JOURNAL
OF EUROPEAN ECONOMY
Vol. 14 (№ 4). December 2015
Publication of Ternopil National Economic University

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THE IMPACT OF INGREASING INTEGRATION ON TAX POLICY IN THE EU COUNTRIES

Abstract

The article casts light onto the EU tax policy and the growing impact of integration upon it. The author studies the national features and tendencies of tax convergence in the United Europe over the period from 1995 to 2008 in order to establish the effects of integration on tax governance in the EU countries. Regarding the EU tax policy, a study of the processes taking place before (at the early stage) of the financial and economic crisis is no less relevant than the analysis of new tax developments. The author explores the dynamics of average taxation in the countries of EU-6, EU-15, ECA-17, and the new EU member states.

Key words:

Economics, fisc, GDP, taxation, the EU, VAT.

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JEL: F15, H20.

In the situation of worsening economic and fiscal positions of Ukraine, it would be feasible to study the European experience of using tax mechanisms, which proved themselves effective under the similar socio-economic and institutional conditions.

The decision to choose the European integration vector of economic development has given added urgency to the research on tax policy improvement in Ukraine in the context of its Euro-integration priorities, especially taking into account the fact that the signing of the political part of the EU-Ukraine Association Agreement and active preparation for its final and complete approval excited an increased scientific interest in this matter.

The works of such economists as V. Andrushchenko, V. Valihura, Z. Varnaliy, V. Vyshnevskyi, O. Halushko, V. Heyets, O. Danilov, O. Desyatnyuk, T. Efymenko, Yu. Ivanov, I. Lunina, I. Lyutyi, A. Sokolovska, O. Tymchenko, V. Fedosov, L. Shablysta, K. Shvabiy, and S. Yuriy cast light onto the problems of shaping and implementing tax policy in Ukraine, the features of tax system development and tax harmonization in the EU countries, and the possibilities of adopting the European experience of tax reforms.

The theoretical and methodological foundations of tax policy and tax reform were researched by such leading foreign scientists as A. Auerbach, S. Blanchard, J. Buchanan, K. Wicksell, K. Arrow, J. M. Keynes, E. Lindahl, R. Musgrave, A. Marshall, D. North, A. Pigou, P. Samuelson, A, Smith, J. Stiglitz, V. Tanzi, F. Hayek.

The questions related to improvement of tax policy in Ukraine in the context of its integration in the EU have not been sufficiently researched. The modern socio-economic and fiscal systems of the EU countries were developing taking into account the US and Japanese experience of building dynamic innovation-oriented economies and instituting moderate expansion of the fisc, on the one hand, and under the influence of the socialist model of economic governance and state finance implemented in the USSR, on the other hand. At that, the countries of Western Europe headed directly towards implementing effective restrictions on market self-regulation by means of corrective influence of the state, as well as forming distributed national social security systems in particular. At the same time, the countries of Central and Eastern Europe (CEE), which initially gravitated towards state-centric economic and fiscal models, have shifted their focus towards creating market conditions and establishing state finance of the Western European type only during the last two decades. However, already today we can speak of such features of European taxation, as the implementation of fiscal expansion limits that are broader than in other highly developed countries of the world; the growing fiscal orientation of consumption taxes (especially VAT); the decreasing tax burden on income and property; and the focus on using the redistributive capacity of personal income tax and state social fund contributions (Panskov, Knyazev, 2003, pp. 171–172; Melnyk, Taranhul, & Varnaliy, 2008, pp. 52–75; Sokolovska, Efymenko, Lunina, 2006, pp. 65–178; Shevchuk, Rymarska, 2007, pp. 51–56).

Naturally, all these features of modern European taxation were becoming more expressed in the course of unfolding integration, creating preconditions for the new level of economic and tax convergence. At that, the most interesting question, which still remains insufficiently researched, is in what way the increasing integration affected the tax policy of separate countries of the EU.

In order to analyze the influence of integration on tax governance in the EU, we need to consider the national peculiarities and tendencies of tax convergence across the territory of United Europe for the period from 1995 to 2008. First of all, this will allow revealing the differences and similar features in the structures of tax systems of the EU countries, dismissing the impact of unfavorable global business conditions of the recent years (the majority of anti-crisis fiscal programs were enacted in 2009). Second, it is not improbable that under better global economic dynamics, the countries will partially return to using the tax instruments that had been using previously. In view of this, the study of the EU tax policy that has been in place before (at the early stage of) the financial and economic crisis is no less relevant than the study of new developments in taxation.

It should be noted that the heterogeneity of EU countries in terms of socioeconomic development, institutional mechanisms of market self-regulation and state influence on macroeconomic processes, as well as traditions of fiscal regulation, make the full unification of European taxation unattainable even in a remote perspective. In 2008, all countries could be classified into four groups by their tax policy model[1]: 1) highly developed countries of Western Europe with broad limits of fiscal expansion; 2) moderately developed Western European countries and island states — the new members of the European currency area (ECA), which have been developing liberal systems of taxation in order to encourage market self-regulation; 3) post-socialist countries that have been actively developing fiscal mechanisms in order to enhance the corrective impact of the state on changes in business environment; 4) the CEE countries which have the most narrow limits of fiscal expansion. This classification of countries became

[1] The tax policy of Croatia, which joined the EU in July 2013, was not studied due to lack of statistical data.

relevant in the first decade of the 21st century, when new trends were revealed in the dynamics of taxation levels (measured as a share of taxes and tax contributions in GDP) in the conditions of EU enlargement to the East (Table 1).

Table 1

The level of taxation in the EU-27 in 1995–2008

Country	Tax level in 2008, %	Difference 1995 to 2008, p.p.*	Difference 2000 to 2008, p.p.	Country	Tax level in 2008, %	Difference 1995 to 2008 , p.p.	Difference 2000 to 2008, p.p.
Denmark	47.8	– 1.0	– 1.6	Czech Rep.	34.4	– 1.1	+ 0.6
Sweden	46.4	– 1.5	– 5.1	Poland	34.3	– 2.8	+ 1.7
Belgium	44.2	+ 0.4	– 0.9	Malta	33.8	+ 7.0	+ 5.9
France	43.2	+ 0.5	– 1.0	Spain	33.0	+ 0.9	– 1.1
Finland	42.9	– 2.8	– 4.3	Portugal	32.8	+ 3.3	+ 1.7
Italy	42.7	+ 2.9	+ 1.2	Bulgaria	32.3	+ 1.5	+ 0.8
Austria	42.7	+ 1.3	– 0.3	Greece	32.2	+ 3.1	– 2.4
Hungary	40.3	– 0.7	+ 0.5	Estonia	31.7	– 4.6	+ 0.7
Netherlands	39.2	– 1.0	– 0.7	Lithuania	30.0	+ 2.5	+ 0.1
Germany	38.9	– 0.9	– 2.4	Ireland	29.6	– 3.1	– 1.9
Cyprus	38.6	+ 11.7	+ 8.7	Slovakia	29.2	– 11.1	– 4.9
Great Britain	37.9	+ 3.2	+ 1.2	Latvia	29.2	– 4.0	– 0.5
Slovenia	37.2	– 1.8	– 0.1	Romania	28.0	+ 0.5	– 2.2
Luxembourg	35.5	– 1.6	– 3.6	EU–27	36.6	0.0	– 0.4

Note: *p.p. – percentage points.

Source: Taxation trends in the European Union. Data from the EU Member States, Iceland and Norway. (2012). Publications Office of the European Union, p. 180. Retrieved from http://ec.europa.eu/taxation_customs/resources/ documents/ taxation/gen_info/economic_analysis/tax_structures/2012/report.pdf.

The first group of countries is represented by the EU-6 countries (Belgium, France, Italy, Germany, Luxembourg, and the Netherlands)[2], the countries of Northern Europe (Sweden, Denmark, Finland), as well as Austria and Great Britain. In the majority of these states, the level of taxation has either decreased or remained almost unchanged over the period from 2000 to 2008. In addition, we can admit that Denmark, Sweden, Belgium, France, Finland, Italy, and Austria maintain the broadest limits of fiscal expansion in Europe and in the world, in particular with the aim of mitigating the negative consequences of factor movements within the area of United Europe (falling employment levels and investment rates). The Netherlands, Germany, Great Britain, and Luxembourg,[3] on the other hand, preferred to adhere to the strategy of keeping their taxation at the levels close to the EU average. This, according to the theory of most intensive economic development under moderate factor and sales prices in specific locations[4] (Revyakin, 2006, pp. 33–40), enabled them to create areas of dynamic GDP growth based on maximal use of advantages arising from integrated market self-regulation.

The second group of countries includes Southern European countries (Spain, Portugal, and Greece), Ireland, Cyprus, and Malta. This group of countries is lagging behind the first group in terms of economic development, which makes them implement the European integration strategy by creating especially favorable tax environments in order to stimulate GDP growth. Ireland achieved major success in this area, enabling it to reduce the level of taxation again in 2000–2008 (the country's distance from continental Europe increased the relevance of tax liberalization). Portugal, Spain and Greece could not repeat the success of Irish liberal tax reforms, and thus, they had to somewhat increase the corrective influence of the state on the socio-economic processes. Prior to abrupt worsening of the global economic conditions, these economies had been developing much more dynamically compared with the EU-15 taken as a whole. Cyprus and Malta had to perform a rather radical transformation of the economic and tax system under the influence of integration. Their fisc has already adopted quite a few of Western European features.

Hungary, Slovenia, Czech Republic, and Poland represent the third group of post-socialist states with relatively high (as for the CEE) level of economic development. They achieved GDP growth in a short period of time based on market transformations in economic and social areas, thanks to what they could introduce Western European forms of taxation in a generally rather efficient way. However, in 2000-2008, Hungary and Slovenia have chosen the strategy of implementing broader than the EU average limits of fiscal expansion in order to

[2] These countries have launched the process of European integration by establishing the common market for coal and steel in 1951.
[3] In 2009, Luxembourg broadened the limits of fiscal expansion up to 37.6% of GDP, then narrowed them to 37.1% of GDP in 2010.
[4] Taxes produce a significant effect on the level of factor and sales prices.

smooth out the disparities generated by post-socialist mode of management, whereas Poland and Czech Republic on the verge of recession tried to shift the balance between market self-regulation and financial activity of the state in favor of the former[5]. It should also be noted that Bulgaria, having made many mistakes at the start of market transformation, has been trying since 2007 to catch up with the mentioned «foursome» by supplementing its taxation instruments of encouraging business activity with rather intensive state fiscal interventions in the social and economic processes.[6]

The fourth group of countries, in addition to Bulgaria, includes Estonia, Lithuania, Latvia, Slovakia, and Romania. The Baltic states, which inherited their inefficient economies and public administration systems from the USSR, directed their efforts towards market self-regulation in conditions of having rather narrow limits of fiscal expansion.[7] Slovakia, the CEE country with a relatively high level of economic development, also decided to limit the state correction of disproportions brought in by post-socialist economic management, decreasing its taxation level by 11.1 percentage points in 1995–2008. Romania, the least developed country in the United Europe (EU-27), launched liberal tax reforms hoping to catch up in a short period of time.

The analysis of average taxation dynamics in the countries of EU-6, EU-15, ECA-17[8], and new EU member states (Figure 1) helps to make two other important conclusions. First, the social and economic development indicators in the countries of Western Europe reached the level of convergence that is sufficient to enable the synchronization of changes in their fiscal expansion (narrowing or broadening). This can be considered as a positive effect of increased European integration. Second, in contrast to the «old-timers», the new EU member states decreased the level of taxation in 1996, consolidated their liberal tax reforms before and at the time when global economy was in stagnation from 2001 to 2002, then somewhat increased their fiscal stimulus packages during the economic boom that followed, and finally narrowed their fiscal expansion in 2008. Thus, the enlargement of integration area in 2004–2007 can be said to have launched the process of establishing a special, transformative type of European taxation. As a result, it is at least until the CEE countries, Cyprus and Malta manage to noticeably narrow the gap in their economic development with the EU-15 countries and until the post-socialist EU countries finish the process of market transformation,

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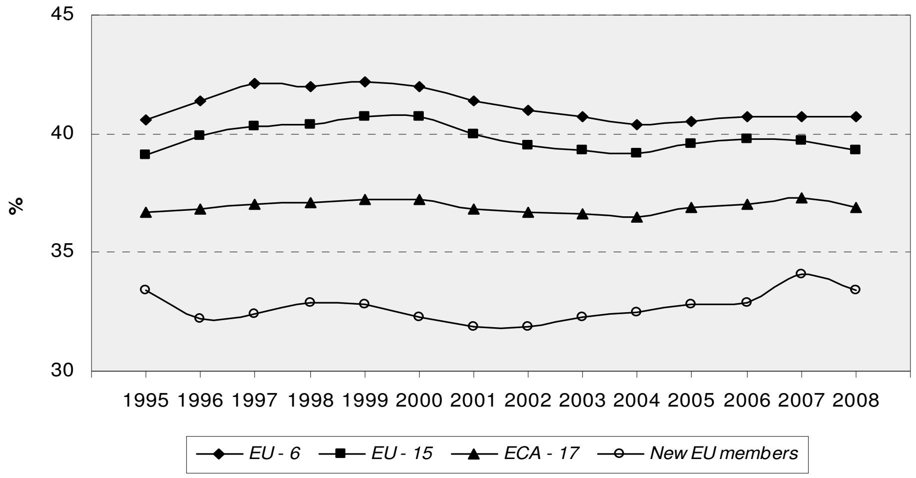
[5] In 2010, the share of taxes and tax contributions in the GDP of Czech Republic and Poland made 33.8% and 31.3% respectively (the average indicator for the EU was 35.6%).
[6] The level of taxes in Bulgaria decreased from 33.3% to 32.3% of GDP in 2008, and to 27.4% of GDP in 2009–2010.
[7] In 2009, Estonia increased its total taxation to 35.7% of GDP, and decreased it to 34.2% of GDP in 2010.
[8] At the start of 2013, the European Currency Area included 12 countries of the EU-15 (except for Great Britain, Denmark and Sweden), Slovenia, Cyprus, Malta, Slovakia, and Estonia. In 2014, Latvia, the eighteenth country, joined the Euro-zone.

that their tax policy will largely be based on liberal foundations and have more narrow, compared with other Western European countries, limits of corrective financial action of the state.

Figure 1

Dynamics of the EU-27 tax average by country group



Source: Taxation trends in the European Union. Data from the EU Member States, Iceland and Norway. (2012). Publications Office of the European Union, p. 180. Retrieved from http://ec.europa.eu/taxation_customs/resources/documents/taxation/gen_info/economic_analysis/tax_structures/2012/report.pdf.

In the tax structure of the EU (Table 2), the following features stand out: the share of indirect taxes in total tax revenues ranged from 55.3 % in Bulgaria and 43.7 % in Portugal to 31.6 % in Czech Republic and 28.9 % in Germany; the total share of personal income tax (PIT), corporate income tax (CIT) and property taxes ranged from 62.2% in Denmark, 49.1% in Great Britain and 38.5 % in Malta to 25.8% in Greece and 20.6% in Bulgaria, whereas the share of social security contributions ranged from 45.1% in Czech Republic and 39.1% in Germany to 17.9% in Malta, 18.1% in Great Britain and Ireland and 2% in Denmark. This testifies to the existence of significant differences in the development of taxation not only between the old and the new EU member states, but also within the EU-15, ECU-17 and even EU-6.

Table 2

Selected taxes and tax contributions as % of total tax revenues in the EU-27, 2008

Country	Indirect taxes			Direct taxes				Social Security Contri-butions
	Total	VAT	Other	Total	Income Tax	Corpo-rate Tax	Property Tax, etc.	
Austria	33.7	18.2	15.5	32.9	24.4	6.2	2.3	33.6
Belgium	29.6	15.8	13.8	38.9	28.5	7.6	2.8	31.5
Bulgaria	55.3	33.8	21.5	20.6	9.0	9.8	1.8	24.1
Great Britain	32.9	17.0	15.9	49.1	28.6	9.6	10.9	18.1
Greece	39.6	22.7	16.9	25.8	15.0	7.8	3.0	34.7
Denmark	36.1	21.0	15.1	62.2	52.6	6.9	2.7	2.0
Estonia	38.7	24.9	13.8	24.7	19.5	5.1	0.1	36.6
Ireland	42.6	24.6	18.0	39.4	27.8	9.8	1.8	18.1
Spain	30.6	15.5	15.1	33.8	22.3	8.8	2.7	37.3
Italy	32.9	13.9	19.0	35.7	27.4	7.1	1.2	31.4
Cyprus	46.3	27.4	18.9	33.5	13.0	18.4	2.1	20.1
Latvia	38.3	23.0	15.3	33.5	21.8	10.9	0.8	28.3
Lithuania	39.5	26.6	12.9	31.0	21.7	9.1	0.2	29.7
Luxem-bourg	33.6	16.7	16.9	38.0	21.7	14.3	2.0	28.4
Malta	43.6	23.3	20.3	38.5	16.5	19.8	2.2	17.9
The Neth-erlands	32.5	18.5	14.0	30.5	18.4	8.8	3.3	37.0
Germany	28.9	18.3	10.6	32.0	23.2	6.9	1.9	39.1
Poland	42.1	23.4	18.7	25.2	15.6	7.9	1.7	33.0
Portugal	43.7	25.6	18.1	29.5	17.0	11.1	1.4	26.8
Romania	42.7	28.2	14.5	24.0	12.1	10.7	1.2	33.3
Slovakia	36.8	23.6	13.2	22.2	9.4	10.7	2.1	41.1
Slovenia	38.6	22.8	15.8	24.0	15.7	6.7	1.6	37.7
Hungary	39.7	19.3	20.4	26.3	19.0	6.5	0.8	34.0
Finland	30.6	19.5	11.1	41.4	30.9	8.1	2.4	28.0
France	35.1	16.5	18.6	27.7	18.1	6.3	3.3	37.7
Czech Republic	31.6	19.7	11.9	23.2	10.8	12.2	0.2	45.1
Sweden	39.1	20.0	19.1	42.7	35.8	6.3	0.6	18.2

Source: Taxation trends in the European Union. Data from the EU Member States, Iceland and Norway. (2012). Publications Office of the European Union. Retrieved from http://ec.europa.eu/taxation_customs/resources/documents/taxation/gen_info/economic_analysis/tax_structures/2012/report.pdf.

The VAT accounted for the largest share of total tax revenues of 2008 in Bulgaria, Romania, Cyprus, Lithuania, Estonia, and for the smallest share of total tax revenues in Luxembourg, France, Belgium, Spain, and Italy. Indirect taxes made the largest share in the tax structure of Bulgaria, Hungary, Malta, Sweden, Italy, Cyprus, and Poland, and accounted for the smallest share of total tax revenues of Estonia, Belgium, Slovakia, Lithuania, Czech Republic, Finland, and Germany. This allows asserting that less economically developed post-socialist countries of the EU assigned greater fiscal assignments to VAT (because they have relatively more narrow tax bases for direct taxes), whereas the majority of highly developed countries assigned less significance to VAT due to broad limits of fiscal expansion (better opportunities for the development of direct and social taxation); although the integration increased, the off-shoring traditions of Cyprus and Malta preconditioned the significant role of VAT and other indirect taxes in filling their budgets. Some countries of the EU-15 paid particular attention to using the fiscal capacity of the excise tax and/or customs duties (at the expense of trade with non-EU countries), as well as other indirect taxes, while other countries did not. A number of post-socialist EU member states chose not to enhance the fiscal role of excise and other indirect taxes.

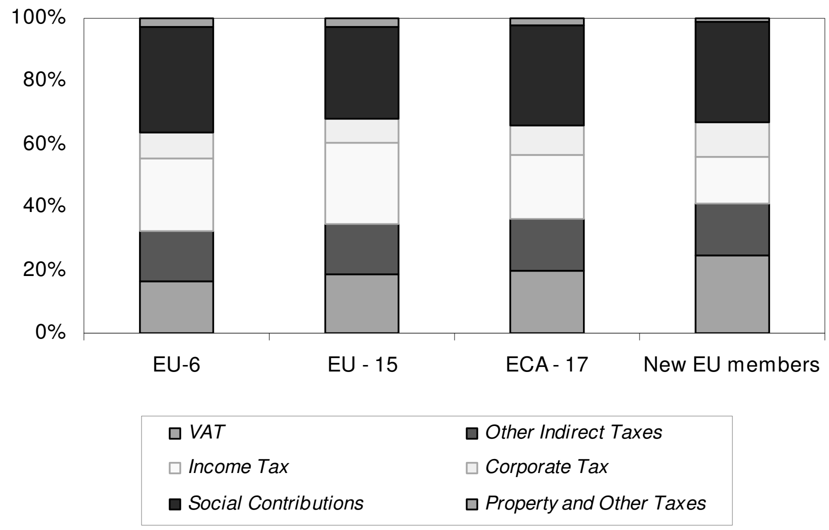
Personal income tax prevailed in the taxation structure of Denmark, Sweden, Finland, Great Britain, and Belgium, but accounted for the smallest share of total tax revenues in Cyprus, Romania, Czech Republic, Slovakia, and Bulgaria. The largest shares of corporate tax in total tax revenues were observed in Malta, Cyprus, Luxembourg, Czech Republic, Portugal, Latvia, Slovakia, and Romania, whereas its smallest shares were observed in Slovenia, Hungary, France, Sweden, Austria, and Estonia. The sizeable amounts of budget revenues in Great Britain, the Netherlands, France, Greece, Belgium, Denmark, and Spain were generated by taxes on property, whereas they were fiscally insignificant in the majority of post-socialist countries of the EU. This allows drawing a number of conclusions. First of all, income taxation had the largest redistributive capacity in highly developed countries that have broad limits of fiscal expansion, whereas it had minimal redistributive capacity in the less developed CEE economies. Second, the largest shares of corporate tax in the tax structure of the EU-15 were observed in relatively low-taxing countries, while the smallest shares of corporate tax were typical of the countries with high level of GDP redistribution (thanks to high capital mobility, the tax burden on income is undergoing gradual equalization). Third, some post-socialist countries of the EU preserved noticeable fiscal orientation of the corporate tax (which is the way it was established at the start of market transformations), whereas other countries have somewhat changed their fiscal focus from income taxation to direct taxation of personal incomes. Fourth, the fiscal role of property taxation was determined by traditions of taxation in the countries of EU-15, as well as the level of economic development (quality of the tax base) in the post-socialist countries of the EU. Fifth, the share of corporate and property taxes exceeded the share of income tax in the tax structure of Cyprus and Malta, which was typical of the off-shore period in the history of these countries.

Social security contributions accounted for the largest share in total tax revenues of the Czech Republic, Slovakia, Germany, France, and Slovenia, and for the smallest share in Cyprus, Sweden, Great Britain, Ireland, Malta, and Denmark. This allows us to state that the leading EU-6 countries have developed institutions of state social funds, whereas the CEE countries inherited their propensity to build distributed systems of state social security from the times they were state-centered economies. Denmark and island countries of the EU supported high social standards by allocating budget financing to numerous social security programs.

The calculations of average weights of separate taxes and tax contributions in total tax revenues for the EU-6, EU-15, ECA-17, and new EU member states (Figure 2) revealed that the first three country groups had similar tax structures, which were nevertheless different from those of the new EU member states. This is explained by the fact that compared to Western Europe, the post-socialist countries of the EU have a much larger section of low-income population, thus making these states focus on the fiscal capacity of VAT when implementing their tax policy, instead of actively developing the taxation of incomes and property.

Figure 2

The structure of taxation in EU-27 by country group, 2008



Taxation trends in the European Union. Data from the EU Member States, Iceland and Norway. (2012). Publications Office of the European Union. Retrieved from http://ec.europa.eu/taxation_customs/resources/documents/taxation/gen_info/economic_analysis/tax_structures/2012/report.pdf.

Another factor, which is detrimental to equalization of tax structures across the EU countries in the conditions of increasing integration, is the different size of their shadow economies. It is true that the larger the informal sector, the more the official level of taxation deviates from the factual tax burden on the economy (Amosha, O., Vyshnevskyi, V., 2002, p. 14). Taking into account the fact that the largest informal sectors in the EU-15 were found in Italy (26.8%), Greece (26.5%), Portugal (23%), Spain (22.5%), and Belgium (21.3%), while reaching 25.8% on average in the post-socialist countries of the EU, it becomes obvious why the real levels of taxation in these countries are lagging behind that in Austria, where informal sector is the smallest one, accounting for 9.5% (Schneider, Buehn & Montenegro, 2010). The factual difference between tax burdens in Northern European countries, on the one hand, and Southern European countries, especially the new EU member states, on the other hand, is much larger. In view of this, the latter are forced to actively elaborate on tax instruments, including tax structure optimization, targeted at reducing the size of their shadow economies so that after disproportions in the tax burden levied on legal and informal sectors of the economy are removed, these countries could proceed with elaboration of the tax policy similar to that of the highly developed EU countries.

The convergence of GDP redistribution in terms of indirect taxation is one of the largest successes in tax harmonization across the EU countries. However, taking into account national disparities in calculating official and real GDP, it would be more appropriate to speak about convergence of formal parameters only. Tax convergence was facilitated primarily by the following factors: the countries' intention to use fiscal capacity of indirect taxation so that to form a reliable financial base of state functioning;[9] the request of EU authorities to set a standard VAT at the rate of no less than 15%; recommendations to limit the list of excisable products to alcoholic beverages, tobacco products and energy carriers; and unification of the integrated market customs taxation. Nevertheless, the analysis of indirect taxes-to-GDP ratios in the EU-15 countries and new EU member states for the year 2008 revealed a number of differences (Figure 3).

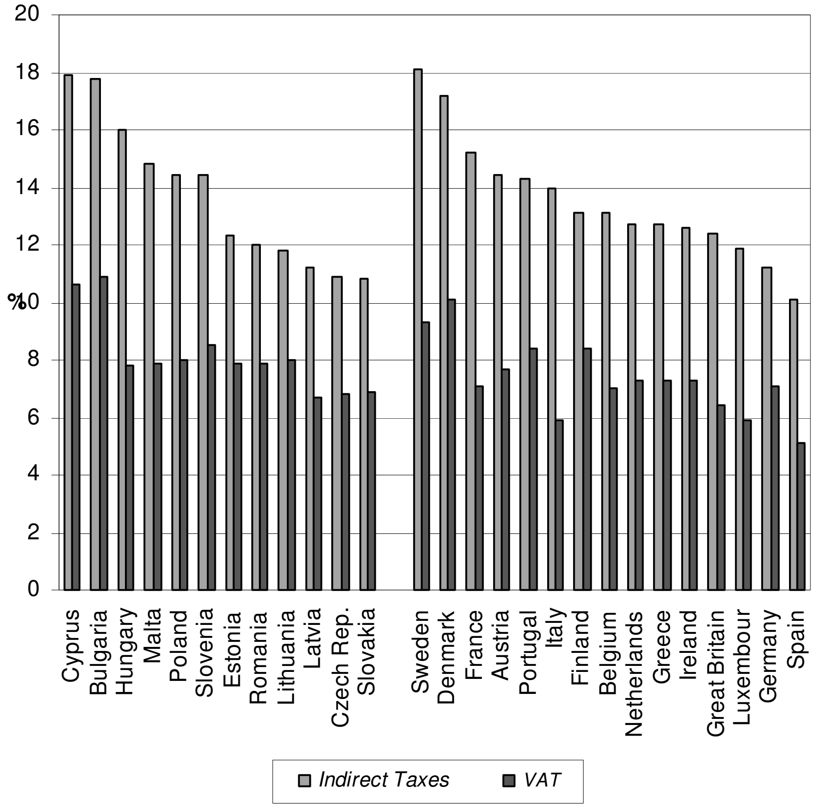
In general, the fiscal efficiency of indirect taxes was observed to converge in the countries of Western Europe. In the CEE countries, Malta and Cyprus the convergence was observed for VAT. In addition, in the EU-15, the highest fiscal significance of consumption taxes was mostly observed in highly developed, high-taxing countries, whereas among the new EU member states, it was observed in less developed countries whose limits of fiscal expansion were close to the EU average, as well as in relatively developed economies whose governments maintained active position with respect to financial activity. This gives grounds to state that the countries of Western Europe paid particular attention to securing social fairness of indirect taxation (softening the regressive influence of

[9] Among all fiscally significant taxes and tax contributions, the collection of consumption taxes (especially VAT) only marginally depends on the level of shadow economy and the phase of the business cycle.

VAT on prices). Italy and Spain have even reduced substantially the fiscal assignments on VAT in order to promote low prices on consumer goods (or to increase their production profitability). For this reason, the new EU member states had to use the fiscal capacity of the VAT to a much greater extent compared with the EU-15 countries. There was no other way for them to strengthen the social orientation of redistributive processes than by increasing the respective budget expenses.

Figure 3

Indirect taxes as % of GDP in EU-27, 2008



Taxation trends in the European Union. Data from the EU Member States, Iceland and Norway. (2012). Publications Office of the European Union, pp. 184-186. Retrieved from http://ec.europa.eu/taxation_customs/resources/documents/taxation/gen_info/economic_analysis/tax_structures/2012/report.pdf.

A broader range of variation across the EU countries in 2008 was observed for parameters of GDP redistribution in terms of direct[10] and social taxation. The countries of Western Europe and the new EU member states (considered as two groups and individually) displayed different approaches towards using fiscal and regulatory capacity of income tax, corporate tax and social security contributions (Figure 4).

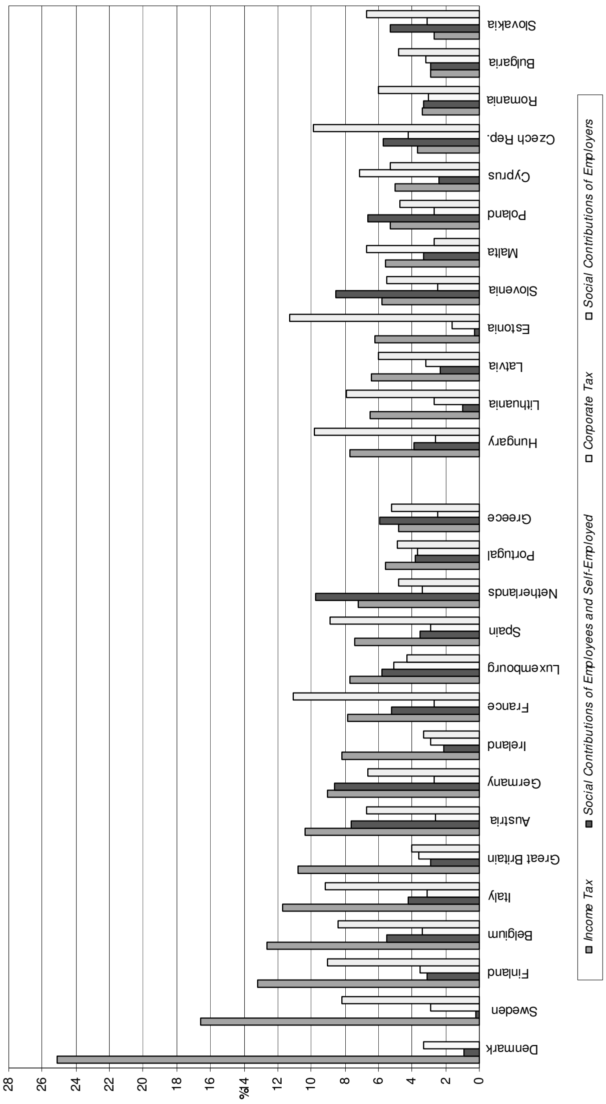
Across the EU-15, the highest redistributive capacity of the income tax accompanied by modest burden of social contributions levied on personal incomes laid the basis for the socially fair tax systems of Denmark, Sweden, Finland, Belgium, Italy, and Great Britain. Austria, Germany, France, and Luxembourg were observed to equalize their fiscal efficiency of personal income tax and social contributions of employees (partly observable in Belgium). In the Netherlands and Greece, the positive effect of reduced social differentiation generated by imposition of progressive income tax was cancelled out (to the highest extent among the EU countries) by generous fiscal assignments attached to social contributions of employees (levied in the majority of EU countries at proportional or regressive rates) (Nikitin, Glazova & Stepanova, 2003, p. 18). Along with that, Greece occupied the twenty third position among the EU countries in terms of fiscal efficiency of personal income tax in 2008. Ireland, having chosen the target of active tax liberalization, built a socially fair tax system, decreasing the aggregate tax burden on personal incomes. Spain and Portugal also kept to the strategy of moderate fiscal efficiency of income tax and social security contributions of employees (Spain), but with a different aim — to reduce the size of shadow economy. It is general knowledge that the most popular subjects of tax evasion are direct and social taxes on personal incomes.

Moreover, in Sweden, Finland, Belgium, Italy, Austria, Germany, and especially France, the social orientation of GDP redistribution was enhanced by much higher fiscal efficiency of social contributions of employers compared to fiscal efficiency of the corporate tax. Luxembourg and the Netherlands, on the contrary, expressed preference for more active development of income taxation and paid less attention to social taxation of employers (as they had broader opportunities for resource allocation when assigning budget expenditures). Spain and Portugal, the least economically developed countries of the EU-15, centralized a considerable amount of corporate tax in order to finance urgent structural reforms, whereas the significant fiscal role of employers' social contributions enabled them to settle social problems (Greece, for example, reduced its aggregate tax burden on business sector to the minimum). Denmark, Great Britain and Ireland preferred to rely on the redistributive capacity of personal income tax and higher than in the leading countries of the EU-6, such as France and Germany, fiscal orientation of corporate tax, instead of shifting fiscal focus towards social taxation of employers.

[10] Except for taxes on property, the fiscal efficiency of which is relatively insignificant in the EU countries.

Figure 4

Selected direct taxes and social security contributions as % of GDP in EU-27, 2008.



Taxation trends in the European Union. Data from the EU Member States, Iceland and Norway. (2012). Publications Office of the European Union. Retrieved from http://ec.europa.eu/taxation_customs/resources/documents/taxation/gen_info/economic_analysis/tax_structures/2012/report.pdf.

Proceeding from these differences in the development of direct and social taxation that remained essentially unchanged even under unfavorable world economic conditions of 2009–2012, it is hard to make projections with respect to convergence of tax structures even among Western European countries with broad limits of fiscal expansion.

Among the new EU member states, Cyprus, Malta, Slovenia, Slovakia, Hungary, Czech Republic, and Poland managed to achieve the level of economic development (real income of population) that is sufficient enough to actively develop the income and social taxation of employees (while Cyprus, Malta and Slovakia avoided this). Along with that, Slovenia and Poland chose the strategy of combining a relatively low fiscal efficiency of personal income tax and social contributions of employers (minimizing the tax burden on business sector) with a rather high fiscal efficiency of social security contributions of employees and self-employed persons in order to bring economic relations out of shadow. When forming and implementing their tax policies, Bulgaria, Slovakia, Romania, Czech Republic, and the Baltic states focused on the task of increasing domestic consumer demand and reducing the size of shadow incomes of affluent sections of population, thus rejecting the progressive mechanism of income taxation (contrary to the practice of developed EU countries).[11] This step brought vast opportunities for constructing various combinations of income and social taxes imposed on employees without producing noticeable effects on the redistributive capacity of personal income (salaries and wages) taxes as a whole.

Such countries as Bulgaria, Latvia, Lithuania, Romania, Slovakia, and especially Estonia, Hungary and the Czech Republic displayed a tendency to assign considerable fiscal liabilities to subjects of business activity. They could even be said to balance on the verge of breaking a theoretically optimal combination of fiscal sufficiency, economic effectiveness and social fairness criteria when forming and implementing their tax policies (Krysovatyi, 2005, pp. 136–141). Having chosen the dominant, in the highly developed countries of Europe and the world, strategy of building corporate taxation based on the principle of combining low base rates with a moderate system of tax privileges (overall reduction of tax burden on incomes lower than those in the EU-15), and having no opportunity to actively develop direct and social taxation of population, the majority of CEE countries had to maintain high fiscal efficiency of employers' social contributions and simultaneously finance the dispersed social and structural reforms, mostly at the expense of indirect tax revenues. Cyprus and Malta paid more attention to accumulation of finance necessary for the state to perform the assigned social and transformation functions by developing fiscally efficient taxation of incomes.

[11] Hungary introduced proportional tax on personal income in 2011, whereas Czech Republic and Slovakia resumed progressive income taxation (an additional, higher tax rate on high incomes) in 2013.

Along with that, we have all grounds to believe that if the CEE countries achieve a qualitatively new level of social and economic development (through changes in their tax bases for taxes and tax contributions) and finish the transformation of their market institutions (by speeding up the adoption of Western European taxation practices), the fiscal systems of the new EU member states will become more homogenous within their group and similar to fiscal systems of the EU-15. The success of structural reforms in the social and economic area, as well as taxation, in Slovenia, Cyprus and Malta (members of the ECA in 2008) created preconditions for the start of this process. The economic, social and tax convergence across the new EU member states will contribute to closer integration of the EU as a whole. As a result, new stimuli will appear for equalization of tax structures and budget policy convergence in the countries of Western Europe.

Should European taxation follow such a scenario, one might expect that in 20 to 30 years the EU countries might possibly be classified into two groups by tax policy model: 1) highly developed and moderately developed countries with high levels of taxation and state intervention in social and economic processes, and 2) moderately developed countries with a relatively narrow range of fiscal stimulus measures and higher market self-regulation. Along with that, the two main directions for tax convergence will be the optimization of social orientation of national tax systems and the improvement of tax mechanisms in pursuit of promoting scientific and technical progress.

This scenario, however, may never come true or its realization may require a much longer period of time. The fact is that increasing European integration only creates preconditions for the EU tax convergence, but it is up to each country to decide on the model of fiscal governance. The risk of slow tax convergence on the territory of United Europe is connected not only with the fact that sooner or later, the emerging favorable business conditions can induce active tax liberalization, but also with a noticeable gap in economic development of the EU countries and different speeds of catching up. The effectiveness of social and economic policy taken as a whole and tax policy in particular varies from one country to another. The lessons learned from the recession of 2008-2009 and slow exit from it will definitely help in finding effective tax instruments and contribute to further unification of tax governance vectors in the EU countries. Along with that, the influence of institutional factors setting the limits for tax transformations should also be taken into account.

Conclusions. Summing up all mentioned above, we can conclude that the heterogeneity of the EU countries in terms of economic development, which shows itself in higher levels of taxation in the EU-15 compared with the new EU member states, is explained primarily by high fiscal efficiency of personal income tax and/or social security contributions of employees. A much smaller variation across the EU is observed with respect to shares of total indirect taxes and VAT in GDP, as well as the corporate tax (competition for investment resources induces low levels of tax burden on income). A number of countries (post-socialist in particular) are actively using the fiscal capacity of social taxation of employers. Finally, even though the tax structures in highly developed countries and in post-socialist countries exhibit often material differences, greater integration creates preconditions for closing the existing gaps in economic development, as well as promotes higher adoption of western European tax mechanisms by the new EU member states, thus contributing to gradual tax convergence across the territory of United Europe.

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The article was received on November 2, 2015.