

CRISIS MANAGEMENT FISCAL POLICY ACTION OF MEMBER STATES

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Does the crisis over the past three years mean that it would have been better to have a different fiscal policy?

A topical issue of European authorities for the past year has been represented by the need to find a solution in this respect, i.e. to adopt the adequate fiscal support measures so as to mitigate possible adverse effects of the crisis.

In trying to mobilize as many resources as available to the Member States, they use the tax policy-related tools having the largest impact on budget revenues, according to the

country-specific situation of the tax systems.

The tax that underwent the most changes during the crisis and that is the leading provider of state budget revenue was VAT. Some states opted to reduce the standard rate, others to defer a certain amount of VAT paid on some products, while others simply preferred to increase VAT.

VAT reduction and the countries that adopted this measure are presented in the table below:

Table 1

VAT reduction

Tara	TVA	Comment
Belgium	21% → 6%	→ for private and social housing construction
Cyprus	8% → 5%	→ for hotel accommodation
Finland	17% → 12%	→ reduced VAT on food starting from October 1, 2009
France	5.5%	→ reduced rate applying to restaurant services starting from July 1, 2009
Hungary	18%	→ temporary 25% reduced rate for dairy products, food and heating system, taking effect since August 2009
Romania	19% → 5%	→ for social housing and, under certain circumstances, for private housing not exceeding 1120m ² and a value of € 90,000 (RON 380,000)
UK	17.5% → 15%	→ temporary reduction taking effect from December 1, 2008 to December 31, 2009

Source: European Commission website

Among other ways to relax VAT tax we can mention: the extension of VAT exemption of cultural services and truck registration fee (Malta), quarterly VAT paid by companies instead of the regular monthly system (Netherlands), lower VAT rates for intensive local

services (Czech Republic), deferred tax payments (Denmark), accelerating the refund of VAT (Belgium, Portugal, Slovakia, Spain).

Nevertheless, not all the Member States considered the VAT reduction to be the optimal measure. A relevant

example of this concept is that Latvia decided both to increase the standard VAT rate from 18% to 21% and the reduced rate from 5% to 10%, as well as to limit the range of products eligible for the reduced rate. It is closely followed by Hungary, which decided to increase the standard rate since July 1, 2009, from 20% to 25%, Ireland - on December 1, 2008 increased the VAT rate from 21% to 21.5%, Lithuania, where VAT was increase by 1% reaching 19%, and Estonia, which adopted a reduced rate increase from 5% to 9%, while narrowing the range of products to which the reduced rate, alongside the increase of the VAT standard rate from 18% to 20% since July 1, 2009. Similarly, Spain decided to increase the VAT standard rate from 16% to 18% on July 1, 2010.

If there are major differences between the measures taken by Member States as far as VAT is concerned, a completely different situation arises with

excise taxes: the increase was deemed necessary by consensus. Thus, Finland increased excise taxes on tobacco and alcohol by 10%, Latvia decided to increase excise taxes on cigarettes in January 2009, and fuel, coffee, alcoholic and non-alcoholic beverages excise taxes in February 2009, while Slovenia advocates higher excise duties on petrol and diesel, followed by increased excise taxes on tobacco and cigarettes starting from May 2009. The UK adoption of measures to increase excise revenue was seen as compensation for the effects of reduced VAT rates. The only Member State to reduce the excise tax on a product is Italy, namely, on the industrial gas. Romania, Member State and, like the other European states, facing a difficult economic situation aligned and decided to increase excise taxes. A comparative analysis can be performed based on the data in Table 2, showing excise taxes on cigarettes.

Table 2

Country	Excise tax (1,000 cigarettes)		<i>Ad valorem</i> excise tax % of retail price	Total of minimum excise taxes (% of retail price)
	Euro	% of retail price		
Belgium	15.92	8.79	52.41	59.14
Bulgaria	20.96	33.13	40.50	68.82
Czech Republic	42.02	44.26	28.00	62.92
Denmark	85.33	54.21	13.61	53.40
Germany	82.70	46.39	24.66	59.81
Estonia	31.96	39.46	31.00	62.08
Greece	5.51	5.00	53.82	57.50
Spain	10.20	8.76	57.00	63.80
France	15.97	7.50	57.97	64.00
Ireland	183.42	54.70	18.25	61.66
Italy	6.95	5.00	54.74	58.50
Cyprus	20.50	20.17	44.50	59.04
Latvia	31.73	36.96	34.50	64.91
Lithuania	27.51	43.19	25.00	56.15
Luxembourg	16.89	13.89	47.84	57.66
Hungary	34.78	37.98	28.30	57.87
Malta	22.00	16.07	48.70	60.94
Netherlands	87.23	50.00	20.87	57.70
Austria	26.69	19.90	43.00	57.83

Poland	40.95	49.35	31.41	79.58
Portugal	65.65	49.33	23.00	61.62
Romania	35.06	48.29	23.00	59.39
Slovenia	17.71	20.00	43.64	58.72
Slovakia	52.44	55.59	24.00	74.03
Finland	15.13	8.94	52.00	58.88
Sweden	31.87	17.61	39.20	51.90
UK	144.35	51.34	24.00	63.53

Source: European Commission website, www.europa.eu

With reference to direct taxes, more specifically to direct taxes on the income of companies and natural persons, some Member States have adopted genuine tax reforms during this period of economic crisis. For instance, Austria passed the 2009 tax reform law, *Steuerreformgesetz 2009*, which stipulates the following:

- Reduction of marginal tax rates applicable to the second and third tranche of taxable income;

- An increase of 1,000 euro of the first tranche of income, taxed at zero rate (from income of 10,000 to 11,000 euros);

- Increase of 9,000 euros (from 51,000-60,000) of the tranche of income taxed at a maximum rate of 50%;

- Increase of corporate tax rates from 10% to 13% starting from 2010;

- Introducing a family package of tax exemption, including increased child allowance and child tax credits, reduced taxes for childcare costs, tax exemption for childcare subsidies paid by employers.

Major fiscal mutations of direct taxes occurred in Germany:

- Reduction of the minimum rate of income tax from 15% to 14%;

- Minimum untaxable income increased from € 7,664 to € 7,834 retroactively since January 1, 2009 and to € 8,004 since January 1, 2010;

- Credit growth (deductions) by 20% of € 6000 (i.e. up to € 1,200) with respect to personal income tax for services for household repairs provided by self-employed people;

- € 100 increased allowance per child in 2009 (*Kinderbonus*).

Given that Greece is the country most affected by the economic crisis now, and despite the social unrest in recent years, the Government chose to introduce a new personal income tax on high income people (income over € 60,000), which will increase gradually from € 1,000 for incomes between € 60,001 and € 80,000 to € 25,000 for income over € 900,000. Equally, in 2009, the tax policy in the case of civil servants, doctors in the national health system, public law enforcement, local authorities, police, firefighters, port and military bodies stipulated an amount of untaxable €500 for gross income up to € 1,500 and untaxable € 300 for gross income of € 1,501 - € 1,700. In 2009-2010 the tax rate applicable to unique property is reduced by 1% for owner-occupied buildings and 6% for 0.33% building lots for property owned by hotel companies. To further lessen the social response to the decisions made by public institutions a special aid of € 500 was provided for the unemployed or low income pensioners who had already a mortgage in March 2009 and a special cohesion aid - in 2009 - for low-income pensioners, farmers, retired farmers and the long-term unemployed. This benefit is not taxable and it ranges from € 100 to € 200, depending on the geographic area of residence.

Table 3

Development of corporate income tax and personal income tax in some EU countries in 2007-2010

Country	Corporate income tax	Personal income tax
Bulgaria	has decreased from 15% to 10% (since January 1, 2007)	10% since January 2008, replacing the progressive tax (10% -24%)
Czech Republic	20% in 2009 vs. 21% in 2008 and 24% in 2007	15% since 1.01.2008, replacing the the progressive tax: from 12% to 32%
Germany	decreased from 25% in 2007 to 15% in 2008	Gradually: 0.14% in 2009 vs. 15% in 2008, 42% and 45%
Estonia	22% since January 1, 2007 (vs. 23% in 2006), 21% in 2008	22% in 2008, 21% in 2009, 20% in 2010; Forecast: 2011 – 19%, in 2012 – 18%
France	33.33% and 15% small-sized companies, having a profit of up to € 3,8120	Gradually in 5 stages: 0; 5.5, 14, 30, 40% (family-quotient system)
Italy	31.4% since 2008 vs. 33% in 2007	Gradually: 23, 33, 39 and 43%
Cyprus	10%	Gradually in 4 stages: 0, 20, 25 and 30%
Latvia	15%	23% în 2009, față de 25% în 2008
Lituania	20% since January 1, 2009 vs. 15% in 2008	15% 20% for dividend income
Hungary	19% since 1.01.2010 vs. 16% in 2009	17% and 32% in 2010 vs. 18% și 36% in 2009
Malta	35%	Gradually: 0, 15, 25, 35%
Poland	19%	Gradually in 3 stages: 0, 18 and 32%, replacing the 19 and 40% values of 2008
Slovenia	Decreased from 23% in 2007 to 22% in 2008, 21% in 2009 and 20% in 2010	Gradually: 16, 27, 41%
Slovakia	19%	19%
Finland	26%	Gradually 0, 7, 18, 22, 30.5% in 2009 vs. 8,5 and 31,5% in 2008
Sweden		

Source: www.worldwide-tax.com

Analyzing the data presented in Table 3, the following conclusions are drawn:

- with reference to the corporate income tax system, proportional tax is applied, and the general trend is manifested by reducing tax rates in most countries, or, in the worst case, by keeping the level of taxation (France, Poland, Slovakia, Finland); exceptions are represented by Lithuania and Hungary which decided to increase the

tax rate in 2009 and 2010, respectively;

- with reference to corporate tax rates, there is a wide range: there are countries where the income tax rate is at or below 15%, such as Bulgaria, Cyprus, Latvia (the particular case of Germany, a developed country, with 15%); the second group of countries stands at an average tax rate of around 20% (Czech Republic, Hungary, Poland, Slovenia, Slovakia, Lithuania), and developed countries where corporate tax level was

maintained above 30% (France, Italy);

- as far as the personal income tax in most of the countries of the survey is concerned, the rule of progressive taxation prevails, except some former socialist countries (Bulgaria, Estonia, Latvia, Slovakia) where currently the practice is represented by the flat tax;

- Regardless of the prevailing tax system (progressive or proportional), it is noteworthy that the general trend is lowering taxes to increase the purchasing power and to boost consumption, thereby, production;

- The marginal income tax rates of natural persons is very difaries significantly (from 10 to 45%); there are countries that impose a flat rate that does not exceed 15% (Bulgaria, Lithuania),

others in which, applying the progressive system, favour a higher marginal rate of about 30% (Cyprus, Poland, Hungary, Finland) and developed countries where the maximum tax rate exceeds 40% (Germany, Italy, Slovenia, France).

Analysing the fiscal policy action adopted by the Member States in recent years leads us to the conclusion that most of them agreed that fiscal relaxation is the only way to enhance consumption, investment and economic recovery. However, due to budgetary constraints, some countries meet increases in taxes, more often than not of consumption taxes, meant to transform economic and financial crisis costs toward vulnerable social groups.

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