THE VARIOUS POSSIBLE EU TAXES

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Abstract: *In this article, the various possible EU taxes are compared with regard to each of the criteria: budgetary, equity and efficiency criteria. In principle, this problem of revenue insufficiency can be overcome by combining several resources, including contributions from the Member States, to make up for the needs of the EU budget Setting an equalisation mechanism to replace or complement the current GNI contribution could thus be a useful complement to tax autonomy in the context of a reform of the current own resource system.*

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INTRODUCTION

In this article, the various possible EU taxes are compared with regard to each of the criteria:

- Budgetary criteria (sufficiency and stability);
- Efficiency criteria (visibility, low operating costs and efficient allocation of resources);
- Equity criteria (horizontal equity, vertical equity and fair contributions).

1. ACCOUNTING METHODS

The European Union felt quite early the need for harmonizing the accounting rules of member countries. Since the early '70s have succeeded more projects, reaching it in 1978 when adopting Directive IV, which certified the accounts of predilection societies with limited liability and joint-stock companies. Subsequently, during 1983 year, the Directive VII was elaborate and it was target harmonisation to get a consolidated accounts. Even if the national legislations of the Member countries have been made in accordance with these texts, the procedure required for several years. For example, the Directive IV begins to work in Denmark in 1980 and in Italy in 1991.

The accounting harmonization process in the European Union are due to the Anglo-Saxon doctrine, based on customary law and the doctrine of continental engineering, based on the right of Roman writing. European accounting harmonization was one of the ways of European economic integration, stipulated by the Treaty of Rome, its results being found in the comparability of accounting practices and the financial information of European societies and in improving the quality of the annual reports.

At European Union level, the need for compliance of national provisions of the Member States in respect of consolidated accounts appeared on 13 June 1983, through the publication of Directive VII. Dominated by the Anglo-Saxon tradition, Directive VII contains 51 articles, none in 6 sections. Directive VII was included in the legislation of the Member States over the course of 7 years, starting with the Netherlands (1985) and that concludes with Ireland (1992).

Consequently, the European accounting rules do not respond quickly to the changes of the economic environment, given the fact that the rapidity of response is the main feature of the process of normalization. The need for harmonization and uniformity in accounting require normalization.

Table 1 – Evaluation of EU taxes with respect to the criteria

Proposed EU tax	**Budgetary criteria**		**Efficiency criteria**			**Equity criteria**		
	Sufficiency	Stability	Visibility	Low operating costs	Efficient allocation of resources	Horizontal equity	Vertical equity	Fair contributions
Modulated VAT	A	A	A	A	B	A	B	B
Corporate income tax	B	C	B	B	A	A	B	B
Energy taxation	A	A	B	A	A	A	A or B	B
Excise duties on Tobacco and alcohol	B	A	B	B	B	A	C	C
Transfer of seigniorage revenue	C	B	C	A	A	A	B	B
Communication tax	C	B	B	B	C	A	A	A
Personal income tax	A	A	A	A or C	B	A or C	B	A
Tax on financial transactions	C	C	C	A	C	B	A	B
Climate charge on aviation	C	C	B	A	A	A	A	A

Source: Philippe Cattoir (2004) – *„Taxation papers – Tax based EU own resources"*, Luxemburg, pp. 42

Notes: An increasing number of stars indicates increasing arguments in favour of the proposal with regard to the criterion under examination:

A- the criterion is largely respected. Some limited problems may still arise;
B- the criterion is respected in part. Important problems may arise;
C- the criterion is not respected. Many problems arise as to the criterion.

2. BUDGETARY CRITERIA

The budgetary criteria are of critical importance in determining the appropriate new European own resource. The stability criterion is important with regard to the financial autonomy of the EU. Sufficiency indicates whether a given resource is sufficient to finance the whole budget.

a) *Sufficiency* - Three of the possible EU taxes seem to offer prospects to fully cover the needs of the Community, including in the longer run prospect: the modulated VAT, the personal income tax and energy taxation.

Several other resources could bring about substantial revenues but these would probably be insufficient to fully cover the EU needs.

In principle, this problem of revenue insufficiency can be overcome by combining several resources, including contributions from the Member States, to make up for the needs of the EU budget.

b) *Stability* - Four of the nine possible EU taxes – the modulated VAT, personal income tax, excise duties on tobacco & alcohol and energy taxation – would satisfy the criterion of stability. The other possibilities offer a moderate or limited stability in the short-run, in general due to their sometimes strong link to the business cycle. In the absence of financial autonomy, EU resources could therefore be too limited in years of slow economic growth and could tend to exceed the needs in times of prosperity.

Developing a flexibility mechanism on the revenue side to complement tax autonomy could be necessary. This mechanism could consist in either allowing financial autonomy or variable transfers from the Member States to ensure a balanced budget.

Overall, in order to achieve stability, sufficiency and permitting and effective tax autonomy, it might therefore be appropriate to combine taxes with other resources, such as Member States contributions, and envisage a certain degree of financial autonomy.

3. EFFICIENCY CRITERIA

The constraints related to the budgetary framework are of significant importance, as is illustrated above. Nevertheless, the assessment of the EU taxes must also rest on other arguments. In this respect, efficiency criteria are of critical importance.

a) V*isibility* - Several of the assessed taxes would respect to a large extent the visibility criterion. This is in particular the case for the modulated VAT and the personal income tax. Only the transfer of seigniorage revenue and the tax on financial transactions would clearly lack visibility to the public at large.

b) *Low operating costs* - In general, the operating costs would not create a major or insurmountable issue, except for one scenario of harmonised personal income tax. In some cases, the tax could lead to an actual improvement upon the current situation or to costs that could be negligible. This is for example the case for the transfer of seigniorage revenue or the corporate income tax. In some cases, there can be a trade-off between low operating costs and high visibility. This has been illustrated for the proposal on EU excises on alcohol and tobacco. Increasing the visibility of the tax may impose a cost on the seller or the consumer.

c) *Efficient allocation of resources* - Corporate income tax, energy taxation and a climate charge on aviation could have an impact on, and help foster EU policies. This is due to the numerous cross-border externalities observed in the related areas. Furthermore, in the case of the transfer of seigniorage revenue, the tax could probably be raised in a fairly efficient, non-distortive way.

In most other cases the tax should be seen as an instrument to raise revenues rather than as an instrument to achieve Community policies. However, in the case of the tax on financial transactions and the communication tax, the tax could prove detrimental to the proper allocation of capital and investment in the EU.

4. EQUITY CRITERIA

The economic assessment of the assignment of a tax to a given level of government also very much depends on equity issues.

a) *Horizontal equity* - The horizontal equity primarily depends on the degree of harmonisation of the tax base. Where there is full harmonisation, horizontal equity is achieved, while in the other cases, one should expect equivalent EU citizens to be taxed in different ways. It has been assumed in a number of cases that harmonisation would be achieved. Therefore, most taxes examined above accordingly respect to a high degree the criterion. However, it is far from obvious that actual harmonisation would be achieved in some cases. This is for instance illustrated by the failure to complete harmonisation for the VAT in the Community despite decades of efforts. The current degree of harmonisation offers limited indications on the level of harmonisation that could be reached in the future, e.g. for the personal income tax.

b) *Vertical equity* - Vertical equity is also a major issue when it comes to designing a tax structure. In general, priority is given to a tax system that allows for some kind of interpersonal redistribution. In this respect, the communication taxation, the tax on financial transactions and the climate charge on aviation, which would be new EU taxes, would respect the criterion to a large extent. Indeed, these taxes would mainly be a burden on relatively wealthy people and the revenues raised would allow for a corresponding decline in Member States contributions and taxes. A number of other taxes would also respect this criterion, albeit to a lower extent. Only excise duties on tobacco and alcohol would bear to a relatively large extent on poorer households, thereby possibly decreasing the overall progressiveness of taxation in the EU.

c) *Fair contributions* - The criterion would be respected to a large extent for the communication taxation, the personal income tax and the climate charge on aviation. The other taxes would in all likelihood not fully respect this criterion. This would in particular be the case for excise duties on alcohol or tobacco. This means that should these taxes be the main source of finance of the EU budget the revenue collected in some of the Member States would be relatively high considering their level of economic development compared to other Member States. This result is not surprising given the diversity characterising the economic and tax structures of the Member States.

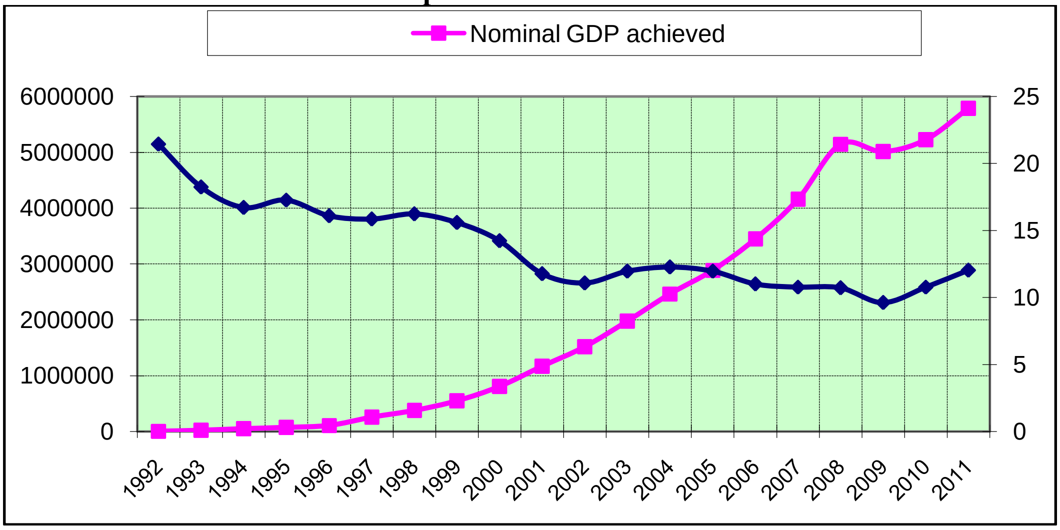
5. BUDGETARY REVENUES INCREASE BY REDUCING THE DEGREE OF TAXATION IN ROMANIA

Arguments:

- ❖ Essential is the relationship between budgetary revenue system and economic development;
- ❖ Alleviate tax offers taxpayers the opportunity to use the amounts resulting from the reduction of taxes for economic development and, thus, enhance the future income;
- ❖ Having a reduced rate of taxation to higher state tax due, absolutely no reduction even grows. So alleviate environmental taxation will have to be accompanied by expansion of tax base, as a result of the development of the economy, and the development of new value-generating activities;
- ❖ The present system of budgetary revenue has sufficient resources and possibilities, yet entirely unexploited, to become an effective instrument of economic, social and economic policy.

As a result of its own calculations based on data provided by the INS is a significant growth of gross domestic product achieved starting with the year 2000 (719.78% growth at the end of 2011 girl of the year 2000) and a oscillate pressure of nominal tax at a point of maximum 21, 43% in 1992 to 2011 12, 02%, though, reaching the lesser value in 2009 of 11, 07%, according to the figure below.

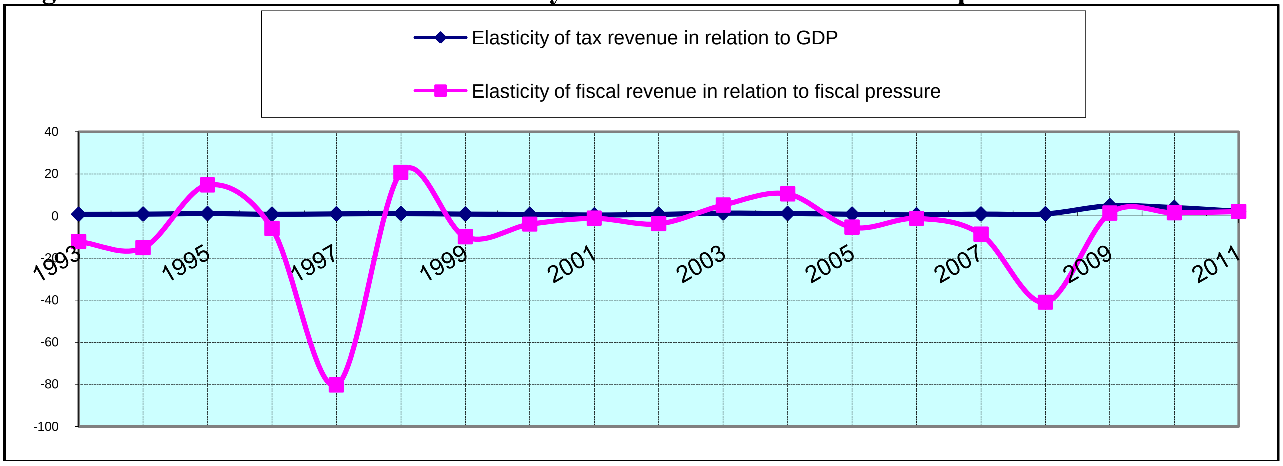
Figure 1 - The evolution of nominal GDP achieved nominal fiscal pressure and completed during the period 1992-2011



Elasticity of tax revenue in fiscal pressure ratio is positive only in 1995, 1998, 2003-2004 and 2009-2011, according to the schedule below, when a certain increase in fiscal pressure environments could have led to a greater public taxation intakes; in the remainder, it is negative, what indicate, clearly, the fact that an increase in fiscal pressure has a negative effect on budgetary revenues; it is significant that this elasticity and decreases during the period considered in the Standing.

Elasticity of tax revenue in relation to GDP is subunit (with the same exceptions, 1995, 1998, 2003-2004 and 2009-2011) throughout the period considered, which indicates that widen the tax base (tax-independent dynamic pressure) has not resulted in increased tax revenues corresponding; the explanation may lie in the increasing tax evasion or for statistical reasons (National Institute of statistics, GDP enters in a certain amount of the underground economy, GDP grows but the associated tax base remains the same, and related tax revenue).

Figure 2 - The evolution of income elasticity tax in relation to GDP and tax pressure born 1992-2011



CONCLUSIONS

Considering the income elasticity tax values in relation to the average tax pressure, it is necessary to decrease, eventually to obtain the corresponding tax increase of intake from the State budget.

It is necessary to determine the margin of empirical variation of average fiscal pressure that has positive impact on tax revenue growth, so as to not diminish the tax base more quickly than the average fiscal pressure decreases (which would result in decreased tax intakes), the situation in Romania and in the perspective of a period at least medium.

It should be noted that a possible solution to unequal distributions of the tax base would be to set up some form of equalisation mechanism to adjust the Member States contributions according to the amount of tax collected on their territory and other relevant variables. Equalisation mechanisms are found in numerous federal systems, as well as in decentralised States. They are inherent to State structure when there are differences in needs and resources across "regions".

Setting an equalisation mechanism to replace or complement the current GNI contribution could thus be a useful complement to tax autonomy in the context of a reform of the current own resource system.

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