THE PLACE OF INDIRECT TAXES IN THE TAX SYSTEM ARCHITECTURE OF THE EUROPEAN UNION COUNTRIES

Prof. Marcel DRĂCEA, PhD
Assist. Nicoleta DRĂCEA, PhD student

1. Introduction

The illustration of the place given by the Community countries to indirect taxes in their tax systems shows in the importance held by the share of public revenues from indirect taxes in GDP, respectively, of total tax revenues.

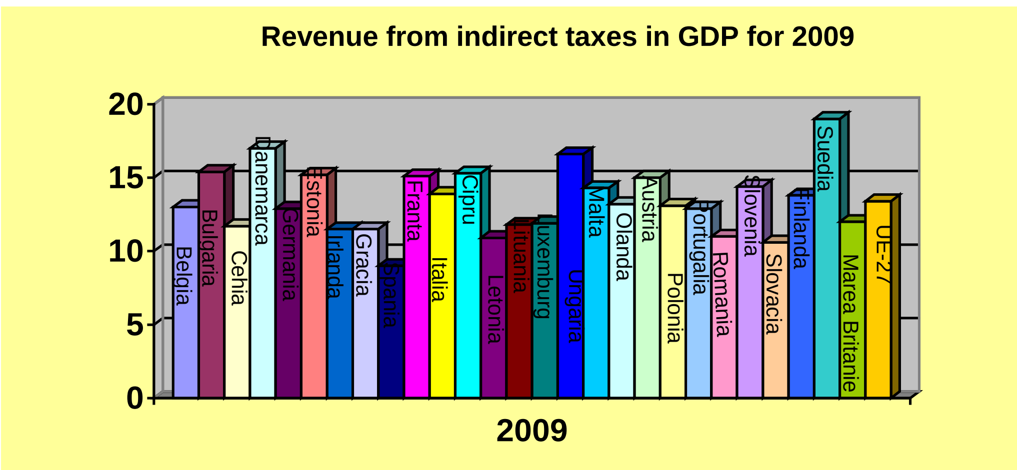
Over the past decade there is a tendency to increase indirect tax revenues during the economic boom caused by the consumption extension (2002-2007) after which, due to the economic crisis and to consumption compression, indirect tax productivity drops to the level registered at the beginning of the interval.

2. The evolution of indirect taxation

In 2009, the average share of GDP recorded at EU level is 13,4%. Notice that there is a fairly extensive range of variation (ten percentage points) between the country where this share is the highest (Sweden with 19%) and the country with the lowest percentage (Spain with 9%). Above the European average stand 12 countries including: Bulgaria, Denmark, Estonia, France, Cyprus, Hungary, Malta, Austria, Sweden, while the other 15 states are below the average, among them being The Czech Republic, Ireland, Greece, Spain, Latvia, Romania, Slovakia and others. Near the European average ranks countries like The Netherlands, Poland, Finland, Belgium, Italy.

If at UE-27 level, the share of revenues from indirect taxes, both in GDP and in the total tax revenues, remains relatively constant, developments in member countries are relatively differentiated.

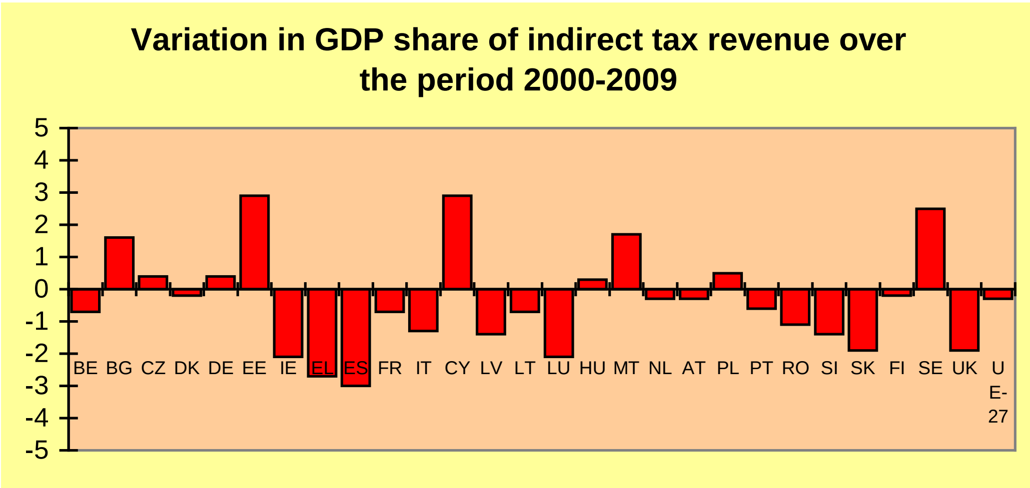
Graph no. 1.



Source: processed data fom:Taxation trends in the European Union

As a percentage of GDP revenue from indirect taxes (see Graph no.1 and 2) there are countries that have experienced a growth over the decade analyzed. Among them we find Estonia and Cyprus (increase of 2.9 percentage points), Sweden (2.5 percentage points), Malta (1.7 percentage points), Bulgaria (1.6 percentage points), Poland, the Czech Republic, Germany and Hungary, with less significant increases (less than 0.5 percentage points).

Graph no. 2.



Source: processed data fom:Taxation trends in the European Union

In most European countries however (18 in number), the trend was to reduce the share of revenues from indirect taxes in GDP. The biggest reductions were recorded in Spain (3 percentage points), Greece (2.7 percentage points), Ireland and Luxembourg (2.1 percentage points), Slovakia and The United Kingdom (1.9 percentage points), Latvia (1.4 percentage points), Italy (1.3 percentage points), Romania (1.1 percentage points), in other Member States the share being less than one percentage point. It is worth noting that *most states that recorded increases in the revenues from indirect taxes are the newest countries to join the European Union*. They are joined, however, by some developed countries such as Sweden, a country well-known for its high level of taxation, but also for the protection and the quality of social services provided to its citizens.

Most European countries registered reductions in the indirect tax revenue share in GDP, due to the economic recession and financial crisis triggered since 2008, which led to a compression of consumption. These reductions would have probably been even more accentuated had it not been partially compensated by increasing the level of VAT rates and excise duties in many Member States of the European Union.

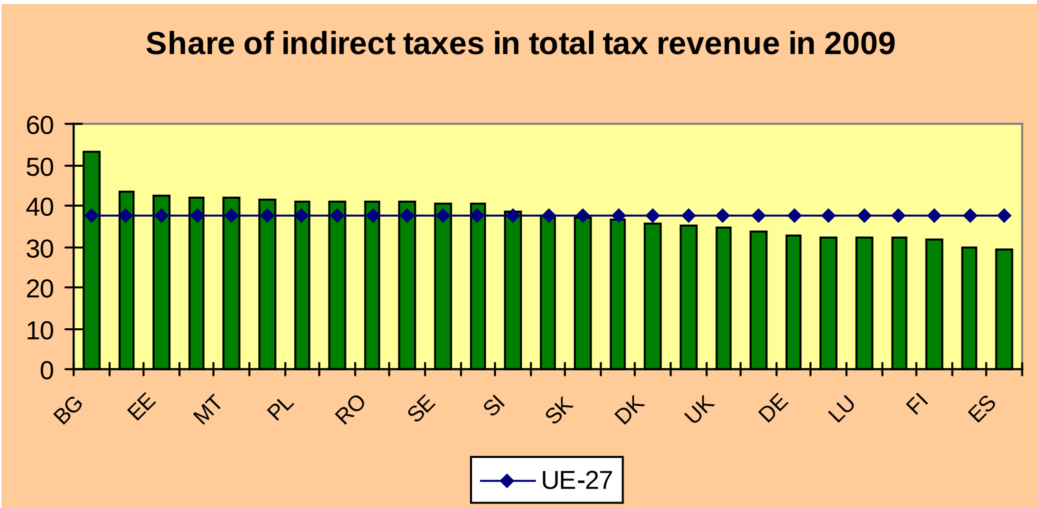
The hierarchy in relation to the *revenue share from indirect taxes in total tax revenue* leads to similar conclusions. The range of variation in the European countries is even more pronounced (23.7 percentage points), the highest share being recorded in Bulgaria (53.2%), and the lowest in Spain (29.5%). There are 14 states above the EU average (37.7%), after Bulgaria, at a significant difference, there's Cyprus (43.6%), Estonia (42.4%), Hungary (42.1%), Malta (41.8%), Portugal (41.7%) and Poland (41.2%).

Below this average, after Spain, stand Belgium (29.9%), Finland (31.9%), Netherlands (32.0%), Luxembourg and Italy (32.1%), Germany (32.6%), Czech Republic (33.9%), United Kingdom (34.5%), Austria (35%). Values around the European average are recorded in Greece (37.8%), Slovakia (36.9%), France (36.4%) and Slovenia (38.3%).

We can easily see that *the countries whose budgets are powered mainly by indirect taxes are those with a modest level of development, while in developed countries the contribution of indirect taxes is lower, their tax systems relying mainly on direct taxes*. Romania, with 40.0%, is above the EU average, raging normally among developing countries, at a considerable difference, however, from Bulgaria, with more than 9 percentage points.

The graphic representation of the European countries hierarchy in relation to this criterion is shown in Graph no.3.

Graph no. 3.



Source: processed data fom:Taxation trends in the European Union

An interesting angle of analysis is the ***structure of indirect taxation*** in the European Union countries. From this perspective, the participation of various categories of indirect taxes to the formation of public revenues in 2009 is reflected in *Appendix 6.*

This type of analysis is based on the classification of taxes by the new European System of Accounts - ESA95, according to which the category of indirect taxes include all taxes related to production and imports. Therefore, according to ESA95 indirect taxes are grouped into four categories :

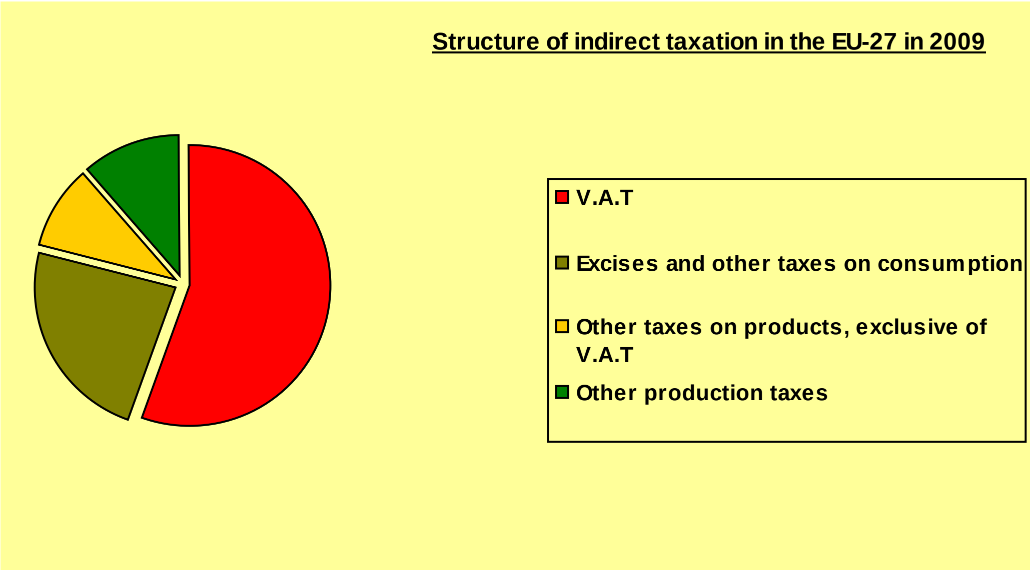
1 Value Added Tax;

2 Excise and other taxes on consumption;

3 Other taxes on products, including taxes on imports, where in addition to custom duties (mainly applied to imports) are included other specific taxes on services (transport, insurance, entertainment), taxes on income from gambling and betting, taxes on financial and capital transaction, fiscal monopolies and other taxes on products;

4 Other taxes on production, which are the task of producers as a result of their decision to get involved in the production: taxes on buildings, land and other structures, taxes for the use of other non-current assets, stamp taxes, permits, business and professional licenses, pollution taxes and other taxes on production.

Graph no. 4.



Source: processed data fom:Taxation trends in the European Union

The data presented in Appendix no. 6 and Graph no. 4 show that in 2009 at the European Union level, more than a half (55.2%) of the revenues come from indirect taxes on value added tax, about a quarter (23.8%) come from excise duties and other consumption taxes, while the last two categories of indirect taxes have a more modest contribution (9.7% and 11.3%) in the formation of budgetary revenues.

Compared to these average values recorded in the EU-27, among member states the situation is highly differentiated, the margins of variation of different types of taxes having large spreads.

Thus, if in five EU member states VAT revenues represent over 60% of total revenues raised from indirect taxes (Finland 63.7%, Slovenia 63.2%, Lithuania 62.7%, Romania 60.9%, Czech Republic 60.6%), at the other extreme lies four states where VAT contribution is below 50% (Italy 41%, France 45%, Spain 45.5%, United Kingdom 48.3%). The other states recorded values that oscilate around the EU average. So betweenn Finland (63.7%) and Italy (41%) the spread variation is 22.7 percentage points.

A similar situation is the case of excise duties whose share in total revenue from indirect taxes range from 35% in Bulgaria and 13.2% in France, the spread being 21.8 percentage points. Moreover, we can see that while in four countries (Bulgaria, Latvia, Estonia, Czech Republic) this proportion exceeds 30%, in other seven countries (France, Italy, Sweden, Belgium, Austria, The Netherlands, Denmark) the excise duty share in total indirect taxes is below 20%, the difference being of at least 10 percentage points.

But the heterogeneity of European tax systems in terms of indirect taxes is further highlighted by the last two categories of indirect taxes. Beyond the typological tax diversity that they contain, their contribution to revenue formation is more differentiated. Thus, in Hungary the income from other product taxes (including taxes on imports) contributes with 23.4% to revenues from indirect taxes, in Bulgaria this contribution being of only 1.9%, so more than ten times lower.

And in the "other taxes on production" category we meet a similar situation, in six European states (France, Sweden, Italy, Austria, Germany, United Kingdom) the share of these taxes in total indirect taxes exceeds 15%, while in other five states (Finland, Czech Republic, Greece, Lithuania, Bulgaria) this share is below 5%. The range of these values is between a maximum of 30.6% (France) and a minimum of 2.3% (Finland), about thirteen times smaller.

3. Conclusions

The conclusion that can be drawn is that the differences already identified in the tax burden due to indirect taxation in European countries, is amplified when you perform an analysis of their structure. We can say that as a result of the harmonization of the efforts made in recent decades, regarding VAT and excise duties, the differences were flattered but they remain important. Regarding the other indirect taxes there are more important differences both in terms of the typology of the taxes levied and in the specific weight that they hold in all indirect taxes. In the newly admitted countries to the European family (last ten), indirect tax revenues come mainly from VAT and excise duties, while in developed countries, other taxes on products and production taxes have an important contribution, taking into account the place occupied in the economy by the taxable services (transport, insurance, entertainment), financial and capital transactions, and the concern for environmental protection.

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