# Fiscal Post-Crisis Evolutions in the EU

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***Abstract***. *The last five years represented for the EU a series of changes and reforms imposed by the context of the crisis. In this article we analyse the recent fiscal reforms carried out in the space of the European Union, from the perspective of the fiscal incomes of the main incomes and taxes. The high deficits from the Member States were alleviated especially by increasing the taxation quotas and bases. On the level of the European Union we noticed a clear tendency of growing the standard VAT quotas, corroborated with a narrowing of rate of profit and a tendency to reduce the tax on profit for personal incomes.*

**Keywords**: **fiscal incomes, direct taxes, indirect taxes, social contributions.**

**JEL Classification: E62, H3.**

## 1. Introduction

The economic and fiscal crisis started in 2008 brought the EU Member States in a difficult situation on a fiscal level. After the financial crisis, fiscal incomes were on a low level especially in the period 2009-2010. After this period, as a consequence of the need to provide fiscal consolidation, the fiscal burden increased in many of the Member States, both on the incomes from direct and indirect taxes, as well as on the social insurance contributions. In 2009, the peak year of the economic crisis the EU deficit reached 6,8% of GDP remaining on a high level in 2010.

The economic cycle is the one leading to the growth of the deficit but the financial aid granted to the banking sector and the measures taken in order to counteract against the effects of the crisis are two other factors which have to be taken into consideration.

The modern economic theory reached the conclusion that a level of 40% of the public incomes from GDP would be optimal, and the number of taxes should be lower in order to provide an efficient collecting system, but also simpler at the same time. At the same time the consolidation of the macroeconomic stability can be accomplished by providing a stimulating role for taxes which is meant to contribute to the development and strengthening of the activity in the economy, leading to a sustainable economic growth. The budget deficit of the states should not be higher than 4%-5% of GDP and on longer periods with economic crisis it should be close to zero. The state and the people have to live under the limits of their own means, especially in situations of international financial instability.

## 2. Data and Discussions

Recent macroeconomic evolutions point out that the share in the GDP income is growing after a considerable decrease in 2008 and 2009. This is also due to the reorientation of the fiscal policy from temporary stimulation measure in the period of the economic crisis to neutral fiscal policies oriented to consolidation. In absolute terms, the fiscal incomes from overcame the levels before the EU 27 crisis. In nominal terms the fiscal incomes from EU 27 continuously increased from 2011 to 2007 up to a level of 5000 billion Euros. This was followed by a decline up to 4600 billion in 2008, and afterwards there was an ascending trend up to more than 5000 billion Euros in 2011.

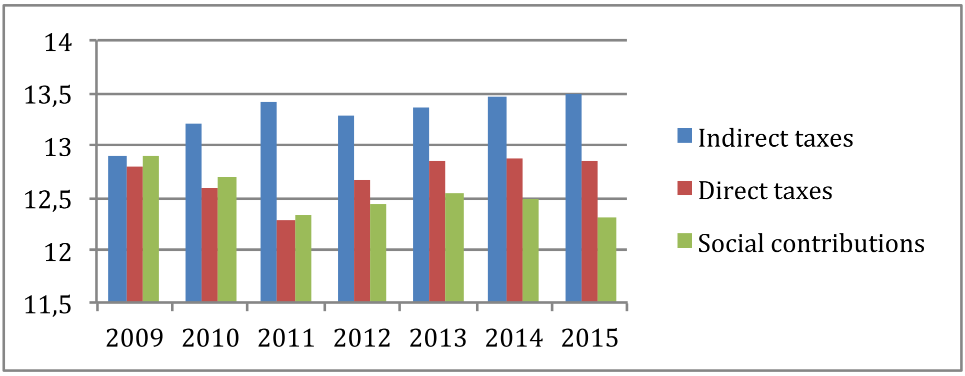


***Chart. no.1. The evolution of fiscal incomes in EU in the period 2009-2015***
*Source: European Commission,* Tax Reforms in EU Member States 2015

The structure of fiscal incomes was different among the EU Member States in 2014 and 2015. The Member States reporting high levels of expenses were also the one collecting more taxes (as a percentage from GDP).

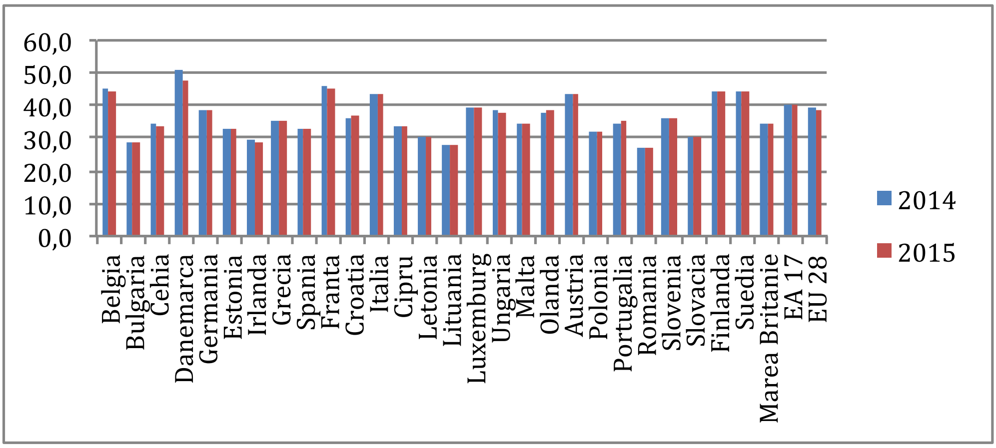


**Chart no. 2. Fiscal Incomes in the Member states in the period 2014-2015**
*Source:* Own processing according to the date taken from the report Taxation trends in the European Union, edition 2015

From the analysis of the taxation system among the Member States, we notice that if on the level of EU 17, the share of the direct, indirect taxes and of the contributions are relatively equal, in the new Member States, the direct taxation has a lower share in the total of incomes.

As we can notice in chart no.2, the highest fiscal incomes on the level of the European Union in 2015 as a percentage from GDP were registered in Denmark (51,3%), in France (45,6%) and in Belgium (45,0%), and the lowest share were registered in Lithuania (27,8% of GDP), Bulgaria (28,5% of GDP) and Romania (27,5% of GDP). Among the countries joining the EU from 2004, Hungary and Slovenia had the highest fiscal sampling 2015 - 38,5% of GDP, respectively 36,4% of GDP. In spite of these, the fiscal incomes in both countries are situated under the EU average. It is interesting to notice that the arithmetic mean in the Member States (36,3%) is lower than the mean of EU - GDP (39,4%), due to the relatively low levels of GDP in those countries with low fiscal incomes.

In 2015, the fiscal incomes as a percentage from GDP went down in 16 of the Member States and grew in 12 of the Member States: Bulgaria (with 0,07 percentage points of GDP), Estonia and Hungary (both with 0,4 percentage points of GDP), Lithuania, Austria, Holland, Portugal, Finland, Sweden and Great Britain. While Belgium, France and Italy is among the countries with a high fiscal task, the fiscal task of Hungary and Greece are below EU.

From the analysis of taxation carried out on the East-European (Bulgaria, the Czech Republic, Hungary, Poland, Romania and Slovakia) we notice that as compared to the EU-28 level where the share of the indirect taxes in GDP in 2015 was of 13,49%, Hungary registers a significantly higher share of the indirect taxes in the same year (18,67% of GDP), being the Member State with the highest VAT share in EU, followed by Bulgaria (14,78% of GDP). The Czech Republic, Poland and Romania register shares of the indirect taxes in GDP which are relatively close to the EU 28 share but below this (chart no.3). The highest share of the indirect taxes in GDP on the level of 2015 is owned by Slovakia (10,47% of GDP).

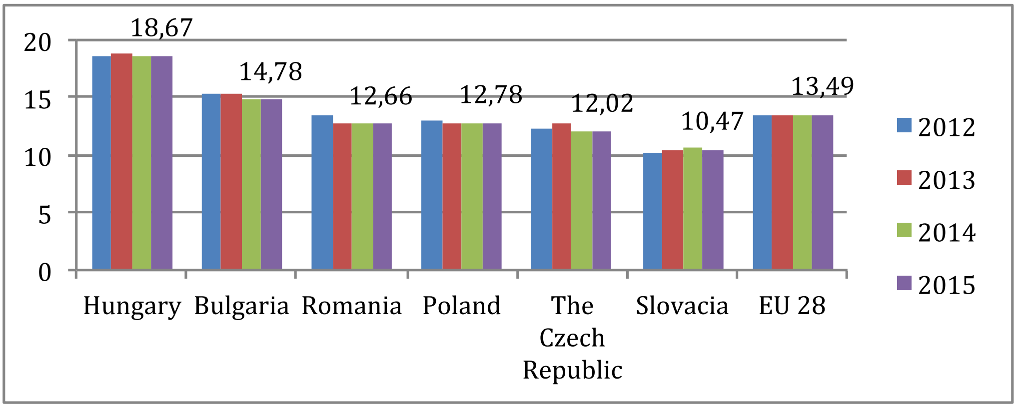


**Chart no.3 The evolution of the shares of indirect taxes in the East-European countries 2012-2015 (% from GDP)**

*Source:* Own processing based on the data taken from the report Taxation trends in the European Union, edition 2013 and 2015

Table no.1 shows us the main changes regarding the taxation in the Member States of the European Union and although they do not show us the size of the reforms they offer us an idea on the trend of the fiscal policies in the European States.

On the level of the European Union (chart no.4) we notice a clear tendency of growth of the standard VAT rates, corroborated with a closeness of the tax on profit and a tendency to reduce the taxation rate for the personal incomes. From this chart we notice that for the indirect taxation, most of the Member States introduced reforms in the VAT which mainly represented the growth of the statutory rate rather than increasing the taxation rate of the VAT and most of the Member States increased the excises.

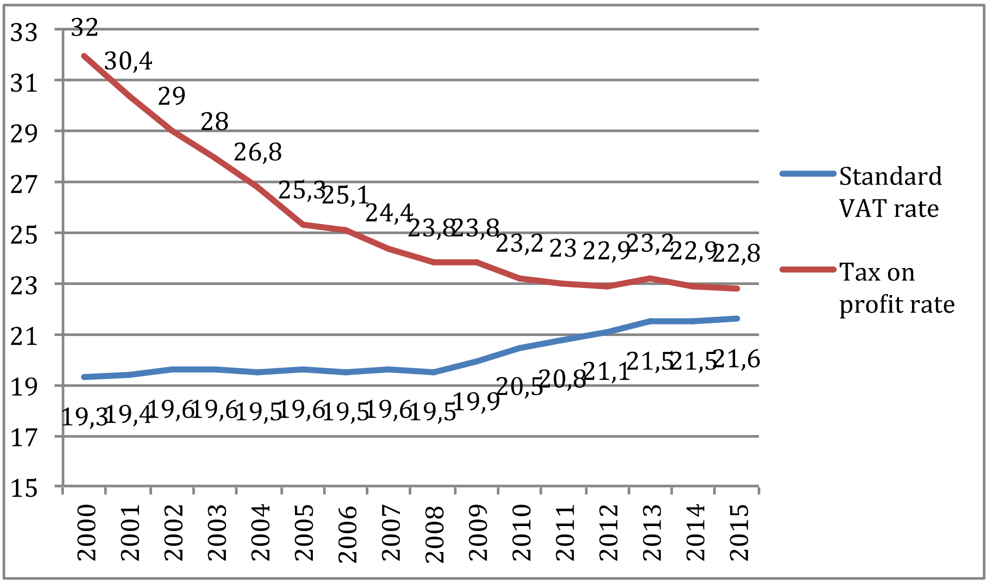


**Chart no. 4 VAT evolution –Tax on profit – EU average 28**

Source: *European Commission, "Taxation trends in the European Union", edition 2014*

As for the indirect taxes, most of the Member States adopted the progressive taxation of personal incomes making the fiscal burden to be higher in the case of the higher incomes and to be lower in the case of lower incomes. We also notice a tendency towards the reduction of the taxation by reducing the taxation base.

As for Romania we can notice that the legislative changes were aimed at excises, environment taxes and property taxes, without any chances for the tax on profit, personal incomes, as in other European States. Because on the level of the rates there where important changes, the taxation basis was changed in order to draw more money to the budget VAT upon receipt and taxation of the microenterprises.

**Table no.1**

**Taxation changes implemented in the period 2012-2014 in EU**

| | Fiscal changes in 2012, 2013 | | | Fiscal changes in 2013, 2014 | | |
|---|---|---|---|---|---|---|
| | | Rates | Taxation base and special regimes | | Rates | Taxation base and special regimes |
| Tax on profit | Growth | BG, EL, FR, CY, LU, PT, SI, SK, FI | BE, CZ, EE, IE, EL, ES, FR, LU, NL, AT, PL, FI, UK, PT | Growth | ES, AU, FR, PT | BG |
| | Decrease | LV, MT | BE, DK, DE, IT, HU, MT, NL, AT, SI, FI, SE, UK | Decrease | LV, HR RO | |
| Tax on profit | Growth | EL, CY, LU, PT, SK, HU | EL, ES, FR, LU, AT, FI, PT, BE, FR | Growth | | |
| | Decrease | DK, EE, SI, FI, SE, UK3 | IE, EL, ES, FR, HR, IT, LT, LU, HU, | Decrease | ES, PT UK | ES |

| | | | | | | |
|---|---|---|---|---|---|---|
| | | | NL, **RO**, SL, FI, SE, UK, CZ | | | |
| Social insurance contributions | Growth | CY, HU, NL, AT | CZ, EE, IE, AT, SK | Growth | | ES |
| | Decrease | EE, HR | BE, HU, PT | Decrease | LV, HU RO, IE | BE, BG, EE, FR, HR, IT, MT UK |
| VAT | Growth | CZ, ES, FR, HR, IT, CY, NL, SI, FI | BE, ES, LV, LU, PL, PT | Growth | PL, CY, FR, IT, LU, SI | BE, CY, DE, DK, EE, EL, FR, HR, IT, LU, PL, SI |
| | Decrease | EL, HR, LV | LT, LU, SE | Decrease | | RO, BE, DK, EL, ES, FR, IE, LT |
| Excises | Growth | BG, EE, EL, ES, HR, IT, CY, LT, LU, HU, MT, PL,PT, IE, NL, AT, **RO**, SI, UK | BG, CZ, ES, LV, AT | Growth | BG, PL, RO, BE, CY, EE, ES, FI, FR, HR, IT, LV, MT, NL, SI | BE, EE, FR |
| | Decrease | | SE, DK | | | BG, DK, DE, HR, UK |
| Tax on property | Growth | DK, IE, ES, HU, IT, HR, MT, NL, **RO,** SK, UK | IT, LU, HR, NL, UK | Growth | DE, AU, ES | LU, RO, FI, UK |
| | Decrease | AT, MT, DK | | Decrease | RO, UK | |
| Taxation of financial sector | Growth | CZ ,IE, IT, CY, FI, SI, UK | LV, LT, **RO**, SI, PT | | | |
| | Decrease | EE, PT, SE | | | | |

*Source: European Commission, Tax Reforms in EU Member States 2015, http://ec.europa.eu/economy_finance/publications/european_economy/2015/pdf/ee5_en.pdf*

The specific reforms introduced in the Member States between the middle of the year 2013 and the half of the year 2014 (table 3) show that most of these took measures in order to increase the indirect taxes, the consumption taxes and to a less extent the environment taxes were increased in most of the countries. In spite of these, although almost half of the Member States took measures to improve the efficiency of the VAT structure (for example by slowing down the growth of the standard rate), some states adopted measures by introducing new reduced quotas or by expanding the application of the reduced rates for categories of goods and services.

Almost half of the Member States, among Poland, enlarged the VAT basis or increased the reduced quotas applied for some goods and services. But at the same time, eight Member States (Belgium, Denmark, Ireland, Greece, Spain, France, Lithuania and Romania) either introduce reduced quotas, or they reduced the existing ones or enlarge their field of application in order to cover additional goods and services. The Czech Republic for example proposed the application of lower VAT rates on certain elements, in exchange for a lower rate as it was initially planned (there were adopted legislative measure for a single VAT rate, but these have been recently abrogated). These measures are generally against the objective to simplify the fiscal system and to enlarge the taxation base.

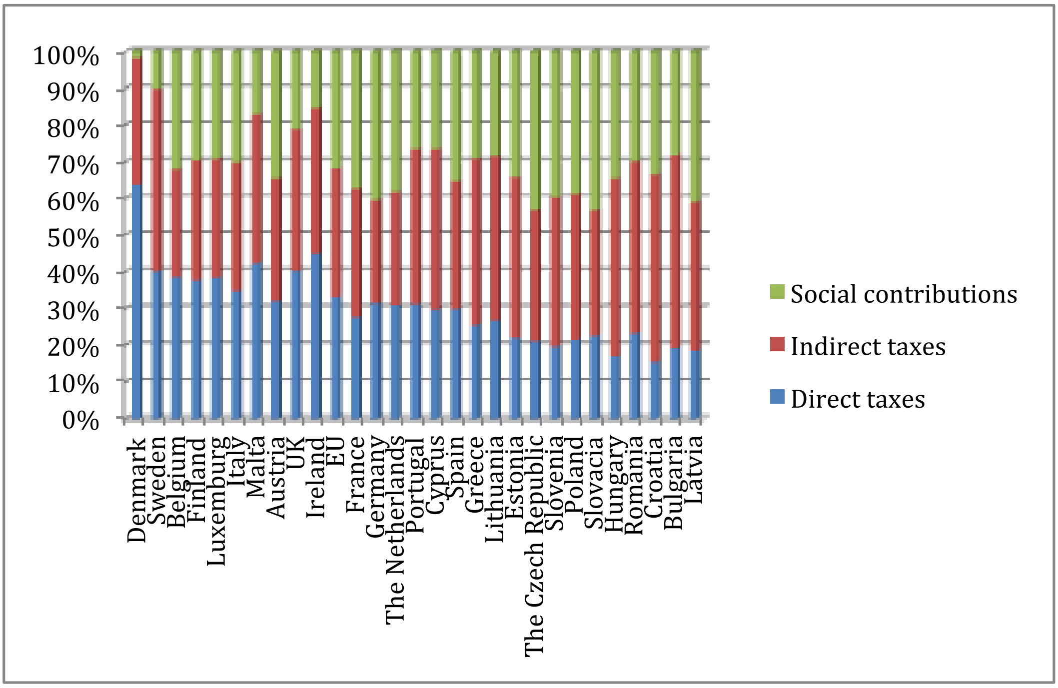


**Chart no.5. The share of the main categories of taxes in the total of fiscal incomes in the Member States, 2015**

*Source:* Own calculations based on the data taken from the report Taxation trends in the European Union, 2015

Among the fiscal incomes, the direct taxes are the ones allowing a higher distribution because it is impossible to introduce progressivity in the case of indirect taxes. That is why resorting to direct taxes, which are faster perceived by the electorate, tends to be a prevalent tendency in the countries where the objectives to redistribute the taxes are more obvious (chart no.4), that is Denmark, Sweden, Belgium, Finland and Luxembourg.

The studies carried out both empirical and the econometric simulations, pointed out the fact that the taxes on real estate goods, followed by the consumption taxes are the ones affecting to the less extent the economic growth while the tax on personal income, the social contributions and especially the tax on profit are the ones affecting the economic growth. This is explained by the fact that the reduction of the tax on profit and that of the social insurance contributions have the potential of increasing both the offer and the demand for work leading to a higher occupation rate, the decrease of the unemployment and to a higher use of the labour force. The reduction of the tax on profit shall cut down the capital costs and shall stimulate the capital accumulation and the investments in research and development meaning more productivity and a stronger economic growth. The growth of the consumption taxes and of the taxes on the real estate do not affect directly the accumulation of specific production factors and have a limited and indirect impact on the economic growth. The friendly economic growth with the environment might go hand in hand with the social equity if the fiscal reforms would be adequately projected.

The labour force taxes are most of the times higher and especially to the detriment of the people with low salaries, contributing to a long term exclusion of these groups on the labour force market and in most of the cases, from the society in general. The high taxes on labour force can reduce the incentives for the workers with a low level of qualification for the employers or for both categories. More than that, the growth of the fiscal expenses in the field of the personal income represents most of the time the second best choice from the point of view of the cost as compared to the more direct and more efficient ways of attracting their initial objectives, as for example the payments for people with low incomes.

The reduction of the fiscal expenses and of the opportunities of evasion on the level of the tax on profit decreases the conformation costs, which are extremely high for small and medium enterprises. Moreover the tax on consumption might be accompanied by measure in order to compensate the losses of the groups with low incomes for example through programmed transfer or aimed transfers of the tax on profit. The last one could be directly aimed for the ones in need, avoiding the unexpected earnings generated by low VAT rates or exemptions. At the same time, the correction of the negative externalities, through environment taxes or excises for tobacco and alcohol would contribute to the promotion of a better environment and of a better public health.

## 3. Conclusions

The last five years marked for the fiscal policy in the EU space a series of changes and reforms imposed in the context of crisis. Analysing these recent fiscal reform in the European Union space we notice a reorientation of the fiscal policy towards priorities as for example creating new working places, long term economic growth and social equity (by protecting vulnerable groups).

The fiscal systems of the Member States through the reforms adopted in the last years tend to be more efficient, to provide the economic competitiveness and social equity, but there are still important steps in order to reach these objectives. The high deficits registered by most of the Member States after the economic crisis were alleviated especially by the growth of the taxation rates and the taxation base without paying a high attention to the reduction of the public expenses, reduction which can have a healthier contribution to the long term sustainability of the public finances.

Although the growth of the consumption aces should be accompanied by a reduction of the fiscal pressure on the workforce was not materialised in many Member States, the taxation of the workforce continues to be very high and to represent an obstacle in creating new jobs and in reducing unemployment.

The expansion of the taxation base, although it is considered a highly efficient measure of increasing fiscal incomes was applied in a limited way due to the existence of a lot of deductions and fiscal facilities which are hard to let go. The Member States took limited measure for the environment taxes, especially for the fiscal consolidation as well as for the growth of the excises and the reform of putting taxes on vehicles.

Fiscal coordination is highly important in the current context marked by the efforts of consolidating public finances, the growth of the budget incomes and the support of the economic growth. Some actions on the EU level which should be compatible to the 28 fiscal systems without eliminating the differences which might have a negative impact on the single market. Legislative initiatives were taken on the EU level in relevant fields for the good functioning of the single market, as for example the taxation of the incomes from savings, the taxation of the energetic sector and the taxation of profits. These measures are aimed at building a fiscal policy adapted to the changes produced by the context of the economic-financial crisis and contribute to a better stability of the public finances.

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