PERFORMANCE ANALYSIS OF THE EU MEMBER STATES' TAX SYSTEMS

Mariana-Luminiţa COMAN (LINŢĂ) [1]

[1]University of Craiova
lintaluminita@yahoo.com

Abstract: *The topic of the tax system efficiency is in the area of research interest. Economists-practitioners and government officials are also interested in this issue. Today, more than ever, everyone is looking for solutions to increase tax revenue collection in order to cover current public spending, to provide quality public goods and services to citizens and to stimulate economic development. The design of a tax system influences investors' decisions, it can create incentives for investment and consumption or it can generate implications for negative externalities. The efficiency of a tax system is evaluated in terms of the high degree of tax revenue collection, in terms of low costs for taxpayers and the tax administration. The paper examines conceptual and factual aspects of the EU Member States' tax systems. The paper highlights particularities of EU Member States' tax systems. Decision makers must take into account these particularities in adapting the analytical framework for evaluating the tax administration performance. The performance analysis of EU Member States' tax systems offers the possibility to identify some tools for evaluating the Romanian tax administration performance in order to recover the gaps compared to other countries.*

Key words*:* efficiency, tax administration, tax system.

JEL Classification Codes: H20, H30, G28.

1. INTRODUCTION

The design of a tax system influences investors' decisions, it can create incentives for investment and consumption or it can generate implications on the negative externalities. The efficiency of a tax system considering the high degree of tax revenue collection and the low costs for the taxpayers and the tax administration. The tax administration has an important role in the functioning of an efficient tax system, representing the interaction interface between the state authorities and the taxpayers. To a large extent, the voluntary tax compliance of taxpayers - a priority objective of the tax policy - is generated by the professionalism, transparency and openness shown by the representatives of the tax administration. The efficiency of a tax system is influenced both by the design and by the aspects related to its implementation. An efficient tax system should be able to generate stable public revenues, large enough to meet the needs of public goods and services, to stimulate investments and to improve the competitiveness of the national economy.

An indepth analysis of the tax systems of the EU member states, in view of the previously mentioned aspects, will offer the possibility to identify some tools to evaluate the performance of the tax administration in Romania and to recover its gaps compared to other countries.

2. PRINCIPLES PROMOTED IN THE EUROPEAN UNION TO ENSURE SOME EFFICIENT TAX SYSTEMS

An efficient tax system contributes to promoting the legitimacy of the state by "creating a strong tax and social contract between citizens and their governments, at all levels, which encourages the compliance with the tax obligations, improves the democratic and economic governance, increases the revenue by strengthening the economic growth and by expanding the tax base, fights against fraud and tax evasion and facilitates the fight against money laundering, corruption and terrorist financing "(European Commission, 2010, p. 4).

The specialized literature approached the efficiency of the tax systems. The specialists formulated various points of view regarding the importance of ensuring the efficient functioning of the tax system and the characteristics of an efficient tax system. Most opinions converge to the idea that an efficient tax system should generate an increase in tax revenues without discouraging the economic activities (Tanzi and Zee, 2000; Stepanyan, 2003; Johansson et al., 2008).

The causes of the low efficiency of a tax system are varied. The researchers have analyzed these causes over time. Mentioning that a quantitative analysis of the efficiency of the tax system is difficult, Hiromitsu (1992) tried to characterize the efficiency of tax systems through the costs of collecting tax revenues, but the research generated unsatisfactory results. The author considered that the low efficiency of a tax system is probably generated by tax evasion.

However, other experts considered that the efficiency of the tax system is influenced by the costs associated with taxation, which, in some cases, extend far beyond the amount of tax collected. Using the marginal cost method, Chen (2000), Baylor (2004), Clemans et al. (2007), McNabb, and LeMay-Boucher (2014) observed that there are significant costs associated with tax collection, which vary widely from one type of tax to another. Extending these results, other researchers have opined that the type of taxation influences its efficiency (Gordon and Li, 2005; Stoilova and Patonov, 2012; Murphy, 2016). Other authors have concluded that the structure of the tax system has an importance at least equal to the type of taxation in assessing the efficiency of the tax system (Xing, 2012; Baiardi et al. 2017).

From the point of view of the European Commission (2020), an efficient tax system must meet the following requirements:

- to facilitate investments by maintaining low effective marginal tax rates that reduce entrepreneurial costs and help correct market failures (for example, underfunding investments in research, development, environment and public health) by providing incentives for smart and ecological investments;
- to ensure the certainty of taxation and the taxpayers' trust in the correct administration of tax revenues. Therefore, the payment of taxes must be done in the simplest possible way, the costs of tax administration must be as low as possible and the level of voluntary compliance of taxpayers must be as high as possible. The tax legislation must be characterized by stability and predictability;
- to stimulate the development of a friendly tax environment for the labor market, through marginal tax rates for the labor force. Labor taxes can be used as tools to employ people from marginalized social categories, but also to reduce poverty and social exclusion;
- to contribute to the fight against tax evasion and fraud, phenomena limiting the ability of the Member States to collect the public revenues needed to implement economic and social policies. The cross-border nature of most economic activities and the integration of the economies of the EU Member States facilitate the use of tax avoidance mechanisms by certain categories of taxpayers, especially the multinational companies. At the same time,

the existence of uncooperative jurisdictions and harmful tax practices worldwide generates losses of tax bases with a negative impact on the level of public revenues. The European Commission (2016) stated that the Member States can combat tax abuses by increasing transparency and cross-border cooperation, improving tax legislation, modernizing / digitizing the tax administration and promoting a culture of taxpayer compliance.

In the study entitled "Tax Policies in the European Union: 2020 Survey", the European Commission (EC) analyzed a high number of taxes in terms of efficiency, redistributive effects and the problems involved in their administration. The EC highlighted the potential distortive effect on labor market, capital formation, investment decisions and productivity that a number of direct taxes can generate, but also the possible negative influence on the economy of indirect taxes, during periods of increasing their quotas. Over time, many authors (Cremer et al., 2001; Martinez-Vazquez et al., 2009; Jain - ed., 2015; de Castro Fernández, 2018) have emphasized, however, that the development of a tax system based mainly on direct or indirect taxes is not sustainable. The preference for indirect taxation, for example, generates certain advantages, especially related to the competitiveness of the economy, but also the ability of state authorities to implement income redistribution policies.

3. THE CONTRIBUTION OF TAX SYSTEMS IN THE EU MEMBER STATES TO ENCOURAGING INVESTMENT AND CORRECTING MARKET FAILURES

The effective corporate income tax rates influence the investment decisions. The methodology to calculate this rate, developed by Devereux and Griffith (1999, 2003), takes into account not only the level of legal tax rates, but also other important factors for investors: the elements that influence the tax base of the income tax, the investment financing, the characteristics of the assets subject to investment, etc.

The average effective marginal tax rate of corporate income in the EU Member States has decreased over the last 20 years, due to the tax reforms implemented to streamline tax systems, to create an attractive and investor-friendly tax framework (figure 1).

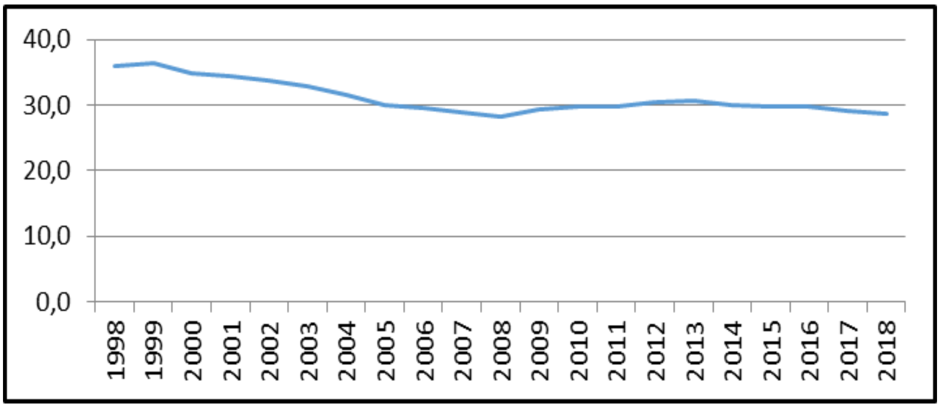

Figure 1. The evolution of the effective marginal tax rate of corporate income in EU Member States - average level (1998-2018)

Source: based on data published in the report Effective tax levels using the Devereux / Griffith methodology (Spengel et al., 2018)

The analysis of the effective marginal tax rate of corporate income in 2018 highlights significant differences between the EU Member States regarding the policy options in the field of corporate income taxation (figure 2).

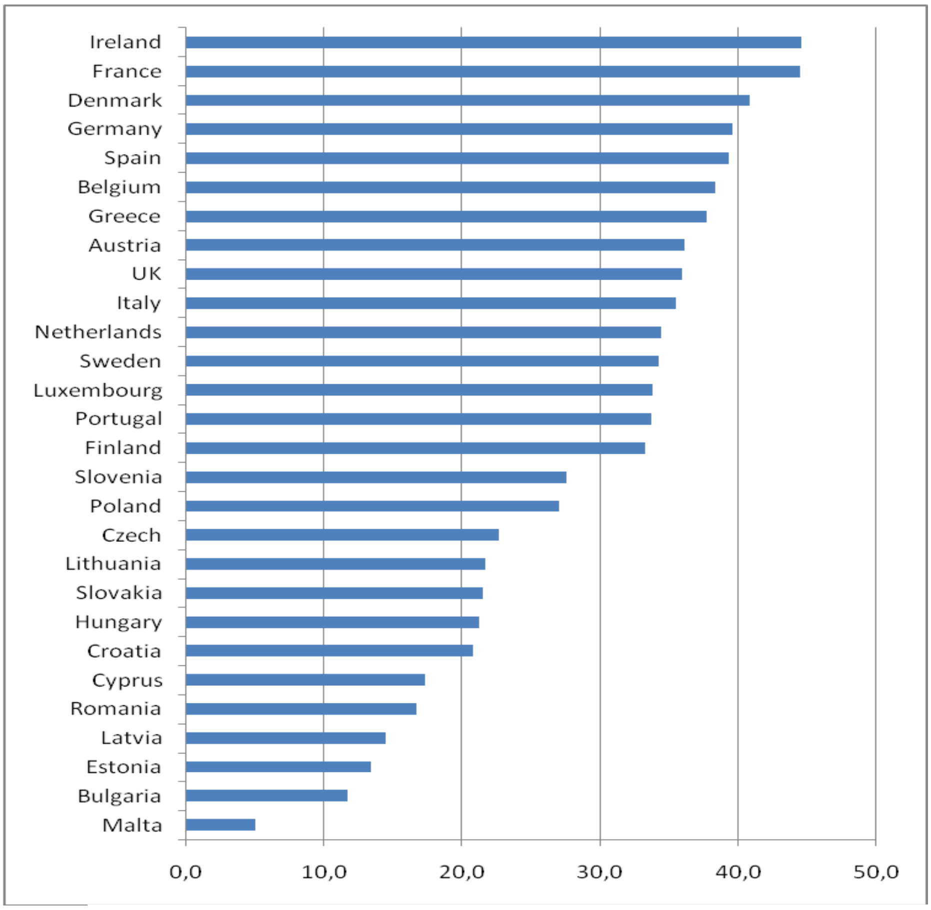

Figure 2. The effective marginal tax rate of corporate income in the EU Member States (2018)
Source: based on data published in the report Effective tax levels using the Devereux / Griffith methodology (Spengel et al., 2018)

The countries of Eastern and Central Europe, as well as the tax havens of Cyprus and Malta, have much lower effective marginal income tax rates than the countries of Western and Northern Europe. The main cause of this situation was analyzed by Pîrvu (2012, p. 158) who stated that "insofar as the new member states have not recovered the gap of economic development compared to the developed countries, they cannot offer investors the same local advantages, so that maintaining a lower level of taxation on companies is justified".

The tax incentives granted to companies, the tax credits, as well as the possibility to compensate the losses with the incomes obtained within the cross-border activities, significantly influence the level of investments. The European Commission's report on tax trends in the EU Member States in 2019 highlights the many tax measures taken to stimulate investment and improve the business environment.

As the Organization for Economic Co-operation and Development (2020) points out, in the context of the pandemic crisis, the EU Member States have formulated tax policies to reduce the immediate impact of the sharp decline in their economic activity and to maintain their productive capacity. Maintaining the cash flow of business was a key objective of the introduced tax policy measures. These measures included extending the deadlines for filing taxes, postponing tax payments, making faster tax refunds, exemptions from taxes and social security contributions. As a short- and medium-term trend, the Organization for Economic Co-operation and Development (OECD) forecasts the reduction of income taxes, therefore the state authorities will have to implement measures to strongly stimulate the economic activity in order to restore the sustainability of the public finances. Given this context, the levels of tax rates and the structure of the tax system should be adapted. The issue of progressive taxation, solidarity and environmental taxes will certainly be explored. The tax cooperation between the Member States will become more important, given the challenges of the accelerated digitization of the economic activities on the tax system. Some important future tax policy measures will be the increase of tax certainty by improving the dispute resolution and prevention mechanisms.

The tax measures that favor polluting technology or economic activities can generate negative effects on the environment. An efficient tax system must use the taxes as tools to discourage the polluting economic activities, but also the consumption of products harmful to health.

4. IMPROVING TAX ADMINISTRATION AND ENSURING TAX CERTAINTY

Encouraging investment and increasing competitiveness are favored by the efficient tax administrations and by a higher tax certainty for the taxpayers.

The efficiency of the tax administration can be analyzed in terms of tax compliance costs for the taxpayers. A simple and transparent tax system is characterized by a low level of tax compliance costs which result, among others, from the time needed by the taxpayers to submit the tax returns and to pay the tax obligations.

The number of hours required to pay taxes, as well as the number of annual payments that a medium-sized company needs to pay its tax obligations in the EU, have decreased significantly in recent years (Figure 3 and Figure 4). These are clear clues of increasing the efficiency of the public administrations in the Member States.

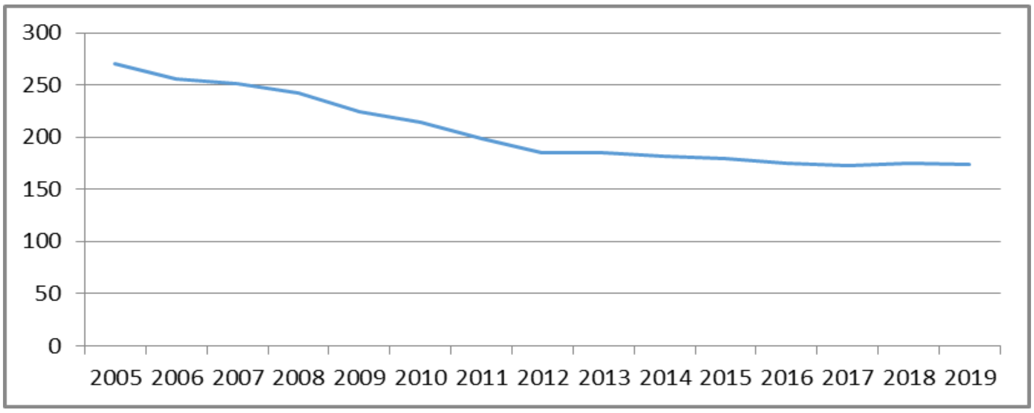

Figure 3. The number of hours per year required to pay tax obligations in the EU – average values
Source: based on the data published in "Paying taxes 2020", World Bank and PricewaterhouseCoopers (2019)

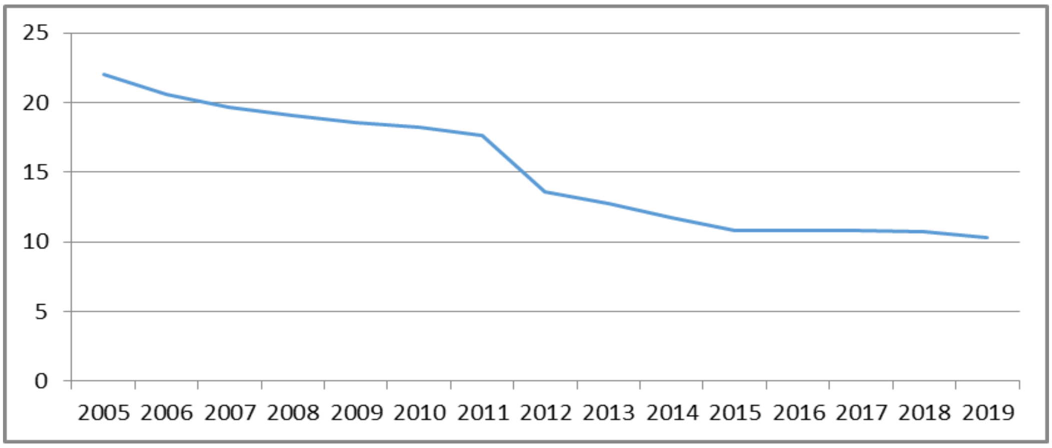

Figure 4. The number of annual payments to pay tax obligations in the EU – average values
Source: based on the data published in "Paying taxes 2020", World Bank and PricewaterhouseCoopers (2019)

From the point of view of the number of hours per year required to pay tax obligations, the best performances in 2018 were generally recorded by the West European countries, which allocated high financial resources to update their tax systems (Figure 5). However, Estonia ranks first, being a true model for all the European countries in terms of digitalization of public services, and Bulgaria ranks last. A medium-sized company in Romania must allocate to pay its tax obligations about 10 hours more than the EU average.

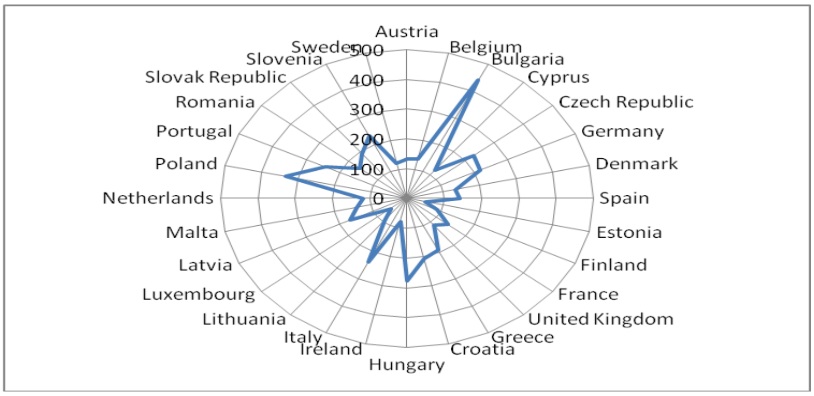

Figure 5. The number of hours per year required to pay tax obligations in the EU Member States, in 2018
Source: based on the data published in "Paying taxes 2020", World Bank and PricewaterhouseCoopers (2019)

Regarding the number of annual payments that a medium-sized company has to make to pay its tax obligations, the best performances in 2018 were recorded in Sweden, Latvia and Poland (Figure 6). A medium-sized company in Romania has to make 4 annual payments more than the EU average (about 10 annual payments).

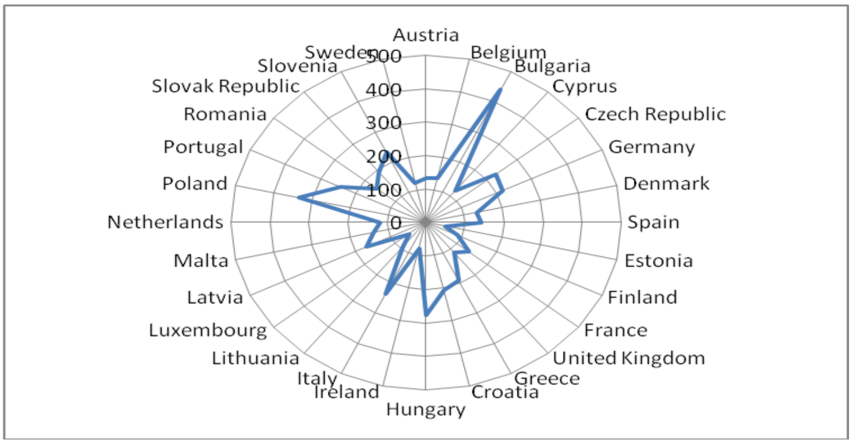

Figure 6. The number of annual payments to pay tax obligations in the EU Member States, in 2018
Source: based on the data published in "Paying taxes 2020", World Bank and PricewaterhouseCoopers (2019)

A wide range of digital services offered to taxpayers, but especially the opportunity to submit the tax returns online, help to increase the efficiency of tax administration and improve tax compliance. The analysis of the electronic submission of the income tax returns for the EU Member States highlights the improvement of tax administration (Table 1).

Table 1. The status of electronic submission of income tax returns in the EU Member States

Country	Share of corporate income tax returns sent online to tax authorities %				Share of personal income tax returns sent online to tax authorities %			
	2004	2009	2013	2017	2004	2009	2013	2017
Austria	10	79	80.0	97.2	30.0	96.0	97.0	74.3
Belgium	3	40	70.0	99.2	1.0	32.0	82.0	86.3
Bulgaria	1	3	11.0	67.7	0.0	21.0	n.d.	35.7
Croatia	n.d.	n.d.	n.d.	96.2	n.d.	n.d.	n.d.	48.2
Cyprus	1	6	23.0	95.1	0.0	n.d.	34.0	28.3
Czech Republic	1	1	3.0	40.0	1.0	3.0	21.0	13.9
Denmark	68	96	98.0	100.0	0.0	18.0	100.0	100.0
Estonia	59	92	95.0	100.0	59.0	95.0	99.0	96.2
Finland	0	23	45.0	54.0	1.0	19.0	58.0	88.9
France	4	27	34.0	90.0	26.0	77.0	n.d.	52.9
Germany	7	30	51.0	100.0	n.d.	n.d.	n.d.	n.d.
Greece	4	13	n.d.	99.6	0.0	0.0	0.0	98.7
Hungary	3	30	62.0	100.0	3.0	99.0	99.0	55.4
Ireland	62	67	91.0	99.9	18.0	85.0	99.0	93.6
Italy	100	100	100.0	100.0	100.0	100.0	100.0	100.0
Latvia	0	10	18.0	n.d.	0.0	92.0	91.0	n.d.
Lithuania	14	71	96.0	100.0	34.0	67.0	82.0	99.8
Luxemburg	0	1	1.0	5.7	0.0	0.0	0.0	7.2
Malta	1	2	2.0	n.d.	82.0	99.0	95.0	n.d.
Netherlands	69	95	96.0	100.0	0.0	100.0	100.0	100.0
Poland	0	1	25.0	60.8	0.0	1.0	10.0	54.5
Portugal	24	80	87.0	100.0	100.0	100.0	100.0	100.0
Romania	0	1	1.0	86.6	0.0	2.0	n.d.	31.8
Slovakia	0	1	2.0	71.9	0.0	2.0	15.0	19.1
Slovenia	0	77	100.0	100.0	0.0	100.0	99.0	96.8
Spain	23	36	99.0	100.0	23.0	99.0	99.0	75.9
Sweden	15	55	77.0	100.0	65.0	68.0	75.0	n.d.
U.K.	17	73	85.0	99.0	1.0	16.0	98.0	87.9

n.d.- no data

Source: OCDE, 2015, 2019, Tax Administration 2015: Comparative Information on OECD and Other Advanced and Emerging Economies, OECD Publishing, Paris.

The level of electronic registration of tax returns is still relatively low in some countries, especially in case of personal income tax returns. Luxembourg, Slovakia, the Czech Republic, Cyprus, Romania and Bulgaria have the lowest rates of online submission for personal income tax returns, well below the European Union average.

The size of tax arrears (unpaid taxes, including interest and penalties) is a relevant indicator for the degree of tax compliance. In most EU Member States, the amount of tax arrears as a share of total revenues decreased in 2017 compared to 2016 (Figure 7). The most efficient tax systems, from this point of view, were in Germany, Great Britain, the Netherlands, Ireland

and Estonia. With a share of about 50% of tax arrears as a share in total revenues, Romania was well above the European Union average, which indicates the inefficiency of the tax administration in our country.

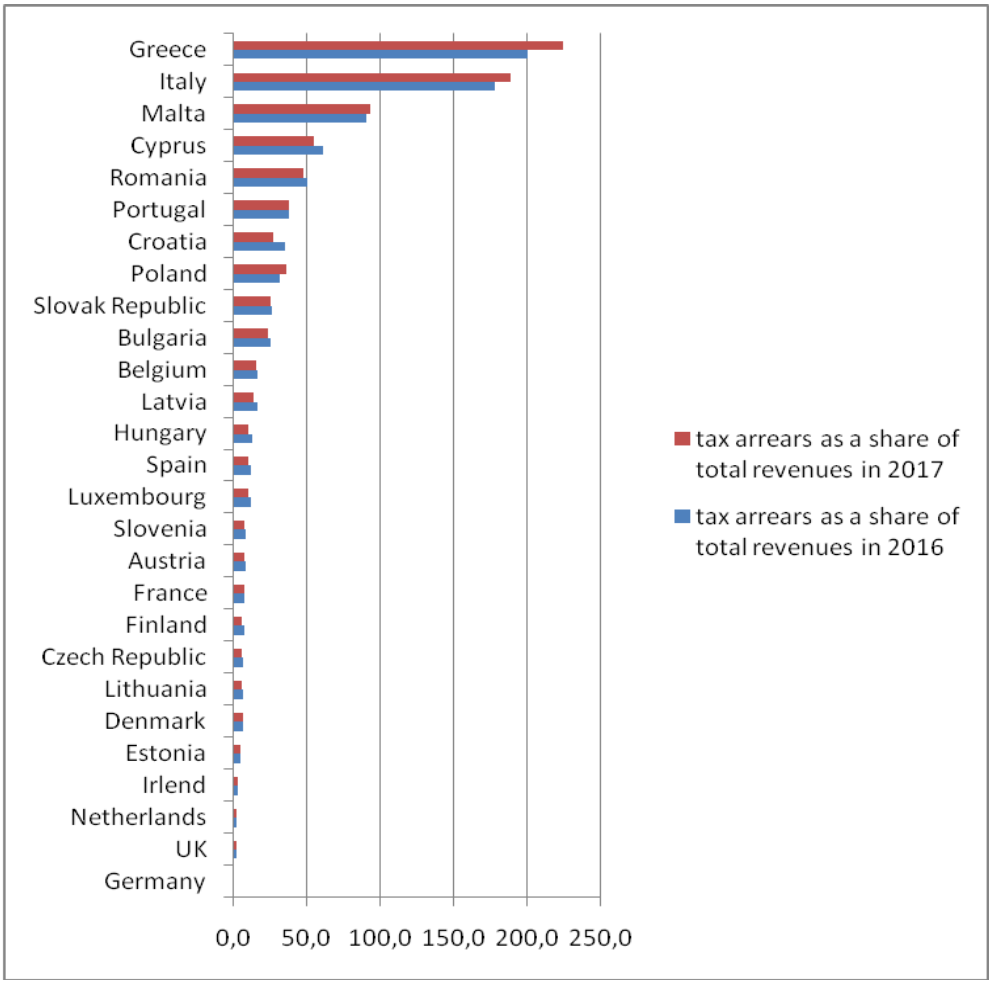

Figure 7. The amount of tax arrears as a share of total revenues in the EU Member States, for the period 2016-2017
Sursa: realizat pe baza datelor publicate în OCDE, 2015, 2019, Tax Administration 2015: Comparative Information on OECD and Other Advanced and Emerging Economies, OECD Publishing, Paris.

The tax certainty is a feature of the tax system, important both for the state authorities (interested in predictable and stable revenues, which can be obtained by ensuring an attractive business environment) and for the taxpayers. As the EC stated in the study Tax Policies in the European Union: 2020 Survey, "the concept of tax certainty has several facets. It refers to a number of tax parameters, such as the legal tax rate, the tax base, the timing of a tax change, the due date of a temporary tax". The taxpayers feel tax uncertainty not only in the context of unexpected and frequent changes in tax legislation and the inconsistency of its implementation, but also in the event of an increased risk of non-compliance with the tax audit. At the international level, the existence of different tax systems generates uncertainty for cross-border investments, due to the possibility of double taxation, inconsistent application of transfer pricing regulations, conflicts between tax authorities, etc.

5. CONCLUSIONS

The analysis of the tax systems in the Member States of the European Union shows that many tax administrations face challenges due to the need to improve their performances. From our point of view, the digitization, the cooperation between the Member States and the coordination of tax policy measures are the main tools that can help increase citizens' confidence in the tax systems and administrations and improve the collection of income taxes.

At the same time, we appreciate that the efficient tax systems have the capacity to use the fiscal levers to achieve the economic and social policy objectives.

Although the experts' views on the connection between the tax policy variables and the economic growth are divergent, many researchers point to a weak and non-robust relationship. We have identified in the literature enough empirical evidence to suggest that elements such as efficiency and proper design of a tax system may favor the economic growth. The efficiency of a tax system, analyzed from the perspectives of the principles stated by the European Commission, is based on the following aspects:

- digitizing the tax administration;
- managing properly the risk of non-compliance and increasing the degree of tax compliance;
- updating the tax administration.

The analysis of the performances of the tax systems of the member states of the European Union allowed us to reveal some good practices for Romania. Thus, we noticed that, especially in Western European countries (but not only), digital contact channels, which allow for the online filing of tax returns, as well as for online payments of tax obligations, have become predominant. The proactive approach to managing non-compliance risks, acting in the phases prior to filing tax returns (such as the introduction of electronic invoicing), as well as a number of measures to increase taxpayers' confidence in tax administration are also features of an efficient tax system. At the same time, the existence of a partnership relationship between the tax administration and taxpayers, simple and friendly tax procedures and the modern and complete services provided qualify a tax system in the category of efficient ones.

The analysis of the performances of the tax systems for the EU member states allowed us to reveal some good practices for Romania. We noticed that, especially in the West European countries (but not only), the digital contact channels, which allow online submission of tax returns and payments of tax obligations, have become predominant. The proactive approach to managing the non-compliance risks, acting in the stages prior to submitting tax returns (such as the introduction of electronic invoicing), as well as a number of measures to increase taxpayers' confidence in the tax administration are also features of an efficient tax system. At the same time, the existence of a partnership between the tax administration and the taxpayers, the simple and friendly tax procedures and the modern and complete services qualify a tax system in the category of efficient ones.

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