaria	5.1	2.5	49.0

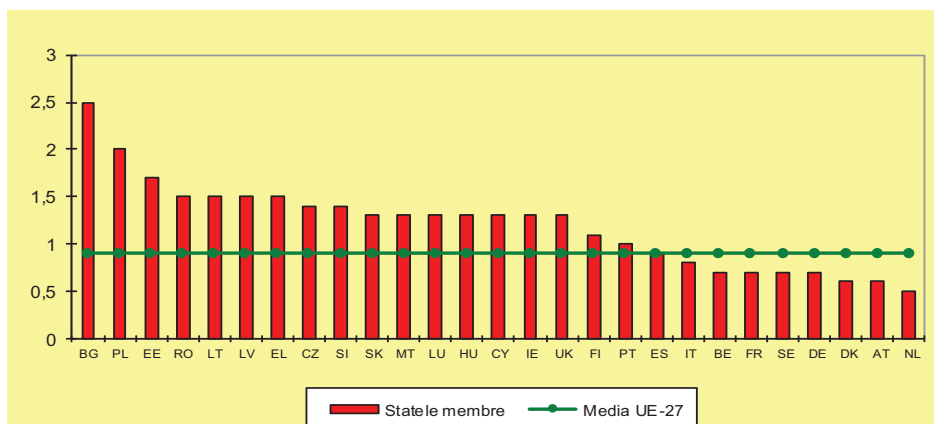
Czech Republic	3.7	1.4	37.8
Denmark	3.3	0.6	18.2
Germany	2.6	0.7	26.9
Estonia	4.3	1.7	39.5
Ireland	2.6	1.3	50.0
Greece	3.3	1.5	45.5
Spain	2.3	0.9	39.1
France	2.1	0.7	33.3
Italy	2.0	0.8	40.0
Cyprus	3.5	1.3	37.1
Latvia	3.5	1.5	42.9
Lithuania	3.3	1.5	45.5
Luxembourg	3.3	0.3	9.1
Hungary	3.3	1.3	39.4
Malta	3.0	1.3	43.3
Holland	2.3	0.5	21.7
Austria	2.4	0.6	25.0
Poland	4.2	2.0	47.6
Portugal	2.8	1.0	35.7
Romania	3.4	1.5	44.1
Slovenia	4.3	1.4	32.6
Slovakia	2.9	1.3	44.8
Finland	3.5	1.1	31.4
Sweden	2.8	0.7	25.0
Great Britanic	3.5	1.3	37.1
EU-27	2.7	0.9	33.3

*Weighted average in relation to the volume of fiscal revenues in each country
Source: <http://ec.europa.eu/eurostat>

3. CONCLUSIONS

Among the member states the situation is extremely differentiated (see also Chart no.2). If in some countries such as Ireland, Bulgaria and Poland excise on tobacco and alcohol provides almost half of the revenues from excise, in other states they have a lower weight, with Luxembourg putting itself on the map, where they represent below 10 % of the total revenue from excise and other taxes on consumption.

Chart no. 2
Revenues from excise (% from GDP) in 2010 - cigarettes and alcohol -



Source: data processed from *Taxation trends in the European Union*

Tax harmonization is a certainty for tax base and the movement of excise bearing goods within the EU. There is still no consensus among member states on the implementation of the single excise rate on the same product throughout the European Union (as proposed by the European Commission in 1987, in expectation of the transition to the single market).

Periodically, the European Commission analyzes the excise situation and presents proposals to the EU Council to deepen their harmonization, simplify regulations and prevent tax frauds.

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